

Shadow Banking

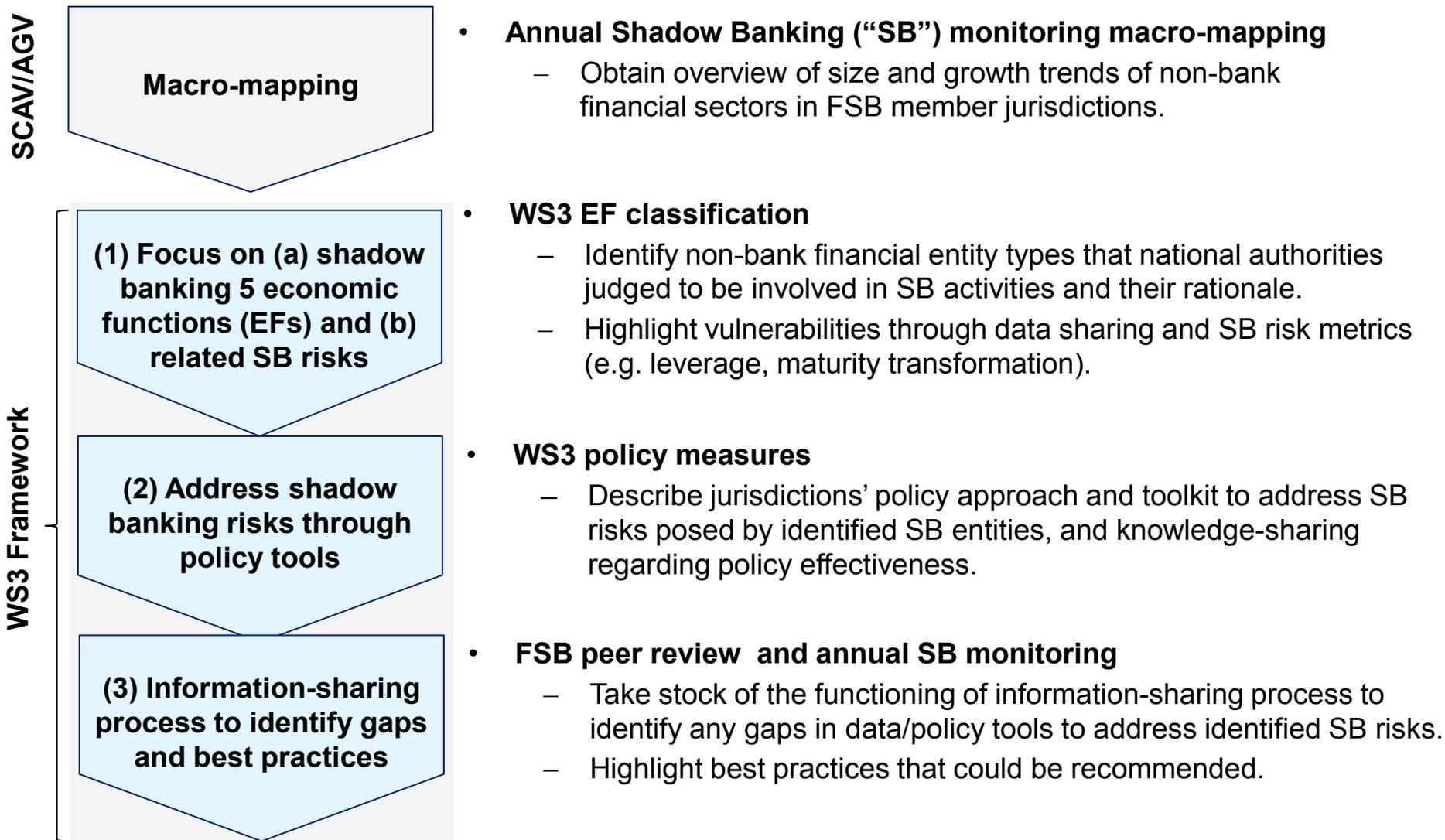
Update on FSB work on strengthening the oversight of shadow banking

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- FSB WS3 Policy Framework for Other Shadow Banking Entities
- Process
 - Macro mapping
 - Economic Functions
 - Risk metrics
 - Policy tools
 - Information-sharing process to identify gaps & best practices
- Appendix

