

25 May 2012

Mr. Nigel Jenkinson  
Financial Stability Board  
Bank for International Settlements  
Centralbahnplatz 2  
CH-4002 BASEL

**Re: G-SIB Common Data Template Proposal**

Dear Mr. Jenkinson:

The Global Financial Markets Association<sup>1</sup> and the Institute of International Finance<sup>2</sup> (collectively, “the Associations”) very much appreciate participating in the May 2 FSB Workshop on the proposed G-SIB Common Data Template (CDT). In this letter, we would like to provide additional comments and feedback on the overall approach of the initiative now that we have a better understanding of the status, content, and objectives of the CDT. Specifically, our letter encourages FSB to:

- Formally adopt principles that should guide information collection
- Form an industry advisory group to facilitate dialogue with the industry on the development of the data template
- Launch the common data template using an observation period

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<sup>1</sup> The Global Financial Markets Association (GFMA) brings together three of the world’s leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (AFME) in London and Brussels, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA. For more information, visit <http://www.gfma.org>.

<sup>2</sup> The Institute of International Finance, Inc. (IIF) is a global association created in 1983 in response to the international debt crisis. The IIF has evolved to meet the changing needs of the international financial community. The IIF’s purpose is to support the financial industry in prudently managing risks, including sovereign risk; in disseminating sound practices and standards; and in advocating regulatory, financial, and economic policies in the broad interest of members and foster global financial stability. Members include the world’s largest commercial banks and investment banks, as well as a growing number of insurance companies and investment management firms. Among the IIF’s Associate members are multinational corporations, consultancies and law firms, trading companies, export credit agencies, and multilateral agencies. All of the major markets are represented and participation from the leading financial institutions in emerging market countries is also increasing steadily. Today the IIF has more than 450 members headquartered in more than 70 countries.

- Clarify and consult on the governance arrangements regarding use and confidentiality of the data
- Consider forming a permanent supervisory reporting board to oversee international data initiatives

These suggestions are discussed in more detail below. In addition, in response to the FSB's request, we are including in an annex some of our more important comments on the proposed top 50 counterparty credit exposure template, and will follow up with further comments in the coming days.

The Associations were very pleased to learn at the workshop about certain steps FSB is taking to align the CDT with other initiatives, for example, the BCBS systemic data collection and the Senior Supervisors Group top 20 counterparty report. We also appreciate the work done to inventory other data collection initiatives and the statements made about the need to consider other data initiatives and sources.

Overall, we think that the FSB has a key opportunity, through this initiative, to make real and lasting change in the quality of global supervisory data and systemic risk monitoring, as well as reducing the burden and cost to regulators and banking companies of collecting the data. There has been, and no doubt will continue to be, a growing number of information collection, reporting, and disclosure initiatives in the wake of the financial crisis, and many of these at the international level. Too often data reporting requirements are independent, disparate initiatives that result in multiple, overlapping, inconsistent reports. FSB is in a unique position to develop common data templates that are consistent with, and complement, the data reporting initiatives for recovery and resolution plans, Basel III, BIS-IBS, Senior Supervisors Group, the FSB/BCBS data aggregation project, and other macroprudential data gathering exercises, such as those of the US Office of Financial Research, the US Federal Reserve's new data collection required under The Dodd Frank Act on credit exposures, the European Systemic Risk Board, etc. Moreover, FSB can create a process whereby member jurisdictions agree to minimize the extent to which national or regional reporting requirements diverge from the specific modalities – definitions, reporting timeframes and lags for example – of the international reports.<sup>3</sup>

We recommend that the FSB agree and promote a set of principle, such as those that follow, that should guide information collection initiatives. Many of these are already reflected in the CDT proposal to some extent, but agreeing on principles would ensure that each decision point, for current and future information collection initiatives, would be guided by similar objectives:

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<sup>3</sup> Since the financial crisis, the number of governmental bodies developing reporting requirements for financial institutions continues to grow. The FSB can play a key role in trying to minimize duplication and maximize alignment and harmonization of these various efforts.

