

**Fourteenth Meeting of the
IMF Committee on Balance of Payments Statistics
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Report of the Working Group on Securities Databases

**Prepared by the Bank for International Settlements, the European Central Bank, and
the International Monetary Fund**

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I. INTRODUCTION

1. This document reports the outcome of efforts made to implement decisions made by the IMF Committee on Balance of Payments Statistics (Committee) at its meetings in Santiago in October 1999 and in Washington in October 2000 regarding the development of a global securities database (GSDB). Recommendations are made to the Committee on actions that can be taken by the Working Group on Securities Databases.

II. DECISIONS MADE BY THE IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

2. At its meeting in October 1999, the Committee established a Working Group on Securities Databases (Working Group) comprising the Bank for International Settlements (BIS), the European Central Bank (ECB), and the IMF to explore the development of a GSDB that could be useful for the Coordinated Portfolio Investment Survey (CPIS) as well as for other purposes. As a first step, the Working Group undertook a survey to determine (i) the size of securities markets in those countries represented on the Task Force of the CPIS and the availability of data sources; (ii) whether securities databases (SDBs) have been established and for what purpose; (iii) the benefits to statistical compilers from the use of SDBs and their start-up and maintenance costs; (iv) the prospects for establishing national SDBs that serve multiple purpose statistical and policy needs; (v) the use that member countries of the European Union may make of the European Central Banks' Centralized Securities Database (ECSB-CSDB), now under development; (vi) countries' plans to establish or further develop national SDBs in the next few years; and (vii) countries' views on what they would need from other countries' SDBs to address perceived deficiencies in their own SDBs. Some additional information was requested by the ECB from the member countries of the European Union.¹

3. At its meeting in October 2000, the Committee concluded that the survey response had been very positive and strongly in favor of the development of a GSDB. Nearly all of the countries responding to the survey saw value in being able to access the SDB's maintained by other national jurisdictions. In addition, there was overwhelming support for the proposal that an international organization take an initiative to establish a GSDB to which countries would make their own national SDBs available. In light of this, the Committee welcomed a proposal by the BIS to undertake a preliminary investigation into the feasibility and associated costs of collecting and redistributing data on individual domestic securities from existing SDBs. The BIS indicated that such a database, comprising information on the issuer and the issue (but not market prices), could be implemented fairly quickly.² The BIS

¹ The *Results of the Survey on Securities Databases*, which were presented to the October 2000 meeting of the Committee, are tabled as a background document

² Issue and redemption prices of individual securities would be included.

indicated its willingness to receive the data in whatever format they are currently stored, convert the data to a common standard, and then share them with central banks, designated agencies, and other official users.³ The Committee welcomed this proposal, recognizing the need for a quick implementation to benefit the 2001 CPIS and also the wider application of a GSDB, especially once information on prices are included, as a data source for compiling external debt statistics, and monetary and financial statistics. The Committee recognized that the further development of a GSDB should await the outcome of the ECB's work in developing the ESCB-CSDB.

III. COUNTRIES' RESPONSES TO THE BIS PROPOSAL

4. On behalf of the Working Group, on December 20, 2000, the IMF wrote to 30 countries (all those that participated in the 1997 CPIS less Bermuda plus Germany and Luxembourg) requesting their participation in the project along the lines proposed by the BIS. The letter requested that countries indicate what restrictions may have been placed on access to their SDBs and stressed that the preference of the BIS at the initial stage is to find ways of ensuring access to existing SDBs available to central banks and government agencies. The BIS would review the scope of these national SDBs to determine the extent to which they could be used to support a GSDB on individual domestic securities.⁴

5. Although validation checks would be included, no in-depth checking of the quality of source data was envisaged. It was proposed that the Working Group explore at a later stage the question of access to commercial SDBs.

6. A summary of countries responses to this proposal is given in Table A, which indicates that about two-thirds of the countries approached responded to the BIS proposal. Of these, two countries that already maintain SDBs indicated that they would be willing without reservation to share them with other countries (Denmark, Spain) and eight more with SDBs indicated that they would be willing to share them subject to further investigation as to

³ The preference of the BIS is that the national counterparts for this project, both in providing and retrieving data, be central banks. However, alternative arrangements for specific countries can be explored.

