Panel summary

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The conference closed with a panel discussion on data issues in the context of the financial turmoil, which had created significant uncertainty among market participants and policy makers. The panel was chaired by *Jan Smets* of the National Bank of Belgium and outgoing IFC Chairman. He noted that various innovations such as new housing finance instruments, the use of special purpose vehicles, securitisation and derivatives, had played a key role in changing the economic and financial landscape before and during the turmoil, both individually and through a number of linkages amongst them. He referred to the background issue paper prepared by *Paul Van den Bergh* of the BIS that identified a number of possible data issues in the context of the turmoil. The key question was whether better information, including statistics, might have helped authorities to anticipate potential problems and to navigate through the turmoil more easily. Looking forward, the issue was whether there were lessons for statisticians in terms of producing better information to avoid similar difficulties in the future.

Mr Steven Keuning of the ECB noted that one of the main issues during the turmoil had been the lack of transparency, including with respect to a number of financial innovations. These could have been monitored more closely. At the same time, it had to be recognised that the problems did not originate from a lack of macro-economic or financial statistics. If micro-data are lacking, this cannot be remedied by any statistics. Besides, new data collections, including those to capture innovations, are costly and take time to implement. It is important that statisticians are proactive and try to anticipate the data needs in advance. The ECB, for instance, has initiated the compilation of quarterly institutional sector accounts (financial accounts) for the euro area, to ensure a complete and consistent analysis of euro area economic and financial developments. Combining non-financial transactions from the national accounts and financial balance sheet information facilitates a coherent and comprehensive analysis of the financial and non-financial positions of the non-financial sectors, including households, as well as the role of financial institutions in financing them. Moreover, integrated accounts provide evidence on the impact of the financial crisis, particularly on the profitability, financing and financial investment of the euro area institutional sectors and as the most crucial feedback loops.

In terms of the way forward, Mr Steven Keuning offered a number of suggestions. First, central banks should attempt to monitor structural change and significant financial innovations with their regular statistical frameworks, using "agile" international statistical standards. For instance, an enhanced methodology of compiling financial intermediation services indirectly measured (FISIM) is under consideration in international statistical groups. It could involve a more adequate treatment of credit default risk and the term premium as part of the interest receivable on loans and payable on deposits.

Second, for "real-time" analysis one needs to regularly monitor the quality and economic meaning of certain statistical aggregations and to flexibly and quickly apply new classifications and definitions with the help of micro databases. As an example, in the case of the ECB, the centralised securities data base (CSDB) permits the early identification of new types of instruments and the institutions issuing them. The establishment of appropriate micro databases may require a substantial once-off investment, however, and should be carefully planned.

Third, close cooperation with other areas in the central banks such as market operations, financial stability and supervisory departments is essential since these have an in-depth knowledge of markets and also collect and assess much intelligence useful to understand financial innovations. Since innovations are increasingly global, close international cooperation is also of key importance.

Fourth, it was useful to find mechanisms to collect supplementary data quickly and on an ad hoc basis from key players, such as selected financial institutions, operators of financial infrastructures or representatives of industry associations. The ECB, for instance, was cooperating with the European Federation of Asset Management Associations and the European Securitisation Forum. With respect to securitisation more specifically, experience has shown that it is necessary to understand the increasingly complex structures used for securitisation in order to develop a statistical framework which appropriately captures the phenomenon. At the same time, it was important to ensure consistency of any such framework with international statistical standards.

Finally, there were key gaps in housing statistics, not only for residential property prices, but also on housing finance (eg mortgage credit), structural housing indicators, housing capital stock and households' housing wealth. Good cooperation with the national statistical institute was essential in this respect.

