Challenges to Supervision and Regulation of Shadow Banking

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Stanford University

Chicago Fed Shadow Banking Conference
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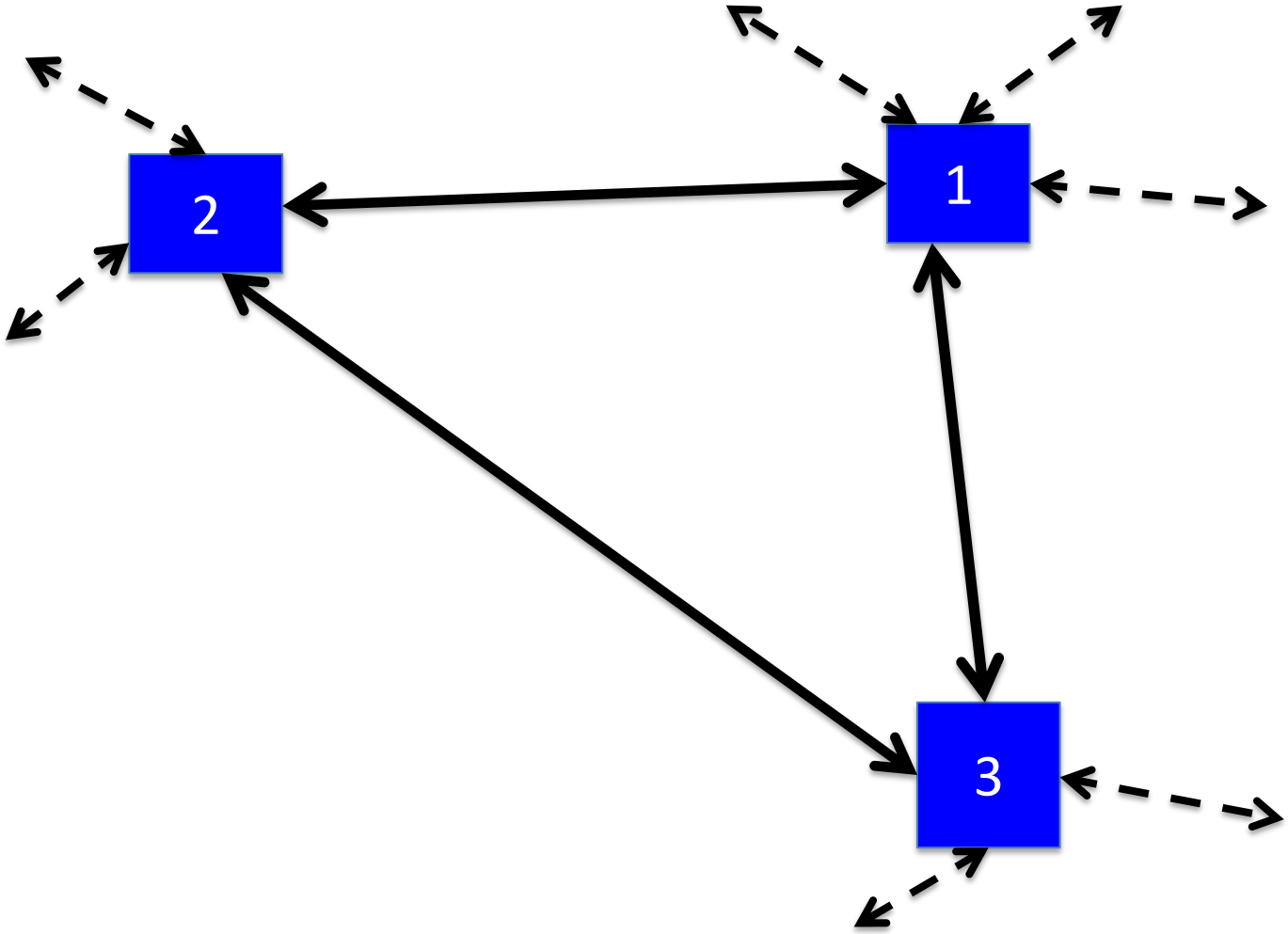
