

FSB

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Defining and measuring the Shadow Banking System

Yasushi Shiina, Member of Secretariat
28 August 2012

FSB work on shadow banking

November 2010 G20 Seoul Summit

“we called on the FSB to work in collaboration with other international standard setting bodies to develop recommendations to strengthen the regulation and oversight of the shadow banking system by mid-2011.”



December 2010 FSB Experts Workshop at UKFSA

January 2011 Establishment of the Shadow Banking Task Force (Co-Chair: Adair Turner (UKFSA) and Jaime Caruana (BIS))

- Clarify what is meant by “the shadow banking system”;
- Set out potential approaches for monitoring the shadow banking system; and
- Explore possible regulatory measures to address the systemic risk and regulatory arbitrage concerns posed by the shadow banking system.

April 2011 Scoping Paper (“Shadow Banking: Scoping the issues”) published

Summer 2011 1st Annual monitoring exercise

October 2011 Initial Recommendations (“Shadow Banking: Strengthening Oversight and Regulation”) published – Policy/regulatory works still continuing

Summer 2012 2nd Annual monitoring exercise

What is “Shadow Banking”?

FSB Report “*Shadow Banking: Strengthening Oversight and Regulation*” (27 Oct. 2011)

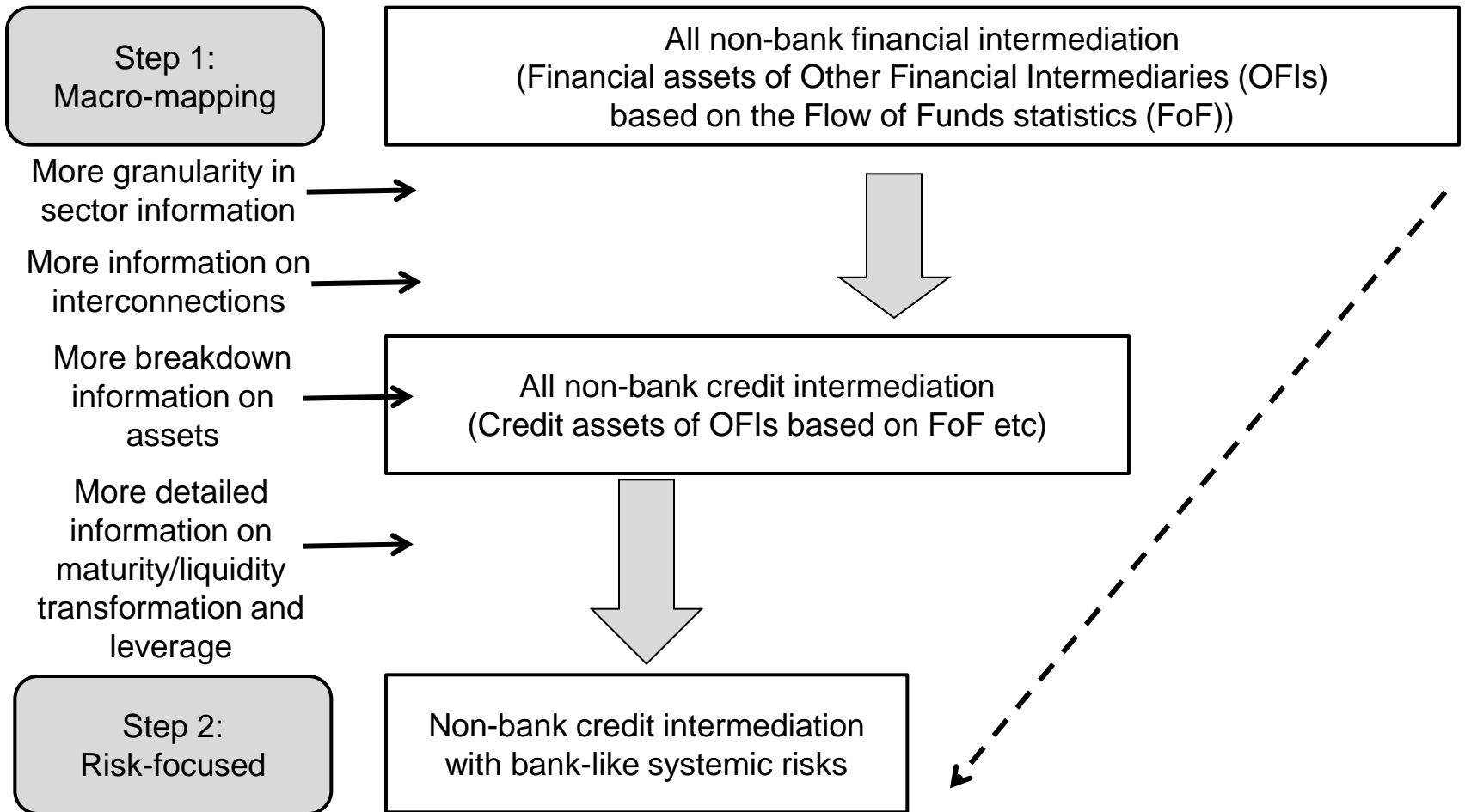
Shadow banking system can be broadly defined as the system of credit intermediation that involves entities and activities outside the regular banking system.

