



European Securities and
Markets Authority

Final Report

Guidelines on EMIR Anti-Procyclicality Margin Measures for Central Counterparties



Table of Contents

1	Executive Summary	3
2	Background.....	4
3	Feedback from Consultation.....	5
3.1	General Comments	5
3.2	Q1 on Regular Assessments of Margin Procyclicality.....	6
3.3	Q2 on Quantitative Metrics for Monitoring Margin Procyclicality	6
3.4	Q3 on Incorporation of All Risk Factors in APC Margin Measures	6
3.5	Q4 on Implementation of Margin Buffer in Article 28(1)(a) of the RTS	7
3.6	Q5 on Stressed Observations in Article 28(1)(b) of the RTS.....	7
3.7	Q6 on Modelling of Margin Floor in Article 28(1)(c) of the RTS.....	8
3.8	Q7 on Frequency and Alignment of Margin Floor Parameters to Margin Calculation	8
3.9	Q8 and Q9 on Disclosure of Margin Model and Parameters.....	9
4	Annexes.....	10
4.1	Annex I: Cost-Benefit Analysis	10
4.2	Annex II: Guidelines	12
I.	Scope.....	12
II.	Legislative references and abbreviations.....	12
III.	Purpose.....	13
IV.	Compliance and Reporting Obligations	13
V.	Guidelines	14
V.1.	Regular Assessment of Procyclicality	14
V.2.	Application of APC margin measures to All Material Risk Factors.....	15
V.3.	Exhaustion of Margin Buffer under Article 28(1)(a) of the RTS	15
V.4.	Margin Floor under Article 28(1)(c) of the RTS	16
V.5.	Disclosure of Margin Parameters.....	16

Acronyms

APC margin measures	Anti-Procyclicality margin measures under Article 28 of the RTS
CCPs	Central Counterparties authorised under Article 14 of EMIR
Competent authority/ National Competent Authority (NCA)	an authority designated under Article 22 of EMIR
EC	European Commission
EMIR	Regulation (EU) 648/2012 of 4 July 2012 of the European Parliament and Council on OTC derivatives, central counterparties and trade repositories
ESMA	European Securities and Markets Authority
ESMAR	ESMA Regulation i.e. 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
ESRB	European Systemic Risk Board
RTS	Regulatory technical standards on CCPs i.e. 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 CCPs

1 Executive Summary

Reasons for publication

EMIR recognises that CCPs, competent authorities and ESMA should adopt measures to prevent and control possible procyclical effects arising from the risk-management practices adopted by CCPs. To this end, Article 41 of EMIR and Article 28 of the RTS set out requirements for CCPs to monitor the procyclicality arising from margin revisions and margin parameters and adopt at least one of three anti-procyclicality margin measures.

In August 2015, ESMA published a report on its Review of EMIR on the efficiency of margining requirements to limit procyclicality. The guidelines seek to address the findings in the report and to promote a consistent implementation of the relevant EMIR and RTS provisions.

This Final Report follows from the Consultation Paper on the draft guidelines issued in January 2018. A total of twelve responses were received and considered by ESMA to finalise the guidelines. The final guidelines are found in Annex II.

Contents

Section 2 discusses the background and mandate. Section 3 addresses the responses received to the Consultation Paper and highlights the changes made to the guidelines in response to the feedback.

Annex I sets out ESMA's view on the cost and benefits associated with these guidelines and Annex II contains the guidelines.

Next Steps

The guidelines in Annex II will be translated into the official languages of the European Union and published on the ESMA website.

Within two months from the date of publication of translations, each NCA must notify ESMA if it complies or intends to comply with the guidelines. Where an NCA does not comply or intend to comply, it must provide ESMA with its reasons for non-compliance. ESMA will publish the fact that the NCA does not comply or intend to comply with these guidelines.

