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Basel Committee on Banking Supervision (BCBS)
Bank for International Settlements
CH-4002 Basel, Switzerland

Committee on Payments and Market Infrastructures (CPMI)
Bank for International Settlements
CH-4002 Basel, Switzerland

Board of the International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid, Spain

Submitted via email to baselcommittee@bis.org, cpmi@bis.org, and consultation-04-2021@iosco.org

RE: BCBS-CPMI-IOSCO Consultative Report on “Review of Margining Practices”

BlackRock is supportive of central clearing. The reduction in bilateral counterparty credit risk, increased market transparency, together with the improved efficiency in trade execution and the overall benefits for global financial stability, outweigh the operational costs incurred by market participants, including end-investors, to comply with clearing mandates. In fact, several market participants who are not subject to clearing mandates already clear voluntarily.

Central Clearing Counterparties (CCPs) deliver standardized risk mitigation and transparency to the derivatives markets, thereby addressing many of the shortfalls that were made evident during the Global Financial Crisis (GFC) of 2008-09. In contrast to the bilateral, or Over the Counter (“OTC”) markets, the cleared markets operated efficiently and effectively during the GFC, providing continued access to derivatives products while also managing to close out large portfolios of defaulted financial institutions. Leveraging this proven structure was an obvious approach for addressing the OTC market’s vulnerabilities.

However, it is important to recognize that this market structure was not fully designed to handle the diverse set of clients or the range of market risks inherent in OTC products. Asset managers, end-users, Clearing Members (CM) and CCPs have all been working over several years to evolve the structure accordingly and significant progress has been made. As a greater number of products shift to the centrally cleared model, more work needs to be done to ensure that CCPs remain resilient and the pro-cyclical aspects inherent to central clearing do not excessively amplify stress during periods of market volatility.

BlackRock welcomes the opportunity to comment on the BCBS-CPMI-IOSCO Consultative Report *Review of margining practices* (“the Consultative Report”). We commend the global standard setters for presenting comprehensive analysis of the period of high market volatility when large increases in aggregate margin requirements were seen in both the centrally and non-centrally cleared derivatives. We also welcomed global standard setters issuing detailed surveys to impacted stakeholder groups, including clients, to collect quantitative and qualitative data to inform the analysis and to indicate potential next steps. Whilst this evidence-based approach to policy making is of course welcome, it nonetheless points to potential data gaps that currently exist and should be addressed as part of the regulatory response to the events of March 2020.

Executive Summary

Swap and futures markets generally performed well during the market volatility induced by the onset of the COVID-19 pandemic in March 2020, as measured by record volumes traded and cleared in global markets.

However, the dramatic and unexpected spikes in initial margin (IM) calls during this period indicate that there is room for CCPs to further enhance their IM modelling to mitigate their procyclical effects.

These margin calls exacerbated volatility at a time when liquidity across markets was becoming increasingly challenging to source and market participants needed to access additional cash and cash-equivalents, creating severe stress across markets. Limited transparency, resulting in unexpected margin calls, made it challenging for some asset managers to prepare their portfolios accordingly. Similarly, the lack of transparency from CCPs regarding margin changes made it difficult for end-investors to make informed investment decisions in a timely manner.

Considering the lessons learned from March 2020, we recommend that policy makers ensure CCPs size IM requirements more conservatively using appropriate model assumptions to mitigate the potential for future procyclical initial margin moves.

To do this, CCPs should:

- incorporate appropriate and defensible assumptions on the time it takes to liquidate a portfolio of trades (referred to as the “margin period of risk”);
- include relevant historical market trends (referred to as “look back period”);
- address concentration risk through appropriate margin adjustments (referred to as “margin add-ons”);
- scrutinize correlation assumptions when offering portfolio margining (referred to as “margin offsets”); and
- provide enhanced transparency to the market on specific margin rate changes to allow investors to pinpoint the contracts impacted.

There is a significant body of regulatory guidance on IM standards developed as part of the 2012 CPMI-IOSCO Principles for Financial Market Infrastructure (PFMIs) but the experience in March 2020 underscores the need to enhance the standards themselves and/or review their implementation and compliance.

