September 11, 2014

To the G20 Finance Ministers and Central Bank Governors:

We are pleased to respond to your request of April 2014 for the IMF, FSB and BIS to advance work by September 2014 to address data gaps involving foreign currency exposures, building as far as possible on existing statistical and data initiatives to better assess cross-border risks.

Given the short period of time, the IMF, FSB and BIS have advanced work on different but complementary tracks. The key outputs of the work are:

- The Report on "Advancing the Work on Foreign Currency Exposures" prepared by the Staff of the IMF

  The IMF considers the issue of foreign exchange exposures highly relevant in the context of its surveillance work on risks and spillovers, as well as crisis prevention. To this end, the Report outlines the information included in the IMF statistical report forms which provide a conceptual framework for the analysis of domestic and cross-border foreign exchange exposures, from a residence-based approach.

  The potential for monitoring foreign exchange risks exists in the IMF report forms; however there are gaps in the availability of data. Information for the financial sector is generally available, including its cross-border foreign currency exposures, but this is not the case for the other sectors of the economy including for non-financial corporations.

- The BIS and FSB Summary of the Joint CGFS/FSB-SCAV workshop on risks from currency mismatches and leverage on corporate balance sheets

  The workshop was held on June 20, 2014 with public and private sector participants, to gather views on current trends affecting corporate balance sheets in emerging market economies. The key messages of the workshop underline the rising corporate leverage, the shifting of duration risk to investors, and the unavailability of consistent granular data, which masks the concentration of risks in particular sectors or institutions.

  The two main information gaps identified by the workshop participants were, first, in corporate hedging activities and other derivatives positions; and second, in the availability of financial statements for non-listed companies.

Going forward, the IMF proposes to advance the work on compilation of foreign currency exposures, in particular through the promotion of reporting of the foreign currency exposure table introduced in the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* (*BPM6*). The IMF intends to work primarily through the IMF

Committee on Balance of Payments Statistics, which is scheduled to conduct its annual meeting in October 2014. Also, the set of templates for internationally comparable sectoral accounts and balance sheets being promoted by the Inter-Agency Group, chaired by the IMF, under the G20 Data Gaps Initiative can be used by countries to help fill the information gap pertaining to the non-financial corporations sector. The forthcoming Triennial Surveillance Review will also look into the issue of foreign exchange exposures, particularly in the context of the effectiveness of IMF surveillance work on risks and spillovers. Moreover, the need for key financial sector data is also emphasised in the 2014 Financial Sector Assessment Program review.

In line with the approaches suggested at the workshop, the FSB will monitor progress by national jurisdictions to implement the relevant accounting standards, and will consider proposing that the accounting standard setters review disclosure requirements, in view of the changing needs of and increasing demand from stakeholders for information on foreign currency risk. Furthermore, the FSB will explore the extent to which supervisors are leveraging data collected by trade repositories and supervisory information to monitor foreign currency exposures, in order to identify key players in markets and to detect emerging vulnerabilities.

The BIS will continue to monitor and analyse these exposures closely. Mismatches between funding currencies and asset holdings on financial and non-financial balance sheets have been a central theme of recent BIS research. For example, the September 2014 issue of the *BIS Quarterly Review* looks at the impact of the increased role of asset managers on the dynamics and risks of cross-border investment flows, including foreign currency flows. In addition, work has recently been completed on enhancing the granularity of the BIS international banking statistics, including an expanded currency breakdown for the locational data. The BIS will continue to foster discussion among authorities and with the private sector on the relevant risks and vulnerabilities.

We will continue to coordinate our efforts in advancing the work on foreign exchange exposures, proposing to report back to G20 Finance Ministers and Central Bank Governors a year hence. We look forward to working further with the G20 economies on these important issues.

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IMF	FSB	BIS

Attachments