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12 February 2015

RE: FSB Consultative Document regarding Standards and Processes for Global Securities Financing Data Collection and Aggregation

To the members of the Financial Stability Board (FSB) Data Expert Group (DEG),

The Global Financial Markets Association (GFMA)¹ appreciates the opportunity to comment on the FSB's consultation document "*Standards and Processes for Global Securities Financing Data Collection and Aggregation*" (Consultation Document). GFMA values the efforts of the DEG to engage in ongoing dialogue with the industry.

Our commentary below outlines our key recommendations and provides answers to the FSB's consultative questions, which, we believe, is consistent with the goal of providing regulators with the needed insight into these markets. GFMA would be pleased to discuss any of these points further with the FSB. GFMA strongly supports the efforts of the FSB and the DEG to improve overall transparency in the securities financing transactions markets so that systemic risk monitoring can be effective and efficient for both market participants and regulators. Please contact GFMA by email should you require any further information: Sidika Ulker (sidika.ulker@afme.eu), Robert Toomey (rtoomey@sifma.org) and Tim Cameron (tcameron@sifma.org).

We make the following key recommendations:

1. The scope of the data collected should be defined by legal agreements

GFMA recommends that the FSB adopt clear, unambiguous and objective definitions of repo, securities lending and margin lending transactions. In order to achieve this, we suggest the FSB tie

¹ 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>.

the definitions to specific legal agreements that identify the transactions as repos, securities loans, or margin loans. We note that the FSB has included a list of legal agreements in the Consultation Document that could be used for definitional purposes, but this list is not exclusive. Further, the lists of agreements are not mutually exclusive.

The legal agreement approach to defining the scope would be more straightforward to implement operationally because it would allow firms to leverage their preexisting systems when providing data to their national authorities. This would enable the FSB to begin receiving data on a significantly shorter timeline.

Further, this approach would ensure that the definitions are consistently applied. A legal agreement test would be an objective test resulting in consistency across reporting entities. While a purpose-based test may capture a broader universe of transactions, it would result in inconsistent application to and poor data quality given the overall subjective judgment that such a test requires.

We acknowledge that the legal agreement approach would exclude certain transactions from the scope of the collection regime altogether. Further, it may misclassify certain transactions from an economic perspective (e.g. certain repo-like transactions that are transacted under a securities lending legal agreement). We believe, however, that the benefits the legal agreement approach provides outweigh these limitations. Specifically, the significance of the transactions that would be excluded by the legal agreement approach would not be material for financial stability monitoring purposes, given the universe of trades that would be caught by the regime.

At a minimum, we suggest that the FSB ensure that the list of legal agreements for repo, securities lending and margin lending are mutually exclusive, such that if a transaction is conducted under a legal agreement listed for repo (e.g., a GMRA), it cannot be considered a stock loan for reporting purposes.

2. Reuse should not be a reported item for repo and securities lending

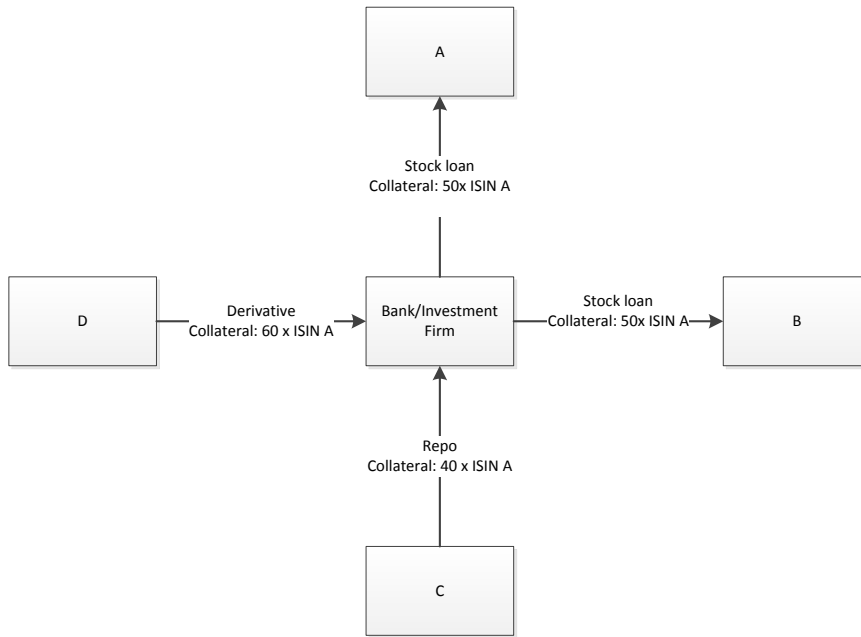
Requiring firms to track collateral reuse does not reflect the way firms currently manage their portfolios and it may impact negatively the role that banks play in the financial intermediation process. GFMA notes that under current practice, banks do not manage their collateral inventories based on how they receive the collateral and from whom. Therefore, reuse should not be a

