ISLA INTERNATIONAL SECURITIES LENDING ASSOCIATION

rma THE RISK MANAGEMENT ASSOCIATION

PASLA PAN ASIA SECURITIES LENDING ASSOCIATION Local Regulations, Global Standards

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WS5 Data Experts Group
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Dear Yasushi,

FSB Data Experts Group: Data Elements and Granularity (related to securities lending and borrowing)

Many thanks for organising the roundtable in London and inviting us to participate. As always we found it very useful to have the opportunity to engage directly with the Data Experts Group ("DEG") and we hope that the discussion and points raised will be helpful in their ongoing work.

As requested, please find below some comments on the data elements proposals and work of the DEG from ISLA, PASLA and RMA. As before these comments relate primarily to securities lending and borrowing markets. Given the limited time available for written comments this response is brief; however we would refer you to our previous submission of February 12th this year in which we elaborate on many of these issues.

General Comments

In our previous joint letter we highlighted a number of principles that we believe would assist in developing an accurate view of the global securities lending market for the monitoring of systemic risk. These principles included:-

- The collection of position level data for securities lending and borrowing is far superior to flow or transactional data. Flow data is noisy, difficult to interpret and would require careful re-aggregation in order to build up a picture of risks and exposures in the system. Position level data by contrast should be relatively easy to aggregate and by comparing snapshots of positions over time it would also be possible to identify trends.
- Collateral should be reported separately to loan positions. Non- cash collateral is often managed on a portfolio basis and individual collateral items cannot be linked to loan positions.
- Collateral reuse data may be impractical to collect. In this regard it is important 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 [who lend their assets to a borrower, usually a bank or broker/dealer, through an agency lending program) and brokers or banks [who lend and borrow assets as principal] that may hold and think about collateral very differently. Today very little collateral received by institutional lenders [who lend their assets to a borrower through an agency lending program] is actively re-used with most being held within tri-party collateral arrangements. Conversely where banks using securities lending

techniques [not in an agency lending context] 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 [in an agency lending context] collateral received is likely to be reused (We would also refer you to our comments below and to our joint response letter to the FSB dated 12th February 2015).

- The FSB should establish standards detailing the reporting entity, scope of data, and regulator reach (who reports what data and to who) and ideally the standards should also set the types of data that should be reported. The objective being to reduce the burden of removing double counting and ensuring that the data collected is comprehensive.
- Published data should be aggregated and anonymous. We remain very mindful that much of the underlying data is both confidential and proprietary. As such, banking entities that serve as lending agents or prime brokers are both contractually and legally (by applicable federal or state statute) prohibited from disclosing underlying client identifiable data to the FSB or other bodies unless required to do so by its applicable regulators. Therefore, we would stress the importance of ensuring that local/regional regulators and the FSB put in place robust procedures to ensure data integrity and confidentiality in a manner consistent with applicable local/regional laws governing protection of client's confidential information.

As we discussed at the roundtable we are very pleased to note that the data elements paper takes into account the points relating to position level reporting and the separation of collateral reporting listed above.

We were also encouraged by comments made by Viktoria Baklanova from the Office of Financial Research, at the Department of the U.S. Treasury in relation to points about use of standards such as LEIs and ISINs and the acknowledgement of the challenges relating to the aggregation and classification of data. We understood that there was further acknowledgement that aggregation and classification (of elements such as collateral quality, security type etc.) would be better performed by regulators and would appreciate confirmation from the FSB of these comments.

In relation to other points above we remain concerned that the different approaches to data collection by regulators around the world will make the task of compiling accurate data much more challenging for the authorities. Whilst it was made clear at the roundtable that national regulators may have additional motives for collecting data in respect of these markets, it would be disappointing if the overall objectives of the FSB's exercise are not met (or become more difficult to meet) as a result. We note however that you acknowledge this challenge and are actively considering ways in which to deal with it. We remain at your disposal to assist in this work.

