

Final Report

Draft RTS on Margin Transparency requirements



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1 Executive Summary

Reasons for publication

The Review of the European Market Infrastructure Regulation ('EMIR 3') seeks, inter alia, to increase transparency on the margin calls and margin models, by CCPs towards their clearing members on the one hand, and by the Clearing Service Providers (clearing members and clients providing clearing services - CSPs) towards their clients on the other hand. The main objective is to ensure better visibility and predictability of margin calls for clearing members, clients and indirect clients, and thus further develop their liquidity management strategies.

EMIR 3 thus strengthens the requirements on the margin model information and the margin simulation tool provided by CCPs. It also introduces new requirements for CSPs to improve transparency of their margin models and to provide simulations of their margin requirements to clients.

ESMA is mandated to further specify these requirements, notably regarding the information to be provided by CCPs and CSPs on margin models and CCP margin simulation tools and CSP margin simulations, in Regulatory Technical Standards (RTS) within twelve months following the entry into force of EMIR 3.

ESMA conducted a public consultation on the draft RTS from 24 June 2025 until 8 September 2025, and received 28 responses, one of which was confidential. The final draft RTS presented in this Final Report take into account the feedback received through the public consultation.

In accordance with Article 38(10) of EMIR, the draft RTS have been developed in consultation with EBA and the ESCB. ESMA also sought the advice from the Securities and Markets Stakeholder Group (SMSG).

Contents

This Final Report presents the final draft RTS prepared by ESMA. Section 4 outlines the requirements proposed by ESMA with regard to the information to be provided by CCPs on their margin models in accordance with Article 38(7) of EMIR and with regard to their initial margin simulation tool in accordance with Article 38(6) of EMIR. Section 5 outlines the requirements proposed by ESMA with regard to the information to be provided by CSPs to clients in accordance with points (a) to (c) of Article 38(8) of EMIR and the margin simulation to be provided to clients in accordance with point (d) of Article 38(8) of EMIR. Finally, Section 6 contains all the relevant annexes (Annex I provides the legislative mandate for the development of the draft RTS; Annex II contains the cost-benefit analysis; Annex III includes

the advice of the SMSG; Annex IV provides the list of respondents to the public consultation; and Annex V contains the final draft RTS).

Next Steps

This Final Report, including the final draft RTS presented in Annex V, will be submitted to the European Commission. The European Commission has three months to decide whether to adopt the RTS in the form of a Commission Delegated Regulation. Following the adoption, they are then subject to non-objection by the European Parliament and the Council.

2 Legislative references and abbreviations

BCBS-CPMI-IOSCO Final Report	BCBS-CPMI-IOSCO Final Report “Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals” (15 January 2025) ¹
CCP	Central counterparty
CP	Consultation Paper
CSP	Clearing service provider
Delegated Regulation 153/2013	Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on requirements for central counterparties ²
EMIR	Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories ³
EMIR 3	Regulation (EU) No 2024/2987 of the European Parliament and of the Council of 27 November 2024 amending Regulations (EU) No 648/2012, (EU) No 575/2013 and (EU) 2017/1131 as regards measures to mitigate excessive exposures to third-country central counterparties and improve the efficiency of Union clearing markets ⁴
EMIR Refit	Regulation (EU) 2019/834 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 648/2012 as regards the clearing obligation, the suspension of the clearing obligation, the reporting

¹ <https://www.bis.org/bcbs/publ/d590.htm>

² Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on requirements for central counterparties; OJ L 52, 23.2.2013, pp. 41–74.

³ Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories; OJ L 201, 27.7.2012, pp. 1–59.

⁴ Regulation (EU) 2024/2987 of the European Parliament and of the Council of 27 November 2024 amending Regulations (EU) No 648/2012, (EU) No 575/2013 and (EU) 2017/1131 as regards measures to mitigate excessive exposures to third-country central counterparties and improve the efficiency of Union clearing markets; OJ L, 2024/2987, 4.12.2024.

requirements, the risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty, the registration and supervision of trade repositories and the requirements for trade repositories⁵

ESMA Regulation	Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC ⁶
NCA	National competent authority
RTS	Regulatory Technical Standards
SMSG	Securities and Markets Stakeholder Group

3 Introduction

1. On 4 December 2024, Regulation (EU) 2024/2987 (EMIR 3) was published in the EU Official Journal, following the review of the European Market Infrastructure Regulation (EMIR). EMIR 3 entered into force on 24 December 2024.
2. EMIR 3 seeks, amongst others, to increase transparency on the initial margin calls and initial margin models, by CCPs towards their clearing members on the one hand, and by clearing members and clients offering clearing services to clients (i.e. Clearing Service Providers (CSPs)) towards their clients on the other hand. The main objective is to ensure better visibility and predictability of initial margin calls for clearing members, clients and indirect clients, and thus further develop their liquidity management strategies.
3. The initial requirements for initial margin transparency were introduced in 2019, as part of the amendments to EMIR introduced by Regulation (EU) 2019/834 (EMIR Refit). This

⁵ Regulation (EU) 2019/834 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 648/2012 as regards the clearing obligation, the suspension of the clearing obligation, the reporting requirements, the risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty, the registration and supervision of trade repositories and the requirements for trade repositories; OJ L 141, 28.5.2019, pp. 42–63.

⁶ Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC; OJ L 331, 15.12.2010, pp. 84–119.

included the requirement for CCPs to disclose information on their initial margin models, and to provide an initial margin simulation tool to their clearing members.

4. EMIR 3 introduces more detailed requirements regarding the initial margin model information and the initial margin simulation tool to be provided by CCPs. It also introduces new requirements for CSPs to improve transparency with regards to their margin models and to provide a simulation of their margin requirements to their clients. These new requirements are broadly similar to the ones applicable to CCPs on this subject.
5. Article 38(10) of EMIR provides a mandate for ESMA to further specify these requirements in draft RTS, notably regarding the information to be provided by CCPs and CSPs on their initial margin models, the CCP initial margin simulation tools and the CSP margin simulations, in consultation with EBA and the ESCB.

4 EMIR initial margin transparency requirements for CCPs

4.1 CCP initial margin model information

6. As per Article 38(7) of EMIR, a CCP shall provide its clearing members with information on the initial margin models it uses, including methodologies for any add-ons, in a clear and transparent manner. Article 38(10) of EMIR adds that ESMA should specify in the draft RTS the information to be provided by CCPs to clearing members regarding transparency of initial margin models.

4.1.1 Model design and operations (Article 38(7)(a) of EMIR)

ESMA initial proposal

7. Point (a) of Article 38(7) of EMIR states that the information shall clearly explain the design of the initial margin model and how it operates, including in stressed market conditions.
8. ESMA proposed that the information provided by the CCP be sufficient to enable the clearing member to obtain an in-depth understanding of how the CCP's initial margin model works. The CCP should ensure that the scope of the information includes all the elements of the initial margin model, i.e. the "core" margin and any add-ons, and covers all the products cleared by the CCP.
9. Firstly, the information provided by the CCP on the initial margin model should be clear on the type of model used for the core margin (e.g. parametric model, historical simulation or Monte Carlo simulation), and include details on the model parameters (including the confidence level, the lookback period, and the time horizon for the liquidation period) with

a description of their function. The CCP should also provide a detailed description of the model including logical steps and mathematical and statistical specifications. If the core margin covers for other risks than market risk, the information provided should be clear on how the additional risks are taken into account.

10. More specifically, in addition to the core margin, the information should include (where applicable):

- a) margin add-ons which cover the risk of the individual portfolios (such as liquidity, concentration and wrong-way risk add-ons);
- b) margin add-ons which cover the risk of the aggregate impact of all the portfolios of the clearing member (such as default fund concentration add-on);
- c) margin add-ons related to the individual risk of the clearing member (such as credit risk add-on); and
- d) other margin add-ons (such as margin requirements related to model risk or resulting from margin overrides⁷).

11. In addition, information on the sources (market data and other) used by the CCP for calculating the initial margins should be provided, as well as the frequency of the updates.

12. In order to ensure that point (a) of Article 38(7) of EMIR is sufficiently covered, ESMA proposed that the CCP be required to clearly explain the governance and procedures related to the initial margin calls. This should include at least:

- a) Operational arrangements, including the deadlines for meeting the initial margin calls, collateral posting cut-off times and the collateral collection schedule.
- b) Governance procedures related to the review of the initial margin model of the CCP, the involvement of clearing members in this governance process and the applicable notice period. This governance should be appropriate to the business lines and the risk profile of the CCP, in accordance with Article 26 of EMIR and related Level 2 and Level 3 measures.

Feedback from respondents

⁷ CCPs should provide information related to the extraordinary margins called in case of a manual margin model override, which are not covered already by the information provided for the previous add-ons. This is also linked with the requirement on providing information on the limitations of the initial margin model, in accordance with point (b) of paragraph 7 of Article 38 of EMIR.

13. Respondents generally supported ESMA's proposal about the information of the CCP's initial margin model. Respondents representing CSPs and clients called for increased transparency and more detailed information, especially regarding margin add-ons and the anti-procyclicality tools used by CCPs. They emphasised that the information provided should be sufficient to enable replication of the CCP's initial margin calculations. However, respondents representing CCPs voiced concerns about sharing detailed aspects of CCP models, particularly due to the need to protect intellectual property rights. They also raised concerns about the usefulness of certain information, such as the governance processes. As a solution, they suggested that information should be disclosed in an aggregated form and only if it is considered useful for understanding the CCP's initial margin model.
14. Some of the respondents representing CCPs also asked for a phase-in period of 12-18 months to implement these requirements.
15. Respondents representing CSPs and clients advocated for making information directly accessible to clients from the CCPs, thus avoiding duplication as well as relay delays and errors. They suggested this could be accomplished through public disclosures or by granting clients access to secure CCP portals. However, respondents representing CCPs noted that a substantial amount of information is already publicly available on CCPs' websites. They also pointed out that, since CCPs do not have a direct relationship with the clients of their clearing members, clearing members are better positioned to share relevant information with their clients. This approach would also help ensure that the most pertinent information is provided to clients.
16. Finally, respondents representing clients also recommended enhancing the standardisation and harmonisation of information about CCP initial margin models to facilitate comparability across different CCPs.

ESMA assessment of feedback

17. ESMA acknowledges the concerns expressed by respondents and recognises the importance of striking an appropriate balance between providing sufficient information to CSPs and clients and avoiding the imposition of unnecessary risks or burdens on CCPs.
18. Consequently, ESMA proposes to restrict the requirements placed on CCPs regarding initial margin information by removing the obligation to disclose the pricing and data sources utilised by the CCP, as well as the frequency of such updates (Article 1, point (e)). ESMA observes that this information was not identified as important to understand the initial margin model of the CCP in the consultation responses.

