

ECB Money Market Contact Group – Q4 2023

Agenda item B: The role of non-banks in money markets including non-banks' investment and funding strategies in money markets currently and going forward.

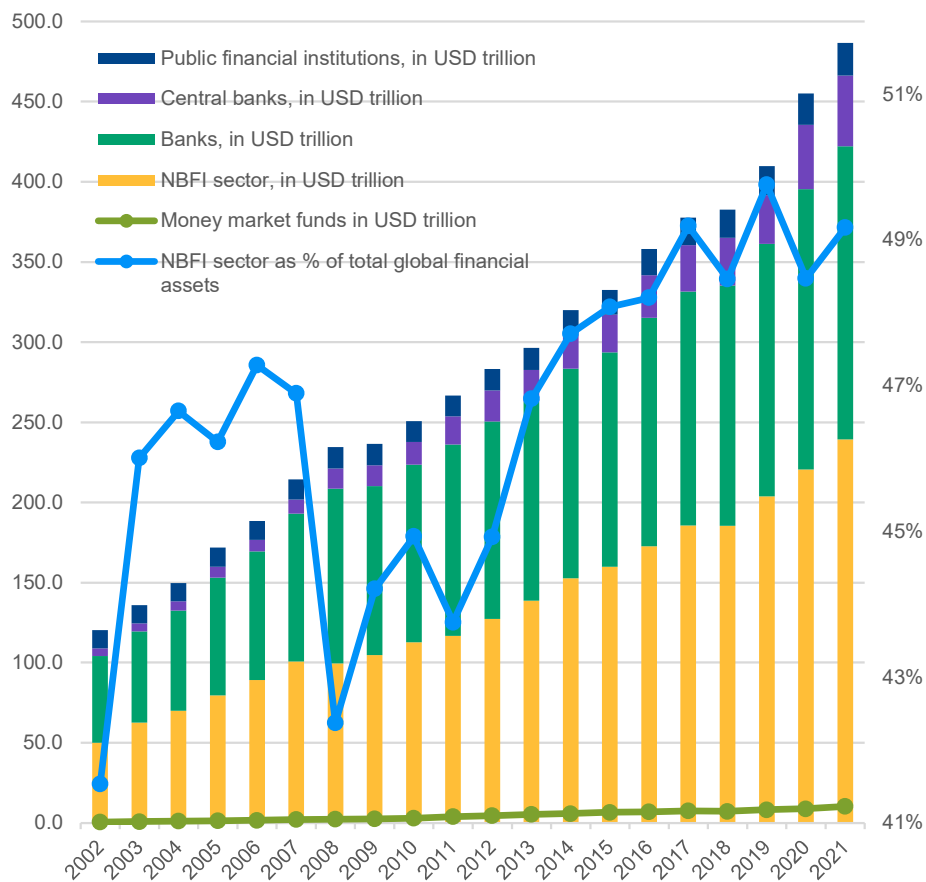
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**Money Market Portfolio
Manager**

5th December 2023

FSB Global Monitoring report – NBFIs have grown as a proportion of global assets

Total Global Financial Assets (in USD trillions)



Sources: Jurisdictions' 2022 submissions (national sector balance sheet and other data) and 2021 submission for Russia; FSB calculations.

NBFI sector 'Narrow Measure' includes entities that may pose bank-like financial stability risks.

Narrowing down to the narrow measure¹



Monitoring aggregates

The following monitoring aggregates are referenced throughout this report:

- (i) The **NBFI sector** is a broad measure of all non-bank financial entities, composed of all financial institutions that are not central banks, banks or public financial institutions.
- (ii) **Other financial intermediaries (OFIs)** are a subset of the NBFI sector, composed of all financial institutions that are not central banks, banks, public financial institutions, insurance corporations (ICs), pension funds (PFs), or financial auxiliaries. OFIs include money market funds (MMFs), hedge funds (HFs), other investment funds (OIFs), captive financial institutions and money lenders, central counterparties (CCPs), broker-dealers (BDs), finance companies (FinCos), trust companies (TCs), and structured finance vehicles (SFVs).
- (iii) The **narrow measure of NBFI** is composed of NBFI entities that authorities have assessed as being involved in credit intermediation activities that may pose bank-like financial stability risks (i.e. credit intermediation that involves maturity/liquidity transformation, leverage or imperfect credit risk transfer) and/or regulatory arbitrage, according to the methodology and classification guidance used in the FSB's annual NBFI monitoring exercise.

