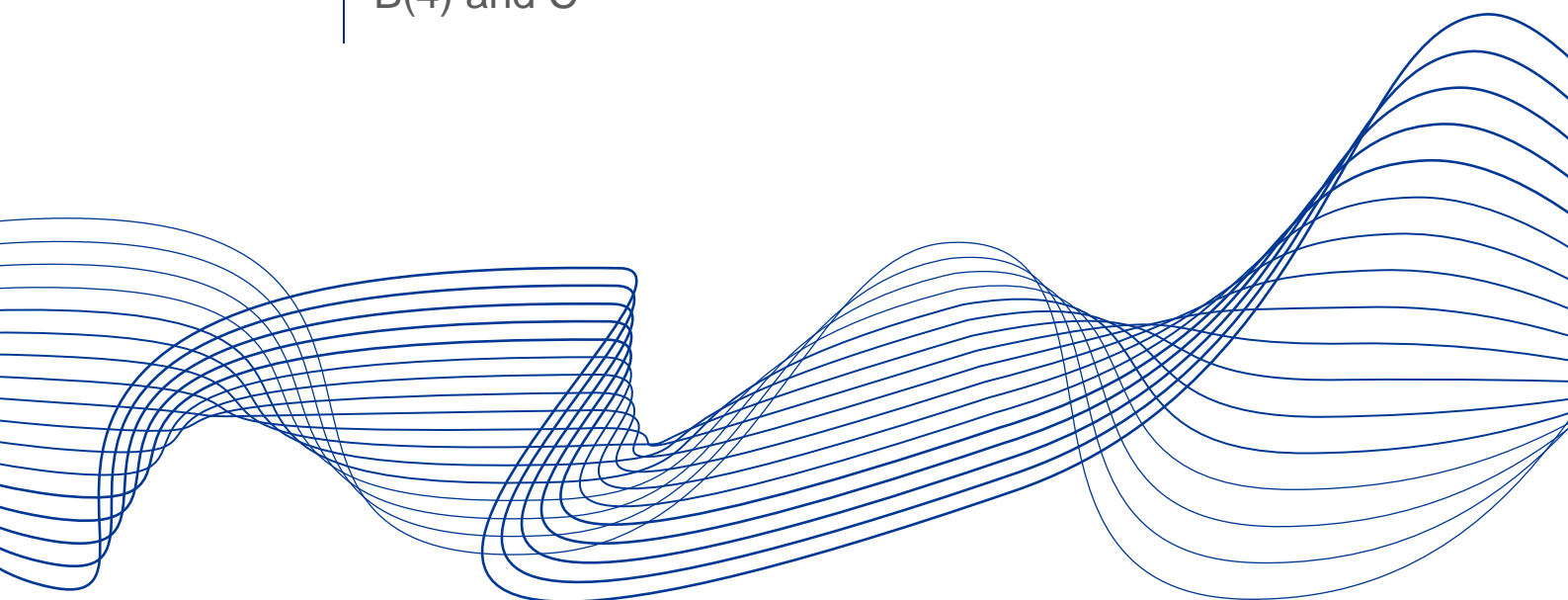


# Summary Compliance report

November 2021

Recommendation of the European  
Systemic Risk Board of 25 May  
2020 on liquidity risks arising from  
margin calls (ESRB/2020/6) –  
Recommendations A, B(2), B(3),  
B(4) and C



**ESRB**

European Systemic Risk Board

European System of Financial Supervision

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## Executive summary

**In July 2020 the European Systemic Risk Board (ESRB) issued a recommendation aimed at addressing the liquidity risks potentially arising from margin calls (the “Recommendation”).**<sup>1</sup> The Recommendation consists of Recommendations A, B, C and D. Each of these Recommendations contains sub-recommendations (the “sub-recommendations”), aimed at: (i) limiting cliff effects in relation to the demand for collateral, also including client clearing services and non-centrally cleared markets; (ii) enhancing central counterparty (CCP) stress test scenarios for the assessment of future liquidity needs; (iii) limiting liquidity constraints related to margin collection; and (iv) promoting international standards related to the mitigation of procyclicality in client clearing services.

**The addressees of the Recommendation were a number of authorities that had been granted supervisory responsibilities over CCPs, clearing members and financial and non-financial counterparties.** The European Securities and Markets Authority (ESMA) and the European Commission received specific sub-recommendations. In general, recommendations issued by the ESRB are not legally binding, but they are subject to an “act or explain” regime in accordance with Article 17 of the ESRB Regulation.<sup>2</sup> This means that the addressees are under an obligation to inform the European Parliament, the Council, the Commission and the ESRB of the actions they have taken to comply with the recommendations or to provide adequate justification for inaction.

**Most of the sub-recommendations requested addressees to provide the ESRB, by 30 November 2020, with a report explaining the measures taken in response to them or to justify any inaction.** This was the case for Recommendations A, B(2), B(3), B(4) and C of the Recommendation. For the purposes of this report, the Recommendation included a standardised follow-up questionnaire, which was to be filled in and submitted by all addressees. The assessment of addressees’ compliance or justification for inaction was based on their submissions to the ESRB Secretariat using that template. Other information provided by the addressees during the assessment process was also included in the assessment. This report reflects the implementation status as at 30 November 2020 and the information subsequently provided until summer 2021. The addressees’ reports on Sub-Recommendations B(1) ESMA and D(1) Relevant Competent Authorities are due by 31 December 2021. The reports on Recommendation D(2) European Commission are due by 31 December 2022.

**The degree of compliance with the sub-recommendations at this stage, as shown in the assessment, is significant and no major systemic concerns have been highlighted by the addressees’ responses.** In general, the initial responses and the subsequent clarifications collected by the Assessment Team (AT) show that the Recommendation has been widely accepted by the addressees. In a number of cases, the implementation of the Recommendation was planned

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<sup>1</sup> Recommendation of the European Systemic Risk Board of 27 May 2020 on liquidity risks arising from margin calls (ESRB/2020/6) (OJ C 238, 20.7.2020, p. 1).

<sup>2</sup> Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board (OJ L 331, 15.12.2010, p. 1).



within a short timeframe and in very few cases the assessment led to the awarding of “non-compliance” grades.

**The assessment has confirmed that the clearing industry is highly concentrated both at bilateral and multilateral level.** This is demonstrated by the large number of “Sufficiently explained” grades, which is the grade given for inaction if the approach is justified on the grounds that a recommendation is not relevant in a given jurisdiction because the underlying phenomenon is absent or not material, for instance. Thus, it should be noted that the 13<sup>3</sup> CCPs currently authorised in Europe are established in 11 jurisdictions and intermediaries acting as clearing counterparties in bilateral and/or CCP clearing are concentrated in certain jurisdictions.

**In the implementation of the methodology described in Section 2.1, the AT encountered a number of cross-cutting and specific issues.** Several addressees of the Recommendation did not submit a reply or submitted joint replies with other authorities, which to some extent complicated the first step of the AT’s work, which was to check that all addressees had reported their actions or reasons for inaction as expected. Another issue the AT had to address was the brevity of the responses submitted by some of the addressees while others provided extensive analyses (sometimes in the form of annexes), even though they were all using the same template. Lastly, the timeliness of responses required the AT to act, as several addressees responded after the reporting deadline. Other specific issues are highlighted in the main body of the report.

**While the purpose of this report is to explain the extent of compliance with the Recommendation, the AT has flagged several issues which could warrant further consideration.** Despite the relatively high degree of compliance with the Recommendation, in the AT’s opinion, several issues should be highlighted for the consideration of the General Board and further analytical and policy work may be warranted in some cases. In the area of central clearing, these issues relate to: (a) the evaluation of the performance of anti-procyclical (APC) tools used by CCPs to determine their initial margins – while generally positive, in a number of cases this assessment appears to be influenced by subjective factors and therefore the usefulness and viability of a benchmark to assess the “acceptability” of procyclicality could be considered; (b) despite the overall cautious approach that appears to have been adopted by large clearing members, the use of specific APC tools in client clearing seems to be lacking; (c) the responses indicate that the inclusion in the liquidity risk stress test scenarios of any two entities (not only clearing members, as strictly prescribed by the current regulatory framework) to which a CCP has liquidity exposure is already widely implemented; and (d) CCPs and their relevant national competent authorities (NCAs) seem reluctant to implement the pass-through of intraday variation margins (VM), for both operational and risk-related reasons.

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<sup>3</sup> This number does not include the three CCPs established in the United Kingdom, which currently have the status of “recognised CCPs”.



# Introduction

**This compliance report (the “Report”) provides an assessment of the extent of compliance with Sub-Recommendations A, B(2), B(3), B(4) and C of the ESRB Recommendation on liquidity risks arising from margin calls<sup>4</sup> (the “Recommendation”) by its addressees.**

**Recommendations issued by the ESRB are not legally binding, but are subject to an “act or explain” regime in accordance with Article 17 of the ESRB Regulation.<sup>5</sup>** This means that the addressees are under an obligation to inform the European Parliament, the Council, the Commission and the ESRB of the actions they have taken to comply with these recommendations or to provide justification for inaction.

**Under Section 2(3) of the Recommendation, addressees were requested to provide the ESRB, by 30 November 2020, with a report explaining the measures taken in response to Recommendations A, B(2), B(3), B(4) and C of the Recommendation or to justify any inaction.** The Recommendation included a standardised follow-up questionnaire, which was to be filled in and submitted by all addressees. The assessment of addressees’ compliance or justification for inaction was based on their submissions to the ESRB Secretariat using this template. Other information provided by the addressees during the process was also included in the assessment. This report reflects the implementation status as at 30 November 2020, taking into account the information provided at 13 July 2021. The addressees’ reports on Sub-Recommendations B(1) and D(1) are due by 31 December 2021 and the reports on Recommendation D(2) are due by 31 December 2022.

**Given the nature of the ongoing COVID-19 crisis, a swift overview of the extent of compliance with the Recommendation was required.** For that reason, Section 2 (4)(2) of the Recommendation provides that the methodology set out in the “Handbook on the assessment of compliance with ESRB recommendations”,<sup>6</sup> which describes the procedure for assessing compliance with ESRB recommendations, will not apply. Instead, the assessment of compliance with this Recommendation was carried out using a simplified assessment process to limit the drain on resources while adhering to the legislative framework, the principle of good administration and the objectives pursued by the Recommendation. This simplified process included the obligation for the assessors to initiate remedial dialogue with the addressees to give them the opportunity to provide further comments to improve their grades.

**To perform the assessment, an AT was set up under the auspices of the Advisory Technical Committee in 2020.** The AT was composed of 12 assessors and supported by ESRB Secretariat staff (see Annex I for details of its composition).

The assessment was conducted taking into account:

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<sup>4</sup> Recommendation of the European Systemic Risk Board of 27 May 2020 on liquidity risks arising from margin calls (ESRB/2020/6) (OJ C 238, 20.7.2020, p. 1).