4.1.2 Model assumptions and limitations (Article 38(7)(b) of EMIR)

ESMA initial proposal

19. Point (b) of Article 38(7) of EMIR foresees that the information to be provided by a CCP shall clearly describe the key assumptions and limitations of the initial margin model and the circumstances under which those assumptions are no longer valid.
20. In order to achieve this objective, ESMA is of the view that the CCP should disclose to their clearing members a description of the events that could lead to a breach of the assumptions and qualitative and quantitative information on the potential impact on initial margin requirements, as well as information on the performance of the model and on the behaviour of the model during stressed market conditions. In particular, this should include information on:
- a) Backtesting, provided in accordance with Article 49(5) of the Commission Delegated Regulation 153/2013;
 - b) Relevant sensitivity testing results, allowing the clearing member to understand how the initial margin model reacts to the evolution of parameters or assumptions.

The CCP should also provide information with regards to the processes that will be used by the CCP to regularly monitor and, if necessary, revise the level of its initial margins to reflect current market conditions taking into account potential procyclical effects of such revisions. Furthermore, in case of an initial margin model override, information on how extraordinary margin calls are calculated and called (in accordance with Article 56 of the Commission Delegated Regulation 153/2013) should be provided.

Feedback from respondents

21. Respondents representing CSPs and clients expressed support for ESMA's proposal regarding the information that CCPs should provide on this topic, emphasising the need to cover both the core model and any add-ons, as well as the procedures (including governance) related to parameter adjustments, model overrides and extraordinary margin calls. Some respondents also requested increased transparency and more granularity of the information currently available, notably for the add-ons and backtesting results. Additionally, a number of respondents representing clients highlighted the importance of standardising the information provided by CCPs and called for public disclosure of such information.
22. Respondents representing CCPs expressed concerns about sharing information regarding the assumptions and limitations of the initial margin model. They argued that such

information is not expected to be helpful for liquidity preparedness, may be misinterpreted, and could impose additional regulatory burdens on CCPs. Regarding backtesting results, these respondents noted that relevant information is already made publicly available through the CPMI-IOSCO CCP Public Quantitative Disclosure framework. Additionally, they pointed out that sharing sensitivity testing results with clearing members is not required under the Level 1 Regulation.

ESMA assessment of feedback

23. ESMA has taken note of the comments received on the information to be provided by CCPs on the initial margin model assumptions and limitations.
24. With respect to the minimum information that must be provided on the behaviour of the initial margin model under stressed market conditions (Article 2(2)), ESMA proposes to remove the requirement to disclose relevant sensitivity testing results. ESMA has taken into account the concerns expressed by respondents representing CCPs regarding the usefulness of this information and the additional burden its disclosure would impose. Furthermore, representatives of CSPs and clients did not reference this information in their responses.

4.1.3 Model information (Article 38(7)(c) of EMIR)

ESMA initial proposal

25. Point (c) of Article 38(7) of EMIR requires that the information to be provided by a CCP be documented. ESMA proposed that CCPs should be required to make available all documents covering the information described in the previous paragraphs. The documents should be written in a clear and comprehensive manner in a way that enables the clearing member to obtain an in-depth understanding of how the initial margin model works.

Feedback from respondents

26. Several respondents representing CSPs and clients expressed their support for ESMA's proposal regarding model documentation, emphasising the need for greater harmonisation and clarity in the documentation provided. Conversely, respondents representing CCPs raised concerns about disclosing all available documentation, citing the proprietary nature of certain information. They suggested that the focus should be on ensuring the documents shared are both readable and useful, and therefore proposed that information be provided in a documented format.

ESMA assessment of feedback

27. ESMA took note of the support of the respondents representing CSPs and clients on the model information, as well as the concerns raised by respondents representing CCPs on sharing internal/proprietary materials.
28. Therefore, ESMA suggests reformulating Article 3 to better reflect the obligation for the information on the CCP initial margin model, which should be documented, in accordance with point (d) of Article 38(7) of EMIR.

4.2 CCP initial margin simulation tool (Article 38(6) of EMIR)

29. Article 38(6) of EMIR requires a CCP to provide a simulation tool to its clearing members. This tool shall allow the clearing members to determine the amount of additional initial margin at portfolio level that the CCP might require upon the clearing of a new transaction, including a simulation of the initial margin requirements that they might be subject to under different scenarios. That tool shall only be accessible on a secured access basis, and the results of the simulation shall not be binding.
30. Article 38(10) of EMIR adds that ESMA is required to develop the draft RTS specifying these requirements and the type of the output to be provided. Lastly, Recital 52 of EMIR 3 further adds that ESMA should specify the scope and format of the exchange of information between CCPs and clearing members.

4.2.1 Output of initial margin simulation tool

ESMA initial proposal

31. ESMA understands that the ‘output of the simulation tool’ should be a total amount, composed of the initial margins already posted to the CCP and the additional initial margin required by the CCP upon the clearing of a new transaction. ESMA therefore proposed that the output amount referring to the initial margin for the existing positions should be distinguished from the amount for new transactions. For the sake of clarity, the simulation of collateral is not required as an output.
32. As explained in the previous section, the initial margin model a CCP uses to calculate initial margins is composed of the core margin to cover for the market risk of the transactions cleared, and of margin add-ons to cater for other risks related to the specific portfolio of the transactions, the aggregate impact of all the portfolios of the clearing member and the individual risk of the clearing member. ESMA therefore proposed that the output of the initial margin simulation tool should include both the core margin and the margin add-ons that are related only to the portfolio where the positions are being margined, and thus systematically required across clearing members (e.g. portfolio concentration add-on).

33. Furthermore, ESMA proposed that amounts referring to the core margin and individual margin add-ons should be distinguished, to the extent possible, depending on the initial margin methodology of the CCP. For each amount, the CCP should provide the type of risks covered in the simulation output.

Feedback from respondents

34. Representatives of CSPs and clients voiced their support for ESMA's proposal regarding the output of the CCP initial margin simulation tool. Whilst it is not required by EMIR, they mentioned the importance of ensuring that clients have access to the tool, which could be accomplished either by making the tool publicly available or by providing clients with direct access. Additionally, client representatives advocated for application programming interface interoperability and standardised outputs to facilitate the comparability of results.

35. Several representatives of CSPs and clients advocated for more precise definitions of the simulation tool's output, emphasising the need to account for cases in which new transactions are incorporated into an existing portfolio. Additionally, some CSP representatives recommended that the output should include material add-ons, such as those specific to individual clearing members.

36. Representatives of CCPs warned against overly prescriptive requirements. Specifically, they recommended including only material add-ons in the simulation output, rather than all add-ons related to the portfolio the transactions submitted for simulation. Some also raised concerns that distinguishing between initial margins for new and existing transactions could be misleading, particularly due to potential margin offsets. Lastly, CCP respondents generally raised concerns about granting clients direct access to the simulation tool, noting that CCPs do not have knowledge of all the clients of CSPs and highlighting risks related to data breaches and the misuse of sensitive information.

ESMA assessment of feedback

37. ESMA took note of the comments received from respondents and considers that Article 4 achieves an appropriate balance between providing CSPs and clients with the information necessary to gain visibility over potential future initial margin calls, while at the same time avoiding requirements that are excessively prescriptive. Nevertheless, ESMA has made some drafting changes to the Article in order to increase clarity.

4.2.2 Scenarios

ESMA initial proposal

38. ESMA proposed that the initial margin simulation tool should provide an output for the market conditions at the time of the simulation ('current market conditions'), as well as for a range of different scenarios, including backward-looking and forward-looking scenarios.
39. The output based on the current market conditions should be based at least on the model inputs used by the initial margin model during the last initial margin call of the CCP to that clearing member (e.g. margin parameters and market data). The CCP could use more updated initial margin parameters, but this would risk distorting the output, as the amount of initial margin for the existing transactions in the portfolio might have evolved since the last initial margin call.
40. With regard to the 'different' scenarios, it is important that the output allows for a visibility on the potential evolution of the initial margin amount if the market conditions change. Therefore, ESMA proposed that the margin simulation tool should provide outputs for a number of common scenarios and a range of hypothetical and historical scenarios which could be used as inputs for the initial margin model and the recalibration of its parameters instead of actual market moves of the time series.
41. ESMA proposed that CCPs should include hypothetical and historical scenarios based on the framework used for identifying extreme but plausible market conditions, in accordance with Chapter VII of the Commission Delegated Regulation 153/2013. The CCP could reuse existing stress scenarios used for the default fund calibration, subject to a minimum number of scenarios, depending on the risk profile and complexity of the CCP. The scenarios used should be clearly listed and explained in the initial margin simulation tool. These scenarios should include a list of market shocks impacting both prices and volatility of cleared instruments. ESMA proposed that CCPs include in their initial margin simulator at least five distinct scenarios (two hypothetical and three historical). However, in order to ensure a minimum level of comparability, the design of those scenarios should be subject to certain requirements, in particular as regards the impact on the initial margin model. Depending on the size and the complexity of the CCP, the CCP should also consider offering more scenarios.

Feedback from respondents

42. Respondents broadly expressed support for ESMA's proposal regarding the inclusion of historical scenarios. Representatives from CSPs and clients advocated for the establishment of common historical scenarios reflecting significant market stress events, such as the Covid-19-related market volatility, the 2022 energy crisis, and the 2008 global financial crisis. Client respondents further endorsed the incorporation of hypothetical scenarios, in particular those featuring absolute price shocks, to enhance the comprehensiveness of the simulation tool's outputs.

43. Respondents representing CCPs cautioned against the imposition of excessively prescriptive requirements, advocating instead for an emphasis on historical scenarios. They expressed reservations regarding the utilisation of scenarios derived from the stress test framework outlined in Chapter VII of Commission Delegated Regulation (EU) No 153/2013, noting that such an approach could introduce cross-dependencies and constrain operational flexibility.
44. Finally, some respondents cautioned about the limitations of applying a stress test scenario, arguing that this might not show any impact on the initial margins due to the way the margin methodologies work. One respondent from CSPs suggested using a scenario covering several days could resolve this issue.

ESMA assessment of feedback

45. ESMA took note of the support of the respondents on historical scenarios for the initial margin simulation tool, in particular using common historical scenarios while avoiding overly prescriptive requirements.
46. To strike an appropriate balance, ESMA proposes removing the requirement to use scenarios identified through the CCP stress testing framework for default fund sizing. The provisions detailed in the Annex to the RTS will ensure that the scenarios selected by the CCP are both pertinent and valuable for CSP and client portfolios. Finally, ESMA proposes that the simulation tool has at least three hypothetical and two historical scenarios.

5 EMIR margin transparency requirements for CSPs

5.1 CSP margin model information

47. Article 38(8), first sub-paragraph points (a)-(c), of EMIR foresee that CSPs shall ensure transparency towards their clients with regard to the margin model used for the client margin calls. Recital 52 of EMIR 3 explains that the main objective of this transparency requirement is to improve clients' ability to reasonably predict margin calls and prepare themselves for collateral requests, particularly in stress events. Furthermore, Recital 52 states that it is CSPs who should ensure transparency towards their clients; and that due to their provision of clearing services and their professional experience with central clearing and liquidity management, they are best placed to communicate in a clear and transparent manner to clients how margin models work, including during stress events, and the impact of such events on margins clients are requested to post, including any additional margin clearing members (or CSPs) themselves might request from their clients.

