

**Abstract**

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Shadow Banking

[Zoltan Pozsar](#)

Federal Reserve Banks - Federal Reserve Bank of New York

[Tobias Adrian](#)

Federal Reserve Bank of New York

[Adam B. Ashcraft](#)

Federal Reserve Bank of New York

[Hayley Boesky](#)

Federal Reserve Bank of New York

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Abstract:

The rapid growth of the market-based financial system since the mid-1980s has changed the nature of financial intermediation. Within the system, "shadow banks" have served a critical role, especially in the run-up to the recent financial crisis. Shadow banks are financial intermediaries that conduct maturity, credit, and liquidity transformation without explicit access to central bank liquidity or public sector credit guarantees. This article documents the institutional features of shadow banks, discusses the banks' economic roles, and analyzes their relation to the traditional banking system. The authors argue that an understanding of the "plumbing" of the shadow banking system is an important underpinning for any study of financial system interlinkages. They observe that while many current and future reform efforts are focused on remediating the excesses of the recent credit bubble, increased capital and liquidity standards for depository institutions and insurance companies are likely to heighten the returns to shadow banking activity. Thus, shadow banking is expected to be a significant part of the financial system, although very likely in a different form, for the foreseeable future.

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Contact Information

Zoltan Pozsar

Federal Reserve Banks - Federal Reserve Bank of New York ([email](#))

33 Liberty Street

New York, NY 10045

United States

Tobias Adrian (Contact Author)

Federal Reserve Bank of New York ([email](#))

33 Liberty Street
New York, NY 10045
United States

HOME PAGE: <http://nyfedeconomists.org/adrian/>

Adam B. Ashcraft

Federal Reserve Bank of New York ([email](#))

33 Liberty Street
New York, NY 10045-0001
United States
212-720-1617 (Phone)
212-720-8363 (Fax)

Hayley Boesky

Federal Reserve Bank of New York ([email](#))

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