

August 21, 2015

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

Re: Financial Stability Board Common Data Template Workgroup; Revised Phase 3 Template

Dear Mr. Tracy:

The Clearing House Association L.L.C. (“**The Clearing House**”) and the Institute of International Finance (the “**IIF**”, and collectively, the “**Associations**”)¹ appreciate the opportunity for ongoing dialogue among the Financial Stability Board (the “**FSB**”), global systemically important banks (“**G-SIBs**”) and the Associations regarding the Phase 3 template (the “**Template**”) for purposes of the FSB International Data Hub’s (the “**IDH**”) proposed collection of granular and comparable Institution-to-Aggregate consolidated balance sheet data (the “**Proposal**”). In particular, we believe that the May 15, 2015 FSB International Workshop on a Common Data Template, as well as various other prior discussions among the FSB, G-SIBs and the Associations concerning the Proposal, have represented positive steps in the development of a more effective and efficient data gathering exercise. We also understand that the FSB plenary IDH group will be meeting again in September.

The Associations support the efforts of the FSB and national authorities to collect relevant information that enables them to monitor global systemic risk. Nevertheless, despite improvements from earlier iterations, we remain very concerned that the Proposal and the Template, in their current form, retain a number of impractical elements and insufficiently balance the substantial costs of collecting many of the proposed data points with the supervisory benefits to be derived from analyzing such elements in light of the objective of the Proposal. In furtherance of the continuing deliberative process between the industry and the FSB, which we appreciate and hope will continue in a constructive manner, we set forth below our principal concerns regarding these aspects of the Proposal. These concerns reiterate and build upon our previous discussions and comment letters in this area, including (i) the letter from the various U.S. and international industry groups, including the IIF and The Clearing House, dated October 21, 2013 (the “**2013 Letter**”), a copy of which is attached as Annex B hereto, and (ii) the IIF’s letter, dated June 4, 2015, amplifying aspects of the discussions at the May 15, 2015 FSB International Workshop on a Common Data Template (the “**2015 Letter**”, and collectively, the “**Comment Letters**”), a copy of which is attached as Annex C hereto. This letter reiterates our concerns

¹ See Annex A attached hereto for a description of each of the Associations.

regarding particular elements of the Proposal and the draft Template, as well as more generally addresses the (in our view) unjustified burdens that the Proposal and the Template would impose on G-SIBs, given the likely low marginal utility of many of the very extensive data set elements requested by the current draft Template in light of the FSB's stated objectives.

As we previously indicated in the Comment Letters and prior discussions with the FSB and national regulatory authorities, we believe the Proposal and the Template should, at minimum, be modified as follows:

- The number of country crossings required should be reduced from 35 to no more than a maximum of 10. As discussed on pages 6-7 of the 2015 Letter, the reduced number of countries would result in a much more cost-effective process while providing nearly the same substantive coverage as the current proposal.
- Wherever possible, the Template instructions should be consistent with the local reporting form, such as the FR Y-9C in the U.S. or FINREP in the EU, and subject banking organizations should have an opportunity to comment on revised instructions before they are finalized and implemented, as set forth on page 3 of the 2015 Letter. The reasons for any differences in the instructions from such local reporting forms should be explained in the instructions.
- We support the notion that G-SIBs should be permitted to report on the basis of their respective local accounting standards in order to decrease regulatory burdens and costs associated with the Proposal, as indicated on pages 4-5 of the 2015 Letter—for the U.S. G-SIBs that would mean U.S. GAAP; for other G-SIBs, IFRS.
- A number of definitions for purposes of the Template require clarification, including the definitions of "Deposits", "Netting Agreement", "Real Estate Loans" and the other terms listed on page 4 of the 2015 Letter. Likewise, the intended treatment of central clearing counterparties and whether exposures of branches are aggregated with the home country exposure of the entity as discussed on pages 5 and 8-9 of the 2015 Letter, respectively, should be clarified as the Proposal and the Template are finalized.
- As described on page 5 of the 2015 Letter, additional reference data, such as sectors, should be standardized based on existing definitions to the greatest extent possible. For example, the revised final Template should confirm that the non-bank financial institution categories need not be disaggregated, and Phase 2 should be conformed to a simplified, revised Phase 3 Template. Ideally, we believe that the FSB, working in coordination and consultation with the industry, should develop a set of globally standardized sector definitions.
- Consistent with the comments on pages 5-6 of the 2015 Letter, we continue to support the elimination of crossings for derivatives because implementing these data elements would be unduly burdensome and provide little incremental analytical value. Furthermore, we don't believe the breakdown of Derivative Nominal Amounts between Assets and Liabilities, as contemplated by the draft Template, provides meaningful analytical value beyond what is captured by reporting total Derivative Nominal Amounts by product.

- Contingent positions should be eliminated for the reasons outlined on page 7 of the 2015 Letter. For U.S. G-SIBs, certain contingent positions are reported on Forms FR Y9-C and FFIEC 009. However, they do not include reporting of Commitments Received and Guarantees Received. Reporting of these contingent positions will require additional substantial information technology systems development efforts for all G-SIBs without, we believe, a corresponding material benefit to the overall substance of the data being gathered for purposes of the IDH.
- The maturity bands should be consolidated by, for example, combining “less than 3 months” and “3 months and less than 1 year” into a single band. This would have a significant positive impact on the data quality review, reconciliation and analysis that each G-SIB will have to perform and therefore help ensure that the FSB gathers better quality data in a more efficient matter.
- The FSB should provide additional substantive guidance and examples with respect to the reporting of deposits insured by guarantee schemes, particularly as applied to cross-border banking. As set forth on pages 9-10 of the 2015 Letter, reporting by country may be logistically challenging and the ability to provide this information with accuracy will require still further significant information technology system development. As such, if this information is to be required in the final Template, we believe it would be appropriate to allow for reporting this information on a best-efforts basis using certain assumptions.

The foregoing issues necessarily highlight the Associations’ more general concern that the various elements of the Proposal and the Template, in the aggregate (and, in some instances even individually), would impose substantially increased costs on G-SIBs resulting from collecting, maintaining and reporting the very large amounts of data that would be required, even after the initial development efforts, which would be substantial and especially demanding in light of the many other data reporting and information technology-related requirements banks, and G-SIBs in particular, are required to meet by their regulators.

Existing information technology and data reporting systems will require significant modifications to produce much of the required data included in the Proposal as the requirements are different from other data reporting currently required. Current processes, procedures and controls would also need to be revised to deal with these requirements in their current form. If the Proposal is finalized without appropriate limitations as recommended in this letter and the Comment Letters, G-SIBs will need to devote disproportionate management attention and information technology time and expense to the development and maintenance of systems and the new data collection processes that, in many cases, will be required in order to obtain the level of detail requested, thereby creating significant opportunity costs by diverting important resources from other crucial endeavors, such as the liquidity coverage ratio, supervisory and internal stress testing, recovery and resolution requirements and other applicable regulatory and management requirements. Simply put, management attention and information technology resources and expertise are not infinite in the face of increasing regulatory reporting and data requirements and G-SIBs should not be required to divert their focus from such crucial endeavors absent significant incremental benefit to the FSB and national supervisors. Although banks would face substantive development programs for any version of Phase 3, the implementation of

the recommendations made in this letter would at least ameliorate our significant concerns regarding the considerable burdens imposed.

Another way that the FSB can help ameliorate the cost-benefit mismatch inherent in the current Template would be to adopt an implementation plan that gradually phases in reporting requirements such that G-SIBs would be required to report crossings for a limited number of countries and currencies (*e.g.*, only five countries and two currencies) in the first two years.² Maturity bands should also be phased in on a consolidated basis during the two-year period. Such phased-in implementation and reduced scope would provide a number of benefits by:

- allowing G-SIBs time to develop and improve internal systems and confirm compliance with internal reporting requirements for reporting the data elements required by the Template in a more rational and cost-effective manner;
- giving additional time to determine which data elements will be “high cost and low value” in nature;
- providing the FSB and the industry an opportunity to assess the substantive usefulness of the data being collected, as well as to allow for greater understanding of the structure of the new data to be required; and
- providing insight into which data elements are consistently being reported blank or with small numbers by various G-SIBs during the phase-in period, thereby suggesting that the usefulness of reporting those data elements is limited and those data elements should therefore be excluded from the Template.

In addition, appropriate reporting materiality thresholds should also be applied to all required data elements as to avoid the need to report non-material items and therefore reduce incremental implementation costs, as noted on page 3 of the 2013 Letter.

To reiterate, we remain fundamentally concerned that, despite some incremental progress since the introduction of the Proposal, the sheer volume of the data still requested in the Template casts doubt on the effective marginal utility of many of the requested data elements to achieve the objectives of the Proposal, especially in light of the costs of gathering so much data. We respectfully submit that the FSB’s goals could be met by a more proportionate and measured approach, as suggested herein and in the Comment Letters. Before including any particular data element in the Template, the FSB should satisfy itself (and provide its analysis to the industry for feedback and additional dialogue) of the materiality of particular data elements to the overall goal of monitoring systemic stability and the ways in which such information will be used to monitor systemic risk.

² While we recognize that we initially discussed a phased-in implementation effort including up to 10 countries, the vast amount of data reporting still required by the draft Template leads us to conclude that a further reduction in the number of countries and currencies to be included initially will provide a more targeted and useful set of responses in connection with the phase-in of other reporting requirements.

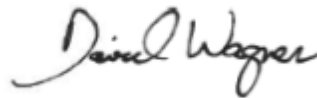
Unfortunately, many of the specific data elements requested in the Template have not heretofore been adequately explained or justified.³

Finally, implementation of the Proposal and the Template should not be required by the FSB and national authorities until at least one year following final adoption by national regulators of the final Template and instructions, so as to provide G-SIBs with the appropriate time to finalize investment plans and undertake the significant task of developing and testing the appropriate reporting systems to provide the information to be required by the final Template.

* * *

The Associations appreciate this opportunity to share with you our concerns regarding the Proposal and the draft Template and we look forward to continuing our mutual dialogue in connection with the August 25 meeting of the Common Data Template Workgroup and thereafter. Please do not hesitate to contact us if we can be of further assistance in this matter.

Respectfully submitted,



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The Clearing House Association L.L.C.



David Schraa
Regulatory Counsel
Institute of International Finance

cc: Svein Andresen
Financial Stability Board

Pietro Franchini
Financial Stability Board

³ For example, Instrument-Sector crossings with immaterial balances (*e.g.*, Securities borrowings-Households, Reverse Repo-Households, Securities Lending-Households) should be eliminated from the required data set as previously noted on page 2 of the 2015 Letter.

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Bank of England

Patrick McGuire
Bank of International Settlements

Michael S. Gibson
Board of Governors of the Federal Reserve System

William Treacy
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Sally Davies
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Martin Pfinsgraff
Office of the Comptroller of the Currency

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ANNEX A

The Associations

The Clearing House

Established in 1853, The Clearing House is the oldest banking association and payments company in the United States. It is owned by the world's largest commercial banks, which hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing — through regulatory comment letters, amicus briefs and white papers — the interests of its owner banks on a variety of important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing and settlement services to its member banks and other financial institutions, clearing almost \$2 trillion daily, which represents nearly half of the automated clearing-house, funds transfer, and check-image payments made in the United States. See The Clearing House's web page at www.theclearinghouse.org.

