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RESULTS OF THE SURVEY ON SHADOW BANKING

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This document has been prepared by Isabelle Ynesta and Matthew De Queljoe - OECD Secretariat and will be presented under item 3 of the draft agenda

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RESULTS OF THE SURVEY ON SHADOW BANKING

1. Introduction

Shadow banking is a recent phenomenon which has created high interest from a policy and research perspective as it represents one of the main sources of financial stability concerns. In broad terms, shadow banking can be described as “credit intermediation involving entities and activities outside the regular banking system”. This intermediation provides an alternative to bank funding but as the financial crisis revealed, these non-bank entities could create high systemic risks to financial stability as this source of funding is mainly short-term (long-term credit extension based on short-term funding and leverage) and therefore more susceptible to runs. Macro-economic statistics, among which financial accounts and balance sheets, would like to respond to these user demands as much as possible.

To this end, the Bureau of the OECD Working Party on Financial Statistics decided to examine what is possible at the macro-level, given the various definitions of shadow banking (broad versus narrow), to compare this with current templates for data collection, and to look whether, in the future, classifications of subsectors and instruments could be adapted. As a first step, the Secretariat launched a survey on shadow banking in May 2015, based on FSB definitions, with the aim of collecting OECD countries’ views on the definition and delineation of the shadow banking phenomenon. The survey was sent to 34 OECD members, five accession countries and four key partners of the OECD (*see the list of recipients in the annex*).

Thirty-nine countries out of 43 surveyed completed the questionnaire on shadow banking. Two countries did not reply and two countries could not complete the survey as they were not yet in a position to contribute with a firm view. Two-thirds of respondents were national central banks. In analysing the results, when countries did not provide a response to a given question, it was not taken into consideration.

This paper presents the results of the survey and is organised as follows: Section 2 indicates which entities and activities OECD countries typically consider as part of the broad definition of shadow banking; Section 3 focuses on entities and activities classified in the narrow definition of shadow banking as well as on criteria retained by OECD countries for classifying selected entities and activities in shadow banking. Section 4 provides information on data availability for entities and instruments included in the broad definition of shadow banking. Finally, Section 5 concludes and proposes a way forward.

2. Broad definition of shadow banking

The FSB broad definition considers the “system of credit intermediation that involves entities and activities outside the regular banking system”. This means that these entities and activities are not subjected to any (or at least partially) prudential regulations and facilitate or extend credit intermediation either directly or as part of a credit intermediation chain.

2.1 *Entities classified outside the regular banking system – institutional concept*

The majority of respondents consider as part of the broad definition the following entities:

- Money market funds (MMFs)
- Other investment funds (OIFs)
- Financial vehicle corporations (FVCs)
- Financial corporations engaged in lending (FCLs)
- Security & derivative dealers (SDDs)
- Specialised financial corporations (SFCs)

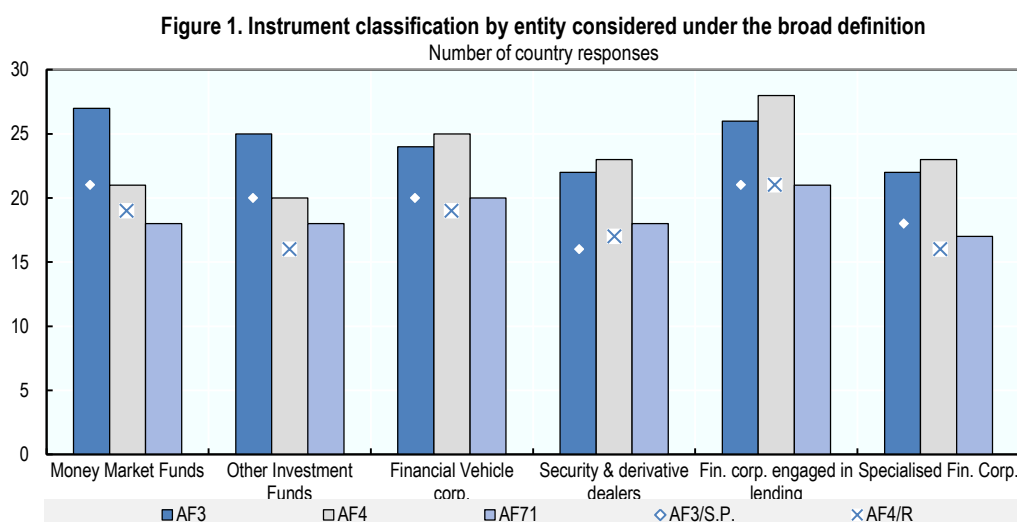
However, several countries exclude equity funds and venture capital funds from other investment funds as they are not involved in credit intermediation. More than half of respondents also consider captive financial institutions as part of the broad definition and more than one third classify insurance corporations and pension funds in the broad definition. Only three countries positively respond for the inclusion of hedge funds under this definition. Several countries provide other types of entities considered as part of the broad definition:

