

Robert Ophèle: Micro economic analysis of companies

Introductory speech by Mr Robert Ophèle, Second Deputy Governor of the Bank of France, at the Plenary Meeting of the European Committee of Central Balance Sheet Data Offices (ECCBSO), Paris, 18–19 October 2012.

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Mr President, Ladies and Gentlemen,

It is a great pleasure for me to welcome you in our new conference center. I am delighted to receive so many distinguished participants to this meeting, coming from the same universe of statistical institutions or central banks – whether they are members of the Eurosystem or not – and sharing the same interest for micro economic analysis of companies.

We are very happy indeed to organise this year's ECCBSO regular meeting which will enable you to discuss in depth about the past achievements of your task forces and the prospects, drawing possibly some kind of action plans. Undoubtedly, we need to explore further a number of those issues where your Committee is fully and often very successfully involved. I am grateful that BDF can provide, in its turn, the opportunity to host this conference. As you know, Banque de France is one of the co-founders of the Committee and has always shown its commitment by actively contributing to these task forces.

From my previous experiences, especially as head of the Directorate General Operations, and presently also, as President of the French Banking and Insurance Supervisory Authority, I measure what your contributions can provide in operational terms (risk assessment) and also in terms of analysis (research, advice, BACH data base). The works of your Committee, and so to say its affiliates, is useful and I would like to take the opportunity of this plenary meeting to encourage you to keep the same stance. From the perspective of a NCB, your contributions are important in so far they provide platforms for exchanging our thoughts, our know-how and, last but not least, for exchanging data within the Eurosystem but also with statistical institutions, witness in that regard is all what is being done with the European Group Register managed by EUROSTAT and now with the Committee for Monetary Financial and Balance of payment statistics.

Obviously, Balance sheet and Profit & Loss information, or more generally information on non-financial companies, have a real bearing on our institutions in line with a twofold objective: assessing individual companies and using aggregated company data to perform macro economic analyses or researches.

First, it is important for micro-analyses in the assessment of individual companies using classic ratio-based firm analysis methods. This can help us to evaluate our collateral, or portfolios of banks if we are involved in banking supervision.

But for an NCB member of the Eurosystem, the micro analyses have a particular importance within the European Credit Assessment Framework if it is recognised as an In-house Credit Assessment System. Those NCBs which run an ICAS (currently Austria, France, Germany and Spain) use balance sheet data for the assessment and prediction of default risk under a set of precisely defined conditions. The ICAS statute is demanding but it is worthwhile because it can play an important role for monetary policy operations. For this purpose, we need to rely on a good methodology, commonly agreed and depending to a large extent on an ability to deliver a sound and solid assessment of non-financial companies. This helps NCBs to fulfil one of their core functions, which is the refinancing of commercial banks and we experience that daily.

On this very important subject – the ability to assess credit risk of non financial companies as offering a possibility to expand the amount of eligible collaterals – I took note that several NCBs are about to join the four present ICAS: this is a signal of the

relevance of this mechanism to help the commercial banks to develop their loans and, hence, support economic growth. Quite in line with this subject, I would like to stress the quality of the work that has been done recently by the Working Group Risk Assessment, to compare the various European central Banks' Internal Credit Risk Assessment Systems: this is a very topical issue which is a good example of what your Committee can bring to all of us.

Second, information on non-financial companies is important for analyses on a macro level, e.g. by using aggregated company data to perform economic analyses or stress testing experiments.

On a macro level, the analysis of the non-financial sector is essential both for policymakers and for central banks. From a central bank's perspective, these analyses help to ensure financial stability, e.g. through performing different kinds of economic analyses and stress tests, the latter having gained dramatically in importance in the course of the crisis.

The work performed by the working groups has thus several major fields of application. Be it by trying to fathom new accounting standards, building databases, or working on the model development and default definitions, the different working groups contribute greatly to enhancing our models and procedures and also, more generally our micro economic intelligence. Thus the publications of the different working groups, especially on the ECCSBO website can play an important role in consolidating our knowledge but also supporting works in other instances within all participating institutions and beyond, because we can only gain in keeping an open mind.

From this point of view, as you know Banque de France has paid particular attention to the continuation of the BACH database, since we were chosen to run it, two years ago, for the common interest of the ECCBSO members and beyond. We are committed to keeping it functioning properly, and encourage all initiatives to exploit all those interesting series of aggregated ratios. Among the numerous researches that have been made with these data, I would like to refer to the paper published by two economists from the ECB, Andra Buca and Philip Vermeulen, last February, concerning "corporate investment and bank-dependant borrowers during the recent financial crisis". Here also at the Banque de France, we publish several articles in our Bulletin extracting valuable piece of information in the BACH data base.

Concerning your so-called WG 3, which focuses on IASB methodology and more generally monitoring of listed groups, Banque de France is interested in the new cooperation started last year with Eurostat. It will help to identify more precisely European groups' structure and especially cross-border groups. But I understand that this TF is involved in many other topics, of which works on a dedicated data base (ERICA) which can deliver interesting results. There is a lot of work behind this and we can only hope to see those valuable contributions to be well promoted.

The same is true for your Study group: you are about to release a seemingly very attractive study on "net worth at risk" which aims at describing the ability of companies to face an external financial shock, with a focus on recent years: it will certainly attract a lot of attention when you publish this work.

As it is time to conclude, I would like first to confirm that BDF, a founding member of the ECCSBO, is still very dedicated in all that is related with corporate analysis.

Your presence here today is certainly the expression of a commitment similar to our own one; it is a good augur for your future works and an encouragement for our joint efforts to be pursued.

Finally, I would like to thank personally President Manuel Ortega because I know all what you do to keep the dynamics of this Committee. Many thanks also to all of you for being here today, for your support and your participation in this meeting, because I have

no doubt that you will have fruitful debates. If I may, I would add a special thanks for my colleagues from the Companies Directorate and for the protocol office, who deployed a lot of efforts in organising this event for the better: without their help we wouldn't have been able to meet at this venue.

Thank you for your attention.