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**Directorate-General for Financial Stability,
Financial Services and Capital Markets Union,
European Commission**

Submitted via online questionnaire to:

<https://ec.europa.eu/eusurvey/runner/non-bank-financial-intermediation-2024>

**RE: Targeted Consultation Document: Assessing the Adequacy of
Macroprudential Policies for Non-Bank Financial Intermediation (NBFI)**

BlackRock¹ is pleased to have the opportunity to respond to the targeted consultation on the adequacy of macroprudential policies for NBFI, issued by the European Commission.

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 issues raised by this consultation and will continue to contribute to the thinking of the European Commission on any issues that may assist in the final outcome.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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¹ BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

Executive Summary

Promoting financial stability and mitigating systemic risks is important to market participants and to asset owners, such as insurance companies, pension funds and retail investors. We welcome the European Commission's efforts to enhance the resilience of the financial system.

To assess the role of macroprudential regulation in addressing systemic risk, we take as our starting point both the original objective of macroprudential regulation, and the definition of systemic risk put forward by international standard-setters after the Global Financial Crisis (GFC).

Systemic risk is "a risk of disruption to financial services that is caused by an impairment of all or parts of the financial system and has the potential to have serious negative consequences for the real economy."²

Macroprudential regulation is concerned with the resilience of the financial system as a whole. It complements micro-prudential regulation's focus on the resilience of individual firms, markets, and products. It is underpinned by an ecosystem-wide perspective that identifies, monitors, and addresses vulnerabilities arising from the interaction of the firms and markets which make up the system. Separate parts of the system may be sound on an individual basis, but their interaction can amplify and transmit shocks in ways which result in systemic risk.

To develop such a macroprudential perspective necessarily requires the ability to aggregate relevant system-wide data and to develop an understanding of the dynamic interactions between different parts of the system under stress scenarios. This has important cross-border implications, necessitating close cooperation between supervisors. The development of this macroprudential perspective is clearly a work in progress internationally today.

The first steps towards a macroprudential framework were taken in the banking sector: macroprudential tools were developed to prevent procyclical behaviour, and to recalibrate prudential standards that look beyond the risks in an individual institution, and supplement it with the importance of the institution to the financial system – and the cost to the economy as a whole – if the institution fails. The framework was put in place relatively uniformly across the banking sector, reflecting the fact that the fundamental structure and business models of banks are relatively homogenous.

Steps to apply a macroprudential perspective to Non-Bank Financial Intermediation (NBFI) are at an earlier stage. The structures and business models within and inherent to the "NBFI sector" are highly heterogeneous and significantly different to banks. Many of the risks policymakers have identified in this sector – unmitigated liquidity mismatches, excessive leverage, and interconnectedness – may lead to liquidity, counterparty and/or concentration risks, but are in fact risks that have materialised in markets – or market-based finance.

² See Financial Stability Board, International Monetary Fund, and Bank for International Settlements, [*Guidance to Assess the Systemic Importance of Financial Institutions, Markets and Instruments: Initial Considerations - Report to the G-20 Finance Ministers and Central Bank Governors*](#), October 2009.

The key question for macroprudential regulation of market-based finance is how these risks, in the event of a plausible shock scenario, might interact and transmit through the system to threaten the financial stability of systemically important markets and/or institutions.

Answering this question should start by the collection of ecosystem-wide data and developing an understanding of how different parts of the system interact. In parallel, policymakers should identify the institutions and markets that are core to financial stability – where disruption could cause genuine systemic risk:

- Critical institutions could include, for example, commercial banks and central clearing counterparties (CCPs). Failure in these types of institutions can cause severe disruption to the financial system – as recognised and addressed by policymakers through the development of the Global Systemically Important Banks (G-SIB) framework and Basel prudential requirements; as well as CPMI-IOSCO *Principles for Financial Market Infrastructures*, applied to CCPs.
- Core markets clearly start with sovereign bond markets. Sovereign bonds are the base asset for financial markets, the mechanism for governments' funding, and transmission of monetary policy. As such, they have been the focal point for central bank interventions since the GFC. Policymakers may decide there are other markets – for example repo and corporate bond markets – which require further attention.

Once critical institutions and core markets have been identified, policymakers should agree possible sources of unacceptable disruption to them, assess the potential of these to cause systemic risk (i.e. serious negative consequences for the real economy, per the earlier definition), and tailor policy interventions accordingly.

For example, incidents like the failure of Archegos Capital Management (a private fund operating under an exemption from US adviser registration requirements as a 'family office') are noteworthy not because an NBFIs failed, but because of the impact on a commercial bank (a critical institution for financial stability purposes). While the losses generated for several banks following Archegos' collapse did not ultimately generate systemic risk, the incident revealed risk management failures – which are most effectively mitigated by focusing on commercial banks' risk management practices and regulations underpinning them.

More generally, appropriate NBFIs policy interventions should align with three market-based finance principles:

- First, financial stability is not the same as price stability: price adjustment shows markets are working well, absorbing shocks and changing the price at which risk is transferred in real time.
- Second, a 'products and activities' approach is the correct way to address risks in market-based finance: applying an 'entity' approach to market-

based finance will simply shift risk within the ecosystem.³ Investment fund regulation falls within a ‘products and activities’ approach.

- Third, market resilience is underpinned by a diversity of buy and sell interests, and by the fair and non-discriminatory treatment of investors: policy interventions that either force or create incentives for market participants to behave in the same way in stressed markets will amplify shocks.

Investment funds are often cited as a sector requiring a macroprudential framework. As a starting point, it is important to note that investment funds can be set up, closed, or become insolvent without impact on markets.⁴ Further, there is no liquidity mismatch for investment funds investing in securities that trade daily (whereas liquidity mismatch does exist where daily dealing investment funds invest in inherently illiquid assets such as real estate, unless the fund structure is adjusted appropriately).

However, events from the GFC onwards have shown that while systemic risk does not originate in investment funds, funds can – in some cases – amplify price volatility. We therefore agree that there is a case for examining the behaviour of individual products and activities, understanding any vulnerabilities, and regulating them accordingly.

In the EU, an extensive regulatory framework has been established to address these fund-specific risks. National Competent Authorities can impose leverage restrictions on AIFs where they see potential build-up of risks; money market funds are subject to sizeable liquidity buffers that eliminate any liquidity mismatch (given redemptions are paid out of cash); Liability-Driven Investment funds are required to hold minimum buffers to reduce the need to sell assets for collateral calls.

Further, under the recast UCITS Directive and AIFMD, open-ended funds are required to choose at least two tools from a list of seven liquidity management tools, in addition to suspension of redemptions. Among these are a number of price-based tools (swing pricing, anti-dilution levies, or dual pricing) designed to protect investors from the potential dilutive effect of capital flows in or out of a fund. These tools also have the benefit of offsetting any first-mover advantage that could contribute to disproportionate selling pressure on markets.

We expect to see greater roll out of these tools across the EU once the recast Directives have been fully implemented. Reinforcing the effectiveness of market conduct regulation in this way will also improve market resilience.

Any further action aimed at addressing fund behaviour must recognise that funds investing in the same asset class with similar benchmark allocations will exhibit different responses to market events: different investment strategies, time horizons, client bases and distribution strategies typically result in portfolio managers taking different decisions in stressed market conditions, particularly

³ See BlackRock [Comments on the Consultative Document \(2nd\) Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions](#), May 2015.

⁴ For examples of investment fund failures, see Appendix B of BlackRock’s response to [FSOC – Proposed Analytic Framework for Financial Stability Risks and Proposed Guidance on Nonbank Financial Company Determinations](#), July 2023.

where underlying investor behaviour results in differences in net capital flows. Indeed, in- and outflows routinely differ between funds investing in the same asset classes, even during stressed market conditions. This reinforces the importance of funds being managed based on what is happening in each individual fund – rather than attempting to manage risk at an aggregate level across funds.

For this reason, we believe the concept of ‘cohorts of funds’ is not additive to this debate – it risks breaching the market-based finance principles, set out above, that market resilience is underpinned by a diversity of buy and sell interests, and by the fair and non-discriminatory treatment of investors. The unintended consequence of any centralised regulation of ‘cohorts of funds’ risks neutralising the very resilience which that diversity underpins, and instead reaggregating risks through forced collective action.

That said, national supervisors are well-placed to leverage their existing expertise, working in close coordination with each other, and ESMA, to ensure consistent supervisory outcomes. The current supervisory approach could be improved through the development of a single regulatory reporting data hub, which would support greater coordination between national supervisors. This should contribute to reinforcing the European system of supervision by delivering economies of scale, ensuring better crisis coordination, and improving data sharing – while minimising administrative burdens.

But these types of interventions alone cannot address the overarching macroprudential policy objective: reducing systemic risk. Investment funds are minority investors in most markets. Asset managers account for less than a third of global financial assets; and investment funds are a subset of the assets that they manage.⁵

Market-wide outcomes therefore cannot be delivered by focusing solely on individual entities or product types. Prevailing market dynamics are, by definition, a product of the interaction between all market participants – encompassing the full range of asset owners, intermediaries, product types and market infrastructures.

To improve understanding of these dynamics, we need better macro-level data. Detailed data is available in some areas – notably on open-ended funds – but is missing for many other investor types. Extensive transparency and reporting requirements were implemented across the financial ecosystem following the GFC, but may now need improvement to deliver meaningful information for authorities. We would support efforts to consolidate and improve the usability of datasets to deliver better insights on sources of risk.

This should be complemented by better understanding of the structural changes that the financial system has undergone post-GFC, (which have been highly successful in mitigating the risks that arose from use of OTC derivatives in the banking sector at the time), and how market participants must navigate the changed ecosystem.

In our view, the bouts of liquidity stress markets have experienced are amplified by two major post-GFC reforms: i) central clearing of derivative transactions, with

⁵ See BlackRock Viewpoint, [A Holistic Approach to Bond Market Resilience](#), August 2022.

higher capital and margin requirements; and ii) overhauling prudential regulation for the banking sector, reducing leverage, liquidity, and funding risk with higher capital and liquidity requirements.

These reforms have resulted in a financial system in which counterparty credit risk has been replaced by greater liquidity risk. Volatility and demand for cash have been hard-wired together through margin and collateral requirements, while banks' ability or willingness to make markets, provide temporary liquidity, and to store and move cash through the system has been reduced. This creates a structural liquidity mismatch at the level of the market.

The Bank of England's system-wide exploratory scenario (SWES) highlighted how these dynamics generate systemic liquidity demand in critical Sterling markets – a simulated market shock significantly increased liquidity demand, 80% of which arose from variation margin calls, and another 10% from initial margin calls. The SWES further illustrated the importance of policymakers i) examining the importance of the repo market for financial stability; and ii) opening a discussion about expanding the range of eligible collateral for margin calls as a means of reducing their procyclical impact.

We believe these types of system-wide stress tests can be a useful way of assessing dynamics in core markets. However, it will be critical to the success of any such system-wide stress test in the EU that: i) it has a clear and pre-defined purpose; ii) it studies how *all* market participants influence a specific market in a specific scenario; iii) it is informed by market participants' *own* views on how they would behave in that scenario – rather than assumptions or modelling; and iv) it is proportionate and time-limited.

In summary, the extension of a macroprudential framework to the non-bank financial sector in the EU requires complementing the existing comprehensive set of microprudential frameworks with a macroprudential perspective. Namely:

- **Reducing market-wide liquidity demand:** Reducing the demand for liquidity arising from margin calls through i) improving preparedness via enhanced CCP disclosures and model transparency; ii) expanding the set of eligible collateral; iii) re-visiting constraints on the repo market, to increase temporary liquidity provision.
- **Enhanced supervisory coordination:** Complementing the expertise of National Competent Authorities and ESMA with the development of a data reporting hub and better data sharing, to support better crisis coordination and coordinated oversight.
- **System-wide stress testing:** Developing a well-defined, time-limited, system-wide stress test to assess dynamics in core markets – provided it considers how all market participants interact, informed by each participant's own views on how they would behave.
- **Ecosystem-wide data:** Ensuring the detailed data on the asset management sector is matched by data of equivalent quality for other investor types, and improving the usability of regulatory data sets to deliver better insights on sources of risk.

Responses to Questions

NBFI & Systemic Risk – General

1. Are there other sources of systemic risks or vulnerabilities stemming from NBFIs' activities and their interconnectedness, including activity through capital markets, that have not been identified in this paper?

We take as our starting point the definition of systemic risk put forward by international standard-setters after the global financial crisis.

Systemic risk is "a risk of disruption to financial services that is caused by an impairment of all or parts of the financial system and has the potential to have serious negative consequences for the real economy."⁶

The structures and business models within and inherent to the "NBFI sector" are highly heterogeneous and significantly different to the banking sector where a macroprudential framework has already been put in place. The vulnerabilities identified in the consultation paper – unmitigated liquidity mismatches, excessive leverage, and interconnectedness – may lead to liquidity, counterparty and/or concentration risks, but they are risks that have materialised in markets – or *market-based finance*.

The key question for macroprudential regulation of market-based finance is how these risks, in the event of a plausible shock scenario, might interact and transmit through the system to threaten the financial stability of systemically important markets and/or institutions.

Answering this question should start with the collection of ecosystem-wide data and the development of an understanding of how different parts of the system interact. In parallel, policymakers should identify the institutions and markets that are core to financial stability – where disruption could cause genuine systemic risk.

Critical institutions could include, for example, commercial banks and central clearing counterparties (CCPs). Failure in these types of institutions can cause severe disruption to the financial system – as recognised and addressed by policymakers through the development of the Global Systemically Important Banks (G-SIB) framework and Basel prudential requirements as well as CPMI-IOSCO *Principles for Financial Market Infrastructures*, applied to CCPs.

The process of defining core markets should start with sovereign bond markets. Sovereign bonds are the base asset for financial markets, the mechanism for governments' funding, and transmission of monetary policy. As such, they have been the focal point for central bank interventions since the GFC. Policymakers may decide there are other markets – for example repo or corporate bond markets – which require further attention.

⁶ See Financial Stability Board, International Monetary Fund, and Bank for International Settlements, [*Guidance to Assess the Systemic Importance of Financial Institutions, Markets and Instruments: Initial Considerations – Report to the G-20 Finance Ministers and Central Bank Governors*](#), October 2009.

Once the critical institutions and core markets have been identified, policymakers should agree potential sources of unacceptable disruption to them, assess the potential of these to cause systemic risk (i.e., whether they could cause serious harm for the real economy, per the above definition), and tailor policy interventions accordingly.

More generally, appropriate NBFIs policy interventions should align with three market-based finance principles.

