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| 02 April 2020 |

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| Response form for the Consultation Paper on central clearing solutions for pension scheme arrangements (EMIR Article 85(2))  |
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| Date: 02 April 2020 |

Responding to this paper

ESMA invites responses to the questions set out in Annex II of the First Report with Consultation on Central Clearing Solutions for Pension Scheme Arrangements that ESMA drafted under Article 85(2) of the Regulation (EU) No 648/2012 of the European Parliament and Council on OTC derivatives, central counterparties and trade repositories (EMIR, as amended by Refit).

Responses are most helpful if they:

* respond to the question stated;
* contain a clear rationale; and
* describe any alternatives ESMA should consider.

ESMA will consider all responses received by 15 June 2020.

Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

* Insert your responses to the questions in the Consultation Paper in the present response form.
* Please do not remove tags of the type <ESMA\_QUESTION\_CCSPSA\_1>. Your response to each question has to be framed by the two tags corresponding to the question.
* If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.
* When you have drafted your response, name your response form according to the following convention: ESMA\_CCSPSA\_nameofrespondent\_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESMA\_CCSPSA\_ABCD\_RESPONSEFORM.
* Upload the form containing your responses, in Word format, to ESMA’s website ([www.esma.europa.eu](http://www.esma.europa.eu) under the heading “Your input – Open consultations” 🡪 “Consultation on central clearing solutions for pension scheme arrangements”).

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly indicate by ticking the appropriate checkbox on the website submission page if you do not wish your contribution to be publicly disclosed. A confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading “Data protection”.

Who should read the Consultation Paper

All interested stakeholders are invited to respond to this consultation paper. In particular, responses are sought from market participants, pension funds, banks, CCPs, central banks, authorities and trade associations of financial market participants.

# General information about respondent

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| --- | --- |
| Name of the company / organisation | Insurance Sweden |
| Activity | Insurance and Pension |
| Are you representing an association? |[x]
| Country/Region | Sweden |

# Introduction

Please make your introductory comments below, if any:

<ESMA\_COMMENT\_CCSPSA\_1>

TYPE YOUR TEXT HERE

<ESMA\_COMMENT\_CCSPSA\_1>

1. : Do you agree with the description made of the portfolios of EU pension funds as well as their use of derivatives? In particular, do you agree that PSAs use derivatives to build synthetic long-dated positions in order to overcome the availability of suitable sovereign or corporate bonds alternatives? Please elaborate on the reasons for your answer.

<ESMA\_QUESTION\_CCSPSA\_1>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_1>

1. : Do you have any data with respect to the structure of PSAs’ portfolios? In particular regarding the duration gap which derivative strategies are designed to address?

<ESMA\_QUESTION\_CCSPSA\_2>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_2>

1. : Do you have any data on the volume and nature of the activity of PSAs in cleared and non-cleared OTC derivatives markets, within each asset class, and any related systemic risk they might pose to the financial system? What portion of non-cleared derivatives would be replaceable by cleared products if the impediments to clearing were removed?

<ESMA\_QUESTION\_CCSPSA\_3>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_3>

1. : Do you think that PSAs fulfilling the clearing requirement would have significant consequences on their investment strategies, including any shift in their cash and non-cash asset allocation? Please elaborate on the reasons for your answer and provide numerical data supporting your answer where available.

<ESMA\_QUESTION\_CCSPSA\_4>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_4>

1. : Are there further considerations, other than investment strategies mentioned above, either driving or constraining the use of derivatives for PSAs?

<ESMA\_QUESTION\_CCSPSA\_5>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_5>

1. : Do you agree with the description of the challenges met by PSAs to post variation margin in cash? Please elaborate on the reasons for your answer.

<ESMA\_QUESTION\_CCSPSA\_6>

Yes, we overall agree with the description in Section 4.2, especially for small PSAs. In addition to the challenges described in this section, there are significant administrative and legal costs associated with setting up central clearing. The process of having to switch to central clearing can therefore be quite burdensome, especially for small PSAs with only a few derivatives. These issues should also be considered when deciding whether the exemption for PSAs should be extended.

<ESMA\_QUESTION\_CCSPSA\_6>

1. : Do you have any data with respect to the value and/or share of cash holdings in PSAs’ portfolios? Can you provide estimates of how much those would need to be increased to service cash variation margin calls?

<ESMA\_QUESTION\_CCSPSA\_7>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_7>

1. : Do you have any data with respect to estimated changes in variation margin for your outstanding contracts for a +/- 1% parallel shift in the yield curve for: a) cash VM of centrally cleared contracts, b) cash VM for OTC contracts, c) bonds VM for OTC contracts, and d) for all your outstanding contracts?

<ESMA\_QUESTION\_CCSPSA\_8>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_8>

1. : Can you provide data on the prevalence of acceptance of non-cash collateral in the context of bilateral OTC trades? And conversely on the limitations imposed by counterparties to post initial margins in the form of cash?

<ESMA\_QUESTION\_CCSPSA\_9>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_9>

1. : Can you provide data on the size of the yield drag from holding cash buffers to service variation margin calls in cash? Possibly differentiating between drag from under-investment and costs of funding temporary high liquidity demands?

<ESMA\_QUESTION\_CCSPSA\_10>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_10>

1. : Are you (or are you aware of) a PSA which is a direct clearing member to a CCP? How have you addressed the issues regarding the posting of cash VM?

