

David Schraa  
Regulatory Counsel

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Mr. Joseph Tracy  
Chairman  
FSB Data Requirements Workstream  
Financial Stability Board  
Centralbahnplatz, 2  
Basel, Switzerland



### Comments on the revised Phase 3 template

Dear Mr. Tracy:

The IIF Data Working Group is pleased to have the opportunity to provide further comments on the revised Phase 3 template. These comments follow up the very useful and constructive FSB International Workshop on a Common Data Template for Global Systemically Important Banks held in Basel on May 15. These written points are intended to be part of an ongoing dialogue, and the Working Group or individual members would be pleased to provide further input or answer any questions that may arise.

The FSB has introduced a number of changes to the template that are viewed positively by the industry. The suggestions made here are intended to facilitate finalization of the templates in a way that achieves the shared goals for these templates, within reasonable bounds of developmental and operational burden for the banks. The industry agrees with the statement made that getting the template right and achieving the purposes of the data hub are a “shared responsibility.”

*Expedited Review and Timing.* Despite the improvements in the present draft templates, compliance with all templates, including Phase 3, is still a massive task. Banks are working diligently on the necessary developments and making the necessary investments, but the efforts required should be understood when setting a timeline and kept proportionate to what is really useful. We know from the workshop that the FSB Data Requirements Workstream well understands this, but the point is so important as to be worth reiterating.<sup>1</sup>

For that reason, the IIF Data Working Group supports the concept of the expedited review and hopes that it can be used to further the efficiency and effectiveness of Phase 3 by eliminating items that have disproportionately high cost or low analytical value. For example, elimination of Instrument-Sector crossings with immaterial balances (e.g. Securities borrowings – Households; Reverse Repo – Households; Securities Lending – Households) is appropriate.

The timing adjustments that the FSB Workstream is considering would be appropriate (at least a six-month extension) and may perhaps have to be made a bit more elastic than that.

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<sup>1</sup> Banks face many, many demands on their human and financial resources for IT development (including implementation of all the new Basel requirements, recovery and resolution requirements, implementation of completely new accounting standards (under both IFRS and USGAAP and consequent changes in other reporting such as FINREP), new reporting requirements under accounting, Pillar 3 and EDTF recommendations, and Basel Risk Data Aggregation requirements.

Although one year from finalization may appear to be a good deal of time, it needs to be recognized that as long as requirements are changing, it is difficult for banks to plan to implement them, given scarce development resources, which make it difficult to invest in requirements that may change.<sup>2</sup> Thus, a year from finalization is actually a somewhat tight timeline, one that the industry may need to discuss again as implementation comes closer.

For example, assuming adoption of Phase 3 by the FSB in September 2015 and the need to put in place national procedural requirements for implementation could mean live submissions no earlier than fourth quarter 2016, or preferably first quarter 2017. However, this timing assumes that national agencies will be able to issue all the required final documentation promptly<sup>3</sup>, otherwise implementation will have to slip later. The FSB and national agencies should clarify this timing since banks need to have sight of final templates and timelines as soon as possible for budgeting and planning purposes.

A flexible, best-efforts, and voluntary pilot could be very helpful to both sides in understanding and structuring this new data. Such a voluntary pilot should be made available to interested banks once the templates are approved by the FSB and when reporting banks have implemented their solutions, but it should also allow time for final adjustments to the templates as well as further dialogue between the industry and the FSB if significant issues are uncovered.

In general, we urge the FSB to give reporting banks time to adopt and adapt to the templates before requiring more detailed versions. A version that includes the minimum amount of information that is necessary to address the FSB objectives should be introduced first, for example, as discussed below, 10 countries (subject to the threshold). After banks have gained experience in doing these minimum reports, more detailed versions of the templates may be considered. This will also give the FSB/IDH more time to reflect on what information is really useful, thus resulting in less disruptive reporting requirements for banks. Specific suggestions are made below.

As a related matter, as discussed at the Workshop, the time for quarterly submission of data should be reconsidered.<sup>4</sup> Seven weeks' time for submission appears too short to some banks, especially at year-ends, as it comes on top of so many other things. An alternative might be to provide an outer limit of 90 calendar days, with the option for banks to report early if that works for their systems and aligns conveniently with other reporting obligations.