2 Background

1. EMIR recognises that margin calls and haircuts on collateral may have procyclical effects and CCPs, their competent authorities and ESMA should therefore adopt measures to prevent and control possible procyclical effects in the risk management practices adopted by CCPs, to the extent that a CCP's soundness and financial security is not negatively affected¹.
2. To this end, Article 41 of EMIR requires CCPs to regularly monitor and, if necessary, revise the level of margins to reflect current market conditions, taking into account any procyclical effects of such revisions. Article 28 of the RTS then requires that a CCP employs at least one of the following options:
 - a. apply a margin buffer at least equal to 25% of the calculated margins which it allows to be temporarily exhausted in periods where calculated margin requirements are rising significantly;
 - b. assign at least 25% weight to stressed observations in the lookback period calculated in accordance with Article 26 of the RTS;
 - c. ensure that its margin requirements are not lower than those that would be calculated using volatility estimated over a 10 year historical lookback period.
3. Article 10 of the RTS also requires CCPs to make disclosures relating to their margin models. Such disclosures, if they are of appropriate detail, could allow participants to anticipate margin procyclicality.
4. Pursuant to Article 85(1)(d) of EMIR, the European Commission (EC) was required to review and prepare a general report on EMIR. In particular, it needed to assess the efficiency of margining requirements to limit procyclicality and the need to define additional intervention capacity in this area, in cooperation with ESMA and the European Systemic Risk Board (ESRB). Consequentially, ESMA published the EMIR Review Report No. 2 on the Review on the efficiency of margining requirements to limit procyclicality (ESMA's EMIR Review Report No.2) in August 2015². ESMA noted that, while all authorised CCPs have adopted the APC margin measures, the implementation of these measures varied across CCPs and there was a need to improve clarity on the application of these measures and on the disclosure of margin models. The subsequent Report from the EC to the European Parliament and the Council noted the findings in ESMA's EMIR Review Report No. 2 and agreed with suggestions to increase the transparency of margin requirements to allow members to predict sudden margin changes effectively³.

¹ EMIR, Recital 68

² https://www.esma.europa.eu/sites/default/files/library/2015/11/esma-2015-1252_-_emir_review_report_no.2_on_procyclicality.pdf

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

5. Further, ESMA noted, in its Peer Review under Article 21 of EMIR on the Supervisory activities on CCP's Margin and Collateral requirements (2016 Peer Review), that the competent authorities lacked the necessary tools to supervise the effectiveness of the APC margin measures adopted by CCPs⁴.
6. In view of these observations, these guidelines seek to clarify the application of EMIR in the context of procyclicality of CCP margins with the aim to ensure a common, uniform and consistent application of the relevant provisions of EMIR and of the RTS.
7. It is important to recognise that it is not the intention of the regulation to prevent CCPs from revising their margins to address changes in volatility. Instead, the regulation propagates the notion that CCPs should prevent big-stepped, unanticipated calls on clearing members during periods of extreme stress. The following guidelines should therefore be read in this context.

3 Feedback from Consultation

8. ESMA published a Consultation Paper with the draft guidelines on APC margin measures for CCPs on 8 January 2018. ESMA also requested the opinion of the Securities and Markets Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council.
9. The consultation concluded on 28 February 2018. Twelve responses were received, including the views of CCPs (and their associations), buy-side and capital market industry groups, an asset management firm and the ESRB. Amongst these, three respondents have asked for their responses to be kept confidential.
10. The below summarises the feedback received and ESMA's response and the changes made to the guidelines in response to the feedback.

3.1 General Comments

11. Most respondents expressed their support for guidelines on the APC margin measures to promote a consistent application of the EMIR and the RTS requirements across CCPs.
12. Some CCPs (and CCP associations) expressed their preference for an outcome and principle-based approach to the guidelines over an overly prescriptive approach. ESMA acknowledges that the guidelines need to achieve the right balance between the two to ensure an effective and consistent implementation of the EMIR and RTS requirements. The ensuing feedback on specific guidelines have been evaluated with this in mind.