<sup>5</sup> Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board (OJ L 331, 15.12.2010, p. 1).

<sup>6</sup> See the “Handbook on the assessment of compliance with ESRB recommendations”, April 2016, on the ESRB’s website.



- the objectives of the Recommendation;
- the principles underpinning the “Handbook on the assessment of compliance with ESRB recommendations”;
- the implementation standards prepared by the AT, which specify the grade to be awarded for each key element on the basis of the objectives of the Recommendation (see Annex II for details of the implementation standards); and
- the principle of proportionality.

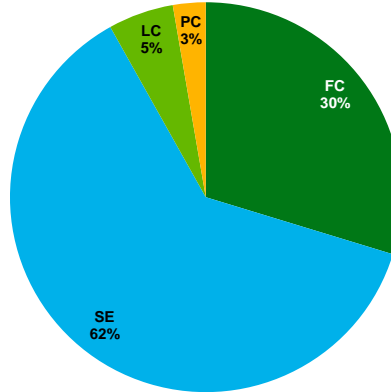
**The overall assessment revealed a high degree of compliance with the Recommendation by the addressees.** The AT graded most addressees as “Fully compliant” or “Sufficiently explained” for the sub-recommendations, as described in paragraph 3 of this report.



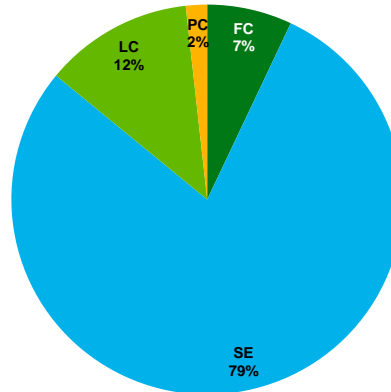
Figure 1

**Addressee compliance with the Recommendation**

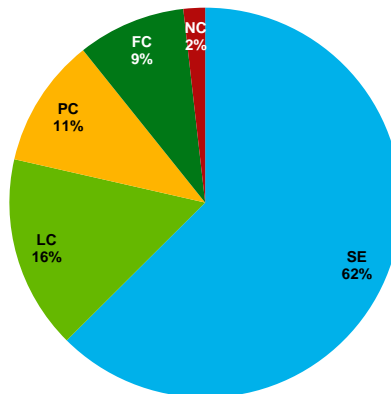
CCPs sub-recommendations



Clearing members sub-recommendations



Counterparties' sub-recommendations



The figures above show the overall compliance grade for each set of sub-recommendations, as defined in Section 2.1 of this report. Further details on the abbreviations and grades used can be found in paragraph 2.1.2 and further details on the extent of compliance with each set of sub-recommendations are included in paragraph 3. In addition to the figures shown above, the addressee of Sub-Recommendation B(4) was assessed as “Fully compliant”.



**In the sections that follow, this report sets out** (i) the objectives of the ESRB Recommendation, (ii) the methodology used by the AT, (iii) colour-coded tables showing the compliance results of each addressee, (iv) a summary of the level of implementation, and (v) an analysis of the AT's main findings.





# 1 Policy objectives of the Recommendation

**The outbreak of the COVID-19 pandemic and the concurrent sharp increase in oil price volatility have, among other things, led to significant margin calls across centrally cleared and non-centrally cleared markets.** Initial margins (IM) have increased since mid-February 2020 – more significantly for listed derivatives and cash products than for over-the-counter (OTC) derivatives – in the wake of higher transaction volumes, and as a margin model's response to potentially higher future losses due to heightened market price volatility. Furthermore, CCPs have issued calls for and collected large amounts of intraday margins, including market price movements (variation margin (VM) component) with the corresponding payout often occurring the following morning, causing liquidity to be temporarily held on the accounts of the CCPs. A significant rise in the payment and receipt of the daily VM on bilateral portfolios has been recorded in March 2020.

**Many clearing members have seen a marked increase in IM and some clearing members may have experienced greater liquidity constraints. However, no major defaults have occurred in any CCPs established in the European Union.**<sup>7</sup> Margin calls may have had a significant impact on non-bank entities, via client clearing or in non-centrally cleared transactions, due to liquidity constraints.

**The ESRB acknowledged the liquidity savings for the whole financial system related to the multilateral netting benefit provided by central clearing. It also noted the systemic benefit of central clearing as a critical means for improving financial stability by ensuring and developing sound credit and liquidity risk management practices.** The ESRB further acknowledged that policy action on margins must not jeopardise protection against counterparty credit risk. Counterparties, including CCP clearing members and their clients, should ensure that they hold sufficient liquidity to cover margin calls in a timely fashion. However, it is also beneficial, from the standpoint of financial stability, to ensure that CCPs' risk management decisions do not unnecessarily burden clearing members, clearing members' clients or other counterparties due to excessive procyclical features, thus unintentionally creating liquidity strains that could develop into solvency issues. In response to these recommendations, the ESRB expected CCPs to ensure that their risk management and resilience remain sound and continue to protect market participants against losses from defaults.

**The Recommendation consists of Recommendations A, B, C and D. Each of these Recommendations contains sub-recommendations.**

**Recommendations A and D are aimed at ensuring that sudden and significant (hence procyclical) changes and cliff effects involving IM (including add-on margins) and collateral are limited: (i) by CCPs vis-à-vis their clearing members; (ii) by clearing members vis-à-vis their clients; and (iii) in bilaterally cleared transactions, where they may result from CCPs' models and parameters for setting margin requirements and the mechanical reliance on credit ratings, and possibly from procyclical internal credit scoring methodologies.** Liquidity

<sup>7</sup> On 15 and 16 September 2020, Keler CCP notified the Gas Market Clearing Members about the default of AIK Energy Austria GmbH. Mutualised resources were used but were subsequently paid back to non-defaulting members by the defaulter's estate (see <https://english.kelerkszf.hu/kszfnews/?id=1000055> and <https://www.isda.org/a/3jjTE/COVID-19-and-CCP-Risk-Management-Frameworks-January-2021.pdf>).



planning should be predictable and manageable, to the extent possible, by limiting unexpected and significant margin calls. In previous reports, the ESRB has suggested that envisaging reasonable and enforceable notice periods for any changes in margin and haircut protocols could ensure that market participants adapt in an orderly fashion.<sup>8</sup>

**Recommendation B is aimed at ensuring that CCPs comprehensively capture in their liquidity stress testing any events that could lead to liquidity shortfalls, with a view to encouraging them to better manage their reliance on liquidity service providers.** This is expected to improve overall market resilience, given that there is a large amount of concentration and interconnection in and among CCPs and their liquidity service providers, and that prudent liquidity management at individual CCP level would enhance risk management from a systemic and macroprudential perspective.

**Recommendation C is aimed at ensuring that CCPs, while maintaining their financial resilience, consider limiting asymmetry in the collection and redistribution of VM components collected intraday, and that they design their margin frameworks and schedules to make them predictable and avoid any excessive liquidity constraints for clearing members that could lead to default events.**

## Content and structure of Recommendations A, B and C

### Recommendation A – Limiting cliff effects in relation to the demand for collateral

1. It is recommended that the competent authorities seek to ensure that CCPs analyse the performance of their policies as required by Article 28 of Delegated Regulation (EU) No 153/2013 during periods of acute stress and report their findings to their competent authority.
2. It is recommended that the competent authorities seek to ensure, taking into consideration the findings of the analyses carried out in compliance with Recommendation A(1), that to the extent permitted by law and consistent with CCPs' financial resilience:
  - (a) CCPs' models and parameters for setting margin requirements and CCPs' policies and procedures for the acceptance and valuation of collateral and for determining prudent haircuts do not unnecessarily and excessively result in sudden and significant changes leading to cliff effects in margins, including add-on margins, and collateral. CCPs should ensure that their models, parameters, policies and procedures:
    - (i) use a granular scale for internal credit scoring models and adopt a progressive approach that implements changes to margin requirements, including add-ons, and collateral arrangements, without unduly delaying the reflection of these downgrades in their overall risk management practices;

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<sup>8</sup> The ESRB has also published a [report](#) on mitigating the procyclicality of margins and haircuts in derivatives markets and securities financing transactions.



- (ii) adopt a comprehensive approach to limiting procyclical features pursuant to the regulatory requirements on procyclicality in Article 41 of Regulation (EU) No 648/2012, in particular in the event of downgrades of credit ratings;
  - (b) CCPs inform, without prejudice to Article 49 of Regulation (EU) No 648/2012, their competent authorities, and competent authorities inform members of the college established under Article 18 of Regulation (EU) No 648/2012, when they:
    - (i) reduce the scope of eligible collateral
    - (b) materially modify collateral haircuts;
    - (c) materially decrease the concentration limits applied in accordance with Article 42 of Commission Delegated Regulation (EU) No 153/2013. To the extent that it does not interfere with the timely implementation of risk management decisions, this information should be provided sufficiently in advance of implementation.
3. It is recommended that, to the extent permitted by law, the clearing members' relevant competent authorities engage with the clearing members within the context of ongoing supervision to ensure that the application by the clearing members of their risk management procedures when providing clearing services to their clients does not result in sudden and significant changes and cliff effects in margin calls and the collection of margins – unless these sudden and significant changes and cliff effects are an inevitable result of market events – and does not result in collateral practices in the event of downgrades of credit ratings, and does not materially curtail the soundness of the risk management practices adopted by the clearing members or affect their resilience.
  4. It is recommended that, to the extent permitted by law, the relevant competent authorities of financial counterparties and non-financial counterparties that enter into non-centrally cleared OTC derivative contracts and securities financing transactions seek to ensure that their risk management procedures do not result, in the event of downgrades of credit ratings, in sudden and significant changes and cliff effects in margin calls and collection and in collateral practices. This could be achieved, for example, by encouraging counterparties to: (i) use a progressive and granular sequence when implementing downgrades of credit ratings, in their overall risk management practices; (ii) maintain a comprehensive approach to limiting procyclical features in accordance with the regulatory requirements in Article 11 of Regulation (EU) No 648/2012, especially with respect to ratings downgrades.

#### **Recommendation B – Stress scenario for the assessment of future liquidity needs**

1. It is recommended that the European Securities and Markets Authority (ESMA) review the draft technical standards (6) developed under Article 44(2) of Regulation (EU) No 648/2012, and in particular Article 32(4) of those draft technical standards, to include provisions that require CCPs to include in their stress scenarios under Article 44 of Regulation (EU) No 648/2012 the default of any two entities that provide services to the CCP and whose default could materially affect the liquidity position of the CCP.
2. Until any action taken by ESMA to comply with Recommendation B(1) and the possible introduction of corresponding Union legislation, it is recommended that competent authorities,



to the extent permitted by law, seek to ensure that the stress scenarios under Article 44 of Regulation (EU) No 648/2012 include the default of any two entities that provide services to the CCP and whose default could materially affect the liquidity position of the CCP; such entities could include the liquidity service providers, settlement service providers or any other service providers whose default could possibly affect the liquidity position of the CCP.