Monitoring and policy responses be guided by a practical two-step approach:

- Firstly, authorities should cast the net wide, looking at all non-bank credit intermediation to ensure that data gathering and surveillance cover all areas where shadow banking-related risks might potentially arise.
- Secondly, authorities should then narrow the focus for policy purposes to the subset of nonbank credit intermediation where there are:
 - developments that increase systemic risk (in particular maturity/liquidity transformation, imperfect credit risk transfer and/or leverage); and/or
 - indications of regulatory arbitrage that is undermining the benefits of financial regulation.

It is important to note the use of the term “shadow banking” is not intended to cast a pejorative tone on this system of credit intermediation. The FSB has chosen to use the term “shadow banking” as this is most commonly employed and, in particular, has been used in the earlier G20 communications.

Measuring the Shadow Banking System (Simplified conceptual image)



Monitoring the shadow banking system (1): Annual monitoring and assessment by FSB

The FSB will conduct its **annual monitoring exercise for assessing global trends and risks in shadow banking** through its Standing Committee on Assessment of Vulnerabilities (SCAV) chaired by Jaime Caruana (BIS).

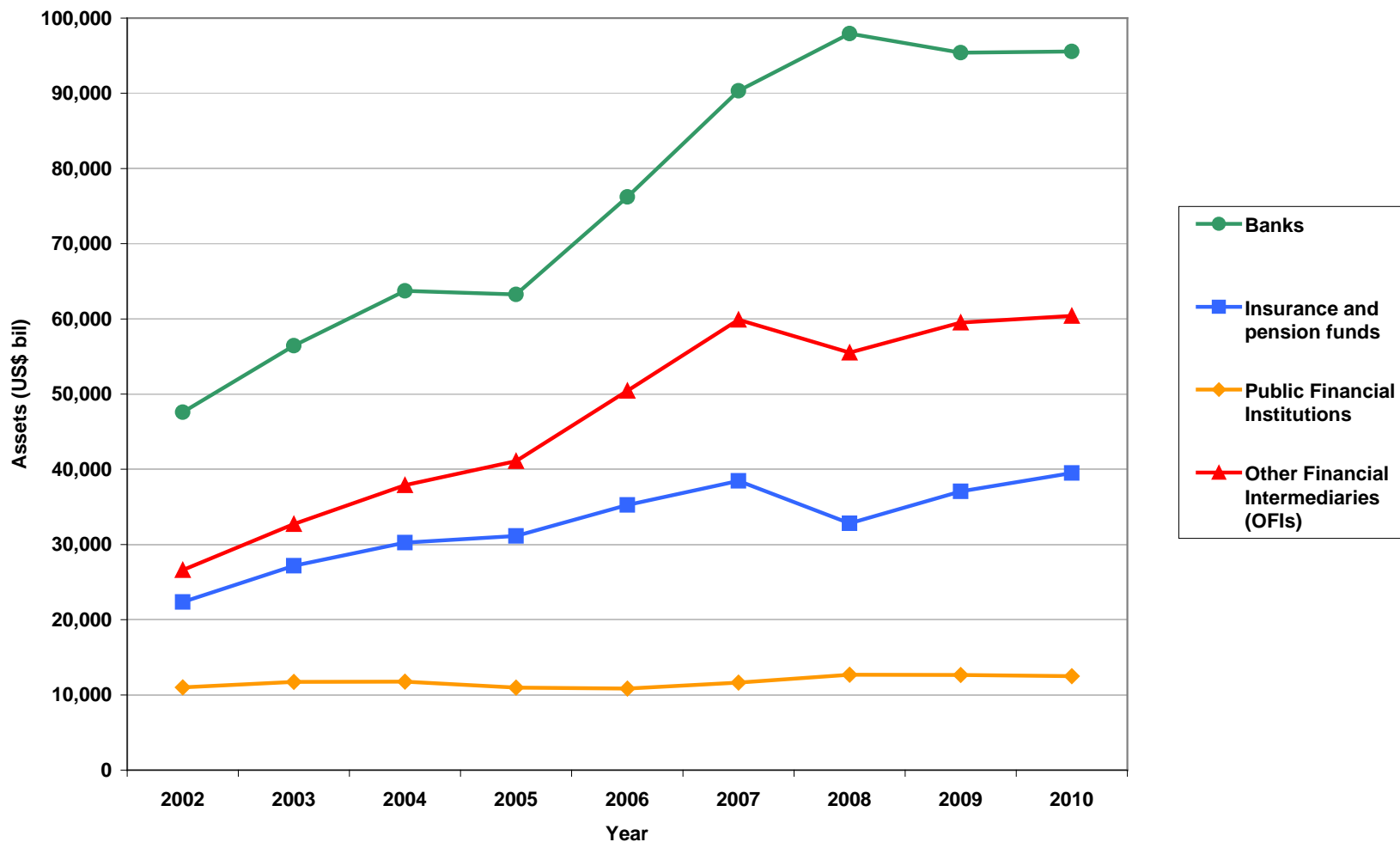
- A common data template capturing the changes in the structure of domestic financial systems (in particular banks vs non-bank financial intermediaries) , based on national Flow of Funds data;
- A short analysis of national trends in shadow banking;
- A survey questionnaire on certain non-bank financial entities or activities; and
- On a voluntary basis, case studies for discussion.

Draft Template Table for Shadow Banking Data Exercise - Flow of Funds*

Year/Quarterly (as of end-year/2) for stock assets data	Financial Institutions	Central Bank	Deposit-Taking Institutions	Banks						Insurance Companies (Note 2, 3)	Pension Funds (Note 2, 3)	Public Financial Institutions	Public Financial Institutions (Note 4)	XX (Note 1, 4)	Others	Other Financial Intermediaries (OFIs)	Money Market Funds (MMFs) - of which constant NAV or equivalent (Note 5)	Other Money Market Funds (MMFs) (Note 5)	Finance Companies	Structured Finance Vehicles	Hedge Funds (Note 6)	Other Investment Funds (Note 6)	XX (Note 1)	XX (Note 1)	XX (Note 1)	Others		
				Assets to OFIs	Liabilities to OFIs	XX (Note 1)	Assets to OFIs	Liabilities to OFIs	Others																		Assets to OFIs	Liabilities to OFIs
1999	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
2000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
2001	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
2002	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
2003	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
2004	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
2005	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
2006	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
2007	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
2008	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
2009	1Q	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
	2Q	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
	3Q	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
	4Q	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
2010	1Q	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
	2Q	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
	3Q	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
	4Q	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
Note (Detailed definition etc.)																												

