**Reply** **form**

Consultation Paper on a draft RTS on the conditions and the list of documents for an application for validation of changes to models and parameters under Articles 49 and 49a of EMIR

Responding to this paper

ESMA invites comments on all matters in the Consultation Paper and in particular on the specific questions in this reply form. Comments are most helpful if they:

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

ESMA will consider all comments received by **7 April 2025.**

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 this reply form.
* Please do not remove tags of the type <ESMA\_QUESTION\_VALID\_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 responses, save the reply form according to the following convention: ESMA\_VALID\_nameofrespondent.

For example, for a respondent named ABCD, the reply form would be saved with the following name: ESMA\_VALID\_ABCD.

* Upload the Word reply form containing your responses to ESMA’s website (**pdf documents will not be considered except for annexes**). All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input - Consultations’.

Publication of responses

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

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# General information about respondent

|  |  |
| --- | --- |
| Name of the company / organisation | LSEG |
| Activity | Central Counterparty |
| Are you representing an association? |  |
| Country/Region | UK |

# Questions

1. Do you agree with the proposed threshold for condition (a)?

<ESMA\_QUESTION\_VALID\_1>

We agree with the proposed threshold for condition (a).

<ESMA\_QUESTION\_VALID\_1>

1. Do you agree with the proposed threshold for condition (c)?

<ESMA\_QUESTION\_VALID\_2>

We agree with the proposed threshold for condition (c). However, we believe the threshold should be set at total prefunded resources for a specific clearing service / default fund, with the threshold set at 15%. Alternatively, if this is set at a more granular level then the threshold should be higher, such as 20%. Further we believe the basis should be no more granular than total margin requirements at the specific clearing service / defund fund.

<ESMA\_QUESTION\_VALID\_2>

1. Do you agree with the proposed threshold for condition (d)?

<ESMA\_QUESTION\_VALID\_3>

We agree with the proposed threshold for condition (d). Once again, we believe that the threshold should be set at total prefunded resources for a specific clearing service / default fund. Alternatively, if this is set at a more granular level then the threshold should be higher, such as 20%. Further we believe the basis should be no more granular than total margin requirements at the specific clearing service / defund fund.

<ESMA\_QUESTION\_VALID\_3>

1. Do you agree with the proposed thresholds for condition (e)?

<ESMA\_QUESTION\_VALID\_4>

We do not agree with the proposed threshold for condition (e). In line with feedback above we believe the threshold should be set at total prefunded resources for a specific clearing service / default fund, with the threshold set at 15%, as these are the total resources that would be available to cover the risk of the stress testing scenarios.

Further we do not agree with the need to differentiate between a CCP with multiple Default Funds and a CCP with a single Default Fund, as long as the mutualised resources of the singular Default Fund are available to cover any losses incurred on the back of a Clearing Member default in stressed market conditions. Differentiating in this instance would appear overly complicated and not aligned with the risk.

We would also respectfully urge caution when setting thresholds at any individual clearing member’s default fund contribution level (“DFC”). We believe having different sub-conditions adds complexity to the assessment with no clear benefit, particularly given the size of each members’ DFC is linked to the overall default fund size, which itself is already included within the basis of the assessments. This is of particular concern when also combined with the proposed lookback period to assess whether any of the conditions have been met, as this is overly excessive and will add significant burden on the CCP, requiring all individual DFCs to be calculated for each of the dates in the lookback period.

Further, and in line with EACH feedback, having thresholds set at this more granular level in combination with the low size of the thresholds and the fact a threshold being reached on any occasion would trigger the approval process, is likely to lead to more approvals being required. For example, lets assume that a CCP is launching a new clearing service in April 2025 with a Default fund size of 10mn EUR and highest individual default fund contribution being 3mn EUR. The 30% threshold for individual member contribution change would be equal to 0.9mn EUR and the 5% materiality threshold based on default fund size would therefore correspond to 0.5mn EUR which remain non-material amounts compared to the CCP capital level of 500mn EUR.

We therefore recommend that if thresholds at any individual member DFC were to remain, then these should be high enough to safeguard against unnecessarily triggering review of the material model change when the change is not a significant impact for the CCP, for example 50% of an individual clearing members DFC and 15% of the default fund size respectively. Further we would respectfully request that consideration be given to cater for new services that may take time to pick up, as the existing conditions linked to size of individual DFC and the default fund itself may still be too restrictive in such cases.

<ESMA\_QUESTION\_VALID\_4>

1. Do you believe that sub-condition (c) of condition (e) on individual default fund contributions should also take into account the difference between CCPs with a single default fund and CCPs with multiple default funds? If so, how?

