



35 New Broad Street
London EC2M 1NH, UK
+44 (0) 203 009 3100
www.iciglobal.org

Suite 1606–08 Chater House
8 Connaught Road
Central, Hong Kong
+852 2910 9224

1401 H Street, NW
Washington, DC, USA
+001 202-326-5800
www.ici.org

February 12, 2015

Secretariat of the Financial Stability Board
c/o Bank for International Settlements
CH-4002
Basel, Switzerland

Re: Proposed Standards and Processes for Global Securities Financing Data Collection
and Aggregation

Dear Sir or Madam:

ICI Global¹ appreciates the opportunity to comment on the Financial Stability Board's proposed standards and processes for global securities financing data collection and aggregation (the "Consultation").² Given the extent of their participation in the securities lending and repo markets, regulated funds worldwide have a strong interest in the FSB's recommendations in this area.³

The Consultation lays out a thoughtful framework to collect a comprehensive set of global data on securities lending, repos, and margin lending. In general, we support this effort and commend the FSB for seeking to improve the quantity and quality of data available to regulators in order to detect financial stability risks and develop appropriate policy responses. The collection of data by regulators is one area where we favor a globally harmonized approach through which regulators could gain access to consistent and comprehensive data without imposing duplicative or incompatible reporting obligations on market participants. The FSB's Consultation is a step in the right direction toward these ends.

That said, we have serious reservations about the Consultation. Our principal concern is that the scope of the data collection is overly ambitious. We have several specific recommendations that

¹ The international arm of the Investment Company Institute, ICI Global serves a fund membership that includes regulated funds publicly offered to investors in jurisdictions worldwide, with combined assets of US\$19.1 trillion. ICI Global seeks to advance the common interests and promote public understanding of regulated investment funds, their managers, and investors. Its policy agenda focuses on issues of significance to funds in the areas of financial stability, cross-border regulation, market structure, and pension provision. ICI Global has offices in London, Hong Kong, and Washington, DC.

² *Standards and Processes for Global Securities Financing Data Collection and Aggregation* (13 November 2014), available at <http://www.financialstabilityboard.org/wp-content/uploads/Global-SFT-Data-Standards-Consultative-Documents.pdf>.

³ ICI Global and the Investment Company Institute have submitted a number of comment letters to the FSB in connection with its consultations on securities lending and repo markets. Appendix A contains a list of our comment letters to date.

may narrow the scope of the data collection in ways that would make it more practicable to implement on a global basis, while at the same time resulting in better and more consistent data for regulators. Perhaps more importantly, we are troubled that there is little recognition that the collection of data by regulators necessarily imposes costs on reporting entities that will be borne by those reporting entities or passed on to their clients, customers, or counterparties. We appreciate that the Consultation provides flexibility for national or regional regulators to implement the reporting framework as efficiently as possible in their local jurisdictions. Nevertheless, we would like to see the FSB take a more proactive role in designing its recommendations with the burdens on reporting entities in mind, and the understanding that national and regional regulators must take account of those costs when implementing the FSB's recommendations.⁴

Our specific comments on the Consultation follow.

Data Elements and Granularity

The Consultation sets forth an extensive list of information the FSB believes would be useful to help authorities monitor the size and risk characteristics of securities lending, repo, and margin lending markets over time in order to detect financial stability risks. With respect to this section of the Consultation, we reiterate our earlier comment that, before making final recommendations as to the desired fields of information and the frequency of its collection, the FSB should reconsider whether each element is *necessary* to fulfill the purposes for the data collection. Depending on the approach taken at the national or regional level, there may be ways to streamline the data collection and eliminate certain fields of information, reducing the burden on reporting entities.

For example, the FSB clearly contemplates reporting based on standard identifiers, where possible. It states in Section 4(vi) that the "use of internationally agreed standard identifiers at the national/regional level reduces the reporting burden and improves the consistency of aggregates at the global level. In particular, the use of Legal Entity Indicators (LEI) to identify counterparty type at the national/regional level is recommended to produce comparable sector and jurisdiction aggregations." We support this recommendation and encourage regulators around the world to base their collections, insofar as possible, on internationally agreed-upon standard identifiers.

