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Discussion

by

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Entitled

Cross-Border Financial Linkages: Identifying and Measuring Vulnerabilities

The views expressed in this paper represent the personal opinion of the author,
not necessarily the positions of the ECB or the ESCB.

Drivers of change

- **General context**

- Globalisation of financial markets
- Technology de facto annihilated time and distance

- **Financial markets**

- Banks are now global networks of legal entities.
- Long-distance, real-time interactions. Automation. Speed.
- New entrants joined, new segments emerged.
- New instruments and practices.

Fundamental shifts. Complexity shock?

Complexity and speed; human senses and finance

Human senses don't perceive finance. Statistics are our artificial senses.

Senses must work at the scale and speed relevant to our environment.

Relevant scale is global, relevant speed is real-time. Ideally.

Must the statistical community adjust?

- **New world, slow changing methods: Measurement challenges**
- **The paper shows limitations in our data,**
- **Areas of concern and promising avenues for progress.**
- **A business in that situation would consider a strategic review.**
- **Supply chain from real world to user's brains: where to adjust?**

Who we are, what we do: time for a rethink?

- **In 19th Century New York, icemen had a great business selling ice blocks.**
- **Came an innovative alternative: the fridge.**
- **A few icemen chose a new self-image: they sell “cold”, rather than ice.**
- **Those few thrived in the fridge business; the others vanished.**
- **How do we perceive ourselves as statisticians?**
- **Should we ask ourselves what business we’re in?**

The SSM drives change in European statistics

- **GRISS: integrating supervisory and statistical data**
- **Statistical Data Dictionary**
- **Banking Data Dictionary**
- **Input approach for bank reporting (implemented in IT and AT)**
- **EIDM: Review of all data resources at the ECB**

SSM: Single Supervisory Mechanism, the new European banking supervisor, at the ECB

Analysis and statistics: conflicting dynamics

**Analytical needs change fast
to follow fast change in the real world**

but

**Statistical processes are complex, slow to change,
especially global data collection**

Conceptually, reconciliation seems possible

- **Flexible processing layer, to serve new needs as they arise**
 - Consolidate current processes, address silos
 - Classical statistics and innovative products, e.g. data feeds into models
 - Investment in technology and relevant skills
 - Constant dialogue with users
- **Stable data layer, object level, interface with real world,**
 - Stable, yet able to absorb new types of objects as they arise
 - Globally standardised and independent of usage
 - Objects: entities, instruments / contracts, transactions
 - Constant dialogue with markets and industry

Needs we serve, products we deliver

- **Our users need global, flexible, high speed analysis**
 - address sudden, surprising, violent events (Lehman-style)
 - accommodate emerging categories (e.g. SPEs, OFIs, OTCs)
 - reflect changes in economic activity (e.g. FDI)
- **What products?**
 - our usual time series and indicators, made faster and more detailed,
 - new data products that feed models, enable drill-down and forensics
 - overall, more content, more detail, faster, globally standardised

A strategic opportunity, on a silver plate

- **Data standardisation: also a major concern for the financial industry;**
- **Hence, a common interest; cooperation is welcome by industry.**
- **Our respective needs for object-level reference data are very close;**
- **Standards must be the operational data infrastructure of industry.**
- **Industry cannot solve its collective actions problems alone;**
- **The public sector can bring to the table the ability to make law.**
- **Legal compulsion can help:**
- **We can help !**

Data standards in finance; what philosophy ?

- Each one of us needs it;
- No one can do it for themselves;
- There can only be one of it; hence
- We must do it together!

J.C. Trichet, 10 Sep 2010, speaking of the Reference Data Utility (now LEI)

Statistics supply chain for the 21st Century

- **Manage much larger data pools across countries and institutions;**
- **Build and run industrial-scale facilities for micro-data;**
- **Seek public-private, global cooperation where it helps;**
- **Collect data granular, standardised, at object level to**
- **Support flexible, multi-purpose use;**
- **Similar to the operational data needed by businesses in industry:**
- **Help build a clean global operational data infrastructure for markets.**
- **Engage in standardisation of data as a necessary condition.**

The Legal Entity identifier (LEI): a concrete step

- **A G20 Charter endorsed 4 November 2012**
- **Regulatory Oversight Committee, (80 members) as supreme governing body**
- **Private sector, non-profit Global LEI Foundation as operational core**
- **A global franchise of Local Operating Units competing to register entities and validate their data – a federated system.**
- **LEI data is a public good and can be accessed by all, for free;**
- **The LEI system is financed through fees paid by entities registered.**
- **To date, over 310.000 entities registered in 189 countries.**
- **Relationship data is under development – a key deliverable.**

A vested interest in industry data standards

“Data integration on the side of the ECB and the other authorities only comes at the end of a data production process the first input of which is in the internal systems of the banks.

The ECB has every interest to facilitate and promote integration and standardisation also on the “input side”, in the internal systems of the banks, for only this will ensure coherent information.

(...)

Also, integrating flows of micro-data from many sources across the world and analysing them effectively in a timely fashion must be enabled through the broad adoption, at global level, of data standards such as the Global Legal Entity Identifier, which is now operational.”

Mario Draghi, 15 Oct 2014, keynote speech at the ECB Statistics Conference