NATIONAL RESEARCH UNIVERSITY
HIGHER SCHOOL OF ECONOMICS

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Financial Stability Board Consultative Document: Strengthening Oversight and Regulation of Shadow Banking

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Financial Stability Board
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Dear Sirs,

Financial Stability Board Consultative Document
Strengthening Oversight and Regulation of Shadow Banking

The National Research University Higher School of Economics (HSE) is one of the leading Russian economic research and educational establishments actively carrying out the empirical research and policy response analysis.

The National Research University Higher School of Economics (HSE) is pleased to provide response on the Consultation Document 'Strengthening Oversight and Regulation of Shadow Banking' published by the Financial Stability Board on November 2012 at http://www.financialstabilityboard.org/publications/r_121118a.pdf

The comments are presented in two parts:

a) "Principal Comment" refer to the overall issues of the shadow banking;
b) "Paragraph-wise Comments" deal with the particular details, i.e. point references to the consultative document are provided.

Hope our comments would be of use for deriving the principles for the effective supervision of shadow banking.

In case of further questions, please, do not hesitate to get in touch through email (dhm- econ@hse.ru), telephone (+7.495.772.95.90, ext. 26162).

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Principal Comment

It is said on p. 5: "**The FSB expects to publish final recommendations in September 2013**". We suppose that the Document should include information about regularity of the recommendations' review (this regularity may be referred to time [for example, annually or every three years] or to the economic situation [probably it is useful to review the recommendations in conditions of downward economic situation]).

Paragraph-Wise Comments

§1, p. 3: "The first element is "the framework of five economic functions (or activities)" which authorities should refer to in determining whether non-bank financial entities other than MMFs in their jurisdictions are involved in non-bank credit intermediation that may pose systemic risks or in regulatory arbitrage"

We suppose that it is useful to range the economic functions by their importance and potential risks related to them. Maybe it is possible to give weights to different functions.

In the Document we can find the idea about prioritisation of tools: **"*WS3 will develop further guidance including possible prioritisation of tools based on more detailed analysis of pros and cons of each tool and taking into account feedback from the public consultation*" [p. 4]**.

We would propose to think about prioritization of economic functions in addition.

§2.2, p. 7: "This may create significant risks if the sectors they focus on are cyclical in nature (e.g. real estate, construction, shipping, automobiles, and retail consumers)"

We suppose that it is useful to group the sectors in accordance with their volatility/cyclicality/materiality and then work with these groups taking into account the level of potential risks taken.

§3, p. 11: "*Assessment and review*: Regulators should regularly assess the effectiveness of their regulatory measures after implementation and make adjustments to improve them as necessary in the light of experience"

We expect banking community to welcome additional explanations and examples on the parameters of the effectiveness of regulatory measures.

§3.1, p. 11: "Principle 2: Authorities should collect information needed to assess the extent of risks posed by shadow banking"

The Document contains the information about authorities' obligations. It would be nice if the reporting procedure of the so-called shadow banking organizations would be described in greater detail.

§3.2.2, Tool 2, p. 15: "The implementation challenge is in the calibration of the capital level/ratios as well as determination of the eligible capital instruments to suit the sectoral and jurisdictional specificities of these entities, especially when they are likely to exhibit higher heterogeneity in business/risk profiles across jurisdictions compared to banks"

The Document states that the non-bank entities should be regulated equivalently to the banks and then we can see that these entities are much more heterogeneous and specificial in business/risk profiles than banks.

That is why we opt for differentiated approach to regulation of non-banking and shadow banking institutions originating from their heterogeneity.

§3.2.2, Tool 4, p. 16: "For example, the appropriate level of leverage may differ depending on the market they are involved in (e.g. retail versus wholesale) and the significance within the financial system (e.g. size, inter-connectedness)"

We would like to propose an enhancement of the criterion list with the following gradation: "*type of market/significance within the financial system – level of leverage*".

§3.2.2, Tool 4, p. 16: "For example, the appropriate level of leverage may differ depending on the market they are involved in (e.g. retail versus wholesale) and the significance within the financial system (e.g. size, inter-connectedness)"

We would consider more clear definition of "size" measure to favor document implementation.

§3.2.4, Tool 2, p. 19: "The authorities should have the opportunity to determine appropriate exposure limits for the proposed business prior to approving entities to begin conducting that business"

§3.2.4, Tool 3, p. 19: "In this regard, authorities should impose liquidity requirements to ensure that these entities maintain sufficient liquidity buffers through both normal and stressed periods"

First, we would propose the Document to define the level of requirements application: domestic vs. global. Second, with regard to recent LCR thresholds review within Basel III framework more details on liquidity risk monitoring for non-banking and shadow banking institutions would be welcomed.

Annex, p. 22: "The shaded risk factors are to be considered more important than others"

We assume banking community to largely benefit from additional rationale on the choice of risk importance, clarification would be desirable using concrete cases of risks.

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