Macroprudential measures for GBP Liability Driven Investment Funds

PUBLIC CONSULTATION REPLY FORM

Commission de Surveillance du Secteur Financier

Macroprudential measures for GBP Liability Driven Investment Funds

Responding to this paper

The Commission de Surveillance du Secteur Financier (hereafter 'CSSF') invites all relevant stakeholders to provide responses to the specific questions listed in the Consultation Paper on Macroprudential measures for GBP Liability Driven Investment Funds, published on the CSSF website.

Instructions

Please note that, to facilitate the analysis of the responses, you are requested to use this file to provide your response to the CSSF so as to allow us to process it properly. Therefore, CSSF will only be able to consider responses which follow the instructions described below:

- use this form and send your responses in Word format (pdf documents will not be considered except for annexes);
- if you do not have a response to a question, do not delete it and leave the text "TYPE YOUR TEXT HERE".

Responses are most helpful:

- if they respond to the question stated;
- contain a clear rationale, including on any related costs and benefits; and
- describe any alternatives that CSSF should consider.

Naming protocol

In order to facilitate the handling of stakeholders responses please save your document using the following format:
CSSF_LDI Funds_ NAMEOFCOMPANY_ NAMEOFDOCUMENT

E.g. if the respondent were ABCD, the name of the reply form would be:
CSSF_LDI Funds_ ABCD_REPLYFORM or CSSF_LDI Funds_ ABCD_ANNEX1

Deadline

The deadline for receiving feedback is **18 January 2024.**
All contributions should be provided by filling in the present response form and sending it to the following address: opc_prud_risk@cssf.lu.

Publication of responses

The CSSF intends to make feedback available on its website after the deadline for receiving responses has passed. Please do not include commercially sensitive material in your response, unless you consider it essential. If you do include such material, please highlight it clearly, so that reasonable steps may be taken to avoid publishing that material. This may involve publishing feedback with the sensitive material deleted and indicating the deletions.

While as indicated above, the CSSF will take reasonable steps to avoid publishing confidential or commercially sensitive material, the CSSF makes no guarantee that it will not publish any such information and accepts no liability whatsoever for the stakeholders' consultation responses that are subsequently published by the CSSF. Please be aware that you are making a submission on the basis that you consent to us publishing it in full.

General information about respondent

Name of the company / organisation	**BlackRock (Luxembourg) S.A.**
Activity	Investment Fund Manager
Are you representing an association?	No

Introduction

Please make your introductory comments below, if any:

BlackRock is pleased to have the opportunity to respond to the CSSF Consultation Paper on Macroprudential measures for GBP liability driven investment funds ("the consultation").

BlackRock has a pan-European client base serviced from offices across the continent. Public sector and multi-employer pension plans, insurance companies, third-party distributors and mutual funds, endowments, foundations, charities, corporations, official institutions, banks and individuals invest with BlackRock.

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We welcome the opportunity to comment on the matters raised by this consultation paper.

Yours faithfully,

List of questions

Commission de Surveillance du Secteur Financier

QUESTION 1:	Do you consider that the proposed calibration of the minimum yield buffer is appropriate and the calculation of the actual yield buffer sufficiently clear?
ANSWER 1:	In terms of the scope of the measures, we support the consultations reference that the "yield buffer, and its estimation, should consider all exposures that a fund's portfolio contains." That, alongside a need to ensure that assets/exposures have an appropriate haircut applied when looked at in the context of the yield buffer, are aspects that we think should be made more explicit in the measures.
QUESTION 2:	Would you see merit in setting a minimum speed for the transformation into eligible assets (in days)? What would you consider the right minimum number of days, considering the settlement period for posting collateral to maintain leverage (repurchase agreements and/or derivatives)?
ANSWER 2:	We believe that there is merit in setting a minimum speed for the transformation of non-eligible assets into eligible assets in order for the non-eligible assets to considered in the yield buffer calculation. This reflects the fact that speed of collateral transformation is an important factor in determining the overall resiliency of the fund. Therefore, we feel it is important that the liquidity guidance links the speed of transformation of non-eligible assets with the point upon which liquidity transformation is initiated so that overall resiliency is maintained. That said, it may be simpler if a generic minimum is applied for consistent application and monitoring and if that is the preferred approach, we believe that 3 days or less is an appropriate timeframe for non-eligible assets to be considered in the yield buffer calculation. We also believe that it is appropriate that the consideration of the mix of eligible collateral and non-eligible assets than can be transformed into eligible collateral to be grounded in the speed of transformation. For example, it would not be appropriate for a 300bps yield buffer to be made up of 150bps of transformable assets and 150bps of eligible collateral. The mix of assets should reflect the speed of transformation and expected increases in yields.
QUESTION 3:	Do you agree with the proposed definition of LDI funds? In particular, do you consider that the definition is sufficiently clear and specific (i.e. only covering LDI funds)?
ANSWER 3:	We support the proposed definition of LDI funds however we suggest that the proposed definition could be amended to reference the use of derivatives as per below: "Any fund whose investment strategy seeks to match the interest rate or inflation sensitivity of their assets to that of their investors' liabilities through the use of derivatives."
QUESTION 4:	Do you agree that LDI funds should not be allowed to consider for the yield buffer calculation any assets that are not their balance sheet? If not, please elaborate. In this case, what safeguards should in your view be considered?

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ANSWER 4:	We support the proposal that only assets on the balance sheet of the fund should be included in the yield buffer. We note however that this would not necessarily stop other non-gilts assets being sold if government bond yields are increasing rapidly as clients may wish to increase their eligible collateral, rebalance their asset allocation or de-risk their portfolios in such situations.
QUESTION 5:	Do you consider that the mechanism driving the buffer usability is appropriate and sufficiently clear?
ANSWER 5:	We would welcome clarity in how breaches of the measures/deviations of the yield buffer below 300bps will be required to be reported to the CSSF and who will be required to make the notifications to the CSSF. The consultation proposes that fund managers will only notify the CSSF that their yield buffer has fallen below 300 bps in real time if they expect the deviation to be prolonged and/or substantial and that minor deviations of the yield buffer below the minimum 300 bps will not need to be reported in real time. We would welcome clarity on the required timelines for reporting such minor deviations.
QUESTION 6:	What potential unintended consequences do you see from the proposed measures, and how could these be mitigated?
ANSWER 6:	The consultation paper makes references to the desire to avoid potential procyclical gilt sales. We would note that whilst this can be mitigated it cannot be avoided entirely. To a certain extent the proposed measures may compel gilt sales depending on the availability and speed of access to additional assets to recapitalise a LDI fund, as well as the implications of breaching the proposed measures (which are not set out in the consultation paper). Therefore, the mechanism to dis-apply the yield buffer requirement is an important one which should be designed carefully. Whilst outside the remit of the CSSF, the importance of fostering and maintaining a well-functioning gilt market is clearly of significance in the context of the proposed measures.
QUESTION 7:	Do you have any other comment on the proposal?
ANSWER 7:	No

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