

The Financial Crisis and Information Gaps
Recommendation 4 (IMF): Leverage and Maturity
Mismatches

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 and IMF

Aggregate Measures May Miss the Boat

- *“Aggregate measures of leverage in an economy ... [are] not a reliable guide to the sustainability of debt or the likely speed or extent of deleveraging”*
 - McKinsey Global Institute report
- *Relatively small pockets of excessive leverage can pose systemic risk (e.g., subprime mortgages)*

Leverage and Maturity Mismatches are Not Conceptually Uniform

- *Real sector and financial sector leverage are conceptually quite different*
- *Even within financial sector, key concepts are not uniform:*
 - *Regulated financial institutions*
 - *Unregulated financial institutions (e.g. hedge funds)*
 - *Shadow Banking System*
 - *Defining characteristic: unregulated maturity transformation*

The Way Forward: Towards a leverage/maturity mismatch heat map?

- *Develop appropriate conceptual measures of leverage and maturity mismatch by sector/sub-sector*
- *Develop scoring techniques*
- *Develop heat map that can be useful in identifying pockets of risk*

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

- *Aim at definitions of leverage/maturity mismatch by sector (focusing on financial subsectors)*
- *Identify strengths and weaknesses of each indicator*
- *Begin to Identify Data Gaps and, where possible, discuss operational issues in filling them*

Questions

- *What are appropriate levels of granularity for assessing leverage and maturity mismatches?*
- *Is a leverage/maturity mismatch heat map an appropriate goal of this work?*