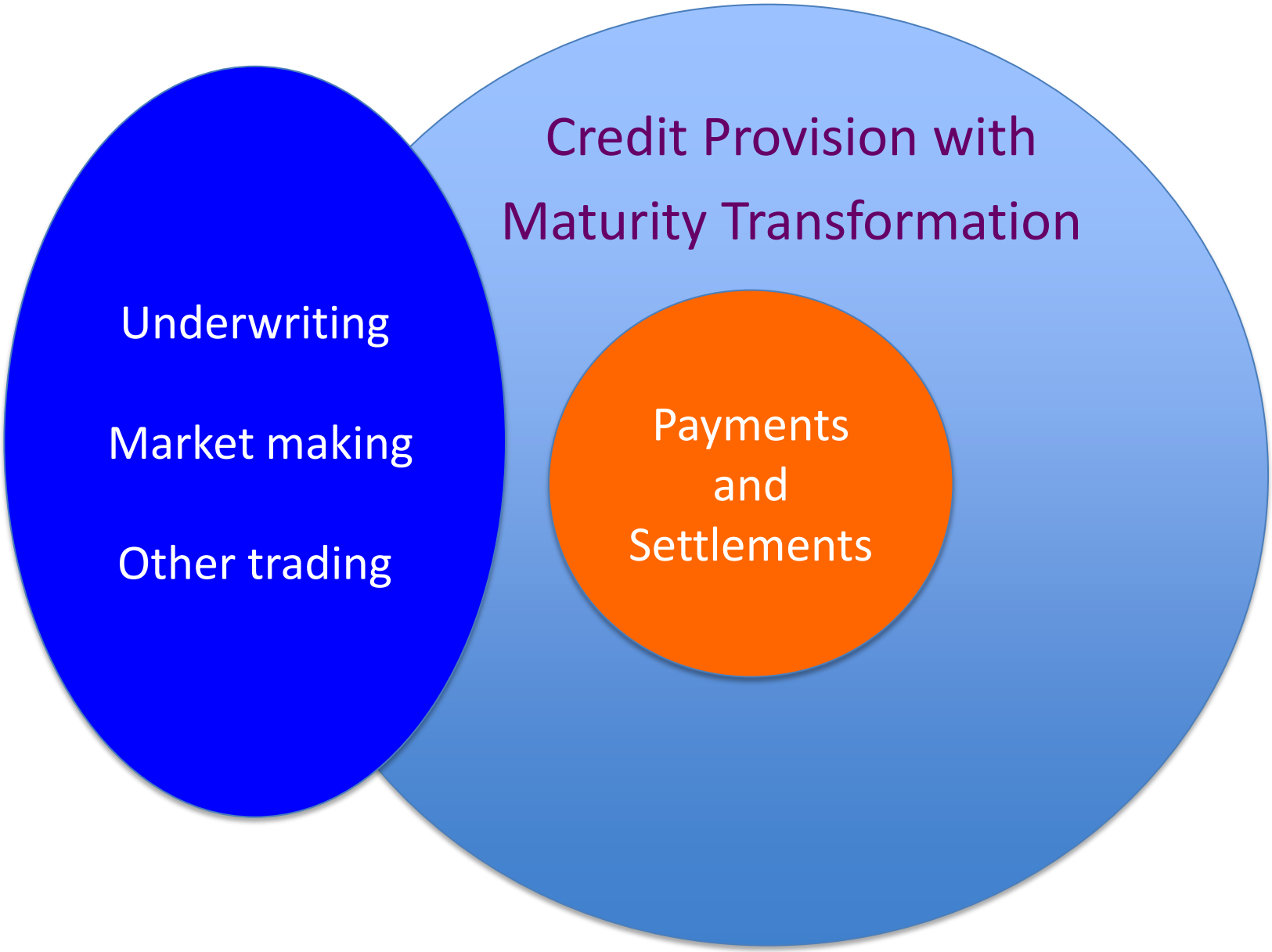
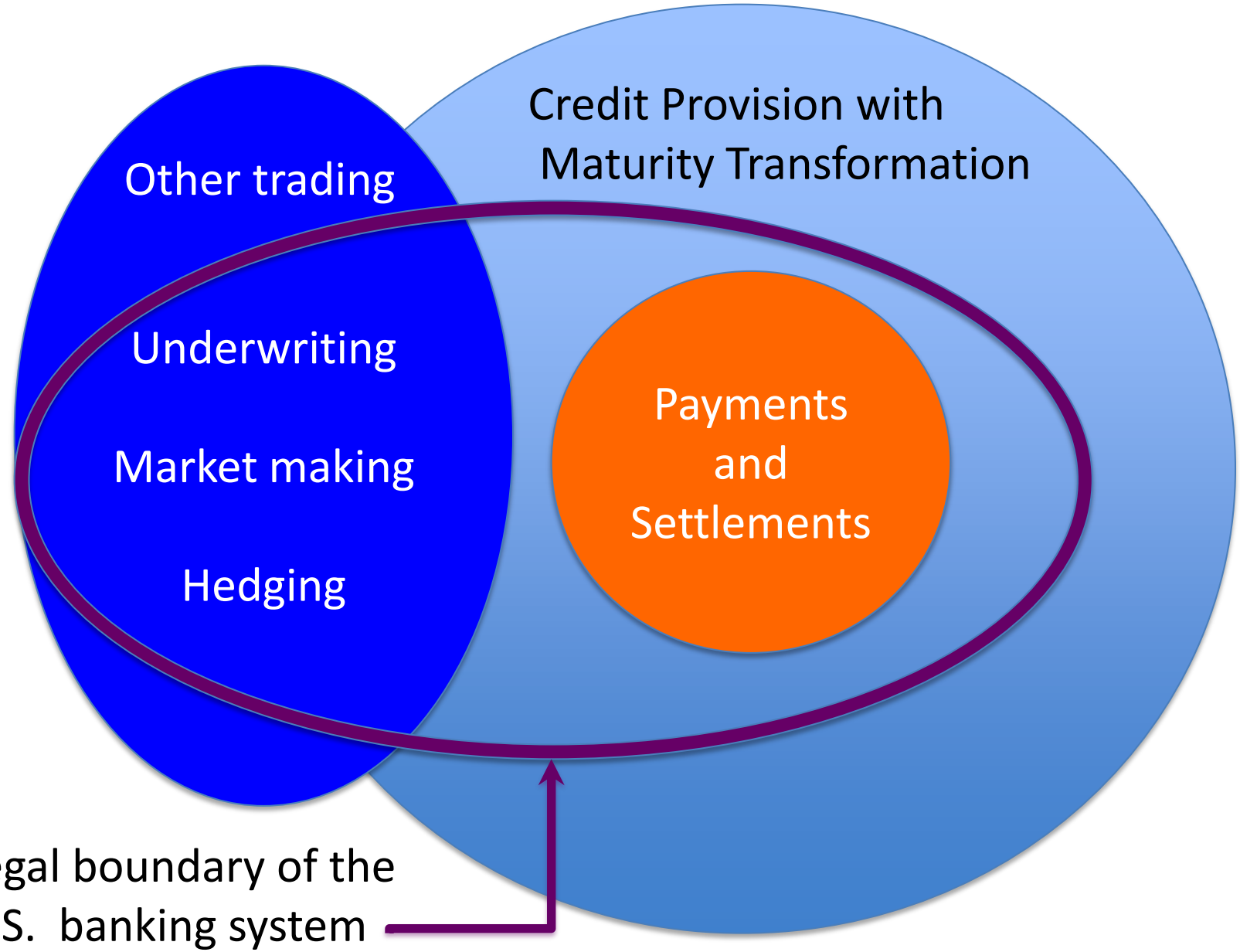
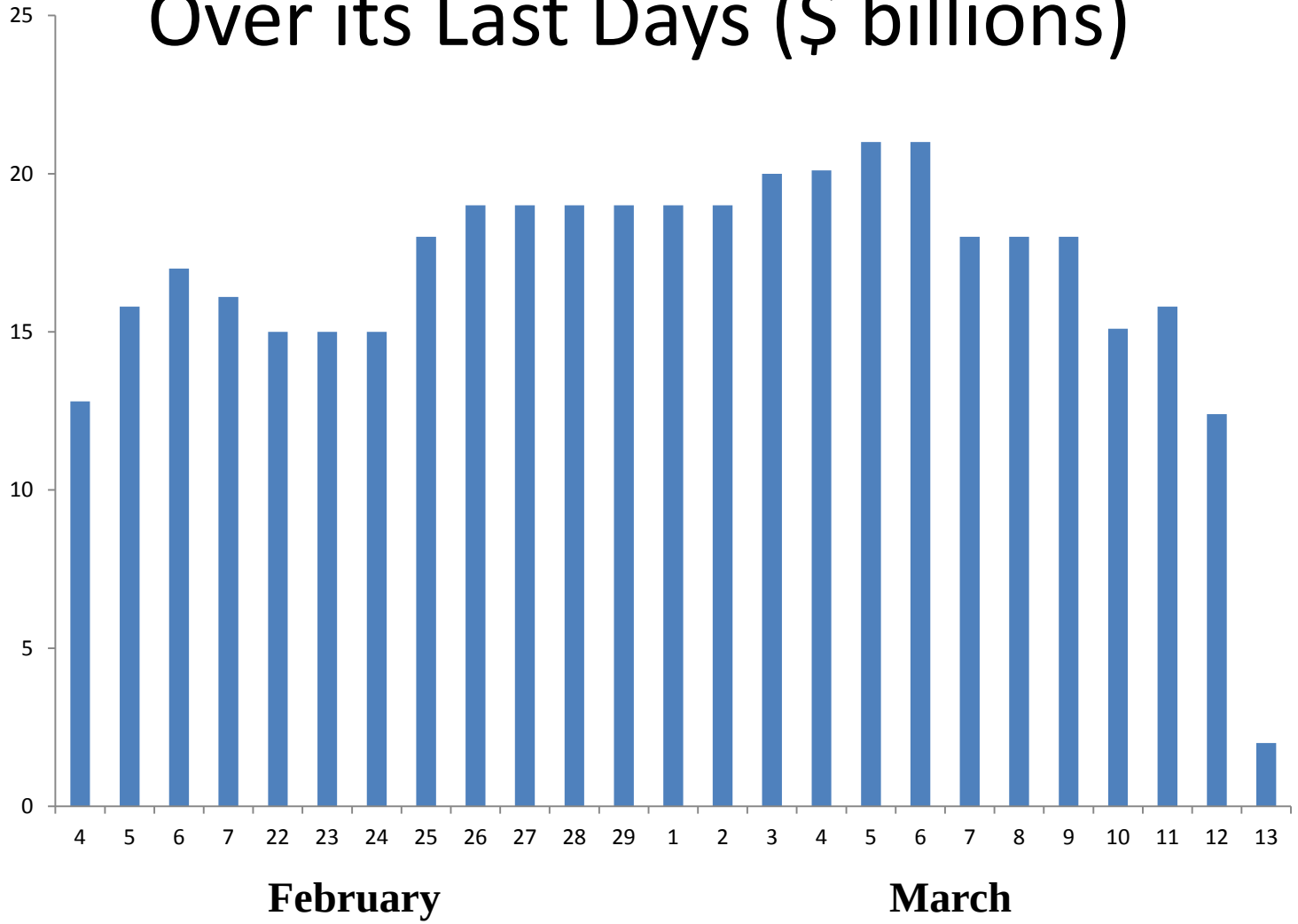
Transferring risk, capital, and liquidity among ultimate economic agents




