Discussion of session 6 on

“Intensifying cooperation between national and international institutions: from a national perspective to the global financial system”

Pietro Franchini, FSB Secretariat

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1 The views expressed are those of the author and do not necessarily reflect the views of the BIS or the central banks and other institutions represented at the meeting.
Intensifying cooperation between national and international institutions: from a national perspective to the global financial system

Pietro Franchini
FSB Secretariat
IFC - Warsaw, 14 December 2015
Data for financial stability

- Risk and vulnerability
- Monitoring
- Impact assessment

Warsaw, 14 Dec 2015
IFC - Combining micro and macro statistical data for financial stability analysis
Main data needs

• Assess the **structure** and **interconnections** in the global financial **network**
  – Links between **banks** and **non-bank** intermediaries
    • Detect financial institutions not identified as systemic (including shadow banks) but deeply interconnected with several GSIBs

• Identify risk **concentrations** and funding **dependencies**
  – Classification of counterparties (countries, sectors)

• Identify potential **spill-overs** and **externalities**
  – Direct or indirect exposure of a GSIBs to one or several GSIBs themselves exposed to sovereign risk

• Understand financial **innovation** and market **complexity**
Data sources

• From micro-data ...
  credit registers, security-by-security databases, transaction based surveys
... to granular aggregated data

• Front office vs accounting systems vs risk management
  – Consolidation / granularity / timeliness / frequency: cost – quality trade-off?
  – timely information that can be rapidly mobilised and escalated by authorities if problems arise at an institution in the global network
  – Supervisory expectations to improve the quality of risk management data

• Confidentiality: systemic relevance named counterparties for interconnectedness / contagion
FSB policy targets

Policy Development and Coordination

- Building Resilient Financial Institutions
- Addressing SIFIs
- Effective Resolution Regimes and Policies
- More Effective Supervision
- Making Derivatives Markets Safer
- Transforming Shadow Banking
- Additional Policy Areas
  - Addressing Data Gaps
  - Improving Risk Disclosures
  - Accounting Convergence and Enhanced Audit Quality
  - Reforming Financial Benchmarks
  - Reducing Reliance on CRA Ratings
  - Legal Entity Identifier (LEI)

Implementation monitoring

- Progress Reports to the G20
- Monitoring of Priority Areas
- Monitoring of Other Areas
- Peer Reviews
- Initiative on Cooperation and Information Exchange

Key Standards for Sound Financial Systems

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## FSB vulnerability assessment

<table>
<thead>
<tr>
<th>Macro-financial related vulnerabilities and risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arising from structural weaknesses in the financial system</td>
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<tr>
<td>Misaligned incentives, amplification mechanisms or other forms of potential market stress</td>
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<tr>
<td>Potential for international spill-overs across financial systems, difficult to cover in a domestic or regional context</td>
</tr>
</tbody>
</table>

- Global Shadow Banking Monitoring Report
- Corporate Funding Structures and Incentives
- Currency Mismatches and Leverage on Corporate Balance Sheets
- Early warning exercises (EWE) jointly with IMF, based on forward-looking risk scenarios
Discussion of the papers

• Matched firm – bond data (BdE)
• Shadow banking (ECB)
• Reporting derivatives transactions (ECB)
• Closing information gaps (BIS)
Matched firm - bond data

- Granular data do not provide a complete view of risk
  - Exposure data needed (on ultimate risk basis)
  - Intra-group positions, collateral, hedges, bilateral netting agreements
  - Link granular (securities) with firm-level (balance sheet) data
- Pockets of risk: need for individual data / distributions
- Arbitrage between markets with different regulation / disclosure

<table>
<thead>
<tr>
<th>Systemic relevance of markets / firms</th>
<th>Disclosure of financial statements</th>
<th>Integration with international statistics</th>
<th>Impact on lenders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leverage / Mismatches</td>
<td>Details / format</td>
<td>SNA - BIS</td>
<td>Subordination (eg TLAC)</td>
</tr>
<tr>
<td>Spillovers / Interlinkages</td>
<td>Frequency / timeliness</td>
<td>Coverage across Jurisdictions</td>
<td>DB on security owners (eg SHS)</td>
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<tr>
<td>Role of Collateral</td>
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</table>
Shadow banking

