

**MEMO# 34009**

January 26, 2022

## **ICI Files Comment Letter with Global Regulators on Margining Practices**

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TO: ICI Members

ICI Global Members SUBJECTS: Derivatives

Financial Stability

International/Global RE: ICI Files Comment Letter with Global Regulators on Margining Practices

ICI has filed the attached comment letter in response to a joint consultation ("report") on the review of margining practices from the Basel Committee on Banking Supervision, the Committee on Payments and Market Infrastructures, and the International Organization of Securities Commissions.[\[1\]](#) As previously reported, the report examined whether and, if so, to what extent margin calls were unexpectedly large in the derivatives and securities markets during March 2020.[\[2\]](#) In addition, the report recommended six potential areas for further work and invited general comments on its findings.[\[3\]](#) We briefly summarize our comment letter below.

The comment 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 letter recommends improvements that focus on the centrally cleared markets, and most particularly on IM requirements. In particular:

- The 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 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 during "normal" times simply to avoid rapid surges in margin calls during stress periods.

- The letter supports enhancing and streamlining the margin collection processes in the centrally cleared markets. It notes that enhancing these processes, including 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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Associate General Counsel

#### Endnotes

[1] See BCBS, CPMI, IOSCO, Consultative report: Review of margining practices (October 2021), available at [www.bis.org/bcbs/publ/d526.pdf](http://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).

[2] The report follows a Financial Stability Board report calling for further work to examine "whether market participants were fully prepared for the margin calls they experienced, their ability to liquidate assets to meet margin calls under stressed conditions, and the role of margining practices both in centrally cleared and bilateral markets in amplifying funding strains." See FSB, Holistic review of the March market turmoil (November 2020) at 42, available at <https://www.fsb.org/wp-content/uploads/P171120-2.pdf>.

[3] The report recommended further work in the following six areas: 1) increasing transparency in the centrally cleared markets; 2) enhancing liquidity preparedness and liquidity disclosures of market participants; 3) identifying data gaps in regulatory reporting; 4) streamlining variation margin ("VM") processes; 5) evaluating the responsiveness of centrally cleared initial margin ("IM") models to market stresses with a focus on impacts and implications for central counterparty resources and the wider financial system; and 6) evaluating the responsiveness of non-centrally cleared IM models to market stresses.