



# Japan Securities Dealers Association

JSDA

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

RE: Comments and Responses on the Consultative Questions in the FSB's  
"Standards and Processes for Global Securities Financing Data Collection and  
Aggregation (Published on November 13, 2014)"

Dear Sir/Madam:

The Japan Securities Dealers Association (JSDA)<sup>1</sup> appreciates the opportunity to submit comments and responses on the consultative questions in the Financial Stability Board (FSB)'s "Standards and Processes for Global Securities Financing Data Collection and Aggregation" published on November 13, 2014.

The following comments and responses were made by JSDA members who are active participants in the Japanese securities financing market. To maintain the purport of each member's comments and responses, we are reporting their actual comments and responses directly as follows:

## General Comments

Compared with JSDA statistics on Japanese bond repurchase/reverse agreement (Repo/Reverse Repo) and securities lending/borrowing transactions, FSB DEG data elements require much more detailed information. A new statistics system for national aggregation will need to be developed before the FSB's

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<sup>1</sup> Japan Securities Dealers Association (JSDA) is a self-regulatory organization (SRO) as well as an interlocutor for the securities industry. Its legal status is a Financial Instruments Firms Association authorized by the Prime Minister pursuant to Article 67-2, Paragraph 2 of the Financial Instruments and Exchange Act (FIEA). JSDA comprises 463 members consisting of securities firms and other financial institutions operating securities businesses in Japan.

Global Securities Financing Data Collection and Aggregation can be implemented.

It will take at least a few years after the finalization of the global framework for each reporting firm and national data aggregator to build effective data reporting and gathering systems at a national level. Hasty implementation could have an adverse impact on the feasibility and the quality of global data collection. In this regard, it would be preferable to have a transition period of at least a few years and pilot exercises.

The industry-wide building cost will be huge and will give rise to a “who bears the cost” problem. One of the major market participants in Japan estimates the building cost of its own fully automated reporting system at JPY 100 million (USD 844,000) or more, and its partly automated end user computing system will cost at least JPY 10 million as well as consume human resources<sup>2</sup>. Therefore, the usefulness of data must be matched with the building cost of reporting and aggregation systems.

#### Comments on Individual Questions

The proposed definitions and level of granularity seem to be clearly defined, however, when applying the standards and processes to the Japanese market, we<sup>3</sup> believe that the following should be additionally considered.

(Q2-3)

- In Element “2.3. Original maturity,” a bucket “from 2 days to 1 month” may be too broad. We would like to suggest expanding this to two definitions of “from 2 days to 1 week” and “more than 1 week up to 1 month.”

- In Element “2.5. , 3.-11 Principal amount,” and the other elements that require conversion into USD, it might be necessary to define the conversion methodology clearly. Or, given the fact that majority of the transactions are single currency, our suggestion is that the reporting should be made in local currency denomination and authorities can apply consistent methodology to convert the information into USD for global aggregation.

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<sup>2</sup> To establish the end user computing system, the securities and client databases need to be amended.

<sup>3</sup> Please note the subject pronouns “we”, “our”, and “us” do not represent the JSDA but an individual member firm of the JSDA.

- In Element “3-7, 4-7 Counterparty Jurisdiction”, please clarify which “jurisdiction” should be reported on, the nation where the Head Quarter of a counterparty is located, or where the transaction account of a counterparty exists. Even if the reporting jurisdiction is clarified, the information might not be recorded in the transaction data or by any existing market infrastructure or relevant facilities, making it difficult to report.

- In Element “3.9. Repo rate,” the bucket of 0.5% increments seems crude under current quantitative easing circumstances. We would like to suggest 0.1% increments as a starting point, and more ramification around 0% based on the result of pilot test if necessary.

(Q2-4)

- The information on Re-use of collateral is in hands of the buyer/borrower, who possesses the security (collateral). It is difficult for the seller/lender to report re-use without disclosure by the buyer/borrower. As for re-use of collateral, in practical terms, it is difficult to provide data as we use cash for collateral and investment purposes from our own money intermixed with cash collateral received on repos and also use bonds for collateral purposes from our commingled inventories. Therefore, it is extremely hard to determine the amount of collateral re-used. We would need to map all forms of the transaction from the beginning and keep track of the linkages involved, which would require huge resources. In particular, since securities lending/borrowing is interconnected with the repo/reverse repo market like two sides of the same coin, we think it would be very difficult to record and report data on re-use or frequency of re-use.

(Q2-5& 2-12)

- We cannot judge the practicality of collecting data which are not currently recorded in our transaction data unless a concrete study of collection, preservation and processing of the relevant data has been done.

