



European Securities and  
Markets Authority

# Consultation Paper

**Draft Guidelines on Anti-Procyclicality Margin Measures for Central Counterparties**



## **Responding to this paper**

ESMA invites comments on all matters in this paper and in particular on the specific questions summarised in Annex 1. Comments are most helpful if they:

- respond to the question stated;
- indicate the specific question to which the comment relates;
- contain a clear rationale; and
- describe any alternatives ESMA should consider.

ESMA will consider all comments received by 28 February 2018.

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading 'Your input - Consultations'.

### **Publication of responses**

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publically disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA's Board of Appeal and the European Ombudsman.

### **Data protection**

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading [Legal Notice](#).

### **Who should read this paper**

All interested stakeholders are invited to respond to this consultation paper. In particular, responses are sought from central counterparties (CCPs), clearing members and clients of clearing members.



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## **Executive Summary**

### **Reasons for publication**

This paper is published to consult on draft ESMA guidelines to be issued in accordance with Article 16(2) of Regulation (EU) No. 1095/2010 (ESMA Regulation) for the consistent application of the requirements for central counterparties (CCPs) to set prudent and stable margins to limit procyclicality.

### **Contents**

Sections 1 through 4 set out the scope, definitions, purpose and compliance and reporting obligations in relation to the guidelines.

Section 5 explains the background and the prior reviews conducted by ESMA that support the proposed content of the guidelines.

Section 6 sets out the six sets of draft guidelines in relation to the Anti-Procyclicality margin measures under Article 28 of the Commission Delegated Regulation (EU) No. 153/2013 of 19 December 2012 (RTS) and of Article 10 of the RTS on disclosure. It also provides the rationale and explanation for the proposed guidelines and it includes the questions to stakeholders.

Annex I is the summary of questions and Annex II provides a preliminary cost-benefit analysis.

### **Next Steps**

ESMA will consider the responses it receives to this consultation and expects to publish the final guidelines by the first half of 2018.

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# 1 Scope

## Who?

1. These guidelines are addressed to the competent authorities designated under Article 22 of EMIR that supervise CCPs authorised under Article 14 of the EMIR.

## What?

2. These guidelines relate to the application of the margining requirements to limit procyclicality pursuant to Article 41 of EMIR and Article 28 of the RTS.

## When?

3. These guidelines apply as of [date].

# 2 Definition

4. Unless otherwise specified, the terms used in these guidelines have the same meaning as in EMIR and the RTS.
5. In addition, the following terms apply:

APC margin measures	Anti-Procyclicality margin measures under Article 28 of the RTS
CCPs	Central Counterparties
Competent authority	an authority designated under Article 22 of EMIR
EC	European Commission
EMIR	Regulation (EU) 648/2012 of 4 July 2012 of the European Parliament and Council on OTC derivatives, central counterparties and trade repositories
ESRB	European Systemic Risk Board
RTS	Commission Delegated Regulation (EU) No. 153/2013 of 19 December 2012 or Regulatory Technical Standards

# 3 Purpose

6. These guidelines seek to ensure common, uniform and consistent application of the EMIR provisions in the context of limiting procyclicality of margins.



## 4 Compliance and Reporting Obligations

### 4.1 Status of guidelines

7. This document contains guidelines issued under Article 16 of the ESMA Regulation. In accordance with Article 16(3) of the ESMA Regulation, competent authorities and financial market participants must make every effort to comply with guidelines and recommendations.
8. Competent authorities should comply by incorporating these guidelines into their supervisory practices and monitor the compliance of their CCPs.

### 4.2 Reporting requirements

9. Competent authorities must notify ESMA whether they comply or intent to comply with these guidelines, stating the reasons for non-compliance, within two months from the date of publication of the guidelines to [email address]. In absence of a response by the deadline, competent authorities will be considered non-compliant. A template for the notification is available on the ESMA website.

## 5 Background

10. EMIR recognises that margin calls and haircuts on collateral may have procyclical effects and CCPs, their competent authorities and ESMA should therefore adopt measures to prevent and control possible procyclical effects in the risk management practices adopted by the CCP, to the extent that a CCP's soundness and financial security is not negatively affected<sup>1</sup>.
11. To this end, Article 41 of EMIR requires CCPs to regularly monitor and, if necessary, revise the level of margins to reflect current market conditions, taking into account any procyclical effects of such revisions. Article 28 of the RTS then requires that a CCP employs at least one of the following options:
  - (a) apply a margin buffer at least equal to 25% of the calculated margins which it allows to be temporarily exhausted in periods where calculated margin requirements are rising significantly;
  - (b) assign at least 25% weight to stressed observations in the lookback period calculated in accordance with Article 26;
  - (c) ensure that its margin requirements are not lower than those that would be calculated using volatility estimated over a 10 year historical lookback period.