reported data item for repo and securities lending. For margin lending, reporting of reuse should not be required at counterparty level.

Banks receive collateral through multiple transactions, including SFTs, true sales and derivatives. Ownership in this collateral generally passes to the banks through title transfer – the securities are not client assets. Firms generally pool the collateral and use it as their own property. Tracing how every security is acquired by the bank and linking and identifying a particular security as reused collateral is not possible. Should firms be required to do this, it would introduce restrictions in the way collateral can be used and managed by banks, ultimately undermining the financial intermediation role of banks and hampering collateral flow that intermediaries facilitate. Providing collateral flow is an essential part of the role that banks have in the financial sector and it is important to recognize the role that these pools of fungible securities play in the process.

For illustrative purposes, GFMA sets forth the following scenario:

An investment firm may source a total of 100 units of ISIN A through a derivative transaction (60) with entity D and a repo transaction (40) with entity C. It may then reuse 50 units of ISIN A under a stock loan transaction with entity A and 50 units of the security under a stock loan transaction with entity B. The investment firm does not attribute the origin of ISIN A in the stock loan transactions to the first two transactions – there is no one-for-one relationship. In this example, the volume of the security lent to A is greater than the volume of the security borrowed from C.



It is absolutely critical to note that firms should not be asked to trace collateral back to the “original” counterparty. This is not something that firms would be able to produce and would provide limited information to the regulatory authorities.

3. It is essential that interpretation and derivation of data is centralised where possible

GFMA proposes that the FSB recommend to national authorities that, where possible, the national authorities only collect raw data from the firms and produce derived data (where derived data means production of data from raw data through calculations or categorization) centrally based on clear and detailed definitions and methodologies provided by the FSB. If the data derivation is centralised at the national authority level with clear guidelines from the FSB, consistency will be enhanced as only a limited number of entities (the national authorities and the FSB) will be developing derived data. We believe centralisation of the data derivation process will not only encourage sufficiently appropriate data quality but will also create an auditable process that can be monitored and corrected for errors. The FSB has recognized that data can be available from multiple sources; however, it is important that national authorities be encouraged to source existing data first.

We understand that the FSB is not in a position to mandate the way in which national authorities should collect data. However, we note that the FSB has made a recommendation regarding the use of LEIs. We strongly suggest that the FSB takes a similar approach to other types of data and

recommend specific types of raw data for national authorities to collect (*e.g.*, ISINs, CUSIPs, Sedols). As we learned from the derivatives transparency regime, it is critical that the data is properly collected at the granular level to produce the best possible quality of data at the aggregate level for the FSB. We would encourage the FSB to recommend that national authorities to only collect raw data and not derived data directly from firms.

4. Confidentiality

While the FSB addresses a number of confidentiality concerns in the Consultative Document, we stress that much of the granular data being reported to national authorities will be highly confidential and may be afforded confidential treatment at the national level. As such, it is essential that this sensitive data not be transmitted beyond the national authority level, including any follow up data requests, to ensure for example that any national confidentiality protections are not compromised.