As regulators craft reporting rules, the collection of standard identifiers may render other fields of information superfluous. For example, regulators could use an LEI to obtain other relevant fields of information about a counterparty, such as sector and jurisdiction. Similarly, the collection of CUSIPs or ISINs may render unnecessary certain fields of information with respect to securities lent or securities taken as collateral. By cross-referencing a CUSIP or ISIN, national or regional regulators

⁴ Along these lines, the FSB should take note that national or regional regulators may face additional burdens in implementing FSB recommendations on data collection. For example, some regulators may not have the legal authority or operational capability (*e.g.*, sufficient budget and/or staffing) to prioritize rulemaking on this type of data collection.

could fill in additional information such as currency, residual maturity, and coupon rate without having to request that information from reporting entities. Implicit is that we support a centralized approach to the collection of data at the national and regional levels, as discussed in Section 3.1.4 of the Consultation, rather than a distributed approach.

Data Architecture

The Consultation describes a two-tier, five stage framework for collecting and aggregating data. The first tier would take place in each jurisdiction and would encompass (1) the flow of data from reporting entities to national/regional authorities; and (2) the processing of data at the national/regional level. The second tier would encompass: (3) the transmission of aggregated data from national/regional authorities to the FSB as global aggregator; (4) the processing of data at the global level, which includes the removal of remaining (cross-border) double-counting and the production of meaningful global aggregates; and (5) the distribution of information from the FSB to the relevant authorities “and, potentially, to the general public.” We have several comments on this section of the Consultation.

The Importance of Flexibility at the National/Regional Level

We appreciate, and fully support, the FSB’s express recognition that “data collection processes at the national/regional level could be organised in different ways.” As the FSB correctly explains, this flexibility is necessary to allow the data collection process to reflect the diversity of national and regional practices, procedures, and systems for clearing and settling securities financing transactions.

In particular, we appreciate that the FSB specifically highlights the possibility of collecting data from sources other than the counterparties to the trade, including, for example, trading venues and tri-party agents. As we have pointed out in earlier letters, authorities should gather the information they need in the most efficient way reasonably available. For example, in both the securities lending and tri-party repo markets, a majority of transactions involve a relatively small number of entities—lending agents or repo clearing banks, respectively. These entities currently are primary sources of data, and should continue to be viewed as such as national and regional authorities develop their data collection rules. Reporting obligations should extend to individual market participants only when the information that can be collected from these primary sources proves insufficient for the authorities’ purposes.⁵

⁵ Conceptually, this is similar to the rules for the reporting of swap data in the U.S., which create a hierarchy that gathers data from entities like swap execution facilities and designated contract markets before imposing reporting obligations on individual counterparties. As the U.S. Commodity Futures Trading Commission explained, the “swap data reporting provisions were designed to streamline and simplify the data reporting approach, by calling for reporting by the registered entity or counterparty that the Commission believes has the easiest, fastest, and cheapest access to the data in question.” *See*

Data Confidentiality and Security; Public Dissemination of Data

Section 3.2.2 of the Consultation discusses data confidentiality, from the perspective of whether certain types of data should be made public, shared only with other regulators, or kept entirely confidential.

Before we get to our comments on whether certain data or aggregates should or should not be made public, we are compelled to point out that the Consultation only addresses regulators' own data security measures in passing, noting that "assigned confidentiality flags...will prevent any disclosure of the data not intended to be disseminated." The FSB should take a much stronger position in this regard. Some of the data that the FSB expects national or regional authorities to collect may be sensitive and potentially commercially actionable. As a threshold matter, the FSB should recommend that every national or regional authority to have appropriate systems and procedures in place to ensure the confidentiality and security of such information *before* requesting it from market participants. Appropriate systems and procedures, in this regard, go far beyond assigned confidentiality flags. Even though the FSB will deal solely with aggregated data, it too should have robust systems and procedures in place before collecting data from national or regional regulators.

