

Secretariat of the Financial Stability Board
c/o Bank for International Settlements
CH-4002
Basel
Switzerland

Submitted via fsb@bis.org

London, February 12, 2015

Consultative Document - Standards and Processes for Global Securities Financing Data Collection and Aggregation

Dear Sirs,

We welcome the publication of the Consultative Document *Standards and Processes for Global Securities Financing Data Collection and Aggregation* (the “**Consultative Document**”) by the Financial Stability Board (the “**FSB**”) and we appreciate the opportunity to provide you with our comments.¹

Markit is a leading global diversified provider of financial information services. We provide products that enhance transparency, reduce risk and improve operational efficiency. By setting common standards and providing shared solutions that facilitate market participants’ compliance with regulatory requirements, many of Markit’s services help level the playing field between small and large firms and herewith foster a competitive marketplace.² Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. Founded in 2003, we employ over 3,500 people in 10 countries. Markit shares are listed on Nasdaq under the symbol MRKT.

Markit has been actively and constructively engaged in the debate about regulatory reform in financial markets, including topics such as the implementation of the G20 commitments for OTC derivatives and the design of a regulatory regime for benchmarks. Over the past years, we have submitted more than 115 comment letters to regulatory authorities around the world and have participated in numerous roundtables. We also regularly provide relevant authorities with our insights on current market practice, for example, in relation to valuation methodologies, the provision of scenario analysis, or the use of reliable and secure means to provide daily mid-market marks. We have also advised regulatory authorities on appropriate approaches to enabling a timely and cost-effective implementation of newly established regulatory requirements, for example through the use of multi-layered phase-in or by providing market participants with a choice of means for satisfying regulatory requirements.

¹ FSB Consultative Document: Standards and Processes for Global Securities Financing Data Collection and Aggregation. 13 November 2014.

² For example, Markit’s KYC Services provide a standardized end-to-end managed service that centralizes “Know Your Client” (KYC) data and process management.

Introduction

Markit offers transparency creating services in the global securities lending and repo markets through the products and services of Markit Securities Finance.

Specifically, for the securities lending markets, we provide our customers with rate and availability summaries for over 90% of global securities lending inventories and activity at the asset, security and transaction level twice a day.³ We supply our data to all major agent lenders who have the option for onward distribution to their underlying beneficial owner clients. Our data is also used by most prime brokers, by over 250 asset management firms and by a growing number of regulatory authorities.

Risk awareness has also recently grown in the repo markets⁴ and with it the demand for more timely and accurate data.⁵ As the market data that is available for the repo markets today⁶ is neither sufficiently timely nor granular to satisfy market participants' needs we have started collecting data with the aim to provide daily transparency to participants in the repo markets in the near future.

Comments

As we have stated in previous responses,⁷ Markit is supportive of the FSB's efforts to identify the systemic risks that can arise from "Shadow Banking" entities and activities and be in a position to address them where deemed necessary. We generally believe that systemic risks originating from the securities finance markets can be best addressed by enabling regulatory authorities to monitor the relevant risk factors on a timely basis and empowering them to act, when and where needed, through the use of specific, targeted measures. On this basis, the creation of additional, meaningful transparency should be the regulatory focus, rather than intervening directly into market functioning or restricting market participants' ability to agree on appropriate contractual terms.

Markit supports the FSB's initiative to identify and monitor potential financial stability risks that might originate in the securities finance markets and to increase regulatory transparency for this purpose. We appreciate the clarifications that the Consultative Document provides on several subjects in this context.⁸ However, we encourage the FSB to further consider and/or provide additional clarification on several topics, including: (a) the reporting of fee information at the aggregate level; (b) the responsibilities for the reporting of data; (c) the consistency of approaches across regulatory authorities and jurisdictions; and (d) the data infrastructure required to support this effort. Please find below our responses to the FSB's specific consultation questions.