First, financial stability is not the same as price stability: price adjustment shows markets are working well, absorbing shocks and changing the price at which risk is transferred in real time.

Second, a ‘products and activities’ approach is needed to address risks in market-based finance: applying an entity approach to market-based finance will simply shift risk within the ecosystem.⁷ Investment fund regulation falls within the ‘products and activities’ approach.⁸

Third, market resilience is underpinned by a diversity of buy and sell interests, and by the fair and non-discriminatory treatment of investors: policy interventions that either force or create incentives for market participants to behave in the same way in stressed markets will amplify shocks

2. What are the most significant risks for credit institutions stemming from their exposures to NBFIs that you are currently observing? Please provide concrete examples.

As an asset manager, we do not have visibility of the risks that credit institutions face from the different exposures on their balance sheet. However, we do not believe that NBFIs pose a distinct or unique set of risks to credit institutions’ balance sheets.

In general, credit institutions need to carefully manage their exposure to different sectors on an aggregate basis and at an individual level. Specific due diligence and know-your-customer requirements for banks are complemented by prudential requirements to protect against losses.

That said, policymakers have long recognised that banks need to carefully manage exposures to highly leveraged counterparties. In 1999 – following the collapse of

⁷ See BlackRock, [Comments on the Consultative Document \(2nd\) Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions](#), May 2015.

⁸ In 2024, the Financial Stability Oversight Council defined ‘entities’ and ‘products’ as follows, for the US market [emphasis added]: “A number of different types of **entities** subject to varying regulatory frameworks engage in asset management activities, including but not limited to registered investment advisers, banks and thrifts, insurance companies, commodity trading advisors, and commodity pool operators. These entities provide a variety of asset management **products**, herein referred to as “**investment vehicles**,” such as separately-managed accounts (SMAs) and “pooled investment vehicles.” Pooled investment vehicles include investment companies registered under the Investment Company Act of 1940 (Investment Company Act) (registered funds), private funds (including hedge funds), bank collective investment trusts, and commodity pools”. See Financial Stability Oversight Council, [Notice Seeking Comment on Asset Management Products and Activities](#), December 2014. Activities’ could include activities such as central clearing. See BlackRock, [Remarks at the OeNB Macropprudential Policy Conference: ‘Agnostic on non-banks?’](#), May 2019.

Long Term Capital Management – the Basel Committee on Banking Supervision (BCBS) issued ‘*Sound Practices for Banks’ Interactions with Highly Leveraged Institutions*’, setting out best practises for banks with respect to due diligence, information gathering, measuring exposures, credit limits, ongoing monitoring, etc.⁹ This is already part of EU regulatory requirements under the EBA’s RTS criteria for the identification of shadow banking entities under the Capital Requirements Regulation (CRR).

We believe these principles still hold today, and welcome BCBS’ current efforts to update this guidance in light of more recent events where banks incurred losses through their prime brokerage businesses.¹⁰ We also note that some bank supervisors have made clear that banks should “systematically review their risk appetite for accounts that do not provide wider disclosure of their investment strategy, leverage, and financing relationships”.¹¹

3. To what extent could the failure of an NBFIs affect the provision of critical functions to the real economy or the financial system that cannot easily be replaced? Please explain in particular to which NBFIs sector, part of the financial system and critical function you refer to, and if and how you believe such knock-on effect could be mitigated.

The example given in the consultation document for ‘the failure of an NBFIs’ is the collapse of Archegos Capital Management (a private fund excluded from adviser registration requirements as a family office in the US).¹² Family offices based in or providing services into the EU are likely to require registration under MiFID and as such, be subject to MiFID trade reporting requirements. This is particularly the case for larger multi-family offices. This event emphasised the importance of identifying not only which specific part of the NBFIs sector may need to be addressed, but also understanding relevant geographical operations to determine where supervisory competence lies and where supervisory data is lacking.

More generally, we believe this incident is noteworthy not because an NBFIs failed, but because of the impact it had on an investment bank – investment banks are, in our view, critical institutions from a financial stability/systemic risk perspective. Conversely, investment funds and investment vehicles can generally be set up, closed, or become insolvent without any impact on markets.¹³ However, significant losses for commercial banks create solvency risks, and therefore – potentially – systemic risk.

⁹ See Basel Committee on Banking Supervision, [Sound Practices for Banks’ Interactions with Highly Leveraged Institutions](#), January 1999.

¹⁰ See Basel Committee on Banking Supervision, [Consultative Document: Guidelines for Counterparty Credit Risk Management](#), April 2024.

¹¹ See Prudential Regulation Authority and Financial Conduct Authority, ‘[Dear CEO’ Letter: Supervisory Review of Global Equity Finance Businesses](#), December 2021.

¹² **Note:** The US Investment Advisers Act was amended by the Dodd-Frank Act to explicitly say that certain family offices, as to be defined by the SEC, are not “investment advisers”. See [Investment Advisers Act Rule 202\(a\)\(11\)\(G\)-1\(d\)\(4\)](#). In the aftermath of the Archegos failure, some have advocated for more family office regulatory oversight, by bringing them into scope of the Advisers Act.

¹³ For example, reputational events can cause investment fund clients to lose confidence in a specific product, or in an asset management firm as a whole. There are several examples of this happening where end-clients were able to move their assets without market disruption. See Exhibit B of BlackRock’s [Comments on the Consultative Document of Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions](#), April 2014.

Similarly, asset managers are neither the owner of the assets that they manage, nor the counterparty to any trades – meaning they do not ‘fail’ in the same way as a bank might, and the implications of failure are different. While asset managers can go out of business, the resolution process would involve clients reassigning their assets to another manager. The remaining assets and liabilities of the manager itself can be resolved easily. Like most other service organisations, asset managers go out of business regularly with no systemic implications.

Assessing and pricing counterparty risk is a core part of any bank’s activities. Banks need to make these assessments for all clients, spanning the retail clients in, for example, their mortgage book through to wholesale or specialised clients.

The losses generated for several banks following collapse of the Archegos family office did not, in that instance, result in losses that threatened their solvency, nor did they create financial instability or systemic risk. However, analysis of the incident did reveal risk management failures on the part of several of Archegos’ counterparties.¹⁴

We believe that the types of risk revealed by the Archegos episode are most effectively mitigated by focusing on commercial banks’ risk management practices. See our response to Q. 5 for further discussion.

4. Where in the NBFI sectors could systemic liquidity risk most likely materialise and how? Which specific transmission channels of liquidity risk would be most relevant for NBFI? Please provide concrete examples.

In our view, the potential for systemic liquidity stress has materialised, and could materialise in the future, not from specific sectors of NBFI but rather from dynamics arising across the *entire* financial system. As such, while it is possible that the NBFI sector could amplify market dynamics or events, it would be wrong to suggest that the sector *generates* that risk itself.

The bouts of liquidity stress we have witnessed in recent years have been amplified by two major post-GFC reforms:

- The move to central clearing of over the counter (OTC) derivative transactions to concentrate trading in specialist entities (CCPs) and building protection against counterparty default through higher capital and margin requirements.
- The overhaul of prudential regulation for the banking sector that significantly reduced banks’ leverage, liquidity, and funding risk by increasing capital and liquidity requirements.

These reforms have been highly successful in mitigating the credit counterparty risks that arose from use of derivatives in the banking sector during the GFC. However, they have resulted in a financial system in which counterparty credit risk has been replaced by greater liquidity risk. The move to central clearing and

¹⁴ See Credit Suisse Group Special Committee of the Board of Directors, [Report on Archegos Capital Management](#), 29 July 2021.

collateralisation of trades increases the demand for liquidity to meet margin and collateral calls during periods of volatility.

Put differently, price volatility and the ensuing demand for cash have been hard-wired together during bouts of liquidity stress. Meanwhile, bank capital and liquidity requirements reduce individual bank's risk of failure, but constrain their ability or willingness to make markets, provide temporary liquidity, and to store and move cash.

A notable example of this dynamic is the change in margin calls seen in Q1 2020, as markets responded to the onset of the pandemic. For example, the BCBS-CPMI-IOSCO *Review of Margining Practices* found that “the total initial margin requirement across CCPs increased by roughly \$300 billion over March 2020, with a further increase in excess collateral of \$115 billion, resulting in an overall increase in collateral prepositioned at CPPs of \$415 billion (a roughly 40% increase relative to the average in February 2020). Slightly less than half of this collateral was held in cash.”¹⁵

Separately, the results of Round 1 of the Bank of England's system-wide exploratory scenario (SWES) have further illustrated this source of systemic liquidity demand. In response to a hypothetical market shock, 80% of participants' liquidity needs arose from variation margin calls, with a further 10% stemming from initial margin calls.¹⁶ The SWES found that the large majority of this liquidity demand was met by pledging assets, as well as cash balances, selling assets, and using repo financing. In this scenario, there was no major impact on UK sovereign bond markets.¹⁷ However, these findings illustrate the potential impact if, for example, the constraints market participants face with respect to repo financing vary.

Indeed, to generate cash for margin calls, market participants have three options at present. They can either: i) draw down cash buffers; ii) access temporary sources of liquidity, e.g. repo or iii) sell assets.

Selling assets is a legitimate way for market participants to meet liquidity demands. However, it may generate unnecessary transaction costs for asset owners, and will result in price adjustment in the market. This could be cause for concern if it significantly exacerbates volatility in, for example, sovereign bond markets.

Temporary sources of liquidity, like repo, have the benefit of allowing market participants time to restructure their portfolios. While some contingent funding sources are committed in advance, they require counterparties that are willing and able to lend cash against portfolio assets. This has been impacted by post-GFC regulation that rightly seeks to ensure banks do not rely excessively on short-term funding. However, this does mean, as the Bank of England has noted, that

¹⁵ See BCBS-CPMI-IOSCO [Review of Margining Practices](#), September 2022.

¹⁶ See Bank of England, [Financial Stability Report](#), June 2024. Also, it is important to note that variation margin is almost exclusively collected in cash, unlike initial margin where other assets are eligible. Were market participants able to pledge other assets, particularly for intra-day initial margin calls, liquidity demand spikes would be less of a cause for concern.

“intermediation capacity [...] particularly from dealer banks [...] struggles to meet the consequent demand for liquidity, particularly at times of stress.”¹⁸

Finally, market participants can and do maintain dedicated cash or liquidity positions to meet margin calls, the size of which are a function of the size of the calls they might expect to incur. These positions are held for two main reasons – firstly because margin calls can occur at shorter notice than standard asset settlement periods and secondly, because forced selling of assets in poor market conditions will result in elevated transaction costs. However, holding ever-larger cash balances will not necessarily prevent asset liquidations: buffers have to be replenished, often by selling assets, and – particularly during market dislocations – liquidations will also be driven by the need to re-balance or de-risk portfolios. Maintenance of cash buffers also carries an opportunity cost and must be balanced against the costs of foregone returns for asset owners. From a macroeconomic perspective, cash buffers also represent a deadweight economic loss in terms of foregone productive investment in the real economy.

In our view, these constraints and trade-offs point to a need for industry and policymakers to give further attention to the capacity of the financial system to store and move cash around the system, and to provide temporary liquidity. For example, supporting a workable sponsored access model for buy-side participation in repo clearing, or an equivalent facility to the US Federal Reserve’s Reverse Repo Program (RRP), which allows certain non-bank market participants to *place* cash overnight on a secured basis with the Federal Reserve when the private banking market cannot absorb excess overnight cash reserves. Consideration should also be given to how expanding the range of eligible collateral would reduce reliance on asset sales, repo, or cash buffers to meet margin calls (see response to Q. 68).

5. Where in the NBFIs sectors do you see build-up of excessive leverage, and why? Which NBFIs could be most vulnerable? Please provide concrete examples.

We do not have full visibility of levels of leverage across all participants in the wider NBFIs sector. However, we believe it is important to have a clear view on what is meant by ‘excessive’ leverage, given the overarching objective is to identify and mitigate systemic risk.

In our view, ‘risk’ does not arise from ‘leverage’ in and of itself. Leverage is a relative concept – it measures the level of borrowing of an individual entity relative to its assets/equity.

This means that, as the Global Association of Risk Professionals has noted, a simple statement about leverage (i.e., ‘a fund is two times leveraged’) contains little information about the implications of that leverage or the risk posed to the portfolio without wider context – i.e. the baseline (or unleveraged portfolio) against which leverage is measured. The characteristics of the underlying portfolio, including the risk or liquidity of assets, will in turn influence the riskiness of the leverage¹⁹

¹⁸ See Bank of England Speech, [A Journey of 1000 Miles Begins with a Single Step](#), September 2023.

¹⁹ See Global Association of Risk Professionals, [Response to FSB Consultative Document for Proposed Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities](#), September 2016.

This also means that aggregating up leverage of individual investment vehicles within a particular sector, or across the financial system, will not give an indication of system-wide risks from leverage.

Similarly, looking at the leverage of a particular investment vehicle in isolation yields some information – but only about that vehicle. This could include the percentage by which asset values need to fall by to generate insolvency; the potential margin/collateral call that a market move will generate; or assets that might be sold to deleverage.

However, from a financial stability perspective, policymakers need to understand how the risks to individual investment vehicles might interact with the critical financial institutions or core markets that are most relevant from a financial stability perspective. The insolvency of a single fund or margin calls faced by an individual market participant are not examples of systemic risk – while potentially disruptive for some market participants, they do not impair the functioning of wider financial markets or have negative consequences for the real economy.

Understanding potential financial stability risks from leverage requires a system-wide, macroprudential perspective based on data that can give a comprehensive picture of market activity. While detailed data is usually available for investment funds, it is often missing for other investor types. Similarly, data on trading activity in some markets – including sovereign bond markets – is often incomplete. We support the FSB's efforts to develop a systemic, ecosystem-wide understanding of the non-bank system.²⁰

6. Do you observe any systemic risks and vulnerabilities emerging from crypto assets trading and intermediaries in the EU?

Per our response to Q. 1, we believe the overarching approach to identifying sources of systemic risk should be to identify potential sources of disruption to institutions and core markets that are critical for financial stability purposes.

ESMA has monitored potential risks to financial stability stemming from the crypto-asset market since 2018 and continues to do so as part of the Trends, Risks and Vulnerabilities (TRV) reporting process on a twice-yearly basis.

We see limited overlap between critical financial institutions and core markets and the digital asset ecosystem. ESMA drew a similar conclusion in its 2024 TRV Risk Analysis.²¹ We therefore do not currently view crypto assets as a source of financial instability or systemic risk. However, we believe it is important for regulatory bodies and the financial industry to collaborate closely in monitoring any future development of such assets' interplay with traditional financial markets, and in

²⁰ For further discussion, see BlackRock Viewpoint, [A Holistic Approach to Bond Market Resilience](#), August 2022.

