



Consob notice of 30 November 2020

Notice on the Recommendation of the European Systemic Risk Committee of 25 May 2020 on liquidity risks arising from margin calls (CERS / 2020/6)

Last March, the economic crisis triggered by Covid-19 and the collapse of the oil market determined a sharp drop in asset prices and a marked increase in volatility on financial markets with the outcome, moreover, of significant collateral margin calls for both transactions cleared by a central counterparty (CCP) and bilaterally cleared transactions. In consideration of the liquidity risks produced by this situation, the European Systemic Risk Committee (ESRB) intervened with the [Recommendation of 25 May 2020](#) (published in the Official Journal of the European Union of 20 July 2020), divided into four (sub-) recommendations (A, B, C, D) addressed to different authorities according to the objective to be pursued.

- **Recommendation A**, addressed to the competent authorities on CCPs and to the competent authorities on (direct) participants of CCPs and on financial and non-financial counterparties, is aimed at ensuring that sudden and significant changes in margins and haircuts - (i) by the CCPs, towards their participants; (ii) by participants towards their customers; and (iii) in the bilateral sphere - are limited;
- **Recommendation B**, addressed to the European Securities and Markets Authority (ESMA) and the CCP competent authorities, is aimed at ensuring that CCPs consider in their liquidity stress tests the consequences of the default of any two service providers, even if they do not qualify as direct participants;
- **Recommendation C**, addressed to the competent authorities on CCPs and to the competent authorities on participants, aims to ensure that CCPs limit the asymmetry in the payment of variation margins collected on an intraday basis and that liquidity constraints for CCP participants and their customers are minimized;
- **Recommendation D** commits: (i) all competent authorities to contribute to stimulating the international debate on the mitigation of pro-cyclicality in the provision of *clearing* services to customers and in securities financing transactions; (ii) the European Commission to make any standards on the subject that are set globally effective in EU legislation.

Consob, within its competences, will implement the relevant recommendations of the ESRB during its supervisory activity and throughout its participation in forums and international regulatory bodies.

THE CHAIRMAN
Paolo Savona