

ENHANCING THE NBFi RESILIENCE



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Risk assessment, regulation and supervision – a system-wide approach

A system-wide approach is key to assessing and addressing risks and vulnerabilities to financial stability. This entails combining an entity-based approach with an activity-based approach to capture risks and vulnerabilities that cut across traditional boundaries. But this dual focus on entities and activities should not be confined to analysis. It also needs to be adopted in regulatory frameworks to avoid gaps in regulation and prevent regulatory arbitrage, and it needs to be mirrored in supervisory frameworks to ensure coordination and harmonisation. The importance of adopting a system-wide approach was one of the central messages in the European Systemic Risk Board (ESRB) response to the European Commission's consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation (NBFi).

A successful capital markets union will lead to a larger role for NBFi and stronger connections between banks and non-banks. Such connections have already been growing in recent years. This interconnectedness can have advantages, as it allows risks to be transferred to parts of the financial system that are better equipped to manage them or more able to absorb their impact when they materialise. Redistributing risks in this way can enhance the resilience of the financial system, but it needs to be accompanied by robust oversight and regulation to ensure that the growing interconnections between banks and non-banks do not create new vulnerabilities or exacerbate existing ones.

Private credit is a prominent example of an activity that creates connections between banks and non-banks. The term refers to the provision of credit by non-banks rather than through banks or public markets. Private credit funds have expanded their lending to borrowers traditionally funded by banks, thereby creating common exposures. Private credit funds also specialise in lending to firms with high levels of leverage and those that have elevated credit risk for other reasons. Because the money they lend is provided by investors rather than by depositors, as is the case with banks, such lenders are better equipped than banks to carry this elevated risk. However, banks have also increased their lending to private credit funds, thereby exposing themselves to the higher credit risk of the underlying firms. Moreover, large institutional investors, such as pension funds and insurance companies, are key participants in both private and public markets. Disruptions in private markets therefore have the potential to spread to the banking sector and institutional investors, creating wider ripple effects across the financial system. Such interconnections need to be understood, monitored and assessed to safeguard financial stability.

System-wide stress testing exercises are a useful tool to assess the risks to financial stability. They do so by exploring adverse scenarios in which interconnections between banks and non-banks may become channels for contagion. Such exercises can be broadly divided into two approaches: "bottom-up" and "top-down". Bottom-up exercises, such as the Bank of England's system-wide exploratory scenario, engage with market participants directly

to evaluate their resilience under adverse conditions. While such exercises can yield valuable insights, it would be challenging to scale them up to the EU level as they are resource intensive and difficult to coordinate across markets and jurisdictions. Top-down exercises rely on modelling interconnections and behavioural responses of market participants. This poses modelling challenges, but, once a toolkit has been designed, such exercises are likely to be easier to manage and deploy. Recognising the benefits of the top-down approach, the ESRB will pursue efforts to develop such a toolkit, building on proposals set out in the report of the High-Level Group commissioned to provide strategic advice on the future of the ESRB.

**The ESRB stressed
the importance of
adopting a system-wide
approach to enhance
financial stability.**

Regulatory and supervisory frameworks play an important role in ensuring appropriate follow-up actions based on the insights gained from system-wide stress testing exercises. For this reason, in its response to the European Commission, the ESRB emphasised the need for activity-based regulation when risks to financial stability are independent of the entities performing a given activity. Similarly, the ESRB emphasised that greater integration of financial markets within the EU needs to be accompanied by deeper integration of supervision to reinforce the EU's collective ability to mitigate systemic risks effectively.



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Non-bank financial institutions: understanding transmission channels and regulatory challenges

In recent years, non-bank financial institutions (NBFIs) have become more prominent in financial intermediation, attracting greater attention from authorities worldwide. While NBFIs now account for more than half of financial sector assets in the euro area,¹ their significance and market dynamics vary considerably across entity types and jurisdictions. NBFIs encompass a wide range of entities, with different business models, balance sheet structures and regulatory frameworks – a reality that requires tailored approaches to address systemic risk. At the same time, interlinkages with banks and the rest of the economy, as well as across borders, require a global and system-wide perspective on the risks arising from NBFIs. In a globally connected financial system, international cooperation is essential to ensure consistent outcomes in regulating non-bank financial intermediation and to safeguard financial stability.

