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Secretariat of the Financial Stability Board
c/o Bank for International Settlements
CH-4002
Basel, Switzerland
baselcommittee@bis.org

Dear Sir/Madam:

Re: CBA¹ Response to FSB's Consultative Document: Standards and Processes for Global Securities Financing Data Collection and Aggregation

The Canadian Bankers Association (CBA) welcomes the opportunity to provide its comments on this FSB consultative document.

The CBA believes that the depth and detail of the proposed data gathering exercise represents a very ambitious undertaking whose success will depend on consistent and reliable reporting from a broad range of institutions. As the proposed data collection and aggregation framework could require a significant increase in banks' internal resources and substantial manual effort, we suggest that the FSB consider narrowing the scope of this initiative to focus more directly on data elements that relate to systemic risk. For example, we believe that a focus on asset class trends in repo finance, liquidity, and leverage concentrations would be very helpful. By contrast, the proposed trade/position level data may result in an excessive level of detail.

We would also like to note that CBA members are often regulated by multiple authorities that may have similar securities financing data collection and aggregation frameworks already in place. We suggest that the FSB consider these other reporting requirements in order to reduce any unnecessary overlap and duplication. Further, the CBA also requests that the FSB strive to integrate this data collection and aggregation initiative with the BCBS's Principles for Risk Data Aggregation and Risk Reporting (RDARR) to the maximum extent possible.

¹ The Canadian Bankers Association works on behalf of 60 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 280,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions and works with banks and law enforcement to help protect customers against financial crime and promote fraud awareness. www.cba.ca.

Our specific comments on the consultative document and the questions contained therein are included in the attached Annex.

We would be pleased to discuss these comments with you further at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Dawn Hamel". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Attachment

ANNEX: CBA's SPECIFIC COMMENTS ON FSB CONSULTATIVE DOCUMENT

FSB Consultative Document: Standards and Processes for Global Securities Financing Data Collection and Aggregation

2.1 Data elements for financial stability

- In regards to the sentence on metadata on page 3 (“...data elements will be based on and complemented by a comprehensive dictionary of data definitions (metadata)...”), the CBA would like to note that metadata is a requirement of the BCBS RDARR Principles initiative and will be consolidated and delivered as part of that process.

2.2 Definitions of data elements

- The CBA suggests the FSB provide a more detailed definition of “flow data”, as the current definition is somewhat unclear to CBA members.
- In section 3.3 of Table 3 (Sector of the reporting entity), we believe that hedge funds, regulated mutual funds, UCITS, and private equity funds should be identified.
- We would encourage the FSB to achieve greater consistency of the data elements in Tables 2, 3, and 4.
- The CBA would like to note the complexity of the data elements and seek greater clarification on whether the data elements are at a position or counterparty level.
- The CBA requests clarification as to why haircuts (section 4.13 in Table 4) are segmented into the two buckets of ‘corporates and other issuers, including government securities’ and ‘securitized products, equities and other assets’.
- We suggest that the FSB draw a distinction between “firm finance” transactions, where an institution is using securities finance trades to generate liquidity, cover shorts, or source specific securities to meet internal inventory requirements, and “client finance” activity, where reverse repo trades are used to provide leverage and monetize counterparty investment portfolios, as the motivation for the trade will affect the haircut and pricing.
- The CBA seeks clarity on why only the reverse repo cash leg flow data is required for reporting (and not for repo, securities, and margin lending).

2.2.1 Repurchase agreement and sell/buy back operations

- The CBA seeks clarification with regards to the following statement on page 6: “Specific guidance will be provided for particular cases such as callable bonds, tri-party substitutions and other forms of collateral turnover.”

2.2.2 Securities lending and borrowing

- The CBA believes that securities lending should be limited to non-cash trades as cash collateral/loan positions under securities lending agreements are similar in risk characteristics to repos/reverse repos.
- We also note that agent securities lending presents unique risks relative to principal trading.
- Assuming “re-use” means re-hypothecation, it is operationally difficult/impossible to track/report the allocation of re-used cash collateral; however, total value of re-hypothecation (without allocation) should be available.
- The CBA seeks clarification as to why there are no flow data requirements for securities lending.
- Section 5.2 in Table 5 (page 14) states, “Including all open positions...”. We would like to note that this entails a large number of line items and that no such element is included in repo/reverse repo tables.
- We note that the data elements do not seem to address position concentration, largest issuer holdings, equity position relative to average daily trading volume, etc. We believe that measures of liquidity are quite important to risk assessment.

