FSB FINANCIAL STABILITY BOARD

Press release

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FSB releases report on possible measures of non-cash collateral re-use

The Financial Stability Board (FSB) published today its report *Possible Measures of Non-Cash Collateral Re-Use*.

Non-cash collateral is "re-used" when a market participant, such as a bank, receives securities as collateral in one transaction and subsequently sells, pledges or transfers this collateral in a second transaction. Collateral may be received by a market participant as a result of a variety of transactions, such as reverse repos and securities lending. If this collateral is eligible for re-use, the collateral taker can use it as collateral for other transactions. Collateral received may also be sold, creating a short position.

Collateral re-use plays an important role in the functioning of financial markets: it increases the availability of collateral, and consequently reduces transaction and liquidity/funding costs for many market participants, since a given pool of collateral assets can be re-used to support more than one transaction. At the same time, however, it may also present risks to the financial system, for instance by potentially increasing interconnectedness between market participants, and contributing to a build-up of excessive leverage of individual entities and in the financial system as a whole. It is therefore important for authorities to improve their understanding of collateral re-use practices and the potential impact of collateral re-use on financial stability.

This report describes possible measures of non-cash collateral re-use, and the related data elements, that could potentially be included in the FSB's global securities financing data standards. Authorities would be asked to report national/regional aggregates of these measures to the FSB. The report is intended to provide a starting point for discussions with market participants and researchers concerning the derivation of a meaningful measure(s) of collateral re-use to be used to evaluate global trends and to assess risks to financial stability.

The FSB welcomes comments on the report including the scope, possible measures of non-cash collateral re-use and the data elements set out in this document. **Comments and responses to questions should be submitted by 22 April 2016** by e-mail to fsb@fsb.org or by post (Secretariat of the Financial Stability Board, c/o Bank for International Settlements, CH-4002, Basel, Switzerland). All comments will be published on the FSB website unless a commenter specifically requests confidential treatment.

Notes to editors

This report is part of the FSB's work to transform shadow banking into resilient market-based finance. The FSB has defined shadow banking as "credit intermediation involving entities and activities (fully or partially) outside the regular banking system" or non-bank credit intermediation in short. It has also stated that if such non-bank credit intermediation is involved in transforming maturity/liquidity and a build-up of leverage, it may pose a risk to the financial system and should be subject to policy responses by authorities that are proportionate to the financial stability risk posed.

In response to the G20 Leaders' request at the Seoul Summit in 2010, the FSB has been coordinating and contributing to the development of policies to strengthen oversight and regulation of shadow banking, with a focus on measures that seek:

i. to mitigate risks in banks' interactions with shadow banking entities;

ii. to reduce the susceptibility of money market funds to "runs";

iii. to improve transparency and align the incentives in securitisation;

iv. to dampen procyclicality and other financial stability risks in securities financing transactions such as repos and securities lending; and

v. to assess and mitigate financial stability risks posed by other shadow banking entities and activities.

As part of (iv) above, the FSB has been working to improve reporting and transparency of securities financing markets. The FSB has developed, in cooperation with market participants, standards and processes for global securities financing data collection and aggregation that are relevant for financial stability monitoring and policy responses. Such standards and processes will allow the FSB to collect from national/regional authorities aggregated data on repos, securities lending and margin lending, based on consistent definitions and minimal double counting at the global level. The finalised standards were published in November 2015 and the FSB has started work on the detailed operational arrangements to initiate the official data collection and aggregation at the end of 2018.

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote 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 65 other jurisdictions through its six regional consultative groups.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its 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.