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GSP WG 2018 MEMBER SURVEY

GLOBAL STANDARDS AND FINANCIAL INCLUSION: SHADOW BANKING



SURVEY REPORT

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INTRODUCTION

The global financial crisis demonstrated that the shadow banking system can be a source of systemic risk. The failure of a number of institutions during the crisis sparked the transmission of risks through the financial system and ultimately disrupted the intermediation of funds in a number of economies. Today, there is greater recognition of the need for appropriate monitoring and regulatory frameworks for the shadow banking system to mitigate potential risks.

At the November 2010 Seoul Summit, G20 Leaders requested that the Financial Stability Board (FSB), in collaboration with international standard-setting bodies, develop recommendations to strengthen the oversight and regulation of the shadow banking system. In the FSB's 2011 report,¹ "shadow banking system" was broadly described as "credit intermediation involving entities and activities outside the regular banking system". A two-step approach was introduced to guide monitoring and policy responses to shadow banking risks. The FSB also recommended that regulators apply a set of general principles when designing and implementing regulatory measures for shadow banking. Among others, these principles included proportionality, whereby regulatory measures should be proportionate to the risks shadow banking poses to the financial system.

In November 2015, the conference "Financial Inclusion and Shadow Banking: Innovation and Proportionate Regulation for Balanced Growth" was held in Moscow, co-hosted by the Bank of Russia and the Alliance for Financial Inclusion (AFI). The conference highlighted the importance of non-bank financial intermediaries (NBFIs) in driving innovation and channelling funds for financial inclusion and economic growth, especially in emerging economies and developing countries.

The adopted Moscow Resolution on Financial Inclusion and Shadow Banking called for AFI members to collect information to better understand the features of shadow banking in their jurisdictions, innovations in the financial sector and the oversight and regulatory frameworks they have implemented for shadow banking activities and entities. It also called for case studies that highlight successful approaches to developing and implementing proportionate regulatory frameworks and which differentiate between properly regulated and resilient forms of market-based financing and unsupervised financial intermediaries that pose material risks to financial stability.

This Guideline Note sets out the key observations and findings of a survey, Global Standards and Financial Inclusion, conducted by the AFI Global Standards and Proportionality Working Group (GSPWG) in March 2018.² The aim of the survey was to reveal: (i) whether AFI member countries had adopted an official shadow banking definition; (ii) the types of institutions that constitute shadow banking; (iii) the level of risk posed by shadow banking to the financial system; and (iv) the efforts AFI member countries have made to mitigate risks.

The Guidance Note also features country-level practices in monitoring and addressing risks emanating from shadow banking, drawing on case studies by AFI member institutions on proportionality in practice.

1 FSB, 27 October 2011, "Shadow Banking, Strengthening Oversight and Regulation, Recommendations of the Financial Stability Board", available at: http://www.fsb.org/wp-content/uploads/r_111027a.pdf.

2 The survey was circulated to all members of the Global Standards and Proportionality Working Group (GSPWG), which consists of 46 AFI member countries. Twenty-seven AFI member institutions from the following countries responded to the survey: Afghanistan, Angola, Argentina, Armenia, Bangladesh, Burundi, Cambodia, Costa Rica, El Salvador, Fiji, Ghana, Liberia, Malaysia, Malawi, Mongolia, Morocco, Mozambique, Nepal, Nigeria, Philippines, Russia, Senegal, Sudan, Tajikistan, Tanzania, Tonga and Vanuatu.

KEY FINDINGS

SHADOW BANKING DEFINITION

There appears to be no universally accepted definition of shadow banking. The literature suggests that the term ‘shadow bank’ was coined by Paul McCulley, an economist and former managing director of PIMCO, in a 2007 speech at the annual Jackson Hole financial symposium hosted by the Kansas City Federal Bank.³ In 2011, the FSB provided some guidance on a broad definition of shadow banking, describing it as “credit intermediation involving entities and activities outside the regular banking system”.⁴ Analysis by the International Monetary Fund (IMF) suggests that more recent studies define shadow banking by the nature of the entity that carries it out (i.e. it is usually less regulated than traditional banks and lacks a formal safety net) while other definitions focus on instruments or markets.⁵

According to the 2018 Global Standards and Financial Inclusion survey, AFI members generally do not have an official definition of shadow banking. Only three survey respondents indicated that they have an official definition. Banco Central de la República Argentina adopts a broad definition for monitoring purposes based on the FSB Shadow Banking Expert Group guidelines. This definition of shadow banking includes activities that are regulated without considering any risk mitigations that are already in place. In Liberia, shadow banking is described as a bank that has no physical presence in the country in which it is incorporated and licensed, and is unaffiliated with a regulated financial group that is subject to effective consolidated supervision. Bangladesh is developing a comprehensive shadow banking definition.

