

BLACKROCK

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Secretariat to the Financial Stability Board
Bank for International Settlements
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CH-4002 Basel
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Submitted via email to: fsb@fsb.org

RE: Proposed Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms

BlackRock is pleased to have the opportunity to respond to the Proposed Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms (“Consultation” or “Framework”), issued by the Financial Stability Board (“FSB”). BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs. BlackRock commends the FSB for developing the Framework and for seeking public comments. We have noted the FSB’s evolution over the course of this work and we are encouraged by an increasingly focused attempt to assess the impact of global regulatory reforms on the financial system, including the interaction between different reforms. We are supportive of the objectives of the Framework “to guide analyses of whether the G20 financial regulatory reforms are achieving their intended outcomes, and help identify any material unintended consequences that may have to be addressed, without compromising on the objectives of the reforms.”

The FSB’s work since the financial crisis has strengthened the global financial system to the benefit of all market participants, as demonstrated by the system’s resilience through multiple stress events in the past several years. Notably, several major market moves have occurred (listed in Exhibit 1), yet no systemically important banks have failed and no systemic market failures have occurred. Nonetheless, while it is evident that reforms implemented to date have been beneficial, as Former Federal Reserve Governor Daniel Tarullo recently stated: “the novelty of many of the forms of regulations adopted by financial regulators, either in implementing the Dodd-Frank Act or under existing authorities, almost assures that some recalibration and reconsiderations will be warranted on the basis of experience.”¹ In this regard, we recognize the importance of stepping back and reviewing the overall impact of regulatory change to consider whether refinements may be warranted. We believe the Framework is a good starting point for this analysis.

That said, it is not sufficient to look back at what changes have already been implemented.² Rather, the forward-looking agenda of reforms that are in progress or are under consideration must also be evaluated – particularly with regard to their potential to conflict with or duplicate what has already been implemented. In other words, as the financial system evolves, the FSB must also evolve to effectively address financial stability risks in a changing landscape. To this end, we believe that the scope of the Framework

¹ Federal Reserve Governor Daniel Tarullo, Speech at the Woodrow Wilson School: Departing Thoughts (Apr. 4, 2017), available at <https://www.federalreserve.gov/newsevents/speech/tarullo20170404a.htm>.

² As stated in the Consultation, the FSB is reviewing G20 reforms for which implementation is well underway or completed. See FSB, Proposed Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms (Apr. 11, 2017), available at <http://www.fsb.org/wp-content/uploads/Framework-for-the-post-implementation-evaluation-of-the-G20-financial-regulatory-reforms.pdf>.

must be significantly more comprehensive than is currently proposed. We recommend that the Framework be expanded to take a more top-down approach that considers how progress on the four G20 core reform areas³ to date should be reflected in the FSB’s future policy initiatives and structure. Questions that need to be asked include:

- (i) Do the current FSB policy priorities⁴ appropriately reflect today’s landscape?
- (ii) What policy initiatives should be prioritised going forward?
- (iii) Does the current FSB organizational structure and committee member composition effectively support remaining work to be completed?
- (iv) Should the number of work streams and policy initiatives (across FSB and standard setting bodies) be rationalized?⁵

It is with this more comprehensive approach in mind that we have developed the comments provided in this letter.

Exhibit 1: Major Market Events in Last 3 Years

Date	Event	Market Impact
Oct. 2014	US Treasury “Flash Rally”	Intra-day volatility
Oct. 2014	Bank of Japan and Government Pension Investment Fund announcements about asset allocation shifts	7% increase in Nikkei Index ^a
Jan. 2015	Swiss National Bank lifted currency cap on Swiss franc	15% decline in Swiss Market Index ^b
Jan. 2015	European Central Bank announced expansion of QE	5% European equity market rally ^c
Aug. 2015	Equity market opening issues on August 24	Intra-day volatility
Jun. 2016	UK EU referendum result (“Brexit”)	7% drop in FTSE 250; 11% drop in FTSE 350 ^d
Oct. 2016	UK Pound Flash Crash	Intra-day volatility
Nov. 2016	US Election results followed by Dec. 2016 FRB rate hike	Increase in 10Y Treasury yields ^e