*Development of Instructions.* As will have been apparent from the Workshop, one of the pervasive issues is that the current instructions are too vague. Several specific points were discussed, but overall, the IIF Data Working Group would very much like to have the opportunity to discuss revised, detailed instructions this summer before finalization, as indeed was proposed at the Workshop. This will give both sides the opportunity to head off misunderstandings or questions and achieve better-quality outputs from the beginning.

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<sup>2</sup> One bank notes that it would normally need to have full, final requirements and documentation by the end of August, 2015 to meet the suggested timing.

<sup>3</sup> The IIF Data Working Group was unclear at the Workshop about the extent of procedure required. For example, while a Notice of Proposed Rulemaking was not made for Phases 1 and 2 in the US, it seemed unclear whether that procedure would be deemed necessary for Phase 3.

<sup>4</sup> Table B1 of the Phase 3 draft guidelines (March 2015).

*Development of Definitions.* In conjunction with the development of clear and unambiguous instructions, it would be very helpful to focus as a priority on the development of stable, harmonized, consistent definitions. The industry would be very willing to participate in specific discussions.

Building as much as possible on existing definitions, particularly those used in international standards such as Basel III, but also insofar as possible those already used for local reporting (such as FINREP in Europe or FR Y-9c in the US), would go a long way to making the data more manageable and reducing the need for manual intervention.

More broadly, as the FSB surely recognizes, requirements should be harmonized as much as they can be with current regulatory and statistical reporting, and stabilized as soon as possible. Deviations or additions inevitably increase the burden and risk of compromised data quality.

From an international consistency perspective, and as a long-term aspiration, use of international standards, such as Basel III is desirable in principle, *but* it must be noted that this approach would result in numbers that are different from banks' published financial statements owing to differences between Basel III and accounting rules. The IDH should be cognizant of this issue and if it decides to follow an internationally consistent approach, any expectations of reconciling Phase 3 templates with the balance sheet based on local accounting standards must be relaxed, and the instructions should make clear that there will be differences between the numbers reported for IDH purposes and the balance sheet as reported publically or for local regulatory reporting purposes. Alternatively, some differences across banks would need to be accepted if they are required to tie to local standards or existing reporting (e.g. FINREP).

The final version of Phase 3 needs to make clear the policy on how to resolve this question, or there will be needless confusion and difficulties. To reiterate, the final definitions should hew as closely as possible to those banks are already using for other reporting, for efficiency and accuracy, and for the avoidance of inconsistencies.

A few of the definitions that require clarification include:

- *Pension funds:* should government pension funds be reported as "government" or as "pension funds"?
- *Deposits:* should deposits from central banks be classified as such, rather than being lumped in the "other" category with Lender of Last Resort obligations to central banks? The industry believes that in many countries ordinary-course-of-business deposits from central banks that are not related to emergency activity should be treated as such.
- *Currency Swap.* Is a "currency swap" the same as a "cross-currency swap"?
- *Investment Company.* Query whether the term is necessary, given the separate definitions of investment fund and NBFII ("investment company" has specific technical meanings under US accounting and regulation, but the intent of the usage here is not clear).
- *Netting Agreement.* It should be clarified whether netting should be aligned to Basel III netting or accounting (raising the significant differences between US GAAP and IFRS); consistency could be achieved by using the Basel III definitions. While this seems a logical result from an international consistency perspective, this is an example where, as noted above, it should be

realized that this approach would result in numbers that are different from banks' published financial statements owing to differences between Basel III and accounting rules.

- *Real Estate Loans.* Some banks request further explanation of the term "real estate loans", based on national practice. Does the reference to categorization of Real Estate Loans by type of collateral mean that any personal loan secured by real estate collateral should be so categorized?
- *Repurchase Agreements.* The current definition is based on the form of the transaction, which is different from the Basel III "repo style" definition; there are also differences from local reporting definitions. The instructions should clarify the intended definition.
- *USD Amounts.* Should the USD amount be converted according to the same procedures as for Phase 2?

