



ICMA EUROPEAN REPO COUNCIL

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

12 February 2015

Dear Sirs,

Response submission from the ICMA European Repo Council

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

Introduction:

On behalf of the European Repo Council (“ERC”) of the International Capital Market Association (“ICMA”), the purpose of this letter is to provide feedback primarily concerning the repo oriented aspects of the Financial Stability Board’s (“FSB’s”) 13 November 2014 consultative document regarding “Standards and Processes for Global Securities Financing Data Collection and Aggregation”. The ERC notes that the FSB has invited comments on this consultative document, which stems from the FSB’s shadow banking workstream on securities lending and repos; and will contribute to the establishment of standards and processes to underpin aspects of the policy framework published by the FSB in August 2013.

The repo market is one of the largest and most active sectors in today’s money markets. It provides an efficient source of money market funding and securities borrowing for financial intermediaries, while providing a secure home for liquid investments. An efficient repo market is pivotal to the liquidity of both primary and secondary debt markets, and for the management of collateral for other activities (such as CCP margining). Repo is also used by central banks as their principal tool in open market operations to control short-term interest rates. Repos are attractive as a monetary policy instrument because they carry a low credit risk while serving as a flexible instrument for liquidity management, which benefits the functioning of financial markets. Central banks are also able to act swiftly as lenders of last resort (and have done so) during periods of market turbulence by way of the repo market.¹ In a repo transaction securities are exchanged for cash with an agreement to repurchase the securities at a future date. The transaction is collateralised, with the cash securing the seller’s securities and the securities securing the buyer’s cash. In the event of default, the collateral can be sold and exposure to the defaulting party can be netted off without delay, minimising exposure to adverse market movements. Collateral and netting are key to the proper functioning of repo markets.

¹ The ERC has published a White Paper on the operation of the European repo market, the role of short-selling, the problem of settlement failures and the need for reform of the market infrastructure. This paper sets out in greater detail what the repo market is and its benefits and is available via the ICMA website at <http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Repo-Markets/European-repo-market-white-paper.aspx>.

The ERC was established by ICMA in December 1999, to represent the cross-border repo market in Europe. It is composed of practitioners in this market, who meet regularly to discuss market developments in order to ensure that practical day-to-day issues are fully understood and dealt with adequately.

Commentary:

Whilst there are a broader range of elements being considered in the FSB's Consultative Document, the ERC is primarily focused on those aspects that bear most directly on repo.

A. Overall comments

The ERC is supportive of the objective of ensuring that there is appropriate transparency of SFTs; and has itself actively contributed to this through its bi-annual surveysⁱ. To continue to assist in the necessary debate regarding how best to achieve this objective, in a globally consistent manner, the ERC would like to take this opportunity to publicly reiterate the following general observationsⁱⁱ:

1. Aggregated position data is adequate to the task of monitoring systemic risk, which is essentially about the concentration of exposures to particular counterparties and against particular collateral. Transaction-level would not be cost-effective. We question the manageability of the huge volume of transactional data that would be generated by the repo market alone. And even comprehensive data is no substitute for market expertise and skilled interpretation.
2. Consideration should be given to compiling data directly from CCPs, electronic trading platforms and tri-party agent repo systems (complementary to bilateral repo data from firms in respect of other repo activity). In the European market, these may account for perhaps over 80% of repo business. Huge economies of scale and timing advantages are therefore available. Such data also comes without double-counting and with greater consistency and accuracy. Moreover, for obvious confidentiality reasons, the identity of counterparties to CCP-cleared transactions (excepting those registered post trade) is only possible with data from CCPs.
3. The quality of data (even at position level) would be enhanced by the matching of transaction details between counterparties. The industry is currently looking to the development of third-party automatic affirmation services. Regulators should work with the industry to integrate this initiative into the development of data reporting. If local regulators were encouraged to mandate the use of trade matching, then data quality and consistency could be notably improved while providing a positive outcome for risk management in the industry.
4. Regulators should avoid haste in setting up data collection arrangements, as requirements will be "hard-wired" into bank systems and will be difficult and expensive to amend. It may be better to consider interim measures such as using data from CCPs, etc., perhaps combined with surveys of the top 20 global banks.
5. Confidentiality at the global level is critical, as this is where sensitive information is most likely to leak, given the multiplicity of agencies from around the globe who will have access and the highly variable levels of governance among agencies. It is vital that access is restricted to relevant data. Which agencies are permitted access to what data also needs to be made transparent to contributors.