<ESMA\_QUESTION\_CCSPSA\_11>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_11>

1. : Can you indicate whether you have considered becoming a direct clearing member to a CCP for the purpose of clearing mandated contracts? If not, what were the reasons against becoming a direct member? Specifically, were there other considerations beyond the issue of cash variation margins?

<ESMA\_QUESTION\_CCSPSA\_12>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_12>

1. : Do you agree that the central clearing of OTC derivatives by PSAs by June 2023 at the latest is the ultimate aim? Do you agree that the entry into force of this requirement should be subject to regulatory and market developments enabling market participants to develop appropriate technical solutions within that period? Please elaborate on the reasons for your answer.

<ESMA\_QUESTION\_CCSPSA\_13>

For small PSAs it is not only the challenge (technical solution) to post variation margin that must be solved. Also the burdensome and costly process of setting up central clearing is a challenge for small PSAs. Even though the prices for non-cleared contracts are less favourable, the administrative costs can make it more costly to enter cleared derivative contracts than non-cleared. For that reason we believe that June 2023 is too early, i.e. the current exemption in EMIR for PSAs should be extended at least for small PSAs with only a few derivatives.

<ESMA\_QUESTION\_CCSPSA\_13>

1. : In the hypothetical scenario where the exemption were to be made permanent, do you think that there would be a price handicap for less-liquid non-cleared contracts vis-à-vis the cleared alternatives? Can you provide estimates of the size of the price differential and the impact, also in terms of yield drag on PSA portfolios?

<ESMA\_QUESTION\_CCSPSA\_14>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_14>

1. : Under the new regime provided in EMIR Refit with respect to the scope of application of the clearing obligation and the calculation of the positions, do you expect to be or not subject to the clearing obligation once the clearing exemption has come to an end?

<ESMA\_QUESTION\_CCSPSA\_15>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_15>

1. : Do you agree with the pre-conditions for a workable solution as described in paragraph 51? Please elaborate on the reasons for your answer.

<ESMA\_QUESTION\_CCSPSA\_16>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_16>

1. : Are there any other features that the solution should try and achieve?

<ESMA\_QUESTION\_CCSPSA\_17>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_17>

1. : Do you agree with the statement that no or few PSAs were onboarded with the status of clearing members, but instead clear as direct clients of a clearing member? Do you think that this situation may evolve in the coming years? Please elaborate on the reasons for your answer.

<ESMA\_QUESTION\_CCSPSA\_18>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_18>

1. : Do you agree that relying on collateral transformation services already offered by clearing members to their direct clients may be part of the solution? Please elaborate on the reasons for your answer.

<ESMA\_QUESTION\_CCSPSA\_19>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_19>

1. : To what extent has the constraint on the bank clearing members’ capital requirements been eased and now allows for their role of collateral transformation to be better fulfilled?

<ESMA\_QUESTION\_CCSPSA\_20>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_20>

1. : Do you think that modifying the calculation of the leverage ratio might have an impact on the offer on repo intermediation activities by banks and be a part of the solution? Please elaborate on the reasons for your answer.

<ESMA\_QUESTION\_CCSPSA\_21>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_21>

1. : Can you elaborate on issues you have encountered, or risks you perceive, in relying of clearing members to provide collateral transformation services, including transformation into cash to meet variation margin requirements? Is this a service that is available to you? If not, what are the obstacles?

<ESMA\_QUESTION\_CCSPSA\_22>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_22>

1. : What is your view on solutions based on collateral transformation via the repo market? Do you think that initiatives on collateral transformation solutions via the repo market constitute one possible solution? What other solutions are worth exploring?

<ESMA\_QUESTION\_CCSPSA\_23>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_23>

1. : Do you think that the repo market is suitable for PSAs’ needs? If not, what are the impediments for PSAs to access the repo market? Please elaborate on the reasons for your answer, specifying if these are related to cost, operational complexities or regulatory constraints.

<ESMA\_QUESTION\_CCSPSA\_24>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_24>

1. : Do you have any data with respect to PSAs’ potential liquidity demand in business-as-usual? Also, do you have any data with respect to PSAs’ maximum liquidity needs in stressed market conditions?

<ESMA\_QUESTION\_CCSPSA\_25>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_25>

1. : Do you think that PSAs fulfilling their liquidity needs via the repo market will have strong implications on this market’s liquidity and procyclicality? Can you provide quantification of the risk of the likelihood of a failure of market-based repo solutions to meet PSAs’ needs? Under which conditions?

<ESMA\_QUESTION\_CCSPSA\_26>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_26>

1. : Do you think that there is agreement or evidence that the impact of the limitations of the solutions explored so far would be such that there is a need for devising and developing some form of emergency liquidity tools? If so, under which scenarios and how could such tools actionably and realistically be deployed?

<ESMA\_QUESTION\_CCSPSA\_27>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_27>

1. : In the hypothetical scenario where central banks extended liquidity support to PSAs, can you provide estimates of the costs, also in terms of infrastructure, ancillary requirements, and regulatory obligations that this option would entail? Can you express the cost in term of yield drag on PSAs performance, especially vis-à-vis the null option of increasing cash allocation in PSAs’ investment portfolios?

<ESMA\_QUESTION\_CCSPSA\_28>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_CCSPSA\_28>

1. : What type / form of emergency liquidity tools do you think could be deployed? And whom should they be accessible to? In particular, is there any tool other that central bank liquidity that you would recommend to ESMA to consider?

<ESMA\_QUESTION\_CCSPSA\_29>

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<ESMA\_QUESTION\_CCSPSA\_29>