3. It is recommended that competent authorities, to the extent permitted by law, seek to ensure that CCPs' remedial actions to address any shortfall in resources available to cover liquidity needs that is identified by applying the additional stress scenarios referred to in Recommendation B(2) or Recommendation B(1), once corresponding Union legislation is in force, do not, when applied in times of market stress, place an additional burden on the clearing members. To this end, the competent authorities should ensure that CCPs seek additional liquidity from alternative market sources.
4. It is recommended that, to the extent permitted by law, ESMA, in cooperation with the competent authorities, engage with CCPs – and to the extent possible with relevant authorities in third countries – to conduct coordinated liquidity stress test exercises which also take into account the default of any two entities as referred to in Sub-Recommendations B(1) and B(2).

#### **Recommendation C – Limiting liquidity constraints related to margin collection**

1. It is recommended that the competent authorities seek to ensure, to the extent permitted by law and consistent with CCPs' adequate risk management practices and financial resilience, that when CCPs issue margin calls and collect margins to limit their credit exposures, they aim to avoid creating unnecessary liquidity constraints for clearing members, including by ensuring that:
  - (a) with respect to margins called and collected on an intraday basis, and to the extent operationally and legally possible, CCPs identify separately:
    - (i) the margin covering potential exposures, including exposures resulting from positions entered into and novated on that day;
    - (ii) the margin covering realised exposures resulting from market movements on that day, which CCPs should consider collecting and paying out on the same day;
  - (b) when initial margin collateral has been provided by a clearing member in excess of the collateral required to cover the risk stemming from the positions registered in an account, including positions novated intraday and any increased exposure incurred intraday, CCPs prioritise, where operationally possible, the use of excess collateral over collecting additional collateral, unless the clearing member voluntarily posts the add-on margin. This process should be carried out in a predictable, transparent and scheduled manner;
  - (c) CCPs ensure that the process for collecting of initial and variation margins does not result in excessive operational constraints for the clearing member which may pose additional liquidity risk.



2. It is recommended that the clearing members' relevant competent authorities monitor and, where necessary and permitted by law and consistent with adequate risk management practices and financial resilience, engage with the clearing members within the context of ongoing supervision so that when clearing members issue margin calls and collect initial and variation margins from their clients, including financial and non-financial counterparties, in order to limit their credit exposures, they aim to avoid unnecessary liquidity constraints for their clients. This could be achieved, for example, by ensuring that:
  - (a) when sufficient initial margin has been provided by a client to cover the risk stemming from the positions registered with the clearing member, including positions novated intraday and any increased exposure incurred intraday, clearing members prioritise the use of excess initial margin collateral over collecting additional collateral unless the client voluntarily posts the add-on margin;
  - (b) clearing members ensure that the process for the collection of initial and variation margins does not result in excessive operational constraints for the clients which may pose additional liquidity risk.



## 2 Assessment methodology

**The assessment of the implementation of the Recommendation was carried out on the basis of the “act or explain” mechanism**, in accordance with Article 17 of the ESRB Regulation. Under these arrangements, the addressees of the Recommendation could either (i) take action in response to each of the sub-recommendations and inform the ESRB of the action taken, or (ii) take no action, if this could be properly justified. The AT then analysed the information provided and assessed whether the action taken achieved the objectives of each recommendation or whether the justification provided for inaction was sufficient. This analysis resulted in a final compliance grade being assigned to each addressee.

**The assessment was based on the submissions made by the addressees by the reporting deadline specified in Section 2(4) of the Recommendation (i.e. 30 November 2020) and further dialogue between the AT and addressees in the course of the assessment process.**

This report reflects the implementation status as at 30 November 2020, taking into account the information provided by 13 July 2021.

**The General Board of the ESRB decided that, for the recommendations adopted in response to the COVID-19 pandemic, the detailed procedure for the assessment of compliance set out in the “Handbook on the assessment of compliance with ESRB recommendations” should not apply, in order to allow addressees and ESRB member institutions to commit their full resources to responding to the significant challenges arising from the pandemic.**

Nonetheless, to ensure equal treatment of the addressees and the highest degree of transparency and consistency, the AT conducted its work according to the six assessment principles set out in Section 4 of the Handbook.

- **Fairness, consistency and transparency** – equal treatment of all addressees throughout the assessment process.
- **Efficiency and appropriateness** of procedures with regard to available resources, while ensuring high-quality deliverables.
- **Four-eyes review** – compliance of each addressee is assessed by at least two assessors who have not been directly involved in assessing the performance of the national authorities of countries they come from.
- **Effective dialogue** – communication with addressees is essential to fill in information gaps on compliance.
- **Principle of proportionality** – actions to be taken by the addressees are country-specific and relative to the intensity of the risks targeted by the recommendation in the specific Member State.
- **The ultimate objective** of prevention and mitigation of systemic risks to financial stability in the European Union.



All addressees were given the opportunity to provide further explanations and additional information. Using the communication channels established between the AT and the addressees, several respondents provided further details during the assessment process, especially in the context of remedial dialogue. As a result, the AT was able to raise the grades of some of these authorities. The results were subsequently cross-checked to prepare the final assessment.

The competent authorities and relevant competent authorities of the United Kingdom were addressees of the Recommendation at the time it was issued and submitted follow-up reports to the ESRB. Since then the United Kingdom has withdrawn from the European Union, and Union law, including the ESRB Regulation, no longer applies to and in that country. Against this background, it was decided not to assess the follow-up reports submitted by the UK authorities.

## 2.1 Assessment criteria and implementation standards, grading methodology and principle of proportionality

**The assessment criteria applied in this evaluation are based on best practices set out in previous assessments of compliance with ESRB recommendations.** The assessment criteria describe the actions that are required by the addressees in order to achieve the objectives of the Recommendation. With this in mind, the AT took due account of the implementation criterion set out in Section 2(2) of the Recommendation, i.e. the principle of proportionality. Grading was then guided by the relevant implementation standards, which specify how different actions, or inaction, for each sub-recommendation should be reflected in the final grade.

**Taking into account the structure of the Recommendation, the AT drew up different sets of sub-recommendations for different addressees:**

1. sub-recommendations addressed to the competent authorities of CCPs (“CCPs sub-recommendations”): A(1), A(2), B(2), B(3), C(1);
2. sub-recommendations addressed to the relevant competent authorities of clearing members (“clearing members sub-recommendations”): A(3), C(2);
3. sub-recommendation addressed to the relevant competent authorities of financial and non-financial counterparties that enter into non-centrally cleared OTC derivatives contracts and SFTs (“counterparties sub-recommendation”), A(4);
4. Sub-Recommendation B(4), which was not included in any of the above categories and was addressed to ESMA only.

### 2.1.1 Assessment criteria and implementation standards

**As part of the assessment, the AT analysed the content and substance of the actions taken by each addressee to assess whether they had complied with all aspects of the Recommendation.**



**To ensure a consistent and fair analysis, the AT drew up a set of implementation standards against which the responses submitted by the addressees were assessed (see Annex II).**

These implementation standards reflect the three sets of sub-recommendations described above. Each set of sub-recommendations was graded independently. For each set, the AT identified key elements, which were then graded. Overall compliance grades were allocated for each set.

#### **CCPs sub-recommendations:**

- **A(1):** CCPs analyses of the performance of their APC tools
- **A(2)(i) point (a):** granular scale and progressive approach in risk management
- **A(2)(i) point (b):** comprehensive approach to limiting procyclicality
- **A(2)(ii):** timely transmission of information by CCPs
- **B(2):** scope of the liquidity stress test
- **B(3):** avoidance of excessive burden on clearing members
- **C(1)(i):** identification of IM and VM and consideration of intraday Margin pass-through
- **C(1)(ii):** preference for the use of excess collateral to cover intraday margins
- **C1(iii):** avoidance of excessive operational constraints

#### **Clearing members sub-recommendations:**

- **A(3):** avoidance of procyclical margin calls to clients
- **C(2):** avoidance of unnecessary liquidity constraints for clients

#### **Counterparties sub-recommendation:**

- **A(4):** avoidance of procyclical margin calls in bilaterally cleared transactions

## 2.1.2 Grading methodology

**To assign a grade to each addressee for compliance with the Recommendation, the AT followed a four-step grading methodology.** This methodology was necessary to ensure the complete transparency of the overall compliance grades and a high level of objectivity in the whole assessment process, while still allowing room for high-quality expert judgement, which can easily be identified and reviewed to understand the rationale behind the allocation of particular overall grades.





## Step I

Each key element was first assessed and graded on the basis of the assessment criteria, according to the established implementation standards, in terms of the action (FC/LC/PC/MN or NC) or inaction (SE or IE) of each addressee (see Table 1).

The full grading scale is provided in Table 1.

Table 1  
**Grading scale**

<b>Grading scale for action</b>	
<b>Fully compliant (FC)</b>	The addressee complies entirely with the Recommendation.
<b>Largely compliant (LC)</b>	The objectives of the Recommendation have been met almost entirely and only negligible requirements have still to be implemented.
<b>Partially compliant (PC)</b>	The most important requirements have been met. There are certain deficiencies that affect the implementation process, although this does not result in a situation where the Recommendation has not been acted on.
<b>Materially non-compliant (MN)</b>	Requirements have only been fulfilled to a degree, resulting in significant deficiencies in the implementation.
<b>Non-compliant (NC)</b>	Almost none of the requirements have been met, even if steps have been taken towards implementation.

<b>Grading scale for inaction</b>	
<b>Sufficiently explained (SE)</b>	A complete and well-reasoned explanation for the lack of implementation has been provided. If one or more of the sub-recommendations are intended to address a particular systemic risk that does not affect a particular addressee, this justification or explanation may be considered sufficient.
<b>Insufficiently explained (IE)</b>	The explanation given for the lack of implementation is not sufficient to justify inaction.

## Step II

The compliance grades were subsequently converted into numerical grades (see Table 2).



Table 2

**Conversion of compliance grades into numerical grades**

Compliance grade	Numerical grade
<b>Action</b>	
<b>FC</b>	1
<b>LC</b>	0.75
<b>PC</b>	0.50
<b>MN</b>	0.25
<b>NC</b>	0
<b>Inaction</b>	
<b>SE</b>	1
<b>IE</b>	0

**Step III**

The numerical grades were then weighted and aggregated into a single, overall numerical grade for compliance with the Recommendation. When allocating the weights, the AT took into consideration the importance of each element of the Recommendation in relation to the achievement of the policy objectives as outlined in Section 1 of this report. The final weights established by the AT are set out in Table 3.

