



6 June 2012

Mr. Nigel Jenkinson
Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 BASEL

Re: Top 50 Counterparty Credit Exposures – Proposed Template

Dear Mr. Jenkinson,

The Global Financial Markets Association¹ and the Institute of International Finance² (together, the “Associations”) welcome the opportunity to comment on the Top 50 Counterparty Credit Exposures template (“CCE template”). In this letter, we provide specific comments and feedback on the draft CCE template and accompanying template notes (“Notes”). Please see our letter of May 25, 2012 for general comments that are also relevant to the CCE template.

The Associations recognize the value for supervisors, decision-makers and market participants of having standardized, accurate and timely data concerning the credit exposures of significant financial institutions, and we appreciate the work the FSB has done to develop the proposed CCE template in consultation with industry.

However, we have a number of concerns with respect to the metrics and definitions in the current proposal, the degree to which the proposal has been or will be harmonized with other data collection initiatives, and its incremental cost. We outline these concerns below.

¹ The Global Financial Markets Association (GFMA) brings together three of the world’s leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (AFME) in London and Brussels, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA. For more information, visit <http://www.gfma.org>.

² The Institute of International Finance, Inc. (IIF) is a global association created in 1983 in response to the international debt crisis. The IIF has evolved to meet the changing needs of the international financial community. The IIF’s purpose is to support the financial industry in prudently managing risks, including sovereign risk; in disseminating sound practices and standards; and in advocating regulatory, financial, and economic policies in the broad interest of members and foster global financial stability. Members include the world’s largest commercial banks and investment banks, as well as a growing number of insurance companies and investment management firms. Among the IIF’s Associate members are multinational corporations, consultancies and law firms, trading companies, export credit agencies, and multilateral agencies. All of the major markets are represented and participation from the leading financial institutions in emerging market countries is also increasing steadily. Today the IIF has more than 450 members headquartered in more than 70 countries.

Metrics and Definitions

The FSB's October proposal included the following question regarding the definitions and metrics used in the proposed template:

(Q4) Are all the proposed instrument breakdowns and metrics currently available? Are the definitions clear and comparable across legal entities? If not, please identify which and using the 1-5 scale, indicate how costly it would be to comply with the proposal?

The proposed instrument breakdowns and metrics are not currently available at all firms, particularly those that do not currently file the SSG top 20 data, as the proposed template does not fully align with firms' internal definitions and metrics. Moreover, the availability of some of the data elements cannot be determined as their definitions are not fully clear. Further clarification is required for firms to determine the extent to which this information is currently available, the potential investment in time and resources that may be required to report the requested information, and to ensure consistency in reporting between legal entities. Given the lack of specificity, an estimate of cost cannot be made.

In the current proposal, there is a lack of clarity regarding a number of the definitions used. For many of these issues, the establishment of an industry advisory group ("IAG"), as proposed in our general comment letter on the CDT, may be useful in facilitating a common understanding between supervisors and industry regarding the data breakdown. The areas which require specific further clarification are the following:

1. Derivatives:

- The proposal states that "gross mark-to-market" exposures are calculated net of legally enforceable netting, however the proposed template does not account for cross-product netting agreements. While it is important to take into account cross-product netting that is well-established in industry practice, further clarification is requested on how cross-product agreements are to be taken into account in the template.
- The reporting of internal limits with respect to derivatives exposures could have negative consequences for both firms and the market. There are circumstances in which an exposure may exceed a limit for legitimate reasons, which may not be fully apparent to those viewing the exposure in the context of the CCE template. As such, reporting exposures in this way may lead to confusion and misinterpretations. In addition, not all banks have derivative-specific limits, in which case meaningful data would not exist. Furthermore, it is not readily apparent why firms' internal risk measure used to set credit limits for counterparty exposures is required for reporting. Aside from the legitimate reasons why limits may occasionally be exceeded, internal risk measures are set in the context of overall risk appetite and may, depending on the firm's priorities and policies, be well below risk capacity for such products, so disclosing a firm's exceeding a limit may not be meaningful and in fact may be misleading in risk terms. We request further information regarding the relevancy of this measure to the proposed template.

