Goal 10

Target number: 10.5

Indicator Number and Name: 10.5.1 Financial Soundness Indicators (FSIs)

Agency: IMF

Has work for the development of this indicator begun?

Yes

Who are the entities, including national and international experts, directly involved and consulted in developing the methodology/and or data collection tools?

The methodology underlying the compilation of these indicators was developed by the IMF during 2002–2004. The final draft of the *FSI Compilation Guide* (*The Guide*) was endorsed by the IMF Board and posted on the IMF website in July 2004. It was published in paper form in March 2006. This work was informed by consultation with experts from other international agencies (including the Bank for International Settlements), standard setting bodies, and IMF member countries.

What is the involvement of or how do you plan to involve National Statistical Systems in the development of the methodology?

The IMF extensively collaborated with central banks and banking supervisory agencies in member countries to develop the FSI methodology. Also, the IMF regularly conducts training courses on FSIs to build capacity in countries and assist compilers addressing specific methodological issues they might encounter; these training also inform how to adapt the methodological aspects to specific countries' circumstances.

Please briefly describe the process of developing the methodology for the indicator?

The methodology outlined in *The Guide* is the outcome of sustained collective efforts that began in 1999, when the IMF launched its FSIs initiative and convened the first meeting of a reference group of FSI experts (FSIRG) from international/regional institutions and a broad range of countries for that purpose. Throughout the process of developing and fine-tuning these indicators, the IMF has reached out to and extensively consulted with the FSIRG and national authorities. The same consultative process has been undertaken as the IMF embarked on the Update of *The Guide,* which is scheduled for publication in the course of 2019.

Please indicate new international standards that will need to be proposed and approved by an intergovernmental process (such as UNSC) for this methodology?

The Guide is being updated to take into account recent developments in regulatory frameworks, improving guidance for consolidation approach, and expanding the set of recommended FSIs. The expanded list of FSIs for inclusion in the draft guide was discussed with the FSIRG during an FSI Workshop held during April 26–28, 2017 in Washington D.C. The draft *Guide* Update has been shared with FSIRG members and their comments have been addressed. The IMF is the agency in the lead for the development of the FSI methodology and will publish the *Guide* Update once it is satisfied with the outcomes of the consultation process.

When do you expect the methodological work on this indicator to be completed?

The Guide was completed in 2006 and its update is scheduled to be posted for a final consultative round by end-2018.

Are data and metadata already being collected from the National Statistical System for one or more components of this indicator?

Yes, based on *The Guide*.

If yes, please describe:

Central banks or supervisory agencies in member countries compile and report the FSI data and metadata to the IMF for publication on its external website (http://data.imf.org/FSI). As of October 2018, 138 member countries or jurisdictions have their FSI data and metadata posted on the FSI website.

How do you plan to collect the data?

FSI data and metadata have been collected using the standard reporting templates, based on *The Guide*, via a web-based collection system.

The FSI report forms, database, and dissemination portal will be updated after the publication of *The Guide* update.

If the indicator involves multiple components from different data sources, please describe how each individual component of the indicator will be collected here:

Supervisory data are the main source for the compilation of the FSIs. Other data sources include national accounts.

With what frequency is data expected to be collected?

Most countries report monthly or quarterly FSIs. A few countries report FSIs on a semi-annual basis

Is there a process of data validation by countries in place or planned for this indicator?

Yes

If yes, please briefly describe:

The authorities review the data before submitting them to the IMF. Upon receiving the data, the IMF performs additional validation tests with focus on ensuring consistency between FSI underlying series, its metadata and corresponding data reported in sectoral financial statements.

