CORPORATE

LSEG FEEDBACK TO THE ESMA CONSULTATION PAPER ON EMIR 3 DRAFT RTS ON MARGIN TRANSPARENCY REQUIREMENTS

September 2025

Introduction

LSEG (London Stock Exchange Group) is a diversified global financial markets infrastructure and data business, headquartered in London, with significant operations in Europe, North America, and Asia. With extensive experience, deep knowledge and worldwide presence across financial markets, we enable businesses and economies around the world to fund innovation, manage risk and create jobs. At LSEG, we help to drive financial stability, empower economies and enable customers to create sustainable growth through five business divisions: Data & Analytics, FTSE Russell, Risk Intelligence, Capital Markets and Post Trade.

LSEG has majority ownership of the multi-asset global central counterparty clearing house (“CCP”) operator, LCH Group (“LCH”). LCH has two licensed CCP subsidiaries – LCH Ltd in the UK and LCH S.A. in France. Both are leading multi-asset class and international clearing houses, serving major international exchanges and platforms as well as a range of OTC markets. They clear a broad range of asset classes, including securities, exchange-traded derivatives, cash-settled Bitcoin index futures and options contracts, foreign exchange derivatives, interest rate swaps, credit default swaps, Euro and Sterling denominated bonds and repos.

Introductory Remarks

LSEG welcomes the opportunity to respond to ESMA's consultation paper on EMIR 3 draft RTS on Margin Transparency requirements. We broadly agree with ESMA's draft RTS however, we would like to make the following key observations:

- In line with ESMA's proposals, LCH already provides detailed methodology documentation on its core margin and margin add-ons to its Clearing Members (CMs) and Clients, with more high-level summaries publicly available on our website and via CPMI IOSCO disclosures which are also publicly available on our website.
- However, we do not believe EMIR 3 requires CCPs to disclose governance and procedures related to the review of our margin models or sensitivity results. On the one hand the PFMI disclosures already contain details on the way LCH's margin models are validated and tested, including the process under which LCH is entitled to perform any material changes to the risk methodology subject to our internal risk governance process. On the other, we do not see how the sensitivity results could enhance participants' preparedness during market stress. Such tests are performed by the CCP to assess the on-going adequacy of key margin model parameters and assumptions, considering numerous factors which need to be assessed holistically and in balance. The results of such tests could be misinterpreted by CMs (i.e. interpreted to mean a model and/or parameter will be changed when in fact it will not be, and vice-versa). As such we believe that those requirements would be duplicative and of questionable value to CMs and Clients.
- Furthermore, we do not believe that limitations to the margin model should be disclosed as those could often be misinterpreted and misused by end clients. From our interactions with our members, we understand that they are aware how those limitations work. It is also not clear what the added benefit of such information would be to Members margin preparedness
- When it comes to margin model overrides and information on how extraordinary margin calls are calculated and called, it is important for CCPs to retain a level of flexibility in this regard, and thus we do not believe it is appropriate to provide such detail to CMs. These are processes in place to protect the CCP in case of extreme (and potentially) unforeseen scenarios.
- We agree with ESMA on the type of output for the simulation tool and we believe CCPs margin simulators should focus on the core margin (IM core and floor) and *material* add-ons.
- Regarding ESMA's proposed scenarios, we welcome the flexibility provided in the draft RTS in the types of scenarios. However, we believe that, for the tool to test the market conditions based on the most recent/intraday IM margin will be overly burdensome and costly for CCPs to implement. As such we would recommend ESMA focusing on the latest EOD margin runs.
- Regarding the scenarios themselves, we would recommend ESMA to take a less prescriptive approach regarding the nature and number of those scenarios. CCPs should be given the flexibility to implement the scenarios they deem relevant for the products they clear.
- We would urge caution on the requirement to include key past stress events that are most impactful for the portfolios of CMs in historical scenarios. The current wording could be understood as requiring the tooling to be specific to the risks of each individual member. It is impossible for CCPs to design a simulator with scenarios dedicated to each specific member.

Instead, we believe that the focus should be on the key past stress events that are most impactful for the respective service.

- Finally, and given the lack of a clear implementation timeframe in EMIR 3, we would urge ESMA to consider an implementation period at least 12-18 months due to the significant changes that need to be undertaken by CCPs to implement the Transparency requirements.