<ESMA\_QUESTION\_VALID\_5>

As per our response above, we believe that the requirement to differentiate between a CCP with a single default fund and CCPs with multiple default funds is not required and urge caution in regard to thresholds at individual DFC level.

<ESMA\_QUESTION\_VALID\_5>

1. Do you agree with the proposed thresholds for condition (f)?

<ESMA\_QUESTION\_VALID\_6>

Whilst we agree with threshold (a) of 15% of the CCP’s total liquidity needs across all currencies, we respectfully do not agree with ESMA’s proposed thresholds in (b) at individual currency level. In line with EACH response, we find that without further specifying the set of single currencies into major or material currencies, it appears very likely that even smaller model changes might regularly breach the threshold in b(i) for at least one single currency. We would recommend if a threshold at individual currency remains, that the most appropriate focus at individual currency level would be for those currencies deemed material by the CCPs risk framework, with assessment of non-material currencies to be subject only to the total CCP liquidity condition. If thresholds at any individual currency were to remain, then under the proposal relative thresholds, we believe individual minor currencies may be easily breached, therefore in line with EACH response we would recommend increasing the threshold for condition b(ii) to 15%/20%.

<ESMA\_QUESTION\_VALID\_6>

1. Do you agree with the proposed threshold for condition (g)?

<ESMA\_QUESTION\_VALID\_7>

We respectfully urge caution on the proposed thresholds for condition (g) if the intention is to assess the impact of concentration to individual entities on a CCP’s liquidity. Given CCP liquidity is already captured in a separate condition, this additional level of granularity risks adding further burden on CCPs in terms of assessment and potentially more approvals being required, for no clear benefit. Further, if these thresholds were to remain, we find that the levels proposed are too low and would trigger changes that are not significant to fall within that category. In line with previous responses we believe that a higher threshold would be more appropriate. As such we propose a 15% threshold to be applied to condition (g) (ii).

<ESMA\_QUESTION\_VALID\_7>

1. Do you agree with the proposed threshold for condition (h)?

<ESMA\_QUESTION\_VALID\_8>

In line with our responses above, we believe that the threshold proposed is too low and for the same reasons we would propose a 15% threshold to be applied**.**

<ESMA\_QUESTION\_VALID\_8>

1. Do you agree with proposed lookback period to assess whether conditions (a), (c), (d), (e), (f), (g) and (h) are met? Should the lookback period be extended to account for the potential seasonal behaviour of some instruments?

<ESMA\_QUESTION\_VALID\_9>

In line with EACH’s response, we do not agree with the proposed lookback period. The workload required to perform this assessment is extensive and very costly for the CCP, especially when performed on actual member portfolios. This is generally performed using simulation tools prototypes and not in production-like environments. Therefore, this requires loading past market data and member portfolios in specific formats before running the simulation. In some cases, running one date impact assessment can take several hours and consequently running 6 months of simulations can take several weeks. Additionally, necessary governance processes, including approvals, consultations, validations and documentation, implementing changes and the corresponding documentation often requires several months, and this will likely render any assessment meaningful for the proposed period. As such, we propose performing assessments on several representative recent dates as well as on relevant stressed dates. These dates could be adapted to the relevance of specific events or days for specific asset classes. To mitigate the potential concern about the CCPs cherry-picking convenient dates in an manner that avoids unnecessary increasing regulatory burden, we suggest including a requirement for a the CCPs to justify that the chosen dates are representative.

We also share EACH’s concerns regarding the requirement to consider a change significant if any condition is met at any point in time. As outlined by EACH, it is not feasible to provide a continuous impact assessment and the condition “at any time in the period” is nearly impossible to evaluate. We are therefore supportive of EACH’s proposal to allow a certain number of breaches within the specified period to avoid outliers triggering a full procedure and therefore suggest changing the formulation to “if one condition is triggered for the majority of times”.

<ESMA\_QUESTION\_VALID\_9>

1. Do you agree with the proposed elements to be considered when assessing whether condition (b) is met?

<ESMA\_QUESTION\_VALID\_10>

In line with EACH’s response, we agree it makes sense to consider a new type of model including moving from or to a parametric model, historical simulation and Monte Carlo simulation. However, regarding the rest of elements in Article 8 points a) through d) we believe that changes to these elements fall within the already approved risk framework of the CCP then these should not be required.

Art.8 (a) – Volatility filtering: We agree with the existing elements but note that volatility filtering logically better belongs in point a, rather than it being currently mentioned alongside lookback period in point b. The refined point a could then read ‘*Implementation of a new type of model including moving from/to a parametric model, historical simulation and Monte Carlo simulation or introduction of (volatility) filtering scheme where one was not previously used’*. Alternatively, introduction of filtering could be provided as a stand-alone point.