Understanding NBFI risks and transmission channels

We first need to understand the various business models and identify potential transmission channels of financial distress. One such transmission channel potentially amplifying shocks is the NBFI sector's link to the economy. Money market funds, for instance, offer short-term investment opportunities for small and medium-sized enterprises and larger corporates. During times of stress, sudden redemptions may trigger liquidity mismatches, with spillovers to the wider economy.

The interconnectedness with the banking sector is another critical transmission channel. Banks and NBFIs are linked through a complex web of relationships. Banks now serve as counterparties in foreign exchange and interest rate swap networks, provide prime brokerage services with margin financing and maintain direct exposures to NBFI-issued instruments. These connections create amplification mechanisms that could transform localised shocks into system-wide disruptions. Recent ECB analysis², for example, revealed significant developments in private market funds, where assets under management have grown fivefold over the past decade. These entities can be part of more complex structures involving banks, through what we call “layered leverage” – borrowed capital introduced at multiple points along investment chains, from fund investors to portfolio companies themselves. When banks finance several levels of these chains simultaneously, seemingly straight-forward exposures become intricate networks of related risks sharing common vulnerabilities.

Identifying new actors and the need for tailored regulation

The lines between asset managers, private equity firms, insurers and private credit funds are becoming increasingly blurred. For instance, private credit funds typically perform credit intermediation functions traditionally associated with banks, particularly in corporate credit markets, but without being subject to the same prudential requirements. Traditional classifications by product or entity type no longer fully capture the reality of more complex intermediation chains.

New regulatory and supervisory approaches are needed to address specific vulnerabilities. In a fast-evolving environment, microprudential banking supervision is sharpening its focus on banks' risk concentrations and interlinkages with the NBFI sector. For instance, this year the ECB has conducted an exploratory scenario analysis on counterparty credit risk (CCR)³ to strengthen supervised entities' ability to model

CCR under diverse stress conditions and provide a better understanding of vulnerabilities stemming from interlinkages with NBFIs. The exercise revealed significant variation in banks' CCR exposures, with differences in collateral practices having a considerable influence on stress profiles.

A broader macroprudential perspective is also needed to identify and address systemic risks in the NBFI sector. This should include assessing risks across financial sectors from a system-wide perspective, as well as enhancing the coordination of macroprudential policies for NBFIs at the EU level. The European Systemic Risk Board is well placed to support this effort. In addition, more integrated supervision of NBFIs would be a significant step towards developing EU capital markets.⁴

To address the systemic risks posed by NBFIs, we must also enhance the macroprudential toolkit at the EU level and complement existing rules focusing on investor protection and market integrity.⁵ The Eurosystem made several recommendations in its response to the European Commission's consultation on non-bank financial intermediation.⁶ First, Europe needs to swiftly implement recently agreed international reforms to the NBFI regulatory framework. This includes reforms to enhance the resilience of money market funds and to address vulnerabilities from liquidity mismatch in open-ended funds. Second, system-wide stress tests are essential to identify and quantify risks across the financial system. And third, effective oversight of NBFIs requires improved coordination between authorities and better access to data. Finally, in the context of increasingly complex and diversified NBFI structures, adopting an activity-based perspective, in addition to an entity-based perspective, is essential. It would allow regulators and supervisors to holistically assess and address risks wherever they arise, ensuring that the regulatory perimeter captures all relevant risks and remains adaptable to financial innovation.