³ Markit Securities Finance collects daily loan values, lendable values, and rates at which securities are lent, inventories and loan balances for 150,000 securities (including equities as well as corporate, government and agency bonds). The data is contributed by custodians, agent lenders, dealer brokers, banks and hedge funds and reflects the lending activities of more than 22,000 pension funds, mutual funds and insurance companies.

⁴ Caused mainly by the default of major counterparties and concerns about the credit quality of some government bond issuers.

⁵ We currently collect repo data as part of the securities lending data ingest. The repo dataset continues to expand and we expect in the future for it to include a range of collateralized yield curves associated with different types of collateral, haircuts, and currencies. We currently provide daily total global loan balances with specific detail around the balance of cash and non-cash collateral; covering around USD 2trn of loan activity. We have started collecting daily data from the much larger repo market, which we estimate at more than \$10trn. This information can be cross-referenced with the wholesale funding items in bank balance sheets; it will give an indication of the term, haircut and types of collateral in use on any specific day.

⁶ Data such as month end repo curves, collateral types, and haircuts is currently provided, for example, by the New York Federal Reserve Bank, ICMA, Euroclear, and Clearstream.

⁷ See Markit response to the FSB, Strengthening Oversight and Regulation of Shadow Banking January 14, 2013. Available here: <http://www.markit.com/Company/RegulatoryResponsesFile?CMSID=4ff8c6bcc1c94411891881bc2b88f4d5>.

⁸ Including the definition of securities lending, reporting at aggregate levels, the relevant data elements and the frequency of reporting.

Q2-7. 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?

We generally believe that the definition of securities lending as proposed in the Consultative Document together with the data points suggested by the FSB should allow regulators to gather the type of information that they require for their further analysis.

However, we are concerned about a lack of consistency both in the definition of the data sets and in how to collect the data that is likely to arise if implementation was to occur in the various individual jurisdictions. As experience with other financial instruments⁹ has shown, such inconsistencies in the implementation of reporting requirements that had been broadly agreed on a global level could severely undermine also regulatory efforts to increase transparency in the securities finance markets. We therefore recommend for the FSB to consider the use of a more centralized, potentially global collection mechanism and data standards.¹⁰

Q2-8. 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.

We understand the importance that regulators assign to gaining an improved understanding of transactions that are economically equivalent to securities finance transactions. Such knowledge would also be useful to ensure that there are no opportunities for regulatory arbitrage.

However, in this context the FSB should take into account that some of these “equivalent” transactions will already be subject to regulatory reporting obligations.¹¹ We believe that regulators should not require market participants to duplicate already existing reporting. This is not only because it would create unnecessary cost for market participants but it is also likely to result in reduced data quality overall, potentially even creating information that is misleading.

Q2-9. 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?

To monitor the impact of securities lending activity on financial stability, the relevant regulatory authorities will need to have access to information about the outstanding exposures between counterparties and the relationships between loans and collateral.

In contrast, we believe that the collection of flow data would not add any additional insight for the purpose of monitoring of systemic risk. It should therefore not be required.

⁹ For example the reporting of OTC derivatives to Trade Repositories under the G20 commitments.

¹⁰ Please see our response to Q3-2.

¹¹ For example, equity swaps will already be reported to Trade Repositories under EMIR in Europe. From 12 February 2014, all counterparties will need to report details of derivative contracts (OTC and exchange traded) they have concluded, or which they have modified or terminated, to a registered or recognised trade repository. European Market Infrastructure Regulation (EMIR).

Q2-10. Are the proposed definitions and level of granularity of data elements as described in Tables 5 to 6 appropriate for consistent collection of data on securities lending 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 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 the modification is necessary, and the alternative definitions/classifications.

We generally believe that the collection of data elements proposed by the FSB in tables 5 and 6 is sensible and will allow for an appropriate level of insight from a financial stability perspective.

However, requiring the reporting of data in relation to fees would only increase complexity both to the actual reporting and to the interpretation of the received data without adding any additional insight from a systemic risk perspective. This is because the fee for most securities lending transactions is mainly a reflection of supply and demand for borrowing the underlying security, whilst variables such as the counterparty risk are not reflected in it. We therefore see little benefit for regulators in the collection of fee information as part of the FSB's project.¹²

We also encourage the FSB to provide clarification regarding the counterparty jurisdiction. We believe that, in order to avoid the potential double counting of transactions and/or positions, the use of identifiers such as LEIs and consistency across jurisdictions will be required.

