

February 12, 2015

To the Financial Stability Board

Japanese Bankers Association

**Comments on the Consultative Document “Standards and Processes for Global Securities Financing Data Collection and Aggregation”
published by the Financial Stability Board**

We, the Japanese Bankers Association, would like to express our gratitude for this opportunity to comment on the Consultative Document *Standards and Processes for Global Securities Financing Data Collection and Aggregation* published by the Financial Stability Board on November 13, 2014.

We respectfully expect that the comments in attached paper will contribute to your further discussion on this issue.

Comments on the Consultative Document “Standards and Processes for Global Securities Financing Data Collection and Aggregation”

	Consultative questions	Comments
Q2-1.	Does the proposed definition of repos provide a practical basis for the collection of comparable data across jurisdictions as well as the production of comprehensive and meaningful global aggregates?	<p>It is our concern, as a data reporter, that data collection processes necessary to fully implement the proposed standards will not be in place at the initial stage of the implementation. FSB is requested to implement the standards in a phase-in approach; more specifically first set the pilot and observation periods for currently-available data, and then analyze and verify collected data and work on additional considerations.</p> <p>It should be noted that Japanese commercial banks mainly engage in transactions with their customers or transactions based on their own actual demand; and, unlike investment banks, do not conduct speculative activity that uses leverage. Further, the interconnectedness during financial crisis differs between commercial banking and investment banking. Given this, FSB is requested to consider possible measures for increasing the reporting frequency of transactions for speculative purposes while decreasing the reporting frequency of transactions based on actual demand.</p>
Q2-2.	In a later stage, a list of transactions that are economically equivalent to repos may be added to the reporting framework (see also Section 6 for details). Which economically equivalent transactions would you suggest for future inclusion? Please provide a definition of such transactions and explain the rationale for inclusion.	<p>In developing countries, transactions that can be deemed as economically equivalent to repos exist and need to be included in the reporting framework. From a perspective of competition in the Asia region, in addition to Japan, other markets, such as Hong Kong, Singapore and other FSB member jurisdictions, should also participate in this initiative. For example, Indonesia's MiniRepo transactions are equivalent to repo transactions and are an important funding tool for local financial institutions.</p> <p>In Japan and other developed countries where repos are clearly (or can be easily) distinguished from similar transactions, there is no similar transaction to be added to the framework at this moment.</p>
Q2-3.	Are the proposed definitions and level of granularity of the data elements described in Tables 2 to 4 appropriate for a consistent collection of data on repo markets at the national/regional level and for aggregation at the global level? In particular, are the detailed breakdown of major currencies (in Table 2), sector of the reporting entity and counterparty as well as bucketing for repo rate (in Table 3), collateral residual maturity, haircut and collateral type (in Table 4) appropriate? If not, please specify which definitions or classifications of data element(s) require modification, why the modification is necessary, and the alternative definitions/classifications.	<p>(Table 3)</p> <p>(i) With regard to those transactions whose contract template does not exist, such as sell/buy back and buy/sell back transactions, inconsistency may arise in the data collection process. If, therefore, reporting is required, it needs to be assessed whether overseas entities outside Japan will be capable of fully complying with the reporting requirements. Further, FSB is requested to clarify interpretations through providing guidelines or by other means.</p> <p>(ii) FSB's proposed sector classification is considered to be too granular. Given this, FSB is requested to assess the necessity of or to reduce the classifications as described below:</p> <p>(Table 3, 4)</p> <p>(iii) The proposed classifications related to the sector of the reporting entity (3.3, 4.3) and counterparty (3.6, 4.6) are difficult to apply. Particularly, it is considered unreasonable that the level of granularity of the classification for trusts and funds (e.g. Pension Funds, MMFs and REITs) is relatively higher than other businesses, given that investor information is not disclosed for confidentiality reasons when the transactions are executed through such trusts and funds.</p> <p>FSB is requested to consider applying more general classifications, for example, Trust and Custodian.</p> <p>(Table 4)</p> <p>(iv) Data related to eligible collateral (Collateral quality) and transactions involving a tri-party agent are not processed by systems, and thus would need to be processed manually, giving rise to considerable regulatory burden. Therefore, FSB is requested to exclude these data elements from the reporting framework at the initial stage.</p> <p>(v) Given that it is required under the contract that bonds be returned by the same type of instruments in the same amount, there is no economic benefit in capturing the movement of individual collateral. In order to capture the financial stability risk caused by the re-use of collateral, FSB's proposals need to be reconsidered by taking into account such characteristics of repos and securities lending/borrowing transactions.</p> <p>(vi) In the case of repo transactions entered into with an intermediary which acts as an agent of the final investor, information on such final investor is unavailable. Even if it is available, it would be difficult to report such information for confidentiality reasons.</p>
Q2-4.	Do you see any practical difficulties in reporting the total market value of collateral that has been re-used? Do you have any suggestion for addressing such difficulties?	<p>Given that it is required under the contract that bonds be returned by the same type of instruments in the same amount, there is no economic benefit in capturing the movement of individual collateral. In order to capture the financial stability risk caused by the re-use of collateral, FSB's proposals need to be reconsidered by taking into account such characteristics of repos and securities lending/borrowing transactions.</p>
Q2-5.	Do the classifications provided for “market segment – trading” (in Table 3) and “market segment – clearing” (in Table 3 and 4) appropriately reflect relevant structural features of the repo markets? Are there additional structural features of repo markets that should be considered?	<p>The “transactions traded with the intermediation of an agent” classification provided for in “market segment – trading” is only one of processes for executing a transaction, and thus is considered as not an important data element.</p> <p>The “transactions cleared” classification provided for in “market segment – clearing” is considered as an important data element from counterparty's perspectives.</p>
Q2-6.	Are there additional repo data elements that should be included in the FSB global securities financing data collection and aggregation for financial stability purposes? Please describe such additional data elements, providing definitions and the rationale for their inclusion.	<p>(Same as our comment for Q2-1) A high level of granularity is proposed for data collection in the Consultative Document. It is our concern, as a data reporter, that data collection processes necessary to fully implement the proposed standards will not be in place at the initial stage of the implementation. FSB is requested to implement the standards in a phase-in approach; more specifically first set the pilot and observation periods for currently-available data, and then analyze and verify collected data and work on additional considerations.</p>