These adjustments will likely result in higher margin requirements during ordinary market conditions (“peacetime”) but should provide the market with more stability during periods of market stress (“wartime”). In our view, shifting the balance to a more conservative margin approach would result in greater financial stability and greater confidence to invest.

Discussion questions

- 1. Does the report accurately describe the key market events of the Covid-related period of stress from February to April 2020 and its effects on the magnitude and frequency of the calculation and payment of margin in centrally and non-centrally cleared markets? If not, in what ways are the descriptions not fully representative of the events? Are there any other important events or effects missing? If so, please provide any information or data that are relevant to the missing events or effects to the extent feasible.**

The report accurately describes the key market events of the Covid-related period of stress from February to April 2020. It also accurately describes its effects on the magnitude and frequency of the calculation and payment of margin in centrally and non-centrally cleared markets.

- 2. Does the report draw appropriate conclusions from the presented observations and analysis of the various aspects of centrally and non-centrally cleared margin during the 2020 stress period? If not, in what cases do you feel the conclusions are not justified by the included analysis? Are there any areas or specific topics of analysis you consider to be missing? If so, please provide any**

information or data that are relevant to the extent feasible. Please set out your views across the following sections:

The report generally draws appropriate conclusions from the presented observations and analysis of the various aspects of centrally and non-centrally cleared margin during the 2020 stress period. Specific observations follow.

a. The drivers of margin calls during the period of market stress covered by the report.

We agree that volatility was the primary driver of increased margin calls during the period of market stress and that model construction was the differentiator in how margin models responded. This underscores the need for global standard setters to provide additional guidelines and oversight for model design choices.

Careful attention should be paid to the divergence between exchange-traded derivatives (ETD) and OTC model performance. As cited in the report, ETD margin made up less than half of total margin posted but was responsible for “roughly two-thirds of the total increase of required IM for all asset classes.”¹ While the PFMI address key model design choices, we suggest a global review of their interpretation and application. Specifically, we suggest a global review of the following key model design choices:

- Margin Period of Risk (MPOR)² - MPOR is a key input into all initial margin models. It is the factor that estimates how many days it will take to sell a contract or hedge its underlying risk. Though CPMI/IOSCO guidance suggests the parameter must be “appropriate” for a given contract, most CCPs generally default to regulatory minimums, which we believe are not always sufficiently conservative.
- Look Back Period³ - The look back period determines how far back in history a margin model will look to inform predictions of future market moves. CPMI/IOSCO guidance suggests that the sample period be “appropriate” for each product, though there is no additional guidance on how to define “appropriate.” As a result, we believe some margin models may not capture relevant market stresses
- Margin add-ons and off-sets⁴ - While margin offsets are directly addressed in the PFMI, the use of add-ons is not addressed as its own topic; rather various add-ons are mentioned (e.g. concentration) in other sections of the guidance. Additional guidance could help improve transparency to the market and better enable review of model performance.

Such guidelines should aim to eliminate the increasingly redundant distinction currently made between exchange traded and OTC products.

We further suggest that a contract’s underlying risk should drive margin parameters; where a contract trades should not dictate risk standards. To be clear, we do not advocate for overly restrictive parameters, rather, we recommend guidelines be designed to raise the standards of risk models while allowing CCPs to retain flexibility and discretion within these heightened standards. If the guidelines themselves are not altered, at a minimum, more detailed guidance and requirements for the way in which jurisdictions review adherence to the principles should be provided to ensure consistent global implementation and a level playing field across entities which clear risk in global markets.

b. The current level of transparency in margin practices by CCPs and intermediaries.

The report provides a useful summary of the feedback received from survey respondents, underscoring the divergence of views amongst respondents. CCPs generally believe they provide tools to predict margin while

¹ Section 2.2, “Initial Margin,” page 13

² PFMI Principle 6 Explanatory Note 3.6.7

³ PFMI Principle 6 Explanatory Note 3.6.8

⁴ PFMI Principle 6 Explanatory Note 3.6.12

intermediaries and clients often conclude that those tools are not sufficient for them to predict IM changes. CCPs are disclosing to the market what they believe is sufficient, but the market requires more granular information.

