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Mr Svein Andresen
Secretary General
Financial Stability Board
c/o Bank for International
Settlements
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Centralbahnplatz 2
4002, Basel
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Subject: Shadow Banking - Scoping the Issues

Dear Mr Andresen,

The Italian Banking Association (ABI) welcomes the opportunity to comment the background note prepared by the FSB's Task Force on Shadow Banking.

The recent crisis clearly highlighted the need for the international community to reforming the current regulation in order to avoid that part of the financial sector continues to pose a systemic risk on the markets and no regulator or supervisor have the legal authority to look across and take action to protect the overall safety and stability of the financial system.

ABI agrees that the first issue to be clarified is the lack of a common-agreed definition of "shadow banking sector". In our opinion, the emphasis should be in the identification of all the different entities, intermediaries, instruments or financial contracts that perform specific bank-like activities, particularly credit intermediation, use of leverage, liquidity services, and maturity transformation.

In other words, we call for a widening of the perimeter of the regulation using the “dual regulatory approach” in force in Italy as a model: supervisory authorities should be put in the condition to oversight both “entities” and “functions”. This means that:

- supervisory authorities should be empowered to authorise the establishment of “shadow intermediaries” and ensure the respect of prudential requirements on ongoing basis
- minimum capital requirements such as haircuts and loan-to-value ratios on the lending of certain securities should be imposed regardless of the parties involved
- supervised entities should consolidate their non-banks intermediaries for regulatory purposes.

In this context, it is worth to recall that Secretary Timothy F. Geithner on May 6, 2010 in his testimony before the Financial Crisis Inquiry Commission on the causes of the financial crisis and the case for reform, pointed out that “Independent investment banks like Lehman Brothers and Bear Stearns grew in size and financed themselves in the overnight repurchase agreement, or repo markets, which rely on assets or securities as collateral. Asset-backed commercial paper (ABCP) conduits and structured investment vehicles (SIVs) were used by banks and a broad range of other financial institutions as funding vehicles for different types of assets. Specialized finance companies expanded into a broad range of consumer and business lending activities”.

This being said, we would like to stress the point that the new regulation should be drafted bearing in mind the need to respect the balance between marginal costs and benefits, so not to overload the market of unnecessary regulation.

ABI is pleased to note that the FSB has underscored the need for a global approach to monitoring shadow banking issues and proposing policy responses; to ensure an appropriate level of consistency it is crucial to ensure an international level playing field and consequently eliminate potential regulatory arbitrage opportunities that could be exploited.

Supervisory global coordination and information exchange are the other side of the medal of the international consistency; therefore we highlight the importance to setting international new reporting requirements which would permit the exchange of quantitative and qualitative information to perform smart data interrogation and analysis for the monitoring of the shadow banking system. At the same time, additional disclosure of information on transaction executed OTC would also be advisable to promote market discipline and better risk control by market participants.

Finally, I would like to conclude observing that the shadow banking system in most cases pops up to meet the demand of credit that the regulated banking sector is not able to satisfy because of the prudential requirements or other constraints to the credit intermediation activity. Therefore ABI invites the FSB to duly take into account the potential impacts on the lending to economic activity when drafting the new regulation on the shadow banking sector and, on the basis of an holistic impact assessment, to consider the opportunity of a recalibration of the prudential requirements imposed on the regulated banking sector for certain categories of borrowers such as the SMEs.

On this final point, please note that we are available to share with the FSB a formal proposal that we have prepared together with the Italian enterprise associations.

Yours sincerely,


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