April 7, 2014

Secretariat of the Financial Stability Board
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Respectfully submitted as a response to the FSB's "Consultative Document: Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions", 8 January 2014 at http://www.financialstabilityboard.org/publications/r_140108.htm.

The G20 Leaders asked the Financial Stability Board (FSB), in consultation with the International Organization of Securities Commissions (IOSCO), to prepare methodologies to identify systemically important non-bank non-insurer (NBNI) global financial entities (NBNI G-SIFIs). In responding we note the FSB's definition of systemically important financial institutions (SIFIs):

> "…institutions whose distress or disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity".

In responding we wish to emphasis that financial institutions, whether already designated G-SIFIs or not are globally connected through a vast array of networks and computers collectively referred to as the 'global financial system'. This truly represents a global 'system' in all aspects of the meaning of the technical interpretation of the information-age word "system". We, therefore, focus our comments on the "interconnectedness" criteria as it encompasses the notion of the weakest link in a chain at its most vulnerable systemically important point. From the consultative paper:

> (ii) ***Interconnectedness***: Systemic risk can arise through direct and indirect inter-linkages between entities within the financial system so that individual failure or distress can have repercussions throughout the financial system.

This then leads us to the two most relevant questions we would like to respond to:

> ***Q2-1. Does the high-level framework for identifying NBNI G-SIFIs (including the five basic impact factors) adequately capture how failure of NBNI financial entities could cause significant disruption to the wider financial system and economic activity? Are there any other impact factors that should be considered in addition to those currently proposed or should any of them be removed? If so, why?***
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> ***Q2-2. Is the initial focus on (i) finance companies, (ii) market intermediaries, and (iii) investment funds in developing sector-specific methodologies appropriate? Are there other NBNI financial entity types that the FSB should focus on? If so, why?***

It seems to us that the initial focus, as described in the above two questions encompass in the broadest sense, systemically important financial institutions that are counterparties, lenders and/or custodians or are combinations of these. What may be missing from the consultative paper are NBNI G-SIFIs that are Financial Market Utilities (FMUs).

To elaborate, the US's Dodd-Frank legislation defines FMUs as

> "…multilateral systems that provide the essential infrastructure for transferring, clearing, and settling payments, securities, and other financial transactions among financial institutions or between financial institutions and the system".

The Dodd-Frank Act also authorizes the Financial Stability Oversight Council (FSOC) to designate a FMU as "systemically important" if the Council determines that the failure of or a disruption to the functioning of the FMU could create or increase the risk of significant liquidity or credit problems spreading among financial institutions or markets and thereby threaten the stability of the U.S. financial system.

In the US, the FSCOC has established nine (9) such entities as systemically important FMUs (see http://www.treasury.gov/initiatives/fsoc/designations/Pages/default.aspx). They include:

- The Clearing House Payments Company L.L.C.
- CLS Bank International
- Chicago Mercantile Exchange, Inc.
- The Depository Trust Company
- Fixed Income Clearing Corporation
- ICE Clear Credit LLC
- National Securities Clearing Corporation
- The Options Clearing Corporation

Perhaps FMUs have been encompassed in the FSB's notion of financial auxiliaries, but that is not clear by the definition contained in the consultative document:

"Financial auxiliaries are closely related to financial intermediation, but these activities are by their nature separate from intermediation activities. Activities that are auxiliary to intermediation may be performed, on a secondary basis, by traditional financial intermediaries or by separate, specialised financial auxiliaries that do not, as a main business activity, raise funds or extend credit on their own account."

This then leads us to address the question of indicators of systemic importance for FMUs as the consultative paper requests:

"Indicators for assessing systemic importance

The criteria and indicators for assessing the systemic importance of other NBNI financial entities should be based on the same five impact factors as set in the high-level framework for identifying NBNI G-SIFIs (i.e. size, interconnectedness, substitutability, complexity and global activities). In many cases, these criteria and indicators are the same as those used in assessing the global systemic importance of finance companies and market intermediaries. However, additional indicators may need to be developed by the FSB, in consultation with the relevant international standard-setting bodies, in order to better assess certain other NBNI financial entity types should the need arise."

In the context of the FMUs and the interconnectedness criteria the consultative document asks us to respond to an additional question:

Q7-1. In your view, does the approach set out in this section adequately identify as a "backstop" any potential G-SIFIs not captured by the sector-specific methodologies?

As noted previously the definition of the interconnectedness criteria should most assuredly encompasses those financial market utilities that provide the "direct inter-linkages between entities within the financial system". Besides the ones noted by the FSOC, there are many other globally equivalent systemically important clearing utilities in other sovereign jurisdictions. There are also depository linkage and matching networks, and post-trade matching services that may be systemically important. Other categories include financial institutions such as trust companies and banks that act as master trustees and collection and payment agents for assets held as custodians for other financial institutions and for other financial market participants such as government agencies and corporate pension funds.

In addition examples of others that could be considered systemically important may include: entities that operate global inter-payment networks; networks run by communication companies specifically linking vast numbers of financial institutions; and processing and network companies which act as centralized (and concentrated) processing facilities for business applications for a significant share of the financial market in their chosen sovereign domiciles.

As new FMUs evolve they too may need to be included as systemically important. Examples are the Global Legal Entity Identification System (GLEIS), the T2S European securities settlement system, systemically important Swaps Execution Facilities (SEFs) and Swaps Data Repositories (SDRs). They too must be examined under the interconnectedness criteria. Finally, some multilateral trading venues, such as systemically important members of the World Federation of Exchanges might also be considered in the definition of the interconnectedness criteria.

In setting requirements under the expanded definition of FMUs suggested here, the FSB and IOSCO should consider the following expanded criteria:

Size – number of financial intermediaries (correspondent brokers/banks, introducing brokers, investment advisors/managers, pension/collective funds/commodity pools, sub-custodians, etc.) using the services; volumes by: trades, assets under custody, fiduciary assets, etc.; order/trade/administrative message traffic – average/ peak volumes

Interconnectedness – number of sovereign jurisdictions encompassed in networked services; number of outside vendors supplying operating/trading/technology services; number of governmental reporting agencies; number of industry reporting agencies; number of counterparties; number of retail clients

Suitability – Market share statistics, by financial intermediary market segment, by sovereign regulatory jurisdiction, by total global volume; number of electric grids supporting key operating locations; number of alternate/redundant backup locations

Complexity – number of points of presence; number of end-point nodes; network resiliency measured in availability terms; network access protocols, security protocols; number of business applications; number of master data bases for clients – retail/commercial, contacts/instruments; number of sub-ledgers, general ledgers; physical locations for data centers/operations; number of localized and desk level operational/technical locations

Cross-jurisdictional presence - in each sovereign jurisdiction: number of clients; number of outsourced services; number of technology and software suppliers, etc.; professional services used for general insurance and business recovery insurance; amount of margin/collateral deposited in each jurisdiction

The expanded criteria should also be considered for bank and insurance entities not yet categorized as G-SIFIs as well as adding such criteria to the categories already defined for them.

We appreciate the opportunity to voice our opinions and thank you for your interest in our comments.

Very truly yours,

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