Further, while the FSB has recognized data confidentiality issues and states that it will be collecting aggregate data from national authorities, the Consultative Document suggests that the FSB may receive information where counterparties could be identified. In order to evaluate better the confidentiality protections, we would like to understand these situations and the protections afforded to such data.

5. Double Counting

We agree with the FSB's concern that the integrity of the collected data may be affected by double counting. Double counting may be caused by either a single national authority receiving data from the same trade from multiple parties or different national authorities receiving information in respect of the same transaction from different counterparties.

In order to minimize double counting, the FSB should clearly specify who should report the data in all situations. For example, one approach might require one-sided reporting to ensure that there is no duplication at national level. Previous regulatory initiatives, such as EMIR, that have introduced two-sided reporting have resulted in the production of poor quality data.

However, the one-sided reporting regime alone does not address the cross-border double counting

issue (*i.e.* relating to transactions in which the counterparties are located in different jurisdictions). GFMA recommends two possible approaches for addressing cross-border double counting: (1) a global repository; and (2) national authorities apply a waterfall for global aggregation purposes – the data set produced will not include all transactions undertaken in the jurisdiction of each national authority.

6. The framework should enable position level reporting

GFMA agrees that data for securities lending should be collected at a position level rather than at an individual loan level. Position level data more accurately—and simply-- reflects the risk position of firms and is, thus, better for monitoring purposes. In a similar way, we recommend that portfolio level data requirements should be applied to prime brokerage – because prime brokerage is always conducted at portfolio-level; transaction-level information would not be meaningful. As such, while position and portfolio level data can be broken down into more granular data, GFMA members treat position and portfolio level data as raw data. Further, the specific type of data that would be provided in connection with securities lending and prime brokerage would be at the counterparty level and securities level and not at a transaction level.

7. Use of Legal Entity Identifiers (LEIs) should be mandated for counterparty identification

The accurate identification of counterparties is widely recognized as a critical element for enhanced systemic risk monitoring and management. GFMA recommends, where possible, that counterparty identification information be provided in the form of LEIs.

We believe that by the time SFT reporting is implemented, it is likely that the global LEI system will be fully operational and will no longer in an interim state. We urge the FSB to mandate the use of global LEIs for the identification of counterparties within the data template requirements.

8. We suggest a phased-in approach

GFMA suggests that a phased-in approach to the reporting requirements be used. Given the volume of data that will need to be generated by reporting entities and processed by national and global regulators, a phased approach to the requirements will ensure greater clarity on the scope and will help achieve global consistency.

Appendix 1

GFMA Responses to Consultative Questions regarding the Standards and Process for Global Securities Financing Data Collection and Aggregation Consultative Document published 13 November 2014.

Section 2: Data Elements and Granularity

Repo Market

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?

GFMA recommends that the FSB adopt clear, unambiguous and objective definitions of repo, securities lending and margin lending transactions.

In order to achieve this, we suggest the FSB tie the definitions to specific legal agreements that identify the transactions as repo, securities loans, or margin loans. We note that the FSB has included a list of legal agreements in the Consultation Document that could be used for definitional purposes, but this list is not exclusive or mutually exclusive to the other lists in the Consultation Document.

The legal agreement approach to defining the scope would be easy to operationalize because it would allow firms to leverage their preexisting systems when providing data to their national authorities. This would enable the FSB to begin receiving data on a significantly shorter timeline.

Further, this approach would ensure that the definitions are consistently applied. A legal agreement test would be an objective test, which would result in consistency across reporting entities. While a purpose-based test may capture a broader universe of transactions, it would result in inconsistent application to and poor data quality given the overall subjective judgment that such a test requires.

