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The role of the Financial Stability Board in reducing shadow banking risks

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Summary:

Appeared many the financial institutions that engage in activities such as those that practice them banks However, it is not subject to bank supervision Therefore ، it is difficult to verify the extent to which its activities comply with the supervisory rules regulating banking business.

Based on the foregoing, a financial shadow system has been formed that is managed by high financial intermediaries for investors who seek higher returns than banks offer, and this system is growing steadily in a low-interest world, and at the same time it imposes new challenges on central banks through the latter 's responsibility to monitor and protect the financial system and achieve stability in it.Accordingly, we note the influential role of shadow banks in economic life and the system Market-based finance, especially in the period preceding the global financial crisis , due to the development of the shadow system Banking in developed countries, as well as the increasingly emerging economies , and the accompanying development in financing methods The economy, including financial derivatives, as well as the diversification of funding sources with a variety of Financial institutions represented by shadow banking.

However, the development and spread of shadow banking has risks that are manifested in particular in not being subject to prudential supervision, which makes this banking a source of risk that exposes the financial system. The financial crises that could extend to become global, similar to what happened in the global financial crisis.

Thus, the shadow banking system is launched On financial operations that take place outside the scope of the financial statements of banks Where they are institutions where banking operations have been established far away On the control of the monetary authorities and without obtaining credit facilities, the intent of the bank central.Here, the role of the Financial Stability Board is played in supervising shadow banking in an attempt to maintain the stability of international economies.

Keywords:

Shadow Bank, Market Risk, Liquidity, Oversight.

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دور مجلس الاستقرار المالي في الحد من مخاطر الظل المصرفي

الملخص:

ظهرت العديد من المؤسسات المالية التي تباشر نشاطات كتلك التي تمارسها المصارف إلا أنها لا تخضع لرقابة البنوك المركزية، وبالتالي من الصعب التحقق من مدى توافق أنشطتها مع القواعد الرقابية المنظمة للأعمال المصرفية.

وبناء على ما تقدم تشكل نظام ظل مالي يدار بوساطات مالية عالية للمستثمرين الذين يسعون إلى عوائد أعلى مما تقدمه المصارف، كما أن هذا النظام ينمو بشكل مطرد في عالم منخفض الفائدة، وهو بذات الوقت يفرض تحديات جديدة على البنوك المركزية من خلال مسؤولة الأخيرة على رقابة وحماية النظام المالي وتحقيق استقرار فيه.

وعليه نلاحظ الدور المؤثر لمصارف الظل في الحياة الاقتصادية والنظام المالي القائم على السوق، وبخاصة في الفترة التي سبقت الأزمة المالية العالمية، وذلك بسبب تطور نظام الظل المصرفي في الدول المتقدمة وكذلك الاقتصاديات الناشئة بشكل متنامي، وما صاحبه من تطور في أساليب تمويل الاقتصاد، ومنها المشتقات المالية، وكذلك تنوع مصادر التمويل بتنوع المؤسسات المالية والمتمثلة بصيرفة الظل.

إلا أن التطور والانتشار لصيرفة الظل له مخاطر تتجلى على وجه الخصوص في عدم الخضوع للرقابة الاحترازية، مما يجعل هذه الصيرفة مصدر خطر يعرض النظام المالي للأزمات المالية والتي يمكن لها أن تمتد لتصبح عالمية على غرار ما حصل في الأزمة المالية العالمية.

وبالتالي يطلق نظام الظل المصرفي على العمليات المالية التي تتم خارج نطاق القوائم المالية للمصارف حيث أنها مؤسسات تمارس عمليات مصرفية بعيدا عن رقابة السلطات النقدية ودون الحصول على التسهيلات الائتمانية للبنك المركزي.

وهنا ينهض دور مجلس الاستقرار المالي في الرقابة على صيرفة الظل في محاولة للحفاظ على استقرار الاقتصادات الدولية.

الكلمات المفتاحية:

مصرف الظل، مخاطر السوق، السيولة، الرقابة.

Le rôle du Conseil de stabilité financière dans la réduction des risques bancaires parallèles

Résumé :

De nombreuses institutions financières ont émergé et exercent les mêmes activités que celles pratiquées par les banques, mais elles ne sont pas soumises au contrôle des banques centrales, et il est donc difficile de vérifier dans quelle mesure leurs activités sont conformes aux règles réglementaires régissant le secteur bancaire.

Sur la base de ce qui précède, un système financier parallèle s'est formé, géré par des intermédiaires financiers de haut niveau pour les investisseurs qui recherchent des rendements plus élevés que ce qu'offrent les banques, et ce système se développe régulièrement dans un monde à faible taux d'intérêt, et en même temps il impose de nouveaux défis aux banques centrales à travers la responsabilité de ces dernières de surveiller et de protéger le système financier et sa stabilité.

En conséquence, nous notons le rôle influent des banques parallèles dans la vie économique et le système financier de marché, en particulier dans la période précédant la crise financière mondiale, en raison du développement du système bancaire parallèle dans les pays développés ainsi que dans les économies émergentes sur une base croissante, et l'évolution qui l'accompagne des modes de financement de l'économie, y compris les dérivés, des institutions financières, ainsi que la diversité des sources de financement et la diversité des institutions financières représentées par le shadow banking.

Cependant, le développement et la diffusion du shadow banking comportent des risques qui se manifestent notamment par le fait qu'ils ne sont pas soumis à une surveillance prudentielle, ce qui fait de ce secteur bancaire une source de danger qui expose le système financier à des crises financières qui pourraient s'étendre jusqu'à devenir mondiales, à l'image de ce que s'est produit lors de la crise financière mondiale.

Ainsi, le système bancaire parallèle désigne les opérations financières qui se déroulent en dehors du périmètre des états financiers des banques, car ce sont des institutions qui pratiquent des opérations bancaires hors du contrôle des autorités monétaires et sans obtention de facilités de crédit de la banque centrale.

