8 November 2011

Financial Stability Board
c/o Secretariat to the Financial Stability Board
Bank for International Settlements
CH-4002 Basel
Switzerland

Re: Comments on the Consultative Document *Understanding Financial Linkages: A Common Data Template for Global Systemically Important Banks, 6 October 2011*

To the Financial Stability Board:

The Global Financial Markets Association, the American Bankers Association, The Clearing House, and The Financial Services Roundtable (collectively, "the Associations") [1] welcome the opportunity to comment on the proposal *Understanding Financial Linkages: A Common Data Template for Global Systemically Important Banks, 6 October 2011*. The Associations agree that the financial crisis highlighted information gaps at the global level, and we appreciate the work that the Financial Stability Board ("FSB") has already undertaken in this area. The FSB's proposal for a common data template is a promising idea that could help address this important issue. However, we feel that an important prerequisite to adoption of a common data template would be the creation of standardized definitions of the data elements requested in current and pending international and national regulatory reporting initiatives. In what follows, we outline this and other concerns we have with the specific modalities of this proposal and make suggestions for moving forward.

Summary of Views

The proposal is an ambitious policy initiative. A common data template for large global financial institutions has the potential to both streamline data reporting for the institutions, as well as make important data available for macro-prudential analysis. However, we urge the FSB to consider a number of issues before making decisions on this proposal. First, strong governance over the process of gathering the data and its use is essential to the success of the initiative. Confidentiality of the data is a most critical

[1] A description of the Associations is set forth in the Annex to this letter.

issue. National supervisors should retain ownership of the data and processes, and clear data security protections must be established.

Second, the benefits of the data collection should outweigh the costs. The initiative needs to be designed carefully and narrowly or it could simply add to the already large number of data initiatives underway, and their associated costs, without clear benefit. For example, we have concerns about attempting to collect ad hoc information, which is very challenging and can be more efficiently accomplished in other ways, and also about the some of the frequency and data lags suggested in the proposal that are simply unrealistic. In addition, a common template design must consider that data aggregation issues, particularly across different business models of G-SIBs (and G-SIFIs even more so, once they are identified) limit the relevance of some data elements and therefore mitigate some of the benefit. If supervisors can commit to a common template that reflects harmonized definitions, aligns with some of the numerous other overlapping reporting obligations on G-SIBs, sets out realistic expectations on reporting frequency and lags, and clearly resolves important data security concerns, then the Associations will be able to more fully support this effort.

We provide below more detail on our concerns with the proposal as well as some concrete suggestions for moving forward.

Detailed Comments

We have several concerns about this proposal, and suggestions for improvement.

Governance Process

- It is imperative national supervisors retain ownership of the data and the process. Any international agreement to collect data from large global firms should be conducted through the firms' primary home supervisors, who understand the institutions and their supervisory and regulatory context. While the proposal does provide that national authorities collect the data, it appears the supervisors would be little more than a pass-through before the data goes to the BIS "hub". Typically collecting supervisory information is an ongoing, interactive effort, with technical experts available for interpretive questions, both for the providers and the users of the data. This simply cannot be done effectively at the international level.

  Similarly, when actions or other supervisory mandates are proposed by the FSB, which directly impact global firms, these actions should be applied by firms' primary home supervisors, and only after their review and consultation.

- The data security protections are unclear. The proposal does state this is an important issue that needs to be worked out, but little is said as to how it would be accomplished. With multiple jurisdictions involved, each having different legal frameworks, this is a challenging issue, which needs to be addressed with great care and with open and transparent vetting of the proposal as to how security would be ensured.

Cost/Benefit Considerations

- The proposal is highly ambitious. A clear case needs to be made that both: 1) the data collected will result in real benefits; and 2) the proposal demonstrates the most effective way to collect it. To aggregate data gathered from individual complex institutions with widely varying business models involves, as the paper suggests, significant trade-offs in terms of being able to use that data for analysis. Simplifying assumptions will need to be made, informational content will be lost through aggregation requirements, and data fields may not be relevant to all industry players.

