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Federal Department of Finance
State Secretariat for International Financial Matters SIF

The Global Agenda on Shadow Banking from a Swiss Perspective



January 23rd 2017

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Structure of the Presentation



Why do we care?



Definition / economic functions



Data overview



Multilateral approach to shadow banking



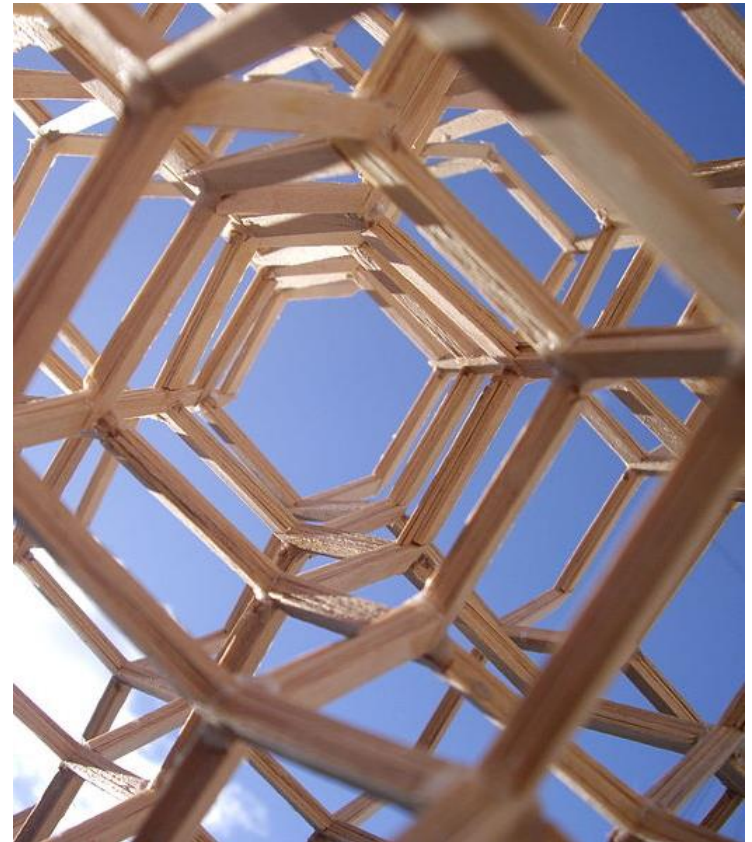
Regulation in Switzerland



Why Do We Care?

Shadow banking as a key priority of the Financial Stability Board (FSB) because of:

- Risks to financial stability
 - Role of MMFs with constant net asset value during the financial crisis
 - Role of credit insurance during the financial crisis, ex. AIG
 - Interconnectedness
- Opportunities for regulatory arbitrage





FSB Definition of Shadow Banking / Market-based Financial Intermediation

- In general: credit intermediation outside the banking sector
- Specifically: 5 economic functions:

Economic Function	Definition	Typical entity types ²¹
EF1	Management of collective investment vehicles with features that make them susceptible to runs	Fixed income funds, mixed funds, credit hedge funds, real estate funds
EF2	Loan provision that is dependent on short-term funding	Finance companies, leasing companies, factoring companies, consumer credit companies
EF3	Intermediation of market activities that is dependent on short-term funding or on secured funding of client assets	Broker-dealers
EF4	Facilitation of credit creation	Credit insurance companies, financial guarantors, monolines
EF5	Securitisation-based credit intermediation and funding of financial entities	Securitisation vehicles