48. The third subparagraph of Article 38(8) of EMIR foresees that CCPs shall provide clearing members with the information necessary to comply with the first subparagraph of Article 38(8) of EMIR, including points (a)-(c). This information should be transmitted by clearing members and CSPs further down the clearing chain, so that it can reach the end client.
49. Article 38(10), first sub-paragraph point (c), of EMIR adds that ESMA is required to further specify the information to be provided by CSPs to their clients under Article 38(7)-(8) of EMIR.
50. First, ESMA notes that Articles 38(8) and 38(10) of EMIR, as well as Recital 52 of EMIR 3, explicitly require that the information needs to be provided to clients by their CSPs. This includes the information on the CCP margin model provided by CCPs to clearing members (under Article 38(7) of EMIR), which should be shared by the clearing members and CSPs further down the clearing chain. Second, ESMA understands that the information provided by the CSPs to their clients should be comparable to the information provided by the CCP to its clearing members, information without which the clients would be at risk of having an incomplete view of their margin requirements.

ESMA initial proposal

51. Point (a) of Article 38(8) of EMIR requires that CSPs disclose to their clients information concerning the way the margin models of the CCP work. The third sub-paragraph of Article 38(8) of EMIR also foresees that the CSPs transmit the information received from the CCP to their clients, where appropriate.
52. Therefore, ESMA proposed that CSPs should share with their clients the information received from the CCP under Article 38(7) of EMIR (or from their CSP, where applicable), which is necessary for the client to understand the way the margin model of the CCP works.
53. Point (b) of Article 38(8) of EMIR requires that CSPs provide information to their clients with regards to the situations and conditions that may trigger margin calls.
54. Therefore, ESMA proposed that the CSP should provide to its clients information with regards to the conditions (including market stress) which would result in a review of the margin model.
55. Point (c) of Article 38(8) of EMIR requires that CSPs provide information to their clients on the procedures used to establish the amount to be posted by the clients. This is understood by ESMA as complementary to the information provided under point (a) of Article 38(8) of EMIR.
56. Therefore, ESMA proposed that:

(a) CSPs should inform their clients how the margin called by the CCPs is passed through to the clients.

(b) CSPs should explain to their clients any additional margins applied by the CSP (e.g. multipliers or other types) in addition to the margin required by the CCP.

(c) If the margin requested by a CSP to its clients deviates from the margin requirement computed by the CCP, the CSP should disclose to its clients the methodology it uses to compute margin requirements for its clients, including, if applicable, any margin models that the CSP may employ. ESMA proposed that the CSPs provide comparable information as required under point (a) of Article 38(8) of EMIR for this model, and take into account the complexity of the models. This information should also be comparable to the information provided by CCPs to clearing members under Article 38(7) of EMIR, notably on the model design of the core margin (e.g. SPAN, VaR) and the calibration of the model parameters, as well as margin add-ons, covering for risks other than market risk (if applicable). In addition, CSPs should disclose to their clients the rationale for, and magnitude of, any deviations from the CCP model.

57. Finally, points (b) and (c) of Article 38(8) of EMIR also refer to the operational arrangements through which CSPs call margins to their clients.

58. Therefore, ESMA proposed that these should be clearly explained by the CSPs to their clients. In particular, ESMA proposed that CSPs should inform their clients about any thresholds which might trigger margin calls, as well as any limits to which the client may submit transactions for clearing. Moreover, CSPs should provide detailed information on the deadlines for clients to provide collateral and how the excess collateral is returned to the client. Finally, CSPs should inform their clients on the notice period applicable in cases when the calibration of client margins is modified.

Feedback from respondents

59. Respondents representing CCPs are generally supportive of ESMA's proposals presented in the consultation paper, arguing that CCPs alone cannot ensure full transparency to end clients as (i) there is no direct relationship between CCPs and clients, and (ii) because CCPs cannot capture CSPs' client-specific information, such as CSP add-ons or model variations. Therefore, these respondents maintain that full margin transparency, encompassing the whole clearing chain including end clients, requires CSP involvement, with some arguing that where CSPs use their own margin models, disclosure requirements should be consistent with what is required from CCPs.

60. Respondents representing CSPs generally do not agree with ESMA's proposals, and argue the proposals go against the Level 1 provisions of Article 38 of EMIR as well as against

international guidance. They oppose 'copying' CCP requirements to CSPs arguing that Article 38(8) of EMIR (regarding CSP requirements) is narrower than Article 38(7) of EMIR (regarding CCP requirements) and that CSPs have different market roles and membership/client structure than CCPs. Some argue that Article 38(7) of EMIR imposes obligations on CCPs to publicly disclose comprehensive information, while Article 38(8) of EMIR contains a separate and more limited obligation on CSPs to provide certain information to their clients. Instead, they support more proportionate CSP obligations, in particular where CSPs simply pass through CCP margin models, and caution against duplication and overly prescriptive requirements.

61. In order to reduce the perceived duplication as well as operational and legal risks for CSPs and clients, these respondents support direct or public access by clients to CCP margin documentation and information. In other words, they argue that CCPs should be required to make the relevant margin documentation publicly available, or at least available to all clearing members, CSPs and clients in the clearing chain. They are also concerned that if CCPs do not explicitly allow onward distribution of their documents to clients, CSPs may face legal risk when passing them on.
62. Some also request that the RTS include an additional generic provision requiring CCPs to disclose "any other information necessary for CSPs to comply with their disclosure obligations to clients."
63. In addition, they argue that disclosures by CSPs to their clients should only be illustrative and that only systematic and material deviations from CCP margin should be disclosed by CSPs to their clients (e.g. operational or incidental differences in the amount of initial margin should not be in scope). They also suggest that the obligations apply at initial client onboarding, with updates only in case of methodology changes or material deviations.
64. As regards the information to be provided by CSPs that use the CCP margin model with CSP add-ons, the respondents representing CSPs oppose the disclosure of information on "the key indicators on the performance of additional margin requirements during normal and stressed market conditions", arguing that disclosing key indicators, if even possible, may expose internal credit risk management processes, which are generally confidential.
65. Furthermore, they believe that disclosure of proprietary CSP methodologies or models should be limited, avoiding sensitive internal model details, to protect confidentiality and proprietary information. In addition, the requirement for CSPs to disclose their 'pricing and market data sources' is deemed problematic. Instead, they argue that only illustrative and high-level information and non-binding explanations should be provided to clients.
66. CSP respondents state that there is diversity across CSPs in terms of business models and margining practices with (i) some clients subject only to CCP margin, (ii) some clients

subject to CCP margin (calculated using the CCP model) plus CSP add-ons, and (iii) some clients subject to CSPs' internal models incorporating netting across cleared and uncleared exposures across CCPs. Therefore, they argue against a one-size-fits-all approach and in favour of explicitly recognising this distinction in the RTS.

67. In this regard, some of the respondents representing CSPs, which are trade associations, conducted surveys among their membership regarding the methodologies and practices used by CSPs:

- One of these respondents concludes that, based on their survey, only a small fraction of clients (7%) pay any additional margin on top of CCP margin requirements.
- The second of these respondents concludes that, based on their survey, 86.5% of clients are subject to CCP margin only, with a further 10.5% subject to CCP margin with CSP add-ons such as multipliers, and just 3% are subject to CSP proprietary models.

68. These respondents therefore conclude that CCP transparency is the single most important factor in client preparedness and that the information provided by CCPs combined with a direct/public access by clients to CCP simulation tools are sufficient for most clients.

69. Moreover, the respondents representing CSPs also argue that there is a need for an implementation period in respect of certain requirements of about 18 months.

70. Respondents representing clients support ESMA's proposals. In particular they agree with ESMA's interpretation of Article 38(8) of EMIR and that the information provided by CSPs to their clients should be comparable to the information provided by CCPs to clearing members/CSPs.

71. However, they stress that there is a fragmentation (e.g. proprietary portals and varied formats) that increases costs and reduces usefulness. Therefore, these respondents also argue for comparability and standardisation, e.g. via standardised, interoperable (single IT connection across CSPs), and freely accessible disclosures to all clients with regards to margin information.

72. These respondents believe that CSPs should guide clients to CCP resources where such resources are public or directly available to clients; and if clients lack direct access, CCP information/documentation should be provided to clients by their CSPs.

73. In addition, they argue that CSPs should make available to their clients all relevant information/documentation received from the CCP, particularly where it relates to margin

requirements and margin add-ons that directly affect the client's exposure and margin requirements, including any systematic and/or ad hoc add-ons that apply to the client's portfolio. In order to preserve confidentiality, particularly in net omnibus structures where margin data might be based on multiple clients, some respondents argue that CSPs should disaggregate or filter the information to reflect only what is relevant to each specific client.

74. Furthermore, they support clear, transparent and non-confidential disclosure by CSPs to clients of CSP-specific information, such as add-ons, multipliers, credit overlays, house-specific stress scenarios or liquidity buffers, CSP risk policy changes, client-specific events (e.g. deterioration in creditworthiness or concentration risk), as well as CSP proprietary models. This should include rationale, calculation methods, and triggering conditions for all additional requirements. As regards CSP deviations, the respondents argue that CSPs should disclose all deviations, with quantitative rationale and impact.
75. Moreover, they argue that information on override mechanisms and unscheduled intraday margin calls, including tiggers, should be provided to clients to improve client risk preparedness. This should also include those initiated by CCPs during periods of market stress.
76. More generally, some respondents representing clients argue that CSPs should not compete by underestimating default risks or by overestimating portfolio effects for offering attractive pricing and win more clients, which threatens systemic stability, and that CSPs should be discouraged from using opaque proprietary models not assessed by regulators that deviate from the CCP's model.

ESMA assessment of feedback

77. ESMA has taken note of the diverse feedback expressed by the respondents to the consultation. In particular, ESMA notes that the feedback received is rather consistent and balanced, i.e. respondents representing clients generally support ESMA's proposals and even ask for more transparency; respondents representing clearing members generally oppose ESMA's proposals; and respondents representing CCPs point out that CSPs have a role to play in ensuring margin transparency throughout the clearing chain.
78. ESMA does not agree that its proposals go against the Level 1 text of EMIR. ESMA wishes to point out that Articles 38(8) and 38(10) of EMIR explicitly state that the information (regarding margin transparency) needs to be provided to clients by their CSPs. Recital 52 of EMIR 3 then further explains that it is CSPs who should ensure transparency towards their clients, since due to their provision of clearing services and their professional experience with central clearing and liquidity management, they are best placed to communicate in a clear and transparent manner to clients how margin models work, including during stress events, and the implications such events may have on margins

clients are requested to post, including any additional margin clearing members (or CSPs) themselves might request from their clients. Reading Articles 38(8) and 38(10) of EMIR together with Recital 52 of EMIR 3 makes it clear that CSPs are expected to provide their clients with information on both the CCP margin requirements and any additional CSP margin requirements (where applicable).

