FSB FINANCIAL STABILITY BOARD

Leverage in Non-Bank Financial Intermediation: Consultation report

Response to Consultation

ASPIM

Recommendation 1

1. **Is the description of the financial stability risks from leverage in NBFI accurate and comprehensive? Are there additional vulnerabilities or risk dimensions related to NBFI leverage that authorities should consider for monitoring purposes?**

   Founded in 1975, ASPIM is a non-profit association representing 110 France-based AIFMs who oversee real estate assets with a value of €313 billion (2023) across Europe. Real estate fund managers are a key component of the French and European economy as they directly manage "real" long-term assets, which host a wide range of economic activities including offices, shops, maternity wards, student and retirement homes, hotels and hospitals.

   The ASPIM broadly agree with the FSB's description of financial stability and do not identify any additional vulnerability or risk dimensions related to NFBI leverage.

   European real estate AIFs are generally not substantially leveraged (adjusted leverage of 133% according to ESMA Market Report: EU AIFs 2023).

   In this context, the concept of NBFI is too broad, encompassing entities with vastly different activities and risk profiles, some of which are already subject to supervisory frameworks at the European (ESMA for UCITS and AIFs) and national level. The European Commission has already established a comprehensive framework for supervising leverage, notably through Article 25 of the AIFMD, which includes tools to manage and limit leverage, along with reporting requirements that give supervisory authorities a clear view of leverage in AIFs. Further tightening regulations on financial entities already subject to strict oversight, such as European real estate funds, would be counterproductive.

2. **What are the most effective risk metrics that should be considered by authorities to identify and monitor financial stability risks arising from NBFI leverage?**

   Article 25 of the AIFMD includes tools to deal with leverage and restricts the use of leverage. In addition, the Directive includes reporting requirements which provide supervisory authorities with a comprehensive view of the leverage used in AIFs.

   Leverage metrics remain important. However, the development of additional stress tests should not impose further requirements on firms that have already allocated substantial

resources to reporting, including obligations to banks and credit funds under existing legislation.

3. **What are the most effective metrics for the monitoring of financial stability risks resulting from:**

   (i) specific market activities, such as trading and investing in repos and derivatives

   (ii) specific types of entities, such as hedge funds, other leveraged investment funds, insurance companies and pension funds

   (iii) concentration and crowded trading strategies

Recommendation 3

4. **What types of publicly disclosed information (e.g. transaction volumes, outstanding amounts, aggregated regulatory data) are useful for market participants to enhance their liquidity or counterparty credit risk management? Are there trade-offs in publicly disclosing such information and, if so, what would be the most important elements to consider? What is the appropriate publication frequency and level of aggregation of publicly disclosed information?**

   Regarding Recommendation 2, ASPIM supports the FSB's recommendation for improved coordination on data sharing among authorities. ASPIM considers the current AIFMD framework, including its reporting and data-sharing arrangements, to be generally adequate for regulators and supervisors to carry out their responsibilities. In this context, prioritising the simplification of existing regulations could help facilitate their effective application and improve supervisory efficiency, while avoiding unnecessary additional burdens.

Recommendation 5

5. **Do Recommendations 4 and 5 sufficiently capture measures that would be used to address the scope of non-bank financial entities under consideration in this report? In what ways may the policy measures proposed in the consultation report need to be adjusted to account for different types of non-bank financial entities?**

   We believe that the proposed recommendations are too broad in scope and should be refined to ensure their applicability, proportionality, and predictability. The regulatory framework must provide long-term visibility on reporting requirements and avoid excessive costs for asset managers. Frequent revisions and rigid thresholds could create uncertainty and unintended market disruptions, particularly if regulatory adjustments do not adequately account for market conditions and structural differences between financial entities.

   Furthermore, it is essential to differentiate between regulated and unregulated entities rather than simply distinguishing between banks and non-banks. A broad regulatory scope risks overburdening already well-regulated entities, instead of targeting specific sources of systemic risk. The recommendations should focus on managing risks by exception rather than applying overly expansive and generic measures. For instance, family offices with highly leveraged positions should be addressed specifically rather than imposing broad constraints on a wide range of market participants.

   Regarding Recommendation 4, a more risk-based approach should be prioritised, particularly by focusing on entities with high leverage levels, for instance, those exceeding

200–300% leverage ratios. In such cases, additional requirements could be considered if leverage is deemed significant.

