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Leiden
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Collateral transactions and shadow banking

Spence, R.

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Propositions relating to the dissertation

Collateral Transactions and Shadow Banking

by Ross Spence

- 1 The term 'shadow banking' can be described as a sector that provides an alternative source of funding to that offered by the traditional banking sector, but without being subject to prudential regulation. (Chapter 1; Chapter 2, sections 2.2 and 3.2.1.3; Chapter 5, section 3.2.1.2; Chapter 6, section 2.1.2; and, Chapter 8, section 4.3).
2. Since the 2007/2008 Global Financial Crisis, collateral transactions conducted within the shadow banking sector have become a key source of funding for market participants within the EU. (Chapter 2, sections 1 and 3.5).
3. Financial collateral is principally in place to hedge risk in relation to securing the transaction. However, financial collateral is also a key driver for financial instability given that financial collateral is a marketable security and subject to volatile price movements. (Chapter 2, section 5; and, Chapter 8, section 1).
4. Rising margin levels is a systemic indicator and generally a precursor to crises. (Chapter 1, section 1.5; Chapter 6, sections 1 and 4.2.1; and, Chapter 8, section 5.3).
5. Regulation within the shadow banking sector has, to date, been piecemeal at best.
6. Leverage, which amplifies financial booms and busts, has been at the heart of many past financial crises. Margin regulation has the ability to limit leverage and dampen such procyclicality.
7. International private law by way of industry standard master agreements function as a *lex mercatoria* providing market participants with a degree of efficiency, predictability and legal certainty with respect to legal and commercial aspects of collateral transactions.
8. We need stable financial markets in order not to suffer the fatal consequences of a new financial crisis. Financial market regulation is central to this.
9. The legislature and judiciary of the EU should play a more active role in preventing market failures.
10. Taking holidays are crucial for a PhD candidate.