



MEMORANDUM

TO:	Financial Stability Board Bank of International Settlements fsb@bis.org	FROM:	PJ Di Giammarino CEO JWG PJ@jwg-it.eu www.jwg-it.eu +44 20 7870 8004
SUBJECT:	Consultation paper: Strengthening Oversight and Regulation of Shadow Banking, A Policy Framework for Strengthening Oversight and Regulation of Shadow Banking Entities		
DATE:	14 January 2013		

Introduction

JWG¹ believes that the key to successful regulation of shadow banking is to **get the data right from the start**. The FSB's approach still lacks the necessary '**nuts and bolts**' to construct **a robust data infrastructure** which allows the collection and administration of the information in a way that makes it useful to regulators. Currently, there is no strategy for achieving this end result and, without strong leadership from the FSB at this juncture, the industry may miss the opportunity to put sustainable systems and practices in place.

The implementation of the FSB's policy framework means greater reporting requirements for recognised financial institutions engaging in shadow banking activities, and new and unprecedented reporting requirements for unregulated activities and some non-financials. Importantly, the consultation paper does not focus on the method by which this is to be achieved. At this stage, the **governance, operating model** and an **appropriate data platform** are not in place to coordinate such an operation.

Having worked alongside regulators and firms in the definition of regulatory regimes such as RRP, G-SIB risk reporting and LEIs, JWG has found that **precise** and **prescriptive policy** is required at an early stage to avoid compromises and setbacks in implementation.

Data strategy is a core component

The **right data strategy** is critical to every stage of the implementation process, from determining which entities to collect data from, to intervening in the market.

Consequently, our **central recommendation** is that the FSB **consider, define** and then **mandate** its **data strategy** for collecting shadow banking data.

¹ JWG is a London-based FS think-tank founded in 2006, working neutrally between firms, regulators and the supply chain. As of late, we have been playing an active role in supporting key technical discussions surrounding the FSB's LEI, G-SIB risk reporting and data gaps initiatives. Read more at www.jwg-it.eu



Table 1: **JWG recommendations for shadow banking data strategy**

	Question	Imperative	Data strategy component
1	Do you agree that the high-level policy framework effectively addresses shadow banking risks ...? Does the framework address the risk of regulatory arbitrage?	Empowered central governance tasked with establishing and maintaining a clearly defined target operating model	Unified global definition of the shadow banking perimeter, targeted at capturing only risk-generating activities Implementation plan and implementation accountability Process for review, controls and subsequent accountability
3	Are the suggested information items listed in the Annex for assessing the extent of shadow banking risks appropriate in capturing the shadow banking risk factors? ... Would collecting or providing any of the information items listed in the Annex present any practical problems? ...	Platform to collect, report, aggregate and share information in an appropriate manner	Universal data standards and quality controls Central shadow banking data architecture Secure and discretionary data sharing infrastructure

For an example of the types of issues which exist in specific markets, please see the attached response to the repos/securities lending consultation paper. For an excellent articulation of the high-level issues see the recent IMF working paper 13/6 on the G-20 Data Gaps Initiative and the Special Data Dissemination Standard (SDDS).²

Q1: Do you agree that the high-level policy framework effectively addresses shadow banking risks (maturity/liquidity transformation, leverage and/or imperfect credit risk transfer) posed by non-bank financial entities other than MMFs? Does the framework address the risk of regulatory arbitrage?

The issue: shaping the shadows

The high-level policy framework introduces the FSB's 'wide net' approach to defining shadow banking as "the system of credit intermediation that involves entities and activities fully or partially outside the regular banking system". This is a very **broad definition** and, as such, recognises one of the central problems with regulating shadow banking: the **lack of a universally accepted perimeter**.

The lack of a consensus definition means regulators cannot make a real determination of what is, and what is not, a shadow banking entity. Consequently, the data collected to support regulatory analysis is neither uniform nor aggregated consistently and, at best, gives an opaque view of the true risks to the real economy.

² [IMF Working Paper WP/13/6](#), 'Why are the G-20 Data Gaps Initiative and the SDDS Plus Relevant for Financial Stability Analysis', January 2013.



A fragmented regulatory landscape

Due to shifting definitions, clear divides have already begun to emerge between jurisdictions in their approaches to shadow banking regulation.

