FSB FINANCIAL STABILITY BOARD

Proposed regulatory framework for haircuts on securities financing transactions

Instructions for the Quantitative Impact Study (QIS2) for Agent Securities Lenders

5 November 2013

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1. Background

On 29 August, the FSB published the report *Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos* (hereafter August Report) that set out policy recommendations for addressing financial stability risks in relation to securities lending and repos.[1] It also included proposals on minimum standards for methodologies to calculate haircuts on non-centrally cleared securities financing transactions and a framework of numerical haircut floors that will apply to non-centrally cleared securities financing transactions in which entities not subject to regulation of capital and liquidity/maturity transformation receive financing from regulated financial intermediaries against collateral other than government securities. The FSB invited comments from the public on these proposals by 28 November. As part of the development of these proposals, the FSB had launched a two-stage quantitative impact assessment (QIS) in April 2013.

The first stage (QIS1) consisted of a data request to a group of 17 large financial intermediaries (banks and broker-dealers) from 12 jurisdictions on historical haircut distributions at three specific points in time (pre-crisis, post-crisis and current) in order to help calibrate detailed minimum haircut proposals. This first stage also included qualitative questions asking participating firms to provide a general description of the factors they take into account and the approach they follow when setting haircuts on securities financing transactions.

The second stage of this exercise (QIS2) is now being launched and comprises a more comprehensive quantitative assessment of the impact on a broader set of firms of the FSB's detailed haircuts proposals, both the proposed minimum standards for methodologies used by firms in calculating their own haircuts and the numerical haircut floors to be applied to certain securities financing transactions. The FSB has published instructions and reporting templates to assess the impact of its proposals and is inviting interested market participants to participate in the exercise.

2. Purpose and structure of the QIS2 exercise

QIS2 includes quantitative data collection template (template A) and a questionnaire (template B) designed to assess the impact of the specific proposals on minimum standards for haircut methodologies and numerical haircut floors set out in Annex 2 of the August Report. The data template seeks data such as on the value of securities financing transactions (broken down by counterparty types, collateral types and residual maturity of the collateral); the scale and nature of securities financing transactions not currently carried out with zero haircuts; and the value of additional collateral that counterparties would need to collect/post due to the introduction of the proposed numerical haircut floors. Meanwhile, the questionnaire aims to collect information on: the current haircut methodologies used by firms; the impact of proposed minimum haircut methodology standards on firms' haircut practices; which types of counterparties will be most affected by the proposed haircut floors; and the ability of firms to implement the proposed framework.

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[1] http://www.financialstabilityboard.org/publications/r_130829b.pdf

As in the case of QIS1, all data will be treated as strictly confidential, anonymised for global analysis (except the name of the jurisdiction where the head quarter is located and entity types) and used only for the purpose of assessing the impact of the minimum haircut proposals and refining these proposals. Interested firms are asked to fill in the templates and respond to the questionnaire on a voluntary basis by **23 December 2013**. Analysis of the QIS2 results will help the FSB refine and finalise its recommendations by Spring 2014.

Firms interested in participating in QIS2 on a voluntary basis are asked to send their responses in the following manner:

- **Regulated financial intermediaries (i.e. banks and broker-dealers):** Interested firms are asked to inform the relevant FSB member national authorities in their home jurisdiction of their interest in participating in QIS2 by **15 November**. Firms will be asked to send their responses to the relevant national authority by 23 December. The relevant national authority will anonymise the responses and submit the QIS2 data and information to the FSB.
- **Other financial entities (including agent securities lenders and non-banks):** Interested firms are asked to inform the FSB Secretariat (e-mail: Yasushi.Shiina@bis.org) of their interest in participating in QIS2 by **15 November**. Firms will then be asked to send their responses by 23 December to either (i) the FSB Secretariat directly or (ii) the relevant FSB member national authority, who will be responsible for anonymising your data and information for submission to the FSB.

In case of questions, please contact the FSB Secretariat (Tel: +41 61 280 8579; E-mail: Yasushi.Shiina@bis.org). Below are detailed reporting instructions on how to fill in these documents.

