

**MEMO# 33994**

January 14, 2022

# **ICI Draft Letter Responding to Global Regulators' Consultation on the Review of Margining Practices; Comments Requested by Friday, January 21**

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TO: Derivatives Markets Advisory Committee

Global Regulated Funds Committee RE: ICI Draft Letter Responding to Global Regulators' Consultation on the Review of Margining Practices; Comments Requested by Friday, January 21

As previously reported, the Basel Committee on Banking Supervision, the Committee on Payments and Market Infrastructures, and the International Organization of Securities Commissions published a joint consultation ("report") examining whether and, if so, to what extent margin calls were unexpectedly large in the derivatives and securities markets during March 2020.[\[1\]](#)

**In response to the report, ICI and ICI Global have prepared the attached draft letter for your review and comment. Comments on the report are due on Wednesday, January 26. Therefore, please provide your written comments to [kenneth.fang@ici.org](mailto:kenneth.fang@ici.org) by next Friday, January 21.**

The draft letter supports the goal of reducing systemic risk in the cleared and uncleared derivatives and securities markets and supports many of the report's recommendations for further work to improve margin practices following the market volatility in March 2020. It states that through robust liquidity risk management programs, internal stress testing, and the flexibility to use a range of liquidity and liability management tools, regulated funds were able to appropriately prepare for and meet redemption requests and ensure that margin calls were fully and timely paid.

Nevertheless, the draft letter recommends improvements that focus on the centrally cleared markets, and most particularly on initial margin ("IM") requirements. In particular:

- The draft letter strongly agrees with the report's recommendation to enhance the transparency of central counterparty ("CCP") IM models and governance practices. It

notes that requiring additional transparency would enable regulated funds and other market participants to know *ex ante* how those models will react in volatile markets to prepare for market stress events even better.

- The draft letter supports further work to thoughtfully evaluate and calibrate the responsiveness of CCP IM models to market stresses. Appropriately calibrating these models could lessen the impact that sudden market moves have on IM demands. It, however, cautions regulators to avoid instinctively increasing centrally cleared IM requirements simply to avoid rapid surges in margin calls during stress periods.
- The draft letter supports enhancing and streamlining the margin collection processes in the centrally cleared markets. It notes that enhancing these processes, particularly those surrounding intraday margin calls to provide transparency and operational efficiency, would promote the safe and effective operations of those markets.

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#### **endnotes**

[1] See BCBS, CPMI, IOSCO, *Consultative report: Review of margining practices* (October 2021), available at <https://www.bis.org/bcbs/publ/d526.pdf>. For a summary of the report, please see ICI Memorandum No. 33909 (Nov. 19, 2021), available at [www.ici.org/memo33909](http://www.ici.org/memo33909).

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