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VIA ELECTRONIC SUBMISSION

Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

October 7, 2022

Re: Request for Information on Climate-Related Financial Risk

Dear Mr. Kirkpatrick,

Eurex Clearing AG (“Eurex Clearing”) appreciates the opportunity to provide feedback to the U.S. Commodity Futures Trading Commission (“CFTC” or “Commission”) regarding the Commission’s Request for Information on Climate-Related Financial Risk (“RFI”).¹ Eurex Clearing welcomes the Commission’s RFI and its proactive approach to seeking the public’s views to better inform its understanding and oversight of climate-related financial risk as pertinent to derivatives markets and underlying commodities markets. Eurex Clearing also supports Chairman Behnam’s creation of the Commission’s Climate Risk Unit (“CRU”) to focus on assessing the interaction between climate-related risks and derivatives. Eurex Clearing looks forward to supporting the Commission’s engagement of the industry in this RFI, the CRU, and in any future initiatives, as the Commission addresses important issues faced by the industry with respect to climate risk.

Eurex Clearing is one of the leading central counterparties globally, building trusted relationships with market participants and paving their way for efficient risk management. By doing so, Eurex Clearing assures the safety and integrity of markets while providing innovation in risk management, clearing technology, and client asset protection. Eurex Clearing clears the broadest scope of products under a single framework in Europe—both listed products and OTC—

¹ CFTC, Request for Information on Climate-Related Financial Risk, 87 Fed. Reg. 34856 (June 8, 2022).

and accepts the world's widest spectrum of eligible collateral. Eurex Clearing provides its services for derivatives, equities, bonds and secured funding, and the securities financing market. Eurex Clearing serves more than 200 Clearing Members located in 20 countries, managing a collateral pool of EUR 132.5 billion and clearing trades with notional outstanding of around EUR 17 trillion.

As one of the leading CCPs in the world and a registered DCO with the Commission for swaps, Eurex Clearing understands the issues posed by global climate change, including physical risks from extreme weather as well as transition risks associated with changes in how the world does business. Eurex Clearing also understands the central role that commodity markets, including DCOs and centrally cleared derivatives, play in global economy's managing of these risks.

Before addressing the specific topics of the RFI, Eurex Clearing wishes first to highlight the critical importance of international regulator alignment in this area, as climate-related financial risks are by nature global risks. Eurex Clearing applauds the Commission for its consistent work and alignment with global regulators on a broad variety of topics and believes such continued alignment is paramount in the present area of climate-related financial risk. Specifically, as DCOs operate worldwide, it is especially essential to DCOs that any new guidance occur in a manner that is consistent across worldwide jurisdictions to avoid overlapping, duplicative, or varying guidance. Specifically, Eurex Clearing notes that ESMA on February 23, 2022 published a Call for Evidence on CCP Climate Stress Tests ("ESMA Call for Evidence").² While the ESMA Call for Evidence is tailored to different topics than the RFI—specifically focused on stress tests—the ESMA Call for Evidence pertains to, for example, the RFI's section on Scenario Analysis & Stress Testing. Importantly, the ESMA Call for Evidence seeks only industry feedback to support the potential development of a methodology for an ESMA-led EU-wide CCP Climate Stress Test exercise, and does not imply any new requirements for CCPs' internal stress testing or other parts of their risk management. Eurex Clearing's parent company, Deutsche Börse Group, submitted a Response on April 22, 2022.³ Eurex Clearing strongly encourages the Commission, ESMA, and other international regulators to continue to work together and coordinate any plans in the area of climate-related financial risk.

With respect to DCOs, Eurex Clearing believes that the Commodity Exchange Act's DCO Core Principles and accompanying Commission Regulations currently strike a comprehensive and sound balance between providing the Commission the necessary framework to effectively oversee DCOs, including with respect to scenario analysis, stress testing, risk management, and product innovation, while affording DCOs with the necessary flexibility to design

² ESMA, Call for Evidence on CCP Climate Stress Tests, *available at*: <https://www.esma.europa.eu/press-news/consultations/call-evidence-ccp-climate-stress-tests>.

³ Deutsche Börse Group, Response Form to the Call for Evidence: Approach to Climate Risk Stress Testing for CCPs, *available at*: https://www.deutsche-boerse.com/resource/blob/3110220/fd6ace0a453be4a59f9e349b3505d65c/data/apr2022_DBG-response-to-ESMA-CfE-on-CCP-climate-Risk-Stress-Testing.pdf.

these practices and procedures in a way that best manages the risks facing each DCO.

