

“SHADOW BANKING” defined as: MONEY MARKET
FUNDING of CAPITAL MARKET LENDING

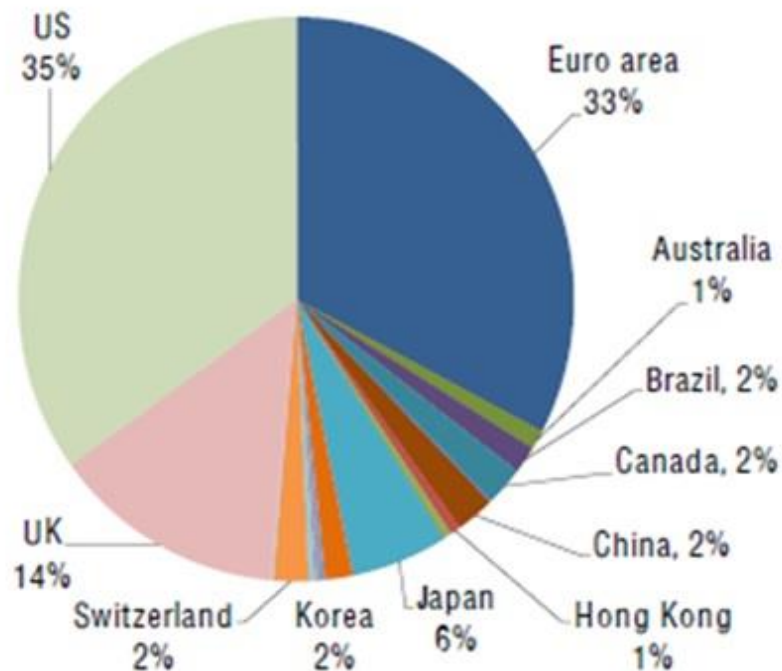
ESMA MSG meeting 2014-11-04/05

Giedrius Steponkus

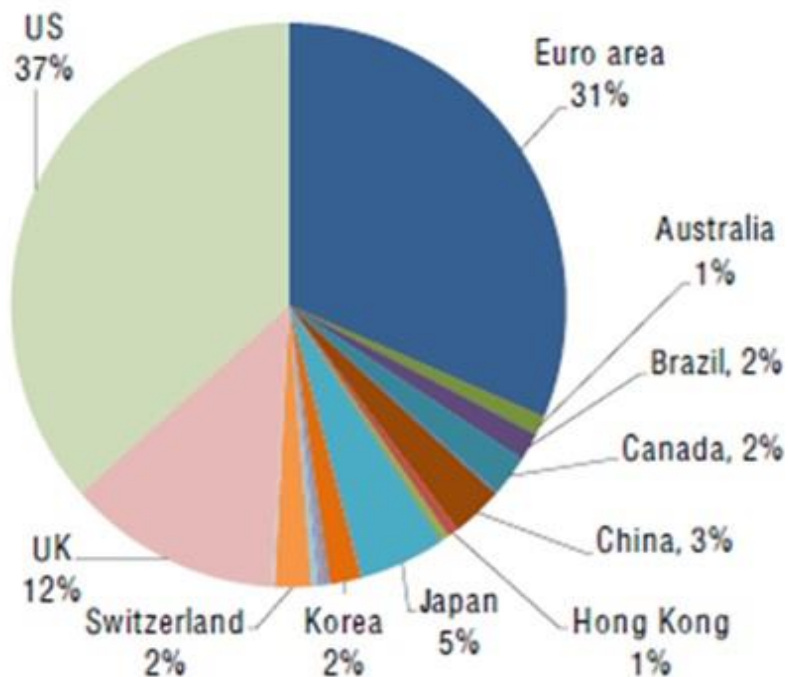
Assets share of Non -Bank Fin. Intermediaries

20 jurisdictions and euro area

At end-2011



At end-2012



Sources: National flow of funds data; other national sources.