Credit Provision with
Maturity Transformation
Underwriting
Market making
Other trading
Payments
and
Settlements


Credit Provision with
Maturity Transformation
Other trading
Underwriting
Market making
Hedging
Payments
and
Settlements
Legal boundary of the
U.S. banking system

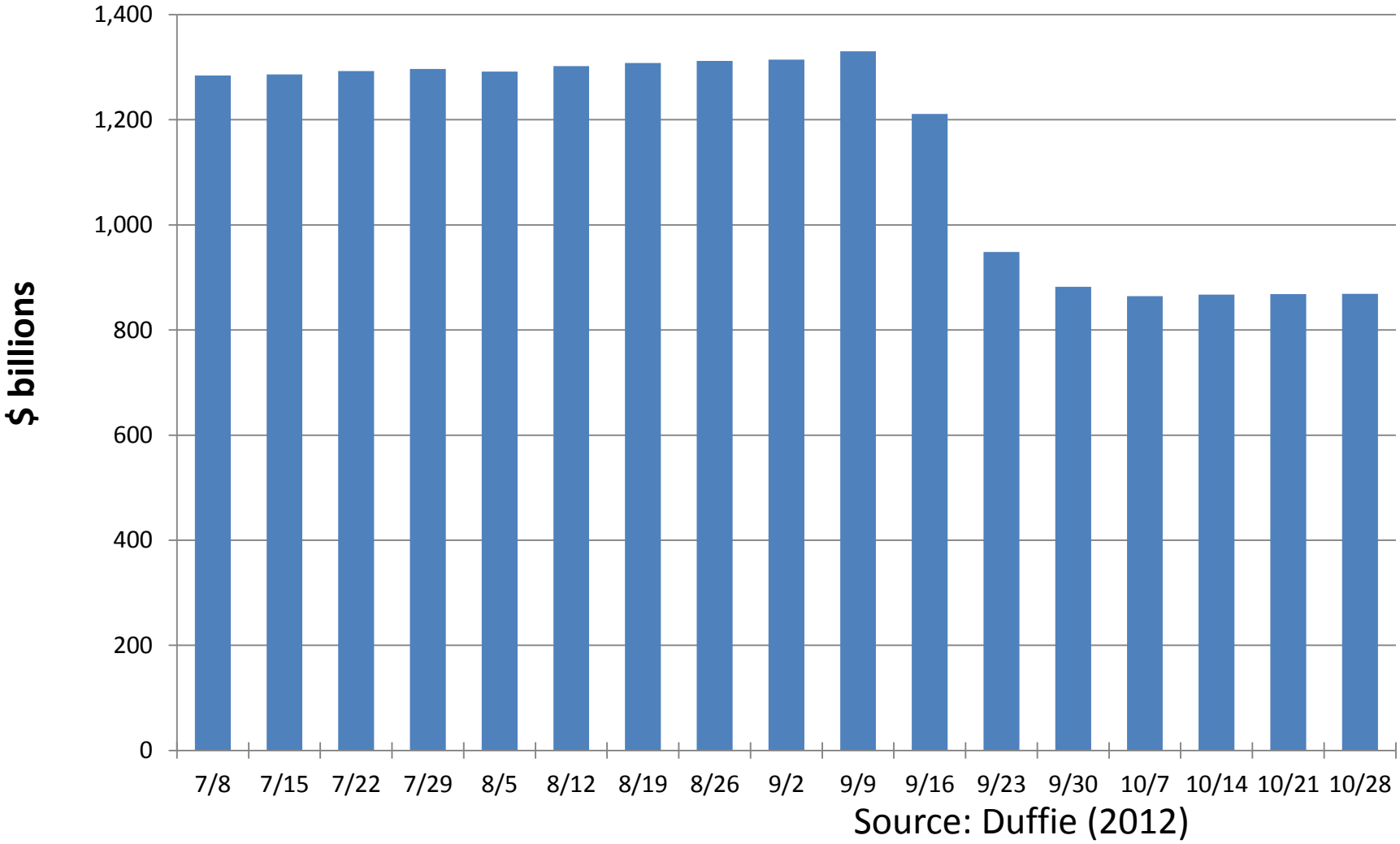
Bear Stearns' Liquidity Pool Over its Last Days ($ billions)



Data Source: Cox (2008)

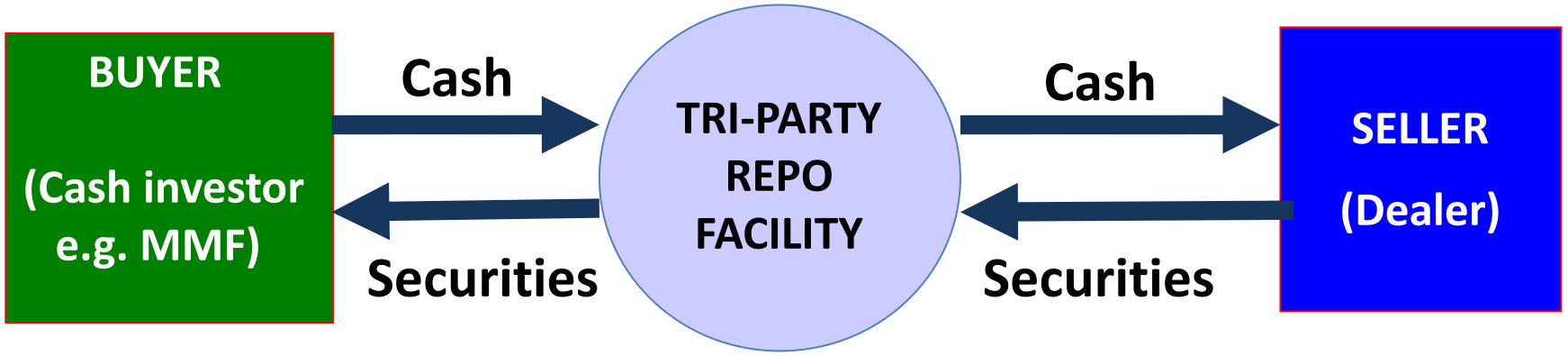
September 2008 Run on Money Market Funds

Institutional investment in prime money market mutual funds

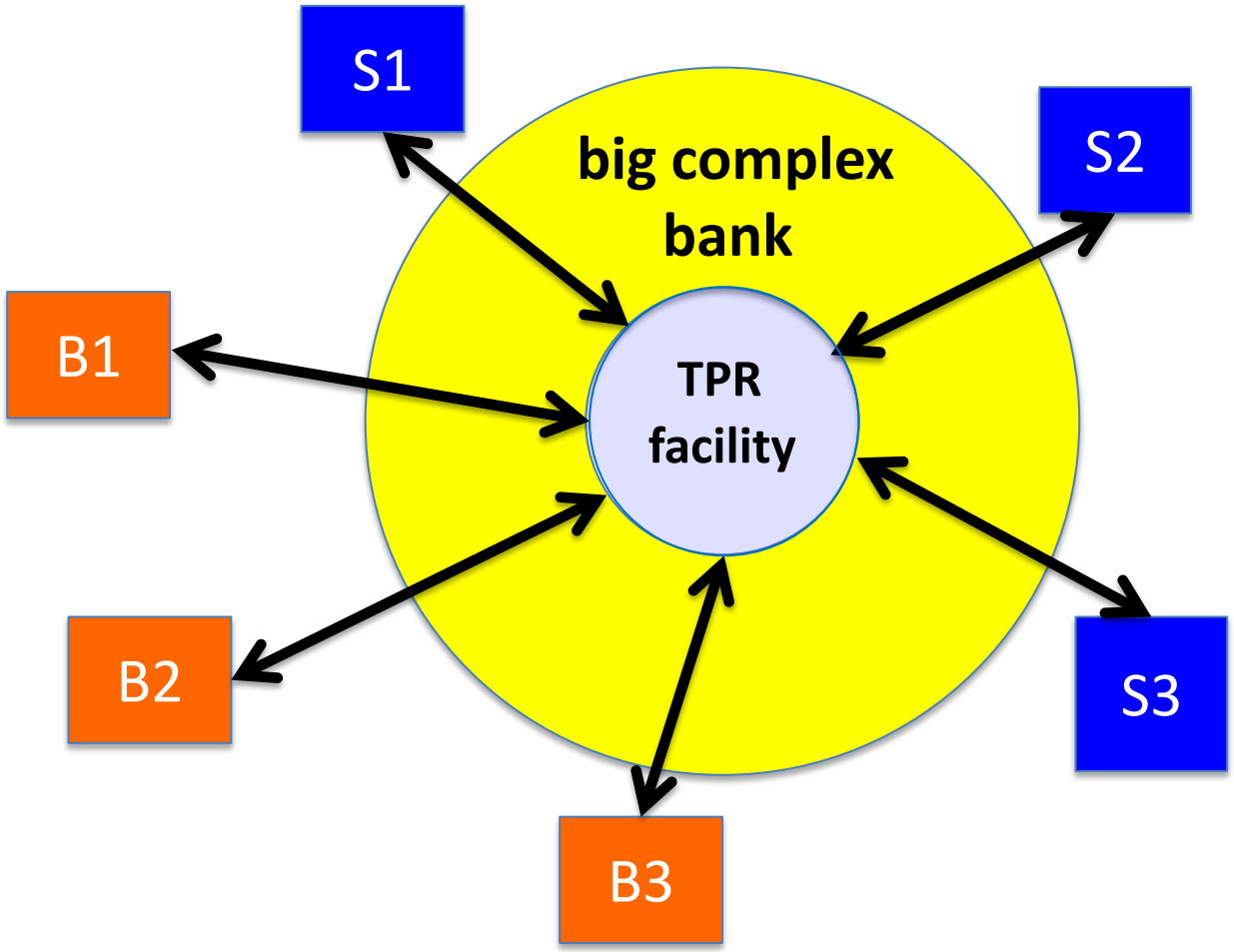


Source: Duffie (2012)