TYPES OF INSTITUTIONS THAT CONSTITUTE SHADOW BANKING

The FSB’s monitoring methodology involves two steps. The first casts a net wide to look at an aggregate measure of all non-bank financial intermediation, referred to as the monitoring universe of non-bank financial intermediation (MUNFI). MUNFI comprises insurance corporations, pension funds, other financial institutions and financial auxiliaries. The second step narrows the focus to entities engaged in credit intermediation that may pose risks to financial stability,⁶ which results in the FSB’s estimate of the narrow measure of shadow banking. Non-bank financial entities that fall within this narrow measure are classified by five economic functions (Table 1).

According to the Global Standards and Financial Inclusion survey, peer-to-peer lenders and money lenders are the most common type of shadow banking, as identified by 37 percent of survey respondents. Almost a quarter of respondents identified cooperatives as shadow banking (Figure 2). In addition to the institutions listed in the survey questionnaire, members also identified other types of institutions that constitute shadow banking (See Table 2 and the case study on Mozambique). These responses suggest that shadow banking in AFI member countries are

FIGURE 1: ADOPTION OF AN OFFICIAL SHADOW BANKING DEFINITION (NUMBER OF RESPONSES)

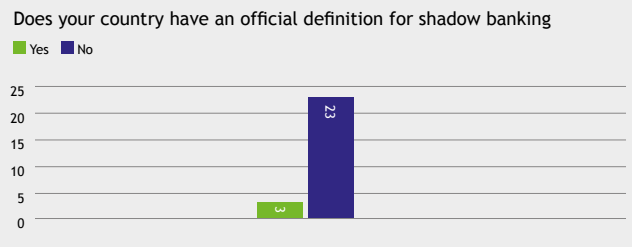


FIGURE 2: TYPES OF INSTITUTIONS THAT CONSTITUTE SHADOW BANKING (NUMBER OF RESPONSES)

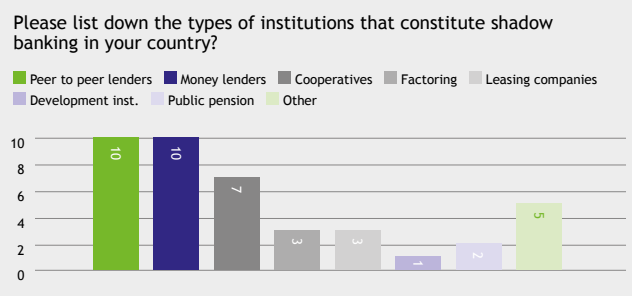


TABLE 1: CLASSIFICATION BY ECONOMIC FUNCTION

ECONOMIC FUNCTION (EF)	DEFINITION	TYPICAL ENTITIES
EF1	Management of collective investment vehicles with features that make them susceptible to runs	MMFs, fixed income funds, mixed funds, credit hedge funds, real estate funds
EF2	Loan provision that is dependent on short-term funding	Finance companies, leasing/factoring companies, consumer credit companies
EF3	Intermediation of market activities that is dependent on short-term funding or secured funding of client assets	Broker dealers, securities finance companies
EF4	Facilitation of credit creation	Credit insurance companies, financial guarantors, monolines
EF5	Securitisation-based credit intermediation and funding of financial entities	Securitisation vehicles, structured finance vehicles, asset-backed securities

3 Paul McCulley’s speech, “Teton Reflections”, PIMCO Global Central Bank Focus, September 2007, <https://www.pimco.com/en-us/insights/economic-and-market-commentary/global-central-bank-focus/teton-reflections>.

4 “Shadow Banking: Strengthening Oversight and Regulation”, Financial Stability Board (2011) http://www.fsb.org/wp-content/uploads/r_111027a.pdf

5 Chapter 2 of the IMF’s October 2014 Global Financial Stability Report, “Shadow Banking Around the Globe: How Large, and How Risky?”, available at:

6 Through the entity’s involvement in leverage and/or liquidity/maturity transformation

typically involved in loan provisioning (i.e. EF2) and less so in the other four economic functions identified by FSB.

