imas

INVESTMENT MANAGEMENT
ASSOCIATION OF SINGAPORE

FEEDBACK TO FSB CONSULTATION

A POLICY FRAMEWORK FOR STRENGTHENING OVERSIGHT AND REGULATION OF SHADOW BANKING ENTITIES

JANUARY 2013

ONE PHILLIP STREET
ROYAL ONE PHILLIP #10-02
SINGAPORE 048692
TELEPHONE: 65 6223 9353
FACSIMILE: 65 6223 9352

IMAS FEEDBACK TO FSB CONSULTATION ON A POLICY FRAMEWORK FOR STRENGTHENING OVERSIGHT AND REGULATION OF SHADOW BANKING ENTITIES – JANUARY 2013

The Financial Stability Board ("FSB") has proposed recommendations, published on 18 November 2012, to assess and address systemic risks associated with shadow banking posed by non-bank financial entities other than money market funds. The FSB is soliciting feedback on these proposals.

The Investment Management Association of Singapore ("IMAS"), representing more than 80% of licensed fund management companies in Singapore, appreciates the opportunity to provide feedback on the FSB's proposed policy recommendations, and has aggregated comments from members in response to the Consultation. The main objective of IMAS is to contribute towards the development and growth of the investment management industry by fostering high standards of professionalism and promoting exemplary practice among our members.

In general IMAS members believe that a robust framework, if implemented on a timely basis, would come in handy to combat (real and potential) threats relating to shadow banking posed by non-bank entities, which may take advantage of various increasingly stringent regulatory capital requirements and constraints faced by banking entities, and engage in or sponsor transactions involving regulatory arbitrages, maturity/liquidity transformations and/or credit risks transfers/masking. As non-banking entities generally lack the sophistication in risk management awareness or techniques, such uncontrolled or under-controlled risks, if allowed to reside with these firms, may one day give rise to those similar market issues present during the Global Financial Crisis in 2008.

On the other hand, specifically, it seems that the proposed framework has been drawn from the existing institutional structures in the global marketplace. This legacy approach may have the tendency of being bogged down with "the trees" rather than "the forest". There is regulatory emphasis on mitigating run risk. The mismatch of maturity on assets and liabilities concomitant with liquidity risk is also addressed. However, the proposed recommendations only pay cursory attention on the issue of concentration risk. It will serve us well to do a case study on Long-Term Capital Management (LTCM). The successful salvage of what could have been a systemic collapse of the US financial ecosystem mollifies the need to exercise tighter control on hedge funds and hedge fund managers. MF Global and AIG are also cases in point, where there is excessive concentration risk. Such historical mishaps call for a need to regulate concentration risk. Leverage and margin trading accentuates the risk. Trying to appreciate "the forest" rather than "the trees", there is the alternative approach of going back to basics. The prudential management of any institution involves the way we manage essentially 3 variables: risks, expected return, and liquidity. Abundant research is done on risks and expected return where standardization of measurement has taken hold. There is, however, no standard for the measure of liquidity. The need to introduce prudential measures and ratios on liquidity for both assets and liabilities on the balance sheet equation cannot be understated. Drill deep on liquidity, and we will minimize any fallout. Perhaps, the policy framework should also take size into consideration. Small players

do not pose significant systemic risk. The increasing concentration of economic power in fewer and fewer institutions is evident worldwide. They can be “too big to fail”.

Once again, IMAS thanks FSB for this opportunity to present our comments, and look forward to the conclusions of the Consultation.