¹ Total financial assets, NBFI and OFIs include participating jurisdictions and all of the euro area countries, whereas the narrow measure includes only participating jurisdictions. The semi-dashed area in the LHS graph showing the narrow measure represents assets that were not from OFIs and that correspond to ICs included in EF4 and to other financial auxiliaries unallocated to the five economic functions. This graph does not include data for Russia.

Sources: Jurisdictions' 2022 submissions (national sector balance sheet and other data) and 2021 submission for Russia; FSB calculations.

The Narrow Measure of NBFIs includes five Economic Functions (EF)

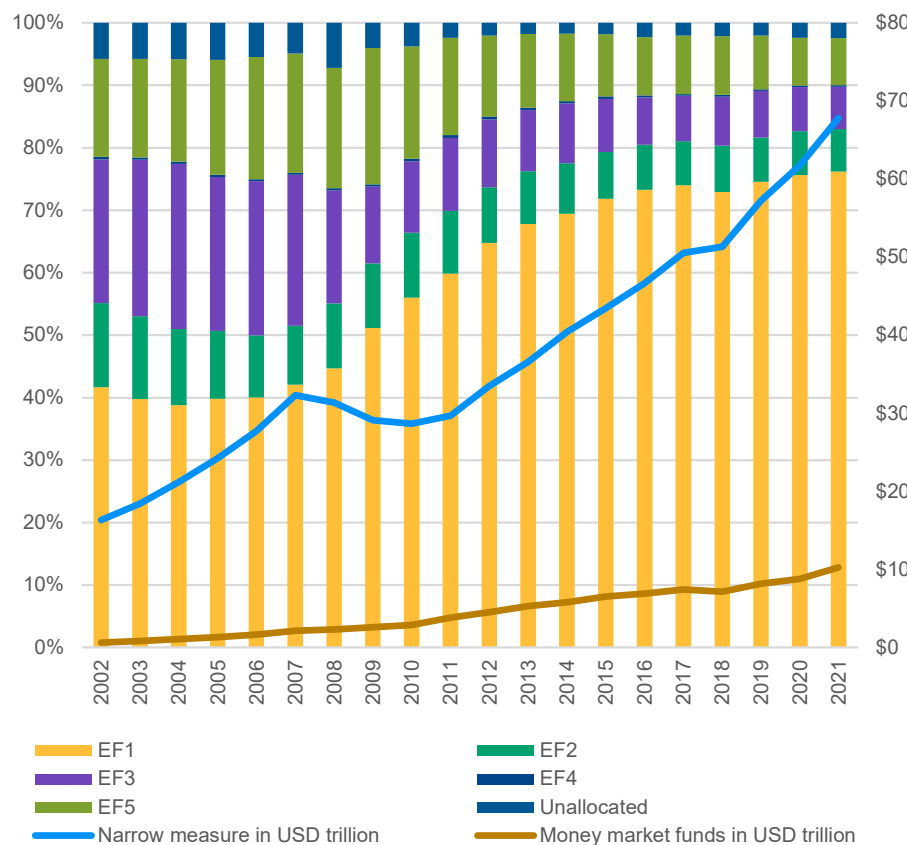
NBFI sector ‘Narrow Measure’ includes entities that may pose bank-like financial stability risks.

- EF1: collective investment vehicles that engage in maturity/liquidity transformation or employ leverage and become susceptible to liquidity pressures because of heightened investor redemption requests or margin call dynamics e.g. Money Market Funds, fixed income funds, mixed funds, credit Hedge Funds, REITs
- EF2: Certain types of entities engaged in loan provision dependent on short term funding e.g. FinCos, leasing/factoring companies, consumer credit companies
- EF3: Entities engaged in intermediation of market activities typically dependent on short-term funding or on secured funding of client assets e.g. Broker Dealers, custodial accounts, securities finance companies
- EF4: Facilitation of credit creation e.g. Credit insurance companies, financial guarantors, monoline insurers
- EF5: Securitisation-based credit intermediation and funding of financial entities e.g. Securitisation vehicles, SFVs, asset backed securities

