

Use and Promotion of DGI Data: Canadian Perspective

GLOBAL CONFERENCE ON G-20 DATA GAPS INITIATIVE
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The views and opinions expressed herein are those of the author and do not necessarily reflect the official policy or position of the Bank of Canada or any agency of the Canadian government. I thank Graydon Paulin, Lorie Zorn, Virginie Tractlet, Marllena Chitu, Ian Christensen, and Brian Peterson for their input on this presentation.

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Financial System Risk Assessment in Canada



Financial System Review

The Bank of Canada publishes a financial system risk assessment twice each year in its [Financial System Review](#)

FSR Objective: identify and assess vulnerabilities and risks

- Vulnerabilities: pre-existing conditions that could amplify & propagate shocks throughout the financial system
- Risks: events that could happen (under extreme conditions) & would threaten core financial system functions
- Risks materialize when trigger events interact with vulnerabilities to cause stress

The Importance of Data

“The assessment of financial stability is becoming more rigorous and now follows a more structured analytical process, informed by models, better data and richer dialogue. This leads to more informed judgments around the risks to the financial system.”

- Stephen Poloz, Governor of the Bank of Canada

June 12, 2014

Consumers of Financial System Assessment

Audience

- Senior Advisory Committee (collegiate financial system body)
- Financial system participants
- Economists
- Journalists
- General public

Financial System Sectors

Sectors reviewed

- Domestic financial institutions
- Asset markets: securities, real estate, shadow banking
- Non-financial sector: households, governments, corporations
- Financial market infrastructures: clearing and settlement systems (payments, securities and derivatives).

Financial System Variables

Variables Monitored

- Leverage
- Complexity (i.e. complex entities, regulatory frameworks, instruments that are difficult to understand, opacity)
- Liquidity & maturity transformation
- Mispricing (i.e. assets)
- Exposures / interconnectedness (domestic & international)

Assessment & Estimation

- Risk Assessment: Expected Loss
 - Probability of adverse trigger events occurring
 - Impact if they do occur
- Probability and impact are estimated using qualitative and quantitative information
- Exposures to external shocks (financial economy and real economy) are considered when estimating probability of adverse events occurring in Canada

Topics

FSR Contents

- overview of macro-financial conditions
- assessment of the key vulnerabilities & risks to financial stability
- discussion of efforts to safeguard financial stability
- reports by BoC staff that examine selected issues of relevance to the financial system

Information Requirements

Key inputs into the FSR: current & prospective

- Early Warning Indicators
- Composite vulnerability indicators by sector
- Financial stress measures
- Household Risk Assessment Model: vulnerability measures (i.e. distribution of debt-service ratio)

Information Requirements

Key inputs into the FSR: current & prospective (continued)

- Corporate sector model: probability of default
- Bank Income Models
- Macro-Financial Risk Assessment Framework: stress testing model generates losses at individual DSIB level due to solvency risk, liquidity risk and network effects
- National Balance Sheets and Financial Flows
 - Help monitor shadow banking

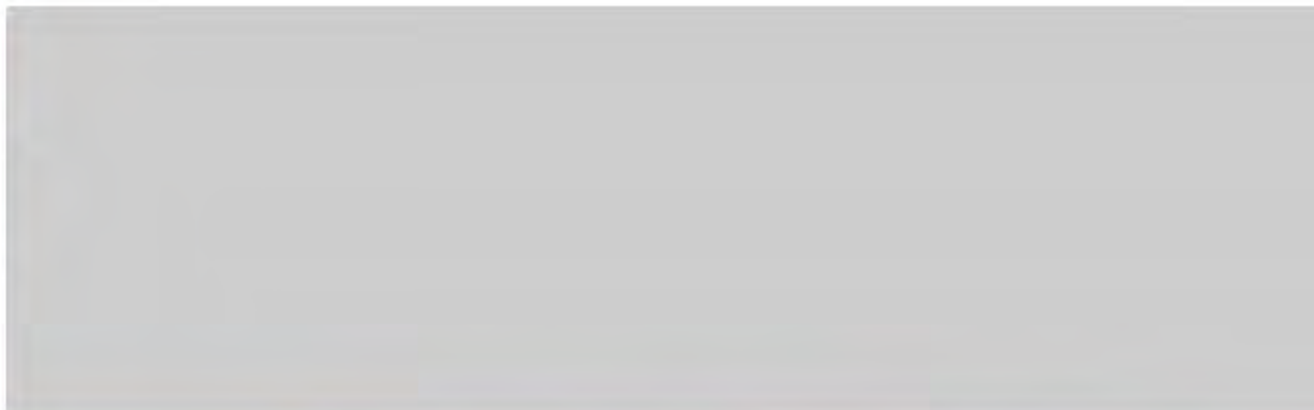
Interconnectedness in Financial System

- BIS International Banking Statistics
 - Important phase 2 enhancements include currency and maturity detail, counterparty sector detail
- Interbank and Major Exposures (domestic)
 - Do other countries collect data on domestic interbank exposures?
- International data hub (BIS) for globally systemically important banks

Distributional information

- Household Sector
 - Assets & liabilities
 - Characteristics
 - Statistics Canada Survey of Financial Security
 - Private sector data

Promoting the use of DGI data in Canada



Financial Stability in Canada: A Shared Responsibility

Senior Advisory Committee (SAC)

- Office of the Superintendent of Financial Institutions
- Finance Canada
- Bank of Canada
- Canada Deposit Insurance Corporation
- Financial Consumer Agency of Canada

Financial System Data Producers/Providers

- Statistics Canada
- Bank of Canada
- Office of the Superintendent of Financial Institutions
- Canada Mortgage & Housing Corporation
- Private Sector

Focusing attention on Data Gaps

- Articulate data needs
- Identify gaps
- Prioritize gaps
- Assess feasibility of filling gaps
- Develop strategy & timeline to fill gaps

Financial Stability Data Needs

Two Broad Categories

- Current vulnerabilities
 - Example: risks identified in the Bank of Canada's Financial System Review
- Early warning systems
 - Example: financial stability indicator models

Financial Stability Data Needs

Examples of Data Gaps in Canada

- Timely & frequent household level balance sheet data
- Non-prime mortgage borrowing
- Detailed real estate price data (geography, type of structure)
- Firm level data on corporations' financial conditions
- Credit quality indicators by geography
- Provincially regulated financial entities data
- Smaller FI exposure to DSIBs
- OTC derivative repository data

Challenges

- Financial system is interconnected, but responsibilities/data are spread throughout different agencies at different levels of jurisdiction
- Legislation aimed at protecting confidentiality can be a hindrance to data sharing (within and across countries)
- Fiscal restraint
- International coordination requires finding some common priority areas across G-20 countries while allowing countries the flexibility to address domestic priorities

Questions?

