PRIMER ON PORTABILITY

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A CCP GLOBAL PAPER

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The Global Association of Central Counterparties

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CONTENT

LIST OF ABBREVIATIONS

AML	Anti-money Laundering
BAU	Business-as-usual
CCPs	Central Counterparties
CFTC	Commodity Futures Trading Commission
CM	Clearing Member
CPMI	Committee on Payments and Market Infrastructures
DF	Default Fund
DMP	Default Management Procedures
EMIR	European Market Infrastructure Regulation
FMI	Financial Market Infrastructure
GOSA	Gross Omnibus Segregated Account
ICA	Individual Client Account
IOSCO	International Organization of Securities Commissions
ISA	Individual Segregated Account
KYC	Know-your-customer
LSOC	Legally Segregated, Operationally Commingled
MPOR	Margin Period of Risk
NOSA	Net Omnibus Segregated Account
OSA	Omnibus Segregated Account
PFMI	Principles for Financial Market Infrastructures

1. INTRODUCTION

Porting is the process of transferring the positions and collateral of clients from one clearing member ("CM") to another CM. This process may occur during both the regular course of business as well as in the event of a CM default. Porting of clients from a defaulting CM to a solvent CM is an important extension of counterparty risk mitigation in centrally cleared markets, as successful porting enables clients to limit their exposure to the defaulting CM, retain their existing open trades, and maintain continued access to clearing. This paper outlines the aspects that are instrumental for successful porting, as well as the risks associated with failed porting. It also explains the roles of central counterparties ("CCPs"), CMs, and clients to increase the chance of successful porting.

CCPs are neutral risk managers between parties to a trade, becoming the buyer to every seller and the seller to every buyer. These buyers and sellers are the direct participants of the CCP – the CMs. The CCP undertakes to risk and default manage any direct participants if needed. Clients who are not direct participants of CCPs, access clearing through CMs. These CMs are responsible for the risk management, including default management of all of their own clients, forming a ring of counterparty credit risk management around the CCP. All other CMs and their clients are thus protected against this credit risk by this two-tiered system.

In the event of a CM default, CCPs have in place default management procedures ("DMP") that are designed to minimize losses and ensure the continuity of clearing services of non-defaulting CMs and their customers while prioritizing the stability of the broader financial system. While the house positions of the defaulting CM will be closed out, separately for non-defaulting client accounts, the CCP will endeavour to provide uninterrupted access to their clearing services by facilitating the porting of clients' positions from the defaulting CM to a non-defaulting CM. As such, porting is an essential tool to mitigate the risks associated with loss of access to clearing services.

Porting is facilitated by proper identification of the clients' positions and collateral. To ensure client protection and fair participation, local regulatory regimes have generally developed requirements and standards for the provision of client account structures for recording client trades and asset segregation. These are also reflected in the global standards, which in turn has led to other jurisdictions to develop their frameworks if these did not yet capture these aspects sufficiently. The Committee on Payments and Market Infrastructures ("CPMI") and the International Organization of Securities Commissions ("IOSCO") issued a principles-based framework, *Principles for Financial Market Infrastructures* ("PFMI")[1], which provides guidance for the risk management practices of Financial Market Infrastructures ("FMIs"), including CCPs. According to PFMI Principle 14, "a CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions".

To further understanding of porting arrangements in the market, CPMI and IOSCO conducted an analysis, consulted the market, and published *the final report on Client clearing: access and portability* in September 2022.[2] The paper examines and analyses the challenges of porting arrangement and possible solutions. In 2023, CCP Global members, CME Clearing and Eurex Clearing, have published a joint case study, "Comparison of Porting Mechanisms in EU and US Regimes", in the CCP Global's 2022 Annual Market Review.[3] This case study highlights the variation in CCPs' approaches to porting across different jurisdictions due to differing regulatory frameworks and correspondingly the various ways that porting may present challenges at different CCPs. To continue the work on porting, CCP Global has prepared this paper which seeks to identify what features can enhance the likelihood of successful porting, including best practices already employed in certain leading jurisdictions. It's worth noting that challenges may vary across different jurisdictions and many of the regulatory obstacles to successful porting discussed in the paper are not features of the Commodity Futures Trading Commission ("CFTC") regulatory regime in the U.S.

[1] CPMI-IOSCO, Principles for Financial Market Infrastructures, April 2012 available at link.
[2] CPMI-IOSCO, Client clearing: access and portability, September 2022, available at link.
[3] CCP Global, 2022 Annual Market Review, July 2022, available at link.

2. THE PORTING PROCESS

As mentioned in the introduction, CCPs have DMP designed to minimize losses and ensure the continuity of clearing services for non-defaulting participants while prioritizing the stability of the broader financial system. To return to a matched book, CCPs seek to promptly close out the house positions of the defaulting CM, for instance, via central limit order books, direct trading with brokers or auction with non-defaulting CMs according to the CCPs' DMP. For clients' positions, CCPs assist in porting of clients' positions and/or collateral from the defaulting CM to a non-defaulting CM whenever possible. If the rules do not require client consent for porting, it can be arranged by the CCPs and receiving CMs directly. Otherwise, clients must play an active role in the porting process.

