

Press release

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Ref No 37/2011

1 September 2011

The Financial Stability Board's work on Shadow Banking: progress and next steps

At its [July Plenary meeting in Paris on 18 July](#), the Financial Stability Board (FSB) approved the initial recommendations for strengthening the oversight and regulation of the shadow banking system prepared by its Shadow Banking Task Force (hereafter the Task Force).

The initial recommendations for developing a stronger monitoring framework are built on the definition set out in the Background Note entitled [Shadow Banking: Scoping the Issues](#) that was published on 12 April, and include high-level principles for the relevant authorities and a stylised monitoring process.

This process would require authorities to first assess the broad scale and trends of non-bank credit intermediation in the financial system, drawing on information sources such as Flow of Funds and Sector Balance Sheet data, and complemented with other relevant information such as supervisory data. Based on this assessment, authorities will narrow down their focus to non-bank credit intermediation that has the potential to pose systemic risks, by focusing in particular on those involving the four key risk factors identified in the Background Note: (i) maturity transformation; (ii) liquidity transformation; (iii) imperfect credit risk transfer; and/or (iv) leverage. Monitoring should be sufficiently flexible, forward-looking, regular, and adaptable to capture innovations and mutations in the system that could lead to growing systemic risks as well as to arbitrage that undermines the effectiveness of financial regulation. Authorities should also take into account the structure of financial markets and regulatory frameworks within their jurisdiction. Other factors should also be examined when assessing systemic risk related to shadow banking, such as the interconnectedness between the shadow banking system and the regular banking system.

The Task Force has conducted a further data and information sharing exercise during the summer as a step toward evaluating and adjusting the proposed framework. This could lay the basis for data collection and assessment by the FSB of global trends and risks in shadow banking from 2012 onwards. The quality of these assessments should improve over time as more data become available through initiatives by FSB member authorities.

With regard to the initial recommendations for strengthening regulation of the shadow banking system, the Task Force has developed general principles for designing and implementing regulatory measures. It has also conducted a regulatory mapping exercise to take stock of existing national and international initiatives on the four broad categories of possible regulatory measures set out in the April Background Note. As a result of this, the Task Force has identified five areas where more detailed work is warranted to help gauge the case for further regulatory action. The five areas are:

- (i) **the regulation of banks' interactions with shadow banking entities (indirect regulation)**, in particular, examining: consolidation rules for prudential purposes; limits on the size and nature of a bank's exposures to shadow banking entities; risk-based capital requirements for banks' exposures to shadow banking entities; and treatment of implicit support;
- (ii) **the regulatory reform of money market funds (MMFs);**
- (iii) **the regulation of other shadow banking entities;**
- (iv) **the regulation of securitisation**, in particular with regard to retention requirements and transparency; and
- (v) **the regulation of activities related to securities lending/repos**, including possible measures on margins and haircuts.

In order to make progress, the FSB has decided to set up dedicated workstreams to focus on each area. In some cases the workstreams will be undertaken by the relevant international standard setting bodies, while in others work will be carried forward under the guidance of the FSB Task Force. The workstreams will develop preliminary work plans shortly, and report their progress as well as the proposed policy recommendations to the FSB by July 2012 (or end-2012 for securities lending/repos).

The FSB will elaborate on the recommendations for strengthening the oversight and regulation of shadow banking in a report for the G20 in October. In doing so, it will take into account the points raised in the comments received on the April Background Note. The [comments](#) received to date have been posted on the FSB website. The FSB is grateful for the comments received and welcomes any further input from interested parties.

Notes to editors

The Task Force on Shadow Banking is co-chaired by Adair Turner, Chairman of the FSB Standing Committee on Supervisory and Regulatory Cooperation, and Jaime Caruana, Chairman of the FSB Standing Committee on the Assessment of Vulnerabilities.

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions,

international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

The FSB is chaired by Mario Draghi, Governor of the Bank of Italy. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.