Ici, le Conseil de stabilité financière joue son rôle dans la supervision du système bancaire parallèle dans le but de maintenir la stabilité des économies internationales.

Mots clés :

Shadow Bank, Risque de marché, Liquidité, Surveillance.

Introduction

At the Seoul Summit, specifically in November 2010, After the completion of the new capital standards for banks represented by the standards of the (Basel III) Committee, the leaders of the Group of Twenty warned of the possibility of the emergence of regulatory gaps in the shadow banking system, so the need became urgent. In setting international standards by the Financial Stability Board (FSB), in cooperation with relevant bodies, and developing recommendations to strengthen the supervision and regulation of the shadow banking system.

Thus, the shadow banking system can be considered as a credit intermediation that includes entities and activities outside the traditional banking system. On its own or through a liquidity shift chain, as in the traditional banking system.

It also usually depends on short-term financing from the markets, An example is repurchase agreements and asset-backed commercial papers.

Thus the shadow banking system may provide market participants and companies with an alternative source of funding and liquidity as it provides credit effective in the economy by relying on The specialized expertise that may be available in some shadow banks, which enables them to provide certain jobs in the credit intermediation chain more cost-effectively.

However, with the foregoing, it cannot be denied that the shadow banking system can also be considered a source of financial risks, whether directly or indirectly through its association with traditional banks, as financing that resembles short -term deposits of non-banking entities can lead to a runaway The market is losing confidence in conventional banks as well as using non-deposit sources of secured financing when asset prices are high and margins on secured financing are low.

Study problem:

The problem of the study is the statement What are the activities and working mechanism of shadow banks? And to determine the size of the systemic risks that can arise from the activity of shadow banking, and are these risks real and affecting the market or not? And the methods of controlling them, and did they contribute? In order to reduce the risks emanating from shadow banking or not?

the importance of studying:

In this study, we try to assess the severity of the activities practiced by banking The shadow on the financial system , and its negative repercussions on financial stability , whether at the national or international level, in addition to the challenges facing central banks in containing shadow banking activities and seeking to reduce their risks in order to achieve and enhance the preservation of The stability of the economy in general and the system The banking sector in particular , and the provision of a financial environment that supports development and the realization of Economic stability and the role of the Financial Stability Board in achieving this .

The study derives its importance from the growing interest The role of shadow banking in causing the crisis global finance, and the attempt of international financial bodies and governmental financial organizations to reduce their risks After that banking crystallized and became a global phenomenon capable on me Extension in all around the scientist through the financial markets.

Study Methodology:

In our research, we adopt the analytical and descriptive approach to determine the nature of shadow banking and the role it plays in the market and to shed light on the position of the Financial Stability Board in seeking to consolidate the stability of market economies through the supervision of shadow banking.

Study plan:

divided into three demands, the first in the definition of shadow banks and the second in their development. Factors of imposing control on shadow banking according to the recommendations of the Financial Stability Board. As for the second requirement, it deals with the methods of control identified by the Financial Stability Board for the practice of shadow banking.

The first topic: the definition of shadow banks

Through this topic, we will turn to the nature of shadow banks in terms of their definition, in addition to the development that befell them and the risks involved, in the following demands:

The first requirement :Definition of shadow banks

To begin with, it must be noted that shadow banks It is a relatively recent term, which is called for those financial operations that take place outside the scope of work Conventional banks thus fall outside The scope of the supervision of the competent authorities, and the term shadow banking was used for the first time in 2007 by the American economist (Culley Mc Paul), through the annual meeting of the Central Bank Which took place in Jackson Hole, Palo, USA.

There are many definitions that have been put forward for the purpose of defining what is meant by shadow banks, including what was provided by the European Central Bank (ECB) in its report for the year 2012, where he defined it as " mediator Credit outside the regulated banking system, and emphasized the essential feature of circumvention of such regulation ”[1].

She was also known as all _ mediators Millions not bankers Whose they present Services Similar services of conventional commercial banks [2].

And I knew banks shadow too that it is " System mediation fiduciary that involve on me Activities out of order Ordinary banking, which is not subject to regulatory

[1] Zheng Liansheng, The Shadow Banking System of China and International Regulatory Cooperation, New Thinking and the New G20 Series PAPER NO. 6, new_thinking_g20_no6, MARCH pdf; 2015, p. 2.

[2] Sebastian Andrei Labes, Shadow Banking In China and Its Implications In The Global Financial Recession, Romania, 2015, p. 2.

oversight by the central bank and official bodies of the state, dealing with activities not organisation ".

Also known as “Financial Institutions and Entities - Excuse me ? Regular banks and banking institutions - which practice banking and financial activities and which are subject to To supervise central banks, such as private banking or investment and business banks, hedge funds, hedge funds, private investment funds, and market funds Lives and money boxes[3].

From the foregoing definitions, which are almost identical in most of the concepts and terms I mentioned, we find that they indicate that the shadow banking system is meant for the financial intermediaries who work to facilitate the creation of credit through financial system But they With these activities , we are not subject to regulatory oversight and the supervision of the competent authorities, as they are not subject to the control of the Central Bank, and of course it is not easy to verify the extent to which their activities comply with the regulatory rules regulating banking business, and therefore the activities they practice overlap with the activities of the sector The traditional morphological interjection of _ great.

And accordingly, we can define the morphological shadow system that group of brokers What do they offer? Financial Services An approach to services provided by conventional banks However, it is not subject to the laws, regulations, and instructions to which banks are generally subject, whether public or private.

Whereas, the term shadow banking is applied to all financial institutions that are outside the The scope of the traditional banking system, which performs the same activities as banks, including: Borrowing and lending money, as well as investment credit portfolios and creating Structural investment tools in addition to the creation of investment credit portfolios, securitization and financing, and others.