- Definition: broad / narrow
- Role of consolidation
- National accounts vs. cross-border
- Need for granular data

Coverage / details of Flow of funds reporting
- Avoid arbitrage
  - Interconnection between banks and non-banks credit intermediation
- More risk data: eg liquidity and maturity transformation
### Reporting derivatives transactions

- **Granular items**
  - Counterparties
  - Contracts

- **Position data**
  - Stock
  - Flows

- **Aggregate data**
  - Currency / Maturity
  - Sector
  - Country
  - Underliers

- **Risk assessment**
  - Mismatches
  - Concentration
  - Interlinkages
  - Stress testing

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<table>
<thead>
<tr>
<th>Standardised High Quality Data</th>
<th>Harmonised definitions, identifiers, metadata, consolidation perimeter</th>
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<tbody>
<tr>
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<td>Removal of double-counting: UTI / UPI</td>
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<tr>
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<td>Disclosure framework (access, format)</td>
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<td>Validation rules, global governance</td>
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</tbody>
</table>

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IFC - Combining micro and macro statistical data for financial stability analysis
Closing information gaps

• Granular enough for analytical purposes
  – Flexibility
• Consolidated / ultimate risk data
• Common identifiers to combine granular information
• Structured reporting vs surveys vs «big data»
• Policy assessment
  – Consequences over time

Additional dimension: by type of intermediary
• Systemic relevance (size, interconnection, cross-border, etc.)
• Avoid arbitrage

Sharing agreements
• Fit to purpose data for
  • Supervisors
  • Macro-prudential / financial stability
  • Market / general public

Integrate different sources
• Public / private
• Risk / accounting
• Quality / timeliness

The key outcomes of the Conference were:

- “There is a need to strengthen the analytical/conceptual framework for financial stability analysis and global monitoring of financial stability risks”
- “…the evidence of increasingly global financial transmission mechanisms and strong feedbacks between the financial system and the real economy are considered very important topics for further investigation…”

In November 2009, the G-20 endorsed 20 recommendations to close the data gaps identified following the global financial crisis in order to support enhanced policy analysis.
Data Gaps Initiative - II

• Further work is needed to encourage convergence of data provision among the G-20 economies and to consolidate the progress made during DGI-1
  – data coming out of the DGI are increasingly being used for policy purposes
  – DGI facilitated the dialogue between the national agencies responsible for economic and financial statistics and those for analysis and policy making

• The main focus of the DGI-2 is to consolidate the progress made
  – Implementation and completeness

Regular collection of comparable, integrated, high quality, and standardized statistics
DGI-II priorities

• Consistent and comparable Financial Soundness Indicators
• Regular collection of the International Banking Statistics and the Coordinated Portfolio Investment Survey
• Consistent securities statistics and from-whom-to-whom tables
• Availability of sectoral accounts data
• Timely and comparable general government operations and debt data
• Policy users of the data indicated interest in the regular collection and sharing of data on
  – global systemically important banks (G-SIBs)
  – increasing availability of consistent information on shadow banking
  – household distributional information due to the growing policy issues on income and wealth inequality
• Private sector
  – importance of data standardization through adoption of international standards to allow cross country comparison and consistency, supported by standards such as the Legal Entity Identifier (LEI)
## DGI-I and II recommendations

