Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

29 March 2023

RE: Information Note on Liability Driven Investment Funds

The Central Bank of Ireland notes the statement by the Bank of England's Financial Policy Committee (FPC) published on 29th March

Following the significant UK sovereign bonds (gilts) market turmoil in late September 2022 and its associated impact on UK pensions and liability-driven investment (LDI) funds denominated in GBP, the Central Bank of Ireland engaged closely with market participants and regulators in the UK and across Europe, including the Commission de Surveillance du Secteur Financier (CSSF - Luxembourg) and the European Securities and Markets Authority (ESMA). This engagement culminated in a letter issued on 30 November 2022 which set out the minimum safeguards required to maintain the operational and Financial resilience of LDI funds. In addition, all funds need to ensure they have adequate liquidity to be able to meet their obligations in normal and stressed market conditions. This is particularly important in the case of leveraged funds.

The Central Bank of Ireland will continue to work closely with regulators in the UK and across Europe as well as international regulatory bodies to ensure that all relevant investment and liquidity risks are managed effectively across the investment fund sector, including those in LDI funds. While this work is ongoing, the Central Bank expects that the minimum safeguards highlighted in November's communication, in the relation to the maintenance of a minimum Yield Buffer of 300-400 basis point, should continue to be observed for LDI Funds denominated in GBP.