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HOW SHOULD MARGIN BE REGULATED IN THE EU SHADOW BANKING SECTOR?

Ross Spence | EBI Annual Conference | 12 February 2021

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Agenda

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- What is Shadow Banking
- The Role of Debt
- Shadow Banking: Repos
- Financial Instability: Vulnerabilities of Debt
- A New Regulatory Margin Framework

What is Shadow Banking?

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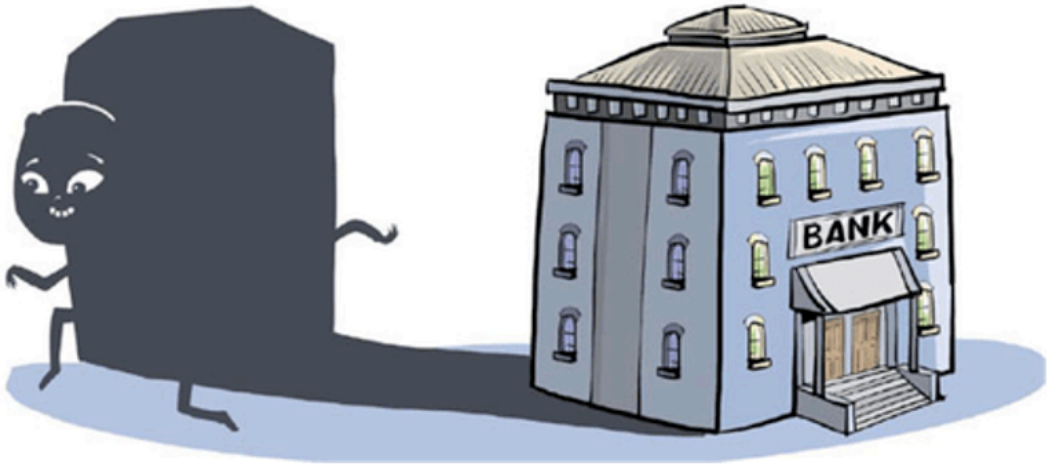
- Parallel Banking System
- Not Prudentially Regulated
- Alternative Funding Source



The Role of Debt

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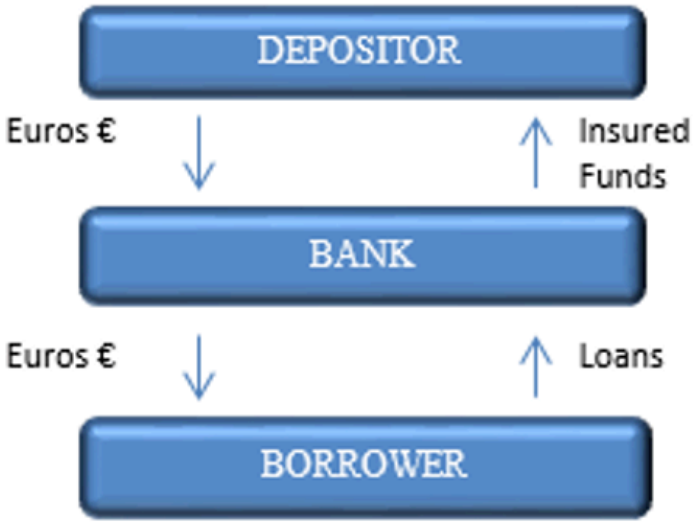
- What is Debt?
- Prudential Banking



Shadow Banking: Repos

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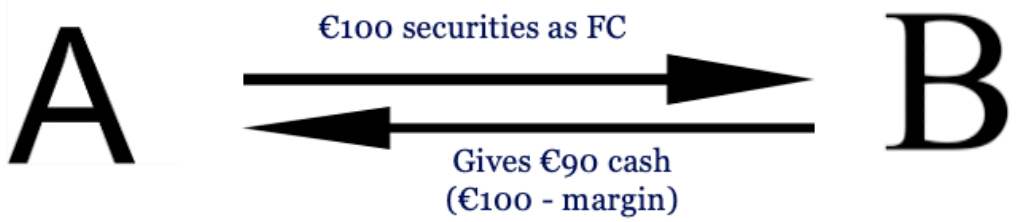
- Working Example:
- Opening Leg of the Transaction



- Closing Leg of the Transaction

The Chiaroscuro of Banking

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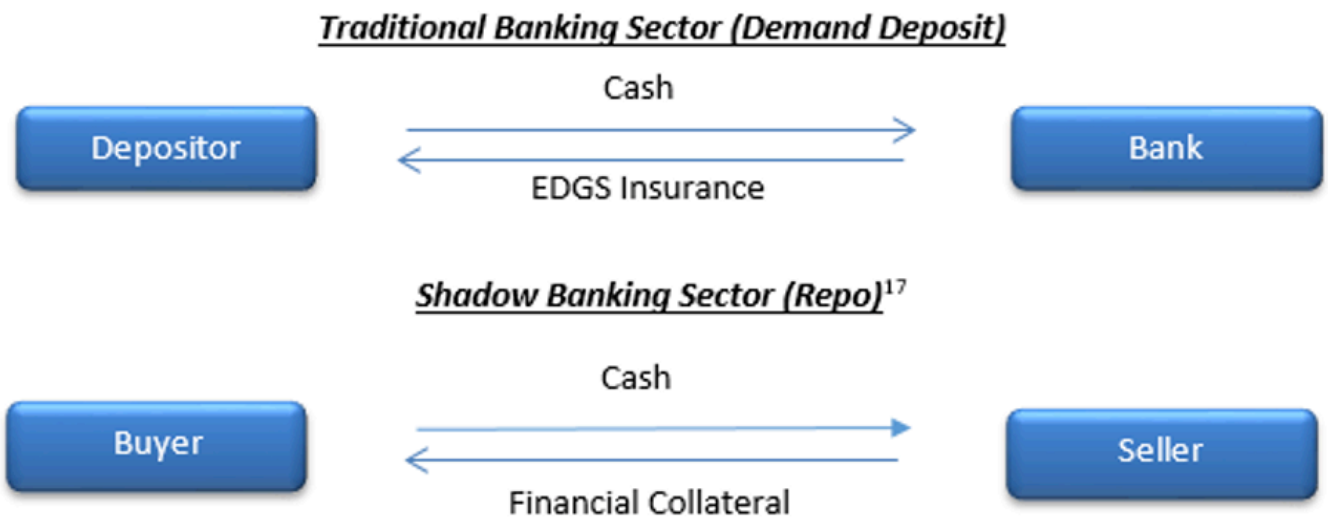

Financial Instability: Vulnerabilities of Debt

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Leverage
- High debt levels
- Margin/Haircut limits leverage
- Marketable securities

Rehypothecation/Re-use Risk

Leverage and Liquidity Spiral
- Financial collateral
- Margin/haircuts
- Liquidity
- De-leverage

Margin Regulation?

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- Recommendations:
  1. CCP – *de facto* Implementation of Margin
  2. Minimum Margin Regulation – Limits Leverage
  3. Countercyclical Margin Add-ons
  4. Margin Ceilings

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