- Consumer finance and leasing companies
- Financial auxiliaries
- Credit unions

2.2 *Activities classified outside the regular banking system – Activity concept*

Looking at the “activities” (financial instruments), one can distinguish two groups of countries:

- The first group (one-third of respondents) considers all activities involved in credit intermediation of selected entities as part of the broad definition.
- The second group (two-thirds of respondents) distinguishes between activities; the classification of selected entities in the broad definition is mainly driven by transactions related to debt securities and loans, and to lesser extent to structured products, repos and financial derivatives as figure 1 shows.



AF3/SP: Structured products

AF4/R: Repos

For approximately half of respondents, securitisation is a relevant criterion for the inclusion in the broad definition. For respondents who indicate that this activity is not a relevant criterion, a recurrent explanation is that most securitisation processes involve credit operations originated by banks that are not derecognised from their balance sheets, and therefore subject to bank regulations and Basel requirements.

For the majority of respondents, the existence of guarantees on financial instruments involved in credit intermediation is not a relevant criterion for the inclusion of the activity in the broad definition of shadow banking. Few countries reported other aspects to be taken into consideration for the inclusion of entities and activities in the broad definition.

- Required level of public disclosures (e.g. financial reports...)
- Distinction between public and private financial corporations
- A minimum threshold of the share of relevant assets, as a % of the national total financial assets, to indicate the importance of particular data
- Pure equity trading and insurance activities are excluded from the broad definition.

For the majority of countries, the number of entities according to the broad definition was difficult to report due to data availability. For those able to provide an estimate, one can notice the heterogeneity across countries and as will be discussed later in section 3, the same holds for the number of entities reported for the narrow definition of the shadow banking.

3. Narrow definition of shadow banking

The FSB narrow definition focuses on activities of non-bank credit intermediation where both systemic risks and regulatory arbitrage can emerge. Systemic risks arise from activities that create maturity and/or liquidity transformation, involving imperfect credit risk transfer, thus facilitating leverage.

3.1 Entities classified outside the regular banking system, where systemic risks and regulatory arbitrage can emerge.

As for the broad definition, the majority of respondents consider as part of the narrow definition the following entities:

- Money market funds (MMFs)
- Other investment funds (OIFs)
- Financial vehicle corporations (FVCs)
- Financial corporations engaged in lending (FCLs)
- Security & derivative dealers (SDDs)
- Specialised financial corporations (SFCs)

However, for those entities, OECD countries make the distinction between types of entities for their inclusion in the narrow definition. For example, for money market funds only alternative investment funds and constant net assets value funds (CNAV) are included as they carry liquidity risk and high leverage. Likewise for other investment funds, a distinction is made at the level of the type of other investment funds such as all fixed-income funds and synthetic exchange traded funds. Several countries exclude from other investment funds equity funds and real estate investment trusts as they are not involved in credit intermediation.

