

Terms of Reference for the Conduct of the Coordinated Compilation Exercise for Financial Soundness Indicators

Background

The increasing focus on financial system stability has led the IMF to undertake a work program to promote the use and compilation of Financial Soundness Indicators (FSIs) as a key tool for strengthening macroprudential surveillance of financial systems. At its meeting in June 2003, to support country compilation efforts, the IMF Executive Board endorsed a coordinated compilation exercise (CCE) for financial soundness indicators to be carried out by a group of countries after the finalization of the *Compilation Guide on Financial Soundness Indicators (Guide)*. The overall aim of this exercise is to develop country capacity to compile FSIs important to the surveillance of their financial system and to promote international comparability of FSIs.

Objectives

The objectives of the exercise are twofold:

- (1) To coordinate efforts by national authorities to compile cross-country comparable FSIs, in line with the principles in the *Guide*, for use in assessing the strengths and vulnerabilities of their financial system.
- (2) To disseminate the FSI data compiled along with the metadata to increase transparency and strengthen market discipline.

Modalities and scope of the exercise

Participation by IMF member countries will be on a voluntary basis. By accepting an invitation to participate, **a country agrees to:**

- Compile the following 12 core FSIs as defined in the *Guide*

Deposit-takers	<ul style="list-style-type: none"> Regulatory capital to risk-weighted assets Regulatory Tier I capital to risk-weighted assets Nonperforming loans to total gross loans Nonperforming loans net of provisions to capital Sectoral distribution of loans to total loans Return on assets Return on equity Interest margin to gross income Noninterest expenses to gross income Liquid assets to total assets (liquid asset ratio) Liquid assets to short-term liabilities Net open position in foreign exchange to capital
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- Provide the Fund by end-July 2006, for publication, information as of the reference date using the standard report forms regarding
 - Data on the core FSIs and the underlying data series
 - Related metadata
- Nominate a single agency to act as the point of contact for Fund staff¹
- Prepare and provide to the Fund an inventory on their current (pre-CCE) FSI compilation and dissemination practices
- Provide intermediate drafts of FSI metadata to Fund staff at appropriate intervals (prior to the regional meetings of 2005 and 2006, and at end-October 2005)

Countries are also encouraged to:

- Compile some or all of the encouraged indicators listed below as defined in the *Guide*. Provide the Fund by end-July 2006, for publication, the compiled encouraged FSIs as well as the related underlying data series and metadata using the standard report forms

Deposit-takers	Capital to assets Large exposures to capital Geographical distribution of loans to total loans Gross asset position in financial derivatives to capital Gross liability position in financial derivatives to capital Trading income to total income Personnel expenses to noninterest expenses Spread between reference lending and deposit rates Spread between highest and lowest interbank rate Customer deposits to total (non-interbank) loans Foreign currency-denominated loans to total loans Foreign currency-denominated liabilities to total liabilities Net open position in equities to capital
Other financial corporations	Assets to total financial system assets Assets to GDP
Nonfinancial corporate sector	Total debt to equity

¹ Because the compilation of FSIs is likely to involve several national agencies, participating countries are to nominate a single agency to act as the point of contact for Fund staff during the conduct of the exercise and coordinate the compilation of FSIs at the national level.

	Return on equity
	Earnings to interest and principal expenses
	Net foreign exchange exposure to equity
	Number of applications for protection from creditors
Households	Household debt to GDP
	Household debt service and principal payments to income
Market liquidity	Average bid-ask spread in the securities market ²
	Average daily turnover ratio in the securities market ²
Real estate markets	Real estate prices
	Residential real estate loans to total loans
	Commercial real estate loans to total loans

- Provide the Fund by end-July 2006, for publication, the following:
 - Sectoral financial statements underlying FSIs
 - Income and expense statements
 - Balance-sheet statements
 - Measures of dispersion and concentration
 - Historical data series
- Prepare a work program for conducting the compilation exercise

To support efforts of countries participating in the exercise, **the Fund staff will:**

- Conduct a meeting for CCE coordinators and compilers to discuss the terms of reference of the CCE; communicate to participating countries the future work program and timetable of specific actions for the CCE; address issues raised by CCE participating countries on FSI compilation in the CCE; help develop standard report forms for FSI data and metadata to be used in the context of the CCE; and facilitate the exchange of ideas and experiences
- Conduct regional meetings in 2005 and 2006 to review the draft metadata of countries and discuss country-specific and regional issues. The 2005 regional meeting will discuss countries' draft FSI metadata and progress under countries' work programs; the 2006 regional meeting will discuss the penultimate draft FSI metadata, preliminary FSI data, and the remaining work for the CCE

² Or in other markets that are most relevant to bank liquidity, such as foreign exchange markets.

- Provide on an ongoing basis technical advice on FSI-related issues from IMF headquarters
- Develop standard forms for reporting FSI data and metadata to the Fund (in consultation with countries)
- Collate and disseminate FSI data and other relevant information among participating countries (subject to national confidentiality regulations)
- Publish the data and metadata supplied for the reference date in a single release, which could be a starting point for ongoing compilation and dissemination by national authorities. At the request of the participating country, the Fund will not publish data that breach national confidentiality regulations relating to individual institutions data
- Convene a post-exercise meeting before the IMF Executive Board meeting in 2007 with participating countries to review the experience and discuss the next steps, including the prospects for the compilation and dissemination of FSI data by national authorities on an on-going basis
- Invite other international and regional agencies active in this field to assist in the conduct, and receive the results, of the exercise for their member countries

Reference date

FSIs are to be compiled using data as of December 31, 2005 for stocks and using data for the year ending December 31, 2005 for flows.³ Participating countries are encouraged to also compile historical data series.

Methodology

The *Guide* provides a benchmark or point of reference for concepts and definitions to be used in the exercise. Participating countries are to compile the FSIs in accordance with the guidance in the *Guide* on a best efforts basis taking into account their resources and data availability constraints.

In determining the need to collect new data, and hence incur an increased resource cost, participating countries are encouraged to make a judgment as to the likely importance of the contribution of the additional data series to the reliability of the FSIs that are compiled and

³ For FSIs such as the spread between reference lending and deposit rates, the spread between highest and lowest interbank rate, the average bid-ask spread in the securities market, and the average daily turnover ratio in the securities market, the reference date or period within 2005 for which these indicators are calculated is left up to the country authorities, who will specify it in the data and metadata report forms.

disseminated. Given this, metadata indicating how well each FSI compiled corresponds to its definition in the *Guide* is essential.

The *Guide* provides recommendations on the consolidation approach(es) to be followed. Domestically controlled cross-border consolidated data for deposit-takers will be the benchmark or reference point when preparing metadata describing the institutional coverage of the FSIs compiled for deposit-takers. The choice to adopt other consolidation approaches for deposit-takers will be left to national authorities, as is the case for other compilation practices.

Timeline of key events

April 2004

Participating countries nominate country coordinators

September 2004

Participating countries submit inventories of current FSI compilation practices

November 2004

CCE country coordinators and compilers meeting at IMF headquarters.

Mid 2005

First round of regional meetings

Spring 2006

Second round of regional meetings

July 2006

FSI ratios and the underlying data series for the core indicators, along with the corresponding metadata and, if compiled, the encouraged indicators and corresponding underlying data series, metadata, and other encouraged information, to be provided to the IMF

End 2006

Publication of data and metadata

Spring 2007

Post-exercise meeting of CCE country coordinators and compilers prior to IMF Executive Board meeting on FSIs and the CCE