

Shadow banking and money market funds regulation

CEPS and ECMI seminar on
asset management policy

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29 May 2013

Agenda

Defining shadow banking

Sizing shadow banking

Regulatory initiatives

MMFs

Defining shadow banking

- ‘Shadow banking’ coined in 2008 by Paul McCulley, then senior partner at PIMCO
- The FSB says the shadow banking system can broadly be described as credit intermediation involving entities and activities outside the regular banking system
- EC says it includes entities which:
 - Raise funding with deposit-like characteristics
 - Perform credit maturity and/or liquidity transformation
 - Allow credit risk transfer
 - Use direct or indirect leverage
- ...and activities which constitute important sources for financing financial entities, particularly securitisation, securities lending and repurchase transactions
- Difficult to offer a meaningful definition of such a heterogeneous part of the global financial system

Sizing shadow banking

- According to the FSB, the shadow banking system grew rapidly before the crisis: from \$26 trillion in 2002 to \$62 trillion in 2007
- Growth has since slowed – latest figures show the system was \$67 trillion in 2011
- US shadow banking system: \$23 trillion
- Eurozone shadow banking system: \$22 trillion
- UK shadow banking system: \$9 trillion
- Represents around 25% of credit intermediation
- The aggregate size of the shadow banking system is around half the size of the banking system assets

Regulatory initiatives

	Supranational	Europe	US
2010	Nov 2010: G20 leaders agree to strengthen oversight and regulation of the shadow banking system at Seoul Summit	May 2010: CESR's Guidelines on a common definition of European money market funds	Jan 2010: SEC makes initial MMF reforms
2011	April 2011: FSB – Shadow Banking: Scoping the issues		
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	Oct 2011: FSB – Recommendations to strengthen oversight and regulation of shadow banking		
2012	April 2012: FSB – Report to G20 on strengthening oversight and regulation of shadow banking	March 2012: EC Green Paper on shadow banking	Aug 2012: SEC states it will not proceed with a vote on MMFs
	April 2012: FSB – Report on securities lending and repos		
	Oct 2012: IOSCO – Recommendations for MMFs		Sept 2012: US Treasury asks FSOC to develop MMF recommendations
	Nov 2012: FSB – Overview of policy recommendations		
	Nov 2012: FSB – Second global monitoring report	Nov 2012: EP Own Initiative Report on shadow banking	Nov 2012: FSOC recommendations on MMFS
	Nov 2012: FSB – Policy framework for shadow banking		
	Nov 2012: FSB – Policy recommendations (securities & repos)	Dec 2012: ESRB Recommendations on MMFs	
2013	Jan 2013: FSB – Public responses to the Nov consultations	Q2 2012: EC MMF Regulation expected	Q2 2013: SEC MMF policies expected
	Sept 2013: FSB will present policy recommendations to G20	Q2 2012: EC Shadow Banking Communication expected	

Regulatory initiatives

What's next?

- European Commission due to publish its Communication on Shadow Banking – imminent
- European Commission due to publish its Regulation on MMFs – imminent
- SEC MMF proposal – expected in June – delayed as a result of the change in leadership

US proposals on MMFs

- Financial Stability Oversight Committee (FSOC) published recommendations in November 2012, setting out three options for MMFs:
 1. Floating NAV
 2. Stable NAV with NAV buffer and ‘Minimum Balance at Risk’
 3. Stable NAV with NAV buffer and other measures
- Next step is the SEC proposal –500 page document has been circulated internally to staff

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