1. ECB (2024), *Eurosystem response to EU Commission's consultation on macroprudential policies for non-bank financial intermediation (NBFI)*, November.
2. Buch, C. (2025), “Hidden leverage and blind spots: addressing banks' exposures to private market funds”, *The Supervision Blog*, ECB, 3 June.
3. ECB (2025), *Counterparty credit risk exploratory scenario exercise – Final results*, August.
4. ECB (2025), *ESCB reply to the European Commission's targeted consultation on integration of EU capital markets*, June.
5. Haas, F., Holthausen, C. and Madouros, V. (2024), “Financial intermediation beyond banks: taking a macroprudential approach”, *The ECB Blog*, ECB, 28 November.
6. ECB (2024), *Eurosystem response to EU Commission's consultation on macroprudential policies for non-bank financial intermediation (NBFI)*, November.



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A system-wide stress test – what for?

In the wake of the 2008 financial crisis, stress testing has become a common part of the prudential supervision toolkit, aiming at assessing the ability of the banking system to withstand an adverse macroeconomic shock and providing forward looking reassurance on the solvency position of individual banks. Over the years, in the EU, this approach has been refined, extended and widened. Refined to underpin supervisory decisions (SREP); Extended to cover additional dimensions (liquidity management) or risks associated with other developments (climate, cyber); Widened to other parts of the financial sector (insurance, asset management).

Yet, current practices focus primarily on an individual perspective and on solvency issues, i.e. on firm level situations where liquidity stress is the symptom of an underlying solvency issue. While microprudential stress testing remains necessary, it is not sufficient to understand the vulnerabilities and assess the resilience of the financial system.

Ensuring an appropriate macroprudential oversight calls for a new type of “system-wide” stress tests. A first step in this direction has resulted from the application of top-down macroprudential stress testing tools to the banking system. Another step toward a system-wide perspective has been taken

by “connecting” the traditional sectoral stress tests by using the same scenario and considering the low frequency feedback loops across sectors. This was the premise of the “fit-for-55” stress test.

However, while greatly improving the assessment, these approaches fall short of combining the cross-sector and macroprudential dimension that allows to capture the high frequency feedback loops within the whole financial system and their amplifying effects. Several recent episodes of financial stress (“dash for cash” in March 2020, energy crisis in late 2021/early 2022, Gilt market turmoil in Sept. 2022) have highlighted the relevance of such developments with system-wide liquidity stress having a momentum of its own rather than being merely the ominous sign of an underlying solvency issue.

As financial stress is mounting, destabilising feedback loops can be fuelled by the behavioural responses of financial institutions seeking to protect themselves, often leading to herding among market participants, fire sales of assets, etc. With the aim of capturing these high frequency system-wide dynamics, a new approach to stress testing is being developed as recently piloted in the UK by the BoE jointly with the PRA and the FCA or currently undertaken by the BdF, the ACPR and the AMF in France.

There are four key characteristics for such system-wide stress tests.

First, unlike previous sectoral stress tests, the objectives of any such exercise are not supervisory focused with a “pass or fail” outcome for financial institutions. Instead, they take a system-wide focus to assess how the collective reactions of a diverse set of market participants to a shock may propagate systemic risks at an EU level.

Second, contrasting with the usual static approach to stress testing, the essence of a system-wide stress test is to capture the response to a shock and how it reverberates within the financial system through interconnections and interactions between financial institutions. The dynamic and behavioural dimensions of the stress testing remain a challenge but are a core element of the assessment.

Third and as a consequence of the necessary focus on the stress dynamics, these exercises should improve modelling capacities and foster cooperation among participating authorities (bank, insurance and markets supervisors at the domestic and – ultimately – EU level). When properly

conducted, bottom-up exercises can identify markets and investors reactions that are poorly understood ex ante by the regulator. These results can then be integrated in top-down models.

Fourth, system-wide stress tests should aim at increasing market participants’ awareness of system-wide amplifications. The BoE exercise showed that participants can overestimate the ability of their counterparties to provide liquidity in times of stress. Likewise, they can also underestimate the price impact of other institutions selling similar assets. The financial system would potentially be more resilient to system-wide amplification if participants awareness is higher.

Ensuring an appropriate macroprudential oversight calls for a new type of “system-wide” stress tests.

