
**GLOBAL MARKETS ADVISORY COMMITTEE
TECHNICAL ISSUES SUBCOMMITTEE
RECOMMENDATION**

JUNE 4, 2024

IMPROVE EFFICIENCIES IN POST-TRADE PROCESSES

STREAMLINE VARIATION MARGIN PROCESSES

SUMMARY OF ISSUE

Following the global implementation of margin requirements for non-cleared derivatives, margin call and settlement volumes have grown exponentially, raising the necessity for efficient collateral and liquidity management practices, especially during times of market volatility. The importance of streamlining variation margin practices is recognized by market participants through the increased use of standards and solutions and by the global regulatory community which has recommended areas for improvement of variation margin (VM) processes.

RECOMMENDATIONS

We recommend that the CFTC support the recommendations for Streamlining VM Processes in non-centrally cleared markets in the recent BCBS-IOSCO WGMR report¹ and thereby encourage an industry transition to more efficient, effective collateral and liquidity management. The BCBS and IOSCO recommendations are as follows:

- 1) Generally, as **dealer banks and other market intermediaries** conduct their regular due diligence and establish the boundaries that will govern their trading relationship, they **should address the operational and legal challenges that could potentially inhibit a seamless exchange of margin and collateral calls during a period of stress**.
- 2) With the intent to mitigate liquidity issues and a subsequent “dash for cash” during periods of stress, **firms should consider providing flexibility in bilaterally agreed acceptable collateral**, from within the set of permissible collateral types per the WGMR Framework and national regulations and doing so with appropriate haircuts.
- 3) **Firms should consider the advantages of standardisation and automation of their non-centrally cleared margin processes** to reduce frictions and the possibility of operational delays or failures. Depending on the firm’s trading profile, these improvements may facilitate collateral utilisation within firms, especially in stress periods.
- 4) **Firms should consider whether the utilisation of third-party services would be helpful in their efforts to improve non-centrally cleared VM processes**, weighing their own firms’ capabilities and the need for proper risk management of outsourced services.

¹ <https://www.bis.org/bcbs/publ/d569.pdf>

BACKGROUND, SUPPORTING ARGUMENTS OR EXAMPLES & DATA (IF ANY)

1) BCBS-IOSCO Streamlining VM processes in non-centrally cleared markets

Prompted by periods of market volatility including and following the global pandemic, the Basel Committee on Banking Supervision (BCBS), the BIS Committee on Payments and Market Infrastructures (CPMI), and the International Organization of Securities Commissions (IOSCO) published an assessment and consultative report entitled a *Review of Margining Practices* in October 2021² and in September 2022³ which proposed further international work to consider ways to foster market participants' preparedness for high margin call and settlement volume during market volatility events by streamlining VM processes in non-centrally cleared markets.

In January 2024, BCBS and IOSCO published conclusions and recommendations produced by its Working Group on Margin Requirements (WGMR) with respect to *Streamlining VM processes and IM responsiveness of margin models in non-centrally cleared markets*⁴. These recommendations are informed by the committee's knowledge and research of these processes and by the consultative responses from, and outreach to, market participants.

Rationale for supporting the BCBS-IOSCO VM Streamlined Processes

During the outreach process of the BCBS-IOSCO data gathering, there were no bright lines or material issues related to VM processes in non-centrally cleared derivatives markets identified. However, localized issues were identified, and it was assessed that similar future disruptions could be mitigated with automation, streamlined workflows and the implementation of industry data standards.

2) Next steps:

CFTC to support industry implementation of the BCBS-IOSCO recommendations for the reasons specified below:

- 1) Generally, as **dealer banks and other market intermediaries** conduct their regular due diligence and establish the boundaries that will govern their trading relationship, they **should address the operational and legal challenges that could potentially inhibit a seamless exchange of margin and collateral calls during a period of stress.**

² [Review of margining practices \(bis.org\)](https://www.bis.org/publ/mpr121021.pdf)

³ [Review of margining practices \(bis.org\)](https://www.bis.org/publ/mpr120922.pdf)

⁴ <https://www.bis.org/bcbs/publ/d569.pdf>

Using online negotiation tools and digital output solutions can reduce the costs of legal documentation negotiations, streamline the onboarding process and improve time to onboarding. Digital documentation output can automate input to relevant systems, reducing collateral management disputes and respective operational risks.

