



The voice of banking
& financial services

Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

8 November 2011

Dear Sirs,

Understanding Financial Linkages: A Common Data Template for Globally Systemically Important Banks

The British Bankers' Association ("BBA") is the leading association for UK banking and financial services for the UK banking and financial services sector, speaking for over 230 banking members from 60 countries on the full range of the UK and international banking issues. I am pleased to say that all the major banking players in the UK are members of our association as are the large international EU banks, the US banks operating in the UK and financial entities from around the world. The integrated nature of banking means that our members are engaged in activities ranging widely across the financial spectrum encompassing services and products as diverse as primary and secondary securities trading, insurance, investment banking and wealth management, as well as deposit taking and other conventional forms of banking.

The BBA is pleased to respond to the paper on "Understanding financial linkages: a common data template for globally systemically important banks".

General Comments

The BBA appreciates and supports the need to provide authorities with better, homogenous and consistent data for the improved monitoring of systemic risk. We are keen to support the financial stability board in order to ensure the final framework for data collection is suitable and succeeds in supporting macroeconomic stability.

However, a key question that needs to be addressed is how the data will actually be used. While we are happy to support the request for more data, it must always be taken into account that this will result in significant change and expense to affected firms. With this in mind, we are keen to provide data that will support optimal decision making. It must also be taken into account that unfortunately there is an inevitable trade off between immediacy of data and quality.

To this end, we recommend the FSB provides us with a clear list of objectives that the increased data collection will seek to achieve. If firms have a better understanding of what is to be accomplished and the rationale behind the requirements, they will be in a better position to provide data that will be useful, and will allow firms to accommodate their internal governance of data submissions.

We would be interested to know how this data request would link into the wider framework of data requirements. As you will appreciate there will be a significant increase in reporting requirements placed upon firms in the coming years (Basel 3, COREP, new liquidity requirements, and recovery and resolution planning to name just a few). Most of these will be different in nature and require firms to make major concurrent developments to their Risk and Finance systems. This will place firms and their resources in these functions under considerable stress, and we are keen to ensure that an integrated approach is taken to both timing and content of new requirements. This should leverage existing reporting wherever possible, and carefully define supplementary data elements of high value, while minimising volume.

Data confidentiality is of great concern to our members. Needless to say, information of the nature required will be very commercially sensitive, its protection will call for an extremely robust framework for data transmission and access.

We believe the provision of more useful data to the FSB in a format that does not place undue burden on the industry can only be achieved through continued dialogue with the industry. The BBA would be very pleased to help facilitate these discussions and provide assistance in any way we can.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R Driver', with a long horizontal flourish extending to the right.

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Annex 1

Please find below answers to some of the questions posed in the paper. Please note not all of the questions can be answered at this moment in time. Furthermore, as the BBA represents a number of firms all who have different data systems in place, we can only provide very general answers that represent the industry as a whole. As a result of this we have not provided answers on a scale of 1-5.

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? What would be the marginal benefits of these data for your own risk management and monitoring? Would the costs and benefits be altered significantly by an alternative scope or timetable, and if so please explain why?

The impact on additional costs would very much depend on the extent of standardisation and common identifiers. Projects such as the Legal Entity Identifier initiative are still very much a work in progress, but it's the outcome of technological advances such as these that will affect how much or how little cost is increased.

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? If the marginal cost is judged significant please explain why?

We are unable to answer this question at present.

Q3. Frequency of reporting: On a 1-5 scale what would be the cost increase for collecting the data weekly rather than monthly? 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?

There will certainly be an increase in cost, and the severity of this would depend on the extent to which firms would need to deviate from their current existing processes.

We would recommend data being started on a quarterly basis at the outset. Once firms have established their systems and are comfortable meeting the reporting requirements, the frequency could then be reviewed, with a view to potentially moving towards a monthly basis, provided it was deemed feasible for the firms and there would be a sufficient benefit from doing so.