2.2.3 Margin lending

- With regards to prime broker balances, we note that total return swaps with initial margin provide similar economics to prime brokerage and reverse repo financing.
- The CBA notes that certain required metrics regarding margin lending collateral data is practically difficult to classify, such as collateral type, quality, residual maturity, re-use and market value.

3. Data architecture

- As some CBA members operate securities financing businesses in multiple jurisdictions, we suggest that the FSB clarify which “national/regional authority” would be responsible for aggregating the data.

3.2.2 Data confidentiality

- Data confidentiality is a major concern of CBA members. Given the regional reporting framework and the relative position of any given bank in the Canadian market, reporting under this framework could make a bank’s positions effectively transparent to the market.

3.3 Double-counting

- We suggest that arrangements be made to identify and exclude related company

transactions, as large banks may frequently engage in repos/reverse repos/securities lending among affiliates.

4. Recommendations for national/regional data collections

- The CBA believes that the thresholds for materiality should not be defined by national/regional authorities as this could lead to inconsistent reporting and “materiality” being defined differently across regions. Alternatively, a global standard for reporting could be set for securities financing activity exceeding a certain amount on a gross basis (on and off balance sheet).
- In general, the CBA encourages the FSB to achieve a high level of consistency in reporting across jurisdictions to maximize the comparability and usefulness of the data.

5.2 Loan Data

- We believe that loan data should also be used to evaluate tri-party concentrations, which is an important systemic risk issue. A mismatch in maturities could create significant market dislocation in times of stress.

5.3 Collateral Data

- We believe that asset class funding trends would provide valuable information to risk officers managing large securities financing exposures. Evaluation of asset financing trends, in particular structured products, would be very useful in understanding a bank’s relative position in the market. Haircut trends for structured product financing (e.g., RMBS, CMBS, CLO, ABS) would also be very useful data.

Q2-1. Does the proposed definition of repos provide a practical basis for the collection of comparable data across jurisdictions as well as the production of comprehensive and meaningful global aggregates?

Yes.

Q2-2. In a later stage, a list of transactions that are economically equivalent to repos may be added to the reporting framework (see also Section 6 for details). Which economically equivalent transactions would you suggest for future inclusion? Please provide a definition of such transactions and explain the rationale for inclusion.

The CBA does not suggest any economically equivalent transactions for future inclusion for the following reasons:

- OTC transactions are already subject to stringent reporting requirements;
- last resort lending facilities (FED discount window, ECB standing facilities, etc.) are not part of normal market operations, and hence do not need to be included for regular reporting; and,
- banks will book and report cash transactions as repos.

Q2-3. Are the proposed definitions and level of granularity of the data elements described in Tables 2 to 4 appropriate for a consistent collection of data on repo markets at the national/regional level and for aggregation at the global level? In particular, are the detailed breakdown of major currencies (in Table 2), sector of the reporting entity and counterparty as well as bucketing for repo rate (in Table 3), collateral residual maturity, haircut and collateral type (in Table 4) appropriate? If not, please specify which definitions or classifications of data element(s) require modification, why the modification is necessary, and the alternative definitions/classifications.

Yes, they are appropriate.

Q2-4. Do you see any practical difficulties in reporting the total market value of collateral that has been re-used? Do you have any suggestion for addressing such difficulties?

No, the total value of collateral re-hypothecation should be available.

Q2-5. Do the classifications provided for “market segment – trading” (in Table 3) and “market segment – clearing” (in Table 3 and 4) appropriately reflect relevant structural features of the repo markets? Are there additional structural features of repo markets that should be considered?

Yes. No additional features are needed.

Q2-6. Are there additional repo data elements that should be included in the FSB global securities financing data collection and aggregation for financial stability purposes? Please describe such additional data elements, providing definitions and the rationale for their inclusion.

No.

Q2-7. Does the proposed definition of securities lending provide practical basis for the collection of comparable data across jurisdictions as well as the production of comprehensive and meaningful global aggregates?

Yes.

Q2-8. In a later stage, a list of transactions that are economically equivalent to securities lending may be added to the reporting framework (see also Section 6 for details). Which economically equivalent transactions would you suggest for future inclusion? Please provide a definition of such transactions and explain the rationale for inclusion.

None.

Q2-9. For securities lending, do you think that an additional table with flow data would add insights into the operations of securities financing markets and assist regulators in their financial stability monitoring?

As indicated earlier, the CBA seeks greater clarification regarding flow data.

Q2-10. Are the proposed definitions and level of granularity of data elements as described in Tables 5 to 6 appropriate for consistent collection of data on securities lending markets at the national/regional level and for aggregation at the global level? In particular, are the detailed breakdown of major currencies (in Table 2), sector of the reporting entity and counterparty as well as bucketing for securities lending fees or rebate rates (in Table 5), residual maturity (in Table 5), collateral residual maturity and collateral type (in Table 6) appropriate? If not, please specify which definitions or classifications of data element(s) require modification, why the modification is necessary, and the alternative definitions/classifications.

