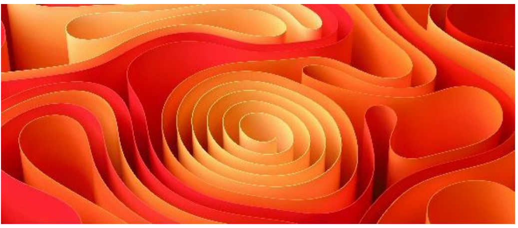
Pills
Regulatory/Supervisory Pills | N.119 August 2025



TOPICS:
Banking System

SOURCE
Financial Stability Board

# FSB Publishes Recommendations to Address Financial Stability Risks Created by Leverage in Nonbank Financial Intermediation

- This final report by the Financial Stability Board (FSB) addresses **financial stability risks posed by leverage in nonbank financial intermediation (NBFI)**. It builds on the 2023 FSB report and subsequent market events - including the March 2020 market turmoil, the 2021 Archegos default, and the 2022 UK LDI crisis - **to develop a set of policy recommendations** that aim to improve the resilience of NBFIs and reduce reliance on central bank interventions.
- The report identifies **two key transmission channels of systemic risk** from NBFI leverage: the **position liquidation channel**, which involves forced asset sales under stress, and the **counterparty channel**, where defaults propagate stress to leverage providers. It highlights amplifying factors such as interconnectedness, crowded trades, and liquidity mismatches.
- Nine policy recommendations form the core of the report, structured around **six focus areas**: 1) **Risk Identification & Monitoring** - Authorities should establish robust domestic frameworks using standardised risk metrics to monitor NBFI leverage regularly and proportionately, incorporating system-wide perspectives; 2) **Core Financial Markets** - Activity - and entity-based measures, including minimum margin/haircut requirements and leverage caps, should be used to address risks in critical markets like government bonds and derivatives; 3) **Interlinkages with Systemic Institutions** - Authorities must ensure robust counterparty credit risk management by banks and promote enhanced disclosure practices between nonbanks and leverage providers; 4) **Regulatory Incongruences** - Differences in the regulatory treatment of economically similar transactions (e.g., TRS vs. repo) can create arbitrage opportunities. Authorities are advised to align frameworks where necessary; 5) **Cross-border Cooperation** - Stronger data sharing and international coordination are recommended to manage risks from globally active nonbanks; 6) **Design and Calibration** - Policy tools should be selected and calibrated based on local conditions, avoiding unintended market disruptions.