08 September 2025

ECB-PUBLIC

ESRB
European Systemic Risk Board
European System of Financial Supervision

ESRB Secretariat's response to ESMA's consultation paper

on EMIR 3 draft RTS on Margin Transparency requirements

The Secretariat of the European Systemic Risk Board (ESRB) welcomes the consultation launched by ESMA on the EMIR 3 draft RTS on Margin Transparency requirements.[1] The ESRB is responsible for the macroprudential oversight of the EU financial system and for the prevention and mitigation of systemic risk. The ESRB's remit encompasses a wide range of financial entities and markets, including banks, insurers, asset managers, shadow banking entities, financial market infrastructures and other financial institutions. Financial market infrastructures are a critical component of the financial system and have assumed an increasingly pivotal role since the global financial crisis. The ESRB has noted that, while margin requirements help reduce counterparty risk in the financial system, they can also generate liquidity risks[2] and adversely affect both bank and non-bank entities, particularly under certain conditions such as market concentration, interconnectedness and strained market liquidity.

The ESRB articulated its stance on matters closely linked to those addressed in ESMA's consultation paper in its response to the consultative report by the BCBS, CPMI, and IOSCO on transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals.[3] The perspectives put forward therein are consistent with the positions and viewpoints set out in the response. The ESRB Secretariat is of the view that ESMA's policy proposals would help enhance initial margin transparency in centrally cleared markets. Therefore, this response focuses on areas where these policy proposals could be further strengthened. It reflects the views of the ESRB Secretariat and incorporates input and feedback provided by members of the ESRB Expert Group on Clearing.

The response consists of three sections. The first section provides the contextual background, elaborating on the issues highlighted in ESMA's consultation paper and referencing previous ESRB positions. The second section answers the questions asked in the consultation paper. The third section presents the considerations given to the policy proposals outlined in Annex III to the consultation paper, "Cost-Benefit Analysis".

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1 See "**ESMA's Consultation Paper on EMIR 3 draft RTS on Margin Transparency requirements**", ESMA, 24 June 2025.

2 See "**Liquidity risks arising from margin calls**", ESRB, June 2020.

3 See "ESRB **response to the consultative report by the BCBS, CPMI and IOSCO on transparency and responsiveness of initial margin in centrally cleared markets –** review and policy proposals", ESRB, 16 April 2024.

Background

Recent episodes of instability in derivatives markets have demonstrated how margin calls can transmit and amplify shocks across the financial system. Prominent examples include the March 2020 market turmoil, the European energy crisis and the UK gilt market stress in 2022. These events were often marked by high market concentration and endogenous, often procyclical, feedback mechanisms that intensified the impact of external shocks. The resulting margin-induced funding and liquidity strains became a major concern for policymakers at both the EU and international levels, prompting a range of policy measures to contain contagion risks. Public authorities played a critical role in preserving the resilience of the central clearing ecosystem, notably through central bank liquidity programmes during the COVID-19 crisis and targeted support during the energy crisis. This enabled clearing members and their clients to meet margin calls and allowed central counterparties
(CCPs) to manage these events under more favourable conditions.

These episodes revealed the emergence of feedback loops between funding liquidity for margin calls and market liquidity. For instance, during the energy crisis, rising margin calls and concentrated participation triggered a cycle of short-position unwinding, inducing market liquidity stress and volatility that weakened market resilience.[4] Analysis by the ESRB Secretariat found that high market concentration intensified these effects, as a few participants quickly closed short positions during price spikes, further reducing market liquidity. While ESMA's consultation paper focuses on initial margin requirements, the ESRB Secretariat would like to highlight that a significant amount of liquidity stress could also result from variation margins,[5] which cover current exposures resulting from immediate mark-to-market losses. Margin add-ons can further exacerbate procyclical tendencies within a CCP's risk management framework, thereby amplifying systemic vulnerabilities under stressed market conditions.[6]

Strengthening margin preparedness is essential to mitigate the emergence of these destabilising market dynamics. Adequate preparedness increases the ability of counterparties to meet margin calls without resorting to abrupt position unwinding or fire sales, thereby reducing the risk of amplifying market stress. Conversely, weaknesses in preparedness, such as insufficient liquidity buffers, inadequate access to funding, or limited transparency for margin requirements, can trigger forced deleveraging in response to sudden margin calls. This in turn may propagate shocks, intensify volatility and undermine the stability of the broader financial system.

The ESRB strongly supports enhancing transparency of margin requirements across the entire clearing chain and emphasises that such transparency requires efforts by both CCPs and clearing members.