- a) WSJ, using end of day data for Oct. 27-31, 2014. As of Nov. 2014.
- b) Bloomberg, using end of day data for Jan. 12-16, 2015. As of Jan. 2015.
- c) WSJ, using end of day data for Jan. 19-23, 2015. As of Jan. 2015.
- d) The Guardian, Brexit fallout – the economic impact in six key charts (Jul. 8, 2016), available at <https://www.theguardian.com/business/2016/jul/08/brexit-fallout-the-economic-impact-in-six-key-charts>.
- e) Bloomberg, BlackRock Investment Institute. As of Dec. 2016.

Regarding the specific risks and challenges ahead, we continue to believe that central clearing counterparties (“CCPs”) present a concentration of risk that could have financial stability implications. We encourage the FSB and CPMI-IOSCO to prioritise completion of their recommendations on resilience, recovery, and resolution for CCPs.⁶

³ Consultation at 5. The core reform areas to which the framework will applied are: (1) making financial institutions more resilient; (2) ending too-big-to-fail; (3) making derivatives markets safer; and (4) transforming shadow banking into resilient market-based finance.

⁴ The FSB has outlined four priorities under the German Presidency: (1) transforming shadow banking into resilient market-based finance and addressing structural vulnerabilities in asset management; (2) making derivatives markets safer by progressing the post-crisis reforms to over-the-counter (OTC) derivative markets and delivering coordinated guidance on central counterparty (CCP) resilience, recovery and resolution; (3) supporting full and consistent implementation of post-crisis reforms, while developing a structured framework for post-implementation evaluation of the effects of reforms; and (4) addressing new and emerging vulnerabilities, including misconduct risks, as well as those stemming from the decline in correspondent banking and from climate-related financial risks. See FSB Letter to G20 Finance Ministers and Central Bank Governors (Mar. 10, 2017), available at <http://www.fsb.org/wp-content/uploads/FSB-Chairs-letter-to-G20-FMCSBG-March-2017.pdf>.

⁵ Japan Financial Services Agency Commissioner Nobuchika Mori highlighted that there are over 140 different workstreams under the FSB, BCBS, IOSCO, and IAIS alone. See Japan Financial Services Agency Commissioner Nobuchika Mori, Speech, You cannot see the forest for the trees (Nov. 25, 2015), available at <http://www.fsa.go.jp/common/conference/danwa/20151125/01.pdf>.

⁶ BlackRock *ViewPoint*, Resiliency, recovery and resolution - Revisiting the 3 R’s for Central Clearing Counterparties (Oct. 2016, available at <https://www.blackrock.com/corporate/en-gb/literature/whitepaper/viewpoint-ccps-resiliency-recovery-resolution-october-2016.pdf> (BlackRock CCP *ViewPoint*); CPMI-IOSCO Consultative Report, Resilience and recovery of

Likewise, we agree with the FSB's pivot towards a product and activities approach in asset management, and we hope that the follow-on work by IOSCO will lead to harmonized metrics and data reporting on funds. Ideally, IOSCO's recommendations will be adopted by markets regulators globally, thereby leading to improved information for monitoring of markets and a reduction in wasteful duplication of reporting using inconsistent methodologies. Standardizing regulatory reporting will improve the ability of the FSB to conduct global monitoring of risks, as current data is insufficiently uniform to support such efforts. Our *ViewPoint*, titled Improving Transparency: The Value of Consistent Data over Fragmented Data, discusses our recommendations to foster greater standardization of data reporting.⁷

The FSB's 12 January 2017 policy document indicated that the FSB may return to the question of designation metrics for asset managers.⁸ We are concerned by this statement because designations of individual firms will not reduce systemic risk in asset management. Instead, products and activities should be regulated system wide.⁹