The second requirement :Shadow Banks Evolution

It must be noted from the outset that many economists associate the term shadow banks with suspicious financial activities, and may even amount to criminal activities such as money laundering, but at the same time it considered part It was part of the financial system for a considerable period in many countries, especially developed ones , and its inception was in the late 1970s , when it took the form of money market funds that served as an alternative to deposit banks . As a result of the development of financial transactions and the emergence of tools that preceded the emergence of traditional banks in some countries[4].

However, the activity of these banks collapsed One of its sectors and related (With mortgage loans compact) , During the global financial crisis in 2008, where the value of the aforementioned sector was estimated at $ 400 billion , however,

[3] Zoltan, Pozsar & Adrian T., "Shadow banking", *Revue d'Économie Financière*, 2013, p. 1.

[4] Geithner, Timothy. F, Reducing Systemic Risk in a Dynamic Financial System, Speech given at the Economic Club of New York, New York City, 9 June 2008, p. 3.

shadow banking activities, especially in the aforementioned sector, are witnessing continuous development , especially after the increasing stress on traditional banks , which led to the exodus of capital . for banks the shadow.

Since now, a decrease in the activities of shadow banks has coincided with the decrease that occurred b Financing the real actors in the US economy, and this decline was estimated at 41% to 31%, which represents from 16 to 12 trillion dollars since 2008[5].

However, during the period between 2009-2013, the shadow banks issued international bonds of about 554 billion de la ri In emerging markets, it then issued the equivalent of 252 billion through its spread branches, and this is what makes the activities Emanating from them is more complex and difficult to control.

In China, shadow banks have occupied a special importance among the Emerging economies, not only in terms of the volume of their activities compared to their counterparts in other economies, but also went beyond that to their impact on the economy China is the second largest economy in the world, and its implications for the global capitalist economy in general.

As it is the third largest economic sector in China, according to the reports of the Financial Stability Authority, where it is estimated The Chinese financial capabilities of this sector are limited (3) A trillion US dollars, and the increase in the size of assets amounted to about 42 % in 2012 compared to 2011, and by 37 % in 2013.

On the global level, the capabilities of the shadow banking system amounted to nearly 62 trillion US dollars in the year 2007, no, it declined to 59 trillion US dollars during the global financial crisis , then returned to rise to reach 67 Trillion US dollars at the end of 2011.

It should be noted that the share of the shadow banking system in (financial intermediation) was about 25% In 2009-2011, down from 27% In 2007, in 2012, it amounted to $2.71 trillion[6].

In 2013, the capabilities of the shadow banking system at the global level reached approx The assets of financial institutions classified as shadow banks for 26 countries continued to grow, reaching about 36 trillion dollars, or 8.6 percent compared in the year 2014[7].

It is worth noting that ah in 2016 The shadow banking systems in the United States of America, where the volume of assets reached to 14.1 trillion do n't see anything Approximately 84 % of total banking assets.

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[5] What are the dangers of “shadow banks” to the world?, Compass Agency for La Nabaa, September 04, 2016, Available here. www.albosala.com.

[6] Global Shadow Banking Mnitoring Report 2015, Financial Stability Board, November 14, 2013, p. 9.

[7] FSB, Global shadow banking monitoring report, 2014, P 9. Available at : www.fsb.org/wp-content/uploads/r_141030 .

In the same year mentioned above, the volume of shadow banking assets in the countries reached The European Union is about 10.1 trillion dollars, followed by China with a value of 7.0 trillion dollars Japan has 2.8 trillion dollars, and the mentioned assets represent approximately 85% of the assets of The shadow system spends the whole world.

As for the European countries, Luxembourg tops the European Union countries that contain The highest value of the activities of the shadow banking sector, which is estimated at 3.2 trillion euros.

And the market value of the shadow banking sector has reached to approx 1.5 trillion euros and a volume of The assets that are traded around the world have reached 160 trillion dollars, compared to 137 Trillion dollars related to the activities of traditional commercial banks[8].

But it can be said that he Although some defend the role of shadow banking in Emerging economies from the premise that it is not possible to rely solely on the ability of traditional banks to finance the acceleration of economic growth, whether that is due to the limited financial liquidity of the latter. First, the nature of the sometimes complicated procedures in lending operations, which is considered the main factor in the growth of shadow banks in many emerging economies in recent years.

Where we find that shadow banking institutions are characterized by a lack of disclosure of information , whether related to b value and essence Their assets, as well as poor transparency in terms of governance and ownership structures compared to traditional banks And shadow banks, and not being subject to the supervision of regulatory authorities , as well as the lack of clarity of their prescribed capital do not absorb Losses or cash needed to compensate in the event of losses , in addition to its inability to obtain financial support from official authorities to provide liquidity in a way that helps prevent the sale of its assets in the event of a loss . the forced cheaply[9].

The third requirement: The risks of shadow banking

Shadow banking has many risks that affect economies directly or indirectly, which we list in the following sections:

Section one: credit risk

that Credit risk applies to shadow banking as it applies to conventional banks, especially when shadow banking is part of the traditional financial intermediation chain or when it is directly owned. by commercial banks, or benefited picture directly From to support banks traditional Whether explicitly support or implicit, Add to the above There are indirect links in the market that show the banks ’

[8] Moderation, safety, (steady growth around the world in shadow banking activities, 2019): sur https://aawsat.com/home/article/

[9] Laura Kodris, What is the Shadow Banking System?, Journal of Finance and Development, June 2013, p. 43.

dealings traditional products and tools Finance that Complete put it up in market From Before banks the shadow[10].