Presence of non-defaulting CMs that are willing to accept the clients' positions is crucial. The process of finding alternative CMs to accept all client accounts must be completed within a limited period of time (i.e., porting period). The porting period is usually within the margin period of risk ("MPOR") at the CCP. As MPOR is the estimated length of time that a CCP takes to neutralize the market risk of a defaulting CM's portfolio, a longer close-out period will usually mean higher risk exposures and result in higher margin requirements. CCPs must be able to risk manage the exposures, and positions that fail to be ported must be promptly liquidated to return to a balanced book. In addition, subject to the local bankruptcy practices, collateral movement may be restricted in the case of insolvency or failure of the defaulting CM, in which case clients may have to post additional margin with the receiving CM to cover the ported positions. Should the porting of client positions be unfeasible within the allocated porting period, or if clients choose not to port (in some jurisdictions), CCPs will close out the clients' portfolio in accordance with the established DMP.

The below graphs illustrate different stages of the process involved, i.e., business-as-usual ("BAU"), CM default, and BAU after porting is completed. These graphs provide a general overview of the porting process, however it should be noted that there are varying practices and complexities shaped by the local insolvency/ resolution regimes, regulations, and the unique circumstances surrounding the porting event.

Figure 1 illustrates the BAU process of interaction between a CCP, CMs, and clients. In some cases, clients may be allowed to post collateral to CCP directly.

Figure 1: Usual BAU process when there is no CM default

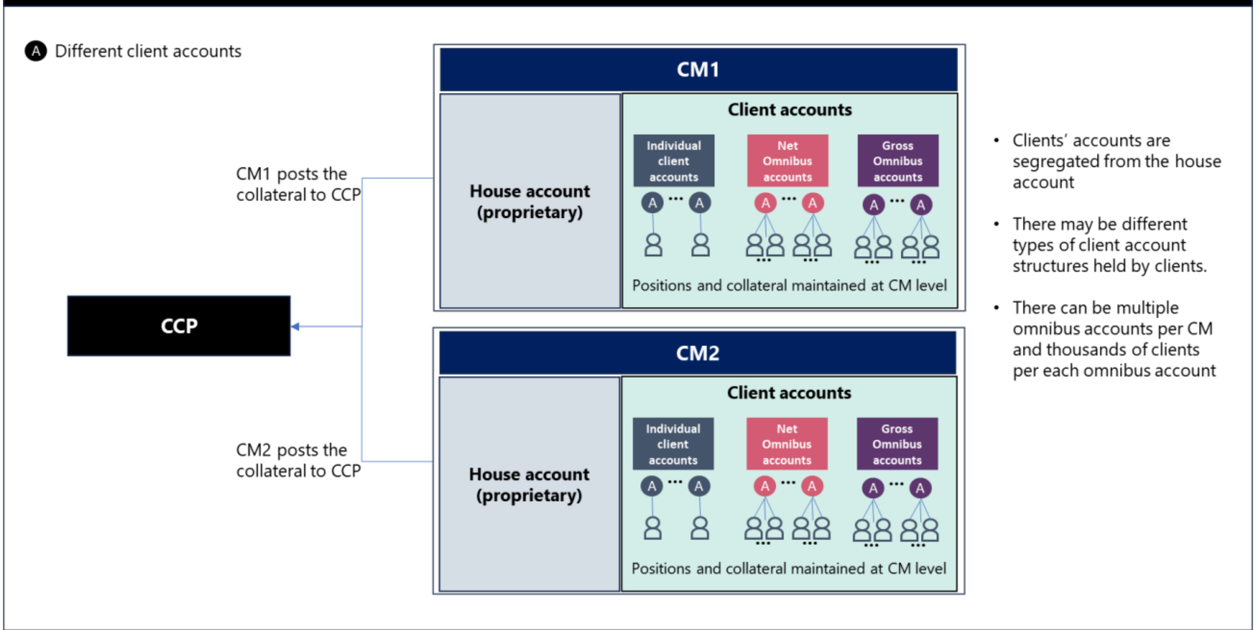
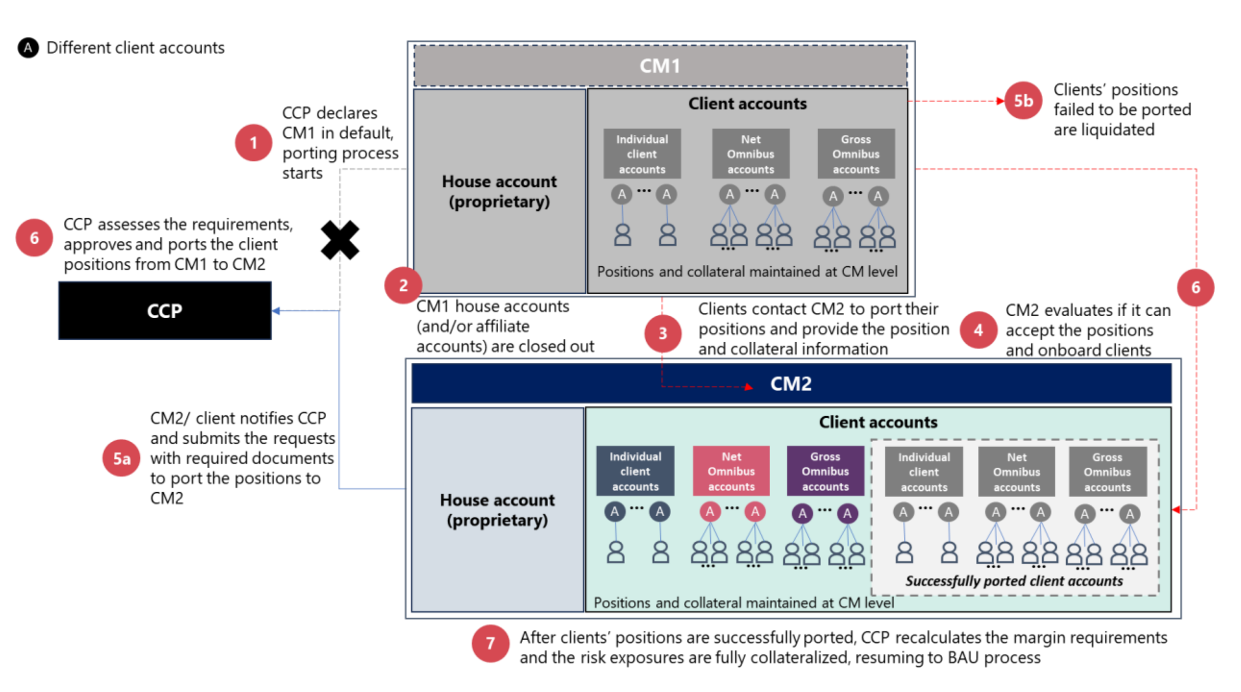