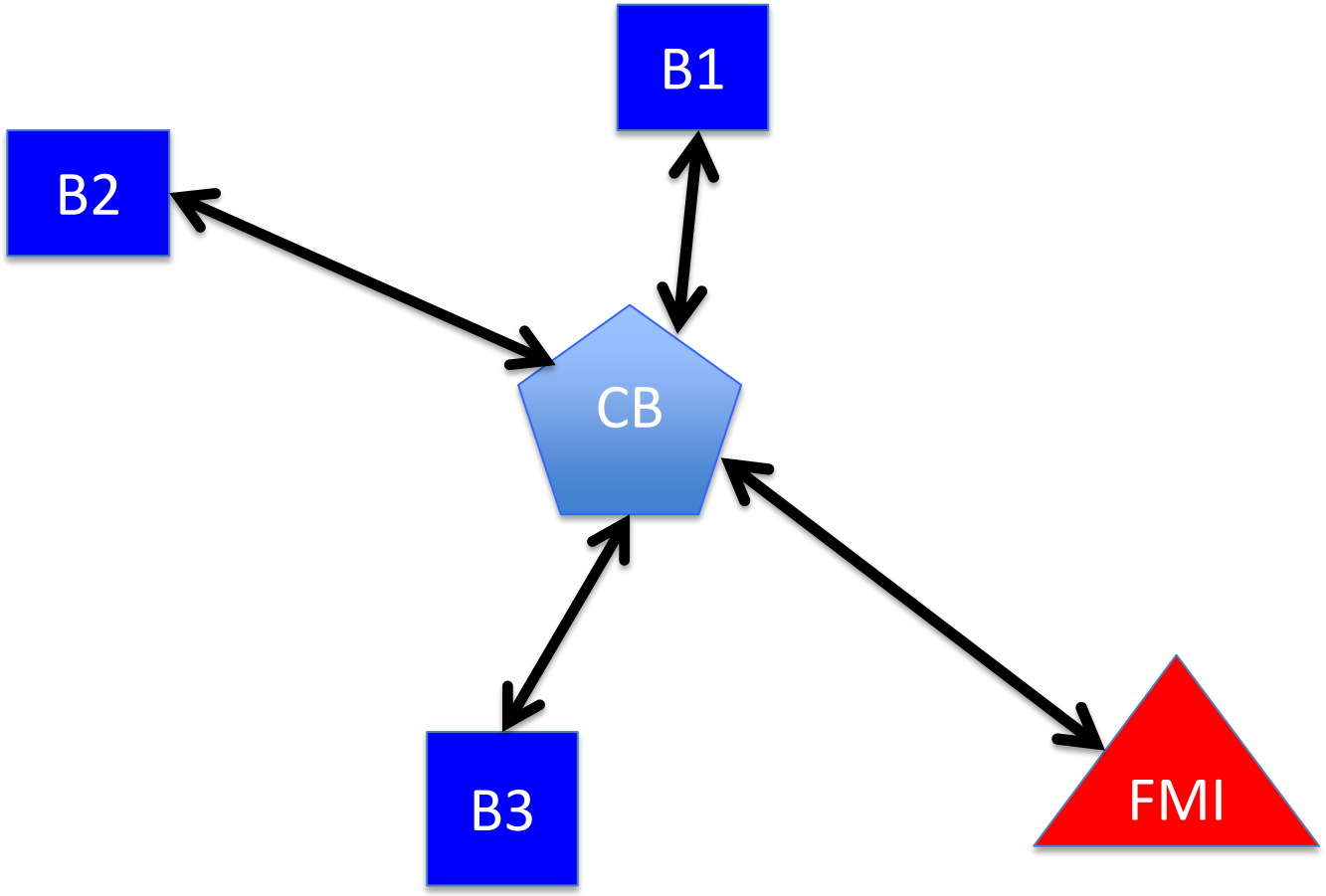
Tri-Party Repo



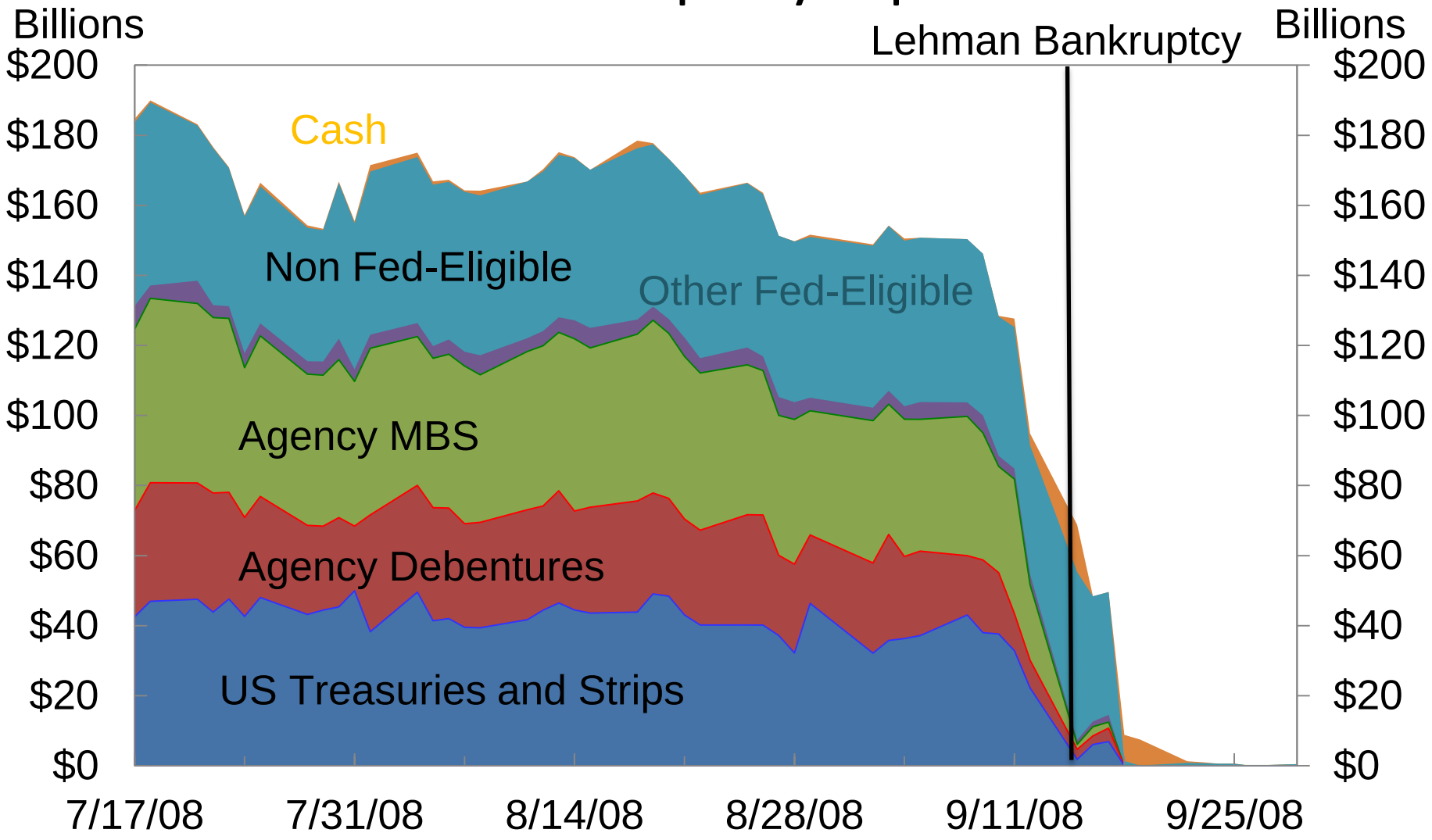
Tri-party Repo Infrastructure



Liquidity to Financial Market Infrastructure

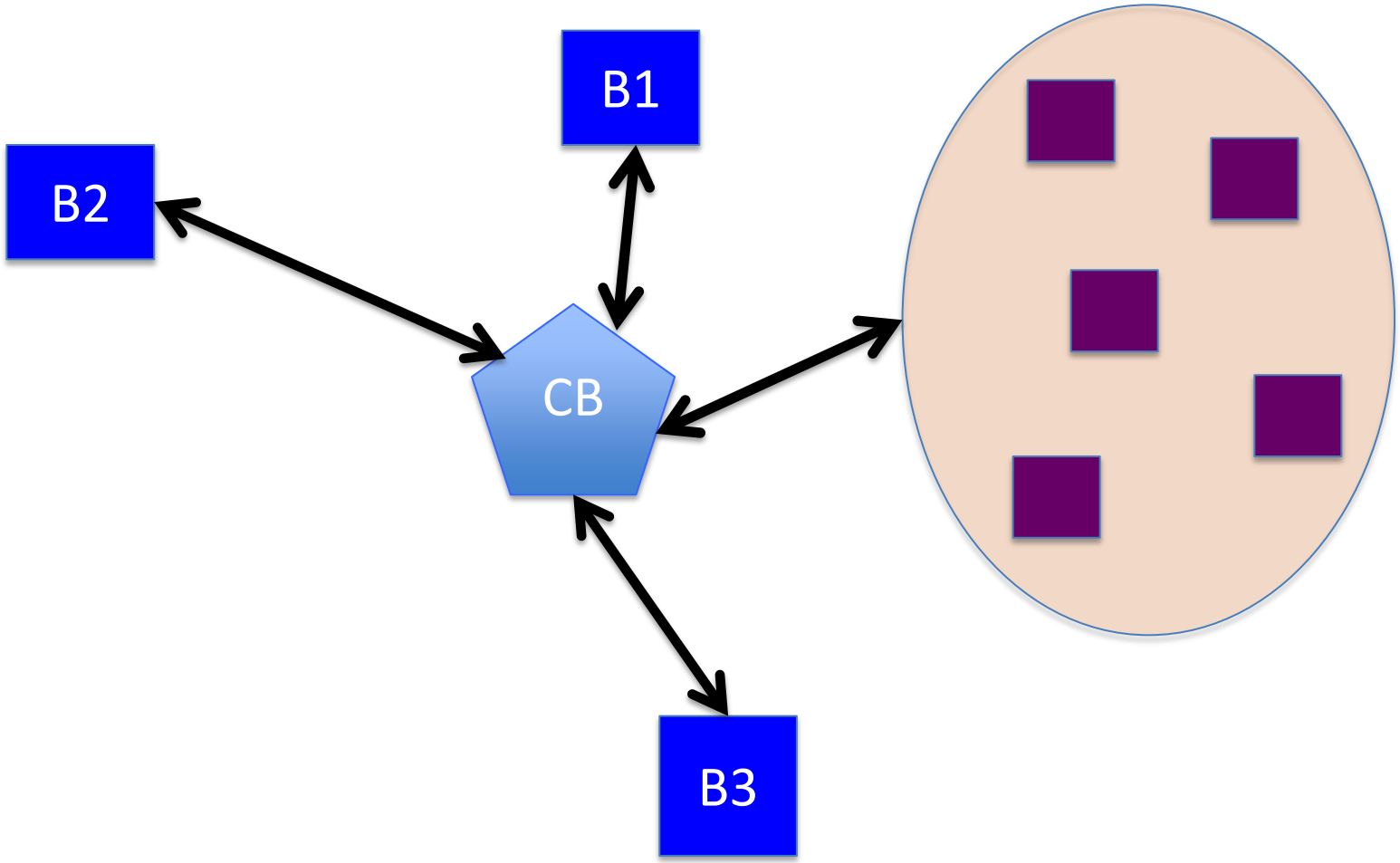


