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RMA/ISLA/PASLA Responses for the FSB WS5, Data Experts Group (DEG), Standards and Processes for Global Securities Financing and Data Collection and Aggregation consultative document dated 13th November ('Consultative Document')

Dear Yasushi,

Further to the recent roundtable meeting in Tokyo on 13th January 2015, we are pleased to provide the DEG with follow up written comments from the RMA Committee on Securities Lending (RMA), the International Securities Lending Association (ISLA) and the Pan Asia Securities Lending Association (PASLA) on the above mentioned Consultative Document. We hope that you find these comments helpful, and as always we remain at your disposal should you have any questions or wish to discuss further

Executive Summary

Set against the backdrop of our recent discussions and subsequent to our meeting in Tokyo we would summarize our main inputs to the current DEG consultation as follows -

- Position level (ALD) is the appropriate level to capture data from the market.
- Monthly aggregation of this should be sufficient for global statistics (FSB).
- Standards need to be established to ensure that data collected around the world is comparable and that we support use of LEIs and ISINs.
- Clear guidance should be given as to which positions get reported to which regulator to avoid duplicate reporting of the same position.
- Collateral reporting needs to take account of the fact that collateral is often managed on a portfolio basis.
- Information on collateral reuse may prove impractical to collect at the position level.
- Published data should be aggregated and anonymous.

GENERAL COMMENTS

As mentioned at the meeting and during our previous discussions, we will not be addressing margin lending as this is a different product and the prime brokerage community is better-equipped to respond on this issue.

Building on the work previously done with the DEG and set against the backdrop of the discussions in Tokyo we would highlight a number of key areas that, in our view, warrant further consideration by the DEG and also address a number of specific points raised during those discussions.

We would agree that information on securities lending should be collected at a position (exposure) level as this will best help regulators to better understand risk in the markets by observing trends over time, by providing simpler summaries of exposures, and resulting in fewer lines of data. Agent lenders already report details of their exposure to borrowers via an industry standard reporting protocol called Agent Lender Disclosure (ALD). As mentioned in previous submissions to the DEG we believe that the ALD reporting conventions may provide a viable framework for local regulators to collect and aggregate securities lending information¹. We have set out our ideas in Appendices I and II and we believe it has the benefit of supplying regulators with very detailed and comprehensive data on securities lending activity, whilst building on reporting conventions that are commonly used by market participants.

Although we remain unconvinced that the collection of fee and rebate information is useful in the context of financial stability, the proposed ALD based reporting structure does provide a framework to facilitate the collection of this information.

We also agree that collection of periodic snapshots on a monthly basis would serve macro-prudential regulators better than very frequent submissions and believe that month end data will be sufficient.

We believe that the FSB should issue clear guidance clarifying to which regulatory authority market participants should report details of their SFTs. For securities loans that involve an agent acting on behalf of the lender, we believe that the agent lender is in the best position to report as it has all the relevant data with respect to both the loans and the collateral, and reporting to the agent's home country regulator would be most efficient from a logistical and cost perspective. Consequently we welcome the outline comments made during the roundtable meeting in Tokyo and seek your confirmation that you concur with our stated views on this issue.

Under the framework described above, agent lenders, acting on behalf of their underlying clients or principal lenders² would submit the data with regard to all outstanding loans to their appropriate local regulator.

¹Joint association letter to the FSB/DEG dated 11th April 2014

² Institutional investors who lend their own assets or banks' lending securities to other brokers and banks.

This is operationally more straightforward and less subject to error or double counting. It simplifies the clarification of who is responsible to report transactions and to whom, where elements of the transaction itself may touch a number of jurisdictions (such as the jurisdiction of the underlying principal lender, borrower, issuer of the security being lent, issuer(s) of the collateral received, and of the vehicle in which any cash collateral is invested, etc.). This structure would also avoid issues with proper matching, cleansing, and subsequent interpretation of data by the local regulator and by the FSB. Conversely, if each participant in a transaction is required to report the same trade, the supranational regulator will be required to match and eliminate duplicate trades as this task cannot be accomplished at the national level if the lender and borrower are in different jurisdictions. The use of a consistent identifier such as the LEI would help reduce the potential of the multiple counting of trades.