Institute of International Finance

The Institute of International Finance is the global association of the financial industry, with close to 500 members from 70 countries. Its mission is to support the financial industry in the prudent management of risks; to develop sound industry practices; and to advocate for regulatory, financial and economic policies that are in the broad interests of its members and foster global financial stability and sustainable economic growth. Within its membership the IIF counts commercial and investment banks, asset managers, insurance companies, sovereign wealth funds, hedge funds, central banks and development banks. For more information visit www.iif.com.

ANNEX B

Copy of the letter from various U.S. and international industry groups, dated October 21, 2013



October 21, 2013

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

Re: Financial Stability Board (FSB) Common Data Template Workshop

Dear Mr. Tracy:

The Institute of International Finance (IIF), the Global Financial Markets Association (GFMA), The Clearing House Association L.L.C. (TCH), and the Federation of Finnish Financial Services (FFI) (together, “the Associations”) very much appreciate participating in the October 2-3 workshop on Phases 2 and 3 of the FSB G-SIB Common Data Template (CDT), organized by the FSB Data Requirements Workstream (DRW). In this letter, we provide comments and feedback on both the CDT approach and process and the technical details of the templates, which amplify or add to the comments made at the workshop.

This letter starts with a reiteration of the major themes the industry raised at the workshop, followed by detailed discussions of our comments on the Phases 2 and 3 templates.

Major Themes

The following major themes are based on points made at the October 2-3 workshop on behalf of the Associations’ members in attendance. While these themes reflect members’ priority concerns, other points raised in the detailed discussion are also of importance, and we ask for your attention to them.

Purposes of the Common Data Template. It became apparent during the discussion on October 2 that the DRW is thinking in terms of two separate purposes for the CDT: (a) improving internal bank practices with respect to data gathering and aggregation; and (b) providing the basis for systemic-risk analysis, supporting both micro- and macro-prudential perspectives. The Associations believe the FSB should focus on the latter, which responds to its G20 mandate. The supervisory task of defining goals for banks’ internal risk aggregation practices is amply covered by the Basel Committee’s *Principles for Effective Risk Data Aggregation and Reporting*, which has been the subject of a major Basel diagnostic survey and an implementation meeting with the industry on the week

following the Workshop. The task of defining and providing an appropriate basis for systemic risk analysis is large and requires the DRW's full attention. Although of course the Senior Supervisors' Group and the supervisory community should remain actively involved in the DRW's work, the specific supervisory and industry-practices goals should be left to the Basel and national regulatory processes.¹

Timing and Sequencing. The implementation timing that we understand the DRW has in mind is very aggressive. Whereas six months for implementation seems to be envisioned, the industry believes it is essential that the industry be provided at least 12 months from final publication of the templates (including all necessary data requirements) before required reporting begins to be implemented. A reasonable timeframe is required owing to the IT development challenges the project poses (on top of many other demands made on banks), and because of the need for firms to agree and implement internal vetting and data governance processes that will help to assure quality standards, ensure data privacy, and allow management to understand, review, become comfortable with, and approve the reporting required. Furthermore, proceeding at a more measured pace would also allow the FSB to evaluate the usefulness of the information provided.

Moreover, the successful implementation of the templates could be greatly enhanced by further sequencing of the required data elements. This could be achieved by allowing for appropriate sub-phases of the Phase 2 and Phase 3 templates (notionally Phases 2A, 2B, 3A, 3B, etc.) to be required over a longer timeframe. We include specific examples at several points in this letter where this approach would be very effective. Such refined phasing would make the development required more reasonable; allow for better data quality; give banks time to build the requirements into their other relevant processes and quality checks; give the Data Hub the opportunity to understand the data required and assess usability, further needs and capabilities; and avoid potential blockages or bottlenecks along the way.

For example, requirements to report connected counterparties pose numerous systems, governance, and legal challenges. In many countries, there is no legal basis for banks to require information about exposures from non-consolidated entities defined as connected counterparties. Staging implementation of the non-consolidated affiliates requirement and allowing this aspect to be reported at a later date would greatly facilitate initial development efforts and allow firms to begin reporting consolidated information more effectively. Specifically, reporting could be confined to the consolidated group in the first year, deferring any requirement to include data of non-consolidated affiliates until it is better understood whether and how the data can be obtained, taking into account all legal and operational issues.

Another approach to phasing-in would be to allow at least the first sub-phase to be conducted on a best-efforts basis, which would accommodate varying development schedules and needs across banks.²

Additionally, we encourage the DRW to consider scope adjustments as the templates are implemented, with the objective of better facilitating implementation. For example, the DRW could

¹ The IIF has also done work on industry data practices, for example the report issued with the assistance of McKinsey & Co. on *Risk IT and Operations: Strengthening Capability* in July 2011.

² As noted below, some elements of the reporting may need to be permanently on a best-efforts basis, if banks are asked to produce information from non-consolidated affiliates that cannot be compelled from such affiliates.

limit the scope of the reporting requirements for Phase 2A to not more than the top ten counterparties (or perhaps the top X% of liabilities, but not more than the top ten counterparties).³ Over time, the Top N could be increased as the DRW determined need and usability of the data. Of course, any increase of N should be subject to a cost-effectiveness analysis to make sure that additional requirements would make an appreciable difference in the achievement of the purposes of the Data Gaps Initiative: more requirements that would add only very small increments of information might well be found disproportionate or unnecessary.

Finally, the industry strongly endorses the idea of piloting the templates as a means to ensure the best data collection process possible is put in place. However, we strongly suggest that the DRW reconsider the timing of the proposed pilot reporting and more clearly define its scope before compliance is required. Rather than ask that a pilot be complete *after* the finalization of the templates, we think a well-conceived pilot program during the *development* phase would much better serve the overall outcome of the program. Asking for a pilot to be completed in advance of finalizing the templates would allow the DRW to assess the effectiveness of the data-collection process, including identifying any problems with definitions, and make amendments to the data request and to identify real problem areas that could be roadblock to success.

The Associations urge the DRW to plan for periodic meetings or conference calls with the industry to discuss findings from pilot submissions, assess progress, identify issues, and solve problems.

In summary, modifying the timing and sequencing of the template implementation would go a long way in aiding the success of the project. The Associations strongly recommend that the DRW phase in the more challenging and the more granular aspects of the proposed reporting.

Scope. While we have concerns about the burdens of producing and the need to understand better the usefulness of the data requested in both Phase 2 and Phase 3, we have particular concern with the data requested in the Phase 3 templates as described further in Section II below. We believe it is critical that the DRW work with the industry in determining the data elements to be included in the Phase 3 templates so that the FSB obtains the data it needs to monitor systemic risk and the burden on banks is minimized as much as possible. Further discussions may be helpful to determining the most cost-effective way to obtain the data that would meet the overall goals of the Data-Gaps Initiative.

Materiality. Materiality considerations need further consideration as the CDT is refined. We do not believe that full quantitative accuracy down to the last dollar should be the goal of this undertaking. While we understand the need to collect more and more granular data for financial stability monitoring purposes, timely collection of granular data – and hence decision making – can be enhanced by appropriate materiality standards. Materiality considerations therefore can help achieve the goals of the CDT, whereas not making proper allowance for such considerations would tend to undermine them by overburdening the development process.

³ We understand that the EBA requires the top 1% of total liabilities for comparable reporting.

Usefulness. Although the documents and the workshop included strong reasons for collecting the data, the industry remains concerned that actual plans for its usage remain in a nascent phase and, therefore, it is in all parties' best interests to implement the data collection in a carefully organized and credible fashion, demonstrating the real need for particular data before it is included in the CDT. Phasing the project as suggested would assist the FSB to assess actual needs and purposes, and it would support the overall integrity and feasibility of the project to be sure that reporting of all data is actually needed and can be used effectively, to avoid unnecessary costs and burdens to all parties.

Use of LEI. As discussed further below, the industry is highly committed to the full use of Legal Entity Identifiers ("LEIs"), which are now fairly widely available and globally accepted. It is difficult to see any reason not to mandate use of LEIs, and to avoid any kind of alternative definition of identifiers by the Data Hub, as seemed to be planned.

Metric. For non-USD based banks, the requirement to report in USD seems an unnecessary complication, one that, from what was said at the workshop, could be easily avoided. Conversion of non-USD reports to USD at the Data Hub would have the advantage of making data more consistent by basing it on standard conversion rates.

A number of other points of concern are included in the detailed discussions that follow.

Detailed Discussions

I. Draft FSB Data Templates for Funding Dependencies (Phase 2)

This section refers to the Preliminary Technical Note for the draft templates for Phase 2 (the "Phase 2 Technical Note")

Effectiveness and Efficiency of Data Collection

We understand that the DRW has determined that no existing sources provide the global scope or the granularity needed for the purpose of filling the G20 data gaps; however, we urge the FSB to continue analyzing other current reporting requirements with the goal of identifying duplications and overlaps with other supervisory and central-bank data requirements. Among other things, this seems appropriate because other data requirements are being developed concurrently, it is possible that some synergies are being missed, and that good coordination in the development stage over the next couple of years could yield significant improvements that could be leveraged, while reducing burdens on industry and supervisors alike.

For example, there is significant concern in the industry that the European Banking Authority (EBA) and the European Central Bank (ECB) requirements including the Guidelines on Financial Reporting Framework and Guidelines on Common Reporting now being developed should be capable of being leveraged to a greater degree than seems to be planned. In addition the European Systemic Risk Board (ESRB) has massive data needs that are being built into EBA data collections. See Appendix 1 for further examples.

We understand from the workshop that national supervisors would like to use a single data collection process to satisfy both the proposed data template effort and existing reporting (IBS or

possibly domestic requirements) thereby eliminating certain current reports once the FSB reports are available. We urge the FSB and DRW to be very vigilant about identifying such opportunities and we hope that national supervisors will actively seek opportunities to eliminate reports that may become redundant or unnecessary, not allowing inertia to continue reports that aren't really needed.

Several members have noted the similarity of the proposed reporting to Basel III liquidity requirements. While it is understood the CDT is not intended to measure Basel liquidity compliance, similar trade and customer-attribute information is required for assets, liabilities, derivatives, and off-balance-sheet transactions. These developments have been finalized or are in course; therefore as much convergence with such data requirements as possible would provide substantial efficiencies for banks, and consistent and therefore more useful information for regulators.

Timing and Sequencing

The Associations appreciate that the DRW is aware of the serious challenges posed by numerous simultaneous IT and data development demands currently facing financial firms, including the EU and national requirements mentioned above.

The lead-time for Phase 1, Top 50 was very short. However, certain national regulators had been collecting Top 20 information for a few years prior to the Top 50 reporting, which helped ease implementation. Realistically, given the newness and depth of the proposed data requests, Phase 2 and especially Phase 3 will require much more manageable lead-times, good pilot testing and appropriate coordination with other international and domestic developments (including the Basel risk-data aggregation requirements; recovery and resolution planning; Basel III implementation requirements for both capital and liquidity; collateral management requirements arising from new margin and CCP mandates; new public reporting requirements; etc.).

Most immediately, the timelines for Phase 2 look highly challenging to the industry. The suggestion that the template would be finalized by the end of 2013 and submitted to the Hub Governance Group, SSG, FSB, etc. for approval in Q1 2014 sounds aggressive. Even more aggressive is the idea that the industry would be allowed only six months to begin reporting after finalization of the template.

