FSB FINANCIAL STABILITY BOARD

Leverage in Non-Bank Financial Intermediation: Consultation report

Response to Consultation

LSTA

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?**
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?**

It is axiomatic that effective risk metrics to identify and monitor financial stability risks are those that are clearly defined, accurately measure the target risk, and do not solicit information that may prove confusing to their audience. This is particularly true when applied to private market activity. The relative unavailability of aggregated market information amplifies the risk of confusion.

The LSTA does not endeavor to provide a comprehensive commentary on the risk metrics set out in Annex 1. For many of the identified metrics, accompanying definitions which are not provided are critical to their design. We do, however, identify certain of these risk metrics as examples that would benefit from further clarity or risk confusion.

- Leverage metrics: We believe that a net leverage metric is the best measure of the three proposed. Gross leverage metrics risk meaningfully overstating the amount

of leverage and does not dimension adjustments for directionality, actual exposure, or hedging, which are relevant to financial stability. It may be particularly confusing for broader audiences. (We do not believe there is enough specificity offered to opine on adjusted leverage as a metric other than net leverage is the most appropriate metric.)

- Roll-over risk: Any metric measuring roll-over risk must be accompanied by sufficient information to understand the purpose of the financing. A specific financing may represent an interim step in a fund's overall financing plan so simply looking at the stated maturity of the facility and the stated maturity of the asset may be misleading. It is also important to consider the implied maturity of an asset (e.g., loans are regularly refinanced) and not only the contractual maturity. o Example 1: A CLO warehouse facility often has a two-year tenor while the loans securing the facility may have an average tenor of 4-5 years. There is no

expectation that the warehouse facility will mature outside of the loan assets, because the ultimate financing is the CLO, not the warehouse facility.

o Example 2: An ABL facility to a credit fund typically has a 5-6 year tenor. On day 1, the underlying assets (i.e., loans) are all likely to be within the stated maturity of the facility. As the facility ages, loan maturities may become more mixed. The ABL facility may not be the ultimate financing, however. That facility may be refinanced by a CLO or unsecured bonds in the case of a BDC. A CLO may not have been an available option on Day 1, but allowing funds to rely on diverse sources of financing when they become available is a risk mitigant.

• Sensitivity to market risk metrics: Generally, these appear extremely broad and not useful in their current form. For private corporate credit, for instance, DV01 is meaningless. Private credit is not marked to market and therefore is not exposed to traditional market risk. Standardized stress tests are most relevant for banking institutions given the size and scope of their activities and that they can be subject to runs in times of stress. If the target activity/entity does not resemble a bank (or have its vulnerabilities in this regard), a stress test is not a reasonable approach to measuring risk.

• Other metrics: These metrics seem misguided and are unlikely to yield relevant information. If a metric cannot be aggregated across firms or used as a point of comparison to peer institutions, it is improbable that it usefully measures a financial stability risk. Reverse stress tests are a step beyond what prudential regulators use to monitor banks and if they are not necessary in the prudential regulatory toolkit, we do not believe they would be necessary or useful with respect to NBFI. A fund's historical performance is relevant to investment risk but using it to measure financial stability risk is very attenuated.

• Concentration risk and crowdedness metrics: Similar to historical performance, the identified metrics offer insight into investment risk but would require too much nuance to be a useful measure of financial stability risk.

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?**

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?**

   The LSTA refers to its detailed discussion above on the importance of adjusting policy measures to account for different types of non-bank financial entities (and activities). The LSTA further encourages the FSB to extend this approach to accompanying metrics as noted above. It will be important that risk metrics are well-defined and appropriate to measure the specific financial stability risk(s) being targeted. Overall, it is critical that the public is consulted on proposed policy measures and the selection and definition of accompanying metrics.