79. ESMA is also of the view that it would be disproportionate to require CCPs to make their margin information public or to provide it directly to all their clients throughout the clearing chain, as they may not know who those clients are, have no contractual relationship with them, and do not know the CSPs' margin requirements. Furthermore, Article 38(7) of EMIR does not require CCPs to publicly disclose information on their margin models/requirements (as claimed by some respondents to the consultation), but instead requires them to provide this information to their clearing members.
80. ESMA also does not believe that its proposals exceed the international guidance. The BCBS-CPMI-IOSCO Final Report "Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals" ('BCBS-CPMI-IOSCO Final Report') recognises that direct access to CCP information may be challenging, or even impossible, for some clients (especially in cases where the client is not directly known to the CCP, as may be the case for omnibus accounts), emphasising the value of the role of the clearing member in providing this information. Furthermore, while the BCBS-CPMI-IOSCO Final Report admits that the methods of achieving transparency are likely to differ between the CCP and the clearing member levels, it also explicitly states that "it is necessary to expect similarly high standards of transparency and the same rigour in assessing the responsiveness of margin from clearing members as that demonstrated by CCPs" in order to capture the full clearing chain.

81. As regards the BCBS-CPMI-IOSCO Final Report's proposals:

(a) Proposal 9(a) states that where client margins are those charged by the CCP (i.e. "passed through" by the clearing member), the clearing member should facilitate clients in accessing CCP model disclosures. ESMA indeed proposed in Article 7 of the draft RTS (as presented in the CP) that clearing members and other CSPs should share the CCP disclosures/information (on its initial margin model) with their clients.

(b) Proposals 9(b) and (c) state that (i) where client margins deviate from those that would be charged by CCPs, clearing members should provide documentation to their clients containing a detailed description of how client margins are calculated which should include, where appropriate, the provision of their own margin simulation tools; disclose the rationale for, and magnitude of, those deviations to clients subject to such deviations; have an internal governance framework in place for determining when to charge client margins that deviate from CCP margins and; have an analytical

framework in place for assessing the impact of such deviations in margins on their clients; and (ii) without the need for a client request, clearing members should provide appropriate notice to a client in cases where the calibration of client margins is modified, including how the triggers or thresholds for such calibrations are set and used, without prejudice to the need for clearing members to be able to amend client margins at pace when required (e.g. during a stress). The BCBS-CPMI-IOSCO Final Report further adds that clearing members should provide sufficient transparency about the add-on or re-calculation framework; and where additional margin is required from an individual client by a clearing member based on its individual risk profile (such as a credit risk add-on), that clearing member should be able to provide sufficient transparency on how the triggers or thresholds for their use are set. In addition, in cases where a clearing member implements changes to its frameworks for determining client margins, that clearing member should provide adequate notice of these changes to all relevant clients. ESMA's proposals set out in Article 8 of the draft RTS (as presented in the CP) were consistent with these BCBS-CPMI-IOSCO Final Report proposals. In fact, proposal 9(b) appears to go even further than what ESMA proposed, e.g. with regards to the CSP's internal governance and analytical framework for assessing the impact on its clients.

82. ESMA would also like to assure the respondents that it fully recognises the diversity across CSPs in terms of business models and margining practices, and believes that the draft RTS (as presented in the CP) reflected these differences, i.e. ESMA proposed different requirements for (i) CSPs that simply pass through the CCP model without applying any additional margin, (ii) CSPs that use the CCP margin model but apply additional margin, and (iii) CSPs that use their own internal/proprietary margin models.
83. At the same time, ESMA is of the view, that based on Article 38(8) of EMIR, and taking into account the international guidance (in particular the BCBS-CPMI-IOSCO Final Report), all clients are entitled to a similar level of transparency from their CSP, regardless of the business model used by the CSP, including where the CSP uses a proprietary margin model. In other words, the choice by a CSP to use a proprietary model (instead of using the model of the CCP with or without additional margins) should not result in clients of the CSP receiving less complete information or not being able to benefit from the requirements set out in Article 38(8) of EMIR, as such a situation would create an unlevel playing field in clients' understanding of liquidity demands and preparedness for potential future margin calls.
84. In this regard, ESMA is comforted by the figures provided by some respondents to the consultation which indicated that the majority of CSPs use the margin model of the CCP without applying any additional margin, as this means that based on ESMA's proposals (as presented in the CP and also in this Final Report), such CSPs would be subject only to very few disclosures and requirements.

85. Additionally, ESMA wishes to recall that the CSP margin transparency requirements, as set out in Article 38(8) of EMIR, and as further specified in the ESMA draft RTS, only apply in respect of client's transactions cleared through a CCP.

86. Therefore, ESMA has maintained the overall approach in its final draft RTS (as presented in this Final Report). In other words, for the activity cleared through a CCP, ESMA proposes different requirements for (i) CSPs that simply pass through the CCP model without applying any additional margin, (ii) CSPs that use the CCP margin model but apply additional margin (such additional margins can take form e.g. via CSP add-ons or due to the net vs gross calculation of clients' margins), and (iii) CSPs that do not use the CCP margin model and instead use their own internal/proprietary margin models.

87. However, in order to reduce the burden on CSPs, avoid duplications, and ensure proportional and efficient application of Article 38(8) of EMIR, ESMA has made some changes to the CSP disclosure requirements and provided some additional clarifications. CSPs would therefore be subject the following disclosure requirements:

- All CSPs would be required to share with their clients the CCP margin disclosure documentation (which they receive from their CCP or CSP), unless the CCP makes such documentation public or the CCP provides it to its clients directly.
- All CSPs would be required to provide their clients with information on the operational arrangements for the collection of any margin requirements, including the deadlines for meeting margin calls, collateral posting cut-off times, collateral collection schedule, thresholds which might trigger margin calls where applicable, exposure limits where applicable, and for the restitution of excess collateral.
- CSPs that use the margin model of the CCP and do not require any additional margins would not have to provide any additional information apart from the items listed above.
- CSPs that use the margin model of the CCP but apply additional margin (e.g. via add-ons or due to the net vs gross calculation of clients' margins):
 - o These CSPs would also be required to provide their clients with information on:
 - the rationale for, and magnitude of, the margin deviations (i.e. the difference between the CCP margin amount and the CSP margin amount) the clients are subject to;

- the risk that each type of additional margin covers, and a detailed description of how it is calculated (including during stressed market conditions);
 - the procedures to review the calculation of the additional margin required by the CSP, and the applicable notice period.
 - Based on the responses received to the consultation, ESMA has decided to delete the requirement for these CSPs to provide information on the key indicators on the performance of additional margin requirements during normal and stressed market conditions.
- CSPs that use proprietary margin models:
- These CSPs would also be required to provide their clients with information on the key elements of the design and limitations of the margin model, including the following:
 - the risk that each margin model element covers, and a detailed description of how it is calculated (including during stressed market conditions);
 - the type of model used for the core margin;
 - the model parameters, such as the confidence interval, the lookback periods, and the time horizon for the lookback period, with a description of their respective functions;
 - the procedures to review the methodology for the calculation of the margins, and the applicable notice period.
 - They would also be required to provide their clients with information on the rationale for, and magnitude of, the margin deviations (i.e. the difference between the CCP margin amount and the CSP margin amount) the clients are subject to.
 - Based on the responses to the consultation, ESMA has decided to remove the requirements for these CSPs to provide their clients with information on the pricing and market data sources used and the frequency of the updates.

- ESMA has also clarified that a CSP would be required to provide this information (as listed above) to its client only when (i) the client is onboarded, and (ii) there are material changes to the information.

88. ESMA does not believe it to be appropriate to provide in the draft RTS for a generic provision requiring CCPs to disclose any other information necessary for CSPs to comply with their disclosure requirement (as suggested by some respondents), as this provision is already included in Level 1: the third subparagraph of Article 38(8) of EMIR foresees that CCPs shall provide clearing members with the information necessary to comply with the first subparagraph of Article 38(8) of EMIR. This information should be transmitted by clearing members and CSPs further down the clearing chain, so that it can reach the end client.

89. Finally, in the final draft RTS presented in this Final Report, ESMA has merged the Articles on CSP margin model information disclosure requirements (as described in this Section 5.1) and on CSP margin simulations (as described in the next Section 5.2), in order to avoid duplications and increase readability and clarity.

5.2 CSP margin simulations

90. Point (d) of Article 38(8) of EMIR foresees that CSPs shall provide to clients a simulation of the margin requirements the clients may be subject to under different scenarios. According to the second subparagraph of Article 38(8) of EMIR, the simulation must include both the margins required by the CCP and any additional margins required by the CSP.

91. The third subparagraph of Article 38(8) of EMIR foresees that CCPs shall provide clearing members with the information necessary to comply with the first subparagraph of Article 38(8) of EMIR, including point (d). This information should be transmitted by the clearing members and CSPs further down the clearing chain, so that it can reach the end client.

92. Article 38(10) of EMIR adds that ESMA is required to develop draft RTS specifying these requirements and the type of output to be provided.

ESMA initial proposal

93. In order for a CSP to provide to its clients the simulation of the margins required by the CCP, the CSP could either replicate the CCP's margin methodology based on the information provided by the CCP under Article 38(7) of EMIR or use the simulation tool provided by the CCP in accordance with Article 38(6) of EMIR. To allow the possibility of the latter option, ESMA proposed that the simulation tool provided by the CCPs should be available not only to clearing members but also to CSPs and allow the CSPs to simulate the positions of their clients.

94. ESMA understands the additional margins required by a CSP as the difference between the total margins required by the CSP and the margins required by the CCP (e.g. via CSP add-ons or due to the net vs gross calculation of clients' margins or because the CSP uses its own proprietary model to calculate clients' margins). Therefore, ESMA proposed that the CSP should provide in the output of the simulation both of the aforementioned amounts. The output should also provide a breakdown for each of the types of additional margin required by the CSP. In addition, if the CSP provides access to the client to several CCPs, the CSP should also provide a breakdown of the initial margin amounts required by each CCP in its simulation.
95. With regard to the different scenarios, ESMA proposed that CSPs should provide an output for a number of market stress scenarios, as well as scenarios related to changes to the individual risk of the client (for example "what-if" scenarios on changes to the creditworthiness). All scenarios should take into account the profile and activity of the clients of the CSPs. The market stress scenarios could include the hypothetical and historical scenarios used in the relevant CCP's simulation tool. For that purpose, CCPs should provide sufficient information on the design of all the scenarios used in their margin simulation tool to their clearing members, who should forward this information to their clients (in accordance with the third subparagraph of Article 38(8) of EMIR).

