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CCP12

Perspective on Transparency

Transparency is foundational to efficient, fair, and sound financial markets. This paper outlines the views of the Central Counterparties (“CCPs”) across the globe and the best practices that CCPs have adopted over the years to further promote confidence and integrity in the marketplace.

CCP disclosures have always been a critical tool in providing the market with a level of comfort that CCPs have robust risk management frameworks and maintain adequate resources. Since the 2008 financial crisis, CCPs have undertaken a significant amount of work to further enhance the transparency of their risk management practices and have become an exceptionally transparent part of the financial system, enabling, and supporting an open dialogue between CCPs, participants, regulators, and standard setters.

CCPs have had a long-standing practice of providing publicly available rule books, which are the contracts that determine and organize market participants’ rights and obligations. CCPs also prepare the disclosure frameworks in accordance with the internationally recognized “Principles for Financial Market Infrastructure” (“PFMIs”) published in April 2012 by the Committee on Payments and Market Infrastructures (“CPMI”) and the Technical Committee

of the International Organization of Securities Commissions (“IOSCO”). To complement the disclosure frameworks, CCPs also publish quantitative data quarterly in accordance with the Public Quantitative Disclosure (“PQD”) Standards published in February 2015. These disclosures enable any interested reader, and all stakeholders, to view CCP’s transaction volumes and values, performance statistics, financial condition, and the available financial resources to withstand potential losses. The disclosures also enable stakeholders to have a clear, accurate and full understanding of the risks associated with a CCP and understand and assess the risks of participating in CCPs. Also, given the differences between the markets and products cleared by CCPs, and differences in CCP structures, it is a standard practice for CCPs to further complement the quantitative disclosures with appropriate explanatory notes, and links to other qualitative disclosures, so that the broader framework and specificities are available to the reader. While the qualitative disclosure frameworks are updated at least once in two years, the quantitative disclosures are refreshed more frequently, on a quarterly basis. These frequencies match the use cases of the data and their typical periods for significant change in the figures.

In 2015, CCPs came together and formed a CCP12 PQD working group. The working group developed standardized definitions and methodology to enable a harmonized response by the CCPs. The working group also designed a template to make information available to all stakeholders in a standardized and machine-readable format. The template developed by the CCPs enabled consolidation of disclosures and captured revision history. It also ensured that the data remained anonymized, and the level of aggregation and the degree of granularity was set to avoid revealing sensitive information about the positions of individual CCP's participants. CCP12 officially released the template in 2017, which has been adopted by CCPs across the globe, by both members and non-members of CCP12. The standardized definitions and methodology were reviewed and agreed upon with the Policy Standing Group ("PSG") group of CPMI-IOSCO in 2015 to ensure consistency with the PQD Standards. In November 2020, based on industry feedback, an updated CCP12 PQD template [1] and a CCP12 PQD FAQ Guide [2] was released, which provided additional clarity, version control, consolidation, and standardization around CCP disclosures (consistent labelling and numbering conventions) whilst ensuring machine readable data. As an association, CCP12 has had a significant influence on promoting and strengthening CCPs transparency.

To further promote the understanding of the PQDs, some of the CCP12 members offer quarterly conference calls to industry participants.

Box 1 includes several examples of information disclosed by the CCPs today. CCP12 believes that the level of transparency demonstrated by the CCPs currently is precise for a well-functioning ecosystem in which CCPs operate and market participants should make full effort to avail themselves to the existing information.

It is important to highlight that over-disclosure by CCPs could inadvertently result in the disclosure of Clearing Members ("CMs") confidential and proprietary information. CCPs, as hubs between their members, need to strike the right balance when determining the appropriate level of information sharing and transparency. They must disclose necessary relevant information to stakeholders without causing adverse market and operational effects. By way of example, certain types of possible disclosures (e.g., daily trend data on the uncollateralized largest stress loss for each CM across scenarios or the largest uncollateralized stress loss for each CM and pair of CMs across scenarios), even where CMs are anonymized, present a real risk of allowing market participants to reverse engineer the exposures of CMs and use that information to their benefit in their trading strategies [3]. Disclosures, and corresponding explanatory notes must also balance comparability and the risk of oversimplification of interpretation and "model monoculture", which refers to the

