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A Brief Round-Up from the UK

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By way of diversion from the current crisis mode of regulators the world over, here we discuss positive regulatory initiatives on bank liquidity, CDS clearing and the development of Long Term Asset Funds.

UK bank regulators give feedback on High Quality Liquid Assets usage

The Bank of England and Prudential Regulation Authority ("PRA") have published a joint Feedback Statement ("FS") on their Discussion Paper 1/22 on '*The prudential liquidity framework: Supporting liquid asset usability*'. While the FS contains no policy proposals or indications on how the PRA '*is considering to support banks in prudently using their [liquid assets] when facing liquidity pressures in the future*', it does discuss their concern that banks are '*overly reluctant*' to use their stock of High Quality Liquid Assets ("HQLA"). A sufficient reserve of HQLA available to meet payment obligations in situations of severe short-term stress is a requirement of the post-GFC requirement of a Liquidity Coverage Ratio ("LCR") to help build up banks' resilience in such circumstances.

Feedback indicates that banks' reluctance to use HQLA stems chiefly from concerns about regulatory reactions to the fall in their LCR that would follow use of HQLA, including the amount of time that would be allowed to restore levels. Unsurprisingly, respondents to the Discussion Paper were also concerned about how markets would react to a deployment of HQLA and a consequent fall in LCR below 100%. Suggestions for improving HQLA usability include improving communication and guidance from authorities, particularly on the extent to which banks' LCRs can fall without regulatory consequences.

ICE Clear Europe ceases clearing for all classes of credit default swaps (CDS)

ICE Clear Europe has announced that it is ceasing clearing for all classes of CDS from 27 October 2023, meaning that all counterparties will need to close out positions and move to an alternative CCP before that date. The UK's Financial

Conduct Authority has announced that, in order to achieve an orderly migration, it will not be requiring counterparties to migrating trades who elect to execute those trades outside a trading venue, and who are subject to the obligations in the UK Markets in Financial Instruments Regulation's obligations to execute on a trading venue, to observe the trading obligation or publicly report those trades.

The UK authorises the first Long Term Asset Fund (LTAF)

In 2021, the UK's Financial Conduct Authority ("FCA") created a new regulatory regime that allowed the inception of the LTAF, a new category of open-ended authorised fund that enables investment in long-term illiquid assets including venture capital, private equity, private debt, property and infrastructure. While investment in LTAFs remains restricted to professional investors, certified and self-certified sophisticated investors and certified high-net-worth individuals, the authorisation of the first such fund arrives shortly before the results of an FCA consultation on broadening access due in the first half of this year.