To be truly “system-wide” in the European context, such an exercise must be EU-wide. This raises important questions regarding its practical implementation: which markets should we focus on? which institutions belong to the core of the EU financial system? how to design and implement the exercise? how to articulate the role of European institutions and national authorities in conducting the exercise? These are important questions we need to address but, for now, one thing is certain: a proper assessment of the resilience of the European financial system requires a system-wide approach to stress testing.



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Addressing the role of NBFIs in the financial systems in EU

NBFIs, a diverse range of entities without main characteristics of banks, play a pivotal role in the financial system by providing alternative sources of financing and risk pooling. They reduce dependence on traditional bank credit and foster financial diversity. That said, their growing size and interconnectedness with banks through exposures, funding, and market activities mean that vulnerabilities within NBFIs can propagate and amplify systemic risks in the banking sector, thereby affecting overall financial stability. The key challenge lies in balancing the advantages of efficient risk distribution with the need to limit contagion and the amplification of financial vulnerabilities. As a result, effective supervision and macroprudential policies targeting NBFIs are essential to mitigate risks arising from leverage, liquidity mismatches, and interlinkages with the broader financial sector.

The focus on NBFIs is not new, however, the sector has grown significantly in recent years and now holds just under half of global financial assets. As the EU pushes forward with its Savings and Investment Union initiative, this trend is likely to persist. While not a cure-all, more developed capital markets can

help address EU investment shortfall by channeling resources away from traditional, mid-tech sectors and into innovative start-ups and expanding businesses. Deeper market integration may also introduce new challenges to financial stability and systemic interconnections making NBFIs increasingly important for banking supervision authorities.

Key mechanisms for monitoring NBFIs and their interconnections with banks must include several aspects, both at entity and activity level. Enhancing data collection and integration, especially in the form of incorporating more granular data sources would allow authorities to analyze banks' counterparty exposures, financial interlinkages, and regulated entities. This would narrow critical data gaps inherent to NBFIs, many of whom have lighter reporting requirements. The analytics should be strengthened by facilitating the development of advanced analytical methodologies and systemic risk indicators. This process should also be accompanied with a continuous surveillance and regular system-wide stress testing.

In order to achieve that, authorities should first bridge the microprudential regulatory gaps nationally and supranationally, which would allow for better cross-border coordination. For instance, FSB at the international level already coordinates the work of national authorities and international standard-setting bodies to promote the harmonized development of effective regulatory, supervisory and other financial sector policies across countries. Given the global activity of many NBFIs international cooperation with an effective oversight of cross-jurisdictional risks is key. Nevertheless, it is also crucial to maintain a flexible regulatory perimeter that can quickly adapt to cover new types of financial intermediation as they emerge, thus reducing potential blind spots in oversight.

**Effective supervision
and macroprudential
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to mitigate risks.**

Secondly, the macroprudential authorities at national and EU levels require a clear legal mandate outlining their powers, macroprudential tools, and accountability. This mandates the prevention and mitigation of systemic financial risks across borders and sectors

as due to the extensive cross-border operations in the asset management sector a regulatory framework based solely at the national level may fall short in addressing financial stability risks in a consistent manner. To promote a uniform regulatory environment and minimize the risks of fragmentation or regulatory arbitrage, enhanced collaboration between EU and national authorities is crucial. The ESCB supports the EC's targeted consultation on EU capital market integration, viewing it as a significant move toward building a more cohesive and robust financial system within the EU. Roles of different supranational institutions and the national competent authorities should strive for effective prudential policies with strengthened communication, collaborative analysis, and aligned use of regulatory tools between supranational and national institutions.

To conclude, a more effective approach to monitoring and addressing systemic interconnections among NBFIs blends granular data integration, robust analytical models, prudential regulatory framework, coordinated prudential policy, and international cooperation. Closing surveillance gaps and adapting swiftly as the NBFi sector evolves prevents undermining the overall financial system resilience. Both robust micro- and macroprudential frameworks are required, which clearly define roles and strong coordination among multiple competent institutions. Each plays a distinct but interconnected role in risk oversight. Ensuring a level playing field between sectors and countries and focusing on institutional coordination, regulatory harmonization and transparency would reduce regulatory arbitrage and strengthen financial stability.