With respect to the RFI's delineated topics, Eurex Clearing's Response addresses the RFI's areas of Scenario Analysis & Stress Testing, Risk Management, and Product Innovation.

- **Scenario Analysis & Stress Testing:** Eurex Clearing, as a leading CCP and registered DCO, conducts state-of-the-art stress testing against a comprehensive set of historical and hypothetical scenarios across all asset classes, products, and risk factors. This stress testing already incorporates historical and hypothetical scenarios that take into account stressed market conditions, such as those that could arise from climate-related risk. Eurex Clearing believes that additional, specific climate-related stress testing requirements are not necessary, as incorporating climate-related risks in an existing mapping of risks could lead to unnecessary complexities.
- **Risk Management:** As a CCP, Eurex Clearing faces various types of risks. Eurex Clearing employs sophisticated risk management practices to ensure the integrity, transparency, efficiency, and safety of its customers and the entire financial market. To this end, Eurex Clearing already addresses climate-related risks within its risk management framework and believes it should have the flexibility to continue to do so within the existing DCO Core Principles and accompanying CFTC regulations in addition to applicable laws and regulations in other jurisdictions where Eurex Clearing operates. Eurex Clearing believes that additional, specific climate-related risk management regulation is not necessary, as incorporating climate-related risks in an existing mapping of risks could lead to unnecessary complexities.
- **Product Innovation:** Eurex Clearing and its affiliate exchange, Eurex Deutschland (Eurex Exchange), are pioneers in sustainable derivatives and have become the leading liquidity pool for environmental, social and governance ("ESG") derivatives worldwide. Eurex Deutschland offers a broad suite of listed ESG derivatives on key global, European, and regional benchmarks, providing global investors with a comprehensive solution to their goals of managing and hedging sustainability exposure and building sustainable portfolios.⁴ Eurex Deutschland's suite of ESG products provides transparency, price discovery, and market efficiency to the derivatives market at large. As a Foreign Board of Trade ("FBOT") registered with the Commission and in order to offer its products in the U.S. for direct access, Eurex Deutschland must either receive a certification by the Commission under CFTC Regulation 30.13 for non-narrow-based index futures or file a written notification to the CFTC Division of Market Oversight under CFTC Regulation 48.10. These regulations are appropriately not product specific, and Eurex Clearing

⁴ Further information can be found at: <https://www.eurex.com/ex-en/markets/idx/Equity-Index-ESG> and <https://www.eurex.com/ex-en/markets/int/fi-esg>.

and Eurex Deutschland believe they already provide a comprehensive framework governing the offering of all new products in the U.S. by FBOTs, including those related to climate factors.

Scenario Analysis and Stress Testing (Questions 4, 5, 6, and 7)

Eurex Clearing utilizes state-of-the-art scenario analysis and stress testing expertise, which makes Eurex Clearing a reliable partner for clients and policymakers alike in ensuring the highest safety of financial markets in a complex and fast-moving environment. Central to Eurex Clearing's scenario analysis and stress testing framework is the use of a comprehensive set of stress scenarios as well as an aggregation methodology. Eurex Clearing has created asset classes (called "Liquidation Groups"⁵) for those classes that would be affected similarly by given stress scenarios. Stress scenarios are created for each Liquidation Group that comprise a comprehensive set of historical and hypothetical scenarios across all asset classes, products, and risk factors.⁶ As different Liquidation Groups have different risk characteristics, the stress period of risk is consistent with Eurex Clearing's Default Management Process for the respective Liquidation Group. The stress scenarios used for Default Fund dimensioning are calibrated such that they can be regarded as extreme but plausible. Additional scenarios, solely for analysis purposes, can be even more extreme and potentially not plausible.⁷

As Eurex Clearing conducts stress scenarios by Liquidation Group, the stress testing is commensurate with the applicable period for risk for the products in the respective Liquidation Group, which range from a two-day to a five-day holding period. While calibrating the relevant stress shifts, historical data of up to 30 years per risk factor are considered. Thus, historical climate stress events are already included in the calibration. Hypothetical stress shifts are generally more conservative as compared to historically observed climate stress events. Thus, Eurex Clearing's comprehensive testing of stress scenarios already considers climate-related financial risk that could develop within the applicable period of risk and meet the standard of extreme but plausible. In addition, Eurex Clearing notes that its comprehensive business continuity and disaster recovery planning framework already comprehensively accounts for climate-related risk.