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[4] See "**ESRB Secretariat's response to the European Commission's Targeted Consultation document – Review of the functioning of commodity derivatives markets and certain aspects relating to spot energy markets**", ESRB, 22 April 2025.

[5] See, for instance, "**Liquidity risks arising from margin calls**", ESRB, June 2020 and "**ESRB Secretariat's response to the European Commission's Targeted Consultation document – Review of the functioning of commodity derivatives markets and certain aspects relating to spot energy markets", ESRB, 22 April 2025**.

[6] See Section 2.2 of the report entitled "**Mitigating the procyclicality of margins and haircuts in derivatives markets and securities financing transactions**, ESRB, January 2020.

Greater transparency would enable market participants to better anticipate and manage funding and liquidity needs, thereby improving their capacity to meet margin calls without exacerbating market stress. As a result, the ESRB called for legislative action by the European Commission to implement policy proposals and recommendations made by international bodies on margining to ensure liquidity preparedness for margin calls.[7]

The ESRB Secretariat supports EMIR 3's enhanced transparency requirements for CCPs and clearing providers, which improve margin call predictability and liquidity management. The goal is to improve margin call visibility and predictability for clearing members, clients and indirect clients, aiding liquidity and risk management. EMIR 3 imposes stricter requirements on CCPs and clearing service providers (CSPs) whereby they need to provide detailed margin model data and margin simulation tools, with the aim of boosting transparency and standardisation.

However, although transparency and preparedness are essential for mitigating instability, these measures alone will not be sufficient to prevent destabilising feedback loops between margin requirements and market liquidity, particularly within concentrated markets.[8] The accurate forecasting of margin calls is integral to the formulation of effective funding and liquidity management strategies. However, periods of heightened market volatility, particularly when exacerbated by adverse interactions between funding constraints and reductions in market liquidity, frequently render conventional risk models inadequate to anticipate abrupt shifts in risk exposure and margin requirements. For example, although sovereign bonds are considered to be one of the most liquid instruments, several periods of dysfunction have demonstrated that also these markets face liquidity risks. This was evident during the UK gilt market turmoil, when liquidity-driven investment funds sold gilts to meet margin calls on their positions in interest rate derivatives.[9] These dynamics have the potential to exacerbate liquidity constraints, as escalating margin requirements combined with higher volatility engender procyclical feedback loops that render initial forecasts increasingly unreliable. Consequently, robust risk management necessitates not only sophisticated predictive methodologies but also comprehensive contingency frameworks capable of mitigating these endogenous market pressures.

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[7] See Policy Digest 3 of the ESRB report entitled "**A system-wide approach to macroprudential policy – ESRB response to the European Commission's consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation**", ESRB, November 2024.

[8] For further details, see Pages 3-5 of the "**ESRB response to the consultative report by the BCBS, CPMI and IOSCO on transparency and responsiveness of initial margin in centrally cleared markets**", ESRB, 16 April 2024 and Pages 4-7 of the "**ESRB Secretariat's response to the European Commission's Targeted Consultation document – Review of the functioning of commodity derivatives markets and certain aspects relating to spot energy markets**", ESRB, 22 April 2025.

[9] For further details, see Section 4, Chapter 4 of the ESRB report entitled "**A system-wide approach to macroprudential policy – ESRB response to the European Commission's consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation**", ESRB, November 2024.

ESRB Secretariat's responses to the consultation paper questions

Question 1: Do you agree with the proposed information to be provided by the CCP on its margin model design and operations? Do you have other proposals as to which information could be provided under point (a) of Article 38(7) of EMIR?

The ESRB Secretariat supports ESMA's proposals. In line with previous views[10], the ESRB Secretariat believes that CCPs should provide clearing members with comprehensive, timely, up-to-date and detailed disclosures of their margin models. This includes model type, parameters, mathematical specifications, split between "core" margins and "add-ons", data sources and update frequency to enable a thorough understanding of margin calculations across all cleared products. These disclosures should also cover governance and operational procedures for margin calls, ensuring transparency for margin model reviews, clearing member involvement, timelines and other arrangements consistent with EMIR's requirements.

However, the ESRB Secretariat believes that ESMA should include further elements in the technical standards specification.[11]

(i) *Standardisation*. Clearing members frequently participate in multiple CCPs, and the initial margin frameworks adopted by these CCPs often rely on complex models. Different conventions in model specifications, parameter choices and calibration approaches across CCPs can heighten operational complexity, introduce model risk and reduce the ability of market participants to manage collateral resources efficiently in a cross-CCP environment. Greater standardisation in the way these models are presented to market participants is essential. This objective could be advanced, for example, through the development of standardised and harmonised templates, where feasible, for the core components of margin model disclosures.

