



## Industry Outreach on Liquidity Preparedness for Margin and Collateral Calls

31 May 2024, 13:00 – 15:00 CEST

### Summary Agenda

## Background

The Financial Stability Board (FSB) has published its consultation report on liquidity preparedness for margin and collateral calls on the 17 April 2024.<sup>1</sup> This work forms part of the FSB's work programme on enhancing the resilience of non-bank financial intermediation (NBFII).<sup>2</sup> It follows up on the findings of the 2022 review of margining practices by the Basel Committee on Banking Supervision (BCBS), Committee on Payments and Market Infrastructures (CPMI) and International Organization of Securities Commissions (IOSCO), which recommended that the FSB undertake additional international work on enhancing liquidity preparedness of non-bank market participants.<sup>3</sup>

The consultation report sets out eight policy recommendations to enhance the liquidity preparedness of non-bank market participants for margin and collateral calls in centrally and non-centrally cleared derivatives and securities markets. The recommendations cover liquidity risk management and governance, stress testing and scenario design, and collateral management practices. They apply to a broad range of non-bank market participants that may face margin and collateral calls, including insurance companies, pension funds, hedge funds, other investment funds, family offices, and non-financial entities such as commodities traders.

This work builds on the FSB analysis of recent incidents of liquidity stress – the March 2020 market turmoil, the Archegos failure in March 2021, the commodities markets turmoil in 2022, and the September 2022 issues experienced by many pooled liability-driven investment funds in the UK. The analysis was complemented with a survey of financial authorities and feedback from two industry stakeholder outreach events in July 2023 and January 2024.

The FSB's work complements the work carried out by the BCBS, CPMI, and IOSCO on margin transparency, streamlining margin processes and evaluating the responsiveness of margin models to market stress in centrally and non-centrally cleared markets. The overarching objective of this work is to reduce procyclical behaviour and impact of market participants in

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<sup>1</sup> FSB (2024), *Liquidity Preparedness for Margin and Collateral Calls: Consultation report*, March.

<sup>2</sup> FSB (2024), *FSB Work Programme for 2024*, January.

<sup>3</sup> BCBS, CPMI and IOSCO (2022), *Review of margining practices*, September.

response to margin and collateral calls during times of stress, both by enhancing their liquidity preparedness and by strengthening the ability of authorities to monitor and manage associated financial stability risks.

The FSB recognises the importance of obtaining further inputs from industry stakeholders. At this outreach event, the FSB will seek industry feedback on its consultation report on liquidity preparedness for margin and collateral calls.

This virtual meeting will be chaired by **Peter Routledge** (Superintendent, Office of the Superintendent of Financial Institutions (OSFI) and **Denis Beau** (First Deputy Governor, Bank of France), co-chairs of the FSB Working Group on Margin Preparedness that is responsible for the consultation report. Participants are asked to provide views based on their experience and understanding of the topic, rather than represent the interests or views of the institution you are affiliated with.

*The virtual meeting will be held using Cisco Webex (web-based video call). Information on technical details will be circulated separately.*

*Times for each agenda item are indicative. All speakers are kindly requested to keep their remarks brief (3-5 minutes).*

## 1. Welcome remarks and Introduction (13:00 – 13:10)

**Peter Routledge** (Superintendent, Office of the Superintendent of Financial Institutions (OSFI) and **Denis Beau** (First Deputy Governor, Bank of France), co-chairs of the FSB Working Group on Margin Preparedness (WGMP), will introduce the stakeholder event agenda and objective of the meeting.

## 2. Strengthening liquidity risk management for margin/collateral calls and collateral management (13:10 – 13:55)

**Objective:** To gather feedback from industry stakeholders on the proposed recommendations for enhancing liquidity preparedness for spikes in margin and collateral calls. These recommendations are covered in the consultation report in section 3.1 on liquidity risk management practices and governance and section 3.3 on collateral management practices.

### Issues for discussion:

- Section 3.1 of the consultation report sets out key elements of a liquidity risk management framework to identify, monitor and manage liquidity risk exposures arising from margin and collateral calls. Are these sufficiently clear for all non-bank market participants?
- Collateral readiness at the right time, quality and location is a critical aspect of effective liquidity preparedness for spikes in margin and collateral calls to mitigate the risk of having to liquidate collateral under stressed market conditions. Do the FSB's recommendations in Section 3.3 address all key elements required to be effective in mitigating liquidity risk arising from margin and collateral calls?
- Are there any material challenges to collateral management practices that some non-bank market participants may face that should be considered?

## 3. Stress testing and scenario design (13:55 – 14:40)

**Objective:** To gather feedback from industry stakeholders on the proposed recommendations in section 3.2 of the consultation report. These recommendations focus on stress testing and scenario design to enhance market participants' ability to manage spikes in margin and collateral calls during adverse market conditions.

### Issues for discussion:

- Are the recommendations on liquidity stress testing and scenario design with respect to margin and collateral calls clear and sufficiently specified?
- Are there any jurisdictional or sector-specific differences that are not accounted for in the recommendations?

#### 4. Wrap up and closing remarks (14:40 – 15:00)

**Objective:** The WGMP **co-chairs** will wrap up the discussion by inviting participants' feedback on sections 1 and 2 of the consultation report before proceeding to discuss the next steps on the FSB's report.