Mr Dietrich Domanski of the BIS noted that the recent turmoil could result in a paradigm shift with respect to statistical data needs. Indeed, it had become clear that information on prices was mostly readily available whilst high-quality data on quantities, volumes, and exposures were not. The hope had been that recent financial innovations would have contributed to make financial markets more complete (eg structured products would, in principle, have made many types of credit tradable and therefore explicitly priced). And indeed, in recent year price indicators had mushroomed, and as long as liquidity did not matter, prices could be counted on to always reflect all information. This paradigm has been challenged by the crisis. The questions of market analysts and policy makers could not be answered with market price data alone. The size and composition of structured finance markets, for instance, became unknown. Credit risk transfer across sectors could not be measured comprehensively. It was unclear how large and concentrated bank exposures to certain types of credit risks were, how fast banks were deleveraging and what impact this had on credit supply. At the international level it was difficult to monitor and compare central bank liquidity injections, although some progress was achieved in this respect in various BIS committees.

Looking forward, four issues needed to be addressed. First, timeliness and flexibility of statistics are crucial in a dynamic financial environment, to capture financial innovation and to understand the direction financial markets are taking. Second, more detailed breakdowns of counterparties and instruments should be provided by key players. Adequate standardised disclosure on important elements of financial institutions' balance sheets, including risks and exposures, was required. It was disappointing how little useful comparable information had been disclosed by individual institutions even one year after the start of the crisis. Third, methodological concepts needed to be refined as, for instance, with the BIS OTC derivatives statistics which should ideally include information on expected losses. Finally, more careful thinking was required on the perennial question of how to aggregate exposures for both on and off-balance position across individual institutions and markets.

Mr Lars Frisell of the Sveriges Riksbank said that, during the crisis, it was realised that crucial data needed to monitor and understand ongoing developments was missing, particularly at the micro level. One example was the funding and liquidity risk of individual institutions. Central banks without supervisory responsibilities were often starved of necessary data. Though it was not responsible for banking supervision, the central bank of Sweden has an explicit mandate to collect all necessary data from banks, so it increased the requested reporting during the turmoil. This created some additional burden for banks, which were, however, modest against the background of the risks that had developed and needed to be contained.

The types of data that were covered by the additional reporting included information on maturing debts; currency composition of assets and liabilities; counterparty credit exposures, for instance with respect to the 15 largest exposures as well as inter-group exposures; the use of hedging instruments; and the size of off-balance sheet items. In order to identify risks in the system as a whole data were also collected on actual liquidity positions as well as banks' assumptions with respect to their liquidity needs; the use of credit lines; the size of inter-bank flows; and patterns in payment system traffic.

These were all extremely sensitive data that revealed banks' core business strategies and related risks. A very important issue therefore had been how to obtain this information and identify risks whilst preserving strict confidentiality. Regular informal communication between the central bank Governor and CEOs of banks had helped very much. At some point weekly evaluations were implemented, including discussion of the result of banks' stress tests (eg how many days of positive cash flows were expected). At some point better regulation, reporting and disclosure would be needed but this would take time to develop and implement, so ad hoc information gathering would remain important for some time.

Mr Manuel Marfán of the Banco Central de Chile remarked that the world was now in a sense upside down with the turmoil developing in the major financial centres and the developing world needing to assess its impact on local economic and financial conditions. It was becoming increasingly clear that emerging markets were not going to decouple from developments in the industrialised economies. What was also becoming clearer was that the ongoing financial turmoil was not an accident but that there had been many signs and indications, including through various statistics that unsustainable pressures had built up in the global economy and financial system.

With respect to data issues, he pointed out that the problem with asset prices, even when they were available, was that they included many different elements, including various risk premia which needed to be estimated and separated out. Because of contagion effects, emerging market bond indices and spreads were no longer a reliable measure of individual default risks. Ratings did not contain much accurate information about the risk position of individual creditors. CDS might be a good additional indictor of default risk but they were not available for all creditors and only the 5-year maturity was really sufficiently deep to yield reliable prices. At the same time, information from indexed bonds was very useful in order to calculate so-called break-even inflation rates (the latter were showing that inflation expectations had increased substantially in many emerging markets).