Feedback from respondents

96. As in relation to the previous section (Section 5.1), respondents representing CCPs are generally supportive of ESMA's proposals, arguing that CCPs alone cannot ensure full transparency to end clients as (i) there is no direct relationship between CCPs and clients, and (ii) because CCPs cannot capture CSPs' client-specific information, such as CSP add-ons or model variations. Therefore, these respondents maintain that full margin transparency, encompassing the whole clearing chain, requires CSP involvement. In that sense, some also argue that any suggestion (by other types of respondents) that CCPs should provide tools for end clients to calculate the margin requirements from their CSPs goes beyond the responsibility of CCPs.
97. Some respondents representing CCPs also believe that it is important that CSPs specify to their clients all scenarios when the CSP deviates from the CCP margin; if a margin multiplier, counterparty risk measure, or other adjustment is used, there should be an explanation of the governance and processes for such deviations/adjustments, including in stressed market conditions.
98. In addition, some respondents representing CCPs argue that the requirements for CSP simulations should be consistent with what is required from CCPs in this regard, since at the moment there is often a marked difference in transparency between CCP-calculated margins and the additional add-ons applied by CSPs. Those respondents further argue

that these CSP charges (whether for liquidity, concentration, credit, or other risks) can be opaque to clients and materially affect their liquidity planning - the survey results presented in the 2022 BCBS-CPMI-IOSCO Review of Margining Practices highlighted that many clients view the actions of intermediaries a key contributor to margin unpredictability.

99. Furthermore, some respondents representing CCPs express some concerns in relation to ESMA's proposal to provide access to the CCP simulation tools to "clients providing clearing services". Those respondents argue that they may not know those clients and, in any case, do not have any legal relationship with them, especially if they are clients further down the clearing chain. This may, according to those respondents, result in a substantial burden, as it may amount to providing a "public" simulation tool. Such access, according to them, also introduces risks of unauthorised access or data breaches, compromising the CCP's proprietary margin model, harming market confidence or exposing the CCP to legal and financial risks. In addition, they argue that this requirement goes beyond EMIR Level 1, as Article 38(6) of EMIR refers to access to the CCP simulation tool by clearing members only, and not also clients providing clearing services.
100. Respondents representing CSPs generally disagree with ESMA's proposals presented in the CP. They argue that the draft RTS are too prescriptive and granular, go beyond Level 1 requirements and exceed global guidance set out in the BCBS-CPMI-IOSCO Final Report. In general, with respect to CSP simulations, they call for much more flexibility and for reliance on the CCP simulation tools (which they believe should be accessible to all clients, either directly or even publicly) and on CCP margin disclosures.
101. In their responses, they stress the distinction between a 'simulation tool', which they define as an interactive tool designed for client use that enables real-time or near real-time scenario testing, user inputs, and dynamic recalculations; and a 'simulation', which they define as an indicative disclosure. They argue that it is thus critical to maintain this distinction between CCP simulation tools and CSP simulations.
102. They also disagree with the proposed requirement for CSPs to provide simulations for three market stress scenarios and two scenarios related to the individual risk of the client, as they find it too costly, burdensome, arbitrary and misleading. They believe that if CCPs allowed CSPs and clients to input their own scenarios or provided a set of hypothetical scenarios applicable across various asset classes, it would remove the need for CSPs to provide additional scenarios for individual clients.
103. They propose that where CSPs base a client's margin on CCP margin (i.e. where (i) the CSP uses CCP margin only or (ii) the CSP uses CCP margin and applies CSP add-on), the CSPs should be permitted to meet the simulation obligations by referring clients to the CCP simulation tool (via public or direct access) and to publicly available CCP disclosures, and provide information on the situations and conditions that might trigger

additional CSP margin (e.g., thresholds, percentages, or conditional adjustments) and worked hypothetical examples of how these factors could apply in practice. In these cases, they argue, the CSP should not have to provide any scenarios.

104. In addition, they propose that where a CSP uses proprietary models, the CSP should provide illustrative, non-binding explanations/scenarios. These should remain high-level and avoid disclosure of proprietary or sensitive methodologies. If the CSP models calculate margin as a net amount across CCPs, they argue it does not make sense to link the model output to margin that would have been called by CCPs.
105. Furthermore, they propose that as regards portfolio margining, the CSP should be considered to use the CCP margin model as the basis for its calculation and explain offsets or cross-product treatment without replicating CCP-style scenarios.
106. Respondents representing CSPs also argue that simulations should be non-binding and not constraint CSPs' ability to impose margin during a stress event.
107. As in respect of the previous section, respondents representing CSPs also argue that there is a need for an implementation period of about 18 months.
108. Respondents representing clients support ESMA proposals. They complain that currently, many post more margin than necessary due to incomplete or fragmented information. They hope that effective ex-ante simulations will help to rectify this situation.
109. They would like to see CSPs conduct regular, systematic simulations of client portfolios, and some even argue that the requirements for the CSP simulations should be the same as for the CCP simulations. Some believe that CSPs should be required to make available their simulation (tools) to direct and indirect final clients,
110. As regards simulation scenarios, they generally caution that overly granular, client-specific scenarios may limit comparability. Instead, they argue for a standardised set of scenarios to be used consistently by all CCPs and CSPs. This would allow clients to compare outputs for CCPs and CSPs and consolidate stress tests. This standardised set of scenarios should be complemented by CSP bespoke scenarios, i.e. portfolio-specific scenarios to capture idiosyncratic risks and/or client specific scenarios to illustrate the sensitivity of the results on the CSP-specific add-ons (e.g. on client's creditworthiness). Some also call on ESMA to further specify what constitutes a client-specific scenario.
111. Regarding the simulation output, the respondents representing clients support ESMA's proposals. They emphasise that CCP simulations should remain the baseline. When CSPs use their own models or apply add-ons, the simulations should distinguish the CCP margin (amount) from the CSP margin (amount). Where CSP uses the CCP model and applies

additional add-ons, the output should provide a break-down of the CSP-specific additions with methodology explanations. Where the CSP uses proprietary models, the output should distinguish between the core margin and each add-on, with methodology explanations.

112. In order to protect client confidentiality, some respondents representing clients believe that each client should only receive data regarding its own portfolios from the CSP, i.e. the CSP should be required to disaggregate the data.
113. Finally, some respondents representing clients argue that market participants especially direct and indirect final clients should be able to cap their liquidity exposure setting limits in terms of maximum cash requested for clearing, as without a maximum cap on potential cash calls, margin predictability is not actually achievable. Therefore, these respondents advocate for operating measures to be implemented at the CCP level for stopping the use of cash collateralisation during stressed market conditions.

ESMA assessment of feedback

114. ESMA has taken note of the diverse feedback expressed by the respondents to the consultation. In particular, ESMA notes that the feedback received is rather consistent and balanced and corresponds with the feedback received in relation to CSP margin model information disclosures (previous Section 5.1), i.e. respondents representing clients generally support ESMA's proposals and even ask for further enhancements and standardisation; respondents representing clearing members generally oppose ESMA's proposals; and respondents representing CCPs point out that CSPs have a role to play in ensuring margin transparency throughout the clearing chain.
115. ESMA does not agree that its proposals go against the Level 1 text of EMIR. ESMA wishes to point out that Article 38(8), first sub-paragraph point (d), of EMIR explicitly states that the margin simulations need to be provided to clients by their CSPs. Article 38(8), second sub-paragraph, of EMIR then adds that the simulation of the margin requirements needs to include both the margins required by the CCP and any additional margins required by the CSP. Recital 52 of EMIR 3 then further explains that it is CSPs who should ensure transparency towards their clients, since due to their provision of clearing services and their professional experience with central clearing and liquidity management, they are best placed to communicate in a clear and transparent manner to clients how margin models work, including during stress events, and the impact of such events on margins clients are requested to post, including any additional margin clearing members (or CSPs) themselves might request from their clients. Therefore, it is quite clear that in accordance with EMIR, the margin simulations need to be provided to clients by their CSPs (rather than CCPs) and that such simulations need to include both the amount required by the CCP and the amount required by the CSP. In order for all CSPs to be able to comply with this requirement, ESMA initially proposed that the CCP simulation tool be made available not

only to clearing members but also to CSPs. However, in the meantime it was considered that it might go beyond Level 1 text of EMIR, and therefore was removed.

116. ESMA also does not believe that its proposals exceed the international guidance. The BCBS-CPMI-IOSCO Final Report while admitting that the methods of achieving transparency are likely to differ between the CCP and the clearing member levels, also explicitly states that “it is necessary to expect similarly high standards of transparency and the same rigour in assessing the responsiveness of margin from clearing members as that demonstrated by CCPs” in order to capture the full clearing chain.
117. Proposal 9(b) of the BCBS-CPMI-IOSCO Final Report states that where client margins deviate from those that would be charged by CCPs, clearing members should provide documentation to their clients containing a detailed description of how client margins are calculated which should include, where appropriate, the provision of their own margin simulation tools. As ESMA’s proposals in the draft RTS did not contain a requirement for CSPs to establish simulation tools, but simply to “simulate” (i.e. provide) the amount(s) of margins that would be required from the client under different scenarios, ESMA is of the view that the BCBS-CPMI-IOSCO Final Report guidance actually goes, in certain respect, further than ESMA’s proposals.
118. Furthermore, Proposal 9(a) of the BCBS-CPMI-IOSCO Final Report states where clients clear at multiple CCPs via the same clearing member, clearing members should, to the extent possible, disaggregate client margin requirements such that the client can attribute margin requirements to the originating CCP. ESMA’s proposals in the draft RTS were fully aligned with this recommendation.
119. As explained in the previous section, ESMA would also like to assure the respondents that it fully recognises the diversity across CSPs in terms of business models and margining practices, and believes that the draft RTS (as presented in the CP) reflected these differences, i.e. ESMA proposed different requirements for (i) CSPs that simply pass through the CCP model without applying any additional margin, (ii) CSPs that use the CCP margin model but apply additional margin (such additional margins can take form e.g. via CSP add-ons or due to the net vs gross calculation of clients’ margins), and (iii) CSPs that do not use the CCP margin model and instead use their own internal/proprietary margin models.
120. At the same time, ESMA is of the view, that based on Article 38(8) of EMIR, and taking into account the international guidance (in particular the BCBS-CPMI-IOSCO Final Report), all clients are entitled to a similar level of transparency from their CSP, regardless of the business model used by the CSP, including where the CSP uses a proprietary margin model. In other words, the choice by a CSP to use a proprietary model (instead of using the model of the CCP with or without additional margins) should not result in clients of the

CSP receiving less complete information or not being able to benefit from the requirements set out in Article 38(8) of EMIR, as such a situation would create an unlevel playing field in clients' understanding of liquidity demands and preparedness for potential future margin calls.