Source: *Global Shadow Banking Monitoring Report 2015*



Size of Shadow Banking Worldwide

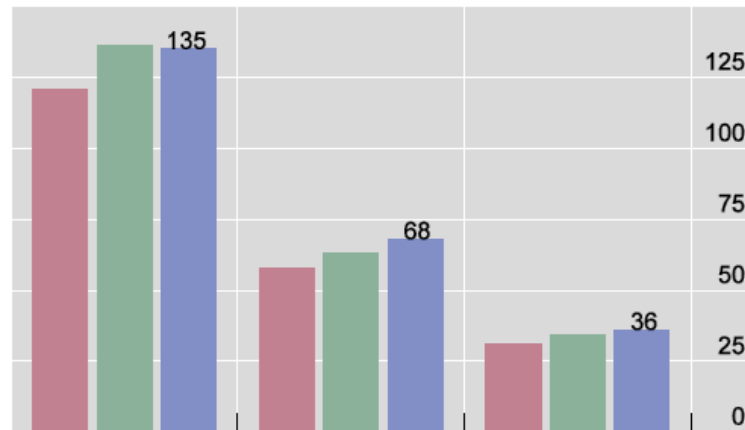
Assets of financial intermediaries

26 jurisdictions

Exhibit 3

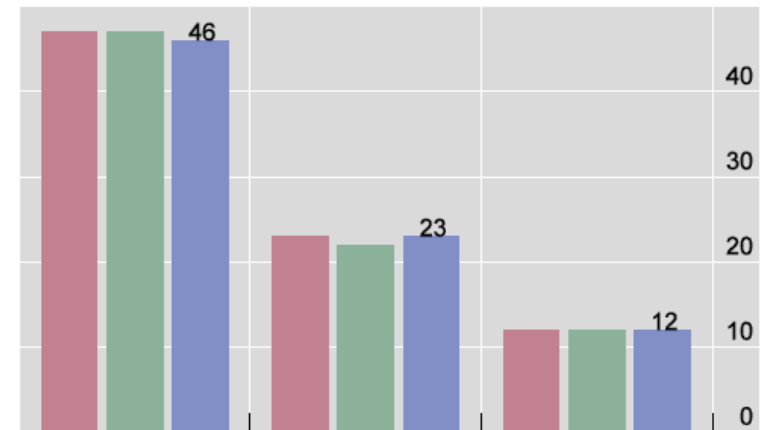
Financial assets

USD trillion



Share of total financial assets

Percent



2010 2012 2014

Notes: Banks = broader category of 'deposit-taking institutions'; OFIs = Other Financial Intermediaries; Shadow Banking = measure of shadow banking based on economic functions. These are not mutually exclusive categories, as shadow banking is largely contained in OFIs.

Sources: National financial accounts data; other national sources; FSB calculations.