- It is not clear why the template asks for the sum of only positive net CVAs for a risk party when liability CVA is recognized at the netting set level. Why is net negative CVA discarded in looking across netting sets?
2. Securities Financing Transactions
- The draft template shows “gross notional” is to be reported “post-haircut” whereas the Notes do not mention the application of a haircut. A more commonly monitored metric amongst firms is the pre-haircut or “raw notional” value of collateral.
3. Lending:
- The definition of a “secured vs. unsecured exposure” is unclear. This is an excellent example of where the industry could provide guidance on how to define the terms and where clarity would greatly aid comparability.
4. Short-term Lending:
- Does “overnight exposure” include only on-balance sheet overdrafts or are lines also included?
 - How will an exposure be determined to be “open and overnight” versus “all other maturing in <1 year”? We strongly suggest that this determination be based on maturity at inception.
5. Credit Hedges
- Further clarification is needed with respect to the reporting of index hedges. Basel III (Part 1, Section 2, Paragraph 103), which is referenced in the Notes, does not seem sufficient for defining how notional value should be reported.
6. Issuer Risk
- It may be challenging for firms to separate debt and equity here, and it is not clear why such separation is necessary, given that the metric used is MTM value.
 - Clarification is requested regarding the statement that “all options should be included in the derivatives section of the template”. We assume that this refers to counterparty risk associated with derivatives transactions, but that the issuer risk would be reported in the issuer risk section.
 - Clarification that CDS for counterparty hedging should not be included under Issuer Risk is requested.
 - Further clarification is requested regarding how “net notional CDS bought and sold” should be netted. Should this include total net or net by netting set?

- The chosen sort criterion (counterparty risk plus issuer risk) complicates the reporting process, especially when issuer risk is likely to be small. Banks would need to have both figures on all names to determine the top 50. If the sort criterion was just counterparty, banks would only need to retrieve issuer risk for those names.
- We suggest consideration be given to treating notional CDS as net of both MTM and initial margin (i.e. notional - MTM - initial margin). In addition, we would suggest aggregating by netting group prior to showing CDS bought and sold to give a more meaningful view of exposures.

7. Other

- We would like clarification on whether sovereign-backed debt should be rolled up to the issuer or the sovereign.
- It is not clear where some items of collateral, such as collateral in transit or pledged, should be placed.

In addition to the clarifications requested above, to provide clarity regarding the CCE template data, a formal and precise dictionary of terms used and key business rules and aggregation levels (as pertinent) provided along with the template and template notes would be helpful. Ongoing efforts to develop industry standards in this area are underway and could be referenced (where applicable) in the template. The proposed IAG could be tasked with developing and maintaining this dictionary in partnership with not-for-profit industry standards organizations developing such standards.

Harmonization with Other Initiatives

As we have stated in our general comment letter on the CDT, there is a need for coordination between other supervisory data reporting and collection initiatives, and the CDT. The CCE template should be harmonized with several related international supervisory initiatives. For example, the CCE template should ultimately be consistent with the reporting requirements for recovery and resolution plans, such as the templates developed by the U.K. Financial Services Authority, and any other evolving reporting requirements for recovery and resolution plans.

In addition to the efforts being made to align the CCE template to the top-20 credit exposure report being collected by the SSG, consideration should also be given to the relationship between the CCE template and the various related national and international initiatives with counterparty exposure reporting implications, including:

- The initial proposed rule by the U.S. Federal Reserve and Federal Deposit Insurance Corporation (“FDIC”) on resolution plans and credit exposure reports included a proposal

to collect quarterly credit exposure reports from covered large financial institutions on their significant exposures.³

- The Federal Reserve has proposed counterparty exposure limits with accompanying reporting requirements.
- The FDIC has a requirement related to its assessment schedule for reporting top-20 counterparty credit exposures.
- In Europe, there is large counterparty reporting under the Capital Requirements Directive, which is based on a common large exposures reporting template that will be part of the European Banking Authority's binding common reporting requirements ("COREP") in December 2012.

In addition, supervisors have been urging financial institutions to improve their risk IT and risk aggregation capabilities, and many banks have been making significant IT investments to address this. FSB and BCBS work streams such as the risk aggregation and disclosure projects should be factored into consideration as well. We reiterate our point made in our May 25, 2012 comment letter that FSB should take a leadership role in creating alignment between these various existing and developing reporting and related requirements.

Cost

The FSB posed the following questions in its October proposal. Please find our responses below.