For instance:

- ▶ In the US: The Financial Stability Oversight Council (FSOC) is pushing ahead with regulating Money Market Funds (MMFs) in the US, with proposals including capital buffers, liquidity requirements and greater disclosure obligations
- ▶ In Europe: The EU is more likely to regulate shadow banking through integration into its existing regulatory agenda (see Annex: Table A). The Commission's green paper references the FSB's definition, but reverts to traditional, entity-based classifications of shadow banking: special investment vehicles (SIVs), MMFs, securitisers, repos, etc.

This demonstrates there is a fundamental difference at the global level: one body - the EC - defining shadow banking positively (by what it is), the other - the FSB - negatively (by what it is not). Thus it is apparent that **strong, potentially hazardous divergences** in approach are beginning to appear, even at this early stage.

Towards global data

Differences in approach leave room for regulatory arbitrage. Though many providers of unsecured consumer credit, such as payday lenders, would come under the FSB's definition of non-bank credit intermediaries, they do not fall within the EU's closed categories and, as such, are not currently monitored for systemic risk. To close the gaps in the net, the FSB's approach is required as a first step. But this also needs to be backed up by a global data infrastructure (see Question 3) whose implementation is universally mandated from day one.

Discordant regulation elsewhere has already embedded future implementation issues. For instance, with the federated approach to the LEI,³ inconsistencies in the progress towards adoption have emerged, in that the US requires LEI use in regulation and the EU, as yet, does not. This has led to a mixture of interim solutions and identifiers (such as the CICI in the US and the BIC code in the EU), which create potential compatibility issues in the long term for global regulators.

The bad news is that the LEI is just one hurdle to overcome in realising the FSB's proposals in the consultation document. The good news is that future risks of this type can be avoided with strong leadership at the policy framework level. See Table 1 on page 4 of JWG's response to the securities lending and repos consultation (below) for an example of how these issues will present difficulty in defining the data set for each asset class.

³ The effect of a delay in LEI adoption on the FSB's current proposals is discussed in Question 3.



Recommendations

Through changes to the high-level policy framework, the FSB should introduce plans to create **a single point of ownership** for the **governance** of shadow banking regulation with responsibility for the universal adoption of a **target operating model**. This would involve:

1. A **unified definition**. The process of defining shadow banking should be entrenched in the high-level policy framework, rather than being left to local authorities, by setting out plans to elect a single authority with the power to enforce a clear, universal definition of shadow banking
2. A **roadmap to implementation**. The FSB should set out a central timeline detailing clear steps to implementation against which independent jurisdictions' progress can be measured
3. A **process of review**. A commitment should be made at this early stage to ongoing review of the implementation and maintenance of the regulatory regime to ensure future effectiveness.

Capturing shadow banking activities

JWG recommends that the FSB mandates the adoption of its definition of shadow banking in its final guidelines to the fullest extent of its abilities. However, it is essential that the **FSB determines what its exact aims are in defining shadow banking**. If its only intention is to capture those activities that present a systemic risk, then it also needs to ask **who exactly it intends to collect data on**, using targeted data collection at those points where real risk is being generated.

Gathering data on a whole entity, because one of its subsidiaries engages in shadow banking activities, will create large amounts of useless data and obfuscate the true picture of systemic risk.⁴

Therefore, JWG suggests that the FSB:

- ▶ **Sets explicit limits** on its programme of data collection, allowing institutions to say with certainty whether or not their individual operations and subsidiaries will be subject to new reporting requirements
- ▶ **Mandates** as far as possible the **definition's use** in order to reinforce a globally harmonised and holistic approach to regulating shadow banking.

Regulatory arbitrage

Regulators cannot assume that strong guidelines will translate into adoption, as demonstrated with the LEI. If arbitrage is to be prevented, regulators must look at its causes: **divergent regulations and timeframes**; **imperfect information and data gaps**; and **a lack of co-operation from the industry**.

In order to redress these issues, further work is required:

- ▶ To ensure unilateral adoption and alignment of regulations, **global-level coordination is needed**
- ▶ Following the adoption of regulations, ownership must be delegated for **maintaining universal data standards and data sharing practices** and **reviewing existing operations**

⁴ Rolls-Royce, in their [response](#) to the EC's green paper, make the point that their subsidiaries carry out credit intermediation but at very low risk to financial markets. For this reason it might be unnecessary to gather data on that activity, and certainly to gather data on Rolls-Royce as a whole. (Rolls Royce 'Comments in response to Green Paper on Shadow Banking', December 2012)



- ▶ Clear **use cases** for the realistic application of shadow banking data sets are required to incentivise compliance.⁵

We believe that, as a comprehensive method for preventing regulatory arbitrage, these guiding principles should be considered in the high-level policy framework.

