

Financial Research Advisory Committee meeting
July 23, 2015

Discussion Topic 2: OFR's Role in Data Collection: the Bilateral Repo and Securities Lending Data Collection Pilot Project

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 established the OFR to identify and monitor potential risks to financial stability. Developing better data sources and tools to monitor market activities is part of the OFR's market surveillance mandate.

For example, the OFR has begun collecting information on the bilateral repo and securities lending markets to address identified data gaps. We are seeking committee input on the OFR's data collection processes and initiatives, so we can improve these and other data collection efforts.

Background

After identifying a lack of reliable, ongoing information on the bilateral repo and securities lending markets, the OFR and the Federal Reserve formed a working group in 2014 to identify data elements essential for analyzing potential risks.

For bilateral repo markets, the working group determined that additional data were needed to capture the dependence on short-term funding of individual repo market participants, counterparty exposures, and interconnections among participants. The working group also identified a need for insights on collateral quality, diversification, and haircuts. For securities lending markets, the working group intends to collect data about loans, terms, and collateral uses.

A number of large firms have agreed to participate in these two pilot data collections. The Securities and Exchange Commission is a key contributor to this initiative and will have access to the data collected. This work complements the efforts of the Financial Stability Board to develop standards for global securities financing data collection and aggregation.

Status Report: Bilateral repo

The working group has already received submissions from the bilateral repo pilot participants and is analyzing the data. The reporting template was designed to capture six key characteristics of repo trades at the firm level: (1) principal amount, (2) interest rate, (3) collateral, (4) haircut, (5) tenor, and (6) counterparty. The collection covered bilateral repo and securities lending trades

collateralized by cash, which are economically equivalent. The scope was limited to U.S.-dollar denominated trades booked and settled domestically.

Later this year, we aim to publish summary statistics from this analysis on the OFR website. Our preliminary review of the bilateral repo data has revealed a number of challenges, mainly related to a lack of data standards and inconsistent data quality. For example, repo market participants are not currently required to use legal entity identifiers (LEIs) in their regulatory reporting. The lack of this requirement hinders mapping counterparties across submissions and removing duplicative trades. Inconsistent practices for reporting and data capture among firms have impaired data quality.

In addition, monitoring global market activities is challenging from within the confines of our national border or through traditional repo intermediaries. For example, bilateral repo trades executed by foreign subsidiaries of the pilot participants were not captured in this data collection. Even within U.S. borders, the scope does not capture activity that has migrated outside the largest broker-dealers.

Status Report: Securities Lending

The working group is currently finalizing the data collection template and instructions for the securities lending collection based on feedback received during industry outreach meetings. We plan to start the securities lending data collection later this year and we expect to receive the full data submission by the first quarter of 2016. Like the bilateral repo collection, the scope may be limited to transactions executed by U.S.-domiciled legal entities.

To facilitate comparison, the securities lending pilot includes the transaction-level data elements from the bilateral repo collection. It also attempts to capture information related to the inventory of available securities, indemnification, and information on collateral management practices applicable to cash and non-cash collateral.

With respect to management of cash collateral, the template captures the type of reinvestment, currency, yield, and tenor, and whether the reinvestment is covered by indemnification. With respect to non-cash collateral, the template captures the type of non-cash collateral, its market value, and currency.

Discussion Questions

We are asking the committee for advice on the following questions about the securities lending data collection:

1. With the repo data, we hope to learn more about particular features and characteristics of bilateral repo transactions and ways they differ from repo trades cleared on the tri-party platform. With the securities lending data, we hope to learn how lenders choose to reinvest collateral and how such transactions may be similar to, or differ from, repo trades. What other research questions should we ask and be able to answer with these data?

2. What is the best way to collect such data from diverse firms operating under different business models and make them consistent so that they can be aggregated and analyzed? For example, with respect to securities lending, we worked with bank and nonbank agent lenders to design a template acceptable to both types of firms. Are there more efficient ways to engage industry on such a project?
3. As part of the securities lending data collection, we are considering whether to include a year-end submission date. Given the observed seasonality of the securities financing markets, should we avoid month- and quarter-end dates in this data collection? Alternatively, should we focus on the seasonal spikes to gain a better insight into the drivers of the observed seasonality and to better inform a permanent collection?
4. Given limitations of jurisdictional scope, how can we address potential distortions in the data due to counterparty locations in different countries?
5. What is the most efficient way to address the data quality issues stemming from a lack of data-and-technology standards?