Source: Global Shadow Banking Monitoring Report 2015



Relative Size of Shadow Banking Economic Functions

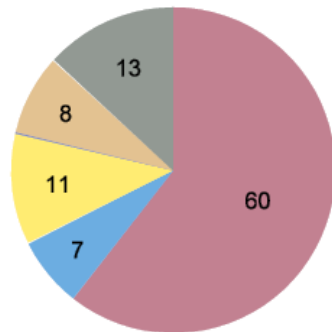
Shadow banking by economic function

26 jurisdictions

Exhibit 9

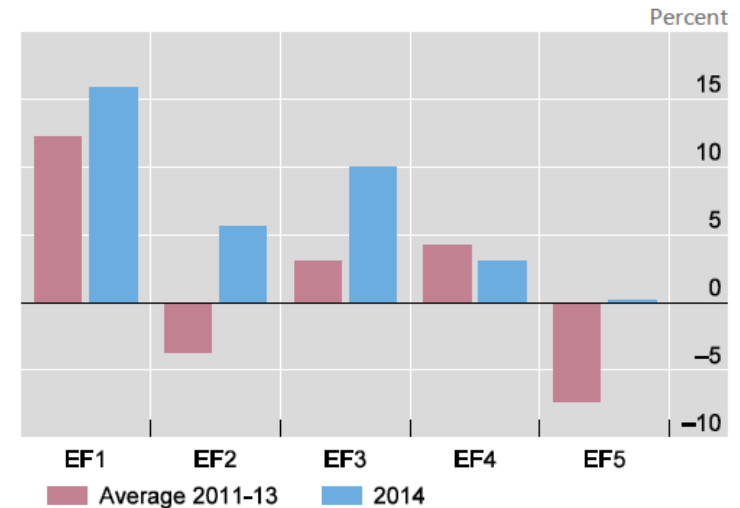
Relative size of economic functions

At end-2014



■ EF1 ■ EF2 ■ EF3
■ EF4 ■ EF5 ■ SB not classified into EFs

Annual growth of economic functions from 2011 to 2013¹ and in 2014



Note: EF1 = Economic Function 1; EF2 = Economic Function 2; EF3 = Economic Function 3; EF4 = Economic Function 4; EF5 = Economic Function 5; SB not classified into EFs = Residual OFI with some shadow banking risks but not classified into any of the five economic functions.

¹: Controlling for exchange rate effects. Average annual growth rates not shown for "not classified" category.

Sources: National financial accounts data; other national sources; FSB calculations.

Source: Global Shadow Banking Monitoring Report 2015



Shadow Banking Activity per Jurisdiction

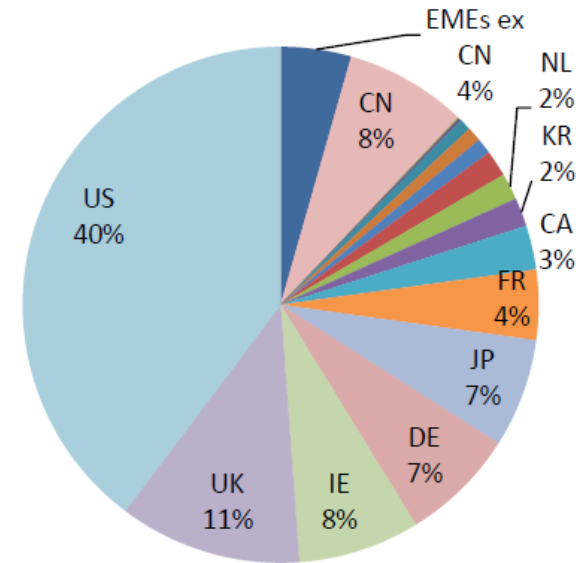
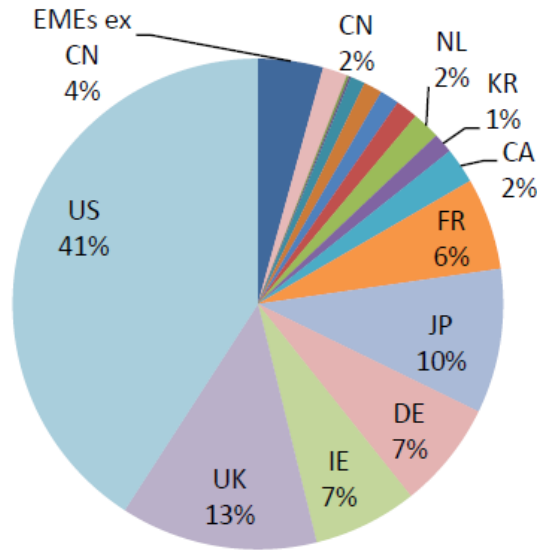
Share of shadow banking assets

26 jurisdictions

Exhibit 5

At end-2010

At end-2014



Note: CA = Canada; CN = China; DE = Germany; EMEs ex CN = Argentina, Brazil, Chile, India, Indonesia, Mexico, Russia, Turkey, Saudi Arabia, South Africa; FR = France; IE = Ireland; JP = Japan; KR = Korea; NL = Netherland; UK = United Kingdom; US = United States.

Sources: National financial accounts data; other national sources; FSB calculations.