⁴ https://www.esma.europa.eu/sites/default/files/library/2016-1683_ccp_peer_review_report.pdf

13. Although ESMA did not seek specific comments on the scope, some respondents took the opportunity to highlight that procyclicality could arise from CCP risk management tools other than initial margins and beyond the scope of cleared derivatives. For example, CCP collateral haircuts could potentially be procyclical, the procyclicality of margins called by clearing members on their clients, and the potential procyclical effects from bilateral margins. ESMA notes that these are out of scope of the undertaking of these guidelines.

3.2 Q1 on Regular Assessments of Margin Procyclicality

14. Most respondents agreed with the objective that CCPs should regularly assess their margin procyclicality. One respondent sought clarity on the frequency for such assessment. It is clear from the guidelines that the computation of the metrics must be done on a regular basis or prior to changes in margin parameters. The specific frequency would depend on the choice of metrics used by the CCP and the dimensions which the CCP seeks to measure. Following the computation of the metrics, the CCPs should consequentially assess if any action needs to be taken with regard to the outcome of the metrics.

3.3 Q2 on Quantitative Metrics for Monitoring Margin Procyclicality

15. Most respondents found all or some of the suggested metrics appropriate. Some respondents noted that the “maximum or expected shortfall of margin requirements” was a measure of the conservativeness of margins, which differ from the objective of assessing the stability of margins to identify procyclicality. ESMA is of the view that a holistic assessment of margins should enable the CCP to assess the different elements, including stability and conservativeness.
16. CCPs that responded suggested that the guideline should be clear that the metrics are meant to be examples. One respondent also raised that margin add-ons, in particular credit add-ons, could drive margin procyclicality.
17. In response to the above, ESMA has amended the guidelines to clarify that (i) CCPs have the flexibility to define their own metrics to assess their margin requirements across different dimensions, including stability and conservativeness; and (ii) that the assessment of margin requirements is inclusive of margin add-ons.

3.4 Q3 on Incorporation of All Risk Factors in APC Margin Measures

18. CCPs who responded expressed some concern with the application of the APC Margin Measures to incorporate risk factors, citing a costly implementation and an increased model complexity even though it may not be efficient to do so. Instead, they suggested that the APC Margin Measures are applied to address all material risk factors. There were also suggestions on how such materiality can be defined.

19. Weighing the feedback and suggestions against the overarching objective of Article 28 of the RTS, ESMA has revised the guidelines to read that the CCPs should apply the APC Margin Measures to incorporate at least all material risk factors that could lead to big-stepped changes in margins. As a matter of due process, in implementing the revised guidelines, CCPs should be able to demonstrate that they have assessed the sensitivity of risk factors used in the margin computation and, following such assessment, selected the material risk factors and ensured that the APC Margin Measures would apply to these risk factors.
20. One respondent sought a clarification whether the first paragraph of guideline 2 would also address the second paragraph which was specific to CCPs applying Article 28(1)(a) of the RTS on non-linear products. As explained in the Consultation Paper, ESMA has noted as per the EMIR Review Report No.2 that an approach which directly applies the margin buffer under Article 28(1)(a) of the RTS by scaling up the margins for non-linear products such as options would be less risk-sensitive as compared to an approach that addresses the risk factors. ESMA has sought to clarify the drafting in this regard.

3.5 Q4 on Implementation of Margin Buffer in Article 28(1)(a) of the RTS

21. All respondents supported this guideline. Some CCPs pointed out that the use of metrics and thresholds to define when the margin buffer should be exhausted should not be an automatic trigger to utilise the margin buffer. ESMA acknowledges this view – the intention of the guideline was for CCPs to have clarity on the use of the margin buffer to avoid an exacerbated increase in margins during periods of high volatility and accordingly, have a governance process in place to consider any action to exhaust the margin buffer.
22. To allow CCPs to account for the characteristics of the products they clear and their implementation of the APC Measure, ESMA believes that there should be flexibility on how the metrics and thresholds should be defined.
23. One respondent suggested that the time series of data on the amount of margin buffer should be disclosed for transparency. ESMA notes that this could be seen as disproportionate with regard to CCPs who may choose other APC Margin Measures. Further, ESMA believes that the disclosure of the APC Margin Measures used by the CCP as well as the conditions for exhaustion and replenishment as set out in the guidelines provide enhanced transparency for market participants.