*Development of Analytics.* Once Phase 3 is launched, the IIF Data Working Group is of the view that regular industry consultations with the FSB and the Data Hub may be useful, to consider the nature, utility, and implications of the data. As was mentioned at the Workshop, it may be that the industry would be able to contribute useful perspectives or methodological insights to development of analytics. In any case, this group will always stand ready to contribute to such an effort.

*Standardization of reference data.* As a general, ongoing principle, the IIF Data Working Group supports making every effort to standardize additional reference data, such as sectors. Standard, global sectoral definitions, which of course should be based on existing definitions to the extent possible, would be very helpful in the long run to achieve greater efficiency of production and reliability of data.

The IIF has long endorsed maximizing use of LEIs for all counterparty identification. LEIs should be rolled out as broadly and as required rapidly as possible where not already in use.

It may need to be reemphasized after the Workshop that the group supports aggregating the various NBF1 sub-sectors into a single NBF1 category, as this would mitigate the current challenges associated with having to report into more granular sector classifications.

The same aggregation of NBF1 sub-categories should be extended to the Phase 2 template as well, as it is quite important to have consistency across templates. The current Phase 2 requirements are disproportionately challenging. The group cannot support a breakdown of the NBF1 category that would be different from the current breakdown under Phase 2, but this problem should be solved by conforming Phase 2 to a simplified Phase 3.

*CCPs.* The intended treatment of CCPs needs to be clarified, given that some related data is provided in revised Phase 1, including the scope of information included (is it only OTC derivatives or other transactions cleared through CCPs as well?). As with other points, clarity about the purposes and uses of the information as well as clarity of definition of the requirements would be very helpful.

*Derivatives.* The Working Group supports the elimination of crossings for derivatives as the QIA showed that these are burdensome and problematic, and provide little incremental analytical value. Potential introduction of new details to the derivatives template should be considered in consultation with the reporting banks, to avoid raising the same issues as the eliminated crossings.

As was discussed at the Workshop, the industry would be able to supply a breakdown of OTC vs. exchange-traded and OTC cleared vs. OTC bilateral derivatives, which appeared to be of interest to the FSB, if in fact they would be valuable. Some banks would, however, require development time to accomplish this.

A specific issue has arisen regarding FX derivatives, which should be addressed in the revision of the instructions as discussed above: "currency derivatives should be reported at gross notional amounts"<sup>5</sup>, however for currency swaps and forwards the notionals are in different currencies and will diverge over time owing to exchange rate fluctuation, so which should be used? It is not feasible for many products to "use the currency you expect to get paid in" as that may change over time depending on market conditions.

Although the point may seem obvious, for the elimination of doubt, it should be made clear that the derivatives template is for reporting of principal transactions only, not agency transactions for clients.

The lesson of the QIA and the Workshop discussion is that close consultation with the experts in the industry will be needed to assure that derivatives templates are feasible and meaningful.

*Country crossings.* Although the reduction of the original scope to 35 countries is much appreciated, it still represents a major challenge for many banks, especially initially.<sup>6</sup> As a result, the Data Working Group recommends that Phase 3 reporting start by requiring details on not more than 10 countries.<sup>7</sup> More countries could be added later on as banks gain more experience reporting the template, and the Data Hub has the opportunity to review initial reports. It may also be that many or most banks would, even under the proposed rule, be reporting substantially fewer than 10 countries, which might suggest after analysis that the target number of 35 is higher than needed.

Although the industry understands the rationale behind using 35 countries subject to a \$2 billion threshold, as its first preference, the IIF Data Working Group still urges consideration of a stable list, unique to each bank. Such a list could be validated annually. This would be much more feasible and appears likely to provide almost the same coverage with lower development and operational requirements.

If the FSB nevertheless considers it necessary to use a variable list, targeted at 35 countries, subject to the threshold, then several banks would prefer a simpler procedure to identify countries on the list, whereby a country would be added in the next quarter after qualification (i.e. exceeding the threshold), and countries that no longer qualify would be subtracted with supervisory approval. This would reduce the tracking requirements of the "four quarters" approach.<sup>8</sup> On the other hand, other banks would accept the tracking requirement because they feel a more stable list (as a result of the "four quarters" requirement) would be preferable. While there is not a consensus on this point, consideration should be given to ways to achieve a simpler and more stable approach to the list of countries.