(Q1) What are your views in terms of additional costs on a scale of 1-5 (1 being little or no cost and 5 being extremely costly) on the proposal to collect data on the principal counterparty credit exposures, and please explain the reasoning behind the score? What would be the marginal benefits of these data for your own risk management and monitoring? Would the costs and benefits be altered significantly by an alternative scope or timetable, and if so please explain why?

As proposed, the additional costs of the CCE template for firms not reporting through the SSG process would be approximately 3-4 on a 1-5 scale. This incremental cost is primarily due to the lack of alignment between the template and firms' internal risk management and reporting practices. Developing the capacity to gather, analyze, aggregate and report on new data elements and metrics, on an ongoing basis and on a different reporting schedule than internal risk management processes, will require a substantial initial investment in time and resources, as well as recurring costs to ensure new systems and processes are maintained. However, the cost is also highly dependent on the direction of other initiatives, as discussed above. The more this new reporting diverges in content, timing, and/or data definitions from other requirements, the higher

³ The credit exposure report requirement portion of the proposal has not been finalized yet.

the cost. The harmonization of definitions, metrics and reporting frameworks, including reporting schedules and time lags, could significantly reduce the added cost of the CCE template.

There would be little to no marginal benefit from the CCE data for firms' own risk management and monitoring. Risk systems have generally evolved to provide firms with the information required to manage risk, including counterparty risk, and are continuing to evolve as banks make needed improvements. Furthermore, this initiative would shift valuable development resources away from enhancing internal risk management and towards the production of additional data for external reporting, which will require certain new metrics and aggregation that are not necessarily useful from an internal risk management perspective. Any benefit would come by keeping the costs of compliance as low as possible through a robust harmonization effort as discussed throughout this letter. Even more important, harmonization of definitions across counterparty exposure collection efforts would greatly improve the usefulness of the information for regulators as the data would be comparable.

(Q2) What would be the marginal cost on a scale of 1 to 5 of increasing the sample by say 10 additional counterparties (from 50 to 60), and of reporting exposures to 10 additional counterparties named by the authorities? If the marginal cost is judged significant please explain why?

The marginal cost of increasing the sample size by a modest amount would be relatively minor, approximately 2 on a scale of 1-5, assuming that all data metrics and definitions remained the same. However, there may be significant incremental costs associated with ensuring firms have the capability to report a changing list of specific counterparty exposures, approximately 4 on a scale of 1-5. Ensuring such continuous capacity to report specific individual counterparty exposures could require considerable support from risk management and IT resources.

(Q3) On a 1-5 scale, what would be the cost increase for collecting the data weekly rather than monthly? Are there any specific data elements that have a major bearing on the costs, i.e. where the cost would be significantly increased were the data collected weekly?

The cost would be significant of increasing the frequency of data collection from monthly to weekly, likely a 4-5 on a 1-5 scale. In fact, for many firms it would not be possible to report on the full template at a weekly frequency. Reporting at this frequency would not allow for the lag time necessary to ensure data is properly reconciled and checked for quality and would therefore have to be on a best-efforts basis. As stated in our general comment letter on the CDT, at such frequencies, reporting should at most be based on a simplified template that aligns with firms' internal risk metrics, aggregation techniques and reporting cycles.

Other questions from the October proposal:

(Q5) Is the proposed reporting lag of 3 days achievable for all banks? Would the costs and benefits be altered significantly by an alternative lag, and if so please explain why?

As we indicated in our May 25, 2012 comment letter on the CDT, even the 5-day lag is aggressive, relative to current business practice. At many institutions, more time is needed for collecting, processing and reconciling data, often from a number of jurisdictions and time zones, to ensure accuracy and quality. If a 3-day time lag is necessary during a crisis, the FSB should recognize that the data would necessarily be produced on a best-efforts basis. If the FSB determines that a 3-day time lag is necessary for a time period, consideration should be given to a simplified version of the CCE template for reporting, focusing on those elements that are consistent with internal risk metrics.

Thank you very much for allowing us this opportunity to comment. We believe that if the time is taken to ensure the CCE template is structured in an appropriate way, it will minimize both duplicative work for the banks, and the need for the FSB to avoid revisions and ad hoc data requests. We look forward to further dialog on the CCE template and other aspects of the common data template.

Sincerely,



Simon Lewis
CEO, GFMA



David Schraa
Regulatory Counsel, IIF

cc Vichett Oung, Financial Stability Board