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<sup>1</sup> EMIR, Recital 68

12. Pursuant to Article 85(1)(d) of EMIR, the European Commission (EC) was required to review and prepare a general report on EMIR. In particular, it needed to assess the efficiency of margining requirements to limit procyclicality and the need to define additional intervention capacity in this area, in cooperation with ESMA and the European Systemic Risk Board (ESRB). Consequentially, ESMA published the EMIR Review Report No. 2 on the Review on the efficiency of margining requirements to limit procyclicality (ESMA's EMIR Review Report No.2) in August 2015<sup>2</sup>. ESMA noted that, while all authorised CCPs have adopted the APC margin measures, the implementation of these measures varied across CCPs and there was room to improve on the application of these measures and on the disclosure of margin models. The subsequent Report from the EC to the European Parliament and the Council noted the findings in ESMA's EMIR Review Report No. 2 and agreed with suggestions to increase the transparency of margin requirements to allow members to predict sudden margin changes effectively<sup>3</sup>.
13. Further, ESMA noted, in its Peer Review under Article 21 of EMIR on the Supervisory activities on CCP's Margin and Collateral requirements (2016 Peer Review), that the competent authorities lacked the necessary tools to supervise the effectiveness of the APC margin measures adopted by the CCP<sup>4</sup>.
14. In view of these observations, these guidelines seek to clarify the application of EMIR in the context of procyclicality of margins with the aim to ensure common, uniform and consistent application of the relevant EMIR provisions.
15. It is important to recognise that it is not the intention of regulation to prevent the CCP from revising its margins to address changes in volatility. Instead, the regulations propagate the notion that CCPs should prevent big-stepped, unanticipated calls on clearing members during periods of extreme stress. The following guidelines should therefore be read in this context.

## 6 Proposed Content of Guidelines

### 6.1 Regular Assessment of Procyclicality

16. Pursuant to Article 41 of EMIR, CCPs are required to monitor margin levels and account for procyclical effects of margin revisions. Notwithstanding the implementation of the APC margin measures under Article 28 of the RTS, CCPs should have an approach to actively identify and manage procyclicality arising from its margin requirements. The ESMA's EMIR Review Report No.2 noted that the three APC margin measures are theoretically different and their effectiveness may vary under different market conditions. The 2016 Peer Review

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<sup>2</sup> [https://www.esma.europa.eu/sites/default/files/library/2015/11/esma-2015-1252\\_-\\_emir\\_review\\_report\\_no.2\\_on\\_procyclicality.pdf](https://www.esma.europa.eu/sites/default/files/library/2015/11/esma-2015-1252_-_emir_review_report_no.2_on_procyclicality.pdf)

<sup>3</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX%3A52016DC0857&from=EN>

<sup>4</sup> [https://www.esma.europa.eu/sites/default/files/library/2016-1683\\_ccp\\_peer\\_review\\_report.pdf](https://www.esma.europa.eu/sites/default/files/library/2016-1683_ccp_peer_review_report.pdf)

Report further noted that the competent authorities lacked the necessary tools to supervise the effectiveness of the APC measures implemented by CCPs.

17. Accordingly, the draft guidelines clarify that CCPs should regularly assess the efficiency of its APC margin measures by first developing quantitative metrics, then monitoring the metrics on a regular basis and prior to revisions in margin parameters, and reviewing its policies based on the outcomes. A CCP should consider the characteristics of its product offering and its risk management practices as part of its assessment and proposed actions to address any procyclical effects. Consequentially, the CCPs' approach and regular assessments may also serve to inform the competent authorities with regard to margin procyclicality. To do so, the CCP should define specific metrics to assess the performance of the APC margin measures.