Figure 2 illustrates the scenario when CM1 defaults and clients need to arrange porting themselves. When CM1 defaults, its house accounts will be suspended by the CCP. CM1's house account will be closed out in accordance with the CCP's DMP. The porting process will start simultaneously.

Figure 2: Scenario when CM1 defaults



Below is an overview of the general roles each party plays in the porting process:

1	• The defaulting CM should notify all clients when it is served with the default notice by the CCP and encourage clients to contact the CCP for porting arrangements. • The defaulting CM may need to disclose clients' information to the CCP if applicable. CMs should always maintain clear records of clients' positions and collateral in the BAU process. The defaulting CM can expedite the porting process by providing relevant information to the CCP. • CCPs will exercise their best efforts to facilitate porting of client positions within the porting period, however, it is ultimately the responsibility of the defaulting CM or a relevant party managed by the insolvency practitioner or resolution authority to contact the affected clients, especially for clients who are not disclosed to CCPs. • CCPs need to be able to identify the clients in the relevant client accounts of the defaulting CM, and this information may be available to CCPs where disclosed. For undisclosed clients, CCPs will rely on the records from the defaulting CM for facilitating porting arrangements, however it can be challenging to gather such information during the time of default. Some CCPs may require CMs to provide certain specific client account information regularly or upon request. This information provides CCPs with the ability to assess which positions can be allocated to the relevant client accounts and determine the adequacy of collateral and the collateral value attributable to the relevant clients.
3	• In jurisdictions where negative consent is not permitted by local regulations, clients will need to initiate the request and provide their consent for porting. In such case, clients will need to reach out to their back-up CMs, where such an arrangement exists, or to other non-defaulting CMs to arrange porting. • The likelihood of successful porting is increased where clients have appointed backup CMs who are more likely to accommodate the porting request.
4	• Non-defaulting CMs should assess and determine if they are able and willing to accept the clients' portfolio from the defaulting CM, considering their capacity to clear and risk manage

such product types, the risk exposure limits, capital and liquidity requirements, and other commercial factors, etc.

- Receiving CMs are required to run credit checks and undertake the due diligence process with the required know-your-customer ("KYC") and anti-money laundering ("AML") assessments for any new client admission as part of the onboarding process. Such a process encompasses the setup of the account, funding arrangements, and system access, which is usually lengthy and can take weeks to months to complete. Unless the local regime permits temporary waiver on these diligence checks, this process could potentially exceed the porting period if clients do not have pre-established alternative clearing relationships with CMs.
- While it may be commercially beneficial for a CM to accept clients' positions to expand its client base, it's worth noting that there is generally no mandate requiring non-defaulting CMs to accept the porting of clients' portfolios. Consequently, the acceptance of positions by the non-defaulting CM remains a discretionary aspect of the process.

3-4

- CCPs may receive requests from clients to extend the porting period. CCPs must carefully assess these requests on a case-by-case basis, considering a variety of factors including the progress made by the client, whether a CM has agreed to take over the client's positions and the potential impact granting such an extension could have on the market and the broader stability of the financial system.

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- Receiving CMs or clients must notify CCPs and submit the porting request with the required documents.
- CCPs typically require consent from the following parties prior to porting, along with other required documents:
  1) Clients: Clients' consents are required, whether positive or negative, depending on the local regulatory regime. However, where negative consent is not permitted, CCPs do not have the immediate right to mass port clients' positions and associated collateral from the defaulting CM to the receiving CM.
  2) Defaulting CM: In a few jurisdictions, consent from the defaulting CM may be required, depending on the specific circumstances outlined in CCPs' rulebooks.
  3) Receiving CM: CMs must provide their consent to accept the porting of client positions, as CCPs do not have the authority to force any non-defaulting CMs to accept the clients' positions.