Lehman's tri-party repo book

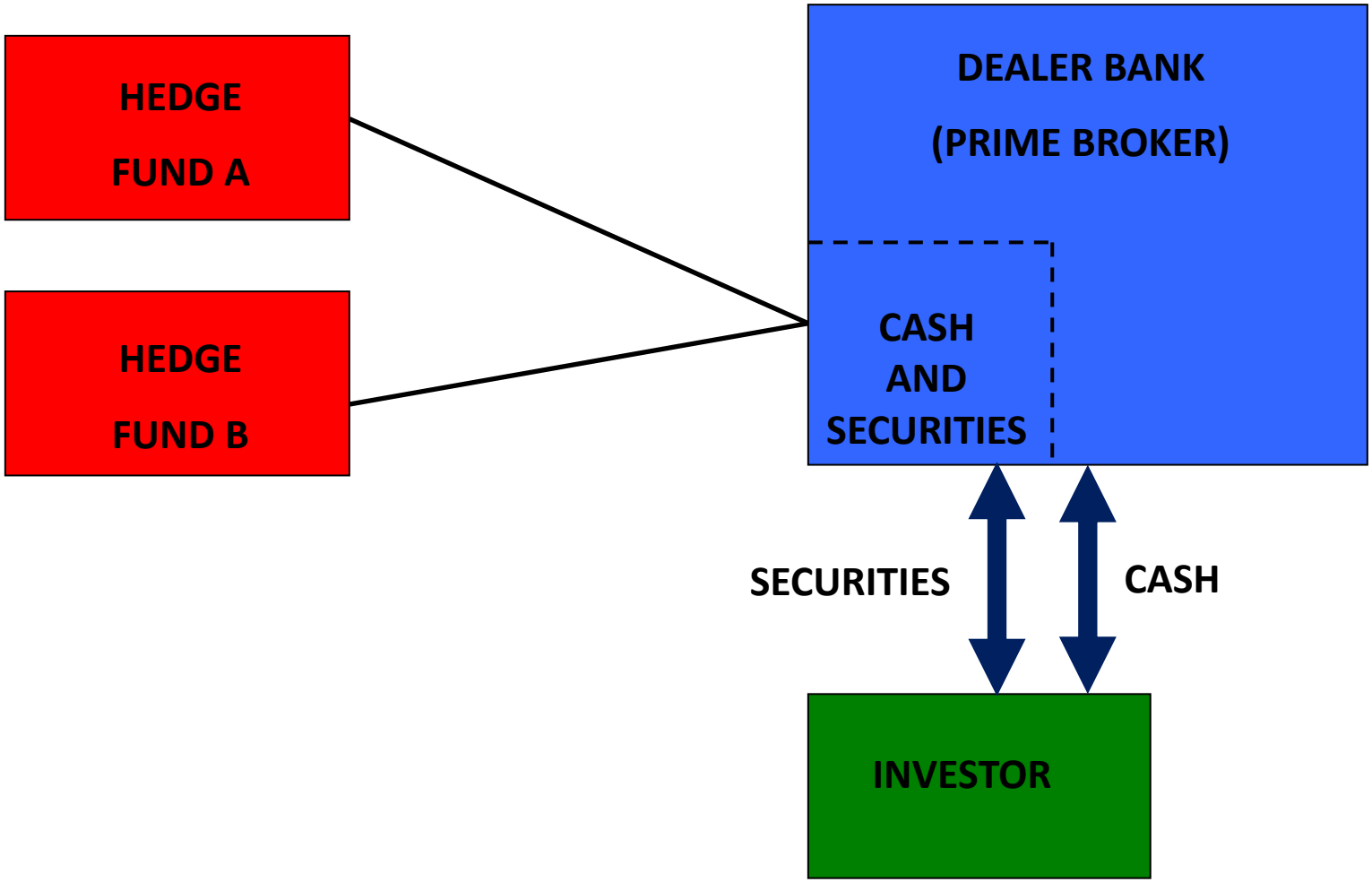


Source: Copeland, Martin, Walker (2011) FRBNY

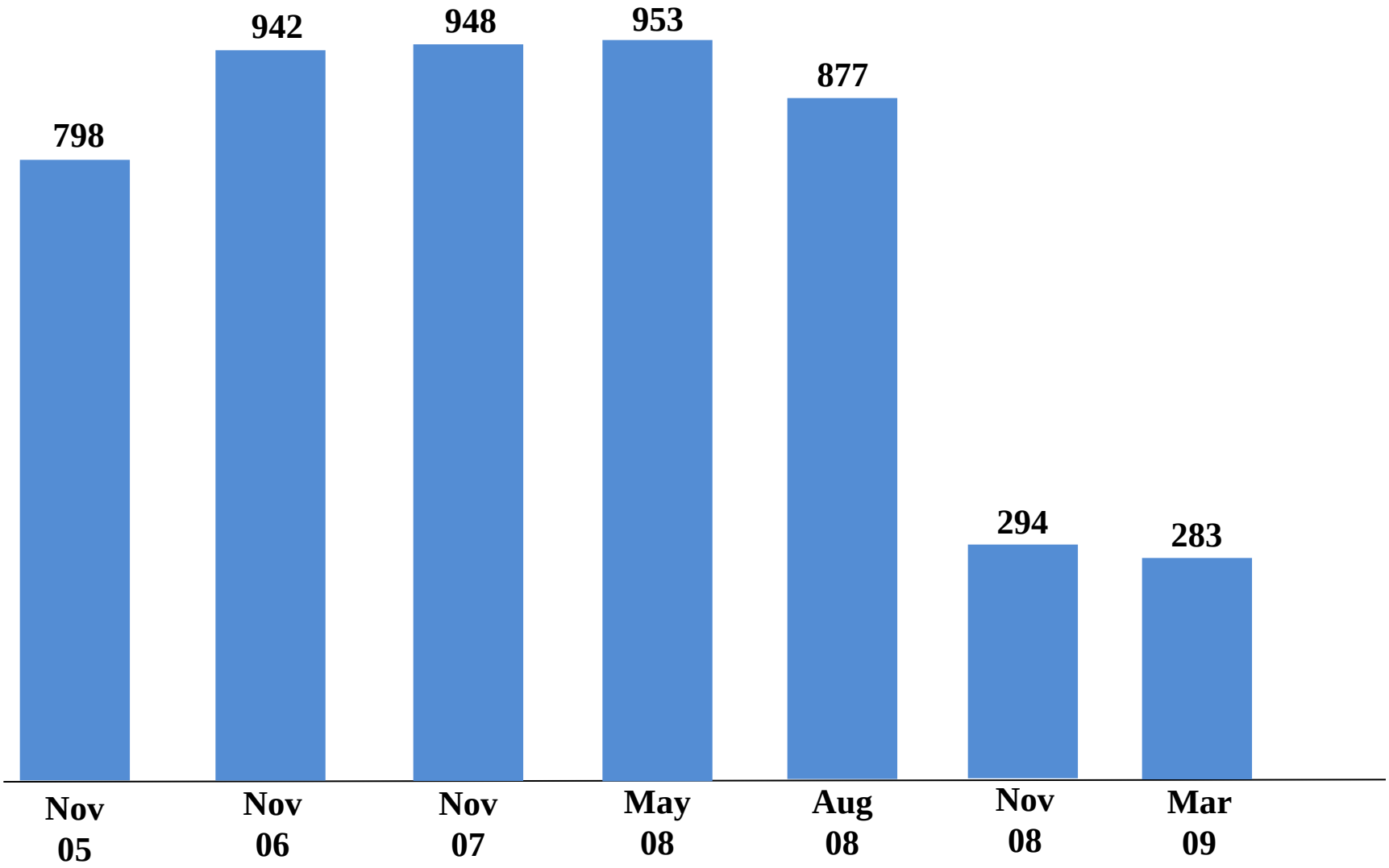
Broad Programmatic Emergency Lending



Prime-Brokerage