Source: Global Shadow Banking Monitoring Report 2015



FSB Approach to Shadow Banking

*The **objective** of the FSB's work is to ensure that shadow banking is subject to appropriate oversight and regulation to address bank-like risks to financial stability outside the regular banking system while not inhibiting sustainable non-bank financing models that do not pose such risks." FSB Report 2013*

Monitoring

Annual data gathering exercise:

- Macro mapping
- Economic functions
- Study of risk by specific factors or instruments

Global Shadow Banking Monitoring Reports

Policy Recommendations/Regulation

- 1) Bank's interactions with shadow banking entities
- 2) Regulatory reform of MMFs
- 3) Regulation of other shadow banking entities
- 4) Regulation of securitization
- 5) Regulation of securities lending/repos



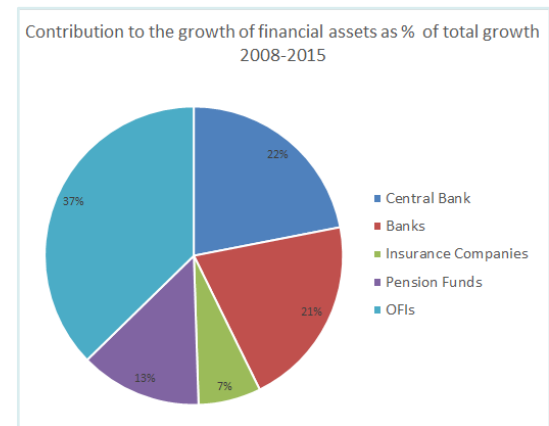
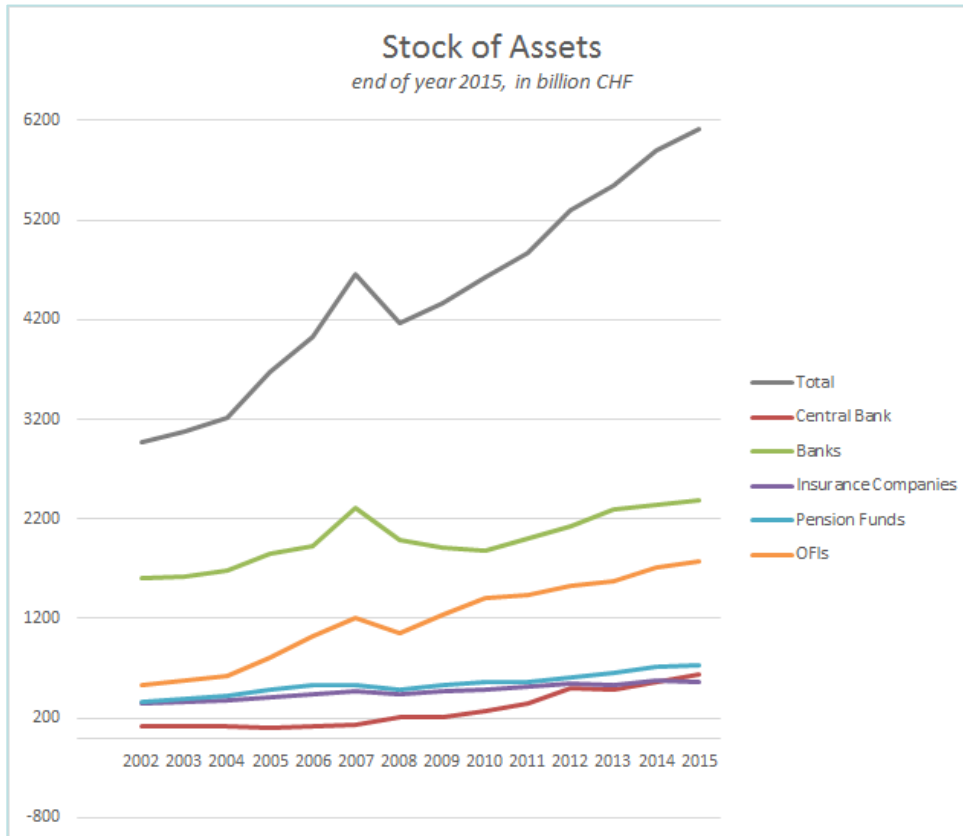
Multilateral Standards