If you have any additional comments that you believe would be helpful to IAEG-SDG members in analysing the work plan and methodological development of the indicator, please provide them here:

Out of 40 FSIs, the IMF suggests using seven FSIs as SDG indicators for 10.5.1. These are encouraged under the Enhanced General Data Dissemination System (e-GDDS), including:

1 - Regulatory Tier 1 capital to assets
2 - Regulatory Tier 1 capital to risk- weighted assets
3 - Nonperforming loans net of provisions to capital
4 - Nonperforming loans to total gross loans
5 - Return on assets
6 - Liquid assets to short-term liabilities
7 - Net open position in foreign exchange to capital

Concepts and definitions of these indicators are noted below:

Regulatory Tier 1 capital to assets: This is the ratio of the core capital (Tier 1) to total (balance sheet) assets. It is a more stringent version of the leverage ratio and indicates the extent to which assets are funded by other than own funds and is a measure of capital adequacy of the deposit-taking sector.

Regulatory Tier 1 capital to risk- weighted assets: This FSI is calculated using total regulatory Tier 1 capital as the numerator and risk-weighted assets as the denominator. The data for this FSI are compiled in accordance with the guidelines of either Basel I, Basel II, or Basel III. It measures the capital adequacy of deposit takers based on the core capital concept of the Basel Committee on Banking Supervision (BCBS). Capital adequacy and availability ultimately determine the degree of robustness of financial institutions to withstand shocks to their balance sheets.

Nonperforming loans net of provisions to capital: This FSI is calculated by taking the value of nonperforming loans (NPLs) less the value of specific loan provisions as the numerator and capital as the denominator. Capital is measured as total regulatory capital. This FSI is a capital adequacy ratio and is an important indicator of the capacity of bank capital to withstand losses from NPLs that are not covered by specific loan loss provisions.

Nonperforming loans to total gross loans: This FSI is calculated by using the value of NPLs as the numerator and the total value of the loan portfolio (including NPLs, and before the deduction of specific loan- loss provisions) as the denominator. This FSI is often used as a proxy for asset quality and is intended to identify problems with asset quality in the loan portfolio.

Return on assets: This FSI is calculated by dividing annualized net income before extraordinary items and taxes (as recommended in the FSI Guide) by the average value of total assets (financial and nonfinancial) over the same period. This FSI is an indicator of bank profitability and is intended to measure deposit takers' efficiency in using their assets.

Liquid assets to short-term liabilities: This FSI is calculated by using the core measure of liquid assets as the numerator and short-term liabilities as the denominator. The ratio can also be calculated by taking the broad measure of liquid assets as the numerator. This FSI is a liquid asset ratio and is intended to capture the liquidity mismatch of assets and liabilities, and provides an indication of the extent to which deposit takers can meet the short-term withdrawal of funds without facing liquidity problems.

Net open position in foreign exchange to capital: The net open position in foreign exchange should be calculated based on the recommendation of the BCBS. Capital should be total regulatory capital as net open position in foreign exchange is a supervisory concept. This FSI is an indicator of sensitivity to market risk, which is intended to gauge deposit takers' exposure to exchange rate risk compared with capital. It measures the mismatch of foreign currency asset and liability positions to assess the vulnerability to exchange rate movements.

To illustrate, the proposed seven FSI indicators reported by ASEAN countries are listed below (Lao PDR does not report FSI to the IMF).

	Selected FSIs, Latest Available Data (Percent)								
	Brunei Darussalam	Cambodia	Indonesia	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
	2018Q2	2018Q2	2018Q2	2018Q2	2018Q1	2018Q2	2018Q2	2018Q1	2017Q2
Regulatory Tier 1 Capital to Risk-Weighted Assets	19.7	20.7	20.3	13.5	10.6	13.6	14.8	14.9	9.2
Non-performing Loans Net of Provisions to Capital	5.0	5.0	5.5	5.7		3.6	6.7	9.5	11.5
Non-performing Loans to Total Gross Loans	4.3	2.4	2.6	1.6		1.8	1.3	3.1	2.3
Return on Assets	1.3	1.0	2.4	1.5	0.9	1.3	1.4	1.3	0.6
Liquid Assets to Short Term Liabilities	92.5	25.7	32.8	151.7	58.8	51.3	76.1	33.4	
Net Open Position in Foreign Exchange to Capital	24.0	2.9	1.8	10.2		2.2			
Capital to Assets	12.8	14.6	14.6	11.2	6.6	10.8	8.8	10.5	7.8

(*As of October 2018)*