FSB FINANCIAL STABILITY BOARD

Press release

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FSB Publishes Global Shadow Banking Monitoring Report 2014

The Financial Stability Board (FSB) is publishing today its fourth annual Global Shadow Banking Monitoring Report. The report presents data as of end-2013 from 25 jurisdictions and the euro area as a whole, covering about 80% of global GDP and 90% of global financial system assets.

The main findings from the report are as follows:

- The broadest measure, referred to as the Monitoring Universe of Non-Bank Financial Intermediation (MUNFI), grew by $5 trillion in 2013 to reach $75 trillion. This measure is based on the financial assets of Other Financial Intermediaries (OFIs) and captures all non-bank financial intermediation where shadow banking-related risks to the financial system might potentially arise.
- Globally, MUNFI assets represent on average about 25% of total financial assets, roughly half of banking system assets, and 120% of GDP. These ratios have been relatively stable since 2008.
- MUNFI assets grew by 7% in 2013 (adjusted for foreign exchange movements), driven in part by a general increase in valuation of global financial markets. In contrast total bank assets were relatively stable. Within the headline global growth figure of MUNFI assets exists considerable differences across jurisdictions and entities.
- This year, the FSB continued to refine the shadow banking measure to produce an estimate that more tightly focuses on shadow banking risks, narrowing down the broad MUNFI estimate by filtering out entities that are not part of a credit intermediation chain and those that are prudentially consolidated into a banking group. Using more granular data reported by 23 jurisdictions, the broad MUNFI estimate of non-bank financial intermediation was narrowed down from $62 trillion to $35 trillion.
- Based on the narrowed down estimate, the growth rate of shadow banking for this smaller sample in 2013 was +2.4%, instead of +6.6% for the MUNFI (using the same smaller sample). The narrowing down approach remains work in progress and will improve further over time.
- By absolute size, advanced economies have the largest shadow banking sectors, while emerging market jurisdictions recorded the fastest growth rates (albeit from a relatively small base). While the non-bank financial system may contribute to

financial deepening, careful monitoring is still required to detect any increases in systemic risk factors (e.g. maturity and liquidity transformation, and leverage) that could arise from the rapid expansion of credit provided by the non-bank sector.

- Trust Companies and Other Investment Funds were the fastest growing sub-sectors globally in 2013. Trust Companies have consistently grown at a fast pace, whereas the 18% annual growth in Other Investment Funds, the largest sub-sector, was sharply higher than in the preceding years.
- The Hedge Funds sub-sector remains significantly underestimated in the FSB's data collection exercise. Further refinement of the data for this sector could provide important additions to future editions of this report.

This year, the report is accompanied for the first time by the publication of a comprehensive dataset on a jurisdiction and aggregate level, which also includes the data underlying most of the exhibits shown in the report.

Going forward, the FSB's monitoring will benefit from further improvement in data availability and granularity which are necessary for authorities to be able to adequately capture the magnitude and nature of risks in the shadow banking system. In future monitoring reports, the ongoing work to narrow down the estimate of the shadow banking sector will benefit from the results of the information-sharing exercise on shadow banking entities and activities, which is part of the high-level Policy Framework for Strengthening Oversight and Regulation of Shadow Banking Entities, the initial round of which commenced this year.

Mark Carney, Chairman of the FSB, said, "The system-wide monitoring of shadow banking is a core element of the FSB's work to strengthen the oversight and regulation of shadow banking in order to transform it into a transparent, resilient, sustainable source of market-based financing for real economies. To this end, the FSB launched in 2011 the shadow banking annual monitoring exercise, which aims to identify and measure potential sources of systemic risks beyond the current bounds of prudential regulation. The progressive refinements of this exercise have sharpened the risk monitoring capabilities not only of the FSB but also of national and regional authorities".

Agustin Carstens, Chairman of the FSB Standing Committee on Assessment of Vulnerabilities, said, "The global regulatory community has acted decisively since the crisis to strengthen the core of the financial system. As a part of this work, we recognise that risks can migrate outside of the core and as a result the FSB's shadow banking monitoring exercise is of the utmost importance. Over time, further improvements in the scope, data availability and granularity are needed to comprehensively capture the global shadow banking system. In this regard, additional data sources such as the contributions of the Regional Consultative Groups (RCGs) to widen country coverage are helpful to fill potential gaps in the current monitoring exercise".

Notes to editors

In the report, the term "Monitoring Universe of Non-Bank Financial Intermediation" (MUNFI) replaces the term "Other Financial Intermediaries" (OFIs) used in previous reports.

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 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.

Like banks, a leveraged and maturity-transforming shadow banking system can be vulnerable to "runs" and generate contagion risk, thereby amplifying systemic risk. Such activity, if unattended, can also heighten procyclicality by accelerating credit supply and asset price increases during surges in confidence, while making precipitate falls in asset prices and credit more likely by creating credit channels vulnerable to sudden loss of confidence. These effects were powerfully revealed in 2007-09 in the dislocation of asset-backed commercial paper (ABCP) markets, the failure of an originate-to-distribute model employing structured investment vehicles (SIVs) and conduits, "runs" on MMFs and a sudden reappraisal of the terms on which securities lending and repos were conducted. But whereas banks are subject to a well-developed system of prudential regulation and other safeguards, the shadow banking system is typically subject to less stringent, or no, oversight arrangements.

The objective of the FSB's work is to ensure that shadow banking is subject to appropriate oversight and regulation 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. The approach is designed to be proportionate to financial stability risks, focusing on those activities that are material to the system, using as a starting point those that were a source of problems during the crisis. It also provides a process for monitoring the shadow banking system so that any rapidly growing new activities that pose bank-like risks can be identified early and, where needed, those risks addressed. At the same time, given the interconnectedness of markets and the strong adaptive capacity of the shadow banking system, the FSB believes that policies in this area necessarily have to be comprehensive.

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.