

April 21, 2022

**VIA ELECTRONIC SUBMISSION**  
**European Securities and Markets Authority**  
**201-203 Rue de Bercy**  
**CS 80910**  
**75589 Paris Cedex 12**  
**France**

**Re: CCP12 response to ESMA’s call for evidence on an approach to Climate Risk Stress Testing of Central Counterparties**

The Global Association of Central Counterparties (“CCP12”) appreciates the opportunity to comment on the European Securities and Markets Authority’s (“ESMA”) call for evidence on an approach to Climate Risk Stress Testing of Central Counterparties (“CCPs”) (“the call for evidence”).<sup>1</sup>

CCP12 is the global association for central counterparties (“CCPs”), representing 41 members who operate over 60 individual CCPs globally across the Americas, EMEA and the Asia-Pacific region.

CCP12 recognizes the importance of mitigating the potential risks and impacts of climate change and the need for CCPs to consider both direct and indirect impacts, such as on their members. We therefore appreciate ESMA’s initiative on this important topic.

CCP12 appreciates ESMA’s recognition that stress tests need not be focused on modelling different climate pathways and climate related macroeconomic scenarios<sup>2</sup>. Overall, if ESMA is to create a framework on climate stress testing for European Union (“EU”) CCPs, the framework needs to clearly recognize the role of a CCP which is to manage the risk arising from becoming the buyer to every seller and the seller to every buyer. A focus on climate risk should not distract or undermine this role and related risk management practices. In thinking about any type of stress testing for climate risk, there should be a clear focus on plausibility and the relevance of any related events to CCPs and their core role, particularly since traditionally the products they clear require the management of short-term risks.

Further, we believe it is of the utmost importance that any work that ESMA does with respect to climate risk stress testing clearly recognizes the various practices that EU CCPs employ to effectively mitigate and manage climate risk, including those related to the four pillars ESMA identifies<sup>3</sup>. EU CCPs have time-tested processes around risk management and as such, in many instances, we believe the focus should be less so on the specifics of any climate risk related event, but on the EU CCP having effective practices

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<sup>1</sup> ESMA, Consultation Paper, Call for evidence on an approach to Climate Risk Stress Testing of Central Counterparties (Feb. 2022), available at [Link](#)

<sup>2</sup> ESMA, Consultation Paper, Call for evidence on an approach to Climate Risk Stress Testing of Central Counterparties (Feb. 2022), available at [Link](#), page 14

<sup>3</sup> ESMA, Consultation Paper, Call for evidence on an approach to Climate Risk Stress Testing of Central Counterparties (Feb. 2022), available at [Link](#), page 20

to monitor and manage such an event, whether that be through stress testing or other risk management practices a CCP employs.

For example, CCP12 appreciates that ESMA recognizes that the risks categorized as “physical risks” in the consultation are “similar to other operational risks which are already assessed.”<sup>4</sup> However, the call for evidence then states that the difference between these operational risks and climate related risks is that climate events should not only be defined as operational risks but also be defined as the effect of extreme weather event on the CCP and other entities to which it is exposed, combined with the resulting price movements on the markets affected by that event.<sup>5</sup> CCP12 would like to emphasize that these sorts of risks and the resulting price movements are already recognized and addressed in many EU CCPs risk management practices, including initial margin and stress testing (e.g., hurricane-based stress scenario) frameworks, as described further below, and disaster recovery planning and operational resilience practices. As such, ESMA should recognize this fact, and not create duplicative requirements that do not consider EU CCPs processes which already effectively address climate-related risks.

CCP12 appreciates that ESMA appropriately recognizes that EU CCP stress tests generally focus on a period of time that is commensurate with the margin period of risk applied by EU CCPs, which varies from 2-5 days.<sup>6</sup> As such, if ESMA is to create a framework for EU CCP climate risk stress testing, we urge ESMA to consider how and why CCPs use stress testing in general. With this in mind and given the short-term risk horizon of products cleared by many EU CCPs, the focus of such exercises must be on short-term risks, as is traditional CCP stress testing. Further, it is important to note the distinction between weather risks vs. climate risks. Weather risks such as excessive rainfall, drought, severe hot or cold temperature and other related items are risks that CCPs currently include in initial margin models in various factors through margin rates, de-correlation scenarios, as well as current stress testing. Climate risks are those that occur over much longer time-periods.

With an appropriate focus on the short-term risks that are posed by climate change, it should be recognized that the likelihood of certain risks materializing within this short, 2–5-day period is minimal. Specifically, with regard to what the call for evidence categorizes as “rapid transition risks,”<sup>7</sup> ESMA appropriately recognizes that these sorts of changes in customer preferences and investor behaviour often occur over a long period of time, and thus it is unlikely to be relevant to the EU CCP for the purposes of stress testing<sup>8</sup>. The call for evidence, however, also states, that changes in customer preferences could happen more rapidly and due to shifts in allocation there could be increasing market volatility.<sup>9</sup> However, EU CCPs already have existing scenarios within their stress testing frameworks to appropriately respond to rising market volatility. More broadly, CCPs are best suited to appropriately design their stress testing

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<sup>4</sup> ESMA, Consultation Paper, Call for evidence on an approach to Climate Risk Stress Testing of Central Counterparties (Feb. 2022), available at [Link](#), page 17

<sup>5</sup> ESMA, Consultation Paper, Call for evidence on an approach to Climate Risk Stress Testing of Central Counterparties (Feb. 2022), available at [Link](#), page 17

<sup>6</sup> ESMA, Consultation Paper, Call for evidence on an approach to Climate Risk Stress Testing of Central Counterparties (Feb. 2022), available at [Link](#), page 14

<sup>7</sup> ESMA, Consultation Paper, Call for evidence on an approach to Climate Risk Stress Testing of Central Counterparties (Feb. 2022), available at [Link](#), page 17

<sup>8</sup> ESMA, Consultation Paper, Call for evidence on an approach to Climate Risk Stress Testing of Central Counterparties (Feb. 2022), available at [Link](#), page 18

<sup>9</sup> ESMA, Consultation Paper, Call for evidence on an approach to Climate Risk Stress Testing of Central Counterparties (Feb. 2022), available at [Link](#), page 18

frameworks in a manner that captures the unique risks of the products they clear. While CCP12 still believe this category of risk is unlikely to materialize in a shorter timeframe, CCPs already have risk management tools in place to cover the resulting market moves if such an event were to occur.

Lastly, regarding the risks categorized as “collateral replacement risks,” CCP12 does not agree that collateral should be used as a tool to influence policy on climate risk. The purpose of collateral is to manage credit risk and as such, the focus should be on securing high quality, liquid assets to cover potential future exposures. This purpose should not be undermined by imposing restrictions or limitations on posting these asset types due to environmental considerations. Simply put, the incentives for posting high quality, liquid assets should not be undermined or diverted in any way.

## I. About CCP12

CCP12 is the global association for CCPs, representing 41 members who operate over 60 individual central counterparties (CCPs) globally across the Americas, EMEA and the Asia-Pacific region.

CCP12 promotes effective, practical, and appropriate risk management and operational standards for CCPs to ensure the safety and efficiency of the financial markets it represents. CCP12 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@ccp12.org](mailto:office@ccp12.org) or through our website by visiting [www.ccp12.org](http://www.ccp12.org).

## II. CCP12 Members

