

Cross Border Financial Positions and Exposures

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IMF-FSB Users Conference (Washington, D.C., July 8-9, 2009)

Information gaps in cross-border financial exposures differ greatly among Mexican economic sectors. Mexican financial authorities require financial intermediaries (banks, brokerage firms, insurance companies, and investment and pension funds) to submit detailed balance sheet data on a monthly basis. Some of these data must be submitted on a daily basis with a great deal of detail. This information allows authorities to monitor banks' cross-border exposures with precision and opportunity. This is important in a country such as Mexico whose largest banks are subsidiaries of international banks. In the recent crisis, this information made it possible to follow the operations among entities of international groups. Also, the exposure of Mexican banks to "toxic" assets could be monitored by authorities. Finally, the data allowed the authorities to closely monitor financial entities liabilities with foreign counterparties. However, disclosure of banks cross-border exposures to the market participants is limited.

The availability of detailed cross-border exposures of non-financial firms is, in comparison, very limited to both authorities and market participants. This became evident in recent months when the depreciation of the peso (after the failure of Lehman Brothers) impacted adversely some Mexican non-financial firms that had important derivatives operations of with foreign financial institutions. It became evident that disclosure of cross-border exposures of corporations was insufficient and had important lags. Authorities responsible to maintain financial stability and the orderly functioning of key markets did not have all the information they needed. Counterparties (both national and foreign) of these corporations found surprisingly that other financial institutions had similar exposure to these firms.

Regulatory measures are being taken to enhance better and timely disclosure of relevant information of non-financial firms. Through securities markets regulation, more disclosure is being required in the form of quarterly reports, including mark-to-market positions, underlying assets, notional amounts, detailed payment conditions and contingency analysis (sensitivity analysis under three scenarios).

Authorities should carefully consider the costs and benefits of requiring non-listed non-financial corporations to disclose information on cross-border exposures. One view is that no systemic risks are associated to this information, since non-listed firms are usually

small, and hence there is no need to conduct a (costly) effort to obtain and disclose this information. However, in periods of financial innovation (when new financial operations and products disseminate widely among firms) new risks build-up, potentially reaching larger segments of firms, even those classified as non-systemically important. Certainly, the filing of the existing data gaps regarding these firms is to benefit authorities and markets as well.

Data on cross-border exposures by non-listed firms are difficult to obtain. Creditor data sources are mainly BIS-type or central bank surveys, but their levels of granularity are insufficient. Debtor data sources are almost inexistent.

One measure could be to enhance international cooperation on the exchange of information. This could be through authorities that have that information, although this would be precluded by confidentiality rules of different jurisdictions. Another possibility would be the exchange of information by credit registers of different countries.

There are also some important gaps regarding cross-border investments of households. Domestic authorities do not have information about some types of offshore investments, especially when they are conducted through hedge and investments funds. These types of investments which are not regulated remain as an issue of concern for authorities in home and host countries. In this sense, the only solution is to expand the scope of regulation to these types of investments and to strengthen the investor protection by providing more information about the characteristics of products in which households might invest.

In summary, what the crisis made clear to Mexican authorities regarding cross-border transactions was the need to improve the quality, granularity and availability of information in order to better quantify exposures and potential risks incurred, in especially those arising in derivatives transactions.