²¹ See ESMA TRV Risk Analysis – [Crypto Assets: Market Structures and EU Relevance](#), April 2024. It notes that “around 70% to 80% of secondary market transactions occur between crypto assets and other crypto assets or stablecoins, i.e. they do not involve any fiat currency. Spot trading of crypto assets is thus largely self-referential, without touchpoints to traditional financial markets. Moreover, purely crypto-internal transactions do not affect the system's market value, as no inflows or outflows take place.”

creating and supporting a transparent and robust market infrastructure for digital assets.

7. Considering the role NBFIs have in providing greater access to finance for companies and in the context of the capital markets union project, how can macroprudential policies support NBFIs' ability to provide such funding opportunities to companies, in particular through capital markets? Please provide concrete examples.

We believe there are three market-based finance principles to adhere to when considering the interaction between macroprudential policies and capital markets' funding of companies:

- First, financial stability is not the same as price stability: price adjustment shows markets are working well, absorbing shocks and changing the price at which risk is transferred in real time.
- Second, a 'products and activities' approach is the correct way to address risks in market-based finance: applying an 'entity' approach to market-based finance will simply shift risk within the ecosystem.²² Investment fund regulation falls within a 'products and activities' approach.
- Third, market resilience is underpinned by a diversity of buy and sell interests, and by the fair and non-discriminatory treatment of investors: policy interventions that either force or create incentives for market participants to behave in the same way in stressed markets will amplify shocks.

Indeed, we believe that any policies that undermine investor protection are in turn likely to undermine financial stability, and the Investment and Savings (Capital Markets) Union project more broadly, by making it less attractive to invest via collective investment funds. Investor protection and financial stability should, therefore, be viewed as complementary objectives. Indeed, investor protection is a pre-condition for effective management of risks to financial stability.

Some 'macroprudential' policies that have been suggested elsewhere for the asset management sector – mandatory cash buffers, for example – represent a form of restriction or obligation on certain investment vehicles or investor types that do not exist for others: they are discriminatory, and override fund investor interests. They could also create incentives for investors to 'run' which currently do not exist; while others will simply incentivise investors to hold the same assets in vehicles and products outside of the scope of the proposed tools, giving regulators less oversight and control.

Similarly, another type of intervention sometimes proposed – activation of an individual investment fund's risk management tools by regulators (as opposed to activation by the manager themselves) will by definition only impact a subset of investors in a given asset class. Aside from generating potential moral hazard risk for supervisory authorities, it is likely that any such intervention will be ineffective

²² See BlackRock [Comments on the Consultative Document \(2nd\) Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions](#), May 2015.

or unfair (by disadvantaging fund investors versus direct or separate account investors) and could be harmful or counterproductive (by signalling to other investors holding related assets directly that there is a problem in the market, prompting them to exit – potentially exacerbating the original problem).²³

Instead, macroprudential regulation should be concerned with the resilience of the financial system as a whole. It complements micro-prudential regulation's focus on the resilience of individual firms and markets. A macroprudential perspective identifies, monitors and addresses vulnerabilities arising from the interaction of the firms and markets which make up the system. Separate parts of the system may be sound on an individual basis, but their interaction can amplify and transmit shocks in ways which result in systemic risk.

To develop such a macroprudential perspective necessarily requires the ability to aggregate relevant system-wide data and to develop an understanding of the dynamic interaction between different parts of the system under appropriate stress scenarios. This has important cross-border implications, necessitating close cooperation between supervisors. The development of this macroprudential perspective is clearly a work in progress internationally today.

The first steps towards a macroprudential framework were taken in the banking sector: macroprudential tools were developed to prevent procyclical behaviour and to recalibrate prudential standards that look beyond the risks in an individual institution, supplementing them with the importance of the institution to the financial system – and the cost to the economy as a whole – if the institution fails. The framework put in place was relatively uniform across the banking sector, reflecting the fact that the fundamental structure and business models of banks is relatively homogenous.

Steps to apply a macroprudential perspective to Non-Bank Financial Intermediation (NBFI) are at an earlier stage. The structures and business models within and inherent to the “NBFI sector” are highly heterogeneous and significantly different to banks.

The key question for macroprudential regulation of market-based finance is how the risks identified in the consultation paper around liquidity, leverage, and interconnectedness might interact and transmit through the system to threaten the financial stability of critical institutions or core markets.

Answering this question should start by the collection of ecosystem-wide data and developing an understanding of how different parts of the system interact. In a parallel, iterative process, policymakers should identify the institutions and markets that are core to financial stability – where disruption could cause genuine systemic risk.

Once the critical institutions and core markets have been identified – see response to Q. 1 – policymakers should identify potential sources of unacceptable disruption to them, assess the potential of these to cause systemic risk (i.e. whether they could

²³ For further discussion of the potential application of macroprudential policies to the investment funds sector, see BlackRock to Central Bank of Ireland Discussion Paper: *An Approach to Macroprudential Policy for Investment Funds*, November 2023.

cause serious harm for the real economy), and tailor policy interventions accordingly.

Investment funds are often cited as a sector requiring a macroprudential framework. As a starting point, we note that investment funds can be set up, closed, or become insolvent without impact on markets. We also note there is no liquidity mismatch for investment funds investing in securities that trade daily, though the costs of trading these securities can increase in extreme market conditions. Liquidity mismatch does, however, exist where daily dealing investment funds invest in inherently illiquid assets such as real estate (unless the fund structure is adjusted appropriately). However, events from the GFC onwards have shown that while systemic risk does not originate in investment funds, funds can – in some cases – amplify price volatility. We agree that there is a case for examining the behaviour of individual products and activities, understanding any vulnerabilities, and regulating accordingly.

In the EU, an extensive regulatory framework has been established to address these fund-specific risks. Under the recast UCITS Directive and AIFMD in addition to suspension, open-ended funds are required to choose at least two tools from a list of seven liquidity management tools. Among these are number of price-based tools (swing pricing; anti-dilution levies or dual pricing) designed to protect investors from the potential dilutive effect of capital flows in or out of fund. These tools also have the benefit of offsetting any first-mover advantage that could contribute to disproportionate selling pressure on markets. We expect to see greater roll out of these tools across the EU once the recast Directives have been fully implemented. Other notable aspects of the regulatory framework are as follows: National Competent Authorities can impose leverage restrictions on AIFs where they see potential build-up of risks; money market funds are subject to sizeable liquidity buffers that eliminate any liquidity mismatch (given redemptions are paid out of cash); Liability-Driven Investment (LDI) funds are required to hold minimum buffers to reduce the need to sell assets for collateral calls.

Any further action aimed at addressing fund behaviour must recognise that funds investing in the same asset class with similar base benchmark allocations will still exhibit different responses to market events: different investment strategies, time horizons, client bases and distribution strategies typically result in portfolio managers taking different decisions to manage funds in stressed market conditions, particularly where underlying investor behaviour results in differences in net capital flows. Indeed, in- and outflows routinely differ between funds investing the same asset classes, even during stressed market conditions. This reinforces the importance of funds being managed based on what is happening in each individual fund – rather than attempting to manage risk at an aggregate level across funds.

Money Market Funds

Supervisory powers

8. What are pros and cons of giving the competent authority the power to increase liquidity buffer requirements on an individual or collective basis in the event of system-wide financial stability risks? Under which other situation do you believe MMF liquidity buffers should be increased on an individual or collective basis by the competent authority? Please explain.

Money Market Funds (MMFs) are important cornerstones of market-wide resilience due to their function as a liquidity-storage vehicle for a wide range of investors. We are strongly supportive of certain targeted measures to further underpin MMFs' resilience.

Liquidity buffers are an important determinant of an MMF's resiliency. Most open-ended mutual funds – except for Exchange-Traded Funds (ETFs) and MMFs – are designed to meet redemptions by selling assets from their portfolio. MMFs, by design, typically fund redemptions through cash balances, not by selling underlying assets. The fundamental purpose of daily liquid asset buffers enshrined in regulatory regimes around the world is to ensure MMFs have enough cash on hand to meet significant daily outflows, promoting resilience in stressed markets.

In addition to cash buffers (daily liquid assets, or 'DLA'), the regulatory structure around MMFs also prescribes a second buffer of weekly liquid assets (WLA) specifically to ensure that the portfolio of the MMF can organically replenish its cash buffer over a multi-day period.

We believe the focus on quantity (and quality) of liquidity buffers is the correct one in the debate on MMF resilience. From our perspective however, it is important to set the calibration of MMF liquidity buffers within the EU regulatory framework, as opposed to moving towards a framework where supervisors would be expected to change the minimum requirements relative to market conditions.

Permitting public authorities to increase liquidity thresholds during periods of financial stress could exacerbate market volatility rather than mitigate it, either by sending a signal to the market that regulators had concerns about the liquidity and resilience of MMFs during specific market events, or more directly because increasing liquidity levels could require MMF managers to sell (relatively) longer dated securities in stressed markets in order to purchase overnight or weekly assets to meet the increased liquidity requirement.

We do, however, believe that targeted increases to the DLA and WLA buffers that MMFs hold on an ongoing basis would further underpin resilience across the sector, as long as they are calibrated appropriately.

Liquidity buffers should be calibrated to require a minimum level of cash and liquidity for MMFs that ensures they are able to meet realistic stressed outflow scenarios. Looking at actual flow data in recent stress scenarios in European short-

term MMFs (e.g. March 2020, or the autumn 2022 Gilt market shock), the current calibration of liquidity buffers in the EU Money Market Fund Regulation (MMFR) were largely adequate to meet outflows.²⁴

While, all things being equal, a high degree of liquidity makes MMFs more resilient to outflows, there is also a risk that the requirement to carry too high a degree of liquidity can make MMFs vulnerable to disruptions and discontinuities in short term markets which can place – at times significant – constraints on market participants’ ability to place cash and secure short-term assets.

In addition to specifying the quantitative calibration of liquidity buffers, functional improvements to the buffers could also improve liquidity and MMF resiliency.

We are highly supportive of removing the linkage between breaches of minimum WLA requirements and the need for fund boards to consider imposing liquidity fees or gates. This requirement created a behavioural incentive in March 2020 for managers to shorten the maturity of portfolios and increase liquidity well above regulatory minimums – often by selling longer-duration assets to reposition portfolios – which was ultimately procyclical, against the backdrop of ongoing market stress. Removing this link would make MMFs – and short-term markets more widely – far more resilient in times of stress. Similar requirements have been removed in the United States and have been proposed to be removed in the UK.

Finally, the MMFR sets out reasonably prescriptive details on the types of assets which can be used to fulfil varying portions of the liquidity buffers. Liquidity conditions can change dramatically in short-term markets at different points in the calendar, and in response to normal changes in issuer or investor capacity throughout the year. Regulatory prescription around how portions of liquidity buffers need to be fulfilled would reduce flexibility in how MMF managers can manage changing market liquidity. We would be strongly supportive, as part of overall changes to how liquidity buffers are calibrated in the regulatory framework, of providing managers with a clear set of appropriate securities and instruments that can be used to fulfil the regulatory liquidity buffers, but allowing managers to construct buffers that best reflect liquidity conditions in the market.

9. How can ESMA and ESRB ensure coordination and the proper use of this power and what could be their individual roles? Please provide specific examples or scenarios to support your view.

Per our response to Q. 8, we believe that the most prudent approach to underpinning the resilience of MMFs is to set minimum liquidity buffers in the primary regulatory framework, and give MMF managers a clear toolkit to meet those minimum requirements with a sufficient range of instruments that gives them the flexibility to adapt to changing market liquidity circumstances.

²⁴ For further discussion of MMF flow data relative to liquidity provisioning, see BlackRock Viewpoint [European Money Market Reform](#), December 2022.

Reporting requirements

10. In view of the new UCITS supervisory reporting obligations and improvements to AIFMD reporting, how could reporting requirements under the MMFR be aligned, simplified and improved to identify stability risks (such as liquidity risks) and to ensure more efficient data sharing?

We are supportive of increasing the frequency of required reporting by MMFs to supervisors.

Article 37 of the MMFR requires funds to report at least quarterly, but for funds under €100m AUM, only annually. In our opinion, information disclosed under this frequency of reporting is unlikely to be of significant use to supervisors given the short-term nature of MMF portfolios.

MMFs generally have a short overall maturity, high portfolio turnover (in line with the liquid asset buffers, a significant portion of an MMF's portfolio will have a maturity of a week or less), and are very actively managed to reflect changing market liquidity conditions and investor subscriptions and redemption patterns.²⁵ This means that much of an MMF's portfolio will have turned over multiple times within the minimum reporting period set out by the regulation.

We believe that a framework for daily reporting can provide supervisors with valuable information, and if focused on the most relevant data points (e.g. liquidity positioning, daily subscription and redemptions, and potentially relevant information about shareholder concentration), can help keep the reporting burden manageable for funds.

Stress testing framework

11. Do you believe that the proposed enhancements to the stress testing framework listed above are sufficient to identify and mitigate liquidity risks effectively? If not, what specific elements would you suggest including in the strengthened supervision and remediation actions for detecting liquidity risks?

It is important to be clear about the purpose and role of stress testing in the context of MMFs. We see stress testing for MMFs first and foremost as part of a dynamic process of preparing for potential risk scenarios and managing the portfolio of the MMF to reflect risk conditions. As such, we believe that the regulatory framework around stress testing should focus on their use primarily as a means to help MMF managers improve oversight and portfolio management, not as supervisory tools.

This means that, for the results to be actionable, stress testing must take place frequently; a bi-annual or even quarterly stress testing approach is unlikely to show an accurate real-time picture of how an MMF is managing liquidity and pricing risks.

²⁵ **Note:** The MMFR restricts MMFs' Weighted Average Maturity (WAM) to a maximum of 60 days for Short-Term MMFs and 6 months for Standard MMFs.

Stress testing is a critical risk management tool that helps inform both ongoing portfolio management decisions, and effective risk oversight of MMFs. BlackRock stress tests MMF portfolios *daily* for a range of risks that are relevant to specific MMFs. As appropriate, we use certain results of these stress tests to seek to ensure portfolio managers are equipped with the necessary information and awareness of how specific risks would impact specific MMF portfolios, to manage around these potential risk events if they were to arise. Stress tests in this context are essentially risk *anticipation* tools. The ‘remediation’ that might be necessary on the back of an MMF stress test will most likely be one that the portfolio manager would implement directly – e.g. a repositioning of the portfolio.

