

# FSB Public Consultation on Leverage in Non-Bank Financial Intermediation

## Survey response 1

### Respondent's Information

<b>Name of jurisdiction:</b>
Germany
<b>Name of jurisdiction: [Other]</b>
<b>Please provide your information:</b>
Given name and last name: - Dusan Ristic
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Name of organisation: - Duetsche Boerse Group
<b>Do you agree with your responses being made public on the FSB website?</b>
Yes

### Recommendation 1

Maximum number of characters: 3000

<b>1. Is the description of the financial stability risks from leverage in NBFIs accurate and comprehensive? Are there additional vulnerabilities or risk dimensions related to NBFIs leverage that authorities should consider for monitoring purposes?</b>
<b>2. What are the most effective risk metrics that should be considered by authorities to identify and monitor financial stability risks arising from NBFIs leverage?</b>
<b>3. What are the most effective metrics for the monitoring of financial stability risks resulting from:</b>
(i) specific market activities, such as trading and investing in repos and derivatives -
(ii) specific types of entities, such as hedge funds, other leveraged investment funds, insurance companies and pension funds -
(iii) concentration and crowded trading strategies -

### Recommendation 3

Maximum number of characters: 3000

<b>4. What types of publicly disclosed information (e.g. transaction volumes, outstanding amounts, aggregated regulatory data) are useful for market participants to enhance their liquidity or counterparty credit risk management? Are there trade-offs in publicly disclosing such information and, if so, what would be the most important elements to consider? What is the appropriate publication frequency and level of aggregation of publicly disclosed information?</b>

## Recommendation 5

Maximum number of characters: 3000

**5. Do Recommendations 4 and 5 sufficiently capture measures that would be used to address the scope of non-bank financial entities under consideration in this report? In what ways may the policy measures proposed in the consultation report need to be adjusted to account for different types of non-bank financial entities?**

We welcome FSB's recommendations for policy measures to address financial stability risks stemming from NBF1 leverage in core financial markets, with a particular focus on level playing field with other jurisdictions that have already addressed similar risks. Case in point, some jurisdictions have moved to permanently lower prudential factors for short-term securities financing below Basel III standards. The FSB should seize this opportunity to advocate for a level the playing field between different jurisdictions for credit and other financial institutions.

In addition to FSB recommended measures, regulators and international standard-setters should recognize the risk-reducing nature of centrally cleared SFTs and grant them favorable prudential treatment, owing to the neutralization of the counterparty risk, as all counterparties face the CCP. Furthermore, involvement of CCPs ensures trading is anonymous and takes place under standardized conditions with a comprehensive range of transparent general collateral baskets covering the liquidity portfolios of a wide range of banks and NBFIs. Finally, collateral can be substituted, giving participants the flexibility to manage funding requirements under normal and stressed market conditions, which contributes significantly to maintaining the stability of funding markets.

To ensure economic attractiveness for market participants using centrally cleared markets, cross product netting should explicitly be recognized as further detailed in our response to the following question, allowing market participants to offset their margin requirements for SFTs with those for other products.

**6. In what circumstances can activity-based measures, such as (i) minimum haircuts in securities financing transactions, including government bond repos, (ii) enhanced margin requirements between non-bank financial entities and their derivatives counterparties, or (iii) central clearing, be effective in addressing financial stability risks related to NBFi leverage in core financial markets, including government bond markets? To what extent can these three types of policy measures complement each other?**

Global standards for regulating SFT markets have been implemented differently across the globe, leading to an uneven playing field of centrally and non-centrally cleared markets and different jurisdictional approaches. While for centrally cleared markets, the PFMI and EMIR regulate the application of haircuts, the FSB has recommended the consideration of minimum haircuts in non-centrally cleared SFTs since 2015. We, therefore, appreciate that the FSB has confirmed its view in this paper and generally believe that global consistency should be fostered with a view to ensure that haircuts are generally risk-adequate across the board.