For money market funds, other investment funds and security and derivative dealers, the subjection of supervisory oversight is not considered a relevant criterion. However, for financial vehicle corporations, financial corporations engaged in lending and specialised financial corporations, approximately one-third of respondents take this into consideration. For these core entities, the existence of guarantees on certain financial instruments is not considered relevant.

Half of respondents consider captive financial institutions under the narrow definition. Nearly a quarter include these entities only if they are not subject to supervisory regulation. Only one-quarter of respondent consider insurance corporations and pension funds as part of the narrow definition. Among those, only certain activities of insurance companies and pensions are included such as credit default insurance and credit activities. For these entities, the subjection of supervisory oversight is considered a relevant criterion. As for the broad definition, only three countries consider hedge funds as part of the narrow definition.

3.2 Additional criteria to take into consideration to classify selected entities in the narrow definition of shadow banking.

In addition to the criteria of the narrow definition, certain countries also consider other aspects in determining entities and activities classified under the narrow definition. A number of countries consider that if an entity is prudentially consolidated within a banking group, it should be excluded from the narrow definition. The same considerations are mentioned in relation to entities created for the sole purpose of performing intra-group activities.

If securitisations are retained by banking groups, most countries indicate that it should also be excluded as there is no actual transfer of risk. Canada starts from the broad definition consisting of all financial entities (at least partially) outside the regulatory framework, except insurance companies and pension funds, which are regulated in Canada. They only introduce the condition of conducting or facilitating a chain of credit intermediation under the narrow definition. Sweden includes financial auxiliaries under the narrow definition only if there is regulatory arbitrage between banks and these entities. Brazil excludes from the narrow definition short-term funds (VNAV) as in practice these funds have 100% liquid assets such as cash, Federal Government Bonds (FGBs) and repos backed by FGBs. More generally, Brazil does not consider funds with high liquidity (>30% of total assets) and low leverage (<125% of total assets) at the same time as being part of the narrow definition. Finally, India considers the narrow definition as only those financial entities that directly extend credit such as the origination of loans.

3.3 Comparison between the number of entities included in the broad and narrow definitions

For the majority of countries, it was difficult to provide the number of entities for both the broad and narrow definitions due to data availability. For those able to provide an estimate, one can notice the heterogeneity across countries which for a significant number may be due to the size of the financial sector in the country (*see table 1 in the annex*).

The number of entities is the same under both definitions for the following countries: Chili, Israel, Norway, Slovenia, Spain, Colombia, Costa Rica, Latvia and Russia. Certain countries report only minor differences with the broad definition as they only exclude equity funds from the narrow definition. However, for a number of countries one can notice large differences between the two figures (Australia, Austria, Belgium, Canada, Finland, Mexico, the United Kingdom, Lithuania, and India) as prudentially consolidated entities within a banking group and entities under supervisory regulations are excluded from the narrow definition. Some of these countries also exclude equity funds and real estate investment trusts from the narrow definition of shadow banking.

4. Data availability

In the survey, countries were requested to provide available data on financial assets and liabilities (by financial instruments and by financial subsectors) of entities included in the broad definition of the shadow banking for the year 2013, as a percentage of GDP (*see tables and figures 2 & 3 in the annex*).

The majority of respondents indicate that they have available data for the subsectors money market funds (S123), non-money market funds investment funds (S124), the aggregated subsector other financial institutions excluding non-money market funds investment funds (S125_S127), other financial intermediary excluding insurance corporations and pension funds (S125), insurance corporations (S128) and pension funds (S129). However, only half could provide figures. Approximately one-third of respondents report figures for captive financial institutions (S127), financial vehicle corporations, security and derivative dealers, and financial corporations engaged in lending. For the available subsectors, countries provide data mainly for debt securities and loans, and to lesser extent for credit derivatives on both the assets and liabilities side. In total, only seven countries have data for either repos or structured products.