We acknowledge that the legal agreement approach would exclude certain transactions from the scope of the collection regime altogether. Further, it may misclassify certain transactions from an economic perspective (*e.g.* certain repo-like transactions that are transacted under a securities lending legal agreement). We believe, however, that the benefit the legal agreement approach provides outweighs these limitations. Specifically, the significance of the transactions that would be excluded by the legal agreement approach would not be material for financial

stability monitoring purposes, given the universe of trades that would be caught by the regime.

At a minimum, we suggest that the FSB ensure that the list of legal agreements for repo, securities lending and margin lending are mutually exclusive, such that if a transaction is conducted under a legal agreement listed for repo (e.g. a GMRA), it cannot be considered a stock loan for reporting purposes.

We suggest the following changes:

2.2.1 Repurchase Transactions, including ~~Ssell/Bbuy Back operations~~ Transactions

A repurchase **transaction agreement** (repo) is a **contractual** arrangement involving the provision of securities or other financial assets (“collateral”) in exchange for cash (spot leg) with a commitment to repurchase the same or similar collateral at a fixed price (forward leg) either on a specified future date or on demand (“open” or extendable repos). A repo is viewed from the perspective of the provider of the collateral - i.e. the cash taker. The transaction is called a reverse repo when viewed from the perspective of the buyer of collateral and cash provider.

Repos include ~~but are not limited to contracts~~ transactions conducted **under bespoke repo agreements and** the following master agreements: Master Repurchase Agreement (MRA), Global Master Repurchase Agreement (GMRA), Deutscher Rahmenvertrag für Wertpapierpensionsgeschäfte, China Bond Repurchase Master Agreement, Korea Financial Investment Association (KOFIA) Standard Repurchase Agreement, Investment Industry Regulatory Organization of Canada (IIROC) Repurchase/Reverse Repurchase Transaction Agreement, Convention-Cadre Relative aux Operations de Pensions Livrees, Saiken Tou no Gensaki Torihiki ni Kansuru Kihon Keiyaku Sho, Contrato Marco de compraventa y Reporto de valores, **and** Clearing House Rules (for example, Fixed Income Clearing Corporation - FICC) **and bespoke repo agreements. Transactions governed by the aforementioned master agreements shall only be classified as repo transactions.**

Repos include not only classic repos, but also sell/buy back transactions. ~~In the case of classic repos, the spot and forward legs are always governed by a single contract which allows for the payment of variation margins and the right of substitution of the collateral during the terms of the repo.~~ Sell/buy backs are economically similar transactions **to classic repos** but ~~governed by~~ **are typically documented as** two legally independent ~~contracts~~ transactions for the spot and the forward legs, which makes it **more** difficult to legally enforce margin calls and exercise the right of substitution of the collateral. However, as with classic repos, sell/buy backs can also be governed by a single agreement (“documented sell/buy backs”) that allow for variation margin and right of substitution.

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.

It is essential that whatever the scope, the regime can be clearly and consistently implemented. Adding the term “economically equivalent transactions” to the scope of SFTs introduces a subjective criterion, which would lead to inconsistencies in the dataset. As noted above, we believe an objective agreement-based approach to the scope of SFTs is appropriate. This would avoid, for example, any ambiguities as to whether the derivatives or SFT regime would apply or whether a repo should be considered a stock loan. Consistency requires clarity as to which regime applies and which transactions are to be included. If the scope of the definition is expanded at a later date, we suggest that the additional transactions added to the scope are similarly clearly and objectively identifiable so that the regime can be consistently implemented.

3. Are the proposed definitions and level of granularity of the data elements described in Table 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, haircuts and collateral type (in Table 4) appropriate? In not, please specify which definitions or classifications of data elements require modification, why the modification is necessary, and the alternative definitions/classifications.

We support monthly reporting as it is easiest for firms to produce.

Regarding the proposed definitions and level of granularity of data elements described in Tables 2 to 4, it is unclear whether these aggregate data items need to be populated independently of each other or whether a waterfall model is expected (e.g. in a waterfall model, the value of the loans flow is broken down into original maturity buckets and then also broken down further into currency buckets). If it is a waterfall model, we assume this is the case for all fields in each of the tables. We ask the FSB for clarification on this issue.