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- CCPs then ensure all required documentation has been received and port the relevant clients' positions.

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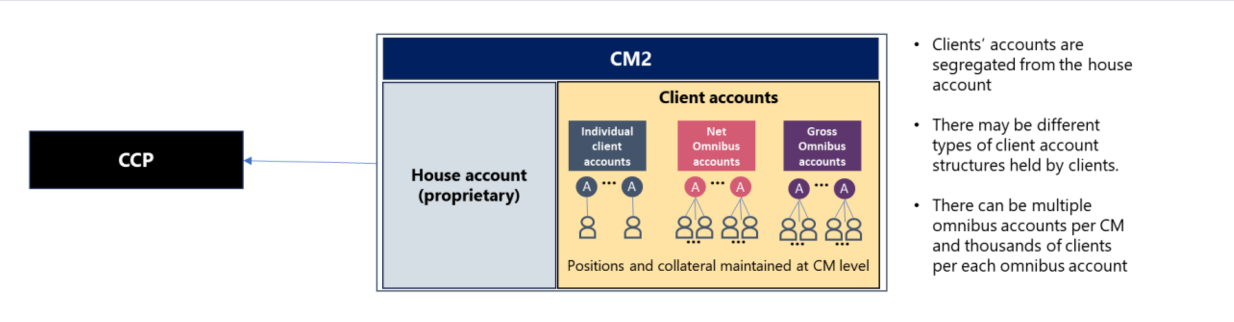
- CCPs will then recalculate the risk exposure and margin requirements consistent with the BAU process.

Figure 3 illustrates the BAU process after the porting process completes.

Figure 3: Usual BAU process after porting process completes



3. FACTORS IMPACTING THE SUCCESS OF PORTING

As illustrated above, there are various factors that impact the likelihood of successful porting. Factors that can enhance the likelihood of a successful porting process include:

- Types of client accounts
- Availability of alternative CMs
- Local regulatory regimes

3.1 Types of client accounts

Segregation and client account structure are often specified in local regulations to protect clients' interests by prohibiting CMs from netting the clients' positions against CMs' proprietary accounts.

In the U.S., the Commodity Futures Trading Commission's ("CFTC") regulations mandate margins to be collected on a gross basis for each client, in which margin is calculated as the sum of the requirement calculated for each individual client account, meaning a clients' positions cannot offset another unaffiliated client's position, in contrast to a client net margining regime. With each clients' positions being independently fully margined at the CCP-level, it provides the flexibility to port clients to multiple different CMs if necessary and appropriate. Net margining may prove more difficult to port as there is insufficient margin at the CCP to cover each individual clients' position on a standalone basis and the receiving CM may be reluctant to take on individual customer portfolios that are under margined, particularly in times of stress. In addition, the CFTC mandates the use of "Legally Segregated, Operationally Commingled" ("LSOC") standard for cleared swaps.[4] LSOC model requires that the CCP tracks the collateral value of each cleared swaps customer, which enhances the ease with which a client's assets can be identified and ported in the event of a CM default. The primary objective of these models is to segregate clients' positions and assets from the CMs and the fellow customers, restricting the use of client assets to meet any obligations of their CMs or those from another client. These segregation models enhance the likelihood of successful porting.

In the E.U., the European Market Infrastructure Regulation ("EMIR") prescribes segregation requirements that CCPs and CMs are obliged to offer at least a choice between:[5]

- Individual segregated account ("ISA"): This account is set up on an individual client basis. All trades, positions, and collateral maintained in an individual account belong to one client only.
- Omnibus segregated accounts ("OSA"): This account is for the recording of trades and positions of clients of a CM on an omnibus basis, i.e., aggregate level. This can be sub-categorized into gross omnibus segregated account ("GOSA") which is maintained and margined on a gross basis, while net omnibus segregated account ("NOSA") is maintained and margined on a net basis.

Beyond the basic regulatory requirements, some CCPs also provide additional account types and options that suit the needs of their clients, thereby best serving the markets and products they clear.

The table below provides a generic summary of the major account types available to clients. It is important to note that the segregation model and asset protection regime determine the portability of a client's positions; as such, clients should consider the potential trade-offs between the cost and benefits (i.e., margin efficiency and the level of fees charged by CMs) of the types of accounts they utilize. When given multiple options in client account models, clients are in the position to choose a segregation model that aligns with their specific needs and circumstances.

[4] CFTC, CFTC Regulation §22.3 - Derivatives Clearing Organizations: Treatment of Cleared Swaps Customer Collateral, §22.2- Futures Commission Merchants: Treatment of Cleared Swaps and Associated Cleared Swaps Customer Collateral.
[5] EMIR Article 39.