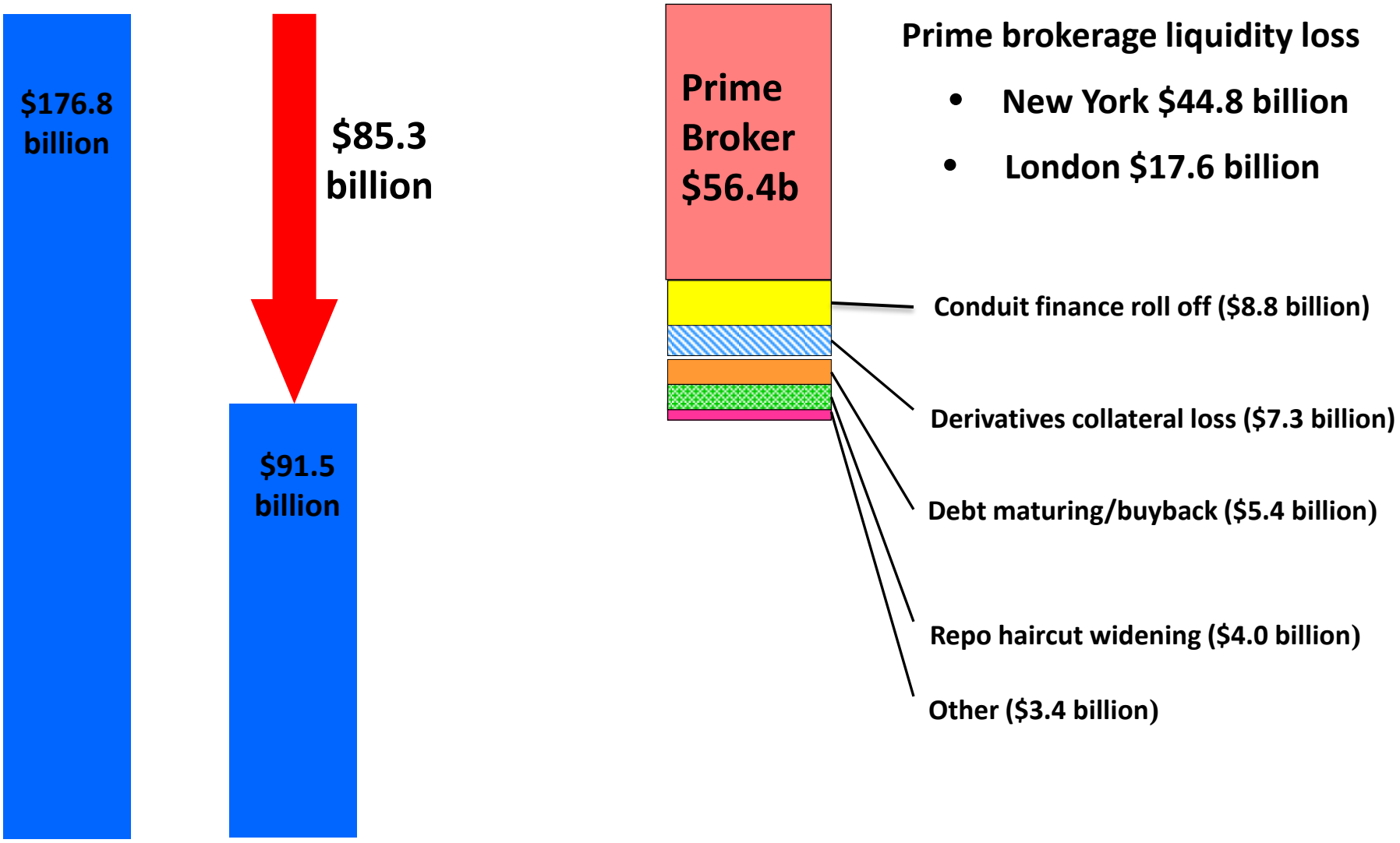


Morgan Stanley collateral received that can be pledged ($ billions)



Data Source: Singh (2009)

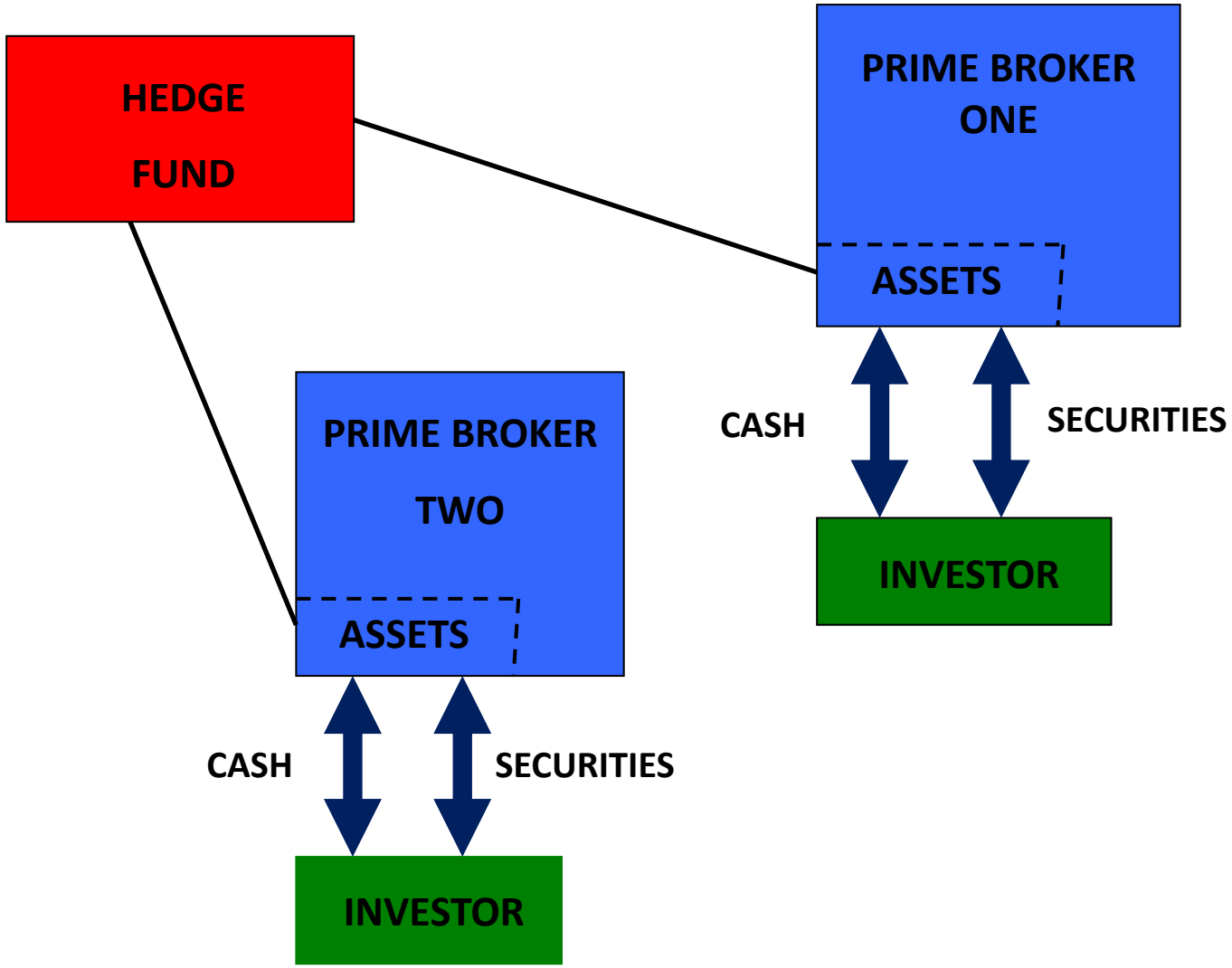
Morgan Stanley's Liquidity Loss Sept. 12-22, 2008



