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

Entity-activity combinations:
- Green = regulated
- Gray = unregulated

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

Activities (A)
- A1
- A2
- A3
- A4

Entities (E)
- E1
- E2
- E3

Entity-based regulation
Activity-based regulation

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.

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