April 22, 2016

Secretariat of the Financial Stability Board
c/o Bank for International Settlements
CH-4002
Basel
Switzerland
Email: fsb@fsb.org

Re: FSB Consultation Document: Transforming Shadow Banking into resilient Market-based Finance—Possible Measure of Non-Cash collateral Re-Use

Dear Sirs and Madams:

The Global Financial Markets Association (GFMA)[1] appreciates the opportunity to comment on the FSB's consultation document "***Transforming Shadow Banking into resilient Market-based Finance—Possible Measures of Non-Cash collateral Re-Use"*** (Consultation Document). GFMA recognizes and values the efforts of the FSB in continuing the engagement with the industry on these important issues. Given the importance of efficient collateral management by market intermediaries, we urge the FSB to continue to focus on the particular risks that require monitoring and tailor any reporting requirements accordingly.

As noted in the Consultation Document, the re-use of collateral plays an important role in the functioning of financial markets by increasing the availability of collateral and reducing transaction and liquidity/funding costs. The availability of collateral through re-use benefits overall market liquidity and aids in the the reduction of settlement fails. As we discuss below, to the extent the FSB recommends a measure of re-use from among the three suggested, we believe the Approximate Measure (as defined below) offers the most meaningful information and would be broadly consistent with firms' approach to collateral management.

[1] 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, please visit http://www.gfma.org.

Care should be taken to first identify and focus on the specific risks that authorities wish to measure and monitor prior to finalizing the recommendations and then implementing at the national level. We have noted previously that we believe the risks posed by collateral re-use to the financial system are limited and that prior to implementing reporting requirements or drawing conclusions based on data collection, authorities should balance any benefit from reporting against the burden on market participants.

Measuring re-use is not a straight forward exercise and may not always yield meaningful results to address specific identified risks. To the extent that reportable measures are adopted we stress that they should be reflective of the way firms manage collateral and should not force changes to existing practices that are beneficial to the financial system. The importance of efficient management of collateral and the efficient movement of collateral throughout the financial system cannot be overstated. This importance has grown in the post-financial crisis regulatory world where regulators have sought to mitigate risks through the role of collateral. Firms have thus developed systems and approaches that seek to deploy collateral in the most efficient way with appropriate types of collateral available when needed.

Firms receive securities that can be used as collateral through multiple sources, including SFTs, cash sales and in connection with derivative transactions. Generally, ownership in the collateral passes to the firm through title transfer—specific pieces of collateral within a pool of collateral are no longer a client's asset but rather are the firm's assets. While firms may be able to track the source of collateral eligible for re-use, the assets within the pool are treated as fungible and firms do not link the source of particular pieces of collateral with its use. Any measure of collateral re-use should consider these arrangements as they contribute to a firm's efficient use of collateral and important function as financial intermediary.

Any measure of re-use will therefore be an approximation and all metrics and analytics derived from these measures should be treated accordingly. We would urge the FSB to continue to weigh the benefits of collecting these measures against the cost of implementation in proposing specific measures and metrics.

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2. Scope of re-use measure

Q1. Does the proposed scope of transaction for data collection (Scope A) provide a practical basis for the meaningful measures of non-cash collateral re-use? If not, please explain how you think the scope should be broadened and the reasons why this alternative scope is more appropriate than the proposed scope.

We agree with the FSB's recommendation that the scope of the data collection on re-use should be limited to SFTs (i.e. Scope A). This will present the most relevant data to assess overall global trends in collateral re-use and the specific areas of focus for the authorities (interconnectedness, leverage and procyclicality).

Limiting the scope of data collection to SFTs is appropriate and will yield the most meaningful measure of collateral re-use. Non-cash collateral re-use in other product areas (OTC derivatives, for example) may be more limited due to the prevalence of cash collateral and/or segregated non-cash collateral. The additional complexity of Scope B would outweigh any perceived incremental informational benefits.

We would note, as well, with respect to implementation, existing reporting requirements are generally product specific, and, thus, expanding this collection to include other products would make implementation overly complex with little additional informational benefit.

In implementing Scope A, as noted more fully below, it is critical that any measure does not inadvertently capture collateral that is connected with transactions other than SFTs.

3. Collateral re-use measures at the national/regional level

Q2. Are there any practical issues (e.g. updating current business practices, IT systems) in relation to the three measures of collateral re-use that are set out in Section 3? Are there any ways to improve these measures?

Each of the proposed measures presents different challenges and results in an approximation of collateral re-use. We believe that the Approximate Measure is the most appropriate and would be implementable consistent with current collateral management practices. This measure is more generally in line with current industry standard practice for collateral management. As noted below (and acknowledged by the FSB) we are concerned that the Indirect Approximate Measure would overstate collateral re-use and therefore believe it is of significantly less value in assessing re-use. Any overstatement of re-use would then impact the metrics, analysis and quantification of the risks for financial stability purposes. The Exact Measure would require firms to make significant assumptions about their use/re-use of assets. These assumptions would not be transparent to regulators and would not necessarily be comparable across firms. It may also capture collateral connected to transactions that are outside the intended scope.

Exact Measure

The exact measure option described in Section 3.1 (the Exact Measure) does not reflect the structure of collateral management within the industry today, as it would require the linking of the source of a specific security with its use. This poses particular challenges to transactions that source collateral from fungible pools. In these circumstances, deriving an Exact Measure may require firms to make assumptions about collateral re-use that might be inconsistent across the industry.

As noted throughout this response, firms that use collateral pools are generally agnostic as to the source of the collateral and certainly do not tag specific pieces of collateral. Thus, this measure would require significant builds and changes in fundamental business practices. Given that collateral from the same issuance of securities are fungible, and under title transfer are the firm's own assets, there is no benefit from further designation or tracking.