The Central Bank of Armenia and Bank of Russia (CBR) did not identify any institutions as shadow banking. Both countries adopt an integrated or unified regulatory approach and their central banks regulate all banks and non-bank financial institutions. In mid-2013, the CBR became a mega-regulator empowered with the regulatory and supervisory mandate over non-bank financial entities. The CBR is of the view that “shadow banks” should only constitute financial institutions that are unregulated or not properly regulated. In Armenia, the central bank supervises all financial institutions, including those normally considered to be shadow banking in international practice. Credit organizations and securities firms are already part of financial groups. Other organizations that are not part of financial groups fall under the purview of the central bank department responsible for banking supervision.

TABLE 2: OTHER TYPES OF INSTITUTIONS THAT CONSTITUTE SHADOW BANKING

Cambodia	Pawn shops and real estate developers
Costa Rica	Unsupervised cooperatives, pawn shops and appliance sales
Malaysia	Unit trust funds, development financial institutions (DFIs) not under the Development Financial Institution Act (DFIA), securitisation entities, pawn brokers, building societies, fund management industry, non-bank providers of hire purchase financing, non-bank provider of education financing and social security organisations
Tajikistan	Entities involved in remittances and FX operation, and Islamic banking operations

**CASE STUDY: MOZAMBIQUE
TOPOLOGY OF FINANCIAL INSTITUTIONS IN
MOZAMBIQUE**

According to Banking Law (Law 15/99 amended by Law 9/2004) there are two types of financial institutions in Mozambique: credit institutions and finance companies.

TABLE 3: TOPOLOGY OF FINANCIAL INSTITUTIONS IN MOZAMBIQUE

CREDIT INSTITUTIONS	FINANCE COMPANIES
> Banks	> Finance brokerage companies
> Finance leasing companies	> Brokering firms
> Credit cooperatives	> Investment fund managers
> Factoring companies	> Property management companies
> Investment companies	> Venture capital companies
> Microbanks in different forms permitted under applicable legislation	> Group purchase managers
> Electronic currency institutions	> Credit card issuers or managers
> Money lenders	> Foreign exchange bureau
> Saving and loans organizations	> Discount houses
> Other firms	> Other firms

Mozambique’s financial system is simple and less sophisticated. A 2004 amendment to the Banking Law allowed for the establishment of several entities that much of the literature considers shadow banking, such as: (i) finance leasing companies, (ii) factoring companies; (iii) investment companies; and (iv) investment fund managers. However, such entities are not yet in operation in Mozambique.

Until 2005, finance leasing was undertaken outside bank activities due to regulatory constraints, which prompted many banks to create their own finance leasing companies. However, after the Banking Law was amended, all finance leasing companies operating in Mozambique merged with the banks.

Scanning and Mapping of Mozambique’s Shadow Banking System Based on the FSB Framework

Banco de Moçambique has undertaken an exercise to scan and map the overall shadow banking system in Mozambique based on the FSB framework. Table 4 maps shadow banking in Mozambique using this approach. The analysis suggests that entities operating in Mozambique are not involved in the economic functions identified within the FSB shadow banking framework.

TABLE 4: CLASSIFICATION BY ECONOMIC FUNCTION

ECONOMIC FUNCTION (EF)	DEFINITION	TYPICAL ENTITIES	ENTITIES OPERATING IN MOZAMBIQUE
EF1	Management of collective investment vehicles with features that make them susceptible	Fixed income funds, mortgage funds, money market funds, hedge funds	None
EF2	Loan provision that is dependent on short term funding	Finance companies, leasing companies, credit unions	None
EF3	Intermediation of market activities that is dependent on short-term funding or on secured funding of client assets	Brokers dealers	None
EF4	Facilitation of credit creation	Financial guarantors	None
EF5	Securitization-based credit intermediation and funding of financial entities	Securitized vehicles	None

Shadow banking in Mozambique falls into two categories (i.e. formal and underground entities) and is set out below:

FORMAL ENTITIES	UNDERGROUND ENTITIES
<ul style="list-style-type: none"> > Money Lenders > Saving and Loans Organizations 	<ul style="list-style-type: none"> > Accumulating Saving and Credit Associations (ASCAS) > Associations of Rural Finance (RFAs) > Rotative Saving and Credit Association (ROSCA) > Rotating Credit Groups (PCRs) > Some Ponzi Schemes (recently closed by the authorities)

Formal Entities

Banco de Moçambique does not prudentially regulate formal entities. These entities report a few data items (e.g. total loans, number of beneficiaries and charged interest rate) once a semester. Some operators, however, did not provide this information. For those that reported, most of the data was inaccurate or irregular. Based on available data from the formal entities, the total outstanding loans in this sector account for about 0.14 percent of the banking system’s total assets.