Overview of the WS3 policy framework for other shadow banking entities

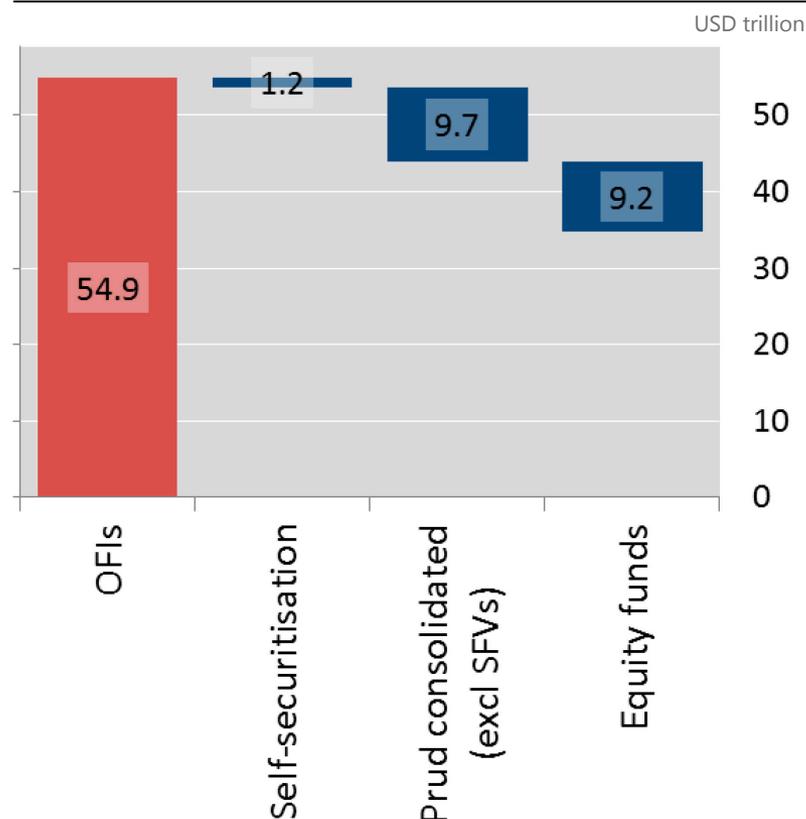


SCAV/AGV Macro Mapping

- FSB’s SCAV/AGV’s annual macro-mapping exercises provide the basis for WS3’s mapping exercise.
 - Largely Flow of Funds based, capturing Other Financial Intermediaries (“OFIs”) outside of banks, insurance and pension funds.
 - May be supplemented with other data (e.g. commercially available) on entities where appropriate.
 - Aims to assess global trends and risks in the shadow banking system.
 - Excludes entity types that do not engage in shadow banking (non-bank credit intermediation) or associated shadow banking risks.

Narrowing down shadow banking

20 jurisdictions¹; at end-2012

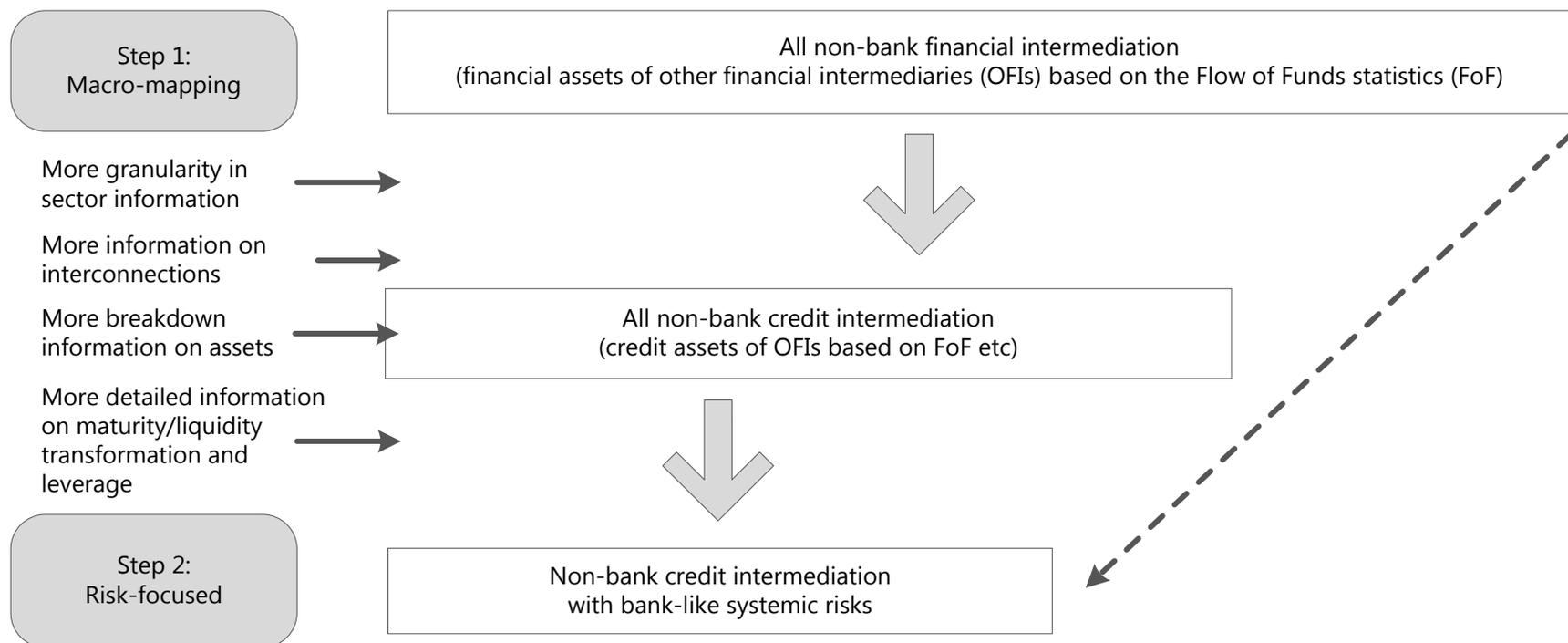


¹ 20 jurisdictions reported more granular data for narrowing down.

