Entity-activity combinations:

= regulated
= unregulated
A1, E1 = entity type 1 (E1)
performing activity type 1 (A1)

A2, E1

A3, E1

A4, E1

Entity-based regulation

A1, E3

A2, E3

A3, E3

A4, E3

Figure 2.13. Effective Shadow Banking Regulation Must Cover Activities and Entities

Source: IMF staff illustration.

Note: The figure shows four activity types (A1–A4) and three entity types (E1–E3). Entity-based regulation that covers only entity type E2 would miss the migration of, say, activity type A3 from E2 to E1; but that migration would be picked up by activity-based regulation covering A3. Similarly, activity-based regulation that covers activity type A3 would miss situations in which covered entities (E1–E3) migrate to activities, say A2, that are not covered but have similar economic outcomes.

Activity-based regulation