FSB Publishes Global Shadow Banking Monitoring 2013

The Financial Stability Board (FSB) is publishing today its third annual Global Shadow Banking Monitoring Report. The report includes data from 25 jurisdictions and the euro area as a whole; these jurisdictions represent about 80% of global GDP and 90% of global financial system assets. For the first time the report also incorporates estimates from a hedge fund survey by the International Organization of Securities Commissions (IOSCO).¹

The main findings of the FSB report are:

- On a broad estimate, the assets of non-bank financial intermediaries (excluding those of insurance companies, pension funds and public financial institutions) grew by $5 trillion in 2012 to reach $71 trillion.

- Non-bank financial intermediaries represent on average about 24% of total financial assets, and are equivalent to about half of banking system assets and 117% of GDP. These patterns have been relatively stable since the crisis.

- Non-bank financial intermediaries grew by +8.1% in 2012 (compared with 0.6% in 2011), partly as a result of a general increase in valuation of global financial markets, while bank assets were relatively stable. The global growth trend of non-bank financial intermediaries masks considerable differences across jurisdictions.

- In general, non-bank financial intermediaries form a larger proportion of domestic financial systems in advanced economies than in emerging markets. However, non-bank financial intermediaries in emerging market jurisdictions have experienced strong growth. Four emerging market jurisdictions had 2012 growth rates for non-bank financial intermediation above 20%. This rapid growth is from a relatively low base and in part reflects financial deepening in these jurisdictions.

- In addition to the broad estimate of the size of non-bank financial intermediaries, this report provides a first estimate of assets that more closely relate to shadow banking activity in 20 jurisdictions for which more granular data on non-bank financial intermediaries are available. This narrow estimate filters out non-bank financial activities that have no direct relation to credit intermediation or that are prudentially consolidated into banking groups. Using these more granular data produces for these 20 jurisdictions a narrower estimate of $35 trillion, down from

$55 trillion using the broad basis. Using this narrowed-down estimate, the growth rate of non-bank financial intermediaries for this smaller sample was 2.9% in 2012.

Going forward, the FSB’s monitoring will benefit from further improvement and follow-up by jurisdictions to address identified gaps and data inconsistencies. Improvements in data availability and granularity are necessary for authorities to be able to adequately capture the magnitude and nature of risks in the shadow banking system.

In August the FSB published policy recommendations to strengthen oversight and regulation of shadow banking. The objective is to address bank-like risks to financial stability emerging outside the regular banking system while not inhibiting sustainable non-bank financing models that do not pose such risks.

Mark Carney, Chairman of the FSB, said, “Monitoring the shadow banking system is an essential part of our work to strengthen the oversight and regulation of this sector. Our aim is for shadow banking to deliver transparent and resilient market-based financing, thus diversifying the sources of financing of our economies in a sustainable way. The FSB will continue to improve its global monitoring exercise to identify the financial stability risks posed by shadow banking as the result of its use of leverage, maturity and liquidity transformation”.

Agustin Carstens, Chairman of the FSB Standing Committee on Assessment of Vulnerabilities, said, “Improving bank regulation is not enough to fully address the weaknesses of the financial system revealed by the crisis. The shadow banking system continues to transform and innovate. This annual monitoring exercise aims to narrow in on new risks to the financial system, and inform decisions on whether further measures are needed”.

Notes to editors
In the report, the term “Other Financial Intermediaries” (OFIs) is used interchangeably with the term “non-bank financial intermediaries”. The term OFIs stems from the classification of these entities in national Flow of Funds and Sector Balance Sheet data, which in turn forms the primary data source for this exercise.

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 transactions to operate on a large scale in ways that create bank-like risks to financial stability (longer-term credit extension based on short-term funding and leverage). Such risk creation may take place at an entity level but it can also form part of a complex chain of transactions, in which leverage and maturity transformation occur in stages, and in ways that create multiple forms of feedback into the regulated banking system.

The full set of FSB publications relating to shadow banking can be found at http://www.financialstabilityboard.org/list/fsb_pa/tid_150/index.htm.
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 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.financialstabilityboard.org.