121. Therefore, ESMA has maintained the overall approach in its final draft RTS (as presented in this Final Report). In other words, ESMA proposes different requirements for (i) CSPs that simply pass through the CCP model without applying any additional margin, (ii) CSPs that use the CCP margin model but apply additional margin (such additional margins can take form e.g. via CSP add-ons or due to the net vs gross calculation of clients' margins), and (iii) CSPs that do not use the CCP margin model and instead use their own internal/proprietary margin models.
122. In addition, ESMA would like to emphasise again that CSP margin simulations do not equate to simulation tools. Instead, as already proposed by ESMA in the draft RTS (as presented in the CP), CSPs would be required simply to "simulate" (i.e. provide) the amount(s) of margins that would be required from the client under different scenarios. This stance remains unchanged in the final draft RTS (as presented in this Final Report). Furthermore, ESMA wishes to recall that the CSP margin transparency requirements, as set out in Article 38(8) of EMIR, and as further specified in the ESMA draft RTS, only apply in respect of client's transactions cleared through a CCP.
123. However, in order to reduce the burden on CSPs, avoid duplications, and ensure proportional and efficient application of Article 38(8) of EMIR, ESMA has made some changes to the CSP margin simulation requirements and provided some additional clarifications. CSPs would therefore be subject the following requirements:

- All CSPs would be required to provide margin simulations to their clients for the following scenarios:
 - o the current market conditions; and
 - o three hypothetical and two historical market stress scenarios.

This means that ESMA has removed the requirement for CSPs to provide simulations for scenarios related to the individual risk of the client in order to reduce burdens for CSPs. ESMA has also clarified that CSPs may use the same scenarios as used by CCPs in their simulation tools.

- All CSPs would be required to provide the simulations at least (i) when the client is onboarded, and (ii) upon request of the client.

- CSPs that use the margin model of the CCP and do not require any additional margins: the output of the margin simulation should indicate the initial margin amount required for each CCP;
- CSPs that use the margin model of the CCP and require additional margins:
 - o the output of the margin simulations should:
 - for each CCP, distinguish the initial margin amount required using the CCP margin model from any additional margins amounts (e.g. add-ons) required by the CSP related to the portfolio where the transactions are being margined;
 - provide a breakdown per type of CSP additional margin required (e.g.. provide a breakdown of the add-on amounts).
- CSPs that use proprietary models:
 - o the output of the simulation should:
 - indicate the amount required for each CCP using the CCP margin model;
 - indicate the amount required by the CSP related to the portfolio where the transactions are being margined;
 - distinguish between the core margin amount and amounts for each of the add-ons used by the CSP related to the portfolio where the transactions are being margined.

124. ESMA does not believe it to be appropriate to specify in the RTS that CSPs simulations are non-binding, as this is already explicitly stated in Article 38(8), second sub-paragraph, of EMIR.

125. Finally, in the final draft RTS presented in this Final Report, ESMA has merged the Articles on CSP margin model information disclosure requirements (as described in the previous Section 5.1) and on CSP margin simulations (as described in this Section 5.2), in order to avoid duplications and increase readability and clarity.

6 Annex

6.1 Annex I – Legislative mandate to develop RTS

Article 38

Transparency

1. A CCP and its clearing members shall publicly disclose the prices and fees associated with the services provided. They shall disclose the prices and fees of each service provided separately, including discounts and rebates and the conditions to benefit from those reductions. A CCP shall allow its clearing members and, where relevant, their clients separate access to the specific services provided.

A CCP shall account separately for costs and revenues of the services provided and shall disclose that information to ESMA and the competent authority.

2. A CCP shall disclose to clearing members and clients the risks associated with the services provided.

3. A CCP shall disclose to ESMA, its clearing members and to its competent authority the price information used to calculate its end-of-day exposures to its clearing members.

A CCP shall publicly disclose the volumes of the cleared transactions for each class of instruments cleared by the CCP on an aggregated basis.

4. A CCP shall publicly disclose the operational and technical requirements relating to the communication protocols covering content and message formats it uses to interact with third parties, including the operational and technical requirements referred to in Article 7.

5. A CCP shall publicly disclose any breaches by clearing members of the criteria referred to in Article 37(1) and the requirements laid down in paragraph 1 of this Article, except where the competent authority, considers that such disclosure would constitute a threat to financial stability or to market confidence or would seriously jeopardise the financial markets or cause disproportionate damage to the parties involved.

6. A CCP shall provide its clearing members with a simulation tool allowing them to determine the amount of additional initial margin at portfolio level that the CCP might require upon the clearing of a new transaction, including a simulation of the margin requirements that they might be subject to under different scenarios. That tool shall only be accessible on a secured access basis, and the results of the simulation shall not be binding.

7. A CCP shall provide its clearing members with information on the initial margin models it uses, including methodologies for any add-ons, in a clear and transparent manner. That information shall:

- (a) clearly explain the design of the initial margin model and how it operates, including in stressed market conditions;
- (b) clearly describe the key assumptions and limitations of the initial margin model and the circumstances under which those assumptions are no longer valid;
- (c) be documented.

8. Clearing members providing clearing services and clients providing clearing services shall provide their clients with at least the following:

- (a) information on the way that the margin models of the CCP work;
- (b) information on the situations and conditions that might trigger margin calls;
- (c) information on the procedures used to establish the amount to be posted by the clients; and
- (d) a simulation of the margin requirements to which clients might be subject under different scenarios.

For the purposes of point (d), the simulation of the margin requirements shall include both the margins required by the CCP and any additional margins required by the clearing members and the clients providing clearing services. The results of such simulation shall not be binding.

Upon the request of a clearing member, a CCP shall, without undue delay, provide that clearing member with the information requested to allow that clearing member to comply with the first subparagraph of this paragraph, unless such information is already provided pursuant to paragraphs 1 to 7. Where the clearing member or a client provides clearing services, and where appropriate, they shall transmit that information to their clients.

9. The clearing members of the CCP and clients providing clearing services, shall clearly inform their existing and potential clients of the potential losses or other costs that they may bear as a result of the application of default management procedures and loss and position allocation arrangements under the CCP's operating rules, including the type of compensation they may receive, taking into account Article 48(7). Clients shall be provided with sufficiently detailed information to ensure that they understand the worst-case losses or other costs they could face should the CCP undertake recovery measures.

10. ESMA, in consultation with EBA and the ESCB, shall develop draft regulatory technical standards to further specify:

- (a) the requirements that the simulation tool is to comply with and the type of output to be provided pursuant to paragraph 6;
- (b) the information to be provided by CCPs to clearing members regarding transparency of margin models pursuant to paragraph 7;
- (c) the information to be provided by clearing members and clients providing clearing services to their clients under paragraphs 7 and 8; and
- (d) the requirements of the simulation of margins to be provided to clients and the type of output to be provided pursuant to paragraph 8.

ESMA shall submit the draft regulatory technical standards referred to in the first subparagraph to the Commission by 25 December 2025.

Power is delegated to the Commission to supplement this Regulation by adopting the regulatory technical standards referred to in the first subparagraph of this paragraph in accordance with Articles 10 to 14 of Regulation (EU) No 1095/2010.'

6.2 Annex II – Cost-benefit analysis

6.2.1 CCP margin model information

Specific objective	The objective is to ensure that the information on the initial margin model the CCP uses is available to the clearing members and clients, in accordance with Article 38(7) and Article 38(8)(a) of EMIR.
Policy option 1	A first policy option would be that the CCPs provide information related to the margin model, including operational arrangements, publicly.
Policy option 2	A second policy option would be that the CCPs provide information related to the margin model, including operational arrangements, only to their clearing members. The clearing members, and consecutive CSPs, can share this information with their clients.
Preferred option	Policy option 2

Qualitative impact of the proposed policies

Option 1

Benefits	The information on the margin model of the CCP would be easily accessible to the clearing member, CSPs and clients, and avoid administrative burden by sharing individually.
Compliance costs	However, information on the margin model is commercially sensitive information, and thus could be considered confidential. In addition, if available publicly, it could penalise CCPs that have adopted a margin model which is more conservative than the minimum regulatory requirements. Finally, such an approach would be beyond the requirements described in Article 38 of EMIR, which provides that this information shall be available to the clearing members and the clients.
Supervision costs	No supervision costs identified.

Option 2

Benefits	The information on the margin model of the CCP would be available to all its clearing members as well as CSPs and clients, while respecting their confidentiality.
Compliance costs	However, the time necessary for the information to reach the final client could be significant, depending on the number of CSPs between the CCP and the final client.
Supervision costs	Also, supervising the flow of information from the individual CSPs to the final client could be cumbersome, especially in cases where several entities are involved and/or supervised by different authorities.

6.2.2 CCP initial margin simulation tool

Margin ‘add-ons’

Specific objective	The objective is to define the elements of initial margins that should be included in the output of the initial margin simulation tool provided by the CCP, in accordance with Article 38(6) of EMIR, which will allow better visibility and predictability of margin calls.
Policy option 1	Include in the output the ‘core’ margins and margin ‘add-ons’ covering all types of risk.
Policy option 2	Include in the output the ‘core’ margins and the margin ‘add-ons’ that are related only to the portfolio where the positions are being margined (e.g. portfolio concentration add-on).
Preferred option	Policy option 2

Qualitative impact of the proposed policies

Option 1

Benefits	Clearing members, clients and indirect clients would have a comprehensive view of the amount of initial margins which could be required by the CCP upon a clearing of a new transaction.
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Compliance costs However, including the margin ‘add-ons’ that are related to the aggregate impact of all the portfolios of the clearing member would be difficult to implement, notably due to the challenge of allocating amounts called to the clearing member to individual portfolios. Furthermore, it would result in significant operational costs.

Supervision costs It is difficult to supervise and ensure convergence of the methodology which would be used to allocate these margin ‘add-ons’ to individual portfolios.

Option 2

Benefits Clearing members, clients and indirect clients would have a view of the ‘core’ margins and the margin ‘add-ons’ directly linked to the portfolio where these positions are being margined, which are the most likely to evolve by the introduction of new transactions.

Compliance costs Although this would require development costs for CCPs, it is operationally achievable. The amount however of the actual margin calls might be higher than the simulation due to the absence of the margin ‘add-ons’ related to the aggregate impact of all the portfolios of the clearing member.

Supervision costs The NCAs would need supervise the application of this, which would require the clear identification of the margin ‘add-ons’ related to the portfolio, so they can be included in the output.

Margin simulation scenarios

Specific objective The objective is to include in the simulation tool a simulation of the margin requirements that the clearing members might be subject to under different scenarios, which would allow better visibility and predictability of margin calls in case of adverse market conditions.

Policy option 1 The simulation tool could provide the possibility for scenarios using parameters defined by the clearing member (and eventually the clients and indirect clients).

Policy option 2 The simulation tool could provide a set number of scenarios, which should be at least five (which would be designed by the CCP). CCPs could add more scenarios, depending on the size and complexity of their activities.

Preferred option **Policy option 2**

Qualitative impact of the proposed policies

Option 1

Benefits Clearing members could have a simulation of the initial margin requirements for a scenario that is adapted to their expectations for an adverse market scenario.

Compliance costs However, this would be operationally complicated and could result in high development costs for CCPs. The additional operational risk resulting from such an option might impact the operational capacity of the CCPs for day-to-day operations.

