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CPMI-IOSCO stocktake of industry progress on auctions

In June 2020, together with the publication of the CPMI-IOSCO report *Central counterparty default management auctions – Issues for consideration* (the auctions report),¹ CPMI-IOSCO encouraged the industry to undertake in the next twenty-four months further work on three categories of additional issues to advance the development of effective auction practices and procedures (see the CPMI-IOSCO cover note² to the auctions report).

CPMI-IOSCO also indicated its intent to take stock of industry progress at the end of this time frame, and that it may then reconsider whether additional work or, potentially, guidance could further the development of enhanced auction practices and procedures.

CPMI-IOSCO have been engaging with industry since the publication of the auctions report and cover note and have taken stock of the industry progress made so far to address these issues. CPMI-IOSCO consider that industry has made good progress on the issues to be addressed. In particular:

- The first category of issues was operational in nature and there was broad industry consensus to support further development. These issues included the standardisation of (i) auction terminology, including defining different types of auction formats; and (ii) certain operational aspects of auction procedures. Progress on the first category of issues was documented in the joint paper of the industry associations, which covers uniform terminology and best practices for the various components of a default auction.³
- The second category included areas where there were differing views among clearing members and other stakeholders and CCPs, and therefore further substantive discussion was/is necessary to determine the most appropriate way forward. These areas included (i) governance of a CCP's default management process; (ii) use of traders in default management groups (DMGs); and (iii) the scope of client participation in an auction.

CPMI-IOSCO have been engaging with industry associations and various stakeholders on category 2 issues. Industry associations have recently published papers discussing category 2 issues which show that industry views have converged on a number of key areas.⁴

CPMI-IOSCO acknowledge that, although some diverging views remain between CCPs and clearing members on certain aspects, industry has made good progress on category 2 issues.

¹ Available at www.iosco.org/library/pubdocs/pdf/IOSCOPD657.pdf and www.bis.org/cpmi/publ/d192.htm.

² Available at www.bis.org/cpmi/publ/d192_covernote.pdf and www.iosco.org/library/pubdocs/pdf/IOSCOPD657-cover-note.pdf.

³ CCP12, EACH, FIA and ISDA - *CCP Default Auctions Best Practices - Category 1 Issues: Terminology and Operational Aspects*; February 2021.

⁴ CCP Governance, Default Management Groups, and Client Participation - jointly by CCP12, EACH, FIA, ISDA FIA Principal Traders' Group and Managed Funds Association; Governance of CCP Default Management Processes and the Role of Default Management Groups – separate papers by CCP12/EACH and FIA/ISDA. The papers are available on the relevant industry association websites: www.ccp12.org/papers/; www.eachccp.eu/wp-content/uploads/2022/12/Association-papers-on-client-participation-in-CCP-auctions-and-CCP-auction-governance.pdf; www.fia.org/resources/associations-publish-papers-client-participation-ccp-auctions-and-ccp-auction; and www.isda.org/2022/12/01/association-papers-on-client-participation-in-ccp-auctions-and-ccp-auction-governance/.

- Although work on the third category of issues⁵ has not yet started, CPMI-IOSCO continue to encourage the industry to study these issues. For instance, the issues could be examined as part of the multi-CCP default drills that the industry is undertaking.

With the issues for consideration in carrying out an auction laid out in the auctions report, and the progress made by the industry thus far, CPMI-IOSCO do not believe further guidance is necessary at this point in time.

CPMI-IOSCO strongly encourage CCPs and participants to further engage and work through the auction arrangements, taking into consideration their own unique features.

⁵ The third category included potential nascent and emerging practices that may require further coordination and harmonisation among the default management processes of multiple CCPs. CPMI-IOSCO had encouraged the industry to further engage and communicate on these issues, and to identify, where possible, solutions to address potential negative externalities associated with these topics.