6. In order to eliminate double-counting, the soundest long-term approach would be to use LEIs. It seems inevitable that this system of classification will be implemented across regulatory frameworks in due course, so it makes sense to use it in repo data reporting from the start, rather than trying to retro-fit.
7. Collateral re-use will be difficult to capture given that securities are not issued in definitive form. However, given that the regulatory interest in re-use is assumed to derive from concerns over interconnectedness and potential contagion at a systemic level, the problem can be narrowed down to the largest global banks. In this case, periodic reporting of positions between such banks, broken down by types of collateral, should suffice. This data could be combined with existing large exposure regulatory reporting requirements.
8. The terms “rehypothecation” and “re-use” have not historically been consistently defined and the ERC believes that the FSB has now developed a good definition of these. This definition should be consistently adopted by authorities, who should be mindful of the distinctions that exist between the two when considering regulation.

The ERC has developed these general observations reflective of both its own practical experience in collecting repo data from its member firms and views of its member firms, which are already required to manage the reporting of repo data for a variety of purposes.

B. Specific comments on repo data questions

The FSB has enumerated 19 questions in section #2 “Data elements and granularity” of the Consultative Document, but since they are the ones focussed on repos the ERC’s comments in this section of the response are restricted to just the first six of these.

***Q.2-1:** Does the proposed definition of repos provide a practical basis for the collection of comparable data across jurisdictions as well as the production of comprehensive and meaningful global aggregates?*

A.2-1: The proposed definition appears to be quite sound in as far as it goes. However, the ERC notes that there is a degree of overlap between repos and securities lending; and as such the ERC’s responses in this section of the response would be equally applicable to certain securities lending business. The ERC draws attention to the fact that, rather than the legal form of the transaction, the more relevant distinction to be made concerns that portion of securities lending business which involves agent-lenders.

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

A.2-2: The ERC notes that repos are economically equivalent to sell/buy back transactions as discussed in the proposed definition; as well as to securities lending, which the Consultative Document separately addresses. The ERC strongly supports the point noted in section #6 “Next steps” of the Consultative Document, which recognises that synthetic structures are likely to be constructed from derivatives. To the extent that such derivatives are already required to be reported to trade repositories, there should be no duplication of reporting.

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

A.2-3: The ERC has a number of concerns prompted by its review of Tables 2 to 4 in the Consultative Document.

- The FSB has indicated its desire to look only at trades with settled on-legs. This will be hard to reconcile against the anticipated desire under European proposals which are far more extensive, including coverage of intraday activity – in which most reported trades will be unsettled. At best, reporting could be on the basis of contractual settlement without significant complexity.
- The ERC considers that Counterparty and Collateral classification, together with Issuer jurisdiction and Collateral quality are likely to prove to be very inconsistent if populated by each reporting firm. (“distributed approach”) To avoid this, the ERC strongly urges that the FSB should recommend a centralised approach in which firms provide raw data regarding counterparties (uniquely identified by LEIs) and collateral (uniquely defined by ISINs). The applicable classifications and data splits should then be applied by the authorities using consistent data tables maintained by the authorities; albeit that in practice the authorities may wish to delegate some of the practical application of this classification approach to the applicable, authorised trade repositories. Whilst this creates a centralised cost it will provide better quality results, easing the burden of data quality review, and offsets (greater) costs which would otherwise be distributed
- Collateral residual maturity is controversial where the collateral is in the form of asset-backed securities (ABS), the debate concerning whether the relevant measure is weighted average maturity or contractual maturity. Furthermore, applicable data underlying such securities is not always accurately maintained (e.g. in case of defaulted assets in the pool).
- Haircuts are typically highly confidential, which will lead to complexities with feeding applicable transaction data into a reporting system and deriving the haircuts from the data.
- The practicalities of tracking re-use will be difficult (see A.2-4, below).