	ISA/ Individual Client Account ("ICA")	NOSA	GOSA	LSOC model
Margins	Margins are netted within a client's portfolio only.	Margins are calculated on netted client positions for client portfolio margining.	Margins are collected on a gross basis for each individual client. Clients' positions cannot offset those of other unaffiliated clients.	
Positions	Positions are held at individual client level.	Positions are aggregated but records should be maintained at individual client level by CMs. Usually, clients of NOSA are undisclosed.	Positions are aggregated per omnibus account and recorded at individual client level. Such information may be disclosed to CCPs in accordance with their rules.	Positions are held at individual client level
Collateral/ Assets	Collateral is segregated from other clients, specific positions and assets can be identified at individual client level.	Collateral is held in aggregate without specific client ownership identification.	Collateral is held in aggregate pool but segregated in value that individual client ownership can be identified by CCPs if such information is provided to them.	Collateral value is segregated and tracked by CCPs at individual client level, though it is operationally commingled.
Fellow customer risk	No	Yes	Yes (limited)	No
Impact on portability	ISA structure results in less impediment to port. The individual segregation model allows easy identification of positions and assets to the individual clients. As margin is calculated at the individual client level, the risk of margin shortfall as a result of porting is minimal. CCPs are able port the positions and collateral of the individual clients if there are receiving CMs identified.	Porting arrangements for NOSA structure is the most challenging. As clients within NOSA are undisclosed, CCPs will not be able to identify the specific positions and collateral to the specific clients. In addition, margin is calculated on a net basis, meaning that porting arranged separately by individual clients will lead to a margin shortfall. Clients should be ready to post new collateral to the receiving CMs. As the collateral is posted at the CM level, collateral movement will be restricted. Porting is only feasible when either additional collateral is provided by other clients, or when all clients in the same account need to coordinate and unanimously give consent to port to the	GOSA structure results in less impediment than NOSA to port. CCPs are only able to identify the positions and collateral of the individual clients if such information is disclosed to them. Individual porting is possible as clients' positions are collateralized on a gross basis, which mitigates the risk of margin shortfall. However, there is still a risk that the collateral may not be transferred with positions simultaneously if the collateral is posted with the defaulting CM and hence restricted by insolvency practitioner. As such, clients should be ready to post new collateral to the receiving CMs as well. In any case, there must be a receiving CM who is willing to accept the clients' position.	LSOC structure results in less impediment to port. CMs are required to maintain daily computation and records which are submitted to CCPs daily if required. Individual porting is possible as clients' positions are collateralized on a gross basis, which mitigates the risk of margin shortfall. It's likely that the collateral can be transferred simultaneously with the positions as collateral value are segregated and allocated to each client. In any case, there must be a receiving CM who is willing to accept the clients' position.

	ISA/ Individual Client Account ("ICA")	NOSA	GOSA	LSOC model
		same receiving CM. Finding a common agreed CM who is willing to accept all clients' positions is deemed to be a major bottleneck.		

Most CCPs find that non-disclosed and net-margined client accounts are more challenging to port as clients in the account need to be identified with a clear record of the positions and collateral linked to them. If the net omnibus account cannot be ported as a whole, this increases the likelihood of liquidation. Furthermore, the account setup by clients may add additional complexity, for instance, the omnibus account may belong to a third-party broker and consent from the end-users may be required.

3.2 Availability of alternative CMs

As mentioned in the introduction, clients' having an existing relationship with a backup CM reduces the burden of the due diligence process, including the requirement for KYC and AML assessments, which substantially increases the chance of successful porting within the porting period. Such an arrangement eliminates the lengthy onboarding process for establishing a new relationship which is unlikely to be completed within the specified time allowed for porting arrangement.

Additionally, having an existing relationship with an alternative CM may make the CM more inclined to accept the client's positions. While CCPs generally lack the authority to mandate clients to establish alternative clearing relationships with CMs, clients are often encouraged to appoint backup/ alternative CMs. Clients should carefully consider the benefits of an increased likelihood of successful porting against the costs of maintaining such a relationship.

It's worth noting that CMs' capacity to accept the positions will depend on whether they have the clearing capability, and ability to risk manage the positions, and whether such acceptance of the positions will have negative capital implications and increase the collateral requirements (e.g., triggering concentration risk add-ons and additional default fund ("DF") contribution), along with other commercial considerations. Even where pre-established relationships with clients exist, non-defaulting CMs may be reluctant in accepting the clients' positions.

3.3 Local regulatory regimes

Local regulatory regimes play a distinct role in enhancing efficiency and increasing the chance of successful porting. If regulators believe that successful porting of client positions in the event of a CM default will contribute to maintaining market stability, relevant authorities should present clear and strong objectives for successful porting by implementing consistent rules and regulations accordingly.

Regulatory considerations that reduce friction to enhance portability include:

- **Negative client consents:** Regimes that allow for the transfer of client accounts without positive client consent support the CCPs' ability to mass port the clients' positions in a timely manner which increases the chance of successful porting. Clients can further port out their positions from the receiving CMs to their preferred CMs when the timeline is less constrained. However, in many regulatory regimes, CCPs are not given the right to immediately port the positions of the clients from the defaulting CM without such positive consent. Eliminating the legal requirement to obtain positive ex-ante client consent for porting significantly enhances the possibility of mass porting. The process of obtaining all client consents can be time-consuming with challenges from identifying and allocating the positions and collateral at individual client level within the OSA structures, thereby hindering the porting process.