3.6 Q5 on Stressed Observations in Article 28(1)(b) of the RTS

24. In general, CCPs that responded, disagreed with the guideline. Although there was acknowledgement amongst respondents that the objective of the guideline, which is to promote a consistent interpretation of the notion of stressed observations, was appreciated, most respondents felt that the reference to Article 30 of the RTS to define stressed observations was inappropriate, particularly on two grounds. Firstly, it would

suggest the incorporation of hypothetical scenarios in the lookback period for margins, ordinarily defined by historical observations. Secondly, the 30 year lookback period to identify historical scenarios for the purpose of stress tests was disproportionate to the 10 year lookback period for CCPs which chose to implement the margin floor option under Article 28(1)(c) of the RTS.

25. Some respondents also thought that the guidelines could provide clarification in relation to the aggregation of stressed observations with the regular observations in the lookback period.
26. ESMA takes note of the request for more clarity in the implementation of this APC measure, and acknowledges that guidelines may not be the right tool to achieve a common, uniform and consistent application of Article 28(1)(b) of the RTS. It should be noted though that it remains ESMA's policy intent for CCPs to make reference to stress test scenarios when identifying stressed observations. ESMA will consider further how to address the need for clarity in this aspect.

3.7 Q6 on Modelling of Margin Floor in Article 28(1)(c) of the RTS

27. Some CCPs expressed reservations on the restriction from the use of modelling procedures to apply different weights to the observations in the look-back period used to compute the margin floor. Specifically, CCPs pointed out that the use of scaling and decay factors was a commonality in the computation of margins and that these procedures could address some forms of procyclicality, e.g., smoothing out the margin floor to avoid a cliff effect.
28. In principle, Article 28(1)(c) of the RTS prescribes the use of a 10 year look-back period for the computation of the margin floor to ensure the stability of the margin floor given the number of observations. ESMA notes that there are existing implementations of Article 28(1)(c) of the RTS which compute the margin floor using equally-weighted observations and this allows for a stable margin floor. The computation of margin floor with unweighted observations does not preclude the CCP from computing regular margins using scaling and decay factors.

3.8 Q7 on Frequency and Alignment of Margin Floor Parameters to Margin Calculation

29. With regard to the frequency of the computation of the margin floor, some respondents disagreed that the computation of the margin floor needed to be aligned with the regular computation of margins. Some contended that the margin floor may change significantly over a period of time. Balancing the objective to ensure a stable margin floor over time with an outcome-based approach in mind, ESMA has amended the guidelines as to allow a CCP to compute the margin floor less frequently where it is able to demonstrate that the margin floor will remain stable over the period of time until which it is re-computed.

30. With regard to the alignment of parameters used on the margin floor with regular margin computation, there were respondents amongst the CCPs who noted that a CCP might purposefully set its regular margin parameters more conservatively than the minimum requirements in EMIR and the RTS, in accordance with its risk appetite. ESMA understands the responses imply that CCPs that apply in the regular margin computation a parameter higher than the required level under EMIR, might have an incentive to lower this parameter if this is required also to calibrate the APC floor. Upon consideration, ESMA has amended the guidelines as to read that CCPs should compute their margin floors to meet the requirements under EMIR and the RTS.

