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Mr. Patrick McGuire
BIS International Data Hub
Centralbahnplatz 2
Basel, Switzerland



Re: Draft "Guidelines for reporting institution-to-institution credit exposure data (I-I credit data)"

Dear Mr. McGuire:

These comments refer to the changes introduced in the above-captioned draft guidelines as summarized in the document entitled "Changes to the Guidelines for reporting I-I credit exposures data: Consultation with reporting firms", dated September 18, 2014.

General comments:

Members of the IIF Data Working Group appreciate the efforts of the Data Hub to maintain good communications with the industry. In such a complex area as risk data, where banks are making huge efforts driven by multiple regulatory and business imperatives, this is especially important.

The IIF and its members look forward to further regular interactions and agree that another general round table with the FSB and the Data Hub would be helpful in the near future (probably in the first quarter of next year, as is understood to be under consideration). This will be very helpful to put all the Phase 1, 2, and 3 work into context, and to consider future developments. This timing is especially important as we understand Phase 3 templates are expected to be finalized in April 2015.

Looking forward, as we have seen with the Phase 1 template, we expect further changes to the existing templates to be made over time. We note that the recent Phase 1 template revisions were done on very short notice; thus banks had very limited time to assess the significant changes. As a result, we recommend that the Data Hub implement a structured approach to template development, revision, and introduction, with formalized prior consultation, QIAs, and pilots with reporting banks and supervisors as users of the Data Hub to ensure this process is done in the most effective way possible..

As we have commented several times in the past, it would be worthwhile to harmonize or coordinate the Data Hub templates with other regulatory data collection initiatives. Doing so would not only lessen the operational burden on banks, but also ensure that regulatory reports are put to maximum use.

The Basel large-exposures framework already requires the reporting of sovereign and CCP exposures by banks. We suggest that the Data Hub leverage this reporting requirement (if necessary making reporting earlier than the 2019 implementation date of the large exposures framework) instead of developing a new one.

More time needed for consultation. Although there was some discussion of potential changes to the Phase 1 template earlier in the year, the specific proposed changes came as something of a surprise to banks given their complexity and the fairly short comment period. The consultation timeframe given, although kindly extended by the Data Hub for purposes of these general comments, is considered too short to review the proposed changes and give full, substantive feedback.

A longer consultation period is also needed because some of the proposed changes are substantive in nature (e.g. introduction of two new templates), which would require significant changes in how data is sourced.

Moreover, even changes that the Data Hub believes are “minor” may sometimes have relatively big operational impacts (e.g. the addition of a line for “total exposures”), and some may only be assessed after careful examination.

Pilot evaluation. It is also important that substantive revisions be subject to evaluation via pilot submissions or small, trial quantitative impact analysis (QIA) before getting finalized. This will give venue to potential questions that will naturally arise as part of the implementation process, and ensure that the new requirements will be applied consistently and as intended.

Stabilization. Members have expressed concern that revisions to the I-I credit data template would be introduced too soon – just over a year after official reporting started. In some banks, a more effective internal work flow of data generation and reporting has just been achieved. This is even more of an issue for banks that have recently been designated G-SIBs and thus have had less time to begin implementation. Therefore, introduction of these revisions, at a time when banks are shifting their focus towards complying with Phase 2 and 3 templates, is seen to cause undue instability in internal processes unless an adequate phase-in plan is allowed.

We are also of the view that to lessen significant disruption, there should be a detailed phased-in implementation of the new templates, i.e. they should be required on a monthly basis initially before going to a weekly reporting once banks gain more experience and once all potential issues have been ironed out. This is particularly important for the new templates for CCPs and sovereigns if the Data Hub moves forward with requiring them.

Implementation Date, Phase-in. The document outlining the proposed changes does not specify the planned implementation date of the proposed revisions. We request that the Data Hub provide more clarity on its planning for such revisions, although that would not imply we prefer a big-bang starting date. Given that implementation will be complex, it will need to be phased. As mentioned above, we suggest having pilot submissions or small QIAs and a phased-in implementation for some of these changes to make sure any definitional or operational issues are flagged before the new templates are finalized. These suggested pilot submissions or small QIAs should be taken into account in finalizing the appropriate timeframe.