We also appreciate the discussion around a central clearing obligation of SFTs. To further increase the attractiveness of the clearing ecosystem for SFTs, adjustments and further targeted incentives are still needed. Case in point, removal of entry barriers for centrally cleared SFTs should be fostered in the short to mid-term to facilitate a further uptake of voluntarily cleared SFT markets. Indeed, if a stimulus of the centrally cleared SFT market in the medium-term is not successful, we believe a mandate for authorities (similar to the central clearing mandate for U.S. Treasuries adopted by the SEC in December 2023, including repo and reverse repo agreements, which becomes gradually effective until mid-2026) to assess whether SFTs meet the criteria for a clearing obligation and whether such a mandate would further support the development of deeper and more resilient SFT markets would make sense.

To ensure that the use of centrally cleared markets is economically attractive, market participants should be able to offset their margin requirements for SFTs with those for other products. Cross-product netting benefits for counterparty credit risk capital purposes are recognized only with permission to apply internal (IMM) models for credit exposure calculation. However, Basel III's Output Floor constrains banks with Standardized Approaches for capital requirements. Under these approaches, credit exposure for SFTs and derivatives are separate calculations, and cross-product netting benefits aren't recognized. Without cross-product netting in credit exposure measurement, lower margin requirements from cross-product margining don't offset credit exposure, leading to higher capital requirements. This disincentivizes clearing brokers from offering innovative cross-product margining to their clients and in turn disincentivizes the voluntary adoption of buy-side client of central clearing for SFTs. The International Swaps and Derivatives Association (ISDA) has proposed a methodology to improve the recognition of cross product netting of centrally cleared SFT and derivative transactions. The ISDA led initiative, started with the US bonds and repo clearing mandate, is seen by all market participants as a key feature to further increase efficiency and attractiveness of moving SFT into a cleared environment.

**7. Are there benefits to dynamic approaches to minimum margin and haircut requirements, e.g. where the requirements change based on changes in concentration or system-wide leverage? If so, what types of indicators capturing concentration or system-wide leverage should the requirements be linked to?**

**8. Are there any potential unintended consequences from activity-based measures beyond those identified in the consultation report?**

**9. For non-centrally cleared securities financing transactions, including government bond repos, what are the merits of margin requirements compared to minimum haircuts?**

**10. In what circumstances can entity-based measures, such as (i) direct and (ii) indirect leverage limits be effective in addressing financial stability risks related to NBFi leverage in core financial markets?**

**11. Are there ways to design and calibrate entity-based measures to increase their risk sensitivity and/or their effectiveness in addressing financial stability risks from NBFi leverage?**

**12. Are there any potential unintended consequences from entity-based measures beyond those identified in the consultation report?**

**13. To what extent can activity-based and entity-based measures complement each other? What are the main considerations around using these two types of measures in combination?**

## Recommendation 6

Maximum number of characters: 3000

**14. How could counterparty credit risk management requirements for leverage providers be enhanced to be more effective in addressing financial stability risks from NBFi leverage in core financial markets, such as government bond repo markets? In what circumstances can they be most effective?**

## Recommendation 7

Maximum number of characters: 3000

**15. Would a minimum set of disclosures to be provided by leverage users to leverage providers be beneficial in improving counterparty credit risk management and reducing financial stability risks from NBFi leverage, including concentration risks? If so, which types of information and what level of granularity should (and should not) be included in this minimum set and why?**

**16. What are the main impediments that leverage users face in sharing additional or more granular data with their leverage providers? Is there a risk that a minimum recommended set of disclosures may lead leverage users to limit the information they share with their leverage providers to that minimum set?**

**17. Should such a minimum set of disclosures rely on harmonised data and metrics to ensure transparency and efficiency in the use of such information for risk management purposes? Do respondents agree that such a minimum set of disclosures should be based on the list of principles outlined in the consultation report? If not, which principles should be added, deleted or amended?**

**18. Should leverage users be required or expected to provide enhanced disclosures (beyond that provided in normal market conditions) to their leverage providers during times of stress?**

**19. Should authorities design a minimum set of harmonised disclosures and guidelines on its application, or should they convene a cross-industry working group to do so? How do respondents believe such a standard should be incorporated into market practice? Through regulation, supervisory guidance, and/or via a Code of Conduct or similar approach?**

## Recommendation 8

Maximum number of characters: 3000

**20. Are there areas where the principle of “same risk, same regulatory treatment” should be more consistently applied? Are there circumstances in which the principle should not apply or should not apply comprehensively?**