

CENTRALISED SECURITIES DATABASE OF THE EUROPEAN SYSTEM OF CENTRAL BANKS

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INTRODUCTION

In today's world where the financial situation can change very fast, the development of securities market is extremely important from the aspect of monetary policy, financial stability and market operations. As a result of the changes in the area of financial instruments in the last decades, securities have gained an increasingly important role in the economy and have thus merited closer attention. Investing spare money in securities has been a popular investment product in the world. For borrowers, securities have become, in addition to the financing by banks, an alternative for raising funds. As portfolio investment is of a very volatile nature, the movements in securities markets can bring about serious consequences for economies. Therefore, the statistics of portfolio investment, too, has to reflect these movements adequately in order to get an overview of the situation in the securities markets.

PORTFOLIO INVESTMENT STATISTICS

A global survey on the portfolio investment assets conducted by the IMF in recent years¹ has disclosed that there are great asymmetries between countries. This means that the claims of one country on another do not correspond to the liabilities of the latter country to the former. This is due to the use of different methodologies, different accounting principles and the availability of data, since access to information about securities trading is very limited in some countries.

In order to guarantee compliance to the internationally introduced requirements and ensure a common approach in reflecting the portfolio investment of euro area residents by economic sectors, the European Central Bank has decided to establish a Centralised Securities Database (CSDB) for the European System of Central Banks (ESCB). This database would enable to reduce the asymmetries of portfolio investment between the euro area countries and compile a single euro area balance of payments, international investment position and financial accounts.

Eesti Pank has compiled the statistics on portfolio investment liabilities of the balance of payments primarily on the basis of the electronic central register of securities managed by the Estonian Central Register of Securities. Thanks to this register, the data on portfolio investment liabilities in the Estonian balance of payments have been covered quite well. Only the data on customer accounts need to be improved to identify the residency of the ultimate owner of securities.

¹ Coordinated Portfolio Investment Survey.

Since many countries are lacking such an electronic central register of securities, the development of a single securities database is very important for the ESCB.

CSDB PROJECT

In 2001, the European Central Bank launched the CSDB project for the purpose of establishing a securities database. It involves the national central banks of the Member States, and starting from 2004 also Eesti Pank. The aim of the project is to create a database for the securities traded by the resident economic entities of the members of the ESCB, including the data on issuers and owners. In the light of the increasing demands on statistics, the existence of a single database would enable to decrease the work load of the balance of payments statistics providers. It would also help to save on countries' expenditure.

The CSDB project consists of three stages. In the first stage, the European Central Bank introduced the database as a functioning system and began to submit monthly statements from the database to the national central banks. By now, preparations for the second stage of the project have started. The implementation of this stage in 2008–2009 has to ensure a network connection between the database and national central banks for the purpose of automated data exchange. Although there were some quality checks in 2007, central banks can contribute to the improvement of quality to a greater extent only after the network connection with the CSDB system has been established. The project ends with the third stage, the aim of which is to include the data on the owners of securities. This is possible only after 2009.

CSDB SYSTEM

The data on securities are submitted to the CSDB by various sources: the internal sources of the European Central Bank, the national central banks of the Member States, the Bank for International Settlements (BIS), the Association of National Numbering Agencies (ANNA) and several commercial data providers who possess information on securities. Data has been loaded to the CSDB since 2005. Currently, the database includes information about 2.4 million debt securities and 1.3 million equity securities.

The CSDB system compounds the data received on every security from various sources. In addition, logical checks are performed, improvements based on intra-system applications are made (e.g. the calculation of the interest on debt securities is based on debt security's attributes and conditions defined at the time of the issue) and compound records for every security are created. The classification of securities is based on the unique ISIN-code (International Securities Identification Number) given to each security or some other international identification number.

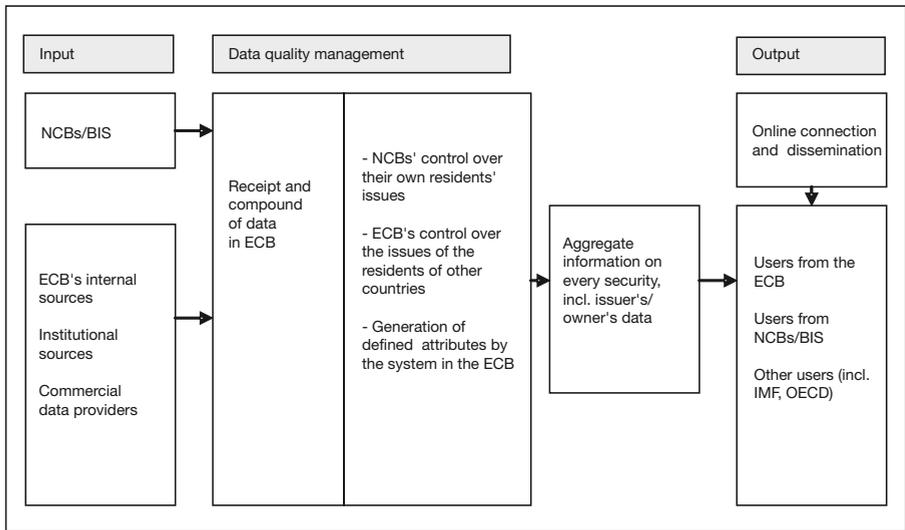


Figure 1. CSDB system

The principles of the CSDB system are described in Figure 1.

Currently, there is bilateral exchange of data between the European Central Bank and the national central banks. Hopefully, the technical developments of the project will enable to establish the network connection at the beginning of 2008. The network connection creates prerequisites for effective quality checks in central banks and for data exchange. Each Member State's central bank is responsible for the quality of the data on the securities issued by the residents of this state; the European Central Bank is responsible for the issues by the residents of other states. The price information on securities, which is difficult for the balance of payments compilers to obtain in the secondary market, is submitted to the CSDB from various commercial data providers.

SECURITY BY SECURITY REPORTING

According to the instructions of the European Central Bank, the presentation of portfolio investment in the euro area balance of payments and investment position must be based on the security by security reporting by the end of 2008. For the compilers of the balance of payments (for Eesti Pank in the case of Estonia) this means that after joining the euro area, portfolio investment data are no longer collected by countries but by securities. Information has to be collected also about the institutional sector of the non-resident parties of the assets and liabilities. In that case, the balance of payments statistics provider submits data on

every specific security and transaction. The price and income information, which is often difficult for the statistics providers to obtain, can be accessed by the balance of payments compiler from the CSDB. When the European Central Bank has ensured smooth operation of the database and the members of the ESCB have guaranteed the quality of the data, it is possible to proceed with the security by security reporting for the presentation of portfolio investment.

The goal of the CSDB is to improve the statistics on portfolio investment and on the income calculated on the basis of these investments, and to harmonise the compilation of the euro area balance of payments and international investment position as well as financial accounts. In addition, the CSDB can be a source for the statistics of the investment funds and the general government.

It needs to be underlined again that the use of the CSDB is possible only after very high quality of data has been achieved. This is the common challenge and goal of the European Central Bank and the national central banks in the following years.

CONCLUSION

The European Central Bank has been developing the Centralised Securities Database for several years now. This proves the ambitiousness and complexity of the project. Once the CSDB system is launched in full in the upcoming years and there is a high-quality database that meets the requirements, the European Central Bank and national central banks will have an important and trustworthy source, which enables to further improve the quality of the statistics on portfolio investment in the balance of payments and international investment position.