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?**
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?**

February 28, 2025

Via Electronic Communication

Financial Stability Board (FSB)
c/o Bank of International Settlements
Centralbahnplatz 2
4051 Basel, Switzerland

Re: Public Comment on Leverage in Non-bank Financial Intermediation Consultation Report

LSTA, Inc. ("LSTA")[1] appreciates the opportunity to submit comments on the recent consultation report titled "Leverage in Non-bank Financial Intermediation" which sets out the FSB's analysis and proposed policy recommendations designed to address potential financial stability risks arising from leverage in non-bank financial intermediation (NBFI) ("Consultation").

We understand that the Consultation is the product of the FSB's ongoing effort to "enhance the resilience of [NBFI], while preserving its benefits."[2] We acknowledge the importance of this work and share the goals of the FSB to mitigate financial stability risks. This letter highlights the perspective of the private corporate credit community, which includes private credit funds, business development companies (BDCs)[3], registered credit funds and collateralized loan obligations (CLOs) (collectively, "credit funds"). Below we offer two overarching principles which we strongly believe should be incorporated into the policy recommendations when finalized as well as future FSB work in this area. We also offer responses to the two specific questions raised in the Consultation.

[1] The LSTA is a not-for-profit trade association that has been the leading advocate for the U.S. corporate lending market since 1995. The LSTA's mission is to promote a fair, orderly, efficient and growing corporate loan market while advancing and balancing the interests of all market participants. Our 600+ member institutions include commercial banks (ranging in size from GSIBs to community banks), investment banks, broker-dealers, asset managers, and institutional lenders, as well as law firms and market service providers. The LSTA undertakes a wide variety of activities in pursuit of its mission, including advocacy, thought leadership, data analytics, education, and standardization of documents, practices and operations. The LSTA's offerings are designed for the voluntary use by our members and benefit from the LSTA's ability to build a consensus of diverse stakeholders. For more information, please visit our website at www.lsta.org.

[2] FSB Work Programme for 2025 available at https://www.fsb.org/2025/01/fsb-work-programme-for-2025/ (visited on February 21, 2025).

[3] BDCs are investment vehicles that are a hybrid of closed-end investment companies and operating companies. These vehicles are regulated under the Investment Company Act of 1940 and are registrants with the U.S. Securities and Exchange Commission.

I. Comments.

a. To preserve the benefits of NBFI activity, policy design must recognize the diversity of relevant activities/entities and measures must be well-tailored.

The term "NBFI" is not specifically defined in the Consultation, but it is understood to cover the panoply of activities conducted by any entity that is not subject to its relevant prudential regulatory supervision. Put simply, "NBFI" refers to any nonbank activity. It is true that the universe of NBFI market participants is easily distinguishable from that of banks and that core characteristic is important. However, NBFI market participants and their activities share little in common beyond that. Indeed, the FSB acknowledges the diversity represented in the NBFI ecosystem in their own educational materials, describing it as "a diverse set of financial activities, entities and infrastructures" and noting that "[n]on-bank financial institutions – comprising investment funds, insurance companies, pension funds and other financial intermediaries – have different business models, balance sheets and governance structures, and are subject to distinct regulatory frameworks within and across jurisdictions."[4] "NBFI" might be a convenient shorthand in some contexts, but it is risky for policy measures and the metrics supporting them.

The use of leverage is a prime example of how NBFI market participants differ from one another. In the 2023 FSB leverage report on which the Consultation is built, the report found that "NBFI leverage is highly uneven across the sector."[5] Both the level of leverage and the form of leverage differs across the NBFI sector. This is meaningful when assessing whether leverage poses financial stability risks. (The Consultation itself seems to acknowledge recognizing the different risks posed by certain entities in the discussion accompanying Recommendation 8[6] although the concept is not captured in the recommendation itself.) Private corporate credit highlights how certain NBFI market participants may use leverage in ways that do not pose the financial stability risks the FSB's policy recommendations are looking to address.