### **Draft Guidelines**

*Guideline 1 A CCP should define one or more quantitative metrics to assess the efficiency of its APC margin measures. Examples of potential quantitative metrics are:*

- *margin changes over a defined period;*
- *margin peak-to-trough ratio over a defined period;*
- *maximum or expected shortfall<sup>5</sup> of margin requirements over a defined period.*

*Consequentially, the CCP should apply the metrics to assess the procyclicality of its margin requirements<sup>6</sup> on a regular basis and the potential procyclicality arising from any significant proposals to revise its margin parameters, prior to making such revisions. As part of the assessment, the CCP should take into consideration the characteristics of its product offering and its membership as well as its risk management practices.*

*Where the metrics indicate procyclical effects arising from margin requirements, the CCP should review its application of the APC margin measures and make the appropriate adjustments to its policies to ensure that such procyclical effects are adequately addressed.*

*The CCP should therefore develop a policy for the review of its APC measures. The policy should at least specify:*

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<sup>5</sup> Maximum shortfall refers to the largest loss beyond the 99% confidence interval. Expected shortfall refers to the average loss beyond the 99% confidence interval. In general, CCPs should consider metrics to assess the stability as well as conservativeness of its margin requirements. The draft guidelines cites maximum shortfall and expected shortfall as possible metrics to measure conservativeness.

<sup>6</sup> Margin requirements should include both initial margin and any margin add-ons as required by the CCP.



- *risk appetite for procyclicality of its margins e.g., tolerance threshold for big-stepped margin increases;*
- *the quantitative metrics it uses to assess the efficiency of its APC measures;*
- *the frequency at which it conducts the assessment;*
- *the potential actions it could take to address the outcomes of metrics; and*
- *the governance arrangements surrounding the reporting of the outcomes of the metrics and approval of actions it proposes to take in relation to the outcomes.*

*The CCP should maintain the records of its review, including the computed metrics, and of the actions taken to address the findings in accordance with Article 12 of the RTS.*

**Q1. Do you agree that CCPs should develop and maintain a policy for regular assessments of procyclicality of margin based on quantitative metrics?**

**Q2. Do you find the examples of quantitative metrics for monitoring the efficiency of APC margin measures appropriate? Are there any additional metrics that could be mentioned in the guidelines?**

## **6.2 Application of APC margin measures to All Risk Factors**

18. ESMA's EMIR Review Report No. 2 noted variations in the implementation of Article 28 of the RTS that could limit the efficiency of the APC margin measures. In particular, certain approaches adopted by the CCPs did not holistically address the risk factors used in the margin computation where sudden changes could result in significant changes in the margin requirements. For example, a CCP failing to introduce counter-cyclical protection to implied volatility shifts for equity options by considering only price shift stress scenarios under option (b) of Article 28(1), may not be able to prevent big step margin changes in case of sudden changes in the implied volatility regime. ESMA therefore believes that the APC margin measures should be implemented in a manner that a procyclical adjustment addresses all the risk factors used in the calculation of margin requirements.
19. Further, ESMA's EMIR Review Report No. 2 noted that, in implementing Article 28(1)(a), the effectiveness of the measure may differ for non-linear products such as options where the margin buffer was applied directly on the calculated margin for each product (i.e. product level) compared to an approach where a buffer was applied individually to each

risk factor. The guidelines therefore clarify that CCPs which adopt option (a) in Article 28(1) of the RTS for non-linear products should apply the buffer at risk factor level and not at the product level. Such an approach can produce more risk-sensitive margin add-ons that can address changes in the underlying risk factors.

20. In applying the procyclical adjustment to each risk factor, CCPs may choose to apply different APC margin measures to different risk factors or apply the same APC margin measure across all risk factors. If a CCP chooses to use the same APC margin measure across all risk factors, it may do so by applying the measure to each risk factor independently or by using internally consistent scenarios that span across different risk factors. This allows CCPs to take into account the characteristics and available history of the risk factors and apply an appropriate measure to each risk factor.

### **Draft Guidelines**

*Guideline 2 A CCP should apply at least one APC margin measures in a manner that incorporates all risk factors used in the calculation of margin requirements, including price shifts, fx shifts, implied volatility shifts, maturity spreads and portfolio margin offsets, as applicable. For the avoidance of doubt, a CCP may apply APC margin measures at a product or portfolio level as long as the application addresses all risk factors used in the margin computation.*

*However, CCPs that choose to apply a margin buffer in accordance with Article 28(1)(a) of the RTS for non-linear products should apply a procyclical buffer at the risk factor level such that the margin buffer is at least 25% of calculated margin.*

*In applying the APC margin measures at the risk factor level, a CCP may use different APC margin measures for different risk factors or apply the same APC margin measure across all risk factors. If a CCP chooses to use the same APC margin measure across all risk factors, it may do so by applying the measure independently to each risk factor or by using internally consistent scenarios across risk factors.*