While not mentioned in the “CCP perspectives” portion of the report, we sometimes hear CCPs say that they are unwilling to fully disclose their margin model details because they consider the models proprietary and protected by intellectual property rights. We do not believe a CCP’s margin models should be viewed in such a manner since IM is a cornerstone of the clearing mandate’s risk mitigation goal. This information would be useful for market participants in preparing for the next market stress event.

One conclusion we draw from the information provided in the report is that the degree and quality of CCP margin transparency is wide-ranging, and the level of detail or lack thereof varies by CCP. This conclusion is not addressed in the report. We recommend that regulators share the margin model disclosures, or a summary thereof, provided by individual CCPs, or at the very least, comment on the level of detail provided by CCPs.

The preparedness of intermediaries and clients for meeting the increased margin calls

We value that global standard setters are undertaking to understand how to enhance liquidity preparedness in the NBF/ client sector by consulting stakeholders. The report concludes that liquidity preparedness would be enhanced by greater “use and disclosure of appropriate liquidity measures in the NBF/ client sector” and “elucidating ways that clearing members can encourage and facilitate greater liquidity preparedness of clients through appropriate information sharing.”

While these recommendations *could* help clients’ preparedness, we do not believe either of these are the source of the issue. Rather, the focus should be on enhancing transparency and predictability of CCP IM models because liquidity preparedness is a second order effect of the core issue. Improving transparency and predictability would inherently enhance liquidity preparedness.

Figure 11 of the Consultative Report shows that some clients overcollateralized/posted excess margin at the CCP during the March 2020 period. We believe this behaviour, where market participants posted more than was required on a given day, reflects the unpredictability of IM models – absent the ability to project how a CCP may change its IM requirement, and faced with repeated large calls, clients opted to, or were asked by their intermediaries to, leave excess margin. To fund the excess, the asset manager may have had to liquidate other assets, resulting in an inefficient return for the end-investor. Asking clients to increase buffers due to lack of CCP IM predictability is not the right approach, from either a risk management or commercial perspective.

Instead, we believe regulatory attention should be focused on addressing transparency and predictability of a CCP’s IM model. This, we believe, would be an important step in managing liquidity risk and ensuring margin calls can be funded in strained markets.

Uncleared derivatives

The uncleared market is working relatively well, therefore we believe the cleared market should be the priority focus of regulators. We would note that, absent regulatory requirements, it is not standard market practice to subject real money funds (i.e., investors who fund investments at their full value) to IM requirements for uncleared derivatives.⁵ Where regulatory requirements compel the posting of IM (which will expand under the continued global implementation of the uncleared margin rules), the industry standard margin models, such as the Standard Initial Margin Model (SIMM) provide the market with the necessary tools to plan for changes in margin levels.

⁵ BlackRock’s client collateral agreements are consistent with that market practice. In other words, most BlackRock-managed portfolios are not required to post IM under bilateral trading agreements. For those BlackRock funds that are required to post IM for uncleared derivatives to our counterparties, relatively speaking, these clients post very little IM relative to VM.

All the same, we agree with the report that the corresponding adjustment in IM requirements for non-centrally cleared derivatives was much smaller. This was an interesting outcome given the uncleared space is generally less standardized and less liquid relative to the cleared markets. Credit should be given to the SIMM, which is more conservative than CCP IM models and less reactive to volatility changes. It should be noted that SIMM was designed to incentivize clearing and is therefore inherently more conservative (and expensive) than a CCP's model. SIMM's behaviour is consistent with our view that if CCP models had been more conservative at the outset, the 2020 moves in IM would have been more muted.

With respect to variation margin (VM), BlackRock managed funds were able to meet and fund VM throughout the period of market volatility in 2020, as VM is simply the daily movement of the market value of a contract. Asset managers, including BlackRock, use sophisticated quantitative methods and tools that estimate the potential of this market value. However, in the cleared space, we do not have the same ability to model or predict IM moves for centrally cleared transactions. As mentioned earlier, this is due to those parameters being dictated by the CCP and not transparent nor readily understandable by a wider group of stakeholders.

c. The relationship between margin demands and other liquidity demands during the period February–April 2020.