Looking at the total financial assets and liabilities held by the relevant shadow banking subsectors across all countries that report figures, one can notice a large heterogeneity in the composition by sector, which may be explained by (1) the national classification of entities in the broad definition, (2) the level of development of certain entities within countries, and (3) country-specific circumstances.

For those countries who report the highest level of shadow banking activities (>200% of GDP), it is mainly concentrated within the subsectors other financial institutions excluding non-MMFs investment funds (S125_S127) and to a lesser extent pension funds (S129). Ireland and the Netherlands report the highest outstanding amounts with over 700% for both assets and liabilities. In particular for Ireland, who could provide the breakdown of other financial intermediary excluding insurance corporations and pension funds (S125), financial vehicle corporations account for all the activity of this subsector. In general, for a wide range of countries, shadow banking activities are distributed across the subsectors non-MMFs investment funds (S124), other financial institutions excluding non-money market funds investment funds (S125_S127), insurance corporations (S128) and pension funds (S129). Several countries report relatively low levels of shadow banking activities (<50% of GDP) for which the partition is mainly between the subsectors S125_S127, S128 and S129.

General remarks expressed by respondents

Australia indicates that by and large all financial intermediation is covered by financial accounts (flow of funds) and that comprehensive and high-quality financial accounts can identify shadow banking trends as they evolve despite the fact that certain types of entities and instruments are not separately identifiable in data sources. Japan suggests linking the broad definition to certain subsectors according to the SNA for measuring shadow banking.

Many countries follow the FSB definition of shadow banking, which for the narrow definition follows a functional (activity) approach rather than a pure institutional concept but some mention that functional aspects can only be captured through firm-level monitoring, which may be difficult to pursue for national statistical offices and national central banks. In addition, some report that more details on activities such as repurchase agreements, commercial papers, securities lending, re-hypothecation, securitisation and derivatives are necessary to assess what is part of shadow banking.

Germany is not implementing a narrowing down approach for their own monitoring system as the exclusion of presumably “safe” activities and entities may overlook important trends in the financial system. Some countries do not have sufficient information to arrive at an estimate according to a precise definition of shadow banking.

5. Conclusions and way forward

5.1 Conclusions

According to the results of the survey, the main shadow banking entities can be identified within the SNA subsectors, money market funds (S123), non-money market funds investment funds (S124), other financial intermediary excluding insurance corporations and pension funds (S125), and captive financial institutions (S127). Within the subsector S125, financial vehicle corporations, financial corporations engaged in lending, security and derivative dealers, and specialised financial corporations are the major entities involved in shadow banking activities. More than one-third considers insurance corporations and pension funds (ICPFs) as part of the broad definition of shadow banking. But when it comes to the narrow definition, only few countries consider ICPFs as part of it. On the instrument side, the respondents determine that debt securities, loans, and to a lesser extent, credit derivatives, are the main source of non-bank credit intermediation, whilst transactions in the form of pure equity is not considered as credit intermediation.

The distinction between the broad and narrow definition is made in relation to the type of activities of the core entities mentioned above; additional criteria or aspects such as the subjection of supervisory

oversight, the consolidation into a banking group, transactions facilitating credit intermediation, de-recognition of securitisation's operations from bank balance sheets are also taken into account.

Several countries indicate that using the current SNA subsector classification in financial accounts and balance sheets can identify shadow banking trends, even if certain details in terms of instrument types and entities are missing from data sources. However, others express the difficulty in capturing activities of shadow banking, as it requires firm-level monitoring, which may not be feasible for statistical offices and central banks.

In terms of data availability, countries can provide data on financial assets and liabilities as a percentage of GDP for the aforementioned subsectors. For those who report estimates in the survey, the majority are not in a position to render estimates at the level of the specific breakdown of subsector S125 as well as structured products and repos. The volume of shadow banking activities according to the broad definition is very heterogeneous across countries due to different national classification of entities, but first and foremost due to the level of development of certain entities within countries and country-specific circumstances.