3.9 Q8 and Q9 on Disclosure of Margin Model and Parameters

31. All respondents agreed with the objective to disclose margin model and parameters to facilitate the predictability of margins for clearing participants. However, there were mixed views on the calibration of these disclosures. Respondents from the buy-side and sell-side expressed support for more extensive disclosures, beyond the current proposal. On the other hand, CCPs who responded noted they do already publish information on margin models and parameters as part of their compliance with the CPMI-IOSCO Principles of the Financial Market Infrastructure (PFMI) and Public Quantitative Disclosure Standards for CCPs (QD) and the EMIR REFIT proposes that CCPs provide margin simulators for its clearing participants.
32. ESMA believes that the requirements and standards on public disclosures for CCPs need to find the right balance between the level of transparency to the extent purposeful for its users and the efforts of the CCPs necessary to make these disclosures. The calibration of disclosures should therefore be a constant dialogue between clearing participants and the CCPs. There should be no impediment for clearing participants to communicate directly with the CCP. There are existing mechanisms, such as the risk committee formed under Article 28 of EMIR, where clearing participants have access to information pertaining to CCP's risk management matters.
33. ESMA also believes that there are no conflicts between the guidelines and the existing CPMI-IOSCO standards as well as the EMIR REFIT proposal. There are however some overlaps and a difference in the disclosure scope. In particular, the EMIR REFIT proposal provides for additional information on margin models to be provided to clearing members, while the guidelines refer to public disclosures under the existing RTS requirements. The guidelines also place a focus on the CCP's choice and implementation of APC tools. Moreover, where some content of the guidelines itself may duplicate the CPMI-IOSCO disclosure standards pertaining to margin requirement, CCPs would use the existing CPMI-IOSCO disclosures, to comply with the guidelines.

4 Annexes

4.1 Annex I: Cost-Benefit Analysis

Benefits	<p>Limiting the effects of procyclicality arising from the CCP’s risk management is of significant importance to the financial system. Specifically, it seeks to avoid exacerbating liquidity pressures on the clearing participants in times of exceptional volatility.</p> <p>This importance is expressed in the EMIR and RTS text where it lays down the requirements for CCPs on procyclicality and for the EC, in cooperation with ESMA and the ESRB, to review if additional intervention tools are necessary. Short of amending the legislation, these guidelines seek to clarify the application of the EMIR and RTS text in the context of margin procyclicality.</p> <p>The proposals are supported by the observations from the reviews conducted by ESMA, ESRB and EC pursuant to Article 85(1) of EMIR and ESMA’s 2016 Peer Review. Therefore, these guidelines seek to address specific gaps and concerns where the application of the EMIR and RTS text may be inconsistently applied or where the implementation by CCPs could give rise to varying standards.</p> <p>ESMA believes that the expectations set out in these guidelines could:</p> <ul style="list-style-type: none"> i. encourage active monitoring of the efficiency of CCPs’ anti-procyclicality tools; ii. make more robust CCPs’ application of the APC margin measures; iii. facilitate predictability of margin requirements and the anticipation of big-stepped margin changes by clearing participants; iv. inform the competent authorities’ supervisory programme for CCPs in relation to procyclicality; and v. promote common, uniform and consistent application of EMIR and the RTS in the above aspects.
Costs	<p>In reviewing the feedback from the consultation, ESMA did not note any substantial feedback pertaining to the cost of implementation of the guidelines, in particular, there was no concrete feedback received that indicated that the cost of clearing or margin levels would increase significantly with the implementation of the guidelines.</p> <p>ESMA therefore envisages that these guidelines will only affect the CCPs that have not implemented an approach to monitor and manage</p>

procyclicality in a manner that is of comparable robustness as the expectations set out in these guidelines. Such CCPs will therefore have to make changes to their risk management programmes to align with these guidelines. The extent of changes required will vary between CCPs depending on their existing implementation of the APC margin measures as well as monitoring and disclosures in relation to procyclicality.

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

4.2 Annex II: Guidelines

I. Scope

Who?

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

What?