The private corporate credit[7] ecosystem uses leverage[8] modestly. While aggregated information about private corporate credit is not widely available, a substantial portion of private corporate credit activity is publicly reported by BDCs. At the end of 3Q24, BDC assets under

[4] FSB's Non-Bank Financial Intermediation homepage available at https://www.fsb.org/work-of-the-fsb/financial-innovation-and-structural-change/non-bank-financial-intermediation/ (visited on February 21, 2025).
[5] FSB (2023), *The Financial Stability Implications of Leverage in Non-Bank Financial Intermediation*, p. 8.
[6] "While entailing exposure to similar economic risks and benefits, corporate lending by banks and certain non-bank financial institutions, such as private credit funds, could be subject to distinct regulatory treatment based on the different risks they can pose to the broader financial system." FSB (2024), *Leverage in Non-bank Financial Intermediation*, p. 30.
[7] Private corporate credit refers to secured loans to below investment grade borrowers that are originated outside of the traditional syndication process and therefore are rarely rated by nationally recognized statistical ratings organizations.
[8] As measured by debt as a percentage of equity (i.e., 0.91x implies $0.91 of debt capital used for every $1 of equity capital in the fund).

management (AUM) reached $407 billion[9] and serve as a helpful proxy for the wider market. Using 3Q24 data the average fund-level leverage across all BDCs stood at 0.91x, and at 1.0x for BDCs with more than $500 million in total assets[10], well below the applicable statutory leverage cap of 2.0x (i.e., 150% asset coverage). We understand from members that – where used[11] – leverage levels are similar for credit funds with leverage levels ranging from 1.0-1.2x. Another leverage mechanism used is private corporate credit CLOs ("PCLOs"). PCLOs employ the same well-known securitization technology[12] as their broadly syndicated loan (BSL) counterparts.[13] In PCLOs, leverage is meaningfully higher than in credit facilities, with approximately 7.0x leverage.[14]

Importantly, the source of leverage in private corporate credit is as relevant as the headline number, relying on stable, longer-term forms of leverage. The primary sources of leverage are credit facilities, PCLOs, and unsecured bonds (in the case of BDCs), which are structured with maturities that match the term of the fund. As we explore below, bank credit facilities and PCLOs do not present contagion risk because neither are susceptible to mark to market fluctuations or forced selling.

Bank borrowing by private corporate credit funds is often in the form of revolving credit facilities, specifically asset-based lending (ABL) facilities[15] and subscription facilities (sublines). These are secured facilities where the available credit is based on the value of the underlying collateral and the tenor ranges from two and half to six years depending on the type of facility. ABL facilities advance credit against a borrower's diversified portfolio of investments based on the value and classification of each eligible loan investment. The borrowing base is determined at the origination of the facility (with lenders typically having consent rights over the collateral) and is then periodically redetermined based on changes in certain credit metrics of the underlying collateral.[16] Sublines are secured by the capital commitments of investors in a borrowing fund. Sublines are often used in the ramp up stage of funds to bridge the period necessary to call capital for investments. For each dollar of capital commitment called, the available credit in the subline is reduced by one dollar.[17] These two types of facilities represent the bulk of bank lending in this space. According to one recent survey, 86% of respondent banks' loans were ABL facilities and 22% were sublines. The most common loan-to-values in ABL facilities ranged between 55% and

[9] LSEG LPC's BDC Collateral.
[10] Ibid.
[11] "Risks to financial stability from leverage at private credit funds appear low. Indeed, most private credit funds are unlevered, with no borrowings or derivative exposures." The Federal Reserve Board of Governors (May 2023), *Financial Stability Report*, p. 45. Anecdotally, we understand that credit funds typically offer levered sleeves to cater to investor preferences.
[12] A detailed discussion on CLO technology can be found in LSTA, *Assessing Whether Leveraged Loans and CLOs Pose a Systemic Risk* (December 2023).
[13] PCLOs are a form of financing where a pool of private corporate loans is securitized into tranches of investment-grade and non-investment grade risk typically in the form of floating rate notes.
[14] Moody's, *Comparison of US BSL and SME/PC CLOs* (Aug. 27, 2024).
[15] Net Asset Value (NAV) loans to credit funds which are often discussed as a separate category can be understood as a subset of ABL facilities.
[16] LSTA, *Leverage in Private Corporate Credit Vehicles* (October 2024) (available upon request).
[17] Ibid.

