COMMENTS FROM THE ASSOCIATION OF SUPERVISORS OF BANKS OF THE AMERICAS (ASBA) TO THE CONSULTATIVE DOCUMENT

"Transforming Shadow Banking into Resilient Market-based Finance: Possible Measures of Non-Cash Collateral Re-Use"

(ISSUED BY THE FINANCIAL STABILITY BOARD FOR COMMENTS BY 22 April 2016)

I. Purpose of the Consultative Document

The Financial Stability Board (FSB) has been working to improve the understanding of collateral re-use practices by financial agents and its potential impact on financial stability.

The consultative document describes the "… possible measures of non-cash collateral re-use and the related data elements that could potentially be included in the FSB's global securities financing data standards and authorities would be asked to report national/regional aggregates of these measures to the FSB. The document is intended to provide a starting point for discussions with market participants and researchers concerning the derivation of a meaningful measure(s) of collateral re-use to be used to evaluate global trends and to assess risks to financial stability. The practical challenges in collecting the data necessary to create such a measure(s), such as the need to modify current business practices and IT systems, should also be considered in evaluating the alternatives."[1]

Following, are the comments made by the members of ASBA to the consultative questions posed by the Financial Stability Board.

Q1. Does the proposed scope of transactions for data collection (Scope A) provide a practical basis for the meaningful measure 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.

Yes. The proposed Scope A provides a practical basis for a meaningful measure for non-collateral re-use since for most countries in the Americas, collateral re-use is usually applied to repos that use government bonds as collateral (included in the definition of SFT under Scope A). This,makes Scope A a broad enough measure for capturing non-cash collateral re-use, so there is no need to broaden its scope.

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 this Section? Are there any ways to improve these measures?

Practical issues may arise for some authorities and banking entities since they will need to update their accounting manuals to distinguish, for instance, restricted securities, the

[1] Transforming Shadow Banking into Resilient Market-based Finance: Possible Measures of Non-Cash Collateral Re-Use. Financial Stability Board. February 2016.

collateral pledged or transferred, and others. This will, in turn, imply modifications to the information technologies (IT) of all entities to reflect those updates.

Currently, IT systems, where government bond repos must be registered, do not allow the differentiation between bonds originating of another repo and the ones originating from direct purchases not subject to a repurchase agreement (and thus part of an entity´s own assets). Therefore, calculating the exact measure of collateral re-use set out in section 3.1 may not be currently possible; nevertheless, it may be possible to calculate the approximate measure of collateral re-use proposed in section 3.2, provided some specific IT measures are implemented.

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?

Regarding the first measure that requires market participants to inform whether or not collateral granted corresponds to own assets or assets received as collateral in previous transactions, an alternative method to this data gathering process may be to require data regarding collateral granted as well as the proportion and amount of own assets affected in collateralized transactions.

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

The measures of collateral re-use set out in section 3 are sufficient for financial stability purposes. Also, it is worth considering that adequate guidelines in this respect are provided in other Basel documentation, e.g. 51(i) and 51(ii) stating that "…internal reports must indicate the categories of collateral assets that are reused, and the terms of such reuse including instrument, credit quality and maturity", or "Such internal reporting should include information on the type of collateral (both cash and non-cash) received and posted, as well as the size, aging and cause for margin call disputes."[2]

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

[2] Basel III: A global Regulatory Framework for More Resilient Banks and Banking Systems. Basel Committee on Banking Supervision. June 2011. (Page 43, second paragraph).

The metrics related to collateral re-use set out in section 4 seem appropriate for the assessment of market characteristics linked to financial stability, such as interconnectedness and degree of concentration.

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.

The Association considers that the metrics laid out in section 4 are sufficient to support financial stability.

Q7. In your view, are the data elements set out in Table 1 appropriate for calculating the collateral re-use measures in Section 3? Are there alternative data elements that the FSB should consider? If so, please explain the data elements and the reasons.

Data elements to be submitted to the FSB and set out in section 5 seem appropriate for calculating the collateral re-use measures defined in section 3, and because data elements of Table 1 are well related to the metrics depicted.

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

Yes; a practical issue may arise if, for instance, when IT systems do not allow the differentiation between bonds originating of another repo and the ones originating from direct purchases and that are not subject to a repurchase agreement (the latter, in turn, being part of an entity´s assets). Therefore, calculating the data element "own assets encumbered" may not be currently possible. This possibility could be the case for some regional countries.

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).

Yes; in general, the collateral types set out in Table 1 for measuring re-use are aligned with the criteria defined in the November 2015 Global Securities Financing Data Standards.

However, it could be emphasized that collateral re-use shall also be in line with Basel standards, which establish that "The bank must ensure that the nature and horizon of collateral re-use are consistent with its liquidity needs and do not jeopardise its ability to post or return collateral in a timely manner."[3]

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

No data architecture or statistical issue arising as a result of the proposed aggregation approach is envisaged. However, precaution shall be taken to avoid confusion when registering values equal to zero from data cells with no data at all.

Q11. Are there any other views on other aspects of this document?

There are no other views on other aspects of the consultative document.

[3] Idem, page 44.