Q3: Are the suggested information items listed in the Annex for assessing the extent of shadow banking risks appropriate in capturing the shadow banking risk factors? Are there additional items authorities could consider? Would collecting or providing any of the information items listed in the Annex present any practical problems? If so, please clarify which items, the practical problems and possible proxies that could be collected or provided instead.

As an exercise in data collection, the scale of the task of collecting all the data items listed in the Annex is unprecedented, due to a number of factors:

- ▶ The **quantity of reporting entities**: Based on forecast LEI adoption, registered financial institutions number in the hundreds of thousands. Adding the hundreds of millions⁶ of non-financials to this pool, creates an exceptional number of entities to track and store information on.⁷
- ▶ The **complexity of the data**: Rather than simple, alphanumeric strings, the data being collected here charts complex lifecycles and relationships over time and introduces additional issues of security and confidentiality
- ▶ The **lack of universal data standards and protocols**. This is exacerbated by the lack of universal formats for certain types of data which would normally underpin such a system, including legal entity identifiers, unique product identifiers and ways of identifying trade repositories and central counterparties
- ▶ The **lack of a central shadow banking data authority**. Without central data architecture, this data will have to be collected from multiple, often discordant, sources, such as trade repositories and central counterparties which already hold varying degrees of this information. The further aggregation and reconciliation of this data is also complicated by the lack of universal standards.

The strategy for overcoming these problems must be clear from the beginning. Regulators will have to consider not only how to ensure the veracity of the data, but also how to collect it in a way that it can be easily aggregated, reconciled and compared. For further insight into risk data aggregation challenges, see JWG's BIS response [here](#)⁸.

Standards from the start

Several of the data items listed in the Annex are contingent, in part or in full, on incoming standards and regulation. For instance, where firms are required to make a record of their counterparties, this will be dependent on the implementation of the LEI for the purposes of identifying those counterparties. Therefore, all the data items listed in the Annex under the "*imperfect credit risk transfer*" heading, which mention exposure to counterparties as a reporting requirement, are unlikely to be provided to regulators in a single, standardised format, such as the LEI. Similarly, the lack of a universal product identifier (UPI) means that any data collected regarding exposure through instruments is going to be incomparable. In both cases, this greatly reduces the utility of the data.

The sum total of these already divergent standards is that there is a risk that any data collected will be distorted, uninformative and misleading. In information technology, when data is collected improperly, it results in a phenomenon nicknamed 'Garbage In, Garbage Out' or 'GIGO'. However, when this data is

⁵ These three steps are addressed in more depth in Question 3

⁶ There are over 210,000,000 unique DUNS numbers in existence (<http://www.dnb.co.uk/>, January 2012)

⁷ An activities-based approach to shadow banking also splits entities further into their separate constituents, so it is possible that this number could be even greater when taking into account independent units, such as Special Purpose Vehicles (SPVs)

⁸ JWG, Consultation on principles for effective risk data aggregation and risk reporting, 28 September 2012



then acted upon as true, it creates the risk of a '**Garbage In, Gospel Out**' (**GIGO**) mechanism that generates greater risk as regulators build up dependence on faulty information. In order to prevent this outcome, regulators will have to consider, not only how to ensure the veracity of the data, but also how to standardise it in a way that it can be easily aggregated, reconciled and compared.

A convergence of interests

The **non-financial** entities that will be caught by the new definition of shadow banking are unaccustomed to regulation and may have little experience in implementing and using reporting mechanisms.⁹ If tasked with large-scale reporting requirements, such firms will be faced with an increasingly imbalanced **trade-off** between implementation cost and the quality and accuracy of the data produced (see Annex: Figure A). The trade-off means that the value of the data collected by regulators is in many ways indirectly proportionate to the cost and difficulty of implementation. Thus, **regulators have a reciprocal interest in making reporting requirements straightforward to implement.**

The cost of compliance

The cost of compliance should not be underestimated in the context of shadow banking regulation. As well as failing to address systemic risk, **uncoordinated regulation exponentially increases the cost of implementation for firms** and incentivises them to cut corners. As a case in point, JWG's independent research has previously established the EU-wide cost of data reporting in the context of tier 2 institutions (i.e., non-SIFs).¹⁰ A survey of 80 financial professionals, from a sample group of 30 firms, placed the estimated total cost of EU regulatory reporting over the next 3 years at €33.3 billion, all things remaining equal. However, by forecasting for an alignment of regulatory requirements, across 20 separate implementation factors, we found this cost could be reduced by a third.