- **Temporary waiver on AML and KYC assessments:** Granting such a waiver will expedite the porting process as another major bottleneck comes from the time-consuming processes of client onboarding when there is no pre-established clearing relationship with a backup CM. After clients are transferred to the receiving CMs upon porting, clients and receiving CMs can re-paper the required due diligence process with a less compressed timeline. The length of such a temporary waiver should be carefully considered by the local authorities in consultation with relevant stakeholders.

  Similarly, CCPs may develop means for clients to directly provide collateral/cash to the CCP to obtain extension for the time allowed to arrange porting, such temporary waiver to CCPs will also be beneficial if certain KYC/AML requirements are necessary for CCPs to receive payment from an institution.

- **Collateral protection:** Unless local insolvency law provides additional protection on clients' collateral in the event of CM default, collateral held in an omnibus account and posted at the CM level may be retained at the administrator of the defaulting CM and become part of the bankruptcy estate if they cannot be attributed to a specific client. In such case, the clients' collateral is not ported simultaneously with the positions to the receiving CMs. Local regulations should ensure that CCPs are given immediate and irrevocable rights to conduct any default management actions to transfer the clients' positions and collateral from the defaulting CM in the event of insolvency.

- **Temporary waiver on capital requirement:** Non-defaulting CMs are more reluctant to accept additional clients' positions if they are likely to breach the capital and liquidity requirements. This temporary waiver will make the porting process smoother and increase the chance of success. The length of such a temporary waiver should be carefully considered by the local authorities in consultation with relevant stakeholders.

4. CCPS' WORK IN PORTING

CCPs have taken active roles in improving the porting process whenever possible to safeguard clients against the default of their CMs, ensuring they can retain open positions and maintain access to clearing. However, CCPs' roles are inherently limited. For instance, CCPs can only encourage, but cannot compel, clients to arrange for an alternative CM, nor can they mandate that CMs take on new clients. Therefore, collaboration from both clients and CMs is essential.

The practices outlined below reflect industry commitments to optimizing the porting experience and may serve as a set of best practices for consideration.

Coordination on best effort basis porting

As described in Section 2 for CCPs' roles in porting, CCPs actively facilitate the process and coordinate to the extent possible. The porting process is most likely to succeed if clients are proactive where their positive consents are required and if CMs are able and willing to accept clients' positions.

When the local regulatory regimes support mass porting and allow temporary waiver in due diligence, CCPs may be able to adopt a more active approach in establishing a robust porting process in coordination with CMs. CCPs may conduct a "white knight" analysis, on an ex-ante basis, to identify a group of potential CMs who are likely and able to accept the clients' positions. CCPs can leverage the analysis to speed up the processes if there are potential CMs willing to accept the clients' positions. CCPs may evaluate the below criteria of potential receiving CMs:

- Memberships required to clear the products and serve the clients
- Risk management expertise in the relevant asset classes
- Capital sufficiency to meet the increased financial obligations resulting from accepting clients' positions (i.e., additional collateral or capital requirement)
- Ability to take or make deliveries of relevant products (i.e., settlement arising from derivatives transactions)
- Similar and/or overlapping client bases with the defaulting CMs/ ability to risk manage similar types of clients
- Other factors that CCPs see appropriate (e.g. matching of risk-reducing trades)

CMs should also assess their capacity to accept the positions with the information provided by the CCP.

Generally, it is preferred that a single CM can accept all clients' positions of the defaulting CM as an efficient approach given the tight timeline in cases where mass porting is allowed with a temporary waiver of due diligence. This method minimizes margin shortfalls that may occur where net margining is utilized, and generally prevents "cherry picking". Clients can then arrange to transfer their positions to another CM after the DMP is completed. For complex portfolios or products that cannot be ported to a single CM, CCPs may explore splitting the book of clients by products and customer types and identify suitable CMs as the potential receiving CMs.

Regular default management drills and provision of information packs

Apart from outlining the porting process in the clearing rules and operational procedures, CCPs also arrange regular meetings to brief CMs on the DMP and may provide public information packages on porting to enhance market participants' understanding of the mechanics of the porting process. The information pack typically may include:

- Porting procedures (with required documents) and game plan
- The contact(s) at CCPs for enquiries
- Frequently asked questions

Consistent with the PFMI and local supervisory authorities' requirements, CCPs conduct regular default management simulations involving external participants (i.e., CMs and other market participants). These default simulations, conducted at least annually, serve to test the operational systems and DMP in place. These exercises also ensure both the CCPs and CMs are operationally prepared to manage a potential CM default, assessing crucial operational components in the DMP which include porting.

Specifically, default management simulations may include the following:

- CCPs may conduct an internal test to verify the standard operating procedures to ensure a seamless transfer of clients' positions and collateral from the hypothetical defaulting CM to another non-defaulting CM. This test assumes all necessary consent and information are obtained, and a hypothetical non-defaulting CM is identified to accept the positions, meeting the requirements of risk monitoring and assessments.
- CCPs may test the procedures in collaboration with CMs in an external default simulation exercise. In this approach, CCPs ensure CMs are well-acquainted with the procedures outlined in the rulebooks. These include the necessary paperwork required for AML and KYC assessments, consent from hypothetical client(s), and the transfer of the positions and collateral.
- CCPs may also test the procedures with CMs and clients. The process will allow CMs and clients to evaluate the sufficiency of the playbooks and porting procedures (including decision-making, communication protocols, and transfer of the positions and collateral), and to understand the challenges of porting in a compressed timeline. CMs are more inclined to participate in these tests, especially when there is expressed demand from clients.