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	Consultative questions	Comments
Q2-7.	Does the proposed definition of securities lending provide practical basis for the collection of comparable data across jurisdictions as well as the production of comprehensive and meaningful global aggregates?	(Same as our comment for Q2-1)
Q2-8.	In a later stage, a list of transactions that are economically equivalent to securities lending may be added to the reporting framework (see also Section 6 for details). Which economically equivalent transactions would you suggest for future inclusion? Please provide a definition of such transactions and explain the rationale for inclusion.	No applicable transaction
Q2-9.	For securities lending, do you think that an additional table with flow data would add insights into the operations of securities financing markets and assist regulators in their financial stability monitoring?	The flow data collection requirements will significantly increase data providers' burden. Market movements could be captured through fixed point observation, etc. For example, unlike repos, most of which are transacted over a short-term period, the term of many securities lending covers a longer period and thus actual conditions of such securities lending could be captured through stock data.
Q2-10.	Are the proposed definitions and level of granularity of data elements as described in Tables 5 to 6 appropriate for consistent collection of data on securities lending markets at the national/regional level and for aggregation at the global level? In particular, are the detailed breakdown of major currencies (in Table 2), sector of the reporting entity and counterparty as well as bucketing for securities lending fees or rebate rates (in Table 5), residual maturity (in Table 5), collateral residual maturity and collateral type (in Table 6) appropriate? If not, please specify which definitions or classifications of data element(s) require modification, why the modification is necessary, and the alternative definitions/classifications.	(Table 5) o 5.3 and 5.6 See our comment for Q2-3.
Q2-11.	Do you foresee any practical difficulties in reporting the total market value of collateral that has been re-used or cash collateral reinvested? Do you have any suggestion for addressing such difficulties?	Given that it is required under the contract that bonds be returned by the same type of instruments in the same amount, there is no economic benefit in capturing the movement of individual collateral. In order to capture the financial stability risk caused by the re-use of collateral or the reinvestment of cash collateral, FSB's proposals need to be reconsidered by taking into account such characteristics of repos and securities lending/borrowing transactions.
Q2-12.	Do the classifications provided for "market segment - trading" (in Table 5) and "market segment - clearing" (in Table 5 and 6) appropriately reflect relevant structural features of the securities lending markets? Are there additional structural features of securities lending markets that should be considered?	(Same as our comment for Q2-5) Whether transactions are traded with the intermediation of an agent is considered as not so important. The "transactions cleared" classification is considered as an important data element from counterparty's perspectives.
Q2-13.	Are there additional securities lending data elements that should be included in the FSB global securities financing data collection and aggregation for financial stability purposes? Please describe such additional data elements, providing definitions and the rationale for their inclusion.	No applicable transaction
Q2-14.	Does the proposed definition of margin lending provide practical basis for the collection of comparable data across jurisdictions as well as the production of comprehensive and meaningful global aggregates?	No applicable transaction
Q2-15.	In a later stage, a list of transactions that are economically equivalent to margin lending may be added to the reporting framework (see also Section 6 for details). Which economically equivalent transactions would you suggest for future inclusion? Please provide a definition of such transactions and explain the rationale for inclusion.	No applicable transaction
Q2-16.	Are the proposed definitions of data elements as described in Tables 7 to 9 appropriate for consistent collection of data on margin lending at the national/regional level and for aggregation at the global level? In particular, does the collection of the data elements in table 9, which represents a specific requirement for margin lending, provide relevant information for financial stability purposes? Do you foresee any particular difficulties to reporting the required data elements at the national/regional level?	No applicable transaction

