

# *SHADOW BANKING AND THE UK'S FPC*

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# WORDS vs. ACTIONS

- MORE TALK ABOUT SHADOW BANKING THAN ACTION
- POINT OF FPC WAS TO BREAK OUT OF PRE-GFC TRAP OF ANALYSIS WITHOUT ACTION, BECAUSE NO POWERS
- GIVEN NEAR PANIC ABOUT SB EVIDENT IN SPEECHES AFTER SPRING 2020, IMPLAUSIBLE POLICYMAKERS JUDGED THERE WERE NO SERIOUS VULNERABILITIES
- IMPLIES FPC INCENTIVES ARE SOMEHOW BLUNTED

# MISSED OPPORTUNITIES:DYNAMIC POLICY

- WITH MACRO RECOVERY FOR YEARS OVERLY RELIANT ON MONETARY EXPANSION, STABILITY POLICY MAKERS COULD AND SHOULD HAVE ACTED TO CONSTRAIN LEVERAGE IN TRADING AND OTHER MARKETS
- MEASURE: SHD HAVE RAISED MINIMUM REQUIREMENTS FOR MARGINS AND COLLATERAL HAIRCUTS
- NOT AWARE OF THAT BEING DISCUSSED IN PUBLISHED MINUTES OF FRB, FPC, ESRB.

# FRAMEWORK FOR STATIC POLICY REGIME

- IMMEDIATELY AFTER GFC, EXPEDIENT FOR POLICY TO FOCUS ON SPECIFIC SHADOW BANKING VULNERABILITIES, EG MONEY FUNDS
- BUT NOT A VIABLE LONGER-RUN STRATEGY BECAUSE BY THE TIME SOME VARIANT OF SB IS BIG ENOUGH TO BE A TANGIBLE THREAT TO STABILITY, IT IS ALSO BIG ENOUGH TO HAVE LOBBYING POWER TO IMPEDE POLICY INITIATIVES... LO & BEHOLD
- NEED A GENERAL POLICY. PROBLEM HAS BEEN FINDING AN ANALYTICAL GROUNDING FOR A PRACTICABLE REGIME (OLD TARULLO, TUCKER SPEECHES)

# A “SAFE ASSETS” REGIME

- DEPLOY HOLMSTROM/GORTON CONCEPT OF INFORMATION INSENSITIVITY
- EVERYONE ISSUING INSTRUMENTS WIDELY TREATED AS SAFE HAVE TO HAVE 100% LIQUIDITY REINSURANCE FROM CENTRAL BANK(S)
- BAR ON ANYONE ELSE PRESENTING THEMSELVES AS SAFE (EG ALGORITHMIC STABLE COINS)
- HAIRCUT POLICY BECOMES KEY INSTRUMENT: THE COST OF OFFERING SAFETY
- DYNAMIC POLICY NO LONGER AD HOC, BUT REFLECTS WHAT IS JUDGED NECESSARY TO DELIVER T-BILL LIKE SAFETY IN PREVAILING CONDITIONS