Therefore, knowing the extent of the shadow banks' contribution to emerging economies is a very practical process The complexity, and it is natural that the completion of financial credit operations through non-banking channels will be severe The risk is that between 2002 and 2003, companies in emerging markets issued international bonds About $771 billion , almost half of it, which is equivalent to $252 billion, was issued through its branches in abroad, which makes the financial operations of shadow banks more complex and difficult to monitor.

where we find That the credit that is done outside the country It is not recorded in the national balance of payments statistics; Because the investment tools have other Included in the balance sheet, in addition, it is noted that the difficulty in measuring such activities, as most of them are managed through financial derivatives in shares. Voluntary and futures, as well as swaps, which are dealt with outside the balance sheets, and therefore the risks that affected the banks did not reduce their number, but rather moved to the shadows more precisely[11].

The many customers who can not From obtaining loans from traditional banks, they resort to shadow banks, and thus the latter participates in industries and projects that suffer from weak returns, especially when they increase with the high interest rates paid on loans, and thus the risk of default or credit risk increases .

Section tow: Market risk and interest rates

Shadow banks mostly deal with companies and borrowers through the capital markets through structured financial instruments and derivatives, and these instruments are naturally subject to many fluctuations in their prices due to the unpredictability of changes in financial indicators. To unfair pricing by credit rating agencies, which increases market risks[12].

These banks may work to carry out money laundering operations In the growing financial market created by shadow banking institutions, it also aims at tax evasion and other illegal operations, especially since the financial operations that they carry out It is financed from personal funds that are not included in bank accounts, and therefore not monitored, and therefore we see the danger of these institutions to any economy in general and to the banking sector in particular, and this effect is reinforced by the ambiguity of their financial statements and the lack of presentation of their budgets .

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[10] FSB, Global shadow banking monitoring report, 2014, P. 10. Available at: www.fsb.org/wp-content/uploads/r_141030.

[11] Union of Arab Banks, (2008) The Reality of Financial Inclusion and Financial Culture in the Arab Region, , 2019: http://www.uabonline.org/en/research/bankig.

[12] International Monetary Fund, Shadow Banking Around The Globe: How Large, And How Risky?, October 2014, p. 68.

Hence, we find that non - bank financial institutions threaten the entire financial stability, as the risks are not limited to institutions Therefore, the leverage rates may increase and the gap between the maturities may increase in a way that may lead to multiple repercussions On the banking system as a whole, as is the case with banks.

Thus, borrowing or crediting The financial leverage of these institutions continues to rise, and the gap between liabilities and assets' maturity increases, and this leads to the failure or bankruptcy of these non-bank financial institutions and this creates risks in the markets. financial as a whole and amplifies the overall systemic risk[13].

In addition to the above, shadow banks face interest rate risks associated with the mismatch of maturities, and for the purpose of enticing customers to deal with them, they give higher interest rates on the deposits they receive, which are usually short-term, and grant long-term loans at a low interest rate. Therefore, the continuation of this process leads to the loss of its capital.

Section Three: Liquidity risk and information asymmetry

The liquidity risk in shadow banks arises due to the mismatch of maturity dates with the quality of management, and is also linked to the lack of the last lender in case of its emergency need for liquidity and the sudden withdrawal of depositors of their deposited funds. It is also difficult to make a full assessment of the quality of the basic assets related to the financial product;

In addition, many of the financial transactions of shadow banks, we find that the latter, as well as customers, do not have sufficient information, and also the inability of customers to identify the financial position of the bank and rumors about the quality of its assets, and the impact on the ability of shadow banks to attract funds, as there is a risk of lack of funds. Disclosure and transparency Shadow banks tend to be opaque and complicated in their financial transactions, which are characterized by a lack of disclosure and transparency of the value of their assets[14].

The second topic: Introduction to the Financial Stability Board

The Financial Stability Board, which was established in 2009, is an international body that monitors the global financial system and makes recommendations. As it performs its role by coordinating the work of local financial bodies with international standards-setting bodies, for the purpose of setting regulatory, supervisory and other policies related to the financial sector as a whole.

The Financial Stability Board seeksTo provide equal opportunities by encouraging the coherent implementation of these policies across the various financial sectors.

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[13] Union of Arab Banks, General Secretariat - Department of Studies and Research, Shadow Banking around the World and Regulatory Challenges, p. 4.

[14] Sebastian Andrei Labes, Shadow Banking In China and Its Implications In The Global Financial Recession, "Alexandru Ioan Cuza" University, Romania, 2015, p. 2.

And seeks through its members, aims to strengthen financial systems and increase the stability of international financial markets. Policies established to pursue this goal are being implemented through judicial and local bodies, It should be noted that The heads of state and government of the Group of Twenty have ratified the Charter of the Financial Stability Board, The Financial Stability Board is one of the founders of the Global Legal Entity Identifier Foundation (GLEIF)x and has appointed the first GLEIF Board of Directors.

It is worth noting that many attempts have been made to regulate and legalize shadow banking operations , especially after the financial crisis 2007-2009 , for the purpose of securing the global financial system from the risks of the spread of financial products for this banking , which is characterized by being unsecured , as regulatory reforms and prudential macroeconomic policies and a regulatory framework for shadow banks have been put in place , and this is what the Financial Stability Board sought through a group One of the recommendations organizing the work of this banking.

In a year 2010, the Federal Reserve Bank (the US central bank) began collecting and publishing data on the shadow banking system.

The G20 Leaders Summit, which was held in Washington on financial markets and the global economy in 2008, laid out the common principles of reform associated with shadow banks, and the G20 leaders set out at the Seoul Summit in November 2012, a set of goals Including setting regulatory requirements to control risk contagion between conventional and shadow banks[15].

As well as coordinating and strengthening international cooperation in the field of regulation and supervision of the services provided by shadow banks and enhancing transparency and disclosure, sound regulation and integrity in the financial markets and international cooperation to implement more procedures and instructions and provide recommendations on policies to improve regulation and supervision. Designation of a Financial Stability Authority as an international regulatory authority to monitor and supervise shadow banks.

