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Mark Carney
Chairman
Financial Stability Board

Re: IIF Comments on the FSB's Consultation Paper on *Understanding Financial Linkages: A Common Data Template for Global Systemically Important Banks*

Dear Chairman Carney:

The IIF appreciates the opportunity to comment on the FSB's consultation paper on *Understanding Financial Linkages: A Common Data Template for Global Systemically Important Banks*. As stated in previous submissions to the FSB, the Institute strongly supports stronger banking supervision as a means to promote greater financial system stability. More specifically, we believe data standardization should be prioritized as has been advocated in the IIF-McKinsey report on *Risk IT and Operations: Strengthening Capabilities* (June 2011). Such standardization, if implemented correctly, has the potential to enhance data aggregation both for firms' own use and for regulatory monitoring purposes, as well as lessening the burden on firms' IT and reporting systems.

The Institute therefore welcomes the efforts to build a common data template for firms designated as G-SIBs across jurisdictions (assuming this would in fact replace rather than add to existing similar data requirements at the national level) in order to make supervision of international firms, as well as macroprudential oversight, more efficient and effective. However, we are concerned that such a goal will not be achieved through the proposal as presented. Not only will the new template most likely add to (and duplicate) existing reporting requirements, but given the current environment, the upfront cost of undertaking this exercise is likely to exceed the potential benefits. Both firms' and regulators' resources are being stretched thinly with the monitoring and implementation of the unprecedented number of regulatory initiatives that have been developed in the past four years. In the Institute's view, it is essential to make sure that implications of major regulatory and supervisory developments have been fully thought through. It is equally important that the introduction of new initiatives is coordinated with existing ones to avoid unnecessary duplication and costs, something that in our view this initiative fails to demonstrate.

The Institute has discussed this proposal with its members and submits the comments below, which supports the consensus views of the industry as reflected in several other submissions being currently filed on this issue. However, we would like to note that the consultation period given for these proposals, given the quite detailed questions, has been excessively short. As stated in Recommendation 9 in the report *The Financial Crisis and Information Gaps* endorsed by the Group of Twenty (G-20) Finance Ministers and Central Bank Governors in November 2009, proposals in this area should be subject to "widespread" consultation. In our view, should the FSB decide to move forward with this project, additional time for consultation and dialogue with the industry should be provided.

In addition, the Institute believes that the lack of detailed definitions of the proposed data elements to be included in the common template makes it extremely difficult to assess the cost of compliance, which is the main theme of most of the questions in the consultation paper. Our suggestion is that in the event that the FSB decided to move forward with the project, new proposals should first articulate the detailed definitions of the data elements it wishes to collect to enable firms to assess the cost implications. Failure to do so would clearly prevent adequate cost-benefit analysis from being undertaken.

The Institute is of course interested in discussing these comments in detail with the FSB. As you are aware, the Institute counts as its members all the firms that would potentially be subject to the new reporting requirements and in that capacity we would be glad to bring together our members to meet and discuss further these proposals with the relevant policy makers.

Finally, please note that as an association, we have not attempted to estimate the type of precise cost-benefit analysis that the proposals demand. It is questionable whether this would be feasible or meaningful given the relatively undeveloped state of the proposals, together with the fact that the cost-benefit balance will vary widely among individual firms. However, we would be glad to organize additional input in this area should the FSB desire to forge on-going direct dialogue on the proposals.

Below, please find our more detailed comments on the proposals:

- **Align with the various on-going data initiatives.** Our central view on the proposals is that as currently defined, they do not seem fully coordinated with existing initiatives in this area, both at the regional and international level. A number of data initiatives are currently underway in response to various regulatory initiatives (e.g. RRPs, Basel Committee's liquidity monitoring, COREP and FINREP in Europe, etc.). It is essential to review all these on-going data initiatives, which certainly have some overlaps with the FSB proposed data requirement. The industry strongly believes that the FSB should build on these existing initiatives for systemic monitoring purposes, instead of coming up with completely new requirements. This would make the process more effective and efficient, promote the stability goals that are sought and help lessen the excessive burden on firms that this initiative would otherwise create.

- **Avoid duplicating existing reporting requirements**. The proposed common data template should minimize incremental requirements and build as far as possible on existing ones. Some data elements in the proposed FSB template are quite similar to, if not the same as, existing national reporting requirements. If the national regulators would be able to make these reporting requirements completely consistent with the FSB requirements, thereby making firms report only one set of data for both local reporting and FSB reporting purposes, then it would significantly minimize implementation costs. However, the current proposal fails to make such a goal explicit, nor does it establish the necessary mechanisms for avoiding duplication. In this regard, unless substantially revised, the likely outcome of this initiative will be the duplication of already quite demanding reporting requirements for supervised firms.