We note that the DEG has outlined in some detail how national and regional authorities may undertake first tier data collection prior to aggregation and then submission to the global level. Whilst we recognize that various regulators will potentially employ different methods of collection we therefore think that it is vitally important that data standards, definitions and aggregation methodologies are applied consistently, otherwise it will be difficult to both reconcile and consolidate positions at the global level. This should include distinction of data being submitted, i.e., repo, securities lending, margin lending, as it is important to minimize data reporting overlap and facilitate data cleansing.

With regard to economically equivalent transactions and the potential to bring them into the scope of this reporting regime we would caution both the DEG and local regulators to consider if such transactions already form part of parallel reporting regimes (such as reporting of derivatives transactions) in order to avoid any duplication of reporting requirements which could create a false picture of any given market or sector and increase the reporting burden unnecessarily.

Aligned to this point and with regard to data that is made public, we would stress the confidential and sensitive nature of the market data set particularly when this includes rate and counterparty information. Consequently we would expect to see global aggregates comprised of group anonymised positions developed around LEI client types and security identifiers only.

Although we note the comments by the DEG at the Tokyo meeting we continue to be unconvinced that rate/price information provides any additional insights that would be useful for macro-prudential analysis as the FSB identified in its report of 29 August 2013. However we would be happy to work with the DEG and relevant regulators to ensure that rate/price information is properly understood and interpreted correctly as there are multiple factors that can influence the rate or price for an individual trade. As the DEG develops its approach to the collection of rate/price data we would stress the often proprietary nature of this information and would recommend that data collection and aggregation by regional/ local regulatory authorities has appropriate safeguards built into the process

Subsequent to the discussion in Tokyo on collateral we note the DEG's ongoing focus on collateral and in particular the collection of data relating to collateral re-hypothecation and/ or re-use. In this regard it is important that to recognise that any subsequent reuse or re-hypothecation of collateral is typically driven by the aims and objectives of the receiving party and there is a clear distinction between institutional lenders and brokers or banks that may hold and think about collateral very differently.

Historically where non cash collateral securities lending models have developed, documentation associated with those markets, which are predominantly in Europe and Asia, has evolved to allow for full title transfer of collateral from the borrower to the lender. This allows for legal certainty particularly where a lender may have to take control of the collateral in a bankruptcy situation. However full title transfer of collateral also infers that the lender has full and unencumbered rights over that collateral including the right to re-use it if they so desire. Notwithstanding this, market convention today is such that very little collateral received by institutional lenders is actively re-used with most being held within tri-party collateral arrangements.

Where banks using securities lending techniques receive collateral it is normally held in a central pool and managed as part of the banks overall liquidity process. Consequently and unlike the institutional lending sector collateral received here is likely to be reused. Large financial entities will have multiple sources and uses of securities, including from investment, securities market making and trading, asset and liability management, securities financing transactions and margining (e.g. initial and variation margins). As a result of all these sources and uses securities will be flowing in and out, with multiple transactions in any given line of securities (ISIN) occurring on a daily basis.