In addition, we question the expansion of the FSB's work plan to include climate change, compensation for asset managers¹⁰ and other more recent projects.¹¹ These subjects do not present systemic risk, and they are already regulated or addressed by markets regulators and other standard setters. Duplication of this work is not necessary and will instead create confusion. Finally, we continue to question the FSB's pursuit of a macro stress test for asset management. As we discuss in detail in our *ViewPoint*, titled Macroprudential Policies and Asset Management, there is no value to a partial stress test and, in fact, such a test may lead to extremely misleading conclusions.¹² Instead, we recommend trying to obtain data on the broader investing universe in order to be able to develop a better understanding of the asset management ecosystem. Absent this broader view, we are concerned that this process may result in policy recommendations that are harmful to the capital markets and the real economy that they support.

Given the short length of the comment period for this Consultation, we have provided high level comments on the discussion topics, rather than responding in detail to each question. More detailed discussions of selected policy issues are included in the Appendix.

- *Main Elements of the Framework.* We agree with the objectives of the Framework. That said, we are in an environment where many reforms have been implemented, but at the same time, additional reforms remain in the pipeline. It would, therefore,

central counterparties (CCPs): Further guidance on the PFMI (Aug. 2016), available at <http://www.bis.org/cpmi/publ/d149.pdf>.

⁷ BlackRock, *ViewPoint*, Improving Transparency: The Value of Consistent Data over Fragmented Data (Sep. 2016), available at <https://www.blackrock.com/corporate/en-us/literature/whitepaper/viewpoint-improving-transparency-august-2016.pdf> (BlackRock Data Gaps *ViewPoint*).

⁸ FSB, Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities (Jan. 12, 2017), available at <http://www.fsb.org/wp-content/uploads/FSB-Policy-Recommendations-on-Asset-Management-Structural-Vulnerabilities.pdf>.

⁹ BlackRock, Submission to MIT Center for Finance and Policy SIFI Contest, What is a Systemically Important Institution: Leverage and Function are more Significant than Size (Jan. 2016), available at <https://www.blackrock.com/corporate/en-gb/literature/publication/barbara-novick-mit-contest-submission-january-2016.pdf>.

¹⁰ See BlackRock comments to the Summary and Main Take-Aways from the FSB-IOSCO Roundtable on Compensation Practices in the Securities Sector (available from 15 May 2017 available at the following link): <https://www.blackrock.com/corporate/en-gb/insights/public-policy/viewpoints-letters-consultations#letters-and-consultations>

¹¹ FSB, Press Release, Financial Stability Board agrees 2017 work plan (Nov. 17, 2016), available at <http://www.fsb.org/wp-content/uploads/Financial-Stability-Board-agrees-2017-workplan.pdf>.

¹² BlackRock, *ViewPoint*, Macroprudential Policies and Asset Management (Feb. 2017), available at <https://www.blackrock.com/corporate/en-gb/literature/whitepaper/viewpoint-macroprudential-policies-and-asset-management-february-2017.pdf>.

seem that the best use of a post-implementation evaluation would be to inform the FSB's forward-looking agenda and to ensure that ongoing work by the FSB does not have a deleterious effect on the existing regulatory framework. As such, we encourage expanding the scope of the Framework beyond reforms that have been fully implemented to include consideration of policy proposals and reforms for which implementation is still underway.