Contrast this to the general role of stress testing in the banking context, where a bank’s assets are often far longer-term, and the overall structure of their balance sheet sees less fluctuation. In this context, the purpose of stress testing is to subject the balance sheet to hypothetical stress events to see how the capital structure would be impacted, and how this would impact the general resilience or solvency of the institution. Should the test expose a weakness under specific conditions, a supervisor may ask the bank to take remedial action to ensure their resilience to a specific order of shock.

Of the proposed changes to the framework in the consultation paper, the focus on supervisory intervention powers in relation to stress testing is, in our view, misguided. Due to the potential frequency of stress tests (required only bi-annually under the MMFR), and the high turnover of MMF portfolios, we do not believe that stress test results are the appropriate basis for supervisory oversight of MMFs.

A more effective approach to underpin resilience of MMFs and ensure robust supervision would be to grant supervisors more granular (e.g. daily) MMF portfolio data (liquidity positioning, daily subscription and redemptions, and potentially relevant information about shareholder concentration). This would likely form a more effective basis for conversations between MMFs and their supervisors than stress tests.

12. What are the costs and benefits of introducing an EU-wide stress test on MMFs? Should this stress test focus mainly on liquidity risks?

Our views on system-wide stress testing (and where we see the potential for supervisors and public authorities to conduct stress testing exercises that provide value to their understanding and identification of market-wide risk) is further set out in our response to Q. 53.

We do not believe that an additional stress test-like exercise focused solely on MMFs, rather than the wider ecosystem of market participants around them, would yield valuable additional insights for supervisors or for MMF risk managers. MMFs represent only a part of the short-term markets ecosystem; as such, focusing a stress test only on MMFs would miss out on a more holistic understanding of the impact of stress in the wider market.

The lessons learned from an appropriately framed system-wide stress test could be used to inform assumptions used in ongoing risk management of MMFs.

13. What are your views on the EU ban on a reverse distribution mechanism (RDM) by MMFs?

Reverse distribution – the process of cancelling shares to account for negative yield generated by an MMF’s portfolio – remains in our opinion a useful tool for investors and we believe that the practice should be allowed under the EU regulatory framework.

Operationally, RDM works in the same way as the normal process of distributing income to MMF investors. Where the yield of the MMF’s portfolio is positive, new shares are created and distributed to existing unit holders to reflect the accrued yield. Where the yield is negative, the distribution process cancels a number of an investors’ shares commensurate with the negative yield that investor has accrued.

During the era of negative interest rates, RDM was the most operationally straightforward way to pass negative yield through to investors. Rolling negative yield into the NAV of the fund turned negative yield into a capital loss for investors – inconsistent with how they would have accounted for this had they held the assets directly. The solution that much of the MMF industry used while RDM was prohibited (rebasings the share price of funds in new ‘de-accumulating’ pricing structures) underlines the utility of structures that allow MMF investors to continue to distinguish negative yield from a capital loss for accounting purposes. However, we continue to believe that RDM is a better way to deliver this utility to MMF investors.

While it seems that negative yield scenarios are unlikely to arise in the medium term, they cannot be ruled out in the future. Given that the RDM has been adopted as one methodology to handle negative yield by the SEC for stable NAV MMFs, we are of the view it should be available for EU MMFs, should the need arise.

The use of the RDM should be exclusively reserved for the reflection of negative yields. It should not be used to reflect unrealised price changes in the capital value of underlying assets.

14. Can you provide insights and data on how the reverse distribution mechanism has impacted in practice the stability and integrity of MMFs?

RDM is simply an operationally efficient way of distributing negative income to investors in an MMF. The distribution of yield to investors (whether positive or negative) is a common feature of most MMFs (and indeed many investment funds more generally) and should not have a direct impact on the stability or integrity of the MMF itself.

Liquidity and short-term instruments

15. Should regulatory requirements for MMFs take into account whether the instrument they are investing in is admitted to trading on a trading venue (regulated markets, multilateral trading facilities or organised trading

facilities) with some critical level of trading activity? Please explain your answer.

We do not support a specific regulatory requirement or incentive for MMFs to invest in traded securities. The nature of many short-term securities means they are not easily traded on organised trading venues, and we are not aware of a critical mass of liquidity in these instruments on a trading platform in Europe today.

MMFs should be permitted to transact in these types of venues should they emerge, but before applying regulatory requirements to MMFs requiring them to allocate a portion of their investment activities towards these types of structures, we believe there should be an established market and dataset that allows portfolio managers, risk managers and public authorities alike to have a better understanding of liquidity and trading patterns in these market structures under different market conditions.

We expand more in our answers to the questions in the short-term funding markets segment of this response.

Other Open-Ended Funds

[Link between liquidity mismatch and liquidity risks](#)

16. How can NCAs better monitor the liquidity profile of OEFs, including redemption frequency and LMTs, in order to detect unmitigated liquidity mismatches during the lifetime of OEFs?

We take as a starting point the definitions of liquid, less liquid, and illiquid assets developed by the Financial Stability Board (FSB) in their revised *Recommendations for Addressing Liquidity Mismatch in Open-Ended Funds*.

The FSB defines 'liquid' assets as those "readily convertible into cash without significant market impact in both normal and stressed market conditions"; 'less liquid' as assets where "liquidity is contingent on market conditions, but [would] generally be readily convertible into cash without significant market impact"; and 'illiquid' assets as having "little or no secondary market trading and [where] buying and selling assets is difficult and time consuming".²⁶

Liquidity mismatch arises where the liquidity of underlying assets is not reflected in the dealing terms of the fund. If assets trade daily, there is no liquidity mismatch for daily-dealing OEFs. In extreme market conditions some assets may continue to trade in volume, but be subject to increased transaction costs. This includes assets held by 'liquid' and 'less liquid' funds, as defined by the FSB. 'Illiquid' funds – for example real estate funds or other funds investing in inherently illiquid assets – should have less frequent or longer dealing, notice and settlement periods.

The recently amended AIFMD and UCITS Directives require that funds offering daily dealing while investing in 'less liquid' assets (as defined by the FSB) have mechanisms in place that impose variable liquidity costs on investors and that

²⁶ See FSB [Consultation Report: Addressing Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds – Revisions to the FSB's 2017 Policy Recommendations](#), 5 July 2023.

mitigate any potential first-mover advantage in funds. We support recent EU legislative changes requiring funds to incorporate at least one suitable anti-dilution tool, and that managers are operationally prepared to deploy them to offset any material dilution. At a global level the set of tools available to managers will be shaped by local jurisdictional and ecosystem characteristics, for example in the US and Japan, where fund distribution architectures influence how funds receive redemptions and subscriptions.

Regarding assessments of liquidity of assets in a fund, we agree with the list of factors outlined by the FSB: “market depth and turnover; days to trade; the efficiency and effectiveness of the pricing mechanism; the price impact of large transactions; operational features and potential frictions; and valuation certainty”.²⁷ In addition, metrics such as daily posted inventory volumes (‘dealer axes’) can provide further insight on the difference between the volume that typically trades and the volume that is actually tradable in the market.²⁸ We discuss further in response to Q. 17.

With respect to monitoring the structural features of the fund: NCAs are involved in the authorisation and ongoing supervision of funds and require regular reporting on the fund’s assets and liabilities and in many cases on large flows in or out of funds. Specifically, at the authorisation stage, approval is contingent on the fund passing an ex-ante assessment of the liquidity and risk profile of the fund by the NCA. The liquidity of the fund is also monitored on an ongoing basis through semi-annual UCITS risk reporting by managers to NCAs. Finally, NCAs regularly issue ad-hoc requests for data to monitor levels of liquidity of certain positions. This data oversight will be further reinforced once recently agreed upgrades to UCITS and AIFMD reporting have been implemented. Supervisory authorities therefore have oversight of funds’ structural features and the liquidity management tools (LMTs) at their disposal. Local regulation typically specifies which LMTs are available to managers, and – for certain tools – the circumstances in which they can be used.

[To NCAs/EU bodies] What is the supervisory practice and your experience with monitoring and detecting unmitigated liquidity mismatches during the lifetime of OEFs?

17. What is the data that you find most relevant when monitoring liquidity risks of OEFs?

We monitor liquidity risk at a portfolio level through a three-step process:

- a) Determining asset liquidity, simulating the time it would take to liquidate each asset in a full portfolio liquidation in both normal and stressed scenarios.** First, we calculate the average daily volume (ADV) of each asset. Then, we assess how many days it would take to liquidate the whole portfolio without meaningfully affecting the price. In general, we consider market depth and turnover, efficiency and effectiveness of the price mechanism, price impact of large transactions, operational features

²⁷ See FSB [Consultation Report: Addressing Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds – Revisions to the FSB’s 2017 Policy Recommendations](#), 5 July 2023.

²⁸ See BlackRock [Response](#) to FSB and IOSCO Consultations on Liquidity in Open-Ended Funds, September 2023.

and potential frictions, and valuation certainty. These data points provide the liquidity profile – a metric that represents the percentage of NAV liquidated over different time horizons in base case and stressed scenarios.

- b) Understanding fund liabilities by assessing redemption scenarios based on historical data and investor concentration data, to inform redemption scenarios and other liquidity demands e.g. potential margin and collateral calls in stressed market conditions.** These metrics help the manager to ensure they have sufficient liquidity to meet both stressed redemptions and stressed margin calls simultaneously.
- c) Combining these two assessments to balance the assets against the liabilities and determine the overall Redemption Coverage Ratio (RCR).** Redemption coverage ratios help to analyse the extent to which portfolio positions could be converted to cash to cover redemptions over varying time horizons. We calculate RCRs for base cases and stressed scenarios, as the ratio of the amount of liquid assets over a potential outflow as a percentage of portfolio Net Asset Value (NAV).

18. [To NCAs/EU bodies] What supervisory actions do you take when unmitigated liquidity mismatches are detected during the lifetime of an OEF?

19. On the basis of the reporting and stress testing information being collected by competent authorities throughout the life of a fund, how can supervisory powers of competent authorities be enhanced to deal with potential inconsistencies or insufficient calibration between the LMTs selected by the manager for a fund or a cohort of funds and their assets and liabilities liquidity profile? How can NCAs ensure that fund managers make adjustments to LMTs if they are unwilling to act? How could coordination be enhanced at the EU level?

The processes and mechanisms grouped under the heading of ‘liquidity management tools’ vary significantly in how they work, the circumstances they should be used in, and the role regulation plays in determining when to use them.

Some tools are ‘ex-ante’ and built in during the design phase of a fund. Notice periods and redemption frequencies are an example. Others are ‘ex-post’ and activated or modified by asset managers. However ex-post tools should not be viewed solely as crisis management measures: many are business-as-usual mechanisms used as part of prudent fund management. In Europe, for example, BlackRock uses and adjusts swing pricing, for example, on a daily basis, even in normal market conditions.²⁹

We believe policymakers should ensure that the full liquidity risk management toolkit – which will vary depending on the characteristics of each local jurisdiction – should be made available in rulebooks. However LMTs are first and foremost investor protection tools, and the decision of whether or how a tool should be activated is informed by fund managers’ fiduciary duty to the fund’s investors.

²⁹ For further discussion, see BlackRock Viewpoint, [A European Perspective on Managing Liquidity Risk in Investment Funds](#), July 2022.

Because of specificities in each fund, there will inevitably be variation in how LMTs are deployed across different types of funds, whether managed by a single asset manager, or by different asset managers.

Managers have the most detailed and up-to-date information and experience of their funds, market conditions, and investor behaviour. Decisions to activate LMTs are often highly time-sensitive, dependent on evolving market conditions, fund-specific flow data and redemption profiles which can vary greatly from fund to fund. Importantly, this means managers will not take uniform action across similar funds, and actions will differ between fund managers. See response to Q. 56.

Nevertheless, managers should be prepared to justify their rationale for the use of their LMTs to NCAs; close engagement between supervisors and managers is especially critical in stressed market conditions.

In the past, some managers may not have applied certain LMTs because of legal uncertainty or an absence of clear guidance from NCAs on how to calibrate or activate them. This scenario will be resolved once the RTS for LMTs under UCITS and AIFMD 2.0 are operationalised. The European supervisory focus therefore should be on the widespread and consistent roll out of those tools in all EU Member States and use the enhanced data from managers to assess the effectiveness of the revised liquidity management framework.

Coordination of supervisory powers could be enhanced at EU level by developing a common reporting framework for fund flow data (i.e. redemptions/subscriptions) by all NCAs. Having access to this type of data would enhance an NCA's understanding of the manager's rationale for applying – or not applying – LMTs. For example, some funds in stressed market conditions will see in-flows or minimal outflows, and a manager may feel they can comfortably meet redemptions without requiring LMTs.

In stressed market conditions, it would also be helpful for NCAs to issue targeted market guidance on LMTs to give clarity to market participants, but also to remove any potential stigma or reputational risk around activating LMTs. For example, during COVID-19, some fund managers, including BlackRock, sought this guidance from the Luxembourg regulator, the Commission de Surveillance du Secteur Financier (CSSF). The CSSF in its COVID-19 FAQ allowed swing factors to be increased on a temporary basis, subject to appropriate investor notification, and allowed managers to include swing pricing provisions where they had not previously been operationalised. Other regulators, such as France's Autorité des Marchés Financiers (AMF), provided similar guidance to managers of French funds.

Our expectation is that the process of trying to identify 'cohorts of funds' with correlated behaviour is unhelpful and likely to lead to identification of false positives. Even funds investing in the same asset class, with similar benchmark allocations, will exhibit different responses to market events: different investment objectives (e.g., maximising capital growth, income or total return), investment time horizons, client bases and distribution strategies will all typically result in portfolio managers taking different decisions to manage funds in stressed market conditions. This is particularly evident where underlying investor behaviour results

in differences in net capital flows, as in- and outflows routinely differ between funds in the same sector, even during stressed market conditions.

This reinforces the importance of funds being managed based on what is happening in each individual fund – rather than attempting to manage risk at an aggregate level across funds. For this reason, we believe the concept of ‘cohorts of funds’ is not additive to this debate – it undermines the principle that market resilience is underpinned by a diversity of buy and selling interests, and by the fair and non-discriminatory treatment of investors. The unintended consequence of any centralised approach to ‘cohorts of funds’ risks neutralising the very resilience which that diversity underpins, and instead reaggregates risks through forced collective action.

As discussed in response to Q. 7, any policies that undermine investor protection and investor interests – for example, the central activation of LMT – are likely to undermine both financial stability and investors’ willingness to use the investment vehicles in question.