**Q3. Do you think that CCPs should apply the APC margin measures under Article 28 of the RTS to incorporate all risk factors? If appropriate and as necessary, please provide quantitative analysis to support your response.**

### **6.3 Exhaustion of Margin Buffer under Article 28(1)(a)**

21. Article 28(1)(a) of the RTS allows a CCP to apply a margin buffer of at least 25% of the calculated margin which it allows to be temporarily exhausted when margin requirements rise significantly. To avoid exacerbating the procyclicality arising from big-stepped margin

revisions, the buffer should be exhausted during periods of increased volatility where participants could be under severe liquidity pressure. Therefore, CCPs should have clarity on the circumstances under which the buffer could be exhausted. The draft guidelines clarify that CCPs that adopt Article 28(1)(a) should develop and maintain documented policies and procedures and the minimum content that should be set out in those procedures.

22. ESMA's EMIR Review Report No.2 noted variation in the sophistication of CCPs' policies on the circumstances under which the margin buffer can be exhausted. Further, the 2016 Peer Review also recognised that the competent authorities of the CCPs did not have a structured process to supervise the CCP's exhaustion of the margin buffer under Article 28(1)(a). The draft guidelines should serve to clarify expectations and can facilitate the proper supervision of Article 28(1)(b) by competent authorities.

### **Draft Guidelines**

*Guideline 3 A CCP that chooses to apply a margin buffer at least equal to 25% of the calculated margin should develop and maintain documented policies and procedures setting out the circumstances under which the buffer could be temporarily exhausted. Such policies and procedures should specify at least:*

- *The metrics and thresholds for which the CCP believes that margin requirements are rising significantly which warrants the exhaustion of the margin buffer;*
- *The conditions for replenishment of the margin buffer following its exhaustion; and*
- *The governance arrangements surrounding the approvals for the exhaustion and replenishment of the margin buffer.*

**Q4. Do you agree that CCPs that adopt Article 28(1)(a) should establish documented policies and procedures on the exhaustion of the margin buffers and the minimum level of details which should be included in such policies and procedures?**

## **6.4 Selection of Stressed Observations under Article 28(1)(b)**

23. Article 28(1)(b) of the RTS allows a CCP to assign at least 25% weight to stressed observations in the lookback period used to calculate margins but does not provide a definition of stressed observations. ESMA recognises the relevance and effectiveness of this APC measure depends heavily on the stressed observations identified by the CCP. Specifically, where a CCP uses a short lookback period, the stressed observations may be limited and therefore may not lend itself to the stability of margin requirements.

24. Further, ESMA believes that the definition and identification of stress scenarios should be consistently applied in the context of EMIR. In this regard, the draft guidelines clarify that CCPs that adopt Article 28(1)(b) of the RTS should take reference from the requirements set out under Article 30 of the RTS when selecting the stressed observations.
25. This suggests that the CCP should include its historical and hypothetical stress scenarios identified under Article 30 of the RTS when identifying the stressed observations for its APC margin measures. The inclusion of hypothetical scenarios encourages CCPs to include a forward-looking element in the computation of margins, still within the context of plausible scenarios.
26. For the avoidance of doubt, the guideline does not suggest that a CCP should calibrate their margins to stress levels as the Article 28(1)(b) allows a CCP to apply a minimum of 25% weight to the stressed observations. For example, a CCP does not need calibrate its margins using only stressed observations but can apply a 25% weight to the stressed observations and a 75% weight to other observations in the lookback period when calibrating its margins<sup>7</sup>.

#### **Draft Guidelines**

*Guideline 4 A CCP that chooses to assign at least 25% weight to stressed observations as an APC margin measure should include the stress scenarios identified under Article 30 of the RTS when selecting the stressed observations.*

**Q5. Do you agree that CCPs that adopt Article 28(1)(b) should adopt a consistent definition and identification of stress scenarios in line with Article 30 of the RTS? If appropriate and as necessary, please provide quantitative analysis to support your response.**

### **6.5 Margin Floor under Article 28(1)(c)**

27. Article 28(1)(c) of the RTS allows a CCP to apply a margin floor, by ensuring that its margin requirements are not lower than those which are calculated using the volatility estimated over a 10 year historical lookback period. ESMA's EMIR Review Report No. 2 noted that the requirement was not clear enough, thus potentially allowing CCPs to assign lower weights to earlier observations, which could result in a less effective margin floor. In response to the findings, the draft guidelines clarify that CCPs should avoid using modelling procedures such as applying different weights to observations within the lookback period