- *Challenges of Evaluations.* Unintended consequences in one area often arise from fully intended policy outcomes in other areas. For example, the effects we have observed in repo markets are by-products of largely intended consequences in bank regulation – in particular, the desire by policymakers to discourage banks from over-reliance on short-term funding. While we do not necessarily advocate for a rollback of the rules leading to these outcomes, we do consider it an essential part of a robust policymaking and evaluation process to assess the impact of policy not just on markets or institutions directly impacted by the rules, but on market participants who may be affected by follow on impacts of regulation, including end investors (i.e., pensioners and savers). Another example of why this sort of approach is necessary relates to CCPs, where proposals to utilize customer margin may have the effect of helping to recover or resolve a failing CCP, yet they also could result in tax payer bailouts in which losses are allocated to the customers of the CCP and to the broader economy. We have included more detailed discussions of repo markets and CCPs in the Appendix.
- *Data Issues.* The probability and materiality to the global financial system of potential risks must be assessed in the course of performing cost-benefit analyses, rather than relying on hypothetical worst-case scenarios to drive policy evaluations. A key challenge to evaluating the success of a reform, as well as estimating the potential impact of additional reforms, is obtaining sufficient data to draw meaningful conclusions. Relying only on data that is available will inherently bias any analysis. While the Consultation rightly points out that some evaluations may be more feasible than others due to the availability of data, it is not sufficient to conclude that evaluations for which data is available are the evaluations that should be prioritised. To this end, the Framework should seek to identify areas where the FSB's evaluation of risk could be subject to data availability bias and where the collection of additional data may be required. Another challenge with respect to data, particularly when it comes to information sharing among regulators in different jurisdictions, is the fact that regulatory reporting standards are not harmonized across jurisdictions. The FSB should prioritize efforts to review how regulatory reporting standards are working in practice and to encourage greater harmonization of existing reporting requirements. This will facilitate more effective global monitoring efforts, as well as enhance the utility of data for policy evaluations. We have included a more detailed discussion of regulatory reporting standards in the Appendix.
- *Engagement with Stakeholders.* Constructive policy outcomes require participation and input from practitioners. We, therefore, commend the FSB for seeking to embed a culture of consultation, and we would welcome increased opportunities to provide and receive feedback on the prioritisation of topics and the matters under consultation in the future. In all cases, we recommend that stakeholders are given adequate time to gather feedback so as to be able to provide the most constructive feedback. We would be supportive of an FSB statement of consultation practices committing to 90-day consultation periods wherever possible.

- *Prioritisation of Topics.* CCPs present a concentration of risk that could have financial stability implications. We encourage the FSB and CPMI-IOSCO to prioritise completion of their recommendations on resilience, recovery, and resolution for CCPs.¹³ We believe that G-SIFI designation metrics for asset managers should be eliminated from the FSB agenda. Designations of individual firms will not reduce systemic risk in asset management – instead, products and activities should be regulated system-wide.

We appreciate the opportunity to present our views on the proposed framework for post-implementation evaluation on the effects of the G20 financial regulatory reforms. We encourage the FSB to continue to engage with the industry in order to add the practitioner's perspective to the conversation along with policy makers and academics.

Please do not hesitate to contact us with any questions or clarifications.

Sincerely,

Barbara Novick
Vice Chairman

Stephen Fisher
Managing Director, Global Public Policy Group

¹³ BlackRock CCP *ViewPoint*.

Appendix: Detailed Discussions of Selected Policy Issues

Regulatory Reporting Standards

Question 10 in the Consultation asks about data issues. BlackRock is supportive of global coordination and standard setting, particularly where standards and guidance reduce regulatory arbitrage and close regulatory gaps. We believe there is more to be done in this space, although we acknowledge positive developments in Europe to partially address this issue.¹⁴ One example where the attention of global regulators is needed is data reporting, particularly for derivatives and securities finance transactions (“SFTs”), where reporting standards diverge. The current requirements create a significant burden on firms and deliver limited benefit to regulators because the data is insufficiently uniform.

BlackRock and the vast majority of industry participants share concerns regarding global coordination of regulatory reporting, particularly in the derivatives space. By addressing the gaps and overlaps in reporting, regulators would be better equipped to monitor concentrations of risk in the financial system and firms would better equipped to meet the multiple reporting requirements. Our recommendations to address this area of weakness in the global framework would be best summarised as follows:¹⁵