Q.2-4: *Do you see any practical difficulties in reporting the total market value of collateral that has been re-used? Do you have any suggestion for addressing such difficulties?*

A.2-4: As stated in point #7 of the ERC’s “Overall comments” (above), the ERC believes that collateral re-use will be difficult to capture given that securities are fungible and are not issued in definitive form. However, given that the regulatory interest in re-use is assumed to derive from concerns over interconnectedness and potential contagion at a systemic level, the problem can be narrowed down to the largest global banks. In this case, periodic reporting of positions between such banks, broken down by types of collateral, should suffice. This data could be combined with existing large exposure regulatory reporting requirements. Trying to track re-use just through repo trades would, at best, give a partial picture, a true attempt to track securities would need to also capture cash market trades since the same security may pass freely between the cash and repo markets,

Q.2-5: Do the classifications provided for “market segment – trading” (in Table 3) and “market segment – clearing” (in Table 3 and 4) appropriately reflect relevant structural features of the repo markets? Are there additional structural features of repo markets that should be considered?

A.2-5: The ERC considers that these classifications for market segment are appropriate and should suffice.

Q.2-6: Are there additional repo data elements that should be included in the FSB global securities financing data collection and aggregation for financial stability purposes? Please describe such additional data elements, providing definitions and the rationale for their inclusion.

A.2-6: The ERC does not perceive that there are additional repo data elements that should be included in the FSB global securities financing data collection and aggregation for financial stability purposes.

C. Specific comments regarding other section of the Consultative Document

i. Data architecture

Q.3-1: Is the data architecture described in Section 3 adequate to support the global securities financing data collection and aggregation? Are there other relevant issues to be considered?

A.3-1: Accepting that there will be multiple national/regional markets and trade repositories, as well as multiple authority having legitimate needs to access some or all of the data being collected, the ERC considers that the tiered global data architecture is logically what will prove necessary to support the global securities financing data collection and aggregation.

Q.3-2: Do you have any other practical suggestions to reduce any additional reporting burden and improve the consistency of the global data collection?

A.3-2: Consistent with point #2 of the ERC’s “Overall comments” (above), the ERC is pleased to see that the FSB’s data architecture proposal envisions CCPs and tri-party agents interacting directly with trade repositories. The ERC wishes to stress that it proposes such an approach because it will provide a more reliable, accurate and efficient means of extracting the full picture on tri-party and CCP activity. It is not an attempt to limit data collection and the ERC fully accepts that firms would additionally need to supplement this with appropriate reporting of bilateral trading activities.

Q.3-3: Do the proposed measures for minimising double-counting at the global level constitute a practical solution to the problem?

A.3-3: As stated in point #6 of the ERC’s “Overall comments” (above) and consistent with the concerns expressed regarding classification in A.2-3 (above), the ERC considers that the approach to dealing with double-counting should be based on the “granular approach” described in the Consultative Document. The ERC notes that a clear and consistent approach to requiring single or dual-sided reporting should be established. The ERC’s proposal regarding trade matching, made in point #3 of the ERC’s “Overall comments” (above), is an important element to help underpin the effectiveness of the system of global data collection and aggregation which the FSB is seeking to establish; and the ERC accordingly believes that the FSB should press national/regional authorities to impose applicable standards on their respective market participants.

Q.3-4: *Are there any confidentiality issues that you consider relevant for the global securities financing data collection other than those explained above? If so, please provide any practical suggestions to overcome such issues?*

A.3-4: As stated in point #5 of the ERC's "Overall comments" (above), confidentiality is a very big concern and needs to be rigorously addressed. This concern arises because not only will there be highly confidential client data, but also unprecedented levels of data relating to the positioning and financing conditions of reporting firms. The ERC, whilst not being familiar with all the details, is aware that data confidentiality problems have already proved a stumbling block in the context of derivatives and stresses the need for the FSB to ensure that every effort is made to learn the lessons from the derivatives world and bake these into the securities financing data collection process from the outset (this is of course just one specific example of a more general point about the need to learn lessons from derivatives and build them in for securities financing).