Coordination of Phases 2 and 3. We commend the pilot submissions that are planned for Phase 2 and Phase 3 templates. We hope they would allow for a careful examination of the overall reporting requirements in order to avoid a scenario where the templates have to be revised within just a year of

being finalized. This would allow for a more stable reporting environment for banks, which also have to deal with developments for numerous other new or revised regulatory reporting and disclosure requirements.

Furthermore, it needs to be taken into account that the systems development (including staff) requirements are being directed intensively in many firms toward Phase 2 and Phase 3. The impact of such requirements on firms should be taken into account in defining the phase-in for Phase 1 revisions.

Further important details. Many banks will be submitting detailed, substantive individual comments, and will do their best to give as full responses as possible. These collective comments note some high-level themes that are of general interest, but the group also underscores the importance of the detailed comments being given separately.

Comments on major changes:

Sorting criteria changed to capture all Hub reporting firms

This is a structural change to the template compared to the original intent of reporting only the top 50 credit exposures. While we understand the rationale given, perhaps there are other ways to introduce this change with fewer burdens on banks.

For example, some banks are of the view that the additional burden could be mitigated by fixing the list of counterparties for one year instead of only for one month. For the most part, it is highly dubious that there would be sufficient substantive changes in the top counterparties in one year to warrant having to review the list and all the determinations that depend on it monthly. This would allow for a more stable reporting environment without undermining the goal of monitoring banks' large credit exposures.

If it were thought necessary, banks could be required to update the exposure list in the exceptional case that a change of the top 50 appears especially material from one month to another.

CCP Template

As mentioned above, the Basel large exposures framework requires the reporting of CCP exposures by banks. The same report could be used by the Data Hub to supplement the I-I credit data template.

Alternatively, CCP exposures information could be acquired directly from CCPs in order to have a complete and more accurate picture of system-wide CCP exposures.

A more fundamental source of concern is that creating the CCP template will require a substantial amount of work, but does not capture the full CCP exposure picture, being limited to OTC derivatives. There are other exposures than just OTC derivatives that are cleared on a novation basis through CCPs (including futures and options and certain securities and commodities transactions) and more may be required to be reported in the future. As a result, there is danger of confusion if the numbers reported here were to be compared with numbers across other reports and the CCP numbers would in any case give only an incomplete picture of a firm's CCP exposures.

Firms have some technical concerns as to the definitions of exposures to be captured; it makes sense that reporting should be related to firms' own trading accounts, but some would prefer to define that as "house exposures" rather than "house accounts" in order to capture total firm risk and to avoid distortion by technical distinctions (for example, firm exposure including collateral in "segregated accounts" in some jurisdiction would contribute to firm exposures but would not normally be considered to be "house accounts").

Not reporting bankruptcy-remote collateral seems anomalous and might create discrepancies from other forms of collateral reporting. If there is believed to be a material difference for these purposes, bankruptcy-remote and non-bankruptcy-remote collateral could be reported separately.

The template requires disclosure of default fund contributions; however, there are varying models of default funds and other back-up facilities for CCPs; moreover, CCP resolution will be the subject of intensive scrutiny in the coming months, so the "waterfall" contributions that firms may be subject to are likely to change.

In any case, any commitments to future default-fund or similar contributions are likely to be highly contingent on remote events and difficult if not impossible to quantify, especially for those that imply uncapped liability. For such unquantified commitments, it should be sufficient simply to note the existence of a theoretical exposure.

Finer breakout of SFTs MTM

G7/non-G7 sovereign debt is, as the document recognizes, highly arbitrary. Categorization based on ratings used (whether external or internal depending on circumstances) would make more sense from many points of view, but would run up against the US Dodd-Frank prohibition on mandating use of external ratings. Nevertheless, ratings in normal use in banks' risk management would give a much better view than the G7/non-G7 split, even if not entirely precise. While there might be some differences at the margin in the ratings banks used and their bucketing, they should be overall highly indicative of the information sought here, which does not seem to need to be carried out to the finest granularity.

Sovereign Template

As mentioned above, we suggest that the Data Hub leverage the sovereign exposures reporting under the Basel large exposures framework instead of developing a new one.