Art.8 (b), (c) and (d) – Lookback period, confidence internal and liquidation horizon: We believe if changes to these elements already fall within the CCPs risk framework (for example extending the lookback period to include a relevant stressed period) then they should not be included. At maximum we believe changes to these elements may more appropriately be covered under the accelerated procedure.

Art. 8 (e) – We believe that if a CCP changes the choice of APC option then this should not trigger an article 49 if the option is allowable under regulation. At maximum this should be covered under the accelerated procedure.

<ESMA\_QUESTION\_VALID\_10>

1. Do you agree with the proposed elements to be considered when assessing whether condition (i) is met?

<ESMA\_QUESTION\_VALID\_11>

In line with EACH’s response, we believe that the conditions listed should be further clarified. For example, it is not clear what is meant by a new type of participant or new asset class. We also believe that adding a new type of participant or clearing access model would be better reflected in standards for extension of activities. Finally, we do not believe that condition (v) makes sense as this would appear to be risk reducing (i.e., accepting sovereign issuers where the CCP currently only accepts collateral issued by corporate issuers).

<ESMA\_QUESTION\_VALID\_11>

1. Do you agree with the proposed change to models that can be considered as already covered by the approved model?

<ESMA\_QUESTION\_VALID\_12>

LSEG agrees with the proposed change to model that can be considered as already covered by the approved model.

<ESMA\_QUESTION\_VALID\_12>

1. In your view, are there any other changes that should be considered as already covered by the approved model?

<ESMA\_QUESTION\_VALID\_13>

In line with EACH’s response, LSEG believes that Article 49 (a)1h of EMIR 3 is clear regarding the changes that are part of a part of a validated model and that no further clarification is needed in the RTS in this regard.

<ESMA\_QUESTION\_VALID\_13>

1. Question for CCPs: Based on the proposals presented in this Consultation Paper, could you provide an estimate of the number of changes to models and parameters, implemented/applied for by your CCP over the past three years, that would have qualified for i) the standard procedure under Article 49 of EMIR, ii) the accelerated procedure under Article 49a of EMIR, iii) changes to models that can be considered as already covered by the approved model (Article 49(5)(c) of EMIR)?

<ESMA\_QUESTION\_VALID\_14>

In the past 3 years, there were 3 applications at LCH Ltd that would have fallen under the standard procedure under Article 49 of EMIR 3.0 and 3 applications that would have fallen under the accelerated procedure under Article 49a of EMIR 3.0 whereas under the EMIR 2.2 criteria, only 3 applications would have fallen under the standard procedure under Article 49 and none would have required an accelerated procedure.

Please note that under EMIR 2.2, and by virtue of LCH Ltd being a Tier II CCP, ESMA would have only reviewed and approved applications that would fall under the standard procedure in the new regime and not the accelerated one. Applications that now fall under the accelerated procedure would have only normally been notified to ESMA. With the current proposal, additional work will be required from Tier 2 CCPs, which will have to collect extensive documentation for all the aforementioned initiatives. This goes against the spirit of simplifying the approval process as not only none of the 3 cases submitted would be eligible to the accelerated procedure but also the changes subject to a procedure would grow by 100%.

<ESMA\_QUESTION\_VALID\_14>

1. Are the general provisions in Chapter I (of Title II of the draft RTS) (language, certification, fees) appropriate and clear?

<ESMA\_QUESTION\_VALID\_15>

In line with EACH response, although we find the general provisions to be clear, we respectfully disagree with the requirement for the CCP’s Board to certify the accuracy and veracity of all the documents submitted in any application for the validation of model changes.

We do not agree with the need for the CCP’s board involvement in the approval of changes, as the CCPs’ Board typically focuses its role on the most material or significant changes, to ensure its focus on key risk management aspects and avoid clogging the board with the day-to-day risk managements improvements. Having an approval by the Board would be unnecessarily cumbersome and disproportionate to the other matters where a Board level approval is required. We also believe that proposal conflicts with the Board’s role and purpose of providing oversight and challenge of the Executive, particularly for the Independent Director (including the definition of an independent director) if it is then being asked to validate the completion of reporting at this level of detail.

Understanding ESMA’s objective to ensure adequate governance and responsibility for the extensions proposed CCPs, we would suggest as an alternative replacing the reference to the Board under Article 12 paragraph 4 of the draft RTS with a reference to the relevant internal governance arrangements of the CCP, such as the framework and governance under Article 29 of the EMIR RTS 153/2013, which are approved as part of their initial authorisation and are subject to annual and ongoing oversight.

