



**Ministry of
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Financial Markets and Institutions

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Riksbanken

Financial Stability Department

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Swedish Authorities' Response to the Green Paper on Shadow Banking

The Swedish Ministry of Finance, Finansinspektionen (the Swedish Financial Supervisory Authority), Riksgäldskontoret (the Swedish National Debt Office) and Sveriges Riksbank welcome the opportunity to comment on and present a shared view of the Green Paper.

Comments and answers to particular questions are provided with reference to the enumeration and particular question in the Green Paper. If a question or topic has not been commented or answered, that should not be taken to constitute our approval or dismissal.

Capitalised terms and abbreviations used in the Green Paper will have the same meaning when used in this response. When used herein, 'we' should be taken to mean the common view of the Ministry of Finance, Finansinspektionen, Riksgäldskontoret and Sveriges Riksbank.

General

We welcome and support the Commission's work in this important matter. Shadow banking and its associated challenges is an important issue with regard to the stability of the financial system and the economic well-being of the EU as a whole, and carries with it complex regulatory questions. Given the rather high stakes in the matter, we wish to emphasise above all the need for stricter monitoring and better knowledge of the shadow banking system within the EU. We would also like to stress the need for thorough analyses of the consequences of any proposed legislation in this area. The principle of proportionality must at all times be adhered to. Also, as shadow banking is a global phenomenon, it is important that legislative initiatives have a global approach with international consistency.

a) Do you agree with the proposed definition of shadow banking?

On the whole, we agree with the definition proposed in the Green Paper. We wish to highlight, however, the need to take into account the complexity of shadow banking entities and activities, as there is

not an evidently linear relationship between the size and systemic risk of shadow banking entities.

b) Do you agree with the preliminary list of shadow banking entities and activities? Should more entities and/or activities be analysed? If so, which ones?

We support the list of activities and entities in the Green Paper. However, we would like to stress that in order to identify shadow banking it is not sufficient to only consider activities as entities also must be taken into consideration. For instance, potential shadow banking activities such as repos and securities lending that are conducted interbank would naturally fall outside the definition of shadow banking. Further, several of the activities listed are currently regulated e.g. money market funds, hedge funds and ETFs. It is our opinion that on-going monitoring and updating of the list is necessary, as new entities and activities may periodically emerge.

c) Do you agree that shadow banking can contribute positively to the financial system? Are there other beneficial aspects from these activities that should be retained and promoted in the future?

We agree with the Green Paper that shadow banking can contribute positively to the financial system. In particular, we stress the importance of shadow banking for the functioning of the market in that it in many cases promotes more liquid markets and more efficient markets in terms of pricing.

d) Do you agree with the description of channels through which shadow banking activities are creating new risks or transferring them to other parts of the financial system?

Overall, we agree with the general description of channels through which shadow banking activities are creating new risks or transferring them to other parts of the financial system. However, we think that further analysis is vital to increase understanding of these channels and the severity of associated systemic risk within the EU context; stricter monitoring will aid this analysis.

e) Should other channels be considered through which shadow banking activities are creating new risks or transferring them to other parts of the financial system?

One additional potential channel of contagion worthy of investigation is corporate ownership structures. The European banking system is characterised by substantial inter-linkages between a multitude of actors, financial and others. These links between banks and non-banks may spread contagion within the system in case of a crisis. For this reason we welcome the current BCBS work addressing these channels.

f) Do you agree with the need for stricter monitoring and regulation of shadow banking entities and activities?

In our opinion, stricter monitoring and improved data and statistics are prerequisites for more accurately measuring the size of the shadow banking system within the EU, as well as for better understanding the systemic risks associated with these entities and activities. Therefore, we wish to highlight the need for adequate disclosure requirements. We believe that the most pressing issue is proper monitoring of the shadow banking entities; therefore the focus should be on developing effective monitoring tools.

We strongly support the international reform agenda presently under consideration by the FSB. The regulatory reform agenda concerns areas where shadow banking undoubtedly contributed to the global financial crisis and/or to systemic risk. In our opinion, the on-going FSB reform agenda, including the delegation of potential regulation of banks' interaction with shadow banks to the BCBS, is very comprehensive. Additionally, Basel II/III introduces a number of changes that reduce the opportunities for regulatory arbitrage (for instance, through credit risk transfer to SIVs and SPVs). We therefore think that there is currently no reason to expand the scope of potential regulatory reform beyond what is currently considered and will be suggested by the FSB.