Underground Entities

Underground entities provide credit to many people and economic activities. Information on the assets of underground entities are scarce due to the informal nature of their operations. It is believed that the assets of these operators are sizeable in comparison to formal entities.

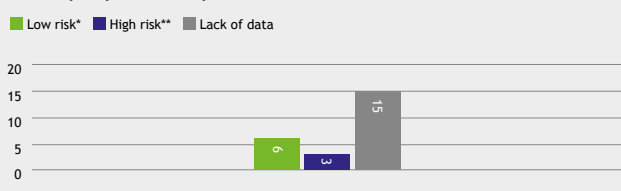
RISKS POSED BY SHADOW BANKING TO THE FINANCIAL SYSTEM

The global financial crisis demonstrated that the shadow banking system can pose risks to financial stability. These systemic risks can arise either from the prominence of the shadow banking system in supplying credit or liquidity to the economy, or its interconnectedness with the banking system. These connections can take various forms. Direct financial links between the shadow banking and banking systems are primarily deposit placements with banks and counterparty risk exposures. These risk exposures arise from banks lending to, or holdings of debt securities issued by, shadow banks. Indirect exposures can arise from the holding of common assets. In the event of financial stress, large-scale disposal of common assets by shadow banks could induce sharp valuation adjustments of assets held in common with other financial institutions and can affect overall market sentiment.⁷

Results from the Global Standards and Financial Inclusion survey revealed that more than half of respondents do not have the data they need to assess shadow banking risks. Of those that do, two-thirds indicated that the risks posed to financial stability in their respective jurisdictions remain low. This is attributed to the non-complex nature of activities undertaken by shadow banks and their weak connection to the regular banking system.

FIGURE 3: LEVEL OF RISK SHADOW BANKING POSES TO FINANCIAL STABILITY (NUMBER OF RESPONSES)

How do you view the level of risk that shadow banking poses to financial stability in your country?



* Low risk, since they are non-complex activities and have weak connections to the regular banking system
 ** High risk, since they are complex activities and have strong connections to the banking system

In Cambodia, regulatory arbitrage is a key factor driving shadow banking activities. The current risks posed by shadow banking to financial stability have been assessed as low. Shadow banking activities are estimated to account for 15 percent to 20 percent of Cambodia’s total loan portfolio. Shadow banking institutions and products tend to be more traditional and have less complex connections to other parts of the financial system (see case study on Cambodia).

CASE STUDY: CAMBODIA REGULATORY ARBITRAGE AS A POTENTIAL DRIVER OF SHADOW BANKING ACTIVITIES

While regulations have been put in place for the formal banking sector in Cambodia, not as much has been done for the shadow banking sector. One of the main reasons for the increase in shadow banking activities in the country is regulatory arbitrage. Increased regulation in the formal banking sector creates incentives for financial institutions to undertake shadow banking activities, which is either lightly regulated or unregulated. The increase in shadow banking is driven by the following factors:

- > Lenders respond to tighter rules and regulations by seeking alternative sources of funding and channeling lending outside the purview of the central bank;
- > Difficulties faced by small borrowers in obtaining loans from formal banking and financial institutions create niche markets for shadow banking lenders; and
- > Some non-government organizations (NGOs) that have been operating under the umbrella of social charity have an advantage over regulated entities and borrowers.

Shadow banking can provide benefits to the real economy by extending credit to specialized sectors (such as agriculture and microfinancing) and providing large investors with alternatives to bank deposits. However, shadow banking activities are not subject to the same degree of regulation and supervision as the formal sector and can therefore pose potential systemic risks to the financial system.

⁷ <http://www.bnm.gov.my/files/publication/fspd/en/2017/cp01.pdf>

These risks can arise through direct and indirect connections between shadow banking and the banking system. Direct links can take the form of funding interdependence whereby banks provide credit facilities to shadow banks or take deposits from them. Banks and shadow banks can be indirectly linked when they invest in similar assets, lend to the same set of clients or are exposed to the same counterparties. A default in one sector can have contagious effects. Finally, shadow banking activities can undermine the effectiveness of macroeconomic management and monetary policies. In an ample liquidity environment, the National Bank of Cambodia (NBC) may face challenges in controlling monetary policies by changing interest rates or managing money supply.

The activities of shadow banks are more traditional and less complex. The main challenge is collecting reliable data and bringing shadow banks under better regulation to reduce the fragmented oversight of different regulatory authorities.