- There are several initiatives underway that are already addressing data and information gaps at G-SIBs and other large global financial institutions. The Associations' support of a common G-SIB data template would be predicated on the principle that it not create reporting that is *in addition* to these initiatives, but rather in lieu of, or is completely consistent with, some of these other data initiatives. This is not just a matter of reducing the implementation costs for firms. Users of the information, in this case very often regulators, are far better off with data that is consistent across firms, sectors, and regions, in order to conduct systemic risk analysis.

  To achieve this, the real work, in many instances, has to start with the variety of initiatives happening at the regional, national, or market level. There are several initiatives, including the G20 Data Gaps Initiative,[2] which set in train 20 international data work streams, in addition to voluminous national, regional, and sectoral data reporting initiatives. For example:

  - The FSB has agreed that G-SIBs are to prepare recovery and resolution plans (RRPs), which encompass significant information requirements, including information about financial linkages. We would support an effort to align the G-SIB template data with similar data collected through the RRPs, particularly regarding the definitions. Comparable data must be defined and specified consistently to avoid inefficiencies in collection and reporting due to trivial differences. While RRP reporting requirements are at different stages in different jurisdictions, supervisors share many of the same objectives. Specific reporting templates should be harmonized across jurisdictions, streamlining the burden on both the firms in producing the data and on supervisors in comparing or aggregating the data.[3]

  - The Basel Committee's framework for liquidity monitoring (*Basel III: International framework for liquidity risk measurement, standards, and monitoring, December 2010*) calls for supervisors to monitor a variety of liquidity measures, including major sources of wholesale funding. Supervisors are to establish reporting requirements that, unless specific efforts are made to harmonize them, are not likely to be the same as those in the G-SIB common template. These should be harmonized at the national level and then the same metrics should be used for the common template.

  - For banks in the European Union, the Common Reporting (COREP) and Financial Reporting (FINREP) frameworks are major regulatory reporting initiatives. Overlap of the G-SIB initiative with these in terms of project timelines should be avoided, and any data overlaps should be avoided unless definitions are harmonized.

[2] See FSB and IMF report *The Financial Crisis and Information Gaps, Implementation Progress Report, June 2011*.

[3] For example, most jurisdictions will want reporting on derivatives and interbank exposures as part of the RRP process; we would support harmonizing those requirements, including the specification of the definitions.

- Finally, many jurisdictions are in some stage of implementing rules governing OTC trade repositories, which are ultimately intended to improve reporting on OTC positions. However, since jurisdictions are moving on different timelines, it is possible that the reporting will not be uniform. If jurisdictions could commit to standardized definitions, then global firms would be able to meet the reporting requirement much more easily, and global regulators would be able to aggregate the data for macro-prudential purposes. Adding such standardized data to the G-SIB common template could also be easily accomplished if G-SIBs' IT systems already produce it.

- The stated objectives are too broad; to try to meet all of them with the same data collection is likely to compromise each objective.
  - *Microprudential analysis*: Microprudential analysis is largely based on information gained from supervisory relationships and individual reporting by financial institutions. To be sure, better information on emerging risks, systemic risks, and interconnections can be important for microprudential assessment, although as we discuss below, there are a number of initiatives underway that will help meet this purpose.
  - *Macroprudential analysis*: This is the one objective that seems most suited to the proposed information collection, although as noted, there are many current initiatives underway addressing this that should be taken into account.
  - *Crisis management planning*: The information needed in a crisis is different from that needed for macroprudential analysis. While there is some overlap, there will likely be more granular data needed in a crisis, and certainly with significantly more frequency. The provision in the proposal for "passive and ad hoc" information collection might be envisioned to be helpful in a crisis; we have some comments on that part of the proposal below. As for the statement in the proposal that authorities might "use the information to reassure markets on the potential consequences and spill-over of an adverse shock", we think this is unlikely; international bodies and national governments will be cautious about offering assurances during crisis periods, which are marked by extreme volatility and uncertainty.
  - *Monitoring of the regulatory perimeter*: This will be "one-way" data – only looking at the exposures of G-SIBs and other banking entities. It will not be particularly helpful in monitoring the risks and trends outside the regulatory perimeter. As noted in the proposal, there is a separate FSB work stream underway on shadow banking, which will provide more direct and helpful information on the shadow banking system.
  - *Improving banks' own risk management and monitoring systems*: If one were to design a data collection effort to improve banks' risk management and monitoring systems, it would have to start at the enterprise level and reflect the firm's specific business model. Most supervisors expect a much more tailored approach for risk management and measurement at a large global financial firm than is likely to come out of this effort.