FSB Recommendations 2011 11 Recommendations

	IOSCO 2012: Common standards of regulation of management of MMFs		IOSCO 2012: Global developments in securitization regulation	
BIS 2013: Capital treatment of bank's investment in equity funds.		FSB 2013: Policy framework for strengthening oversight and regulation of shadow banking entities		FSB 2013: Policy framework for addressing shadow banking risks in securities lending and repos
BIS 2014: Supervisory framework for bank's large exposure			BIS 2014: Revision of the securitization framework	
				FSB 2015: Framework for haircuts on non- centrally cleared securities financing transactions; Standards for global securities financing data collection and aggregation
BIS tbe: Prudential consolidation; Regulatory consolidation		FSB 2017: Recommendations to address structural vulnerabilities from asset management activities		
Bank's interaction with shadow banking entities	Reform of MMFs	Other shadow banking entities	Securitization	Securities lending/repos



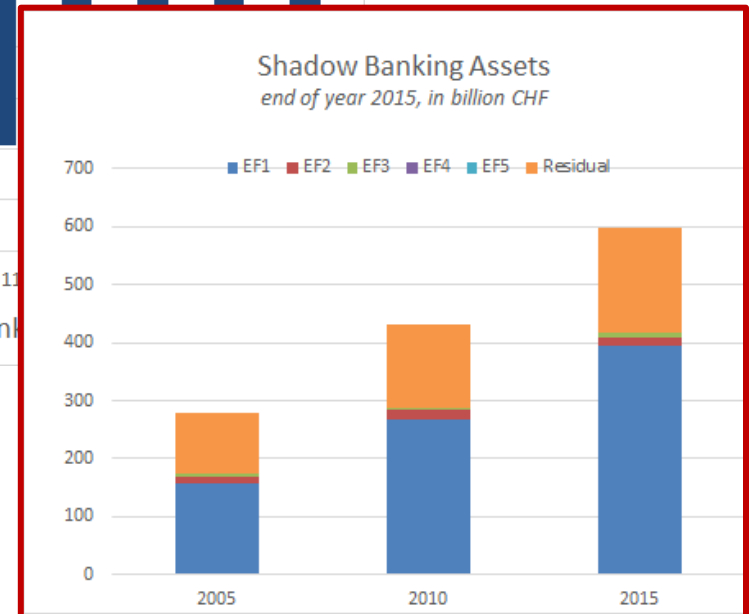
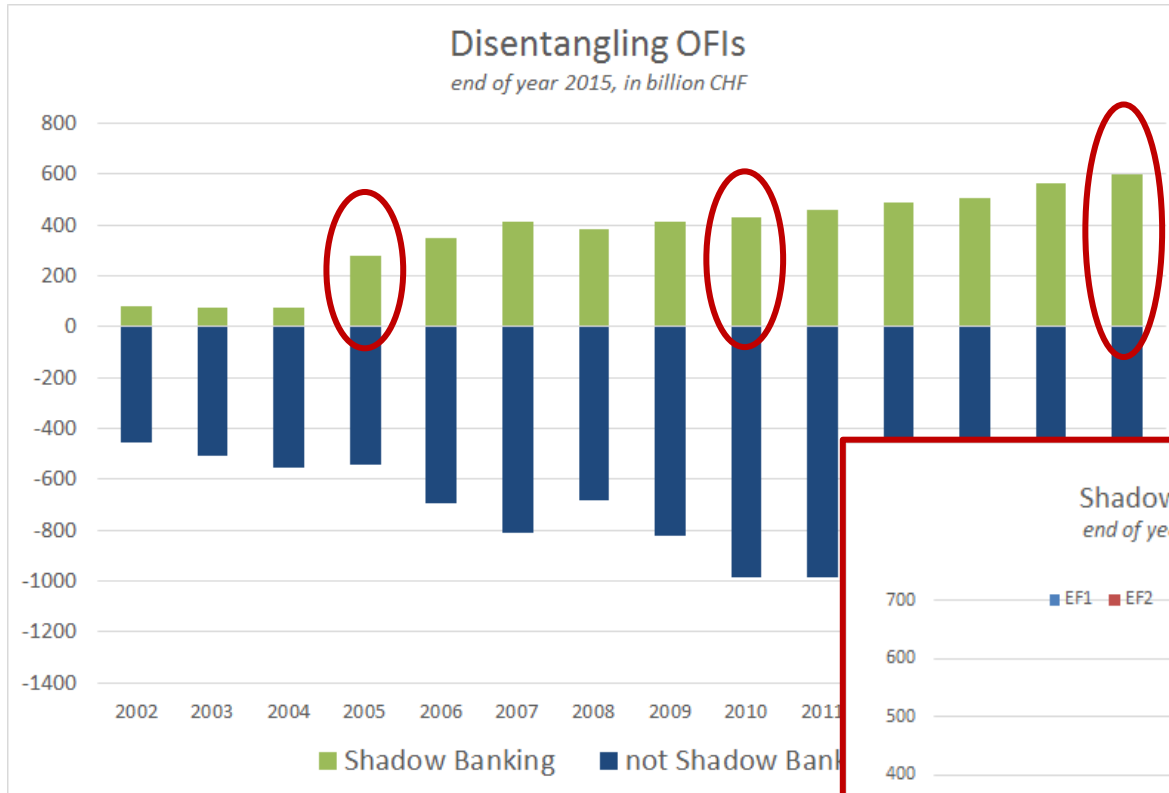
Shadow Banking in Switzerland – “Other Financial Intermediaries” as a Proxy