Q2-13. 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.

We believe that the list of data elements as proposed by the FSB in this Consultative Document is comprehensive.

Q3-1. 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 believe that the data architecture described in Section 3 of the Consultative Document would, in principle, be adequate to support the collection and aggregation of global securities financing data, assuming that the data collection framework was to be fully harmonized across all national authorities.

However, we are concerned that the potential lack of consistency both in defining the data sets and in collecting mechanisms the data that is likely to arise when such requirements are implemented across numerous individual jurisdictions could undermine the efforts for the creation of additional transparency and increase the cost of reporting. We therefore recommend for the FSB to consider the use of a more centralized, potentially global collection mechanism.¹³

¹² However, in case the FSB decided that fee data would need to be reported, it would need to provide further clarification regarding the aggregation methodology.

¹³ Please see our response to Q3-2.

In any case, based on the experience gathered in other asset classes such as OTC derivatives, we urge the FSB to work closely with the industry when further defining the appropriate data collection architecture and to make use of existing data collection mechanisms to the extent possible. This is because such approach is most likely to result in a timely and efficient implementation of any reporting regime.

Q3-2. Do you have any other practical suggestions to reduce any additional reporting burden and improve the consistency of the global data collection?

We believe that the overall burden of reporting securities finance transactions could be reduced if transactions were reported directly into one global reporting tool with the various regulatory authorities then picking up the respective datasets that are relevant to them from this entity.¹⁴ Such approach would be best suited to ensure the consistency of data collection through standardization and reduce the cost of reporting for market participants. Additionally, it would facilitate the data aggregation work for the FSB and national/regional authorities.

Additionally, experience in other asset classes¹⁵ has shown that the use of third parties for reporting provides significant benefits both to market participants and to regulatory authorities. For example, many counterparties that are required to report OTC derivatives transactions to Trade Repositories¹⁶ have delegated their reporting requirements to a third party. Many of such third parties¹⁷ tend to operate across jurisdictions so it will often be easier and more efficient to task them with ensuring the compliance of participants across various national requirements than for counterparties to handle such responsibilities themselves. We therefore urge the FSB and the relevant regulators to explicitly allow entities that have a reporting obligation to use third parties for the reporting of the relevant data.

Finally, we strongly encourage the FSB to work closely with the industry when further defining the appropriate architecture and to make use of existing data collection mechanisms to the extent possible. Based on experience gathered in other asset classes such approach is most likely to enable a timely and efficient implementation.

Q3-3. Do the proposed measures for minimising double-counting at the global level constitute a practical solution to the problem?

A requirement for participants to provide the correct counterparty jurisdiction should, in principle, minimize double-counting. However, we believe that further clarification and detail on this approach might be needed to make it operational.

Q6-4. 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.

¹⁴ Effectively inverting first tier and second tier.

¹⁵ For example the reporting of transactions in OTC derivatives to Trade Repositories.

¹⁶ For example under EMIR or the CFTC's reporting requirements. Under EMIR, from 12 February 2014, all counterparties will need to report details of derivative contracts (OTC and exchange traded) they have concluded, or which they have modified or terminated, to a registered or recognised trade repository. CFTC Swap Data Recordkeeping and Reporting Requirements. 77 Fed. Reg. 2136 (January 13, 2012).

¹⁷ Including providers of "middleware services" such as MarkitSERV.

We believe that, to create some useful public transparency for the securities finance markets, securities lending data should be published semi-annually on aggregated regional basis, e.g., North America, EMEA, and APAC.

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We hope that our above comments are helpful to FSB. We would be more than happy to elaborate or further discuss any of the points addressed above in more detail. In the event you may have any questions, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. Schüler', with a stylized flourish at the end.

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