In this regard, Article 25 of AIFMD already provides regulators with tools to monitor and address leverage risks, particularly by focusing on large funds in terms of size and leverage. Any additional measures should align with existing frameworks rather than duplicating them. Instead of enforcing broad measures, the FSB should conduct a comparative mapping of leverage regulations across jurisdictions, ensuring greater coherence and identifying key divergences that may require harmonisation efforts.

6. **In what circumstances can activity-based measures, such as (i) minimum haircuts in securities financing transactions, including government bond repos, (ii) enhanced margin requirements between non-bank financial entities and their derivatives counterparties, or (iii) central clearing, be effective in addressing financial stability risks related to NBFI leverage in core financial markets, including government bond markets? To what extent can these three types of policy measures complement each other?**

7. **Are there benefits to dynamic approaches to minimum margin and haircut requirements, e.g. where the requirements change based on changes in concentration or system-wide leverage? If so, what types of indicators capturing concentration or system-wide leverage should the requirements be linked to?**

8. **Are there any potential unintended consequences from activity-based measures beyond those identified in the consultation report?**

9. **For non-centrally cleared securities financing transactions, including government bond repos, what are the merits of margin requirements compared to minimum haircuts?**

10. **In what circumstances can entity-based measures, such as (i) direct and (ii) indirect leverage limits be effective in addressing financial stability risks related to NBFI leverage in core financial markets?**

11. **Are there ways to design and calibrate entity-based measures to increase their risk sensitivity and/or their effectiveness in addressing financial stability risks from NBFI leverage?**

12. **Are there any potential unintended consequences from entity-based measures beyond those identified in the consultation report?**

13. **To what extent can activity-based and entity-based measures complement each other? What are the main considerations around using these two types of measures in combination?**

Recommendation 6

14. **How could counterparty credit risk management requirements for leverage providers be enhanced to be more effective in addressing financial stability risks from NBFI leverage in core financial markets, such as government bond repo markets? In what circumstances can they be most effective?**

Recommendation 7

15. **Would a minimum set of disclosures to be provided by leverage users to leverage providers be beneficial in improving counterparty credit risk management and reducing financial stability risks from NBFI leverage, including concentration risks? If so, which types of information and what level of granularity should (and should not) be included in this minimum set and why?**

16. **What are the main impediments that leverage users face in sharing additional or more granular data with their leverage providers? Is there a risk that a minimum recommended set of disclosures may lead leverage users to limit the information they share with their leverage providers to that minimum set?**

    Managers are already subject to significant scrutiny, including the obligation to provide lenders with the information required by law. It is unclear how additional data would genuinely enhance the existing information. On the contrary, experience shows that regulators do not fully utilise the data already at their disposal. We would therefore recommend streamlining and operationalising the necessary information rather than introducing new data points that would largely duplicate those already available.

17. **Should such a minimum set of disclosures rely on harmonised data and metrics to ensure transparency and efficiency in the use of such information for risk management purposes? Do respondents agree that such a minimum set of disclosures should be based on the list of principles outlined in the consultation report? If not, which principles should be added, deleted or amended?**

18. **Should leverage users be required or expected to provide enhanced disclosures (beyond that provided in normal market conditions) to their leverage providers during times of stress?**

19. **Should authorities design a minimum set of harmonised disclosures and guidelines on its application, or should they convene a cross-industry working group to do so? How do respondents believe such a standard should be incorporated into market practice? Through regulation, supervisory guidance, and/or via a Code of Conduct or similar approach?**

Recommendation 8

20. **Are there areas where the principle of "same risk, same regulatory treatment" should be more consistently applied? Are there circumstances in which the principle should not apply or should not apply comprehensively?**

    ASPIM acknowledges the importance of the principle of "same risk, same regulatory treatment" in ensuring financial stability and mitigating regulatory arbitrage. However, we believe it is crucial to emphasise that risk is not solely determined by the nature of exposures and financial instruments, but also by the type of entity involved and the existence (or absence) of pre-existing regulatory frameworks on leverage.

    To ensure a balanced approach, authorities should recognize that "different entities warrant different regulatory treatments." Any harmonization efforts should take into account:

    - The nature of the entity (e.g , Hedge fund, investment fund, closed-ended or open-ended) ;

- The existence of pre-existing leverage regulations that already address specific risks within certain sectors.

The EU regulatory framework for NBFIs should serve as an inspiring reference, as it provides a structured and comprehensive approach to addressing leverage risks while considering the diversity of financial entities.