- There is an assumption in the proposal that there should be institution-specific disclosure of much of this data, in order to improve market discipline. Recent market coverage suggests that without proper context and explicit standardization of data definitions, analysts and other market participants can grossly misinterpret data and make incorrect inferences that have real market impact on the firm in question. We strongly recommend that care be taken to ensure that data collected not only adhere to standardized definitions, but also are meaningful and accomplish the intended measurement goals. Moreover, as indicated above, data collected for macroprudential analysis is not necessarily the same data that would be effective for disclosure. Finally, disclosure policy is appropriately considered at the national level, or in certain instances when it is considered at the international level, such as the BCBS's Basel III Pillar 3, it should be subject to its own consultation process, so the many important considerations can be aired.

- The application of the proposal is open-ended, and lacks clarity on some important issues. The proposal states that the BCBS will apply a subset of the template to the non-G-SIBs that they intend to monitor for systemic significance. This should be further specified and subject to consultation, because it is hard to evaluate without knowing how much of the data would be involved and which institutions. The proposal also indicates that nonbank SIFIs may be subject to similar requirements; this too should be further detailed.

  Perhaps the most open-ended aspect of the proposal, however, is the provision for "passive and ad hoc data" collection. G-SIBs are aware of their obligations, under the FSB and national authorities' resolution plan guidance, to make needed system changes so that they can provide key data during a crisis. This is one of the most challenging aspects of the resolution plan data requirements, and we see no reason to have a parallel duplicative initiative. Furthermore, ad hoc reporting of new, not previously defined requirements, on data in any dimension and granularity, is likely to be prohibitive in terms of engineering and cost.

Comments on Specific Questions

Until we know the specifics of the proposed data template elements, including the precise definitions, we cannot know what system changes are needed and at how many institutions. However, we can say, unequivocally, that to the extent the template introduces reporting requirements that are based on different definitions and aggregations than are required by national regulators, the reporting burden is absolutely incremental in its cost. Further, to the extent these differences give rise to reconciliation questions about the data, the work can be exponentially more burdensome.

That said we do have comments on some of the themes in the questions presented in the proposal.

- *Frequency of Reporting (Questions 3, 8, 17, and 20).* Frequency of reporting should be matched to the typical rate of material change in the data being sought. For example, large diversified portfolios of counterparty credit exposure tend to change in composition and magnitude gradually. As such, quarterly reporting of aggregate data may be more suitable than monthly. Monthly collection may be appropriate for a list of top exposures but weekly would be excessive given the rate of change in any institution's largest exposures. Weekly reporting would be excessive for such broad data requests and is better confined to targeted requests regarding specific institutions or countries that are distressed. Structural data on large institutions should be required no more often than annually.

- *Reporting lags (Questions 5, 10, 18, and 25).* Many of the proposed reporting lags (e.g., 3 days) are unrealistically short. While much of the data requested in the proposed templates is available to management with a short lag, it should be recognized that by requiring firms to conform to a common template, they are potentially being asked to report data using different standards, definitions, and aggregations than they do for internal purposes. Further, data that may be sufficiently accurate for management purposes may require additional review and verification for formal, regulatory reporting. As such, lag times should be no shorter than those required for similar public disclosures and should recognize that firms should be prioritizing reports required by their own risk management processes and real time decision making ahead of external monitoring reports. Moreover, for information reconciled to reported financial data, longer time-lags than weekly will certainly be required.