3. General guidelines and definitions

The QIS2 exercise consists of three separate worksheets published on the FSB website[2] to be completed by: (i) regulated financial intermediaries (banks/brokers-dealers); (ii) agent securities lenders; and (iii) other non-bank reporting entities, respectively. For the purpose of QIS2, we define these terms as follows:

(i) **Banks and broker-dealers** are financial intermediaries that are subject to prudential liquidity and capital regulation. These entities should fill out the Bank/Broker-dealer template and should refer to the Bank/Broker-dealer instructions.

(ii) **Agent securities lenders** are entities that lend securities on behalf of clients, securities for which they are not the beneficial owner. These entities should fill out the Agent lender template and refer to the instructions in this document.

(iii) **Non-Banks** are entities that do not fit either of the above categories, and would include asset managers, insurance companies, pension funds and hedge funds, among others. These entities should fill out the Non-bank template and refer to the Non-bank instructions.

[2] http://www.financialstabilityboard.org/publications/r_131104.htm

4. Cover page – Respondent information

Respondents shall provide **outstanding transactions** data. Respondents are asked to complete the worksheet on **a globally consolidated basis** and not on a legal entity basis. All operating entities with material transactions should be included.

Jurisdiction should be reported according to the location of the head office of the reporting entity or holding company.

Respondents should report their positions **as at the end of June 2013**, but if this is not possible a recent date with average volume should be used. Reporting date should indicate the day from which the data used to complete the survey was taken, and should be in the format DD/MM/YYYY. Respondents should indicate whether the reporting date chosen for the exercise represents approximately an average day for the firm, based on the amount of transactions outstanding, or an unusually high/low volume day.

Data should be reported in the most relevant currency for the reporting entity's outstanding transactions, with the currency specified on the cover page. Currency unit used for reporting (1,000,000 currency units, unless otherwise specified) should be specified on the cover page. Respondents can either aggregate all transactions into a single currency or report major currencies in separate templates:

- **Aggregated template –** Respondents choosing this option should use the same currency and unit for all amounts throughout the templates. Other transactions and collateral denominated in other currencies should be converted to the reporting currency with the relevant exchange rate provided by national central banks (or alternative source to be specified) for the reference date.
- **Separate templates –** Respondents choosing this option should complete the template, at least once, for the currency in which they conduct the majority of their specified transactions. Respondents may also complete a separate template for each additional currency where they hold a large portfolio of specified transactions.

An agent securities lender should display the **total size of securities lending programme**, further showing the subset represented by securities on loans at the reference date - securities on loans should be displayed on a fair value measurement basis. A respondent should also display **cash collateral received against securities on loans**, completing the cover page showing two subsets: the cash reinvested according to minimum standards,[3] as well as cash used by clients to pay CCP margin.

5. Reporting instructions for Agent Securities Lenders

For the purpose of this exercise, Agent Securities Lenders are entities that lend securities on behalf of clients, securities for which they are not the beneficial owner.

[3] For details of the minimum standards for cash collateral reinvestment, see Section 3.1 the August Report.

5.1 Template A – Impact of numerical haircut floors

5.1.1 General discussion

Template A collects data on the impact of numerical haircut floors on the demand for collateral from specified counterparties, for each type of collateral. These transactions exclude both centrally cleared transactions and transactions with governments, government agencies and central banks. Transactions with sovereign wealth funds should be reported and included in the "Other counterparties" category.

Template A requires that a respondent report the aggregate cash value of outstanding specified transactions (on behalf of clients) as of the reporting date as aggregated by type of collateral used in the transaction and the type of counterparty transacted with.

Template A includes four tables and each table should include outstanding specified transactions at as of the reporting date, which are secured by a given type of collateral:

- Table 1 collects the cash value of securities lending provided by counterparty and collateral type.
- Table 2 collects the cash value of transactions reported in Table 1 that are conducted with 0% haircuts.
- Table 3 collects the additional collateral that the respondent needs to post on behalf of clients in order meet the minimum haircuts according to the "Proposed numerical haircut floors" table appearing to the right of Table 3 (as published in the August Report).
- Table 4 collects the additional collateral that the respondent would need to post on behalf of clients in transactions from Table 1 after applying alternative numerical haircut floors (for sensitivity analysis purposes) appearing in the "Alternative numerical haircut floors" table to the right of Table 4.

5.1.2 General instructions

When completing Tables 1 and 2 a respondent should breakdown specified transactions according to at least two basic counterparty types: "Banks/broker dealers" and "Other counterparties". Where a respondent has the ability to further separate specified transactions by counterparty types, they should attempt to do so based on the full list of six counterparty groupings.