Finally we remain unconvinced that the collection of collateral reuse data in order to calculate collateral velocity will be a practical or worthwhile exercise. As discussed at the roundtable we believe that there are challenges of identifying when re-use has occurred and any attempt at capturing re-use would require the development of assumptions or "accounting like" conventions. Our sense is that there may be better ways to derive statistics that would give regulatory authorities better insight into collateral velocity from the data that will be collected on the securities finance markets themselves.

Specific Comments on the Data Elements Paper

Please find attached our specific comments on the data elements in tables 5 and 6 of the Data Elements Paper of 21st August.

Table 5: Data elements related to *securities lending* and *borrowing* – loan stock data

Element		Definitions	ISLA/ PASLA/ RMA Comment
5.1.	Reference date	See "3.1 Reference date" in Table 3.	FSB will need to consider what reference dates are best. Some dates (such as quarter end) may represent "abnormal" volumes of business.
5.2.	Type of contract	• Exclusive • Non-exclusive	It is understood that this breakdown is important as exclusive loans involve fees that are negotiated at a portfolio level regardless of lending activity.
5.3.	Position	• Securities lending • Securities borrowing including all open positions as of the reference date.	The position should represent a snapshot of settled securities loans and borrows as at the reference date.
5.4.	Sector of the reporting entity	See "3.3 Sector of the reporting entity" in Table 3. The reporting entity is the lender in case of securities lending and the borrower in case of securities borrowing.	Where the reporting entity is an agent it should be clarified whether this element refers to the agent or to the client (principal) of the transaction.
5.5.	Market segment – trading	See "3.4 Market segment - trading" in Table 3.	
5.6.	Market segment – clearing	See "3.5 Market segment - clearing" in Table 3.	
5.7.	Counterparty sector	See "3.6 Counterparty sector" in Table 3.	Firms may record borrows in their trading systems at the agent counterparty level (separate systems will record exposures to underlying clients of agents). This may mean that borrow transactions are recorded with the

			counterparty = agent. This may create challenges for stripping out double counting where the agent reports the loan by client (principal) and the borrower reports the borrow by agent.
5.8.	Counterparty jurisdiction	See "3.7 Counterparty jurisdiction" in Table 3.	
5.9.	Type of security lent or borrowed	Asset class as categorised in element "4.8 Collateral type" of Table 4.	This should be determined by FSB/ national regulators based upon ISIN/CEDOL /QUSIP or other standard security identifier provided by firms. Also it should be noted that there are small number of securities that are traded in the markets that do not have readily identifiable identifiers.
5.10.	Residual maturity	See "2.3 Original maturity" in Table 2. Calculated with reference to the maturity date of the securities loan.	
5.11.	Currency	See "2.4 Currency" in Table 2. Regarding cross-currency trades, currency of loaned and borrowed securities should be reported.	
5.12.	Securities lending fee/premium (*if collateral is non-cash*) or rebate rate (*if collateral is cash*)	Securities lending fee: fee/premium that the borrower of the security pays to the lender when the securities loan is backed by non-cash collateral. For trades conducted under exclusive agreements, securities lending fee is not required. Rebate rate: is the rate agreed to by the borrower and the lender (or agent on lender's behalf) when the securities loan is backed by cash collateral. In case rebate rate is not used in cash collateralised securities	As per previous comments, this data element needs care in its collection and also its interpretation as levels of loan fees/ rebates are affected by many factors. There should be an indicator of whether the transaction is with cash or non-cash collateral (or alternatively, whether the information represents a fee or rebate rate) so that the direction of the cash flow is interpreted correctly. The table needs to consider a hybrid form of pricing commonly referred to

		lending transactions, only securities lending fee should be reported here, and cash interest (reinvestment) rate should be reported in 6.15 Cash reinvestment rate. As a starting point, 0.1% increments are recommended (including negative values), with a final calibration of buckets to be agreed upon by national/regional authorities.	as cash pool lending. In this arrangement the lender receives cash collateral, but rather than agree to a rebate, the borrower pays the lender a fee, and receives back interest earned on the cash collateral. Data elements should therefore make it possible to associate a fee with a cash collateral loan. Also depending on the approach adopted for the aggregation of loan information any collection of fee or rebate information would have to be able to reflect loan positions. This may require some form of fee or rebate aggregation. It may be more productive to provide the amounts rather than the rates to facilitate the aggregation.
5.13.	Amount of securities lent or borrowed	Market value of the securities on loan or borrowed in millions of USD, on a gross basis.	