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Important strides in addressing systemic risks in NBFi

I recently tried to transfer money from my Spanish account to my account in India. The amount was quickly debited in Spain but took a long time to arrive in India. I couldn't get either bank to track it. The only comfort was that both were large banks under central bank supervision, but more information would have been reassuring.

While this is an example from the banking sector, this is also the kind of anxiety we also see as regulators – albeit at a higher, global level – with respect to systemic risks in the non-bank sector or so called “NBFi”. To start, the term “NBFi”, is too broad, covering many different entity types with vastly different characteristics and risks, often making any sweeping policy suggestions inappropriate.

Given the breadth of NBFi, there are unsurprisingly large gaps in data and statistics within NBFi. This presents a serious challenge for regulators when trying to effectively monitor and address systemic risk, which is one of IOSCO's three objectives--alongside investor protection and market integrity.

It's no surprise IOSCO has been front and centre on the policy development regarding NBFi over the last few years. Our work has been targeted, acknowledging that one size doesn't fit all. With carefully targeted policy and,

ideally, with the right data, we can be effective in addressing specific sector vulnerabilities while also dealing with broader systemic risks.

The focus over the last few years cover familiar risks: liquidity, leverage, counterparty credit, operational.

Liquidity risk: A key area of focus has been liquidity mismatch in open-ended funds, particularly those with illiquid and less-liquid assets. In stress, the failure to meet redemptions could become an amplifying factor. Work by the FSB and IOSCO has promoted Liquidity Management Tools, including questioning daily liquidity for illiquid assets and encouraging more and consistent use of such tools. In this vein, IOSCO updated its 2018 liquidity risk management recommendations and added practical guidance last year: a good example of microprudential tools serving stability and investor protection together.

Leverage: While leverage can boost returns, excessive levels are risky, especially when combined with liquidity stress. FSB research found NBFi leverage matches household sector levels but is concentrated in certain pockets -- family offices, broker-dealers, hedge funds -- while traditional UCITS and mutual funds have little. The FSB's July 2025 recommendations that strongly benefitted from IOSCO's expertise and input call for better monitoring tools, clearer visibility on where leverage concentrates, and powers to act. IOSCO has long tracked synthetic leverage via derivatives, stressing the need for transparency to maintain trust.

How to live with and address the residual discomfort: having more and better data.

Counterparty credit risk: CCPs, especially in derivatives, have improved transparency and netting. IOSCO has worked with both CPMI, and BCBS to strengthen cleared and uncleared margin frameworks. During pandemic market stress, some participants were surprised by margin calls, so we are working on making initial and variation margin more transparent and predictable.

Operational risk: This covers everything from power outages to cyber-attacks, cloud computing, AI, and other innovations. IOSCO and sister bodies are focusing on these risks.

Looking ahead, market, product, and technological innovation is knocking on our door and with it, uncertainty. While being cautious is our job, we should also avoid rejecting something just because it feels uncomfortable. At one time, creation of the corporate legal personality and the creation of shares would have been seen as innovation and would have caused unease, yet they drove growth. It is important that regulators foster the appropriate environment for growth while keeping a firm finger on the pulse.

While a lot of progress has been made, many supervisors still lose sleep over one thing: the lack of reliable and actionable data. As alluded to earlier, better market data lets firms manage risks themselves, reducing the need for heavy-handed regulation. Many of our recommendations urge boards -- whether of funds, CCPs, or broker-dealers -- to actively engage with risks, supported by better firm-level and market-wide data. The more we know, the less blunt future measures are likely to be. Technology and identifiers can help without overburdening firms with reporting obligations.

At IOSCO we are trying to do our part to bridge the information gap. This year, IOSCO launched its first public funds dashboard, using data from 39 jurisdictions covering 80% of global AUM and 120,000 funds, with figures on leverage by country, fund type, and strategy. Our ambition is to continue to build on this in the years to come.