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<sup>5</sup> C.3.1 of the Phase 3 draft guidelines (March 2015).

<sup>6</sup> Certain banks wish to note that the deviation from FINREP reporting implied in itself constitutes a burden and will create reporting inconsistencies.

<sup>7</sup> As the FSB group intends, the \$2 billion threshold will operate to reduce the list for some banks to as few as 7-10 countries, even when the "35" target is fully activated.

<sup>8</sup> C.1.4 of the Phase 3 draft guidelines (March 2015).

The potential for ad-hoc requests for detailed reporting for additional countries (in cases where there are adverse developments in such countries) that banks have to meet “within a couple of weeks of the request (and not part of the regular quarterly process)” (page 17 of the Phase 3 Draft Guidelines dated March 2015) causes concern.

- First, it must be clarified that if ad-hoc reporting on additional countries is required, and since it is not intended to be part of the regular quarterly process, it involves only reporting of details on the additional countries and not a restatement of the whole Phase 3 templates.
- The granularity of the ad-hoc reports on additional countries should be decided once the need arises, since it would be hard to anticipate in advance the information necessary in a stressed situation. It should not be automatically assumed that the ad-hoc reports would have the same granularity as the reports on the “top 35” countries.
- Sufficient time should also be given to reporting banks in preparing the ad-hoc reports. While banks are working on the necessary systems and processes, certain information will not be readily available for ad-hoc countries and will likely require manual sourcing.

The IIF Data Working Group does not support separate materiality thresholds for liabilities.<sup>9</sup> The same threshold rule should apply in reporting by country whether on the asset side or liability side. Otherwise, differing materiality thresholds would only complicate reporting without any clear benefits.

*Contingent positions.* While contingent positions are already reported in FINREP for reporting banks based in Europe, the required reporting for the Phase 3 template is much more granular. For US banks, while certain contingent positions are reported in FR Y9C and FFIEC 009, it does not include reporting of Commitment Received and Guarantees Received. Hence, the reporting of contingent items as proposed would require a lot of work for reporting banks; query whether the results would be proportionate.

As a result, The IIF Data Working Group supports Alternative 2 considered on page 20 of the draft guidelines, which is to eliminate contingent positions from the Phase 3 templates, at least at the start.

Once banks have gained experience reporting the Phase 3 templates, then the FSB can revisit the contingent positions reporting and decide whether or not to add them to regular reporting. Also, information on contingent positions is more aligned with the Ultimate Risk (UR) template, so it might make sense to consider the need for such information in connection with development of the UR.

Assuming some form of the current template is retained, banks need more guidance, especially on commitments and guarantees received; consideration should be given as to whether specific guidance should be provided on commitments, guarantees, and CDS. For the avoidance of doubt, the point made at the Workshop that collateral is not covered should be made explicit.

To follow up the discussion at the Workshop of how to think about the reporting of commitments and guarantees, consider the following:

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<sup>9</sup> Footnote 31 of the Phase 3 draft guidelines (March 2015).

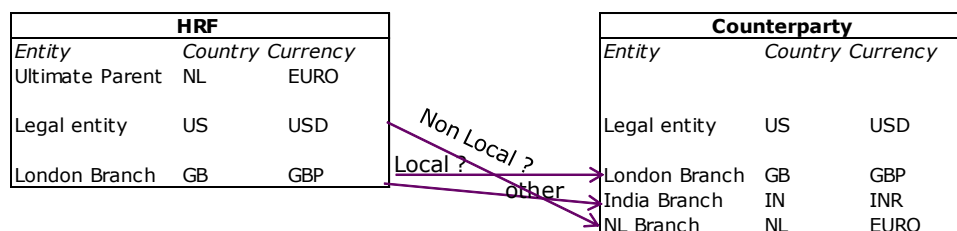
From the risk perspective, what is relevant depends on whether a reporting bank is a receiving party of guarantees or a providing party of guarantees as follows:

- 1) If a bank is a receiving party of the financial guarantees or CDS protection purchaser
  - The counterparty providing the guarantee (guarantor) or seller of the CDS (i.e., counterparty of the contract) is more relevant.
  - If the Guarantor or the CDS seller defaults, the reporting bank (i.e., the recipient of the guarantee or the purchaser of CDS) will not be made whole.
- 2) If a bank is a providing party of a financial guarantee or CDS protection seller:
  - The underlying obligor or the reference entity is more relevant, as it is the underlying counterparty or the reference entity, the failure to pay of which will trigger the bank's liability to the counterparty receiving the guarantee or CDS protection buyer (i.e., counterparty of the contract).
  - The risk is not with the counterparty to which the reporting bank provided the guarantee or sold the CDS protection to (i.e., counterparty of the contract).