- *Alignment of requirements.* Where similar information is required by multiple external entities, an effort should be made to integrate the requirements as much as possible, whether for accounting, regulatory, statistical or other data purposes. The overall objective should be to avoid, where possible, the need for banks to report according to different criteria, definitions, or classifications.
- *Clarity of objectives.* The intended purpose and use of the data should be clearly defined and any data collected should support the agreed objectives.
- *Means for ongoing dialogue.* Data reporting requires an ongoing dialogue between the public and private sector, as development, interpretations and refinements of the data become necessary.
- *Strong governance of the data.* Any international reporting initiative requires assiduous attention to confidentiality arrangements and information-sharing protocols. These arrangements must be well-understood and have the confidence of all parties involved.
- *Adequate time for implementation.* There must be adequate time for both the development of the new reporting requirements, and, once the requirements are finalized, for the IT system modifications required.

While progress has been made, we have several additional suggestions as to how the CDT can best meet these principles.

### **Process to Finalize the CDT**

The Associations strongly encourage FSB to allow time for thoughtful feedback on the new templates and on the very detailed questions being asked in the immediate borrower, ultimate risk and structural data templates. We now have much more information on the proposed content of the CDT. The May 2 workshop was extremely helpful, but to really have meaningful dialogue about specific line items and their informational content, the intended use of those line items, and relate those line items to other reporting initiatives in order to evaluate the need for standardization or clear differentiation, requires an ongoing, detailed interaction.

In addition, a clear understanding as to how the data will be used and what actions the FSB, BIS, BCBS, SSG, or other international bodies might take based on the data will be essential. Some of this was covered at the workshop; in particular it was stated that the CDT will inform the FSB supervisory community on emerging macroprudential issues and emerging issues that might affect microprudential supervision of firms. However, many questions remain, including what specific metrics would be tracked and what kind of reports will be prepared, by whom, and for whom. Although it was stated that the information gathered was not intended to be the basis of large-exposure limit enforcements, the industry needs to understand the extent to which it might be used to sanction markets, products, or institutions, and what the role of the FSB, the supervisory colleges, the crisis management groups, and the national supervisors would be.

As a first priority, the Associations recommend that an international **industry advisory group** be formed to interact with and support the FSB in further developing the template and the required data elements. Key issues that still need further dialogue -- in more detail than was possible on May 2 -- include:

- Reviewing what specific data to include in the CDT. Given the cost – both public and private – of collecting and managing the data, and the significant confidentiality concerns associated with it, the standard for deciding to collect the data must be higher than the fact that it might be interesting or nice to know. We understand the need for the global regulatory community to collect additional information about G-SIBs – after all, certain information is needed just to evaluate a banking company’s ongoing systemic status – but all aspects of the CDT should support an identified purpose as noted above, or it should not be part of the CDT.
- A deeper dive into the *Inventory of International Data Collection Initiatives* presented by Pietro Franchini on May 2, in order to act on its findings by identifying opportunities to refine and standardize definitions. Parameters such as instrument type, maturity, and industry, to name a few, need to be defined as carefully as possible in order to achieve better quality data and reduce unnecessary costs.<sup>4</sup>
- Further development of the template notes and instructions; those provided to date are not detailed enough to know where consistency does or does not exist.
- Many open questions about the data requirements exist. Additional requirements need to be debated and concluded. For example, it is not clear what threshold should be used for reporting legal entities on the “Group Structure” template. It would make sense to align this with the approach in recovery and resolution planning. Similarly, guidance needs to be agreed on how to categorize exposures into the various sector buckets. Lag times for the submission of data, depending on the specified need for it, should take appropriate account of banking groups’ data production, governance and, as appropriate, external disclosure timelines.

An industry advisory group could work with the FSB almost immediately on these and other issues in the development of the templates and then it could continue in support of the FSB on other initiatives around data collection and risk management.

As part of the finalization process, we strongly recommend the FSB conduct an observation period on the data collection to understand 1) if it will really serve the goals the FSB

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<sup>4</sup> The LEI framework is a good example of the benefit that can be achieved from making the upfront investment of time and resources into standardization. We hope the LEI framework is intended to be used in the CDT, but the templates and instructions we have seen to date are silent on this point.

articulated as part of the workshop, 2) to ferret out any ambiguities of standards or definitions, or inconsistencies of interpretation; and 3) to determine whether there are any obstacles to collecting the data. Of particular value would be for FSB to look at the data and understand if it really provides the intended visibility.<sup>5</sup> An observation period would allow the CDT to go forward on a best-efforts basis, provide the FSB with significantly more information than currently exists on the G-SIBs, while building in some flexibility to adjust the templates based on the observation experience. This will help ensure that the data ultimately collected is as useful and relevant as possible and does not impose unnecessary burden and costs on regulators and industry alike.