In this sense, regarding “Market Segment-Clearing” on Q2-5/Q2-12 or Table 3-5, 6-4, we do not record information whether each transaction is “cleared” or “not cleared” through the CCP in our transaction data, or which transaction is cleared or not cleared in our settlement data. This is due to lack of an operational linkage between dealing and settlement. It is very difficult to specify which transaction is cleared or not manually. In this type of situation, it would be better to use the CCP’s data.

(Q2-7)

• The treatment of “Collateral Upgrade or Downgrade transactions” which involve cross-assets, should be clarified. As we understand it, borrowing of Japanese Government Bonds (JGBs) versus pledge of equities under a Japanese Bond Lending Agreement should be categorized as “securities lending and borrowing” so long as it is conducted under the contract specified in the definition.

(Q2-9)

• We agree that the snapshot balance information (“stock data”) and its shift over time can help authorities to evaluate the degree of interconnectedness among market participants, assess the size of exposures among market participants, and monitor overall financial stability. However, with Securities Lending, the transaction level details in trading volume (“flow data”) may be too granular for the purpose of gauging stability from a macro perspective. In the Japanese securities lending and borrowing market, repo-like transactions, or financing trades which are cash driven securities lending transactions conducted under the Global Master Securities Lending Agreement (GMSLA)<sup>4</sup>, are mostly 1M~3M term trades and not high turnover, while substitutions occur daily. Also, not much securities lending and borrowing is done for less than 1 week except for fail-covers and high-frequency trades. We think the sheer volume of the transaction data and the effort required to manage the data for the purpose of aggregation would be too costly especially considering the limited added benefits.

(Q2-10)

• Securities Transactions often carry two variables, Margin % and Haircut % (e.g. Haircut of 5% on the Market Value of Stock and Margin of 90%, defined as Cash collateral/ post Haircut MV of stocks). Since both variables are combined for credit risk management purposes, the method of reporting the data should be clarified. In our opinion, transactions for the purpose of procurement of securities in which case the borrower of stock pays the haircut, and transactions for the purpose of financing in which case the lender of stock pays the haircut

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<sup>4</sup> In the consultation paper, it is specified that “repo-like transactions traded under the GMSLA should be reported as securities lending transactions.”

should be differentiated. Further clarification is needed on how the direction of the haircut should be reported.

- As for data elements “5.6. and 6.6 (and possibly 3.6 and 4.6) Counterparty Sector”, please clarify specifically who the "counterparty" should be, particularly in the case of agency lending. Due to the difficulties in identifying the beneficial owners under agency lending from the borrowers’ perspective, we suggest that the information should be obtained from the agency lenders if that data is required for counterparty reporting. In doing so, the requirement and the process of disclosure should be well considered based on each country’s legal framework.

For example, in Japan, there is a unique “Trust Scheme”. If trust banks find it difficult to disclose client information, we propose adding “Agent Lenders/Trustees” into the “Counterparty Sector” on Table3-6, 4-6, 5-6, and 6-6.

Agency lending is one of the major trading styles in the securities lending and borrowing market. If this clarification was to be confirmed at an early stage, it would be helpful for us in finding a way to provide the data and estimate the cost and time frame for providing the data.

- Regarding “5.11 Securities lending fee or rebate rate,” the rebate rate is not used in Japan, so, instead of “rebate rate” as a single data element, it would be more feasible for us if we were allowed to report only the “borrowing/lending fee rate” for "loan stock data" (Table 5), and adopt the “interest rate for the paid/received cash collateral” for "collateral stock data" (Table 6). These are two different data elements, but are conceptually equivalent to the “rebate rate” when combined as a single data element.

These rates are separately stated in the standardized master agreement in Japan. In the bidirectional manner, borrowers pay lenders a borrowing fee and lenders pay borrowers interest on received cash collateral. Calculation of fee or interest has to be based on daily marking to market independently. At each trade level, fee and interest are never directly netted out, which is very different from “rebate”, however actual monthly payment is settled using a single directional figure resulting from netting each directional monthly total of daily fee and interest.

Variable rate may be more popular than fixed rate for this “interest rate” in Japan but it does not always signify a linkage with “re-investment rate” since in the master agreement it is typically predefined as some public rate such as the Bank of Japan's uncollateralized overnight call rate. On the other hand, “fee rate”

is basically fixed on a demand basis for each trade. Also, in repo-like transactions, monitoring the interest rate would be more meaningful, because the “fee rate” is limited to a fixed rate of either 0bp or 1bp.

At this point, we have to refer to another type of contract, the so-called “Exclusive” trades, offered by trustee banks in Japan. “Exclusive” trades occupy a huge portion of our borrowing.

Each “Exclusive” basket consists of thousands of the selected equities each with its own designated maximum quantity. Once we form a contract covering the conditions including the fixed entire fee rate per basket, we borrowers can exclusively borrow any equities up to the limit whenever needed. It works like an external depository.