The report issued by the Financial Stability Board revealed that the financial capabilities of shadow banks around the world amounted in 2013 to nearly $75 trillion , exceeding $ 160 trillion in 2017; growth rate of 120% In four years, while the assets of the shadow banking system at the global level accounted for more than 13.4 % of the total financial assets in 2016, compared to 12.1 % in The financial capabilities of the shadow banks constituted about 73% of the GDP of the 29 countries covered by the report in 2017, compared to 62 % in 2011[16].

The importance of shadow banking is not limited to its size only , but also to its upward path , as the financial capabilities of this banking when it was first

[15] Antoine Bouveret, A Comparison of the US and European Shadow Banking Systems, A European Perspective, 2013, p. 2.

[16] Gary, Gorton and Andrew Metrick. (2010). Regulating the Shadow Banking System, Brookings., papers on Economic Activity, p. 261.

introduced did not exceed five trillion dollars, and now it represents nearly 25 % of total Financial assets in the world, and is moving towards achieving 50 % What is owned by the monetary system in the world.

It is worth noting that the largest shadow banking systems are found in developed countries, especially in the United States of America, where the assets of the shadow banking system amounted to $ 14.1 trillion in 2016 (ie what It is equivalent to about 84 % of the total banking assets.

And the size of shadow banking assets in the countries The European Union is about 10.1 trillion dollars, followed by China with 7.0 trillion dollars, the Cayman Islands 4.7 trillion dollars, and Japan 2.8 trillion dollars, and these countries together represent 85% of the assets of the shadow system My global exchange now[17].

The Financial Stability Board has set a narrow measure of banking shadow It accurately reflects the size of the shadow banking sector, which focuses on a subset of brokerage Non-bank credit ratings that may pose systemic risks to the financial system and thus threaten global financial stability.

It is noticeable that the assets of the shadow banking system continue to rise, driven by investors who seek to obtain the highest returns in a low-interest banking world, in addition to companies and local governments also seeking to obtain loans.

Global Financial Stability Board has conducted In 2012 the second largest global surveillance operation To examine the financial intermediation data of the intention of shadow banking in 25 countries , commissioned by the advanced economies of the major countries and developed market economies of the Group of Twenty, where The results showed that 35% of the shadow banking system The world is located in the United States of America, while its volume reached 62 trillion dollars in 2007 in the rest of the countries Then it fell to $59 trillion during the global financial crisis, and then it reached $67 trillion in 2011.

And through what was mentioned, it is clear that the global financial crisis did not affect the The volume of operations that take place in shadow banking It is according to According to the Financial Stability Board, the volume of operations of shadow banks is currently increasing than their levels before the crisis, which means that these banks It still bears the same risks that led to the outbreak of the crisis global finance in 2008[18].

Accordingly, we address the factors that led to the imposition of supervision on shadow banking by the Financial Stability Board And the methods of control set by the Council for the practice of shadow banking, in the following demands:

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[17] Stability Financial Board. Global Legal Entity Identifier Foundation, (2018), p. 24.

[18] Philipp Eckhardt and Dr. Bert Van Roosebeke, Shadow Banking, Green Paper Centrum fur Europaische Politik, 2012, p. 33.

The first requirement: Factors imposing control over shadow banking Under the recommendations of the Financial Stability Board

The Financial Stability Board has identified a set of factors that impose supervision on shadow banking, which we will list as follows:

First: turn to entitlement:

Regulatory authorities should be able to assess the extent to which short-term obligations to finance long-term assets are applied to the provision of credit by financial entities or credit intermediaries.

In order to assess this maturity transition, the competent authorities should obtain a "weighted average maturity" of the assets and liabilities of the relevant financial entities where applicable, it is also better to classify the remaining maturity date, or at least the original maturity date of the assets and liabilities Competent authorities may use other indicators in assessing maturity transition. The authorities may classify certain types of assets and liabilities in the money flow statements into "long-term" and "short-term" assets and liabilities respectively as alternative measures if there are "short-term" instruments included in the liabilities. More than assets, it may alert the authorities to the need for a more comprehensive assessment of potential transformation within these entities.

secondly: Liquidity Transfer:

Competent authorities should be able to assess the degree of liquidity transformation that supports the provision of credit within financial entities and credit intermediary institutions since it is difficult to measure the transformation of liquidity, but one possible way is to use information related to the depth of the secondary market for financial instruments, whether they are traded on stock exchanges or offshore stock exchange It is also possible to take into account whether the instruments are acceptable as collateral with central banks when assessing their degree of liquidity[19].

Regulatory authorities may collect information on the "liquidity" of assets. Authorities may rely on existing and proposed data collection models at the national and international levels, such as the hedge fund survey indicators.

An example of the transfer of liquidity is those that occurred during the height of the global financial crisis These examples can then be applied to the weights of the portfolios for the purpose of estimating the portfolio's liquidity on the basis of the historical worst case that occurred in the global market.

Third: Credit Risk Transfer:

Competent authorities should monitor off-balance sheet credit risks (such as guarantees, commitments, credit derivatives and liquidity offerings) provided by financial institutions and entities that are part of the credit intermediation chain.

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[19] International Monetary Fund, Shadow Banking Around The Globe: How Large, And How Risky?, October 2014, p. 68.

When monitoring off-balance sheet business and financial activities, the authorities must then bear in mind that some entities may provide tacit support to other entities, including shadow banks[20].

In addition, supervisory authorities should also assess the appropriateness of credit risk mitigation techniques used by banking and non-bank financial institutions, When entities attempt to transfer credit risk.