Table 3

**Weight of key elements**

CCPs sub-recommendations	Weight
A(1)	10%
A(2)(i) point (a)	15%
A(2)(i) point (b)	15%
A(2)(ii)	10%
B(2)	15%
B(3)	5%
C(1)(i)	15%
C(1)(ii)	10%
C1(iii)	5%
<b>CCPs sub-recommendations</b>	
A(3)	50%
C(2)	50%
<b>CCPs sub-recommendations</b>	
A(4)	100%



## Step IV

The final overall compliance grades were determined by converting the single numerical grades into a final grade for compliance using a conversion table (see Table 4).

Table 4

### Conversion of numerical grades into compliance grades

Compliance grade	Numerical grade for Recommendation A
FC	<0.90 - 1.00>
LC	<0.67 - 0.90)
PC	<0.40 - 0.67)
MN	0.158 - 0.40)
NC	<0.00 - 0.158)

The level of compliance was then expressed in colour-coded form (see Table 5).

Table 5

### Colour codes for levels of compliance

Positive grades	Mid-grade	Negative grades
FC – Actions taken fully implement the Recommendation		MN – Actions taken only implement a small part of the Recommendation
LC – Actions taken implement almost all of the Recommendation	PC – Actions taken only implement part of the Recommendation	NC – Actions taken are not in line with the nature of the Recommendation
SE – No actions were taken but the addressee provided sufficient justification		IE – No actions were taken and the addressee did not provide sufficient justification

## 2.1.3 Principle of proportionality

**In accordance with Section 2(2) of the Recommendation “due regard should be paid to the principle of proportionality, taking into account the objective and the content of each recommendation”.** The relevance of the principle of proportionality required the AT to take into account the materiality and the nature of the risk targeted when assessing the responses submitted by the addressees in order to achieve the established policy objectives.

**The “Handbook on the assessment of compliance with ESRB recommendations” sets out that “the principle of proportionality implies that an assessment takes account of the magnitude and the nature of the risk targeted when assessing the adequacy of the national framework intended to address the risk”.** Different levels of risk should be addressed by commensurate levels of mitigating measures. Therefore, considering the objectives and the content



of Recommendations A, B and C, when assessing the implementation of the Recommendation, the AT took into account the specificities of the analysed jurisdictions to reach reasonable conclusions about the actions taken by the NCAs, being especially mindful of the significant differences in the supervisory landscape for CCPs and clearing members throughout Member States.

**The primary criterion when assessing the materiality of the Recommendation was whether the addressee had any CCPs or clearing members under its supervision.** However, even in jurisdictions where no CCPs or direct clearing members were domiciled, the counterparties sub-recommendation could still have been relevant, as it touches on financial and non-financial counterparties entering into bilaterally cleared transactions. In these cases, the AT took into account the relative size of the jurisdiction and any reference made by the respondents to issues such as the low materiality of the bilaterally cleared OTC derivatives market or activity being well below the clearing thresholds. In certain cases, in order to obtain a higher level of certainty, additional quantitative evidence was required to justify the jurisdiction not taking any specific action to implement the Recommendation.

**An institutional perspective was taken into consideration for jurisdictions that are under the scope of the Single Supervisory Mechanism.** The European Central Bank (ECB), which is in charge of the direct supervision of Significant Institutions (SIs) in cooperation with the national supervisors, is an addressee of three sub-recommendations: A(3), A(4) and C(2). Therefore, the ECB carried out a qualitative and quantitative assessment based on the data collected from a large sample of SIs considered to be representative for clearing and client clearing. The national supervisory authorities were assessed by the AT according to their role as the direct supervisors of credit institutions that are considered to be Less Significant Institutions (LSIs). A significant number of national supervisory authorities invoked the principle of proportionality with respect to the remaining credit institutions considered to be LSIs, because, among other things, the volumes of their transactions were low, the share of their activity was small in comparison to the size of the domestic market and their systemic relevance in the jurisdiction was limited. Nonetheless, in most cases, the national supervisory authorities expressed a commitment to monitoring compliance with the Recommendation while performing their supervisory tasks.

**In the assessment, the AT acknowledged that the implementation of the Recommendation should take into account the differences in the characteristics, complexity and size of the supervised entities in the given jurisdictions.** As the sub-recommendations are not always tailored to fit the size and structure of the markets in each jurisdiction, the AT respectfully notes that a straightforward implementation might not yield the desired results, or could even be counterproductive, and fail to meet the objective of the Recommendation in the expected fashion. This is especially true for small and medium-sized jurisdictions, where most authorities nevertheless expressed a willingness to examine the possibility of implementing the sub-recommendations as comprehensively as possible, without placing an excessive burden on supervised entities.



## 2.2 Issues encountered by the AT

**In the implementation of the methodology described in Section 2.1, the AT encountered a number of cross-cutting and specific issues.**

**First, several addressees of the Recommendation did not submit a reply or submitted joint replies with other authorities,** which to some extent complicated the first step of the AT's work, which involved checking that all addressees had reported their actions or reasons for inaction as expected. One frequently given reason for not submitting a reply was that some authorities either chose to prepare joint responses with other authorities in their countries, or considered that their responses were covered by those provided by other authorities. Others failed to recognise themselves as addressees, especially in regard to the sub-recommendations addressed to the relevant competent authorities of clearing members, financial counterparties and non-financial counterparties. Lastly, a number of addressees were not aware of how various parts of the ESRB Recommendation applied to them, particularly that its scope extended beyond CCPs and clearing members to include all financial and non-financial counterparties to bilaterally cleared derivatives transactions and SFTs. The AT checked each case before the analysing the responses.

**The second issue identified was the brevity of the responses submitted by some of the addressees, while others provided extensive analyses, even though they all used the same template.** A number of responses were minimal, providing little or no substantive information. Huge discrepancies were observed in the information provided in response to the Recommendation not only among individual addressees, but also with respect to individual sub-recommendations. For example, in response to Sub-Recommendation A(1), some addressees stated that they had requested analyses of the performance of APC tools from the supervised CCPs, but did not provide any insight into the content and findings of these analyses. One respondent did not provide substantive information on the grounds of legal constraints related to confidentiality. These issues were later resolved, as the AT explained that the focus of its evaluation was not on confidential data, but on understanding the methodology and relevant findings of the analyses performed. In general, the lack of substantive information and/or the incompleteness of some responses triggered a need for extensive dialogue. The members of the AT contacted all the addressees concerned, asking them to provide the necessary information in order to conduct the assessment.

**Another factor that contributed to the need for extensive dialogue in the course of the assessment process was the timeliness of the respondents' actions.** In cases where no action was taken before 30 November and where the addressees indicated that they would take action in the future, the AT looked into the credibility of the proposed action plans and their related timelines. As a rule of thumb, action plans with deadlines before the end of 2021 were assessed more positively than those with deadlines after that date or with no specific implementation date.

**Some of the specific issues encountered in the assessment of individual sub-recommendations proved to be intertwined.** In particular, although Sub-Recommendations A(1) and A(2) were graded separately, respondents often provided information that was relevant for the first sub-recommendation as part of their response to the second, and vice versa. Sub-Recommendations B(2) and B(3) were also interconnected. The requirements of the latter could only be fully met in practice given compliance with the requirements of the former, which posed a challenge for the AT in terms of ensuring that the two were graded fairly.



**Other sub-recommendations contained several largely independent aspects, which required each element to be assessed independently and separate grades to be given for each one.**

These were Sub-Recommendations A(2) and C(1). For example, points (i), (ii) and (iii) of Sub-Recommendation C(1) had to be graded separately, as the vast majority of addressees took no action with respect to point (i), while they were fully or largely compliant with the requirements of points (ii) and (iii).

**Some respondents invoked compliance with EMIR Level 1 and Level 2 requirements, as well as the relevant ESMA guidelines and opinions, as being equivalent to compliance with some of the sub-recommendations, in particular A(2), A(4) and B(2).** The similarity between these sub-recommendations and the provisions of the respective EU regulations led some authorities to believe that the objectives of the former had been met simply by following the rules laid down in EMIR. The efforts made by the AT to point out the essential differences and explain how the ESRB Recommendation extends beyond the existing legal framework proved challenging and time-consuming. In this respect, compliance with EMIR requirements can only be considered as a first step or a necessary condition to ensure compliance with some of the sub-recommendations.

**Another challenge faced by the AT was how to properly take into account the materiality of the risks resulting from derivatives market and SFT activity.** The externalities resulting from significant market movements and the corresponding margin calls may jeopardise the stability of the financial system. However, the systemic relevance and the potential threat to financial stability vary greatly among individual jurisdictions, depending on the size, structure and complexity of their respective derivatives markets and markets for SFTs, among other factors. A number of respondents indicated that, due to the low levels of activity in those market segments, some specific actions mentioned in the sub-recommendations would be disproportionate and unnecessary. Therefore, the AT, also taking into account the principle of proportionality as explained in Section 2.1.3 of this report, had to analyse on a case-by-case basis whether the lack of action (or partial compliance) by addressees could have been due to a lack of sufficient material activity, which was usually accompanied by a request to provide quantitative evidence to substantiate this conclusion. In such cases, meeting the overarching objectives of the Recommendation would not require compliance with all individual sub-recommendations.

**Lastly, the AT noted that the actions taken by some addressees with respect to Sub-Recommendation A(4) were clearly focused on derivatives,** and they largely or completely neglected the fact that the scope also included SFTs and cash transactions.



## 3 Assessment results on compliance with the Recommendation

The overall assessment revealed a high degree of compliance with the Recommendation across all addressees.<sup>9</sup> This section provides an overview of the overall assessment results for all addressees (3.1), as well as a more detailed breakdown of the grades awarded for each element of the Recommendation (3.2).

### 3.1 Overall grades of addressees

Tables 6, 7 and 8 below provide the overall compliance grades for CCPs sub-recommendations, clearing members sub-recommendations and the counterparties sub-recommendation, respectively, for each addressee. In addition to these grades, the addressee of Sub-Recommendation B(4) was assessed as fully compliant.

Table 6  
Colour-coded table providing overall compliance grades for CCPs sub-recommendations

Addressees		OVERALL ASSESSMENT GRADE
AT	FMA	FC
BE	FSMA	SE
	NBB	SE
BG	FSC	SE
CY	CySEC	SE
CZ	CNB	SE
DE	BAFIN	FC
DK	FIN	SE
EE	FSA	SE
ES	CNMV	FC
FI	FSA	SE
	MoF	SE
FR	BDF	FC
	AMF	FC
	ACPR	FC
GR	HCMC	LC
HR	CNB	SE

<sup>9</sup> See Annex II for a full description.