We note that the tables include some derived data fields (e.g. collateral type). We suggest that it be made clear that national authorities should derive these.

We do not believe that item 3.9, the repo rate (i.e. the revenue from these transactions), is a relevant data item for financial stability monitoring purposes. In the FSB’s document “Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos” published on 29 August 2013, the FSB stated that the relevant shadow banking risks are maturity transformation, liquidity transformation and leverage. The repo rate would not provide the FSB with useful information

regarding these risks. Also, repo rate is commercially sensitive; providing such information exacerbates confidentiality issues.

With respect to the collateral residual maturity required in item 4.11 of Table 4, it is not a relevant data item for securities with no maturity (e.g. cash equities). Therefore, we assume that if these securities are involved, this category may remain unpopulated. Also, maturity for securitizations should be the weighted average life (WAL) and not the legal final maturity due to the amortizing nature of these bonds.

4. Do we 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?

As explained above in the summary, with respect to repo transactions, we note that full title to the securities subject to the repo is transferred. Thus, these securities are no longer client assets and should not be subject to reporting under a “reuse” rubric. We note as well, that given full title transfer, collateral cannot be linked to specific counterparties (see, for example, items 4.6 and 4.7). We strongly recommend that the FSB remove this data item. We are concerned that requiring firms to track collateral reuse does not reflect the way firms currently manage their portfolios and it may impact negatively banks role in the financial intermediation process.

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?

GFMA believes that these classifications appropriately reflect relevant structural features of the repo markets. Additional features are not needed.

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

GFMA has no recommendations on additional data items.

Securities Lending Market

7. Does the proposed definition of securities lending provide practical basis for the collection of comparable data across jurisdictions as well as the production of comprehensive and meaningful global aggregates?

Please see GFMA's response to question 1 above.

We suggest the following changes to be made:

2.2.2 Securities Lending ~~and borrowing~~

Securities lending refers to a transaction where an entity (lender) lends specific securities to a counterparty (borrower), with an agreement to terminate the loan at a fixed date or on demand of the lender or the borrower, returning the same or equivalent securities. In exchange for the securities, the borrower provides collateral, usually in the form of cash or non-cash collateral. The collateral may be of equal value to the securities lent, or, more frequently, of greater value, depending on the applied margin or haircut. In addition, there is usually a fee paid by the borrower to the lender. Frequently, custodian banks operate securities lending programs on behalf of their customers ("beneficial owners"), although non-custodian banks are often active securities lending agents as well.

Securities lending transactions include ~~but are not limited to contracts~~ transactions conducted under **bespoke securities lending agreements** and the following master agreements: Master Securities Loan Agreement (MSLA), Global Master Securities Lending Agreement (GMSLA), Overseas Securities Lending Agreement (OSLA), Master Equity and Fixed Interest Stock Lending Agreement (MEFISLA), Gilt Edged Stock Lending Agreement (GESLA), Korean Securities Lending Agreement (KOSLA), Deutscher Rahmenvertrag für Wertpapierdarlehen, Australian Masters Securities Lending Agreement (AMSLA), Japanese Stock Lending Agreement **and** Clearing House Rules ~~and Bespoke securities lending agreements. Repo-like transactions traded under governed by the GMSLA should be reported as securities lending transactions.~~ Transactions governed by the **aforementioned master agreements shall only be classified as securities lending transactions.**

8. In a later stage, a list of transactions that are economically equivalent to securities lending 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.

Please see GFMA's response to question 2 above.

9. For securities lending, do you think that an additional table with flow data would add insights into the operations of securities financing markets and assist regulators in their financial stability monitoring?