CCP IM models, particularly in futures, were shown to be highly sensitive to market moves, resulting in large, sudden, and unpredictable spikes in IM calls across CCPs. While the level of market moves in March 2020 was beyond most statistical model predictions, the magnitude and volume of the resulting IM changes, particularly on ETD, suggests that the margin models may not have been sufficiently conservative.

These margin spikes ultimately exacerbated liquidity constraints across markets. As the SEC explained in its 2020 report, VM “is a redistribution of liquidity in the system from one counterparty to another,” while increases in IM “drew short-term liquidity away from market participants.”⁶ Similarly, a paper published by the Bank for International Settlements⁷ highlights these margin spikes, noting that “the procyclicality of leverage embedded in margining models might have played a role in the events of mid-March...Margin models of some CCPs seem to have underestimated market volatility, in part because they have relied on a short period of historical price movements from tranquil times. These CCPs had to catch up and increase margins at the wrong time, squeezing liquidity when it was most needed.”

For example, increased IM required for Treasury futures likely drove some investors to sell, affecting the prices of underlying Treasury securities. Additionally, given the limited acceptability of Money Market Funds (“MMFs”) as collateral, the increased margin calls forced counterparties to liquidate MMFs to raise funds for margin calls, increasing pressure on the short-term cash markets. For additional detail, see the response to question 5, below.

3. Do you agree with the proposals for further international work regarding good practices, metrics and disclosures concerning procyclicality in CCP IM models? Are there other aspects of CCP IM where additional disclosures should be prioritised for further work?

We agree that further international work is needed in this area, as discussed in the report.⁸

⁶ SEC Division of Economic and Risk Analysis, “US Credit Markets Interconnectedness and the Effects of the COVID-19 Economic Shock,” October 2020

⁷ Wenqian Huang and Elod Takáts, “BIS Bulletin: The CCP-Bank Nexus in the Time of Covid-19,” May 11, 2020

⁸ See section 7.1, page 38 of the Consultation Report.

Further, we acknowledge that, if implemented, many of our recommendations could result in increased margin levels, which could add costs to the market and end-investors. Regulatory changes must therefore be carefully considered in a balanced and proportionate manner.⁹

4. Does the report identify appropriate aspects of transparency in centrally and non-centrally cleared markets for further international work, including identifying data gaps, enhancing disclosures to clearing members and increasing margin model transparency?

a. What specific areas of transparency would be most helpful? What (if any) are the barriers to providing those points of transparency?

In term of areas of transparency that would be most helpful, please refer to section 2.a. above in respect of, “Key model design choices”.

Regarding potential barriers, please refer to section 4.b, below.

b. Should any other areas of increased transparency be considered?

We believe transparency and disclosure, which are foundational to efficient, fair, and sound financial markets, could be extended more broadly, beyond CCP margin model choices.

Today, with the mandatory clearing regulation in full effect, end-clients make up significant IM balances at CCPs. In fact, CCPs are often the primary contributors to counterparty exposures for our clients, largely due to the amount of IM required. To conduct a CCP risk assessment, BlackRock relies on public disclosures, specifically the PFMI and subsequent published guidance which set out quantitative and qualitative disclosures standards for CCPs. These releases acknowledged that, to permit robust diligence on CCPs, they would need to supplement these standards. Unfortunately, several CCPs have not adequately done so. Existing CCP disclosures therefore continue to be limited by a lack of detail and are often inconsistent across entities. In addition, in some cases there is a lack of specific formal mechanisms in place to hold CCPs accountable for the timeliness and accuracy of their disclosures.

To fill this gap, regulators should require CCPs to provide enhanced public disclosures with supporting details (including explanatory text) to market participants regarding CCP risk methodologies, back testing, stress testing, and clearing member and end-user loss allocation.¹⁰ In addition, regulators should mandate greater standardization of disclosures across CCPs and implement audit requirements to ensure that disclosures are accurate, clear, and consistent.

In summary, CCP disclosure can be improved beyond margin model transparency. Today, the quality of disclosures available to conduct credit analysis varies greatly by jurisdiction and it is universally more difficult to obtain requisite information from CCPs than it is from our bilateral counterparties (banks and broker dealers).