RESPONSES TO THE GUIDING QUESTIONS ON SECURITIES FINANCING DATA ELEMENTS AND GRANULARITY

2 DATA ELEMENTS FOR REPORTING: SECURITIES LENDING MARKET	
FSB DEG Question	RMA/ISLA/PASLA Response
Q2-7. Does the proposed definition of securities lending provide practical basis for the collection of comparable data across jurisdictions as well as the production of comprehensive and meaningful global aggregates?	The broad definition of securities lending looks appropriate. However we would underlie our previous comments in this area regarding the scope and interpretation of the data elements by local regulators.
Q2-8. In a later stage, a list of transactions that are economically equivalent to securities lending may be added to the reporting framework (see also Section 6 for details). Which economically equivalent transactions would you suggest for future inclusion? Please provide a definition of such transactions and explain the rationale for inclusion.	We recognise that there are a number of economically equivalent transactions to both repos and securities lending. However these are likely to be constructed around derivatives and as such would already be subject to appropriate reporting. To the extent that such transactions already fall within these reporting regimes there should not be duplication of reporting.
Q2-9. For securities lending, do you think that an additional table with flow data would add insights into the operations of securities financing markets and assist regulators in their financial stability monitoring?	We do not believe that the inclusion of flow data relating to securities lending will have any material benefit to regulators when thinking about financial stability risks associated with the securities lending markets. The key risks relating to financial stability within securities lending tend to centre on the build-up of exposures between counterparties and the relationship between loan and collateral securities or cash collateral reinvestment activities rather than the simple volume or velocity/turnover of transactions. Regulators will also be able to detect changes by comparing positions reported from one reporting date to the next.
Q2-10. Are the proposed definitions and level of granularity of data elements as described in Tables 5 to 6 appropriate for consistent collection of data on securities lending markets at the national/regional level and for aggregation at the global level? In particular,	It is important that when data is collected at the national/ regional level that regulators around the world apply consistent definitions of what needs to be reported, and that there is clarity on which positions need to be reported by whom and to which regulator (avoiding a need for the same position to be reported to multiple

are the detailed breakdown of major currencies (in Table 2), sector of the reporting entity and counterparty as well as bucketing for securities lending fees or rebate rates (in Table 5), residual maturity (in Table 5), collateral residual maturity and collateral type (in Table 6) appropriate? If not, please specify which definitions or classifications of data element(s) require modification, why the modification is necessary, and the alternative definitions/classifications

regulators). This will better support the FSB's goal of aggregating data at the global level and lessen the risk of double counting.

Although we are in broad agreement to the proposed definitions we would suggest the following modifications that, we believe will make the process more consistent and easier to apply.

Table 5 Suggested modifications and comments:

5.3 and 5.6, 5.7 Replace sector and jurisdiction with LEI

5.8, 5.10 Replace security characteristics with ISIN identifier

5.11 With regard to rebate rate, defined in Table 5 as "the interest rate (cash reinvestment rate minus securities lending fee) paid by the lender of the security to the borrower (positive rebate) or by the borrower to the lender (negative rebate) on the balance of the cash collateral pledged."

We wish to clarify that the rebate rate data element in Table 5 is not intended to include both the rebate rates and the reinvestment return on the cash collateral. Rebate rate is an amount agreed to by borrower and lender (or agent on lender's behalf) and may not be tied directly to the specific return on the reinvestment of the lender's cash collateral. It is, however, affected by the interest rate environment and nominal level of rates.

Additionally, it is recommended that reporting entities provide the rebate rate for individual positions rather than categorize the transactions into buckets that are defined by a range of rebate rates, as proposed.

Table 6 suggested modifications and comments:

6.3, 6.6, 6.7 Replace sector and jurisdiction with LEI

6.8, 6.9, 6.10, 6.11 6.12, Replace security characteristics with ISIN identifier for non-cash collateral.

6.13 We suggest the haircut (or put another way, collateralization levels) be derived by comparing loan values from table 5 (broken out by collateral type as recommended above) with the actual collateral amounts in table 6.

	<p>Lenders and borrowers agree to haircut schedules on a bilateral basis, and different haircuts may apply to different combinations of loaned securities and collateral types received. In many cases the borrower has the discretion to pledge any combination of securities that are eligible under a given collateral schedule, with each security type carrying a specific haircut.</p> <p>For loans where securities are provided as collateral, the collateral is provided on a portfolio basis to secure a number of loans taken by a particular borrower. A lender generally does not know the actual composition of collateral that will be delivered by a borrower (except that such collateral will be consistent with the types of collateral accepted by the lender) and the associated haircut at the time the loan is made. It is important to note that collateral and also haircuts/collateralization rates can also change over time.</p> <p>In light of these factors, it is not possible to link haircut information to a specific loan position.</p> <p>However, regulators should be able to gain insight into implied average haircuts by comparing the value of portfolios of loans with portfolios of collateral at an LEI level or another aggregation.</p> <p>On the specific questions: the list of currencies looks comprehensive from the perspective of the securities lending markets. For the reporting of lending entities although the proposed categories look reasonable we would suggest that further granularity may be obtained by firstly the addition of the lending entities jurisdiction together with the broad adoption of the LEI regime. This would allow the FSB and other interested parties to better understand lending profiles by both geography and industry sub types.</p>
<p>Q2-11. Do you foresee any practical difficulties in reporting the total market value of collateral that has been re-used or cash collateral reinvested? Do you have any suggestion for addressing such difficulties?</p>	<p>Non cash collateral securities lending markets have developed extensively in both Europe and Asia. The underlying legal structure allows for the securities to be passed from the borrower to the lender on a full title transfer basis</p> <p>This gives the lender the right to reuse collateral</p>