They may have other risks (such as counterparty credit risk, operational risk or liquidity risk) or, when analyzing their activities, may not transfer all credit risk. "Incomplete transfer of credit risk" , and this can be illustrated by examples When a bank sells an asset to another entity, but provides that entity with a secured liquidity facility against the asset, and faces the risk of having to buy it back, the bank still retains exposure indirectly to the credit risk associated with the asset it sold.

For example, if the bank issues mortgage-backed securities As it turned out that some of the mortgages embedded in the securities did not meet the agreed underwriting criteria, the bank might be required to buy back those mortgages—in this case the banks thought they had transferred the credit risk associated with the mortgages, but ultimately did not. , due to inappropriate risk management practices in connection with underwriting of mortgages.

Fourthly: influence:

Competent authorities must be able to assess the degree of influence within financial entities or credit intermediaries, The authorities must collect the information necessary to calculate the financial leverage of the balance sheet (asset-equity ratios, secured borrowing from major intermediaries or through repo markets).

Where it would be more useful for the authorities to be able to assess the leverage associated with off-balance sheet activities (for example, embedded or synthetic leverage in derivatives), the information collected to calculate the leverage ratio under the Basel III framework may be useful in this regard.

When monitoring the above-mentioned main risk factors, it is essential that the competent regulatory authorities consider not only specific, on-the-ground entities and activities, but also potentially existing credit intermediaries.

It would be better to motivate financial institutions to consider the final risks they are exposed to (especially in the case of investing in mutual funds), and ask them to report it. As well as disclosing this information as appropriate.

the focus to credit intermediation activities that pose systemic or potential risks that undermine the effectiveness of the financial system as a whole, authorities need to assess the potential impact that severe setbacks or failures may have for some entities. shadow banking activities, Authorities can base their work on basic

[20] Noeth, BJ, & Wolla, SA Traditional versus shadow banking Page One Economics Newsletter: Federal Reserve Bank of St. Louis, 2012, p. p.1-2.

indicators to assess the systemic importance of financial institutions, markets and instruments[21].

Fifth: Interconnection with the traditional banking system:

The shadow banking system and the conventional banking system are highly interconnected as shadow banking entities also invest in the financial instruments of conventional banks, resulting in funding correlations and vulnerabilities, often taking risks through asset acquisitions and financial derivatives even in the absence of Clear direct contact.

Thus, there are strong links between the two financial systems and the supervisory authorities must ensure that the control framework can provide good evidence of the degree of interdependence as the authorities must collect information on the exposure and financial dependence of major banks on the major non-banking financial sectors. Ideal by collecting information on exposures and funding credits of shadow banking entities related to conventional banks.

Based on the aforementioned risks, we find that the shadow banking system includes a wide range of activities and entities that are exposed to many risks, like conventional banks. As a result, a single supervisory and regulatory approach for all components of the shadow banking system will not necessarily be effective.

Since differentiation is necessary to take into account differences in activity models, risk characteristics and contribution to systemic risk, when designing and implementing regulatory and supervisory procedures for shadow banking, regulators must apply several principles, including focus, where regulatory measures should be worked carefully to target external and internal factors and risks created by the system. Shadow banking When adopting regulatory and supervisory measures, regulators should consider their potential impact and potential unintended consequences, such as deterioration in market performance, and authorities should be aware that a variety of possible regulatory and supervisory measures may effectively mitigate identified risks[22].

In addition, proportionality must be achieved, Regulatory measures must be proportional to the risks that the shadow banking system poses to the financial system, Regulatory measures must be adaptable to emerging risks, Regulatory measures should not focus only on specific and clear risks, but must It also addresses issues that may arise in the future when financial markets adapt and evolve to new conditions, such as changes in the incentives of financial institutions in response to the Basel III framework.

also be designed and implemented in an effective manner, balancing the need for international coordination to address common risks against the need to take

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[21] Zoltan Pozsar, Tobias Adrian et al, "shadow banking", FRBNY, *economic policy review*, December 2013, p. 44.

[22] Hogarth, J. and Kozup J, "Financial Literacy Public Policy and Consumer's Self-Protection - More Questions", *Journal of Consumer*, 2008, p. 55.

into account the differences between financial structures and systems across the economies of different countries.

Finally, supervisors should regularly evaluate the effectiveness of their regulatory measures after their implementation and make adjustments to them as necessary, and authorities should share their experiences in order to gain experiences from each other and develop best supervisory and regulatory practices.

The second requirement: Censorship methods Designated by the Financial Stability Board to practice shadow banking

The Financial Stability Board listed a set of methods that enhance the supervision of shadow banking and reduce its risks, in the following sections:

First branch: Strengthening restrictions on the size and nature of banks ' exposure to shadow banking entities

Reducing the exposure of banks to the influence of individual shadow banking entities helps reduce their interdependence with the shadow banking system It will also limit the links between banks and their associated entities in a group to which the bank belongs, moreover, limiting the exposure of banks may also reduce the size and influence of individual shadow banking entities whose financing is highly dependent on these banks , and thus reduce The risks to the system from those entities that face severe stress or may fail[23].

Where the competent regulatory authorities apply prudential criteria, including restrictions on a consolidated banking group of individually or collectively related entities. However, the details and application of these significant exposure criteria appear to differ in different countries Where in the EU there is a 25% capital limit for exposure to an entity or group of entities. However, in other countries the limits are often different as international guidelines issued in this area have not been reviewed by the BCBS since 1991 and may no longer be suitable for the intended purpose.

Therefore, it would be useful to conduct a comprehensive review of the adequacy of current shadow banking systems and to strengthen them as necessary. It is also important to consider the issue of enhancing international consistency of supervisory rules, and thus, the Financial Stability Board recommends that the central bank undertake its review of shadow banking systems and develop policy recommendations according to necessity.

Based on this recommendation, BCBS asked the regulators, a working group that is reviewing the shadow banking system, to clarify the following issues:

• To what extent can regulators control? on all financial entities, including shadow banking entities.

