# The Vulnerabilities of Debt in the Shadow Banking Sector

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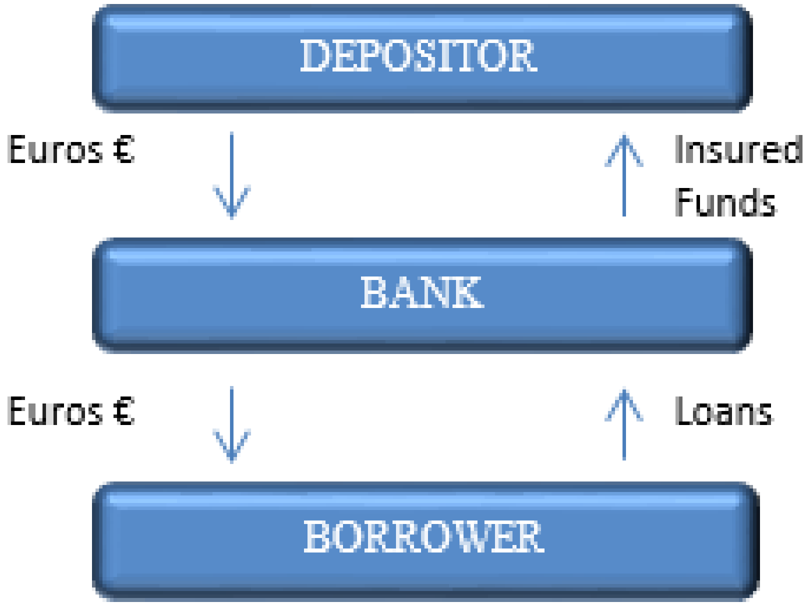
# Agenda

- What is Shadow Banking?
- The Role of Debt
- Shadow Banking: Repos
- Financial Stability: Vulnerabilities of Debt
- Recommendations

# What is Shadow Banking?

# Debt

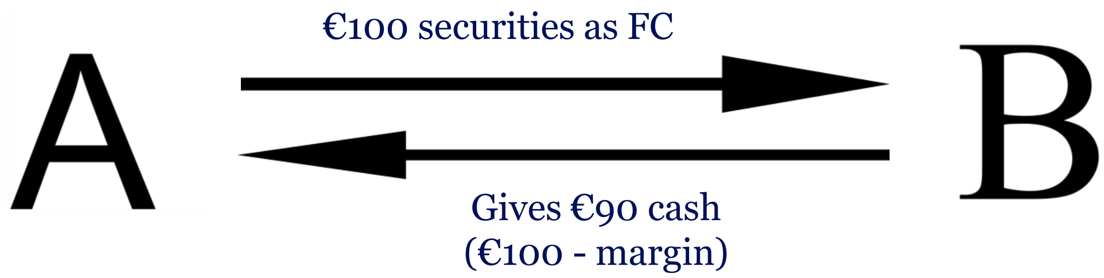
- **What is Debt?**
  - **Prudentially Regulated Banking Sector**



# Shadow Banking: Repos

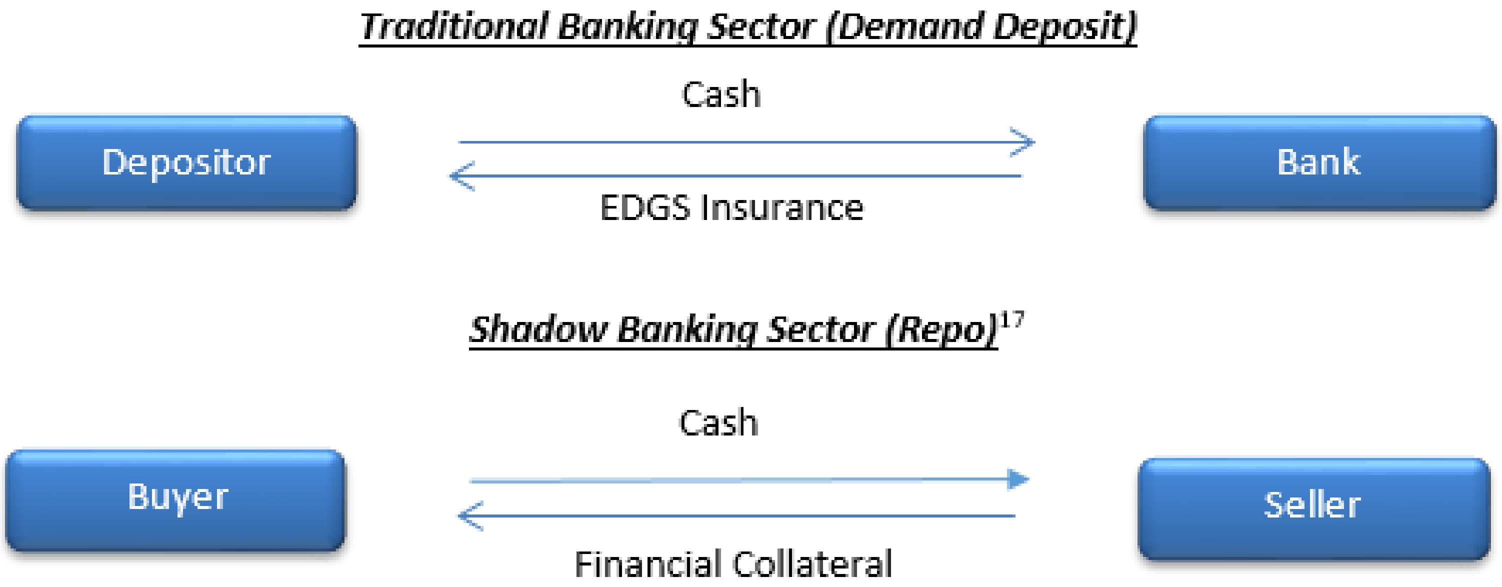
- Working Example:

*Opening Leg of the Transaction:*




*Closing Leg of the Transaction:*

# Traditional Banking vs Shadow Banking



# Financial Stability: Vulnerabilities of Debt

- 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

# Recommendations

1. The Need for More Granular Data
2. Re-use/Rehypothecation Should be Limited
3. The Need for Minimum Margin/Haircut Regulation

# Thanks for Listening!

# Questions?

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