⁴ The BIS already maintains SDBs on international bond issues and money market instruments (where "international" refers to issues outside the country of residence of the issuer or denominated in a currency other than that of the country of residence of the issuer) and an SDB on announcements of international equity issues (where "international" refers to issues outside the country of residence of the issuer). For the purpose of the GSDB, all other securities are defined as domestic securities. The GSDB would comprise information on bonds and money market instruments issued in the country of residence of the issuer and denominated in the currency of that country together with information on equities issued in the country of residence of the issuer.

whether the data could be shared with third parties (Australia (bonds only) Belgium, Canada, Finland, Germany Portugal, Netherlands, United Kingdom). Two countries with SDBs (Italy and the United States) expressed reservations about the strategy proposed. Israel supported the BIS proposal provided that the GSDB included a mapping of securities identification codes.

7. A number of countries expressed concern that the data requested comprised individual records that are collected under the authority of a Statistics Act or equivalent and could not be released to third parties without some kind of exemption being granted. This concern applied to records maintained by both statistical offices and central banks. To secure the release of these data to third parties such as the BIS would require further investigation. In some cases, it was pointed out that the data requested are purchased from commercial vendors that place restrictions on the release of data to third parties. In these cases also, further investigation would be required to determine on what basis the data can be released to third parties.

8. The Deutsche Bundesbank drew attention to the fact that the ECB faces similar problems in requesting such data from Germany for the ESCB-CSDB and pointed out that changes in the ruling legal provisions that apply would need to be initiated, possibly in the course of installing the ESCB-CSDB. For this reason, the Deutsche Bundesbank was not willing to provide the BIS the data requested unless the ECB coordinated the preparatory work to ensure that data could be released to both the ECB and the BIS.

9. The Bank of Italy expressed concern that a GSCB drawn from national SDBs would be deficient if it did not also draw upon the SDB maintained by the Association of National Numbering Agencies (ANNA) through the ANNA Service Bureau. The Bank of Italy considered that the first step towards a GSCB should be to ensure access by central banks to the SDB maintained by the ANNA Survey Bureau. A second step could be to enlarge this database by adding information from national SDBs along the lines suggested by the BIS. Both steps should be envisaged in the BIS proposal.

10. Similar concerns were expressed by the United States Treasury Department. Focusing on the particular needs of the CPIS, it suggested using SDBs maintained by commercial vendors for globally traded securities, which are largely drawn from the SDB of the ANNA Service Bureau, and data provided by local stock exchanges, for which extensive efforts have been made to secure the mapping of securities identification codes. This would be a sufficient base to meet the needs of the CPIS with respect to coverage, quality, and currentness. It therefore remained to be demonstrated what value added could be derived by drawing on national SDBs. However, the U.S. was willing to explore the possibility of purchasing relevant commercial SDBs for securities issued by U.S. residents for the purpose of contributing to a GSCB.

Table A. Responses to Mrs. Carson's Letter of December 20, 2000, Inviting Countries to Respond to the BIS Proposal to Establish a Global Centralized Securities Database

Country invited	Whether Responded	Use national SDBs (for CPIS)	Would participate in BIS SDB	Preconditions
Argentina		Yes (Yes)		
Australia	Yes	Yes (No)	No	
Austria (*)		Yes (Yes)		
Belgium (*)	Yes	Yes (No)	Yes	Resolve legal constraints
Canada	Yes	Yes (Yes)	Yes	Resolve legal constraints
Chile		Yes (Yes)		
Denmark (*)	Yes	Yes (No)	Yes	None
Finland (*)	Yes	Yes (No)	Yes	Resolve legal constraints
France (*)		Yes (Yes)		
Germany (*)	Yes	Yes (Yes)	Yes	Resolve legal constraints
Iceland		No (No)		
Indonesia	Yes	No (No)	No	
Ireland (*)	Yes	No (No)	Yes	
Israel	Yes	Yes (Yes)	Yes	Map security Ids
Italy (*)	Yes	Yes (Yes)	Yes	Benefits to be clarified
Japan		No (No)		
Korea		No (No)		
Luxembourg (*)	Yes	No (No)	No	
Malaysia		Yes (Yes)		
Netherlands (*)	Yes	Yes (No)	Yes	Resolve legal constraints
New Zealand	Yes	No (No)	No	
Norway	Yes	No (No)	No	Resolve legal constraints
Portugal (*)	Yes	Yes (Yes)	Yes	Resolve legal constraints Include market prices
Singapore		No (No)		
Spain (*)	Yes	Yes (Yes)	Yes	None
Sweden (*)	Yes	No (No)	No	
Thailand	Yes	No (No)	No	
United Kingdom (*)	Yes	Yes (No)	Yes	Resolve legal constraints
United States	Yes	Yes (Yes)	Yes	Resolve legal constraints Map security Ids Benefits to be clarified Include market prices
Venezuela	Yes	Yes (Yes)	No	
Total = 30	Yes= 21	Yes = 19 (13)	Yes = 14	

(*) The ESCB members (NCBs of the EU Member States) are already participating in the project of the ECSC-CSDB (see section IV).