[23] Anna Maria Agresti, Statistical work on shadow banking: Development of new datasets and indicators for shadow banking, s, Belgium, 18-19 May 2017, p. 14.

• The extent to which specific shadow banking exposures are excluded from the large exposure system (whether within the group or with respect to third parties), what are the reasons for these exclusions and the implications for the comprehensiveness of the measurement and management of concentration risks.

second branch: Review of risk-based capital requirements

The treatment of short-term shadow banking facilities that fall outside the scope of Basel II securitization framework It is one of the capital requirements that must be taken into consideration while calculating the risks that are being exposed, and this is a prerequisite for an effective regulatory framework for risk - based capital.

And that shadow banking entities that fall outside the framework of securitization in relation to the (Basel Convention) III) Low in relation to the risks as investment in funds is dealt with Such as investment funds, hedge funds, and private equity funds as property rights independently of the risks of the underlying assets, and thus encourage investment in funds with high risks. Therefore, it is necessary to review the status of the application of accurate treatment that takes into account the risk factors for these investments.

In addition, the capital requirements of short-term liquidity facilities for shadow banking entities that fall outside the scope of the Basel Convention framework (II/III) remain. Like hedge funds, which are relatively low compared to the capital required for securitization, there is a need to define the scope of the transaction by the competent authorities.

Consequently, the FSB recommends that capital transactions be reviewed for investment in funds (such as mutual funds and hedge funds) as well as a review of short-term liquidity facilities that go beyond the Basel II/ III securitization framework.

It must be taken into account whether the rules of bank liquidity lines for securitization should be expanded to apply to all non-banking entities, including shadow banking entities, and whether the framework (Basel II) is commensurate with the risks inherent in various equity investments (eg handling of equity investments in hedge funds)[24].

third branch: Restricting the ability of banks to stand behind any unconsolidated entities

After applying stricter consolidation rules through the application of a stricter regulatory treatment of shadow banking, the regulatory treatment will complement the enhanced consolidation rules and will also help reduce interdependence (potential or real) between banks and shadow banking entities.

Most countries currently implement multiple processors. tacit support for banks under the Basel II framework. Further in July 2009 when the scope was expanded to include all shadow banking entities and banks are required to identify data on

[24] Bolton, Patrick and Frederic Samama (2012), “Capital Access Bonds: Contingent Capital with an Option to Convert”, *Economic Policy*, pp. 275–317.

potential sources of risk (such as implicit support for securitization operations, hedge funds) and inclusion in internal capital adequacy assessments[25].

Accordingly, the Financial Stability Board recommends that a review And the implementation of special treatments in relation to reputational risks and the development of policy recommendations as necessary, The Financial Stability Board requested countries subject to the recommendations of the Board to implement their own standards. Review the implementation of the July 2009 recommendations related to addressing reputational risks, This work can be done by conducting a survey of the members of the Stability Board, And submit a report on the progress that has been made and the proposed policy recommendations to the Council.

Fourth branch: Regulatory reform of money market funds

Money market funds may form Systemic risk because it is subject to operation and in some cases plays an important role In the short-term financing markets, where work in those markets indicates that Money market funds are often part of a credit intermediation chain that transforms maturity into liquidity and increases financial capacity. Thus, although the regulatory frameworks are under review, it is necessary to review such initiatives and ensure that appropriate measures are taken to address the risks arising from such funds.

An important issue to consider in such a review is whether the regulatory approach of multilateral funds needs to be regulated in relation to variable net asset value. And the need to impose capital and liquidity requirements on financial investment funds that continue for the purpose of giving investors the net value of fixed assets, and whether there are other possible ways to ensure a sound base for evaluating these options, and therefore it is necessary to analyze the role of money market funds in market financing.

As well as analyzing the various systemic risks posed by financing funds and existing regulatory initiatives and their potential consequences on financing flows and determining the extent to which the globally agreed principles are feasible to apply.

The Financial Stability Board recommends that potential regulatory reforms be reviewed Money market funds that will mitigate their operability and other systemic risks, taking into account national regulatory initiatives, and developing policy recommendations as necessary.

Based on this recommendation, IOSCO requested its Investment Management Standing Committee to analyze the different categories, characteristics and systemic risks of MMFs in different jurisdictions as well as the specific regulatory

[25] Gorton, Gary ‹Slapped by the Invisible Hand: The Panic of 2007, Oxford University press, 2012‹ p. 22.

arrangements that have affected their role and risks, and to prepare regulatory options to reduce their exposure for operational or other systemic risks.[26]

Fifth branch: Evaluating and strengthening the regulation of other shadow banking entities from a prudential point of view

Shadow banking entities and other institutions such as finance companies, mortgage insurance companies and credit hedge funds that have been identified through the monitoring process can constitute systemic risks as important investment tools despite their risks.

The FSB therefore recommends creating a new course of action within its task force in order to classify shadow banking entities, assess the scope and risks of such entities, and make more detailed assessments of regulatory frameworks and potential gaps in them as necessary (with particular emphasis on precautionary measures) In addition to analyzing the role of these entities during the crisis, and developing potential policy recommendations[27].

Sixth branch: Addressing incentives associated with securitization

Some issues require more attention to the requirements Incentivize suppliers of securitization (such as originators and sponsors) to retain a portion of the risks associated with securitization (i.e. retention requirements); As well as transparency and standardization of securitization products.

Despite the significant initiatives that have been undertaken in relation to the regulation of securitization at the national and international levels after the global financial crisis, the Financial Stability Board finds that further review of such initiatives may be useful, In particular, the Financial Stability Board recognizes With the commitment made by the leaders of the G20 that “the sponsors or originators of securitization should retain a portion of the risk of the underlying assets, thereby encouraging them to act prudently”.

