

17th October, 2023

2023 CCP Global – International Default Simulation (“CIDS”) Exercise

Guidance Letter

All,

The 2023 CIDS Exercise will take place beginning 13th November and run till the end of the default management process as planned by the CCPs. The Global Association of Central Counterparties (“CCP Global”) is providing this guidance, in consultation with regulators, to ensure that all CCPs and clearing participants approach the drill in a consistent manner.

1. CCPs should follow the high-level common narrative of a hypothetical common clearing member default in a market scenario. The defaulting clearing member, whose name is A.C.M.E (“A Clearing Member Everywhere”), is assumed to be one of the 5 largest clearing members as defined by each CCP.
2. CCPs will define their own scenarios and create the defaulting clearing member’s portfolio(s). Each CCP will determine which asset classes they include into the simulation, and their regulators may stipulate asset classes should this simulation also cover supervisory requirements for the period. The 2023 CIDS exercise will cover a broad range of asset classes. The overall scope includes cash equities, fixed income, repo, and derivatives contracts of interest rate, equity, commodity, foreign exchange, and credit. In most cases, the default simulation will incorporate direct trading, hedging and auctioning of the defaulted member’s portfolio(s) according to the CCPs’ default management process. Additionally, collateral liquidation, and other modules such as funding arrangements, and porting, may be tested.
3. CCPs may work with the respective regulators for specific components and side-events to be tested in the local or regional context, in addition to the high-level common narrative. It is up to the CCPs and their regulator(s) to decide whether to share such information with others.
4. The events leading to the hypothetical defaults commence (during the weekend) on 12th November. It will be up to the CCPs to define the date they declare the default and start the default management procedures, preferably 13th November if practical. Ideally, CCPs will conduct default management processes along the same timeline if an actual default decision occurred at that time. However, if CCPs believe this is not practicable, they should inform their regulator(s). This provides a realistic, if divergent, beginning of a global member default.
5. During the drill, CCPs are expected to follow their own internal default management procedures. The communication and information sharing between CCPs and their respective regulators are expected to be similar to what would occur during an actual default event. This information sharing will be part of the qualitative analysis following the drill. If a CCP would prefer specific information not to be shared with the group of regulators, this should be communicated with its primary regulator.
6. Participants are expected to actively engage in the default simulation exercise. Any hypothetical trades, hedges, or auction prices sent to CCPs should be in line with that particular CCP’s simulation requirements.

7. CCPs are also expected to provide information and metrics to CCP Global and their respective regulators and authorities. The below data and information will be collected for post-exercise analysis. Each CCP, in agreement with the respective regulators and authorities, should determine the most appropriate metrics for analysis, given their particular hypothetical portfolio(s). If non-CCP Global member CCPs choose to participate, they are encouraged to participate in collecting and sharing such information, though such choice resides with the CCP itself.

Quantitative Data	Qualitative information
<p>Collected by CCP Global:</p> <ul style="list-style-type: none"> ○ Level of participation from clearing members and clients if relevant ○ Time used for close-out of defaulted positions, e.g. time needed for hedging and auction ○ Bid outlier ratio by product classes ○ System connectivity rate (successful connection to auction platform if applicable) 	<p>Collected by CCP Global:</p> <ul style="list-style-type: none"> ○ Scope of the test (modules and description of product classes covered) ○ Auction practices ○ Potential improvements identified under the current regulatory framework, e.g. porting or information sharing across jurisdictions
<p>In addition to local regulators and authorities:</p> <ul style="list-style-type: none"> ○ Quantitative metrics indicating the complexity and risks of the liquidated portfolio, as is customary for the particular market or asset class (such as number of positions, and sensitivity metrics including the "greeks") ○ Initial margins and DF contributions of the defaulter ○ Collateral composition (maturity bucket, type) ○ Collateral value after haircut ○ Collateral liquidation value ○ Cost of hedging ○ Auction details (bids) 	<p>In addition to local regulators and authorities:</p> <ul style="list-style-type: none"> ○ Scenario description ○ Hedging aspects (e.g. hedging strategies, involvement of default management group)

8. List of participating CCPs and their local lead regulators and authorities:

CCPs	Local Lead Regulator(s)/ NCAs¹
Athens Exchange Clearing House	Hellenic Capital Market Commission
ASX Clear (Futures)	Reserve Bank of Australia (RBA)/ Australian Securities & Investment Commission (ASIC)
BME Clearing	Comisión Nacional del Mercado de Valores (CNMV)
CBOE Clear Europe	De Nederlandsche Bank
CCP Austria Abwicklungsstelle für Börsengeschäfte GmbH (CCP.A)	Austrian Financial Market Authority (FMA)
Chicago Mercantile Exchange Group	Commodity Futures Trading Commission (CFTC)
Clearing Corporation of India Ltd	Reserve Bank of India (RBI)
Dubai Commodities Clearing Corporation	The Securities and Commodities Authority (SCA)
Eurex Clearing AG	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)/ Deutsche Bundesbank
Euronext Clearing	Banca d'Italia and Consob
Hong Kong Securities Clearing Company Limited (HKSCC)	Securities and Futures Commission (SFC)
HKFE Clearing Corporation Limited (HKCC)	Securities and Futures Commission (SFC)
ICE Clear Credit	Commodity Futures Trading Commission (CFTC)
ICE Clear US	Commodity Futures Trading Commission (CFTC)
ICE Clear Europe	Bank of England (BoE)
ICE Clear Netherlands	De Nederlandsche Bank
ICE Clear Singapore	Monetary Authority of Singapore (MAS)
Japan Securities Clearing Corporation	Japanese Financial Services Agency (JFSA)
Keler CCP Ltd.	Central Bank of Hungary
LCH Ltd	Bank of England (BoE)
LCH SA	Autorité de Contrôle Prudentiel et de Résolution (ACPR)/ Autorité des marchés financiers (AMF)/ Banque de France
LME Clear	Bank of England (BoE)
Minneapolis Grain Exchange, Inc.	Commodity Futures Trading Commission (CFTC)
Muqassa	Capital Market Authority (CMA)
Nasdaq Clearing AB	Swedish Financial Supervisory Authority (Finansinspektionen)
Nodal Clear	Commodity Futures Trading Commission (CFTC)
Options Clearing Corporation	Securities and Exchange Commission (SEC)
OMIClear, C.C., S.A.	Comissão Do Mercado de Valores Mobiliários (CMVM)
SEHK Options Clearing House Limited (SEOCH)	Securities and Futures Commission (SFC)
SGX Derivatives Clearing	Monetary Authority of Singapore (MAS)
SKDD-CCP Smart Clear d.d. (SKDD-CCP)	Hrvatska agencija za nadzor financijskih usluga (HANFA)

Sincerely,

The Global Association of Central Counterparties (CCP Global)

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¹ European Securities and Market Authority (ESMA) will act as a coordinator and relay of information for several EU CCPs.