London Stock Exchange Group

London Stock Exchange Group response to ESMA Consultation Paper on the Draft Guidelines on Anti-Procyclicality Margin Measures for Central Counterparties (CCPs)

Introduction

The London Stock Exchange Group ("LSEG" or "the Group") is a financial market infrastructure provider, headquartered in London, with significant operations in Europe, North America and Asia. LSEG operates multiple clearing houses. It has majority ownership of the multi-asset global CCP operator, LCH Group. LSEG operates Cassa di Compensazione e Garanzia S.p.A. ("CC&G"), the Italian clearing house which provides clearing services for a range of European securities as well as exchange traded equity and commodities derivatives.

Please note that LCH Group has submitted its own response to this consultation and we are not responding on its behalf.

LSEG welcomes the opportunity to comment on ESMA Consultation Paper on the Draft Guidelines on Anti-Procyclicality Margin Measures for Central Counterparties.

General remarks

LSEG is fully supportive of ESMA's objectives to promote supervisory convergence and ensure consistent implementation of the EMIR requirements. We welcome the publication of the Draft Guidelines on Anti-Procyclicality Margin Measures for Central Counterparties, which should be helpful for both National Competent Authorities and CCPs.

LSEG supports ESMA proposal to have clear guidelines for the consistent application of the requirements for CCPs to set prudent and stable margins to limit procyclicality and ESMA work in this area. We have specific comments on the questions raised by ESMA and have provided detailed responses to the questions below.

Responses to questions

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

LSEG believes that clear and documented measures to avoid pro-cyclical effects should be part of a proper risk management framework, being a core tool to avoid big step margin changes with further drain of resources on participants during periods of market stress. CC&G has included the assessment of procyclicality of margin in its internal Model Validation.

As a general comment, LSEG would like to point out that the use of conservative confidence levels, holding periods and long time series acts as anti-cyclical measure ensuring a higher level of stability in margin requirement during period of stressed market.

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

The metrics proposed should be complemented by the analyses of co-movement of market indicators and margin requirements changes. The absolute change in margin parameters/requirement over a certain time span cannot be considered sufficient to assess the effectiveness of the anti-cyclical measures.

When assessing whether the trade-off between risk sensitivity and procyclicality is well balanced, changes in margin requirements should be evaluated in conjunction with moves in market indicators. Therefore, LSEG would suggest that each CCP identifies in its policy some significant market indicators based on the common

characteristics of the cleared products and analyse the correlation among margin variations and market moves.

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

As a principle, CC&G is supportive of the holistic approach when implementing APC measure. Nonetheless, the balance between comprehensiveness and efficiency of the APC measures must be carefully struck. CCPs can achieve the same non procyclical impact by applying the APC margin measures to the **main** risk factors in an effective and conservative way and is able to manage their calibration in stress periods.

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

LSEG acknowledges the need of defining a policy setting out the circumstances under which the buffer could be temporarily exhausted. We suggest that each CCP should draft a policy which shall define some ranges for market indicators of each relevant market that signal the need to consider taking action on the applied buffer. In this context, it is important that such policies do not introduce a thoughtless number of arbitrary parameters, but rather a set warning thresholds or ranges.

Moreover excessive standardization and "automatic triggers" could increase systemic risk due to the same simultaneous response of all European CCPs when a market shock occurs.

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

LSEG agrees that CCPs that adopt Article 28(1)(b) should adopt a consistent definition and identification of stress scenarios. Compared to the other two options, Article 28(1)(b) option implies a greater scope for assumptions for its implementation. In the view of LSEG, this option would request further clarification on the definition of stressed observations.

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

LSEG has reservations on this proposal. Indeed, whereas a 10-year lookback period is used, margin calculation should be fed with at least a 99.00% confidence level/ 2 days holding period. Scaling must be allowed using the 10-year volatility estimate, provided that the input parameters do not fall under the minimum required by EMIR. Any restriction on scaling would weaken CCPs' incentives to establish more conservative policies than the minimum regulatory requirements.

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

As per answer to Q6, LSEG agrees that the floor must be calculated by using parameters at least equals to those required by EMIR and at the same frequency as regular parameters update.

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

Yes, this would help Clearing Members to anticipate potential margin calls and facilitate their daily management of liquidity needs.

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

Yes, we agree with the content.

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We hope that ESMA finds this submission useful and we look forward to engaging further as policies are developed. We would, of course, make ourselves available to discuss our practical experience of meeting EMIR Anti-Procyclicality margin measures set by Commission Delegated Regulation (EU) No 153/2013. Should you have any questions on the response or wish to discuss it in detail, please do not hesitate to contact us at Corentine Poilvet-Clediere: cpoilvetclediere@lseg.com; Julien Jardelot jjardelot@lseg.com; Isabella Tirri: Isabella.Tirri@lseg.com; Paola Fico: paola.fico@borsaitaliana.it.