

Press release

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Financial Stability Board publishes a background note on shadow banking

The Financial Stability Board (FSB) published today a note entitled [Shadow Banking: Scoping the Issues](#). This note provides information on the work of the FSB to develop recommendations to strengthen the oversight and regulation of the shadow banking system.

The “shadow banking system” can broadly be described as “credit intermediation involving entities and activities outside the regular banking system”. Intermediating credit through non-bank channels can have advantages, for example by providing an alternative source of funding and liquidity.

However, as the recent financial crisis has shown, the shadow banking system can also be a source of systemic risk both directly and through its interconnectedness with the regular banking system. It can also create opportunities for arbitrage that might undermine stricter bank regulation and lead to a build-up of additional leverage and risks in the system. Enhancing supervision and regulation of the shadow banking system in areas where systemic risk and regulatory arbitrage concerns are inadequately addressed is therefore important.

The G20 Leaders at the November 2010 Seoul Summit asked the FSB to develop recommendations to strengthen the oversight and regulation of the shadow banking system. The FSB has since formed a task force to develop initial recommendations for discussion that would:

- clarify what is meant by “the shadow banking system”;
- set out potential approaches for monitoring the shadow banking system; and
- explore possible regulatory measures to address the systemic risk and regulatory arbitrage concerns posed by the shadow banking system.

The note sets out the current thinking of the task force - in particular on the first item. It proposes that monitoring and policy responses should be guided by a two-stage approach: firstly by casting the net wide to cover all non-bank credit intermediation so as to identify potential areas where new risks might arise; and then secondly by narrowing the focus to those parts of the system where maturity/liquidity

transformation, flawed credit risk transfer, and/or leverage create important systemic risks.

Based on the work of the task force, the FSB will consider initial draft recommendations at its July Plenary meeting and thereafter the recommendations to be submitted to the G20 in the autumn.

The FSB welcomes comments from the public on this note. Comments should be submitted by 16 May 2011 by e-mail (fsb@bis.org) or post (Secretariat of the Financial Stability Board, c/o Bank for International Settlements, CH-4002, Basel, Switzerland).

Notes to editors

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.