Q4. Are all the proposed instrument breakdowns and metrics currently available? Are the definitions clear and comparable across legal entities? If not, please identify which and using the 1-5 scale, indicate how costly it would be to comply with the proposal?

The definitions are still too high level to be useful. Definitions will need to be more granular in order for firms to understand exactly how they will make up the framework.

Q5. Reporting lag: Is the proposed reporting lag of 3 days achievable for all banks? Would the costs and benefits be altered significantly by an alternative lag, and if so please explain why?

There is currently a 20 day lag for large exposure reporting. Reducing 20 days to 3 days is a significant reduction in the time available. This will result in a very significant scale up in firms resources, resulting in a significant increase in costs and technological challenge. We do not think this is realistic, and we are not convinced the benefits of a 3 day lag will justify the increased cost to firms.

Q6: Institution-to-institution funding data: What are your views in terms of marginal costs on a scale of 1-5 on the proposal to collect data on top 50 bilateral funding providers according to table 2B, and please explain the reasoning behind the score? What do you see as the main costs and benefits of collecting such data according to the above template? Would the costs and benefits be altered significantly by an alternative scope or timetable, and if so please explain why? Please supply any comments on the following detailed elements of the proposal:

We are unable to answer this question at present.

Q7. Number and identification of funding providers: On a 1-5 scale please rate separately the costs of reporting the 10 additional counterparties providing the next highest incremental funding (ie reporting 60 top counterparties rather than 50), and of reporting dependencies on 10 additional counterparties specifically named by the authorities.

We are unable to answer this question at present.

Q8. Frequency of reporting: On a 1-5 scale what would be the cost increase for collecting the data weekly relative to monthly? Are there any specific data elements that would significantly reduce this cost if they were not collected weekly?

Our answer would be on the same basis as question 3.

Q9. Maturity breakdown and 'crossings': Do you have any comments on the proposal to collect the data by financial instrument and residual maturity simultaneously (i.e, providing maturity breakdowns for each instrument)? Is this information available and comparable across legal entities that form part of the banking group?

"Crossings" is a complex area that would require more detailed analysis once the framework has been further developed. As a result we are unable to answer this question at this time.

Q10. Reporting lag: Is the proposed reporting lag of 3 days achievable for all banks? Would the costs and benefits be altered significantly by an alternative lag, and if so please explain why?

Our answer would be on the same basis as question 5.

Q11. Institution-to-aggregate exposures data: What are your views on the proposal to collect data on the principal credit exposures according to the above template (tables 3A and 3B)? What do you see as the main costs and benefits of collecting such data? Do you have any comments on the proposed timetable and the proposal to introduce the new template in 3 phases? Would the costs and benefits be altered significantly by an alternative scope or timetable, and if so please explain why? Please use as befits the 1-5 cost grading scale to differentiate between the proposed template and your alternative.

We would need more details on how the data would be used once collected before we can answer these questions.

Q12. Country breakdown. The proposal is to collect data on exposures by country at different levels of granularity depending on the size of financial market activity (collecting the most granular data for the 30 most significant financial systems (level 1 countries – Table 3A), and less granular data for another group of some 38 jurisdictions (termed level 2 countries) separately identified in the enhanced IBS (with 6 regional aggregates for the remaining 172 countries – Table 3B). Would reporting costs change significantly if the most granular data on country exposures were requested from 5 more or from 5 fewer jurisdictions (i.e., if the level 1 list were expanded to 35 or reduced to 25, altering the numbers in level 2 accordingly)? In addition to your comments please use as befits the 1-5 cost grading scale to differentiate between the alternatives.

We are unable to answer this question at present.

Q13. Sectors: The provision of more detailed data on links between banks and different non-banking sectors is viewed as a priority to improve understanding of shadow banking risks. Are the proposed sectors (both the 7 and 12 sector breakdowns) currently available in your databases? If not, using the 1-5 scale, please specify how costly it would be to collect data on the 12 way breakdown as opposed to the 7 way sectoral classification.

We are unable to answer this question at present.