20.[To asset managers] What measures do you find particularly effective to measure and monitor liquidity risk in stressed market conditions?

Liquidity stress testing represents an important tool within the liquidity risk management framework, allowing risk managers to ensure a fund can meet redemptions in various environments. To analyse the impact of stressed markets on the liquidity of a portfolio, risk managers should consider the liquidity of the assets in light of redemptions in normal and stressed market conditions. Stressors can be applied to assets, fund redemptions, or margin calls, depending on the intended scenario and characteristics of the fund. The outcomes will provide the liquidity risk managers with insights on how different liquidity stress scenarios may impact the funds and hence will contribute operational readiness to mitigate these.

In addition to techniques to measure and monitor liquidity risk, other redemption tools are available in certain jurisdictions to meet unexpected redemptions in “extraordinary” circumstances. Managers should perform regular reviews of the redemption tools available to different fund types in varying regulatory jurisdictions. Various teams, such as legal, operational, risk management, and trading teams, should perform “break glass” testing to ensure that tools can be deployed if needed.

The accuracy of liquidity analytics such as Average Daily Volumes (ADV) and transaction costs in stressed markets may depend on trading activity, market data transparency regimes and the availability and accuracy of data points such as trade-sizes, trade-prices, trade-directions, evaluated prices, bid/ask spreads as well as the availability and levels of broker prices and sizes. Hence, the accuracy of liquidity analytics may deteriorate in stressed market conditions. Accordingly, it will be helpful to compare and contrast the indications from liquidity analytics with the reality of trading data – i.e. realised transaction costs, broker prices and sizes. Should there be indications that there is a systematic gap between liquidity analytics and trading data, then these gaps can be narrowed by applying multipliers at the sector or global level. This will help to get more accurate monitoring from scalable liquidity risk frameworks in stressed market conditions.

21.[To asset managers] What difficulties have you encountered in measuring and monitoring liquidity risks and their evolution? Are there enough tools available under the EU regulations to address liquidity mismatches?

We believe there are enough tools available under the EU regulations to address and mitigate possible liquidity mismatch.

As regards areas for improvement, per our response to Q. 17, average daily trading volumes are a central input to market participants' liquidity risk stress testing. They give a sense of the volume of equities that can be traded without significant market impact. One challenge market participants face is that the ability to carry out a similar assessment for fixed income securities is constrained by the poor quality of post-trade fixed income market data. We therefore welcome efforts to implement a consolidated tape for the EU. Once operational, the tape will help to improve the simulation of liquidity risk through greater transparency in OTC bond and derivatives markets. Having the most up to date market data is central to liquidity stress testing. Importantly, the tape should also help to avoid instances of broker pricing becoming stale where the price data on screen differs from the prices of actual trades (as happened in March 2020 for example).³⁰

A second challenge relates to limited visibility into omnibus accounts for open-ended funds. Comprehensively liquidity stress testing a fund requires understanding of how different segments of underlying investors might behave. For institutional investors, it is possible for asset managers to open a dialogue and anticipate their liquidity needs. For retail funds, or those that are intermediated by distribution networks, modelling investor behaviour is more complicated, as the aggregation of flows limits managers' visibility of the asset owners. Therefore, policymakers should consider convening a working group of all actors involved in the fund distribution chain, with a view to determining the viability of improving the flow of information on different segments of investors. This might include investor type (e.g. retail, high-net worth individuals, pension funds etc.), the size and concentration of investor holdings, and industry-wide data on historical worst-case redemptions.

Finally, limitations on managers' ability to model and anticipate margin calls can be a challenge – see response to Q. 22.

³⁰ Fixed income market structure also needs reform to increase intermediation capacity and reduce reliance on bank balance sheets. Post-GFC constraints on bank-based intermediation spurred the growth of algorithm-driven Principal Trading Firms (PTFs) and all-to-all trading platforms as increasingly important methods of trading bonds in recent years. But price uncertainty and unprecedented volatility during March 2020 saw many dealing algorithms switched off; while all-to-all trading platforms do not use their balance sheet to act as liquidity providers, and must be able to match willing buyers and sellers in real time, limiting their ability to ease market turbulence where there is an imbalance in liquidity demand and supply. In equity markets, central limit order books – a type of all-to-all platform – were able to hold up through the turbulence due to more standardisation of equity issuance, concentrating liquidity, better data giving investors confidence in prices and in turn a willingness to take the other side. See BlackRock Viewpoint, [A Holistic Approach to Bond Market Resilience](#), August 2022.

22. [To asset managers] What are the challenges in calibrating worst-case and stress-case scenarios related to redemptions and margin calls?

Data availability is the main challenge. As noted in response to Q. 21, better data would improve estimates of asset owner behaviour and redemption patterns. The limitations of market data also impact estimates of margin calls, where it can constrain managers' ability to assess market dynamics that drive margin calls.

However, beside this, a major challenge market participants face in calibrating worst-case and stress-case scenarios, is the limited information made available to them by intermediaries, especially CCPs. Market participants would benefit from greater transparency regarding the margin models used by their CCPs, as well as user-friendly margin simulation tools to stress test that information. We have called for enhancement of CCP disclosures and implementation of audit requirements to ensure those disclosures are accurate, consistent, and timely.³¹ Improving the quality of the data in these feedback loops will be central to enhancing the sophistication and accuracy of market participants' stress testing models.

Stress testing

~~23. [To NCAs and EU bodies] When monitoring or using results of liquidity stress tests, are you able to timely collect underlying fund data used by managers and the methodology used for the simulation? Are there other aspects that you find very relevant when monitoring the stress tests run by managers?~~

~~24. [To NCAs and EU bodies] How do you use information collected from stress tests at fund level for other supervisory purposes and for monitoring systemic risks?~~

~~25. [To NCAs and EU bodies] What are the main benefits and costs of introducing a stress test requirement at the asset management company level and how could this be organised?~~

Other NBFIs and Markets

Other NBFIs

26. What are your views on the preparedness of NBFIs operating in the EU in meeting margin calls, and on the ways to improve preparedness, taking into account existing or recently agreed EU measures aimed at addressing this issue? Please specify the NBFI sector(s) you refer to in your answer.

As the FSB noted in its April 2024 consultation on liquidity preparedness for margin and collateral calls, "the substantial majority of market participants were able to meet margin calls", even during stress events like March 2020.

³¹ See BlackRock [Response](#) to the BCBS-CPMI-IOSCO Consultation on Transparency and Responsiveness of Initial Margin in Centrally Cleared Markets, April 2024.

In the EU, this is underpinned by ESMA guidelines on stress testing for UCITS and AIFs, which require consideration of potential idiosyncratic, market-wide, and combined shocks leading to large margin and collateral calls.

However, individual market participants' ability to model and respond to margin calls, maintain cash buffers, use contingent funding sources, and pre-position collateral are dependent both on the quality of existing market data, and the behaviours of other market participants and intermediaries. With this in mind, we see four main ways in which liquidity preparedness of market participants could be improved:

- a) Per our response to Q. 22, market participants would benefit from greater transparency regarding the margin models used by their CCPs, as well as user-friendly margin simulation tools to stress test that information. Currently, the extent and quality of CCP margin transparency varies greatly from CCP to CCP. We have called for enhancement of CCP disclosures and implementation of audit requirements to ensure those disclosures are accurate, consistent, and timely.³² Improving the quality of the data in these feedback loops will be central to enhancing the effectiveness of stress testing models.
- b) Market participants' liquidity preparedness could also be enhanced through an expansion of eligible collateral to include a wider range of high-quality liquid securities. While uncleared derivatives transactions allow for a wider range of collateral to be posted as variation margin, only cash is allowed in cleared markets. Additionally, there seems to be more flexibility, transparency and predictability of bilateral OTC transactions, which are important considerations for some market participants who may not have as much ready access to cash to fund margin calls as banks. Expanding eligible collateral could reduce investors' need to either sell assets or rely on cash to meet margin calls. We recommend expanding acceptable collateral to include certain types of Money Market Funds (MMFs), particularly Public Debt CNAVs, and Exchange Traded Funds (ETFs).³³
- c) Policymakers should explore the potential benefits of security tokenisation which could enhance collateral mobility and potentially reduce the need for collateral holders to liquidate collateral to realise cash, especially in stressed market conditions.
- d) Finally, assessments of – for example – the possible behaviour of other market participants or concentration of certain markets cannot be made with the data coverage and granularity that currently exists. In some jurisdictions, the data quality available to market participants on trading activity can be fragmented, inconsistent, or of poor quality. We therefore urge policymakers to recognise limitations in data, and work with industry and other authorities to improve data availability and quality across the board.

³² See BlackRock [Response](#) to the BCBS-CPMI-IOSCO *Consultation on Transparency and Responsiveness of Initial Margin in Centrally Cleared Markets*, April 2024.

³³ See BlackRock [Response](#) to the FSB *Consultation on Liquidity Preparedness for Margin and Collateral Calls*, June 2024.

27. What are relevant risk metrics or tools that can be used to effectively monitor liquidity and margin preparedness across all NBFI entity types? Please provide examples specifying the sector you refer to.

We believe that all market participants should have (i) robust operational and governance processes for managing margin and collateral calls; (ii) liquidity risk management frameworks that include robust stress tests that are subject to regular review and used to calibrate liquidity and collateral decisions; (iii) regular reviews of collateral management arrangements; and (iv) regular interaction with relevant counterparties and third parties.³⁴

The extent to which assets held represent adequate provision for margin calls depends on the magnitude of margin call likely to be faced. As such, it is difficult to identify specific risk metrics that will be useful across all NBFI types.

However, in preparing for margin calls, market participants need to balance uncertainties around the level of margin or collateral calls they are likely to face, and the capacity and willingness of counterparties to provide contingent funding against their own hedging requirements, banks' investment and return objectives, and the cost of holding higher cash buffers or liquidity buffers more generally.

Pension funds

28. How can current reporting by pension funds be improved to improve the supervision of liquidity risks (e.g. stemming from exposure to LDI funds, other funds or derivatives), while minimising the reporting burden? What can be done to ensure effective look-through capability and the ability to measure the impact of unexpected margin calls? Please provide examples also for other NBFI sectors.

While we are not a pension fund ourselves, we have deep and direct experience of managing LDI strategies and derivatives on behalf of European pension funds. Collateral adequacy of derivatives strategies and ensuring sufficient liquid and eligible assets are available to post as collateral has always been at the core of our risk management for these strategies. Following the UK Gilt crisis the market has applied the learnings and experience of how to both set collateral buffers, measure collateral resilience, and improve operational processes.

In the UK and for the supervisors of EU-domiciled funds used by many UK pension funds in Ireland, monthly reporting that covers basic information on the makeup of LDI strategies, including collateral buffer levels is provided. This looks at both average levels of collateral resilience over the course of the month, but also minimum collateral buffers that had been experienced.

Given the prevalence of cleared interest rate swaps in many European pension fund LDI strategies (particularly in the Netherlands) it may also make sense to consider reporting the available cash or cash like assets to cover margin calls from

³⁴ **Note:** In applying these principles to investment funds or mandates, they will be applied to the specific fund or mandate, not the asset manager. Asset managers do not have counterparties themselves.

CCPs and the level of yield move that might cause funds to need to sell or repo government bonds.

29. What would be the benefits and costs of a regular EU-wide liquidity stress test for pension funds and with what frequency? What should be the role of EU authorities in the preparation and execution of such liquidity stress tests?

It is not possible to outline benefits and costs of a regular EU-wide liquidity stress test for pension funds without having details of what such a test would entail. However, EIOPA already undertakes regular stress testing of pension funds. Given redemption risk is limited for this type of fund, proposals for an additional stress test would need to have a specific risk scenario in mind. In general, the more relevant considerations for pension funds relate to solvency, coverage ratios and ability to meet liabilities etc. These data points are already considered in EIOPA's stress tests, so it is not clear what additional benefit new or expanded stress testing of pension funds would bring.

Short-term funding markets

30. What would be the benefits and costs of creating a framework or a label in EU legislation for certain money market instruments (such as commercial papers) to increase transparency and standardisation? Should the scope of eligible instruments to such framework/label be aligned with Article 3 of Directive 2007/16/EC60? If not, please suggest what criteria would you consider for identification of eligible instruments.

We believe that the ability of the financial system more generally to store and transfer liquidity is critical to underpin financial stability; improved functioning of European Short-Term Funding Markets (STFM) should be an important focus for policymakers in this regard.

However, the consultation paper focuses exclusively on potential structural changes to the commercial paper (CP) and certificate of deposit (CD) markets. This is understandable to a degree, especially as the dislocation to these markets in the US and to a slightly lesser extent in Europe was a notable market stress during the March 2020 COVID-related market turmoil. That said, these segments still only comprise a subset of the STFM more broadly.

While there may be targeted improvements that can be made in the CP and CD markets, we believe that the most important focus should be improved functioning of overnight deposit markets and repo markets in Europe, where we continue to observe capacity constraints especially around quarter- and year-end. We see increased capacity and proper functioning of these segments of the STFM as more central in underpinning system-wide resilience than the focus here solely on CP and CD.

Overnight deposit markets and bilateral repo markets are both largely driven by bank balance sheet capacity. Because Basel rules disincentivise banks from short-term funding, both markets experience capacity constraints and have been prone to periodic dislocations in the past. Policymakers should consider whether structural changes to these parts of the market could ensure the STFM have the

capacity to support the financial system's liquidity needs. For example, supporting a workable sponsored access model for buy-side participation in repo clearing, or an equivalent facility to the US Federal Reserve's Reverse Repo Program (RRP), which allows certain non-bank market participants to *place* cash overnight on a secured basis with the Federal Reserve when the private banking market cannot absorb excess overnight cash reserves.

Like overnight deposit and repo markets, secondary trading in CP and CD can also be driven by bank balance sheet capacity constraints. While structural reforms, such as standardisation or enhanced transparency, can be additive to the market overall, we are mindful that the determinant of their success in bringing additional liquidity to the market will be whether or not they ultimately contribute to a dealer's ability to purchase the paper. For example, were a bank dealer able to use CP with a particular label more easily as collateral with a central bank, this would likely have a positive impact on the secondary market liquidity of these instruments. Equally, if appropriately calibrated transparency were to result in additional investors coming into the market, this would also have a positive impact on secondary market liquidity.

Standardisation and labelling initiatives already exist in the European market, for example, the Short-Term European Paper (STEP) label or the standardised terms in both NEU CP and ECP. From the perspective of a large investor in the market, standardisation in and of itself makes very little difference to day-to-day operations and to our ability and willingness to transact.