We do not make the above observations and suggestions to slow the process down inordinately, and in fact we believe the development of the CDT could proceed efficiently and effectively in the following way. An industry advisory group (IAG) could be formed almost immediately, and the issues discussed could be prioritized according to the proposed phasing of the CDT. Therefore it would first focus on the top-50 counterparty credit exposure template, followed by the funding risk template and the enhanced IBS, and so on. Each template, following a dialogue between the IAG and the FSB, could be tentatively finalized on or before the scheduled phase-in date and implemented for a specified observation period.

The observation period need not be long. In fact, we are supportive of the approach taken by the Senior Supervisors Group, where a top-50 counterparty exposure template was piloted on a one-time basis in order to determine its feasibility and usefulness. Depending on the results, the template could be finalized after one or more reporting periods, in a timeframe that allows any national or regional implementation to proceed as well as necessary programming changes.

This process of dialogue and enhancement could add considerably to the successful implementation of the templates over time. The IAG could be a tremendous resource to the FSB in identifying and resolving definitional differences between the CDT and other reports, and in facilitating interpretations of the data. Also, in past exercises, both the banks and the regulators have found great value in beginning information collection on a best-efforts basis, where the usefulness, comparability, and feasibility of the information can be evaluated and modified before finalizing the required reports.

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<sup>5</sup> A perfect example is the discussion at the recent meeting in Hong Kong on the data aggregation work stream about whether the FSB would be able to assess country concentrations or liquidity issues based on the way they are asking for data.

## **Governance of the Data**

We understand from statements made at the May 2 workshop that work is underway on the governance aspects of the CDT. Confidentiality protections and information-sharing protocols are of significant concern to firms, both as to commercially sensitive information and as to confidential client information. The FSB should take advantage of the legislative changes agreed in its *Key Attributes of Effective Resolution Regimes* to obtain a legally well-grounded, secure foundation for protecting the confidentiality of data to be shared among supervisors and authorities for FSB-mandated purposes before reporting begins. There needs to be strong governance over the use of the data, with clear accountabilities to ensure confidentiality. It is not clear to us how memoranda of understanding alone would be sufficient to deal with this problem. This is an extremely important issue for the industry and we would like an opportunity to comment on the proposed arrangements.

Another aspect of governance is to think ahead to how changes to the data collection would be governed. A process should be established to ensure that any new desired reporting stay true to the FSB's guiding principles, including ensuring that the data collected serves an identified international purpose, and that it aligns as much as possible with other reporting.

We recommend that a permanent international **supervisory reporting board** be established to oversee the consistent collection and interpretation of the data, the maintenance and use of the data in accordance with the principles established by the FSB, and changes in definitions or procedures needed over time and future data requests. Such a board should also have a recognized, permanent advisory board made up of industry experts, which could be based on the industry advisory group mentioned above.

## **Detailed Feedback on Templates**

At your request, we are working with our members to provide detailed feedback on the templates, starting with the top 50 counterparty credit exposures template. We have included some initial important feedback in an annex to this letter. However, written comment letters, provided under such tight timeframes, cannot adequately address many important issues, especially on the new templates not previously exposed for comment. The Associations would like to reiterate that we strongly recommend that such written comments not be the only means of interaction between the industry and the FSB on the specific content and modalities of the templates. An ongoing industry/FSB dialogue in the form of an advisory group would be the best way to have meaningful interaction, considering the level of granularity of the proposed templates and the volume of other reporting initiatives with which we all want to align the CDT as much as possible.

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The Associations would like to express our appreciation for the FSB's receptivity to the industry's input and involvement in the development of the CDT. We are supportive of the effort to improve and rationalize the information reporting of G-SIBs, and we share the objective of arming supervisors and other government officials with sufficient data to carry out their micro and macro prudential supervisory responsibilities. With appropriate planning and effort, the project has the potential to be win-win for the authorities and the industry by improving the quality of data reported while also streamlining reporting requirements for the institutions.

Sincerely,



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Simon Lewis  
CEO  
GFMA



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David Schraa  
Regulatory Counsel  
IIF

CC: Vichett Oung, Financial Stability Board

## ANNEX

### Initial Comments on the

### **Proposed Top 50 Counterparty Credit Exposure Template**

The Associations recognize the value for supervisors, decision-makers and market participants of having accurate and timely data concerning the credit exposures of significant financial institutions, and we appreciate the work the FSB has done to develop the proposed CCE template in consultation with industry. However, we have some concerns and suggestions with the current proposal, outlined below, in the areas of reporting frequency and time lag, level of aggregation, and the implementation timeframe. We will forward further detailed comments on the metrics used in the proposal and other issues in the coming days.