With respect to stress testing and scenario analysis, Eurex Clearing believes that the current DCO Core Principles and accompanying Commission regulations, as well as the CPMI-IOSCO PFMI ("PFMI"), provide a sound

⁵ Eurex Clearing currently has thirteen Liquidation Groups: Listed Equity (Index) Derivatives, Listed Fixed Income, Asian cooperation KOSPI, Asian cooperation KRW FX, Commodity (Index) Derivatives, Precious Metal Derivatives, FX Derivatives, FX NDF, Corporate Bond, Derivatives on Fixed Income ETFs, Collateral Index, Related Security Spread Index, and Crypto Derivatives.

⁶ Eurex Clearing webpage, Stress scenarios and exposure aggregation, at: <https://www.eurex.com/ec-en/services/risk-management/stress-testing/stress-scenarios-and-exposure-aggregation>, provides an example of the historical and hypothetical scenarios that Eurex Clearing has used in the past.

⁷ For more information about the historical and hypothetical scenarios used, please see: <https://www.eurex.com/ec-en/services/risk-management/stress-testing/stress-scenarios-and-exposure-aggregation>.

framework for the overall approach to stress testing and a solid methodology for the integration of possible manifestations of climate-related financial risks. As an EMIR-qualified CCP, Eurex Clearing is required to comply with a cover-2 requirement, i.e., to ensure that its pre-funded financial resources are sufficient to cover the simultaneous default of the two clearing members, including affiliates, which pose the largest credit exposure in extreme but plausible market conditions. In addition, CFTC Regulation 39.11, which is consistent with the PFMI, imposes a cover-1 stress test requirement and additionally defines appropriate considerations for CCPs regarding scenario analysis and stress testing. To mitigate the risk that Eurex Clearing's pre-funded financial resources are insufficient compared to stress testing results, pre-defined operational thresholds are established and are continuously monitored. Risk mitigating actions are initiated whenever a threshold is breached, and can range from member-specific actions to a general increase in default fund contributions for all members. In addition to testing the pre-funded financial resources, the resilience of Eurex Clearing is also reviewed regularly by performing reverse stress tests. This variant of stress tests reveals the maximum number of participants, which can default in a given scenario. Accordingly, Eurex Clearing believes that CFTC Regulation 39.19 and the PFMI already have a sound framework in place to capture climate-related risk factors.

Eurex Clearing does not believe that additional climate-risk-specific regulation outside the PFMI and DCO Core Principles is advisable. Specifically, Eurex Clearing does not believe a long-term stress testing scenario is relevant to DCOs' function and additionally that risk time horizons of 30 to 50 years are not realistic to assess. Where climate-related risks are found to be plausible on shorter time scales, we believe that the PFMI and CFTC regulations already provide a robust framework within which DCOs can carefully integrate such considerations into their existing frameworks.

Risk Management (Questions 8, 9, 10, and 11)

As with its stress testing framework, Eurex Clearing utilizes robust and comprehensive risk management practices that already incorporate the identification and evaluation of potential climate-related risks in different scenarios. Eurex Clearing provides that the climate-related risks discussed in the RFI are already part of Eurex Clearing's existing risk management practices, including scenario analysis, stress testing, business continuity and disaster recovery planning, and operational risk practices. Specifically, as stated above, Eurex Clearing's scenario analysis and stress testing would incorporate physical risks if they fell under the holding period for the Liquidation Group. Additionally, Eurex Clearing has comprehensive business continuity and disaster recovery policies and procedures that consider any physical risks that could arise.

DCO Core Principle D (Risk Management) and CFTC Regulation 39.13 appropriately require all DCOs to have sound risk management practices while properly affording DCOs discretion in terms of the exact way in which they incorporate specific risks, including climate-related risks, into their structure. DCO Core Principle I (System Safeguards) and CFTC Regulation 39.18

appropriately require that a DCO's program or risk analysis and oversight include, among other elements, business continuity and disaster planning and resources, including specific delineated requirements set forth in CFTC Regulation 39.18(c).

Eurex Clearing believes that these provisions comprehensively require DCOs to have sound risk management and disaster recovery planning, and Eurex Clearing does not believe a separation of climate risks from the overall risks a DCO already considers is necessary, as incorporating climate-related risks in an existing mapping of risks could lead to unnecessary complexities.

Product Innovation (Questions 18, 19, 20, and 21)

Eurex Clearing and its affiliate exchange, Eurex Deutschland (Eurex Exchange), a CFTC-registered FBOT, have been and continue to be pioneers in the area of sustainable derivatives, offering a broad suite of ESG derivatives to global investors. Eurex Clearing and Eurex Deutschland recognize the need for price discovery, liquidity, and hedging tools for global clients seeking to build sustainable portfolios.