Q14. Financial instruments: Collecting additional information on the breakdown by types of financial instrument is essential to help identify concentrations of exposure and risk. Two alternative breakdowns are proposed in Table 3A (the second providing additional information on exposures in securities markets). Are all the proposed breakdowns currently available? Are the definitions clear and comparable across legal entities? If not, please identify which and using the 1-5 scale, indicate how costly it would be to comply with the proposals and on whether there are any significant differences between the two alternatives?

The definitions are insufficiently granular to comment on this question.

Q15. Maturity: In combination with data on the maturity structure of liabilities, a breakdown of assets by residual maturity will facilitate the analysis of liquidity and funding risks. On a 1-5 scale how costly is collecting data according to 5 categories rather than 3, as set out in Table 3A?

At this stage it would appear it would make no difference.

Q16. Crossings: Collecting data on the 5 dimensions together (see Annex 3) would provide the most flexibility in terms of risk assessment and reduce future requests, but would also imply that data would be collected for a large number of cells. An alternative would be to collect data according to 2 x 3 way classifications, as shown in the chart. That would lower the number of data cells reported, albeit lowering flexibility at the same time. What are your views on these alternative proposals? What would be the difference in costs between reporting data on a 5 way classification and reporting on 2 x 3 way breakdowns? In addition to your comments please use as befits the 1-5 cost grading scale to differentiate between the alternatives.

We are unable to answer this question at present.

Q17. Frequency: The preliminary proposal is to collect the data actively on a regular quarterly basis. Could the same data be made available monthly during conditions of market stress? What would be the incremental costs on a scale of 1-5 of producing the data monthly rather than quarterly?

This would vary depending on the definition of market stress. Until we have the definition we cannot answer this question.

Q18. Reporting lag: Is the proposed reporting lag of 4 weeks feasible for all banks? Would the costs and benefits be altered significantly by an alternative lag, and if so please explain why?

On initial consideration 4 weeks would be feasible.

Q19. Metrics, Risk Transfer and Exposures Data: An important aim as highlighted above is to collect data on a 'final risk' basis (i.e., after risk transfer and hedging and adjustments for collateral etc) as well as on an immediate borrower classification. What are your views on this proposal, and on the costs of collecting data in this way? Could data be readily prepared for 'risk exposures' at the granular level set out in the above table as well as on an 'immediate borrower' basis? Could data be readily supplied for the different metrics set out in the above template to facilitate such calculations? Would you recommend another approach to the preparation of 'exposures' data? If so, please describe the alternative approach and explain why it is preferred? In addition to your comments please use as befits the 1-5 cost grading scale to differentiate between the alternatives.

Our initial assessment is that this would be a very challenging proposal. However, in the current timeframe we have not been able to consider this in any detail.

Q20: Institution-to-aggregate funding data: What are your views on the proposal to collect detailed information on the liability structures of G-SIBs according to the above template? What do you see as the main costs and benefits of collecting such data? Would the costs and benefits be altered significantly by an alternative scope or timetable, and if so please explain why?

This would most likely be highly data intensive, and as a result could potentially be beyond current systems and as a result costly.

Please provide comments on the following detailed aspects of the proposal:

Q21. Financial instruments: Two alternative classifications for the breakdown of financial instruments are set out in Table 4 (the second providing information on whether instruments are collateralised or not). What would be the difference between these alternatives in terms of the costs of data collection? In addition to your comments please use as befits the 1-5 cost grading scale to differentiate between the alternatives.

This would vary from firm to firm depending on data structure.

Q22. Residual maturity: A range of options for the classification of the residual maturities of liabilities is under consideration, with two alternatives set out in Table 4. On a 1-5 scale how costly is collecting data according to 8 categories rather than 3?

On initial consideration we believe this is unlikely to make a significant difference.

Q23. Sector: For the cases where the sector of holder can be readily determined, such as deposits, on a 1-5 scale how difficult is collecting a more granular sectoral breakdown of liability holders (ranging between a 7 way and a 12 way classification)? How powerful are the arguments for a consistent approach to the sectoral classification on the asset and liabilities side?

