



FedFin Client Report

Monday, November 14, 2022

Global Regulators Prioritize CCP, End-User Resilience

Client Report: NBF12

Executive Summary

As [promised](#), this FedFin report provides an in-depth analysis of the FSB's latest policy on [nonbank financial intermediation](#). As is often the case, much in the report discusses data gaps, presses for international cooperation, and details FSB and national work to date on the issues identified in its initial analysis after the 2020 crisis ([see FSM Report NBF1](#)). Most of FSB's work since has focused on MMFs ([see FSM Report MMF18](#)), with this latest report going on to lay out more specific policy options for OEFs, margining, core bond markets, and other target areas. The report also calls for attention to systemic NBF1 concerns, noting risks at family offices, prime brokers, life insurers, and pension funds, as well as "hidden leverage" without discussing what might best be done about them.

Analysis

The FSB's policy recommendations are described as "repurposing" existing tools rather than recommending a set of new standards, with global regulators prepared to advance more structural reforms if such repurposed standards do not suffice under stress. Key concerns and planned actions include:

- **OEFs:** In a rare admission, the FSB observes that all of its work in the mid-2010s to address OEF liquidity mismatches had no meaningful impact in 2020. FSB and IOSCO work to come will focus on ensuring more effective OEF liquidity-risk management, clarifying the roles of fund managers, promoting structural liquidity-risk management reform, enhancing data transparency, and implementing fund-level and systemic stress testing. Much in this report discusses various ways to achieve these goals without homing in on specific recommendations although most of the focus related to liquidity is designed to end first-mover advantage. Public consultations will follow. Much in what the FSB now suggests be done is included in the SEC's controversial set of proposed [liquidity standards](#), although global regulators do not expressly call for the swing pricing included in the Commission's proposal.
- **Margining:** The FSB ratifies its longstanding support for CCPs and higher margining requirements in the OTC market. Policy work planned now will include addressing

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CCP transparency, improving end-user liquidity, identifying data gaps, and streamlining variation-margin practices in central and OTC markets along with a review of initial-margin standards.

- **Core Bond Markets:** This paper reiterates the FSB's significant concerns about corporate-bond market liquidity but says only that it and IOSCO will continue to study possible remedies. Government-bond markets are to be addressed through moves analyzed in more detail in a recent [FSB report](#) calling among other things for the all-to-all trading now under active consideration in the U.S. (see a client report forthcoming).
- **USD Funding/Emerging Markets:** Much here repeats prior FSB and global work, but the Board now presses investors and index funds to reduce their reliance on external ratings.