Going Forward

The Associations believe that the best way forward is to first focus on clarifying the objectives, leveraging off of existing and pending reporting initiatives by standardizing definitions, and involving the supervisors more directly. Any resulting G-SIB common template proposal should be accompanied by a clear cost/benefit analysis and address confidentiality issues. In particular, we recommend that the FSB take the following steps:

- **Focus the objectives** of this effort to the data needed for macroprudential analysis, and start with a small more focused template, to work through the many challenges involved, including logistics, definitions, and interpretation.

- **Take inventory** of the current reporting obligations of G-SIBs, as well as new data initiatives underway, to determine where existing data overlaps with data needed for macroprudential analysis.

- **Standardize the definitions** of data already collected or soon to be collected through other initiatives. Data definitions can vary across jurisdictions, markets, and even firms. Often different government bodies within a single country or region have different data specifications for similar data. Standardization is a "win-win" step, although surprisingly, there is little attention paid to this issue.[4] Aligning the definitions of reported data facilitates its aggregation, and substantially reduces costs to the reporting firms. We strongly recommend that the FSB undertake a review of current and impending data reporting of global financial institutions with the specific purpose of achieving harmonization of definitions where possible. Moving to common templates will then be a more efficient proposition.

- **Assess the cost and benefit** of additional G-SIB reporting that the FSB, after taking the above steps, considers desirable. The proposal asks many questions about costs, which is quite important, but it is lacking on articulating how the data will be used and what benefits will accrue. Without robust analysis of the potential benefits, it cannot be determined if the benefits outweigh the costs of a particular G-SIB common template.

- **Involve the supervisors** in the collection and ongoing interpretation of the data. The FSB has already set up a promising mechanism to monitor systemic risk of financial institutions and the linkages between institutions, including instituting Crisis Management Groups for each G-SIB, which will be responsible for fully understanding its financial profile. The Associations

[4] The industry has been integrally involved in the effort to introduce a common global standard for legal entity identifiers, a standardized approach to identifying parties to financial transactions.

recommend that an expert "G-SIB Data Analysis" group be established, comprised of representatives from each G-SIB home supervisor (the Senior Supervisors Group could be considered for this role). The group would be responsible for collating the data, reviewing it and providing reports. It should follow the above principles – focus the objective and start small, utilize what is already available, including by aligning existing data definitions where possible.

- **Address confidentiality** of the data. This is an extremely important issue; protocols and firewalls need to be established, and legal protections need to be considered. Keeping the primary data interpretation and analysis function within a small group of supervisors will be helpful in achieving and maintaining the confidentiality objective. Aggregate reports can be made available to a wider group for purposes of macroprudential analysis, but discussion of the individual G-SIB data should be kept within the group. Even if such a governance structure is established, however, there still needs to be well-understood and enforceable sanctions imposed if confidentiality of the data is breached.

The Associations span nearly all of the G-SIBs. We have a keen interest in helping this initiative come out in a sensible and constructive manner. If supervisors can coalesce around a data template that satisfies not only the FSB's objective for improved macroprudential data, but can also be used by the supervisors for some of their evolving data needs, then we all benefit.

We are interested in meeting with the FSB to discuss the initiative further, and share views on how the industry can help advance this ambitious and important effort.

Thank you again for the opportunity to comment.

Sincerely,

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ANNEX

Global Financial Markets Association

The Global Financial Markets Association (GFMA) joins together some of the world's largest financial trade associations to develop strategies for global policy issues in the financial markets, and promote coordinated advocacy efforts. The member trade associations count the world's largest financial markets participants as their members. GFMA currently has three members: the Association for Financial Markets in Europe (AFME), the Asia Securities Industry & Financial Markets Association (ASIFMA), and, in North America, the Securities Industry and Financial Markets Association (SIFMA). Learn more at www.gfma.org.

American Bankers Association

The American Bankers Association represents banks for all sizes and charters and is the voice for the nation's $13 trillion banking industry and its 2 million employees. Learn more at www.aba.com.

The Clearing House Association

Established in 1853, The Clearing House Association (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 collectively employ over 2 million people and 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 systemically 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 and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the U.S. See The Clearing House's web page at www.theclearinghouse.org.

Financial Services Roundtable

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