Equally, by going in the other direction, and allowing for a divergence in reporting requirements, we observed a 50% increase in the total cost to the industry. This exponential increase demonstrates the **economic expediency of aligning requirements across markets and regulators.**¹¹

Ultimately, to give a direct answer to the question, many of the types of data to be collected under the proposals are unexceptional for such a framework. However, the value of the data as a whole, as mentioned, is diminished when firms – some of which may not have had to record, let alone report, such data previously – are asked to deliver up large quantities of data to multiple regulators with different reporting requirements.

For this reason, **JWG strongly supports the third element of the FSB's proposal on information sharing** to encourage inter-jurisdictional data cooperation and reconciliation as one step towards addressing the problem. However, if the original data collected is of **poor quality**, then sharing it **will only exacerbate the problem**. Setting appropriate data policies at this stage would overcome these issues and have a number of tangible benefits:

1. **Lower operational costs** and fewer difficulties for shadow banking entities seeking to comply with the reporting requirements, benefiting customers and the market as a whole. This will encourage compliance and **reduce incentives for arbitrage**
2. Compliant institutions would mean **greater transparency** to the whole sector, bringing shadow banking under control and allowing regulators to better assess and respond to market risk

⁹ Many non-financials of all sizes trade in commodities and OTC derivatives in order to mitigate risk

¹⁰ JWG analysis report 'Dirty windows: regulating a clearer view', June 2012

¹¹ Though not focused on shadow banking entities, this research is still highly applicable. Many of the implementation factors used in our analysis are equally true to all parts of the financial sector. Examples include regulatory requirements having different starting points, divergent reporting standards or poorly defined reporting requirements.



3. **Effective data** to judge systemic threats saves regulators from producing multiple iterations of regulations, avoiding potential moral hazard and producing greater operational savings¹².

Recommendations

In order to collect the data listed in the Annex, the data collection and format must be known. The FSB should formulate a global shadow banking data strategy with the technology and infrastructure necessary to support it, including:

1. A **set of universal data standards and quality controls**: As part of its annexed data schedule, the FSB should mandate the format and parameters for submitting the relevant data, where these exist, and consider instituting its own measures where they do not
2. A **central shadow banking data architecture**: In order for the information gained on shadow banking to be useful, it must be complete, comparable and widely accessible, necessitating a large-scale technology solution. The FSB should commit itself to such a solution by creating a mandate for it in the policy framework
3. A **system of data sharing**: The FSB must mandate the sharing of data between regulators in a way that is secure and takes account of the sensitive issues surrounding data storage and distribution.

This process should, again, be administered by the same dedicated governance body suggested in response to Question 1.

JWG suggests that the FSB takes responsibility for the realisation of a unified shadow banking regulatory infrastructure at this early, policy-setting stage. However, due to the complex nature of shadow banking, this general recommendation obviously groups together a number of different topics and requires coordination between different areas of regulatory responsibility. To this end, we have constructed Table 2, detailing some of the issues and the solutions that might be included in an effective policy towards global shadow banking data collection.

¹²This was most recently leveraged in the IMF's WP/13/6 on data gaps, p4, which argues for an "increasing need for data sets" that allow effective macroprudential analysis.



