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European Banking Authority
ESMA
EIOPA

Dear Reader,

In response to the Consultation Paper on the draft regulatory technical standards (RTS) on risk-mitigation techniques for OTC contracts not cleared by a CCP under Article of Regulation (EU) No 648/2012, PGGM chooses to respond with general concerns rather than respond to each specific question.

PGGM fully supports the goal for safer and more transparent financial markets. However on the draft RTS for non-cleared OTC derivatives PGGM would like to point out four major points:

1. PGGM stresses that the specific role of pension funds is not acknowledged by the draft rules. By law, pension funds are non-leveraged and long-only investors which pose very limited risk to their counterparties. Imposing the same rules to pension funds as to for example banks and hedge funds, is extra punitive to pension funds. PGGM is of the opinion that the creditworthiness of pension funds is of such high quality that a system whereby pension funds post lower initial margins is justified.

2. PGGM pleads for a standard model to calculate Initial Margin which is more sophisticated than the standard model proposed by ESMA. It is to be expected that most banks will use internal models to avoid the negative impact of the standard model. Although the internal models need to be approved by local regulators they will lack transparency and many end-users will not be able to predict or to check the margin requirements imposed to them by banks.

3. No concentration limits should be applied to collateral of the highest quality and liquidity. It makes no sense to force market participants to post collateral of lesser quality when concentration limits on the highest collateral have been hit. Also, it overcomes practical issues when concentration limits are imposed on relative small margins.

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4. PGGM is worried about the potential decrease in liquidity when large amounts of assets are locked up as initial margin. In principle re-hypothecation should not be permitted, unless agreed otherwise by the parties involved. The counterparties should also be allowed to agree on the re-investment of cash collateral. As PGGM is not in a position to oversee all consequences, it asks ESMA to carefully look at the proposed rules for (non-) re-hypothecation. Although PGGM sees the potential risks of re-hypothecation, PGGM is worried that the fall in liquidity will increase overall risks. Potentially the liquidity risk might transcend the counterparty risk and the non-allowance of re-hypothecation will create more systemic risk than what it aims to mitigate.

PGGM hopes that these comments will help the joint committee of the European Supervisory Authorities in their work to build a solid framework for non-cleared OTC derivatives. If there are any questions or the joint committee would like more clarification please do not hesitate to contact PGGM at the e-mail address or telephone number stated on the first page of this letter.

About PGGM:
PGGM is a not-for-profit organization, based on cooperative principles, that administrates the pensions of more than two million people in the Netherlands. PGGM manages the assets of six Dutch pension funds. The total assets under management exceed € 160 billion.

Kind regards,

PGGM
Zeist, The Netherlands