

The Financial Crisis and Information Gaps

Recommendation 3: Tail Risks in the Financial Sector

Senior Officials Conference
Basel, April 8 and 9, 2010

G-20 recommendation

- *In consultation with national authorities, and drawing on the Financial Soundness Indicators Compilation Guide, the IMF to investigate, develop and encourage implementation of standard measures that can provide information on tail risks, concentrations, variations in distributions, and the volatility of indicators over time.*
- Lead agency: IMF

What is Tail Risk?

- *No unequivocal and generally accepted definition*
- *As a working definition, we adopt*
 - *“tail risk is the risk of large unexpected losses for the financial sector as a whole.”*
- *This is very close to the concept of systemic risk, for which there has recently been developed a number of techniques and modeling approaches.*

Systemic Risk Methodologies Can Be Divided Based on Data Types

- *Accounting data → e.g., stress-testing, construction of FSIs*
- *Market data, → e.g., contingent claims approach, or distress dependence*
- *Inter-institution exposures data → e.g., network analysis*
- *A combination of the above.*

Data Issues

- *Appropriate level of granularity? More is needed, but must weigh costs and benefits. Need a targeted approach*
 - *Institution-specific*
 - *Instrument-specific*
 - *Frequency*
 - *Cross-border*
- *Where should we put our effort ?*

The Way Forward

- *Data requirements should be analytically-driven*
 - ➔ *Thus, agreement on measures of tail/systemic risk should precede specific calls for collecting additional statistics.*

The IMF will host a conference (May 26-28, 2010)

- *Explore ways to develop operational measures of tail risks, and to review different approaches to measuring such risks.*
- *Identify common elements and elaborate proposals on a possible common approach.*
- *Identify the needs for additional information to compile measures of tail risks.*
- *Discuss the feasibility of devising practical ways to share relevant information among key stakeholders while satisfying the main confidentiality concerns of the parties involved.*

Questions

- *Is it appropriate to identify tail risk with systemic risk (thus allowing use of existing systemic risk methodologies)?*
- *What methodologies/data might prove useful in tracking tail risks?*
- *What might be the practical difficulties in collecting data (including confidentiality)?*