International Banking Federation

Pinners Hall
105-108 Old Broad Street
London EC2N 1EX

**tel:** + 44 (0)20 7216 8947
**fax:** + 44 (2)20 7216 8928
**web:** www.ibfed.org

14th November, 2011

Mr Svein Andresen
Financial Stability Board Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

fsb@bis.org

Dear Mr Andresen,

**Re: *FSB Consultation on Understanding Financial Linkages: A Common Data Template for Global Systemically Important Banks***

The IBFED appreciates the opportunity to comment on the FSB Consultation entitled "Understanding Financial Linkages: A Common Data Template for Global Systemically Important Banks." It understands the importance of homogenous and consistent data at both the national and international level to ensure that the relevant authorities can recognize and address the build-up of risks in a timely manner. We therefore support Recommendations 8 and 9 of the joint IMF/FSB report to the G-20 on Information Gaps.

The main concerns that the IBFed has with the proposals are as follows:

1. There is a need to clarify the purpose of extensive data collection exercises.
2. It may be useful to conduct a cost/benefit analysis on the different data items requested;
3. Expenditures could be reduced substantially by creating synergies with existing reporting requirements.
4. The overall objective of harmonization of data definitions is very important for the industry although this should be balanced against (excessive) system changes and therefore may need to be phased in.
5. The proposed reporting requirements may need to be legally underpinned.
6. "Ad hoc" data requests should make a distinction between data that is easily available to banks and data which is more difficult to produce. This should also be reflected in the deadlines.
7. If the objective is to collect consolidated data, simplified approaches should be allowed.
8. The storing and pooling of data may be particularly useful to avoid data requirements that are overlapping. However, full consideration needs to be given to data protection and security, confidentiality and consumer protection regulations.
9. The "weekly" reporting frequency and "3 days" reporting lag are of great concern.
10. The end of 2012 as Phase 1 of the implementation process is too early.

11. Transitory measures need to be set for banks that become subject to the data framework at a later stage so as to avoid compliance issues for banks that suddenly must deliver an extensive data set.

We have elaborated on these main concerns in the attached paper.

Yours sincerely,

| | |
|---|---|
| Mrs Sally Scutt<br>Managing Director<br>IBFed | Mrs Barbara Frohn<br>Chairman<br>IBFed Prudential Supervision Working Group |

***FSB Consultation on Understanding Financial Linkages:***
***A Common Data Template for Global Systemically Important Banks***

---

1. There is a need for greater clarity regarding the relevance, scope and use of the intended extensive data collection exercise. Authorities should make sure that the information that they are looking for is clearly defined and provide reasons why specific reporting requirements are being imposed and explain how the collected data will be used. Defining the purpose and use of information would allow banks to gain a better understanding of what precisely they are expected to deliver and would contribute to improving the quality of reporting. By way of comparison, it may be useful highlighting that the IFRS framework considers understandability by users to be an essential requirement.

   Furthermore, it should be borne in mind that most of the transactions that banks enter into, including those performed in the global markets, have an underlying commercial purpose, and thus are not of a speculative nature. Data collection should therefore be focusing on those items that are thought to be truly necessary in light of risk or product characteristics and/or systemic risk implications.

2. We welcome the emphasis which is given in the Consultation Paper to minimize the costs of the data collection. That said, because of the granularity and comprehensive nature of the requested data, suitable systems would need to be developed and initial costs could be very high. An additional cost would also be assumed for ongoing maintenance. If no particular efforts are made to ensure the consistency of data definitions and to reduce unnecessary duplications, overall costs to financial institutions could prove to be excessive.

   Against this backdrop, rather than engaging in a data gathering exercise containing items that may possibly or eventually be useful for future systemic risk rule making or intervention mechanisms, we believe that it is essential for the FSB to undertake a detailed cost/benefit analysis on the different data items requested. Such a cost/benefit analysis should seek to address what sort of objectives and improvements in supervision can be expected through this exercise and the relevance of the different components to support these purposes.

3. The introduction of new requirements and new reporting formats generate both considerable one-off implementation costs and significant ongoing costs. Expenditures can be substantially reduced by building on synergies with existing and planned reporting requirements, notably recovery and resolution planning, Basel III liquidity reporting and, in Europe, the COREP / FINREP frameworks.