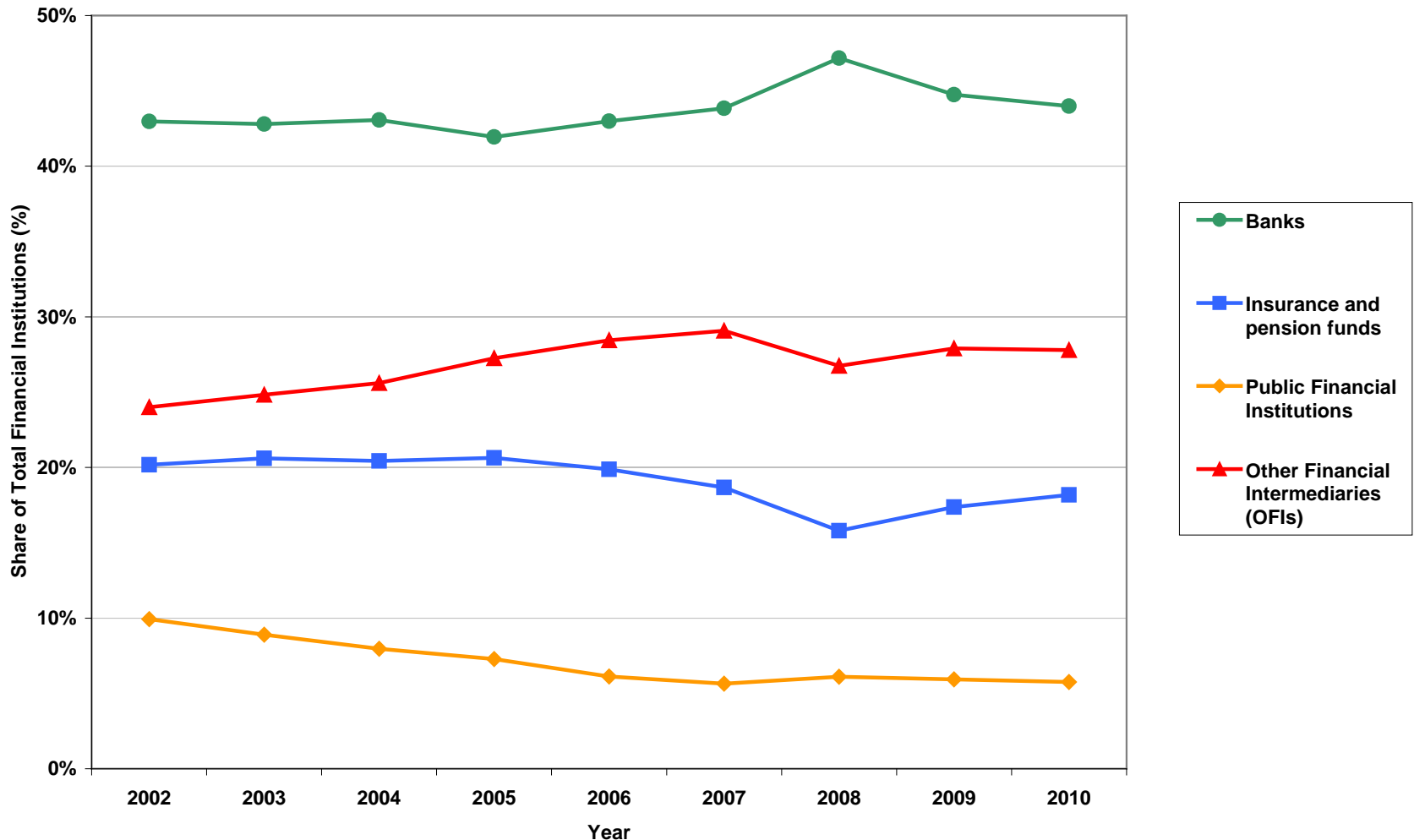
* Members may complement the Flow of Funds data with other information. If data is unavailable, please fill in 'N/A' or keep it blank.
 Note 1: For XX, please fill in subcategories as relevant.
 Note 2: If data for Insurance Companies and Pension Funds can not be separated, please fill the aggregated number in the insurance companies' cells and explain that in the Note cell.
 Note 3: If data for Insurance Companies, Pension Funds and Public Financial Institutions are included in Other Financial Intermediaries, please clarify that in the Note cell.
 Note 4: If data for government-owned deposit-taking institutions are included in the Public Financial Institutions, please separate that out in XX cells or clarify as such in the Note cell.
 Note 5: If data for MMFs can not be separated between CNAV and Others, please fill the aggregated number in the CNAV MMF cells and explain that in the Note cell.
 Note 6: If data for hedge funds can not be separated from Other Investment Funds, please fill the aggregated number in the Other Investment Funds cells and explain that in the Note cell.