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<sup>7</sup> Even if the margin implied by the stress observations is twice as high as the margin implied from the remaining observations, the APC adjustment would result in an implied 25% buffer which is comparable to the other APC tools, such as that of Article 28(1)(a) i.e.  $0.75 * \text{Margin}^{\text{normal}} + 0.25 * \text{Margin}^{\text{stress}} = 0.75 * \text{Margin}^{\text{normal}} + 0.25 * (2 * \text{Margin}^{\text{normal}}) = 1.25 * \text{Margin}^{\text{normal}}$

to vary the effectiveness of using a 10 year historical lookback period for the computation of the margin floor.

28. The margin floor should serve as benchmark for which the regular margins should not decrease beyond such threshold. Therefore, the margin floor should be calibrated in a manner that is comparable to the calibration used for computing the margins. The guidelines clarify that the computation of the margin floor should apply the same parameters, excluding the lookback period, as those used in the regular computation of margin requirements.
29. The CCP Question and Answer 9(c), in current version of Question and Answer on the Implementation of EMIR<sup>8</sup>, addresses this, to the extent that the same confidence interval and liquidation period should be applied in the computation of the margin floor. To avoid repetition, this CCP Question and Answer 9(c) will be deleted once the guidelines are finalised.

### Draft Guidelines

*Guideline 5 When applying the APC margin measure in Article 28(1)(c) of the RTS, CCPs should avoid using modelling procedures such as applying different weights to observations within the lookback period to vary the effectiveness of using a 10 year historical lookback period for the computation of the margin floor.*

*The CCP should compute the margin floor using the margin parameters as used in the regular computation of margins including the confidence interval, liquidation period and portfolio margining restrictions under Articles 24, 26 and 27 of the RTS. The CCP should also compute the margin floor at the same frequency as the regular computation of margins.*

**Q6. Do you agree that CCPs that adopt Article 28(1)(c) should not use modelling procedures to alter the weights of the observations when computing the margin floor using the 10-year volatility estimate?**

**Q7. Do you agree that CCPs should calibrate the margin floor using the margin parameters used in the regular computation of margins and at the same frequency as regular margin computation?**

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<sup>8</sup> [https://www.esma.europa.eu/sites/default/files/library/esma70-1861941480-52\\_qa\\_on\\_emir\\_implementation.pdf](https://www.esma.europa.eu/sites/default/files/library/esma70-1861941480-52_qa_on_emir_implementation.pdf)

## 6.6 Disclosure of Margin Parameters

30. Further to the observations made in ESMA's EMIR Review Report No. 2 and EC's concurrence on the transparency of margin computation, the draft guidelines clarify that CCPs should disclose margin parameters, information on the models used for margin calculation and their implementation of APC margin measures.
31. To allow participants, both clearing members and clients, to anticipate big-stepped margin revisions, these disclosures should be of sufficient granularity. The guideline suggests a non-exhaustive list, covering the quantitative methodology and the parameters used in margin modelling. The characteristics and complexity of margin models across CCPs vary and the information required by participants to obtain a good estimate of the margins would therefore differ. The guidelines therefore clarify that CCPs should provide sufficient detail to allow for the replication of margin calculation.
32. Such disclosures should be seen as a part of the disclosures made pursuant to Article 10(1)(b) of the RTS, which requires CCPs to make publicly available information on the CCP's risk management systems including the models used in margin calculation.

### Draft Guidelines

*Guideline 6 A CCP should publicly disclose the parameters and information on the models used in the calculation of margin requirements. Such disclosure should include at least the following parameters defined by the CCP for each margin model used:*

- *confidence interval;*
- *look-back period;*
- *liquidation period;*
- *parameters and methodology used in the computation of margin offsets under Article 27 of the RTS;*
- *information on the models used for margin calculation such as quantitative methodology (e.g., type of the VaR model), the approach for any adjustments or add-ons made to these models and their formulae; and*
- *APC margin measures adopted and the methodology and parameters used when applying the selected APC margin measures. In particular,*
  - *a CCP which adopts Article 28(1)(a) should disclose the percentage of buffer on top of margin requirements which has been collected and the conditions for exhaustion and replenishment;*

- *a CCP which adopts Article 28(1)(b) should disclose its approach in deriving stress observations and incorporating the observations into the calculation of margin requirements; and*
- *a CCP which adopts Article 28(1)(c) should disclose its approach in computing the 10-year margin floor.*