Tables 3 and 4 collect data on the impact of numerical haircut floors on the demand for collateral by specified counterparties, for each type of collateral.

As defined, specified transactions include securities lending transactions (on behalf of clients) subject to numerical haircut floors (i.e. securities lending:

(i) Against cash collateral where cash is used/reinvested by the reporting entity/client in ways that do not meet the requirements set out in Chapter 3.1 of the August Report; and

(ii) Against non-cash collateral where the reporting entity/client lends securities associated with a higher numerical haircut floor than that of the non-cash collateral received (e.g.

lending equities versus government bond collateral), and the reporting entity/client re-uses the collateral received.

Tables 3 and 4 require that a respondent report the aggregate cash value of additional collateral that it estimates would be needed on outstanding specified transactions as of the reporting date, aggregated by type of collateral used in the transaction and the type of transaction. The respondent should estimate the potential impact of the numerical haircut floors on the specified transactions on a gross basis, i.e. no netting between transactions should be recognised.

5.1.3 Reporting instructions – Table 1

A respondent should include in Table 1 all outstanding specified transactions, as at the reporting date, where a respondent lends securities on behalf of clients in exchange for collateral.

For the purposes of this data collection exercise, collateral should be divided into the following categories:

Category	Definition
Government securities[4]	• Sovereign bonds • Treasury bills • Central bank securities • Securities fully guaranteed by the central government
Securitised products	• Mortgage-backed securities (MBS) • Asset-backed securities (ABS) • Asset-backed commercial paper (ABCP) • Commercial mortgage-backed securities (CMBS) • Collateralised debt obligations (CDOs) Government sponsored securitisations should be counted as "Government Securities" where they benefit from an explicit government guarantee, and as "Securitised products" otherwise.
Corporate debt	The debt of any entity that is a financial or non-financial firm, which is not a government entity or explicitly government guaranteed. This includes covered bonds.
Main index equities	Equity securities included in the primary, country-specific equity indexes for each national equity market. Examples of primary, country-specific equity indexes would include: • S&P 500 Index, NASDAQ Composite Index or Dow Jones Industrial Average (USA) • the FTSE 100 Index (UK) • the Nikkei Index or Tokyo Stock Price Index (TOPIX) (Japan) • the S&P/TSX Composite Index (Canada) • the DAX Index (Germany) • the FTSE MIB Index (Italy) • or the CAC 40 Index (France) Equities outside of primary, country-specific indexes should be included in the "Other collateral types" category.
Other	All other securities.

Where possible, respondents should divide collateral qualifying as "corporate debt" and "securitised products" by maturity (≤1 year and FRNs; >1 year and ≤5 years; and >5 years). If a respondent is not able to provide this break down, it should instead fill in the "Total" column.

A respondent should aggregate all outstanding specified transactions, as of the reporting date, for each cell in Table 1 according to the counterparty to the transaction, type of collateral and residual maturity of the collateral. An illustrative example is provided below in Example 1.

[4] If the FSB decides to implement numerical haircut floors through regulatory capital regimes for regulated intermediaries in its final recommendations forthcoming in spring 2014, the definition of government securities will be aligned with Basel III definition for sovereign exposures with zero per cent risk weight.

Example 1-1: Completing Table 1 – Hypothetical Transactions

	Transaction Type	Counterparty	Cash Value of Securities Lent	Collateral Received
1.	Securities lending against cash collateral	Bank A	USD 100 million	Country X Debt with a cash value (value after 5% haircut) of USD 100 million and a term-to-maturity of 15 years
2.	Securities lending against cash collateral	Bank B	USD 100 million	Country Y debt with a cash value (value after 0% haircut) of USD 100 million and a term-to-maturity of 3 years
3.	Securities lending against non-cash collateral	Insurance Company C	USD 100 million	ABS with a cash value (value after 2% haircut) of USD 100 million and a term-to-maturity of 8 years
4.	Securities lending against non-cash collateral	Hedge Fund D	USD 100 million	ABS with a cash value (value after 3% haircut) of USD 100 million and a term-to-maturity of 3 years
5.	Securities lending against non-cash collateral	Pension Fund E	USD 200 million	Company Z debt with a cash value (value after a 0% haircut) of USD 200 million and a term-to-maturity of 1 year

If the respondent is completing Table 1, but can only divide counterparty types by two groupings, “Banks/broker-dealers” and “Other counterparties”, the response would be as below.