Monitoring the Shadow Banking System (2): Assessing the Global Shadow Banking System



Note: Data from Australia, Canada, the euro area, Japan, Korea, the UK and US.
Source: *Shadow Banking: Strengthening Oversight and Regulation*

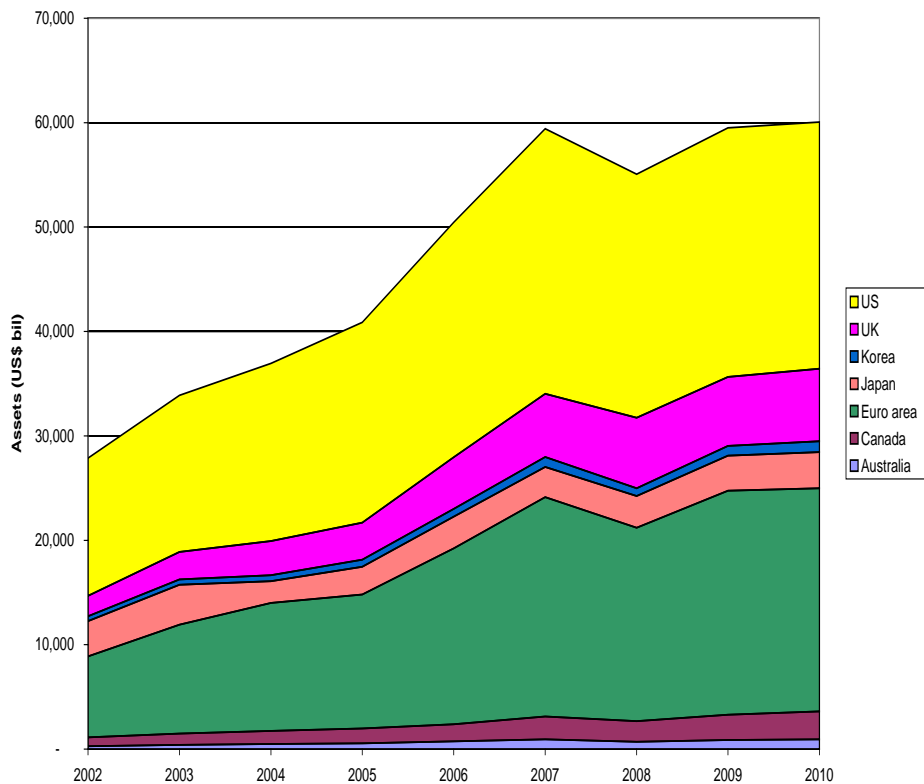
Monitoring the Shadow Banking System (3): Assessing the Global Shadow Banking System