Table 2: **JWG recommendations for a proposed data policy**

Problem	Policy/solution	Required substance
Counterparty exposure analysis data	▶ Universal entity identifier with high implementation and adoption rate	▶ LEI, depending on timeframe
Exposure analysis data by instrument	▶ Standardisation of product identifiers	▶ Universal Product Identifier (UPI)
Duplicated/different reporting requirements	<ul style="list-style-type: none"> ▶ Single point of ownership model for responsibility over shadow banking data within a jurisdiction, preferably migrating to a globally centralised data hub when possible ▶ Data sharing between separate jurisdictions ▶ Leverage existing commercial or publically available data sources ▶ Better use of currently reported data/existing data channels 	<ul style="list-style-type: none"> ▶ New, central global body or extension of existing body's competencies ▶ Sufficiently resourced to deal with global financial data ▶ Sufficiently empowered to mandate specific identified data standards
Data efficiency	<ul style="list-style-type: none"> ▶ Defining the minimum amount of necessary data required ▶ Obtaining data by a format that ensures maximum ease of reporting for firms (e.g., XBRL, XML) ▶ Consistency in frequency and timing of data reporting 	<ul style="list-style-type: none"> ▶ Scoping exercise to check presently available data sources ▶ Scoping exercise to define proper reporting format
Data quality	<ul style="list-style-type: none"> ▶ Consistency between regulators as to definitions, composition and granularity of data ▶ Reconciliation of data between regulators 	▶ Provide use cases for how required data will be collected and used to expedite firm implementation of reporting solutions

Conclusion

The FSB's proposals assume the operation of a data infrastructure that, at this stage, does not exist and will have to be created. As a result, it will have to bring its own tools with it, in the form of a clear **target operating model** and a fit-for-purpose **data platform**, both overseen by a dedicated **governance structure** with a strategy to successfully realise such a large-scale project in a timely and cost effective manner. This will not be easy but, in the words of the IMF in its recent paper on data gaps, "*it is a vision with some ambition and a long way to go, but it is worth pursuing*".¹³

Of course, comprehensive data collection is not the sum and total of the proposals laid out by the FSB. But it is the only means to many regulatory ends. Without solving this problem, shadow banking and future regulations will face an uphill battle. In terms of these guidelines, we would see a far less effective policy toolkit for preventing systemic risk if the right data is not present to support it. Furthermore, without good data, the imposition of regulatory initiatives underway, such as capital requirements and redemption gates, could have a negative effect on the markets and actually result in greater systemic risk and operational costs.¹⁴

¹³ See IMF WP/13/6, p7.

¹⁴ cf. BlackRock Inc., 'Response – Green Paper on Shadow Banking', June 2012



JWG strongly believes our recommendations address these issues by setting out clear steps towards a centralised and uniform system of shadow banking regulation, supported and enhanced by a plan for robust data collection.

Appendix

Table A: **EU regulation¹⁵ (current and proposed) of different entities classed as shadow banks**

Entity/activity	Existing regulatory coverage	Future proposals
Securitisation entities	<ul style="list-style-type: none"> ▶ Indirect: Capital Requirements Directive (CRD) III imposes capital requirements and disclosure obligations on banks investing in complex re-securitisations ▶ Indirect: CRD IV will also impose liquidity requirements from 2015 for SPVs and other entities linked to larger banks 	<ul style="list-style-type: none"> ▶ Indirect: EU proposes to implement recommendations made by the International Organisation of Securities Commissions (IOSCO).¹⁶ However, these mainly relate to standardisation and not to mitigating systemic risk
Investment firms	<ul style="list-style-type: none"> ▶ Direct: Core investment activities currently regulated by Markets in Financial Instruments Directive (MiFID) 	<ul style="list-style-type: none"> ▶ Direct: MiFID II extends coverage to HFT and commodity investment
MMFs and Exchanged Traded Funds (ETFs)	<ul style="list-style-type: none"> ▶ Direct: May be covered by Undertakings for Collective Investment in Transferable Securities (UCITS) 	<ul style="list-style-type: none"> ▶ Direct: Proposals to regulate NAVs similar to US
Hedge funds and private equity	<ul style="list-style-type: none"> ▶ Direct: Eligible for UCITS 	<ul style="list-style-type: none"> ▶ Direct: Alternative Investment Fund Managers Directive (AIFMD) will impose vetting and disclosure requirements on those in charge of funds not covered by UCITS
Insurers	<ul style="list-style-type: none"> ▶ Direct: Solvency II imposes bank-like retention requirements on insurers 	
Repos	<ul style="list-style-type: none"> ▶ Direct: Recent ESMA guidelines on repurchase agreements place additional recordkeeping requirements on UCITS engaging in these activities¹⁷ 	<ul style="list-style-type: none"> ▶ Direct: Loose proposals to regulate to improve prudence, reinvestment practices and reporting

