

**Response: ESMA Consultation Paper on draft Guidelines on
Methodology to value each contract prior to termination
January 2022**

Introduction

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent over 250 market-infrastructures, spread across the Asia-Pacific region (~37%), EMEA (~43%) and the Americas (~20%). with everything from local entities in emerging markets to groups based in major financial centres.

The WFE has previously sought to proactively contribute to the international debate on CCP risk management, recovery and resolution¹. In doing so, its members have contributed significantly to the strengthening of the system via the implementation of many post-crisis initiatives, including efforts to encourage central clearing of derivatives as per the G-20 direction.

The WFE supports initiatives welcomes well-designed efforts to enhance and strengthen CCP resolution planning. In that context, the WFE appreciates the opportunity to respond to this Consultation Paper relating to Draft Guidelines for the Methodology to Value Each Contract Prior to Termination.

In our view, resolution should only be triggered if it is necessary to provide for continuity of clearing services and market stability once the CCP has had opportunity to use all recovery measures available, including the contractual obligations clearing members have signed up to as part of their membership of the CCP.

We agree with the proposed guidelines on valuation methodology and further considerations expressed by ESMA in the consultation paper.

We note that predictability of arrangements is of vital importance in any and all phases of operation of central clearing, and valuation methodologies are central to this.

¹ - [WFE: CCP Risk Management Recovery and Resolution – Aligning CCP and Member Incentives – October 2015](#)
- [WFE: Response to CPMI-IOSCO Consultative Report Resilience and Recovery of CCPs – October 2016](#)
- [WFE: Response to FSB Discussion Note - Essential Aspects of CCP Resolution – October 2016](#)
- [WFE: The Interplay between Central Counterparty Recovery and Resolution: A Global Perspective – February 2017](#)
- [WFE: Response to FSB’s Consultative Document on CCP Resolution & Resolution Planning – March 2017](#)
- [WFE: Response to FSB’s Consultation Paper on Treatment of CCP Equity in Resolution – July 2020](#)

Response to questions:

Question 1: Do you agree with the proposed analysis and the corresponding limitations on the use of market standard approaches? If not, please explain why? Have you identified other points not mentioned above?

We agree with the proposed analysis and the two limitations highlighted by ESMA. We support ESMA's conclusion that CCPs should use their existing valuation rules "as part of the position allocation tool".

Question 2: Do you agree with the proposed analysis on the scope of the methodology and the concept of "contracts"? If not, please explain why and provide your analysis.

We agree and support ESMA's conclusions that "only the outstanding contract between the CCP and the clearing member on the day of termination" should be included in the termination and that the "termination and valuation as part of position allocation" should capture "only the restated and the new contracts (if any)" in cases "where the contracts have been subject to netting or other post-trade risk reduction measures within the CCP".

We further support the conclusion that the value of collateral provided to the CCP to cover margin requirements or default fund contributions for the cleared contracts being terminated should fall out of the scope of the proposed methodology.

Question 3: Do you agree with the interpretation of what could be the resolution authority methodology i.e. the re-use of the valuation methodology of the CCP unless the resolution authority deems it necessary to use another appropriate price discovery method? If not, please explain why and provide your interpretation of methodology and sequencing.

We agree as it is our view that the predictability of arrangements is of vital importance in any and all phases of operation of central clearing, and valuation methodologies are central to this. We believe that the burden of proof should be on the resolution authority to justify the necessity of any deviation from the existing CCP methodology and alternative methodologies should be used only as a last resort.

Question 4: Do you agree with the proposed analysis with regards to the valuation methodology? If not, please explain why and provide your analysis.

We agree with the proposed analysis and would note that factors like the size and direction of specific positions in a CCP context can be mitigated in the margining process.

We similarly agree that the price [value] determined for a contract should be a 'clean' price, i.e., not embedding any penalties or other extraneous factors.

Question 5: Do you agree with the Option 2, if not please explain? Have you identified other benefits and costs not mentioned above associated to the proposed approach (Option 2)?

We support Option 2 as it is our view that altering methodologies during resolution would introduce an unnecessary inconsistency of approach and could conceivably introduce distortions in terms of incentives.