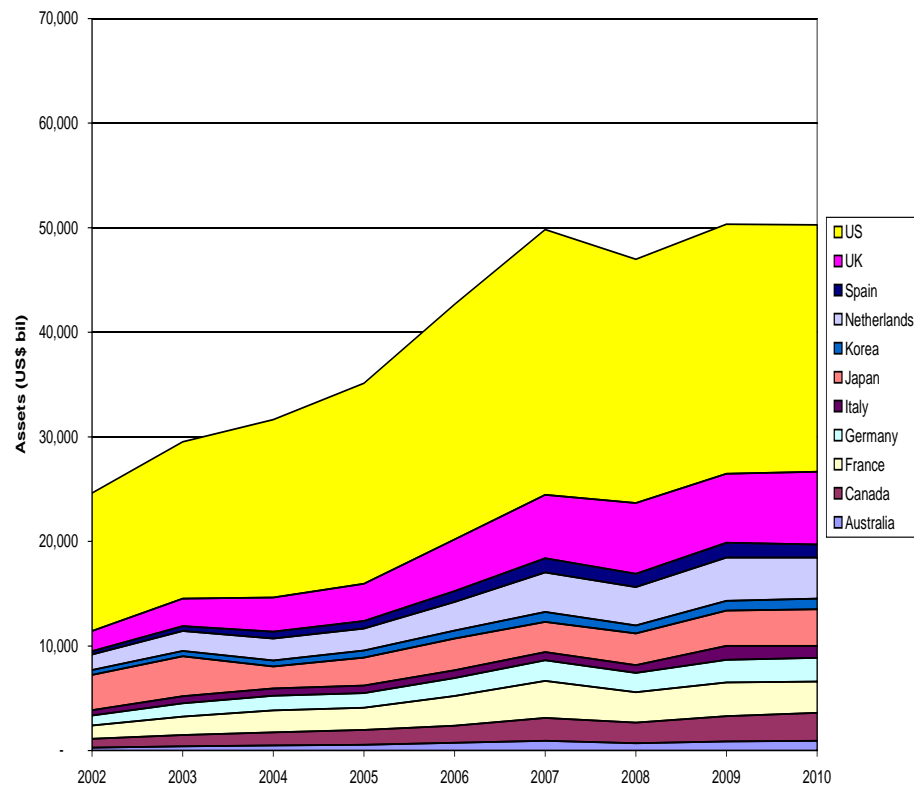
Note: Data from Australia, Canada, the euro area, Japan, Korea, the UK and US.
Source: *Shadow Banking: Strengthening Oversight and Regulation*

Monitoring the Shadow Banking System (4): Assessing the Global Shadow Banking System