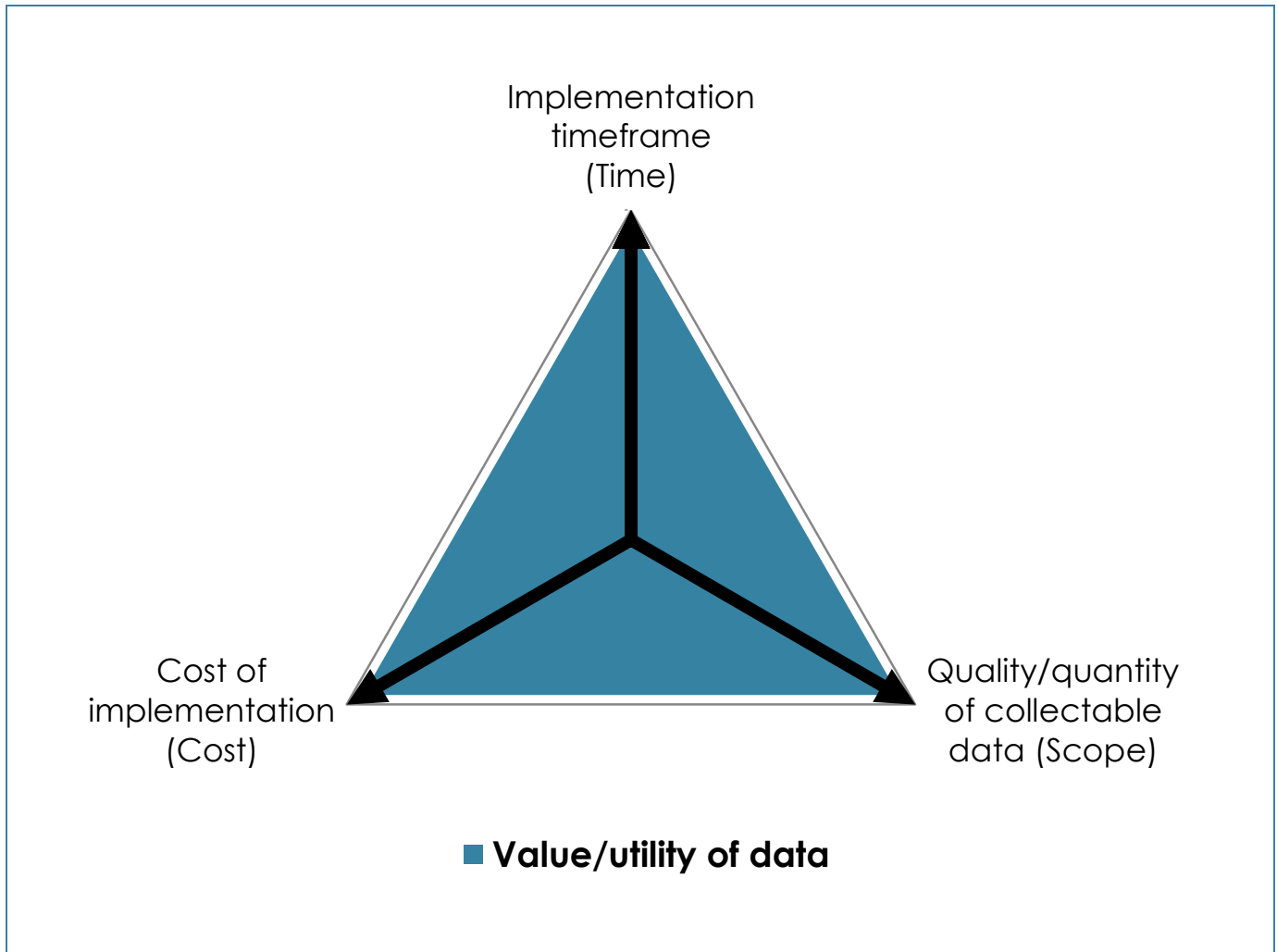
¹⁵ European Commission 'Green Paper on Shadow Banking', March 2012

¹⁶ IOSCO consultation paper 'Global Developments in Securitization Regulation', June 2012

¹⁷ ESMA 'Guidelines on repurchase and reverse purchase agreements', December 2012



Figure A: A project management triangle visualising the time/scope/cost trilemma in relation to the collection of shadow banking data





MEMORANDUM

TO:	Financial Stability Board Bank of International Settlements fsb@bis.org	FROM:	PJ Di Giammarino CEO JWG PJ@jwg-it.eu www.jwg-it.eu +44 20 7870 8004
SUBJECT:	Consultation paper: Strengthening Oversight and Regulation of Shadow Banking, A Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos		
DATE:	14 January 2013		

JWG¹⁸ is pleased to have the opportunity to respond to the FSB's plans for regulating the securities (sec.) lending and repo market.