Data source: Swiss submission to Global Shadow Banking Monitoring Report 2016



Shadow Banking in Switzerland: “OFI-Assets” Overstate Shadow Banking



Data source:
Swiss submission to
Global Shadow Banking Monitoring Report 2015



Regulations Governing Shadow Banking in Switzerland

Main Regulations in Switzerland:	Entities/Issue Regulated:
Federal Act on Collective Investment Schemes	Funds
Federal Act on Consumer Credit	Consumer finance companies
Federal Act on Financial Services	Provisions on re-hypothecation and securities lending
Federal Act for the Promotion of Affordable Housing	Non-profit residential builders/cooperatives
Federal Act on the Supervision of Insurance Companies	Credit insurance companies
Federal Act on Stock Exchanges and Securities Trading	Securities dealers
Federal Act on Financial Aid for Commercial Guarantee Organizations	Loan guarantees for SMEs
Pfandbriefgesetz	Securitization of mortgages
Capital Adequacy Ordinance	Bank's interactions with shadow banks
Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading	Data sharing between SNB, FINMA, EFD



Assessment of Swiss Framework

Regulatory assessment by Swiss authorities in 2015:

- Swiss framework overall compliant with standards
- Need for improvements identified in three areas:
 - 1) Regular joint monitoring by SNB, FINMA and EFD
 - 2) Improve data on collective investment schemes
 - 3) More analysis regarding implementation of standards on securities financing transactions
- Assessment did not yet involve new FSB recommendations on asset management





Conclusions

- Important challenges identified after the crisis have been addressed by international standards, notably by the Financial Stability Board.
- Implementation is still ongoing, especially in the field of asset management, securities lending and repos. However, regulation should remain focused on major risks.
- Switzerland has no specific “shadow banking law”, but relevant issues are addressed in various laws. Swiss regulation on shadow banks is broadly in line with international standards.

