Out of the shadows?
The role of regulation and supervision in shadow banking

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Financial policies are part of the bigger picture

Systemic risk / Resilience of financial system

**Financial policies**
- Macro-prudential policy
- Micro-prudential policy
- Banking Union (SSM, SRM, EDIS)
- Capital Markets Union
- Remuneration rules
- Accounting rules
- Credit rating agency rules

Monetary policy

Crisis management

Competition policy

Fiscal and Tax policy

Etc.
Principles underlying regulatory approach at EU level

(i) mitigate market failures;
(ii) be proportional;
(iii) be coherent and comprehensive;
(iv) be internationally coordinated;
(v) avoid that valuable innovation and sustainable growth is stifled;
Do we understand the *drivers behind the growth* of shadow banking?

What is the relative importance of:

(i) valuation effects?

(ii) genuine efficiencies?

(iii) growing demand for safe assets and collateral?

(iv) regulatory arbitrage?

(v) institutional factors?
Three policy approaches:

**Direct regulation of shadow banking entities**
- Regulatory framework for UCITS, alternative investment fund managers (hedge fund managers) (AIFMD), money market funds (MMFR), regulated markets, investment firms, credit institutions and CCPs (MiFID/MiFIR), users of derivatives (EMIR), users of securities financing transactions (SFTR), insurance and reinsurance undertakings (Solvency 2), institutions for occupational retirement provision (IORP);

**Direct regulation of shadow banking activities**
- Simple, transparent and standardised securitisation (STS SR); Investment services, equity and non-equity instruments (MiFID/MiFIR), reporting to trade repositories, central clearing of OTC derivatives, risk mitigation for non-centrally cleared OC derivatives (EMIR), reporting of SFTs to trade repositories, disclosure of SFTs by investment funds, transparency of re-use (SFTR);

**Regulation of banks’ interactions with shadow banking entities (“indirect regulation”)**
- CRD addresses interaction banks with unregulated actors; SFTR and EMIR increase transparency and allow the mapping of exposures between different entities;
<table>
<thead>
<tr>
<th>Issue to be addressed</th>
<th>EU legislation (≠comprehensive)</th>
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<tr>
<td>Liquidity and leverage risk of certain funds</td>
<td>UCITS, AIFMD, MMFR</td>
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<tr>
<td>Interconnectedness</td>
<td>CRD, SFTR, EMIR</td>
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<tr>
<td>Data gaps and transparency</td>
<td>ESRB, ESA, LEI, EMIR, AIFMD, SFTR</td>
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Existing provisions and tools?
Policy focus

(i) Monitor (ESRB, FSB);

(ii) Eliminate data gaps;

(iii) Understand drivers behind shadow banking growth;

(iv) Ensure that an effective toolkit is available and can be used (operationalising, supervisory convergence, stress testing);

(v) Evaluate the functioning of the provisions and tools already in place (Reviews, e.g. AIFMD);

(vi) Coordinate work internationally (FSB, IOSCO, ESRB, ESAs);