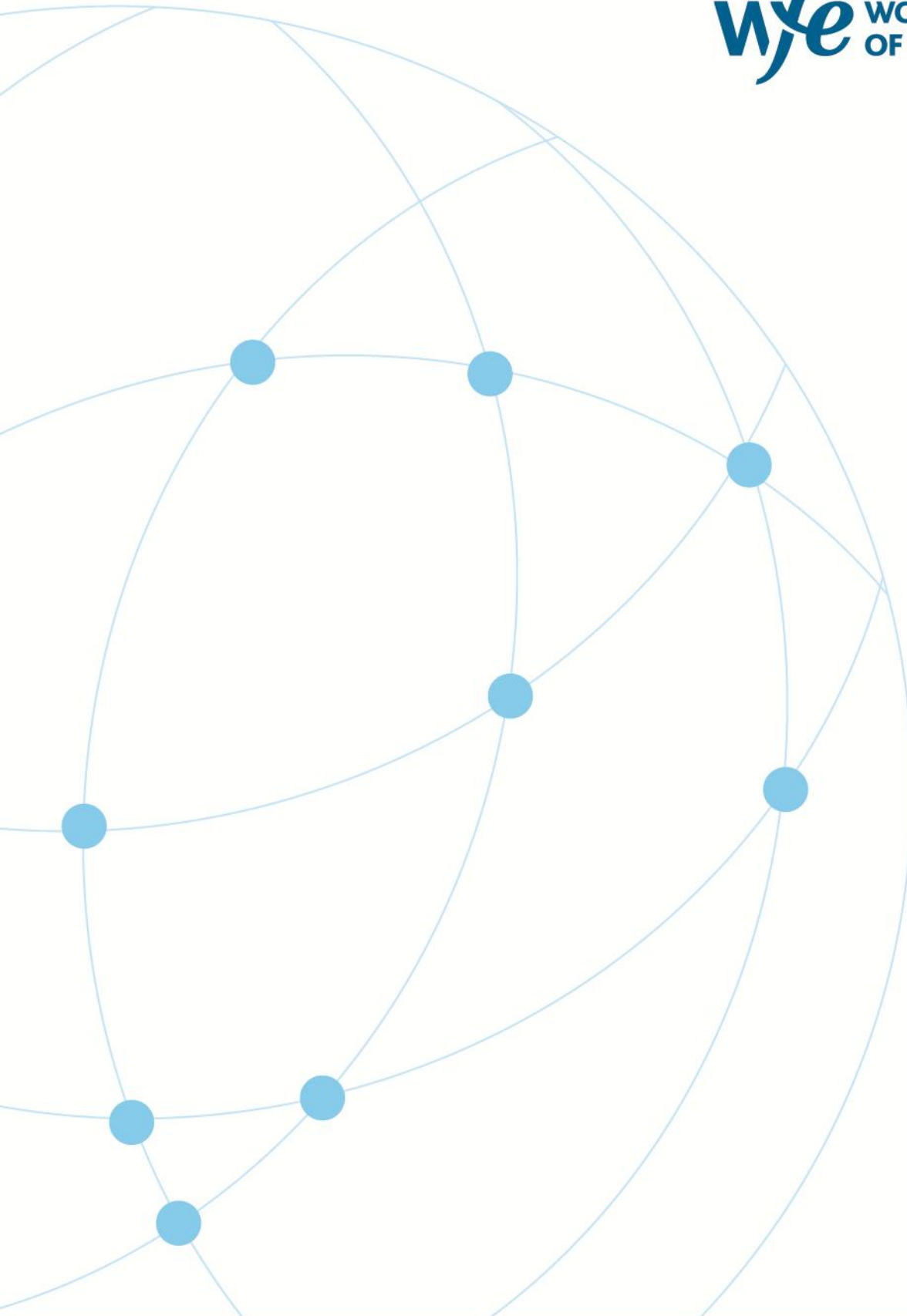




**WFE Response to ESMA Consultation Paper on Margin
Transparency Requirements under EMIR 3
8th September 2025**

Response

The World Federation of Exchanges (WFE) welcomes the opportunity to comment on ESMA's consultation on the draft RTS specifying margin transparency requirements under EMIR 3. The WFE supports the objectives of EMIR 3 in enhancing margin transparency to strengthen liquidity risk management. In particular, we strongly welcome ESMA's proposals on visibility and predictability of margin beyond the central counterparties' (CCPs) sphere, i.e. from clearing members (CMs) to clients, and from clients to indirect clients. Against the above, our response outlines that the RTS should:

- Prioritise end-user usefulness, allowing operational flexibility;
- Not include requirements in the RTS that are not compatible with EMIR Level 1 (e.g. sensitivity testing) and streamline requirements already provided for in other parts of the regulation (e.g. back-test requirements established by EMIR RTS Article 49);
- Remain aligned with BCBS-CPMI-IOSCO's recommendations on margin transparency to maintain global consistency and avoid fragmentation¹; and
- Recognise that any technology development to support the new requirements will take time to implement and CCPs would benefit from a transition period of at least 12 months before the RTS becomes enforceable.