#### **Reporting frequency and time lag**

The proposal to report data on a monthly basis with a 5-day lag is aggressive, relative to current business practice. In particular, the five-day lag does not adequately consider the time needed for collecting, processing and reconciling data, often from a number of jurisdictions and time zones, to ensure accuracy and quality. In part, the appropriate time lag depends on how the FSB proposes to utilize the data collected through the CCE template, which the Associations feel has not been clearly articulated. We assume that given the monthly reporting frequency, CCE template data will be used to monitor aggregate exposures in the financial system under “business as usual” conditions. Under such conditions, the opportunity cost of lengthening the lag time is low because the data is relatively stable over a short time period. The gain from a longer time lag, on the other hand, will be substantial, because it will enable firms to align the reporting for this template with their internal data processing and reconciliation cycle, which will not only minimize burden but will result in enhanced data quality.

In contrast to normal conditions, in the event of a crisis, the tradeoff between data quality and speed of production is more ambiguous. Under such circumstances, weekly data with a shorter time lag may be appropriate for reporting CCE template data. However, FSB should recognize that this data will be on more of a “best-efforts” basis given the short production time. Consideration should be given to a simplified version of the CCE template for reporting in the event of a crisis, focusing on those elements that are consistent with internal risk metrics, which will better align with the firms’ risk management reports, not only reducing burden on the institutions at a critical time, but also resulting in the best quality data considering the short reporting lag.

The specific time lags that would be appropriate for the CCE template in normal and crisis conditions, respectively, would be best determined through detailed dialogue with firms, which would be greatly assisted with the establishment of the recommended industry advisory group. Such a forum would allow supervisors to conduct a detailed survey of firms' reporting capabilities vis-à-vis the proposal and determine the optimal time lag and reporting schedule for the CCE template.

### **Aggregation**

*Level of consolidation at the reporting bank.* We note and support that FSB intends the data to be collected at the group consolidated level. Going beyond the consolidated entity is nearly impossible to implement in an accurate and efficient manner and we are pleased that the FSB recognizes this issue.

*Definition of Implicit Support.* We would like clarity regarding the meaning of "all connected entities for which the parent company provides an explicit guarantee or implicit support". In particular, further guidance is needed with respect to the definition of implicit support.

*Legal Entity Identifier.* The accurate identification of counterparties is widely recognized as a critical element for enhanced systemic risk monitoring and management. A key FSB initiative in this area has been the development of a system for legal entity identification (LEI). With respect to the use of the LEI for identification of entities as part of the CDT collection process, we note that the *Draft FSB Notes for Template for Structural Data* referenced the use of the LEI but the *Top 50 Counterparty Credit Exposures* notes appear to be silent on it. Use of the LEI in the top 50 data counterparty gathering process could be very helpful in the aggregation of these top exposures. We suggest the FSB consider use of the LEI in Top 50 and other templates that reference counterparties.

### **Timeframe for implementation**

The proposed timeframe for implementation of the CCE template is very short, with minimum requirements implemented in March 2013, and full implementation to be achieved by March 2015. It is not clear that this proposal provides firms with adequate time to align existing information systems and/or develop new systems, such that they can gather, measure, aggregate and report exposures according to the reporting framework outlined in the Notes, particularly those that are not already filing the top-20 report to supervisors. The CCE template will require aggregating exposures across a very large number of entities and across many jurisdictions. This may require aggregating data across a number of different information systems, which will be a complicated and time-consuming task, particularly for settlement/clearing lines which are generally managed distinctly from other credit exposures and not reported in current regulatory submissions.

We recommend that the FSB implement the CCE template in the planned timeframe, but begin with an observation period, during which the full CCE template would be completed on a “best-efforts” basis, as is currently contemplated for a portion of the template. Current reporting capabilities and specific metrics will vary amongst firms, and as such it is unclear that the currently specified minimum requirements are those items which firms are best equipped to report on. An observation period would allow supervisors to get a more accurate sense of which elements of the template firms are currently able to report, and which will require additional time and effort. In addition, supervisors will be able to determine with more clarity which data provide the intended visibility into systemic risk, and can make any necessary revisions in the final template following the observation period.