- 2) With the intent to mitigate liquidity issues and a subsequent “dash for cash” during periods of stress, **firms should consider providing flexibility in bilaterally agreed acceptable collateral**, from within the set of permissible collateral types per the WGMR Framework and national regulations and doing so with appropriate haircuts.

In times of market volatility, having VM eligible collateral constraints within eligible collateral schedules, such as only cash or cash and government securities can increase operational risk and liquidity constraints. Although there are potential pricing, operational, risk management, and counterparty’s capital considerations, counterparties should entertain a broad list of eligible collateral and ensure streamlined operational capabilities for delivery and return.

Rule amendments and clarifications can enable use of a more diverse pool of collateral within the WGMR parameters. For example, the CFTC proposed amendments⁵ to harmonize cross-border use of government-only money market funds by eliminating the fund restriction on asset transfer via securities lending and repurchase agreements. On November 6, 2023, the GMAC recommended⁶ that the CFTC finalize this rule proposal. On March 6, 2024, the GMAC adopted a recommendation that the CFTC clarify that US Treasury exchange-traded funds qualify as eligible collateral⁷.

- 3) **Firms should consider the advantages of standardisation and automation of their non-centrally cleared margin processes** to reduce frictions and the possibility of operational delays or failures. Depending on the firm’s trading profile, these improvements may facilitate collateral utilisation within firms, especially in stress periods.

Firms that have unique processes for calculating, sending, receiving, and affirming margin calls and settling and reporting collateral create operational friction and rising overhead costs and resources for themselves and their counterparties. Implementing [Suggested Operational Practices](#), such as those published and maintained by the International Swaps and Derivatives Association (ISDA) and its members and

⁵ <https://www.cftc.gov/sites/default/files/2023/08/2023-16572a.pdf>

⁶ https://www.cftc.gov/media/9721/gmac_TechnicalSubcommitteeRecommendationsMMF110623/download

⁷ https://www.cftc.gov/media/10331/CFTC_GMAC_GM_Structure_Subcommittee_Recommendation-UST ETF_as_UMR_Collateral/download

automating workflows will reduce these challenges, mitigating disputes. For instance, streamlining margin calls with required fields across counterparties will help ensure any discrepancies between counterparties can be easily reconciled and resolved.

The implementation of data standards is critical to support interoperability and collateral optimization. Using mutually-developed, open-source data standards to represent eligible collateral, the terms within and the operational functions of legal agreements, and margin call and cash collateral processes can:

- 1) reduce operational friction
- 2) improve collateral optimization, and
- 3) expedite processing with counterparties, vendors and infrastructure providers, and even within firms that use multiple systems for collateral management, risk oversight, trading, and liquidity resourcing.

For example, members of the International Capital Markets Association (ICMA), International Securities Lending Association (ISLA), and ISDA have collaboratively built [eligible collateral representation in digital form with the Common Domain Model \(CDM\)](#). By digitally representing collateral in a uniform way across multiple products and systems, data transfer issues related to collateral sourcing and collateral management among repo, securities lending, and OTC derivatives systems along with vendors and infrastructure providers can be decreased.

- 4) **Firms should consider whether the utilisation of third-party services would be helpful in their efforts to improve non-centrally cleared VM processes, weighing their own firms' capabilities and the need for proper risk management of outsourced services**

For firms that do not have the scale or infrastructure to build in-house operations and processes, such as collateral management calculations, margin call messaging, collateral optimization, and portfolio reconciliation, they should research and analyze third party services and/or infrastructure providers with robust technological offerings and streamlined operations. They should encourage their providers to align with industry Suggested Operational Practices and leverage common data standards to promote consistency, accuracy, and interoperability.