Questions

Q1. Do you agree with the proposed information to be provided by the CCP on its margin model design and operations? Do you have other proposals as to which information could be provided under point (a) of Article 38(7) of EMIR?

We broadly agree with ESMA's proposed information to be provided by the CCP on its margin model design and operations. At the same time, we believe that supporting EMIR 3 greater Transparency requirements should not result in unnecessary and often duplicative CCP requirements. We believe more focus should be placed on the value of risk managers and ongoing dialogue with CMs and Clients than vast amounts of data that may or may not be correctly consumed by recipients.

Regarding the way CCPs should be required to disclose information on margin model design and operations, our view is that this level of detail should be provided to LCH's CMs and Clients (and potentially prospective clients) via the CCP's secured sharing arrangements as opposed to publicly disclosed, with public disclosures being more high-level in nature. LCH already provides detailed methodology documentation on its core margin (which we believe should include core and floor attributes of the Initial Margin) and margin add-ons to its CMs and Clients, with more high-level summaries publicly available on our website, and via CPMI IOSCO disclosures which are also publicly available on our website.

Regarding LCH's operational arrangements (including the deadlines for meeting the margin calls, collateral posting cut-off times and the collateral collection schedule), these are clearly stipulated in documents already available and shared with members via our intranet. Any additional disclosures on this front would once again lead to unnecessary and duplicative requirements.

Regarding, governance and procedures related to the review of our margin models, we would note that EMIR 3 does not require CCPs to provide any additional information to clearing members or mandates CCPs to share internal operational procedures in addition to what is currently available. Furthermore, the PFMI disclosures already contain details on the way LCH's margin models are validated and tested, including the process under which LCH is entitled to perform any material changes to the risk methodology subject to our internal risk governance process (for example under Principle 6 key consideration 7[1]). As such we find that ESMA's proposals for additional disclosures will result in duplicative and unnecessary requirements.

Regarding the applicable notice period for the review of margin models, we would urge caution against a prescriptive notice period in documentations provided to members. CCPs need to maintain a level of flexibility to strike an appropriate balance between providing sufficient notice of upcoming changes to its Members/Clients, whilst ensuring that the CCP and its members/clients are protected by the levels of margins held by the CCP. That notice period should be part of the considerations determined through the governance process.

Q2: Do you agree with the proposed information to be provided by the CCP on the margin model assumptions and limitations? Do you have other proposals as to which information could be provided under point (b) of Article 38(7) of EMIR?

We do agree with ESMA that high-level assumptions of margin models should be provided by CCPs to support clients' preparedness. LCH already provides such information in our margin methodology documentation shared with our members. However, excessive level of detail could reduce the

[1] LCH LTD - CPMI IOSCO Self Qualitative Assessment PFMI of LCH LTD Q1_2025

practical value of the information for clients and constrain CCPs in their ability to adapt margin models or introduce improvements in a timely manner. A certain degree of flexibility should be preserved to ensure responsiveness to market developments.

For example, we do not believe that limitations to the margin model should also be disclosed as those could often be misinterpreted and misused by end clients. From our interactions with our CMs, we understand that they are aware of how those limitations work. It is also not clear what the added benefit of such information would be to CMs' margin preparedness.

We do not believe a CCP should be required to disclose granular details on descriptions of events that could lead to a breach of the assumptions, qualitative and quantitative information on potential impacts on margin requirements, nor model performance. Such information is at risk of being incomplete and not factoring in every possible scenario, as well as potential for misuse/misunderstanding by end clients. Instead LCH believe it more appropriate to provide high level description of the processes in place at the CCP for monitoring and reviewing models, governance processes, with specific targeted information disclosed to Members/publicly. We believe the information already provided via PFMIs is sufficient to cover the requirement.

Regarding sensitivity results, we note that the disclosure of such information is not required by EMIR. Also, we do not see how this information could enhance participants' preparedness during market stress. Such tests are performed by the CCP to assess the on-going adequacy of key margin model parameters and assumptions, considering numerous factors which need to be assessed holistically and in balance. Therefore, similarly to margin model limitations, they could be misinterpreted (i.e. interpreted to mean a model and/or parameter will be changed when in fact it will not be, and vice-versa). As such, we would urge ESMA to remove this requirement in its entirety.