Shadow banking activities in Cambodia are currently estimated to account for 15 percent to 20 percent of the country's total loan portfolio. Shadow banking institutions and products tend to be simpler and their connections with other parts of the financial system less complex. One of the biggest challenges NBC faces is the lack of data on the extent of shadow banking. While these shadow banking activities are either not supervised or less supervised and regulated by the NBC, there is a need for more effective supervision and regulation and better coordination among all stakeholders. The NBC and policymakers are aware of the growing importance of shadow banking and are looking at measures to better monitor shadow banking activities by encouraging them to be operationally regulated and supervised.

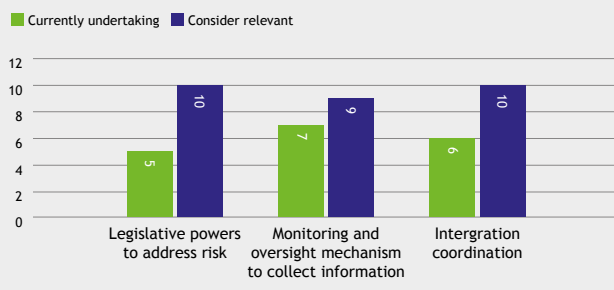
MITIGATING THE RISKS POSED BY SHADOW BANKING TO FINANCIAL STABILITY

In 2013, the FSB developed a high-level policy framework to guide authorities in strengthening oversight of shadow banking. The framework included overarching principles stating that authorities should (i) define and keep the regulatory perimeter up to date; (ii) collect information needed to assess the extent of the risks posed by shadow banking; (iii) enhance disclosure by shadow banking entities (as necessary) to help market participants understand the extent of the risks posed by these entities; and (iv) assess non-bank financial entities based on their economic functions and take necessary actions using tools from the policy toolkit.⁸

Wide-ranging measures have been taken in countries around the world to strengthen monitoring and oversight of shadow banking. These include efforts to enhance data collection, mitigate the interaction of banks with shadow banking, regulate or enhance regulations to address specific segments of shadow banking (e.g. reforms of money market funds and securitisation) and broader

FIGURE 4: MEASURES TO MITIGATE THE RISKS OF SHADOW BANKING (NUMBER OF RESPONSES)

How do you view the level of risk that shadow banking poses to financial stability in your country?



legislative changes to enable authorities to extend their regulatory perimeter for shadow banking (e.g. the Dodd-Frank Act provides for the designation of systemically important non-banks for enhanced prudential regulation and supervision by the Federal Reserve).⁹

The Global Standards and Financial Inclusion survey revealed that one-third of survey respondents are taking steps to mitigate shadow banking risks in one or more of the broad measures listed in the survey.¹⁰ These countries are primarily focusing on monitoring and oversight mechanisms to collect information (Figure 4). Legislative powers to address risks and interagency coordination are also given high priority. Russia and Malaysia are taking measures in all three policy areas (see case study on Russia and information box on Malaysia). In Tanzania, efforts are underway to regulate non-deposit-taking microfinance institutions, including money lenders.

Another third of survey respondents are not currently taking any measures to mitigate the risks of shadow banking, but think that these measures are relevant to consider. A closer look at the survey responses suggests that most countries that can assess the level of shadow banking risks (i.e. identify the level as high or low) are currently taking measures in one or more policy areas (see Annex 2).

8 FSB's Policy Framework for Strengthening Oversight and Regulation of Shadow Banking Entities, August 2013, available at: http://www.fsb.org/wp-content/uploads/r_130829c.pdf

9 Chapter 2 of the IMF's October 2014 Global Financial Stability Report, "Shadow Banking Around the Globe: How Large, and How Risky?", available at:

10 Namely (i) legislative powers to address risks; (ii) monitoring and oversight mechanism to collect information; and (iii) interagency coordination.

CASE STUDY: RUSSIA

Progressive steps have been taken in recent years to enhance the monitoring of systemic risks, including those emanating from shadow banking (or, in Russia, “parallel banking” or “parallel banking system”).

- 1 In mid-2013, the Bank of Russia (CBR) became a mega-regulator and was empowered with the regulatory and supervisory mandate over non-bank financial entities. The integration of the Federal Financial Markets Service in the CBR made more data available for systemic risk surveillance.
- 2 The Division for Analysis of Systemic Risks of Non-Credit Financial Institutions has been newly created in the Financial Stability Department.
- 3 The National Financial Stability Council, a high-level interagency body, was set up in 2013. The Council is chaired by the First Deputy Prime Minister of the Russian Federation and its members include representatives of CBR, Ministry of Finance, Deposit Insurance Agency, Ministry of Economic Development and the Presidential Administration.
- 4 In November 2014, the Financial Stability Committee was established in the CBR. The Committee is chaired by the Governor and its function, among others, is to monitor and assess risks in the financial system.

