FTR Default Management Discussion

Nigeria Bloczynski
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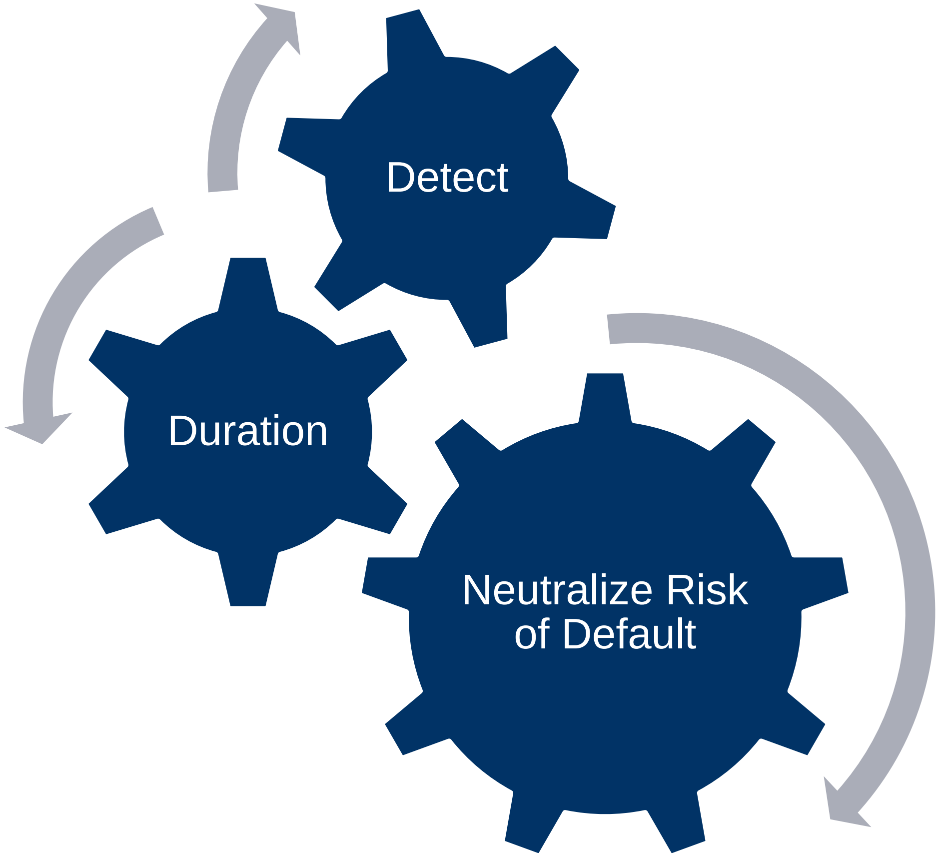
Financial Risk Mitigation Senior Task Force

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.

Getting it right

Our goal is to get this right

Made proposed improvements in our credit policy

Continuing our move towards best practice