

From: [James Stewart](#)
To: [Financial Stability Board \(FSB\) Service](#)
Subject: Consultative Document Strengthening Oversight and Regulation of Shadow Banking
Date: 14 January 2013 19:26:16
Attachments: [Low Tax Centres and the Financial Crisis The Case of.pdf](#)

Secretariat of the Financial Stability Board,
C/O Bank for International Settlements,
CH-4002,
Basel,
Switzerland

12/1/2013

Re: Consultative Document Strengthening Oversight and Regulation of Shadow

Banking

Dear Sir/Madam,

I would like to submit comments in relation to the consultative document Strengthening Oversight and Regulation of Shadow Banking. The following comments relate to page 2, Q1 (Do you agree that the high-level policy framework effectively addresses shadow banking risks...) and Q2 (Do the five economic functions set out in Section 2 capture all non-bank financial activities...). These points also have implications for Q3, information collected in assessing shadow banking risks.

The main points I would like to make are as follows:-

- (1). The consultative documents (as is common with other literature on shadow banking) fail to take account of the growth and development of shadow banking in tax havens and low tax centres. Shadow banking developed in low tax financial centres for two main reasons: regulatory arbitrage and tax arbitrage;
- (2) Financial Vehicle Corporations operating in low tax centres may remain off balance sheet (not consolidated with a 'parent group') because ownership is held by a trust. In the case of the Irish Financial Services Centre, charitable trusts are registered as the shareholders;
- (3) In spite of regulatory reform and proposals for reform, there is still excessive reliance on host country regulation, even though the main risks arise in source countries and in 'on shore' financial centres;
- (4) The nature and extent of host country regulation is particularly important where a tax haven or low tax centre is involved.

The attached discussion paper elaborates further on these points, Low Tax Financial Centres and the Financial Crisis: The Case of the Irish Financial Services Centre, IIS Discussion Paper no. 420, (available at <http://www.tcd.ie/iis/documents/discussion/pdfs/iisd420.pdf>).

The paper relies on data relating to investment funds and debt securities quoted on the Irish Stock Exchange, and data on Financial Vehicle Corporations operating at the Irish Financial Services Centre in Dublin.

Yours faithfully,

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