BlackRock.

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Central Bank of Ireland
New Wapping Street
North Wall Quay
Dublin 1
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RE: Consultation Paper 157: Macroprudential measures for GBP liability driven investment funds

BlackRock[1] is pleased to have the opportunity to respond to Central Bank of Ireland's ("CBI") Consultation Paper on Macroprudential measures for GBP liability driven investment funds ("the consultation").

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

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

We welcome the opportunity to comment on the matters raised by this consultation paper and will continue to contribute to the thinking of the CBI on any issues that may assist in the final measures.

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.

Responses to Questions

Question 1 – Do you have any specific feedback on the scope of the measures and the proposed definition of LDI funds as set out in the consultation paper?

In terms of the scope of the measures, we support the consultations reference that the "yield buffer, and its estimation, should consider all exposures that a fund's portfolio contains." That, alongside a need to ensure that assets/exposures have an appropriate haircut applied when looked at in the context of the yield buffer, are aspects that we think should be made more explicit in the measures.

We support the proposed definition of LDI funds however we suggest that the proposed definition could be amended to further clarify the intended scope of funds by referencing the use of derivatives as per below:

"Any fund whose investment strategy seeks to match the interest rate or inflation sensitivity of their assets to that of their investors' liabilities ***through the use of derivatives***."

Question 2 – For the liquidity guidance, would you see merit in setting a minimum speed for the transformation of non-eligible assets into eligible assets (in days)? What would you consider the right minimum number of days, considering the settlement period for posting collateral to maintain leverage (repurchase agreements and/or derivatives)?"

We believe that there is merit in setting a minimum speed for the transformation of non-eligible assets into eligible assets in order for the non-eligible assets to be considered in the yield buffer calculation. This reflects the fact that speed of collateral transformation is an important factor in determining the overall resiliency of the fund. Therefore, we feel it is important that the liquidity guidance links the speed of transformation of non-eligible assets with the point upon which liquidity transformation is initiated so that overall resiliency is maintained.

That said, it may be simpler if a generic minimum is applied for consistent application and monitoring and if that is the preferred approach, we believe that 3 days or less is an appropriate timeframe for non-eligible assets to be considered in the yield buffer calculation. We also believe that it is important to consider the appropriate mix of eligible collateral and non-eligible assets than can be transformed into eligible collateral. For example, it may not be appropriate for a 300bps yield buffer to be made up of 150bps of transformable assets and 150bps of eligible collateral. The mix of assets should reflect the speed of transformation and expected increases in yields.

Question 3 – Do you have any specific feedback on the proposed calibration of the measures, including the proposed treatment of third party assets in the yield buffer, the buffer usability proposal and the level of the yield buffer?

We support the proposal that only assets on the balance sheet of the fund should be included in the yield buffer. We note however that this would not necessarily stop other

non-gilts assets being sold if government bond yields are increasing rapidly as clients may wish to increase their eligible collateral, rebalance their asset allocation or de-risk their portfolios in such situations.

Question 4 – Do you have any specific feedback with the proposed approach to the implementation of the measures?

We believe the three-month implementation window is sufficient. However, we would welcome clarity in how breaches of the measures/deviations of the yield buffer below 300bps will be required to be reported to the Central Bank and who will be required to make the notifications to the Central Bank.

The consultation proposes that fund managers will only notify the Central Bank that their yield buffer has fallen below 300 bps in real time if they expect the deviation to be prolonged and/or substantial and that minor deviations of the yield buffer below the minimum 300 bps will not need to be reported in real time. We would welcome clarity on the required timelines for reporting such minor deviations.

In addition, the footnote on pg. 17 states that the Depositaries will have a role in reporting breaches to the Central Bank. We would note that the Depositaries will not have the ability to independently monitor the yield buffers being maintained by the funds.

Question 5– In addition to the analysis provided in the consultation paper, what potential unintended consequences do you see from the proposed measures, and how could these be mitigated?

The consultation paper makes references to the desire to avoid potential procyclical gilt sales. We would note that whilst this can be mitigated it cannot be avoided entirely. To a certain extent the proposed measures may compel gilt sales depending on the availability and speed of access to additional assets to recapitalise an LDI fund, as well as the implications of breaching the proposed measures (which are not set out in the consultation paper). Therefore, the mechanism to dis-apply the yield buffer requirement is an important one which should be designed carefully. Whilst outside the remit of the Central Bank, the importance of fostering and maintaining a well-functioning gilt market is clearly of significance in the context of the proposed measures.

Question 6– Do you have any further feedback on the proposals outlined in the consultation paper?

No