Both Transactions 1 and 2 in are with bank counterparties while the received collateral is sovereign debt. The cash value of these two transactions is combined and reported together in the same cell.

Example 1-2: Completing Table 1 – Partial Division of Counterparties

Counterparty type	Collateral type											Total
	Government securities	Corporate debt				Securitised products				Main index equities	Other	
		≤1Y	1Y-5Y	>5Y	Total	≤1Y	1Y-5Y	>5Y	Total			
Bank / Broker-dealer	200											**200**
Hedge funds												**0**
Exchange-traded funds and other investment funds												**0**
Pension funds / Insurance companies												**0**
Real estate investment trusts												**0**
Other		200			**200**		100	100	**200**			**400**
Total	**200**	**200**	**0**	**0**	**200**	**0**	**100**	**100**	**200**	**0**	**0**	**600**

If the respondent had the ability to further break down the counterparties to its transactions, according to the six counterparty buckets presented, then the result would be as below and transactions with hedge funds and insurers would no longer be combined.

Example 1-3: Completing Table 1 – Full Division of Counterparties

Counterparty type	Collateral type											Total
	Government securities	Corporate debt				Securitised products				Main index equities	Other	
		≤1Y	1Y-5Y	>5Y	Total	≤1Y	1Y-5Y	>5Y	Total			
Bank / Broker-dealer	200											**200**
Hedge funds							100		**100**			**100**
Exchange-traded funds and other investment funds												**0**
Pension funds / Insurance companies		200			**200**			100	**100**			**300**
Real estate investment trusts												**0**
Other												**0**
Total	**200**	**200**	**0**	**0**	**200**	**0**	**100**	**100**	**200**	**0**	**0**	**600**

5.1.4 Reporting instructions – Table 2

A respondent should include in Table 2 the cash value of all transactions reported in Table 1 that occurred with a 0% haircut.

Examples 1-4 and 1-5 are based on the transactions appearing in Example 1-1.

If the respondent is completing Table 2, but can only divide counterparty types by two groupings, "Banks/broker-dealers" and "Other counterparties", the response would be as below.

Example 1-4: Completing Table 2 – Partial Division of Counterparties

Counterparty type	**Collateral type**											**Total**
	Government securities	Corporate debt				Securitised products				Main index equities	Other	
		≤1Y	1Y-5Y	>5Y	Total	≤1Y	1Y-5Y	>5Y	Total			
Bank / Broker-dealer	100											**100**
Hedge funds												**0**
Exchange-traded funds and other investment funds												**0**
Pension funds / Insurance companies												**0**
Real estate investment trusts												**0**
Other		200			200							**200**
Total	**100**	**200**	**0**	**0**	**200**	**0**	**0**	**0**	**0**	**0**	**0**	**300**

If the respondent had the ability to further break down the counterparties to its transactions, according to the six counterparty groups presented, then the result would be as below and transactions with hedge funds and insurers would no longer be combined.

Example 1-5: Completing Table 2 – Full Division of Counterparties

Counterparty type	Collateral type											Total
	Government securities	Corporate debt				Securitised products				Main index equities	Other	
		≤1Y	1Y-5Y	>5Y	Total	≤1Y	1Y-5Y	>5Y	Total			
Bank / Broker-dealer	100											**100**
Hedge funds												**0**
Exchange-traded funds and other investment funds												**0**
Pension funds / Insurance companies		200			**200**							**200**
Real estate investment trusts												**0**
Other												**0**
Total	**100**	**200**	**0**	**0**	**200**	**0**	**0**	**0**	**0**	**0**	**0**	**300**

5.1.5 Reporting instructions – Table 3

A respondent should include in Table 3 all increases in collateral (additional collateral) that the respondent would need to post (on behalf of clients) as a result of the imposition of minimum haircuts, as at the reporting date, where the respondent lends securities (on behalf of clients) in exchange for collateral.

A respondent should aggregate the increase in collateral on all outstanding specified transactions, as of the reporting date, for each cell in Table 3 according to the counterparty to the transaction, type of collateral and residual maturity of the collateral. Respondents should calculate the additional collateral according to the "Proposed numerical haircut floors" table appearing to the right of Table 3.