An additional barrier to transparency is an often cited concern about the risks of over-disclosure, such as inadvertently compromising market participant confidentiality and the risk of model monoculture. While we accept that over-disclosure could be problematic, we believe we are far from reaching such a state.

5. Do you agree with the proposals for further international work to enhance liquidity preparedness in the NBFIs sector, including the development of appropriate liquidity metrics and disclosures, analysis of liquidity provision robustness and expanded information sharing between

⁹ The Bank of England has started to think about how to assess the cost/benefit to the market and ensure that any new requirements do not result in unintended consequences, such as making clearing prohibitive to smaller users. See its 2021 Working Paper, [A CBA of APC Analyzing Approaches to Procyclicality Reduction in CCP Initial Margin Models.](#)

¹⁰ For additional details, see [“A Path Forward for CCP Resilience, Recovery, and Resolution,”](#) March 2020

intermediaries and clients? Have the proposals identified all key aspects of NBFI sector liquidity preparedness which should be included?

While the NBFI sector managed various liquidity demands well, the excessive procyclicality and lack of transparency regarding IM increases during the March 2020 market volatility revealed several areas where potential reforms could help to improve market participants' preparedness. Specifically, increased transparency regarding margin models and expanded types of acceptable collateral would improve efficiency and stability, particularly during times of stress.

Open-ended Funds & Liquidity Risk Management Requirements

Despite the excessive liquidity demands issued at short notice, asset managers were generally able to manage fund redemptions and margin calls effectively. For example, all US fixed income bond funds met 100% of redemptions, which can be attributed to funds' comprehensive liquidity risk management programs. In other jurisdictions where there were some instances of fund suspensions, these suspensions were idiosyncratic events linked to valuation issues in local fixed income markets and were not a result of funds being unable to meet margin calls.¹¹

Following the GFC, policymakers raised the bar for liquidity risk management industrywide. In 2018, IOSCO published its Recommendations and Best Practices, which include a comprehensive list of recommendations on liquidity risk management, setting out actions to be taken when initially structuring a fund and on an ongoing basis, as well as tools to use in extreme conditions. Many of these recommendations have been incorporated into national and regional regulations for open end funds (OEFs). These include enhanced LRM tools, liquidity stress testing and comprehensive reporting to supervisors to allow a continuous and informed dialogue between regulators and asset managers in both normal and stressed market conditions.

Specifically, in the US, in 2016, the SEC passed Rule 22e-4 under the 1940 Act. This rule improved the resilience of open-ended funds and was designed to enable funds to manage liquidity risk, meet investors' redemptions, and minimize the impact of redemptions on the fund's remaining investors, particularly in times of stress. It requires all open-ended funds to have a written liquidity risk management program, which must be approved and reviewed by the fund's board; and requires funds to classify the liquidity of each of the investments in its portfolio based on the number of days in which the fund reasonably expects the investment to be convertible into cash without significantly changing the market value of the investment.

Funds are further required to determine a minimum percentage of net assets that must be invested in highly liquid investments (i.e., assets that can be liquidated in three days—this is known as the “highly liquid investment minimum”), as well as procedures to respond to a shortfall in highly liquid assets, which include reporting to the fund's board of directors and the SEC. Finally, Rule 22e-4 places a 15% limit on funds' illiquid investments. Funds are required to notify their board of directors as well as the SEC if their illiquid invests exceed 15% of its net assets. This early engagement with the SEC and the fund's board fosters discussion and helps to address potential issues and mitigate risks.

