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— **Comments FSB consultative document "Understanding Financial Linkages: A Common Data Template for Global Systemically Important Banks"**

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Dear Sirs,

AZ BdB: C 18
Bearbeiter: Jg/Rd

We would like to thank you for the opportunity to respond to the consultative document "Understanding Financial Linkages: A Common Data Template for Global Systemically Important Banks".

General remarks

The Association of German Banks supports endeavours by international regulators to close existing information gaps so that they will be better placed to analyse undesirable developments in financial markets at an early stage and determine the measures necessary to prevent future crises.

1) Legal basis

— The proposals do not indicate how the reporting requirements would be implemented in individual jurisdictions. A prerequisite for the regular reporting of such detailed data is an appropriate legal framework which (i) obliges the banks involved to report the data in the required format and (ii) clearly regulates access to, and the use of, these data. This is necessary primarily because the reports will also include client data so a sound legal basis is absolutely essential if existing confidentiality requirements have to be breached. A related problem needing to be taken into account concerns the exchange of information between parent companies and their foreign subsidiaries. Experience has shown that confidentiality concerns raised by national supervisors have often prevented subsidiaries from forwarding client-related data, in particular, to their parent company. A sound legal basis must therefore be established which will allow the cross-border transmission of data required to submit reports. Furthermore, the envisaged level of detail and frequency of the reports are such that

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management will only be able to justify deploying the associated resources to banks and their shareholders if these resources are needed to fulfil a legal requirement.

Above all, however, the FSB's data requirements will have to be compatible with national legal frameworks. Our expectation is that the collection of data will be part of the regular reporting process so that it is based on a consistent regime underpinned by law. We firmly reject the idea of case-by-case data collection by national supervisors under pillar 2 of the Basel accord.

Access rights, confidentiality and the intended use of the data are also issues that need to be clarified in detail when it comes to the data pool. It would be problematic, in our view, if individual authorities were able to access the entire pool without the original collecting authority knowing exactly who was using the data, how the data were being processed and stored and to which third parties the data might be passed on. Furthermore, data often require accompanying explanations, especially about the national environment in which they were collected. We therefore believe it would be preferable to give the data pool not only its own IT infrastructure but also its own legal personality, legal rights and its own staff, which – working where necessary in close coordination with national supervisors – would analyse the data and make the results available to all involved authorities without delay.

2) Avoiding redundancies

We understand that well-founded analyses of possible systemic risk can only be carried out if a broad pool of data is available. Nevertheless, we believe the benefits of the reported data need to be carefully weighed against the time and expense associated with preparing them. It will be absolutely essential, in our view, for supervisors to justify the exact objective of each individual request for data. Every additional request which goes beyond existing reporting requirements ties up both financial and personnel resources at the banks and this burden is exacerbated further if manual processing becomes necessary. We are therefore in favour of keeping the scale of future reporting requirements within reasonable limits. Appropriate transitional arrangements will be particularly important so that the new requirements can be complied with not only in quantitative terms, but also in terms of the necessary quality.

In many jurisdictions, including Germany, existing reporting regimes have been or are in the process of being thoroughly overhauled and expanded. On top of this, there has been a significant increase in ad-hoc requests from national supervisors. These data cannot normally be generated by the existing reporting infrastructure and require onerous manual preparation.

Even if the objective of various reporting requirements at national, European and international level appears the same, the definitions of the data to be reported vary widely. The ideal solution, in our view, would be to establish a supranational regime in the medium term based on uniform definitions. All involved should be aware, however, that even a standardised approach has its limitations and that certain differences will be unavoidable as a result of differing national and international accounting standards, for instance. The criteria set by national supervisors for the content of reports should be harmonised with international requirements so that the regime is underpinned by a common understanding and the required data can always be generated at national level from existing sources. We firmly reject the idea of a reporting framework for macroprudential purposes existing alongside regular national reporting regimes.

Requests for data over and above those already collected at national level should at most be seen as a final step taken only after a thorough cost-benefit analysis. Instead, consideration should be given to the extent to which a certain lack of precision could be tolerated or reconciliation reports used.

Existing solvency, statistical, large exposure and liquidity reporting requirements have recently been or are currently being revised in Europe. The implementation of the revised Capital Requirements Directives (CRD III and IV), the modernisation of the reporting regime recently pushed through in Germany, for instance, and the review of accounting standards (e.g. IFRS 9) have all given rise to new or modified data requirements. To minimise the burden this places on the banking industry, steps should be taken from the outset to avoid duplicate reporting and redundancies in the data pool. This could be achieved, in our view, by conducting a comparative analysis of the desired content of the proposed data template with that of existing international, European and national data requirements.