Finally, *Mr Bernard Delbecque* of the European Federation of Asset Management Associations (EFAMA) said that his association was ready to help the ECB to formulate a regulation on statistics on investment funds. He suggested that any new data collection in this area should be organised globally, using the same methodology. He also noted that the private sector was now more readily accepting central bank regulation to collect more data, but that it wanted to be more involved in identifying and discussing the details. This included commercial data providers, who would welcome discussions on their data collection with central banks, for instance with respect to implementing better definitions and methodologies. Central banks were recognised to have a key advantage as standard setters in the statistical area, compared to commercial data providers. They also had much experience in reaching consensus on international standards, as was exemplified by the BIS data collection exercises (the UN process was rather slow and much less efficient). At the European level the ECB initiatives to harmonise European data was another good example of successful and efficient data collection.

With respect to ad hoc information collection from key players at crisis times, EFAMA had conducted two highly confidential supplementary surveys during the crisis to inform the European Commission. In general he thought that main aggregate results of central bank surveys should be shared with survey participants, in order to enhance respondents' incentives to participate.

It was important that central banks widen their statistical coverage beyond banks and investment banks since many financial innovations have involved a wider range of financial institutions, in particular with respect to risk transfers. So far insurance companies were little affected by regular statistical reporting. Another area where reporting standards should be strengthened in line with innovations related to money market funds. Users of information on these institutions, including investors, were rather confused as to the potential exposures of such funds and their vulnerability to the financial turmoil.

During the *general discussion* it was noted that banking crises seem to have become more widespread and regular. Was this the result of innovations which often resulted in a good idea being overextended into inappropriate areas with negative consequences for financial stability? Could statistics show where such overextensions occurred so that crises could be avoided? Could statistics measure innovations more pro-actively?

There was agreement that statistics should be adapted more proactively. At the same time adapting statistical frameworks in order to capture temporary phenomena, such as developments with respect to money market mutual funds or the impact of certain investors on commodity prices, should be avoided. It was always necessary to develop appropriate conceptual frameworks to respond to structural data needs, but this could not be left to users alone. Statisticians should engage more in these conceptual issues in order to anticipate future data requests based on structural developments. Users would welcome this dialogue with compilers.

Another issue that was raised and discussed was the burden imposed on reporters of financial information, which seemed to be always increasing. Perhaps it was time to consider a comprehensive reform of banks' reporting system. A unified reporting system may be difficult to implement but it might have significant benefits. Admittedly there would always be competing analytical needs, so a diversified and flexible approach might be needed. However, it might be possible to establish relationships between different data collection exercises, domestically and internationally. Such a multi-use data collection would, of course, need to be coordinated with all users. One important difficulty would continue to be the fact that financial systems differ, sometimes considerably, from country to country, which would make it difficult to unify statistical data collection to capture early significant innovations.

One consideration that could be given more thought was to start collecting the data at the most micro level possible, for instance for individual securities. This could reduce aggregation and reporting costs for individual reporting institutions. If confidentiality issues could be overcome it might even be possible to consider sharing micro-level data for statistical purposes across countries and with and between international institutions. Those remained very sensitive issues, however, particularly with respect to proprietary data. Respondents must be absolutely convinced that micro data will remain confidential. Central banks may not have enough experience in this area at the moment though they are often guardians of important confidential data sets and could therefore develop their comparative advantage further. More reflection on this issue could perhaps be organised by the IFC in the future.

It was noted that the current situation may provide a good window of opportunity to improve statistics and to seek complementarity with private sector data providers. There was a better recognition that statistics were a public good and reporters might now better realise that they also need certain data in order to support their strategic decisions. The knowledge and experience of central bank statisticians may not always be sufficiently known to market participants so central banks should be more proactive in delivering the data and the concepts behind them to market analysts. More use could be made of ad-hoc surveys to gauge the impact of a particular market development and to seek the views of key players on potential financial stability issues. These ideas could avoid the burden of heavy regular reporting systems.