(ii) *Replicability*. Clearing members must be able to closely replicate CCP margin calculations to ensure transparency and to support effective analytics such as stress testing and liquidity planning. Without this replicability, clearing members face uncertainty about margin calls. These measures reduce operational and liquidity risk and strengthen the clearing ecosystem.

(iii) *Granularity*. A certain level of contract or product-level granularity is essential for margin model transparency. Margin model disclosures should provide detailed information at product level, including the relevant parameters by instrument. The information provided should also reflect diversification and netting, and enable comparison across CCPs.

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10 See the "ESRB response to the consultative report by the BCBS, CPMI and IOSCO on transparency and responsiveness of initial margin in centrally cleared markets", ESRB, 16 April 2024.

11 EMIR 3 introduces more detailed requirements for margin model information and margin simulation tools from CCPs, while also imposing similar obligations on CSPs to enhance transparency. Article 38(10) of EMIR mandates ESMA, in consultation with the EBA and the ESCB, to specify these requirements further in the draft Regulatory Technical Standards, particularly regarding margin model disclosures and the outputs of simulation tools.

(iv) *Timing*. ESMA's proposal offers valuable insights into margin schedules; however greater is required regarding the timing and criteria for short-notice or intraday margin calls, particularly in concentrated markets. Allowing clearing members to assess whether their positions require substantial imminent intraday margin calls may improve management of their own and clients' positions, helping prevent sudden margin and market liquidity squeezes.

Question 2: Do you agree with the proposed information to be provided by the CCP on the margin model assumptions and limitations? Do you have other proposals as to which information could be provided under point (b) of Article 38(7) of EMIR?

The ESRB Secretariat supports ESMA's proposals to require CCPs to give clearing members clear, detailed information on margin models, stress behaviour, review processes and extraordinary margin calls. This information is essential to enable members to understand and anticipate margin requirements under both normal and stressed conditions. The ESRB has also previously proposed to include qualitative explanations for margin overrides and disclosure of any discretionary decisions.[12] Although discretion has relevance for CCPs' risk management frameworks, it is essential that CCPs disclose how such discretion is exercised. This includes the rationale, actions undertaken and possible effects on the broader clearing ecosystem and market liquidity.

The ESRB has emphasised how, in recent years, the feedback dynamics between margin requirements and market liquidity have become increasingly pronounced, extending well beyond the conventional definitions of procyclicality.[13] These interactions amplify market stress through a process of rising margins and declining liquidity that is not fully captured by standard procyclicality frameworks.

This underlines the need to acknowledge a *fundamental limitation inherent in margin models*: their vulnerability to destabilising feedback loops. When such loops emerge (such as during periods of extreme volatility or liquidity stress), the assumptions underpinning these models can cease to hold, rendering their outputs less robust *by construction*.

CCPs are in a position to address and potentially reduce these effects, with transparency serving an important function in this context. CCPs possess a uniquely comprehensive, near real-time perspective on market dynamics, arising from their ability to observe the full scope and changes in clearing members' positions. This informational advantage should be exploited to detect and mitigate emerging destabilising feedback loops before they propagate through the financial system. To safeguard market stability, CCPs should implement continuous monitoring frameworks to identify conditions that may trigger these feedback loops, ideally in coordination with exchanges (and other trading platforms). Once such thresholds are approached, model assumptions should be

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[12] See the "**ESRB response to the consultative report by the BCBS, CPMI and IOSCO on transparency and responsiveness of initial margin in centrally cleared markets**, ESRB, 16 April 2024.

[13] ibid.

reassessed and, where necessary, adaptive measures introduced.[14] Where possible under the current legal framework, such measures could include temporary margining adjustments, alternative risk metrics, or liquidity-sensitive buffers that mitigate procyclical amplification. However, these measures should be seen as strictly temporary in nature. By integrating these safeguards, CCPs can better ensure that margin frameworks remain both risk-sensitive and robust under stressed market conditions.

It is important that these aspects are communicated clearly to clearing members, enabling them to better understand the unfolding dynamics of the market. For example, being able to identify when sudden price movements, heightened volatility and market illiquidity are exacerbated by margin squeezes and not by factors directly linked to the market fundamentals of the underlying instrument could better equip participants to supply needed market and funding liquidity, and to anticipate these conditions as they arise. Notably, the feedback loop observed during the recent energy crisis showed that such dynamics can develop across various timeframes, from mere minutes to several weeks. Monitoring and intervention are typically more feasible over longer time frames, and rapid responses within shorter intervals may pose challenges for both CCPs and market participants. However, it remains necessary for them to address these systemic risk externalities and devise strategies to reduce both their likelihood and their impact.