That said, we agree with the conceptual framework laid out by the Consultation—that national and regional regulators keep confidential any data where counterparties could potentially be identified, and send only aggregated data to the FSB. Whether some of the more granular data should be made public is a completely different matter, outside the scope of the FSB's mandate and largely outside the scope of this Consultation. It should be left to national or regional authorities, as part of their core regulatory decisions on regulated entities' disclosure obligations, whether any of the fields of information collected by national or regional regulators should be made public.

The Consultation is not particularly clear on whether any of the aggregated data submitted to the FSB or the globally aggregated data compiled by the FSB will be made public. It merely notes that "the FSB, in coordination with the reporting authorities, could also develop summary tables to facilitate periodic reporting of the information (public or restricted) to all authorised parties. The FSB will also develop rules for responding to ad-hoc requests for information. Some aggregate-level data could be regularly made public by the FSB." We strongly recommend that the aggregated data available to regulators be made available to the public for two reasons. First, the aggregated data may be useful for informing the marketplace and market participants of developing trends. Second, the FSB's ultimate goal should not be simply to inform regulatory policy discussions behind the scenes. Rather, the ultimate goal should be to foster the development of a more complete and accurate record upon which to base policy decisions and actions, which ought to include an active and engaged dialogue with market

participants. Publishing the aggregated data would serve these purposes, by allowing market participants to better understand regulatory policy initiatives in context.

The Importance of Minimizing Unnecessary Costs and Burdens

We appreciate that the FSB clearly recognizes that the collection of data imposes burdens on market participants, and asks several questions in the Consultation about how to reduce those burdens. Nevertheless, we were disappointed that the Consultation does not contain a more robust discussion of the costs of reporting. Indeed, the only mention of costs in the Consultation relates to those borne by regulators, noting that “the primary drawback of the centralised approach is the cost of establishing and maintaining the reference databases that will have to be in place to support the production [by regulators] of aggregate statistics.”

While we support the FSB’s ultimate goal of seeking to improve the quantity and quality of data available to regulators in order to detect financial stability risks and develop appropriate policy responses, we urge it to conduct a robust economic analysis of the relative costs and benefits of its recommendations before they become final. For regulated funds, most regulatory costs ultimately are borne by investors in the form of higher total expenses. All regulators, whether at the national, regional, or global levels, should consider alternative proposals and think creatively to achieve appropriate protections while minimizing regulatory burdens, or to demonstrate that a proposal’s costs and burdens are justified in light of the nature and extent of the benefits that will be achieved. We expect the FSB to follow that path with regard to this data collection, thoroughly examining all possible options and choosing the alternative that reflects the best trade-off between costs to, and benefits for, investors.

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We appreciate your consideration of these comments and look forward to working with the FSB and national regulators on further efforts on this important topic. Please do not hesitate to contact me at 44-203-009-3101, Bob Grohowski at (202) 371-5430, Brian Reid at (202) 326-5917, or Giles Swan at 44-203-009-3103 if you have any questions.

Sincerely,

/s/ Dan Waters

Dan Waters
Managing Director
ICI Global

APPENDIX A – Prior Comment Letters to the FSB on Securities Lending and Repo Markets

Letters on WS5's Interim Report

Investment Company Institute, dated May 25, 2012

https://www.financialstabilityboard.org/publications/c_120806p.pdf

ICI Global, dated May 25, 2012

https://www.financialstabilityboard.org/publications/c_120806g.pdf

Letters on the FSB's November 2012 Consultation

Investment Company Institute, dated January 14, 2013

http://www.financialstabilityboard.org/publications/c_130129at.pdf

ICI Global, dated January 14, 2013

https://www.financialstabilityboard.org/publications/c_130129ar.pdf

Letter on the FSB's August 2013 Consultation

Investment Company Institute and ICI Global, dated November 27, 2013

http://www.financialstabilityboard.org/wp-content/uploads/c_131220n.pdf