We do not believe that an additional table with flow data would add additional insights into the securities lending market. Such an additional table is not consistent with position-level reporting. The current proposal for separate tables for securities loans and collateral should be sufficient for the FSBs monitoring purposes. Also, in order to implement these reporting requirements, we believe market participants can rely on the existing agent lender disclosure (ALD) process. The ALD process lends itself to the production of the data elements on these tables.

10. Are the proposed definitions and level of granularity of data elements as described in Table 5 to 6 appropriate for consistent collection on securities lending markets at 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 securities lending fees or rebate rates (in Table 5), residual maturity (in Table 5), collateral residual maturity and collateral type (in Table 6) appropriate? If not, please specify which definitions or classifications of data element(s) require modification, why modification is necessary, and the alternative definitions/classifications.

Please see GFMA's response to question 3 above as similar issues (with reference to the same data elements) are dealt with in that response.

We note here, as well, the question as to whether a waterfall model is intended for securities lending reporting.

Further, as with data item 3.9, we do not believe that items 5.11 (the securities lending rate or rebate rate) and 6.15 (cash reinvestment rate) are a relevant data items for financial stability monitoring purposes. In the FSB's document "Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos" published on 29 August 2013, the FSB stated that the relevant shadow banking risks are maturity transformation, liquidity transformation and leverage. These data items would not provide the FSB with useful information regarding these risks. As with repo rate, these data items are commercially sensitive; providing such information exacerbates confidentiality issues.

Finally, we believe that the reference in row 6.5 to item "4.4" in Table 4 should be to item "4.5."

11. Do you foresee any practical difficulties in reporting the total market value collateral that has been re-used or cash collateral reinvested? Do you have any suggestion for addressing such difficulties?

Please see question 4 and the summary above regarding reuse (the same applies to securities lending).

It is not clear if firms that borrow securities collateralized by cash will be asked to report on the reinvestment of that cash. Securities borrowers will not have this information and should not be required to supply information about the disposition of the cash collateral.

12. Do the classifications provided for “market segment – trading” (in Table 5) and “market segment – clearing” (in Tables 5 and 6) appropriately reflect relevant structural features of the securities lending markets? Are there additional structural features of securities lending markets that should be considered?

We believe that these classifications are appropriate and complete for monitoring purposes.

13. Are there additional securities lending 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.

GFMA has no recommendations on additional data items.

Margin Lending Market

14. Does the proposed definition of margin lending provide practical basis for the collection of comparable data across jurisdictions as well as the production of comprehensive and meaningful global aggregates?

Generally, we agree with the FSB's definition of margin lending; however, there are important adjustments that need to be made.

Whilst we agree with the FSB that the definition should not be extended to retail transactions, we suggest the FSB be more explicit with the scope of margin lending. Specifically, we propose that the FSB limit the data it collects to prime brokerage margin lending. Prime brokerage margin lending is likely to be the most relevant for systemic risk monitoring purposes as prime brokerage clients may utilize higher levels of leverage than other margin lending clients. The PRA and Federal Reserve also already collect data from banks in relation to margin lending, which could be utilized.

If the broader definition was adopted, it is not clear what falls within scope and we suggest it would be inconsistently applied, resulting in incomparable data sets that have little value.

We also recommend that for a margin loan to be relevant for the purposes of SFT reporting, it should be limited to transactions in which the purpose is to purchase, carry or trade securities. As noted in the Consultation Document, margin loans are economically equivalent to repo and securities lending transactions in that they involve the provision of cash secured against collateral. However, unlike repo and securities lending transactions, margin loans do not expire and the margin lender does not become the beneficial owner of the asset.

Further, the FSB noted that "the relationship between a broker and client typically includes various types of trading activities not limited to securities financing transactions but also including short sales of securities and trading of OTC and listed derivatives." We note that in these cases the broker may choose not to cross margin. Given this optionality, we suggest that the following text in the definition: "The process for determining the collateral for each client *will* apply across the range of those transactions"-- be amended to: "The process for determining the collateral for each client *may* apply across the range of those transactions.

15. In a later stage, a list of transactions that are economically equivalent to margin lending 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.

