LDI BUFFERS

REDINGTON

Who recommends what and why?

With a host of new recommendations from various regulators following the late-2022 LDI crisis, it can be difficult to keep up. So, to help you make sense of it all, we've summarised the latest recommendations for LDI collateral buffers in the table below.

Who?	**Irish and Luxembourg regulators ('CBI' and 'CSSF')**	**Bank of England Financial Policy Committee ('BoE FPC')**	**The Pension Regulator ('TPR')**	**Financial Conduct Authority ('FCA')**	**Redington**
Recommendation published	November 2022	March 2023	April 2023 (this updates and replaces guidance from November 2022)	April 2023	January 2023 (this updates and replaces advice from October 2022)
Applies to	Fund managers of Irish and Luxembourg domiciled vehicles (pooled LDI funds)	Our interpretation is that this is meant to be an input for TPR guidance	Work-based pension schemes	Fund managers	Pension schemes under Redington advice
Recommended collateral buffer	**300-400bps**	Minimum **250bps + additional buffer** (not quantified but should allow for gilt volatility in normal market conditions)			Minimum **400bps in cash and gilts + another 200bps in liquid assets** on an ongoing basis
Rationale for the recommended collateral buffer	This is the level to which the LDI fund buffers were built following the gilt crisis. Given the market outlook, reducing that resilience level was not deemed appropriate by the regulators.	The 250bps figure is based on a 1-in-100 year 5-day shock in 30-year index-linked gilt yields (170bps), plus a buffer to allow for idiosyncratic risks based on a method similar to that used in central counterparty models (80bps). Our understanding is that the role of the additional buffer over and above 250bps is to prevent erosion of the core 250bps buffer in normal times. **For FCA only:** In the case of pooled LDI funds, the buffer is to be applied at each individual sub-fund and should reflect the composition of the client base of that fund or sub-fund.			In addition to considerations made by the BoE FPC, we've also allowed for the new processes implemented by many of the major LDI fund managers. Specifically, some fund managers would look to unilaterally reduce hedge exposure at certain levels of collateral buffers. Our recommended buffers have been calibrated to reduce the probability of hitting these levels.

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