EACH response to the ESMA consultation on Draft Guidelines for the methodology to value each contract prior to termination (Article 29(7) of the CCPRRR)

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Introduction

The European Association of CCP Clearing Houses (EACH) represents the interests of Central Counterparties (CCPs) in Europe since 1992. CCPs are financial market infrastructures that significantly contribute to safer, more efficient and transparent global financial markets. EACH currently has 19 members from 15 different European countries. EACH is registered in the European Union Transparency Register with number 36897011311-96.

EACH appreciates the opportunity to provide feedback to the Draft Guidelines for the methodology to value each contract prior to termination (Article 29(7) of the CCPRRR) (hereinafter called "The consultation").

Section 3.1 – Background on the termination of contracts

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?

Yes, EACH generally agrees with the proposed analysis and particularly with the corresponding limitations.

Section 3.2 – Scope of the Methodology – Contract

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

Yes, EACH agrees with the proposed analysis on the scope of the methodology and the concept of "contracts", which as the consultation paper notes, can be referred to in the CCPs' rulebooks in other ways, such as position, open interest, etc. We therefore support the suggestion to account for the terminology included in the rulebooks, with the relevant corresponding adjustments if the rule book and operational processes usually handles those similar but different concepts.

EACH also particularly agrees with the clarification that *"CCPs can net economically equivalent contracts and use cross-margining with correlated contracts cleared by the same CCP. Hence where the contracts have been subject to netting or other post-trade risk reduction measures within the CCP, only the restated and the new contracts (if any) would be captured by the termination and valuation as part of position allocation"*.

Section 3.3 – Re-use of CCP methodology and sequencing

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

Yes, EACH Members agree with the interpretation of what could be the resolution authority methodology.

Section 3.4 – Valuation

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

EACH generally agrees with the proposed analysis with regard to the valuation methodology. The settlement prices which CCPs are obligated to calculate daily to settle variation margins (VM) would represent a consistent, reliable, and transparent basis for the termination prices. Settlement prices could be modified by resolution authorities on a case-by-case basis depending on the specific circumstances of the resolution. In our view, this methodology would conform with the ESMA proposal under Guideline 4(2).

Cost and Benefit Analysis

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)?

Yes, EACH agrees with Option 2.