

ANNUAL EXERCISE BY THE FSB ON NON-BANKING FINANCIAL INTERMEDIATION

In January 2020 the FSB published the ninth edition of its annual report on non-banking financial intermediation (NBFi).¹ As in previous years, the report uses detailed data provided by 29 countries to conduct a review of the financial system and related trends at global level and in each economy.² For example, the report shows how in Spain the decline in banks' weight in total financial sector assets, ongoing since the end of the crisis, has continued (see Chart 1).

Using data at end-2018, the report takes as its starting point the situation of the financial system in each country and goes on to quantify and analyse the importance and risks of the non-banking sector. To that end, the FSB

defines a broad measure of this sector, which encompasses the entire financial system except for central banks, banks and public financial institutions (MUNFI - Monitoring Universe of Non-bank Financial Intermediation). The ultimate aim is to focus on those entities that may pose bank-like risks to financial stability, possibly as a result of regulatory arbitrage.

To identify this type of entity and subsequently analyse the related risks, the FSB has developed a methodology which excludes agents that i) do not conduct credit intermediation activities; or ii) are consolidated into a banking group and are therefore subject to banking prudential regulation. This methodology defines a narrow measure of NBFi comprising

Chart 1
STRUCTURE OF THE FINANCIAL SYSTEM IN SPAIN (a)
% of total financial assets of financial institutions

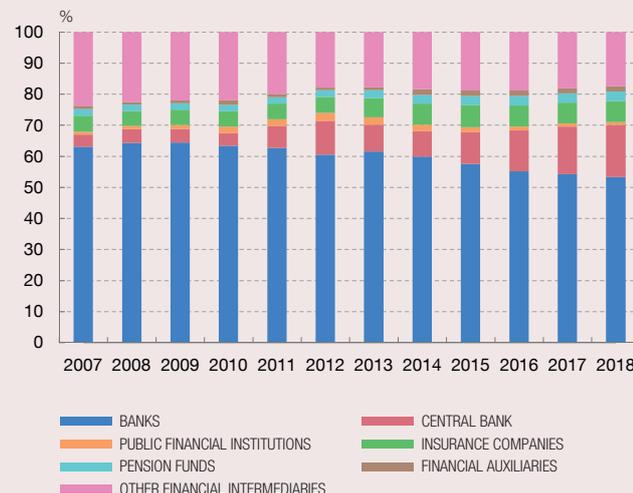
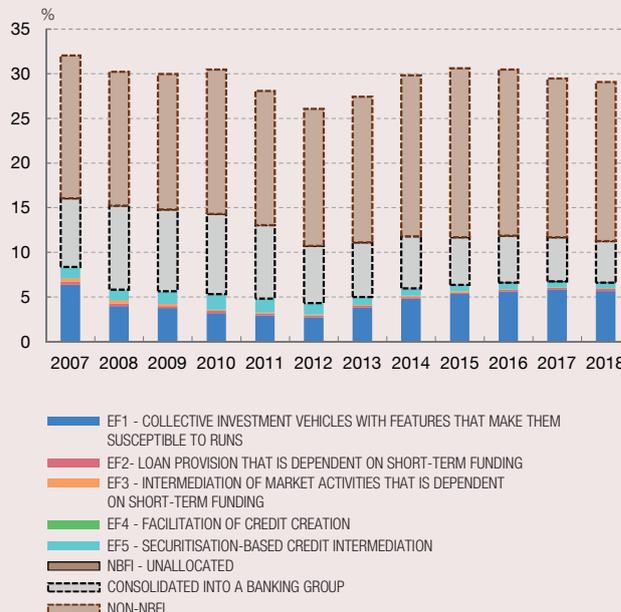


Chart 2
NARROW MEASURE OF NBFi IN SPAIN COMPARED TO TOTAL MUNFI (b)
% of total financial assets of financial institutions



SOURCES: FSB and Banco de España.