65% and advance rates on sublines ranged from 60% to 90% depending on the credit quality of the investors (whose capital commitments secure the fund's loan obligations).[18] Despite the conservative terms of the facilities described above, some have suggested that utilization will significantly increase in an economic downturn. However, the connection between the economic environment and facility utilization seems tenuous. Private corporate credit lenders are less vulnerable to market dislocations. The long-term capital from investors allows them to be patient. This attribute is important to assessing the extent private credit funds use revolving credit facilities for liquidity versus investment capacity. Even where liquidity could be the driver for utilization, such as to fund redemptions in nontraded closed-end funds (e.g., interval funds, nontraded BDCs), caps on redemptions (generally at 5% of NAV) would prevent significant liquidity risk among leverage providers. Relatedly, credit funds do not face increased funding demands by borrowers in times of stress. Most private corporate credit loans are term loans, with only 10% of loans believed to be revolving commitments. For additional perspective, year-over-year in 2Q24 bank credit commitments to private equity funds, BDCs and credit funds grew about 0.1% while utilizations shrunk by about 10%.[19]

Lastly, PCLOs are a growing source of financing. PCLOs are similar to BSL CLOs in many ways but differ in that collateral assets are originated by the credit fund (rather than bought in the open market),[20] the number of loans in the asset pool is typically fewer, and par subordination is higher. The life of the PCLO, on average 12 years, extends beyond the maturity of the assets in the portfolio, typically 5-7 years, eliminating the need for refinancing. In addition, PCLOs are structured, like their BSL counterparts, so that they are never forced to sell assets or wind-down.[21]

In sum, this examination of private corporate credit illustrates that NBFI activity is diverse and certain NBFI activity does not pose financial stability risk. Policy recommendations need to recognize that any implementing measures must be carefully tailored to the risks actually posed by the target activity/entity.

b. Care must be taken that policy measures are proportionate to the financial stability risks they seek to address and do not unnecessarily weigh on activity.

A corollary to the importance of well-tailored policy measures is ensuring that they are carefully calibrated. Policy measures should intentionally preserve the benefits of the target activity/entity to the greatest extent possible and be proportionate to the risk the target activity/

[18] Moody's, *Bank funding of private credit grows rapidly, in step with sector's capital-raising* (Oct. 15, 2024) (This report contains global survey responses from 32 banks active in private credit that cumulatively hold nearly $30 trillion in balance sheet assets. Survey respondents had $525 billion in loan commitments to private credit as of year-end 2023.)

[19] The Federal Reserve Board of Governors (November 2024), *Financial Stability Report*, p. 36.

[20] PCLO formation is dependent on a portfolio of assets having achieved a critical mass of diversification (generally at least 40-50 loans).

[21] LSTA, *Leverage in Private Corporate Credit: PCLOs* (October 2024) (available upon request). *See also* LSTA, *Assessing Whether Leveraged Loans and CLOs Pose a Systemic Risk* (December 2023).

entity poses to financial stability.[22] First, it is important to recognize that the use of leverage serves not just a legitimate purpose in financial markets, but in many cases "enhance efficiency and support liquidity."[23] The benefits that leverage can provide means it is essential that policy measures designed to limit the use of leverage are proportional to the risks they are seeking to mitigate. Moreover, policy measures need to preserve the many benefits that NBFI activity brings. For private corporate credit, the growth has led to a meaningful increase in the availability of credit for corporates and highly customized, efficient borrowing options. Being patient lenders, private corporate credit lenders have demonstrated that they serve as an important bulwark for credit availability at times of market dislocation or bank retrenchment. These are unequivocally positive developments.[24]