There should also be international consistency in the measures taken to address the systemic risk of the shadow banking system. Given the current FSB timetable, we find it premature to consider new EU stand-alone legislation in this area. Pending the proposals by FSB and global standard setters such as BCBS and IOSCO, seeking an enhanced understanding coupled with better and timelier data access and monitoring practices by regulators seems a more balanced approach.

g) Do you agree with the suggestions regarding identification and monitoring of the relevant entities and their activities? Do you think that the EU needs permanent processes for the collection and exchange

of information on identification and supervisory practices between all EU supervisors, the Commission, the ECB and other central banks?

We agree with the Green Paper's suggestions regarding identification and monitoring of shadow banking entities and activities. We also encourage permanent processes for information sharing between supervisory authorities. This is particularly important as the shadow banking system in Europe may evolve in the years to come. Improved transparency and data of higher quality and consistent reporting will be important when developing macro-prudential policies and further legislation or the reform thereof.

h) Do you agree with the general principles for the supervision of shadow banking set out above?

We agree with the Commission's assessment. Since it to a large extent resonates with that of the FSB, the strength of one analysis reinforces the other. We wish to reiterate that there is significant value in international coherence and consistency of principles and regulations. In addition, we strongly agree with the Commission that, as point (ii) mentions, the supervision should be proportionate with regards to complexity and systemic risks posed by shadow banking entities or activities.

i) Do you agree with the general principles for regulatory responses set out above?

Currently we are in the process of evaluating the different means for regulatory responses to shadow banking. In line with our emphasis on the principle of proportionality and impact assessments, we need to further analyse possible implications of the third proposed regulatory response, i.e. new legislative initiatives specifically directed at shadow banking. Prior to deciding on new regulation, we think that there is a great need for stricter monitoring to gain additional knowledge about the shadow banking system within the EU.

j) What measures could be envisaged to ensure international consistency in the treatment of shadow banking and avoid global regulatory arbitrage?

As shadow banking is a global issue, international consistency in any measures taken is crucial. To ensure consistency, international co-ordination through global standard-setting bodies is a useful approach going forward.

l) Do you agree with the analysis of the issues currently covered by the five key areas where the Commission is further investigating options?

We believe that international co-ordination on these issues is of the utmost importance for an appropriate, effective, and globally reaching response. We thus find it reassuring that the Commission and the FSB are focusing on the same key areas.

m) Are there additional issues that should be covered? If so, which ones?

As stated above, we strongly support the current international co-ordination of issues and believe it for the time being sufficient. At this point, we therefore do not see that any additional issues should be covered other than the five areas addressed in the Green Paper and currently considered by the FSB. However, as the shadow banking system might evolve or new knowledge is gained, we are open to the idea of additional issues being covered.

n) What modifications to the current EU regulatory framework, if any, would be necessary properly to address the risks and issues outlined above?

For now we do not rule out modifications of the existing EU regulatory framework, we believe that it is difficult to determine the extent of needed potential adjustments before the international discussion is further developed. At this point, given the current rapid pace of reform, we rather believe it to be in the interests of the EU to focus on a European comprehensive cost-benefit analysis for any reform taken or planned.

o) What other measures, such as increased monitoring or non-binding measures should be considered?

While recognising the potential need for legislative measures to ensure that shadow banking does not pose a threat to financial stability, at this stage and in light of the on-going work of the FSB we favour increasing the monitoring of shadow banking entities and activities and expanding their disclosure/transparency requirements. With this in mind, we encourage the Commission to first and foremost ensure the availability of transparent and reliable data sources, and to push for adequate disclosure requirements.

Finally, as discussed in the CRR/CRD IV context, there should be national discretion regarding the use of financial stability instruments to control risks related to shadow banking, such as macro-prudential policy, capital buffers and tools for crisis management and resolution. For crisis resolution, however, we also advocate timely cross-border co-operation.

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