Examples 1-6 and 1-7 are based on the transactions appearing in Example 1-1.

Example 1-6: Calculating Additional Collateral

	Transaction Type	Cash Value of Securities Lent	Collateral Received	New Minimum Haircut	Additional Collateral
1.	Securities lending against cash collateral	USD 100 million	Country X Debt with a cash value (value after 5% haircut) of USD 100 million and a term-to-maturity of 15 years	N/A	
2.	Securities lending against cash collateral	USD 100 million	Country Y debt with a cash value (value after 0% haircut) of USD 100 million and a term-to-maturity of 3 years	N/A	
3.	Securities lending against non-cash collateral	USD 100 million	ABS with a cash value (value after 2% haircut) of USD 100 million and a term-to-maturity of 8 years	4%	(100 / (1 – 0.04)) - (100 / (1 – 0.02)) = 2.125
4.	Securities lending against non-cash collateral	USD 100 million	ABS with a cash value (value after 3% haircut) of USD 100 million and a term-to-maturity of 3 years	2%	None (original haircut exceeds proposed numerical haircut floor)
5.	Securities lending against cash collateral	USD 200 million	Company Z debt with a cash value (value after a 0% haircut) of USD 200 million and a term-to-maturity of 1 year	0.5%	(200 / (1 – 0.005)) - (200 / (1 – 0)) = 1

Example 1-7: Completing Table 2 – Full Division of Counterparties

Transaction type	**Collateral type**											**Total**
	Government securities	Corporate debt				Securitised products				Main index equities	Other	
		≤1Y	1Y-5Y	>5Y	Total	≤1Y	1Y-5Y	>5Y	Total			
Securities lending against cash collateral		1			**1**							**1**
Securities lending against non-cash collateral								2.125	**2.125**			**2.125**
Total	**0**	**1**	**0**	**0**	**1**	**0**	**0**	**2.125**	**2.125**	**0**	**0**	**3.125**

5.1.6 Reporting instructions – Table 4:

A respondent should complete Table 4 in the same manner as Table 3 with the exception that the alternative numerical haircut floors be used. The respondent should record the increase in collateral that the respondent would need to post on behalf of clients (i.e. relative to the amount of collateral for transactions reported in Table 1). The alternative numerical haircut floors are detailed in the "Alternative numerical haircut floors" table to the right of Table 4.

Examples 1-8 and 1-9 are based on the transactions appearing in Example 1-1.

Example 1-8: Calculating Additional Collateral

	Transaction Type	Cash Value of Securities Lent	Collateral Received	New Minimum Haircut	Additional Collateral
1.	Securities lending against cash collateral	USD 100 million	Country X Debt with a cash value (value after 5% haircut) of USD 100 million and a term-to-maturity of 15 years	N/A	
2.	Securities lending against cash collateral	USD 100 million	Country Y debt with a cash value (value after 0% haircut) of USD 100 million and a term-to-maturity of 3 years	N/A	
3.	Securities lending against non-cash collateral	USD 100 million	ABS with a cash value (value after 2% haircut) of USD 100 million and a term-to-maturity of 8 years	8%	(100 / (1 – 0.08)) - (100 / (1 – 0.02)) = 6.655
4.	Securities lending against non-cash collateral	USD 100 million	ABS with a cash value (value after 3% haircut) of USD 100 million and a term-to-maturity of 3 years	4%	(100 / (1 – 0.04)) - (100 / (1 – 0.03)) = 1.074
5.	Securities lending against cash collateral	USD 200 million	Company Z debt with a cash value (value after a 0% haircut) of USD 200 million and a term-to-maturity of 1 year	1%	(200 / (1 – 0.01)) - (200 / (1 – 0)) = 2.020

Example 1-9: Completing Table 2 – Full Division of Counterparties

Transaction type	Collateral type											Total
	Government securities	Corporate debt				Securitised products				Main index equities	Other	
		≤1Y	1Y-5Y	>5Y	Total	≤1Y	1Y-5Y	>5Y	Total			
Securities lending against cash collateral		2.020			**2.020**							**2.020**
Securities lending against non-cash collateral							1.074	6.655	**7.729**			**7.729**
Total	**0**	**2.020**	**0**	**0**	**2.020**	**0**	**1.074**	**6.655**	**7.729**	**0**	**0**	**9.749**