<ESMA\_QUESTION\_VALID\_15>

1. Is the requirement to submit an index and a correspondence table appropriate and clear?

<ESMA\_QUESTION\_VALID\_16>

We agree that the requirement to submit an index and a correspondence table is appropriate and clear.

<ESMA\_QUESTION\_VALID\_16>

1. Does the required documentation in relation to the general information provide sufficient detail? Please differentiate between significant and non-significant model changes where relevant in your answer.

<ESMA\_QUESTION\_VALID\_17>

In line with EACH’s response, we would like to outline our thoughts and concerns on the granularity of requested information on the change implementation (Art. 14 d.) and the scope requirements for the assessment of the model change against the relevant requirements of the regulations (Art. 14 f):

* Art.14 (d) – **Forecasted timeline of the change implementation**: We understand that NCAs and ESMA want to understand the planned timeline and uncertainties of the change implementation. Yet, while we agree with providing high-level milestones on the change implementation, in our view it remains at the responsibility of the CCP to continuously identify, assess and manage project risks and mitigations of the change implementation. This process begins prior to the official application date and continues thereafter so that at the application date only a snapshot could be provided anyway. Therefore, we propose to provide only high-level milestones of the change implementation.
* Art 14 (f) – **Assessment of the model change**: We are concerned that the requirements to assess the model change against the relevant requirements of the regulation lead to a duplication of work for the NCA, ESMA and the CCP as EMIR Art. 21 already requires a full review and evaluation of the CCP complying with regulation at an annual frequency. Instead, we propose that only the relevant aspects of the regulation that are affected by the model change are assessed by the CCP at the point of the model change application. The remaining aspects can be reviewed by the NCA as part of the annual review and evaluation according to EMIR Art. 21.

We agree with ESMA’s proposal that non-significant model changes are not required to provide an assessment of the model change against relevant regulatory requirements (point f.) in line with the general objective to accelerate the approval procedure for non-significant model changes.

<ESMA\_QUESTION\_VALID\_17>

1. Does the required documentation in relation to the description of the model change for both significant and non-significant model changes provide sufficient detail for assessing the impact on CCP risk management? Are additional elements needed to improve clarity?

<ESMA\_QUESTION\_VALID\_18>

In line with EACH’s response, we agree with the required documentation proposed by ESMA, with the following additional feedback on a few items in Article 15:

* Art. 15 c – **Detailed description**: This requirement appears to confuse the purpose of model description and model change description. We believe the role of model change document is to document the model change and not to repeat the model description, especially in the context of requirement under point i. In our view the proposed point c should only include first sentence as the remainder is simply the role of model description, which shouldn’t be duplicated in model change documentation, i.e. point c. A detailed description of the model change, including mathematical specifications, such as details of the calculations, logical steps and mathematical and statistical details.’
* Article 15 f & g – **List of all parameters and model assumptions**: Point f. and g.: Consistent with point c., within the model change description the list of parameters (point f.) and list of assumptions (point g.) should be limited to those affected by the model change only.
* Article 15 point i – **Policies, procedures and documentation**: We note that the term technical documentation is ambiguous and could be interpreted as either (i) model description documented to a standard sufficient to enable the reader to replicate the model or (ii) technical documentation concerning implementation of the model in CCP IT systems, e.g. system specifications, functional and non-functional requirements, etc. We believe that (i) is more appropriate for a regulatory validation of a model change and thus recommend using the term ‘*model description documented to a standard sufficient to enable the reader to replicate the model’*. We further believe that the documentation provision in this regard should only relate to documentation relevant to the model change to reduce unnecessary burden on CCPs.

<ESMA\_QUESTION\_VALID\_18>

1. Are the requirements on documentation in relation to governance of the model change, including independent validation and risk committee advice, clear and adequate to ensure that reliable information on the governance of a review of significant model change is provided? Should ESMA consider requesting additional information on the validation process or clarifying any aspects of the information provided?

<ESMA\_QUESTION\_VALID\_19>

In line with EACH’s response, we agree with ESMA’s proposal, and are concerned only with the level of granularity and scope in Article 16 c, and specifically use of word processes which could then include operational processes for daily operation of the model. Typically, the regulatory governance and IT implementation run in parallel which means that at the time of the application the CCP does not yet have the operational-level procedures governing daily operations of its systems with regards to new functionalities. Moreover, consistent with our feedback to Q18 above, the detailed description of the processes that the applicant CCP will use to analyse and monitor of the model performance following the model change should be limited to those affected by the model change only.