Eurex Clearing believes that the existing Commission rules governing U.S. direct access trading of listed derivatives on FBOTs sufficiently address the trading of all currently existing ESG derivatives by U.S. investors, providing appropriate customer protections and guardrails to promote market integrity in all CFTC-approved products, including climate-related derivatives products. As a CFTC-registered FBOT, Eurex Deutschland is subject to and complies with all of the Part 48 FBOT rules, including the continuing obligations of CFTC Rule 48.8. Specifically, pursuant to CFTC Regulation 48.8(a)(3), Eurex Deutschland complies with the Principles for the Oversight of Screen-Based Trading Systems for Derivative Products developed by the Technical Committee of the International Organization of Securities Commissions, as updated, revised, or otherwise amended, and Eurex Clearing is both a registered DCO and complies with the PFMI. Each year, Eurex Clearing publishes an assessment of its continuing compliance with the PFMI.⁸ Part 48 of the Commission's rules rightly afford deference to an FBOT's home regulator regime that offers comparable comprehensive supervision and regulation while providing the Commission with the necessary tools to conduct general oversight as well as product approval. Eurex Clearing believes that the existing FBOT regime under Part 48 offers appropriate U.S. customer protections to U.S. investors that trade products listed on FBOTs and does not believe that additional regulation related to climate-related derivatives products would be beneficial at this point.

With respect to exchange-traded derivatives listed on FBOTs, the existing Commission rules have suitable rules governing Commission approval of FBOT commodity futures and options on futures under CFTC Regulation 48.10 and FBOT non-narrow-based stock index futures under CFTC Regulation 30.13. These regulations are appropriately not product-specific, and Eurex Clearing and Eurex Deutschland believe these existing regulations already address U.S.

⁸ See Eurex Regulatory Standards, available at: <https://www.eurex.com/ec-en/find/about-us/regulatory-standards>.

trading of current ESG derivatives and need no changes to account for ESG-specific products at this point.

Eurex Deutschland offers the following ESG Derivatives to U.S. Persons, all of which have been approved under the above-discussed Commission's FBOT rules:⁹

- DAX® 50 ESG Futures
- EURO STOXX 50® ESG Index Futures
- STOXX® Europe 600 ESG-X Index Futures
- STOXX® USA 500 ESG-X Index Futures
- STOXX® Europe ESG Leaders Select 30 Index Futures
- MSCI EMU ESG Screened Index Futures
- MSCI Japan ESG Screened Index Futures
- MSCI USA ESG Screened Index Futures
- MSCI EAFE ESG Screened Index Futures
- MSCI EM ESG Screened Index Futures
- MSCI EM Asia ESG Screened Index Futures
- MSCI Europe ESG Screened Index Futures
- MSCI World ESG Screened Index Futures
- MSCI World ESG Enhanced Focus Index Futures
- MSCI USA ESG Enhanced Focus Index Futures
- MSCI EM ESG Enhanced Focus Index Futures
- MSCI Europe ESG Enhanced Focus Index Futures
- MSCI Japan ESG Enhanced Focus Index Futures
- Bloomberg MSCI EURO Corporate SRI Futures
- Bloomberg MSCI Global Green Bond Futures

Eurex Clearing and Eurex Deutschland will continue to be innovators for new products and offer trading to U.S. participants as permitted under the applicable CFTC rules across product categories, including the ESG space. Eurex Clearing and Eurex Deutschland believe that the current rules to which FBOTs are subject strike a sound balance between the Commission's need to regulate products available to U.S. persons and FBOTs and exchanges' need to innovate and meet client needs for their portfolios, including with respect to ESG derivatives. Eurex Clearing and Eurex Deutschland do not believe that the Commission should change any of these existing rules to account specifically for climate-risk factors.

Eurex Clearing and Eurex Deutschland would welcome the opportunity to engage with the Commission further, through forums such as the CRU or other, to provide further information to the Commission and market regarding its suite of sustainability-linked derivatives.

⁹ A full list of CFTC-approved Eurex futures and options on futures available to U.S. participants is available at: <https://www.eurex.com/ex-en/rules-regs/eurex-derivatives-us/direct-market-access-from-the-us/Direct-market-access-from-the-U.S.-9572?frag=137764>.

In conclusion, Eurex Clearing reiterates its appreciation for the opportunity to provide information and comments on the Commission's RFI and looks forward to working with the Commission on other proposals and initiatives in the future.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'E. Seinsheimer', is written over a faint horizontal line.

Eric Seinsheimer
Director, Legal (Americas), Eurex & US CCO, Eurex Clearing