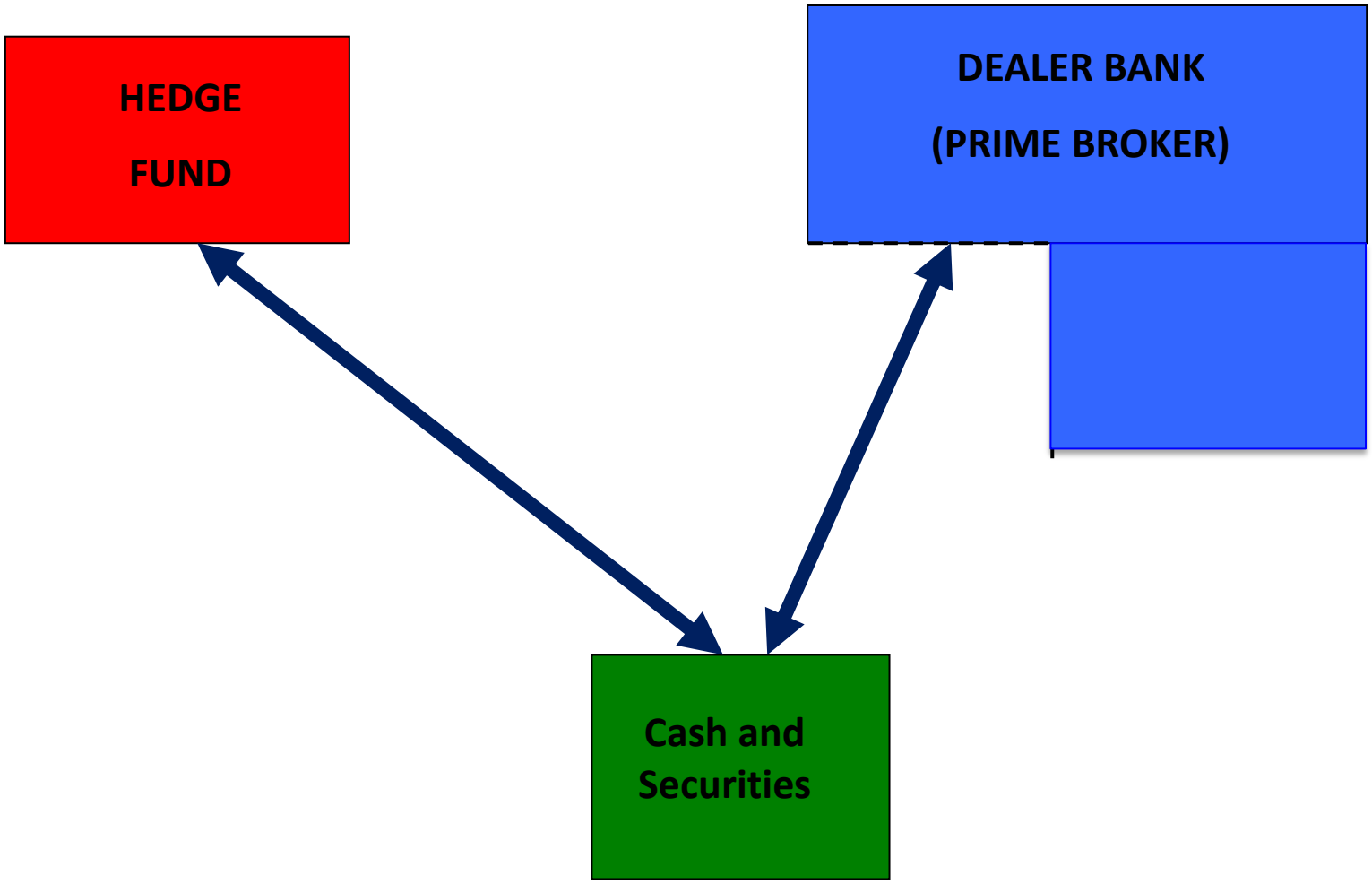
Duffie (2011)