Broadening the definition will make the requirements overly broad and complex. In effect, broader requirements could apply to all forms of margin lending which could involve any loans (including retail loans) collateralized by securities. By providing a broad definition, the usefulness of the data would be compromised by inconsistent application. Therefore, we suggest that if the scope of the definition is expanded at a later date, that the transactions in scope are clearly identifiable and the regime can be consistently implemented.

16. Are the proposed definitions of data elements described in Tables 7 to 9 appropriate for consistent collection of data on margin lending at the national/regional level and for aggregation at the global level? In particular, does the collection of the data elements in Table 9, which represents specific requirements for margin lending, provide relevant information for financial stability purposes? Do you foresee any particular difficulties to reporting the required data elements at the national/regional level?

The PRA and Federal Reserve collect data from banks in relation to margin lending provided to prime brokerage clients and also other forms of margin lending. We believe that in order to ensure comparable data across jurisdictions it would be best to leverage off existing data collections.

As in the repo and securities lending tables, it is unclear whether these aggregate data items need to be populated independently of each other, or whether it is a waterfall model. We ask the FSB to clarify this.

Table 7 requires reporting of the loan rate by customer short positions by loan currency and by maturity. This type of granularity is currently not provided to national authorities. If the templates were to be aligned with existing reporting, these data items need to be independent aggregates.

Table 8 requires that the value of reused collateral and free credit balances be reported. In certain jurisdictions, the rehypothecation of collateral cannot be linked one-for-one with a client. This is not how portfolios are managed. Therefore, the data cannot be provided at this level of granularity. We strongly suggest that the reuse item be decoupled from counterparty information.

With regard to free credit balances, this data is not currently provided to national authorities at the counterparty level; therefore, if the templates were to be aligned with existing reporting, these data items would need to be independent aggregates.

We do not believe the definition of free credit balances in Table 9 is appropriate. The funding sources data should reflect the amount of a particular funding source a broker has to provide its clients with financing. Therefore, free credit balances should be the net cash credit balance excluding short sale proceeds. The proposed definition by the FSB is not appropriate because a client may only withdraw the cash credit balance less the margin requirement but the broker will have the entire cash credit balance available to use towards providing financing to its clients.

With regards to whether the data is a fit for the purpose of monitoring financial stability risks, we note that whilst the FSB will have all the information it needs on margin requirements (since the information required is at portfolio level), the information it receives on exposure levels will provide an incomplete picture. Derivative transactions are an important part of prime brokerage activity (and are part of the margin requirement calculations); however, this information is not being collected. In order to get a complete picture we recommend the FSB leverage and utilize derivative transaction data collected under other regulatory initiatives.

17. Are the detailed breakdown of major currencies (in Table 2), sector of the client and bucketing for loan rates (in Table 7), collateral type and bucketing for margin requirements (in Table 8) and funding sources (in Table 9) 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.

We generally agree with the items.

18. Is the collection of the data on the customers' short position, in addition to the value of outstanding loans, a necessary metric for assessing the overall clients' exposures and financial stability purposes? Do you foresee any practical difficulties to report this data element at the national/regional level?

GFMA strongly recommends that short market value be reported as well as long market value. If this information is not collected, the FSB will have an incomplete picture of the exposure risks.

19. Is the collection of the data on the customers' short position, in addition to the value of outstanding loans, a necessary metric for assessing the overall clients' exposures and financial stability purposes? Do you foresee any practical difficulties to report this data element at the national/regional level?

GFMA has no recommendations on additional data items.

Section 3: Data Architecture

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?

We refer you to our responses below on confidentiality and possible double counting. These are significant concerns.

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

We believe it is essential that interpretation and derivation of data is centralized where possible. GFMA proposes that the FSB recommend to national authorities that, where possible, they only collect raw data from the investment firms and produce derived data centrally based on clear and detailed definitions and methodologies provided by the FSB. If the data derivation is centralised at the national authority level with clear guidelines from the FSB, it will enhance consistency as only a limited number of entities (the national authorities and the FSB) will be developing derived data. We believe centralisation of the data derivation process not only encourages sufficiently appropriate data quality but also creates an auditable process that can be monitored and corrected for errors.