We note, as well, that the Exact Measure may include non-SFT collateral related assets. The calculation deems all non-own assets to be SFT collateral when, in fact, that class could include other collateral (for example, collateral related to OTC derivative collateral).

Approximate Measure

We believe the measure described in Section 3.2 (the Approximate Measure), while approximate, would give a more appropriate estimate of collateral re-use than the Indirect Measure (as defined below) and could, with a reasonable amount of additional work, be operationally implemented. This also reflects better (than the Exact Measure) firms' approach to collateral management.

Indirect Approximate Measure

While we believe that the option described in Section 3.3 (the Indirect Approximate Measure) is relatively straight forward to implement based on current reporting initiatives and collateral management practices, we are concerned that this method would, as noted in the Consultation Document, generally "over-state the amount of collateral being re-used." This overstatement would then impact the re-use metrics proposed in Section 4 of the Consultation Document and would materially overstate the metrics that aggregate data (for example, collateral re-use at the jurisdiction and global level). This overstatement could be significant and the FSB and other regulators should be mindful of these approximations and assumptions when analyzing, interpreting or publishing aggregated re-use data should the Indirect Approximate Measure be recommended.

Q3. For the first measure, are there any practical issues in reporting whether collateral you posted is in the form of "own assets" or in the form of assets that were received as collateral in a previous transaction?

As noted in the Consultation Document, the first measure would "require that all individual market participants be able to differentiate between whether the securities used stems from their own assets or were received as collateral from other transactions." As noted throughout this response, ownership in collateral generally passes to the banks through title transfer—the securities are not client assets. Firms generally pool the collateral and use it as own assets. Tracing how every security is acquired by the bank and linking and identifying a particular security as reused collateral is unnecessary and burdensome.

Q4. Are there other measures of collateral re-use that the FSB should consider for financial stability purposes?

Rather than prescribing a single measure that is an approximation (and that may clearly overstate collateral re-use), consideration should be given to developing measures that represent a range with upper and lower bounds, based on differing re-use assumptions. Such a range recognizes the imprecise nature of any measures of re-use and the overall difficulties in measuring re-use. If the FSB were to consider this approach, we would be happy to work with the FSB to develop measures that represent an upper and a lower bound of re-use and that would result in a reasonable approximation of collateral re-use.

4. Collateral re-use metrics

Q5. Do you have a view on any of the six metrics related to collateral re-use that are set out in Section 4? If so, please indicate the metric(s) and explain the views you have.

Each of the measures represents an approximation of re-use based on certain assumptions that do not necessarily reflect the way collateral is managed. Care should be taken when combining the results of those measures in the metrics proposed and drawing conclusions from that aggregation. In particular, as noted above, it is imperative, if the Indirect Approximate Measure is used, that authorities consider the potential for material overstatement of re-use and the impact that overstatement would have on the output of the proposed metrics.

Q6. Are there any other metrics related to collateral re-use that the FSB should consider for financial stability purposes? If so, please define the metric(s) and explain how the metric could be used for financial stability purposes?

While we do not have any other metrics to suggest, we would urge the FSB to consider any current or future metrics (and the evaluation and analysis of their expected outputs) within the broader context of the nature of the underlying collateral and industry risk management practices. In particular, please note the following:

- Repo collateral is largely core government securities designated as High-Quality Liquid Assets under the BCBS liquidity frameworks. This collateral is fungible and readily replaceable.

- Prudent risk management practices mitigate many of the risks highlighted by the FSB, including through use of haircuts and daily margining.

- Policy initiatives since the financial crisis have targeted a number of the financial stability risks highlighted by the FSB and, as a result, additional risk management standards may mitigate the build-up of the risks highlighted by the FSB in the Consultative Document.

5. Data elements to be submitted to the FSB

Q7. In your view, are the data elements set out in Table 1 appropriate for calculating the collateral re-use measure in Section3? Are there alternative data elements that the FSB should consider? If so, please explain the data elements and the reasons.

We believe it would be more useful to evaluate the data elements after a measure is determined. Without the appropriate measure it is difficult to assess the appropriateness of all these data elements.

Q8. Are there any practical issues on the data elements for calculating the collateral re-use measures that are set out in Table 1?

Again, evaluation of the data elements would be more appropriate after a measure is determined.

Q9. In your view, should the collateral types for measuring collateral re-use align with those set out in the November 2015 global securities financing data standards as set

out in Table 1? If not, please explain which collateral types you think are appropriate for the collateral re-use measure(s)?

We believe that the collateral types for measuring collateral re-use should align as much as possible with those set out in November 2015. This should aid significantly in implementation and provide a consistent approach to data collection and aggregation.

6. Data architecture

Q10. Are there any views on the data architecture issues related to measuring collateral re-use as set out in the Section? Do you see any statistical issues arising as a result of the proposed aggregation approach?

We reiterate our concerns with respect to interpretation and confidentiality as noted in our response to the FSB's Data Expert Group of 12 February 2015. As noted there, it is important that interpretation and aggregation be centralized where possible in order to maximize consistency and accuracy. In addition, we note that sensitive data not be transmitted beyond the national level, including in connection with any follow up data requests.

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Thank you again for the opportunity to provide views on the Consultation Document. We would be pleased to discuss any of these comments in further detail, or to provide any other assistance that would help facilitate your further review and analysis. Please contact Robert Toomey (rtoomey@sifma.org) or Gary Simmons (gary.simmons@afme.eu) at GFMA by email should you require any further information.

Sincerely,

David Strongin
Executive Director
Global Financial Markets Association