Our comments below respond to ESMA's six consultation questions:

Q1: Do you agree with the proposed information to be provided by the CCP on its margin model design and operations? Do you have other proposals as to which information could be provided under point (a) of Article 38(7) of EMIR?

CCPs provide a vast array of information to enable a deep understanding of their margin models via quarterly Public Quantitative Disclosures (PQDs), which cover back-testing results, and public qualitative disclosures (i.e., CPMI-IOSCO's *Principles for financial market infrastructures* (PFMI)), which cover risk policy and framework documentation and descriptions of the margin calculation methodologies, as well as regular margin reports to CMs and clients and margin simulators. However, it is important to note that it is not clear the extent to which this information is acknowledged and used by market participants. As such, the WFE suggests that ESMA should make clear that, as long as core transparency objectives are met, CCPs will have flexibility to determine the granularity of detail provided, given that CCPs vary significantly in size, product set, and complexity. Furthermore, information that is operationally sensitive should be protected through confidentiality safeguards, particularly where disclosure might create competitive disadvantage.

We agree that identifying the model type and key parameters is helpful, and that disclosures should explain parameter functions and any treatment of risks beyond market risk. Broadly, this type of information is covered in PQDs and qualitative PFMI disclosures. However, detailed model logic, mathematical specifications, and calibration approaches should be disclosed only at a level necessary for effective risk management and not in a way that could enable reverse-engineering or model gaming. Therefore, we recommend that instead of requiring a "detailed description of the model", the readability and usability of the model description for clients should be the guiding principle in the RTS, ensuring that disclosures are practical, accessible, and genuinely useful for their risk management purposes.

The WFE notes that EMIR has already established that add-on methodologies must be disclosed to members, but that the draft RTS is more granular about the content and breakdown. In particular, ESMA proposes specifying data sources and update frequencies for add-ons, which may add to the regulatory burden. For some add-ons, inputs or calibrations change frequently, and thus maintaining documentation and simulation tools which are aligned in real time for these add-ons could create significant operational workload for CCPs. Therefore, the WFE recommends that ESMA require descriptive, not fully formulaic, add-on disclosures, which would be enough to understand the risk coverage and broad methodology without disclosing full calculation logic or real-time parameter values. Data sources and update frequencies should be describable in general terms (e.g., "updated daily using end-of-day prices"), without obliging CCPs to document every micro-change in real time, and formal updates to the disclosed methodology should be required only when there is a material change in the calculation approach or data source.

¹ BCBS-CPMI-IOSCO, "Transparency and responsiveness of initial margin in centrally cleared markets - review and policy proposals", 15 January 2025, <https://www.bis.org/bcbs/publ/d590.htm>

Regarding ESMA's aim to distinguish between portfolio-level, aggregate member-level, and member-specific add-ons, the WFE recommend that flexibility in classification is maintained to reflect different CCP model designs, allowing CCPs to explain their structure where it does not fit neatly into ESMA's categories, rather than forcing model redesigns.

Lastly, the WFE notes that the proposal to share governance aspects (as established in Art. 1, point g) with clearing members is not required in EMIR. We would highlight that CCPs already typically disclose governance arrangements through their rulebooks and qualitative PFMI disclosures, which provide clearing members with transparency into these processes. It is therefore not clear any new requirements in this area would assist market participants to strengthen their liquidity risk management. As such, we recommend that any new requirements in this area be avoided, given the existing disclosure framework, leaving CCPs and CMs to determine when further detail is appropriate.

Q2: Do you agree with the proposed information to be provided by the CCP on the margin model assumptions and limitations? Do you have other proposals as to which information could be provided under point (b) of Article 38(7) of EMIR?

The WFE supports the disclosure of assumptions, limitations, and performance metrics. These are valuable for clearing members' risk management. However, we note that in the case of back-testing results, these should be aligned with the disclosures to market participants that are already required under Article 49(5) of Commission Delegated Regulation 153/2013, to ensure proportionality and avoid duplication.

As such, the WFE recommends that disclosure should balance transparency with the need to preserve model integrity. CCPs should be able to aggregate or anonymise highly sensitive data to prevent reverse-engineering or model gaming, while preserving the informational value for liquidity planning. Once again, any information provided should focus on the readability and usefulness for end clients.

