



June 17, 2014

Mr. Joseph Tracy
Chairman
FSB Data Requirements Workstream
Financial Stability Board
Centralbahnplatz, 2
Basel, Switzerland

Re: Draft "Guidelines for reporting Institution-to-Institution data on funding dependencies" and the FSB Data Gaps Initiative statement on Launch of Phase 2 funding template and Quantitative Impact Analysis for Phase 3 (May 6, 2014)

Dear Mr. Tracy:

The Institute of International Finance (IIF), The Clearing House Association L.L.C. (TCH), and the Global Financial Markets Association (GFMA – and together with the IIF and TCH, the "Associations") are grateful for the opportunity to comment on the draft *Guidelines for reporting Institution-to-Institution data on funding dependencies*. Overall, the Associations find the *Guidelines* reasonable. The Associations commend the FSB for consulting with the industry on the common data template initiative since 2012, and appreciate that some of the points raised during the consultation have been incorporated in the draft *Guidelines*. We hope to continue this pattern of consultation on the Data Gaps and other FSB projects.

The Associations would also like to take this opportunity to comment on and seek clarification of the timing and sequencing of the Phase 2 templates and Phase 3 Quantitative Impact Analysis (QIA) as outlined in the FSB's Data Gaps Initiative statement dated May 6, 2014. We support the conduct of a QIA and our questions and requested clarifications are meant better to prepare member firms, given the Q3 2014 planned launch of the QIA.

Timing and Sequencing Issues

- Members are not certain of the intended *starting date of Phase 2*, the "launch" of which has been announced. No date is specified in the May 6 announcement, although footnote 12 discusses test submissions in Q1 and Q2 2015. More clarity would be appreciated as to the requirements to support such test submissions, and the definition of what would be required.

- Although the industry understands the importance to the G20 project of improving the global availability of data for macroprudential purposes, any requirement to start reporting under Phase 2 by January 1, 2015 would be challenging given all the new reporting requirements banks have to cope with already (e.g. numerous new ECB and EBA requirements for European firms; the developments required for the Basel Risk Data Aggregation (RDA) requirements; recovery and resolution planning requirements; and evolving stress-testing requirements in major jurisdictions). To be effective, planning for the implementation of Phase 2 requirements should be carefully aligned with such other major requirements, especially the RDA, to assure rational and effective use of resources as banks proceed through all the required developments. Similarly, for those reporting in Europe, the ECB will require granular data on lending by the end of 2016 and such reporting will presumably affect many of the same systems; thus coherence and consistency should be important considerations.
- *The planning for Phase 3* is explained in general terms in the May 6 announcement, although it would be helpful to have a better sense of the timing of the finalization of the Phase 3 template and the consultation planned for 2015, in order to assess the feasibility of, and to plan for implementation of, the IA Intermediate Counterparty template from Q1 2016. As developments for Phase 3 will overlap with work required on Phase 2, it would be very helpful to have a better developed roadmap of the timing required, with indications of important dates for both Phases, submission of test information and formal QIAs. It would also be helpful and appreciated to have occasional updates on thinking with regard to planning for the Phase 3 template when feasible, including with respect to the deferred Ultimate Risk template. Some members have had general guidance from their home regulators, but a clear and consistent explanation would be appreciated.
 - The industry would be very pleased to consult and give suggestions on the development of the QIA, in order to make it as useful as possible and perhaps to head off unnecessary ambiguities or points of divergent interpretation.
 - In addition, it would be appreciated if clarification could be given as to how much time will be allowed to complete the QIA and how much information is expected to be requested (e.g. will it resemble the reporting requirements in the Draft FSB Template for Aggregated Consolidated Assets and Liabilities (Phase 3) dated September 6, 2013?).
 - We understand that the QIA template may still be in a development stage. However, considering that Q3 2014 (as per the FSB Data Gaps Initiative Statement) is approaching quickly and that gathering the data will be challenging, having additional information will be very helpful in preparing for the upcoming QIA.

Draft Guidelines

- **General Point.** The draft *Guidelines* are silent as to whether funding from affiliated parties would need to be captured, except by implication under footnote 9, which states that the HCS may request data on sub- or non-consolidated basis. The overall thrust of the current text is that as a general rule a “Hub Reporting Firm” would reflect the highest consolidated level of a SIFI, so that intracompany funding could generally be disregarded; nevertheless, it would be useful for the avoidance of doubt to confirm this conclusion. In addition, if the HCS uses the option for lower-consolidated reporting

of footnote 9, it is not clear how this would feed consistently into the Hub reporting scheme: the intent here needs to be explained.

