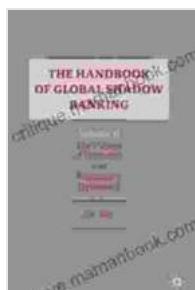


The Handbook of Global Shadow Banking: Volume II: The New Systemic Risk

Shadow banking is a term used to describe a wide range of financial activities that take place outside the traditional banking system. These activities include securitization, repurchase agreements, and over-the-counter derivatives. Shadow banking has grown rapidly in recent years, and it is now estimated to be larger than the traditional banking system.

The growth of shadow banking has raised concerns about systemic risk. Systemic risk is the risk that a financial crisis in one part of the financial system will spread to other parts of the system and cause a wider financial collapse. Shadow banking poses systemic risk because it is interconnected with the traditional banking system. For example, banks often use shadow banking to fund their lending activities. If a shadow banking institution fails, it could cause banks to fail, which could then lead to a wider financial crisis.

Shadow banking has evolved over time, but its core features have remained the same. Shadow banking institutions are typically non-bank financial institutions that engage in lending, securitization, and other financial activities. These institutions are often not subject to the same regulations as banks, which gives them more flexibility to take risks.



The Handbook of Global Shadow Banking, Volume II: The Future of Economic and Regulatory Dynamics

by Luc Nijs

★★★★☆ 4.8 out of 5

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Word Wise : Enabled
Print length : 1374 pages
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The growth of shadow banking has been driven by a number of factors, including the deregulation of the financial industry, the rise of global capital markets, and the increasing demand for financial products. Shadow banking has also benefited from the growth of technology, which has made it easier to create and trade complex financial products.

Shadow banking poses a number of risks to the financial system. These risks include:

- **Credit risk:** Shadow banking institutions often lend to borrowers who are considered to be high-risk. If these borrowers default on their loans, it could cause shadow banking institutions to fail and could lead to a wider financial crisis.
- **Liquidity risk:** Shadow banking institutions often rely on short-term funding to fund their lending activities. If there is a sudden loss of confidence in the shadow banking system, it could lead to a run on shadow banking institutions and could cause a wider financial crisis.
- **Systemic risk:** Shadow banking is interconnected with the traditional banking system. If a shadow banking institution fails, it could cause banks to fail, which could then lead to a wider financial crisis.

The regulation of shadow banking is a complex and challenging issue. Regulators need to balance the need to reduce systemic risk with the need to allow shadow banking to continue to provide financial products and services.

There are a number of different approaches to regulating shadow banking. One approach is to subject shadow banking institutions to the same regulations as banks. This approach would reduce systemic risk, but it could also stifle innovation and reduce access to financial products and services.

Another approach to regulating shadow banking is to create a new regulatory framework for shadow banking institutions. This approach would allow regulators to tailor regulations to the specific risks posed by shadow banking institutions. However, it could also be complex and difficult to implement.

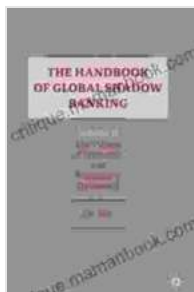
Regulators are still working to develop a comprehensive regulatory framework for shadow banking. In the meantime, they are taking a number of steps to reduce systemic risk, including increasing oversight of shadow banking institutions and requiring them to hold more capital.

The future of shadow banking is uncertain. Some experts believe that shadow banking will continue to grow and play an important role in the financial system. Others believe that shadow banking will be regulated more heavily and will become less important.

The future of shadow banking will depend on a number of factors, including the regulatory environment, the demand for financial products and services, and the development of technology. It is important for regulators to carefully

consider the risks and benefits of shadow banking and to develop a regulatory framework that reduces systemic risk while allowing shadow banking to continue to provide financial products and services.

Shadow banking is a complex and rapidly evolving sector of the financial system. It poses a number of risks to the financial system, but it also provides important financial products and services. Regulators are still working to develop a comprehensive regulatory framework for shadow banking. In the meantime, they are taking a number of steps to reduce systemic risk. The future of shadow banking is uncertain, but it is likely to continue to play an important role in the financial system.



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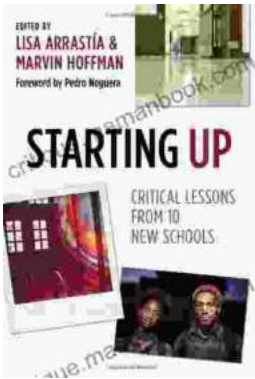
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