From:	Tim.J.Smith@sungard.com
To:	Financial Stability Board (FSB), Service
Subject:	SunGard Comments on FSB November 2012 Consultative Document on Shadow Banking
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Secretariat of the Financial Stability Board
c/o Bank for International Settlements
CH-4002 Basel
Switzerland
Submitted to fsb@bis.org

Dear Sirs,

SunGard is pleased to submit comments where applicable on the questions posed in **the FSB's November 2012 Consultative Document- Strengthening Oversight and Regulation of Shadow Banking - A Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos.**

Background on SunGard

SunGard is one of the world's leading software and technology services companies. SunGard has more than 17,000 employees and serves approximately 25,000 customers in more than 70 countries. SunGard provides software and processing solutions for financial services, education and the public sector. SunGard also provides disaster recovery services, managed IT services, information availability consulting services and business continuity management software. With annual revenue of about $4.5 billion, SunGard is the largest privately held software and services company and was ranked 480 on the Fortune 500 list in 2011.

Headquartered in Wayne, Pennsylvania, SunGard is comprised of four businesses - Availability Services, Financial Systems, K-12 Education and Public Sector - that provide technology services and infrastructure, and software and processing solutions.

Background on SunGard Capital Markets Segment

SunGard's solutions for capital markets help financial institutions to effectively manage and optimize their positions, risk and operations. We help banks, broker-dealers and futures commission merchants to grow their business by improving the efficiency, transparency and control of their securities and derivatives trading and processing. From pre-trade analysis to post-trade risk management, from high volume trading to complex structured products, our solutions give you control of the entire lifecycle of a trade.

SunGard's capital markets business offers a suite of front-to-back, multi-asset, multi-market solutions that cover: integrated, enterprise-wide market and credit risk management, order and position management, securities financing and collateral management, data management, accounting and tax reporting and compliance.

Background on SunGard's Securities Finance Division of Capital Markets

SunGard Securities Finance (SSF) is the leading global supplier of administrative, regulatory reporting, trading, settlement, analytical and performance benchmarking systems and services to every stakeholder in the securities finance industry. SSF supplies these services through a number of distinct yet integrated business units as follows:-

Apex – Manages, settles and administers global equity and fixed income securities finance business in a single platform.

Apex Collateral - Manages, trades and optimizes collateral across multiple trading book products on a single platform.

Astec Analytics - Increases transparency and provides detailed analysis on a real time basis for all participants within the securities financing industry

Loanet – Hosted securities lending system providing real STP and administrative capabilities including regulatory reporting covering over 95% of the North American market place in securities lending.

Global One – Proven global securities lending system for all participants supplying complete trading and operational capability.

Martini – Repo administrative and trading system

General Comments

SunGard is in broad agreement with the FSB's definition of shadow banking and the risks and rewards it creates for the global economy in general and the capital markets industry in particular. Furthermore, SunGard welcomes the posture adopted by the FSB in recognizing the necessity of having regulations and transparency requirements that do not 'inhibit sustainable non-bank financing models that do not pose such risks'. The 'comprehensive' yet 'proportionate' response is a valid and prudent one. To these requirements must be added a third, no less important, that of practicability. If regulatory requirements are so onerous as to serve as an obstruction to business practice then they are themselves distorting the markets and as such not beneficial. To this end, use and extension of current reporting and aggregation tools and services would be the most expedient way to proceed.

