

The Financial Crisis and Information Gaps

Recommendation 4: Leverage/maturity (BIS)

Senior Officials Conference
Basel, April 8 and 9, 2010

G-20 recommendation

- *Further investigation of the measures of system-wide macroprudential risk to be undertaken by the international community. As a first step, the BIS and the IMF should complete their work on developing measures of aggregate leverage and maturity mismatches in the financial system, drawing on inputs from the Committee on the Global Financial System (CGFS) and the Basel Committee on Banking Supervision (BCBS).*
- Lead agencies: BIS, IMF

Current BIS work

Maturity mismatch:

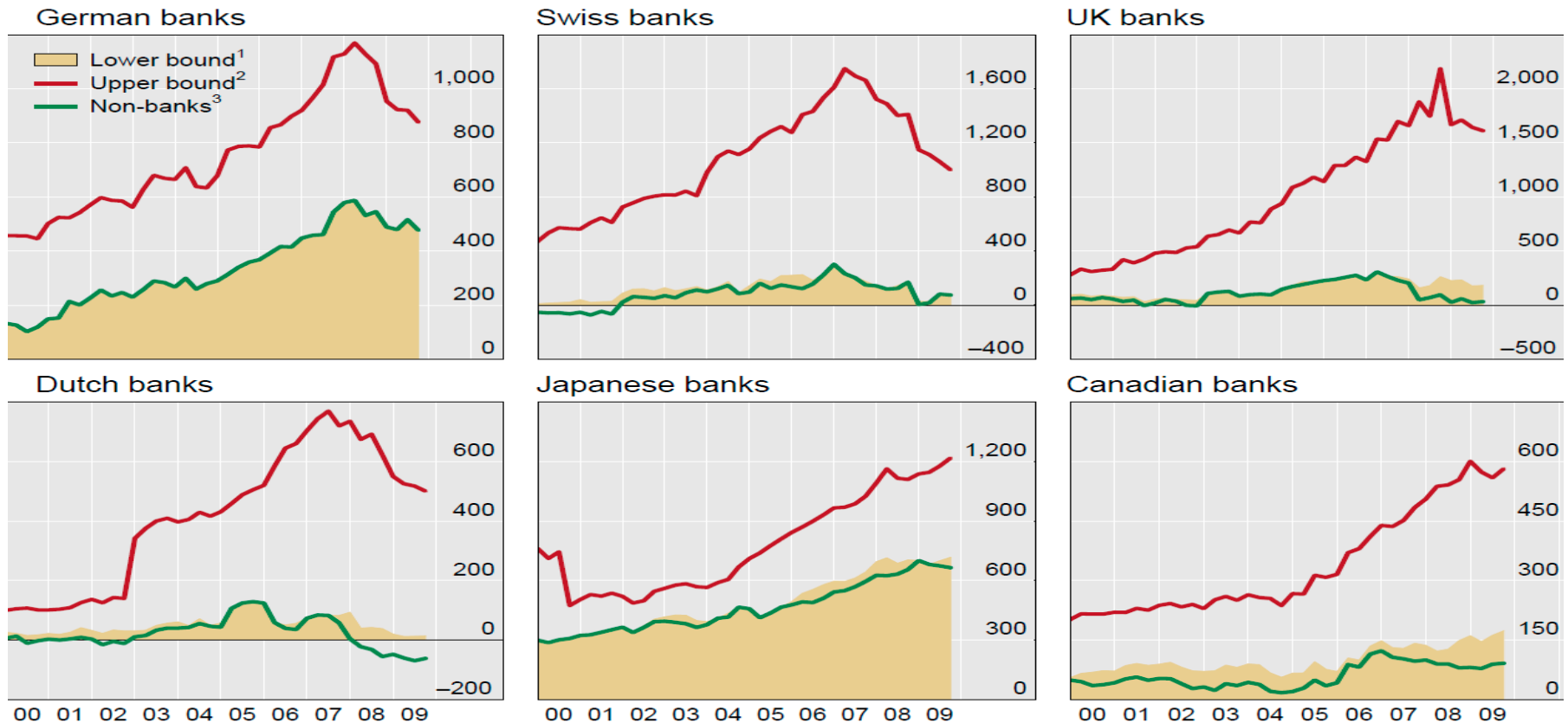
- Special effort to exploit BIS IBS
 - Some 7000 banks from ~40 countries; covers “core” financial system
 - Provides key data breakdowns; allows construction of consolidated national banking system balance sheets (int’l component)
- “Funding gaps” (eg, McGuire/von Peter, BIS WP# 291)
 - Maturity mismatch on banks’ international books
 - USD/15 banking systems (possibly: USD, euro, yen/22 systems)
 - Regular updates through FSB-AGV/SCAV process
- Concrete statistical proposals to improve measure
 - Refined currency and sectoral breakdowns, total assets etc.

Current BIS work

Maturity mismatch: examples

Long USD banks' US dollar funding risk

In billions of US dollars



Current BIS work

Leverage:

- Indicators of aggregate balance sheet leverage
 - Top-50 banks (CGFS macroprudential indicators/chartpack)
 - But no coverage of instrument leverage
- Statistical proposals for enhanced IBS
 - See above (eg, total assets/equity data, as already supplied by some)
- Distributional measures of systemic risk
 - Portfolio credit risk modeling (eg, Tarashev/Zhu, BIS WP# 214)
 - Embed leverage; flexible; work on the basis of price data
 - Could be enhanced by using bilateral exposure data.

Way forward

- Continue current work on system-wide measures of risk
 - Seek targeted enhancements of the IBS
 - Improve existing maturity mismatch measure (IBS enhancements, integration of other statistics)
 - Adapt distributional measures of systemic risk (and leverage) for use of bilateral exposure data
 - Help implement any recommendations from CGFS/BCBS.
- Address overlaps with other recommendations
 - Data gathering; analytical work.
- Seek to link BIS work with (complementary) efforts at IMF
 - IMF workshop,
 - joint workshop/paper.

Questions

- *First steps:* What are the main challenges, both analytically and in terms of data availability?
- *Further investigation to be undertaken by the international community:* What types of work are others doing?