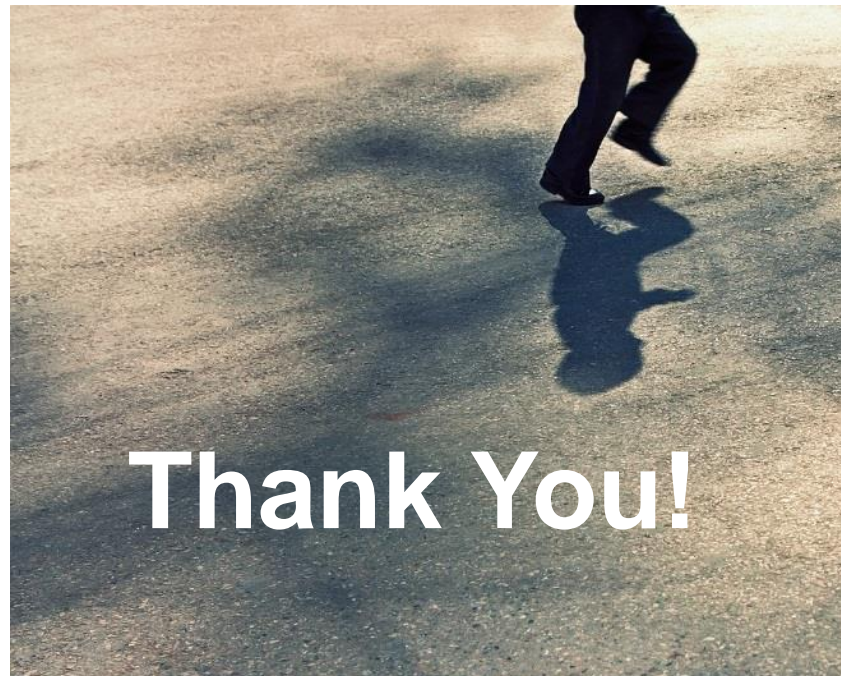




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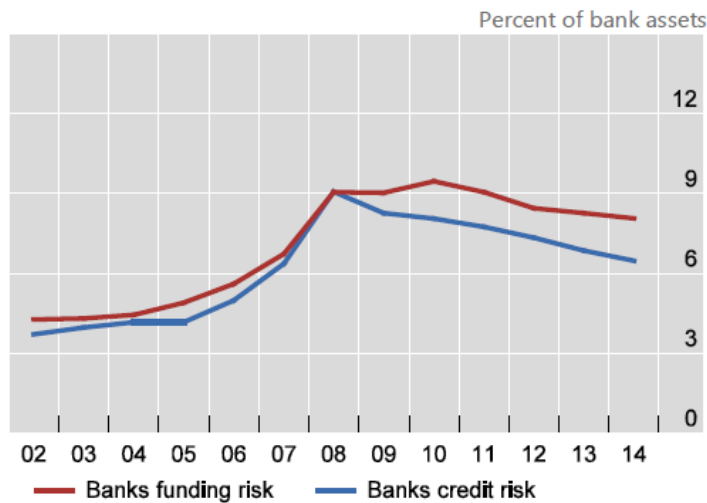


Shadow Banking: An Overview

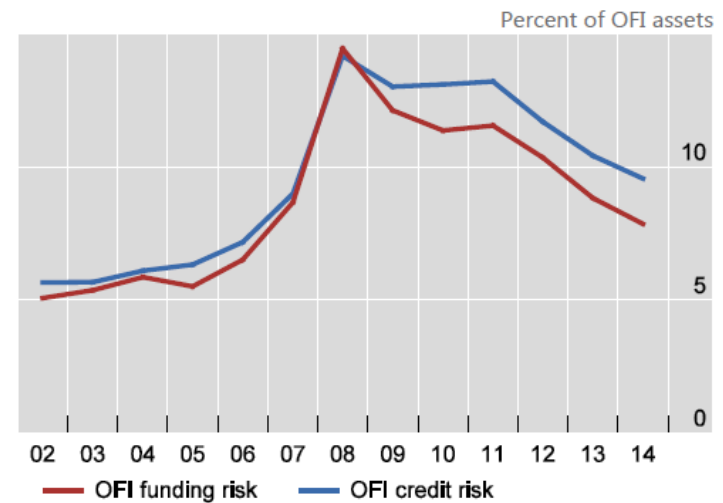
Banks' assets and liabilities to OFIs¹

Exhibit 16

Interconnectedness risks for banks



Interconnectedness risks for OFIs



Notes: ¹ Average for 20 jurisdictions and the euro area (China, Japan, Korea, and Singapore did not report data on banks' assets and liabilities to OFIs, Hong Kong did not report banks' liabilities to OFIs).