11. Most of the EU member countries stressed the need for the BIS to cooperate closely with the ECB's project of an ESCB-CSDB regarding the design of a GSCB in order to create synergies and avoid duplication of effort. Two countries (Portugal and the United States) considered that the database should include information on current market prices from the beginning.

IV. THE STATUS⁵ OF ESCB'S CENTRALIZED SECURITIES DATABASE

12. The ESCB "Centralized Securities Database" (ESCB-CSDB) project aims to establish a database on individual securities that would be a universal platform for promoting the collection of data on securities, issuers and, at a later stage, holders, relevant for statistics of the ESCB. The database will be shared within the members of the NCBs of the EU and BIS and will meet a variety of statistical and analytical needs.

13. The database will draw from external sources (commercial data providers (CDPs) and ANNA Service Bureau) and institutional sources that are already available within the ESCB. The quality management of the data, in respect to issues of member states of the ESCB, should, in the steady state, be organized on a cooperative basis within a "network" of NCBs of all EU member states. The BIS will also contribute actively to this network. This may allow an extension to potential contributors outside the EU area in the future.

14. The emphasis of the project lies on the provision of regularly updated information of high quality, in particular with respect to attributes of individual securities that are important for the statistical compilation process, such as classification of instruments, residence of the issuer, the amount outstanding, prices, income related items, etc.. Technically the CSDB should not only contain static "snapshots" of individual securities but provide a permanently updated database aimed at tracking the changes of characteristics of issuers and issues over time.

15. So far, the Statistical Committee (STC) of the ESCB has endorsed a User Requirements Document, defining the data coverage and the functionalities of the IT application system, and a Feasibility Study Document. The preparation phase of the ESCB-CSDB project will conclude with the approval of the Project Submission Document, which is expected to be finalized in the coming weeks.

16. The implementation of the ESCB-CSDB is likely to follow a phased approach: the first phase would cover the IT system, the final selection of CDPs, and the integration of data on issuers and issues. After the necessary specification of quality procedures and data exchange formats within the ESCB, the second phase will focus on the technical installation of the "CSDB network". The integration of data on holders of securities is foreseen in the third phase. The first phase of the ESCB-CSDB implementation is expected to start by the end of 2001.

⁵ As of beginning of October 2001

V. ALTERNATIVE WAYS FORWARD

17. Following a review of the comments received, the Working Group decided to evaluate the advantages and disadvantages of three alternative approaches to the design of a GSDB for domestic securities. These were characterized as (i) a *clearinghouse approach*, which would draw on the existing national SDBs of central banks and government agencies, which was essentially the BIS proposal to the Committee; (ii) a *commercial approach*, which would draw on existing commercial SDBs for globally traded securities that are already linked to the SDB of the ANNA Service Bureau (as recommended by the United States and Italy); and (iii) a *network approach*, which would essentially be a combination of the two and also require the setting of standards for quality control that participating countries would be asked to adhere to on a best efforts basis. The network approach would be essentially modeled on the ESCB-CSDB and could be seen as an extension of this to include countries outside the EMU.

18. To facilitate this evaluation, the Working Group invited Japan, the United Kingdom and the United States to become members. All three countries have accepted. Together with the member countries of the EMU (which are already participating in the ESCB-CSDB), the countries represented would account for nearly all globally traded securities. It was agreed that the Working Group would hold its first meeting with the expanded membership to formulate proposals for the design of a GSDB for domestic securities. Unfortunately, attempts to arrange this meeting on May 30, 2001 and September 24, 2001, had to be postponed because not all members were able to attend. The agenda for the next WGSD meeting to be held by end-2001 is attached in Appendix I.

19. Once a recommendation is made, the Working Group agreed that the next step is to prepare terms of reference, objectives, milestones, and a timetable of a feasibility study to be undertaken by the BIS in consultation with members of the Working Group. In addition, the Working Group will prepare a short vision statement that will state the purposes of the GSDB, describe the information to be stored on it in the short and longer-term, set out the timetable and milestones for implementation, and describe how countries might use it to improve the quality of portfolio investment statistics. The vision statement will also describe the relationship with the ESCB-CSDB.

20. In the following evaluation, it should be borne in mind that any approach to developing a GSDB for domestic securities will need to resolve problems of access to the source data. For many countries, there are problems of access by third parties to official SDBs that will need to be addressed, and commercial SDBs are unlikely to be freely available to third parties. In both cases, further work will be required to clarify the options.