Table 6: Data elements related to securities lending and borrowing – collateral stock data

Element		Definitions	ISLA/ PASLA/ RMA Comment
6.1.	Reference date	See "3.1 Reference date" in Table 3.	See comments in table 5 above.
6.2.	Type of Contract	See "5.2. Type of Contract" in Table 5	
6.3.	Position	See "5.2 Position" above in Table 5.	It is not clear what is meant to be captured here. If the objective of this element is to tie the collateral portfolio to the position file further work is needed to identify a mechanism for cross referencing the two. A collateral portfolio will generally relate to many positions between a specific lender and borrower.
6.4.	Sector of the reporting entity	See "3.3 Sector of the reporting entity" in Table 3.	See comments in table 5 above.
6.5.	Market segment – clearing	See "3.5 Market segment - clearing" in Table 3.	
6.6.	Collateral management	See "4.5 Collateral management" in Table 4.	
6.7.	Counterparty sector	See "3.6 Counterparty sector" in Table 3.	
6.8.	Counterparty jurisdiction	See "3.7 Counterparty jurisdiction" in Table 3.	
6.9.	Collateral type	The collateral actually allocated at the reference date (it is also applicable for cases such as callable bonds, tri-party substitutions and other forms of collateral turnover) should be classified as :	

		• Cash collateral or other collateral types listed in item 4.8 in Table 4.	
6.10.	Collateral quality	See “4.9 Collateral quality” in Table 4.	This should be determined by FSB/ national regulators based upon ISIN or other standard security identifier provided by firms.
6.11.	Collateral currency	See “4.10 Collateral currency” in Table 4.	
6.12.	Collateral residual maturity	See “4.11 Collateral residual maturity” in Table 4.	
6.13.	Jurisdiction of the issuer of the collateral	See “3.7 Counterparty jurisdiction” in Table 3.	
6.14.	Haircut	See “4.13 Haircut” in Table 4.	To provide better granularity especially as haircuts begin to widen we would suggest that the FSB consider grouping haircut data as follows – 0 -3% 3 – 5% 5- 10% 10%+ Furthermore initial haircuts will be set at asset class levels at the time a loan is concluded. As exposure between any single lending entity and a borrower may comprise different collateral and loan combinations the haircut is therefore derived by comparing the value of loans against the value of collateral held on a portfolio basis.
6.15.	Cash reinvestment rate	Provided only if collateral type is cash. Calculated as the average interest rate received on cash collateral reinvestment. In case it is changeable (referring to a benchmark rate), the interest rate as of the	Cash collateral for a given lender is typically aggregated across all lending transactions (which may include multiple counterparties) and invested. It is not possible to tie back collateral reinvestment rates by counterparty

		reference date should be reported.	
6.16.	Collateral market value	See “4.15 Collateral market value” in Table 4.	
6.17.	[*Re-use (if collateral type is a non-cash)*] or reinvestment (*if collateral type is cash*)	[*Re-use: see “4.15 Re-use” in Table 4.*] Reinvestment: total amount of cash collateral reinvested in: • registered money market fund (MMF) • any other commingled pool (COM) • the repo market (REPO) • a direct purchase of securities (DIR) • other	Per our general comments in this letter we do not believe that capturing re-use of non-cash collateral is worthwhile and encourage the FSB to consider other metrics by which to assess collateral velocity. We would also suggest that separately managed accounts (SMAs) are added to the list of reportable Reinvestment vehicles defined under 6.17.

We hope that the comments in this letter are clear and helpful and should you wish to discuss any points raised, the associations remain at your disposal.

Yours faithfully

ISLA

Kevin McNulty
CEO

RMA

Fran Garritt
Director

PASLA

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