This seems the most logical approach to capture the risks banks incur in such transactions; however, there was some lack of clarity as to whether the FSB seeks to capture interconnections between GSIBs, intending to use the counterparty of the contract for the receiving and providing sides. If so, for 2) above, instead of reporting the underlying entity or reference entity, banks should report the counterparty to whom the reporting bank provided the guarantee or sold the CDS protection to (i.e., counterparty of the contract).

This is an important point that needs to be clarified in the instructions.

*Local and cross-border questions.* Are exposures (local positions) acquired through branches located in a country considered as exposures in that country, or will they be aggregated with the home office and thus considered as part of home country exposure? The answer given at the Workshop seemed to be that the country of incorporation of the home entity (not the place of the branch) would be reported; and this would also be the case for a subsidiary: the country of incorporation of a subsidiary would be reported, not the country of incorporation of the parent or the place of any foreign branch of the subsidiary. (There is some uncertainty about this in the group, and some believe banks should look at the location of the branch.<sup>10</sup>)



- Is it correct that, for immediate counterparty reporting, banks should treat deposits according to the location of the depositor, as suggested by the instructions at page 9, so that deposits at a

<sup>10</sup> This chart will illustrate some of the combinations that have become confusing:

French branch of a US bank by a UK depositor would be counted as UK, but if a German entity has a deposit at a UK branch of a German bank, the deposit would be reported as a cross-border liability to a cross-border German counterparty?

- Should the currency be the currency in which the deposit is denominated (e.g. RMB at a Chinese branch) or another currency (e.g. if at a foreign branch, in the currency of the legal entity (e.g. GBP if a British parent))?
- It is vital that the instructions be absolutely clear about these issues of treatment of deposits and definition of local positions (at page 16).

*Other issues.* In addition to definitional questions and the above issues, a number of specifics need clarification.

- *Deposits insured by guarantee schemes.* Reporting by country may be challenging and the ability to provide this information with accuracy will require systems development. Initially, it would be appropriate to allow for reporting this information on a best-efforts basis, using certain estimates and assumptions.
  - It needs to be clear whether guarantee schemes refer to both public and private insurance. (Note the draft Phase 3 guidelines of March 2015 refer to the LCR definition of an “effective deposit insurance scheme” (Paragraph 76 of the LCR document (January 2013)).<sup>11</sup> It was said at the Workshop that the reference is intended to pick up officially recognized deposit insurance schemes such as the FDIC in the US, even if funded by contributions from the private sector.
  - Is it correct that if a French depositor has a \$X deposit with the UK branch of a US bank, it would report \$X as a liability to a French counterparty, “of which” \$Y is insured by the UK deposit insurance scheme?
  - Clarification as to the intended usage of information on guaranteed deposits would be appreciated and might help implementation of these provisions.
- The *data submission* method has not been discussed in the instructions. While actual submission procedures are appropriately left to each national jurisdiction, it should be recognized that submitting and receiving the large volumes of data implied by Phase 3 is not a trivial matter. Therefore, authorities should be urged to allow time for dry-run submissions to make sure both that banks are well set up to send and they are well equipped to receive and process the data.
- *Questions.* What threshold will be used to trigger validation questions from supervisors? Banks receive more than a hundred questions from supervisors on other, less granular reports. They expect to receive far more for Phase 3 given the volume of data to report compared to Phase 1. Appropriate processes should be put in place to make supervisor-bank interaction more efficient since responding to questions from supervisors will require significant resources from banks. It is understood from the Workshop that the FSB appreciates this point, though it may be limited in its possible response. This is another point on which ongoing discussion with the industry would be very useful.