5.2 Way forward

Based on the results of the survey, a discussion can be initiated on the possibility to measure the shadow banking phenomenon within the current SNA sector and instrument classifications. In this regard, the relevant financial institutions and financial instruments can be distinguished according to the criteria established by the FSB and suggestions made by countries. Depending on countries' reactions, a study may be necessary to further investigate the feasibility of reducing data gaps. In this direction, it would be important to co-operate with FSB (BIS) on future work related to data collection on shadow banking and the use of financial balance sheets as a basis. The idea is to maintain the institutional link and keep the macro-standards.

The involvement of the OECD Committee on Financial Markets (CMF) in this work would be useful in order to share knowledge and experiences in this field.

Delegates are invited to:

- express their views on the conclusions of the results of the survey and the way forward;
- discuss the heterogeneity of national classifications of entities and activities of shadow banking.
- discuss the following approximation of shadow banking using macro-economic data and additional criteria to consider an entity as part of shadow banking (possible decision tree):

Shadow banking subsectors and entities:

- Money market funds (S123): only alternative investment funds and constant net assets value funds (CNAV).
- Non-money market funds investment funds (S124): only all fixed-income funds and synthetic exchange traded funds. Pure equity funds and real estate investment trusts are excluded.
- Other financial intermediaries, except insurance corporations and pension funds (S125). Entities within S125: *financial vehicle corporations, financial corporations engaged in lending, security and derivative dealers, and specialised financial corporations* are the major entities involved in shadow banking activities.
- Captive financial institutions (S127)

Shadow banking financial instruments:

- Debt securities AF3 and structured products.
- Loans AF4, and repos.
- Financial derivatives AF71.

Criteria to identify an entity as a part of shadow banking:

- Supervisory oversight
 - Prudentially consolidated within a banking group
 - Securitisations retained by banking groups
 - Conducting or facilitating a chain of credit intermediation
 - Level of liquid assets & size of leverage.
- discuss the possibility to collect more detailed breakdowns of the sectors S124 and S125 as part of the institutional investors' assets and liabilities data collection.

ANNEX

List of recipients

OECD members: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

OECD accession countries: Colombia, Costa Rica, Latvia, Lithuania, Russia.

OECD key partners: Brazil, India, Indonesia, South Africa

Table 1. Number of entities under both definitions – approximate figures

	Broad definition	Narrow definition
Australia	400,000	3,000
Austria	3,000	900
Belgium	2,117	500
Canada	71,000	7,421
Chile	1,046	1,046
Czech Republic	..	..
Denmark	..	..
Estonia	3,400	3,392
Finland	605	300
France	10,826	..
Germany	..	..
Greece	300	229
Hungary	..	..
Iceland	165	143
Ireland	1,753	1,438
Israel	1,382	1,382
Italy	2,229	2,229
Japan	..	..
Korea	..	..
Luxembourg	..	..
Mexico	11,135	4,490
New Zealand	..	..
Netherlands	..	..
Norway	..	..
Poland	..	..
Portugal	692	514
Slovak Republic	163	128
Slovenia	345	345
Spain	8,225	8,225
Sweden	..	..
Switzerland	1,377	..
Turkey	151	..
United Kingdom	40,000	10,000
United States	..	..
Colombia	4,953	4,943
Costa Rica	25	25
Latvia	238	238
Lithuania	106	2
Russia	20,954	20,954
Brazil	7,000	6,999
India	12,225	608
Indonesia	..	..
South Africa	1,500	1,000

Table 2. Total financial assets by subsector under the broad definition (% GDP) - 2013