If the Data Hub decides to have its own reporting template for sovereigns, it would be more straightforward and simpler to use a fixed list of top sovereigns. In addition, if a materiality threshold would be used, it would be simpler if the list of sovereigns each reporting bank should provide be determined and fixed from the inception of the template subject to periodic validation (e.g. comparing with the materiality threshold at least once a year).

Members also think that there should be more specific and clear guidelines as to the definition and scope of what should be captured in the sovereign template. This will ensure that all the submitting firms can provide the exposure for the same set of government-owned entities of each sovereign.

A further issue is the consolidation of sovereign exposures, particularly where an enterprise such as a bank is majority owned by a sovereign but run as a separate business on normal commercial principles. Most banks would not aggregate such exposures with the sovereign, but explicit guidance on this point would be helpful to achieving consistent results.

Further guidance is also required on the roll-up of entities. While it may make sense to roll up certain semi-independent government agencies into sovereign exposures, this would not seem to be the case for more independent public-sector issuers. The most obvious example is the very large municipal debt market in the United States, where there are myriad issuers that do not enjoy the backing of the federal sovereign and should probably not be assimilated to it for reporting purposes.

For “Exposures by counterparty type”, clear guidance must be provided on how “exposure” should be defined. It is not clear if it should be net of collateral, and if so, the types of collateral that should be taken into account. The same is true for the “Other Exposures” column.

We also seek clarification on the rationale for using different “Total exposure” definition that is used as sorting criterion for top 50 and top sovereign exposures. For example, “Lending” is taken into account in sorting top sovereigns but not for the Top 50.

Comments on other proposed changes:

Line for total exposures

While we understand the IDH’s reasons for including total exposures for at least some exposure types (i.e. to provide benchmarks against which to assess how concentrated firms’ positions vis-à-vis their top 50 counterparties are), members are concerned about reporting aggregated figures on a weekly and as-of-Wednesday basis. Aggregated figures, which are typically done on a month-end or quarter-end basis, are subject to strict control and attestation processes to ensure data are properly reconciled and checked for quality. Adhering to these strict processes in most cases would not be possible in a tight timeframe for weekly, off-cycle reports.

For the purpose of disclosing the “total exposure” numbers, we strongly suggest that the Data Hub allow banks to use a month-end or quarter-end number. The total exposure number would be very difficult to report in a fully controlled fashion on such an off-cycle cut-off.

Furthermore, we request that the Data Hub rethink its as-of-Wednesday off-cycle reporting for the entire Phase 3 template. We understand that our prior comment on that point was not taken; however, we urge the Data Hub to reconsider. As the present proposal illustrates, any future changes of any significance are likely to be made much more complex by having to incorporate them on the as-of-Wednesday basis.

It is not clear whether the line for “total exposures” would include CCPs and sovereigns (top exposures to such entities are proposed to be carved out in separate templates), or would it include only those entities that can be included in Template A and B.

New column for Derivatives SA-CCR

The BCBS just recently finalized the guidelines on SA-CCR, and banks are still in the process of building the infrastructure to produce the required numbers in a more automated manner. This should be taken into account in deciding the timeline for introducing this new column in the template.

Treatment of loan participations

It would be more intuitive if participations "Received" (both funded and unfunded) were placed in the Credit Hedges section (together with CDS and 3rd party guarantees received), rather than in the Lending section.

Banks would also like to seek clarification as to where "fronting" risk should be included, e.g. where the reporting firm is a "fronting" bank for syndicated credit facilities for letters of credit or swing lines where other banks have funding responsibilities.

There is also a need to clarify the definition of funded and unfunded loan participations, i.e. to clarify treatment of funding differences based on contractual or operational issues. For example, if the reporting firm extended a yet-undrawn committed credit line to a client and another bank (bank A) participated for a portion, and if the participating bank is required to send money to the reporting firm only when the draw-down is made as opposed to providing collateral upfront, is the participation deemed funded or unfunded?

Conclusion

Once again, the IIF Data Working Group wishes to stress how much it values a consultative relationship with the Data Hub and the FSB. The Group would be very pleased to provide any further explanations or to discuss the issues raised here in any form or forum.

If you have questions, please feel free to contact the undersigned or Jermy Prenio (jprenio@iif.com; + 1 202 682 7455)

Very truly yours,



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