[1] CCP12 PQD Template https://ccp12.org/wp-content/uploads/2021/06/CCP12_PQD_Template_20210617_v1.xlsx

[2] CCP12 PQD FAQ Guide https://ccp12.org/wp-content/uploads/2021/06/CCP12_PQD_FAQ_Guide_20210618_v1.pdf

[3] See, e.g., <https://www.risk.net/regulation/6989811/how-banks-game-stress-tests-the-shocking-truth>;

<https://www.centralbanking.com/central-banks/financial-stability/micro-prudential/3643281/banks-tend-to-game-stress-tests-fed-economists-say>; and <https://www.bis.org/publ/work960.pdf>.

potential for market participants and risk managers to use the same models and inputs to evaluate risk [4].

CCPs and CCP12 recognize the benefits the level of transparency by CCPs provides to the marketplace. Along these lines, at present, the broader risk-transfer market ecosystem would benefit from greater transparency from market participants – both for the sake of participants as well as the ability of all stakeholders to better debate and assess possible systemic risk build-up. The level of transparency provided by CCPs, is not replicated by CMs for example, which has been visible in policy evaluation and debate in the aftermath of Covid-19 volatility [5]. While the bank holding company of a CM typically makes disclosures consistent with local regulations that implement the Basel Committee on Banking Supervision's standards, these disclosures are insufficient since they are not tailored to centrally cleared markets. These disclosures do not provide sufficient insight into the risks CMs face from their uncleared exposures and prime brokerage and other capital markets activities.

Notwithstanding this, these disclosures are not made at the CM level, nor provided by all CMs' parents. Having further transparency from CMs would support CCPs holistic view of their clearing members' risk management practices and exposures and enhance their processes for monitoring the risks to their CMs, including internal credit rating process.

More broadly, enhanced transparency by CMs would benefit the entire clearing ecosystem. The importance of further visibility into the risk taking of CMs and broker-dealers in the opaque uncleared OTC markets has also been reinforced by recent market events where such activity had a material impact on the group capital and liquidity levels of bank-affiliated CMs [6]. In light of the size of these exposures, they also create spillover risk into the cleared markets or elsewhere, so at a minimum the CCPs should have increased visibility into this risk taking.

Finally, CCP12 supports and encourages the industry to continue to read CCPs' quantitative and qualitative disclosures and continue to have a constructive dialogue, as it is useful to both CCPs and the participants.

[4] Chmn. Ben S. Bernanke, Stress Testing Banks: What Have We Learned? (Apr. 8, 2013) (noting, “At the same time, it is reasonable to worry that, with increased disclosure of supervisory models, firms would see a declining benefit to maintaining independent risk management systems and would just adopt supervisory models instead. Doing so would certainly make it easier to “pass” the stress tests. However, all models have their blind spots, and such an outcome risks a “model monoculture” that would be susceptible to a single, common failure. The differences in stress test results obtained by supervisors’ and banks’ own models can be informative, and we do not want inadvertently to destroy the healthy diversity or innovation of the models and other risk-management tools used in the banking industry.”), available at <https://www.federalreserve.gov/newsevents/speech/bernanke20130408a.htm>.

Gov. Daniel K. Tarullo, Next Steps in the Evolution of Stress Testing (Sept. 26, 2016) (noting, “In part for this reason, full disclosure could promote a “model monoculture” in which both supervisors and firms use the same models to evaluate risks. A critical part of the DFAST/CCAR process is that firms use their own models to assess their risks. We do not want them simply to copy the supervisory model and thereby increase the vulnerability of the financial system to the inevitable blind spots in even the best models.”), available at <http://www.federalreserve.gov/newsevents/speech/tarullo20160926a.htm>.

[5] CPMI-IOSCO-BIS, Consultative paper, [Review of margining practices \(bis.org\)](#) (noting, a key area highlighted by the recent consultative paper contrasts transparency available in cleared markets relative to uncleared markets or the client leg for indirect participants, stating “[i]dentifying data gaps in regulatory reporting. Further international work is proposed to identify gaps in current regulatory data at the jurisdictional level, which could provide a more comprehensive picture of the preparedness of market participants for margin requirements. This work could consider what additional regulatory disclosures or data points could provide authorities with a fuller picture of NBFIs sector preparedness and intermediaries’ provision of liquidity to clients.”)