The scale and metrics of the information to be collected should be consistent with the existing reporting regime. Funding data, in particular, should be aligned with the new Basel III and CRD IV requirements (monitoring tools). This will avoid unnecessary additional work for the banks.

We would like to point out that no market value exists or can be determined for a number of the instruments included in the proposed template. We would therefore suggest permitting the use of established metrics employed in existing solvency reports (e.g. EAD or position values).

It is unclear whether the request for counterparty credit exposures and funding dependencies requires data to be reported at the level of the individual legal entity of a client or of the group of connected clients. The paper provides no guidance or definition in this regard. If grouping of risk units is desired, this should be consistent with the definition of the group of connected clients for the large exposures regime and it should be possible to use data which are already collected in Europe on the basis of standardised requirements. This consistency and use of existing data is necessary, in our view, to ensure that the results are coherent and that banks can use their resources as effectively as possible to prepare the information. Every divergence in format, definition, granularity and methodology generates additional IT and personnel costs.

3) Implementation timetable

The implementation of Basel III and the CRD amendments (CRD III and IV) will continue to place a considerable strain on banks' resources until the end of 2012. Basel III's new liquidity requirements, in particular, pose a huge challenge to their data management, IT and specialist personnel. What is more, substantial additional resources are tied up by various Basel III impact studies, special data requests and stress tests (e.g. by the EBA) requiring the provision of information that is not normally readily available as things stand.

Given the scale and complexity of the data requirements proposed by the FSB, the suggested implementation periods are rather tight. We would argue for a more generous timetable, especially since coordination between national supervisors and the FSB will be required and both national supervisors and banks will need time to integrate the new requirements into existing reporting regimes.

4) Reporting deadlines

The German private banks consider some of the envisaged reporting deadlines far too tight. Technical constraints alone will make it impossible for complex banks to make regulatory and funding data available within three working days.

We assume that supervisors want the data supplied to be of sufficiently good quality to allow sound conclusions to be drawn. Excessively tight deadlines will, however, result in the submission of data which have not undergone adequate checking and quality control. In particular, comparability with other reported data will not be ensured. We also doubt whether I-I data collected on a weekly rather than monthly or quarterly basis will significantly improve the quality of macroprudential analysis. The German private banks believe both reporting frequency and reporting deadlines should be based on those set by the European Banking Authority for the reporting of financial and solvency data (FINREP, COREP).

5) Confidentiality and data protection (Question 29)

We would like to stress the fundamental importance we attach to confidentiality and data protection with respect to transmitting, centrally storing and using sensitive bank data and confidential customer information. It will be vital to put the necessary legal, technical and organisational measures in place to ensure the confidentiality, integrity and protection from unauthorised access of the bank data and unequivocally clarify who is permitted to access, process and possibly pass on these data and for what purpose. The scope of the reporting requirements also needs to be determined with confidentiality and data protection considerations in mind. We therefore warmly welcome the creation of a special workstream to address the question of what legal and organisational arrangements will be necessary for the new data template.

6) Disclosure and publication (Question 30)

We firmly reject the idea of making the bank data public. We take the view that use of the data should be restricted to the supervisory authorities involved and that these authorities should be bound by strict confidentiality obligations. This will not, in our opinion, prevent them from fulfilling their task of monitoring the stability of the financial sector and interconnectedness between banks or markets. Publication of the data would make it impossible to ensure confidentiality. We do not, moreover, believe that public disclosure would necessarily help to enhance transparency. On the contrary, there is a risk of the data being wrongly interpreted, which could undermine or even irreparably damage confidence in the banking sector.

7) Single point of contact for delivery of the data (Question 31)

We support the proposal that data should be delivered and communication channelled exclusively through national supervisors. First of all, however, the associated legal prerequisites need to be met in member states. A central contact person should be appointed for every bank at their national supervisory authority. This person should be the sole point of contact for the bank as well as for national and international authorities. The central contact person would have the expertise and be able to offer technical support in matters such as data transmission, storage, access rights and utilisation. The tasks of the contact person would include conducting plausibility checks, monitoring compliance with data protection rules and dealing with questions and problems of any kind. This would ensure consistent and comprehensive support for the bank.