IT development needs will vary from bank to bank and jurisdiction to jurisdiction, but in no case should be underestimated. Given the need for firms to do their own internal data quality checks and subject the new reporting to their data and risk governance procedures, and given that senior managements will need to understand and be assured of the quality of data to be delivered a pilot after three months and final delivery after six is not realistic. Such deadlines are unrealistic for the most sophisticated banks and even more so for emerging-market banks.

Subject to the suggestions on phasing made below, at least a year's lead time should be allowed from final publication of the template requirements (including all necessary data definitions, etc.). It would be helpful if the first reporting phase could be permitted to be on a best-efforts basis, as developments are likely to be ongoing and still challenging at that stage.

As stated earlier, we agree with the idea of a pilot data collection (which might also be called a supervisory diagnostic or a quantitative impact study) as a means to check on the availability,

usefulness and quality of the data (as opposed to assessing the accuracy of the data). However, we do not agree that the pilot should occur after finalization of the templates, as has been suggested. We think a pilot should be conducted during the development phase to optimize the overall integrity of the program.

Banks would strongly prefer not to develop a full systems solution to meet the requirements before a pilot is done. Running a pilot before full finalization would allow banks to give feedback, identify problems, look at the appropriateness and precision of definitions, etc. For more challenging parts of the proposal, such as the look-through requirements in Phase 3, the pilot would be an opportunity for banks and supervisors to understand the process and its challenges better, and perhaps to find more efficient and cost-effective solutions together. Similarly, it would be useful for the Data Hub Governance Group to consider operational issues of the definition of consolidation and of the level of granularity required before locking them in.

As the timelines for Phases 2 and 3 are being determined, we request that the DRW work closely with the industry to define the scope, scale, phasing and reasonable timelines for the project, including coordination with other efforts.

Realistic expectations are essential to avoid creating serious information overload and operational risks, to assure data quality, among other things by allowing banks' the time to apply their normal internal data-quality and governance procedures, and to assure that FSB data requirements are well integrated in banks' other data efforts, avoiding duplication and allowing leverage for other uses where possible.

Scoping

We encourage the DRW to consider scope adjustments as the templates are implemented, with the objective of better facilitating development. For example, the DRW could limit the scope of the reporting requirements for Phase 2A to not more than the top ten counterparties (or the top X% of total liabilities, but not more than the top ten counterparties). Over time, the Top N could be increased as the DRW determined need and usability of the data.

Especially if information is going to be required off of normal reporting cycles, the challenges will be substantial, most acutely at the beginning. The DRW should among other things keep in mind the experience with the original Top 20 counterparty data, where lack of data quality ultimately drove a change in the frequency of reporting from daily to weekly. It is no small task to report off-cycle data in a short time frame with high accuracy. For this reason, it would make a lot of sense to define a reasonable number of top funding sources, no more than ten, at least to start, and allow banks to develop processes and systems to report the required information. Starting on a relatively limited basis, with an opportunity to expand later would both allow banks to do the required developments in a more manageable way and allow national authorities and the FSB (as well as banks) to become accustomed to the reporting and assess what information is really needed.

For secured counterparties, it makes sense to differentiate repos where there is an active market for the collateral from others: this is not necessarily a matter of whether the collateral is "high quality" but whether the market is active, so that counterparties can be changed readily. That said, the industry has doubts about whether as many as 30-50 counterparties would need to be captured for the non-repo portion. The solution to the appropriate number of other secured

counterparties would be (a) to begin with a small, reasonable number and (b) consider later whether transition to a larger number is appropriate once some experience with the reporting is gained. This may be an issue where a bank's supervisor should be allowed to determine the material number applicable given its business model, subject to principles to be established by the Data Hub Governance Group.

Consistency of definitions

While we understand that Phase 2 is not intended to provide the basis for assessing LCR or NSFR compliance, we still have doubts whether definitional and scope issues are as consistent as they could be with the Basel liquidity requirements (including the other liquidity risk monitoring tools suggested by Basel in addition to the LCR and NSFR). Among other things, maximizing congruence will reduce the need to explain differences, both from supervisory and analysts' perspectives.

The same principle applies more widely: the CDT should use wherever possible widely-used standard definitions in the industry⁴ and the FSB should use the project to catalyze further standardization as much as possible, in close coordination with the Basel Committee, IOSCO, national offices with data-definition responsibilities, and other relevant bodies, such as the ISO. Without the use of common definitions, the utility of the data supplied at a minimum would make results uncertain, and at worst could lead to incorrect policy decisions.

Operational definitions can also make a tremendous difference. An example is the definition of the counterparty country. The EBA is asking for counterparty country of residence, whereas the FSB refers to "location." Clarity is important because legal residence may be different from the place of administration, especially for entities such as funds, securitization vehicles, some insurance companies, etc.⁵

Ultimately, the resource challenges faced by banks to develop systems to meet the Phase 2 and 3 template requirements, plus the many other developments expected of banks would be eased by the development of a common taxonomy for all firms and all G20 authorities.

Furthermore, as stated in industry comments in the original consultations on the Data Gaps Initiative, it would be very helpful for the FSB to work closely with the industry on standardization of definitions, and the industry stands ready to invest the time needed in the process. The Legal Entity Identifier project offers a good precedent.

Legal Entity Identifier

The accurate identification of counterparties is widely recognized as a critical element for enhanced systemic risk monitoring and management. The G20 states: "We support the creation of a global legal entity identifier (LEI) which uniquely identifies parties to financial transactions." (Cannes Summit Declaration).

⁴ For example, the FSB may consider reviewing the possible use of the common financial language being developed by the Enterprise Data Management Council (EDMC) and Object Management Group (OMG).

⁵ See System of National Accounts Sect. 26.41.

The DRW is well aware of this initiative and its potential use in the FSB Data Gaps Initiative and the proposed CDT. However, at this time, the DRW has not mandated the use of the LEI as the sole choice of identification of counterparties within this data collection initiative.⁶ We suggest that this would be a missed opportunity for incorporating a valuable tool for unambiguous entity identification into this important effort around systemic risk analysis. Even worse, by not requiring the use of the authoritative LEI in this project, the DRW runs the risk of making data aggregation and systemic risk analysis more difficult and less accurate.

We understand that the DRW may not as of the time of the workshop have noted the full availability of LEIs. The fact is, with the October 3, 2013 Regulatory Oversight Committee (ROC) endorsement of three pre-Local Operating Unit (LOUs) – WM DatenService, CICI Utility, and INSEE – the regulatory community now has the opportunity to require companies to obtain an LEI from any of these entities for use in regulatory reporting and other regulatory purposes.⁷ To be clear, these entities can issue an LEI to any entity in the world that will be globally accepted by the regulatory community⁸.

In our view, the FSB and DRW have an excellent opportunity to further the goal of creating a robust LEI system given the scope of this project. By mandating the use of the LEI for any counterparty identified in the templates, legal entities who have not already done so will need to obtain an LEI, and the FSB will have taken a huge step forward in promoting the use and scope of the global LEI system to expand the collective benefit from widespread adoption of a globally unique LEI for all legal entities.

The interim system exists to support this requirement today. Likely, by the time reporting is actually implemented, the Global Legal Entity Identifier System (GLEIS) will be fully operational and will no longer be in an interim state. As such, we urge the DRW to take a leadership role, under the auspices of the FSB, and *require* the use of the global LEI – and only the global LEI, where possible, to identify counterparties within the templates data requirements.

Aggregation Issues

Definition of Affiliate. The extension of the proposed reporting outside of consolidated groups is problematic from a number of points of view. Contrary to the suggestion made, IFRS 12 does not offer a solution to the problem of identifying non-consolidated affiliates or “connected counterparties” for purposes of the templates. As discussed in detail below, there are, moreover, serious operational and legal problems with attempting to include data relating to non-consolidated “connected counterparties.”

To respond to the suggestion made in the Phase 2 Technical Note, note that there are substantial operational difficulties with the idea of using IFRS 12 to identify related but non-consolidated entities. IFRS 12 is quite new and those banks that use IFRS are still working on its implementation; moreover, the IASB plans a review in 2015-16, which could result in changes. The

⁶ The draft Template on Funding Dependencies specifically states, “Provide the code identifier of the reported counterparty. The code identifier is unique and either based on the LEI, or if not available, on a unique identifier approved by the home supervisory authority.”

⁷ See DTCC announcement at http://www.dtcc.com/news/press/releases/2013/cici_roc_lou.php.

⁸ Note that INSEE will only issue to French companies, however the CICI Utility and WM Datenservice will issue globally.

extensive disclosures required about interests in vehicles are relevant to the issue of affiliation, but do not in themselves provide a basis for deciding whether an affiliate should be included as such for CDT purposes. IFRS 12 on its own is not likely to solve the problems of non-consolidated affiliates under the current Phase 2 proposal. Of course, banks not using IFRS would face additional issues if reliance were placed on IFRS 12 for this purpose.

As a result, it would be very helpful to have clear guidance about how to identify non-consolidated affiliates for reporting purposes. We understand from the workshop that a revenue test might be under consideration (e.g. a mutual fund or other entity would be considered affiliated if earnings from the business line are shown in the group's financials), but it was not clear whether this would be the basis of guidance or whether such a test would be determinative or merely indicative.

Similarly a control test was suggested. While we might support a control test, given the use of regulatory consolidation, clarification is required. Even if clearly identified, the problems of producing information about such entities described below would remain, however.

1) *Template A – Connected Counterparties*

Template A requires that “Entities providing funding to the reporting firm should be aggregated globally across all business lines and all entities for which the parent provides an explicit guarantee or implicit support” and that “funding received from counterparts should thus be reported:

- under the ultimate parent company name and aggregated as a single entry when funding is provided by banking or financial entities included in a banking group (supervisory consolidation scope) of the funds provider;
- under the name of each individual SPV and Mutual Fund, aggregated as separated entries, when the funding provider is either affiliated to the firm or not included in the banking consolidation scope reported under the previous bullet.”⁹

The industry has significant concerns with this requirement. It would be nearly impossible for banks to determine if the entities providing funding to them have relationships with unconsolidated, but affiliated, entities that need to be aggregated under the ultimate parent name or otherwise separately reported. Banks do not have full access to other G-SIBs’ full hierarchies – consolidated or unconsolidated – especially when vehicles such as SPVs are considered.

The industry strongly suggests that the DRW defer the requirement for capturing these unconsolidated but affiliated relationships until the DRW can provide guidance on how such determinations can be made. For example, it was suggested at page 7 of the Phase 2 Technical Note that the Data Hub develop a *central register of “affiliated” conduits* to ensure easier and harmonized reporting.

2) *Template B- Holdings of Tradable Debt Securities Issued by Other G-SIBs*

⁹ Phase 2 Technical Note, pp 4-5.

Obtaining information about holdings of non-consolidated affiliates from non-consolidated affiliates is a huge challenge for all banks, but its dimensions vary by jurisdiction, given legal and regulatory constraints, as well as the way in which systems have been developed within local law and practice. In some jurisdictions, banks are restricted in their ability to obtain the type of information required from non-consolidated affiliates (such as MMFs) by firewall and information-protection laws and regulations. In no case is it obvious that the persons responsible for the governance of non-consolidated affiliates would be willing to deliver information (perhaps for concerns for their fiduciary responsibilities). Such issues arise even for non-consolidated affiliates that are managed by consolidated affiliates (but which generally have independent trustees or directors), and the problems are further complicated by custody arrangements, which are often outside of the reporting group.