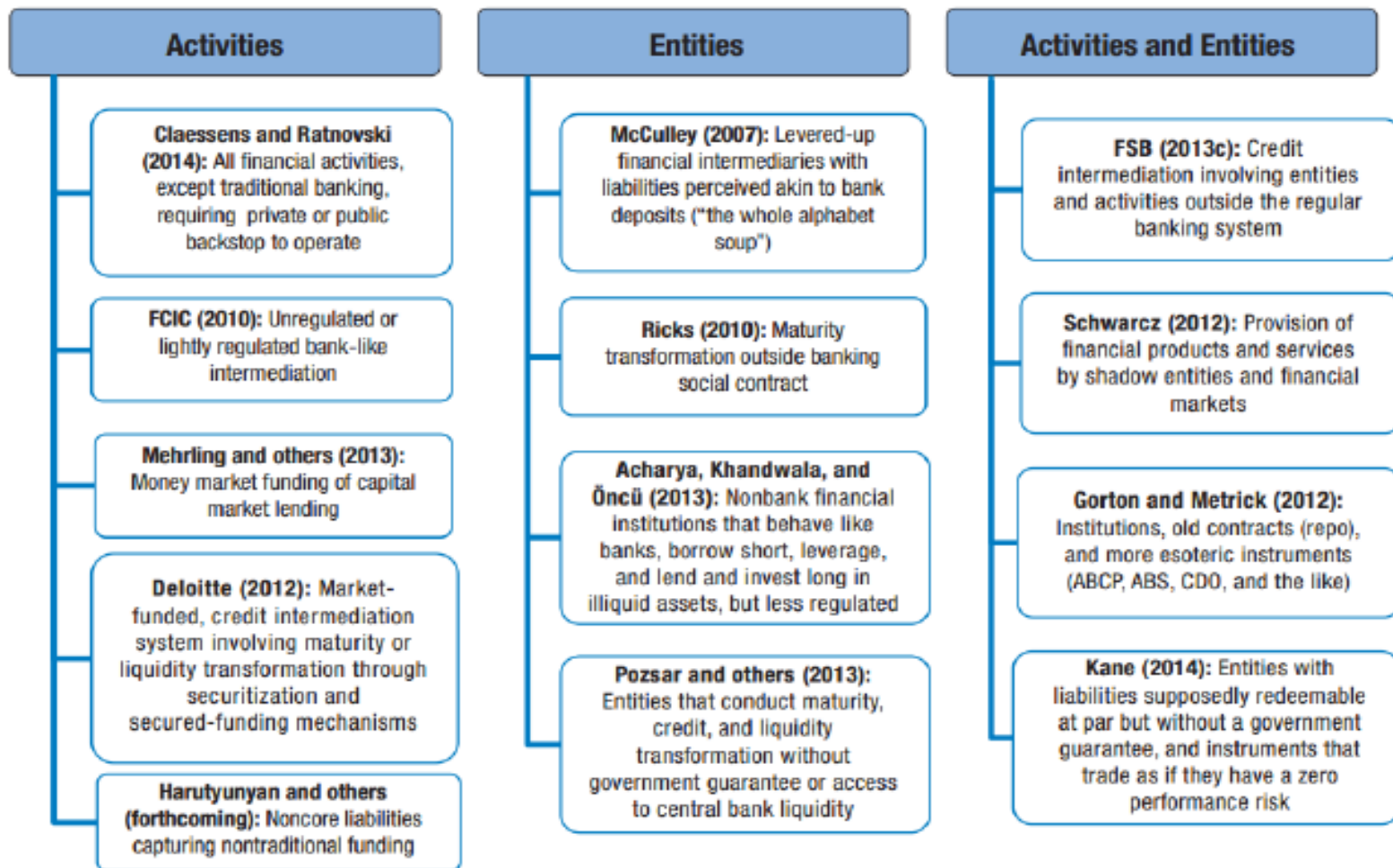
\$72 trillion Market: the US has the largest system of non-bank financial intermediation at the end of 2012 with assets of \$26 trillion, followed by the euro area (\$22 trillion), the UK (\$9 trillion) and Japan (\$4 trillion).

Balance sheets: “SHADOW” vs TRADITIONAL Bank

Shadow Bank		Bank	
ABS	MM borrowing	loans	deposits
IRS	RP	securities	other borrowing
CDS	ED (Libor)	cash	capital
FXS	ABCP		
liquidity	solvency	liquidity	solvency

ABS: assets backed securities, ABCP :assets backed commercial paper, ED: Euro Dollar, CDS: Credit Default Swaps IRS: Interest Rate Swaps , FXS: FX Swaps ,

"SHADOW BANKING"- Definitions



Sources: See works cited in the Chapter 2 references.

Note: ABCP = asset-backed commercial paper; ABS = asset-backed security; CDO = collateralized debt obligation; repo = repurchase agreement.

“SHADOW” BANKING as a MARKET-BASED CREDIT

Securitization

Shadow Bank

MM Mutual Fund

Securitization		Shadow Bank		MM Mutual Fund	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
ABS	Hi slice Mid slice Lo slice	Hi slice Liquidity put	RP	RP Liquidity put	“deposits”

Traditional Bank

	Assets	Liabilities	
FED backstop →	Loans Reserves Liquidity put	Deposits Capital	← Deposit Insurance backstop

Business of Capital funding (“SHADOW”) Bank

Capital Funding Bank Global Money Dealer Asset Manager

Assets		Liabilities	Assets		Liabilities	Assets		Liabilities
MBS	} Insurance	MM funding	MM funding	} “deposits”	“deposits”	Capital	} Insurance	
CDS			Liquidity reserves			Capital reserves		
IRS								
FXS								