The cost structure of “Exclusive” trades is different from on-demand trades because we have to pay a fee to the lenders not only for actual borrowing but also for the remaining portion of each basket. This situation also seems to run counter to the definition of “rebate rate” as the “cash re-investment rate minus securities lending fee rate” from a profit and loss analysis point of view. In “Exclusive” trades, borrowers receive interest from lenders for their pledged cash collateral in accordance with actual borrowing but pay the “Exclusive” fees for the baskets to lenders regardless of utilization.

Based on the points above, the 0.5% increments for “5.11. Securities lending fee” are too narrow. We suggest the following:

- 0-50bps
- 50bps - 150bps
- 150bps - 500bps
- >500bps

• “5.9 Residual maturity” states that residual maturity be “calculated with reference to the maturity date of the securities loan”. Taking this literally, it seems to us that we should report the residual maturity of securities loans as “open-end” because they are normally booked that way because of possible daily substitutions. This means, in the current proposal, the broker-dealers will report only residual maturity of securities loan as being open-end, and the maturity of the financing, which a counterparty may have real economic interest for “repo-like transactions” would not be observed. For financial stability monitoring, we think information on the financing terms of “repo-like transactions” as the residual maturity might be more suitable.

(Q2-11)

• We doubt the feasibility of reporting “re-use” and “re-investment” in Table 5 and 6 from the borrower side. When the broker-dealers are borrowers, they pay cash or non-cash collateral to lenders. Re-investment is in the hands of lenders such as agent banks. The broker-dealers have no way of knowing what and how the lenders reinvest the paid cash collateral. It's difficult for borrower to report this data without disclosure of the information by lenders.

Even assuming that we can report “re-use” and “re-investment” when we are on the lender side, we still foresee that many will face serious difficulties in tracking and tracing source and use (inflow and outflow) of received collateral for the purpose of determining re-use and re-investment. It is difficult to establish a linkage between collateral received and re-used due to the fungible nature of securities and cash.

As for re-use of collateral, in a practical sense, it's difficult to provide data as we use securities for collateral purposes from our commingled inventories. This is due to lack of an operational linkage between each account for cash collateral received and its method of re-use or re-investment. Reporting the “cash re-investment rate” would be difficult for the same reason.

Trustee banks may administrate such re-investment operations in sync with each fund. But in general, this requirement will force broker-dealers to rebuild their business processes, procedures and systems to manage the cash re-investment status in detail per collateral received. To capture data on re-used securities, we would need to map all forms of the transaction from the beginning and keep track of the linkages involved, which would require huge resources.

To address such difficulties, participants need to be able to flexibly answer “not available” when necessary, allowing them to report re-investment related elements on a best effort basis.

Otherwise, it would be more feasible to develop a methodology to approximate collateral re-use and re-investment. In such a case, clear assumptions would be necessary. For example, participants may need to apply certain matching assumptions between sources of inventory (purchased, borrowed, and collateral receipt, etc.) and uses of inventory (sale, loan, and collateral delivery, etc.) to come up with an estimate of how much collateral received is being reused.

Also, as an approximate value, we wonder if it would be possible to substitute the previously mentioned “interest rate” for “6.15. cash re-investment rate”. Since broker-dealers, in their business operations, usually reinvest received cash collateral entirely into their paid cash collateral, the “interest rate for their paid

cash collateral” is nearly equal to “cash re-investment rate made from their received cash collateral”.

(Q3-2)

- Recommended data elements can be categorized into a) reconciled transaction data by trade-matching, b) elements which need to be processed (e.g. residual maturity), c) elements which need to be defined in detail (e.g. counterparty sector) and d) elements to which need outer reference databases (e.g. collateral quality). It might be more efficient if national/regional authorities process the data for b) and c). How reporting on elements in d) is to be accommodated needs to be investigated carefully since the additional expense will fall on market participants.

- It might also be more efficient if national/regional authorities collect and aggregate the reconciled transaction data that is common and standard for participants. It is inefficient for participants to independently aggregate their transactions and report to the national/regional authority because there may be differences in reporting standards and capacity for aggregating data among participants.

- Authorities should assess the data gap, based on the existing regulatory reporting mechanism. If the existing regulatory reporting requirements are streamlined, market participants can focus on building systems and processes which can potentially serve multiple purposes without duplication of development efforts. Use of national infrastructure such as CCPs, pre-settlement matching systems and Trade Repositories would contribute to efficient and accurate data collection and high frequency aggregation.

- It is better to start collecting and aggregating data at the same time or after a) shortening the settlement cycle of JGB transactions, and b) transactions’ shift to “Gensaki” (a repurchase agreement) in order to save costs and avoid a rift in Japan’s data<sup>5</sup>. Flexibility in the implementation timing of Global Securities Financing Data Collection could be one solution to reducing any additional reporting burden and achieving effective global data collection.