In order to apply the most appropriate methodology, there is a requirement to identify and recognize the differences in risk and transactional qualities of the various securities finance instruments. For example, even though they are grouped together under a broad identifier such as securities finance, securities lending and repo have very different tenor, pricing, administrative and booking requirements. Whereas a repo transaction is a 'trade' and a commitment, a securities lending transaction is not a trade but rather an arrangement undertaken on a 'best endeavours' basis and subject to modification, cancellation and recall. In the main, repo transactions are looked at from the perspective of the cash holder as opposed to the securities being moved against that cash. In securities lending transactions the cash generated itself becomes an additional trade in terms of investment and whilst the two have a connection as one

generates the other, the two transactions are very separate and subject to different risks and monitoring requirements. To this end, SunGard agrees with the FSB's approach of dealing separately with cash collateral reinvestment but would argue for a stronger differentiation in terms of reporting and aggregation.
One of the unintended consequences of introducing a method for greater transparency and public reporting of securities financing transactions is in the area of pricing. In economic theory in a perfect market, the pricing for particular arrangements or transactions would be the same between participants. Whilst this is a laudable aim, the number of differences and nuances between counterparties, size of transactions, types of collateral offered, cost of movement fees out of several underlying accounts, the tenor of the arrangement, the time of the year, the size of one's book, and so on, all serve to introduce a requirement to have a diverse pricing capability. The availability of comprehensive real time pricing tools as provided by SunGard's Astec Analytics on a global basis have not driven the price to being the same as too many variables remain to be factored in. Consequently, SunGard does not feel that it is necessarily a good or even a necessary requirement to collect data on prices and rebates at a regulatory or reporting level. Even if the regulators would have the appetite to monitor prices for borrowing securities with such diversity of rates not only on any one stock but between participants at the wholesale or retail level would mean that so many resources would have to be devoted to monitoring the market movements as to create inefficiencies. In addition, any edicts as to whether securities lending should be limited or the goal posts changed if the price for borrowing a security reached certain costs of borrowing would appear to risk being seen to having an untoward effect on market sentiment on companies and their share prices.

It is noted that the FSB recognize that there are different methodologies for data collection and how they can be amended or utilized depending upon the consumer of the information obtained. The three methods of regulatory reporting, surveys and use of a trade repository all have their advantages and demerits. SunGard would suggest that as it appears to envisage that all three will be used, there may be a very real risk of different or conflicting information being obtained. As a result, significant time and resources will need to be devoted to identifying and resolving these differences. In addition, the timeliness of say survey data to transactional daily data or regulatory reporting may lead to confusion in the market place between practitioners, regulators and the public. To avoid this, SunGard would argue for the use of a single methodology of collection which is then cut and sliced into the necessary detail or high level aggregation on a consistent basis. This same methodology has worked seamlessly for a number of years in the North American securities lending market and SunGard's Loanet system. A hosted facility run in a SAS70 location, Loanet has been responsible for being a de facto trade repository for a significant percentage of current activity which has enabled it to also provide the necessary regulatory reporting for example around ALD (Agency Lending Disclosure) requirements. Similarly, SunGard's Global One system is used by many participants around the world to provide the necessary regulatory reporting at a transactional or aggregate level. By use of a single source provider of the information, the trade-offs outlined in Annex 2 would be alleviated.

We can now analyse the general and specific questions raised within the document and comment where appropriate. Questions not commented on do not infer complete agreement with or acceptance of the recommendation upon which the question is based.

<u>Question Responses</u>

Q1. Does this consultative document, taken together with the earlier interim report, adequately identify the financial stability risks in the securities lending and repo markets? Are there additional financial stability risks in the securities lending and repo markets that the FSB should have addressed? If so, please identify any such risks, as well as any potential recommendation(s) for the FSB's consideration.

Response:- The two documents adequately identify the financial stability risks in securities lending and repo. In respect of cash collateral re-investment, apart from the linking of tenor of investment with the underlying securities lending transaction, the risk is the same as the underlying market risk within a traditional portfolio and the same policies and safeguards should be applied. In other words, if a lending institution has investment management policies and procedures in place for the establishment of the original portfolio, if these criteria are not also applied to the investment of any cash collateral, then the risks may be increased.

Q2. Do the policy recommendations in the document adequately address the financial stability risk(s) identified? Are there alternative approaches to risk mitigation (including existing regulatory, industry, or other mitigants) that the FSB should consider to address such risks in the securities lending and repo markets? If so, please describe such mitigants and explain how they address the risks. Are they likely to be adequate under situations of extreme financial stress?