In the EU, the UCITS Directive contains provisions on eligible investments designed to ensure ongoing liquidity and to limit the holding of illiquid assets, which are monitored by an independent depository who will escalate any breaches to the local regulator. More recently, this has been complemented by MiFID II product governance rules; and enhanced further still by ESMA liquidity stress testing Guidelines for AIF and UCITS managers. ESMA's liquidity stress testing Guidelines require fund managers to stress test the assets and liabilities of the funds they manage to different types of market risks on a regular basis – such as interest rate risk, liquidity risk, marginal call risk, and redemption risk. Specifically, regarding margin, ESMA's guidance notes, “In some cases, LST should determine the circumstances in which liquidity risk cannot be mitigated, for example a level of margin calls the fund would not be able to fund. Contingency planning should

¹¹ For additional discussion on the limited instances of fund suspensions during the COVID-19 market volatility, see BlackRock ViewPoint, “[Lessons from COVID-19: Liquidity Risk Management is Central to Open-Ended Funds](#),” November 2020

adequately reflect this and help to mitigate the liquidity risk in such circumstances.”¹² Managers of AIFs and UCITS are in turn required to use the results of these stress tests to take action and mitigate these risks, and to notify their local regulator of any material risks and actions taken.

As a result of these regulations, today, securities regulators can undertake ongoing assessments of funds’ ability to deal with stressed market conditions, and asset managers are in a better position to manage funds during times of extreme market stress and volatility. Taken together, this provided a solid foundation for most funds to meet the scale of outflows experienced in March 2020.

Liquidity Risk Management and Margin

While asset managers were prepared, the experience of March 2020 highlights areas where improvements in transparency and market structure could enhance liquidity preparedness among market participants.

Specifically, liquidity risk management can be enhanced by incorporating systematic forecasts of initial margin, which would require access to specific details of a CCP’s margin models, which are not part of the currently available “what if” calculators some CCPs provide. One potential option to achieve this would be for CCPs to publish regularly, in a centralized location, an expected stressed IM multiplier that asset managers can incorporate into liquidity risk management processes.

Expanding the acceptable collateral at various CCPs to alleviate a “dash for cash” or other liquid assets in times of market uncertainty would also be helpful to enhance liquidity preparedness. Specifically, a CCP’s collateral limits are set on an asset class level for each individual clearing member (e.g., \$XX can be posted in municipal bonds by one clearing member, across both house and customer accounts), rather than an end-user level, which can limit an end-user’s ability to post asset classes that may be “acceptable collateral” broadly defined. Additionally, exploring ways to improve the transferability of money market funds so that they can be more readily used as collateral would be helpful, thus avoiding unnecessary downward pressure on markets when one party redeems their money market fund investment to post cash, which is often then re-invested in a similar instrument, with a lag.

6. Do you agree with the proposals for further international work to evaluate data gaps in regulatory reporting by banks and non-banks? Are there particular data gaps you would identify as being of material importance? If so, please provide any supporting information and data to the extent feasible?

We note three specific observations and make a set of more general conclusions in relation to data gaps:

- First, one specific area for consideration is how the data that firms submit is subsequently shared with stakeholders in aggregate to complete the feedback loop. For example, although the reporting requirement is substantial in the EU under the European Market Infrastructure Regulation (EMIR), reporting firms do not generally have insight into how the information is being used and/or interpreted to measure stress in the system and liquidity risk.
- Second, market participants would also benefit from access to margin data so they could better analyse market conditions and potential impacts on portfolios. For example, data on ETD and OTC derivatives IM pledged is helpful to assess the impact of CCP model changes have on portfolios as compared against the start of year average.¹³ Meanwhile, ETD / OTC variation margin movements highlight the day over day change in mark-to-market, which is a more accurate barometer of volatility than IM.
- Third, non-bank entities, such as asset managers, generally rely on exchange circulars that are emailed each day to keep abreast of CCP margin increases. However, there is no single Application

¹² ESMA, “[Guidelines on liquidity stress testing in UCITS and AIFs](#),” 16/07/2020

¹³ This figure was +71% throughout March 2020.

Programming Interface (API) from which firms (or regulators) can currently retrieve this data, nor is there a possibility for asset managers to systematically calculate IM. For this reason, intermediaries generally cover end-investors' intra-day margin calls, which are subsequently covered by the end-investor at t+1.

In general, it is important to understand how the data that regulators gather would be analysed and used, and how the data could be leveraged to provide feedback to the broader market. We have consistently advocated for standardized data requests. These range from reaching globally agreed measures and definitions of key terms through to a common approach on the detail and the frequency of requests. Standardization on how information is reported is also critically important. Electronic data delivery whenever and wherever possible should be the objective. This would substantially improve the accuracy and quality of data as well as the timeliness of reporting. Standardization would precipitate a shift from the current arrangements where data is pushed out to market participants, to the construction of an API from where relevant data could be easily retrieved to facilitate IM modelling and more accurate margin call forecasting.