- **Higher reporting frequency.** At page 5, the draft *Guidelines* say that reporting will initially be required monthly, but *switching to “higher reporting frequency”* will be determined after periodic review of the data.
 - Banks accept that they may occasionally need to provide bilateral funding data on a more frequent basis in special market conditions or to meet specific supervisory requirements, as foreseen by the RDA and other regulations. This is not disputed; however, it should be borne in mind that there is a major difference between occasionally producing such data and putting in place the systems, controls, and checks required to produce reliable data on a more frequent basis.
 - Members would appreciate the opportunity to review and discuss the results of such “periodic reviews” as they are conducted.
 - Before the Data Hub and FSB make a decision on “switching” to higher frequency, the Associations respectfully request that a fully developed business case be made to explain the need for and utility of more frequent data in this context. This is partly a matter of concern about costs and systems impacts, of course, but the industry would also appreciate the opportunity to review and understand the business case for the new requirements. At the very least, having the business case available would make the higher reporting frequency more comprehensible within financial institutions as impacts are assessed, but it is also hoped that review of a “proof of need” demonstration might provoke a discussion that would be useful for all concerned.
 - We suggest the FSB consider providing for “higher reporting frequency” if, and only if, circumstances that would warrant more frequent reporting occur, e.g. a crisis. More frequent reporting could then be requested globally, country by country, or even firm by firm. In addition, if such circumstances arise, reporting for Data Hub purposes would be in addition to and, we would assume, not take precedence over, national regulatory reporting requirements that may also be in place.
 - When and if the decision is taken to require higher reporting frequency as a routine matter, it should be recognized that banks will need a reasonable amount of time to convert systems to accommodate such a change, so at least 24 months’ forewarning of the change and its specifications should be provided to allow for sufficient implementation time. There is a significant difference between being poised to produce more-frequent information occasionally to meet special market conditions and having the systems and controls in place do so on a fully routine basis.
- **Paragraph B.** The instructions that Commercial Paper may be assumed to be held to maturity by the original purchasing counterparty should be incorporated in the template, for ease of reference.

- **Paragraph B.1.** The industry raised the point that month-end data would be easier to verify given existing checks and controls, and would be more consistent with other reporting requirements, than T+5/following Wednesday data. We continue to make this recommendation. However, if the FSB does not make the suggested change, the industry would appreciate a better understanding of the strategic reasons for the “as-of-date” and time lag that have been chosen.
- **Paragraph B.2.** Non-USD based banks question why the choice has been made to require reporting in USD. Although the exchange rate for each reference date is to be reported, it still seems likely that this approach will create differences that could be significant in the aggregate and it would seem preferable for firms to report in their home currencies, and then have the Data Hub do a consistent conversion across all such data. In addition, although doing each conversion is not a problem, firms believe that having to track past conversion dates and rates for purposes of subsequent inquiries or verifications poses undue burden.
- **Paragraph B.3.** The provisions for consolidation scope seem highly complicated, given that many counterparties would seemingly have to be reported under three different consolidation definitions. We suggest that the Data Hub reconsider whether the detail and complexity here are sufficiently material to be worthwhile.
 - Banks are still analyzing this question but solutions appear complicated given that operational systems do not follow the proposed three-scope pattern.
 - At the least banks will need to take some time to work with and understand the implications of the proposal.
 - The definition of “other connected entities” is particularly concerning because it seems so open ended, extending even to “institutions” that are not legal entities, per footnote 8. The concept of a “sponsor” in “fact or substance” also seems to be quite open-ended and ultimately subjective. It would be helpful to have some fuller examples than can be provided in the text to make sure the concepts are clear to all. A way to do this would be to supplement Graph F-1 with narrative examples based on actual transactions. Additional guidance might also be helpful, for example stating that the intent is to capture defined sets of entities, such as IFRS 12 entities that are structured but not consolidated.
 - **Template A**
 - Banks may not always know the counterparty’s accounting group or other connected entities. If it is deemed necessary to collect these details, it should be understood that this will be on a reasonable-efforts basis.
 - See comment on Paragraph B.5 below.
 - **Template B**
 - The last bullet for “additional (separate) lines for holdings of tradable debt securities by entities that are connected to the reporting firm ...” is troubling because firms may not have this information, nor would it always be obvious. It should be made clear in the template itself that this information is only expected on a reasonable-efforts basis.