While more and better data won't guarantee supervisors an eight-hour sleep, it will hopefully help them rest easier—as I was able to, once I received confirmation that my money finally reached India.



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Proactive, proportionate, and data-driven: a smarter regulator for NBFi

Markets regulators are increasingly thinking about how we can best support national economic growth. At the Financial Conduct Authority (FCA), we have made this a cornerstone of our new five-year strategy, and it is this mindset that shapes our approach to non-bank financial intermediation (NBFi).

NBFi plays a pivotal role in creating deep and efficient capital markets, contributing to growth. These firms provide alternative sources of financing, manage institutional and retail savings, and inject liquidity into the system — all major benefits to the real economy.

However, episodes of market stress like the 2020 ‘dash for cash’ and the 2022 LDI crisis have also shown that the NBFi sector can contribute to instability during periods of market stress. Factors like liquidity mismatches, crowded trading, and concentrated leverage can amplify price volatility and lead to a loss of confidence that can spill over into the rest of the financial system, as well as across borders.

Our responsibility as authorities is to ensure that market integrity, financial

stability, and confidence in the system remain intact even during periods of stress.

Authorities have been working together through the Financial Stability Board (FSB) and International Organization of Securities Commissions (IOSCO) to develop policy recommendations to enhance the resilience of the NBFi sector. In particular, I’m proud to have co-led the FSB’s working group on leverage in NBFi, which recently published its final report and recommendations. This work on leverage, as well as earlier recommendations on liquidity mismatches in open-ended funds and strengthening the liquidity preparedness of market participants for margin and collateral calls are important steps forward in international work to strengthen the NBFi sector. Now, as we move into the implementation phase, jurisdictions will be considering what steps they need to take in response to these recommendations.

As a first step, authorities need to have the right data and information to be confident they can assess and address risks appropriately. This is particularly critical in a sector as complex and diverse as NBFi. Experience shows that, when we have the right data, we can supervise more efficiently, monitor risk more comprehensively, and design and calibrate policy interventions to be effective and targeted. As part of our commitment to being a smarter regulator, we are seeking to make this proportionate data-driven approach the standard across all our activities.

To achieve this, we need data that is accurate, timely, and risk sensitive. We also know that we need to engage internationally, working with international partners so as to narrow any gaps that obscure our view of potential risks, particularly those that are cross-border. Of course, we must also build proportionality into our approach: excessive reporting requirements can be costly, burdensome, and disruptive for firms, which can ultimately detract from growth. This is why we’re committed to turning off regulatory returns that provide irrelevant or unnecessary data. It is getting the right data at the right time, not just more data, that matters.

We are tackling this issue on multiple fronts. Domestically, we are assessing the adequacy and efficiency of the Alternative Investment Fund Managers Directive (AIFMD); in Q4 2025, we will set out proposals to improve the quality of MiFID transaction reporting data.

Given the global nature of many NBFi activities, international work is also vital. The FCA supports work that

encourages cross-border harmonisation of data standards, as well as steps towards enhanced data and information sharing. Bilateral and multilateral work are both key. Bilateral work is key for developing data and information sharing mechanisms for specific risks and data gaps, while multilateral collaboration helps us take steps towards wider consistency and coordination. Industry, too, has a vital role to play. By engaging with regulators, market participants can help us better understand what data needs to be shared between authorities and how regulators and industry can align better on measuring risk.

**Our responsibility as
authorities is to support
the NBFi sector as a
contributor to growth.**

Taking steps towards being a smarter regulator is mutually beneficial. Greater consistency in reporting expectations across jurisdictions, as well as more targeted information and data sharing, should lighten the burden on global firms. Regulators can monitor risks more effectively and intervene more intentionally — and, ultimately, to safeguard the market integrity and financial stability that underpins sustainable economic growth.



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NBFI: from regulation to enhanced supervision and cooperation?