	<p>received if they so desire. Within this framework we see two broad operating models.</p> <p>i) First where institutional investors lend securities either directly or via an agent collateral is seen purely as a risk mitigant and it is simply held, often in a tri party account, over the duration of the loan and returned when the loan matures.</p> <p>For the majority of the agency lending market non-cash collateral is not re-hypothecated or re-used, it is held by the agent lender for the duration of the loan.</p> <p>ii) Where the lender of the securities is a bank or broker on a principal basis they will receive collateral securities, again as principal with full and unencumbered rights to re-use. As these collateral securities will have been received on a principal basis they normally are managed within the banks other liquidity assets and managed via a liquidity pool to meet other collateral and liquidity requirements. Consequently we would expect securities received on this basis to be actively reused.</p> <p>It should be noted that in other markets, principally in North America pledged based models prevail where any non-cash collateral is held under a security charge rather than via full title transfer. Consequently within these lending structures collateral held under a pledge agreement typically cannot be re used.</p> <p>Simple cash collateral values should be readily available within the reporting framework but we would highlight that where cash collateral is managed by either a third party investment manager or taken back by the lending client and managed internally details of investment profiles and returns will be proportionately harder to collect and report.</p>
<p>Q2-12. Do the classifications provided for “market segment – trading” (in Table 5) and “market segment – clearing” (in Table 5 and 6) appropriately reflect relevant structural features of the securities lending markets? Are there additional structural features of securities</p>	<p>5.4 market segment trading is transferred from earlier table 3.4 and differentiates between pure principal to principal trades and those involving an agent. Although simple agent lending trades (such as those conducted by custodians or specialist third party lenders) are easy to define,</p>

<p>lending markets that should be considered?</p>	<p>local regulators will need to be clear where organisations such as fund managers sit where they have their own lending desks. Typically these firms only lend their own funds but in effect the internal lending desk is still lending in an agent capacity. Also we have seen some instances where lenders and borrowers agree a deal but then use an agent’s infrastructure to settle it and then manage the ongoing requirements around collateral and returns etc.</p> <p>We would seek further guidance from the DEG regarding the rational for this metric to allow us to better refine how we might report appropriately.</p>
<p>Q2-13. Are there additional securities lending data elements that should be included in the FSB global securities financing data collection and aggregation for financial stability purposes? Please describe such additional data elements, providing definitions and the rationale for their inclusion.</p>	<p>The list of data elements looks comprehensive.</p>
<p>3. Data architecture (Responses to specific questions)</p>	
<p>Q3-2. Do you have any other practical suggestions to reduce any additional reporting burden and improve the consistency of the global data collection?</p> <p>Q3-3. Do the proposed measures for minimising double-counting at the global level constitute a practical solution to the problem?</p>	<p>We believe the concern about double counting as highlighted in the proposal is well-founded, as it could have a fundamental effect on data integrity. Consistency in the data collection across various reporting entities will be critically important for avoiding double counting issues. In order to link the same group of transactions being reported separately by different reporting entities, there will be the need to be matching on key fields or characteristics. This matching can be done successfully only when the reporting entities have reported the transactions in a consistent fashion.</p> <p>Our view is that such consistency can be best achieved by having a centralized approach to the data collection effort. With a centralized approach, reporting entities would be responsible for providing unique identifiers (such as LEIs and ISINs) for the counterparties and loan/collateral positions related to their lending activity, and a centralized source (such as local regulators) would be responsible for assigning any associated categories or attributes to those identifiers. In addition to consistency, there are several other</p>