Response:- The policy recommendations as listed in Annex 1 and throughout the document do address the risks outlined within this and the April paper. Recommendations 1though 5 involve collection and dissemination of data and reviewing of reporting requirements. However, as noted above, the potential for inconsistency of information given different collation timings, details and methodology exists and can be mitigated by receiving information from one source and then releasing the right information for the intended consumer. Recommendations 6 and 7 address haircut concerns and details and, as noted within the recommendation themselves, could lead to unintended consequences. Best practices have been put in place by regional industry associations in respect of collateral and haircuts reflecting the nuances of the different regions and markets. Mandating of the best practices recommended would be an appropriate measure as it would build upon the work undertaken over many years and would include other aspects such as collateral liquidity as well.

Q3. Please explain the feasibility of implementing the policy recommendations (or any alternative that you believe that would more adequately address any identified financial stability risks) in the jurisdiction(s) on which you would like to comment?

Response:- As stated before, given the current level of reporting and regulation, the feasibility of implementation in the North American market will be the most achievable in the short term. The data is mostly available already in a centrally held location and the technical changes required could be handled on an industry wide approach.

With regard to the non-North American markets, there is a combination of several service providers, stock exchange run central depositories and CCPs. Reporting priorities will differ between jurisdictions that may delay or complicate feasibility of implementation particularly in the so-called emerging securities lending and repo markets.

Q4. Please address any costs and benefits, as well as unintended consequences from implementing the policy recommendations in the jurisdiction(s) on which you would like to comment? Please provide quantitative answers, to the extent possible, that would assist the FSB in carrying out a subsequent quantitative impact assessment.

Response:- No additional comments

Q5. What is the appropriate phase-in period to implement the policy recommendations (or any alternative that you believe would more adequately address any identified financial stability risks)?
Response:- A phase-in period of two years is suggested with differing phasing in for different regions.
Q6. Do you agree with the information items listed in Box 1 for enhancing transparency in securities lending and repo markets? Which of the information items in Box 1 are already publicly available for all market participants, and from which sources? Would collecting or providing any of the information items listed in Box 1 present any significant practical problems? If so, please clarify which items, the practical problems, and possible proxies that could be collected or provided to replace such items.

Response:- As stated in our opening comments, SunGard agrees with the required detail information apart from the rate requirement. Whilst it is appreciated that a high cost of borrowing rate might be significant of pressure being put upon an individual security, this is probably beyond the purview of the regulatory authorities and unnecessary in order to monitor shadow banking risks. A better approach would be to receive a percentage change figure for the average thus preserving competitiveness but still providing visibility as to trending for the regulators.

The majority of the data points are available to market participants to some degree depending upon their own contribution to the data pool through SunGard and other data providers. However, there are strict confidentiality and quorate rules built into most systems so as to segregate what can been seen by different types of contributors. One area of complete confidentiality is in the area of counterparty. All data is currently annonymised so as to preserve client confidentiality even though the counterparties are known to the data providers.

Given the non-trading nature of securities lending, the figures relating to availability are subject to much uncertainty. Many lenders approve lending on a case by case basis and fund managers may decide not to make their portfolios available at whim. Consequently, any values attached to availability including utilization need to be viewed in such a context.

Further, collateral is often settled in bulk between counterparties rather than on an individual loan basis, thereby creating issues of allocating collateral data by the TR when the data has been gathered.

Q7. Do you agree TRs would likely be the most effective way to collect comprehensive market data for securities lending and/or repos? What is the appropriate geographical and product scope of TRs in collecting such market data?

Response:- Some form of Trade Repository would be the most appropriate way to receive the data. Hosted systems can already been deemed to be a form of trade repository and this is immediately available subject to mandate within the biggest market, North America. The majority of the requisite data for the rest of the world is available on proprietary or purchased systems and could be integrated with the Trade Repository already in existence in North America.