It is suggested that it might be easier for the authorities to obtain such information from the non-consolidated affiliates directly; however, if the banks must collect it, time will be required for legal analysis and development of channels through which to obtain information (if possible), and for negotiations with such affiliates (assuming agreements reached comply with existing contracts, laws and regulations), which, a priori, have no incentive to deliver the information to banks or to make the investments needed to do so on an expedited basis.

Aside from the legal and governance issues surrounding obtaining the information needed for Template B from non-consolidated affiliates, any such reporting will require new IT developments in many instances, for which allowance must be made.

There is an unresolved issue about what to do about counterparties that may be affiliated with two or more banking groups, without being consolidated with any of them. This is a relative detail but one that may cause significant confusion unless clear guidance is provided. Among other things, such a register of affiliated conduits would presumably resolve the attribution problem arising when a vehicle is affiliated in some sense with two or more financial institutions, but not consolidated with any of them.

Again, the complexities arising from reporting involving non-consolidated counterparties provide a perfect example of a point where further phasing of the Phase 2 project would make sense: it would be best to start with consolidated groups only, allow reporting to proceed on that basis, then plan for an orderly transition to the more ambitious goal of including non-consolidated affiliates after the definitional and operational issues have been resolved. It is likely to be necessary to permit collection of information from non-consolidated affiliates, if retained in final requirements, on a best-efforts basis, given banks' inability to control the delivery process from such affiliates in many cases. Banks can only report available information and most often cannot compel non-consolidated affiliates to deliver it.

Frequency and Time-Lag

The frequency and time-lag discussion on page 4 of the Phase 2 Technical Note is very important and the decisions taken will have major effects on firms' data production burdens.

We can understand the potential need for banks to demonstrate the ability to make information available on a daily basis during a stressed period; however, under normal circumstances, less-frequent reporting should be sufficient, and more reasonable intervals would

help a great deal in routine production process (including internal quality checks and governance). The EBA will be asking for LCR data on a monthly basis, with a 30-day time lag during the first year (i.e. in 2014, which is also the targeted implementation year for Phase 2) and a 15-day lag after that. For the list of top 10 funding sources, the EBA has proposed monthly reporting (of a more limited set of data) within 30 days. It is therefore difficult to see why the FSB should not align with that approach, especially since the EBA template is less complicated and less granular than that of the FSB.

The DRW is well aware of the tradeoffs between accuracy and frequency of reporting, and in general a monthly schedule with a reasonable time lag would be appropriate for normal times. Even if audited “balance-sheet quality” is not required, as was said at the workshop, firms’ needs to observe appropriate data-quality procedures, with data governance and management sign-off should be taken into account, and cannot be rushed for normal-state production (urgent reporting during stressed times being different of course). It is inescapable that data produced on a reasonable schedule, with adequate time to check and scrub inputs, will be of higher quality than data produced on a shorter schedule. The DRW should understand that increasing frequency immediately increases reporting burden and risks lower accuracy. As noted above, experience with the original Top-20 counterparty reporting indicated the need to opt for the more feasible frequency of regular reporting.

Even if the DRW decides on a weekly frequency (which would be unnecessary in our view), as suggested at page 4 of the Phase 2 Technical Note, weekly reporting should be a medium-term, not immediate goal. It would be much more manageable to start with a monthly requirement, with a clearly planned transition process to phase in more-frequent reporting over time (and to phase in other complex requirements, as suggested elsewhere in these comments). Among other things, this would create the opportunity to evaluate whether greater frequency for regular reporting is really necessary or useful in relation to the volume of data created, given that many types of data will tend not to change very rapidly. Such process for further evolution should of course involve industry consultations at appropriate decision points.

Even a five-day time lag seems aggressive for many purposes, and is important to make possible reasonable quality assurances. As noted above, the EBA is planning to require substantially more manageable lag times for comparable reporting. For normal-time reporting, with full internal controls, a two-week time lag is conventional and seems adequate for many purposes (among other things because many data items do not change so rapidly); of course, that does not preclude more rapid reactions when needed. Perhaps, if it is determined to be necessary for compelling reasons, a five-day time-lag with a possible migration to a three-day lag could be envisioned at some point in the future, if needed. Again, it would be reasonable to start with a requirement consistent with current practice and transition over time to a tighter timeframe if needed.

For the avoidance of doubt, we reiterate that the reservations expressed in this section on frequency and time-lag of production of data on a regular basis are without prejudice to the recognized need to be able to produce data on a daily basis when circumstances require.

Reporting Cycle

The workshop included fairly extensive discussions about the issue of whether reporting for these purposes should be on a similar cycle to other reporting or not.

The idea of reporting as of the last Wednesday of a reporting period (as suggested at page 4 of the Phase 2 Technical Note) or perhaps the middle of the month instead of the end of the month was troubling to many in the industry because of the quality and cost-effectiveness benefits that using normal data feeds and review processes could provide.

On the other hand, it was understood that the DRW had reasons not to want this reporting to be aligned with the normal month-end processes, partly related to a desire to differentiate this reporting, partly (perhaps) because of concerns about variations of the underlying data (e.g., deposit spikes) that may be anticipated to occur at month ends.

On the whole, the industry believes that the quality and comprehensiveness advantages of using normal reporting cycles would far outweigh any conceivable disadvantages, and urges the DRW to reconsider reporting cycle issues before finalizing the templates. The easiest solution, at least initially, will be to report on the basis of what banks are used to reporting; further evaluation of the need for and cost-effectiveness of a different cycle should be done before any final decisions are taken.

This is one of the several areas where it would be advisable to start requirements reasonably aligned insofar as possible with current requirement and practices, and then move to a more aggressive approach (such as off-phase reporting) at a later stage, after banks have had the chance to do the incremental developments required and to plan for additional procedures that would be required as a result of non-alignment, assuming that the need for the specific approach is confirmed.

Where a national supervisor requires daily reporting in special situations, thought should be given to the issue of definition of the “day”, a group operating on a global basis will necessarily need to make some arbitrary decisions on how to define the “as-of” date for reporting, which would not necessarily align with the dating conventions of other groups; similarly, legal banking days will differ across countries and some convention for managing the differences would be most helpful.

Issues Applicable to Decentralized Groups

To respond to the question on page 4 of the Phase 2 Technical Note, groups that operate on an “archipelago” basis with independently funded national or sub-consolidated groups (sometimes separately listed) with distributed data gathering and data processing have special issues. Given local, stand-alone funding and risk management, on the whole, reporting at the sub-consolidated level would make more sense for them, both substantively and in terms of convenience. It is of course appropriate for them to discuss consolidation and reporting sub-groups with their supervisors, as they do on a regular basis in any case.

For such groups, for liquidity purposes, the appropriate subconsolidated groups will often be those within which liquidity can be freely distributed, without substantial impediments of local ring-fencing requirements.

If group reporting were nonetheless required for such firms, a monthly schedule with reasonable lead times would be highly desirable, given limited rollup of sub-consolidated information at the top of the group, except when extraordinary procedures are in operation. Some of such banks will provide separate, detailed comments of their own.

For avoidance of doubt, we add that for the many other groups that operate on a more integrated basis, it is essential to keep the focus of FSB reporting at the consolidated level as proposed, and certainly not to add further complication by any requirement of sub-consolidated reporting within integrated groups.

Here again, clear data definitions are needed at the product level. Specificity will be needed to get comparable data. For example, would US GSEs be counted as sovereign for these purposes or not?

FX Swaps

FX swaps related to funding purposes are not included in the current proposal. The FSB asks at page 9 of the Phase 2 Technical Note what guidance would be needed if these were to be included. We note that FX swaps do not provide “new funding” to the firm, and therefore they may not necessarily be appropriate in the data gaps template as currently conceived. Reporting FX swaps in the template might give rise to double counting, with both the original cash that has been borrowed and the subsequent FX swap included in the report.

If the FSB decides to include FX swaps in Template A, they should be included as a separate memorandum item to avoid problems with double counting, and limited to funding-related swaps. FX swaps should only be considered part of a bank’s funding activity when they are clearly used to manage FX risk as part of funding activities. Various forms of FX swaps may be executed to manage risk on the funding activities of a bank. For example, FX cross-currency swaps can be used by a USD-based bank to hedge the FX risk associated with non-USD Long Term Debt. These swaps are usually linked to specified debt issuances, often in a FAS 133 recognized hedge accounting relationship. Such swaps tend to be longer term maturities (over one year), and should be easily identifiable as swaps associated with “funding activities” on behalf of the bank.

A bank may also use shorter term FX swaps to manage the short term funding and liquidity needs of a bank’s non-home-currency business activity. However, they are often used to hedge the FX risks associated with the non-home-currency funding requirements across all activities of the bank, including deposits, loans, investment portfolio activity, and cash deployment at central banks. Such swaps are managed on an aggregated basis, are not usually linked to a specific funding instrument, and typically do not have individual hedge-accounting relationships established. Such FX swaps are still managed as part of the “funding” activity on behalf of the bank, but would require different identification principles to assure consistent reporting, which would need to be worked out.

In some banks, internal trades between the treasury desk and the trading desk can be treated as FX swaps for funding purposes. However, the trading desk typically has full discretion to cover the internal transaction fully or take positions. Hence, it will often be hard to identify the counterparty for funding-related FX swaps.

In the case of both longer- and shorter-term swaps as discussed above, reportable swaps should be separately identified for reporting purposes as part of funding, distinguishing them from general client trading activity.

It is important that if there is a decision to gather data on FX swaps, they should be included in a separate and later phase of the data collection, in part because further study is required that has been possible in the short time available to prepare this letter to establish that the principles stated above would apply broadly to all banks and because (again) of the analysis and IT development needs that doing so would impose.

Commercial paper (CP)

The Phase 2 Technical Note states that Template A aims to support the identification of a firm's largest funding providers by "collecting the firm's main counterparties that can be reliably identified on a range of selected funding instruments." Funding sources for which the ultimate counterparties cannot be easily identified (e.g., tradable debt securities) are excluded from Template A. Instead, Template B aims to complement Template A by capturing this information from the asset side of G-SIB funding providers.

However, CP is included in Template A and the FSB assumes that it is held to maturity by the initial purchaser (see pages 1-2 of the Phase 2 Technical Note). Therefore, the Associations would like to clarify whether this assumption means that the FSB expects banks to report CP based on initial purchasers. It would be challenging to identify the ultimate holder of CP because it is typically sold on by the initial broker-dealer purchaser; although it may be true that CP sometimes does not trade actively in secondary markets, its initial placement is often in a highly competitive market and banks generally do not have systems-based or complete information on what entities are purchasing it at a given time. In many cases, it is not customary or feasible to obtain such information from the placing brokers. The alternative might be to exclude CP from Template A and include it in Template B to get information on G-SIBs' holdings of other G-SIBs' CP. This is the same approach the FSB has taken for asset-backed CP.

Collateral Swaps

The Phase 2 Technical Note asks if collateral upgrades should be included in the sorting basis. Collateral upgrades do not provide the firm with any funding; they simply provide the firm a different class of asset necessary to manage its collateral availability. We are concerned that, as the collateral upgraded may often be repoed, transactions would be counted twice, both in secured funding and in collateral upgrades.