[6] See, e.g., <https://www.ft.com/content/267d00fb-f623-4850-a82b-4ef88a41d4b5>; <https://www.risk.net/risk-management/7827796/credit-suisse-held-just-10-margin-against-archegos-book>; and <https://www.credit-suisse.com/media/assets/corporate/docs/about-us/investor-relations/financial-disclosures/results/csg-special-committee-bod-report-archegos.pdf>.

Box 1 – Types of information disclosed by CCPs

Publicly available Information

The information can be found on the CCP's website

- **Market** – Market information, such as volume, open interest, price quotes (including settlement price), are available as reports, both from the CCP, and also compiled by FIA/WFE, as well as BIS.
- **Rulebook** – The CCP's rulebook establishes the obligations and terms under which the CCP operates, such as membership criteria, margin and default fund obligations, default management mechanisms, recovery processes, specification on non-default events and losses, fee schedules (if applicable for various membership types). The rulebook is the contract between the CCP and its members.
- **CCP Regulations** – CCP regulations establish the legal and regulatory framework the operates under and adopts CPMI-IOSOC's Principles for financial market infrastructures ("PFMI"), which adopt best practices in CCP risk management, including for governance, margining, stress testing, collateral acceptance, and operational risk management, among others.
- **Annual Report** – The CCP's annual report provides financial information and overview of the CCP's business profile.
- **Public Quantitative Disclosures ("PQD")** – The PQDs provide a common set of quantitative information on the CCP's financial condition, financial resources, risk models, and performance that meets the standards set by CPMI-IOSCO.
- **Public PFMI Qualitative Disclosures** – The PFMI Qualitative Disclosure provides comprehensive qualitative information on the CCP's risk management practices, covering DMP, NDL and the enterprise risk management. The CCP regularly assesses itself and its compliance with the PFMIs, which is conducted in accordance with the CPMI-IOSCO assessment methodology and disclosure framework.
- The list of current **Clearing Members**.
- **Margin calculation methods and margin replication tools**.
- Information on **Default Events**

Information for CCPs' CMs

Information provided directly to members

- **Details on technical, operational, and functional aspects of the CCP**, including guides, programming documentation, etc. This includes details on how to replicate margin calculations, such as margin white papers.
- **CCPs produce daily risk reports for CMs** (e.g., changes in position and prices, initial margin, and variation margin). A general report is publicly available, which includes daily risk parameters, daily price data, daily margin rates, etc.
- **Training** – CCPs provide documentation, training, and information necessary to facilitate participants' understanding of the CCP's rules and procedures and the risks they face from participating in the CCP. New CMs receive training before using the system. Furthermore, current CMs can receive, if needed, additional training.
- **Details on Default Events**

Information for Regulators

Information provided by CCPs directly to local regulators

- CCPs disclose **regular reports** as agreed / stipulated with its respective regulators.
- Details on **Default Events**

Information for all Participants

Information provided directly to all participants clients

- **Responding to questions and due diligence questionnaires**.

Special Information

Risk Committee - Some CCPs include their CMs

- Some CCPs have independent **risk committees** consisting of industry experts and/or subsets of the board of directors that advise a CCP on certain risk-related matters affecting CCP risk management.
- Some CCPs also **host risk advisory and/or work groups** to solicit risk management feedback from participants.

CCP12 members



About CCP12

CCP12 is the global association for CCPs, representing 41 members who operate more than 60 individual CCPs globally across the Americas, EMEA and the Asia-Pacific region. CCP12 promotes effective, practical, and appropriate risk management and operational standards for CCPs to ensure the safety and efficiency of the financial markets it represents. CCP12 leads and assesses global regulatory and industry initiatives that concern CCPs to form consensus views of its members and seeks to actively engage with regulatory agencies and industry constituents through consultation responses, forum discussions and position papers.

For more information please contact the office by e-mail at office@ccp12.org or through our website by visiting ccp12.org.