Duplicative reporting in conjunction with different formats and data definitions has the potential to reduce the usefulness of the data to users, in addition to increasing the reporting burden to financial institutions. The overarching objective should be to avoid the need to report broadly similar amounts to different authorities because of definitional differences.

We support the Consultation paper's objective of securing as much consistency as possible with data that are available to authorities on the basis of current requirements. It should, therefore, be determined whether the data being sought overlaps with the index data and net exposures demanded of G-SIFIs and recovery and resolution plans (RRPs), as well as various existing reports to authorities in related and unrelated reporting.

Similarly, data requirements that may not be relevant to all financial institutions or business models should be avoided. Acknowledging differences among industry participants helps avoid immaterial reporting requirements and unnecessary burdens. For example, funding information is constructed differently between banks that have centralized liquidity management and those that have a more decentralized approach towards liquidity and funding (consolidated versus integrated data).

4. Data consistency can be achieved only if the concepts are based on uniform definitions. The harmonization of definitions is a crucial point for the banking industry.

   To the extent possible, standardization and alignment with definitions used in global regulatory standards is requested from the perspective of establishing a globally consistent reporting framework and system compatibility. As an example, given the focus on counterparties, sectors and products, consistent definitions of those items are crucial to avoid misinterpretation of aggregate data.

   The IBFed encourages the development of a strategic vision to establish a comprehensive reporting framework aimed at reducing the number of existing and new reporting requirements and structuring and standardizing the data and data definitions required of G-SIFIs and RRPs. This way, unnecessary duplication and confusion due to diverging definitions and immaterial reporting can be avoided.

   This being said, given the potential significant system adaptations such standard data definitions, albeit desirable, may entail we propagate a concerted effort by the industry and the authorities to find an appropriate implementation timetable and item-by-item prioritization for the use of such harmonized data definitions.

   Furthermore, as data management is also assumed to differ by financial institution and in some cases also by entity in a group, even if data definitions would be detailed, flexible approaches would nevertheless still be warranted to take into consideration individual circumstances. Furthermore, more focus needs to be given to the principle of materiality, with a view to determining whether on an individual bank basis information is sufficiently significant.

Finally, pragmatic approaches or best-effort approaches should be allowed, at least in the initial stages, where the proposed Institution-to-Institution (I-I) data (data on top 50 individual counterparties) and Institution-to-Aggregate (I-A) data (data compiled by country, sector, financial instrument, currency and maturity) are concerned. Securing completeness and accuracy on this is difficult bearing in mind that those categories are broad and detailed. In addition, as the FSB acknowledge, banks do not normally hold secondary market information on their own tradable investments and so we question the value of compiling incomplete data.

5. Attention may need to be given to constitutional constraints which may be applicable in G-20 jurisdictions and which may require reporting requirements to have a legal basis.

6. The Consultation Paper suggests that authorities would seek additional information from time to time on an "ad hoc" basis.

   Preparing ad-hoc reports requires individual treatment, with limited possibility to leverage off existing data and therefore requires mobilizing resources which may be disproportionate to the benefits which authorities seek to achieve. As such, the impacted institutions perceive the open-ended nature of the present proposal as truly worrisome.

   There needs to be some recognition of the distinction between a request for data that is easily available to banks and one for which data does not already exist. This should also be reflected in the deadlines.

   Given the extensive nature of the proposed common data template, we request that authorities make efforts to limit ad-hoc requests to exceptional circumstances.

7. The Consultation paper suggests that the objective should be to collect consolidated data.

   Although we welcome such an approach as a matter of principle, it should not be overlooked that it may be difficult to collect accurate and complete data on a consolidated basis in a short period of time. Again, simplified approaches that narrow down the sample on the basis of importance, etc., should be allowed as long as the objective of the data collection is accomplished.

   Concerning the point on debating with over 50 or 60 counterparties for I-I data and 30 or 35 countries for I-A data, it is already a heavy workload and there is no substantial difference. Rather, measures such as narrowing down considerably to a lower number of counterparties, setting specific levels of amount, or naming only a few individual counterparties could lead to a reduction in the workload.