Source: Financial Stability Board (FSB) – “Global Monitoring Report on Non-Bank Financial Intermediation: 2022”

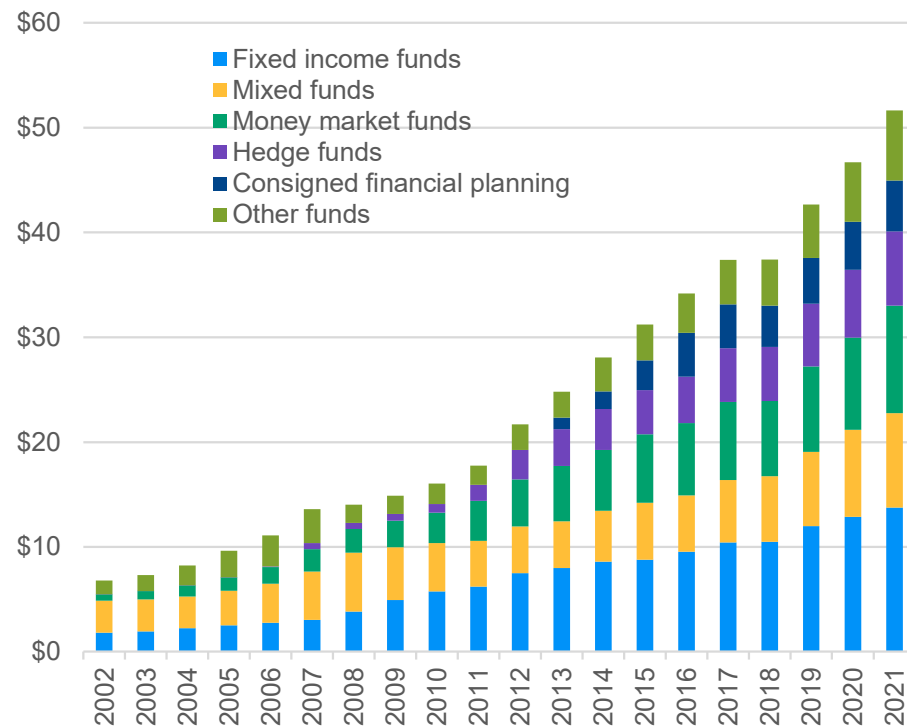
NBFIs EF1 are the largest share of the Narrow Measure

NBFI Narrow measure: Economic Function % share



Sources: Jurisdictions' 2022 submissions (national sector balance sheet and other data) and 2021 submission for Russia; FSB calculations.

