

Annex 2: Technical Guidance on the Implementation of the FSB Framework for Haircuts on Non-centrally Cleared Securities Financing Transactions

- Q1. Are intra-group transactions of “banks and broker/dealers that are subject to adequate capital and liquidity regulation on a consolidated basis (hereafter banking groups)” outside the scope of the FSB framework for haircuts on non-centrally cleared securities financing transaction? What about cross-border intra-group transactions?**

Answer: Since the objective of the FSB framework for haircuts on non-centrally cleared securities financing transactions is to limit the possible build-up of leverage outside the banking system and reduce the procyclicality of that leverage, intra-group transactions of banking groups should be excluded only if the group entities involved in the transactions are subject to capital and liquidity regulations on a consolidated basis. For example, if a bank and a non-bank are both under the same holding company, but only the bank is subject to capital and liquidity regulation, intra-group transactions between the bank and non-bank should be subject to the framework for haircuts.

- Q2. What type of entities, transactions and collateral are subject to the qualitative standards for methodologies used by market participants to calculate haircuts on non-centrally cleared securities financing transactions?**

Answer: All non-centrally cleared securities financing transactions should be within the scope of the qualitative methodological standards, as long as the primary objective of the transaction is to obtain financing. For example, securities financing received by banks and broker-dealers subject to adequate capital and liquidity regulation on a consolidated basis are included in the scope for the qualitative standards, as are transactions backed by government securities. Certain securities lending/borrowing transactions may be outside the scope (see answer to Q3).

- Q3. What kind of SFTs are outside the scope of the qualitative standards for methodologies used by market participants to calculate haircuts on non-centrally cleared SFTs? Are SFTs with the primary objective to borrow/lend specific securities outside the scope? If so, please clarify the definition of such SFTs outside the scope.**

Answer: Securities borrowing should be outside the scope of the qualitative standards for methodologies used by market participants to calculate haircuts if the lender of securities receives cash collateral and that cash collateral is reinvested in accordance with the minimum standards set out in Section 3.1 of the August 2013 FSB Report,¹ or if the lender of securities does not re-use non-cash collateral received. In addition, securities borrowing can be excluded from the scope of the qualitative standards for

¹ http://www.financialstabilityboard.org/wp-content/uploads/r_130829b.pdf

methodologies used by market participants to calculate haircuts if the borrower of the securities intends to use the received securities to meet a current or anticipated demand (e.g. delivery obligations, customer demand, segregation requirements).

Q4. For the numerical haircut floors, what is the treatment of covered bonds?

Answer: Covered bonds are debt securities issued by financial institutions or corporates that are backed by a pool of assets. Covered bonds usually remain corporate obligations (they are on the issuer's balance sheet) and thus, investors have recourse against the issuer as well as the collateral. As such, they should be treated as corporate bonds when applying the numerical haircut floors.

Q5. When a bank or broker-dealer transacts with a non-bank located in a jurisdiction that has not adopted the numerical haircut floors, should the numerical haircut floors be applied to such transactions?

Answer: If a bank or broker-dealer transacts with a non-bank located in a jurisdiction that does not impose these numerical haircut floors, such transactions should still be included in the scope of numerical haircut floors. This would prevent an incentive for non-banks to move transactions "offshore" and thereby evade the numerical haircut floors.

Q6. What type of entities should be regarded as "securities lenders" for the treatment of cash-collateralised securities lending and "collateral upgrade" transactions under the FSB framework of numerical haircut floors?

In cash-collateralised securities lending subject to the FSB framework of numerical haircut floors for non-centrally cleared securities financing transactions (see Section 3.3), "securities lenders" are assumed to be non-banks. In "collateral upgrade" transactions (see Section 3.4), "securities lenders" are also assumed to be non-banks although banks could also lend non-cash securities under the framework. As stated in Section 3.4, "collateral upgrade" transactions are subject to the FSB framework of numerical haircut floors unless the non-banks are unable to re-use, or provide representations to the bank that they do not and will not re-use, the securities received as collateral against the securities lent.

Q7. Is margin lending excluded from the scope of the FSB framework of numerical haircut floors for non-centrally cleared securities financing transactions?

Answer: As stated in Section 3, the FSB framework of numerical haircut floors for non-centrally cleared securities financing transactions apply to transactions in which financing against collateral other than government securities is provided to non-banks. Through the introduction of numerical haircut floors on such transactions, the FSB aims to limit the possible build-up of leverage outside the banking system and reduce the procyclicality of that leverage.

Securities financing transactions that would be included in the scope of the framework of numerical haircut floors include reverse repos, securities borrowing as well as margin lending.

Margin lending transactions entail the provision of collateralised loans by a financial institution (usually a bank or a broker) to clients who are seeking leverage of their

trading positions by borrowing money (see FSB (2015) *Standards and Process for Securities Financing Data Collection and Aggregation*). The securities serving as collateral are held in margin accounts and are often re-hypothecated by financial institutions to fund the loans provided and eventually may reduce the cost of funding to the clients. In most jurisdictions, margin lending is included in the “prime brokerage” services provided to the client, based on a margin agreement between the financial institution and the client.