

MEMO# 25637

November 11, 2011

Financial Stability Board Issues Report on Shadow Banking

[25637]

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TO: INTERNATIONAL MEMBERS No. 50-11
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 62-11
SEC RULES MEMBERS No. 134-11 RE: FINANCIAL STABILITY BOARD ISSUES REPORT ON SHADOW BANKING

On October 27, the Financial Stability Board (FSB), acting at the request of G20 leaders, issued a report entitled “Shadow Banking: Strengthening Oversight and Regulation.” [\[1\]](#) The report sets out recommendations regarding the “shadow banking system,” which is broadly described as “credit intermediation involving entities and activities outside the regular banking system.”

In response to the G20’s request, the FSB formed a task force to consider the following: a definition for the “shadow banking system”; potential approaches to monitoring the shadow banking system; and possible regulatory approaches to address systemic risk and regulatory arbitrage concerns posed by the shadow banking system. The FSB issued a background note in April 2011 that mainly addressed the definition of “shadow banking system” and invited public comment. [\[2\]](#) Over the summer, the task force conducted monitoring exercises to review recent trends and developments in the global shadow banking system, as well as a regulatory mapping exercise to take stock of existing national and international initiatives.

Based on these exercises, the report first outlines the overall approach being taken to strengthen the oversight and regulation of the shadow banking system and then sets out proposed recommendations for intensifying monitoring and enhancing regulation. The report also describes work plans for five workstreams that will assess in more detail the case for further regulatory action:

- Banks’ interactions with shadow banking entities (indirect regulation)—The Basel Committee on Banking Supervision (BCBS) will examine enhanced consolidation for prudential regulatory purposes, concentration limits/large exposure rules, risk weights for banks’ exposures to shadow banking entities, and treatment of implicit support by

July 2012;

- Money market funds—The International Organization of Securities Commissions (IOSCO) will examine regulatory action related to money market funds by July 2012;
- Other shadow banking entities—A new workstream set up under the FSB task force will examine shadow banking entities other than money market funds by September 2012;
- Securitization—IOSCO, in coordination with the BCBS, will examine retention requirements and transparency by July 2012; and
- Securities lending and repurchase agreements—A new workstream set up under the FSB task force will examine securities lending and repurchase agreements including possible measures on margins and haircuts by the end of 2012.

All five workstreams will report their proposed policy recommendations to the FSB.

Jane G. Heinrichs
Senior Associate Counsel

endnotes

[1] The FSB's report is available on the FSB's website at http://www.financialstabilityboard.org/publications/r_111027a.pdf.

[2] The background note is available on the FSB's website at http://www.financialstabilityboard.org/publications/r_110412a.pdf. ICI wrote a comment letter responding to FSB's request for information, which is available on ICI's website at <http://www.ici.org/pdf/25258.pdf>.

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