Were standardisation, however, to bring with it increased transparency in terms of an overall view of the market, then this could be useful. Such transparency could support the development of generic yield curves, enabling new issuers to better assess their potential issuance levels, which in turn, could lead to greater secondary market activity and improved liquidity.

Nevertheless, we would caution against requiring transparency around pricing levels for CP. CP is an OTC product that is agreed by negotiation between investors and issuers, and pricing reflects a range of factors indicative of supply and demand in the market.

Disclosing pricing information could lead to misinterpretations regarding an issuer's financial health, business operations or funding strategies, and could potentially amplify funding sensitivities, particularly during times of market stress where it has the potential to amplify risk.

Additionally, because CP is often highly bespoke, issuers may resist being influenced by publicly disclosed past pricing levels, especially if those levels apply to transactions of varying sizes. A requirement to disclose pricing levels could inadvertently drive issuers towards other markets, such as private placements, where information is less openly shared, potentially reducing liquidity in the CP market.

31. Would the presence of a wider range of issuers (notably smaller issuers) to fund themselves on this market, and therefore diversify their funding sources, be beneficial or detrimental to financial stability?

The CP market is an important funding tool for a wide range of companies. In general, we agree that smaller issuers stand to benefit from sourcing funding on the CP market, though don't see this prospect as being hugely consequential for matters related to financial stability.

As regards the benefits, CP allows issuers to raise working capital and secure short-term funding across various currencies. It offers flexible maturities and a relatively quick and straightforward issuance process, with lighter documentation and disclosure requirements compared to public bonds. Due to its inherently lower risk relative to bonds, CP often carries lower costs, both in terms of relative spreads and associated fees, such as bank charges.

On the one hand, increasing the range of issuers in the CP market can support the operations and growth of smaller companies, contributing to financial stability. We would underline here the role that bank-sponsored Asset-Backed CP (ABCP) programmes play in allowing a range of smaller or unrated companies to benefit from access to short-term funding markets.

A more diverse issuer base could also enhance market liquidity, as well as deepen and strengthen the overall market. CP generally attracts strong and consistent demand, enabling issuers to diversify their investor base, which can spread risk across a wider pool of participants, leading to a more resilient financial system. Additionally, CP allows issuers to diversify their funding sources, beyond reliance on bank loans. This, in turn, distributes credit risk more broadly across the financial system, potentially bolstering stability.

Conversely, while existing CP issuers are typically higher-rated, smaller issuers may not be and may as a result not be likely to be funded directly by investors such as rated MMFs.

32. What are your views on why euro-denominated commercial papers are in large part issued in the 'EUR-CP' commercial paper market outside the EU? What risks do you identify? Please provide quantitative and qualitative evidence, if possible.

We do not entirely agree with the premise of this question. As an OTC market, it is not clear that the EUR-CP (ECP) market is truly 'located' in any one specific place. From a buy-side perspective, a Dutch issuer issuing ECP is still EU issuance – whether or not the accompanying program documentation is under English law does not change that fact. The English legal framework is widely recognised and understood internationally. It offers parties predictable outcomes and minimises resources and cost intensity. We would caution against orchestrating a major revamp of the existing model which functions well, given the benefit of such a change is unclear.

33. What could be done to improve the liquidity of secondary markets in commercial papers and certificates of deposits?

Because CP is issued in generally short-term maturities, it tends to be a buy-to-hold instrument, limiting the secondary market turnover. That said, in most market conditions, it is generally possible to sell CP (say to reposition a money market portfolio) – either back to the original issuer or to others, generally via bank dealer intermediaries. In our mind, limited secondary trading does not mean there are issues with the underlying resilience of the CP and CD markets (as has been suggested by some following the COVID-19 market stress).

As we outline in our response to Q. 30, the key to developing more liquid secondary markets is increasing the ability of dealer banks to intermediate in these markets. This is a challenge considering CP is a high-volume, low-margin and capital-intensive business for dealer banks which limits the appeal, especially in the context of Basel rules which constrain the capacity of their capital resources. The Liquidity Coverage Ratio and other risk limits also restrict their ability to make markets.

While we recognise there is likely limited appetite by policymakers to revisit significant pillars of the Basel prudential reforms, targeted reform options available include: recognising highly-rated CP as HQLA in capital ratios, expanding eligible central bank collateral for dealer banks to include certain types of CP; developing a repo market for CP; or expanding the range of investors who would like to hold CP.

34. Considering market practice today, is the maturity threshold for ‘money market instruments’ (up to 397 days) in the Eligible Asset Directive 2007/16 sufficiently calibrated for these short-term funding markets?

The maturity threshold of up to 397 days (13 months, allowing for the possibility of a leap year and a 31-day 13th month) is a longstanding market standard definition, having been adopted more than 50 years ago. It is widely understood and accepted by the markets, and we consider is sufficiently calibrated for short term funding markets. We do not consider there is any reason to replace this.

35. Do you think there is a risk with the high concentration of this market in a few investors (MMF and banks)? Please elaborate.

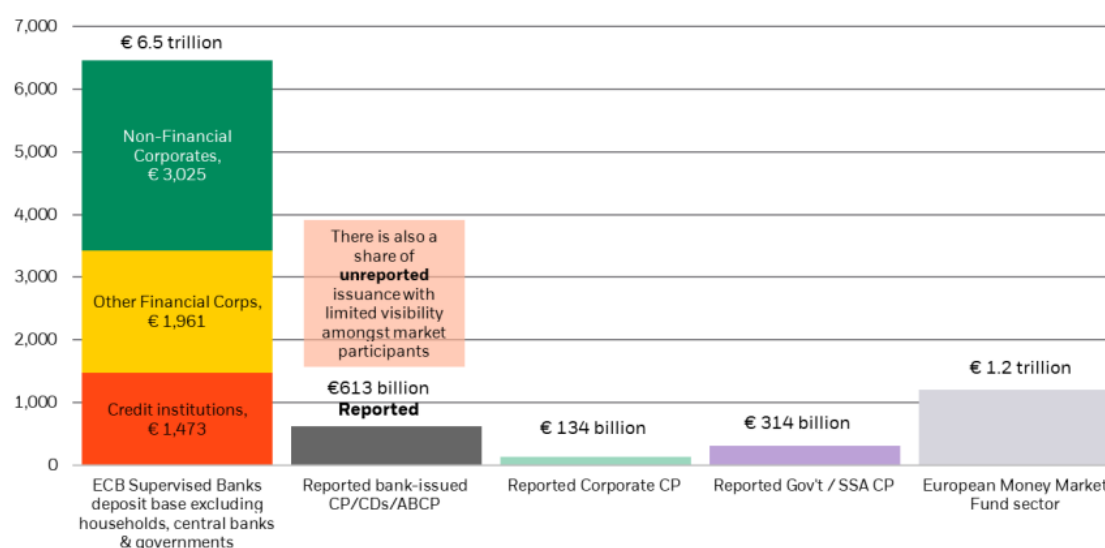
Even as a large investor in the market, we have limited visibility over all of the issuance and investors active in the European STFM. In the absence of appropriate data sets and in the knowledge that the degree of reporting varies greatly in this market, it is not clear to us that the market is actually highly concentrated.

The overall size of European short-term markets, as well as the composition of the issuer and investor base, is at best, opaque. Generally speaking, investors are a range of different entities with cash management needs – such as large financial institutions, corporates, pension funds, charities and public authorities – who manage short-term liquidity investments directly through their own in-house treasury functions. Many investors outsource some or all of this function to third

party asset managers who provide liquidity management solutions through dedicated separate accounts or pooled liquidity funds (MMFs).

MMFs are often referred to as analogous to the entire short-term market investor base. This is likely because they are highly regulated entities with data ecosystems around them to provide transparency to their investors and the market. However, we believe holdings across all types of MMFs actually account for less than half of the market for CP and CDs in Europe and represent an even smaller proportion of overall short-term liabilities of European banks.³⁵

Comparative Size of the European Short-Term Funding Market Landscape (June 2020):



Source: ECB, CMD, June 2020; sector level detail for combined ECP/ ECD/NeuCP/STEP reported issuance

36. How could secondary markets in these money market instruments attract liquidity and a more diverse investor base, while relying less on banks buying back papers they have helped to place?

As mentioned in response to Q. 33, there is, and will likely remain, heavy reliance on dealer banks buying back paper. Therefore, maintaining a dealer-to-client (D2C) secondary market model is crucial.

However, reducing this reliance by attracting a more diverse investor base through a client-to-client (C2C) model, co-existing alongside the D2C model, is a worthwhile goal which *could* help to attract and improve secondary market liquidity.

Expanding the existing investor base, and encouraging more market-wide transparency would increase the viability of a more robust C2C market.

³⁵ See BlackRock Viewpoint: [Lessons from Covid-19 – The Experience of European MMFs in Short-Term Funding Markets](#). July 2020.

37. What are the benefits and costs of introducing an obligation to trade on trading venues (regulated markets, multilateral trading facilities and organised trading facilities) for such instruments?

As highlighted in responses to Q. 33 and Q. 36, the CP market relies heavily on dealer intermediation, making the dealer-to-client secondary market model essential.

So, while trading venues could support market functioning (through provision of access to better market data, conditions, trading volumes, outstanding amounts etc.) they are not a substitute for dealers in the market. An obligation to trade on venues might lead to dealer disintermediation, which could prompt dealers to exit the market, thereby decreasing overall liquidity.

Concentrating trading on one or a small number of venues might make it easier to match positions, which could attract more investors, and a more diverse *range* of investors, potentially increasing liquidity. However, if multiple trading venues are used, liquidity could become fragmented, reducing the overall market depth.

In a market like CP that is heavily driven by primary issuance, the ability to negotiate and transact bilaterally without alerting the wider market is important. For larger issuers accustomed to over-the-counter trading, an obligation to trade on venues could limit this flexibility and could even conceivably limit the rationale for both issuers and investors to participate in the market.

38. Can the possibility to trade on a regulated venue increase the chances of secondary market activities in a systemic event, for instance by acting as a safety valve for funds that need to trade these assets before maturity (especially when facing strong redemption pressures, like for MMFs)?

We do not think the evidence shows that market liquidity issues would have been completely avoided in March 2020 if secondary trading had only taken place on a regulated trading venue.

While it is possible market structure adaptations that more easily match buyers and sellers (e.g. all-to-all market venues) *could* provide more transparency and lessen the dependence on bank balance sheet capacity – there is no such guarantee, and it should not be mandatory for reasons outlined in our response to Q. 37.

Commodities markets

39. How would you assess the level of preparedness of commodity derivatives market participants in terms of meeting short-term liquidity needs or requests for collateral to meet margins? Please rank from 1 to 5 (lowest to highest) the level of preparedness for the following participants by sector: insurance companies, UCITS funds, AIFs, commercial undertakings, investment firms, pension funds.

No comment.

40. In light of the potential risk of contagion from spot markets or off-exchange energy trading to futures markets, do you think that spot market

participants should also meet a more comprehensive set of trading rules for market participation and risk management? Please elaborate on your response.

No comment.

41. How can it be ensured that the functioning of underlying spot energy markets and off-exchange energy trading activity does not lead to the transmission of risks to financial markets?

No comment.

Other markets

42. To what extent do you see emerging liquidity risks or market functioning issues that can affect liquidity in other markets? Can you provide concrete examples?

See response to Q. 4.

Excessive Leverage

Open-ended funds:

43. What are other tools than those currently available under EU legislation which could be used to contain systemic risks generated by potential pockets of excessive leverage in OEFs?

See our response to Q. 5 for discussion of potential risks from ‘excessive leverage’. As noted in response to Q. 1, leverage could lead to systemic risks to the extent that it either i) impacts critical institutions such as investment banks – which should be managed through prudential regulation of those institutions; or ii) creates a potential source of disruption to core markets – such as sovereign bond markets – which should be informed by a clear understanding of the market participants in those markets and their behaviours, for example through exercises like the Bank of England’s System-Wide Exploratory Scenario (see response to Q. 53).

44. What are, in your view, the benefits and costs of using yield buffers for Liability-Driven funds, such as it was done in Ireland and Luxembourg, to address leverage?

First, it is important to recognise that yield buffers were developed for LDI funds to address a specific risk posed by leverage in a core market – namely the Gilt market. As such, the approach taken to mitigate leverage risks in this particular instance cannot be extrapolated out to NBFI, nor investment funds, more generally.

That said, we deem yield buffers to be a preferable way of managing leverage risk in LDI funds, as opposed to pure leverage-based constraints. The approach taken by the UK’s Financial Policy Committee – setting minimum yield buffers based on a clear statistical methodology but leaving some discretion for managers to set an

additional operational buffer – has generally been successful in providing sufficient guidance and clarity to the market without being overly prescriptive.³⁶

However, yield buffers can come with certain drawbacks. First, how the yield buffer of a given pension scheme is calculated can be open to interpretation. Ensuring that factors such as initial margin, haircuts and other potential draws on collateral are taken into account is important to ensure that calculations of yield buffers are robust.

Second, specifying a minimum yield buffer and calibrating this to a specific timeline (e.g., the yield buffers used for UK LDI funds in Ireland and Luxembourg which are calibrated to 5 days) can result in unnecessary constraint on schemes that have access to highly liquid assets and have strong governance resources that allow them to move very quickly to replenish yield buffers. In effect, this means these schemes are subject to over-insurance, which has an impact on both investment returns, and the amount of capital available to invest in productive assets. This can also work in reverse, with schemes with slower governance or less liquid assets potentially receiving false comfort that their yield buffer is sufficient, when in reality it has been calibrated to a timeline that is unrealistic for their operational processes.

Third, the calibration of any yield buffer can never provide complete protection against scenarios in which assets have to be sold to replenish collateral buffers. Any metric calibrated to historical market moves is at risk of being overcome by future unexpectedly large and unforeseen moves. Leverage serves an important role in allowing pension schemes to manage risks inherent in their liabilities while continuing to invest in generating investment returns and it is not feasible to expect schemes to self-insure against all potential market eventualities; and over-insurance has implications for investment returns and productive investment.

45. While on average EU OEFs are not highly leveraged, are there, to your knowledge, pockets of excessive leverage in the OEF sector that are not sufficiently addressed? Please elaborate with concrete examples.

As noted in our answer to Q. 2 there is no set level where leverage becomes intrinsically excessive. As such, leverage reporting should be viewed as a measure of potential amplification of risk, rather than an intrinsic measure of risk.

We support the use of reported leverage (as, for example, already required under CSSF requirements in Luxembourg) as a starting point for NCAs to conduct a risk-based analysis of funds with higher levels of leverage, while avoiding the automatic treatment of the funds as risky.