The FSB wants to capture collateral swaps where the reporting firm receives level 1 liquid assets in exchange for level 2 or other less-liquid assets. However, it should be noted that if a firm receives level 1 liquid assets, they will only be reported as such in the LCR if the maturity of the upgrade trade is longer than the 30-day LCR window. If the trade matures in less than 30 days, then the level 1 liquid assets do not meet the LCR requirements and the firm is then simply left with level 2 assets.

As a result of these complexities, either collateral swaps should be omitted from the template (which would help toward reducing its complexity and the developments required), or, at the least, a separate category should be created, as suggested at page 9 of the Phase 2 Technical Note. If a separate category were to be created, further discussions would be required to enable all concerned to understand how it would work and to evaluate the feasibility of the reporting required.

Materiality

We appreciate that the DRW is aware of the importance of materiality issues, as indicated in the preliminary draft technical notes; however we are concerned about the suggestion made at page 3 of the Phase 2 Technical Note that “materiality rules can lead to an underestimation of the full funding amount.”

Materiality has to do with efficiency and effectiveness of data gathering. For such a macro project as the CDT, full quantitative accuracy is neither possible nor sensible as an objective. It is understood that much more granular data is sought, but setting appropriate materiality standards is a way to enhance that goal, not detract from it.

For example, with respect to sources of funding, a relatively high materiality threshold is likely to be appropriate for most groups; beyond the most significant funding sources, the importance of specific individual providers of funds is likely to become much less important (although sectors may be significant); for groups with widely dispersed funding, the size of the funding provided from other categories will in itself reflect such dispersion.

The question at page 3 of the Phase 2 Technical Note asks for suggestions as to identification of the materiality threshold, and asks how reporting groups can explain to supervisors the non-significance of statistical gaps arising from the application of materiality rules. As in most other areas, materiality needs to be defined in reference to the facts and circumstances applicable to a given firm, and thus would best be left to be defined by banks during the phase-in pilot period, under control of their national supervisors, as part of the phase-in pilot process. The general expectation of the industry is that statistical gaps arising from the application of materiality rules would not be significant, but the analysis similarly depends on facts and circumstances and so should be left for discussion with each bank’s supervisor.

With respect to *materiality rules for aggregation of connected counterparties*, we are again troubled by the “working assumption” stated at page 8 of the Phase 2 Technical Note “to avoid such rules to prevent a potential underestimation of funding relations.” A better working assumption would be that appropriately calibrated materiality rules always improve the efficiency of reporting, with little downside for the meaningfulness of the data reported.

Where *amounts* are required to be provided, almost any reporting or disclosure standard would allow some disregarding of non-material amounts, which will not matter for a specific institution, let alone the system overall. We understand from the workshop that the intent is to allow banks to use their normal materiality thresholds as to amounts. This makes sense from many points of view, but it might help to include an explicit statement to that effect.

Metric

In response to the question at page 14 of the Phase 2 Technical Note, firms that do not maintain their accounts in USD are strongly of the view that the FSB would be better advised to require delivery of the templates in each group’s home currency. We understood from the workshop that there would be no substantial obstacle to having the data hub do the conversion to USD for analytical purposes. That being the case, it would make a lot of sense to proceed on that basis, among other reasons because that would assure that all non-USD is converted to USD at the

same rate, whereas asking banks to report in USD will inevitably result in data converted at different times and rates, adding an element of non-comparability to the reporting that seems completely unnecessary.

Residual Maturity Bands

The proposed residual maturity bands set out at page 14 of the Phase 2 Technical Note include an “overnight” band, including non-maturity products.

The term “overnight” needs to be more precisely defined. “Overnight” is often used in the money markets to refer to an instrument maturing on the following business day, taking into account one or more holiday calendars (e.g., a EUR vs. USD cross-currency repo traded in London, and subject to UK holidays) and settled in Singapore, could take into account four or more sets of holidays, and include from one to five calendar days as its original term.

It is unclear whether the term as used here includes on-demand transactions; open transactions; term trades with one weekday to expiry; all “overnight” trades (as discussed above) or “overnight” trades with one day to expiry. Would a cross-currency “overnight” repo of four days’ original term and three days residual go into the “1W exceeding overnight” band rather than the “overnight” band? It follows that, without clarifying guidance, “overnight” might include funding that is contractually maturing or withdrawing the following day.

Differences of Phase 1 and Phase 2 reporting

In Phase 1, data requirements have been set for GSIB’s to provide Top 50 exposures on a weekly basis (Asset side). The DRW is asking in Phase 2 to have the Liability side Top N counterparties reported, which in many cases might be expected to be the same number (Asset GSIB A versus Liability GSIB B). In practice, however, this will probably seldom be the case because of time-zone differences, definition-issues, inaccuracies, discussions between banks etc.

Given these limitations, it needs to be understood that the FSB should not require the industry to do reconciliation of the two, nor would it in our view make sense for the FSB to try to perform reconciliations between the Phase 1 Top 50 reports of one GSIB’s assets versus the counterparty’s Phase 2 Liability report.

This comment is made only to manage future expectations, but should be noted in finalizing the report, to avoid future misunderstandings. Balances between banks can be based on a great number of underlying transactions from a great many underlying entities and reconciliation efforts would likely be very complicated.

Legal Restrictions

Legal restrictions on transmittal of data remain an issue in many important jurisdictions, such as Singapore. Even within the EU, there are data-transmission issues and, of course, transmission of confidential data outside of the EU requires very careful legal analysis and management. We understand the FSB is analyzing such issues, but it would be useful to have authoritative guidance from the FSB as to applicable legal restrictions that remain.

Of course, national regulators will discuss the analysis of legal issues with their banks, but centralized intelligence on legal restrictions from the FSB would help make the process more efficient and more consistent. Eventually, of course, the industry hopes the FSB can work with national authorities to reduce such restrictions.

Usage

Although we appreciate the care taken in the documents and in the workshop to discuss the planned usage of the data, concerns remain about the utility of data that will require a great deal of effort and investment to produce, at a time of many other data requirements. We understand from the workshop that the Data Hub Governance Group is just beginning the process of defining planned usage of the data and the specifics of reports, and that it is likely to continue refining the suite of reporting over time. The phasing suggested elsewhere in this letter should help proceed with this process in an orderly way that could be well articulated with the development of data capabilities in the industry.

It would be very helpful for the industry to be kept apprised of thinking on usage of data over time, in order to understand the requests made and explain them to management. Furthermore, the industry would welcome consultation on evolving thinking about reporting.

As a related matter, the industry urges the FSB and the DRW to consider feedback of reporting to the industry, as well as to regulators. Given the investment made, the industry would like to leverage whatever benefits, either of a business or a risk-management nature, in order that it might be able to gain from such reports. Furthermore, both the FSB and the industry would benefit from discussing further the scope, definition, and usefulness of reporting, respecting of course the need of the official sector to keep some aspects of confidential it for macroprudential and microprudential supervisory reasons.¹⁰

For these reasons, and if possible to head off similar but perhaps differently scoped or defined reporting, the industry urges that the FSB keep in close contact during the definitional stage and also when full operation is reached with the ESRB and the US OFR.

If we understand the Data Hub Governance Group's procedures correctly, it sounds as though analytical reports could be devised to meet the needs of such macroprudential agencies, ministries of finance or other agencies, while protecting the confidentiality of the underlying data. If such reporting can be used to reduce future data requests by such other agencies, that would be most welcome.

As discussed under "Major Themes" above, the industry believes that the CDT project ought to be motivated by well-defined uses of the data for microprudential or macroprudential purposes, and that this complex goal should not be further complicated by trying to define internal data practices, an important purpose, but one best left to the Basel Committee and supervisors generally.

¹⁰ The requests in these two paragraphs are in line with the strategic imperative identified by the FSB and IMF to focus on effective communication of the policy use of the enhanced and new data emerging from the Data Gaps Initiative to meet the analytical needs of both the public and private sectors. See, FSB and IMF, *Fourth Progress Report on the Implementation of the G20 Data Gaps Initiative*, September 2013 ("Fourth Progress Report").

II. Draft FSB Template for Aggregated Consolidated Assets and Liabilities (Phase 3)

This section refers to the Preliminary Technical Note for the draft templates for Phase 3 (the “Phase 3 Technical Note”).

Overall, we have significant concerns about the amount and types of data requested on the Phase 3 or I-A templates given the cost of collecting, maintaining, and reporting such data relative to the assumed usefulness of the data. As noted in the “Applied Example of I-A Data Model” provided in advance of the recent workshop, banks could have to report up to 7,000 individual spreadsheets for the I-A Immediate Counterparty template alone. In many cases, banks would need to institute new data collection processes to obtain the level of detail requested. In light of the substantial number of financial reform initiatives across jurisdictions that also require major process and system changes, we request that the DRW work closely with the industry to define the scope, scale, phasing and realistic timelines for the project.

We would also like to emphasize that we have even more concerns about the burden and usefulness of the data requested in the Phase 3 templates than in the Phase 2 templates. Given the very short time for review of the draft templates, we were not able to explore the implications of Phase 3 and provide as many specific concerns and examples as we might have under different circumstances. As a result, we believe it is critical that the DRW work with the industry in determining the data elements to be included in the Phase 3 templates.

We believe that a guiding principle throughout this initiative should be to focus on collecting meaningful data that help meet a stated objective rather than collecting data for the sake of a “complete” data set. While some of the granularity of data in the Phase 3 templates, such as additional sub-categorization of counterparty sectors and credit risk transfer instruments, could be interesting and provide some theoretical value, we believe that the value provided by the enhanced IBS data set should be assessed first before deciding to collect data in even more granular ways. There is a real risk of “information overload” in the current environment where national regulatory bodies and international standards setting bodies are seeking to gather and analyze more and more data in hopes of more effectively managing and mitigating risk in the financial sector instead of focusing on enhancing the quality of the data that provides the most meaningful insight into the key drivers of risk.

Usage and Timing

The overall implementation timeline is aggressive, and the industry remains concerned that actual plans for using the I-A data are only in a nascent stage. While we appreciate the care taken in developing the documents and in the recent workshop to discuss the planned usage of the data, we still have concerns about the utility of data, especially given the volume and multidimensional nature of it and the great effort and investment that will be required to produce it.

As stated earlier and perhaps even more critical in Phase 3, we believe piloting the templates as a means of determining the availability, usefulness and quality of the data is of paramount

importance. Such a pilot should be conducted during the development phase so that the feasibility and value of collecting certain data is known before requirements are finalized. In addition, the industry would find it difficult to begin a pilot during 2014 with existing staffing given implementation efforts related to Phase 2 and other initiatives (e.g., COREP and FINREP) and needs at least 12 months from final publication of the templates before reporting is required.

On the issue of a quarterly reporting frequency with a seven-week time lag, we believe that a seven-week time lag could be challenging given other quarterly reporting requirements. For example, in the U.S., banks have quarter-end reporting obligations to the Securities and Exchange Commission (35-day reporting lag) and the Federal banking agencies (30-day reporting lag). Similarly, in Europe next year, banks will report quarterly to the EBA for COREP and FINREP, which have 30-day reporting lags. Given these quarter-end reporting requirements, banks will need at least a 10-week time lag for reporting on Phase 3 templates.