Question 3: Do you agree with the proposal with regard to the model documentation? Do you have other proposals as to which documents could be provided under point (c) of Article 38(7) of EMIR?

The ESRB Secretariat agrees with ESMA’s recommendation that CCPs should provide clearing members with comprehensive documentation encompassing all information specified in the preceding provisions. This material should be presented clearly, accurately and transparently to support a detailed and operationally useful understanding of the margin model’s architecture, assumptions, calibration processes and behaviour in different market conditions.

At the same time, as noted in response to Question 1, it is important that documentation is presented in a standardised and methodologically rigorous format that enables replication. Such standardisation would significantly enhance the transparency and comprehensibility of margin models, ensuring that clearing members are equipped with the tools to accurately replicate margin calculations. The availability of clear and standardised/harmonised documentation would lower informational barriers and would facilitate the risk management framework of clearing members interacting with multiple CCPs. Clearing members would then be in a position to implement more robust cross-CCP liquidity management strategies.

Furthermore, comprehensive and accessible documentation enables more sophisticated and meaningful stress testing. By providing clearing members with the means to simulate a range of market conditions and operational scenarios in a rigorous, standardised and replicable way, CCPs would not only promote greater margin

[14] To maintain transparency in margin model frameworks under such conditions, it is key that the rationale for these measures be clearly articulated and communicated to clearing members, in line with the dissemination practices employed for other components of margin models.

preparedness among participants but also contribute to the overall resilience of the clearing ecosystem. Clear, harmonised and replicable model documentation is essential for transparent, efficient and stable central clearing.

Based on insights from the public quantitative disclosure framework (PQD), ESRB analyses[15] show that the lack of harmonisation and standard data formats hinders effective processing, validation and comparison of information across CCPs. Due to the lack of clear definitions for and guidance on calculation of the PQD data fields, CCPs often interpret them differently, hindering the comparability across CCPs. Such fragmentation poses significant challenges for robust risk assessment and effective oversight within the central clearing ecosystem. The ESRB Secretariat considers that measures to prevent this are fundamental when establishing requirements for model information, not only to foster margin transparency but also to ensure the stability and transparency of the clearing ecosystem.

Question 4: Do you agree with the proposed requirements and the type of output for the simulation tool to be provided by CCPs? Are there any other requirements for the CCP margin simulation tool which should be taken into account, such as legal mechanisms to ensure confidentiality?

The ESRB Secretariat supports ESMA's view that the output amount for initial margins on existing positions should be separate from that for new transactions and agrees that both core margin and margin add-on should be included. It is appropriate and consistent with sound risk management practices that CCPs' margin simulation tools provide results for both current market conditions and a defined set of documented historical and hypothetical stress scenarios. Such an approach enables clearing members to assess how margin requirements may respond to a range of market environments and supports prudent risk evaluation and mitigation.

Given their relevance, it would be important that CCPs include hypothetical stress scenarios resulting from abrupt, endogenously generated episodes of market illiquidity, such as those triggered by margin squeezes. These events can emerge when rapid, procyclical increases in margin requirements force market participants to reduce positions, fire sales of assets, or withdraw from market-making, thereby exacerbating price dislocations and reducing depth. Including such dynamics within scenario design would better capture the self-reinforcing liquidity spirals that can occur in centrally cleared markets, providing a more realistic assessment of potential system-wide vulnerabilities. In turn, this would allow market participants to better prepare for margin calls. CCPs that have previously encountered such events should include them in their historical scenarios. Adopting this forward-looking approach based on systemic risk externalities can help both CCPs and market participants to prepare for and manage similar occurrences if they arise in the future.

Question 5: Do you agree with the proposed information to be shared by CSPs on their margin models? Should any other element be taken into account?

[15] See the "**ESRB response to the consultative report by the BCBS, CPMI and IOSCO on transparency and responsiveness of initial margin in centrally cleared markets**, ESRB, 16 April 2024.

The ESRB supports increased transparency for margins throughout the clearing chain. Consequently, the ESRB Secretariat supports ESMA's proposal for CSPs to provide clients with clear disclosures comparable to those of CCPs. These disclosures should include information on margin triggers, calculation methodologies, any deviations from CCP models, and operational procedures related to margin calls. The ESRB Secretariat shares ESMA's proposals that CSPs notify clients of margin call thresholds and transaction limits for clearing.