- Over the short term, we encourage the FSB to focus on:
 - *Clarifying the objectives of regulatory reporting.* It is important to understand how data that regulators gather would be analysed and used, and how the data could be leveraged to provide feedback to the broader market.
 - *Standardizing requested information.* We encourage standardization of data requests. This ranges from reaching globally agreed measures and definitions of key terms through to a common approach on the detail and the frequency of requests.
 - *Standardizing how information is reported.* Electronic data delivery whenever and wherever possible should be the objective. This would substantially improve the accuracy and quality of data as well as the timeliness of reporting.
- Over the medium term:
 - *Migration to uniform reporting platforms.* Major jurisdictions, such as the EU and US, each have multiple reporting platforms. A significant step, given the questions that need to be addressed around regulatory remit and data sharing, would be for each jurisdiction to commit to a single internal reporting platform.
- Over the longer term:
 - *A single global data repository.* Subject to robust reassurances regarding cyber security and the protection of data, a single global data repository could be set as a long term objective. Short of that, reporting identical data to multiple databases would mark a significant improvement over the current framework.

¹⁴ We consider the proposed EMIR amendments that would remove the need for dual-sided reporting for non-financial companies and the work ESMA is undertaking relating to the European Electronic Access Point as important first steps to address data harmonization and the complexity around reporting requirements.

¹⁵ BlackRock Data Gaps *ViewPoint*.

While we continue to support and promote consistency in reporting formats, we also encourage the FSB to do more work on assigning common attributes to data to minimize the need for manual manipulation and allow for the adoption of a far greater degree of automation in reporting.¹⁶ By so doing, it should be possible to minimize the significant burden for firms of ad hoc regulatory data requests and to make progress on data comparability to facilitate a more meaningful conversation on emerging risks at the global level.

CCP Resilience, Recovery and Resolution

The global policy work led by FSB and CPMI-IOSCO in relation to CCP resilience, recovery and resolution is critically important. Absent the implementation of global standards, in a way which best protects against losses arising from CCP failure from spreading to the end-investors and all sectors of the economy, risk will be stored up for the future. We have recommended that regulators review CCP rulebooks to help ensure that end-investors are adequately protected, particularly with respect to a CCP risk management failure.¹⁷ Many CCP rulebooks have tools, such as variation margin gains haircutting, that enable CCPs, which are largely for-profit businesses, to allocate losses to customers, including end-investors, who are ultimately tax payers. When applied in recovery, this loss allocation tool allows the CCP to force end-users to pay for it to stay in business and ultimately would spread losses around the financial system in an uncontrolled fashion – a potential social cost of regulatory reform as flagged under Question 6 of the Consultation.

Repo Markets

As fiduciaries to our clients, the impact of regulatory reform on end-investors is our primary focus. Regulatory reform has brought a number of significant benefits to end-investors – stronger, safer, resolvable banks underpin confidence in the financial system as a whole and confidence to invest money in financial markets; central clearing of derivatives has eliminated much of the opacity related to bilateral OTC markets whilst concentrating risk in a handful of counterparties; and the FSB's conclusions on SFTs were robust yet sensitive to the market dynamics and the central role of SFTs to capital markets. However, none of the regulatory reforms are bereft of unintended consequences, which are ultimately felt by the end-investor.

Material unintended consequences of the regulatory reform agenda are most acutely felt in repo markets, which are largely dealer-driven, and thus, have been impacted by elements of bank regulation stemming from the post-crisis agenda (notably, the combination of the leverage ratio, and the LCR and NSFR components of Basel III). At the same time, demand for repo has also increased due to new regulatory obligations on users.

- The Leverage Ratio does not distinguish between assets on a risk-weighted basis (e.g., high quality sovereign bonds – a common repo collateral asset – would receive more beneficial treatment), only on a total value basis. This discourages repo, which is a high volume (but low margin) business, and puts pressure on banks' leverage ratios.

¹⁶ There are two foundations for the conceptual basis underpinning data collection - contracting parties and a language for identifying instruments. Once there is a globally recognized common language on these two points it would be possible to build a far more complex but consistent architecture reflecting specific contractual terms by contracting parties and rights over instruments. This in theory would minimise the amount of manual/bespoke data manipulation which firms have to conduct and improve consistency and so improve the quality of data reporting keeping putting both firms and regulators in a better place. On entities we commend the progress the FSB has made with the LEI project. On instruments more work need to be done to capture every instrument in a consistent way and then grouping ISINs with common attributes.

