Data issues regarding cross-border financial positions and exposures - a preliminary assessment

Introduction

The Riksbank, which has a financial stability mandate, but no supervisory role, has the legal authority to collect the information it deems necessary from institutions that are supervised by the Swedish supervisory authority (henceforth the FSA). The Riksbank Act (6:9) explicitly states:

“Upon the request of the Riksbank, a credit institution or another company which is subject to the supervision of the Financial Supervisory Authority shall provide the Riksbank with such information as the Riksbank considers necessary to

1. follow developments in foreign exchange and credit markets,
2. oversee the stability of the payment system”

The Swedish banking system is “old-fashioned” in the sense that it is dominated by a few large banks, which are supervised by the FSA. The banks' main assets are loans, which are held to maturity, and there is little non-bank financial intermediation. All in all, this suggests that the Riksbank is in a good position to monitor important developments in the Swedish financial system. Swedish banks are, however, heavily engaged in cross-border banking activities. Roughly half of the Swedish banks lending is done outside Sweden. Most of the lending is done in mature markets; mainly other Nordic countries and Germany (see Figure 1, left panel). But during the global credit boom 2004-2007, three large Swedish banks (SEB, Swedbank and Nordea) aggressively captured market shares in the Baltic States (see Figure 1, right panel).

Weak spots in coverage of cross-border financial positions and exposures

The set-up of the Swedish financial system, and the ability of Riksbank to obtain bank specific data for financial stability analysis, has, not surprisingly, bearing on the further data needs that have been identified during the crisis. Some of these specific areas are tentatively, and in a non-exhaustively, listed below. The list is also tainted by recent

1 The views presented in this note are those of the author and does not necessarily represent the views of the Executive board of the Riksbank. This note also has a distinct "Riksbank angle", and the conclusions may not be applicable for other central banks.
developments in the Baltic States, but is, in principle, also applicable to other countries where Swedish subsidiaries and branches are active.

**Figure 1 - cross border banking in numbers**

Source: The Riksbank (see FSR 2009:1) and banks’ reports

**Better sharing (and collection) of data between home central banks and host authorities**

**Bank specific data**

Riksbank can obtain the data on activities of Swedish banks operating overseas. Usually this information is requested via the Swedish FSA, who requests the data from host supervisors, who then send it to the Swedish FSA, who then, in turn, sends it on to the Riksbank. While this works in principle, it is quite cumbersome. A better way to obtain the same data would be directly from host authorities. Unfortunately, as things stand now, there are often legal barriers preventing host authorities from sharing bank specific data with non-regulatory central banks as the Riksbank. Requiring data directly from host authorities would also in some cases circumvent the problem that banks deliver data to the Riksbank in non-harmonized formats, and minimize the reporting burden on banks. Such data sharing schemes would in addition guarantee that the Riksbank and host authorities look at the same numbers when discussing bank specific issues and would foster cooperation between central banks in general terms. Information on activities in host subsidiaries that could be shared with the Riksbank would for example include:

- FX transactions and open FX positions of subsidiaries
- High frequency data (at least weekly) on deposit flows (both in domestic currency and FX)
- Monthly statistics on cross-border interbank loans and roll-over rates
- Distribution of loan-to-value ratios in the loan portfolio
- To what extent are Swedish banks tapping the lending facilities of other central banks, and how much collateral that has been posted?
- How much reserves (required and voluntary) are held by Swedish banks in other central banks?

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1. In principle the Riksbank could also obtain this information through the Riksbank Act (6:9).
Securities transactions

Another area where improved data collection and data sharing could be of value concerns securities transactions of Swedish subsidiaries.

- To what extent are Swedish subsidiaries buying treasury bills that are issued in host countries?
- Issuance of securities by Swedish banks in local currency?

“Home bias in lending?”

Since the start of 2009, there has been a debate in Sweden to what extent foreign banks have decreased lending to Swedish non-financial firms. Private sector data indicates for example that foreign banks provided easy credit to some Swedish commercial property companies during the years of the credit boom. With the financial crisis in full swing, anecdotal evidence suggest lower-than-expected roll over rates for foreign banks’ loans. Fragments of information on direct cross-border bank flows (i.e. loans from foreign banks to domestic non-financial firms which are not intermediated by subsidiaries or branches) may be obtained from the balance-of-payments (BoP). However, data from the BoP are not of enough granularity, frequency or timeliness. Nor does the BoP data contain information amortization schemes. Hence, any measures that improve coverage of direct cross-border lending (including intercompany loans) would be warmly welcomed.

Non-financial sector

Finally there is a need for improved balance sheet data on the non-financial sector. In this respect it is important to acknowledge the limitations of aggregate data as aggregate data tends to average out, or mask pockets of vulnerabilities. For example, data on total household debt to GDP is of less value if there is no information on the distribution of debts across income groups. Last but not least, there is always scope for better data on property markets, especially on the commercial property market.