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Final BCBS-CPMI-IOSCO report on margin transparency
Issue with proposal 6

Executive Summary

Proposal 6 in the final BCBS-CPMI-IOSCO report on margin transparency (the Report) covers the backward-looking metric of procyclicality. As currently specified, the observation window, the time period over which the largest margin move is reported, is only one year long. This means that market participants will for now have only observations covering fairly benign markets without much volatility. Consequently, elevated procyclicality will not have been prominently observed. Meaningful information about past large margin moves that would be helpful to market participants' liquidity planning will only be available after the next crisis with increased procyclicality and will not include the shock of 2020 or 2022.

Discussion

Proposal 6 states:

"*CCPs should compute and disclose standardised measures of margin responsiveness, as described in the explanatory text. The disclosure should be included in the PQD framework for the most relevant contracts per clearing service (see proposal 5). CCPs should make available to regulators, upon request, the computed daily time series of the standardised measures for monitoring purposes*."

As the Report explains, "*Measures related to the size (and speed) of margin model reactions during actual periods of unexpected volatility change can be a good indicator of the upper tail of liquidity demands partially due to margin calls during periods of stress*." While we are aware of the limitations, especially that future crises can and will be different from past crises, information about large margin moves in the past will be a helpful data point that can feed into the liquidity planning of market participants.

We also welcome that the proposed implementation will include the largest one-day margin move and the largest 20-day margin move. The largest one-day move can provide helpful input into daily liquidity and cash management, whereas the 20-day measure gives an indication of how much more liquidity and funding would be required over a whole crisis.

These numbers become only meaningful, however, if the time period over which the largest moves are observed (called "*observation period*" in the Report) is long enough to include past occurrences where margins increase significantly, including the most stressed events, which would at minimum be the COVID-19 shock, but could also include the Great Financial Crisis (GFC) in 2007/2008 and the Russian invasion of Ukraine in 2022 and the linked commodities shock.

The Report requires CCPs to calculate and disclose this metric with an observation period of one year, and with an observation period of three months. From the time this measure comes into force and will be calculated by CCPs for the first time, market participants will only see the margin over the previous 12 months. According to the Report, "*Over time, this new disclosure of margin responsiveness will establish a historical standardised time series*." However, while this historical standardised data series is being established, the collected data will be virtually useless for market participants, as the data series will (hopefully) include a lot of observations from benign markets. Until after the next crisis with significantly increased margin requirements, market participants will not have a measure to prepare for such a shock. All the effort by CCPs to calculate this measure will be for naught for some time.

Solutions

We see two ways this could be solved:

1. Extend the observation period to 18 years to include the GFC. As the Report restricts the backward-looking measure to only benchmark products, this should be doable for CCPs, which should have the data series anyway. This would be the preferred solution for our members. It has also the additional benefit that the measure would show how the current model would have fared during the whole time.
2. Ask CCPs to backfill 18 years of yearly observation periods. Market participants could then aggregate the data and pick the largest margin move over these observation windows to get to the measure. This solution would, however, have the downside that it would show the reaction of the model at the time, not of the current model. This would be similar for additions to the historical standardised time series: Any improvements in the model, for instance, improved anti-procyclicality tools would not show in the backward-looking measure, as it would be with a long observation period.

Conclusion

To make the backward-looking measure on margin procyclicality meaningful and useful for liquidity planning, market participants require data that include previous crises, ideally by significantly increasing the observation period to 18 years.

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