- Footnote 11 is potentially useful, but it would seem more logical from both the Data Hub’s and firms’ viewpoints to have one, consistent, well-understood materiality standard, rather than leaving that to the potentially variable appreciation of local authorities.
- **Paragraph B.4.** The industry would like to understand the rationale for the exclusion of governments, sub-sovereigns, central banks, etc. A full understanding of the rationale would help implementation, among other things by making the process easier to explain internally.
- **Paragraph B.5.**
 - LEIs should be used in all cases where they exist or the entity is eligible for one: the present “when available” text does not set a high enough standard for reporting. It is likely that the FSB will struggle with data aggregation by counterparty without having an unambiguous way to identify that counterparty across transactions; and especially across Templates A and B. Given that firms already need to ask many counterparties to financial transactions to obtain LEIs if they don’t have them, it would make sense to carry that rule over to this context.¹ “When available” should apply, however, when counterparties do not or cannot provide the LEI code.
 - It will be very helpful for the Hub to coordinate sharing of lists of entities, as foreseen; however, the text refers only to the banking group and accounting group; this service should definitely also apply to “other connected entities” as well (as suggested by Graph F-1).
 - Regular feedback as to connection issues would be very helpful.
- **Other issues:**
 - **Consistency of amounts to be reported.** The amounts to be reported in Template A are different from those required for Template B. The former requires principal value but the latter requires face value. If Template B is supposed to indirectly capture funding dependencies that are not captured by Template A (particularly tradable debt securities), then there should be consistency in the amounts to be reported. It seems questionable whether there is value added in including accrued interest (as in the case of principal amount for Template A) in the reported amounts, given that it would not likely be significant.
 - **Memo items.** While we understand the arguments for including memo items (total liability, total wholesale funding and total debt securities issued) to put the reported funding dependencies in context, it should be noted that monthly aggregated figures may not, in many cases, be in a

¹ The desirability of consistency of definitions with requirements such as the RDA is acknowledged in the FSB’s May 6 announcement. Insofar as possible, consideration should be given to how to use the Data Hub requirements in conjunction with advancing the goal of globally harmonized data definitions for all regulatory (and reporting) purposes. This effort should take into account the work of private-sector entities such as the Enterprise Data Management Council and the Financial Industry Business Ontology (FIBO) it has been developing, and work on transaction identifiers and similar matters such as the US OFR. FIBO covers all legal entities and financial instruments and therefore may be a useful place to start. See http://www.omg.org/public_schedule/. The EDM Council resources are posted in its semantics repository <http://www.edmcouncil.org/semanticsrepository/index.html> (under Business Entities). We understand the EDM Council would be pleased to provide further information or explanations.

form that can be readily reconciled for public disclosure. They are not subject to the same control processes as quarterly figures, which are necessary to ensure data are properly reconciled and checked for quality. These aggregated figures would therefore have to be on a reasonable-efforts basis.

- **Confidentiality.** It is understood that the Data Hub is committed to maintaining the confidentiality of information and has taken substantial steps to safeguard it; however, given that each Phase of the data gaps project is understood to raise separate legal and perhaps practical problems of safeguarding confidentiality and meeting data-protection requirements, it will be important to have a clear statement of the confidentiality analysis and safeguards that apply to data submitted for Data-Hub purposes, including specifically Phases 2 and 3. This should be in the interest of all concerned and will help banks manage confidentiality and data-protection issues that come up for them. Similarly, each national authority collecting information for transmission to the Data Hub should provide a statement of applicable confidentiality and data-protection considerations to banks supplying information through them.

The Associations and the industry generally look forward to further consultations on Phases 2 and 3. We would really find it very helpful to have a regular process for industry members to be informed of milestones along the way, as this will help keep development plans on track, and keep managements informed of progress and requirements.

As always, the Associations appreciate the opportunity to comment and hope to continue the dialog as the Phase 2 Guidelines are finalized and Phase 3 preparations are undertaken. We would be happy to arrange a conference call to discuss our comments if you wish.

Very truly yours,

David Schraa
Regulatory Counsel
Institute of International Finance

David Wagner
Executive Managing Director
The Clearing House

David Strongin
Managing Director
GFMA