Annex 1: Reporting Template (Quantitative Questions) for Agent Securities Lenders[5]

FINANCIAL STABILITY BOARD

WORKSTREAM ON SECURITIES LENDING AND REPOS (WS5)

Strictly Confidential

Reporting template for QIS2 on minimum haircut standards		
To be completed by reporting entities that are agent securities lenders		
Information as of end-June 2013, unless otherwise specified in Reporting date		
Name of reporting entity		
Type of reporting entity		Agent securities lenders
Jurisdiction		
Reporting date (DD/MM/YYYY)		
Relative volume on this date (high/average/low)		
Reporting currency		
Reporting unit		
Total size of securities lending programme		
	of which: securities on loan	
Total cash collateral received against securities on loan		
	of which: reinvested according to minimum standards	
	of which: used by clients to pay CCP margin	

List of templates

Template A: Impact of numerical haircut floors

Please refer to the accompanying document for reporting instructions.

In case of queries, please contact the FSB Secretariat (E-mail: Yasushi.Shiina@bis.org).

[5] This template is available as an Excel file at http://www.financialstabilityboard.org/publications/r_131104.htm.

Template A: Impact of numerical haircut floors

1) Cash value of total financing transactions received by the reporting entity on behalf of clients

Financing transactions received include:

(1) securities lending against cash collateral where the client does not reinvest the cash collateral according to minimum standards

(2) securities lending against non-cash collateral where the client receives securities/collateral associated with a lower numerical haircut floor and re-uses securities/collateral received

Centrally cleared transactions and transactions with governments, government agencies and central banks are excluded.

Counterparty type	Securities lent											Total
	Government securities	Corporate debt				Securitised products				Main index equities	Other*	
		≤1 year and FRN	1 year to 5 years	more than 5 years	Total	≤1 year and FRN	1 year to 5 years	more than 5 years	Total			
Bank / Broker-dealer												0
Hedge funds												0
Exchange-traded funds and other investment funds												0
Pension funds / Insurance companies												0
Real estate investment trusts												0
Other*												0
Total	0	0	0	0	0	0	0	0	0	0	0	0

***Please specify major types of collateral and counterparties reported in "Other":**

2) Cash value of transactions reported above that are conducted with 0% haircuts

Counterparty type	Collateral type											Total
	Government securities	Corporate debt				Securitised products				Main index equities	Other	
		≤1 year and FRN	1 year to 5 years	more than 5 years	Total	≤1 year and FRN	1 year to 5 years	more than 5 years	Total			
Bank / Broker-dealer												0
Hedge funds												0
Exchange-traded funds and other investment funds												0
Pension funds / Insurance companies												0
Real estate investment trusts												0
Other												0
Total	0	0	0	0	0	0	0	0	0	0	0	0

3) Additional collateral that the reporting entity needs to post on behalf of clients in transactions above after applying proposed numerical haircut floors

Numerical haircut floors would apply to non-centrally cleared securities financing transaction in which entities not subject to regulation of capital and liquidity/maturity transformation receive financing from financial entities subject to such regulation against collateral other than government securities.

Transaction type	Collateral type											Total
	Government securities	Corporate debt				Securitised products				Main index equities	Other	
		≤1 year and FRN	1 year to 5 years	more than 5 years	Total	≤1 year and FRN	1 year to 5 years	more than 5 years	Total			
Securities lending against cash collateral												0
Securities lending against non-cash collateral												0
Total		0	0	0	0	0	0	0	0	0	0	0

Proposed numerical haircut floors

Residual maturity of collateral	Haircut level	
	Corporate and other issuers	Securitised products
≤ 1 year debt securities, and FRNs	0.5%	1%
> 1 year, ≤ 5 years debt securities	1%	2%
> 5 years debt securities	2%	4%
Main index equities	4%	
Other assets within the scope of the framework	7.5%	

4) Additional collateral that the reporting entity needs to post on behalf of clients in transactions above after applying alternative numerical haircut floors

Numerical haircut floors would apply to non-centrally cleared securities financing transaction in which entities not subject to regulation of capital and liquidity/maturity transformation receive financing from financial entities subject to such regulation against collateral other than government securities.