Data collection to identify and monitor systemic risks is carried out within the framework of mandatory reporting and supervision of non-bank financial institutions. The CBR also conducts ad-hoc and regular surveys of non-bank institutions and cooperates with self-regulated organizations (e.g. with the National

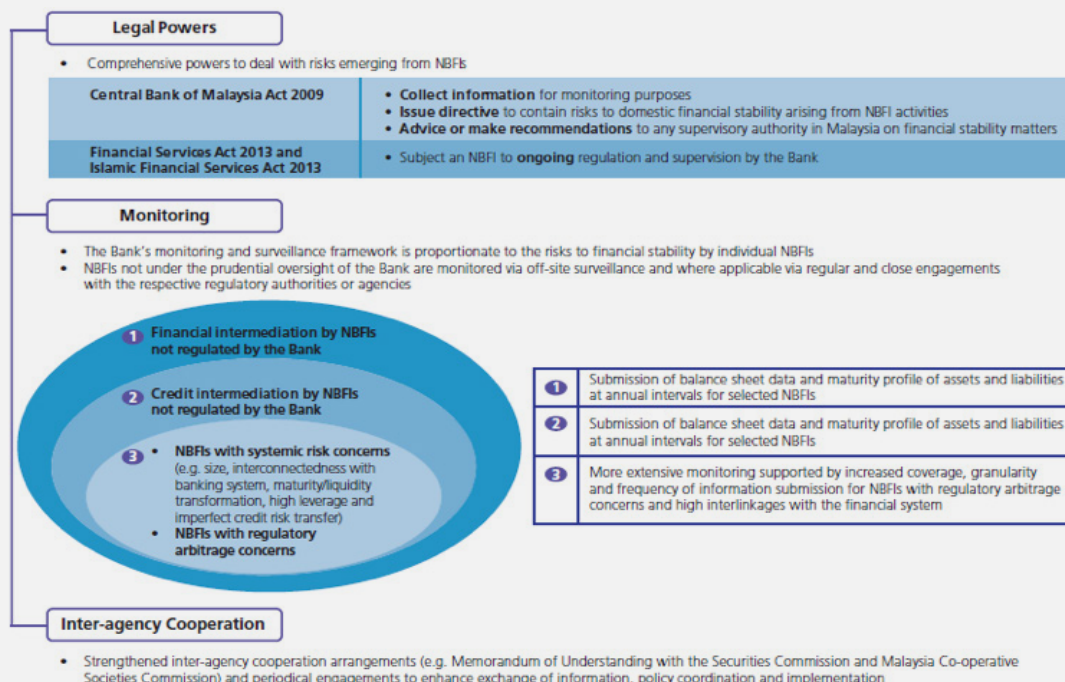
Securities Market Association to obtain information on brokers and dealers). The CBR also cooperates with financial market infrastructures to identify and monitor systemic risks. The central bank has the right to request information on organized trading from the trading organizers. The CBR and the Moscow Stock Exchange have entered into an agreement that allows the CBR to have online access to the datamarts relating to trading activities on the Moscow Stock Exchange.

Additional efforts are underway to increase the depth and scope of data on non-credit financial institutions

Several projects are underway to improve the reporting system:

- 1 Unified reporting form. Non-credit financial institutions will shift to a unified reporting form that all financial institutions will use. Broker dealers, non-governmental pension funds and insurance companies will migrate to the unified reporting form by 2017 and microfinance institutions by 2018.
- 2 Unified accounting standards based on IFRS. Unified supervisory requirements are expected to be harmonized with IFRS and an integral package of accounting, supervisory and statistical reporting requirements developed (including audit and actuarial reports).
- 3 Unified international standards for financial, supervisory and digital business data transmission. Non-credit financial institutions can rely on a data model that includes a reporting form description, help and infrastructure libraries, matching rules and data validation (XBRL code).