Since market events such as the March 2020 turmoil, prudential supervisors and securities regulators have developed their thoughts towards non-banks, being considered either as part of the wider range of market participants or in a targeted manner. The two most recent contributions on that NBFi topic came from the FSB and the BCBS, which respectively issued public reports on *“Leverage in Nonbank Financial Intermediation”* on 9 July 2025, and on *“Banks’ interconnections with non-bank financial intermediaries”* on 10 July 2025.

One of the positive aspects of that latest publication by the FSB is that FSB’s work was co-chaired by securities regulators (through Sarah Pritchard, Deputy CEO at the UK FCA) and central banks (through Cornelia Holthausen, Director General in charge of Macroeprudential Policy and Financial Stability at the ECB).

That dual working leadership, as well as the content of FSB’s report, shows probably that the approach regarding the potential systemic risks related

to NBFIs is shifting, towards a more pragmatic and efficient approach:

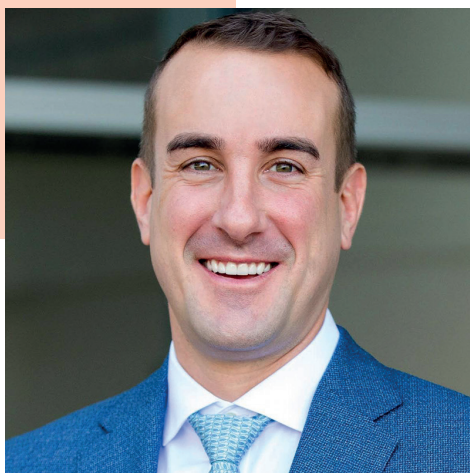
- First, from a regulatory perspective as such, it is now widely recognized that some parts of NBFIs are already appropriately regulated. This is in particular the case in the EU for Asset Management Companies, which are already fully regulated through the AIFM and UCITS Directives – which were even enhanced last year. And FSB’s report rightly recognized that some parts of NBFIs are less regulated than others;
- Therefore, from that basis, proposed actions are moving more towards supervisory and monitoring actions rather than regulatory ones. Both reports spot that the existing regulations may already provide for information to authorities; it remains now to see how authorities might optimize their use of all the information they receive, at least for regulated NBFIs (e.g. in the EU: MiF reportings; EMIR reportings; SFTR reportings; AIF and UCITS fund-by-fund reportings). On that aspect, let us mention the interesting experiment led by the AMF, which has started exploring the use of Artificial Intelligence and automated extraction tools for the analysis of regulatory reportings and on which it published first insights on 7 March 2025. In addition, practical actions by authorities such as System-Wide Exploratory Scenarios (SWES) like the one carried out last year by the Bank of England and FCA in the UK were helpful, as covering financial market activities and market participants in a holistic way. The Banque de France and AMF are currently preparing a similar exercise, meaningfully in our opinion;
- Still, the major remaining question regards cooperation and cross-border aspects among authorities.

The FSB and BCBS recognize the limitations related to those cooperation and cross-border aspects. Obstacles may reside in various forms. Regarding data as such, if their format is not harmonized upfront between securities regulators and prudential supervisors even in the same jurisdiction, it might complicate the setting of a common view of what is happening in their territory. As an example, currently in the eurozone AIF management companies have to report in parallel to national securities regulators and to central banks, but with different formats and contents of data. Obviously, as new AIF and UCITS fund

reportings will have to be implemented by April 2027, it is critical to provide at least for a reporting by fund managers to a single authority (and ideally, at EU level instead of multiple national levels): it would both facilitate monitoring and supervision by authorities, and ensure reporting economies of scale for EU fund managers from an international competitiveness perspective.

The key remaining issue to be solved for monitoring risks relates to the cross-border aspect.

But ultimately, as financial market participants invest at global level, the key remaining issue to be solved for monitoring risks relates to the cross-border aspect. It should be tackled from a dual perspective. First and as for above, if data contents and formats are not standardized or interoperability ensured at global level, we do not see how international cooperation and action may really improve in the future. But the other, even more complicated aspect, was very rightly identified by the FSB in its July Report: the FSB calls for authorities to engage with their foreign peers *“to the extent legally feasible”*. While we may imagine that operational cross-border aspects might be solved between authorities, the legal aspect is not fully in their hands – accepting wide-range exchange of information at cross-border level is also at the level of politicians. It remains to be seen until where governments and political bodies are currently ready to go towards that direction in practice.