Q8. What are the issues authorities should be mindful of when undertaking feasibility studies for the establishment of TRs for repo and/or securities lending markets?

Response:- The establishment of a new trade repository system on a global basis is a large undertaking and will be affected by the many differing demands placed upon it for reporting from many different regions and jurisdictions. As a result, feasibility studies should be focused on the ability to provide the requisite data from existing sources so as to enable change to be implemented without too much structural dislocation.

Q9. Do you agree that the enhanced disclosure items listed above would be useful for market participants and authorities? Would disclosing any of the items listed above present any significant practical problems? If so, please clarify which items, the practical problems, and possible proxies that could be disclosed instead

Response:- No additional comments

Q10. Do you agree that the reporting items listed above would be useful for investors? Would reporting any of the items listed above present any significant practical problems? If so, please clarify which items, the practical problems, and possible proxies that could be reported instead.

Response:- No additional comments

Q11. Are the factors described in section 3.1.2 appropriate to capture all important considerations that should be taken into account in setting risk-based haircuts? Are there any other important considerations that should be included? How are the above considerations aligned with current market practices?

Response:- Factors outlined are appropriate. However, more risk analysis is required to assess the potential correlation requirement between collateral asset and the security being lent. In market stress situations, it may still be beneficial to be non-correlated between collateral and security lent.

Q12. What do you view as the main potential benefits, the likely impact on market activities, and possible unintended consequences of introducing a framework of numerical haircut floors on securities financing transactions where there is material procyclicality risk? Do the types of securities identified in Options 1 and 2 present a material procyclical risk?

Response:- No additional comments

Q13. Do you have a view as to which of the two approaches in section 3.1.3 (option 1 – high level – or option 2 – backstop) is more effective in reducing procyclicality and in limiting the build-up of excessive leverage, while preserving liquid and well-functioning markets?

Response:- No additional comments

Q14. Are there additional factors that should be considered in setting numerical haircut floors as set out in section 3.1.3?

Response:- No additional comments

Q15. In your view, how would the numerical haircut framework interact with model-based haircut practices? Also, how would the framework complement the minimum standards for haircut methodologies proposed in section 3.1.2?

Response:- No additional comments

Q16. In your view, what is the appropriate scope of application of a framework of numerical haircut floors by: (i) transaction type; (ii) counterparty type; and (iii) collateral type? Which of the proposed options described above (or alternative options) do you think are more effective in reducing procyclicality risk associated with securities financing transactions, while preserving liquid and well-functioning markets?

Response:- No additional comments

Q17. Are there specific transactions or instruments for which the application of the numerical haircut floor framework may cause practical difficulties? If so, please explain such transactions and suggest possible ways to overcome such difficulties.

Response:- No additional comments

Q18. In your view, how should the framework be applied to transactions for which margins are set at the portfolio basis rather than an individual security basis?

Response:- No additional comments

Q19. Do you agree with the proposed minimum standards for the reinvestment of cash collateral by securities lenders, given the policy objective of limiting the liquidity and leverage risks? Are there any important considerations that the FSB should take into account?

Response:- No additional comments

Q20. Do you agree with the principles set out in Recommendation 9?

Response:- No additional comments

Q21. Do you agree with the proposed minimum standards for valuation and management of collaterals by securities lending and repo market participants? Are there any additional recommendations the FSB should consider?

Response:- No additional comments

Q22. Do you agree with the policy recommendations on structural aspects of securities financing markets as described in sections 4.1 and 4.2 above?

Response:- No additional comments

Conclusion

SunGard thanks the FSB for the opportunity to comment on their discussion paper and would welcome any further opportunity to discuss the Board's recommendations or contribute to the ongoing debate. Furthermore SunGard, as it has done for all other regulatory requirements of the industry in the past, will continue to work with all securities finance participants and the global regulatory authorities to supply the requisite level of reporting finally decided upon.

Yours faithfully,

Timothy Smith
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SunGard's Astec Analytics

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