- a Central banks do not form part of MUNFI or the narrow measure of NBFi. The Other Financial Intermediaries category defined by the FSB does not correspond to the category of the same name in the Financial Accounts (S.125). In addition to that category (which includes broker-dealers, securitisation special purpose vehicles, venture capital firms, bank asset funds, central counterparties and asset management companies), this category includes money market funds and non-money market investment funds, finance companies (in Spain, specialised lending institutions) and captive financial institutions and money lenders (such as issuers of preference debt instruments and other marketable securities).
- b The narrow measure of NBFi in Spain includes alternative investment funds or hedge funds; money market funds; fixed-income funds; mixed fixed-income funds; open-end investment companies; specialised lending institutions; broker-dealers; mutual guarantee societies; and special

1 In 2018 the FSB began to use the term "non-banking financial intermediation" for shadow banking. This change in terminology did not affect either the scope (which continues to be that of credit intermediation involving entities and activities outside or partly outside the banking system) or the annual exercise of the FSB.

2 The FSB's report also uses complementary, less detailed data from jurisdictions beyond these 29 countries to expand its analysis.

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entities that perform one of the five economic functions (EFs) associated with such credit intermediation:

- **EF1 - Management of collective investment vehicles with features that make them susceptible to runs.** In Spain, five types of entity are classified in this category, all of which are registered as collective investment vehicles at the CNMV: alternative investment funds or hedge funds; money market funds; fixed-income funds; mixed fixed-income funds; and open-end investment companies.
- **EF2 - Loan provision that is dependent on short-term funding.** This category includes specialised lending institutions (SLIs) registered with the Banco de España that are not consolidated into a banking group.
- **EF3 - Intermediation of market activities that is dependent on short-term funding.** Included in this category are broker-dealers registered with the CNMV, which may operate on their own account or on behalf of their clients.
- **EF4 - Facilitation of credit creation: this category includes, for example, monolines and financial guarantors.** In Spain, the only entities in this

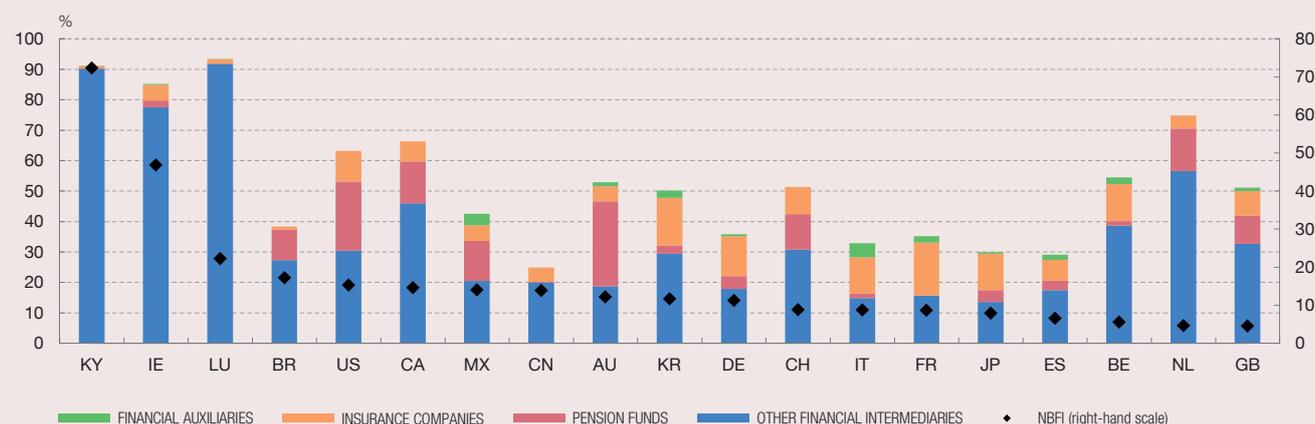
category continue to be mutual guarantee societies (MGSs).

- **EF5 - Securitisation-based credit intermediation and funding of financial entities.** This category includes special-purpose vehicles (registered with the CNMV).

Under this methodology, the narrow measure of NBFi represented 13.6% of global financial assets at December 2018, having grown by 1.7% in 2018. In Spain, the narrow measure accounts for 6.6% of the financial assets held by financial institutions (see Chart 2), having decreased by 3.5% in the previous year. If we consider the results by country in other jurisdictions, this measure is higher in countries with a considerable level of financial specialisation and favourable taxation for these activities, such as the Cayman Islands, Luxembourg and Ireland (see Chart 3). These countries are characterised by having more significant non-banking sectors and more cross-border interconnections.