Total assets by subsector	S.123	S.124	S.125-S.127	S.125	o/w Financial vehicle corp.	o/w Securities dealer	o/w Financial corp. lending	o/w other credit institutions	S.127	S.128	S.129	Total
Australia	1.80	19.30	..	..	22.20	..	10.20	6.80	20.90	27.00	95.20	203.40
Austria	0.10	24.50	..	4.80	..	..	..	..	1.70	16.40	0.10	47.60
Belgium	0.26	26.24	..	47.42	23.02	0.58	21.76	0.81	..	..	..	73.92
Canada	1.00	56.00	61.00	61.00	29.00	25.00	6.00	0.00	0.00	..	..	118.00
Chile	..	..	..	..	..	..	..	..	..	..	..	..
Czech Republic	0.05	6.00	20.60	11.40	..	..	8.37	..	..	13.18	7.28	47.11
Estonia	0.00	3.30	29.00	..	..	..	9.90	0.10	..	4.90	10.00	47.20
Finland	1.68	37.25	16.67	..	..	0.12	..	..	..	30.04	2.52	88.16
France ¹	15.00	47.00	41.00	23.00	10.00	14.00	..	..	0.00	..	..	103.00
Germany	0.00	48.00	25.00	16.00	..	..	..	..	8.00	62.00	14.00	149.00
Greece	..	2.25	..	..	..	..	..	..	..	..	..	2.25
Hungary	4.88	..	144.92	9.98	..	..	..	..	133.97	..	..	149.80
Iceland	1.00	23.00	..	6.00	..	..	..	..	..	9.00	143.00	182.00
Ireland	191.00	52.00	581.00	237.00	237.00	..	..	..	..	..	..	824.00
Israel	..	..	..	..	..	..	..	..	..	..	..	..
Italy	0.80	23.90	33.80	..	15.20	..	12.90	..	..	..	..	58.50
Japan	..	..	..	..	..	..	..	..	..	..	..	..
Mexico	..	..	..	..	..	..	..	..	..	..	..	..
Netherlands	0.50	93.00	656.00	74.00	32.00	..	..	42.00	..	..	..	749.50
Norway	3.00	21.10	..	4.30	..	..	4.30	..	..	42.30	8.40	79.10
Poland	..	..	0.10	..	..	0.00	..	..	..	9.78	18.00	27.88
Portugal	1.40	..	..	..	..	..	..	..	..	35.70	8.00	45.10
Slovak Republic	..	2.43	9.61	8.62	..	..	..	..	..	7.99	10.42	30.45
Slovenia	..	5.22	13.07	..	..	..	..	..	..	17.92	5.92	42.13
Spain	0.81	16.97	63.39	32.99	26.53	0.57	0.27	..	22.96	26.35	10.98	118.50
Sweden	3.00	0.00	22.00	15.00	..	..	..	..	2.00	90.00	21.00	136.00
Switzerland	..	..	..	..	..	..	..	..	..	..	..	..
Turkey	..	..	..	..	..	..	..	..	..	..	..	..
United Kingdom	..	..	..	..	..	..	..	..	..	..	..	..
United States	16.00	..	118.30	64.90	..	20.30	..	..	33.10	..	..	134.30
Colombia	4.22	2.41	..	2.03	..	0.34	..	..	6.43	6.03	22.00	43.12
Costa Rica	..	..	..	..	..	..	..	..	..	..	..	..
Latvia	..	1.50	15.80	13.80	..	..	..	..	2.00	3.40	8.70	29.40
Lithuania	0.00	0.70	8.90	5.30	0.00	0.00	4.20	0.00	..	2.70	4.60	16.90
Russia	..	..	..	..	..	..	..	..	..	..	..	..
Brazil	..	..	..	..	..	..	..	..	..	11.34	13.44	24.78
India	..	..	..	..	..	..	..	..	..	..	..	..
Indonesia	..	..	..	..	..	..	..	..	..	..	..	..
South Africa	7.00	35.00	..	..	2.60	..	..	4.60	..	65.00	67.00	181.2

1. Reference year: 2014

Table 3. Total liabilities by subsector under the broad definition (% GDP) - 2013