We are unable to answer this question at present.

Q24. Crossings and aggregation: The proposal is to collect the data according to a minimum 3 way categorisation (instrument, currency, maturity) for all financial instruments, expanded to a 5 way breakdown for the subset of instruments where this is available. What would be your views on the costs of including a country and a sector breakdown for selected financial instruments, such as deposits? What would be the best approach to collecting data from holders of long-term securities issued by G-SIBs? In addition to your comments please use as befits the cost grading scale to differentiate between the alternatives.

We are unable to answer this question at present.

Q25. Reporting lag: Is the proposed reporting lag of 4 weeks feasible for all banks? Would the costs and benefits be altered significantly by an alternative lag, and if so please explain why?

On initial consideration 4 weeks would be acceptable feasible.

Q26 Structural data: Do you have any views on the proposal to collect consistent data on the key structural characteristics of G-SIBs? What are the marginal costs of providing the 3 types of data outlined in Annex 4 on a scale of 1-5? Are there any elements which are particularly costly and if so please explain why? What would be the incremental costs of supplying data on key resilience indicators on a quarterly rather than an annual basis?

The group structure element is frequently complex. How onerous the task will be depend on the nature and quantity of information required.

We are unconvinced there is value in doing the reporting quarterly rather than annually – we would recommend its kept as an annual occurrence.

Question 27: Passive data: What are your views on the potential cost savings of ‘passive’ reporting of specific, predefined data compared to ‘active’ routine reporting? To guide a fuller cost-benefit assessment, and grouping together questions addressed above, what would be the incremental costs of providing sufficient system flexibility to meet the following ‘passive’ data requests on a scale of 1-5:

A: Higher frequency: The costs and benefits of higher frequency reporting are covered by questions [Q3/Q11/Q17/Q20 above]

B: Change in counterparties: The costs and benefits of reporting additional counterparties are addressed by questions [Q2/Q13/Q23/Q24] above.

C: Additional granularity: What are your views on the possibility of supplying more granular data in the event of a passive data request? How do the costs of setting up systems with the capability to report additional granularity compare to the regular reporting costs?

We are unable to answer this question at present.

Question 28. Ad-hoc data: What are your views on the pre-agreed procedure set out in Annex 6 which aims at facilitating the production of reasonable ad hoc requests consistent with banks’ IT systems capabilities ? Using a scale 1-5, what would be your views on the setting-up or upgrading cost of such a flexible system?

We are very uncomfortable with the idea of “reasonable ad hoc requests”. The nature of these requests would put unreasonable stress on firms’ systems, and we would not support this idea.

Question 29: Data sharing and access principles: What are your views on the principles set out above to guide the development of the governance arrangement for the new dataset? Do you have any observations on the legal arrangements needed to underpin the collection, sharing and use of the new dataset? Do you have any comments on the proposals to share additional information between regulators, macroprudential authorities and international financial institutions, subject to necessary safeguards to ensure confidentiality and governing the use of such data being put in place?

The problem here is that there is a significant difference between what is agreed “in principle” and what will happen in practice. Theoretically this notion sounds sensible, but how it would play out in application is less certain. It would need to be viable, and would only succeed based on consistent application on an international basis. Transparency would be central to success of a data sharing principle.

Question 30: Public disclosure: What are your views on the disclosure of additional standardised information on exposures and funding dependencies of G-SIBs to aggregate types?

We do not support the idea of extra disclosure from G-SIBs, and would recommend disclosure is dealt with through Pillar 3.

Question 31: Additional comments: Please supply any additional comments on any aspect of the project?

The timeline for implementation remains of concern to the industry. We agree with the idea of the three phase approach, but would like to emphasise the need for ensuring there is sufficient time for make any changes in the process as is necessary.

There is a lack of definitions relating to data in the paper. We suggest the FSB provides a detailed glossary explaining all terms regarding data in the paper that could be open to varying interpretation. Without a clear understanding of all the terms it is not possible to estimate the real impact of the framework.