FINANCIAL STABILITY BOARD

Liquidity Preparedness for Margin and Collateral Calls: Consultation report

Response to Consultation

Association of British Insurers

1. **Does the outlined approach identify all key causes of some non-bank market participant's inadequate liquidity preparedness with respect to spikes in margin and collateral calls during times of stress? Are there any sector specific causes that should be considered?**

   The Association of British Insurers (ABI) acknowledges and appreciates the work the FSB is undertaking in this important area. The ABI also welcomes the opportunity to respond to this consultation and, overall, supports the proposed recommendations. With this in mind, we would like to provide further comments responding to certain questions within this consultation.

2. **Is the scope of the proposed policy recommendations appropriate?**

   While the consultation paper does make efforts to highlight the diversity of the non-bank financial institution (NBFI) sector, notably in section 2.4, there is a need to establish a clear differentiation between market participants that are subject to strong supervision and regulation, and NBFIs that are not so well regulated. Insurers and long-term savings providers are already subject to specific requirements on liquidity risk management, governance and liquidity stress testing that are intended for the unique characteristics of our industry. For instance, we consider the standards in IAIS Insurance Core Principle 16 to already cover the FSB policy recommendations.

3. **Is the focus of the FSB's policy recommendations on liquidity risk management and governance, stress testing and scenario design and collateral management practices appropriate? Are there any other areas the FSB should consider?**

4. **Is the approach to proportionality and materiality clear for all non-bank market participants?**

5. **Section 3.1 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?**

The ABI supports the idea that greater transparency from market participants would contribute to improving participants' liquidity preparedness. For example, more transparency around the way Central Counterparty Clearing Houses' (CCPs) collateral requirements are modelled and calculated would allow insurers to anticipate any unexpected surge in collateral needs, helping firms to better identify and mitigate potential systemic impacts.

6. **Are the recommendations on liquidity stress testing and scenario design with respect to margin and collateral calls clear and sufficiently specified?**

7. **Are there any jurisdictional or sector-specific differences that are not accounted for in the recommendations?**

8. **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?**

   NBFIs play a key role in promoting growth in their respective economies. The need to hold significant amounts of cash, for example to cover margin calls during periods of stress, prevents investment in productive assets. We would encourage technical discussion with industry to assess the feasibility of expanding the type of assets accepted as collateral from cash-only to some types of non-cash. A wider range of accepted collateral would also contribute to strengthening firms' liquidity positions, diminishing systemic risk.

9. **Are there any material challenges to collateral management practices that some non-bank market participants may face that should be considered?**

   If you have any additional comments, please provide them below.