Transaction type	Collateral type											Total
	Government securities	Corporate debt				Securitised products				Main index equities	Other	
		≤1 year and FRN	1 year to 5 years	more than 5 years	Total	≤1 year and FRN	1 year to 5 years	more than 5 years	Total			
Securities lending against cash collateral												0
Securities lending against non-cash collateral												0
Total		0	0	0	0	0	0	0	0	0	0	0

Alternative numerical haircut floors

Residual maturity of collateral	Haircut level	
	Corporate and other issuers	Securitised products
≤ 1 year debt securities, and FRNs	1%	2%
> 1 year, ≤ 5 years debt securities	2%	4%
> 5 years debt securities	4%	8%
Main index equities	7.5%	
Other assets within the scope of the framework	12.5%	

Annex 2: Reporting Template (Qualitative Questions) for All Firms[6]

Haircut levels and impact of proposed numerical haircut floors

1) How do the proposed numerical haircut floors compare to haircuts currently applied in your securities financing transactions (e.g. broadly lower, broadly the same or broadly higher)? Please distinguish by collateral type and counterparty type.

2) Would you adjust your haircut practices in response to the proposed numerical haircut floors, and if so how? For instance, would you lower current haircuts that are above the proposed floors and/or increase those below the floors?

3) Would you expect other market participants to adjust haircut practices in response to the proposed numerical haircut floors? For instance, would you expect other market participants to lower haircuts if the floors are lower than current market practices?

4) Please specify the type of firms and/or collateral you typically conduct securities financing transactions with 0% haircuts, and why a 0% haircut is appropriate.

5) What effect, if any, do you expect the proposed numerical haircut floors would have on your firm's activity with respect to the following:

[6] This template is available as a separate file at http://www.financialstabilityboard.org/publications/r_131104.htm.

(i) Volume of transactions and outstanding positions in repo and other securities financing markets. Please differentiate by collateral and counterparty type and explain any expected shift in activity (e.g. shift in collateral composition or between secured and unsecured funding).

(ii) Likelihood of new transaction types or structures to emerge, or any other "structural changes", either in order to avoid or mitigate the impact of the proposed numerical haircut floors, or as a result of changes in the securities financing market that arise from the new haircut requirements.

6) What offsets, if any, could reduce the anticipated impacts noted in question 5 on your firm? For example, would you anticipate lower capital charges in some cases as a result of reduced counterparty credit exposures?

7) What effect, if any, do you expect the proposed minimum numerical haircut floors to have on leverage (your own or your counterparties)? Please explain.

8) What effect, if any, do you expect the proposed numerical haircut floors to have on pricing of securities financing transactions? Please explain.

9) Which counterparties or types of firms would be most affected, if any, by the proposed numerical haircut floors? Please explain.

Haircut methodologies and impact of proposed minimum methodology standards

1) To what extent, if any, does current regulation play a role in determining your haircuts on securities financing transactions? Please explain (including which current regulation and how).

2) What methodology (or methodologies) do you currently use to set haircuts on securities financing transactions? Do you employ the standard supervisory framework for setting haircuts or do you use one or more quantitative models?

3) Does your firm follow high-level principles to determine which methodologies to use for setting haircuts on securities financing transactions? If so, please describe the broad features of these principles.

4) Do the methodologies your firm employs for setting haircuts on securities financing transactions comply with the proposed minimum methodology standards,[7] summarised in the table below? Please explain any material deviation from the proposed minimum standards on haircut methodologies, distinguishing by market segment where relevant. If possible, please provide an estimate of the change in your demand for collateral that would result from a change to the proposed minimum methodology standards.