Total liabilities by subsector	S.123	S.124	S.125-S.127	S.125					S.127	S.128	S.129	Total
					o/w Financial vehicle corp.	o/w Securities dealer	o/w Financial corp. lending	o/w other credit institutions				
Australia	1.80	25.00	..	..	22.20	..	9.20	4.10	21.80	29.50	101.50	215.10
Austria	0.00	0.40	..	7.90	..	..	..	..	4.70	1.40	0.00	14.40
Belgium	0.26	26.41	..	50.25	24.15	0.58	22.20	3.26	..	..	..	76.92
Canada	..	..	..	..	..	..	..	..	..	..	..	..
Chile	..	..	..	..	..	..	..	..	..	..	..	..
Czech Republic	0.05	6.00	18.60	9.50	..	..	8.37	..	..	13.18	7.28	45.11
Estonia	0.00	3.30	33.00	..	..	..	9.80	0.10	..	5.30	10.00	51.60
Finland	1.68	37.25	22.05	..	..	0.12	..	..	..	26.25	1.78	89.01
France ¹	15.00	49.00	39.00	23.00	10.00	14.00	..	..	0.00	..	..	103.00
Germany	0.00	52.00	27.00	20.00	..	..	..	..	4.00	61.00	15.00	155.00
Greece	..	3.07	..	..	..	..	..	..	..	..	..	3.07
Hungary	4.81	11.06	135.81	9.12	..	..	..	..	126.10	8.33	4.25	164.26
Iceland	1.00	23.00	..	6.00	..	..	..	..	..	9.00	143.00	182.00
Ireland	191.00	63.00	563.00	..	237.00	..	..	..	..	..	..	817.00
Israel	..	..	..	..	..	..	..	..	..	..	..	..
Italy	..	..	..	..	..	..	..	..	..	..	..	..
Japan	..	..	..	..	..	..	..	..	..	..	..	..
Mexico	..	..	..	..	..	..	..	..	..	..	..	..
Netherlands	0.50	98.00	653.00	106.00	42.00	..	..	64.00	..	..	..	751.50
Norway	3.10	20.90	..	4.20	..	..	4.20	..	..	43.40	8.40	80.00
Poland	..	..	..	..	..	..	..	..	..	..	..	..
Portugal	1.40	17.90	107.50	..	..	..	..	..	..	35.00	8.90	170.70
Slovak Republic	..	5.43	4.24	3.38	..	..	..	..	..	7.99	10.42	28.08
Slovenia	..	5.23	15.47	..	..	..	..	..	..	17.34	5.90	43.94
Spain	0.80	17.53	63.47	33.70	26.63	0.54	0.27	..	23.15	26.98	11.06	119.84
Sweden	3.00	60.00	21.00	16.00	..	..	..	..	2.00	79.00	21.00	184.00
Switzerland	..	..	..	..	..	..	..	..	..	..	..	..
Turkey	..	..	..	..	..	..	..	..	..	..	..	..
United Kingdom	..	..	..	..	..	..	..	..	..	..	..	..
United States	16.00	85.90	123.70	66.80	..	20.70	..	..	36.20	41.70	..	267.30
Colombia	0.01	0.11	..	1.16	..	0.22	0.93	..	..	5.46	4.75	11.49
Costa Rica	..	..	..	..	..	..	..	..	..	..	..	..
Latvia	..	0.02	0.16	0.14	..	..	..	..	0.02	0.03	0.09	0.29
Lithuania	0.00	0.70	6.60	5.40	0.00	0.00	4.30	0.00	..	3.20	4.60	15.10
Russia	..	..	..	..	..	..	..	..	..	..	..	..
Brazil	..	..	..	..	..	..	..	..	..	0.11	..	0.11
India	..	..	..	..	..	..	..	..	..	..	..	..
Indonesia	..	..	..	..	..	..	..	..	..	..	..	..
South Africa	..	..	..	..	2.60	..	..	4.60	..	65.00	67.00	139.20

1. Reference year: 2014

Figure 2. Total financial assets held by the shadow banking according to the broad definition (% GDP) – 2013