Sources: National flow of funds data; other national sources.

Measuring the shadow banking system

Simplified conceptual image



(1a) Categorization of SB entities into Economic Functions

- Rationale for Economic Function-based Approach:**

- FSB developed an economic function based framework for classifying shadow banking entities, which allows authorities to categorize by activities rather than legal forms (entities) to strengthen international consistency in assessing SB risks.

Approach based on 5 Economic Functions (EF's):

Economic Function	Description of Risks	Example of Entities
EF1	management of <u>collective investment vehicles</u> with features that make <u>them susceptible to runs</u>	e.g. credit hedge funds, fixed income mutual funds
EF2	<u>loan provision</u> that is dependent on <u>short-term funding</u>	e.g. finance companies
EF3	<u>intermediation of market activities</u> that is dependent on <u>short-term funding</u> or on <u>secured funding</u> of client assets	e.g. broker-dealers
EF4	<u>facilitation of credit creation</u>	e.g. monolines (credit insurers), mortgage insurers
EF5	<u>securitisation-based credit intermediation</u> and funding of financial entities	e.g. ABCP, SIVs

(1b) Shadow banking risks: EF classification & risk measurement

Components

Key information items

(i) EF Classification

- **Which entity types are judged to be involved in which EF?**
 - Description of non-bank financial entity types.
 - Total assets outstanding for the past 2 years.
 - Brief description of the rationale for classification.

(ii) SB Risk Metrics

- **How significant are the SB risks posed by the identified entities?**
 - Weighted-average SB risk indicators for each identified entity types (or sample of firms (e.g. 3 largest)).
 - Authorities may submit their own-defined indicators or qualitative descriptions if data is not readily available.

(iii) EF Checking Sheet
(Exclusion from EFs)

- **Why are some non-bank financial entity types not judged to be involved in one of the five EFs?**
 - For non-bank financial entity types captured in the SCAV/AGV macro-mapping data, a brief description of reasons for not classifying in EFs.

(2) Addressing shadow banking risks: Reporting policy measures

- **Adoption of policy tools:**
 - Authorities will adopt overarching principles (e.g. authorities should define and periodically update the regulatory perimeter) and apply policy tools from a menu of policy options for each economic function, or apply other policy tools as appropriate.

- **Reporting through Policy Tool Templates:**

Components (Worksheets)	Key information items
<p>EF 1 - 5 policy tools <i>(Specific tools reported for each EF)</i></p>	<ul style="list-style-type: none"> • Which agency is responsible for the oversight of the financial entity type that is classified into the EF? • Which policy tools has the authority adopted, either from the policy menu or other tools? <ul style="list-style-type: none"> – Brief description of the tools, and how it addresses SB risks, including the URL links to the relevant documents. – Brief description of the challenges or shortcomings of the tool. – Any future plans in relation to the tool.

(3) Information-Sharing to identify gaps & best practices

Information-Sharing

- The FSB WS3 developed a detailed procedure for information-sharing in March 2014 and has launched the 1st round information-sharing exercise from May through Autumn 2014.
- Authorities are now sharing information through the FSB on the categorization of entity types into the five economic functions, and will soon report policy tools.

Periodic Assessment of Gaps and Best Practices

- Once information on economic functions and policy tools have been collected, an assessment will be conducted to identify “gaps” in regulation and best practices in policy implementation to address SB systemic risks.
- Annual assessment of developments and jurisdictions’ policy experiences will contribute to establishing best practices.
- In 2015, the FSB will be in a position to commence a peer review process of jurisdictions’ implementation of the information-sharing framework.

In sum, non-bank data collection and assessment is critical to inform jurisdictions’ policy actions to help mitigate SB systemic risks.

APPENDIX

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(1b) Shadow banking risks: Proposed Ratios in the Risk Metrics Template

SB Risk Factors	Key information items*
1. Credit Intermediation	<ul style="list-style-type: none"> • Credit assets / Total assets
2. Maturity Transformation	<ul style="list-style-type: none"> • Long-term assets to total assets • Short-term liabilities to total assets
3. Liquidity Transformation	<ul style="list-style-type: none"> • Liquid assets to total assets • Short-term liabilities to total assets
4. Credit Risk Transfer	<ul style="list-style-type: none"> • Off-balance sheet exposures outstanding divided by NAV • Off-balance sheet exposures outstanding divided by gross assets • Funding from the parent company or its affiliates divided by liabilities • Credit insurance/guarantees divided by capital • Securitisation exposures retained or purchased by the originator (or sponsor) divided by total securitisation
5. Leverage	<ul style="list-style-type: none"> • Balance-sheet leverage (Assets to Capital) • Off-balance sheet leverage (Off-balance sheet assets / capital) • Fund leverage (Total borrowing + NAV)/NAV

*: Jurisdictions may use other information items if the listed items are not available.