The FSB had identified that there is an aggregate approach and a granular approach OR a distributed approach vs. a centralized approach. We understand that the FSB is not in a position to mandate the way in which national authorities should collect data. However, we strongly suggest that the FSB make a clear recommendation to national authorities in favor of the central and granular approach. As we learned from the derivatives transparency regime, it is critical that the data is properly collected at the granular level to produce the best possible quality of data at the aggregate level for the FSB.

We recommend the FSB consider existing securities lending, repo and margin lending reporting regimes as the basis for SFT global reporting where appropriate. However, we would suggest that the FSB first identify lessons learned from and weaknesses in those regimes and incorporate the necessary modifications. Additionally we recommend the FSB review the actions taken by other jurisdictions to modify their derivative reporting requirements in an effort to avoid the challenges and limitations that resulted from the derivatives reporting regime under EMIR.

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

We agree with the concern that the integrity of the collected data may be affected by double counting. Double counting may be caused by either a single national authority receiving data from the same trade from multiple parties or different national authorities receiving information on the same transaction each from different counterparties.

In order to minimize double counting, the FSB should clearly specify who should report the data in all situations. For example, one approach might require one-sided reporting to ensure that there is no duplication at national level. Previous regulatory initiatives, such as EMIR, that have introduced two-sided reporting, have resulted in regimes with poor quality data. Nonetheless, consistent with other reporting regulations, such as EMIR, we recommend that the FSB ensure that market participants are able to delegate their reporting requirements to third parties, which ensures a regime that is not overly burdensome, especially for smaller firms.

However, a one-sided reporting regime alone does not address concerns with cross-border double-counting (i.e. relating to transactions in which the counterparties are located in different jurisdictions). GFMA recommends two possible approaches to minimize cross-border double counting: (1) a global repository; and (2) national authorities apply a waterfall for global aggregation purposes – the data set produced will not include all transactions undertaken in the jurisdiction of each national authority.

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 suggestion to overcome such issues?

While the FSB addresses a number of confidentiality concerns in the Consultative Document, we stress that much of the granular data being reported to national authorities will be highly confidential and may be afforded confidential treatment at the national level. As such, it is essential that this sensitive data should not go beyond the national authority level, including follow up data requests, to ensure, for example, that any national confidentiality protections are not compromised.

Further, while the FSB has recognized data confidentiality issues and states that it will be collecting aggregate data from national authorities, the Consultative Document suggests that the FSB may receive information where counterparties could be identified. In order to evaluate better the confidentiality protections, we would like to understand these situations and the protections afforded such data.

We also ask the FSB clarify what information it intends to make public. Certain

information on market trends could result in market distortions (e.g. it could increase market manipulation risks). Therefore, it is critical for the FSB to carefully consider these risks before publishing information.

Section 4: Recommendation for National/Regional Data Collections

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?

Yes. However, we urge the FSB to ensure a harmonised global regime. Certain national authorities are already moving ahead of the FSB with their own requirements, which could result in a fragmented regime. Two examples in Europe are the SFTR and ECB Money Market statistics reporting.

Section 6: Next Steps

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

There are no other data items that the GFMA recommends.

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?

GFMA recommends that a pilot exercise would be appropriate and could aid the FSB in making adjustments as needed to both the substance of the collection and the process of collection.

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.

Thank you again for the opportunity to provide views on the Discussion note. We would be pleased to discuss any of these comments in further detail, or to provide any other assistance that would help facilitate your review and analysis. Please contact GFMA by email should you require any further information: Sidika Ulker (sidika.ulker@afme.eu), Robert Toomey (rtoomey@sifma.org) and Tim Cameron (tcameron@sifma.org)