Addresses		OVERALL ASSESSMENT GRADE
HU	MNB	PC
IE	CB	SE
IS	FME	SE
IT	Bdl	FC
	CONSOB	FC
LI	FMA	SE
LT	LB	SE
LU	CSSF	SE
	CAA	SE
MT	MFSA	SE
LV	FCMC	SE
NL	DNB	FC
	AFM	SE
NO	FIN	SE
PL	KNF	FC
PT	CMVM	FC
SE	FI	LC
RO	ASF	SE
SI	ATVP	SE
SK	NBS	SE





Table 7

**Colour-coded table providing overall compliance grades for clearing members sub-recommendations**

Addressees		OVERALL ASSESSMENT GRADE
AT	FMA	SE
BE	FSMA	SE
	NBB	SE
	FSC	SE
BG	BNB	SE
	CySEC	SE
CY	KTK	SE
	MoF	SE
	MoL	SE
CZ	CNB	SE
DE	BAFIN	SE
	BuBa	SE
DK	Fin	LC
EE	FSA	SE
ES	CNMV	LC
	BdE	SE
	DGSFP	SE
FI	FSA	SE
	MoF	SE
FR	AMF	LC
	ACPR	LC
GR	CB	SE
	HCMC	SE
HR	HANFA	SE
	CNB	SE
HU	MNB	PC
IE	CB	FC
	PA	SE
IS	FME	SE
	CB	SE
IT	BdI	SE
	CONSOB	SE
	IVASS	SE
	COVIP	SE



Addressees		OVERALL ASSESSMENT GRADE
LI	FMA	SE
LT	LB	SE
LU	CSSF	LC
	CAA	SE
MT	MFSA	LC
LV	FCMC	SE
NL	DNB	SE
	AFM	SE
NO	FIN	FC
PL	KNF	FC
PT	BdP	SE
	ASF	SE
	CMVM	SE
	GPEARl	SE
SE	FI	LC
	Bolagsverket	SE
RO	ASF	SE
	BNR	SE
SI	ATVP	SE
	BSI	SE
	AZN	SE
SK	NBS	SE
SSM	SSM	FC



Table 8

**Colour-coded table providing overall compliance grades for the counterparties sub-recommendation**

Addressees		OVERALL ASSESSMENT GRADE Rec A(4)
AT	FMA	SE
BE	FSMA	SE
	NBB	SE
BG	FSC	SE
	BNB	SE
CY	CySEC	LC
	KTK	SE
	MoF	SE
CZ	MoL	SE
	CNB	SE
DE	BAFIN	SE
	BuBa	SE
DK	Fin	LC
EE	FSA	PC
ES	CNMV	LC
	BdE	SE
	DGSFP	PC
FI	FSA	SE
	MoF	SE
FR	AMF	LC
	ACPR	LC
GR	CB	SE
	HCMC	SE
HR	HANFA	SE
	CNB	SE
HU	MNB	PC
IE	CB	FC
	PA	SE
IS	FME	SE
	CB	SE



Addressees		OVERALL ASSESSMENT GRADE Rec A(4)
IT	Bdl	SE
	CONSOB	SE
	IVASS	FC
	COVIP	SE
LI	FMA	SE
LT	LB	SE
LU	CSSF	LC
	CAA	PC
MT	MFSA	LC
LV	FCMC	LC
NL	DNB	SE
	AFM	PC
NO	FIN	LC
PL	KNF	FC
PT	BdP	SE
	ASF	FC
	CMVM	PC
	GPEARl	SE
SE	FI	NC
	Bolagsverket	SE
RO	ASF	SE
	BNR	SE
SI	ATVP	SE
	BSI	SE
	AZN	SE
SK	NBS	SE
SSM	SSM	FC



## 4 Main findings of the assessment of addressees' compliance with the Recommendation

**Overall, the Recommendation was largely complied with, at least in relation to the provisions to be implemented by 30 November 2020.** The results of the assessment show a certain degree of homogeneity across jurisdictions and concentration in some of them. CCP and bilateral clearing of derivatives appear to be material in some European jurisdictions and not to be a material concern in others. This helps to explain the very high number of “Sufficiently explained” grades that resulted from the assessment. The responses of the competent authorities were generally reassuring, only a few minor issues emerged and no points of potential systemic relevance were highlighted.

**Despite the relatively high degree of compliance with the Recommendation, in the AT's opinion some issues deserve to be highlighted for the consideration of the General Board and further analytical and policy work may be warranted for some of them.** In the area of central clearing, these relate to: (a) the evaluation of the performance of APC tools used by CCPs to determine their IM this evaluation, while generally positive, in a number of cases seems to be influenced by subjective factors and where quantitative metrics are used, there seems to be a very wide range of metrics used by different CCPs, (b) the implementation of APC tools with respect to client clearing despite the generally cautious approach adopted by large clearing members, the use of specific APC tools in client clearing appears to be lacking, (c) the inclusion in the liquidity risk stress test scenario of any two entities (not only clearing members) to which a CCP has liquidity exposure it appears from the responses that this approach is already largely being followed and this positive result seems to go beyond what is strictly prescribed by the current regulatory framework, and (d) recourse to the pass-through of intraday VM CCPs and their relevant NCAs seem reluctant to implement this measure.

**Under Sub-Recommendation A(1), NCAs were requested to “seek to ensure that CCPs analyse the performance of their policies... during periods of acute stress and report their findings to their competent authority”.** In this respect, it must be mentioned that no instances of poor performance by the APC tools required under Article 28 of Delegated Regulation (EU) No 153/2013 were reported. However, the analyses carried out by CCPs and/or their competent authorities seemed to focus more on compliance with the above-mentioned requirements or on the capability of clearing members and clients to smoothly meet margin calls, rather than the adherence of margin changes, where such changes occurred, to an established benchmark aimed at measuring the APC tools' performance. As one competent authority correctly pointed out, “... although the European Union is one of the few jurisdictions with a dedicated APC-framework, in our view it is yet to some extent unclear, which level of procyclicality is still ‘acceptable’ and how this is supposed to be measured...”. In short, the responses to the sub-recommendation appear to highlight that the analyses carried out by CCPs and/or competent authorities reflected a certain degree of subjective judgement.



**The AT respectfully leaves to future policy discussions the issue of whether or not the lack of an “acceptable” level of procyclicality, i.e. of a benchmark which CCPs should look to when fine-tuning their APC tools, raises concerns from a macroprudential standpoint, should the General Board decide to further pursue it.** Nevertheless, the AT deems it useful to flag the diversity of approaches used by the CCPs (and competent authorities) to evaluate the APC performance of their tools.

**Sub-Recommendations A(3) and A(4) recommended that competent authorities of clearing members and financial and non-financial counterparties engage with them to ensure that the application of risk management procedures does not result in sudden and significant changes and cliff effects in margin collection and collateral practices.** Once again, no major issues were highlighted in the responses of competent authorities and clearing members and major counterparties appear to apply prudent risk management practices when providing clearing services or entering bilaterally cleared transactions. However, the specific use of APC tools was not mentioned, while in the bilateral clearing space, the reliance on SIMM, which has stable margin requirements, was mentioned. Further, many counterparties to bilaterally cleared transactions rely on cash collateral (rather than securities), in which case downgrades of credit ratings do not trigger procyclical reactions.

**Against this background, the AT would flag that the competent authorities’ responses confirm that the “bilateral domain” in the clearing ecosystem, when providing client clearing services or engaging in bilateral clearing, does not envisage the use of specific APC tools. It can therefore be assumed that clearing members apply at least the APC tools of the relevant CCP, but beyond this no specific APC tools were mentioned.**

**Under Sub-Recommendation B(2) competent authorities were requested to seek to ensure that the liquidity stress tests used by CCPs include the default of any two entities that provide services to the CCP and whose default could materially affect a CCP’s liquidity position.** This sub-recommendation is closely linked to Sub-Recommendation B(1), which is addressed to ESMA and requests a review the relevant RTS to include the default of any two entities in the liquidity stress tests carried out by CCPs.

**On the positive side, the AT would like to highlight that on the basis of the competent authorities’ responses it would seem that many CCPs already test their liquidity needs against the default of any two entities, as envisaged by the Recommendation.**

**Under Sub-Recommendation C(1) NCAs are requested to seek to ensure that CCPs identify initial and VM components of intraday margin calls separately, and consider collecting and paying out the VM component on the same day.** The competent authorities’ responses show that the intraday pass-through of the VM component has generally been opposed on the grounds of operational and risk management issues, and the measure has gained somewhat limited support. However, these operational and risk management issues were not substantiated. Some NCAs pointed out the possible advantages of current practices employed by some CCPs, according to which intraday margin calls can be met by providing non-cash collateral and collateral in different currencies, which might lessen the burden on clearing members. However, they did not explain how material these theoretical advantages are in practice.



**In this respect, the AT would like to flag the reluctance of CCPs and competent authorities to the implementation of this potential measure – although the reported operational and risk management issues have not been substantiated. It would have been beneficial to request CCPs to discuss the topic with their clearing members in order to take their views into account.**



## 5 Conclusion

**Due to the high level of concentration of central clearing in the EU, which is reflected in a relatively small number of authorised CCPs and few large clearing members, the principle of proportionality applied to a large number of addressees.** This principle was applied to account for the diverse supervisory landscape for CCPs, clearing members and their clients throughout EU Member States. The primary criterion when considering the materiality assessment of the Recommendation was whether the given addressee had any CCPs or clearing members under its supervision.

**In the responses provided by the addressees, the AT encountered several issues that raised a need for extensive dialogue.** In several cases responses lacked a sufficient level of detail. The comprehensiveness of the responses differed greatly between authorities – some were minimal, whereas others provided extensive information and data. Also, several addressees only took action after the reporting deadline.

**The AT noted several specific issues in the interpretation of the sub-recommendations.** First, in light of the nuances in the terminology used across individual sub-recommendations, on some occasions it was not clear whether certain provisions should be met by implementing them or by merely considering their implementation. Second, some respondents invoked compliance with EMIR Level 1 and Level 2 requirements, as well as the relevant ESMA guidelines and opinions, as being equivalent to compliance with some of the sub-recommendations, in particular A(2), A(4) and B(2). Lastly, the AT noted that actions taken by some addressees with respect to Sub-Recommendation A(4) were clearly focused on derivatives, largely or completely neglecting the fact that the scope also included SFTs.

