



**SUERF Colloquium & Bank of Finland conference  
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# **Out of the shadows?**

## **The role of regulation and supervision in shadow banking**

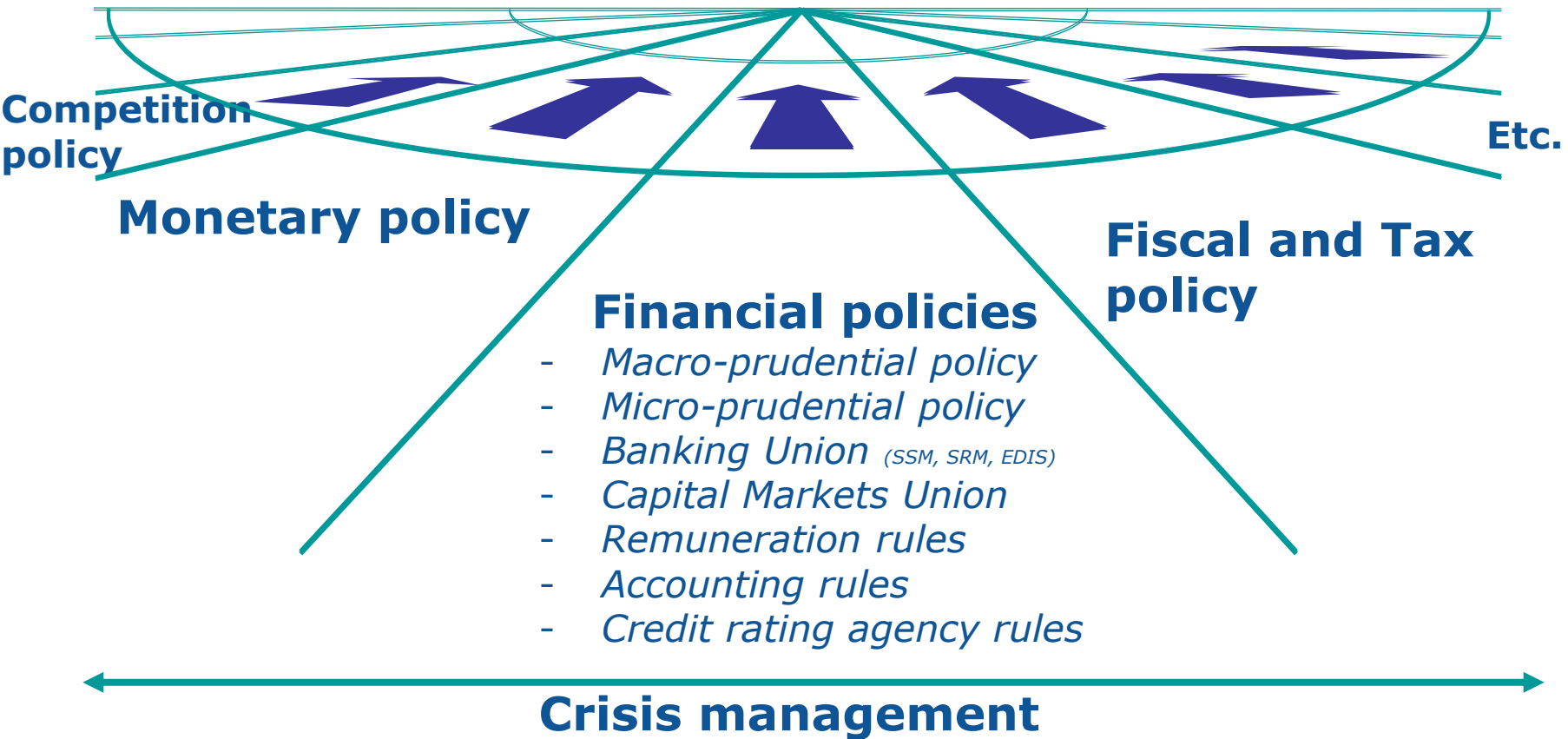
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*Stan MAES, PhD  
Deputy Head of Unit - Macroprudential policy  
DG FISMA, European Commission*



# Financial policies are part of the bigger picture

## Systemic risk / Resilience of financial system





# 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;*



<b>Issue to be addressed?</b>	<b>EU legislation (≠comprehensive)</b>
<b>Liquidity and leverage risk of certain funds</b>	<b>UCITS, AIFMD, MMFR</b>
<b>Interconnectedness</b>	<b>CRD, SFTR, EMIR</b>
<b>Data gaps and transparency</b>	<b>ESRB, ESA, LEI, EMIR, AIFMD, SFTR</b>

## 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);**