Using a risk measure like Value-at-Risk (VaR) alongside leverage measures is important when assessing the risk of a fund's overall use of derivatives and leverage, particularly since a standalone leverage metric could misstate a fund's true economic exposure and overall risk.

³⁶ See Bank of England, Bank Staff Paper: [LDI Minimum Resilience – Recommendation and Explainer](#), March 2023.

It is important to note that use of VaR by certain UCITS and AIFs is a measure of downside risk that seeks to quantify a maximum potential loss at a given confidence level. While VaR is not a measure of leverage (rather, it is a measure of overall portfolio risk) it is useful for understanding the amount of risk that leverage may be introducing into a portfolio. Most existing regulatory reporting regimes request data on VaR. However, there is inconsistency in the specifications of VaR in various reporting regimes. Further, there is scepticism with respect to using VaR as a regulatory measure given that it can be calculated using different methods (e.g., parametric, historical, Monte Carlo), and the result can differ based on the models and assumptions used.

We recommend a focus on standardising the approach to collecting data on VaR, as we believe these concerns can be mitigated by using common parameters and back-testing, to provide baseline for the model being used to calculate VaR, recognising that there may be legitimate reasons for using different VaR models. For example, when UCITS utilise the VaR method, they must provide results of back-testing assessments that denotes how many overshoots occurred over a 250 day period, as well as the amount of the overshoot in excess of VaR.³⁷

Recognising that funds use derivatives to achieve investment objectives, align portfolio risks to benchmark risks, or to reduce overall risk, we recommend tailoring measures according to the different ways in which a fund uses derivatives, including measuring both absolute risk and risk relative to a benchmark (where applicable).

Stress testing is another means of assessing downside risk that is often used as a complement to VaR. Stress testing looks at various stressed scenarios and assesses potential losses that could arise from such scenarios. To be clear, stress testing in this context is different than liquidity stress testing, as this type of stress testing relates to the mark-to-market losses a portfolio could experience during a period of market volatility, rather than on a fund's ability to meet its redemption obligations. Stress testing addresses a valid criticism of VaR in that VaR may not provide reliable insight as to the magnitude of potential losses in the tail of the distribution.

For further discussion of the assessment in leverage in funds see BlackRock's response to the 2019 IOSCO *Report on Leverage*.³⁸

46. How can leverage through certain investment strategies (e.g. when funds invest in other funds based in third countries) be better detected?

No comment.

Other NBFIs and Markets

³⁷ The UCITS Global Exposure guidelines provide information on how to convert the standard 99% 1 month limit into alternate parameters (e.g., a 95% 1 day limit). While the intention is to use 99% 1 month, funds may use alternate parameters.

³⁸ See BlackRock [Response](#) to IOSCO *Report on Leverage*. February 2019.

47. Are you aware of any NBFIs sector entities with particularly high leverage in the EU that could raise systemic risk concerns?

No comment.

48. Do stakeholders have views on macroprudential tools to deal with leverage of NBFIs that are not currently included in EU legislation?

For the asset management sector, we note that both UCITS and AIFMD provide mechanisms to limit the use of leverage; with the latter providing further powers to NCAs to intervene and restrict the use of leverage.

~~49. [To NCAs and EU bodies:] Are you able to timely identify (financial and synthetic) leverage pockets of other NBFIs (such as pension funds, insurance companies and so on), especially when they are taken via third parties or complex derivative transactions? Please elaborate on how this timely detection of leverage could be obtained?~~

50. How can it be ensured that competent authorities can effectively reconcile positions in leveraged products (such as derivatives) taken via various legal entities (e.g. other funds or funds of funds) to the ultimate beneficiary?

No comment.

Commodities markets

51. What role do concentrated intraday positions have in triggering high volatility and heightening risks of liquidity dry-ups? Please justify your response and suggest how the regulatory framework and the functioning of these markets could be further improved?

No comment.

Monitoring Interconnectedness

52. Do you have concrete examples of links between banks and NBFIs, or between different NBFIs sectors that could pose a risk to the financial system?

As noted in response to Q. 1, we believe that identifying financial stability risks in the context of NBFIs – or market-based finance – requires identification of the institutions (whether banks or NBFIs) and core markets that are critical for financial stability purposes, where disruption could cause genuine systemic risk.

Risks to critical institutions such as commercial banks and CCPs should be managed through prudential regulation of those institutions. Banking supervisors are best placed to assess the risks posed to bank balance sheets.

Risks of disruption to core markets – such as sovereign bond markets – need to be informed by a clear understanding of the drivers of those markets, for example through exercises like the Bank of England's System-Wide Exploratory Scenario

(see response to Q. 53) which enable supervisors to identify critical transmission links between banks and relevant NBFI sectors.

In the EU, legislation such as UCITS, AIFMD, MiFID/MiFIR, IFD/IFR, EMIR and other sectoral legislation provides a comprehensive risk management framework for the vast majority of EU NBFI sectors, supported by detailed regulatory reporting. This facilitates the assessment of liquidity and leverage risks to which the banking sector may be exposed. As noted in our response to Q. 53 and Q. 54, we support efforts to improve the effectiveness and efficiency of regulatory data reporting to facilitate the identification and analysis of potential systemic risks to core markets.

53. What are the benefits and costs of a regular EU system-wide stress test across NBFI and banking sectors? Are current reporting and data sharing arrangements sufficient to perform this task? Would it be possible to combine available NBFI data with banking data? If so, how?

We believe system-wide stress tests, such as the Bank of England's System-Wide Exploratory Scenario (SWES), can be a good way of assessing dynamics in core markets. Through feedback loops, results of system-wide stress tests can also enhance risk managers' own stress test modelling. The crucial feature of the SWES from a financial stability perspective is that it considers the activities of both banks, non-banks, and intermediaries such as CCPs – and gives a *holistic* view of how markets and market participants behave under stress.

If an equivalent exercise were to be conducted for the EU, we believe there are certain conditions it should meet for it to be effective:

- System-wide tests must have a clear and pre-defined purpose, studying how *all* market participants influence a specific market, in a specific scenario. They should be information gathering exercises but should not be a mechanism for setting macroprudential policies for non-banks or for determining prescriptive rules for individual firms (e.g., as liquidity ratios or prudential requirements are determined for banks).
- There must be no assumptions about market participant behaviour by the supervisor; observations on how market participants would respond to a scenario should be based on participants' experience, not assumptions or desk-based simulations devised by supervisory authorities.
- It should be recognised that each individual participant's behaviour and available options will be influenced by the decisions and reactions of counterparties, as well as regulation and policymaking. It is crucial to recognise these interdependencies.
- The test should be proportionate and time limited. These exercises are data and resource intensive for firms and supervisors, meaning the Commission's proposal for an annual test is, we believe, excessive.

Finally, it is important to recognise that better supervision is not limited to stress testing and new data provision – there is a real need to improve sharing of existing data reporting among NCAs. As we outline in response to the questions below on supervision, policymakers should seek to develop standardised reporting

templates to reduce the administrative burden for cross-border firms operating in Europe.

54. Is there a need for arrangements between NBFI supervisors and bank supervisors to ensure timely and comprehensive sharing of data for the conduct of an EU-wide financial system stress tests? Please elaborate.

We believe any such arrangements should be fully integrated into ongoing proposals at the EU level for a more integrated regulatory data reporting process – as part of the European Commission’s 2021 strategy on supervisory data in EU financial services. The European Commission’s *2024 Progress Report on the Strategy on Supervisory Data in EU Financial Services* sets out a number of key factors for driving more effective data reporting and analysis through improved data standardisation and use of technology. It also highlights the importance of effective governance processes when data is being shared between multiple official institutions.³⁹

55. What governance principles already laid out in existing system-wide exercises in the EU, such as the one-off Fit-for-55 climate risk scenario analysis or the CCP stress tests conducted by ESMA, could be adopted in such system-wide stress test scenario?

See response to Q. 53 for pre-conditions and governance principles for effective system-wide exercises.

56. [To NBFIs and banks] In your risk management practices, do you run stress tests at group level, and do you monitor the level of interconnectedness with (other) NBFIs (within and beyond your own sector; e.g. portfolio overlaps)?

To answer this question, it is useful to recap features of the asset management business model. First and foremost, asset managers act as fiduciaries on behalf of asset owners. The assets belong to the asset owners and are held on behalf of the fund’s independent depositary by a third-party custodian in bankruptcy-remote accounts. As such, under UCITS and AIFMD requirements client assets, including investment fund assets, are not commingled with the asset management firm’s assets. Clients control the strategic allocation of their assets, not the asset managers. Asset managers are obligated from a legal, regulatory, and ethical perspective to make investment decisions in line with client guidelines. Further, asset managers are not the counterparty to client trades or derivatives contracts, and in this regard the role of an asset manager is never to act as a buffer to the sale of assets or the unwinding of derivatives contracts by its clients.

In addition, the asset manager does not guarantee the returns of an investment portfolio it manages. Whether the assets appreciate or depreciate, the investment results are dispersed solely among the shareholders of the fund or to the individual investor in a separate account. Finally, the balance sheet of an asset manager is relatively simple. Asset managers generally do not use significant amounts of

³⁹ See European Commission, [Progress Report on the Strategy on Supervisory Data in EU Financial Services](#), February 2024.

leverage or derivatives contracts, and asset managers do not rely on short-term wholesale funding to fund their operations.

Business models of asset managers can also differ significantly from one manager to another. Some firms specialise in a particular asset class, whereas others offer a more diversified set of products. Likewise, some firms have a decentralised investment decision-making process that permits individual portfolio managers or teams to make investment decisions based on their own views, whereas other firms have an investment committee that makes more centralised investment decisions. The legal entities and the capital structures of asset managers differ too, as firms may be organised as partnerships, public companies, or subsidiaries of banks or insurers.

As asset managers do not deploy their own funds to affect investment or trading activity the prime focus for regulatory capital requirements in an agency business is to protect against ongoing operational risk and to ensure an orderly wind-down of the firm. We therefore do not think that group-level stress tests for asset managers are appropriate or necessary.

In addition, when it comes to stress testing investment funds, or other vehicles managed by asset managers, it is important to reiterate that any stress test across funds managed by the same firm will result in wide disparities and often contradictory conclusions that would not provide decision-useful information. The universal investment set available to each individual fund will result in hundreds if not thousands of different permutations managed by an individual asset manager, and by different asset managers.

Portfolio managers – even within the same group or function – at BlackRock invest within the constraints set out in the fund’s investment objectives and strategy. Risk parameters are determined at fund launch and are regularly reviewed by the fund’s governance bodies and control functions, such as BlackRock’s independent Risk and Quantitative Analysis group, to ensure ongoing consistency with fund’s mandate. The inherent differences in fund objectives and risk parameters underline the importance of fund management teams taking decisions on a fund-by-fund basis rather than pursuing coordinated investment strategies.

Individual funds are further differentiated by numerous parameters such as their holdings, their client base and distribution strategy, meaning net capital flows differ between funds.⁴⁰ This reinforces the importance of managers reacting to what is happening in the individual fund they manage rather than attempting to manage risk at an aggregate level. Even funds within the same broad ‘fund category’ experience market events in very different ways – preventing useful inferences on risk exposure from being drawn.

Instead, we develop specific market driven scenarios and test each individual fund against that set of hypothetical conditions, flagging any potential negative impact

⁴⁰ For example, according to EPFR data, weighted average outflows Europe-domiciled corporate bond funds (excluding ETFs) in the week to 18th March 2020 were -3%. But while the majority of funds were experiencing outflows, a non-trivial portion were not: 16% of funds in this category saw net inflows during that week. See BlackRock, [Lessons from COVID-19: Liquidity Risk Management is Central to Open-Ended Funds](#), November 2020.

or risk to the portfolio manager in question. One such example might be an election scenario whereby each election outcome is tested against a portfolio of assets. Crucially, this is done on a fund-by-fund basis because the disparity of outcomes we see otherwise is so vast.

In our experience, in these types of market risk stress tests, while we expect mandates run by the same team with the same investment process to display very similar results, we tend to see differences in end-client reactions to the various potential outcomes. Crucially, it is the client mix across funds that determines redemption risks. Generally speaking, BlackRock only has one fund for each client market and we do not tend to see high redemption correlation across different target markets or geographies.

Supervisory Coordination and Consistency at EU Level

57. How can we ensure a more coordinated and effective macroprudential supervision of NBFIs and markets? How could the role of EU bodies (including ESAs, ESRB, ESAs Joint Committee) be enhanced, if at all? Please explain.

We recognise that there are inefficiencies and a lack of scalability in the current supervisory framework. We believe there are many practical steps which can be taken within the current supervisory framework to drive more effective coordination such as the development of an integrated data reporting hub (see our answer to Q. 54) and the formalisation of coordination mechanisms for investment firms and asset managers operating in multiple jurisdictions. We believe this approach will be quicker and more effective than a direct transfer of powers to a single supervisory entity.

We believe that concerns around potential macroprudential risks are best addressed through a supervisory focus on products and activities. National supervisors are best placed to exercise this supervision due to their existing expertise working in close coordination with each other (and ESMA as the EU's regulatory standard setter) to ensure consistent supervisory outcomes. As noted, recent AIFMD and UCITS reforms will significantly increase the availability and quality of liquidity management tools across the EU.

As such we recommend building on the experience of existing centres of supervisory excellence in the areas of cross-border products through closer information sharing and supervisory coordination. The aim should be to increase trust between regulators and accelerate convergence towards a common supervisory approach, facilitating greater economies of scale in Europe by allowing asset managers to build more consistent operational models that meet their regulatory and supervisory obligations.

One option which has been raised to increase effective supervision is the roll out of supervisory colleges for cross-border asset management groups. If properly run, with appropriate governance, operational models, and responsibilities clearly assigned to a lead NCA, we believe such a supervisory arrangement could deliver economies of scale, ensure better crisis coordination and data sharing, while minimising bureaucratic overshoot. This approach also minimises the risk of losing

supervisory centres of excellence through the relocation of supervisory competence.

Enhanced coordination mechanism (implementation and adoption of NMMs)

58. How could the currently available coordination mechanisms for the implementation of macroprudential measures for OEFs by NCAs or ESAs (such as leverage restrictions or powers to suspend redemption on financial stability grounds) be improved?

In our view, the existing coordination mechanism works well and do not see a need for a new model. We understand that the Central Bank of Ireland (CBI) was the first NCA to use the powers provided for in Article 25 of the AIFMD when it imposed leverage limits on Irish property funds. We are not aware of shortcomings in the CBI's communication with ESMA or other NCAs in relation to this new policy and related Guidance. As such, we do not see any rationale for the existing coordination mechanisms to be improved.