Data source: Morgan Stanley-FRBNY FCIC disclosure

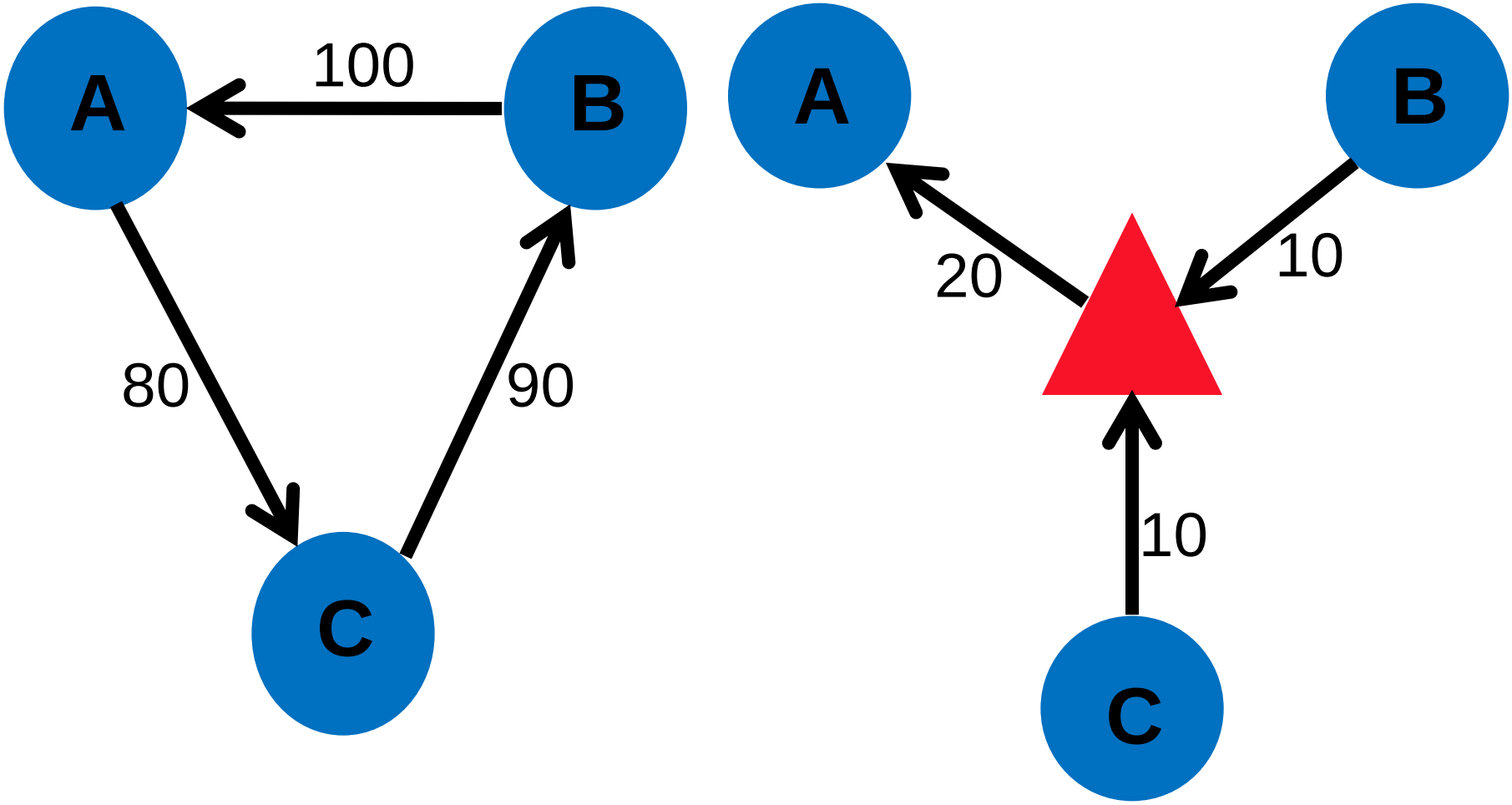
Multiple prime brokers



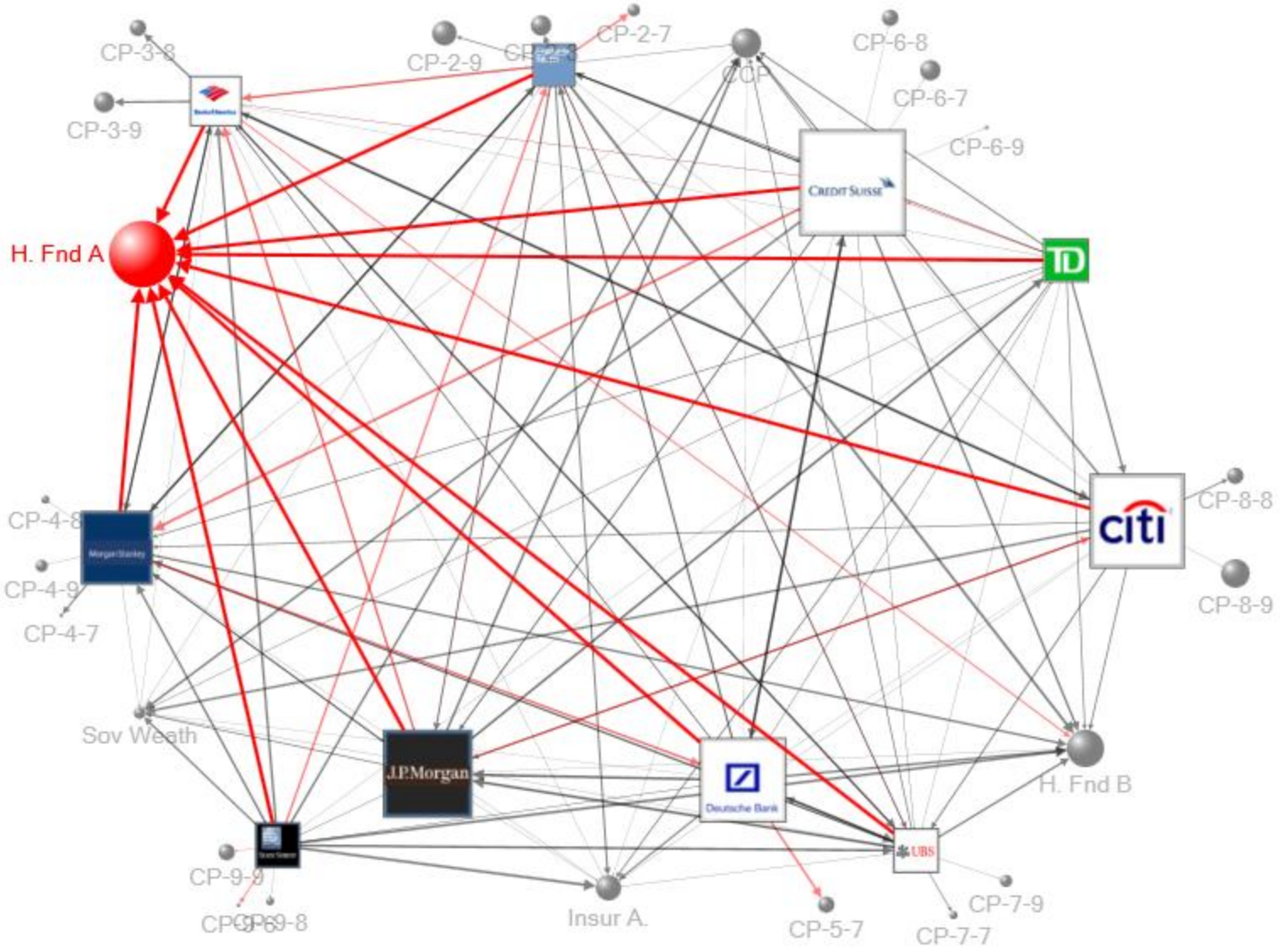
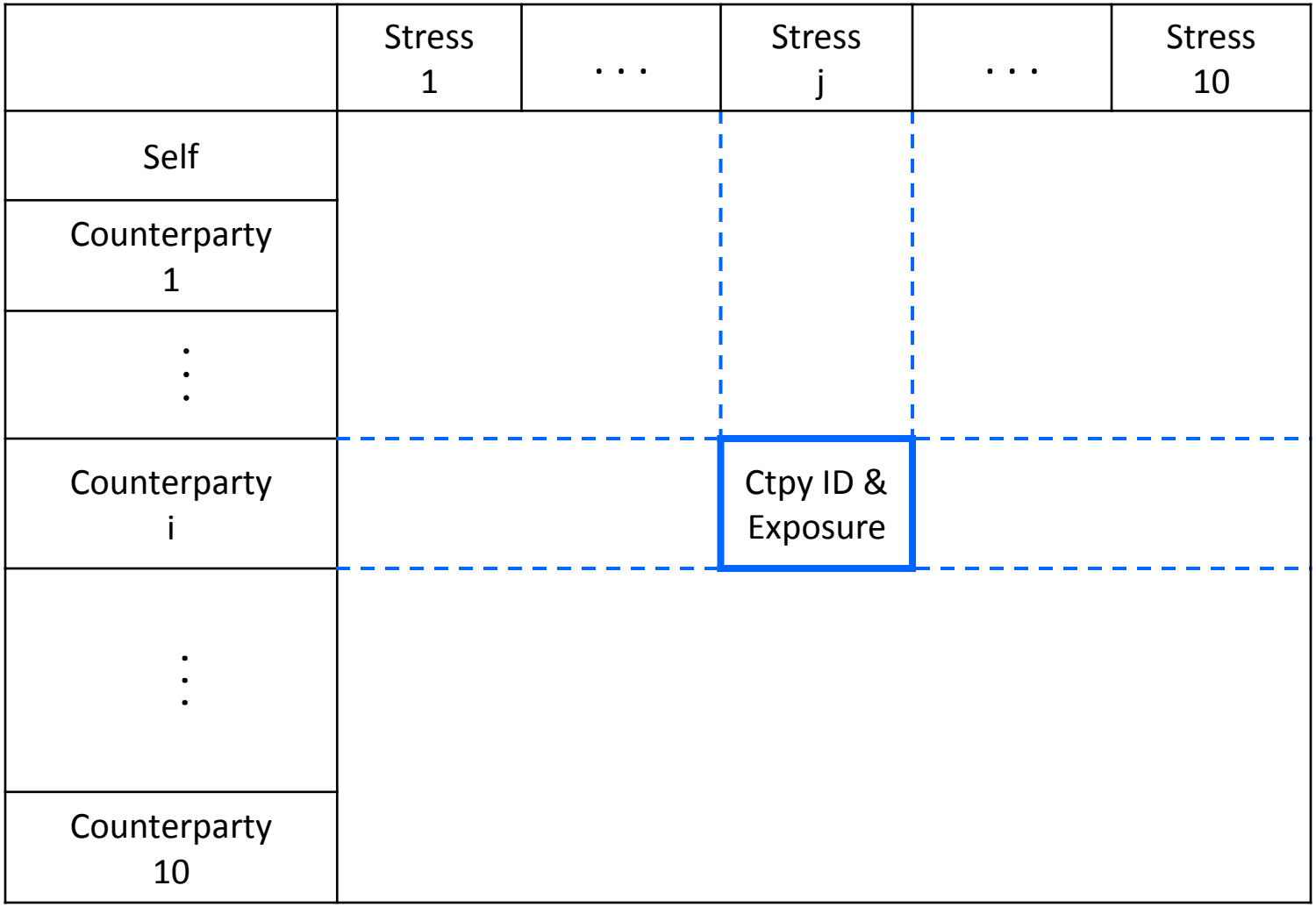
Prime-Brokerage Custodian



Central Clearing of Derivatives



10-by-10-by-10 Network Risk Monitoring



A Bank's 10-by-10-by-10 Submission