FTR Default Management Discussion

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May 27, 2020
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Defining the Liquidation Period

- Key element in calculation of margin
- Until we solve this, we cannot continue conversation of Initial Margining
- Methods of liquidating the portfolio
Default Management Process Considerations

- Liquidation Period
- Liquidation Test
- Liquidation Price
- Market Liquidity
  - Concentration
  - Open Interest
  - Position Size
- Masking positions
- Third party clearing
Liquidation Period Considerations

- Closely linked to the process and duration it takes to detect a default, execute the default management process and neutralize the risk of a portfolio; which should be as quickly as possible.
- Dependent on market liquidity of the product
  - Number of active participants
  - Complexity of unwinding portfolios of a product
- Alternatives to adapting to liquidation period
Masking Position Considerations

• Mask positions to maximize the potential to liquidate positions
• Remove participant names from the data we publish
• Provide an active list of names of current FTR participants separately
Margining Considerations

• Confidence level
  • Conservative & standardized
• Margin models should include stressed periods and backtesting;
  • Stress consists of manipulating hypothetical market conditions to determine results of extreme price movements
  • Backtesting compares initial margins against changes in historical settlement prices.
  • Liquidation period linked to the expected duration of the default management process until the risk of the defaulting portfolio is neutralized.
• Considering factors:
  • Market volumes
  • Open interest
  • Capability to hedge risk
  • Active participants
• Concentration, liquidity and wrong-way risk should be included in the margin calculation;
• Transparency of stress testing and backtesting results.
Our goal is to get this right

Made proposed improvements in our credit policy

Continuing our move towards best practice