

**THE G-20 DATA GAPS INITIATIVE G-20 CONFERENCE FOR SENIOR OFFICIALS
MARCH 30-31, 2011**

BACKGROUND NOTE

COMMON THEMES FROM G-20 CONSULTATIONS

1. **A broad agreement exists on the identified data gaps.** Consulted authorities expressed broad agreement on the data gaps to be addressed, as set out in two earlier reports prepared by the staff of the IMF and the FSB Secretariat for the G-20 Ministers of Finance and Central Bank Governors.¹

2. **The relevance of the G-20 recommendations differs across jurisdictions and across institutions within a jurisdiction, but it is important to set clear priorities going forward, including owing to resource constraints.** There is a need to present to the G-20 Ministers of Finance and Central Bank Governors a clear message on the key priorities going forward.

3. **The G-20 data gaps initiative, including the bilateral visits and consultations by IMF staff, is a welcome development which deserves strong and sustained support.** Consulted authorities welcomed and expressed strong support to the G-20 data gaps initiative and, in particular they:

- Welcomed the opportunity to engage in a dialogue on the G-20 data gaps recommendations;
- Appreciated being able to discuss their views with IMF staff;
- Saw the initiative as a means to strengthen the availability of critical data across sectors and countries; and
- Pointed out the need to push this work forward, tackle the difficult issues, and find ways to ensure progress is monitored in the implementation of the recommendations at the country level.

4. **The relevance of the G-20 recommendations across countries depends on the different manifestations of the crisis and differences in quality dimensions (including coverage, scope, timeliness, frequency, accessibility, and communication) of existing datasets.** As a result, action plans and timeframes to address data gaps need to be flexible and pragmatic, recognizing:

¹ The November 2009 and June 2010 reports are at: <http://www.imf.org/external/np/g20/pdf/102909.pdf> and <http://www.imf.org/external/np/g20/pdf/053110.pdf>, respectively.

- The conditions and capacities in different countries; and
- Cost/benefit trade-offs.

5. **Emerging common priorities include:**

5.1 *Large financial institutions/financial networks/inter-linkages*

Given the growing concentration of financial activity in large financial institutions (LFIs), including nonbank financial institutions, such as insurance companies and pension funds, capturing better data on LFIs' activities is critical, beginning with information on exposures and funding behavior. In particular, global systemically important financial institutions (G-SIFIs) warrant heightened scrutiny at the individual G-SIFI balance-sheet data level. Given their tendency to herding, monitoring the aggregate behavior of smaller institutions is also important, as demonstrated by the serious funding problems in the money market mutual fund industry during the recent global crisis.

Also necessary are further developments of conceptual and statistical frameworks to better:

- Underpin macro-prudential risk assessments;
- Understand the linkages between regional and national SIFIs and financial interconnectedness; and
- Understand the operation of G-SIFIs and financial networks, including their impact on domestic markets and economies.

Strengthening data on the interlinkages among banks, sectors, and countries is also critical, along with a better understanding of tail risks and funding gaps, cross-border exposures between offshore financial entities and domestic nonfinancial corporations and cross-border interconnections, especially when considering lifting foreign exchange controls.

5.2 *Shadow banking system/nonbank financial institutions/sectoral accounts*

Improving data on the informal sector, including the informal financial sector, is increasingly important. New or strengthened regulations on the formal banking system are likely to push more financial intermediation activity into the shadow banking system, which should be paid increased attention. The activities of nonbank financial institutions must be captured, also in light of their growing importance domestically and the fact that the balance of systemic relevance between bank and nonbank financial institutions can shift over time. Priority areas of work include improving information on maturity

transformation outside of the formal banking sector, measuring leverage, and improving the analysis of the links between the real and financial sectors and of asset bubbles.

Sectoral accounts may have an important role to play in capturing data from nonbank financial institutions. Priorities in sectoral accounts work include developing balance-sheet data and improving the availability of position data, both financial and nonfinancial.