Source: National financial accounts data; other national sources, FSB calculations.

Source: *Global Shadow Banking Monitoring Report 2015*



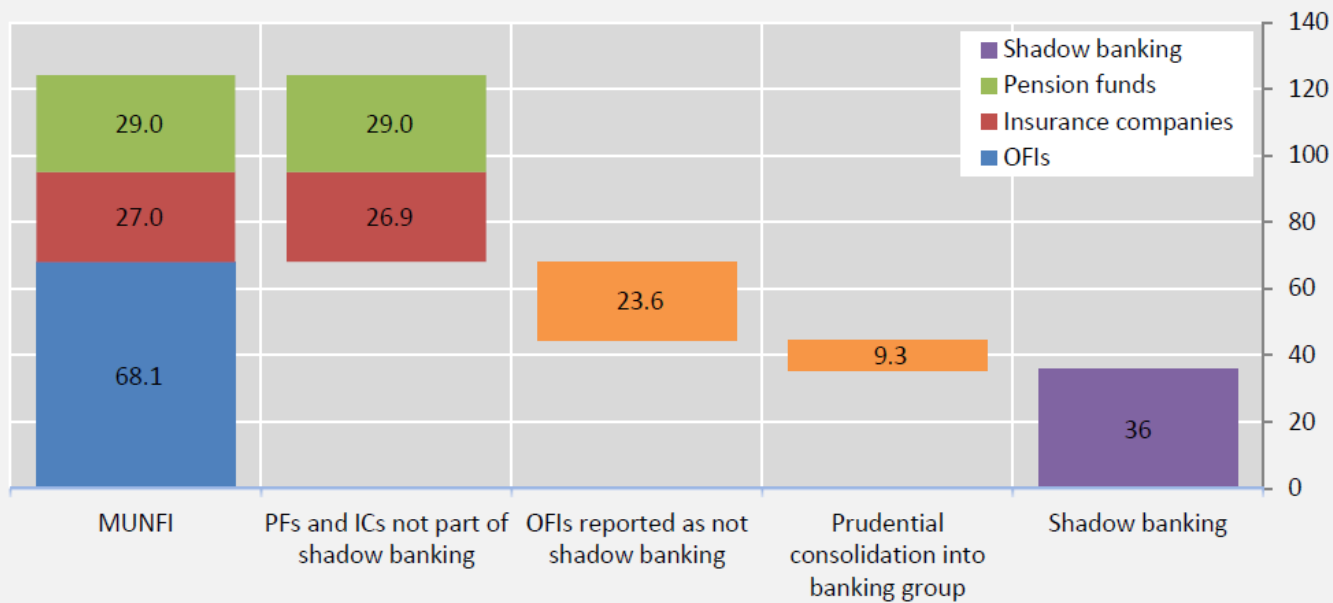
Shadow Banking: An Overview

Narrowing down shadow banking

26 jurisdictions at end-2014

Exhibit 10

USD trillion



Notes: MUNFI = Monitoring Universe of Non-bank Financial Intermediation; PFs = Pension Funds; ICs = Insurance; OFIs = Other Financial Intermediaries. Companies; Prudential consolidation into banking group = assets of classified entity types which are prudentially consolidated into a banking group; Shadow banking = shadow banking based on the economic functions.

Sources: National financial accounts data; other national sources; FSB calculations.

Source: Global Shadow Banking Monitoring Report 2015