- **Standardize data definitions.** The usefulness of the information gathered pursuant to the proposed template will be severely compromised by the current lack of a consistent definitional framework for data reporting. For example, there currently exists no unified industry method of calculating exposure and consequently, the data compiled by any given bank are neither straight forward to interpret nor readily comparable across its industry peer group. In order to facilitate meaningful interpretation and comparisons across banks, the data would have to be provided in accordance with a very clear and consistent set of operational definitions. New harmonized exposure calculation methodology could be developed through one of the below options:
    - Use accounting standards definitions;
    - Apply regulatory reporting standards;
    - Develop new standards.

  In the interests of obviating the development of further reporting methodologies, we would strongly suggest an approach which utilizes existing reporting standards.

- **Set out realistic and practical expectations on reporting frequency and lags.** We have concerns about some of the reporting frequency and lags in the proposal, which reporting specialists in our members firms have concluded are simply unrealistic and impractical. For example, a weekly reporting frequency for top counterparty credit exposures is probably excessive, given the rate of change in any institution's large exposures. This is especially true for institutions that have commercial banking functions. We would also question to the extent to which supervisors would realistically be able to make use of such high frequency reporting in their oversight of the firms concerned. In addition, reporting of financial data more frequently than monthly would be inconsistent with the established internal governance of current external reporting. Meanwhile, the 3-day reporting lag is unrealistically short. It should be recognized that by requiring firms to conform to a common template, they are potentially being asked to report data using different standards, definitions, and aggregations than they do for internal purposes. Such an additional work burden cannot be satisfied in the way proposed, within the timelines that are being proposed. In this regard, we strongly recommend that the FSB enters into detailed dialogue with industry experts in order to revise the proposals and set out realistic and practical expectations on reporting frequency and lags.

- **Protect data confidentiality.** The industry believes that the governance arrangement for the information that will be collected through the common data template, particularly how the data would be kept confidential, is a critical issue. Unlike in existing international data collection efforts (e.g. the IMF's financial stability indicators) where national authorities contribute only aggregated information, the FSB proposal calls for firm-level data that will be stored at a "central hub hosted by the BIS." This obviously poses some concerns to individual firms as data security arrangements have not been sufficiently outlined. While the proposals recognize the importance of access and confidentiality issues, we still would like to reiterate that the establishment of clear and sufficient data security protection is imperative. Our members have seen increasing sensitivity around cross-border sharing of data, in some cases with significant restrictions on the data that is permitted to cross a border, and on countries to which such data may be sent.

- **Consider differences in business models.** It should be recognized that differences in business models across G-SIBs limit the relevance of some data elements. While this is a challenge when developing common data templates, business models do represent important differences in regard to the relevance and appropriateness of data requirements. In addition, as pointed out above, differences in business models also have implications for the appropriate frequency of reporting of the proposed data elements. This factor should be adequately considered when re-designing the common data template, something on which we would be happy to work with you.

- **Establish clear and reliable governance framework and use approximations, where appropriate, for ad-hoc data requests.** The proposals for ad-hoc data are one of the most open-ended parts of the proposal, and our members are concerned that the expected system 'flexibility' may exceed what is practical or possible. If data is not defined in systems, it cannot be retrieved from them. The enhancement of large, complex IT systems, whether to change the data that is collected or to report that data from them, or both, demands significant lead times. Whilst we recognize that it is impossible to spell out all potentially relevant data in advance, the cost implications of achieving such flexibility must also be borne in mind. For these reasons, we suggest there needs to be a clear and reliable governance framework for the handling of ad hoc data requirements. The process outlined in Annex 6 of the FSB consultation paper is a good start. In addition, the European Systemic Risk Board issued on 21 September 2011 a decision on the provision and collection of information for the macro-prudential oversight of the financial system within the Union. It sets out some useful principles and procedures for handling ad-hoc requests that could be a good model for the FSB effort (Annex III, Part B). Also, for some purposes, approximations, which can be produced more readily and cost-effectively, might well be considered acceptable instead of aiming for full accuracy.

Once again, we appreciate the opportunity to comment on the consultation paper on the common data template for G-SIBs. Should you have any questions on the issues raised in this letter, please contact Andres Portilla (aportilla@iif.com; +1 202 857 3645) or Jermy Prenio (jprenio@iif.com; +1 202 682 7455).

Best regards.

Sincerely,

Paul Wright