In absolute terms, the United States concentrates the greatest NBFi activity (see Chart 4), with 30% of the global total. However, its weight has decreased in recent years, in contrast with the growing importance of China (whose sector stagnated at around 15% in 2018). Spain has always accounted for less than 1% of the volume of the narrow measure.

Chart 3
SIZE OF MUNFI AS COMPARED WITH THE NARROW MEASURE OF NBFi, BY COUNTRY (a)
% of total financial assets of financial institutions



SOURCE: FSB.

- a The Other Financial Intermediaries category defined by the FSB does not correspond to the category of the same name in the Financial Accounts (S.125). In addition to that category (which includes broker-dealers, securitisation special purpose vehicles, venture capital firms, bank asset funds, central counterparties and asset management companies, such as Sareb), this category includes money market funds and non-money market investment funds, finance companies (in Spain, specialised lending institutions) and captive financial institutions and money lenders (such as issuers of preference debt instruments and other marketable securities). The narrow measure of NBFi is a subset of MUNFI (OFIs, pension funds, insurance companies and financial auxiliaries).

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By type of entity, investment funds make up most of the sector (see Chart 5). At global level, collective investment vehicles, whose weight has increased in recent years, represent 72% of the assets included in the measure of NBFi. However, there was some slowing in this growth in 2018 owing to the valuation effects caused by falling prices on securities markets. In Spain, investment funds are also the largest sub-sector in the narrow measure of NBFi, with a share of 86% (see Chart 2).

Aside from the data needed to quantify the non-bank financial sector, the FSB collects additional information on interconnections, credit assets, repo markets, financial innovations and regulatory frameworks. The involvement of these entities in bank-like activities is also analysed.

Specifically the FSB collects information that enables indicators to be calculated on the involvement of entities classified in the narrow measure of NBFi in credit intermediation, maturity transformation and leverage. On the basis of this information, at global financial system level the FSB has in recent years focused on: i) the growth of collective investment vehicles (EF1) with a high proportion of loans and receivables and lower liquidity; ii) the elevated leverage of entities that provide loans using short-term funding (EF2), which in some jurisdictions is accompanied by high levels of maturity transformation; and iii) the significant leverage of market intermediaries (EF3) which grew in 2018 (but remained below pre-crisis levels), because they may be vulnerable to runs given their dependence on short-term funding.

Chart 4
INTERNATIONAL ALLOCATION OF THE NARROW MEASURE OF NBFi ASSETS
% of total financial assets of financial institutions

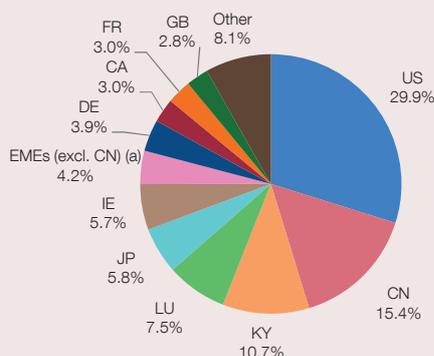
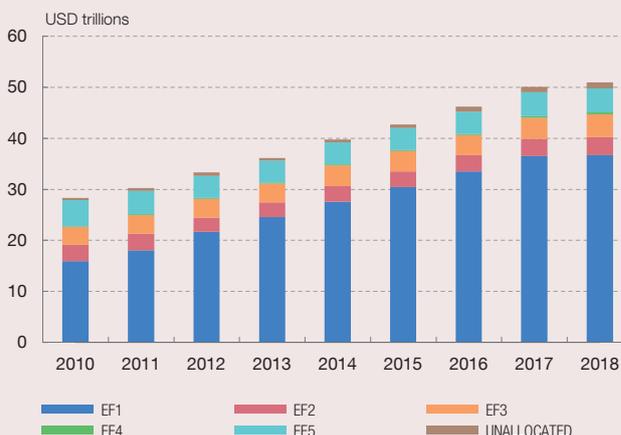


Chart 5
NARROW MEASURE OF GLOBAL NBFi BY ECONOMIC FUNCTION



SOURCES: FSB and Banco de España.

a EMEs (excl. CN): emerging market economies. These include AR, BR, CL, ID, IN, MX, RU, TR, SA and ZA.