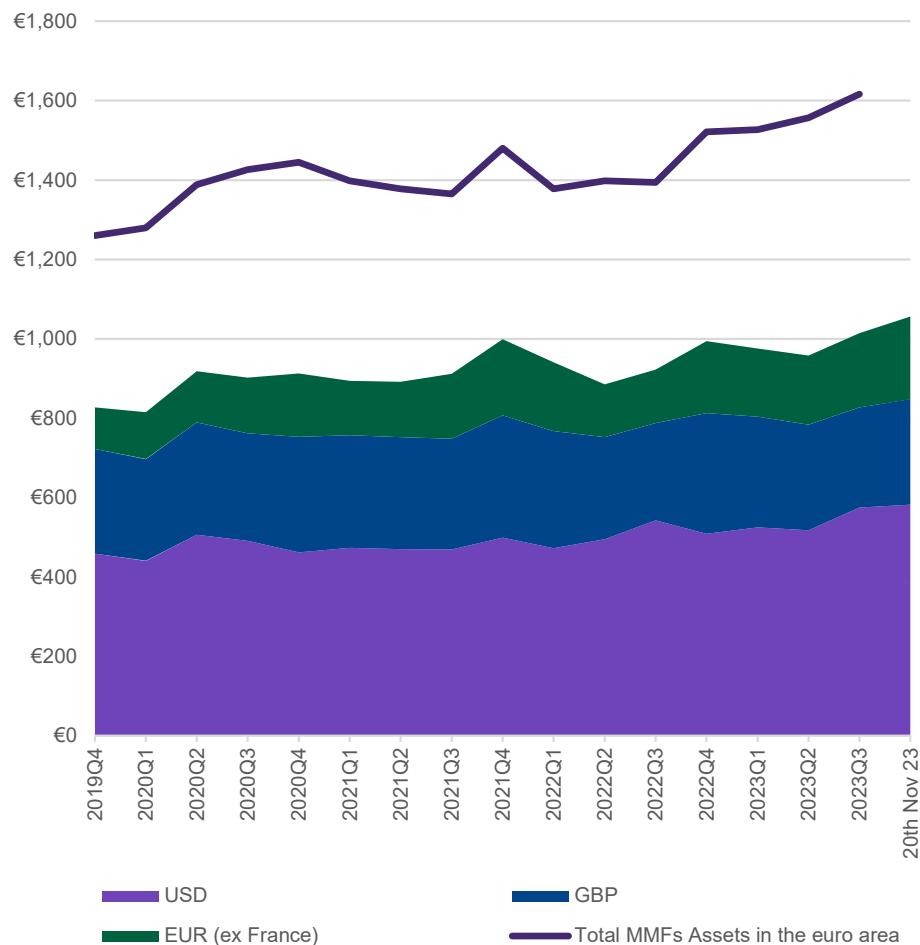
Economic Function 1 by entity type



Sources: Jurisdictions' 2022 submissions (national sector balance sheet and other data) and 2021 submission for Russia; FSB calculations.

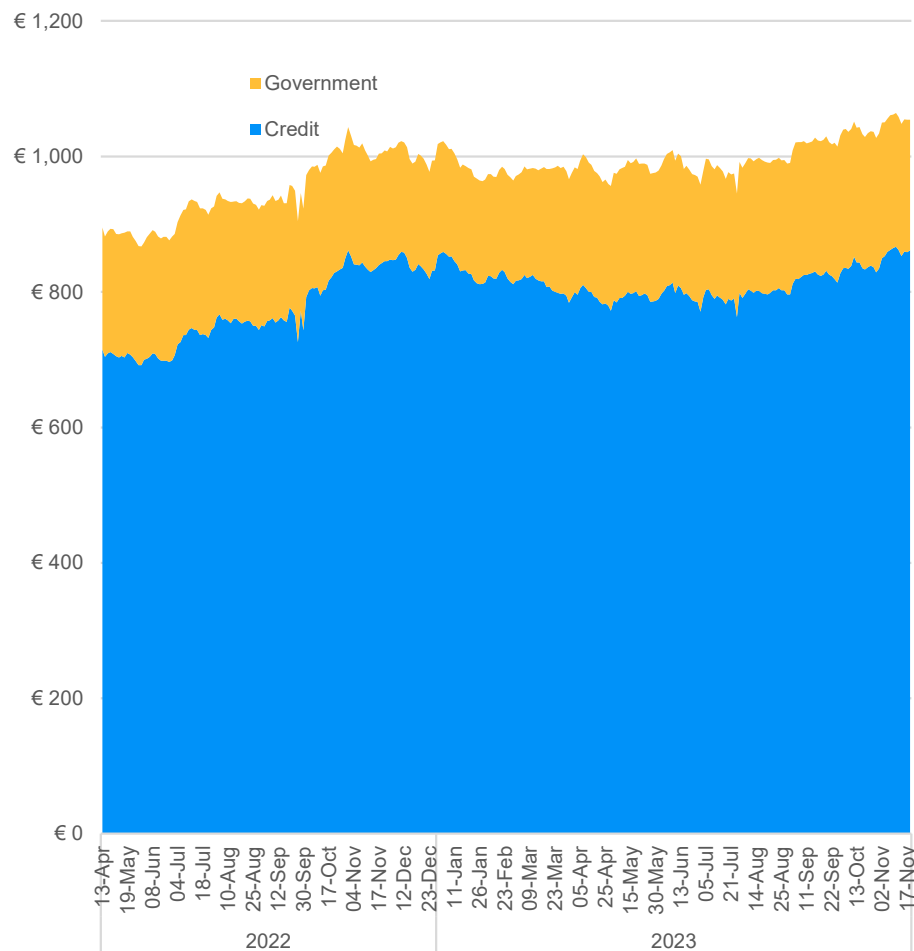
Focus on MMFs – \$10.3trillion MMFs globally in 2021, ~16.3% EMEA domiciled*