ii. Recommendations for national/regional data collections

Q.4-1: *Do the proposed recommendations as set out above adequately support the authorities in deriving meaningful global aggregate data? Are there any other important considerations that should be included?*

A.4-1: The proposed recommendations appear logical to the ERC.

iii. Next steps

Q.6-1: *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?*

A.6-1: As stated in A.2-2 (above), the ERC considers it important to avoid duplication of reporting requirements by seeking to also capture transactions which are already covered by derivatives reporting requirements. In addition, as stated in point #7 of the ERC's "Overall comments" (above) and at A.2-4 (above) the ERC does not believe that trying to track re-use is a practical way to seek to monitor concerns related to collateral velocity; rather considering that the heart of the matter can be differently addressed through relevant reporting focussed on the largest global banks. Finally, the ERC's concern about the confidentiality and complexity associated with haircuts has already been mention at A.2-3 (above).

Q.6-2: *Are there other data elements in relation to securities financing transactions that you think the FSB should consider for financial stability purposes?*

A.6-2: Notwithstanding that there already moves in Europe towards trade level reporting, the ERC notes its continued belief, as stated in point #1 of the ERC's "Overall comments" (above), that in fact the appropriate focus in relation to financial stability risks associated with securities financing transactions should be position, rather than transaction-level, data.

Q.6-3: *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?*

A.6-3: As stated in point #4 of the ERC's "Overall comments" (above), the ERC believes that it makes sense to learn from pilot data collection before rushing ahead with the new reporting framework. Such an approach is not suggested in order to avoid reporting but rather as part of a sincere desire to work with the authorities to ensure that a truly "fit for purpose" system is developed and put in place. Even once detailed reporting requirements have been agreed, adapting reporting systems to meet new requirements will take time and banks face overlapping demands. This will stretch resources across the market, so it makes sense to pursue a phased implementation approach.

Q.6-4: *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.*


A.6-4: The ERC considers that it would be appropriate for national/regional and global aggregates to be published at the same time each month.

Concluding remarks:

The ERC is strongly supportive of the work being done by the FSB in relation to the establishment of standards and processes for global securities financing data collection and aggregation. This is so particularly because the ERC sees that the value which can be derived through the collection and analysis of securities financing data will be significantly diminished in case such data collection is insufficiently standardised and/or lacks clear, well controlled processes. The FSB has an important opportunity to play a leadership role in this regard and should seek to ensure the overall integrity of securities financing data collection. In aiming to do so it will be important not to underestimate the complexity of the challenge and the ERC considers that the FSB should, therefore, not shy away from recommending a centralised approach in order to ensure consistency, rather than relying upon the hope that decentralised elements will prove coherent when aggregated.

The ERC appreciate the valuable contribution made by the FSB's examination of the issues articulated in this Consultative Document and would like to thank the FSB for its careful consideration of this response. The ERC remains at your disposal to discuss any of the above points.

Yours faithfully,

A handwritten signature in black ink, appearing to read "De Vidts", with a long horizontal line extending to the right.

Godfried De Vidts

Chairman

ICMA European Repo Council

cc : *Iain de Weymarn, Head of Sterling Markets Division, Markets, Bank of England;*
Marc Bayle, Director General, DG Payments & Market Infrastructure, European Central Bank;
Olivier Guersent, Deputy Director-General, DG Financial Stability, Financial Services and Capital Markets Union, European Commission;
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David Wright, Secretary General, International Organization of Securities Commissions;
ICMA European Repo Committee

ⁱ The ICMA ERC [bi-annual survey of the European repo market](#) has become established over more than a decade as the only authoritative indicator of market size and structure and the dominant trends.

ⁱⁱ A copy of a more detailed, 16 October 2013, ICMA ERC white paper “Enhancing the transparency of the European repo market” was appended in full to the [28 November 2013 ERC response](#), prepared jointly with ISLA, to the FSB’s consultative proposals on haircuts.