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Remarks at the BIS International Data Hub 10th Anniversary Conference

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This 10th year anniversary of the International Data Hub (IDH or "the Hub") provides an opportunity to celebrate and thank some of the unsung heroes of financial stability—those who have been doing the unseen, but critical work of gathering, cleaning, and analyzing the data that provide us with glimpses into how the financial system works and its potential vulnerabilities.

Today the International Data Hub serves a vital role in helping national authorities perform ongoing monitoring and analysis of key risks affecting the global financial system. By providing a horizontal view of risk that is unavailable elsewhere, the Hub continues to help fill the data gaps identified after the Great Financial Crisis and in so doing supports greater financial stability.

The Hub compiles, stores, and analyzes confidential credit, funding, and balance sheet data from its member agencies on a set of large global banks and provides reports to home country supervisors based on its monthly and quarterly datasets. These reports analyze interlinkages among the reporting institutions as well as their exposures to key counterparties across national financial systems, sectors, and markets, and highlight notable developments and trends. Additional analytical work for the Hub's member agencies has shed light on topics from margining to central counterparties, to maturity mismatches, derivatives exposure, collateral custody, and foreign currency mismatches, to name a few. Aggregated monitoring reports are also provided to the Bank for International Settlements (BIS), International Monetary Fund (IMF), and Financial Stability Board (FSB).

Currently 25 G-SIBs (greater than 80% of Global Systemically Important Banks) and five Domestic Systemically Important Banks (D-SIBs) from 11 jurisdictions provide data to one or more of the datasets maintained by the IDH.

These analyses, of course, are only made possible by the hard work of professionals across many institutions and agencies. This includes bank reporting teams across North America, Europe and Asia; national authority analysts who compile and transmit it; colleagues at the Hub led by Patrick McGuire and now Ben Cohen; the Hub Governance Group chaired by Philippe Billard; and the Technical Analysis Group members who help ensure the highest possible data quality and analytical integrity. A lot of effort goes into making this project work. I would like to take a moment to recognize and thank those who have and continue to contribute so much to the success of the International Data Hub.

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The IDH has its roots in curiosity, collaboration, and innovation.

In many ways, the Data Hub can be traced back to a 2008 financial crisis project of the Senior Supervisors Group (SSG), which is a forum for senior representatives of supervisory authorities to engage in dialogue on risk management practices, governance, and other issues concerning complex, globally active financial institutions. SSG members at the time were scrambling to identify and quantify banks' *shared* exposures to counterparties like Lehman and AIG. While each supervisor knew what *their* banks were exposed to, collectively they were like the proverbial blind men touching different parts of the elephant. Determined to see the whole picture, the SSG members agreed to collaborate and share information to identify common

counterparties. The SSG counterparty report served as the basis for the initial IDH reports, and several of the staff who stood up the SSG report worked on the IDH for the BIS.

Before going further, though, I want to share what may be the unofficial precursor to the SSG report.

In the mid-2000s, a particular trade became highly popular among large dealer banks. It was called the "negative basis trade" and was viewed as "risk free" to those who put it on.

The trade was simple: buy AAA-rated structured paper yielding, say, 25 basis points, and then buy credit default swap (CDS) protection on that paper for 15 basis points, and—voila!—earn 10 bps "risk free." In theory, any losses on the structured paper would be covered by the CDS protection purchased.

The main sellers of this CDS protection were the so-called monoline insurers — Ambac, FGIC, MBIA. All were AAA-rated (prior to going bankrupt in the crisis, of course).

The negative basis trade eluded most senior level risk reports. The net market risk was zero. The counterparty credit risk from the CDS was contingent on significant deterioration of the AAA-rated paper, an improbable event according to most models. To suffer an actual loss, there would need to be a double-default of the AAA-rated paper *and* the AAA-rated CDS counterparties, a scenario that was mathematically challenging to imagine. And the funding risk seemed quite manageable, as the repo market for highly rated paper had grown quickly, driven by high demand for yield from those long cash.

As it turns out, several curious examiners at the U.S. Securities and Exchange Commission (SEC) and analysts at the Federal Reserve Bank of New York stumbled upon this trade at around the same time. I was at the SEC then, and remember getting a call from Tim

Clark at the New York Fed. “We heard you guys are looking at monoline exposures. Can we trade notes?”