In line with the considerations above, the ESRB Secretariat advocates disclosure channels that adhere to the criteria outlined in response to Question 1, specifically emphasising standardisation, harmonisation and replicability. It is essential to recognise that clients frequently operate across multiple CCPs via multiple CSPs; thus, the rationale for harmonised, transparent and methodologically consistent disclosures is equally pertinent in this context. Adopting such an approach would not only facilitate effective comparison and evaluation of margin models but also contribute to more robust risk management practices across the clearing ecosystem.

Question 6: Do you agree with the proposals on the margin simulations to be provided by CSPs? Should there be any additional requirements?

The ESRB Secretariat concurs with ESMA's recommendation that margin simulations should explicitly distinguish between the margin components attributable to CCPs and those related to CSPs, encompass both stress and client-specific risk scenarios, and ensure that relevant information regarding scenario design is systematically transmitted from CCPs through CSPs to end clients. In line with the considerations above, these processes should also focus on standardisation, harmonisation and replicability to effectively facilitate clients' preparedness and address their risk management frameworks.

Furthermore, it is important that stress scenarios include those endogenously generated by clients' own adjustments to their positions, thereby enabling a more nuanced anticipation of margin calls that may arise from liquidity-driven feedback mechanisms. Integrating such dynamics into simulation tools would allow clients to assess the potential market impact of unwinding positions, including the resultant price fluctuations and their cascading effects on margin requirements. This approach would not only enhance risk preparedness but also support the development of more resilient risk management frameworks for clients and CSPs.

Considerations on Annex III – Cost-benefit analysis

CCP margin model information

The ESRB has previously argued for greater public disclosure of margin model elements, particularly within frameworks such as the PQD,[16] to make information easily accessible to clearing members, CSPs and clients without creating additional data transmission layers. Public access would reduce transmission costs, simplify information sharing and boost market transparency. At the same time, the ESRB acknowledges that details of the margin model may be commercially sensitive and therefore might be regarded as confidential.

An effective strategy for disseminating margin model information may involve delineating public and confidential elements. Standardised and harmonised documentation practices enable this to be achieved precisely and efficiently. This approach not only enhances market transparency by facilitating the broad dissemination of essential information but also safeguards sensitive or proprietary details. Adopting this dual-channel framework enables stakeholders to access relevant data critical for prudent risk assessment, while preserving the commercial interests of CCPs.

CCP initial margin simulation tool

Margin add-ons

Margin simulation scenarios

The ESRB Secretariat acknowledges that both CCP-defined and user-defined scenarios are useful for assessing portfolio resilience under stress. While historical or theoretical cases reveal margin needs during crises, scenarios developed by market participants provide targeted analysis and broader risk insights. This flexibility would improve simulation tools, align with CCP practices, support varied analysis and, with standard input formats, enhance usability across clearing houses.

A potential avenue would be to design simulation frameworks that accommodate both CCP-defined and participant-defined scenarios using standardised, transparent and replicable models. Such an approach would ensure methodological consistency across the clearing ecosystem while preserving flexibility for bespoke analysis. Standardisation would help make results comparable across participants and CCPs, reduce model risk and enhance the credibility of outputs. Replicability would allow market participants to independently verify outcomes, integrate them into their internal risk management processes, and run internal stress tests. By

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[16] For instance, the ESRB has called for the public disclosure of data concerning both the aggregate magnitude and the duration of manual margin overrides in relation to unadjusted initial margin requirements, as well as detailed information pertaining to margin model scenarios, the governance processes associated with discretionary measures, and the procedures for model overrides. Furthermore, the ESRB has recommended that central CCPs systematically communicate these procedures to the relevant authorities. See Page 19 of the **ESRB response to the consultative report by the BCBS, CPMI and IOSCO on transparency and responsiveness of initial margin in centrally cleared markets**, ESRB, 16 April 2024.

integrating these components, the framework can effectively address regulatory requirements for transparency and robustness while also accommodating the specific needs of CSPs and their clients for customised, forward-looking scenario analysis.

Simulation of client margins

The ESRB considers this proposal to be relevant and has previously promoted increased transparency in the relationship between clearing members and clients in its 2020 report.[17] Consistent with the ESRB's previous positions and the considerations outlined above, the ESRB Secretariat advocates the implementation of simulation frameworks that integrate both CCP-defined and participant-defined scenarios through standardised, transparent and replicable models.

[17] See Chapter 4.3 of the report entitled "**Mitigating the procyclicality of margins and haircuts in derivatives markets and securities financing transactions**, ESRB, January 2020.