Flexibility to extend the time period for porting

As the event of default often occurs during periods of market stress, porting will likely need to be conducted in a short period of time. Positions that fail to be ported should be promptly liquidated to avoid further losses and consumption of the mutualized default resources. As such, CCPs establish specific time frames for clients to arrange their positions to be ported to new CMs without exacerbating market stress. The duration of these windows varies among CCPs.

CCPs generally recognize the challenges associated with navigating all the porting procedures, particularly considering the prolonged client onboarding process and the necessary time to complete the required paperwork. Consequently, to the extent that such extension does not compromise the CCPs' ability in risk-managing the exposures in their cleared markets or result in losses leading the consumption of mutualized default resources from other non-defaulting CMs, CCPs offer flexibility to extend the time period for a reasonable duration to facilitate an orderly transfer of positions and collateral. CCPs generally consider the below factors and assess them on a case-by-case basis. Essentially, the decision to extend the time for arranging porting is based on the likelihood of successfully completing the porting within the extended timeframe, along with consideration of broader financial market stability implication.

- **Account structure:** CCPs are most likely to extend the time period for clients of individually segregated or gross margined accounts, considering the benefits of collateralization, account segregation, and CCPs' ability to locate clients' positions and collateral on an individual client basis as discussed in Section 3.1. In all cases, a receiving CM who is willing to accept the positions of the clients is required for porting to succeed.
- **Level of collateralization:** If the market is moving unfavourably to their positions, CCPs must carefully evaluate the risks of extending the time period rather than proceeding to timely liquidation of the client's positions. The likelihood of extending the porting timeline increases if there is excess collateral held in the relevant clients' accounts at the CCPs and where clients have the ability to post margins directly to the CCPs. As clients may face transit risk as collateral transfer may be restricted by the insolvency practitioners of the defaulting CM, clients should be ready to post additional collateral to receiving CMs. Failure to do so may lead to reluctance from CMs to accept clients' positions and porting will fail and result in liquidation.

- **Porting progress:** CCPs are more likely to extend the time period if clients are proactive and have already started the process to arrange porting, i.e., having potential CMs identified to accept their positions. This active management of the porting progress shows evidence and gives CCPs confidence that porting can happen within the extended time period.
- **Option to post collateral directly to CCPs:** Certain client account structures offered by some CCPs allow clients to make direct payments or post collateral directly to them. If clients are able to continue to make margin payments to CCPs to cover the risk exposures, CCPs are more likely to extend the time period for porting. However, some CCPs may not offer this arrangement due to limitations in payment infrastructures and operational challenges, including the efforts for tracking, reconciliation, and validation of client funds. If made available, a direct payment option to maintain collateral with CCPs is generally preferred. This approach helps avoid transit risks and ensures continuous fulfilment of the margin requirements, even in the event of CM default. It is most effective if such a direct payment route has been established prior to default and regularly tested.

Education to the market

CCPs generally encourage clients to appoint backup CMs who are more likely to accept their positions due to pre-established relationships. Additionally, CCPs maintain open dialogues with CMs and clients regarding porting processes and engage with market participants whenever inquiries arise.

5. CLIENTS' ROLES IN PORTING

While CCPs endeavour to facilitate the porting process to the extent possible, ultimately, client participation is essential in increasing the chances of successful porting in jurisdiction where CCPs lack the ability to mass port and there is no waiver on clients' due diligence. Clients must be proactive in arranging the porting process and certain pre-arrangements, e.g., establishing clearing relationship with alternative CMs increase the viability of porting. However, such arrangements come with costs which for some clients, may outweigh the benefits. It's worth noting that some clients may prefer to liquidate their positions rather than to attempt porting based on their specific facts and circumstances.

Understand the procedures with participation in the default simulation

Clients should refer to the clearing rules and operational procedures which outline the porting process and contact CMs and CCPs for any inquiries. It is essential for clients to familiarize themselves with the necessary documentation, funding arrangements, credit lines, and key contacts involved in the porting process. Additionally, clients are also encouraged to participate in CCPs' default simulation exercises to evaluate and enhance their operational readiness.

Set up alternative/ backup CMs

As mentioned in the above, it is critical for clients to appoint backup CMs for cases where clients' consent is required for porting arrangements and clients must go through the due diligence process before their positions can be transferred. Whether clients are able to be ported is fundamentally determined by CMs' willingness to accept clients' positions. Clients who have pre-established clearing agreements with CMs have a higher chance to be ported.

Understand the account structure

Clients should understand the account structure and conduct a proper assessment of fellow customers and transit risks. Particularly for NOSA, if there is insufficient margin to cover all clients' positions on a standalone basis, receiving CMs will be reluctant to take on any individual client's portfolios that are under-margined unless all clients in the NOSA provide additional margins or coordinate to port to the same receiving CM. In the latter case, the receiving CM would then need to accept all the clients and conduct all the corresponding KYC/ AML assessments for clients' due diligence. A huge number of clients in the same omnibus account will make porting extremely complicated and fail.