EMEA - Total Money Market Funds AUM (billions)



Source : European Central Bank, iMoneyNet, J.P. Morgan Asset Management as at 20th Nov 2023

MMF (ex France) Investment type breakdown (billions)

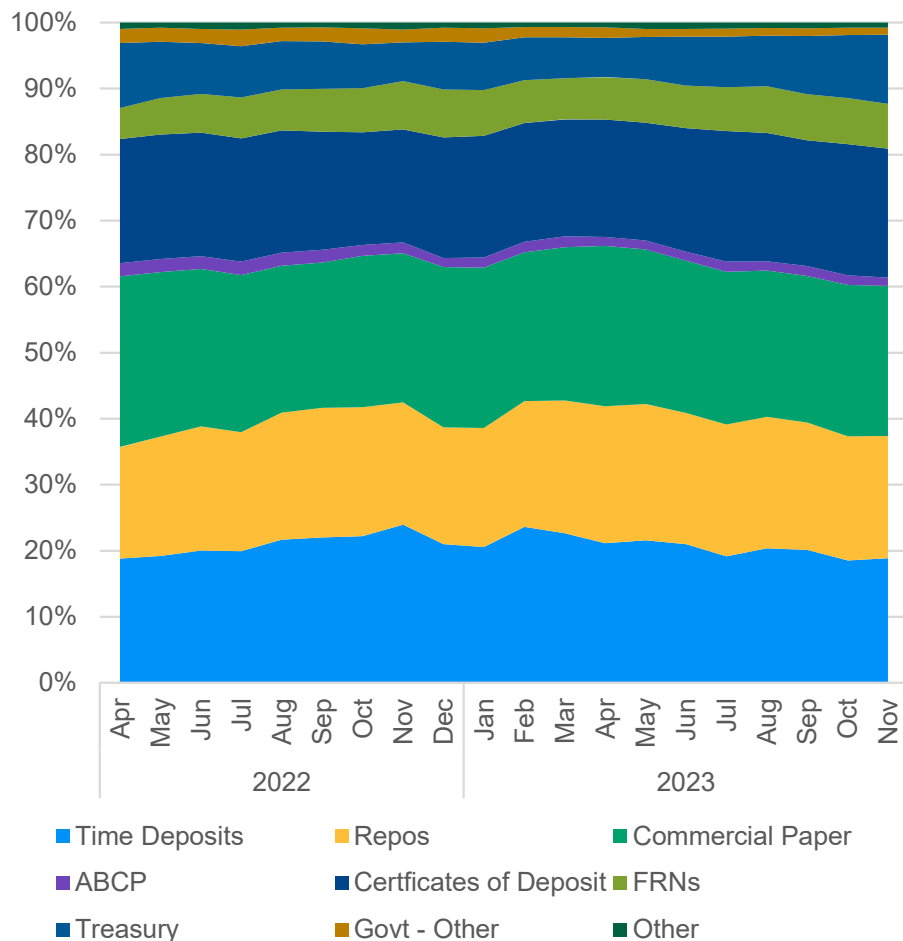


Source : iMoneyNet, J.P. Morgan Asset Management as at 20th Nov 2023

* Exchange rate used to convert \$10.3trillion MMF AUM to euros was 1.137 EURUSD as at 31st December 2021 sourced from Bloomberg. 16.3% is calculated using €1.48trillion of EMEA MMFs in Q4 2021

Focus on MMFs – Almost 40% in short dated deposits and repo

Investment breakdown of EMEA MMFs (ex France)



Source : iMoneyNet, J.P. Morgan Asset Management as at 20th Nov 2023

Predicted impacts on investment mix

Demand

- Client flows
- Falling rate environment
- Credit cycle and credit spreads
- Supply of t-bills e.g. US domiciled funds RRP usage
- Changes to minimum daily and weekly liquid asset thresholds

Supply

- Period ends
- Minimum Reserve Requirement for banks
- Remuneration of central bank deposits
- Changing capital requirements e.g. Basel 3.5/4
- Quantitative Tightening

*

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