

Press release

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FSB publishes Thematic Review on the Implementation of the FSB Policy Framework for Shadow Banking Entities

The Financial Stability Board (FSB) published today its [thematic peer review](#) on the progress made by FSB member jurisdictions in implementing its [Policy Framework for Strengthening Oversight and Regulation of Shadow Banking Entities](#).

The Policy Framework sets forth principles that authorities should adhere to in their oversight of non-bank financial entities posing financial stability risks from shadow banking. These principles involve: defining and updating the regulatory perimeter; collecting information and assessing shadow banking risks (i.e. maturity/liquidity transformation, imperfect credit risk transfer and/or leverage); enhancing public disclosure to help market participants understand these risks; adopting appropriate policy tools to mitigate identified risks; and participating in an information-sharing exercise within the FSB on assessments and tools.

The peer review describes the steps undertaken by the FSB in 2015 to enhance its assessment of non-bank financial entities and activities that may give rise to financial stability risks. For the first time, all FSB jurisdictions participated in an information-sharing exercise as part of their implementation of the Policy Framework. The exercise resulted in a more focused analysis of shadow banking risks, as shown in the FSB's [Global Shadow Banking Monitoring Report 2015](#).

The peer review concludes that, notwithstanding the progress made, implementation of the Policy Framework remains at a relatively early stage. More work is needed to ensure that jurisdictions can comprehensively assess and respond to potential shadow banking risks posed by non-bank financial entities, and support FSB risk assessments and policy discussion.

The main findings of the review are as follows:

- Most non-bank financial entities fall within the regulatory perimeter, and there is a broad range of institutional arrangements for their regulation and supervision. Investment funds represent the majority of the assets of entities covered by the information-sharing exercise, and have experienced the fastest growth in recent years. This underscores the growing importance that securities regulators play in promoting financial stability.
- Most jurisdictions classified non-bank financial entities into the five economic functions broadly in line with the Policy Framework,¹ but there are some differences and inconsistencies in the classification and assessment of risks based on those functions.

¹ These are: (i) management of collective investment vehicles with features that make them susceptible to runs; (ii) loan provision that is dependent on short-term funding; (iii) intermediation of market activities that is dependent on short-term funding or on secured funding of client assets; (iv) facilitation of credit creation; and (v) securitisation-based credit intermediation and funding of financial entities.

- Reviews of the regulatory perimeter in most jurisdictions appear to be ad hoc and undertaken in response to concerns arising about a particular activity or entity type.
- Data from existing reporting and disclosure arrangements for non-bank financial entities were not usually designed for collecting shadow banking-specific information, so they may not be adequate or sufficiently granular to assess related risks.
- It is unclear whether disclosure requirements for non-bank financial entities and reports published by authorities (e.g. financial stability reviews) enable market participants to adequately assess shadow banking risks posed by these entities. Few jurisdictions report planning reviews that could enhance those disclosures.
- Jurisdictions report a range of policy tools to address shadow banking risks posed by non-bank financial entities. Some of these tools, especially for investment funds, are discretionary in nature.² Most jurisdictions report no initiatives to change their toolkit.

The peer review makes a number of recommendations to FSB jurisdictions to implement fully the Policy Framework. These are:

- Establish a systematic process involving all relevant domestic authorities to assess the shadow banking risks posed by non-bank financial entities or activities;
- Address data gaps to be able to better assess the potential financial stability risks posed by non-bank financial entities or activities;
- Remove impediments to cooperation and information-sharing between authorities, including on a cross-border basis; and
- Review and enhance public disclosures by non-bank financial entities as necessary to help market participants understand the shadow banking risks posed by such entities.

The FSB will continue to monitor jurisdictions' implementation of the Policy Framework, including the above recommendations. It will also conduct follow-up work to: enhance consistency across jurisdictions in their classification of non-bank financial entities into economic functions; develop approaches to help jurisdictions better monitor and assess risks from those entities' interconnectedness and cross-border activities; and facilitate the sharing of information among member authorities on policy tools and public disclosures.

Ravi Menon, Managing Director of the Monetary Authority of Singapore and Chairman of the FSB's Standing Committee on Standards Implementation (SCSI) that oversaw the preparation of the peer review, said "Transforming shadow banking into resilient market-based finance is a key priority for the FSB. The objective is not to curtail non-bank credit intermediation, but to monitor and mitigate financial stability risks arising from such activities. The findings of the peer review provide a good baseline to monitor future developments, and its recommendations will maintain the momentum for reform."

Carolyn Wilkins, Senior Deputy Governor of the Bank of Canada and Chair of the peer review team, said "Important steps have been taken in recent years to establish frameworks to assess the risks posed by non-bank financial entities. But much work is still needed, both by member authorities and by the FSB, to ensure effective implementation of the Policy Framework."

² Discretionary tools are those whose deployment lies at the discretion of the entities themselves, although regulatory authorisation may also be required or the regulator can also exercise them (e.g. suspension of redemptions) in some cases.

Notes to editors

The FSB began a regular programme of peer reviews in 2010, consisting of thematic reviews and country reviews. The objectives of the reviews are to encourage consistent cross-country and cross-sector implementation; to evaluate (where possible) the extent to which standards and policies have had their intended results; and to identify gaps and weaknesses in reviewed areas and to make recommendations for potential follow-up (including through the development of new standards) by FSB members. Peer reviews are conducted according to the objectives and guidelines set out in the [Handbook for FSB Peer Reviews](#). All published peer review reports are available on the [FSB website](#).

The “shadow banking system” can broadly be described as “credit intermediation involving entities and activities (fully or partially) outside the regular banking system” or non-bank credit intermediation in short. Such intermediation, appropriately conducted, provides a valuable alternative to bank funding that supports real economic activity. But experience from the crisis demonstrates the capacity for some non-bank entities and activities to give rise to bank-like risks to financial stability (longer-term credit extension based on short-term funding and leverage). To address these risks, and to build more sustainable sources of non-bank financing for the real economy, the FSB has been working on transforming shadow banking into resilient market-based finance as a core element of regulatory reforms. The FSB [Policy Framework](#), which was issued in August 2013, is a key component of the FSB’s efforts in this area.

The Policy Framework comprises: (i) an assessment of non-bank financial entities based on five economic functions; (ii) the adoption of policy tools to mitigate financial stability risks where necessary; and (iii) information-sharing by FSB members through the FSB process to maintain international consistency in applying the framework, minimise gaps in regulation and detect new adaptations. By focusing on economic functions (or activities) rather than legal forms, this Framework is intended to help authorities to narrow down their focus to parts of credit intermediation that are involved in shadow banking, where policy responses may be needed.

This is the first peer review on the implementation of the Policy Framework, and is the twelfth thematic peer review conducted by the FSB. The report published today describes the findings and conclusions of this review, including the key elements of the discussion in the FSB SCSI. The draft report was prepared by a team of experts drawn from FSB member institutions and led by Carolyn Wilkins, Senior Deputy Governor of the Bank of Canada.

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 also conducts outreach with 65 other jurisdictions through its six regional consultative groups.

The FSB is chaired by Mark Carney, Governor of the Bank of England. 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.fsb.org.