

GLOBAL FINANCIAL SERVICES



The Role of Non-Banks in Money Markets – Bank Perspective

Money Market Contact Group – European Central Bank

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NBFIs as Liquidity Providers to Banks

- NBFI sector now accounts for 50% of world financial assets, helped by tighter bank regulation.
- Investment funds, of which Money Market Funds, are key liquidity providers to the banking sector.
- This is particularly true in France where, historically, banks used to push their client's liquidity to their asset management space, transforming a balance sheet business in a fee business.
- · Main products :



Importance of NBFIs in Banks Funding

Example of Simplified Bank Balance Sheet

| Assets | Liabilities |
|------------------|-------------------------------|
| Reserves | Short Term Issuances |
| Securities | Medium/Long Term Issuances |
| CIB Loans | Wholesale NFC deposits |
| Commercial loans | Commercial bank deposits |
| | Capital |

NBFIs are the main buyers of bank's issuances, well ahead of financial institutions and public sector, especially on medium/long term issuances.

NBFIs provide 14% of euro area banks liabilities and hold 28% their debt securities (source ECB).

Funding from Money Market Funds is mainly used to comply with regulatory liquidity ratios and create excess reserves.

Higher interest rates and credit spreads allowed banks to prefund TLTRO repayments.

Large Banks Follow the Liquidity

The US market looks more reactive to higher interest rates



Large Banks Follow the Liquidity

Not always to the benefit of banks



A More Balanced Relation

- During Basel III liquidity ratios phase-in period, the relation tended to be in favor of NBFIs with most banks trying to catch term funding.
- Since the implementation of the leverage ratio on banks and the need for higher liquidity buffers (MMF Reform) the relation looks more balanced, as MMFs need to place short dates, not desired by banks.
- Development of repo and more request for deposits in addition to securities.
- Banks offer to buy back close maturities to issue longer term and optimize balance sheet size.
- Investors cannot always rely on dealers to buy back when they need liquidity -> banks should consider a minimum capacity to buy back their own issuances.

Litterature

- Key linkages between banks and the non-bank financial sector ECB, May 2023 https://www.ecb.europa.eu/pub/financial-stability/fsr/special/html/ecb.fsrart202305_02~1ff06bc324.en.html
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- Holistic Review of the March Market Turmoil FSB, November 2020 https://www.fsb.org/2020/11/holistic-review-of-the-march-market-turmoil/

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