5.3 *Data communication/transparency*

Timely, comprehensive, and comparable data with user-friendly metadata are instrumental to the success of the G-20 data gaps initiative. In this connection, the Principal Global Indicators (PGI) website is a welcome initiative and an excellent example of cooperation among international institutions involved in statistical work. Improving the coverage, consistency, and timeliness of PGI data is a high priority, including in terms of enhancing comparability and providing more links to other relevant datasets, conference papers, etc. Longer and more homogeneous (cross-country comparable) time series are desirable.

As more sophisticated datasets come on stream, there is a growing need to explain the purpose and analytical use of any new data collections to get buy-in from the reporting entities. In this vein, the PGI could be leveraged for public relations, notably explaining and educating the users, thus lessening the amount of resources national authorities need to devote to these purposes. Also, consideration could be given to developing a strategy on communication and a common understanding of strategic priorities for new data developments. Nonetheless, increasing public transparency would need to be appropriately balanced vis-à-vis confidentiality considerations and the recognition that fuller transparency might at times trigger adverse and unintended reactions from markets.

The PGI could cover data on the indicators for policy benchmarking in the context of the G-20 Mutual Assessment Process (MAP) once these indicators are defined.

5.4 *Real estate prices*

Given the role of real estate markets in the recent global crisis and the relevance of mortgage debt in many economies, developing and/or strengthening data on real estate (residential and commercial) prices, along with making these data available to concerned parties, is a priority going forward. The development of appropriate commercial property price indices that can be used to value the housing stock is especially important for financial stability analysis.

6. Encouragingly, considerable progress has been made in addressing data gaps with individual IAG agencies allocated to lead work on specific recommendations. Consulted authorities recognized that enhancements to existing methodologies and datasets are bound to address certain gaps in the near future. They noted in particular the positive results on credit

default swaps, securities, CPIS, IIP, government finance statistics, public debt, and the communication of statistics (the PGI). Moreover, Data Dissemination Standards (GDDS and SDDS) have been strengthened, and work on developing an internationally accepted methodology for real estate prices is progressing well.

7. **Recognizing the interlinkages across the G-20 recommendations, consulted authorities underscored the need to make parallel progress in the implementation of the recently updated statistical methodologies**, namely: the *System of National Accounts 2008 (SNA 2008)*, the *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)*, and the *Government Finance Statistics Manual 2001 (GFSM 2001)*.

8. **In this connection, a practical approach for consideration could be to agree on possible minimum common requirements to obtain cross-country comparable data in the various domains.** The minimum common requirements, presented in template format, would represent milestones in a road map leading to full compliance with the updated statistical methodologies over time. The sequencing and timing of progressing on the road map would depend on country circumstances to be further discussed with national authorities on a case-by-case basis. To facilitate implementation progress, national commitments to implementing the road map could be accompanied by appropriate technical assistance and training with modalities to be agreed upon with national authorities on a case-by-case basis.

9. **Nonetheless, consulted authorities stressed that tackling effectively other gaps would take longer and require further additional resources.** The following main challenges going forward were noted:

9.1 *Development of new data frameworks*

The development and implementation of a new data template to better understand the exposures of G-SIFIs is a major task *per se*. Additionally, significant legal issues remain on data access and the sharing of confidential information. Because improving data sharing arrangements among the various authorities with responsibilities in the field of financial stability is critical, ways must be found to resolve legal obstacles on access to individual G-SIFI data in an inclusive and pragmatic manner, while safeguarding confidentiality of individual data to the extent possible. Work should continue to tackle these difficult issues.

Other major challenges include: (1) the development of analytical frameworks for measuring leverage and assessing tail risks and funding gaps; (2) assessments of the likelihood of tail risks having systemic implications in the event of large macro shocks; and (3) the development of fully-fledged sectoral accounts.

9.2 *Resources*

As budgetary constraints exist, consulted authorities noted that adequate resources would need to be identified and allocated to statistical work to ensure progress. Resource

constraints are a reality that could slow down new tasks to address data gaps or could stop ongoing work programs, which is cause for concern. In any event, resource considerations play an important role in determining implementation timelines for the various recommendations and draw attention to cost/benefit trade-offs.