**Overall, for the provisions to be implemented by 30 November 2020, addressees were largely compliant with the Recommendation but several findings deserve further investigation.**

- Sub-Recommendation A(1): the evaluation of this sub-recommendation was generally positive and most CCPs considered that there were no excessive procyclical effects, because clearing members and clients met margin calls without difficulty. However, the assessment also revealed the subjectivity of the concept of procyclicality, as there is currently no harmonised definition available or benchmarks which CCPs and competent authorities can use to assess whether a certain level of procyclicality is acceptable or not. From a macroprudential perspective, the AT would flag the importance **of aiming for a common and objective understanding of this concept so as to avoid subjective approaches that are contingent on the specific situation. The AT respectfully suggests that further quantitative analyses of the procyclicality of margins and haircuts might be useful, particularly with a view to enhancing the objectivity of the concept of procyclicality.**
- Sub-Recommendation B(2): the assessment revealed that **most CCPs already include in their liquidity stress tests other entities that are not clearing members, such as liquidity providers and settlement banks. The AT would like to flag this outcome to ESMA, for its consideration.**





- Sub-Recommendation C(1): it would appear that the **pass-through of margins is not accepted by most CCPs and competent authorities due to operational and risk-related considerations**. However, these concerns have not been substantiated by the NCAs.
- Sub-Recommendations A(3): the assessment revealed that **client clearing is highly concentrated in the EU**. The relatively few large clearing members that do provide these services are located in a handful of jurisdictions, which partially explains the substantial number of SE grades for Sub-Recommendation A(3). Also, there is limited procyclicality in the determination of margin requirements for clients of clearing members. The AT would like to flag this for further consideration from a policy point of view.
- The assessment resulted in a **high number of SE grades**, reflecting the principle of proportionality and the need to take into account the lack of materiality of the activity carried out in individual domestic derivatives markets in a number of jurisdictions. This demonstrates that the **diversity among Member States may require, where possible, the calibration of provisions**. The assessment revealed that some sub-recommendations were drafted to fit large CCPs and major market participants, but were not necessarily tailored for small CCPs or less sophisticated counterparties, if implemented in an inflexible way.



## Annex I: Composition of the Assessment Team

(approved by the Advisory Technical Committee via Written Procedure ATC/WP/2020/052, 20 November 2020, and amended by Written Procedure ATC/WP/2021/005, 10 February 2021)

Chairperson	Institution
Pietro Stecconi	Banca d'Italia

Assessment Team	Institution
Cristina Di Luigi	Banca d'Italia
Thomas Droll	Deutsche Bundesbank
Jan Philipp Fritsche (until 31 December 2020)	European Central Bank
Alexandre Garcia	Banque de France
Mirko de Giovanni	European Central Bank
Michał Konopczak	Narodowy Bank Polski
Francesca Lenoci	European Central Bank
Clément Rouveyrol	European Central Bank
Adrián Sanz Romero	Banco de España
Francesco Vacirca	European Central Bank
Tibert Van der Loop (from 1 January 2021)	De Nederlandsche Bank
Jakub Zaleski	Urząd Komisji Nadzoru Finansowego

Secretariat	Institution
Ridha Sahli	ESRB Secretariat
Aleksandra Granat	ESRB Secretariat
Eugenio Toschetti	ESRB Secretariat



# Annex II: Compliance criteria and implementation standards

		Positive grades		Mid-grade		Negative grades		
		Fully compliant (FC) - Actions taken fully implement the recommendation	Largely compliant (LC) - Actions taken implement almost all of the recommendation	Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	Partially compliant (PC) - Actions taken only implement part of the recommendation	Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	Inaction insufficiently explained (II) - No actions were taken and the addressee did not provide sufficient justification
Recommendation A	Analysis of the performance of CCPs policies during periods of acute stress and reporting of findings Recommendation A(1)	<ul style="list-style-type: none"> <li>competent authority has received from CCPs an exhaustive report on the performance of the relevant policies during periods of acute stress.</li> <li>The addressee provides substantial elements on the implementation of the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority has received from CCPs a report on the performance of the relevant policies during periods of acute stress. It provides some elements on this report. However, the report lacks some minor elements.</li> <li>Or</li> <li>competent authority demonstrates that it has committed to implement this subrecommendation in the near future (until end of Q2 2021 approximately) and provides a precise date for the future submission of the report.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority demonstrates that it does not have legal competences to comply with the subrecommendation; or</li> <li>competent authority demonstrates that the subrecommendation is factually irrelevant (e.g. no CCPs under its jurisdiction).</li> <li>Or</li> <li>competent authority holds its own exhaustive analysis of the performance of the relevant CCPs' policies during periods of acute stress based on its own monitoring system.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority confirms that it has received from CCPs a report on the performance of the relevant policies during periods of acute stress but the report lacks several elements and the competent authority provides few elements.</li> <li>Or</li> <li>competent authority explains that it is committed to implement this subrecommendation but it either does not provide a precise date or provides a date which is not in the near future.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority has received from CCPs a report on the performance of the relevant policies during periods of acute stress but the report is largely uninformative.</li> <li>Or</li> <li>competent authority provides a generic commitment without any precise timeline.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority requested from CCPs a report on the performance of the relevant policies during periods of acute stress but it did not receive it.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority did not take action and does not provide sufficient justification for its inaction.</li> </ul>
	Use of a granular scale and a progressive approach in CCPs models, parameters, policies and procedures Point (a) of Recommendation A(2)(i)	<ul style="list-style-type: none"> <li>Based on the information received pursuant to Recommendation A(1), competent authority demonstrates, in a comprehensive assessment, that the implementation of the CCP's policies has not led to sudden and significant changes.</li> <li>The addressee provides substantial elements on the implementation of the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>Based on the information received pursuant to Recommendation A(1), competent authority demonstrates, in an assessment, that the implementation of the CCP's policies had led to some sudden and significant changes but appropriate action has been taken subsequently.</li> <li>Or</li> <li>competent authority demonstrates that it has committed to implement this subrecommendation in the near future (until end 2021 approximately), provides some elements on the subrecommendation and a precise date for this future implementation.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority demonstrates that it does not have legal competences to comply with the subrecommendation; or</li> <li>competent authority demonstrates that the subrecommendation is factually irrelevant (e.g. no CCPs under its jurisdiction).</li> </ul>	<ul style="list-style-type: none"> <li>Based on the information received pursuant to Recommendation A(1), competent authority demonstrates, in an assessment, that the implementation of the CCP's policies had led to some sudden and significant changes but actions are foreseen to deal with them.</li> <li>Or</li> <li>competent authority explains that it is committed to implement this subrecommendation but it either does not provide a precise date or provides a date which is not in the near future.</li> </ul>	<ul style="list-style-type: none"> <li>Based on the information received pursuant to Recommendation A(1), competent authority demonstrates to a limited extent only, in an assessment, that the implementation of the CCP's policies had led to some sudden and significant changes and the actions that are foreseen are unlikely to deal with the sudden and significant changes.</li> <li>Or</li> <li>competent authority provides a generic commitment without any precise timeline.</li> </ul>	<ul style="list-style-type: none"> <li>Based on the information received pursuant to Recommendation A(1), competent authority failed to demonstrate, in an assessment, that the implementation of the CCP's policies has not led to sudden and significant changes.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority did not take action and does not provide sufficient justification for its inaction.</li> </ul>
Recommendation A	Comprehensive approach limiting the prudentiality of CCPs models, parameters, policies and procedures Point (b) of Recommendation A(2)(i)	<ul style="list-style-type: none"> <li>Based on the information received pursuant to Recommendation A(1), competent authority reviewed that the relevant policies form a comprehensive approach that limits prudential features pursuant to the regulatory requirements on prudentiality in Article 41 of Regulation (EU) No 648/2012, in particular in the event of downgrades of credit ratings, and have performed as intended to achieve this objective.</li> <li>The addressee provides substantial elements on the implementation of the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>Based on the information received pursuant to Recommendation A(1), competent authority largely reviewed that all the relevant policies form a comprehensive approach that limits prudential features pursuant to the regulatory requirements on prudentiality in Article 41 of Regulation (EU) No 648/2012, in particular in the event of downgrades of credit ratings, and have performed as intended to achieve this objective.</li> <li>Or</li> <li>competent authority demonstrates that it has committed to implement this subrecommendation in the near future (until end 2021 approximately), provides some elements on the subrecommendations and a precise date for this future implementation.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority demonstrates that it does not have legal competences to comply with the subrecommendation; or</li> <li>competent authority demonstrates that the subrecommendation is factually irrelevant (e.g. no CCPs under its jurisdiction).</li> <li>Or</li> <li>competent authority demonstrates that the necessity to preserve CCPs' financial resilience prevented it from complying with point (b) of Recommendation A(2)(i).</li> </ul>	<ul style="list-style-type: none"> <li>Based on the information received pursuant to Recommendation A(1), competent authority partially reviewed that all the relevant policies form a comprehensive approach that limits prudential features pursuant to the regulatory requirements on prudentiality in Article 41 of Regulation (EU) No 648/2012, in particular in the event of downgrades of credit ratings, and have performed as intended to achieve this objective.</li> <li>Or</li> <li>competent authority explains that it is committed to implement this subrecommendation but it either does not provide a precise date or provides a date which is not in the near future.</li> </ul>	<ul style="list-style-type: none"> <li>Based on the information received pursuant to Recommendation A(1), competent authority reviewed to a limited extent only that all the relevant policies form a comprehensive approach that limits prudential features pursuant to the regulatory requirements on prudentiality in Article 41 of Regulation (EU) No 648/2012, in particular in the event of downgrades of credit ratings, and have performed as intended to achieve this objective.</li> <li>Or</li> <li>competent authority provides a generic commitment without any precise timeline.</li> </ul>	<ul style="list-style-type: none"> <li>Based on the information received pursuant to Recommendation A(1), competent authority failed to review that the relevant policies form a comprehensive approach that limits prudential features pursuant to the regulatory requirements on prudentiality in Article 41 of Regulation (EU) No 648/2012, in particular in the event of downgrades of credit ratings, and have performed as intended to achieve this objective.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority did not take action and does not provide sufficient justification for its inaction.</li> </ul>
	Communication of information about the reduction of the scope of eligible collateral, the material decrease of the concentration limits Recommendation A(2)(ii)	<ul style="list-style-type: none"> <li>competent authority either already received or has put in place a new framework to receive from CCPs regular reporting when they reduce the scope of eligible collateral, they materially modify collateral haircut, they materially decrease the concentration limits.</li> <li>Or</li> <li>in addition, competent authority either informs or plans to inform members of the college established under Article 18 of Regulation (EU) No 648/2012 of such changes.</li> <li>To the extent that it does not interfere with the timely implementation of risk management decisions, this information has been provided sufficiently in advance of implementation.</li> <li>The addressee provides substantial elements on the implementation of the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority either already received or has put in place a new framework to receive from CCPs regular reporting when they reduce the scope of eligible collateral, they materially modify collateral haircut, they materially decrease the concentration limits.</li> <li>Or</li> <li>in addition, competent authority either informs or plans to inform members of the college established under Article 18 of Regulation (EU) No 648/2012 of such changes.</li> <li>Or</li> <li>competent authority demonstrates that it has committed to implement this subrecommendation in the near future (until end 2021 approximately), provides some elements on the implementation of the subrecommendation and a precise date for this future implementation.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority demonstrates that it does not have legal competences to comply with the subrecommendation; or</li> <li>competent authority demonstrates that the subrecommendation is factually irrelevant (e.g. no CCPs under its jurisdiction).</li> </ul>	<ul style="list-style-type: none"> <li>competent authority either already received or has put in place a new framework to receive from CCPs regular reporting when they reduce the scope of eligible collateral, they materially modify collateral haircut, they materially decrease the concentration limits.</li> <li>Or</li> <li>in addition, competent authority either informs or plans to inform members of the college established under Article 18 of Regulation (EU) No 648/2012 of such changes.</li> <li>The regular reporting or framework and/or the communication lacked some elements.</li> <li>Or</li> <li>competent authority explains that it is committed to implement this subrecommendation but it either does not provide a precise date or provides a date which is not in the near future.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority either already received or has put in place a new framework to receive from CCPs regular reporting when they reduce the scope of eligible collateral, they materially modify collateral haircut, they materially decrease the concentration limits.</li> <li>Or</li> <li>in addition, competent authority either informs or plans to inform members of the college established under Article 18 of Regulation (EU) No 648/2012 of such changes.</li> <li>The regular reporting or framework and/or the communication lacked several elements.</li> <li>Or</li> <li>competent authority provides a generic commitment without any precise timeline.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority did not receive or has not put in place a new framework to receive from CCPs regular reporting when they reduce the scope of eligible collateral, they materially modify collateral haircut, they materially decrease the concentration limits.</li> <li>Or</li> <li>in addition, competent authority did not inform or plan to inform members of the college established under Article 18 of Regulation (EU) No 648/2012 of such changes.</li> <li>Or</li> <li>competent authority has put in place a framework to either receive reporting from CCPs sufficiently in advance of such trigger events or to have its own monitoring system.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority did not take action and does not provide sufficient justification for its inaction.</li> </ul>