8) Materiality threshold/exchange of information/coordination between home and host supervisors (Question 31)

We would like to point out that various problems can arise when collecting data at group level. It frequently proves especially difficult to obtain data from foreign units at individual dataset level. With this in mind, we would like to suggest setting a suitable materiality threshold whereby units representing a comparatively minor part of the group would not need to be included in the reported data. In addition, national supervisors should take steps to ensure that data from a bank's foreign subsidiaries can be made available at a sufficient level of granularity in a timely manner. Existing materiality thresholds in some member states with respect to the inclusion of foreign subsidiaries for prudential purposes are designed for banks of all sizes and are doubtless far too low for systemically important banks.

9) Structural and systemic importance data (Question 26)

There is no mention in the consultation paper of the fact that data sought to identify and categorise potential G-SIBs can also be used to determine capital surcharges. Data have already been collected by national supervisors on behalf of the Basel Committee on Banking Supervision (BCBS) for the purpose of identifying potentially systemically important banks. The template for the current, second collection of data diverges significantly from that for the first collection in January 2011. Nevertheless, our initial impression is that the data elements set out in the FSB's draft template (especially type 2, institution to aggregate data, and type 3, structural and systemic importance data) could, at least in their final form, cover much of the data sought in the BCBS surveys to date.

In the interests of synergy and consistency, parallel collections of data for identifying G-SIBs should be dispensed with from 2014 at the latest. Instead, the BCBS should use only the future datasets in the FSB reporting template for this purpose.

10) Ad-hoc data – clear definition of relevant datasets (Question 28)

It is extremely difficult, in our view, to produce ad-hoc data. To make it easier for banks to respond to ad-hoc requests, the FSB should at least make available a set of possible analysis variables that might be solicited so that these can be maintained in a special data warehouse. Without precise specifications, it makes little sense and is extremely costly to maintain data "just in case". We would also like to point out that, if additional key indicators such as prudential or accounting ratios are requested, it should be borne in mind that the introduction of new regimes such as Basel III or IFRS 9 normally require substantial adjustments to IT systems, which would make it impossible to respond to ad-hoc requests within the proposed timetable.

We would urge supervisors to set clear and explicit requirements if ad-hoc data are requested. Repeated modification of data templates would make it much more difficult to collect data in a structured manner and set up IT systems. In addition, the proposed test ad-hoc surveys should be kept to a minimum since each test will place a significant additional strain on the banks.

Comments on individual templates

Comments on Table 2A

Q1. Institution-to-Institution counterparty credit data:

What are your views in terms of additional costs on a scale of 1-5 (1 being little or no cost and 5 being extremely costly) on the proposal to collect data on the principal counterparty credit exposures according to the above Table 2A, and please explain the reasoning behind the score ?

Score of 5: compliance with a reporting lag of three days for group-wide data would be extremely costly. Manual workarounds and/or reliance on front office data would be necessary.

Would the costs and benefits be altered significantly by an alternative scope or timetable, and if so please explain why?

Yes. Reporting should be aligned with existing (Basel II, large exposure reporting) and new (Basel III) regulatory reporting. This would reduce costs significantly. Should this not be possible and separate G-SIB reporting be essential, it should start after the implementation of Basel III in 2014 because resources for regulatory reporting are tied to Basel III implementation.

Q2. Number and identification of counterparties:

What would be the marginal cost on a scale of 1 to 5 of increasing the sample by say 10 additional counterparties (from 50 to 60), and of reporting exposures to 10 additional counterparties named by the authorities?

Score of 1.

Q3. Frequency of reporting:

On a 1-5 scale what would be the cost increase for collecting the data weekly rather than monthly?

Score of 5.

Are there any specific data elements that have a major bearing on the costs, ie where the cost would be significantly increased were the data collected weekly?

Validation and data correction and review processes outside the standard monthly financial and regulatory process. The reporting frequency should be geared towards the volatility of the reported data.

Q4. Are all the proposed instrument breakdowns and metrics currently available?

On the assets side mostly yes. But much less so on the funding side since in Germany no regulatory reporting requirements exist as things stand.

Q5. Reporting lag:

Is the proposed reporting lag of 3 days achievable for all banks?

No.

Would the costs and benefits be altered significantly by an alternative lag, and if so please explain why?

Yes. Standard monthly data collection feeds could be used.

Comments on Table 2B

The reporting frequency seems to be different to the requirements in Table 4 (weekly/monthly vs. quarterly).

The maturity buckets (5) are not consistent with the maturity buckets (8) in Table 4. (Table 4 has an extra "overnight" bucket whereas this is included in the "overnight to 1 month" bucket in Table 2.)

