FINANCIAL STABILITY BOARD

Press release

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FSB publishes Global Monitoring Report on Non-Bank Financial Intermediation 2018

The Financial Stability Board (FSB) today published the *Global Monitoring Report on Non-Bank Financial Intermediation 2018*. The report presents the results of the FSB's eighth annual monitoring exercise that assesses global trends and risks from non-bank financial intermediation. It covers data up to end-2017 from 29 jurisdictions, which together represent over 80% of global GDP.

The annual monitoring exercise is part of the FSB's strategy to enhance the resilience of non-bank financial intermediation. As in previous years, the exercise compares the size and trends of financial sectors in aggregate and across jurisdictions based primarily on sectoral balance sheet data. It focuses on those parts of non-bank financial intermediation that perform economic functions which may give rise to bank-like financial stability risks (i.e. the narrow measure of non-bank financial intermediation).

The main findings from the 2018 monitoring exercise include:

- The narrow measure of non-bank financial intermediation grew by 8.5% to $51.6 trillion in 2017, a slightly slower pace than from 2011-16. Since 2011, the Cayman Islands, China, Ireland and Luxembourg together have accounted for over two-thirds of the dollar value increase. The narrow measure represents 14% of total global financial assets.
    - Collective investment vehicles (CIVs) with features that make them susceptible to runs continued to drive the overall growth of the narrow measure in 2017. They grew by 9.1%, a somewhat slower pace than during 2011-16. Together, CIV assets represent 71% of the narrow measure. They invest mostly in credit assets and are involved in liquidity transformation.
    - Non-bank financial entities engaging in loan provision that is dependent on short-term funding grew by 6% in 2017, to account for 7% of the narrow measure. This category largely consists of finance companies, which employ a somewhat elevated degree of leverage and, in some jurisdictions, a high degree of maturity transformation. Finance companies in a few jurisdictions also displayed high liquidity risk.
    - Market intermediaries that depend on short-term funding or secured funding of client assets grew by 5%, to make up 8% of the narrow measure. Broker-dealers constitute the largest entity type in this category. Reflecting their business models, broker-dealers in some jurisdictions continue to employ

    - significant leverage, although it is considered to be lower than the level seen prior to the 2007-09 global financial crisis.
    - Securitisation-based credit intermediation increased by 9% in 2017, to account for 10% of the narrow measure, primarily driven by growth in trust company assets and securitisations.
- In 2017, the wider “Other Financial Intermediaries” (OFIs) aggregate, which includes all financial institutions that are not central banks, banks, insurance corporations, pension funds, public financial institutions or financial auxiliaries, grew by 7.6% to $116.6 trillion in 21 jurisdictions and the euro area, growing faster than the assets of banks, insurance corporations and pension funds. OFI assets represent 30.5% of the total global financial assets, the largest share on record. Among the OFI sub-sectors, structured finance vehicles grew in 2017 for the first time since the financial crisis.
- Investment funds and money market funds are the largest OFI sub-sectors that provide credit to banks. In aggregate, banks and OFIs have become marginally more interconnected through credit and funding relationships in 2017, remaining around 2003-06 levels.

Randal K. Quarles, FSB Chair, said: “Non-bank financing is a valuable alternative to bank financing for many firms and households. Of course, when it involves maturity or liquidity transformation, or leverage like banks, it may have effects on financial stability both directly and through its linkages with the banking system. The FSB’s monitoring exercise draws on the strength of the FSB’s broad-based and diverse membership to facilitate the sharing of information about these developments among authorities and helps to identify potential sources of financial stability risk. In this way, it contributes to harnessing the benefits of non-bank financing while containing associated risks.”

Klaas Knot, Chair of the FSB Standing Committee on Assessment of Vulnerabilities, said: “Non-banks play a growing role in the financial system, and their share of the financial system is the largest on record. They are becoming important players in areas where banks traditionally have played dominant roles. Authorities need to remain vigilant in addressing financial stability risks that emerge as a result of non-bank financing through enhanced data collection, improved risk analysis and implementing appropriate policy measures, including the FSB’s policy recommendations for addressing structural vulnerabilities from asset management activities.”

Notes to editors

In response to a G20 Leaders’ request at the Seoul Summit in 2010, the FSB adopted a two-pronged strategy to address the financial stability risks in non-bank financial intermediation (previously called shadow banking). First, the FSB created a system-wide monitoring framework to track developments in non-bank financial intermediation with a view to identifying the build-up of systemic risks and initiating corrective actions where necessary. Second, the FSB has been coordinating and contributing to the development of policies in five areas where oversight and regulation needed to be strengthened to mitigate the potential systemic risks associated with non-bank financial intermediation, with a focus on measures that seek:

- to mitigate the spill-over effect between the banking system and non-bank financial intermediation;

- to reduce the susceptibility of money market funds to “runs”;
- to improve transparency and to align incentives associated with securitisation;
- to dampen pro-cyclicality and other financial stability risks associated with securities financing transactions; and
- to assess and mitigate financial stability risks posed by other non-bank financial intermediation.

In October 2018, the FSB announced its decision to replace the term “shadow banking” with the term “non-bank financial intermediation” in future communications, including this report. The change in terminology is intended to emphasise the forward-looking aspect of the FSB’s work to enhance the resilience of non-bank financial intermediation and clarify the use of the technical terms.

The change in terminology does not affect the substance or coverage of the agreed monitoring framework and policy recommendations, which aim to address bank-like financial stability risks arising from non-bank financial intermediation (i.e. maturity/liquidity transformation, leverage and/or imperfect credit risk transfer).

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Randal K. Quarles, Vice Chairman for Supervision, US Federal Reserve; its Vice Chair is Klaas Knot, President, De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.