Derivative Dealer

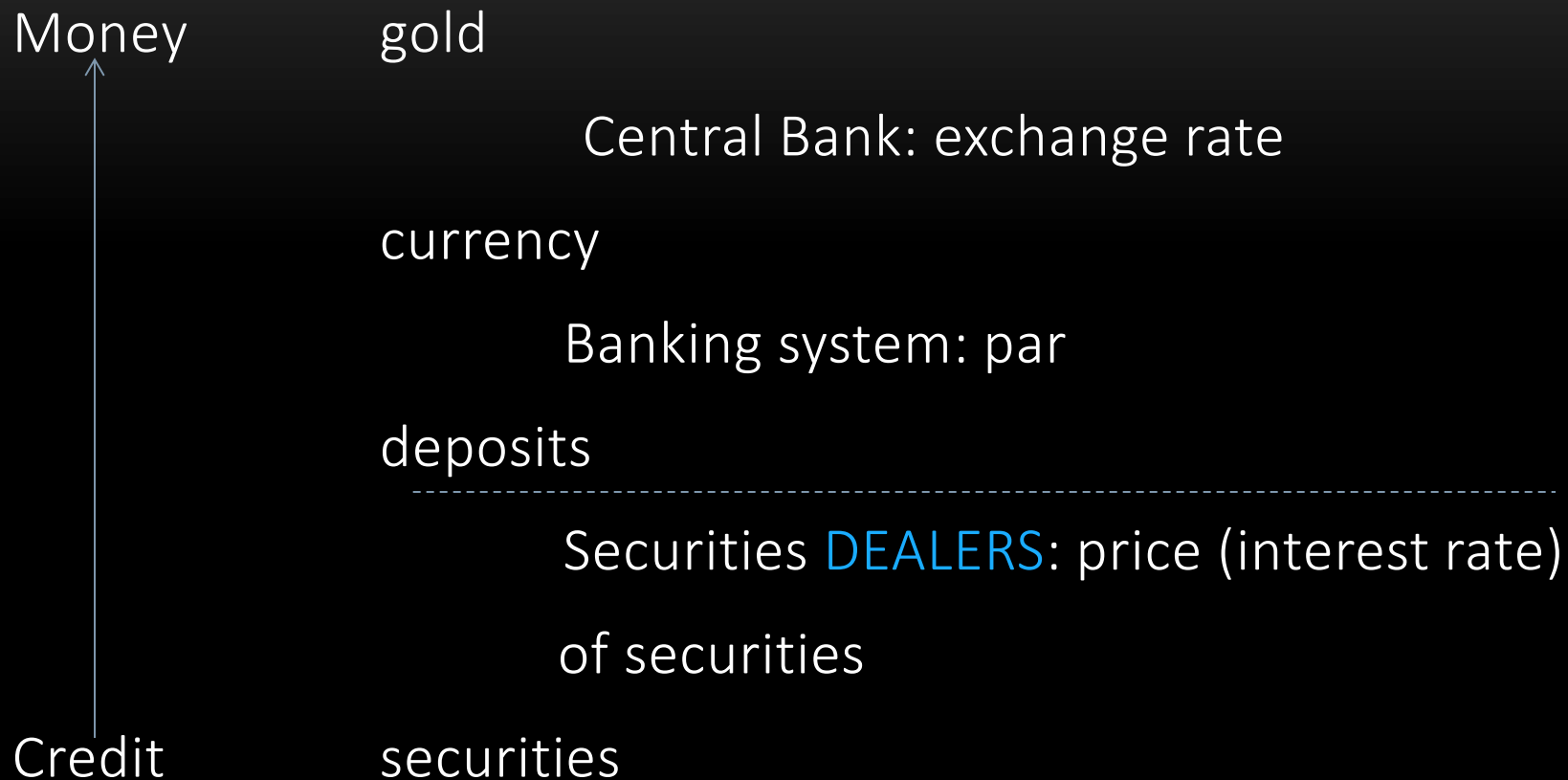
Assets	Liabilities
CDS	CDS
IRS	IRS
FXS	FXS
Liquidity reserves	Capital reserves

Insurance : CDS: Credit Default Swaps IRS: Interest Rate Swaps FXS: FX Swaps

Thinking on “SHADOW BANKING” Regulation

- Key players in market-based credit system are **dealers**, not capital funding (shadow banks) per se
- Key back stop for matched book dealers is **liquidity**, not capital
- Key backstop for speculative dealers is **capital**, not liquidity
- Survival constraint is about **collateral flows**, not just **payment flows**

HIERARCHY of Financial Institutions: evolving



As Market based credit rises - Dealers are becoming more important and the Central Bank evolves from Lender to Dealer of Last Resort

REFERENCES

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5. European Commission Green Paper “Shadow Banking”, 2012.03.19.
6. FSB: Global Shadow Banking Monitoring Report, 2013.11.14.