

MEMO# 35955

December 13, 2024

FSB Publishes Final Report on NBFI Liquidity Preparedness

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TO: ICI Members
ICI Global Members
Asia Regulatory and Policy Committee
Derivatives Markets Advisory Committee
Equity Markets Advisory Committee
Europe Regulatory and Policy Committee
SUBJECTS: Derivatives
Financial Stability
International/Global
Trading and Markets
RE: FSB Publishes Final Report on NBFI Liquidity Preparedness

On 10 December, the Financial Stability Board (FSB) published a final report on liquidity preparedness for margin and collateral calls.[\[1\]](#)

The Report presents eight cross-sectoral policy recommendations that are addressed to non-bank financial intermediary (NBFI) participants, in centrally and non-centrally cleared derivatives and securities markets. The scope includes a diverse group of non-bank market participants, including regulated funds, insurance companies, pension funds, hedge funds, other investment funds and family offices, and non-financial entities such as commodities traders. Commercial banks and financial market infrastructures (including central counterparties (CCPs)) are excluded.

The FSB describes margin as a "key amplifier" of liquidity imbalances that transmit liquidity shocks through the financial system and to the real economy. The transmission mechanism can also include interconnectedness and leverage. The FSB has identified weakness in some NBFI participants' liquidity risk management and governance, which the FSB concludes are key causes of inadequate preparedness.

The policy recommendations are aimed at enhancing NBFI participants' ability to address liquidity risks that occur as margin and collateral calls spike, including in extreme but plausible conditions. The FSB addresses the policy recommendations across sectors, building on and complementing existing rules. In addition, the policy recommendations are to be applied proportionately, based on the material risks that participants pose to the financial system.

The policy recommendations address:

1. Liquidity risk management practices and governance, including liquidity risk assessments, liquidity risk appetites and contingency funding plans, and review of liquidity risk management frameworks;
2. Liquidity stress testing and scenario design, including sources of liquidity strains, resilience levels, and use of results; and
3. Collateral management practices, including operational practices, diversity and liquidity of assets, collateral arrangements, and interactions with counterparties and third-party service providers.

The Report follows a consultation published earlier this year.^[2] The FSB received 25 responses, including ICI.^[3] In response to feedback from ICI and other commenters, the Report was revised in several respects. These amendments (i) provide more flexibility in meeting the intended outcomes of the recommendations; (ii) more clearly identify the link between central counterparty transparency and liquidity preparedness; (iii) note the importance of leveraging existing regulatory frameworks such as the UCITS Directive; and (iv) focus stress testing recommendations at the fund level, rather than aggregate-level.

Kirsten Robbins
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Notes

[1] FSB, [Liquidity Preparedness for Margin and Collateral Calls: Final Report](#) (10 December 2024) (the Report).

[2] FSB, [Liquidity Preparedness for Margin and Collateral Calls: Consultation Report](#) (17 April 2024).

[3] [Letter from Annette Capretta to FSB Secretariat, Re: Liquidity Preparedness for Margin Calls](#) (18 June 2024).