

Shadow Banking ...

... is a term first coined in 2007 to cover the many less regulated or unregulated financial entities and activities that might pose a threat to the financial system.

Scope of ISSA's Report

- Chapter 1: Executive Summary.
- Chapter 2: General description of Shadow Banking initiatives on an international level.
- Chapter 3 and 4: In-depth review of the two areas of greatest impact to the ISSA community.
- Chapter 5: General Conclusions with an assessment on the effectivity of the reforms concerning the Shadow Banking System.
- Chapter 6: Working Group Members

Spotlight Video

Watch Alain Pochet and Laurence Caron-Habib discussing the findings of the report.



ISSA Report on Shadow Banking Developments of Regulatory Changes and their Impact on ISSA Members

ISSA has just published its Report on Shadow Banking, focusing on initiatives affecting Securities Lending and Repos Transactions as well as Money Market Funds. It can be accessed under the following link:

<http://issanet.org/e/3/current-wgs/cwg5.html>.

This document has been compiled by ISSA's Working Group «Regulatory Impact on the Securities Services Chain», as an extension to its report of June 2012. The Working Group was under the lead of Florence Fontan until October 2013 and has since been headed by Laurence Caron-Habib, both of BNP Securities Services.

Introduction

During the Seoul Summit in November 2010, the G-20 required that «remaining issues of the financial sector that warranted attention should be identified». The objective of this requirement is to ensure that all products, activities and market participants are subject to appropriate oversight and regulation, which is currently not the case.

Shadow Banking is the generic term retained to cover the many unregulated or less regulated areas even if this title has been highly criticised by the industry due to its negative connotation. The Financial Stability Board was mandated at international level to work on this new regulatory stream in order to address bank-like risks to financial stability emerging outside the regular banking system while not inhibiting sustainable non-bank financing models that do not pose such risks.

Many industry commentators have expressed concerns that the regulatory reforms, which focus on banks, are solving yesterday's problems and that the next financial crisis will start in Shadow Banking. At the same time many of the market reforms impact all market players, including Shadow Banks, and only time will tell whether the introduction of direct regulation of Shadow Banks is the right approach to reinforce the stability of the whole financial system.

Scope of ISSA's Report on Shadow Banking

The report provides in chapter 2 a general description of Shadow Banking initiatives on an international level by the Financial Stability Board, but also on the European side by the European Commission and in the US by several authorities. While developments in other geographies are not covered ISSA would expect them to be greatly influenced by the developments noted in this report.

Chapters 3 and 4 cover an in-depth review of the two areas of greatest impact to the ISSA community, namely

- Securities Lending and Repo
- Money Market Funds.

The proposed reforms have a significant impact on custodians that

- Manage in-house Securities Lending programs or process Repo activity on behalf of their clients and so will be affected by disclosure requirements and other provisions.
- Sponsor or custody / administer Money Market Funds since these reforms impact valuation principles (e.g. market value versus amortized cost valuation, Floating Net Asset Value or Stable Net Asset Value subject to protections such as redemption gates and liquidity fees).

Progress in these two focus areas has in general been slower and more difficult than for regulatory changes targeted at banks.

The report concludes in chapter 5 with a general assessment on the effectivity of the reforms concerning the Shadow Banking System. It also encourages custodians to closely study the reforms in order to be able to make required adjustments to accounting and disclosure policies and procedures.

ISSA Spotlight Video

In a few days we will post a spotlight video on our Homepage. It will deal with the focal topics and major findings covered in ISSA's Report on Shadow Banking. Alain Pochet, Head of Clearing, Custody and Corporate Trust Services, BNP Securities Services and ISSA Board Member will discuss these topics with Laurence Caron-Habib, Working Group Leader.

Watch out for this video under the following link: <http://issanet.org/e/>

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