Our analysis has identified two main barriers to the implementation of these regulations:

1. **Market infrastructure.** The proposed programme of data collection assumes the pre-existence of authoritative stores of transaction and other data, including trade repositories (TRs). At present, these do not exist in the necessary numbers, meaning interim data sources will have to be leveraged whilst the transition to TRs is being made
2. **Universal data standards.** Successful aggregation of the data will also depend on the adoption of common standards and protocols between all parties involved.

To this end, our recommendation is that the FSB makes explicit a data strategy reinforced by mandates for its implementation, including:

- ▶ An assessment of the **current state of affairs** as regards existing market infrastructure and the market's usage of different data formats and reporting protocols
- ▶ A **target operating model** against which progress to implementation can be measured
- ▶ Interim plans based on **current best practice** detailing the data sources and practices to be employed during the **transition**.

These central themes transfix our responses to the questions below.

¹⁸ JWG is a London-based FS think-tank founded in 2006, working neutrally between firms, regulators and the supply chain. As of late, we have been playing an active role in supporting key technical discussions surrounding the FSB's LEI, G-SIB risk reporting and data gaps initiatives. Read more at www.jwg-it.eu



Q3 & Q8:

- ▶ **Please explain the feasibility of implementing the policy recommendations (or any alternative that you believe would more adequately address any identified financial stability risks) in the jurisdiction(s) on which you would like to comment?**
- ▶ **What are the issues authorities should be mindful of when undertaking feasibility studies for the establishment of TRs for repo and/or securities lending markets?**

JWG applauds the FSB's drive for securities lending and repo transparency but cautions that **current information sources should be integrated into the data strategy from the start**. As a holistic view of the sector does not presently exist, it is imperative that a clear set of requirements be constructed and proved using what tools are available now. These data sources include:

- ▶ **Trade repositories:** Present in the US (DTCC) but do not currently deal with repos in the EU. Plans to build further repositories, but unclear when they will be in place
- ▶ **ICMA surveys:** European repo data including total value, counterparty, geographical, collateral, cash currency, clearing and settlement and maturity
- ▶ **Central banks:** e.g., US Fed, which provides FedWire service for tracking principal and interest, daily balance report, list of participants
- ▶ **Brokers:** EU/US repo broker data; average EU/US daily volumes
- ▶ **CCPs:** Transactional information between clearing members
- ▶ **Tri-party custodian-agents:** Widening and narrowing of sets (eligible collateral profiles) could provide information on parties' risk appetite, among other things
- ▶ **IMF Standards for Data Dissemination (SDDS):** SDDS Plus prescribes a survey of high-level data on claims and liabilities by sector, including coverage of many shadow banking activities¹⁹.

While repo trade repositories may be the preferred source of information in the future, they are still in the introductory stage. Even post-implementation, they will never provide the 'be-all-and-end all' for repo data as it has been called "**spotty**" and "**difficult to understand as a whole**".²⁰

In light of this, JWG recommends, at this stage, that an interim plan be considered for delivering data in the smartest way possible from immediately viable sources. To this end, it is recommended that the FSB, in conjunction with market participants, conduct a survey of existing sources of repo and sec. lending data (listed above) to identify gaps in data collection and the strengths and weaknesses of individual sources.

While this data may not, in some cases, have the frequency and granularity ultimately required, it will **enable more informed policy decisions**, while identifying data inadequacies and the priorities for improving them in subsequent phases. Perhaps just as importantly, this approach would give the FSB a chance to observe any negative market effects of new information sources such as '**feedback issues**' which could distort the market.²¹

Furthermore, **a phased approach will allow regulators to identify and mitigate potential issues**, like market idiosyncrasies, categorisation issues, multiple identifiers and a pre-existing lack of reported data, with a

¹⁹ IMF, 'Why are the G20 Data Gaps Initiative and the SDDS Plus Relevant for Financial Stability Analysis?' WP/13/6, January 2013

²⁰ Federal Reserve Bank of New York, via Liberty Street Economics, 25 June 2012:

<http://libertystreeteconomics.newyorkfed.org/2012/06/mapping-and-sizing-the-us-repo-market.html>

²¹ See page 4 of JWG's Analysis Report, 'Achieving supervisory control of systemic risk', September 2010



more complete data set. Armed with this understanding, regulators will be better equipped to identify risks which are observed only with common data definitions, standards and quality metrics.