*The parameters and information disclosed should be sufficiently detailed to allow the replication of margin calculations and anticipation of big-stepped margin revisions.*

**Q8. Do you consider it appropriate for CCPs to disclose information on the margin models and the parameters used therein to facilitate the replication of margin calculations and improve the predictability of margins for clearing participants?**

**Q9. Do you agree with the contents of the disclosures proposed by the draft guidelines?**



## **Annex I**

### **Summary of questions**

- Q1. Do you agree that CCPs should develop and maintain a policy for regular assessments of procyclicality of margin ?**
- Q2. Do you find the examples of quantitative metrics for monitoring the efficiency of APC margin measures appropriate? Are there any additional metrics that could be mentioned in the guidelines?**
- Q3. Do you think that CCPs should apply the APC margin measures under Article 28 of the RTS to incorporate all risk factors? If appropriate and as necessary, please provide quantitative analysis to support your response.**
- Q4. Do you agree that CCPs that adopt Article 28(1)(a) should establish documented policies and procedures on the exhaustion of the margin buffers and the minimum level of details which should be included in such policies and procedures?**
- Q5. Do you agree that CCPs that adopt Article 28(1)(b) should adopt a consistent definition and identification of stress scenarios in line with Article 30 of the RTS? If appropriate and as necessary, please provide quantitative analysis to support your response.**
- Q6. Do you agree that CCPs that adopt Article 28(1)(c) should not use modelling procedures to alter the weights of the observations when computing the margin floor using the 10-year volatility estimate?**
- Q7. Do you agree that CCPs should calibrate the margin floor using the margin parameters used in the regular computation of margins and at the same frequency as regular margin computation?**
- Q8. Do you consider it appropriate for CCPs to disclose information on the margin models and the parameters used therein to facilitate the replication of margin calculations and improve the predictability of margins for clearing participants?**
- Q9. Do you agree with the contents of the disclosures proposed by the draft guidelines?**



## Annex II

### Preliminary Cost-Benefit Analysis

Benefits	<p>Limiting the effects of procyclicality arising from the CCP’s risk management is of significant importance to the financial system. Specifically, it seeks to avoid exacerbating liquidity pressures on the clearing participants in times of exceptional volatility.</p> <p>This importance is expressed in the EMIR and RTS text where it lays down the requirements for CCPs on procyclicality and for the EC, in cooperation with ESMA and the ESRB, to review if additional intervention tools are necessary. Short of amending the legislation, these guidelines seek to clarify the application of the EMIR and RTS text in the context of margin procyclicality.</p> <p>The proposals are supported by the observations from the reviews conducted by ESMA, ESRB and EC pursuant to Article 85(1) of EMIR and ESMA’s 2016 Peer Review. Therefore, these guidelines seek to address specific gaps and concerns where the application of the EMIR and RTS text may be inconsistently applied or where the implementation by CCPs could give rise to varying standards.</p> <p>ESMA believes that the expectations set out in these guidelines could:</p> <ol style="list-style-type: none"> <li>i. encourage active monitoring of the efficiency of CCPs’ anti-procyclicality tools;</li> <li>ii. make more robust CCPs’ application of the APC margin measures;</li> <li>iii. facilitate predictability of margin requirements and the anticipation of big-stepped margin changes by clearing participants;</li> <li>iv. inform the competent authorities’ supervisory programme for CCPs in relation to procyclicality; and</li> <li>v. promote common, uniform and consistent application of EMIR and the RTS in the above aspects.</li> </ol>
Costs	<p>ESMA considers that these guidelines will only affect the CCPs that have not implemented an approach to monitor and manage procyclicality in a manner that is of comparable robustness as the expectations set out in these guidelines. Such CCPs will therefore have to make changes to their risk management programmes to align with these guidelines. The extent of changes required will vary between CCPs depending on their existing implementation of the APC margin measures as well as monitoring and disclosures in relation to procyclicality.</p>

Consequentially, where the CCPs revise their risk management programmes to address these guidelines, clearing participants may see an impact on margins. The impact will depend on the extent of changes that a CCP makes to apply the APC margin measures in a manner consistent with these guidelines.

Balancing the potential benefits to the system and costs to the CCPs and clearing participants, ESMA holds the preliminary view that the benefits outweigh the costs. Particularly, these guidelines address an issue of systemic importance and the failure to adequately manage procyclicality could result in ramifications to financial system at large.