Understand the local porting regime

Clients are advised to engage their legal team to examine the local regulatory framework, including the client collateral protection regime, and consult with CCPs on the local porting arrangements. Apart from clarifying the porting mechanisms (including the consent requirements and time period), clarity should be sought on the conditions for returning any collateral balance, i.e., whether directly to the clients from CCPs or via an insolvency practitioner. CCPs and clients may need to a court order to grant them the right to move the collateral for porting when the defaulting CM has filed for bankruptcy.

Ensure sufficient funding for additional collateral

Ideally, both collateral and positions are transferred simultaneously to the receiving CMs. However, collateral may be posted at the CM level and such transfer may lead to potential legal disputes, especially in the event of CM default and simultaneous default of clients in the same omnibus account. As mentioned above, where net margining is utilized, clients may be required to post fresh margins if porting of any of the clients' positions in the same omnibus account may lead to margin shortfalls. The collateral may not be ported to the receiving CMs immediately considering the challenges in locating the asset at individual clients due to collateral transformation. Clients should anticipate additional liquidity required to meet the funding needs separately as agreed with their receiving CMs and before positions are successfully ported.

6. CMS' ROLES IN PORTING

Regardless how much efforts are directed by CCPs in the porting process, porting will not be successful where CMs are not prepared and willing to accept clients' positions. Given that CMs face their clients directly it is also essential that CMs take an active role in educating clients with the porting procedures to ensure a smooth process.

Active role to take up clients' positions

As mentioned above, one of the obstacles to successful porting is finding alternative CMs to accept client positions. CMs are encouraged to contact CCPs to indicate their interest in accepting client positions. If the client consent is not required and bulk transfer is permitted, CCPs can quickly react for porting arrangements and transfer the clients' positions and collateral to the CMs who are willing and capable to accept the positions. Otherwise, CCPs may share such a list of potential CMs with clients and facilitate the porting process by providing CMs with the clients' portfolios for their assessment, subject to a binding confidentiality agreement and with the consent from clients.

CCPs may identify potential alternative CMs ex-ante as mentioned in Section 4. CCPs work to identify potential CMs for clients considering the CMs capacity to risk manage certain products and portfolios. CMs' willingness to support this pre-arrangement will expedite the porting process and increase the likelihood of successful porting.

Education to clients

Because clients face CMs directly, client experiences are shaped significantly by their interactions with CMs. CMs must possess deep knowledge of the porting processes and educate clients on the requirements and prerequisites. CMs should clearly explain the available client account structures and the impact of different levels of segregation on account portability to their clients.

Operational readiness

One of the ways for CMs to test the viability of the porting procedures is via participating in default management simulations arranged by CCPs. Such exercises inform CMs of the porting process, i.e., when the client's portfolio will be available, when the client positions and collateral can be transferred, and when receiving CMs will be called for the margin requirements of the clients. Furthermore, these exercises can also provide valuable insights into how the porting process interacts with local insolvency and bankruptcy regimes and other stakeholders, such as the resolution authorities and bankruptcy trustees if they are also engaged. CMs can be informed of any necessary operational procedures and arrangements required in facilitating the porting process of their existing clients and/or new clients.

7. CONCLUSION

As risk managers, CCPs are eager to extend the credit risk mitigation measures to protect clients from the default of their CMs by allowing clients to retain their open positions and maintain continued access to clearing. However, CCPs cannot achieve this alone.

There are various factors that contribute to enhancing the likelihood of successful porting. Regulatory regimes play a large role in shaping the way a CCP approaches the porting process, which makes a standardized approach to porting across CCPs difficult to achieve.

In regimes where the use of negative consent is not permitted or clients need to provide instructions or approval, CCPs lack the ability to mass port and clients must take an active role in the porting process and seek alternative CMs to accept their positions, which is challenging to execute within the porting period. Clients can improve their chances of successful porting by pre-arranging backup CMs and selecting account structures that favour portability if offered by the CCP.

Despite the challenges in many porting regimes, there are multiple factors that can effectively increase the viability of porting and the roles of clients and CMs are of utmost importance to make porting successful. By understanding the local porting regime and implementing the necessary operational procedures, clients and CMs can greatly improve the chances of successful porting. CCPs are also committed to supporting this process by providing critical information and guidance to both CMs and clients, ensuring they are well-prepared. Through collaborative efforts and informed engagement, the complexities of porting can be navigated effectively and the resilience of the clearing system can be strengthened.

CCP Global
The Global Association of Central Counterparties

8. ABOUT CCP GLOBAL

CCP Global is the global association for CCPs, representing 42 members who operate over 60 individual CCPs across the Americas, EMEA, and the Asia-Pacific region.

CCP Global promotes effective, practical, and appropriate risk management and operational standards for CCPs to ensure the safety and efficiency of the financial markets it represents. CCP Global leads and assesses global regulatory and industry initiatives that concern CCPs to form consensus views, while also actively engaging with regulatory agencies and industry constituents through consultation responses, forum discussions, and position papers.

For more information, please contact the office by e-mail at office@ccp-global.org, or through our website by visiting www.ccp-global.org.

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