8. The IBFed has concerns about the pooling and storing of data in a central hub.

   The following points highlight several concerns in respect of information sharing regarding G-SIBs data, including:

- data will also be provided to international institutions other than supervisory authorities.
- I-I data will include top counterparties' customer transaction information.
- the risk of disclosure of information broken down in such a way that institutions or counterparties can easily be identified
- the risk of use for purposes other than the originally intended.

From the above standpoint, thoroughness is desired in respect of the information management framework with full consideration given to data protection and security, confidentiality and consumer protection regulations and with a special focus on cross-border data transfer restrictions.

It is imperative that national supervisors retain ownership of the data and the process. Any international agreement to collect data from large global firms should be conducted through the firms' primary home supervisors because of their understanding of the institutions. While the proposal provides that national authorities collect the data, it appears the supervisors would be little more than a pass-through before the data goes to the BIS "hub". Typically, collecting supervisory information is an ongoing, interactive effort, with technical experts available for interpretive questions – both for the providers and the users of the data -- and definitions are revised periodically as experience is gained. It would be much more difficult to do this at the international level.

9. The "weekly" reporting frequency and "3 days" reporting lag are of great concern to the banking industry. Imposing such timelines and frequencies would essentially be equivalent to requiring data output of all group consolidated data at the touch of a button.

   Even existing databases currently take several business days to reflect the data of all banks. In addition, as highlighted above, considering the aggregation and double checking of related units, subsidiaries, etc., data collection takes a substantial amount of time to go through the process of consolidation even after data is gathered in practice. Foregoing such data integrity checks would undermine the objective of good quality data.

   Frequency of reporting should be matched to the typical rate of material change in the data being sought. For example, large diversified portfolios of counterparty credit exposure tend to change in composition and magnitude gradually. As such, quarterly reporting of aggregate data may be more suitable than monthly. Monthly collection may be appropriate for a list of top exposures but weekly would be excessive given the rate of change in any institutions largest exposures. Structural data on large institutions should be required no more often than annually.

   In view of the above, we would advocate starting with monthly and quarterly reporting as appropriate, and potentially reviewing this frequency at a further stage when the procedures have been established. In most jurisdictions, due to existing or newly to be implemented reporting requirements, the proposal is more onerous for exposure than funding data and this should be duly reflected in the initial regime.

   On a more general note, financial institutions each presently have extensive risk management systems in place some of which in addition are in the process of being expanded due to new post-crisis internal and external (capital adequacy and other) requirements. We strongly urge the FSB to engage in a dialogue with the industry to see how data collection could be aligned to the extent possible with the scope, detail and update frequency of such internal risk management systems.

10. Concerning the proposed implementation schedule for the new reporting requirements, the end of 2012 as Phase 1 is too ambitious bearing in mind the need for system development.

    We request the FSB to provide an adequate amount of time for preparation, taking into consideration the cost burden and practical impact on financial institutions. In this respect, we would recommend that at the FSB and Basel Committee level, a prioritization of new reporting requirements related to new capital, liquidity, market infrastructure, trading and derivative regulations, RRPs and financial linkages is made, to give banks the opportunity to plan the development of relevant system and reporting capabilities. This staging and prioritization should aim as much as possible at leveraging existing reporting data.

    In addition, there is the possibility of there not being a fully stable data collection system in place with a complete data set flowing from the individual banks to the ultimate aggregate data repository at the time of initial introduction. The establishment of trial periods and observation periods should be considered, allowing for adjustments to be made ahead of full implementation.

11. Even though this seems undecided at this stage the scope of application may in the first instance be limited to the 29 banks that will be classified as ´global systemically important banks´. However, based on the annual review of the sample group, this group can vary over time, not just as a consequence of changes in the structure or portfolio composition of an individual bank, but also as a consequence of changes in the sample group of banks. That would imply that banks not included in the original group of 29 may still need to prepare to provide this extensive data. We advocate transitory measures for banks that become subject to the data framework at a later stage so as to avoid compliance issues for banks that suddenly must deliver an extensive data set.