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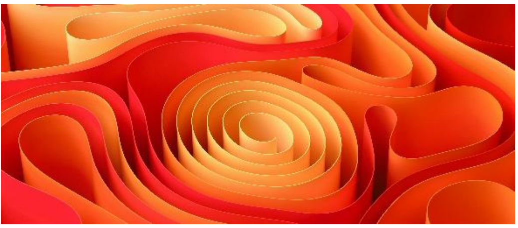

TOPICS:
Banking Systems

SOURCE
Bank for International Settlements

BIS Shares Report on Interconnections Between Banks and Non-bank Financial Intermediaries

- This BIS report analyzes **the growing interconnections between banks and non-bank financial intermediaries (NBFIs)**, with an emphasis on the implications for financial stability. Over the past decade, NBFIs have expanded significantly, **now accounting for nearly half of global financial assets**.
- Key areas of interconnection include **banks' funding** of NBFIs **via loans and credit lines, banks' dependence** on NBFIs **for wholesale funding**, and **banks' exposures** to NBFIs **through derivatives and securities financing**. These relationships have increased in scale and sophistication, creating both direct and indirect risk channels. For example, margin calls on derivatives or liquidity shocks in investment funds can transmit stress to banks via abrupt shifts in funding or asset prices.
- A notable concern is the **procyclicality of these linkages**, which can amplify market stress. During periods of market turbulence - such as the March 2020 COVID-19 market turmoil - banks were both stabilizers (e.g., absorbing liquidity needs) and amplifiers (e.g., through fire sales or credit retrenchment). The report emphasizes that banks' risk management practices, while more robust post-GFC, still face **challenges in modeling and containing contagion risks** from NBFIs.
- The BIS recommends **enhancing transparency** around NBFI exposures, **improving stress-testing** frameworks to capture intersectoral risk, and **considering macroprudential tools** tailored to the bank-NBFI ecosystem. It also stresses the importance of **regulatory cooperation and data-sharing** between banking and securities regulators, given the global and cross-sector nature of these linkages.