Yes, they are appropriate.

Q2-11. Do you foresee any practical difficulties in reporting the total market value of collateral that has been re-used or cash collateral reinvested? Do you have any suggestion for addressing such difficulties?

No, the total value of re-hypothecation without allocation should be available.

Q2-12. Do the classifications provided for “market segment – trading” (in Table 5) and “market segment – clearing” (in Table 5 and 6) appropriately reflect relevant structural features of the securities lending markets? Are there additional structural features of securities lending markets that should be considered?

Yes, they are appropriately reflected.

Q2-13. Are there additional securities lending data elements that should be included in the FSB global securities financing data collection and aggregation for financial stability purposes? Please describe such additional data elements, providing definitions and the rationale for their inclusion.

No.

Q2-14. Does the proposed definition of margin lending provide practical basis for the collection of comparable data across jurisdictions as well as the production of comprehensive and meaningful global aggregates?

Yes.

Q2-15. In a later stage, a list of transactions that are economically equivalent to margin lending may be added to the reporting framework (see also Section 6 for details). Which economically equivalent transactions would you suggest for future inclusion? Please provide a definition of such transactions and explain the rationale for inclusion.

None.

<p>Q2-16. Are the proposed definitions of data elements as described in Tables 7 to 9 appropriate for consistent collection of data on margin lending at the national/regional level and for aggregation at the global level? In particular, does the collection of the data elements in table 9, which represents a specific requirement for margin lending, provide relevant information for financial stability purposes? Do you foresee any particular difficulties to reporting the required data elements at the national/regional level?</p>
<p>Yes, they are appropriate. However, granular level information required on margin lending can be operationally difficult to obtain.</p>
<p>Q2-17. Are the detailed breakdown of major currencies (in Table 2), sector of the client and bucketing for loan rates (in Table 7), collateral type and bucketing for margin requirements (in Table 8) and funding sources (in Table 9) appropriate? If not, please specify which definitions or classifications of data element(s) require modification, why the modification is necessary, and the alternative definitions/classifications.</p>
<p>Yes, they are appropriate.</p>
<p>Q2-18. Is the collection of the data on the customers' short position, in addition to the value of outstanding loans, a necessary metric for assessing the overall clients' exposures and for financial stability purposes? Do you foresee any practical difficulties to report this data element at the national/regional level?</p>
<p>As the purpose of securities financing reporting is to assess market stability, we do not believe this is a necessary metric as all short positions are longed in the system by another party.</p>
<p>Q2-19. Are there additional data elements in relation to margin lending that should be included in the FSB global securities financing data collection and aggregation for financial stability purposes? Please describe such additional data elements, providing definitions and the rationale for their inclusion.</p>
<p>No.</p>
<p>Q3-1. Is the data architecture described in Section 3 adequate to support the global securities financing data collection and aggregation? Are there other relevant issues to be considered?</p>
<p>Yes, it is adequate.</p>
<p>Q3-2. Do you have any other practical suggestions to reduce any additional reporting burden and improve the consistency of the global data collection?</p>
<p>No.</p>
<p>Q3-3. Do the proposed measures for minimising double-counting at the global level constitute a practical solution to the problem?</p>
<p>Yes.</p>

Q3-4. Are there any confidentiality issues that you consider relevant for the global securities financing data collection other than those explained above? If so, please provide any practical suggestions to overcome such issues?

No.

Q4-1. Do the proposed recommendations as set out above adequately support the authorities in deriving meaningful global aggregate data? Are there any other important considerations that should be included?

Yes.

Q6-2. Are there other data elements in relation to securities financing transactions that you think the FSB should consider for financial stability purposes?

No.

Q6-3. Do you agree that a pilot exercise should be conducted before launching the new reporting framework? If so, are there any practical suggestions that the FSB and national/regional authorities should consider when preparing the pilot exercise?

Yes, the CBA would support a pilot exercise. We suggest that the FSB consider providing a finalized template for the pilot run, constructing “production like” portfolios, and allowing reporting entities to use firm specific portfolios to conduct a second pilot run before the new reporting framework is launched.

Q6-4. In your view, what level of aggregation and frequency for the publication of the globally aggregated data on securities financing transactions by the FSB would be useful? Please provide separate answers for repo, securities lending and margin lending if necessary.

As monthly reporting and aggregation is operationally difficult, we strongly suggest a quarterly to semi-annual reporting schedule.