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FIA Response to the FSB Consultation on Liquidity Preparedness for Margin and Collateral Calls

Submitted via email to fsb@fsb.org.

FIA[1] and its members are grateful for the opportunity to provide feedback on the consultation and appreciate the Financial Stability Board's (FSB) recent policy recommendations aimed at enhancing the liquidity risk management, collateral management and stress testing practices of non-bank financial intermediaries (NBFIs). We recognize the importance of these measures in promoting financial stability.

We would like to highlight some critical points in response to the proposed recommendations.

1. **Importance of Central Counterparties Margin Transparency and Simulation Tools:**

We believe it is important to emphasize that the need for margin transparency from Central Counterparties (CCPs) is critical, as per FIA response to the BCBS-CPMI-IOSCO consultation on this topic[2]. It is imperative that CCPs provide appropriate margin methodology disclosures and margin simulation tools to clearing members and their clients which include NBFIs. Such tools are crucial for NBFIs to effectively integrate margin and collateral call risk management into their processes. By having access to detailed and transparent CCP margin information, NBFIs can better anticipate potential liquidity strains and plan accordingly. This transparency will facilitate the development of robust liquidity risk management frameworks and contingency funding plans, as recommended by the FSB. <u>Therefore, we strongly advocate for the provision of comprehensive CCP margin simulation tools and margin methdologies disclosures to be made available to all clearing members and their clients</u>.

2. **Clearing Members cannot ensure clients compliance to these recommendations:**

In addition, the FSB's recommendations encompass a diverse range of sectors, each with varying degrees of regulation and supervision. It is crucial to acknowledge that the responsibility for ensuring

[1] FIA is the leading global trade organization for the futures, options, and centrally cleared derivatives markets. FIA's mission is to support open, transparent, and competitive markets; protect and enhance the integrity of the financial system; and promote high standards of professional conduct. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from more than 48 countries, as well as technology vendors, lawyers and other professionals serving the industry.

[2] FIA calls on international regulators to continue progress on margin transparency

that NBFI clients comply with these recommendations should not be solely placed on clearing members. While clearing members perform diligent client assessments as part of their standard and routine risk management practices, this due diligence process does not guarantee that NBFIs' clients will meet all the specific recommendations outlined by the FSB. The regulatory burden should not disproportionately fall on clearing members to ensure compliance across a broad and diverse spectrum of NBFIs. Instead, a balanced approach that involves direct regulatory oversight and cooperation with relevant authorities should be adopted to ensure that all market participants adhere to these important recommendations.

3. **The challenges for Variation Margin to be covered by non-cash :**

We understand the concern from NBFIs over the excessive reliance on cash to meet Variation Margin (VM) calls. However, we would like to emphasize that the use of cash against VM settlement was driven by the G20 reforms to foster a robust, efficient and standardized centrally cleared ecosystem. This pushed exchanges and CCPs to design and offer products with such contract specifications which reduce excessive build-up of daily marked-to-market losses in the event of a default. A shift to allow non-cash against VM would necessitate substantial adjustments for CCPs, Clearing Members and their clients. For instance, CCPs would have to list new types of products with such specifications, but such new types of product listings would involve significant operational changes and the introduction of new risks including liquidity risks. We recommend caution when exploring the use of non-cash for VM calls considering the material impact it would have on central clearing operations and the material risks it could bring to the clearing ecosystem as a whole[3].

In conclusion, we believe that enhancing CCP margin transparency and making available adequate simulation tools will significantly aid NBFIs in managing liquidity risks more effectively. Additionally, a fair distribution of regulatory responsibilities will ensure that the recommendations are implemented efficiently without placing undue burden on clearing members. Finally, allowing non-cash collateral to meet VM cash calls should be carefully examined, especially as it would materially impact clearing operations and risk management for all clearing participants. We remain committed to supporting initiatives that promote financial stability and look forward to further engagement on these important issues.

Respectfully submitted,

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[3] FIA backs international effort to promote effective practices for variation margin