We believe it is more feasible that at the time of the application the CCP can provide a high-level description on the planned analysis and monitoring of model performance following the model change that are affected by the model change. The full operational-level procedures governing daily operations of its systems with regards to new functionalities and full model scope can be assessed subsequently as part of the ongoing supervision.

<ESMA\_QUESTION\_VALID\_19>

1. Do you agree with the need to submit all policies and procedures with relevance to the model even if these are not amended?

<ESMA\_QUESTION\_VALID\_20>

In line with EACH’s response, while it is an administrative burden involved for CCPs in submitting the full set of policies and procedures relevant to the model which is changed, we also understand the ESMA rationale to understand how the model change fits into the overall risk framework. Having said that, it would be helpful to add wording that validation of the model change should not be confused with re-validation of existing model or re-assessment of existing risk framework to ensure that the regulatory authorities stay within the clear scope of application according to Art.49 and Art.49(1) respectively. We believe that such a phrasing may limit unrelated, often duplicating enquiries.

<ESMA\_QUESTION\_VALID\_20>

1. Is the information related to testing methodologies (e.g., back-testing, stress testing) comprehensive enough to evaluate the robustness of model changes? Should any of the information required in this regard be further detailed or clarified (e.g. in relation to procyclicality)?

<ESMA\_QUESTION\_VALID\_21>

In line with EACH’s response, although we believe the information related to testing methodologies is comprehensive enough, we would like to share the following concerns:

* Article 17 (a) – **Comprehensive test results**: The first point should in our view refer to the analysis performed for the purposes of Article 10, and the proposed changes to Article 10 (see Q9 response) would cover actual portfolios. We also suggest adding an additional point to stipulate that changes to margin models should also consider margin impacts on selected hypothetical portfolios. Lastly, providing analysis of the impact of hypothetical portfolios in the context of aggregate metrics (e.g. Cover-2 or Default Fund) is not only extremely difficult to implement (requires creating production-parallel account structures) but also barely interpretable as such metrics are not built based on individual portfolios but rather of combination of portfolios, ordered in hierarchical structures reflecting legal segregation.
* Article 17 (b) – **Back-testing results**: Whilst we understand the rationale of requesting back-testing results for actual and selected hypothetical portfolios over an appropriate observation window, we would propose that ESMA considers a slightly more flexible wording. When considering actual and hypothetical portfolios we would note that, performing this back-testing for some services is nearly impossible or extremely expensive. Therefore, we would recommend for this back-testing requirement to be less prescriptive, for example : ‘Where relevant, back testing results for actual or actual-like portfolios as well as selected hypothetical portfolios over (..)’.
* Article 17 (d) – **Credit stress testing results**: We would welcome clearer formulation of this point. Our current interpretation is that this point becomes relevant when a CCP attempts to change the model used to size the default fund. In such case CCP should re-calculate the default fund size under the model change proposal and demonstrate that such default fund and the other financial resources (margin, CCP’s own dedicated resource) will be sufficient to withstand the default of at least the two clearing members to which it has the largest exposures under extreme but plausible market conditions as simulated using CCP’s stress testing model. Furthermore, we would caution against the 12-month period and in line with our response to Q9 we would recommend performing assessments on several representative recent dates as well as on relevant stressed dates.
* Article 17 (e) – **Liquidity stress testing**: In line with 17(d) above, we would welcome clearer formulation of this point. Our current interpretation is that this point becomes relevant when a CCP attempts to change the model used to size the CCPs liquidity. In such case the CCP should recalculate its liquidity position under the model change proposal and demonstrate that it will be sufficient to withstand the default of at least the two clearing members to which it has the largest exposures under extreme but plausible market conditions. Furthermore, we would caution against the 12-month period and in line with our response to Q9 we would recommend performing assessments on several representative recent dates as well as on relevant stressed dates.

<ESMA\_QUESTION\_VALID\_21>

1. Is the 12-month period for credit and liquidity stress tests commensurate?

<ESMA\_QUESTION\_VALID\_22>

In line with EACH’s response, we believe that the 12-month period for credit and liquidity stress tests deviates from the generally applicable 6-month period laid out in Article 10. This approach generates excessive efforts for the CCP needing to perform this simulation and to harmonize assessment approaches. If a strange behaviour is spotted by the authorities within the 12-months period, and this event is not included within the 6-months, CCPs might face the need to re-do the back test, complicating and lengthening the process. We would caution against the 12-month period and in line with our response to Q9 we would recommend performing assessments on several representative recent dates as well as on relevant stressed dates.

<ESMA\_QUESTION\_VALID\_22>