		Positive grades		Mid-grade	Negative grades				
		Highly compliant (HC) - Actions taken fully implement the recommendation	Largely compliant (LC) - Actions taken implement almost all of the recommendation	Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification	Partially compliant (PC) - Actions taken only implement part of the recommendation	Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	Non-compliant (NC) - Actions taken do not fit with the nature of the recommendation	Inaction (Inf) - No actions were taken and no justification was provided	
Recommendation A	Clearing members' risk-management procedures & sudden and significant changes and cliff effects in margin calls/ collection and in collateral practices Recommendation A3)	<ul style="list-style-type: none"> <li>relevant competent authority thoroughly assessed that the existing procedure is objective, evidence-based, disclosed to clients and implemented giving clients sufficient warning periods and therefore there are no elements of discretionary changes to the agreed conditions.</li> <li>In addition, relevant competent authority carried out comprehensive review of the risk management procedures of the clearing members and established that they are proportionate.</li> <li>The addressee provides substantial elements on the implementation of the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>relevant competent authority largely assessed that the existing procedure is objective, evidence-based, disclosed to clients and implemented giving clients sufficient warning periods and therefore there are no elements of discretionary changes to the agreed conditions.</li> <li>In addition, relevant competent authority carried a satisfactory review of the risk management procedures of the clearing members and established that they are proportionate.</li> <li>competent authority demonstrates that it has committed to implement this subrecommendation in the near future (until end 2021 approximately), provides some elements on the implementation of the subrecommendation and a precise date for this future</li> </ul>	<ul style="list-style-type: none"> <li>competent authority demonstrates that it does not have legal competences to comply with the subrecommendation; or</li> <li>competent authority demonstrates that the subrecommendation is factually irrelevant (e.g. no clearing members under its jurisdiction).</li> <li>competent authority demonstrates with quantitative evidence, if needed, that the lack of sufficient material activity justifies the absence of action or the large/partial compliance with the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>relevant competent authority partially assessed that the existing procedure is objective, evidence-based, disclosed to clients and implemented giving clients sufficient warning periods and therefore there are no elements of discretionary changes to the agreed conditions.</li> <li>In addition, relevant competent authority carried a partial review of the risk management procedures of the clearing members and established that they are proportionate.</li> <li>competent authority explains that it is committed to implement this subrecommendation but it either does not provide a precise date or provides a date which is not in the near future</li> </ul>	<ul style="list-style-type: none"> <li>relevant competent authority assessed to a limited extent only that the existing procedure is objective, evidence-based, disclosed to clients and implemented giving clients sufficient warning periods and therefore there are no elements of discretionary changes to the agreed conditions.</li> <li>In addition, relevant competent authority carried a superficial review of the risk management procedures that it acted to review of the clearing members and established that they are proportionate. This review lacks however some elements.</li> <li>competent authority provides a generic commitment without any precise timeline</li> </ul>	<ul style="list-style-type: none"> <li>relevant competent authority does not provide evidence that its action led to an assessment on whether the existing procedure is objective, evidence-based, disclosed to clients and implemented giving clients sufficient warning periods and therefore there are no elements of discretionary changes to the agreed conditions.</li> </ul>	<ul style="list-style-type: none"> <li>relevant competent authority did not take action and does not provide sufficient justification for its inaction.</li> </ul>	
	Financial and non-financial counterparty risk management procedures & sudden and significant changes and cliff effects in margin calls/ collection and in collateral practices Recommendation A4)	<ul style="list-style-type: none"> <li>relevant competent authority thoroughly assessed that contracts are in place, that they follow the procedure which is compatible with existing regulation or past practices and that there are no discretionary deviations from the contract.</li> <li>The addressee provides substantial elements on the implementation of the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>relevant competent authority largely assessed that contracts are in place, that they follow the procedure which is compatible with existing regulation or past practices and that there are no discretionary deviations from the contract.</li> <li>competent authority demonstrates that it has committed to implement this subrecommendation in the near future (until end 2021 approximately), provides some elements on the implementation of the subrecommendation and a precise date for this future</li> </ul>	<ul style="list-style-type: none"> <li>competent authority demonstrates that it does not have legal competences to comply with the subrecommendation; or</li> <li>competent authority demonstrates that the subrecommendation is factually irrelevant (e.g. no financial and non-financial counterparties under its jurisdiction).</li> <li>competent authority demonstrates with quantitative evidence, if needed, that the lack of sufficient material activity justifies the absence of action or the large/partial compliance with the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>relevant competent authority partially assessed that contracts are in place, that they follow the procedure which is compatible with existing regulation or past practices and that there are no discretionary deviations from the contract.</li> <li>competent authority explains that it is committed to implement this subrecommendation but it either does not provide a precise date or provides a date which is not in the near future</li> </ul>	<ul style="list-style-type: none"> <li>relevant competent authority assessed to a limited extent only that contracts are in place, that they follow the procedure which is compatible with existing regulation or past practices and that there are no discretionary deviations from the contract.</li> <li>competent authority provides a generic commitment without any precise timeline</li> </ul>	<ul style="list-style-type: none"> <li>relevant competent authority does not provide evidence that its action led to an assessment on whether the contracts are in place, that they follow the procedure which is compatible with existing regulation or past practices and that there are no discretionary deviations from the contract.</li> </ul>	<ul style="list-style-type: none"> <li>relevant competent authority did not take action and does not provide sufficient justification for its inaction.</li> </ul>	
Recommendation B	Resilience of the default of any two entities that provide services to the CCP and whose default could materially affect the liquidity position of the CCP in the stress scenario Recommendation B2)	<ul style="list-style-type: none"> <li>competent authority has assessed that CCP considers its liquidity stress tests the event of the default of any two entities that provide services to the CCP and whose default could materially affect the liquidity position of the CCP (such entities could include the liquidity service providers, settlement service providers or any other service providers whose default could possibly affect the liquidity position of the CCP), or</li> <li>The addressee provides substantial elements on the implementation of the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority demonstrates that it has committed to implement this subrecommendation in the near future (until end 2022 approximately), provides some elements on the implementation of the subrecommendation and a precise date for this future</li> </ul>	<ul style="list-style-type: none"> <li>competent authority demonstrates that it does not have legal competences to comply with the subrecommendation; or</li> <li>competent authority demonstrates that the subrecommendation is factually irrelevant (e.g. no CCPs under its jurisdiction).</li> </ul>	<ul style="list-style-type: none"> <li>competent authority explains that it is committed to implement this subrecommendation but it either does not provide a precise date or provides a date which is not in the near future</li> </ul>	<ul style="list-style-type: none"> <li>competent authority provides a generic commitment without any precise timeline</li> </ul>	<ul style="list-style-type: none"> <li>competent authority has not assessed that its action led to an assessment on whether the event of the default of any two entities that provide services to the CCP and whose default could materially affect the liquidity position of the CCP (such entities could include the liquidity service providers, settlement service providers or any other service providers whose default could possibly affect the liquidity position of the CCP).</li> </ul>	<ul style="list-style-type: none"> <li>competent authority did not take action and does not provide sufficient justification for its inaction.</li> </ul>	
	CCP's remedial actions, increasing liquidity shortfalls in addition to the pre-clearing members in times of market stress Recommendation B3)	<ul style="list-style-type: none"> <li>B2) must be fulfilled.</li> <li>competent authority has assessed that the CCP's remedial actions to address any shortfall in resources available to cover liquidity needs that is identified by applying the additional stress scenarios referred to in Recommendation B2) do not, when applied in times of market stress, place an additional burden on the clearing members.</li> <li>Where necessary, competent authority has verified that CCP has entered into contractual arrangement with alternative liquidity providers.</li> <li>The addressee provides substantial elements on the implementation of the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>B2) must be fulfilled.</li> <li>competent authority has assessed that the CCP's remedial actions to address any shortfall in resources available to cover liquidity needs that is identified by applying the additional stress scenarios referred to in Recommendation B2) do not, when applied in times of market stress, place an additional burden on the clearing members.</li> <li>competent authority demonstrates that CCPs do not need to implement remedial actions.</li> <li>competent authority demonstrates that the two entities will be included in future stress</li> </ul>	<ul style="list-style-type: none"> <li>B2) must be fulfilled.</li> <li>relevant competent authority has partially assessed that the CCP's remedial actions to address any shortfall in resources available to cover liquidity needs that is identified by applying the additional stress scenarios referred to in Recommendation B2) do not, when applied in times of market stress, place an additional burden on the clearing members.</li> </ul>	<ul style="list-style-type: none"> <li>B2) must be fulfilled.</li> <li>competent authority has assessed that the CCP's remedial actions to address any shortfall in resources available to cover liquidity needs that is identified by applying the additional stress scenarios referred to in Recommendation B2) do not, when applied in times of market stress, place an additional burden on the clearing members.</li> <li>Where necessary, competent authority has verified that CCP has entered into contractual arrangement with alternative liquidity providers.</li> </ul>	<ul style="list-style-type: none"> <li>ESMA demonstrates that it is committed to, in cooperation with competent authorities, engage with CCPs – and to the extent possible with relevant authorities in third countries – to conduct a non-regulator based coordinated liquidity stress test exercises which also take into account the default of any two entities as referred to in Recommendations B2) and B3).</li> <li>ESMA demonstrates that the scope of possible sources of liquidity exposures for CCPs that are taken into account in the liquidity stress test is wide enough to consider the default of any two entities as referred to in Recommendations B2) and B3).</li> </ul>	<ul style="list-style-type: none"> <li>ESMA demonstrates that it is committed to, in cooperation with competent authorities, engage with CCPs – and to the extent possible with relevant authorities in third countries – to conduct a non-regulator based coordinated liquidity stress test exercises which also take into account the default of any two entities as referred to in Recommendations B2) and B3).</li> <li>The commitment is generic, without a precise date in the near future.</li> </ul>	<ul style="list-style-type: none"> <li>ESMA does not provide evidence that it is complying with the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>ESMA did not take action and does not provide sufficient justification for its inaction.</li> </ul>