Regarding backtesting, we agree that this is useful information for CCPs to provide to their members and indeed are already required under EMIR and included in the quarterly CCP Public Quantitative Disclosures (PQD disclosures). As such we find that any additional disclosures will result in duplicative requirements.

When it comes to margin model overrides and information on how extraordinary margin calls are calculated and called, these are not processes that a CCP would expect to use in the normal course of business, but rather are processes in place to protect the CCP (and thus its members/clients) in case of extreme (and potentially unforeseen) scenarios. It is therefore important for CCPs to retain a level of flexibility in this regard, and thus we do not believe it is appropriate to provide such detail to CMs.

Q3: Do you agree with the proposal with regard to the model documentation? Do you have other proposals as to which documents could be provided under point (c) of Article 38(7) of EMIR?

We agree with ESMA's proposals with regards to the model documentation however we would stress the need to keep those for CMs, and clients only and not make those public or part of the onboarding packs. This is sensitive information which can be harmful to the CCPs competitiveness if disseminated publicly. For the PQDs we already provide a lot of information which we need to be consistent, and we would argue that the information required to comply with this requirement under EMIR 3 should be consistent with what can be found on PQDs.

Q4. Do you agree with the proposed requirements and the type of output for the simulation tool to be provided by CCPs? Are there any other requirements for the CCP margin simulation tool which should be taken into account, such as legal mechanisms to ensure confidentiality?

LCH's margin simulators already provide ESMA's proposed output and are available to CMs and to clients. We agree with ESMA on the type of output for the simulation tool and we believe CCPs margin simulators should focus on the core margin (IM core and floor) and *material* add-ons. This would give CCPs a level of flexibility on what add-ons would be provided, as having tools which incorporate every single add-on may be challenging and costly to implement, whilst not adding clear value to CM margin preparedness.

Regarding ESMA's proposed scenarios, we welcome the flexibility provided in the draft RTS in the types of scenarios. Regarding the information provided through the simulators, we would however like to note the following:

- Regarding the market conditions based on the most recent IM margin call, this implies that the simulation tool would need to have intraday capabilities. This type of additional functionality will be overly burdensome and costly for CCPs to implement. As such we would recommend ESMA to focus on the latest EOD margin runs.
- Regarding the number of scenarios, we would recommend ESMA to take a less prescriptive approach regarding the nature and number of those scenarios. CCPs should be given the flexibility to implement the scenarios they deem relevant for the risks of the products they clear, e.g. for a singular risk factor service a minimum of 5 scenarios may be overly excessive, also a hypothetical may not be needed if historical scenarios are deemed sufficient.
- Regarding the requirement to include impacts on others risks and margin components, such as due to increased liquidation costs or reduced portfolio margining, it is not clear what the expectation of this requirement is and therefore difficult to assess its implications, we would therefore recommend this aspect of the requirement be removed completely, or for CCPs to have the flexibility to determine whether such aspects are included in the tool. For example, if the intention is for the tool to include an element of data aimed at predicting potential changes in liquidation costs, and/or ability for members to amend the tool to factor in additional liquidation costs – this may require significant assessment from the CCP as to what would be appropriate to include, and potentially costly to implement. Further, in the example of concentration/liquidity margin add-ons, in the most instances any amendments to the costs within these margins are not dynamic in nature and would be subject to internal governance approval processes with the appropriate level of member communications prior to implementation, therefore it is not clear there would be any added benefit of including additional functionality within the tooling.
- We would urge caution on the requirement to include key past stress events that are most impactful for the portfolios of CMs in historical scenarios. The current wording could be understood as requiring the tooling to be specific to the risks of each individual member. It is impossible for CCPs to design a simulator with scenarios dedicated to each specific member. Instead, we believe that the focus should be on the key past stress events that are most impactful for the respective service.
- Finally, we would welcome additional clarity from ESMA on stressing the CMs liquidity needs as its not feasible for CCPs to know what is deemed a stress on a CM's liquidity needs.

Client clearing margin model information

Q5: Do you agree with the proposed information to be shared by CSPs on their margin models? Should any other element be taken into account?

N/A

Simulation of client margins

Q6. Do you agree with the proposals on the margin simulations to be provided by CSPs? Should there be any additional requirements?

N/A