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**Statement by Mr. Kotegawa and Mr. Harada on Seventh Review of the Fund's Data  
Standards Initiatives  
(Preliminary)  
Executive Board Meeting 08/108  
December 10, 2008**

We welcome this opportunity to conduct a periodic review of the Fund's Data Standards Initiatives, and would like to convey our appreciation to the staff for their work on this matter.

***Definition of Foreign Direct Investment***

Reviewing the definition of Foreign Direct Investments (FDIs) may go beyond this Seventh Review, but we would like to underscore the importance of reviewing this definition as it is more relevant to the current financial crisis than simply identifying financial indicators.

We have observed that the current financial crisis, like the Asian Crisis, generated a rapid unwinding of FDIs regarded as long-term investments in emerging countries. This phenomenon is evidence of the fact that funds categorized as FDIs include not only long-term investments, but also investments that can be de-leveraged in a short period. The Fund (as well as emerging countries per se) seems to believe, without doubts, that capital inflows shaping FDIs may reduce the risk of a balance of payment crisis.

This misunderstanding does not necessarily come from the definition of FDIs; however, taking into account lessons from the current financial crisis, it is important to review at an appropriate stage the definitions and categories of basic items of balance of payment statistics such as FDIs and portfolio investments. We believe that such a review will contribute toward enhancing the Fund's early warning responsibilities.

***Should the Special Data Dissemination System (SDDS) Include Some Financial Indicators?***

We understand that the SDDS should include some financial indicators in order to monitor

the influence of the current financial crisis on member countries. However, given that it would be necessary to accumulate further theoretical and empirical research regarding macro-financial linkages, it would be premature to encompass financial indicators into the SDDS.

In terms of establishing statistics, it is critical that we always bear in mind that, to the extent possible, the administrative burden related to member countries' provision of data should be kept to a minimum. At this stage, the analysis of macro-financial linkages is prioritized and the Fund should collect necessary data by appropriately strengthening its collaboration with the Financial Stability Forum (FSF), the Bank for International Settlements, the International Organization of Securities Commissions and the International Association of Insurance Supervisors. The staff's proposal to include some financial indicators in the SDDS seems to conflict with the Managing Director's statement, in a previous board meeting, that necessary data for macro-financial linkage analyses are collected through the FSF. If the staff were to proceed with their work to identify relevant financial indicators, we would hope that, at the Eighth Review, they will consider the analysis of macro-financial linkages (in close collaboration with the Research and Monetary and Capital Markets departments) and report their findings to the Board.

#### ***The Description of SDDS Metadata***

We understand the importance of ensuring data comparability; therefore, our authorities will make the greatest possible effort to do so. Having said this, given that the development of statistical practices reflects each country's history and conditions, there is a limit to their capacity to converge domestic practices with internationally accepted statistical practices. While we understand the need to provide a detailed description of metadata, we are not persuaded of the need to describe how a country's practices deviate from internationally accepted statistical practices. Also, the staff's statement that the Fund's reputation would be at risk if SDDS participants do not provide such a description is not convincing. It would be sufficient for the staff to encourage SDDS participants to improve their practices through Article IV Consultation missions.

#### ***Periodic Undertaking and Publishing of Data Quality Assessments***

Statistics are the basis for reaching a solid judgment about economic situations and prudent economic policies. Therefore, achieving a certain level of improvements in the provision of statistics is indispensable for the Fund's surveillance and policy recommendation activities. In this regard, we support the staff's proposal to periodically undertake and publish data quality assessments given that objective assessments of the quality of statistical data are required in order to maintain the quality of statistical data.

#### ***The Proposal to Recast the General Data Dissemination System (GDSS)***

We welcome the increase in the number of GDDS participants and look forward to seeing further increases. We support the staff's proposal to recast the GDDS to emphasize data dissemination and facilitate their graduation to the SDDS.

### ***Timing of the Next Review***

It is important to avoid frequent reviews of the GDDS and the SDDS from the viewpoint of continuity as well as that of costs and benefits. On the other hand, it is also important to continually improve both the criteria and statistical frameworks, taking into account the needs of the times. Given these views, this Chair believes it would be appropriate to hold the next review within a period of three years, rather than five years.

### ***Reserves Template***

We agree to the revision of the Reserves Template to cover exchange-traded futures, settled in domestic currencies, and to "tidy-up" revisions. This change is appropriate given that derivatives contracts could determine, for each member country, the appropriate level of accumulation of foreign reserves.

### ***Technical Assistance***

We fully recognize the importance of providing Fund technical assistance in the area of statistical data. While we are supportive of continuously providing Fund technical assistance for this purpose, we also emphasize the importance of improving the efficiency of technical assistance by means of clearly prioritizing each activity as well as appropriately conducting ex-post assessments.