	Coordinated liquidity stress test scenarios Recommendation B4)	<ul style="list-style-type: none"> <li>ESMA demonstrates that it is, in cooperation with competent authorities, engage with CCPs – and to the extent possible with relevant authorities in third countries – to conduct a non-regulator based coordinated liquidity stress test exercises which also take into account the default of any two entities as referred to in Recommendations B2) and B3).</li> <li>ESMA demonstrates that the scope of possible sources of liquidity exposures for CCPs that are taken into account in the liquidity stress test is wide enough to consider the default of any two entities as referred to in Recommendations B2) and B3).</li> </ul>	<ul style="list-style-type: none"> <li>ESMA demonstrates that it is committed to, in cooperation with competent authorities, engage with CCPs – and to the extent possible with relevant authorities in third countries – to conduct a non-regulator based coordinated liquidity stress test exercises which also take into account the default of any two entities as referred to in Recommendations B2) and B3).</li> <li>The commitment is generic, without a precise date in the near future.</li> </ul>	<ul style="list-style-type: none"> <li>ESMA does not comply with the subrecommendation but provides adequate justification.</li> </ul>	<ul style="list-style-type: none"> <li>ESMA demonstrates that it is committed to, in cooperation with competent authorities, engage with CCPs – and to the extent possible with relevant authorities in third countries – to conduct a non-regulator based coordinated liquidity stress test exercises which also take into account the default of any two entities as referred to in Recommendations B2) and B3).</li> <li>The commitment is generic, without a precise date in the near future.</li> </ul>	<ul style="list-style-type: none"> <li>ESMA demonstrates that it is committed to, in cooperation with competent authorities, engage with CCPs – and to the extent possible with relevant authorities in third countries – to conduct a non-regulator based coordinated liquidity stress test exercises which also take into account the default of any two entities as referred to in Recommendations B2) and B3).</li> <li>The commitment is generic, without a precise date in the near future.</li> </ul>	<ul style="list-style-type: none"> <li>ESMA does not provide evidence that it is complying with the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>ESMA did not take action and does not provide sufficient justification for its inaction.</li> </ul>	
	Coordinated liquidity stress test scenarios Recommendation B4)	<ul style="list-style-type: none"> <li>ESMA demonstrates that it is, in cooperation with competent authorities, engage with CCPs – and to the extent possible with relevant authorities in third countries – to conduct a non-regulator based coordinated liquidity stress test exercises which also take into account the default of any two entities as referred to in Recommendations B2) and B3).</li> <li>ESMA demonstrates that the scope of possible sources of liquidity exposures for CCPs that are taken into account in the liquidity stress test is wide enough to consider the default of any two entities as referred to in Recommendations B2) and B3).</li> </ul>	<ul style="list-style-type: none"> <li>ESMA demonstrates that it is committed to, in cooperation with competent authorities, engage with CCPs – and to the extent possible with relevant authorities in third countries – to conduct a non-regulator based coordinated liquidity stress test exercises which also take into account the default of any two entities as referred to in Recommendations B2) and B3).</li> <li>The commitment is generic, without a precise date in the near future.</li> </ul>	<ul style="list-style-type: none"> <li>ESMA does not comply with the subrecommendation but provides adequate justification.</li> </ul>	<ul style="list-style-type: none"> <li>ESMA demonstrates that it is committed to, in cooperation with competent authorities, engage with CCPs – and to the extent possible with relevant authorities in third countries – to conduct a non-regulator based coordinated liquidity stress test exercises which also take into account the default of any two entities as referred to in Recommendations B2) and B3).</li> <li>The commitment is generic, without a precise date in the near future.</li> </ul>	<ul style="list-style-type: none"> <li>ESMA demonstrates that it is committed to, in cooperation with competent authorities, engage with CCPs – and to the extent possible with relevant authorities in third countries – to conduct a non-regulator based coordinated liquidity stress test exercises which also take into account the default of any two entities as referred to in Recommendations B2) and B3).</li> <li>The commitment is generic, without a precise date in the near future.</li> </ul>	<ul style="list-style-type: none"> <li>ESMA does not provide evidence that it is complying with the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>ESMA did not take action and does not provide sufficient justification for its inaction.</li> </ul>	
Recommendation C	CCP margin calls and collection & subsequent liquidity constraints for clearing members Recommendation C1)	<ul style="list-style-type: none"> <li>competent authority assessed that CCPs identify appropriate margin covering potential or realized exposures, and pay out the letter on the same day.</li> <li>The addressee provides substantial elements on the implementation of the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority demonstrates that it has committed to implement this subrecommendation in the near future (until end 2022 approximately), provides some elements on the implementation of the subrecommendation and a precise date for this future implementation.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority demonstrates that it does not have legal competences to comply with the subrecommendation; or</li> <li>competent authority demonstrates that the subrecommendation is factually irrelevant (e.g. no CCPs under its jurisdiction).</li> <li>competent authority demonstrates that implementing the recommendation would negatively affect the CCP's financial resilience and/or is not operationally possible</li> </ul>	<ul style="list-style-type: none"> <li>competent authority explains that it is committed to implement this subrecommendation but it either does not provide a precise date or provides a date which is not in the near future</li> </ul>	<ul style="list-style-type: none"> <li>competent authority provides a generic commitment without any precise timeline</li> </ul>	<ul style="list-style-type: none"> <li>competent authority does not demonstrate that it assessed the CCPs identify separately the margin covering potential or realized exposures, and pay out the letter on the same day</li> </ul>	<ul style="list-style-type: none"> <li>competent authority did not take action and does not provide sufficient justification for its inaction.</li> </ul>	
	CCP margin calls and collection & subsequent liquidity constraints for clearing members Recommendation C2)	<ul style="list-style-type: none"> <li>competent authority assessed that CCPs prevent the use of excess collateral over collecting additional margin</li> <li>The addressee provides substantial elements on the implementation of the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority demonstrates that it has committed to implement this subrecommendation in the near future (until end 2022 approximately), provides some elements on the implementation of the subrecommendation and a precise date for this future implementation.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority demonstrates that it does not have legal competences to comply with the subrecommendation; or</li> <li>competent authority demonstrates that the subrecommendation is factually irrelevant (e.g. no CCPs under its jurisdiction).</li> <li>competent authority demonstrates that implementing the recommendation would negatively affect the CCP's financial resilience and/or is not operationally possible</li> </ul>	<ul style="list-style-type: none"> <li>competent authority explains that it is committed to implement this subrecommendation but it either does not provide a precise date or provides a date which is not in the near future</li> </ul>	<ul style="list-style-type: none"> <li>competent authority provides a generic commitment without any precise timeline</li> </ul>	<ul style="list-style-type: none"> <li>competent authority does not demonstrate that it assessed the CCPs prevent the use of excess collateral over collecting additional margin</li> </ul>	<ul style="list-style-type: none"> <li>competent authority did not take action and does not provide sufficient justification for its inaction.</li> </ul>	
	CCP margin calls and collection & subsequent liquidity constraints for clearing members Recommendation C3)	<ul style="list-style-type: none"> <li>competent authority assessed that CCPs process for collecting margins does not result in excessive operational constraints for their clearing members.</li> <li>The addressee provides substantial elements on the implementation of the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority demonstrates that it has committed to implement this subrecommendation in the near future (until end 2022 approximately), provides some elements on the implementation of the subrecommendation and a precise date for this future implementation.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority demonstrates that it does not have legal competences to comply with the subrecommendation; or</li> <li>competent authority demonstrates that the subrecommendation is factually irrelevant (e.g. no CCPs under its jurisdiction).</li> <li>competent authority demonstrates that implementing the recommendation would negatively affect the CCP's financial resilience and/or is not operationally possible</li> </ul>	<ul style="list-style-type: none"> <li>competent authority explains that it is committed to implement this subrecommendation but it either does not provide a precise date or provides a date which is not in the near future</li> </ul>	<ul style="list-style-type: none"> <li>competent authority provides a generic commitment without any precise timeline</li> </ul>	<ul style="list-style-type: none"> <li>competent authority does not demonstrate that it assessed that CCPV process for collecting margins does not result in excessive operational constraints for their clearing members</li> </ul>	<ul style="list-style-type: none"> <li>competent authority did not take action and does not provide sufficient justification for its inaction.</li> </ul>	
	Clearing members' margin calls and collection & subsequent liquidity constraints for their clients Recommendation C4)	<ul style="list-style-type: none"> <li>competent authority assessed that clearing members prioritise the use of excess initial margin over collecting additional collateral (if or to the extent sufficient initial margin has been provided by the client)</li> <li>clearing members' process for collecting margins does not result in excessive operational constraints for their clients</li> <li>The addressee provides substantial elements on the implementation of the subrecommendation.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority demonstrates that it has committed to implement this subrecommendation in the near future (until end 2022 approximately), provides some elements on the implementation of the subrecommendation and a precise date for this future implementation.</li> </ul>	<ul style="list-style-type: none"> <li>competent authority demonstrates that it does not have legal competences to comply with the subrecommendation; or</li> <li>competent authority demonstrates that the subrecommendation is factually irrelevant (e.g. no CCPs under its jurisdiction).</li> <li>competent authority demonstrates that implementing the recommendation would negatively affect the CCP's financial resilience and/or is not operationally possible</li> </ul>	<ul style="list-style-type: none"> <li>competent authority explains that it is committed to implement this subrecommendation but it either does not provide a precise date or provides a date which is not in the near future</li> </ul>	<ul style="list-style-type: none"> <li>competent authority provides a generic commitment without any precise timeline</li> </ul>	<ul style="list-style-type: none"> <li>competent authority does not demonstrate that it assessed that clearing members prioritise the use of excess initial margin over collecting additional collateral (if or to the extent sufficient initial margin has been provided by the client)</li> <li>clearing members' process for collecting margins does not result in excessive operational constraints for their clients</li> </ul>	<ul style="list-style-type: none"> <li>competent authority did not take action and does not provide sufficient justification for its inaction.</li> </ul>	



# Imprint

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For specific terminology please refer to the [ESRB glossary](#) (available in English only).

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