	<p>benefits of the centralized approach. These include: flexibility for regulators on the types of attributes being assigned to the data set and made available for both analysis and aggregation, giving regulators control over the implementation of future enhancements, and cost effectiveness. Additional attributes can be added to the centralized database as desired without having to synchronize changes with every reporting entity, which would otherwise have to assume the burden and costs of implementing their own system modifications.</p> <p>The proposed structure of the data elements for securities lending transactions is representative of a “distributed approach” as defined in 3.1.4, with reporting entities assigning attributes for counterparties (sector and jurisdiction) and loan/collateral position attributes (security type, currency). We strongly encourage the DEG to reconsider this design in favour of a centralized prescriptive approach that removes any ambiguity around the reporting obligations of the reporting entities. Reporting entities should be required to provide unique identifiers, such as LEIs and ISINS, in place of the counterparty and position attributes, respectively, as currently proposed.</p>
<p>6. Next steps. (Responses to specific questions)</p>	
<p>Q6-1. Are there any relevant practical issue related to the possible extension of the list of data elements to be considered as set out in Section 6?</p>	<p>We have already highlighted the need to better understand what transactions this additional reporting may apply to and to what extent, if any, such transactions already fall under other reporting regimes. Based on experience elsewhere in the derivatives world we would be keen to work with the DEG to better define this area.</p>
<p>Q6-2. Are there other data elements in relation to securities financing transactions that you think the FSB should consider for financial stability purposes?</p>	<p>None at this stage.</p>
<p>Q6-3. Do you agree that a pilot exercise should be conducted before launching the new reporting framework? If so, are there any practical suggestions that the FSB and national/regional authorities should consider when preparing the pilot exercise?</p>	<p>We would fully support the idea of a limited pilot study to fine tune the process and identify anomalies and problems within the reporting framework. It will be important for any pilot study to have clear boundaries perhaps built around a specific market or group of participants.</p>

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

To provide appropriate transparency we believe that aggregates developed around broad client types and asset classes will provide sufficient detail for interested parties. We believe that such information on securities lending and repo should be published on a semi-annual basis.

We appreciate the opportunity to provide these comments and would be happy to provide any further information or to answer any questions you may have on our thoughts.

Yours faithfully

ISLA



Kevin McNulty
CEO

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Martin Corrall
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Appendix I

Position level reporting using Agent Lender Disclosure (“ALD”) reporting conventions

In keeping with the objectives of the DEG but to allow the market to leverage existing practices and infrastructures, RMA/ISLA/PASLA/PASLA proposes that reporting of SECURITIES LENDING positions to national/regional regulators should be at the same level that agent lenders routinely report their exposures to borrowers under convention known as Agent Lender Disclosure (“ALD”).

ALD was adopted by agent lenders in Europe and North America as a mechanism of reporting to borrowers all securities lending exposures to underlying beneficial owners. The rationale for proposing this approach to the DEG for adoption by national/regional regulators is that this type of reporting is already in use by much of the market and it would appear to capture a reasonable proportion of the requirements.

This level of reporting (which could be as frequently as daily) would detail all individual outstanding loans at ISIN level, as at the reporting date between legal entities. Furthermore Legal Entity Identifiers (LEI) could easily be incorporated into this framework.

In other words, if a pension fund lends 100 BMW shares to a broker dealer and also 200 Vodafone shares to the same broker dealer, these are reported as two separate positions. This level of reporting would enable regulators to see at a detailed level all of the information necessary to understand which securities are being lent, and also the extent of exposures between legal entities through the aggregation of positions by LEI or ISIN by either regulators or trade repositories. An example of the type of information that is captured at this position level is included as Appendix II.

The mechanisms for reporting collateral need to be further considered as when investors receive collateral against their securities loans, they generally do so on a portfolio basis. This means that individual items of collateral cannot be tied to individual transactions or positions. However the suggested separate data elements for collateral suggested within the latest Consultation should facilitate the appropriate alignment of loans and collateral on a portfolio basis.

Appendix II

Example of ALD derived reporting for FSB/DEG reporting purposes