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<sup>11</sup> For the purposes of this standard, an “effective deposit insurance scheme” refers to a scheme (i) that guarantees that it has the ability to make prompt payouts, (ii) for which the coverage is clearly defined and (iii) of which public awareness is high. The deposit insurer in an effective deposit insurance scheme has formal legal powers to fulfill its mandate and is operationally independent, transparent and accountable. A jurisdiction with an explicit and legally binding sovereign deposit guarantee that effectively functions as deposit insurance can be regarded as having an effective deposit insurance scheme).



- *Q&A Availability.* One approach that could be very useful in controlling the volume and burden of ad-hoc request would be to make available a Q&A database, whereby questions by authorities and answers submitted could be available to other authorities (and banks), to reduce duplication and improve consistency. Making banks aware of the questions being asked of other banks would in itself be useful, and make for better overall interaction on such questions, subject to confidentiality in appropriate cases.
- *FAQ.* Equally, an ongoing FAQ for banks' questions to the Data Hub would be efficient for both parties.
- *Debt securities held.* The main template<sup>12</sup> seems to require a breakdown of a certain category of balances twice, with the first instance based upon balance sheet amounts (i.e. fair value or amortized cost), and the second based upon nominal<sup>13</sup> or contractual amounts (i.e., outstanding principal plus accrued interest). Query whether the latter (contractual or nominal amount) is really needed or provides significant analytical benefit, since the data is not readily available in banks' systems and they would need to build systems for it. The specific lines in question are:
  - Line 5: DEBT SECURITIES HOLDINGS (gross of allowances for credit losses) – where breakdown is required for material countries, across sectors, currencies, and maturities, as indicated for subcomponents.
  - Memo 15: DEBT SECURITIES at nominal or contractual amount – where breakdown is required for material countries, across sectors.
- *Debt Securities issued.* The proposed revision is appropriate, i.e. crossing only by maturity and currency. As was discussed at the Workshop, banks do not know the holders of their issued debt, which act through layers of custodians and clearing systems. If any proxies are to be used, as appeared to be under consideration at the Workshop, they should be discussed in detail with banks before promulgation to assure robustness and feasibility, and for clarity of instructions.
- *Bridge template.* While we understand the desire of the IDH for the Phase 3 template to tie to the balance sheet exactly, the limitations imposed by having consistent international definitions would make this impossible. As mentioned above, while reliance on definitions based on international standards such as Basel III may be ideal from an international consistency perspective, it would also result in numbers that are different from banks' published financial statements owing to differences between Basel III and accounting rules. We suggest therefore that the IDH relax any requirement for reconciling Phase 3 templates with the balance sheet, or accept that there might be some differences as banks would be trying to meet different local standards.
- *Loans (item 4)* – Should this item only include amortised cost loans? The bridge template splits out financial instruments by measurement basis but not for loans, implying that it is intended to capture everything. Banks have mortgages and other loans which are held for trading or designated at fair value. Obviously these loans do not have provisions or allowances against them as they are measured at fair value. It seems odd to be comparing all loans with allowances which are only applicable to amortised cost loans. The same question for *debt security holdings* (item 5).
- *Other borrowings (item 4)* in liabilities – is this supposed to mirror “other loans” (item 4.3) on the asset side? According to the guidance they have the same definition. However, the asset side will not include loans to banks as they are included in “cash and balances due from banks” (item

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<sup>12</sup> Phase 3 draft template.

<sup>13</sup> Some members find the reference to “nominal or contractual amount” unclear: would this imply the factored nominal amount?

1). The "other borrowings" on the liabilities side does not differentiate between borrowings from banks and borrowings from customers.

*Conclusion.* The IIF Data Working Group hopes these comments are found useful. We look forward to further exchanges on the finalization of Phase 3, particularly to discussion of the instructions. Should you have any questions or issues, please contact the undersigned or Jermy Prenio of the IIF ([jprenio@iif.com](mailto:jprenio@iif.com); + 1 202 682 7455).

Very truly yours,

A handwritten signature in black ink, appearing to read "David Schraa", with a long horizontal flourish extending to the right.

David Schraa