Metrics - principal amounts:

Do banks have to consider gross or net amounts (e.g. deposits vs. on-demand loans to the same counterparty, repos net of reverse repos with the same counterparty)?

Reporting frequency:

Feasibility and costs depend on consistency (and hence synergies) with other reporting requirements. The more requirements differ, the higher are compliance costs and the lower is the frequency that can be achieved in terms of reporting/reporting lags.

It would be worth considering defining thresholds in terms of the absolute amount of lending or relative to the balance sheet size.

Is there any reason why, unlike in Table 4, no breakdown by currency is deemed necessary?

As we understand it, FX derivatives (forwards, currency) are not to be reported under Table 2B.

Q6: Institution-to-institution funding data:

Does this only refer to funding relationships between "major financial institutions" or with any counterparty (cf. first sentence on page 10 in the section on institution-to-institution data)? More clarification is needed about the basis on which consolidated exposure (funding) needs to be reported (from the perspective of depositors).

Consolidation: according to footnote 18 on page 10, "given that the parent company bears the risk stemming from its affiliates and keeps aside capital for those risks, such information should be included." Does this mean, conversely, that if a subsidiary is ringfenced in terms of liquidity, such exposure should not be part of the consolidated figure?

Footnote 20 on page 11 states: "Fully recognising that 'indirect' contagion, for example through the impact of 'fire sales' by distressed firms on market prices and liquidity is equally important. Institution to

aggregate data should help to shed additional light on such forces." We are not sure how practicable it would be for banks to provide this information as it requires detailed knowledge of the composition of other banks' balance sheets as well as these banks' ability to make potential behavioural adjustments in the light of prevailing market conditions.

Q7: Number and identification of funding providers ...

Reporting information about a larger number of counterparts should not, in principle, be cost intensive (once the reporting framework is in place), though it is open to question whether there would be any added value for well-diversified banks. However, though not impossible from a technical point of view, it would be more costly and time-consuming to report on 10 specifically named additional counterparties since a user interface would have to be developed to filter the data.

Q8: Frequency of reporting ...

Banks often use their accounting reporting framework to fulfil such regulatory requirements so as to ensure consistency with their balance sheet reporting. As these processes normally run on a monthly basis, weekly reporting would not be feasible unless banks changed their reporting infrastructure to a more front-office oriented reporting process. This would require substantial investment in their IT infrastructure.

Since all reporting requires some manual intervention for data cleaning etc., a higher reporting frequency would necessitate more manpower to deal with the additional work and keep backups for regulatory reporting purposes.

Q9: Maturity breakdown and "crossings" ...

The proposal should be aligned with similar reporting requirements (e.g. Basel III/CRD IV).

Q10: Reporting lag ...

Please see our reply to Q 8. This depends on the IT infrastructure. If it is based on the bank's accounting framework, a 3-day reporting lag is too ambitious given the interdependencies with other reporting requirements (e.g. monthly balance sheet reporting), where reporting is to some extent carried out in a sequential manner due to limited resources.

Q19: Metrics, Risk Transfer and Exposures Data ...

The final risk vs. immediate borrower perspective is the most challenging component. This depends on various factors such as the collateral distribution algorithm, level of look-through in structured deals, desired country of an international active counterparty/counterparty group or project finance loan. Hedging and risk transfer are often carried out through macro hedges which are tailor made for the bank's specific risk management and business model. This is not compatible with standardised reporting of exposures after hedging and risk transfer to arrive at "final risk" exposures.

We recommend drawing on the borrower and collateral values used in existing solvency reporting under Basel II.

Comments on Table 4

Dependencies on sectors and instruments would not be reflected properly if the data focused on liabilities only. Dependency on repo business would be overstated, for instance, if reverse repos were ignored (match book). See also our comments on Table 2B.

Q20: Institution-to-aggregate funding data

The proposal should be aligned with similar reporting requirements (e.g. Basel III/CRD IV).

Q21 / Q22 / Q23 / Q24:

There would be no significant difference in cost once the framework had been implemented and aligned with similar reporting requirements (e.g. Basel III/CRD IV).

A precise definition of counterparty classifications is required in order to ensure consistent reporting across different banks to allow for further aggregation.

We assume that information on "holders of long-term securities issued by G-SIBs" is intended to address bearer bonds. Should this be the case, it may be sufficient to report the composition of investors at the time the bond was placed. Obviously, the composition may change over time in a manner over which the bank has only limited control (unless we are talking about registered notes).

Yours sincerely,


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