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NBFIs: Addressing key questions while retaining key benefits

The growth of non-bank financial intermediaries (NBFIs) since the Global Financial Crisis (GFC) has deepened credit markets and expanded access to financing for the real economy. This trend is beneficial for borrowers, who can now access deeper and more varied sources of credit at terms better tailored to meet their financing needs. In the U.S., NBFIs now provide approximately 68% of non-financial business lending, while banks provide approximately 32% of such lending, representing increasing diversification of credit provision and funding options for borrowers. Many NBFIs have long-dated funding sources that support long-dated financing solutions. Insurers, for example, provide long-dated financing supported by stable, long-dated liabilities in the form of policyholder contracts.

The post-GFC growth of NBFIs has been overseen by longstanding, fit-for-purpose regulatory regimes. The NBFi category represents an assortment of non-bank economic agents, including asset managers, insurance companies, broker-dealers, and investment funds, among others. Each of these entities operates within an industry that necessarily has its own fit-for-purpose regulatory regime that has effective

tools to address potential risks. Many of these regimes, such as those in the U.S., have evolved over the past 100+ years, weathering numerous economic cycles and applying those lessons to current frameworks and practices.

Growth of non-bank credit provision has elicited understandable questions from global supervisors and central banks. Though effective tools and information are already available within individual regimes, answering system-level questions around these topics will take time, deep analysis, and engagement between industry and regulatory bodies. In our view, the following guideposts can help address questions and identify areas of focus while also taking into account key differences among the wide array of entities that comprise the “NBFi” label:

Data and Transparency: A myriad of data is reported by NBFIs to local and industry-specific regulators. For example, the U.S. statutory reporting regime for insurers requires granular, position-level reporting at the individual asset level. Under the regime, Athene’s annual statutory statement is 7,500+ pages long and publicly available. A supervisory exercise to consolidate and reconcile reporting across global financial sector regimes and jurisdictions would help address open questions and identify areas where additional reporting or industry engagement would be helpful.

Leverage: Answering questions around leverage requires a differentiated, sector-specific approach. There is a wide variety of sources and uses of leverage across the financial system that differ substantially in risk profile and therefore warrant different regulatory treatment (e.g., hedging activities vs. leverage to supplement returns).

Liquidity mismatch: ALM is another area that requires a nuanced examination. NBFIs have a range of ALM profiles – many like insurers and closed-end funds have stable, long-dated funding that insulates them from short-term market disruption, requiring different supervisory tools than banks or open-ended funds that are more vulnerable to “runs.”

Procyclicality: Driven in part by long-dated funding, NBFIs can act as countercyclical investors. For example, insurer lending expanded during the dot-com crisis and GFC while bank lending contracted.

Contagion / Interconnections: Examination of interconnections should focus on industries where existing regulatory regimes produce incentives for interconnections; for example, regimes that

incent the use of derivatives to implement effective ALM programs and/or to manage credit risk.

Investment Risk: There are significant differences among the types of entities that are considered NBFIs, including the relative riskiness of their investment activities. For example, a significant percentage of insurer credit provision is investment-grade. Examination should be tailored to reflect the distinct risks, nuances, and definitions pertaining to specific types of capital providers, rather than a “broad-brush” approach.

**Firms and regulators can
address key questions
while retaining benefits of
diverse credit provision.**

To address understandable questions as NBFIs continue to play a fundamental and beneficial role in financing the global economy, it is essential to have collaborative engagement between industry and regulatory bodies that acknowledges the specific nuances across entities comprising the “NBFi” label. By fostering open dialogue and taking a rigorous, analytical approach, industry and regulatory bodies can move beyond broad-brush frameworks and address key questions around NBFIs while retaining the benefits of diverse credit provision.