While private corporate credit has certainly grown at a robust pace, the growth in other financial and corporate lending markets has significantly outpaced private corporate credit both in absolute and relative terms. The U.S. Financial Stability Oversight Council (FSOC) recently acknowledged that private corporate credit still represents a relatively small portion of the U.S. economy.[25] Indeed, most financial markets have experienced strong growth. Since the beginning of 2020, the U.S. public credit markets and bank balance sheets have grown over five times more in dollar terms than the private corporate credit market – inclusive of dry powder (i.e., committed funds that have not yet been deployed). As of 2023, private corporate credit accounted for less than 6% of U.S. corporate debt outstanding.[26]

The perspective of size is relevant for interconnectedness as well. Using stress testing data from the 14 largest U.S. banks, data suggests that approximately $300 billion of loan commitments to private equity and private credit funds were held at the end of 3Q23, representing 14% of all outstanding NBFI loan commitments by banks at that time.[27] While granular information on bank lending to private corporate credit is not readily available, we can again use BDCs as a proxy.

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[22] *See* IMF (2024), "Global Stability Report" (October 2023), p. xi ("Policymakers must ensure that the balance between benefits and risks in this new state of financial intermediation remains appropriate… The regulatory framework needs to be proportionate to the systemwide risks posed by different institutions and acknowledge that risk-taking is needed for financial intermediation, as someone—not only central banks—should be there to "catch the falling knife" during stress times.").

[23] Consultation, Section 2.1.

[24] *See* IMF (2024), "Global Stability Report" (October 2023), p. x ("Market-based finance and nonbank credit intermediation have generated alternative sources of financing for firms, better capital allocation, and greater market efficiency through capital markets activity, private equity and private credit, hedge funds, and high frequency market making and trading. The growth of NBFI can also strengthen prospects for financial stability. A broader set of financial intermediaries with different risk profiles, time horizons, and expertise avoids overreliance on banks, increases competition, provides diversification to borrowers and investors, and creates mechanisms for risk transfer away from the banking system."); *See generally* IOSCO (FR10/23), "Thematic Analysis: Emerging Risks in Private Finance" (September 2023).

[25] FSOC (2024), Annual Report (December 2024), Box E.

[26] LSTA, "Private Corporate Credit FAQs" (2024) citing data from ICE BofA, Pitchbook|LCD, Preqin, Bloomberg, and Apollo Chief Economist (Torsten Slok).

[27] FR Y-14Q bank regulatory filings from Q3 2023. Business loan commitments to NBFIs total $2.2 trillion, or 32% of these banks' total loan commitments.

Bank revolving credit exposure to BDCs stood at $117 billion at the end of the 3Q24.[28] Loan exposure to private equity and private credit is a significant minority of overall bank exposures.

The moderate bank exposure to private corporate credit is further tempered by the characteristics of those loans, as described above. FSOC noted in its 2024 Annual Report that: "[i]t appears that banks manage their asset-based lending credit facilities conservatively such that it would take a severe decline in asset values to result in credit losses for banks."[29] A recent study sought to quantify what that severe decline would need to look like. Assuming aggressive, Global Financial Crisis-level declines, losses to bank capital would be less than 1%.[30]

In sum, to avoid poor outcomes, extreme care must be taken with respect to any new measures. Such measures must be well-tailored and take a proportionate approach – proportionate to the risk(s) posed with maximal retention of the benefits of the target activity/entity. Applied to private corporate credit, the small relative size of the activity, modest use of stable leverage, and critical role it plays in capital formation weigh against new measures. We respectfully request that the FSB explicitly incorporate these concepts in its final policy recommendations.

c. Responses to Questions Raised in the Consultation

1. *Question 2 – Recommendation 1*

It is axiomatic that effective risk metrics to identify and monitor financial stability risks are those that are clearly defined, accurately measure the target risk, and do not solicit information that may prove confusing to their audience. This is particularly true when applied to private market activity. The relative unavailability of aggregated market information amplifies the risk of confusion.

