Appendix 8: The Post-Crisis Backstop of the Shadow Banking System

Once private sector credit and liquidity put providers’ ability to make good on their “promised” puts came into question, a network of backstops emerged to support the shadow banking system. Central banks generally ignored the imperative of recapitalizing the shadow banking system in a structured manner or on a systemic basis. Once the crisis gathered momentum, however, central banks became more engaged. The series of 13(3) liquidity facilities introduced by the Federal Reserve until the summer of 2008 represented a cascade of successful backstops of the shadow banking system. The 13(3) facilities can be interpreted as functional backstops of the shadow banking system process. They are backstops of the various forms of regulated and unregulated money market intermediaries. Furthermore, the Treasury Department’s Temporary Guarantee Program of AIG’s (which is an additional form of backstop for money market intermediaries) and the Treasury’s TSLF and Maiden Lane, LLC, are backstops of the shadow banking system.

The Federal Reserve has been able to facilitate the orderly “on-boarding” of formerly off-balance sheet shadow intermediaries (many of them newly European banks that found ways to issue ABS (for dollars) and, finally, to originate and sell ABS). This process, together with the TDCC’s TSLF can be visualized as an additional form of backstop for money market intermediaries. This program, together with the TDCC’s TSLF, can be visualized as an additional form of backstop for money market intermediaries. This program, together with the TDCC’s TSLF can be visualized as an additional form of backstop for money market intermediaries. This program, together with the TDCC’s TSLF, can be visualized as an additional form of backstop for money market intermediaries. This program, together with the TDCC’s TSLF, can be visualized as an additional form of backstop for money market intermediaries. This program, together with the TDCC’s TSLF, can be visualized as an additional form of backstop for money market intermediaries. This program, together with the TDCC’s TSLF, can be visualized as an additional form of backstop for money market intermediaries. This program, together with the TDCC’s TSLF, can be visualized as an additional form of backstop for money market intermediaries. This program, together with the TDCC’s TSLF, can be visualized as an additional form of backstop for money market intermediaries.