21. The following evaluation looks at the alternative approaches from the perspective of the CPIS compiler (whose basic requirements are information on the country of residence of nonresident issuers of securities held by residents, and annual data on the market prices of these instruments). However, national compilers may have other needs that can be served by a GSDB. Thus, as noted earlier, the ESCB-CSDB is conceived as a multipurpose database

that, apart from meeting the needs of the CPIS, should also meet the various other statistical needs of the ECB.

1. *The clearinghouse approach*

22. The principal merits of the clearinghouse approach as envisaged by the BIS are that (i) it would build on SDBs established by central banks and government agencies in most industrial countries for securities issued by residents; (ii) it could be implemented fairly quickly and at comparatively low cost to the BIS; and (iii) it would go some way towards meeting the needs of CPIS compilers for information on securities issued by nonresidents (e.g., as a means of confirming the country of residence and institutional sector of the issuer, and the currency of denomination of the issue). The principal demerits were (i) there would be gaps resulting from the variable coverage of the SDBs established by central banks and government agencies (some being confined to bonds and/or public sector issues and others to what can be reported by banks or recorded on securities depositories and share registers); (ii) there would be gaps as only some countries would be participating; (iii) the lack of a mapping of securities identification codes would limit the usefulness of the data; and (iv) the absence of an agreed mechanism for reconciliation of potentially inconsistent information might well mean that it would take a long time until a sufficient degree of comprehensiveness and consistency of data was achieved (hence, the advantage of quick implementation may prove to be illusory). It should also be noted that the variable coverage and the lack of data on market prices would probably require CPIS compilers to turn to commercial SDBs anyway. Nonetheless, for CPIS compilers with access to commercial SDBs, there remained a potential additional benefit from the access provided to official SDBs.⁶

23. Should the clearinghouse approach be further pursued, one possibility would be to start a pilot project with Israel, Italy and Spain and ask the countries that appear to be well placed to participate (Belgium, Canada, Finland, Portugal, Netherlands, and the United Kingdom) to join when they are in a position to do so for the purposes of the pilot project. These first participating countries could then form the nucleus of a GSDB, which would gradually grow as other interested countries joined in.

2. *The commercial approach*

24. The principal merits of the commercial approach are that (i) it would build on SDBs established by commercial vendors that are already global in coverage, fully linked to the SDB of the ANNA Service Bureau, include market prices, and include a mapping of

⁶ The potential benefit arises from the fact that the data sources used by official SDBs (such as bank records and share registers) are generally not available to commercial SDBs (which are largely drawn from market sources such as national numbering agencies and stock exchanges).

securities identification codes⁷; (ii) it could be implemented most quickly of all; and (iii) it would meet the major requirement of CPIS compilers that they have access to a global securities databases covering all issues by nonresidents. The principal demerits are (i) the quality of commercial SDBs appears to be variable across countries; (ii) procedures for cost sharing would need to be agreed⁸; (iii) commercial vendors do not have access to some critical data sources; and (iv) commercial vendors may be careless in applying quality controls.⁹

25. Commercial SDBs are already used by some CPIS compilers, notably by the United States as a means of verifying the country of residence of the nonresident issuer and the institutional sector of the nonresident issuer and for valuing securities issued by nonresidents at market prices. A number of other CPIS compilers use commercial SDBs for valuing securities issued by nonresidents at market prices. This experience would suggest that the most widespread use of GSDB by CPIS compilers would be as a data source for market prices of individual securities.

26. From the perspective of the CPIS compiler, further work would be required to assess the adequacy of commercial SDBs (as compared with official SDBs) with regards to the information provided on issuers in particular countries.

3. *The network approach*

27. The network approach is the approach followed by the ECB for creating a centralized securities database for the euro area (and which includes market prices of securities). It implies that the ECB will not only collect the relevant data from central banks and statistical agencies but also supplement these by drawing on commercial sources. The use of commercial sources would ensure that the resulting CSDB has a global coverage. In addition, the ECB, in co-operation with the NCBs of the European Union, plans to perform quality controls on the data and will set standards for data compilation to ensure accuracy and consistency. It is acknowledged that the latter two tasks will require substantial resources.

⁷ The inclusion of market prices in commercial SDBs provides an opportunity for improved quality control through the plausibility checks that are run on the calculated values of securities.

⁸ A contract would need to be negotiated with the commercial vendors selected to allow shared access by participating central banks. It is also not clear how the BIS would be reimbursed by participating countries, and there is a potential moral hazard risk should countries hold back in the hope of securing free access.

⁹ Views on this are conflicting. According to some users, there has been a significant improvement in the application of quality controls by commercial vendors in recent years together with a significant improvement in their basic data sources.