In the case of sensitivity testing results, we recommend a removal from the RTS. Such a disclosure is not required by EMIR and may not be useful as a margin preparedness tool for clearing members and clients given that re-parameterisation of IM models is not a market stress response tool. Sensitivity testing, while important, mainly informs CCPs as to the appropriateness of settings for certain margin parameters in the context of model development and maintenance. It is theoretical in nature and does not actually indicate what margin requirements are for CMs and clients under the current calibration of the margin model. Initial margin models usually remain stable during stressed market conditions, and re-parameterisation of initial margin models is not a crisis mitigation element for CCPs, and thus understanding margin requirements under the current calibration of the margin model is ultimately what is most important for liquidity preparedness. Therefore, sensitivity testing results are not useful for CM or end-client liquidity preparedness, and in some cases may even lead to counterproductive perceptions of CCP risk management. Such information may even lead to misinterpretation by market participants who cannot put the materiality of such assumptions/limitations into context.

Q3: Do you agree with the proposal with regard to the model documentation? Do you have other proposals as to which documents could be provided under point (c) of Article 38(7) of EMIR?

The WFE understands that the EMIR Level 1 requirements foresee that CCPs document relevant model information. However, the proposed documentation requirements by the RTS appear overly extensive and granular, to the extent that we question whether clients will be able to make proper use of this documentation. Aggregated and meaningful information may be more useful for end clients to work with relative to their liquidity planning. Moreover, in line with the cost-benefit analysis on IM model information referred to in section 6.3.1 of ESMA's consultation paper, confidentiality of information on a CCP's margin model needs to be respected. The RTS should therefore clarify that relevant documentation may be provided through a combination of publicly available descriptions. Such an approach will protect commercially sensitive content while meeting the regulatory intent.

Q4: Do you agree with the proposed requirements and the type of output for the simulation tool to be provided by CCPs? Are there any other requirements for the CCP margin simulation tool which should be taken into account, such as legal mechanisms to ensure confidentiality?

As per our response to BCBS-CPMI-IOSCO ², we believe offering margin simulators is appropriate, but that there are limitations to what can be offered - i.e., we believe the expectation should be for margin simulators to be available for market participants to run their portfolios using current margin rates, and that other offerings, such as analysis under historical and hypothetical scenarios, should be at a CCP's discretion. Requiring such functionality may subject some CCPs to substantial operational and financial costs without clear benefits for market participants' liquidity planning. We recognise the importance of CCPs providing appropriate information so that participants can adequately manage their liquidity needs (assuming no proprietary data is disclosed), but it remains unclear if market participants will actually use simulators with such scenario functionality. EU CCPs have already been required to provide simulators prior to EMIR 3, yet industry take-up and usage of EU CCPs' tools has been very low. This calls into question the benefit and added value of imposing more complex and costly enhanced simulator requirements, and we do not believe it should be the CCP's responsibility to do the liquidity management of the participant or to assume the role of software vendors to create the tools required to achieve enhanced functionality. The WFE believes that ESMA's proposals around the inclusion of scenarios should preserve the flexibility set out in the BCBS-CPMI-IOSCO guidance, whereby any requirements to offer different scenarios allow CCPs to select and design the scenarios themselves.

It is also important to bear in mind the purpose of simulation. It is meant to be illustrative (informative), not exhaustive of every market permutation. It needs to be clear to market participants that margin simulators are not indicative of a definitive outcome, and that CCPs must still have discretion when it comes to initial margin requirements. The WFE also notes that specific historical and hypothetical scenarios used in CCP default fund calibration (which are suggested as reusable scenarios in the draft RTS) serve a very different purpose than what is covered by a CCP's margin methodologies. The scenarios used for the default fund are designed to cover risks beyond what is intended to be covered by one's margin models; thus, their inclusion here could be unsuitable and potentially confusing for users. Furthermore, the inclusion of a stress scenario in the simulation tool might not deliver the expected margin change outcome.

While we generally support margin simulation tools being able to calculate outputs under both current market conditions and different scenarios, for the above reasons, we therefore recommend not linking the scenarios to the identification of extreme but plausible market conditions in accordance with Chapter VII of Commission Delegated Regulation 153/2013. Such reuse would only result in cross-dependencies among different elements of the risk framework. Instead, we propose focusing on simulation scenarios that are determined by a CCP as relevant for the products they clear, such as a limited set of well-known historical events. Calculating initial margin requirements for portfolios against this limited set of historical scenarios identified by the CCP is more likely to produce information that is genuinely useful for CM and end-client liquidity preparedness.