7. Does the report identify appropriate proposals for further international work on streamlining VM processes in centrally and non-centrally cleared markets? Should any other aspects of VM processes be included in this work?

While we understand that there may be vulnerabilities in how VM is exchanged in cleared markets, with one-way VM moves causing potential liquidity drains in market, we believe that IM is a more pressing issue. Therefore, we would encourage international regulators to place their focus on addressing the market's concerns with respect to IM.

8. Does the report identify appropriate proposals for further international work on the degree and nature of the responsiveness of CCP IM models to market stress? Should any other aspects of CCP margin models be included in this initiative?

Margin rates are expected to increase during periods of higher market volatility as CCPs should not be under-collateralized and exposed to increased credit risk of their members. We also acknowledge that IM cannot be expected to cover all extreme stress events. Regarding specific proposals for further international work, we support the recommendations made in the FIA's paper, *Revisiting Procyclicality: The Impact of the COVID Crisis on CCP Margin Requirements*.¹⁴

9. Do you agree with the proposals in the report to evaluate the degree and nature of responsiveness of non-centrally cleared IM models to market stresses, remediation of IM shortfalls and the level of disclosure of non-centrally cleared IM model performance? Should any other aspects of non-centrally cleared IM models be included in this initiative?

Please refer to our comments to question 2.b., under the section called, "Uncleared Derivatives".

10. Are there any other important aspects not covered by the report which should also be prioritised for further international work or policy development?

There are two specific aspects which are deserving of additional discussion:

- A possible expansion of the list of eligible collateral (with appropriate haircuts) and a review of collateral type limits at CCPs. We would recommend expanding acceptable collateral in both cleared and uncleared markets to include MMFs and ETFs, where available in certain jurisdictions. Specifically, in uncleared markets in the US, the ability to use redeemable securities in a MMF as eligible collateral has been significantly restricted by the condition that assets of the MMF may not be transferred through securities lending, securities borrowing, repurchase agreements, and reverse repurchase agreements. We agree with the CFTC's Global Markets Advisory Committee (GMAC)

¹⁴ See FIA, "[Revisiting Procyclicality: The Impact of the COVID Crisis on CCP Margin Requirements](#)," October 2020

recommendation to eliminate these restrictions.¹⁵ Regulators should also clarify that ETFs which hold eligible assets can be treated as eligible collateral under uncleared margin rules.¹⁶ This could further alleviate the impact of margin calls and is consistent with the policy rationale of margin rules. In addition, most CCPs have clearing member-level limits on collateral types (e.g., no more than X% of equity collateral as IM) which can restrict the eligibility of certain collateral types at the end-investor level.

- Enhanced risk governance to be able to better challenge CCP IM models. One mechanism to challenge CCP IM models is enhanced risk governance. CCPs' governance arrangements should require them to have a formal process to obtain, consider and address market participants feedback on any changes that materially affect the risk profile of the CCP particularly as it relates to risk methodologies and financial safeguards. Such feedback should take place prior to CCPs making any formal filing with the relevant regulators and must be disclosed to regulators. This would provide relevant authorities with important market views that could help improve overall resilience of CCPs.

We thank BCBS, CPMI, and IOSCO for providing the opportunity to comment on the consultative report, and we welcome the opportunity to further discuss any of the information or recommendations we have provided.

Sincerely,

Eileen Kiely
Managing Director, Deputy Head of Counterparty Risk, Risk and Quantitative Analysis

Stephen Fisher
Managing Director, Global Public Policy

¹⁵ GMAC, "Recommendations to Improve Scoping and Implementation of Initial Margin Requirements for Non-Cleared Swaps," May 19, 2020

¹⁶ See BlackRock comment letters to [CFTC](#) (December 23, 2019) and [Office of the Comptroller of the Currency, Federal Reserve, Federal Deposit Insurance Corporation, Farm Credit Administration, and Federal Housing Finance Agency](#) (December 9, 2019).