Like detectives, we slowly put the pieces together one by one and crafted a simple table. Each row corresponded to a bank or investment bank, while each column corresponded to a monoline insurer. We populated each cell with the total gross notional CDS protection that each bank bought from each monoline. The sums at the bottom of each column and at the end of each row were eye-opening.

To my knowledge, this was the first time that derivatives counterparty exposures had been compiled like this, to capture not just the micro-prudential risks to individual firms but also the macro-prudential risks more broadly.[1] That template would eventually be used by the SSG to aggregate counterparty exposures from all the major global systemically important banks, not just U.S.-based financial institutions.[2]

The SSG template evolved to cover much more than just derivatives exposure, of course. It grew to include exposures from loans, secured borrowings, placements, and payments, clearing, and settlement activities.

This was put to the test with the European debt crisis, starting with concerns about a possible Greek sovereign default in 2011. Those concerns quickly spread to other Eurozone

[1] Following the near collapse in September 1998 of the hedge fund Long-Term Capital Management (LTCM), 12 major internationally active banks and securities firms formed the Counterparty Risk Management Policy Group (CRMPG) to develop standards for strengthening risk management practices for banks, securities firms, and others that provided credit-based services to major counterparties in the derivatives and securities markets. The CRMPG issued its first report in 1999 aimed at improving internal counterparty credit and market risk management practices. The President’s Working Group on Financial Markets also issued a report in 1999 on the lessons of LTCM, with recommendations to improve transparency in the system and enhance private sector risk management practices. An updated report from the CRMPG in 2005 included recommendations to improve transparency and counterparty credit assessments.

[2] The Federal Reserve Bank of New York was the Secretariat for the SSG at the time.

"peripherals" (i.e., Portugal, Ireland, Italy, and Spain) and to the banks domiciled in those countries. The report proved highly valuable, as it was the only way for authorities to see the whole picture with regards to the financial system's sovereign and bank exposures.

The SSG report was formally transferred to the BIS when the International Data Hub was officially launched in 2013. Since then, the IDH has matured significantly and branched out beyond just the so-called "I to I" (institution to institution) report. The IDH supports leading research, monitoring, and analysis. Particularly notable has been the IDH's ability to cross databases to deliver insights into topics ranging from global dollar funding risks to exposure to nonbank financial institutions.

Today attention is focused on a different crowded basis trade. Arbitraging the Treasury cash-futures basis has garnered a lot of debate and discussion recently, in part because of significant improvements in data and analysis. Each leg of the trade involves significant leverage and different markets and players—namely, short Treasury futures, facilitated by dealer banks and prime brokers, and long Treasury bonds, funded by repo. We know this because of substantial improvements in data collection and data sharing since the GFC, the same kinds of data collection enhancements that underpin the IDH.[3] Those improvements have vastly enhanced our visibility into what's going on and with whom, which in turn has helped to sharpen and focus the debate about potential vulnerabilities in the Treasury market.

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[3] Daniel Barth, R. Jay Kahn, and Robert Mann, Recent Developments in Hedge Funds' Treasury Futures and Repo Positions: is the Basis Trade "Back"?, FEDS Notes, (August 30, 2023), available at https://www.federalreserve.gov/econres/notes/feds-notes/recent-developments-in-hedge-funds-treasury-futures-and-repo-positions-20230830.html.

The maturation of the IDH and in data research, monitoring, and analysis are successes well worth celebrating. But as with the Treasury cash-futures basis trade, more work remains to be done before we can say we have full "visibility." I want to close on that cautionary note.

The information environment is changing, as is banking. We are awash in data of varying quality and reliability, while the speed of financial events continues to accelerate. The forces impacting perception – which can quickly become reality in banking – are much more decentralized and dynamic than in the past. The role of non-banks, especially technology-focused companies, in the delivery of financial services can bring efficiencies and innovation but also new risk and vulnerabilities.

In short, past performance may not be indicative of future results.

For those tasked with monitoring the financial system, a healthy dose of humility (and even mild paranoia) will help the International Data Hub adapt and continue supporting the financial stability community. The key benefits of the IDH reports lie less in the reports themselves and more in the processes and interactions needed to ask and answer the relevant questions of the day.

As I noted earlier, the IDH has its roots in curious, collaborative, and innovative professionals taking an investigative approach to answering hard questions. These qualities will serve the IDH well as it adapts to tomorrow's challenges.

I am looking forward to the next 10 years of the International Data Hub and want to recognize, again, the amazing work of its staff and leaders.