Box 7.1

FINANCIAL STABILITY BOARD'S INITIATIVES IN PROGRESS ON NON-BANKING FINANCIAL INTERMEDIATION

Since the 2008 Global Financial Crisis, the Financial Stability Board (FSB) has been working to understand and address the risks associated with non-bank financial intermediation. In this area, the FSB includes all the activities (liquidity transformation, maturity transformation, leverage, etc.) that entail risks similar to banking risks, but which are not subject to similar regulation and supervision to those of banks and lack of access to central bank liquidity. Based on this definition, the FSB developed a methodology based on economic functions to determine which non-bank financial intermediaries carry out this type of credit intermediation[1]. The objective was to have a reliable estimate of their relevance, their evolution, their specific potential risks and their interconnections with the rest of the financial system and, in particular, with banks.

As part of its work in this area, the FSB published, in November 2022, a progress report describing the work done on strengthening the non-bank financial intermediation sector in 2021 and 2022, whose findings were taken into consideration to develop proposals in five work areas(see Figure 1). The work of the FSB and international regulators has focused on the areas that contribute the most to the build-up of liquidity imbalances and their amplification in times of stress.

The proposals being worked on redefining pre-existing tools in the microprudential and investor protection areas. Their use to mitigate potential systemic risks will be analysed and the need for additional tools will be assessed. In addition, the FSB will continue to oversee developments in this sector, to strengthen the detailed analysis in certain areas and to monitor the systemic risk using the data that is already available.

Figure 1
FSB'S INITIATIVES IN PROGRESS ON NON-BANKING FINANCIAL INTERMEDIATION

Money market funds (MMFs) and short-term funding markets	Compile and take stock of the MMF measures adopted in the various jurisdictions Assess the effectiveness of MMF reforms from a financial stability perspective Carry out work with IOSCO to enhance short-term funding markets
Liquidity risk management in openended funds (OEFs)	In collaboration with IOSCO: — Revise the 2017 recommendations on liquidity mismatch in OEFs — Initiate a pilot programme to close data gaps in relation to OEFs' liquidity mismatch, the use of liquidity management tools and its potential impact on financial stability — Organise a workshop on experiences among authorities in the design and use of stress tests
Margining practices	In collaboration with the BCBS, the CPMI and IOSCO, monitoring of the work on: — Transparency in centrally cleared markets — Liquidity preparedness and liquidity disclosures — Data gaps in regulatory reporting — Variation margin processes — Responsiveness of initial margin models to market stresses
Leverage	In consultation with IOSCO, assess and address vulnerabilities associated with the sector's leverage
Developing a systemic perspective for the regulation of the NBFI sector and policies to address systemic risk	Enhance its assessment of vulnerabilities in the NBFI sector, report on implementation of G20 reforms, publish a Global Monitoring Report Publish a report with the main findings of initiatives implemented and the proposals to address systemic risk

SOURCE: Banco de España, based on Financial Stability Board data.
NOTE: Money market funds are open-ended collective investment vehicles managed with the objective of providing returns associated with money market rates by investing primarily in short-term money market instruments. Open-ended investment funds are collective investment vehicles that offer their investors the right to redeem their shares on a frequent (usually daily) basis. Margins are the collateral collected by one counterparty to absorb losses in the event of default of the other counterparty.

1 See, for example, "Box 2.2. Annual exercise by the FSB on non-banking financial intermediation". *Financial Stability Review - Banco de España,* Spring 2020. https://www.bde.es/f/webbde/Secciones/Publicaciones/InformesBoletinesRevistas/InformesEstabilidadFinancera/20/ficheros/IEF_2020_1_Rec2_2.pdf

Cover
Contents
Presentation by the Governor
Interview with the Deputy Governor
Supervision Report: Digest
Chapter 1
Chapter 2
Chapter 3
Chapter 4
Chapter 5
Chapter 6
Chapter 7
Chapter 8
Chapter 9
Index of photographs
Banco de España publications
Acronyms and abbreviations