Materiality

As mentioned previously, we believe materiality considerations need to be addressed as the CDT is refined. This is especially important for the Phase 3 templates given the amount of information requested and the new reporting processes that will have to be implemented.

Scoping

As mentioned previously, we believe the successful implementation of the templates could be greatly enhanced by sequencing the required data elements (e.g., by dividing implementation of the templates into sub-phases, such as Phases 2A, 2B, 3A, 3B, etc.). For example, the DRW could begin a Phase 3A with the I-A IC templates and limit the scope of the reporting requirements to a two-way crossing and limited “buckets” in each (e.g., ten countries and five currencies) versus everything all at once given the significant burden associated with collecting the information and uncertainty of its value. The other reporting dimensions – instrument, sector, maturity – could be phased in (for example, as Phase 3B) to achieve the full five-way crossing, to ease the implementation burden on firms. The industry strongly encourages the FSB to evaluate the actual number of buckets ultimately needed in each dimension, as the DRW gains more familiarity with and understanding of the data to determine its needs and the usability of the data. In particular, we believe the proposal is ambitious in trying to collect the breakdown of exposures for 200 countries. We strongly encourage the DRW to request a limited number of countries, for example the top ten, and then consider the cost-effectiveness of adding additional countries. In other words, if the top ten countries provide the FSB with 75 percent of exposure and the next five countries provide 95 percent of exposure, then the benefit of collecting detailed data for another 185 countries may not justify the burden and cost. Reducing the number of buckets that need to be reported could help reduce the more than 7,000 individual spreadsheets to a more manageable number.

With respect to the I-A Ultimate Risk template, we believe this template should be scaled back in certain areas. While it could be fairly manageable to allocate guarantees and CDS, that would not be the case for “other credit risk transfer instruments.” In particular and in response to the question on page 18 of the Phase 3 Technical Note, using the “look through approach” to ABS would be extremely complex and require substantial manual efforts. In order to provide the level of information described in the Phase 3 Technical Note, banks would need to obtain detailed information on the structure of the securities from the trustee and then review and analyze that

information to make judgments on the allocation of exposures to sectors and countries. Such a process would be extremely time consuming and burdensome relative to the potential value of the data. We believe the first phase of the I-A Ultimate Risk template should include guarantees and CDS only so that the FSB can evaluate the usefulness of this type of information before expanding the scope.

Effectiveness and Efficiency of Data Collection

To elaborate on the comments detailed in section I, the Phase 3 I-A templates will cause significant additional reporting burden in particular for European banks. In July 2013, the EBA published the final draft of implementing technical standards on financial reporting requirements (FINREP). Within the FINREP framework, banks are required to report the entire balance sheet broken down by instrument, counterparty sector, counterparty country, and so forth. FINREP reporting is very similar to I-A reporting except that FINREP is based on immediate counterparties, not on an ultimate risk approach. The ultimate risk approach as proposed by the DRW creates an expensive and burdensome process for reporting banks.

The industry believes it is unreasonable that European banks would have to report similar balance sheet data to three different authorities with different data formats and concepts. We strongly urge authorities to avoid double or triple reporting requirements for very similar data. The industry recognizes the growing data needs of authorities, but at the same time authorities should keep in mind that producing similar data with different concepts and different definitions is extremely burdensome and expensive for reporters. At a minimum, definitions should be harmonized.

Data Granularity and Definitions

The Associations appreciate the FSB's phased approach to implementation, including phasing in additional data granularity over time. That said, current reporting requirements for IBS and the Basel III liquidity framework, among others, do not require the level of granularity proposed by the FSB, and many firms do not capture information according to this level of granularity or using the definitions proposed.

Moving to the level of granularity proposed by the FSB will take a substantial amount of work to align information systems and to change the way firms classify various data. This is the case for sector and financial instrument data and potentially for maturity, depending on the number and definition of categories. In addition, for the data related to affiliated companies requested in the Bridge template, there may be legal constraints around access to granular data that is not in the public domain (see comments under Aggregation Issues). In addition, as the scope of regulatory consolidation may change over time, flexibility may be required regarding the timeframe within which granular data can be obtained across the regulatory group.

To respond to the question on page 11 of the Phase 3 Technical Note regarding the granularity of non-bank financial institutions that banks can report, we want to highlight that banks do not currently hold data based on the illustrated sector breakdown (categorization into hedge funds, SPVs, mutual funds). Identifying such data accurately and completely would require significant changes to data input at the front office and related systems development. (Please also see comments under Template A – Connected Counterparties.) Rather than having banks try to collect

this data, a more efficient and effective approach would be to collect the data directly from hedge funds, mutual funds, and others through the securities regulators. As mentioned previously, we believe it is critical for the FSB to coordinate with other international bodies to identify duplications and overlaps with other supervisory and central-bank data requirements. Similarly, we believe the FSB should also seek to identify areas where data could be collected more efficiently and effectively through other regulators and work with the appropriate international bodies, such as IOSCO in this example, to collect such data.¹¹

With respect to the breakdowns and granularity requested on the I-A templates associated with country, counterparty sector, maturity, currency derivatives, credit risk transfer instruments, and contingent exposures, we would like to highlight that alignment and consistency between the various existing and emerging reporting requirements is paramount. The key to achieving meaningful, apples-to-apples data with the greatest potential efficiency is to ensure that the data collected across the different reports and data collection exercises are consistent in terms of definitions and in terms of breakdowns whether they are by country, sector, or financial instrument.

For example, we note that the maturity breakdowns in the I-A template are not consistent with the maturity breakdowns in the I-I funding template, and we believe that they should be. Using different definitions for maturity will add unnecessary cost and operational risk to banks' data collection efforts. In addition, reporting country breakdowns one way for the I-A templates and another way for COREP or another reporting initiative is inefficient and creates confusion.

On the question from the workshop about whether the reporting requirements are defined clearly, the industry believes clearer definitions are needed to make the reporting requirements operational. For example, on page 6 of the Phase 3 Technical Note, it states that the "reporting G-SIB should generally apply the same accounting standards that are required by the top entity's consolidated bank supervisor. In practice, this will mean that national accounting standards or IFRS will be applied." We interpret this to mean that banks should report based on national accounting standards or based on requirements defined by their respective supervisor, which could be different than national accounting standards. We also found the discussion of "Netting of assets and liabilities" on page 7 of the Phase 3 Technical Note to be confusing. The description that the "reporting G-SIB should exclude assets/liabilities vis-à-vis their consolidated affiliates (branches and consolidated subsidiaries), as the reported data should be consolidated at the banking group level" seems inconsistent with the description on page 5 that "[t]he reporting G-SIB should consolidate asset and liability positions at the top entity or the highest parent institution of the group that is subject to consolidated banking supervision."

Liabilities to Central Banks

To respond to the question on page 12 of the Phase 3 Technical Note about reporting on liabilities to central banks, we encourage the DRW to speak with central bank colleagues to understand whether they believe there are special considerations associated with such reporting.

Conclusions

¹¹ We believe such an expansion of IOSCO's role is consistent with IOSCO's other efforts to support the G-20 Data Gaps Initiative (see the FSB-IMF Fourth Progress Report, page 8).

The Associations hope for continued dialogue with the DRW about the complex and challenging Data Gaps Initiative. We believe close communication between the DRW and the industry is essential if the CDT initiative is to be a success.

The sense of urgency and concern is heightened by publication of the FSB-IMF Fourth Progress Report on the Implementation of the G-20 Data Gaps Initiative which appears to lock in an aggressive time table.

The Associations stress that comments herein, particularly regarding Phase 3, are preliminary and are likely to need amplification over time. Firms do not feel they have had enough time to analyze the implications of the proposed Phase 3 reporting fully, and probably do not as yet understand all its implications. As a result, the Associations may need to submit additional observations at some point in the future, and we suspect that a focused discussion on Phase 3 will be needed to discuss its full implications, after thinking about it is more developed.

The Associations would be happy to work on any further papers on specific topics that would assist the DRW in its work.

Very truly yours,



David Schraa
Regulatory Counsel, IIF



David Strongin
Managing Director, GFMA



David Wagner
Executive Managing Director
and Head of Finance Affairs, TCH



Esko Kivisaari
Deputy Managing Director, FFF

Appendix I

Specific examples of data duplication in Europe:

Example 1. FSB Phase 2 table A:

EBA published a Draft Implementing Technical Standards (ITS) on additional liquidity monitoring metrics (EBA/CP/2013/18)¹² on 23 May 2013. The proposed ITS aim at developing additional metrics other than those used to report liquidity coverage and stable funding requirements.

EBA ITS Annex III (template 2) seeks to collect concentration of funding by counterparty. To be precise, banks are asked to report top 10 counterparties greater than 1% of total liabilities. The proposed table is similar to FSB phase 2 table A. However, definitions differ. For example, country of the counterparty is based on location on FSB table but on EBA table it is based on residency. Harmonize the definitions and remittance dates is obviously of high importance so banks can build systems that are efficient and consistent.

It is unreasonable that European banks would have to report similar information with two different data collections to two different authorities. In addition to definitions, frequency and remittance dates should be in line with each other.

This is not to say that EBA requirements as such should be adopted by the FSB – there are severe problems with current EBA tables and European banks face numerous difficulties in attempting to report such data.

EBA tables for liquidity are still draft at this stage.

The urgent need is for the FSB to develop consistence on all these points.

Example 2. FSB Phase 2 table B:

For many years now, the ECB has been developing Securities Holding Statistics (SHS)¹³. ECB is collecting statistical information on a security-by-security basis regarding securities held by Euro-area institutional sectors, and securities issued by Euro-area residents and held by non-Euro area institutional sectors.

We see this being very similar to FSB table B. It is true that the ECB statistics are collected only from Euro area banks on solo basis, but we still urge authorities to use data that is already being collected. Euro-area banks, central banks and the ECB have invested enormous amounts of money to build securities-holding statistics. These efforts should not be neglected.

¹² <http://www.eba.europa.eu/regulation-and-policy/liquidity-risk/draft-implementing-technical-standards-on-additional-liquidity-monitoring-metrics>

¹³ http://www.ecb.europa.eu/ecb/legal/pdf/l_30520121101en00060024.pdf

ANNEX C

Copy of the letter from the IIF, dated June 4, 2015

David Schraa
Regulatory Counsel

June 4, 2015

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



Comments on the revised Phase 3 template

Dear Mr. Tracy:

The IIF Data Working Group is pleased to have the opportunity to provide further comments on the revised Phase 3 template. These comments follow up the very useful and constructive FSB International Workshop on a Common Data Template for Global Systemically Important Banks held in Basel on May 15. These written points are intended to be part of an ongoing dialogue, and the Working Group or individual members would be pleased to provide further input or answer any questions that may arise.

The FSB has introduced a number of changes to the template that are viewed positively by the industry. The suggestions made here are intended to facilitate finalization of the templates in a way that achieves the shared goals for these templates, within reasonable bounds of developmental and operational burden for the banks. The industry agrees with the statement made that getting the template right and achieving the purposes of the data hub are a “shared responsibility.”

Expedited Review and Timing. Despite the improvements in the present draft templates, compliance with all templates, including Phase 3, is still a massive task. Banks are working diligently on the necessary developments and making the necessary investments, but the efforts required should be understood when setting a timeline and kept proportionate to what is really useful. We know from the workshop that the FSB Data Requirements Workstream well understands this, but the point is so important as to be worth reiterating.¹

¹ Banks face many, many demands on their human and financial resources for IT development (including implementation of all the new Basel requirements, recovery and resolution requirements, implementation of completely new accounting standards (under both IFRS and USGAAP and consequent changes in other reporting such as FINREP), new reporting requirements under accounting, Pillar 3 and EDTF recommendations, and Basel Risk Data Aggregation requirements.