28. The question arises whether the BIS would be prepared to take a similar approach towards establishing a GSDB. The advantage would be that the BIS could learn from ECB's experience with the ESCB-CSDB, and that a comprehensive and consistent database would probably be achieved earlier than under the clearinghouse approach. The main disadvantage would be the resource implications for the BIS. In relative terms, this approach would have the highest resource implications for the BIS. This is because (i) the number and diversity of countries will be much greater; (ii) the BIS may be obliged to rely more heavily on commercial sources than will ECB; and (iii) the BIS will lack legal authority to set standards for participating countries.

VI. FUTURE ACTIONS IN SUPPORT OF A GSDB FOR DOMESTIC SECURITIES

29. While all three approaches entail major shortcomings, the provisional assessment of the Working Group is that, under the present circumstances, the network approach of the ECB, which combines data collection from official and commercial sources and involves standard setting, might represent the best way forward.¹⁰ The adoption of the network approach would also meet many of the concerns expressed by countries about the usefulness and practicality of the earlier BIS proposal.

30. As issuance in securities markets is highly concentrated, the countries with the largest markets (the euro area, United Kingdom, Japan, and the United States) and which account for almost 90 percent of global issuing activity will comprise the initial group of participating countries in the GSDB. For this group of countries, the Working Group will explore with the countries the availability from both commercial and official sources of data on individual securities issued by residents of those countries, and under what conditions and when they can be made available to the BIS. Starting from the sources that are already available to the participants in the Working Group, it will evaluate what combination of data sources would best support a GSDB and what information on individual issues and issuers should be maintained on the GSDB. Given the likelihood that commercial sources will be included, the Working Group will explore possible cost-sharing arrangements.

31. The Working Group may establish a task force to facilitate this work.

32. Based on the standards now being developed by the ECB under which member countries will assume responsibility, on a best efforts basis, for applying standards for quality checking of information available to the ECB on securities issued by their residents, the Working Group will determine whether similar standards could be applied to the GSDB. The standards envisaged will be based on the principle that each country is responsible for the accuracy of the data on securities issued by its residents independently of whether the data

¹⁰ The assessment is provisional as the meeting of the Working Group that was intended to discuss the issues and make recommendations has not taken place.

are collected from official or commercial sources. Procedures will also be developed for determining the residence of issuers (such as international companies) where this is not clear.

33. Once the GSDB is established for the countries represented on the Working Group, other countries will be invited to participate

VII. RECOMMENDATIONS TO THE IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

- *That the Committee welcomes the proposal that the Working Group prepare a short vision statement indicating the purposes of the GSDB, the information to be stored in it in both the short and longer term, set out timetables and milestones for implementation, and describe how countries would use the GSDB to improve the quality of portfolio investment statistics.*
- *That the Committee welcomes the two stage approach envisaged by the Working Group in which a GSDB would first be established for the member countries of the Euro area, United Kingdom, Japan, and the United States, and then expanded to include other countries that wished to participate.*
- *That the Committee welcomes the proposal that the Working Group explore the usefulness and practicality of establishing a GSDB to be managed by the BIS.*

Working Group on Securities Databases

Meeting to be held at the European Central Bank

Agenda

1. Opening remarks [ECB]; Background, terms of reference of the Working Group, and purpose of the meeting [IMF] {30 minutes}
2. Review of the results of the Joint BIS-ECB-IMF questionnaire on securities databases (SDBs) [IMF] – Experience in using SDBs euro area countries [ECB], UK [UK], US [US], Japan [JP] and the BIS [BIS] {90 min}
3. Presentation of the “network” approach of the ESCB (European System of Central Banks) to establish an SDB for the EU/EMU member countries [ECB] {30 min}
 - Envisaged coverage of the ESCB-CSDB.
 - Review of commercial and official data sources and how they would be used in a matching and cleaning process
 - Quality controls
4. Discussion of the potential benefits from a multilateral co-operation over the medium-term between the core group (member countries of the euro area, Japan, the UK, and the US) [IMF, BIS, other participants] {90 min} [priority item]
 - What each participant could contribute?
 - What each participant could benefit?
5. Discussion of a possible role for the BIS as an intermediary in facilitating mutual access to a “global” SDB established by the core group of countries [BIS] {90 min}
 - The “networking” approach
 - The “clearinghouse” approach
 - Modalities for cost sharing
6. Further work to be done to facilitate preparation of a report by the Working Group to the IMF Committee on Balance of Payments Statistics at its meeting in Tokyo in October 2001 outlining plans for the medium term {30 min}