MALAYSIA’S APPROACH TO DEALING WITH THE POTENTIAL RISKS OF NON-BANK FINANCIAL INSTITUTIONS: POWERS, MONITORING AND INTERAGENCY COORDINATION



ANNEX 1

SURVEY RESULTS: MEASURES BY AFI MEMBER COUNTRIES TO MITIGATE THE RISKS OF SHADOW BANKING TO FINANCIAL STABILITY

		LEVEL OF RISK SHADOW BANKING POSES TO FINANCIAL STABILITY																						
		High risks*	Low risks**							Lack of data														
HOW AFI MEMBERS CURRENTLY MITIGATE THE RISKS OF SHADOW BANKING		Russia	Nepal	Armenia	Argentina	Cambodia	Malaysia	Sudan	Tajikistan	Angola	Bangladesh	Burundi	Costa Rica	Ghana	Liberia	Malawi	Philippines	Tanzania	Vanuatu	Mongolia	Mozambique	Nigeria	Tonga	
Currently undertaking	Legislative powers to address risks	●		●			●		●	●														
	Monitoring and oversight mechanism to collect information	●		●	●		●	●			●						●							
	Interagency coordination	●			●		●		●		●						●							
Relevant to consider	Legislative powers to address risks		●			●		●				●	●	●	●	●	●	●						
	Monitoring and oversight mechanism to collect information		●			●		●				●	●	●	●	●		●						
	Interagency coordination		●			●		●				●	●	●	●	●		●	●					

Note: *Low risk, since they are non-complex activities and have weak connections to the regular banking system. ** High risk, since they are complex activities and have strong connections to the banking system.

Other actions

Tanzania: Non-deposit-taking microfinance institutions, including money lenders, are not currently regulated. Efforts are underway to regulate them in a different tier.

ANNEX 2

MOSCOW RESOLUTION ON FINANCIAL INCLUSION AND SHADOW BANKING

THE CONFERENCE

- > *Highlighted* the importance of non-bank financial intermediaries in driving innovation and channelling funds for financial inclusion and economic growth, especially in emerging economies and developing countries;
 - > *Recognized* the diversity of definitions and interpretations of the concept of shadow banking, and their manifestations in different forms and across different countries; the need for co-existence of banks and non-bank financial institutions for inclusive financial ecosystems; and the challenges in developing and applying proportionate regulatory and supervisory frameworks for shadow banking;
 - > *Acknowledged* the positive linkage between financial inclusion and financial stability, as well as the potential systemic risks emanating from improperly monitored, regulated or supervised shadow banking entities and activities, which may create preconditions for regulatory arbitrage;
 - > *Discussed* perspectives from the private sector on developing regulatory and supervisory approaches which encourage financial innovations whilst protecting consumers from emerging risks and bolstering financial capability;
 - > *Supported* the efforts of regulators and supervisors (following the Financial Stability Board's (FSB) recommendation) to identify and monitor trends in shadow banking and advance proportionate regulations to address the risks to financial stability emerging outside the regular banking system while not inhibiting sustainable non-bank financing models that do not pose systemic risk;
 - > *Welcomed* the progress that has been made by the FSB and other international organizations in developing the policy framework to strengthen oversight and regulation of shadow banking entities and activities, global shadow banking monitoring, and in sharing shadow banking data among regulators;
 - > *Noted* that the efforts of developed countries are, in particular, aimed at mitigating risks in banks' interactions with shadow banking entities and preventing risk spill over from the latter to the regular banking system. Emerging economies and developing countries, while focusing on the stability of the financial system, are also concerned with identifying, properly regulating and supervising those shadow banking activities and entities that could have a positive impact on financial inclusion.
- THE CONFERENCE ACCORDINGLY CALLS FOR:**
- > *Gathering* information from AFI members as well as leveraging on the FSB Regional Consultative Groups to better understand jurisdiction-specific features of shadow banking, innovations in the financial sector and the oversight and regulatory framework implemented by members in respect of shadow banking activities and entities;
 - > *Documenting* case studies highlighting successful approaches to developing and implementing proportionate regulatory frameworks that differentiate between properly regulated and resilient forms of market-based financing and unsupervised financial intermediaries that pose material risks to financial stability;
 - > *Collaboration* between the FSB, the AFI Global Standards Committee (GSC) and relevant international organizations to consider a guide to the terminology around different manifestations of shadow banking, which focuses on underlying economic functions or activities and appropriately identifies the different risk dimensions of each activity; further develop appropriate frameworks and toolkits for clearly distinguishing between regulated and non-regulated NBF activities; and identify and assess shadow banking risks that appreciate the particular context of developing countries;
 - > *Support* from the FSB, Standard-Setting Bodies (SSBs) and relevant international organizations to consider frameworks and methodologies for proportionate risk-based regulation and supervision for nonbank financial institutions to help address the systemic risk and regulatory arbitrage concerns posed by some of these institutions and activities;
 - > *Communicating* to stakeholders via peer learning on successful approaches in defining, monitoring and implementing proportionate regulatory and supervisory frameworks for entities and activities that may fall within the "shadow banking" definition, to drive financial inclusion whilst preserving financial stability; and promote financial literacy via dissemination of best practices;
 - > *Discussing* within the AFI network and with relevant stakeholders the interrelationship between financial stability, financial inclusion and shadow banking, with the support of the FSB, relevant international organizations and national regulators;
 - > *Leveraging* the AFI Public-Private Dialogue (PPD) platform to work with the private sector to consider appropriate regulatory and supervisory framework to foster innovation whilst managing risks;
 - > *Promoting* closer regional and global collaboration amongst AFI members and relevant stakeholders to encourage information exchange and experience sharing on emerging risks, regulatory developments and effective policy measures to address shadow banking risks.