(i) Proposed minimum standards for methodologies used by market participants to calculate haircuts on securities financing transactions	**Compliance of your firm's current haircut methodologies with each proposed minimum standard** *(Indicate whether your methodologies comply, partially comply, or do not comply. Please explain.)*
Haircut methodologies should be designed to limit potential procyclical fluctuations	
Haircuts should be set to cover, at a high level of confidence (i.e. at least at a 95th percentile, one-tailed confidence interval), the maximum expected decline in the market price of the collateral asset, over a conservative liquidation horizon	
The maximum price decline used to derive the haircut should be calculated using a time series of price data that covers at least one stress period	
Where feasible, historical bid-ask spreads and pricing uncertainty should be examined to consider the possibility that stressed market conditions may lead to a widening of bid-ask spreads	
The assumed liquidation horizon should be conservative, reflect the expected liquidity/illiquidity of the asset in stressed market conditions, and depend on the relevant market characteristics of the collateral	
Haircuts should primarily reflect the risk of fluctuations in the price of collateral (market risk), but also take into account other relevant risk considerations such as the risk of liquidating large concentrated positions (liquidation risk) and the "wrong-way risk" between collateral value and counterparty default. Specific characteristics of the collateral (asset type, issuer creditworthiness, residual maturity, price sensitivity, optionality, complexity of structure, expected liquidity in stressed periods and frequency of collateral valuation and margining) should also be taken into account.	
Where necessary, haircuts should factor in the foreign exchange risk in cases where there is a currency mismatch between the currency of denomination of the collateral and the counterparty exposure	
Correlation between securities accepted as collateral and securities loaned in securities lending transactions should be taken into account where relevant	

[7] For details, see http://www.financialstabilityboard.org/publications/r_130829b.pdf. The minimum standards on haircut methodologies are set out in sections 1-3 of Annex 2.

Additional guidance for methodologies used by market participants to calculate margin on a portfolio basis (please answer only if applicable)	
Methodologies for portfolio margin calculation should not be procyclical. As far as possible, methodologies should not lead to an automatic decline in margin requirements as the prices of assets in the portfolio increase or as the (actual or implied) volatility of asset prices in the portfolio decreases.	
When setting margin requirements for different counterparties/portfolios, market participants should consider the following:	
(i) market risk of the portfolio	
(ii) portfolio concentration by geographies, economic sectors and individual issuers	
(iii) illiquidity of the portfolio	
(iv) risks arising from non-correlated price and spread relationships between lent and collateral portfolio assets	
Methodologies should include robust stress testing of margin requirements against a range of historical and hypothetical stress scenarios. These stress scenarios should be designed or selected with due consideration to the particular characteristics of the portfolios being stress-tested. Regular back-testing of margins should also be carried out.	
Market participants should ensure that appropriate internal processes and procedures are in place when they calculate margin on a portfolio basis.	

5) If your firm uses quantitative models to set haircuts, please briefly describe the model(s) and how it is (they are) used, including how haircuts calculated by the model are applied to individual transactions, and what additional factors, if any, are considered.

6) Please describe some of the model parameters (if you use more than one model, please list for the one covering the largest value of transactions):

Type of model (e.g. VaR, scenario-based model, factor model, etc.)	
Historical observation period (please specify whether it includes a stress period and if so, how it is defined)	
Level of confidence	
Assumed holding or liquidation period	
Model rights (e.g. proprietary or vendor model)	
Any other significant features	

7) Do the haircuts generated by your models vary based on changing market conditions, for example short-term fluctuations in price volatility? Please explain.

8) Do you anticipate any change in the variation or procyclicality of haircut levels for your firm as a result of the proposed recommendations in Annex 2 of the FSB report (both the numerical haircut floors and minimum haircut methodology standards)? Please explain.

Ability to implement the proposed framework

1) As currently proposed, the numerical haircut floors would apply at transaction level on a gross basis, i.e. every in-scope transaction would need to have a haircut above the associated numerical floor, without recognition of netting between transactions. Alternatively, the numerical haircut floors can apply at netting-set level on a net basis, i.e. regulated financial intermediaries need to ensure their net exposures to other entities in securities lending and repos are sufficiently over-collateralised at the netting-set level. How would the potential impact of the proposed framework change if the alternative approach is used?

2) What changes to the methodologies you use to set haircuts are needed, if any, in order to comply with the proposed minimum standards? Please discuss possible difficulties in implementing the standards, if any.

3) Can cash-collateralised securities lending transactions where the lender of securities reinvests the cash collateral into a separate investment fund be distinguished from other transactions, as per the proposed implementation framework? Please explain and, if possible, propose alternatives.

4) Can cash-collateralised securities lending transactions where the lender of securities uses the cash to finance margin payments to a central counterparty be distinguished from other transactions? Please explain.

5) Can you readily identify securities lending transactions collateralised by non-cash collateral where the securities lender is unable to re-use the collateral securities? If not, please explain and propose possible alternative approaches.

6) Do you anticipate any practical problem on the application of numerical haircut floors for special repos, which are within the scope of the proposed framework? Please explain, and if relevant propose possible solutions.