FSB FINANCIAL STABILITY BOARD

Press release

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FSB publishes Standards and Processes for Global Securities Financing Data Collection and Aggregation

The Financial Stability Board (FSB) is publishing today for public consultation its report *Standards and Processes for Global Securities Financing Data Collection and Aggregation*. The proposed standards and processes are based on the policy recommendations in the FSB report *Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos* that was published in August 2013. The FSB recommended national/regional authorities to collect appropriate data on securities financing markets to detect financial stability risks and develop policy responses, and to provide the total national/regional data for these markets to the FSB for aggregation in order to assess global trends in financial stability.

Securities financing transactions such as securities lending and repurchase agreements (repos) play crucial roles in supporting price discovery and secondary market liquidity for a variety of securities. They are central to financial intermediaries' market-making activities as well as to their various investment and risk management strategies. However, such transactions can also be used by market participants to take on leverage and engage in liquidity and maturity transformation. An enhanced data collection on securities financing markets is needed for authorities to obtain more timely and comprehensive visibility into trends and developments in these markets.

The proposed standards and processes in the consultative document define the data elements for repos, securities lending and margin lending that national/regional authorities will be asked to report as aggregates to the FSB for financial stability purposes. The document also describes data architecture issues related to the data collection and transmission from the reporting entity to the national/regional authority and then from the national/regional to the global level. To ensure the consistency among national/regional data collections, the quality of global aggregates and the efficiency of the reporting framework, six recommendations to national/regional authorities are proposed. Furthermore, the potential uses of the aggregated data are discussed and the next steps for the completion of the initiative are outlined.

The FSB will complete its work on developing standards and processes by the end of 2015, based on the public consultation findings and further discussion with market participants. By then, the FSB will also develop an implementation timeline for the global data collection and aggregation. After that, the publication of relevant aggregates on the global securities financing markets to improve market transparency will be considered.

In developing the proposed standards and processes, the FSB worked closely with market participants and wishes to thank those who have taken the time and effort to share their views.

Mark Carney, Chairman of the FSB, stated that "the proposed standards are an important step to ensure that authorities fully understand trends and risks in one of the core funding markets for wide range of market participants. The global data collection and aggregation based on the FSB standards and processes will help transform securities financing markets into more transparent and resilient sources of financing that would better serve the needs of the economy".

Daniel Tarullo, Chairman of the FSB Standing Committee on Supervisory and Regulatory Cooperation, stated that "timely, comprehensive and consistent data collection is essential for authorities in identifying the build-up of leverage and other financial stability risks in global securities financing markets. The implementation of the proposed standards and processes will allow authorities to establish a monitoring framework to support their efforts to effectively address financial stability risks stemming from securities financing".

Comments on the Consultative Document

The FSB welcomes comments on the proposed standards and processes for global securities financing data collection and aggregation. Comments and responses to the questions should be submitted by **12 February 2015** by email to fsb@bis.org or by post (Secretariat of the Financial Stability Board, c/o Bank for International Settlements, CH-4002, Basel, Switzerland). Responses will be published on the FSB website unless confidential treatment is specifically requested.

Notes to editors

At the Cannes Summit in November 2011, the G20 Leaders endorsed the FSB's report *Shadow Banking: Strengthening Oversight and Regulation* which set out initial recommendations with a work plan to further develop them. Five workstreams were launched to develop these policy recommendations. The FSB published on 29 August 2013 an *Overview of Policy Recommendations*, setting out the FSB's overall approach to addressing financial stability concerns associated with shadow banking, actions taken to date, and next steps. At the same time the FSB published its *Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos*, which contained recommendations on improving transparency of securities financing markets for financial stability purposes.

In addition, the FSB has been conducting annual global shadow banking monitoring exercises through its Standing Committee on Assessment of Vulnerabilities to assess the global trends and risks in the shadow banking system, and to enable early detection of any rapidly growing non-bank financial activities or entities that pose bank-like risks. These annual monitoring reports are available on the FSB website (the 2014 Report was published in October 2014).

The "shadow banking system" can broadly be described as "credit intermediation involving entities and activities (fully or partially) outside the regular banking system" or non-bank credit intermediation in short. Such intermediation, appropriately conducted, provides a valuable alternative to bank funding that supports real economic activity. But experience from

the crisis demonstrates the capacity for some non-bank entities and transactions to operate on a large scale in ways that create bank-like risks to financial stability (longer-term credit extension based on short-term funding and leverage). Such risk creation may take place at an entity level but it can also form part of a chain of transactions, in which leverage and maturity transformation occur in stages, and in ways that create multiple forms of feedback into the regular banking system.

Like banks, a leveraged and maturity-transforming shadow banking system can be vulnerable to "runs" and generate contagion risk, thereby amplifying systemic risk. Such activity, if unattended, can also heighten procyclicality by accelerating credit supply and asset price increases during surges in confidence, while making precipitate falls in asset prices and credit more likely by creating credit channels vulnerable to sudden loss of confidence. These effects were powerfully revealed in 2007-09 in the dislocation of asset-backed commercial paper (ABCP) markets, the failure of an originate-to-distribute model employing structured investment vehicles (SIVs) and conduits, "runs" on MMFs and a sudden reappraisal of the terms on which securities lending and repos were conducted. But whereas banks are subject to a well-developed system of prudential regulation and other safeguards, the shadow banking system is typically subject to less stringent, or no, oversight arrangements.

The objective of the FSB's work is to transform shadow banking into resilient market-based finance through addressing bank-like risks to financial stability emerging outside the regular banking system while not inhibiting sustainable non-bank financing models that do not pose such risks. The approach is designed to be proportionate to financial stability risks, focusing on those activities that are material to the system, using as a starting point those that were a source of problems during the crisis. It also provides a process for monitoring the shadow banking system so that any rapidly growing new activities that pose bank-like risks can be identified early and, where needed, those risks addressed. At the same time, given the interconnectedness of markets and the strong adaptive capacity of the shadow banking system, the FSB believes that policies in this area necessarily have to be comprehensive.

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements. For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.