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<th>DGI-II Recommendations</th>
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<td><strong>II.1: Mandate</strong></td>
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<td><strong>Build-up of risk in the financial sector</strong></td>
<td><strong>Monitoring risks in the financial sector</strong></td>
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<tr>
<td>I.2: Financial Soundness Indicators (FSI)</td>
<td>I.2: Financial Soundness Indicators (FSI)</td>
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<td>I.3: Tail risk</td>
<td>I.3: FSI Concentration and Distribution Measures (CDM)</td>
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<td>I.4: Aggregate Leverage and Maturity Mismatches</td>
<td>I.4: Data for Global Systemically Important Financial Institutions (G-SIFIs)</td>
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<td>I.6: Credit Default Swaps (CDS)</td>
<td>I.5: Shadow Banking</td>
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<td>I.6: Structured Products</td>
<td>I.6: Derivatives</td>
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<td>I.7: Securities data</td>
<td>I.7: Securities Statistics</td>
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<td><strong>Cross-border financial linkages</strong></td>
<td><strong>Vulnerabilities, Interconnections, and Spillovers</strong></td>
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<td>I.8 &amp; I.9: Data for Global Systemically Important Financial Institutions (G-SIFIs)</td>
<td>I.8: Sectoral accounts</td>
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<td>I.10 &amp; I.11: Coordinated Portfolio Investment Survey (CPIS) and International Banking</td>
<td>I.9: Household Distribution Information</td>
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<td>Statistics (IBS) Participation &amp; Enhancement</td>
<td>I.10: International Investment Position (IIIP)</td>
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<td>I.13 &amp; I.14: Financial and Non-financial corporations' cross border exposures</td>
<td>I.12: Coordinated Portfolio Investment Survey (CPIS)</td>
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<tr>
<td><strong>Vulnerability of domestic economies to shocks</strong></td>
<td>I.13: Coordinated Direct Investment Survey (CDIS)</td>
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<td>I.15: Sectoral accounts</td>
<td>I.14: Cross border exposures of non-bank corporations</td>
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<td>I.16: Distributional Information</td>
<td>I.15: Government Finance Statistics (GFS)</td>
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<td>I.17: Government Finance Statistics (GFS)</td>
<td>I.16: Public Sector Debt Database (PSDS)</td>
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<td>I.18: Public Sector Debt</td>
<td>I.17: Residential Property Prices (RPPI)</td>
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<td>I.19: Real Estate Prices</td>
<td>I.18: Commercial Property Prices (CPPI)</td>
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<td><strong>Communication of Official Statistics</strong></td>
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<tr>
<td>I.20: Principal Global Indicators</td>
<td>I.19: International Data Cooperation and Communication</td>
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<td>I.20: Promotion of Data Sharing</td>
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</table>

- Recommendations that are completed based on the targets that were introduced in 2014.
- Recommendations where significant progress was made and are close to completion pending participation by all G-20.
- Recommendations where progress was slow.
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<table>
<thead>
<tr>
<th>Country</th>
<th>Rec. #2 FSIs</th>
<th>Rec. #5 CDS</th>
<th>Rec. #7 Securities Statistics</th>
<th>Rec. #10/11 (IBS)</th>
<th>Rec. #10/11 CPIS</th>
<th>Rec. #12 IIP</th>
<th>Rec. #17 GFS</th>
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# of economies:
- Argentina, Australia, Brazil, Canada, China, France, Germany, Italy, Japan, Korea, Mexico, Russia, S. Arabia, S. Africa, Turkey, UK, US: 14
- Argentina, Australia, Brazil, Canada, China, France, Germany, Italy, Japan, Korea, Mexico, Russia, S. Arabia, S. Africa, Turkey, UK, US: 5
- Argentina, Australia, Brazil, Canada, China, France, Germany, Italy, Japan, Korea, Mexico, Russia, S. Arabia, S. Africa, Turkey, UK, US: 2
- Argentina, Australia, Brazil, Canada, China, France, Germany, Italy, Japan, Korea, Mexico, Russia, S. Arabia, S. Africa, Turkey, UK, US: 2

DGI-I progress made
An integrated framework

- G-20 DGI
  - #4 GSIFIs common data template
  - #5 Shadow banking - SFT
  - #6 OTC derivatives – TR reporting

Risk data aggregation and reporting principles

- Regulatory requirements on IT and data governance
- Policies on data quality

Data collections

- LEI (incl. Level 2)
- UPI
- UTI
- Definitions and metadata

Codes and standards

Enhancing disclosure

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