2. These guidelines relate to the application of the margining requirements to limit pro-cyclicality pursuant to Article 41 of EMIR, Article 10 and Article 28 of the RTS.

When?

3. These guidelines apply from 3/12/2018.

II. Legislative references and abbreviations

Legislative references

<i>ESMA Regulation</i>	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 ⁵
<i>EMIR</i>	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 ⁶
<i>RTS on CCPs</i>	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 ⁷

Abbreviations

⁵ OJ L 331, 15.12.2010, p. 84

⁶ OJ L 201, 27.7.2012, p. 1

⁷ OJ L 52, 23.2.2013, p. 41

APC margin measures	Anti-Procyclicality margin measures under Article 28 of the RTS
CCPs	Central Counterparties authorised under Article 14 of EMIR
Competent authority/ National Competent Authority (NCA)	An authority designated under Article 22 of EMIR
EC	European Commission
EMIR	Regulation (EU) 648/2012 of 4 July 2012 of the European Parliament and Council on OTC derivatives, central counterparties and trade repositories
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
RTS	Regulatory technical standards on CCPs i.e. 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 CCPs

III. Purpose

4. These guidelines seek to establish consistent, efficient and effective supervisory practices within the ESFS and to ensure a common, uniform and consistent application of Article 41 of EMIR and Article 10 and Article 28 of the RTS in the context of limiting procyclicality of CCP margins.

IV. Compliance and Reporting Obligations

Status of guidelines

5. In accordance with Article 16(3) of the ESMA Regulation, competent authorities must make every effort to comply with these guidelines.
6. Competent authorities to which these guidelines apply should comply by incorporating them into their national legal or supervisory frameworks as appropriate.

Reporting requirements

7. Within two months of the date of publication of the guidelines on ESMA's website in all EU official languages, competent authorities to which these guidelines apply must notify ESMA whether they (i) comply, (ii) do not comply, but intend to comply, or (iii) do not comply and do not intend to comply with the guidelines.
8. In case of non-compliance, competent authorities must also notify ESMA within two months of the date of publication of the guidelines on ESMA's website in all EU official languages of their reasons for not complying with the guidelines.
9. A template for notifications is available on ESMA's website. Once the template has been filled in, it shall be transmitted to ESMA.

V. Guidelines

V.1. Regular Assessment of Procyclicality

10. Competent authorities should ensure that any CCP supervised by them defines quantitative metrics to assess the margins, including margin add-ons, in the context of margin procyclicality. CCPs may define their own metrics and should holistically assess the long/short-term stability, also compared to the market volatility using indicators, and the conservativeness of margins⁸. For example, metrics are:
 - Short-term stability could be measured by metrics such as margin changes over a defined period or standard deviation of margin;
 - Long-term stability could be monitored by a metric such as margin peak-to-trough ratio over a defined period;
11. Competent authorities should ensure that any CCP supervised by them applies the metrics to assess the procyclicality of its margin requirements on a regular basis and the potential procyclicality arising from any significant proposals to revise its margin parameters, prior to making such revisions. As part of the assessment, the CCP should take into consideration the characteristics of its product offering and its membership as well as its risk management practices.
12. Where the metrics indicate procyclical effects arising from margin requirements, competent authorities should ensure that any CCP supervised by them reviews its application of the APC margin measures and make the appropriate adjustments to its policies to ensure that such procyclical effects are adequately addressed.

⁸ In general, CCPs should consider metrics to assess the stability as well as conservativeness of its margin requirements.

13. Competent authorities should ensure that any CCP supervised by them therefore develops a policy for the review of its APC measures. The policy should at least specify:
- (a) the risk appetite for procyclicality of its margins e.g., tolerance threshold for big-stepped margin increases;
 - (b) the quantitative metrics it uses to assess the procyclicality of its margins;
 - (c) the frequency at which it conducts the assessment;
 - (d) the potential actions it could take to address the outcomes of metrics; and
 - (e) the governance arrangements surrounding the reporting of the outcomes of the metrics and approval of actions it proposes to take in relation to the outcomes.
14. Competent authorities should ensure that any CCP supervised by them maintains the records of its review, including the computed metrics, and of the actions taken to address the findings in accordance with Article 12 of the RTS.