The LSTA does not endeavor to provide a comprehensive commentary on the risk metrics set out in Annex 1. For many of the identified metrics, accompanying definitions which are not provided are critical to their design. We do, however, identify certain of these risk metrics as examples that would benefit from further clarity or risk confusion.

- Leverage metrics: We believe that a net leverage metric is the best measure of the three proposed.[31] Gross leverage metrics risk meaningfully overstating the amount

[28] S&P Capital IQ. *See* Financial Stability Oversight Council (2024), Annual Report, p. 37.
[29] Financial Stability Oversight Council (2024), Annual Report, p. 37.
[30] Jang, Young Soo and Samuel Rosen, "Direct Lenders and Financial Stability", (2024). (The study approximated the "exposure of banks to direct lenders as of December 2023 at $372 billion. BDCs contribute $105 billion through revolving credit facilities and term loans based on data from Capital IQ. The $267 billion contribution from private debt funds assumes that 25% of their assets are financed through bank debt (Block et al., 2024). If we assume a 15% default rate and 20% recovery rate, which roughly capture the performance of junk-rated debt during the GFC, aggregate losses from direct lender leverage would be $45 billion. This amount represents less than 4% of the $1.2 trillion of aggregate equity capital for banks that we observe lending to direct lenders. Furthermore, if we use default and recovery rates consistent with the BBB ratings more typical of BDCs, the hypothetical losses from direct lender leverage in a crisis would be less than 1% of bank capital.")
[31] We would encourage a single leverage metric to be chosen to avoid confusion for both the information recipient and respondent.

of leverage and does not dimension adjustments for directionality, actual exposure, or hedging, which are relevant to financial stability. It may be particularly confusing for broader audiences. (We do not believe there is enough specificity offered to opine on adjusted leverage as a metric other than net leverage is the most appropriate metric.)

- Roll-over risk: Any metric measuring roll-over risk must be accompanied by sufficient information to understand the purpose of the financing. A specific financing may represent an interim step in a fund's overall financing plan so simply looking at the stated maturity of the facility and the stated maturity of the asset may be misleading. It is also important to consider the implied maturity of an asset (e.g., loans are regularly refinanced) and not only the contractual maturity.
    - Example 1: A CLO warehouse facility often has a two-year tenor while the loans securing the facility may have an average tenor of 4-5 years. There is no expectation that the warehouse facility will mature outside of the loan assets, because the ultimate financing is the CLO, not the warehouse facility.
    - Example 2: An ABL facility to a credit fund typically has a 5-6 year tenor. On day 1, the underlying assets (i.e., loans) are all likely to be within the stated maturity of the facility. As the facility ages, loan maturities may become more mixed. The ABL facility may not be the ultimate financing, however. That facility may be refinanced by a CLO or unsecured bonds in the case of a BDC. A CLO may not have been an available option on Day 1, but allowing funds to rely on diverse sources of financing when they become available is a risk mitigant.

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- Concentration risk and crowdedness metrics: Similar to historical performance, the identified metrics offer insight into investment risk but would require too much nuance to be a useful measure of financial stability risk.

2. *Question 5 – Recommendations 4 and 5*

The LSTA refers to its detailed discussion above on the importance of adjusting policy measures to account for different types of non-bank financial entities (and activities). The LSTA further encourages the FSB to extend this approach to accompanying metrics as noted above. It will be important that risk metrics are well-defined and appropriate to measure the specific financial stability risk(s) being targeted. Overall, it is critical that the public is consulted on proposed policy measures and the selection and definition of accompanying metrics.

II. Conclusion.

For the reasons described above, the LSTA respectfully requests that the FSB incorporate the principles described above in its ongoing work, explicitly embed them in the FSB's final policy recommendations, and consider the LSTA's direct responses to the questions raised in the Consultation.

The LSTA appreciates this opportunity to provide comments and stands willing to provide additional information in person or in writing. Please feel free to contact us.

Sincerely,

Tess Virmani
Deputy General Counsel
Head of Policy