¹⁷ BlackRock CCP *ViewPoint*.

- The LCR discourages banks from any type of short-term funding (including repo), and makes holding longer dated high-quality assets more attractive. Because the LCR is based on a 30-day liquidity outflow assumption, it makes monthly reporting more important – which coincides with increased times of stress in the repo market.
- The NSFR introduces a capital surcharge for short-term funding transactions with non-bank financial institutions (a large portion of repo counterparties would fall under this category) on either the cash or the collateral side. In addition, the NSFR applies asymmetric factors to the two sides of a repo trade, meaning that the bank cannot net off their repo book. This increases the cost of doing any repo activity at all.

Added up, these obligations are resulting in a repo market where there are supply and price dislocations around regulatory reporting intervals (where capital positions must be protected): month-end, quarter-end and year-end. Repo markets have increasingly become defined by these periodic (and regular) dislocations in both supply and pricing, and year-end 2016 was a particularly severe dislocation.¹⁸

Bank regulation is not the sole driver of challenges faced by repo markets. The macroeconomic environment, and the overall business environment for banks play a strong role in some of the market stresses we have experienced. Balance sheet capacity to provide repo is becoming constrained and is now considered to be a less profitable, or even loss making business within banks; it is largely a broader relationship tool for many banks rather than a thriving business on its own.

It is undeniable that shrinking the repo markets to some extent can be considered an intended consequence of many of the new bank rules introduced post-crisis. We do not necessarily believe that a rollback of bank regulation is desirable; however, it is imperative that helping achieve a well-functioning repo market be a key focus of policymakers. Whether this requires a recalibration of some of the bank rules¹⁹ or not is an open question, but we do believe there are other areas to look at to potentially address these concerns.

While in the future, repo markets may be less dealer-driven structurally, many feel that workable solutions to adapt to that market structure (such as more widespread use of cleared repo, or technology to allow more non-bank to non-bank repo are not imminent. This means that bank regulation will likely continue to have an effect on the functioning of markets in the near future.

In the US, the Fed's reverse repo program has been a positive for the market. This program allows non-banks above a certain size to use the Fed as a counterparty (with the non-banks giving cash and the Fed providing collateral), helping them manage around temporary market dislocations.

In Europe, where the functioning of repo markets is perhaps more severely impacted, no such central bank option exists, though the recent BIS paper²⁰ suggests that Central

¹⁸ See ICMA, Closed for business: a post-mortem of the European repo market break-down over the 2016 year-end (Feb. 2017), available at <http://www.icmagroup.org/assets/documents/Regulatory/Repo/ICMA-ERCC-year-end-report-2016-AndyHill-020317.pdf>.

¹⁹ For example, making some allowances for HQLA exemptions within some of the rules, or removing/ reducing the asymmetry in the NSFR.

²⁰ Bank for International Settlements, Committee on the Global Financial System, Repo market functioning (Apr. 2017), available at <http://www.bis.org/publ/cgfs59.pdf>.

Banks should be actively thinking about how they can help alleviate stress in repo markets via either a reverse repo or direct deposit facility for certain non-banks.

Well-functioning repo markets are fundamentally important in helping to ensure that other legs of the G20 post-crisis reform agenda (which have also created more user demand for repo at the same time as bank regulations constrain supply) are functional:

- Cash-margining of derivatives relies on a functioning repo market to ensure that long-term, fully-invested investors like pension funds or insurers can meet margin requirements, as they will use repo to raise cash while posting high-quality assets from their portfolio as collateral. This is an alternative to holding greater cash allocations in their portfolio, which would create an investment drag.
- Functioning repo markets are also critical to ensure that reform of the money market fund sector is robust: US and EU MMF reforms introduce stringent liquidity requirements on MMFs. In Europe in particular, the EU MMF Regulation limits an MMF manager's ability to manage around disruptions in repo markets by forcing continuous reliance on repo as a means to meet the regulatory liquidity requirements.