Supervision costs NCAs would need to supervise the complex IT project necessary to offer this option, and the additional operational risk.

Option 2

Benefits Clearing members could have a simulation of the initial margin requirements for at least five scenarios, which should be useful for market participants to have an idea of the evolution of the initial margin requirements in adverse market conditions.

Compliance costs The implementation of at least five scenarios is expected to be operationally manageable and carry reasonable development costs.

Supervision costs The NCAs are expected to supervise the methodology the CCPs will use to choose the scenarios for the simulation.

6.2.3 Simulation of client margins

Scenarios for the simulation of client margins

Specific objective The objective is to include in the simulation of the margin requirements provided by CSPs to their clients an output for different scenarios, which would allow better visibility and predictability of margin calls in case of adverse market conditions.

Policy option 1	CSPs could provide the simulation for a list of scenarios of their choice, based on their expectations for adverse market conditions and evolution of the individual risk of the client.
Policy option 2	CSPs could provide the simulation for the same scenarios as the ones the CCP uses in its simulation tool, where the positions of their client are cleared.
Preferred option	Combination of Policy option 1 and Policy option 2 (i.e. flexibility for CSPs to use the same scenarios as in the CCP simulation tool or to develop their own scenarios)

Qualitative impact of the proposed policies

Option 1

Benefits	CSPs could develop scenarios in line with their expectations for adverse market conditions and changes to individual risk of the client, in potential cooperation with their clients. As a result, these scenarios would be better tailored to the needs of the client.
Compliance costs	In this option the CSPs can leverage on the CCP margin simulation tool or develop their own.
Supervision costs	The NCAs of the CSPs would need to supervise the methodology used by the CSPs to choose the scenarios, as well as the ability of the CSPs to replicate the margin methodology of the CCP.

Option 2

Benefits	CSPs could leverage on the simulation tools provided by the CCPs, and produce only the difference between the initial margins of the CCP and the total margins requested by the CSPs to their clients.
Compliance costs	This option would limit the flexibility of the CSP to choose the scenarios which would fit best the needs and profile of their clients.
Supervision costs	The NCAs of the CSPs would need to supervise the operational implementation of the simulation of the total client margins based on the scenarios used by CCPs in their simulation tools.

6.3 Annex III – Advice of the Securities and Markets Stakeholder Group

In accordance with Article 16 of the ESMA Regulation, ESMA has requested the advice of the Securities and Markets Stakeholder Group (SMSG). The SMSG has not provided any comment.

6.4 Annex IV - List of respondents to the consultation

	Respondent
1	AFG
2	AFME
3	Bank Handlowy Brokerage House
4	BDEW
5	Cboe Clear Europe N.V.
6	CCP Global
7	Deutsche Börse Group (Eurex, ECC)
8	E.ON Energy Markets GmbH
9	EACH
10	EFAMA
11	EnBW
12	Energy Traders Europe
13	Eurelectric
14	Euronext Clearing
15	EuropeanIssuers
16	FBF & AMAFI
17	FIA
18	ISDA
19	LSEG (LCH)
20	Nasdaq Clearing AB
21	OCC
22	Optiver
23	Polish Bank Association (ZBP)
24	Polish Investment Firms Chamber
25	RWE Supply & Trading
26	SIX Group
27	WFE

6.5 Annex V – Draft regulatory technical standards on margin transparency

COMMISSION DELEGATED REGULATION (EU) No .../..

supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards specifying the requirements on margin transparency and margin simulation tool by CCPs and margin transparency and margin simulations by clearing service providers

of []

(text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories⁸, in particular Article 38(10), third subparagraph thereof,

Whereas:

- (1) Regulation (EU) No 648/2012 has been amended by Regulation (EU) 2024/2987⁹. Those amendments have, inter alia, enhanced the provisions regarding margin transparency by CCPs towards their clearing members, and introduced margin transparency requirements for clearing members providing clearing services and clients providing clearing services ('clearing service providers' (CSPs)) towards their clients.
- (2) The information to be provided by a CCP on the design and functioning of its initial margin model should enable the CCP's clearing members to obtain an in-depth understanding of how the margin model works, so that they can better predict their margin obligations towards the CCP. Such information should cover all elements of the initial margin model. In this context, elements of the initial margin model should be understood as the core margin and all margin add-ons. The information should be clear on the type of model used for the core margin, e.g. parametric model, historical simulation or Monte Carlo simulation and include details on the model parameters, including the confidence level, the lookback period, and the time horizon

⁸ Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories; OJ L 201, 27.7.2012, p. 1–59.

⁹ Regulation (EU) 2024/2987 of the European Parliament and of the Council of 27 November 2024 amending Regulations (EU) No 648/2012, (EU) No 575/2013 and (EU) 2017/1131 as regards measures to mitigate excessive exposures to third-country central counterparties and improve the efficiency of Union clearing markets; OJ L, 2024/2987, 4.12.2024.

for the liquidation period, with a description of their functions. The CCP should also provide a detailed description of the model including logical steps and mathematical and statistical specifications. The information should also include the risk that each initial margin model element covers, and if the core margin covers for other risks than market risk, the information should be clear on how the additional risks are taken into account. As regards the margin add-ons, the information should include, where applicable, margin add-ons which cover the risk of the individual portfolios, such as liquidity, concentration and wrong-way risk add-ons; margin add-ons which cover the risk of the aggregate impact of all the portfolios of the clearing member, such as default fund concentration add-on; margin add-ons related to the individual risk of the clearing member, such as credit risk add-on; and other margin add-ons, such as margin requirements related to model risk or resulting from margin overrides. In addition, the CCP should provide information on the operational arrangements related to margin calls and on the governance procedures related to the review of the initial margin model by the CCP.

- (3) In order for clearing members to understand the key assumptions and limitations of the CCP's initial margin model, the CCP should provide to their clearing members a description of the events that could lead to a breach of the assumptions and qualitative and quantitative information on the potential impact on margin requirements, as well as information on the performance of the model and on the behaviour of the model during stressed market conditions, including at least the backtesting results. The CCP should also provide information with regard to the processes it would use to regularly monitor and, if necessary, revise the level of its margins to reflect current market conditions taking into account potentially procyclical effects of such revisions; information with regard to the conditions under which an override of the initial margin model could be required, including during a market stress event; as well as information on how extraordinary margin calls, in case of a margin model override, would be calculated and called. In this context, extraordinary margins should be understood as the additional margins referred to in Article 56 of the Commission Delegated Regulation 153/2013¹⁰.
- (4) All the information on the CCP's initial margin model as well as the description of the CCP's margin simulation tool scenarios, should be provided by the CCP to its clearing members in a documented form, which should be written in a clear and comprehensive manner so that the clearing members can obtain an in-depth understanding of how the margin model works, and be up to date. Clearing service providers should also provide this information to their clients.
- (5) As regards the CCP's margin simulation tool, in order for a clearing member to be able to distinguish between the impact on the initial margin in respect of its existing positions and the initial margin in respect of new transactions under a hypothetical scenario, the amount provided in the simulation tool referring to the initial margin for the existing positions should be distinguished from the amount for new transactions. The simulation tool should include the core margin and the margin add-ons that are related to the portfolio where the new transactions would be margined, and thus systematically required across clearing members, e.g. the portfolio concentration add-on. The CCP, in its simulation tool, should clearly list the type of

¹⁰ Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on requirements for central counterparties; OJ L 52, 23.2.2013, p. 41–74.

risks covered by each amount provided. For the avoidance of doubt, the amount for each add-on should be provided separately.

- (6) In order for clearing members to be able to estimate and better predict their margin requirements, in particular under stressed market conditions, it is necessary to provide for a number of scenarios to be included in CCPs' margin simulation tools. Therefore, in addition to the current market conditions scenario, a CCP should include in its margin simulation tool three hypothetical and two historical market stress scenarios identified by the CCP. However, in order to ensure a minimum level of comparability, the design of those scenarios should be subject to certain requirements, in particular as regards the impact on the initial margin model. In addition, recognising the heterogeneity of CCPs, the CCP should consider identifying and including, in its simulation tool, additional market stress scenarios, taking into account its size, complexity, risk management practices, membership structure and the characteristics of the products it clears.
- (7) Clearing service providers may use different methodologies to calculate the margins called to their clients for transactions cleared through a CCP. Some clearing service providers use the margin model of the CCP without applying additional margins, some clearing service providers use the margin model of the CCP and apply additional margins (e.g. by applying CSP multipliers, coefficients or add-ons to account for counterparty or credit risk or by calculating clients' margins on an individual or gross basis compared to a net basis calculation), and some clearing service providers do not use the margin model of the CCP (i.e. they use their own proprietary models). It is, therefore, necessary to take such differences into account when specifying the margin transparency requirements for clearing service providers, so that all clients can benefit equally from those requirements and so as to ensure a level playing field in clients' understanding of liquidity demands and preparedness for potential future margin calls, irrespective of the methodology used by their clearing service provider. The scope of margin transparency requirements for clearing service providers is limited to client transactions cleared through a CCP.
- (8) In order for clients to understand the operational arrangements regarding margins, all CSPs should be required to provide their clients with information on the operational arrangements for the collection of any margin requirements, including the deadlines for meeting margin calls, collateral posting cut-off times, collateral collection schedule, thresholds which might trigger margin calls where applicable, exposure limits where applicable, and for the restitution of excess collateral.
- (9) A clearing service provider that uses the margin model of the CCP and does not require any additional margins should provide its client with margin simulations indicating the initial margin amount required for each CCP.
- (10) A clearing service provider that uses the margin model of the CCP and requires additional margins, from a client, should provide information to the client with regard to the rationale for, and magnitude of, those deviations in order for that client to understand how the margins required by its clearing service provider differ from the margins required by the CCP. That clearing service provider should also provide its client with information on the risks that each type of the additional margin covers and a detailed description of how it is calculated including during stressed market conditions; and the procedures to review the calculation of the

additional margin requirements, with the applicable notice period. In addition, that clearing service provider should provide its client with margin simulations distinguishing, for each CCP, between the initial margin amount required using the CCP margin model and any additional margins amounts required by the clearing service provider, and between the amounts for each type of additional margin required by the clearing service provider, so that the client can easily identify the deviations and differences between the margins called by the CCP and the margins charged by the clearing service provider.