For that reason, the IIF Data Working Group supports the concept of the expedited review and hopes that it can be used to further the efficiency and effectiveness of Phase 3 by eliminating items that have disproportionately high cost or low analytical value. For example, elimination of Instrument-Sector crossings with immaterial balances (e.g. Securities borrowings – Households; Reverse Repo – Households; Securities Lending – Households) is appropriate.

The timing adjustments that the FSB Workstream is considering would be appropriate (at least a six-month extension) and may perhaps have to be made a bit more elastic than that.

Although one year from finalization may appear to be a good deal of time, it needs to be recognized that as long as requirements are changing, it is difficult for banks to plan to implement them, given scarce development resources, which make it difficult to invest in requirements that may change.² Thus, a year from finalization is actually a somewhat tight timeline, one that the industry may need to discuss again as implementation comes closer.

For example, assuming adoption of Phase 3 by the FSB in September 2015 and the need to put in place national procedural requirements for implementation could mean live submissions no earlier than fourth quarter 2016, or preferably first quarter 2017. However, this timing assumes that national agencies will be able to issue all the required final documentation promptly³, otherwise implementation will have to slip later. The FSB and national agencies should clarify this timing since banks need to have sight of final templates and timelines as soon as possible for budgeting and planning purposes.

A flexible, best-efforts, and voluntary pilot could be very helpful to both sides in understanding and structuring this new data. Such a voluntary pilot should be made available to interested banks once the templates are approved by the FSB and when reporting banks have implemented their solutions, but it should also allow time for final adjustments to the templates as well as further dialogue between the industry and the FSB if significant issues are uncovered.

In general, we urge the FSB to give reporting banks time to adopt and adapt to the templates before requiring more detailed versions. A version that includes the minimum amount of information that is necessary to address the FSB objectives should be introduced first, for example, as discussed below, 10 countries (subject to the threshold). After banks have gained experience in doing these minimum reports, more detailed versions of the templates may be considered. This will also give the FSB/IDH more time to reflect on what information is really

² One bank notes that it would normally need to have full, final requirements and documentation by the end of August, 2015 to meet the suggested timing.

³ The IIF Data Working Group was unclear at the Workshop about the extent of procedure required. For example, while a Notice of Proposed Rulemaking was not made for Phases 1 and 2 in the US, it seemed unclear whether that procedure would be deemed necessary for Phase 3.

useful, thus resulting in less disruptive reporting requirements for banks. Specific suggestions are made below.

As a related matter, as discussed at the Workshop, the time for quarterly submission of data should be reconsidered.⁴ Seven weeks' time for submission appears too short to some banks, especially at year-ends, as it comes on top of so many other things. An alternative might be to provide an outer limit of 90 calendar days, with the option for banks to report early if that works for their systems and aligns conveniently with other reporting obligations.

Development of Instructions. As will have been apparent from the Workshop, one of the pervasive issues is that the current instructions are too vague. Several specific points were discussed, but overall, the IIF Data Working Group would very much like to have the opportunity to discuss revised, detailed instructions this summer before finalization, as indeed was proposed at the Workshop. This will give both sides the opportunity to head off misunderstandings or questions and achieve better-quality outputs from the beginning.

Development of Definitions. In conjunction with the development of clear and unambiguous instructions, it would be very helpful to focus as a priority on the development of stable, harmonized, consistent definitions. The industry would be very willing to participate in specific discussions.

Building as much as possible on existing definitions, particularly those used in international standards such as Basel III, but also insofar as possible those already used for local reporting (such as FINREP in Europe or FR Y-9c in the US), would go a long way to making the data more manageable and reducing the need for manual intervention.

More broadly, as the FSB surely recognizes, requirements should be harmonized as much as they can be with current regulatory and statistical reporting, and stabilized as soon as possible. Deviations or additions inevitably increase the burden and risk of compromised data quality. From an international consistency perspective, and as a long-term aspiration, use of international standards, such as Basel III is desirable in principle, *but* it must be noted that this approach would result in numbers that are different from banks' published financial statements owing to differences between Basel III and accounting rules. The IDH should be cognizant of this issue and if it decides to follow an internationally consistent approach, any expectations of reconciling Phase 3 templates with the balance sheet based on local accounting standards must be relaxed, and the instructions should make clear that there will be differences between the numbers reported for IDH purposes and the balance sheet as reported publically or for local regulatory reporting purposes. Alternatively, some differences across banks would need to be accepted if they are required to tie to local standards or existing reporting (e.g. FINREP).

⁴ Table B1 of the Phase 3 draft guidelines (March 2015).

The final version of Phase 3 needs to make clear the policy on how to resolve this question, or there will be needless confusion and difficulties. To reiterate, the final definitions should hew as closely as possible to those banks are already using for other reporting, for efficiency and accuracy, and for the avoidance of inconsistencies.

A few of the definitions that require clarification include:

- *Pension funds*: should government pension funds be reported as “government” or as “pension funds”?
- *Deposits*: should deposits *from* central banks be classified as such, rather than being lumped in the “other” category with Lender of Last Resort obligations to central banks? The industry believes that in many countries ordinary-course-of-business deposits from central banks that are not related to emergency activity should be treated as such.
- *Currency Swap*. Is a “currency swap” the same as a “cross-currency swap”?
- *Investment Company*. Query whether the term is necessary, given the separate definitions of investment fund and NBFIs (“investment company” has specific technical meanings under US accounting and regulation, but the intent of the usage here is not clear).
- *Netting Agreement*. It should be clarified whether netting should be aligned to Basel III netting or accounting (raising the significant differences between US GAAP and IFRS); consistency could be achieved by using the Basel III definitions. While this seems a logical result from an international consistency perspective, this is an example where, as noted above, it should be realized that this approach would result in numbers that are different from banks’ published financial statements owing to differences between Basel III and accounting rules.
- *Real Estate Loans*. Some banks request further explanation of the term “real estate loans”, based on national practice. Does the reference to categorization of Real Estate Loans by type of collateral mean that any personal loan secured by real estate collateral should be so categorized?
- *Repurchase Agreements*. The current definition is based on the form of the transaction, which is different from the Basel III “repo style” definition; there are also differences from local reporting definitions. The instructions should clarify the intended definition.
- *USD Amounts*. Should the USD amount be converted according to the same procedures as for Phase 2?

Development of Analytics. Once Phase 3 is launched, the IIF Data Working Group is of the view that regular industry consultations with the FSB and the Data Hub may be useful, to consider the nature, utility, and implications of the data. As was mentioned at the Workshop, it may be that the industry would be able to contribute useful perspectives or methodological insights to development of analytics. In any case, this group will always stand ready to contribute to such an effort.

Standardization of reference data. As a general, ongoing principle, the IIF Data Working Group supports making every effort to standardize additional reference data, such as sectors. Standard, global sectoral definitions, which of course should be based on existing definitions to the extent possible, would be very helpful in the long run to achieve greater efficiency of production and reliability of data.

The IIF has long endorsed maximizing use of LEIs for all counterparty identification. LEIs should be rolled out as broadly and as required rapidly as possible where not already in use.

It may need to be reemphasized after the Workshop that the group supports aggregating the various NBFI sub-sectors into a single NBFI category, as this would mitigate the current challenges associated with having to report into more granular sector classifications.

The same aggregation of NBFI sub-categories should be extended to the Phase 2 template as well, as it is quite important to have consistency across templates. The current Phase 2 requirements are disproportionately challenging. The group cannot support a breakdown of the NBFI category that would be different from the current breakdown under Phase 2, but this problem should be solved by conforming Phase 2 to a simplified Phase 3.

CCPs. The intended treatment of CCPs needs to be clarified, given that some related data is provided in revised Phase 1, including the scope of information included (is it only OTC derivatives or other transactions cleared through CCPs as well?). As with other points, clarity about the purposes and uses of the information as well as clarity of definition of the requirements would be very helpful.

Derivatives. The Working Group supports the elimination of crossings for derivatives as the QIA showed that these are burdensome and problematic, and provide little incremental analytical value. Potential introduction of new details to the derivatives template should be considered in consultation with the reporting banks, to avoid raising the same issues as the eliminated crossings.

As was discussed at the Workshop, the industry would be able to supply a breakdown of OTC vs. exchange-traded and OTC cleared vs. OTC bilateral derivatives, which appeared to be of interest to the FSB, if in fact they would be valuable. Some banks would, however, require development time to accomplish this.

A specific issue has arisen regarding FX derivatives, which should be addressed in the revision of the instructions as discussed above: “currency derivatives should be reported at gross notional amounts”⁵, however for currency swaps and forwards the notionals are in different currencies

⁵ C.3.1 of the Phase 3 draft guidelines (March 2015).

and will diverge over time owing to exchange rate fluctuation, so which should be used? It is not feasible for many products to “use the currency you expect to get paid in” as that may change over time depending on market conditions.

Although the point may seem obvious, for the elimination of doubt, it should be made clear that the derivatives template is for reporting of principal transactions only, not agency transactions for clients.

The lesson of the QIA and the Workshop discussion is that close consultation with the experts in the industry will be needed to assure that derivatives templates are feasible and meaningful.

Country crossings. Although the reduction of the original scope to 35 countries is much appreciated, it still represents a major challenge for many banks, especially initially.⁶ As a result, the Data Working Group recommends that Phase 3 reporting start by requiring details on not more than 10 countries.⁷ More countries could be added later on as banks gain more experience reporting the template, and the Data Hub has the opportunity to review initial reports. It may also be that many or most banks would, even under the proposed rule, be reporting substantially fewer than 10 countries, which might suggest after analysis that the target number of 35 is higher than needed.

Although the industry understands the rationale behind using 35 countries subject to a \$2 billion threshold, as its first preference, the IIF Data Working Group still urges consideration of a stable list, unique to each bank. Such a list could be validated annually. This would be much more feasible and appears likely to provide almost the same coverage with lower development and operational requirements.

If the FSB nevertheless considers it necessary to use a variable list, targeted at 35 countries, subject to the threshold, then several banks would prefer a simpler procedure to identify countries on the list, whereby a country would be added in the next quarter after qualification (i.e. exceeding the threshold), and countries that no longer qualify would be subtracted with supervisory approval. This would reduce the tracking requirements of the “four quarters” approach.⁸ On the other hand, other banks would accept the tracking requirement because they feel a more stable list (as a result of the “four quarters” requirement) would be preferable. While there is not a consensus on this point, consideration should be given to ways to achieve a simpler and more stable approach to the list of countries.

⁶ Certain banks wish to note that the deviation from FINREP reporting implied in itself constitutes a burden and will create reporting inconsistencies.

⁷ As the FSB group intends, the \$2 billion threshold will operate to reduce the list for some banks to as few as 7-10 countries, even when the “35” target is fully activated.

⁸ C.1.4 of the Phase 3 draft guidelines (March 2015).

The potential for ad-hoc requests for detailed reporting for additional countries (in cases where there are adverse developments in such countries) that banks have to meet “within a couple of weeks of the request (and not part of the regular quarterly process)” (page 17 of the Phase 3 Draft Guidelines dated March 2015) causes concern.