6 Jurisdictions + the euro area

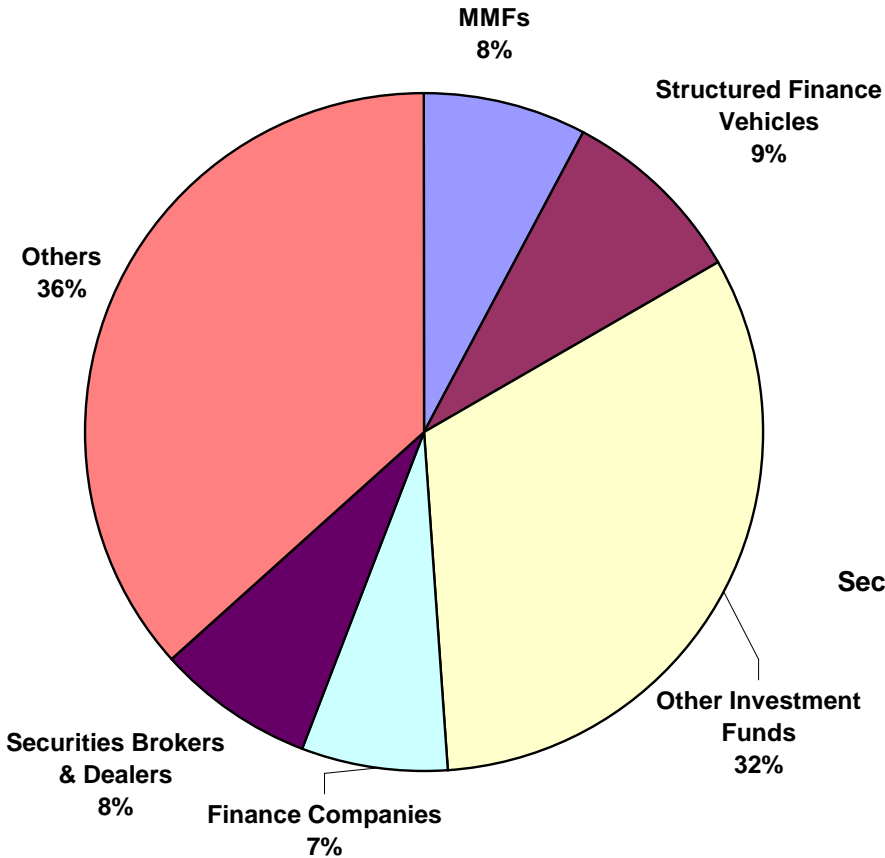


11 Jurisdictions

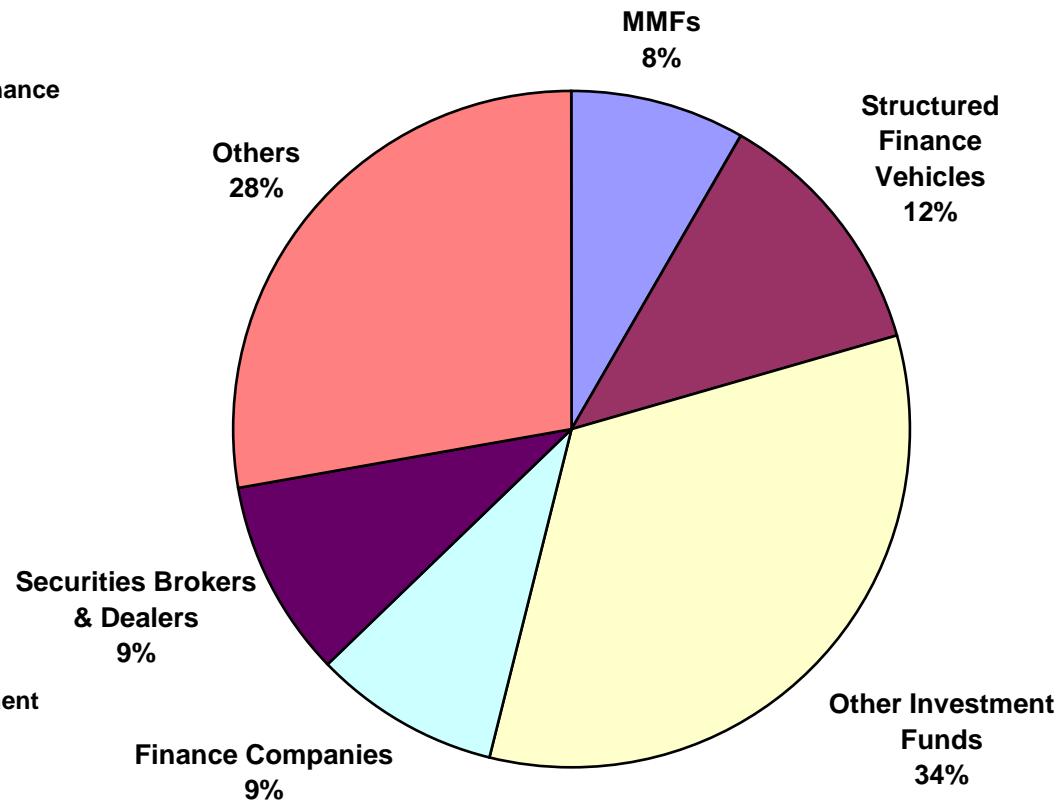


Monitoring the Shadow Banking System (5): % Share of Shadow Banking* sub-sectors

2010



2005

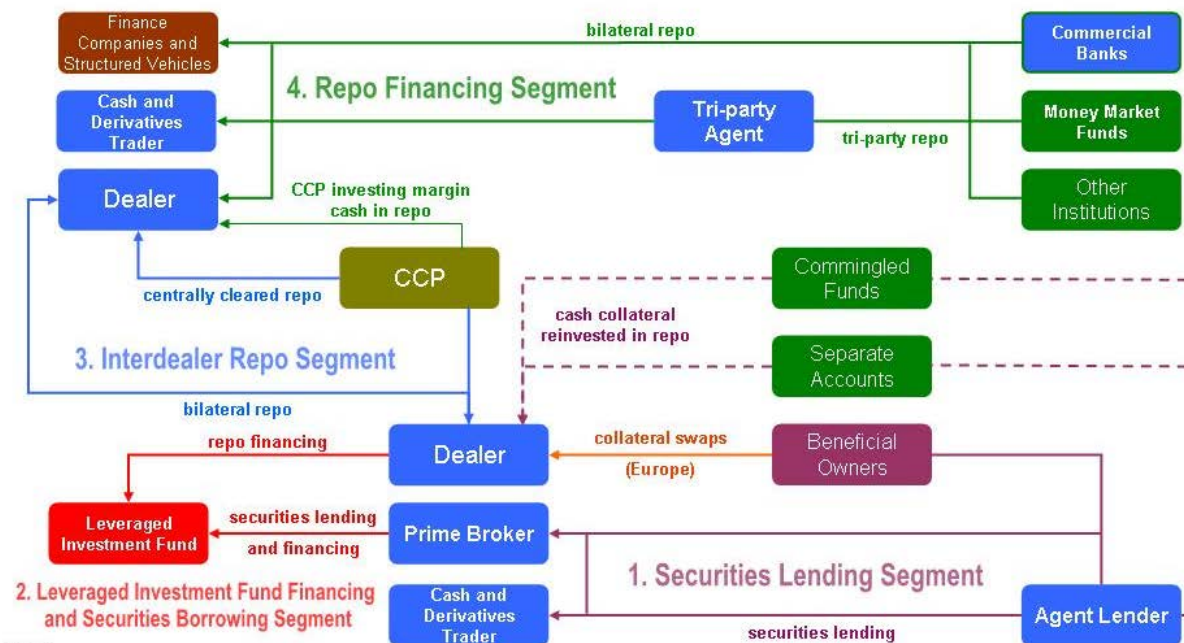


*: Other Financial Intermediaries (OFIs)

Monitoring the shadow banking system (6): Securities lending and repos

FSB Workstream on Securities Lending and Repos (WS5) is currently preparing policy recommendations to address financial stability issues in the securities financing markets.

Such recommendations may include improvement in regulatory reporting and disclosures which would complement and enhance the measurement of shadow banking.



Note:

1. This diagram is intended to provide a general picture of the market only. Actual practices may differ across jurisdictions.
2. Beneficial Owners in the securities lending segment may include pension funds, insurance companies and investment funds.
3. Commingled funds include both registered money market funds and unregistered funds.
4. Other Institutions in the repo financing segment may include pension funds, insurance companies and corporations.
5. The arrows in the diagram point to entities that typically post margins/haircuts, and the blue boxes represent entities that are usually part of a banking group.

Monitoring the shadow banking system (7): High-level principles for effective monitoring

Recommendations for effective monitoring framework will consists of i) high-level principles (outlined below) and ii) a stylised 3-step monitoring process.

- i. **Scope:** Authorities should have an appropriate system-wide oversight framework in place to gain a comprehensive picture of the shadow banking system and of the risks that it poses to the entire financial system.
- ii. **Process:** A monitoring framework for the shadow banking system should identify and assess the risks on a regular and continuous basis.
- iii. **Data/Information:** In establishing a monitoring framework for the shadow banking system, the relevant authorities should have powers to collect all necessary data and information, as well as the ability to define the regulatory perimeter for reporting.
- iv. **Innovation/Mutation:** Monitoring of the shadow banking system should be flexible and adaptable to capture innovations and mutations in the financial system which could lead to emerging risks.
- v. **Regulatory arbitrage:** In monitoring the shadow banking system, authorities need to be mindful of the incentives to expand shadow banking created by changes in regulations.
- vi. **Jurisdiction-specific features:** In developing a monitoring framework, authorities should take into account the structure of financial markets and regulatory frameworks within the jurisdiction.
- vii. **Information exchange:** Authorities should exchange appropriate information both within and across the relevant jurisdictions on a regular basis to be able to assess the risks posed by the shadow banking system.