V.2. Application of APC margin measures to All Material Risk Factors

15. Competent authorities should ensure that any CCP supervised by them ensures that the APC margin measures applied to at least all material risk factors, which could potentially lead to big-stepped changes in margins, and could include price shifts, foreign exchange shifts, implied volatility shifts, maturity spreads and portfolio margin offsets, as applicable. For the avoidance of doubt, a CCP may apply APC margin measures at a product or portfolio level as long as the application addresses all material risk factors used in the margin computation.
16. Competent authorities should ensure that any CCP supervised by them that chooses to apply a margin buffer in accordance with Article 28(1)(a) of the RTS for non-linear products such as options, should apply a buffer at the risk factor level instead of directly scaling up the margins by 25%.
17. In applying the APC margin measures at the risk factor level, a CCP may use different APC margin measures for different risk factors or apply the same APC margin measure across all risk factors. If a CCP chooses to use the same APC margin measure across all risk factors, it may do so by applying the measure independently to each risk factor or by using internally consistent scenarios across risk factors.

V.3. Exhaustion of Margin Buffer under Article 28(1)(a) of the RTS

18. Competent authorities should ensure that any CCP supervised by them that chooses to apply a margin buffer at least equal to 25% of the calculated margin should develop and

maintain documented policies and procedures setting out the circumstances under which the buffer could be temporarily exhausted. Such policies and procedures should specify at least:

- (a) the metrics and thresholds for which the CCP believes that margin requirements are rising significantly and which may warrant the exhaustion of the margin buffer;
- (b) the conditions for replenishment of the margin buffer following its exhaustion; and
- (c) the governance arrangements surrounding the approvals for the exhaustion and replenishment of the margin buffer.

V.4. Margin Floor under Article 28(1)(c) of the RTS

19. Competent authorities should ensure that any CCP supervised by them avoids using modelling procedures such as applying different weights to observations within the lookback period to reduce the effectiveness of using a 10 year historical lookback period for the computation of the margin floor when applying the APC margin measure in Article 28(1)(c) of the RTS.
20. Competent authorities should ensure that any CCP supervised by them ensures that the margin floor is computed in a manner that continues to meet the requirements set out in EMIR and the RTS, including compliance with Articles 24, 26 and 27 of the RTS.
21. Competent authorities should ensure that any CCP supervised by them also computes the margin floor at the same frequency as the regular computation of margins, unless the CCP is otherwise able to demonstrate that the margin floor will remain stable over an extended period of time until which the margin floor is re-computed.

V.5. Disclosure of Margin Parameters

22. In line with Article 10 of the RTS, competent authorities should ensure that any CCP supervised by them publicly discloses the models used in the calculation of margin requirements. Such disclosure should include at least the following information defined by the CCP for each margin model used:
 - (a) confidence interval;
 - (b) look-back period;
 - (c) liquidation period;
 - (d) parameters and methodology used in the computation of margin offsets under Article 27 of the RTS;

(e) information on the models used for margin calculation such as quantitative methodology (e.g., type of the VaR model), the approach for any adjustments or additions made to these models and their formulae; and

(f) APC margin measures adopted and the methodology and parameters used when applying the selected APC margin measures. In particular,

(i) a CCP which adopts Article 28(1)(a) of the RTS should disclose the percentage of buffer on top of margin requirements which has been collected and the conditions for exhaustion and replenishment;

(ii) a CCP which adopts Article 28(1)(b) of the RTS should disclose its approach in deriving stress observations and incorporating the observations into the calculation of margin requirements; and

(iii) a CCP which adopts Article 28(1)(c) of the RTS should disclose its approach in computing the 10-year margin floor.

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