- First, it must be clarified that if ad-hoc reporting on additional countries is required, and since it is not intended to be part of the regular quarterly process, it involves only reporting of details on the additional countries and not a restatement of the whole Phase 3 templates.
- The granularity of the ad-hoc reports on additional countries should be decided once the need arises, since it would be hard to anticipate in advance the information necessary in a stressed situation. It should not be automatically assumed that the ad-hoc reports would have the same granularity as the reports on the “top 35” countries.
- Sufficient time should also be given to reporting banks in preparing the ad-hoc reports. While banks are working on the necessary systems and processes, certain information will not be readily available for ad-hoc countries and will likely require manual sourcing.

The IIF Data Working Group does not support separate materiality thresholds for liabilities.⁹ The same threshold rule should apply in reporting by country whether on the asset side or liability side. Otherwise, differing materiality thresholds would only complicate reporting without any clear benefits.

Contingent positions. While contingent positions are already reported in FINREP for reporting banks based in Europe, the required reporting for the Phase 3 template is much more granular. For US banks, while certain contingent positions are reported in FR Y9C and FFIEC 009, it does not include reporting of Commitment Received and Guarantees Received. Hence, the reporting of contingent items as proposed would require a lot of work for reporting banks; query whether the results would be proportionate.

As a result, The IIF Data Working Group supports Alternative 2 considered on page 20 of the draft guidelines, which is to eliminate contingent positions from the Phase 3 templates, at least at the start.

Once banks have gained experience reporting the Phase 3 templates, then the FSB can revisit the contingent positions reporting and decide whether or not to add them to regular reporting. Also, information on contingent positions is more aligned with the Ultimate Risk (UR) template, so it might make sense to consider the need for such information in connection with development of the UR.

⁹ Footnote 31 of the Phase 3 draft guidelines (March 2015).

Assuming some form of the current template is retained, banks need more guidance, especially on commitments and guarantees received; consideration should be given as to whether specific guidance should be provided on commitments, guarantees, and CDS. For the avoidance of doubt, the point made at the Workshop that collateral is not covered should be made explicit.

To follow up the discussion at the Workshop of how to think about the reporting of commitments and guarantees, consider the following:

From the risk perspective, what is relevant depends on whether a reporting bank is a receiving party of guarantees or a providing party of guarantees as follows:

- 1) If a bank is a receiving party of the financial guarantees or CDS protection purchaser
 - The counterparty providing the guarantee (guarantor) or seller of the CDS (i.e., counterparty of the contract) is more relevant.
 - If the Guarantor or the CDS seller defaults, the reporting bank (i.e., the recipient of the guarantee or the purchaser of CDS) will not be made whole.
- 2) If a bank is a providing party of a financial guarantee or CDS protection seller:
 - The underlying obligor or the reference entity is more relevant, as it is the underlying counterparty or the reference entity, the failure to pay of which will trigger the bank's liability to the counterparty receiving the guarantee or CDS protection buyer (i.e., counterparty of the contract).
 - The risk is not with the counterparty to which the reporting bank provided the guarantee or sold the CDS protection to (i.e., counterparty of the contract).

This seems the most logical approach to capture the risks banks incur in such transactions; however, there was some lack of clarity as to whether the FSB seeks to capture interconnections between GSIBs, intending to use the counterparty of the contract for the receiving and providing sides. If so, for 2) above, instead of reporting the underlying entity or reference entity, banks should report the counterparty to whom the reporting bank provided the guarantee or sold the CDS protection to (i.e., counterparty of the contract).

This is an important point that needs to be clarified in the instructions.

Local and cross-border questions. Are exposures (local positions) acquired through branches located in a country considered as exposures in that country, or will they be aggregated with the home office and thus considered as part of home country exposure? The answer given at the Workshop seemed to be that the country of incorporation of the home entity (not the place of the branch) would be reported; and this would also be the case for a subsidiary: the country of incorporation of a subsidiary would be reported, not the country of incorporation of the parent or

the place of any foreign branch of the subsidiary. (There is some uncertainty about this in the group, and some believe banks should look at the location of the branch.¹⁰)

HRF			Counterparty		
Entity	Country	Currency	Entity	Country	Currency
Ultimate Parent	NL	EURO			
Legal entity	US	USD	Legal entity	US	USD
London Branch	GB	GBP	London Branch	GB	GBP
			India Branch	IN	INR
			NL Branch	NL	EURO

Diagram illustrating the relationship between HRF (Host Reporting Facility) and Counterparty entities, with arrows indicating potential reporting paths:

- From HRF Legal entity (US) to Counterparty Legal entity (US) (labeled "Local ?")
- From HRF Legal entity (US) to Counterparty London Branch (GB) (labeled "Non Local ?")
- From HRF London Branch (GB) to Counterparty London Branch (GB) (labeled "Local ?")
- From HRF London Branch (GB) to Counterparty India Branch (IN) (labeled "other")
- From HRF London Branch (GB) to Counterparty NL Branch (NL) (labeled "other")

- Is it correct that, for immediate counterparty reporting, banks should treat deposits according to the location of the depositor, as suggested by the instructions at page 9, so that deposits at a French branch of a US bank by a UK depositor would be counted as *UK*, but if a German entity has a deposit at a UK branch of a German bank, the deposit would be reported as a cross-border liability to a cross-border German counterparty?
- Should the currency be the currency in which the deposit is denominated (e.g. RMB at a Chinese branch) or another currency (e.g. if at a foreign branch, in the currency of the legal entity (e.g. GBP if a British parent))?
- It is vital that the instructions be absolutely clear about these issues of treatment of deposits and definition of local positions (at page 16).

Other issues. In addition to definitional questions and the above issues, a number of specifics need clarification.

- *Deposits insured by guarantee schemes.* Reporting by country may be challenging and the ability to provide this information with accuracy will require systems development. Initially, it would be appropriate to allow for reporting this information on a best-efforts basis, using certain estimates and assumptions.
 - It needs to be clear whether guarantee schemes refer to both public and private insurance. (Note the draft Phase 3 guidelines of March 2015 refer to the LCR definition of an “effective deposit insurance scheme” (Paragraph 76 of the LCR document (January 2013)).¹¹ It was said at the Workshop that the reference is intended to pick up officially recognized deposit insurance schemes such as the FDIC in the US, even if funded by contributions from the private sector.

¹⁰ This chart will illustrate some of the combinations that have become confusing:

¹¹ For the purposes of this standard, an “effective deposit insurance scheme” refers to a scheme (i) that guarantees that it has the ability to make prompt payouts, (ii) for which the coverage is clearly defined and (iii) of which public awareness is high. The deposit insurer in an effective deposit insurance scheme has formal legal powers to fulfill its mandate and is operationally independent, transparent and accountable. A jurisdiction with an explicit and legally binding sovereign deposit guarantee that effectively functions as deposit insurance can be regarded as having an effective deposit insurance scheme).

- Is it correct that if a French depositor has a \$X deposit with the UK branch of a US bank, it would report \$X as a liability to a French counterparty, “of which” \$Y is insured by the UK deposit insurance scheme?
- Clarification as to the intended usage of information on guaranteed deposits would be appreciated and might help implementation of these provisions.
- The *data submission* method has not been discussed in the instructions. While actual submission procedures are appropriately left to each national jurisdiction, it should be recognized that submitting and receiving the large volumes of data implied by Phase 3 is not a trivial matter. Therefore, authorities should be urged to allow time for dry-run submissions to make sure both that banks are well set up to send and they are well equipped to receive and process the data.
- *Questions.* What threshold will be used to trigger validation questions from supervisors? Banks receive more than a hundred questions from supervisors on other, less granular reports. They expect to receive far more for Phase 3 given the volume of data to report compared to Phase 1. Appropriate processes should be put in place to make supervisor-bank interaction more efficient since responding to questions from supervisors will require significant resources from banks. It is understood from the Workshop that the FSB appreciates this point, though it may be limited in its possible response. This is another point on which ongoing discussion with the industry would be very useful.
- *Q&A Availability.* One approach that could be very useful in controlling the volume and burden of ad-hoc request would be to make available a Q&A database, whereby questions by authorities and answers submitted could be available to other authorities (and banks), to reduce duplication and improve consistency. Making banks aware of the questions being asked of other banks would in itself be useful, and make for better overall interaction on such questions, subject to confidentiality in appropriate cases.
- *FAQ.* Equally, an ongoing FAQ for banks’ questions to the Data Hub would be efficient for both parties.
- *Debt securities held.* The main template¹² seems to require a breakdown of a certain category of balances twice, with the first instance based upon balance sheet amounts (i.e. fair value or amortized cost), and the second based upon nominal¹³ or contractual amounts (i.e., outstanding principal plus accrued interest). Query whether the latter (contractual or nominal amount) is really needed or provides significant analytical benefit, since the data is not readily available in banks’ systems and they would need to build systems for it. The specific lines in question are:
 - Line 5: DEBT SECURITIES HOLDINGS (gross of allowances for credit losses) – where breakdown is required for material countries, across sectors, currencies, and maturities, as indicated for subcomponents.

¹² Phase 3 draft template.

¹³ Some members find the reference to “nominal or contractual amount” unclear: would this imply the factored nominal amount?

- Memo 15: DEBT SECURITIES at nominal or contractual amount – where breakdown is required for material countries, across sectors.
- *Debt Securities issued.* The proposed revision is appropriate, i.e. crossing only by maturity and currency. As was discussed at the Workshop, banks do not know the holders of their issued debt, which act through layers of custodians and clearing systems. If any proxies are to be used, as appeared to be under consideration at the Workshop, they should be discussed in detail with banks before promulgation to assure robustness and feasibility, and for clarity of instructions.
- *Bridge template.* While we understand the desire of the IDH for the Phase 3 template to tie to the balance sheet exactly, the limitations imposed by having consistent international definitions would make this impossible. As mentioned above, while reliance on definitions based on international standards such as Basel III may be ideal from an international consistency perspective, it would also result in numbers that are different from banks' published financial statements owing to differences between Basel III and accounting rules. We suggest therefore that the IDH relax any requirement for reconciling Phase 3 templates with the balance sheet, or accept that there might be some differences as banks would be trying to meet different local standards.
- *Loans* (item 4) – Should this item only include amortised cost loans? The bridge template splits out financial instruments by measurement basis but not for loans, implying that it is intended to capture everything. Banks have mortgages and other loans which are held for trading or designated at fair value. Obviously these loans do not have provisions or allowances against them as they are measured at fair value. It seems odd to be comparing all loans with allowances which are only applicable to amortised cost loans. The same question for *debt security holdings* (item 5).
- *Other borrowings* (item 4) in liabilities – is this supposed to mirror “other loans” (item 4.3) on the asset side? According to the guidance they have the same definition. However, the asset side will not include loans to banks as they are included in “cash and balances due from banks” (item 1). The “other borrowings” on the liabilities side does not differentiate between borrowings from banks and borrowings from customers.

Conclusion. The IIF Data Working Group hopes these comments are found useful. We look forward to further exchanges on the finalization of Phase 3, particularly to discussion of the instructions. Should you have any questions or issues, please contact the undersigned or Jermy Prenio of the IIF (jprenio@iif.com; + 1 202 682 7455).

Very truly yours,



David Schraa