

From: UNI Global Union

To: Financial Stability Board

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Response to the FSB consultation on shadow banking

One of the key lessons learned from the recent financial crisis is that the financial system must serve the real economy, and not speculation. The role of the financial system is fundamental in investment, job creation and the well-being of society as a whole.

Therefore UNI Finance welcomes the FSB publication which lays out a set of recommendations to strengthen oversight and regulation of shadow banking.

The shadow banking played a key role in the increasing volume and speed of financial transactions running the economy and in the recession that hit several countries worldwide.

It is not acceptable that shadow banking entities can take the same risks as banks, without being subject to the same regulatory requirements. Despite not envisaged by law, *de facto* losses caused by shadow banks in these years had to be covered by governments, central banks and deposit guarantee schemes, therefore ultimately by taxpayers.

UNI Finance strongly supports the aim of eliminating this regulatory arbitrage. We believe that, as shadow banking contributes to creating systemic risk, the same regulatory requirements and supervision should apply, therefore avoiding the emergence of a “parallel regime of light regulation” for shadow banking.

The regulation of shadow banking should be as global as possible, and therefore we consider this as being a top priority for the FSB.

We also welcome the FSB 2012 Report, providing essential data on the shadow banking market and a necessary starting point for assessing its risks. The absolute size of the global shadow banking system (\$ 67 trillion in 2011), and its share on total intermediation (25 – 30% in 2011, around half of the banking system assets), further confirm the urgent need for the monitoring and regulation of this sector. The report also shows the size of different jurisdictions involvement in this area, with the US ranking first with its \$ 22 trillion market.

From a European perspective this highlights the absolute need for a global approach to the problem. The crisis has shown how several European banks have been impacted by their exposure to the US shadow banks.

Establishing a system of monitoring and exchange of information on sources of systemic risks arising outside the banking system is a crucial first step.

Given differences in jurisdictions in defining entities and activities, it is important to develop a common glossary, or taxonomy to group shadow banking activities, to facilitate the collection of data allowing for comparability and assessment of systemic importance.

UNI Finance agrees on the five general principles for regulatory measures based on which policy recommendations have been developed (focus, proportionality, forward-looking and adaptable, effectiveness, assessment and review).

UNI Finance believes that a specific approach should be adopted for each kind of entity and/or activity in the shadow banking system. Therefore UNI Finance supports the proposed approach on other shadow banking entities, built on an economic activities-based perspective. However the complexity of the shadow banking system should not go beyond the means of the supervisory capacity and expertise.

A global supervision covering all areas of the financial system requires that supervisory and regulatory bodies at all levels have sufficient qualified staff and financial means. Regarding the interaction of shadow banking entities with banks, shadow banking vehicles or funds that are sponsored or operated by banks should be consolidated into the banks' balance sheet.

On Money Market Funds, UNI Finance supports the recommendation that stable NAV MMFs should be converted into floating NAV.

Finally, one of the objectives of regulating the shadow banking system should be to increase the transparency of the sector, providing better information and access to data. The transparency of the products offered should be enhanced, in order to protect consumer rights in such a complex area.

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