ANNEX 3

BROAD OBSERVATIONS ON THE FSB'S APPROACH TO MONITORING SHADOW BANKING

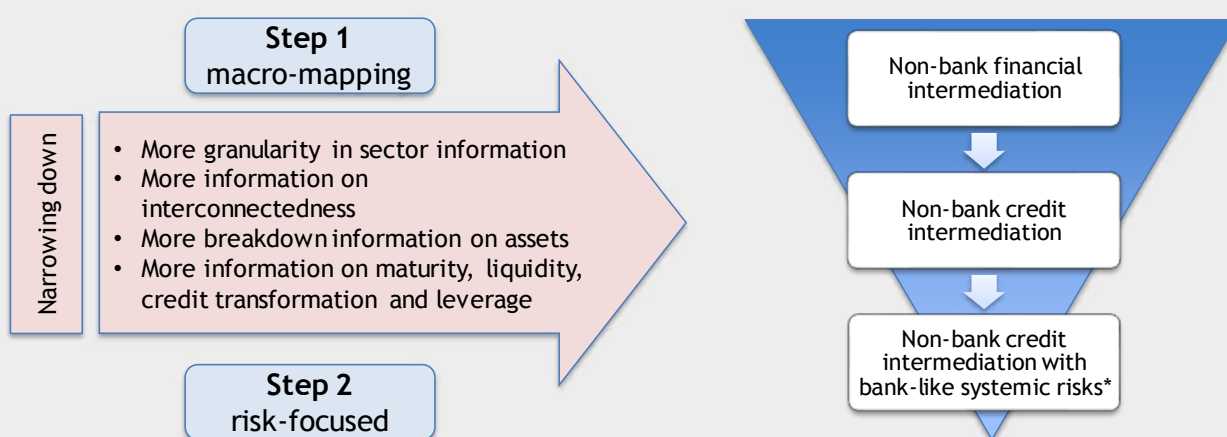
In 2011, the FSB proposed a two-step approach to monitoring shadow banking. At that time, the FSB broadly proxied shadow banking based on Other Financial Institutions (OFIs).¹¹ Based on this broad measure, the size of shadow banking was USD 62 trillion (a 2017 estimate based on a refined and narrow measure of USD 45.2 trillion).

Since 2013, the FSB has qualified that the term 'shadow banking' is not intended to have a pejorative meaning.

The term is used as it is most commonly employed and referenced in previous G20 communications. In 2014, a more neutral term, 'monitoring universe of non-bank financial intermediation' (MUNFI), was adopted for macro-mapping.

- > Developments are broadly aligned with AFI's Moscow Resolution, which recognises diversity in the definition and interpretation of shadow banking and its various manifestations in different countries.

FIGURE 5: THE FSB'S PROPOSED MONITORING APPROACH



* Include maturity transformation, liquidity transformation, imperfect risk transfer and leverage
Source: Financial Stability Board (FSB) Shadow Banking Report 2014

TABLE 5: THE EVOLUTION OF THE FSB'S APPROACH TO SHADOW BANKING

	FSB GLOBAL SHADOW BANKING MONITORING REPORT		
	2012	2014	2015 ONWARD
Macro-mapping	<ul style="list-style-type: none"> > Baseline: OFIs > Broad proxy of shadow banking 	<ul style="list-style-type: none"> > Baseline: OFIs > Adoption of MUNFI term 	<ul style="list-style-type: none"> > Baseline: OFIs, insurance corporations, pension funds > Continued use of MUNFI term
Narrow measure of shadow banking	<ul style="list-style-type: none"> > None - insufficient data to conduct analysis 	<ul style="list-style-type: none"> > Excludes non-bank financial entities that are: <ul style="list-style-type: none"> - not involved in bank-like credit intermediation; - prudentially consolidated in a banking group; and - not exhibiting shadow banking risks. > A new activity-based (economic function) measure was introduced in 2015 	

11 OFIs include all financial institutions that are not central banks, banks, insurance corporations, pension funds, public financial institutions or financial auxiliaries.

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