Regarding the implementation of fund suspensions, national regulators have the power to "require the suspension of the issue, repurchase or redemption of units in the interest of the unitholders or of the public". Similarly, national regulators are required to cooperate with each other and with ESMA and the ESRB wherever necessary to carry out their respective roles, including regarding fund suspensions. However, we are not aware that any NCA has required an asset manager to suspend a fund and, as such, there is no evidence to suggest that further enhancements relating to existing coordination mechanisms are required. In practice, close coordination between NCA and market participants in extreme market conditions and the use of market guidance relating to funds investing in specific sectors is an effective way of avoiding any potential stigma effects related to the use of suspensions

59. What are the benefits and costs of introducing an Enhanced Coordination Mechanism (ECM), as described above, for macroprudential measures adopted by NCAs?

We believe enhanced supervisory coordination could be beneficial if led by the NCA closest to the fund manager's operational and governance set up as described in response to Q.57, rather than through an ESMA or ESRB-led enhanced coordination mechanism. This reflects our analysis that risks in the asset management industry need to reflect the specific characteristics of individual funds. We recognise that ESMA and ESRB's market wide-analysis such as Trends, Risks and Vulnerabilities reports provide valuable inputs into this process as part of ongoing feedback loops to the industry.

60. How can ESMA and the ESRB ensure that appropriate National Macroprudential Measures (NMMs) are also adopted in other relevant EU countries for the same (or similar) fund, if needed?

It is first important to state that while a particular national macroprudential measure (NMM) may be deemed by a national regulator to be appropriate for one jurisdiction (e.g., leverage limits for domestic Irish property funds), it will not

necessarily be appropriate for implementation in another jurisdiction. There may be specificities to the (domestic) fund structure, underlying asset and/or market, local investor base etc. that necessitate the implementation of an NMM which are not manifest in other jurisdictions. So, it may not always be appropriate to rollout an NMM across the EU or to a subset of Member States.

Notwithstanding the above, where it is determined that an NMM implemented in one jurisdiction may be relevant for implementation in another jurisdiction, it is our view that existing ESAs (or ESRB) empowerments to engage with national regulators, who remain the relevant competent authorities for such domestic decisions, and to coordinate actions taken, should be sufficient to facilitate implementation. For instance, the coordinated actions taken by the CBI and the CSSF in March 2024, as advised by ESMA, in relation to the application of investment restrictions for GBP LDI funds to ensure their resilience is an example of best practice within the existing regulatory framework. The effective coordination of this initiative shows that it is not necessary to enhance supervisory powers to address cross-border issues within the EU.

Furthermore, the recently strengthened EU AIFMD/UCITS framework allows for host regulators to advise home regulators on the implementation of certain measures, with ESMA given a mediation and advisory role. As such, it is not clear that further empowerments are necessary at this stage.

61. Are there other ways of seeking coordination on macroprudential measures and possibly of reciprocation? What could this system look like? Please provide concrete examples/scenarios and explain if it could apply to all NBFIs sectors or only for a specific one.

Per our response to Q. 60, while it is important to recognise when an NMM in one jurisdiction may have relevance in another, the existing ESAs and ESRB frameworks already provide sufficient mechanisms for coordination.

Each jurisdiction within the EU has its own unique financial landscape, including differences in fund structures, underlying assets, and investor bases. Thus, implementing a one-size-fits-all NMM across the EU could lead to inefficiencies or even unintended consequences in jurisdictions where such measures are not necessary, appropriate or even relevant.

The current frameworks under the European System of Financial Supervision (ESFS), including the ESAs and the ESRB, already provide robust mechanisms for coordination and communication among NCAs. These bodies facilitate information sharing and can help identify when a macroprudential measure implemented in one jurisdiction might have relevance elsewhere. The existing system enables a coordinated response without the need for additional or alternative structures. Imposing a requirement for widespread reciprocation or uniform application of NMMs across multiple jurisdictions risks overstepping appropriate regulatory bounds and could lead to regulatory overreach. It could also undermine the autonomy of national regulators to make decisions that are in the best interests of their domestic financial stability. These frameworks ensure that national regulators can respond to localised risks while maintaining overall financial stability across the EU, without the need for new or additional coordination mechanisms.

62. What are the benefits and costs of improving supervisory coordination over large (to be defined) asset management companies to address systemic risk and coordination issues among national supervisors? What could be ESMA's role in ensuring coordination and guidance, including with daily supervision at fund level?

We do not agree with the premise that large asset managers represent a systemic risk by virtue of their size and recommend that future supervisory initiatives continue to be rooted in a product and activities approach, rather than an entity approach.

As outlined in response to Q. 56, asset managers act as fiduciaries on behalf of asset owners. The assets belong to the asset owners and the assets are held on behalf of the fund's independent depositary by a third-party custodian in bankruptcy-remote accounts. As such, client assets, including investment fund assets, are not commingled with the asset management firm's assets. Further, asset managers are not the counterparty to client trades or derivatives contracts, and in this regard the role of an asset manager is never to act as a buffer to the sale of assets or the unwinding of derivatives contracts by its clients. For these reasons, manager size is not an relevant metric on which to measure risk to financial stability. The starting point for both managers and supervisors should be to look at the parameters around individual fund mandates.

We do not expect investment behaviour across different funds run by larger managers would be more correlated relative to smaller managers given the multiple and different client strategies which any manager runs (active, index, multi-asset, and thematic to name but a few individual strategies).

In reality, market functioning reflects bank intermediation capacity, market infrastructure, and the extent to which specific products and activities are appropriately regulated, and whether those regulations are operationalised. These conditions apply irrespective of the size of the investor. Applying different rules to larger vs. smaller entities would create an unlevel playing field and risk regulatory arbitrage.

While there has been some discussion around opt-in regimes for direct supervision by ESMA, the benefits for macroprudential supervision would be limited. We believe there are significant legal barriers to direct supervision by ESMA of cross-border funds as the legal structure will still have to be approved and overseen by the NCA of the domicile of the fund. In all likelihood, such an approach would lead to an additional layer of supervision rather than streamlining supervision. It is essential that in seeking to address macroprudential concerns that the EU does not act to increase administrative burden and complexity.

An effective supervisory framework should seek to achieve a balance between multiple objectives, from developing financial stability oversight, improving market integrity and market growth to reinforcing investor protection. As such we need to be very clear on what we are trying to achieve when making changes to the existing supervisory framework, and be able to assess the costs and benefits of potential changes. Given the huge increase in supervisory obligations placed on supervisors

both at national and European level in recent years we also need to be pragmatic about what should be prioritised, recognising that the absorption capacity for implementing multiple supervisory changes – for industry and supervisors alike – is not without limits.

We recommend investing ESMA's finite resources in greater convergence and building up of common trust and confidence between national supervisors. For the common rule book to converge in practice, we need a supervisory outlook with an increased use of common supervisory actions and shared supervisory priorities. As mentioned in our response to Q. 57, a standardised approach to data collection, aggregation, and analysis by NCAs is paramount.

63. What powers would be necessary for EU bodies to properly supervise large asset management companies in terms of flexibility and ability to react fast? Please provide concrete examples and justifications.

Again, we do not agree with the premise that large asset managers represent a different level of risk by virtue of their size and recommend that future supervisory initiatives continue to be rooted in a product and activities approach, rather than an entity approach.

When it comes to investment funds, it would be beneficial to pre-emptively identify targeted data points needed to assist supervisors, both in identifying emerging issues but also in times of crisis. Submitted in a standardised manner, metrics could shed light on liquidity management, investor concentration, large redemption flow data and leverage. Automating the delivery of these data fields to a supervisory dashboard would not only benefit supervisors, but also free up time for firms to concentrate on managing investor interests in periods of extreme market volatility.

Provisions in the recently adopted AIFMD/UCITS review offer the opportunity to significantly upgrade Europe's reporting infrastructure, while addressing many of the concerns regarding liquidity and leverage in the ongoing debate on the adequacy of macroprudential oversight of asset management activities. This should also come with a focus on ensuring that existing supervisory reporting templates such as AIFMD Annex IV (and equivalent UCITS templates) are updated to collect relevant data points on a wider range of fund types, such as loan-originating funds.

Taken together, these measures should allow timelier and more consistent data reporting, removing the multiple inconsistencies in approach and reporting formats we encounter today. Improved data and the ability for supervisors to view data on a consolidated basis will reinforce financial integrity and market integrity. There is no question that better data aggregation and reporting would benefit regulators and the development of feedback loops to the industry would improve the quality of the stress tests that managers can run.

64. What are the benefits and costs of having targeted coordinated direct intervention powers to manage a crisis of large asset management companies? What could such intervention powers look like (e.g. similar to those in Article 24 of EMIR)?

Our experience in managing liquidity and risk on behalf of our asset owner clients in keeping with our fiduciary duty, does not suggest that direct intervention powers need to be strengthened (in respect of NCAs) or extended (in respect of ESMA).

NCAs already have the power to activate certain intervention powers (e.g. suspensions), but this should remain a power of last resort after discussion with the fund manager and consideration of second order impacts on investors. This avoids undue moral hazard which could emerge were the prudential management of a fund to shift from fund manager to NCA or ESMA. Asset managers and fund boards have the deepest understanding of investor profiles, fund holdings and liquidity profiles and are therefore best placed to make such decisions.

As regards the activation of individual investment funds' liquidity risk management tools by regulators, this approach will by definition only impact a subset of investors in a given asset class across the financial ecosystem. Crucially, identifying a group of funds with sufficiently correlated exposures, requires an analysis of multiple parameters to be effective. These include not only the underlying assets, investment strategy and overlay, but also fund structure, liquidity terms and investor base.

Aside from generating potential moral hazard risk for supervisory authorities, it is likely that any such intervention will be ineffective or unfair (by disadvantaging fund investors versus direct or separate account investors) and could be harmful or counterproductive (by signalling to other investors holding related assets directly that there is a problem in the market, prompting them to exit – potentially exacerbating the original problem).⁴¹

Instead, we encourage policymakers to focus on enhancing and automating the data reporting from managers to NCAs enabling more informed discussions in a crisis. Focus should be placed as well on the framework governing regulatory cooperation both between NCAs, and between NCAs and ESMA.

In addition, as noted in our response to Q. 57, we see potential benefits to improving mechanisms for improved supervisory coordination.

Other NBFIs and Markets

65. What are the pros and cons of extending the use of the Enhanced Coordination Mechanism (ECM) described under section 6.1 to other NBFIs sectors?

No comment.

ESAs and ESRB's powers during emergency situations

66. What are the benefits and costs of gradually giving ESAs greater intervention powers to be triggered by systemic events, such as the possibility to introduce EU-wide trade halts or direct power to collect data

⁴¹ For further discussion of the potential application of macroprudential policies to the investment funds sector, see BlackRock, [Response](#) to Central Bank of Ireland Discussion Paper: An Approach to Macroprudential Policy for Investment Funds, November 2023.

from regulated entities? Please justify your answer and provide examples of powers that could be given to the ESAs during a systemic crisis.

See response to Q. 64.

Integrated supervision for commodities markets

67. What are the benefits and costs of a more integrated system of supervision for commodities markets where the financial markets supervisor bears responsibility for both the financial and physical infrastructure of the commodity futures exchange, including the system of rules and contractual terms of the exchange that regulate both futures and (cash/physical) forward contracts?

No comment.

International coordination

68. Are there elements of the FSB programme on NBFIs that should be prioritised in the EU? Please provide examples.

- a) We welcome the FSB and IOSCO proposals on **liquidity management in OEFs**, and agree that funds mostly invested in 'liquid' assets should be able to offer daily dealing, and those with significant investments in assets defined by the FSB as 'less-liquid' should only continue to offer daily dealing provided they can incorporate at least one appropriate anti-dilution tool to mitigate first mover advantage in funds.⁴²

European regulators can further support more widespread use of anti-dilution tools by ensuring that investment managers are operationally prepared to deploy those tools and have appropriate contingency plans in place for managing extraordinary market conditions. We welcome the focus in revisions to the UCITS and AIFMD on enhancing the use of liquidity management tools across the EU, and recently responded to ESMA's Level 2 Regulatory Technical Standards consultation on same.⁴³

- b) When it comes to the FSB's work on **market participants' liquidity preparedness for margin and collateral calls**, as outlined in response to Q. 26, we believe that expanding lists of eligible collateral to include certain MMFs

⁴² In certain jurisdictions, such as the US and Japan, there are significant regulatory or business practice barriers to accessing certain types of data, in particular the availability of same-day fund flow data – which is a function of the characteristics of the fund ecosystem in these jurisdictions. The ability to estimate liquidity costs with a high level of confidence will be influenced by these characteristics. Local regulators should be cognisant of this challenge when developing regulation for the use of anti-dilution tools, and make efforts to coordinate with all relevant market participants to assess which toolkit or sub-set of tools is appropriate for any given jurisdiction. Regulators should also consider building in protections and flexibility into their respective regulatory regimes for investment managers and fund boards making and overseeing the determination of these estimates. For further discussion, see BlackRock response to [IOSCO guidance for effective implementation on the Recommendations for Liquidity Risk Management for Collective Investment Schemes](#), September 2023.

⁴³ See BlackRock [response](#) to the ESMA Consultations on *Draft Guidelines and RTS on Liquidity Management Tools under the AIFMD and UCITS Directive*, October 2024.

and ETFs, would help to alleviate the procyclical impact of margin calls during market volatility for both cleared and uncleared trades.

In March 2020, MMFs played an important role in supporting the movement of cash around the financial system, allowing market participants to meet margin calls. However, the fact that MMF units cannot be pledged as collateral directly resulted in fund redemptions, which may have led to unnecessary elevated activity in short-term funding markets, given that cash raised from these sales was often re-invested in a similar vehicle. Opportunities to increase high-quality liquid assets' (HQLA) mobility through tokenisation could therefore be beneficial, as it would allow end users to leverage additional forms of non-cash collateral (i.e., MMFs), in turn reducing reliance on cash.

Similarly, ETFs whose portfolio holdings consist of assets that would otherwise be eligible collateral can themselves serve as an appropriate form of collateral. ETFs are transferable, liquid and transparently priced, which supports their use in this manner. In addition, in-kind redemptions (via an Authorised Participant) generally provide holders of the ETF with the ability to access securities in the ETF's underlying portfolio should a collateral holder prefer to access ETF portfolio holdings and sell these securities directly.