In addition to the costs incurred by public agencies, private reporting entities are also subject to considerable compliance costs. These costs would need to be taken into due consideration. In particular, frequent changes to questionnaires requested by international institutions have significant resource implications for official institutions compiling the requested information and reporting private entities, including because they result in changes in coding systems and increased IT costs. Hence, questionnaires should be modified infrequently and only when necessary. The development and implementation of common data templates would be another option to pursue. Moreover, it is important to improve the analysis of existing data and recognize that more data may not always be the best answer.

9.3 *International and national inter-agency coordination*

Better coordination among international agencies and national bodies involved in collecting economic and financial data, including with regard to common sourcing, would go a long way to reducing compliance costs for all concerned parties. In this connection, the establishment of the Inter-Agency Group on Economic and Financial Statistics (IAG) is a major step forward, and further efforts should be made building on the positive experiences of the IAG and the PGI website, including data sharing among the IAG members on the basis of a reciprocity principle and possibly the development of more formal legal and institutional frameworks for these purposes.

At the same time, there is a need to address the link between the recommendations being coordinated by the IAG and their actual implementation at the country level where these recommendations are not legally binding, which may pose the risk of uneven progress in the extent and pace of implementation. It is therefore important to establish well-defined legal and institutional frameworks at the national level that would support the implementation of the G-20 recommendations.

Enhanced international coordination is not only desirable, but also necessary as there are various interrelated work streams that cut across the 20 recommendations and the implementation of certain recommendations overlaps with other international initiatives, e.g., external accounts and the *BPM6* and work on shadow banking that is carried out both by the IAG and an FSB working group.

Data sharing arrangements among various international agencies could be improved and their work programs be better integrated, including to minimize differences in estimates across international agencies so as to provide users with consistent datasets. For instance, the Early Warning Exercise could be better connected to the G-20 data gaps initiative,

and the development of new short-term indicators (e.g., monthly flash Gross Domestic Product (GDP) data) discussed in the context of the UNSC Working groups could be more fully integrated with IAG work .

Data compilation templates could be revamped so that the same information is collected once to avoid duplication of efforts, and publicly available data should be harvested as much as possible.

Coordination among national agencies involved in economic and financial data has improved noticeably in recent years—see, for instance, the establishment of the Office of Financial Research (OFR) in the United States,² new departments responsible for financial stability analysis at the Deutsche Bundesbank³ and the Reserve Bank of India,⁴ and inter-agency coordinating arrangements in India⁵ and Canada.⁶ Nonetheless, coordination of multiple national agencies involved in statistical work remains a challenge and further and broader-based progress would be desirable going forward.

² The Office of Financial Research (OFR) is established within the Department of Treasury under the Dodd-Frank Act. The primary purpose of the OFR is to collect information and evaluate the extent to which a financial product, institution, or company poses a threat to U.S. financial stability. The OFR is also responsible for standardizing the types and formats of data reported and collected; performing applied and long-term research; developing tools for risk measurement and monitoring; and providing information and resources to Financial Stability Oversight Council member agencies. The FSOC was also established under the Dodd-Frank act.

³ The Deutsche Bundesbank established a new department for financial stability in May 2009 as a means to intensify the dialogue between experts in the field of financial stability and statistics within a macro-prudential framework. The new department is in ongoing dialogue with the statistics department as well as the banking and financial supervision department of the Deutsche Bundesbank.

⁴ In 2009, the Reserve Bank of India (RBI) set up a financial stability unit that analyses the data produced by other departments in the RBI and other agencies. Also, a semi-annual Financial Stability Report has recently been launched by the RBI.

⁵ At end-2010, an inter-agency Financial Stability and Development Council held its first meeting under the chair of the Minister of Finance, with a sub-committee on inter-agency regulatory cooperation, chaired by the Governor of the RBI.

⁶ The Bank of Canada (BoC) hosts a banking statistics database which is jointly owned with the Office of the Superintendent of Financial Institutions (OSFI) and the Canada Deposit Insurance Corporation. Some of the data are integrated with StatCan programs. OSFI is the independent agency of the Government of Canada reporting to the Minister of Finance, the sole regulator of banks, and the primary regulator of insurance companies, trust companies, loan companies and pension plans in Canada.