Thus, national and regional initiatives related to measures that enhance transparency and standardization of securitization products, including initiatives that facilitate risk assessment by investors, can be reviewed and policy recommendations can be proposed that can be developed as necessary.

Therefore, the Financial Stability Board recommends Conduct an inventory process on the implementation of retention requirements and measures that enhance transparency and standardization of securitization products, and develop policy recommendations as necessary.

Based on this recommendation, the International Organization of Securities Commissions (IOSCO) began its work on evaluating the above issues by

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[26] Udell, Gregory F., and Allen N. Berger., “Did Risk-Based Capital Allocate Bank Credit and Cause a Credit Crunch in the U.S?”, *Journal of Money, Credit and Banking*, 26 (3), 1994, pp. 585–628.

[27] Kane, Edward, “Shadowy Banking: Theft by Safety Net”, Boston College, Unpublished manuscript.2014‹p. 44.

comparing proposed and adopted rules in the European Union and the United States, where some progress has already been made.

Seventh branch :A careful assessment of the regulation of secured financing markets

Especially repurchase agreements (repurchase agreements) and securities lending, and strengthen them further from a precautionary perspective when necessary.

The secured finance markets, in particular repurchase agreements (repurchase agreements) and securities lending, were at the heart of the development of shadow banking activities before the crisis by facilitating the use of securitization products in financial transactions as a source of financing collateral; provide a source of seemingly low-risk, short-term secured financing for merchants and shadow banking entities; leading to increased interdependence in financial systems through series of successive transactions; By reinvesting cash collateral from securities lending, it provides an important source of lending to term money markets that involve a significant shift in maturity[28].

Where the foregoing did The use of buyback and securities lending institutions by financial institutions to facilitate maturity/liquidity shift and leverage buildup within shadow banking entities as well as in more broadly eg systemic risk has been built up by providing easy liquidity against certain positions that were eventually recognized as backed With opaque, complex and illiquid instruments, which led to the rapid evaporation of liquidity with the outbreak of financial crises.

Security lending and cash collateral reinvestment programs were highlighted. Furthermore, developments in the repo and other secured lending markets played a critical role in the fall 2008 crisis, as pro-cyclical increases in margin contributed to a collapse in liquidity and asset values. Thus, policy measures to improve the performance of secured financing markets, such as repo markets, can help reduce vulnerabilities arising from shadow banking activities.

has identified the following three main areas that may need to be considered when addressing risks in the secured financing market:

• Regulating cash collateral re-investment programs related to securities lending: Regulatory measures can be introduced to place restrictions on the maturity dates of investments in which cash collateral is invested or on the types of instruments used for these investments, The restrictions on the use of customer guarantees to finance banks and securities dealers can also be reviewed, Finance (re-mortgage).

• Macroprudential measures related to repurchase and securities lending: Consideration should be given to introducing macroprudential requirements, such

[28] Jackson, Patricia, "Shadow Banking and New Lending Channels—Past and Future", *In 50 Years of Money and Finance*, 2013, p. 23.

as minimum margin or capital reductions to mitigate procyclicality, when addressing systemic risks, based on cyclical reports.

• Improving the market infrastructure for secured finance markets: whereby, consideration should be given to enhancing the market infrastructure for secured finance markets such as clearing and settlement arrangements.

As solutions to address the three key areas are interconnected, the FSB believes it is beneficial to establish a course of action within its task force that will focus on regulating cash collateral reinvestment programs related to securities lending and macroprudential measures related to buyback and securities lending. , which would take into account the current work related to market infrastructure.[29]

Conclusion

At the end of our research, we address the most important results and recommendations that emerged, as follows:

1- The results:

1.The credit that takes place outside the country is not recorded in the national balance of payments statistics as shadow banks grant loans through financial intermediaries, and take their money Most of them are major investors, in addition to practicing its activity in securities inside and outside the country in which it operates on its territory.

2.After the global financial crisis, international efforts have combined to place the shadow banking sector activity under the Oversight and the obligation to comply with the rules imposed by the competent authorities, as the global financial crisis led to the development of non-bank credit intermediation through banks. shadow, with its growth and its increasing risks due to the lack of tight control over its transactions by the competent authorities.

3.The development and growth of shadow banking is related to the inability to Conventional banks to meet the growing needs of demand On investment by the private sector, whether due to its limited financial liquidity or the nature of the sometimes complex procedures in lending operations.

4.Shadow banking is considered the fastest growing in the world, and its growth approximates the growth of conventional banks. Therefore, it poses a significant risk to global financial stability in general, and to the economies of countries in particular, due to the lack of sufficient transparency.

2-The Recommendations:

1.It is necessary to emphasize the necessity of providing adequate information by shadow banks to the competent authorities, through In order to assess the risks that may arise from this sector and its activities that may overlap between more than state.

[29] Ghosh, Swati, "Chasing the Shadows: How Significant is Shadow Banking in Emerging Markets?", Economic Premise, World Bank Note Series, 2012, p. 88.

2.necessity of regulating the permanent supervision of the shadow banking sector, by expanding the circle of surveying the competent authorities For all financial and credit activities and services This is done by setting a supervisory framework that is consistent on the one hand with the activities, development and risks of this sector, and on the other hand Laws, regulations and supervisory legislation.
3.Effective pursuit is required Not to establish a global system for the exchange of information among countries for the purpose of clarifying the vision of shadow banking activity in order for those countries with their competent supervisory authorities to be able to assess the risks that may arise from this sector and its activities that may overlap between more than one country and to find comprehensive treatments capable of Facing the risks of this sector and limiting its impact on financial stability.
4.necessity of developing the oversight mechanisms applied to shadow banks, especially with regard to b Hedge funds because of their role in destabilizing the financial system and improving the effectiveness of international financial institutions and coordination among them on the one hand, And between it and the local control institutions on the other hand.