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<sup>5</sup> See “BOX Structural reforms in Japanese securities financing market.” The transition to “Gensaki,” a more globally accepted form of repurchase agreement for repo/reverse repo transactions, is to take place in or after 2017. The targeted schedule of the transition will be determined in the spring of 2015.

(Q3-3)

- There should be a consensus among the authorities on whether the consolidation scope should be worldwide consolidation of groups with head offices located in their jurisdiction or just the legal entities which are in their jurisdiction.

We support the FSB DEG proposal that all transactions of reporting entities operating in the jurisdiction should report to local authorities, since it would be an easier and cleaner approach when dealing with global consolidation issues.

- Currently, market participants in Japan do not use the Legal Entity Identifier (LEI) for securities financing transactions. Transitional measures are needed before full implementation of LEI such as, for example, using other local entity codes tagged to LEI, is made.

(Q3-4)

- Basically the original trade data should be confidential and not to be reported or disclosed to other than trading participants, market infrastructure entities and authorities. It might be necessary to legally allow market participants to report or disclose the transaction data to the authorities or Trade Repositories in the same manner as OTC derivatives reporting.

(Q6-1)

- It will be extremely hard for market participants to report data needed to analyze collateral velocity, if they must use data (similar to) collateral re-use as stated above. We use securities from various sources such as borrowed securities, trading positions and other inventories. Extracting data on only re-use of received collateral will require massive system development and consume resources. Therefore it is not practical to calculate the metrics of collateral velocity based on the present data structure.

We would like to suggest that it might be possible to approximate turnover by market amount of each category of bonds based on stock data. It would not be appropriate or feasible to calculate the data using the flow data for each transaction which reporting entities or authorities distinguish as re-use or not.

(Q6-3)

- A pilot exercise should be done in efficient manner, taking into consideration the market structure, the existing market infrastructure and the specific circumstances for each nation. In this regard, a pilot exercise should be

conducted in line with ongoing structural reform and facilitation of the national infrastructure. Otherwise, the test and real reporting could produce quite different results.

As the case of Japan, we believe commencement of data collection should be after the structural reforms and facilitation of the national infrastructure shown in the BOX bellow. Through the structural reform in Japanese repo market and the introduction of a shortened settlement cycle for JGBs, market practices and data handling will be substantially changed. It would be more productive to prepare the data in line with the new Japanese Repo/Reverse Repo regime. The pilot exercise should be done after the implementation of the structural reform of the JGB market and the full scale and regular reporting will be able to commence thereafter.

**【BOX】 Structural reforms in the Japanese securities financing market**

**(1) Current market structure**

① “Gentan” and “Gensaki”

- There are currently two types of repo transaction frameworks in Japan:
  - ✓ the “Gentan” repo, a transaction framework using a cash-collateralized securities lending and borrowing agreement
  - ✓ the “Gensaki” repo, a transaction framework using the more-globally accepted form of a repurchase agreement

② Transaction size

- Under the current market practice regarding DVP settlement, the maximum size of a single Non-CCP Repo transaction is set at JPY 5 billion.
- Non-CCP cleared trades account for about 60% of trades in terms of amount and over 90% in terms of number of trades.

**(2) Market structure after the introduction of a T+1 settlement cycle**

① Introduction of a T+1 settlement cycle

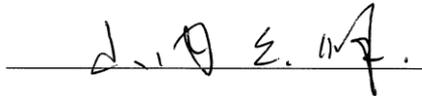
- A T+1 settlement cycle will be introduced for outright and SC repo transactions of JGBs among domestic market participants in or after 2017.
- A new GC repo transactions scheme (repos using the Subsequent Collateral Allocation method) will be introduced to enable a T+0 settlement of GC repos. The new GC repo will adopt “Gensaki” as its standard agreement.
- With the introduction of the T+1 settlement cycle, market participants are encouraged to shift other repos such as SC repos to using “Gensaki” as the standard agreement.

② GC repos under the Subsequent Collateral Allocation Method

- At the time of trade execution, parties will only agree on the amount of funds and the basket of securities to be delivered, without specifying the individual collateral securities. The allocation of collateral will be conducted by a third-party market infrastructure from the JGB inventory of the delivering party, just before settlement.
- Positions of each party with the same basket and the same delivery day will be netted at a CCP, thus individual securities will not be linked one-on-one with each original trade.
- Term repos will be subject to daily unwind and rewind processes by the third-party market infrastructure.

It is the JSDA's hope that our members' comments described above will prove useful to the process of producing the FSB's final report. Please feel free to contact us should you encounter anything unclear in the comments.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'K. Yamauchi', is written over a horizontal line.

Kimiaki Yamauchi  
Director  
Chief Officer for Rules and Regulations  
Japan Securities Dealers Association