With respect to the output of the margin simulation tool, the WFE recommends reconsidering the requirements to differentiate between existing and new transactions. As alluded to above, it should be noted that EU CCPs already provide existing margin simulation tools that give clearing members and end clients with a high degree of flexibility to test existing or hypothetical portfolios. As a result, comparing an existing portfolio with another portfolio that also includes new transactions is already possible. Further, it should not be forgotten that initial margin requirements on portfolio level are calculated jointly for the entire portfolio, so the suggested differentiation between existing and new transactions may be misleading. We therefore propose replacing this prescriptive distinction with an outcome-based formulation requiring that the margin simulation tool allows such a distinction to be calculated where needed.

In regard to the inclusion of margin add-ons, the WFE notes that the requirement to consider all add-ons without any consideration of their materiality could create unnecessary costs to CCPs without the expected benefits of enhancing liquidity preparedness. Some add-ons that would be challenging to incorporate into a margin simulator tool, particularly when these add-ons are not related to the general market and are specifically related to market participants (such as credit assessment and adjusted net capital), or are not an inherent component of the margin model. Further, the WFE would like to highlight that considering the most recent initial margin call as an input for a simulator tool is technically not feasible, and thus we therefore recommend to only apply the proposed requirement to end-of-day parameters.

Finally, given the significant operational effort required to adapt existing systems and processes to meet these enhanced simulator requirements, we recommend that ESMA grant an implementation period of at least 12 months from the publication of the final RTS. This will allow CCPs to make the necessary changes in a controlled and efficient manner.

² World Federation of Exchanges, *WFE Response: BCBS-CPMI-IOSCO Review & Policy Proposals on the Transparency and Responsiveness of Initial Margin in Centrally Cleared Markets*, 15 April 2024, <https://www.world-exchanges.org/our-work/articles/wfe-response-bcbs-cpmi-iosco-review-policy-proposals-transparency-and-responsiveness-initial-margin-centrally-cleared-markets>

Q5: Do you agree with the proposed information to be shared by CSPs on their margin models? Should any other element be taken into account?

Yes, the WFE believes that Clearing Service Providers (CSPs) should pass-through relevant CCP information to and explain any additional margin requirements, including the rationale and methodology, to clients. Where CSPs use their own margin models, disclosure requirements should be consistent with what is required from CCPs. CCPs are already extremely transparent, so ensuring that CSPs also provide transparency into their margining practices to clients benefits the overall system by improving clients' understanding of the CSPs margining practices. This expectation is consistent with the BCBS-CPMI-IOSCO recommendations on margin transparency, which emphasise that disclosures should cover all margin components affecting the participant.

We also see merit in an optional client-only, backward-looking statistic showing minimum, maximum, and average differences between CCP margin and CSP-charged margin over a defined period, to aid expectation management without exposing proprietary methods.

Q6: Do you agree with the proposals on the margin simulations to be provided by CSPs? Should there be any additional requirements?

Yes, the WFE supports requiring CSPs to provide simulations under requirements that are consistent with what is required from CCPs. In practice, there is often a marked difference in transparency between CCP-calculated margins and the additional add-ons applied by CMs acting as CSPs. These CM charges, whether for liquidity, concentration, credit, or other risks, can be opaque to clients and materially affect their liquidity planning (the WFE notes that the survey results presented in the 2022 BCBS-CPMI-IOSCO Review of Margining Practices highlighted that many clients view the actions of intermediaries a key contributor to margin unpredictability.)³

CSPs should provide simulation tools and outputs that include all components of the margin they will charge to the client, not just the pass-through CCP component. Where CSP-specific add-ons are applied, these should be incorporated into the simulation results with a clear explanation of their purpose, broad methodology, and data sources at an appropriate level of aggregation. This will enable clients to anticipate the full liquidity impact of clearing through a given CSP, not just the CCP portion.

Background

Established in 1961, the World Federation of Exchanges (WFE) is the global industry association for exchanges and central counterparties (CCPs). Headquartered in London, it represents over 250 market infrastructure providers, including standalone CCPs that are not part of exchange groups. Of our members, 37% are in Asia-Pacific, 43% in EMEA, and 20% in the Americas.

The WFE's 87 member CCPs and clearing services collectively ensure that risk takers post some \$1.1 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. WFE exchanges, together with other exchanges feeding into our database, are home to over 49,000 listed companies, and the market capitalisation of these entities is over \$116.58 trillion; around \$155 trillion (EOB) in trading annually passes through WFE members (at end 2024).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back 49 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators, and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair, and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We

³ BCBS-CPMI-IOSCO, *Review of Margining Practices*, 29 September 2022, <https://www.bis.org/bcbs/publ/d537.htm>, highlighted client responses are outlined on page 32.

seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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