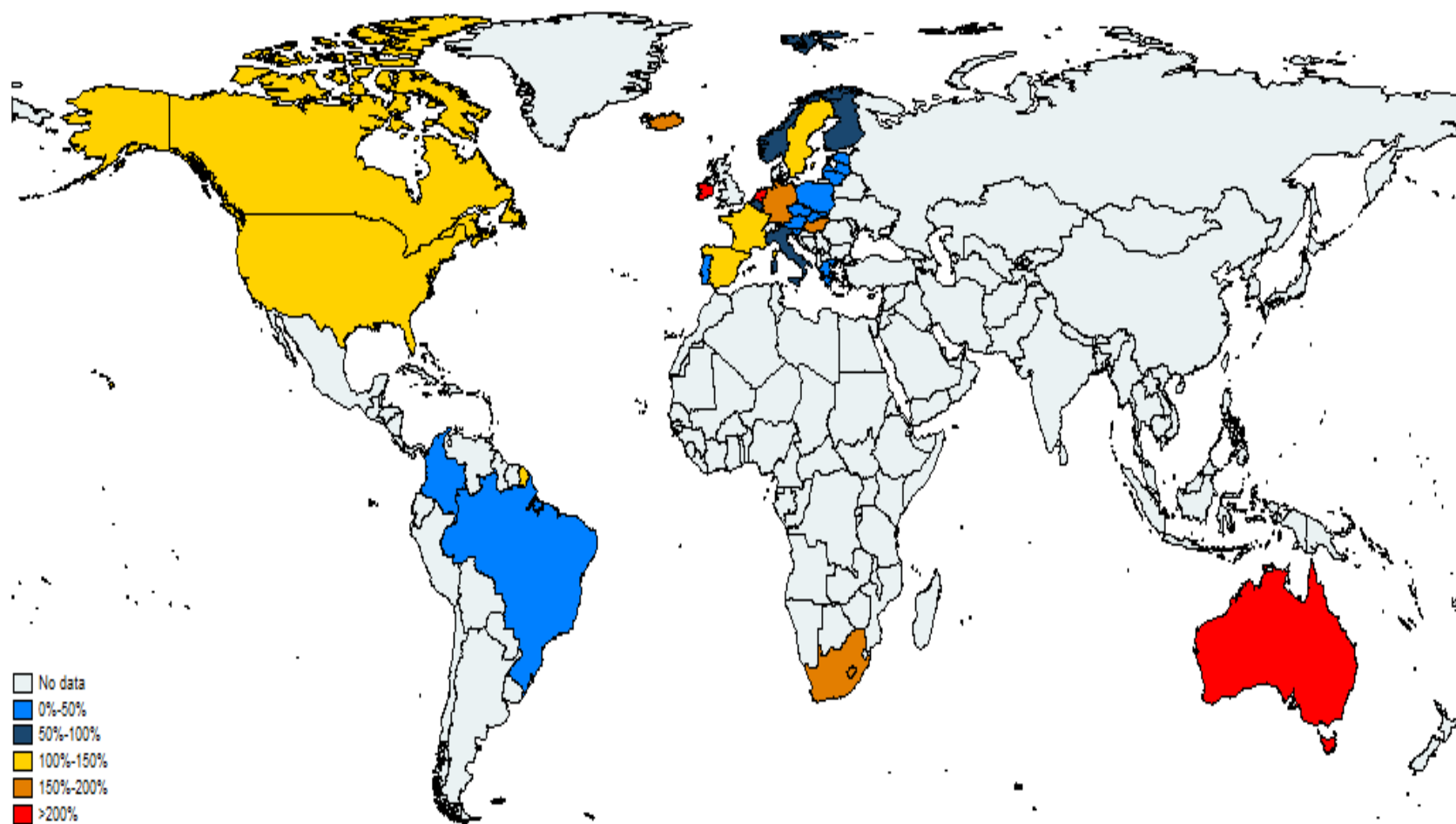


Figure 3. Total liabilities held by the shadow banking according to the broad definition (% GDP) – 2013