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	Consultative questions	Comments
Q2-17.	Are the detailed breakdown of major currencies (in Table 2), sector of the client and bucketing for loan rates (in Table 7), collateral type and bucketing for margin requirements (in Table 8) and funding sources (in Table 9) appropriate? If not, please specify which definitions or classifications of data element(s) require modification, why the modification is necessary, and the alternative definitions/classifications.	No applicable transaction
Q2-18.	Is the collection of the data on the customers' short position, in addition to the value of outstanding loans, a necessary metric for assessing the overall clients' exposures and for financial stability purposes? Do you foresee any practical difficulties to report this data element at the national/regional level?	No applicable transaction
Q2-19.	Are there additional data elements in relation to margin lending that should be included in the FSB global securities financing data collection and aggregation for financial stability purposes? Please describe such additional data elements, providing definitions and the rationale for their inclusion.	No applicable transaction
Q3-1.	Is the data architecture described in Section 3 adequate to support the global securities financing data collection and aggregation? Are there other relevant issues to be considered?	(Same as our comment for Q2-1) A high level of granularity is proposed for data collection in the Consultative Document. It is our concern, as a data reporter, that data collection processes necessary to fully implement the proposed standards will not be in place at the initial stage of the implementation. FSB is requested to implement the standards in a phase-in approach; more specifically first set the pilot and observation periods for currently-available data, and then analyze and verify collected data and work on additional considerations.
Q3-2.	Do you have any other practical suggestions to reduce any additional reporting burden and improve the consistency of the global data collection?	<p>■ As being considered by TR in Europe, it would be more appropriate in Japan if CCPs or other similar organizations assume the role of data collection; because it would be suitable for capturing outstanding balances at the market level and it would ensure data accuracy, consistency and timeliness and enable more prompt and flexible responses to requests from financial authorities and FSB, as opposed to requiring a number of market participants to individually work on data collection.</p> <p>If however the primary purpose of data collection is for financial authorities or FSB to identify risks and their sources in times of financial crisis or to capture how the crisis transmits, it would be appropriate for market participants to individually work on data collection. In either way, the purposes of data collection should be clarified first and then the data collection approach that most suits those purposes should be selected. FSB is requested to consider this matter sufficiently so that data collection does not result in a simple data aggregation process that does not produce any particular monitoring effect.</p> <p>■ FSB has requested to comply with various reporting requirements. However different formats and data definitions across reporting requirements may force private-sector financial institutions to double or triple their investments in systems and human resources to comply with respective FSB reporting requirements. In order to avoid such inefficiency, it is requested to further clarify the FSB's reporting requirements in a systematic manner.</p>
Q3-3.	Do the proposed measures for minimising double-counting at the global level constitute a practical solution to the problem?	If the purpose of the data collection is to monitor excessive build-up of leverage by repos, it would be reasonable to impose the reporting requirements on borrowers because the demand for leverage generally exists on the borrower side. Requiring both sides of the repo transaction to report the data would be an inefficient approach.
Q3-4.	Are there any confidentiality issues that you consider relevant for the global securities financing data collection other than those explained above? If so, please provide any practical suggestions to overcome such issues?	It is requested that FSB manage information collected (e.g. names of individual banks and security) carefully, giving due regard to confidentiality.
Q4-1.	Do the proposed recommendations as set out above adequately support the authorities in deriving meaningful global aggregate data? Are there any other important considerations that should be included?	We consider that FSB's proposed recommendations will adequately support authorities.
Q6-1.	Are there any relevant practical issue related to the possible extension of the list of data elements to be considered as set out in Section 6?	The proposed list of possible extension of data elements includes (i) economically equivalent transactions and (ii) data needed to calculate metrics of collateral velocity and (iii) data related to the implementation of the regulatory framework for haircuts. The data collection of these elements is mainly intended to monitor the trends of repos and securities financing transactions and their impact on the financial system. It is therefore considered as more appropriate to collect these data, for example, semi-annually or annually, instead of monthly aggregation similarly to other elements. Further, it would result in double supervisory reporting of economically equivalent transactions, when combined with the reporting required for OTC derivatives. Such double reporting would not produce any significant benefit for supervisors. In any case, these elements should be monitored through periodic market review.

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	Consultative questions	Comments
Q6-2.	Are there other data elements in relation to securities financing transactions that you think the FSB should consider for financial stability purposes?	-
Q6-3.	Do you agree that a pilot exercise should be conducted before launching the new reporting framework? If so, are there any practical suggestions that the FSB and national/regional authorities should consider when preparing the pilot exercise?	-
Q6-4.	In your view, what level of aggregation and frequency for the publication of the globally aggregated data on securities financing transactions by the FSB would be useful? Please provide separate answers for repo, securities lending and margin lending if necessary.	-