- (11) A clearing service provider that uses a different margin model than the one used by the CCP should provide its client, to which the margin model of the clearing service provider applies, with information with regard to the rationale for, and magnitude of, the margin deviations in order for that client to understand how the margins required by its clearing service provider differ from the margins required by the CCP. That clearing service provider should also provide its client with information on the key elements of the design and limitations of its model, including information on the risk that each margin model element (i.e. the core margin and any add-ons) covers and how it is calculated including during stressed market conditions; the type of model used for the core margin; the model parameters, such as the confidence interval, the lookback periods, and the time horizon for the lookback period, with a description of their respective functions; and the procedures to review the methodology for the calculation of the margins, with the applicable notice period. Additionally, that clearing service provider should provide its client with margin simulations distinguishing between the initial margin amounts required for each CCP using the CCP margin model and the amount required by the clearing service provider, and between the core margin amount and amounts for each of the margin add-ons of the model used by the clearing service provider. For the avoidance of doubt, the amount for each add-on should be provided separately.
- (12) In order to reduce burdens, it is also necessary to establish the frequency of the margin information and margin simulations disclosures by all clearing service providers to their clients. Therefore, a clearing service providers should provide the respective margin information to a client when the client is onboarded and when there are material changes to that information. In addition, a clearing service provider should provide margin simulations to a client when the client is onboarded and in addition upon request of the client.
- (13) In order for clients to be able to estimate and better predict their margin requirements, in particular under stressed market conditions, it is necessary to provide for a number of scenarios to be included in clearing service providers' margin simulations. Therefore, in addition to the current market conditions scenario, all clearing service providers should include in their margin simulations at least three hypothetical and two historical market stress scenarios. In this respect, clearing service providers should not be required to tailor the scenarios to the individual situation of each client and may, instead, use the same scenarios as the ones used by the CCP in its margin simulation tool. However, the margin simulations to be provided by clearing service providers should not be understood as interactive simulation tools as such a requirement would be disproportionate. Instead, clearing service providers are expected to provide their clients with at least the various amounts of margins that would be required from the clients under the different scenarios.
- (14) This Regulation is based on the draft regulatory technical standards submitted by the European Securities and Markets Authority (ESMA) to the Commission.

- (15) ESMA has developed the draft regulatory technical standards in consultation with the European Banking Authority (EBA) and the European System of Central Banks (ESCB). In accordance with Article 10 of Regulation (EU) 1095/2010 of the European Parliament and the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority)¹¹, ESMA has conducted open public consultations on such draft regulatory technical standards, analysed the potential related costs and benefits and requested the advice of the Securities and Markets Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1095/2010,

HAS ADOPTED THIS REGULATION:

CHAPTER I

INFORMATION TO BE PROVIDED BY A CCP TO ITS CLEARING MEMBERS

Article 1

Initial margin model design and functioning

A CCP shall provide its clearing members with information on the design and the functioning of its initial margin model,. This information shall cover all the elements of the initial margin model, including the following:

- (a) the risk that each initial margin model element covers;
- (b) the type of model used for the core margin;
- (c) the methodology for the calculation of the margins, such as the logical steps, and the mathematical and statistical specifications;
- (d) the model parameters, such as the confidence interval, the lookback periods, and the time horizon for the lookback period, with a description of their respective functions;
- (e) the operational arrangements, including the deadlines for meeting margin calls, collateral posting cut-off times, collateral collection schedule, thresholds which might trigger margin calls where applicable, exposure limits where applicable, and for the restitution of excess collateral; and
- (f) the governance procedures related to the review of the initial margin model of the CCP, the involvement of clearing members in the governance process and the applicable notice period.

Article 2

¹¹ OJ L 331, 15.12.2010, p. 84.

Key assumptions and limitations of the initial margin model

1. A CCP shall provide its clearing members with a list of the key assumptions and limitations of the initial margin model, including a description of the events that could lead to a breach of the assumptions, and qualitative and quantitative information on the potential impact on margin requirements.
2. A CCP shall provide its clearing members with qualitative and quantitative information on the performance of its initial margin model and on the behaviour of that model during stressed market conditions. This information shall include at least the backtesting results, as provided in accordance with Article 49(5) of the Commission Delegated Regulation 153/2013.
3. A CCP shall also provide its clearing members with information on:
 - (a) the processes to monitor and revise the level of its margins to reflect the current market conditions;
 - (b) the conditions under which an override of the initial margin model could be required, including during a market stress event; and
 - (c) how extraordinary margins are calculated and called in accordance with Article 56 of the Commission Delegated Regulation 153/2013.

Article 3

Model information

A CCP shall provide its clearing members with all the information referred to in Article 1, Article 2 and Article 5(3) of this Regulation in a documented form. This information shall be written in a clear and comprehensive manner and in a way that enables the clearing member to obtain an in-depth understanding of how the margin model works, and shall be up to date.

CHAPTER II CCP SIMULATION TOOL

Article 4

Output of the simulation tool

1. The simulation tool provided by a CCP to its clearing members shall indicate an amount for the core margin and an amount for each of the margin add-ons that are related to the portfolio, and clearly list the type of risks covered by each amount.
2. The output of the simulation tool shall be available for additional transactions in existing or hypothetical portfolios of the clearing member using the tool. The output of the simulation tool shall distinguish between the initial margin requirement amount for the existing transactions already cleared by the clearing member and the additional initial margin amount required by the CCP upon clearing new transactions.

Article 5

Simulation tool scenarios

1. The simulation tool provided by a CCP shall allow its clearing members to estimate their initial margin requirements for at least each of the following scenarios:
 - (a) the current market conditions based on the inputs used by the initial margin model for the most recent end-of-day initial margin call;
 - (b) three hypothetical and two historical market stress scenarios identified by the CCP, meeting the requirements set out in the Annex.
2. The CCP shall consider identifying and including, in its simulation tool, additional market stress scenarios, taking into account the CCP's size, complexity, risk management practices, membership structure and the characteristics of the products it clears.
3. The CCP shall provide to its clearing members a clear description of the scenarios set out in paragraphs 1 and 2 of this Article.

CHAPTER III INFORMATION TO BE PROVIDED BY CLEARING MEMBERS AND CLIENTS PROVIDING CLIENT CLEARING SERVICES

Article 6

CCP initial margin model

1. Clearing members providing clearing services and clients providing clearing services ('clearing service providers') shall make available to their clients the information referred to in Article 3 of this Regulation without alteration or omission, unless:
 - (a) The CCP has made the information public; or
 - (b) The CCP provides the information to clients directly.
2. Paragraph 1, points (a) and (b), shall be considered fulfilled where the clearing service provider has received written acknowledgment from the client to that effect.
3. CCPs shall not prevent clearing service providers from providing the information referred to in paragraph 1 to their clients.

Article 7

Clearing service providers' margin information and simulations

1. The information that a clearing service provider provides to its clients on the situations and conditions that may trigger margin calls and the procedures to establish the amount to be posted by the clients shall include all the relevant information related to the operational arrangements for the collection of margins and in the margin model that the clearing service provider uses.
2. A clearing service provider shall provide its clients with information on the operational arrangements for the collection of any margins, including the deadlines for meeting margin calls, collateral posting cut-off times, collateral collection schedule, thresholds which might trigger margin calls where applicable, exposure limits where applicable, and for the restitution of excess collateral.
3. Where a clearing service provider uses the margin model of the CCP, and does not require, from its clients, any additional margins, the clearing service provider shall, in addition to the information referred to in paragraph 2, also provide the clients with margin simulations, for the scenarios referred to in paragraph 8, indicating the initial margin amount required for each CCP.
4. Where a clearing service provider uses the margin model of the CCP, and requires, from its clients, additional margins, the clearing service provider shall, in addition to the information referred to in paragraph 2, also provide the clients with at least:
 - (a) Information on the risk that each type of additional margin covers, and a detailed description of how it is calculated (including during stressed market conditions);
 - (b) Information on the procedures to review the calculation of the additional margin required by the clearing service provider, and the applicable notice period;
 - (c) Information with regard to the rationale for, and magnitude of, the margin deviations applied by the clearing service provider (compared to the margins of the CCP) to its clients; and

(d) Margin simulations, for the scenarios referred to in paragraph 8, clearly distinguishing, for each CCP:

(i) the initial margin amount required using the CCP margin model from the additional margin amount required by the clearing service provider related to the portfolio where the transactions are being margined; and

(ii) between the amounts for each type of additional margin required by the clearing service provider.

5. Where a clearing service provider uses a different margin model than the one used by the CCP, the clearing service provider shall, in addition to the information referred to in paragraph 2 also provide its clients, to which the margin model of the clearing service provider applies, with at least:

(a) information on the key elements of the design and limitations of the margin model, including at least the following:

(i) the risk that each margin model element covers, and a detailed description of how it is calculated (including during stressed market conditions);

(ii) the type of model used for the core margin;

(iii) the model parameters, such as the confidence interval, the lookback periods, and the time horizon for the lookback period, with a description of their respective functions; and

(iv) the procedures to review the methodology for the calculation of the margins, and the applicable notice period;

(b) information with regard to the rationale for, and magnitude of, the margin deviations applied by the clearing service provider (compared to the margins of the CCP) to its clients; and

(c) margin simulations, for the scenarios referred to in paragraph 8, clearly distinguishing:

(i) the initial margin amounts required for each CCP using the CCP margin model from the margin amount required by the clearing service provider related to the portfolio where the transactions are being margined; and

(ii) between the core margin amount and amounts for each of the margin add-ons of the model used by the clearing service provider related to the portfolio where the transactions are being margined.

6. A clearing service provider shall provide the information referred to in paragraphs 2, 4 and 5, as relevant, to its clients at least when:

(a) the client is onboarded; and

(b) there are material changes to the information.

7. A clearing service provider shall provide the margin simulation referred to in paragraph 3, paragraph 4 point (d), and paragraph 5 point (c), as relevant, to its clients at least:

- (a) when the client is onboarded; and
- (b) upon request of the client.

8. A clearing service provider shall provide the margin simulation referred to in paragraph 3, paragraph 4 point (d), and paragraph 5 point (c), as relevant, to its clients for at least each of the following scenarios:

- (a) the current market conditions based on the inputs used by the initial margin model for the most recent end-of-day initial margin call; and
- (b) three hypothetical and two historical market stress scenarios.

The clearing service provider may use the scenarios of the CCP simulation tool referred to in Article 5 of this Regulation.

CHAPTER IV FINAL PROVISIONS

Article 8

Entry into force

This Regulation shall enter into force on the 20th day following that of its publication in the Official Journal of the European Union.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, DD MM YYYY.

For the Commission

The President

Signature

ANNEX

Requirements for the market stress scenarios for the CCP margin simulation tool

The CCP simulation tool scenarios referred to in Article 5(1), first subparagraph point (b), of this Regulation, shall meet all of the following requirements:

- (a) They shall be built in a way that impacts initial margin models as follows:
 - (i) They shall result in changes to initial margin amounts, due to shifts in market conditions;
 - (ii) They shall include appropriate periods of stress impacting market volatility and correlations of risk factors captured by initial margin models;
 - (iii) They shall include a change of price levels of the instruments cleared by the CCP, which are used as inputs for calculating initial margins; and
 - (iv) They may include impacts on other risks and margin components, such as due to increased liquidation costs or reduced portfolio margining.
- (b) As regards historical scenarios, they shall include key past stress events that are the most impactful for the portfolios of the clearing members and most relevant for the asset classes the CCP clears; and
- (c) As regards hypothetical scenarios, they shall be built in a way that they stress the clearing members' liquidity needs.