For further discussions of the policy implications of this, please see JWG's attached response to the FSB's consultation on a policy framework for shadow banking.

Q6: Do you agree with the information items listed in Box 1 for enhancing transparency in securities lending and repo markets? Which of the information items in Box 1 are already publicly available for all market participants, and from which sources? Would collecting or providing any of the information items listed in Box 1 present any significant practical problems? If so, please clarify which items, the practical problems and possible proxies that could be collected or provided to replace such items.

As introduced in our attached response to the FSB's consultation on a policy framework for shadow banking, the main barrier facing a consolidated reporting regime is the **lack of required universal standards**. These standards will not come quickly or without cost. A comprehensive analysis of the existing repo/sec. lending information sources noted above will be required to set these standards.

One of the biggest obstacles will be the difficulty in achieving the goal of a universal **Legal Entity Identifier (LEI)** for assigning counterparties to transactions and their parentage/ownership structures.²²

Equally as important, but further away from realisation, is the existence of a **unique product identifier (UPI)**. This is particularly relevant to repo/sec. lending markets as it was pooled securities, and the inability to follow the history of individual securities through those pools, that contributed to the 2008 financial crisis. Considering the size of the repo market, in order for risk to be properly tracked, it becomes necessary for regulators to have a complete lifecycle view of the products subject to those agreements and the ability to aggregate and compare them. Without a product identification scheme that allows informed judgements to be made, the secondary market's exposure to different primary markets and the real economy remains unknown.

For both counterparty and product aggregation across trade repositories (TRs), coherent and implemented standards are required. **Without them, differences will make data non-comparable and lead to an uninformative, and possibly misleading, overall picture** of the repo/sec. lending market.

Even certain standards that might be taken for granted under other circumstances, such as a universal date or currency identifier, will need to be considered.

²² See page 4 of JWG's attached response on a shadow banking policy framework for a more in depth discussion of the policy concerns surrounding LEI use.



Table 1: Illustration of the challenges which need to be overcome for enhancing repo/securities information transparency

Information item	Difficulty	Feasibility issue	Comment
Principal amount	Low	Necessary standards required	Reporting guidance required
Currency	Low	Standard currency required	Consider mandating standards
Collateral asset class	Medium	Feasible where non-cash collateral is hypothecated. When cash collateral is posted, dependent on individual firms' investment policy	Asset class identifier must be able to deal with both cash and non-cash collateral and asset classes
Repo rate/lending fee	Low	Highly feasible in ordinary bilateral trades	See recommendations on counterparties (below)
Ultimate counterparty	High	Different types of trade involving different numbers of parties, e.g., bilateral/tri-party, re-hypothecation Difficult in absence of LEI (Legal Entity Identifier) Tri-party trades obscure counterparties from one another Meaning of 'ultimate counterparty' unclear	FSB should be able to identify trades by type as a prerequisite FSB should mandate adoption of the LEI among TRs Tri-party agents should be leveraged as a source of transaction data FSB should clarify and provide example transactions
Haircut	Low	Dependent on outcome of minimum haircuts consultation (Section 3.1)	-
Maturity information	Low	Similar data already collected from Money Market Funds (MMFs) by US Securities and Exchange Commission (SEC) under Rule 2a-7	FSB should assess US model for best practice in this and other areas
First callable date	Low	Different maturities including open-ended repos	Identifier should be able to deal with overnight, term and open agreements

Conclusion

The FSB's proposals clearly identify the risk that repo agreements and securities lending pose to market stability, and set out a strong set of tools to counter that risk. However, clear plans are yet to be created regarding the vital foundational step: collecting the necessary data. Without high quality data, which is



a product of robust market infrastructure and widely adopted standards, regulators will be unable to detect risk and prevent crises. In order to avoid such an eventuality, it will be necessary for the FSB to consider: **the current state of data collection**, a **target operating model** and an **implementation timeline** that links the two.