To Know It is to See It:
Data Aggregation and Systemic Stability

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- LEIs and better data aggregation are systemic essentials, but only if supervisors and regulators make effective use of these tools.
- To ensure effectiveness, data must not only go into databases, but also supervisory reports and public discourse.

This conference is organized around the fundamental principle that risk is unmanageable if it is unknowable. One vital way to know a risk before it explodes in our face is to identify which transactions are likely to pose what kind of risks by knowing how many of them there are to whom and where. To do so requires two essential elements: knowing what may create systemic risk and then having the data first to map and then to prevent it. Your great work has done much to enhance data availability. My fear is that the official guardians of financial stability don't know how to make use of it because they still miss so many sources of systemic risk.

Take for example Silicon Valley Bank. The bank knew and the FDIC also could have quickly known who had how much money in SVB deposits. Any bank with over ninety percent of its funds held as uninsured deposits is a risk warranting immediate scrutiny, scrutiny that should have been accelerated because the bank's huge exposure to held-to-maturity, under-water securities was also easily apparent.

However, even with data readily at hand, neither the Fed nor the FDIC was close to clued in to looming risk. FRB Chairman Powell says he was "baffled" by how the bank failed,[1] with the Fed, FDIC, and Treasury

[1] Catarina Saraiva, "Powell Says Fed Was Baffled by SVB Collapse Despite Warnings," *Bloomberg,* (March 22, 2023) https://www.bloomberg.com/news/articles/2023-03-22/powell-says-fed-was-baffled-by-svb-collapse-despite-warnings?sref=BSO3yKhf#xj4y7vzkg.

taken so aback by the midsized bank's failure that they deployed a systemic exception to intervene instead of using the orderly liquidation authority (OLA) Congress granted in 2010 to prevent more bailouts.

Data the regulators had; knowledge, not so much. They could and should have reasoned from these data points to anticipate the run risk. Yes, I know it was fueled by social media, not folks lining up outside the bank as in the good old days. However, we already know that social-media communication can create acute equity-market stress. That it might do so the same way at still more damage to banks always susceptible to run risk is not a stretch.

SVB of course isn't the only recent case in which reforms have failed to insulate the rest of the financial system or macroeconomy from severely-adverse risk. We know the Fed intervened with trillions in the 2019 repo crisis and did so just six months later when the nonbanks known in 2010 to pose systemic risk for which OLA was designed blew, threatening the banking system. Maybe a pandemic isn't predictable even if regulators knew as early as 2006 to watch for their systemic risks[2] – but look at how flat-footed Swiss regulators were when Credit Suisse failed in March even though its fragility was well understood across the financial industry.

When systemic-risk recognition only comes after a shock – as seems to happen over and over again – our systemic-risk vulnerabilities transcend vital data gaps also to include critical regulatory and supervisory analytical gaffes. How best to put your very hard work to its essential use?

Time this morning doesn't permit a detailed discussion of what U.S. and global regulators over and over again have either overlooked or – more usually – spotted, noted in a report or two, and then either ignored or told some other agency or entity to do something about it. We'll need instead to move on to what you all here this morning can do to ensure that data aggregation is significantly improved not just at the legal-entity level, but also in terms of supervisory and public reports that provide early-warning flares of emerging institutional or systemic risk.

You are all far more expert than I at the intricacies of legal-entity identifiers and the obstacles to expanding their scale, scope, and impact. My point this morning is to urge that, even as you look at improvements to the vital nodes of inter-connectivity evident by aggregating LEI data, you highlight what the data are likely to show to whom, how, when, and – most importantly – why.

The more data on their own and in aggregated form become more than items in various databases, the better they will be. Think for example what would have happened if the FDIC had bothered to tabulate how many uninsured deposits there were at SVB and how concentrated the largest depositors were in just a few individual entities. We wouldn't have had to know the names of the depositors for investors or the public to know that risks were rising and public reports to this effect would have concentrated the FDIC's mind if it failed to use the data it had. So too will key reports on key risks evident in the body of LEI data that will elude regulators unable to see the proverbial forest not just because they are looking at trees, but also because they don't even know how many trees there are and which might be ready to fall.

[2] Office of the Comptroller of the Currency (OCC), Office of Thrift Supervision (OTS), Board of Governors of the Federal Reserve System (FRB), and Federal Deposit Insurance Corporation (FDIC), "Interagency Advisory on Influenza Pandemic Preparedness," (March 15, 2006), https://www.occ.gov/news-issuances/bulletins/2006/bulletin-2006-12a.pdf.