FSB FINANCIAL STABILITY BOARD

Leverage in Non-Bank Financial Intermediation: Consultation report

Response to Consultation

UK Finance

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?**

   3.1. We welcome and support the work the FSB has undertaken and the related papers and reports that have been published highlighting the growing financial stability systemic risk posed by NBFI. We consider the description is accurate regarding leverage in NBFI. However, we encourage the FSB to undertake more work on the interconnectedness of NBFI entities' activities and leverage. Leverage is only a part of the NBFI ecosystem. A more holistic approach should be considered to properly tackle the financial stability related risks that leverage in NBFI potentially brings. For example, we suggest considering the network learnings from the recent BoE SWES work and particularly the follow up report and paper published in late 2024 and related speeches in 2025.

   3.2. We further suggest an exploration of international regulatory discrepancies and financial stability risks across jurisdictions, reflecting the interconnectedness.

   3.3. Similarly, we suggest that the FSB explore the behavioural actions and network dynamics at play amid NBFI activities and markets, to reflect the realistic fallout from episodes on market stress. As mentioned by Andrew Bailey, different non-banking financial entities, including various trading groups, hold different types of strategies which are increasingly crucial to understanding market dynamics.

   3.4. We further suggest considering learnings from the BoE's staff paper on LDI minimum resilience - recommendation and explainer – which describes the FPC's recommendations on steady-state minimum levels of resilience for LDI funds, and contains more detail on assessment of resilience, including on design and calibration. BoE used targeted interventions to reduce liquidity stress among pension entities, by implementing specific regulation that did not impact the banking sector.

3.5. We encourage the FSB to approach NBFI leverage in a more modulated way, taking account of the different types of NBFI, analysing their different activities, liabilities and operations as there is no 'one-size-fits all' NBFI. This could in turn lead to it making individual recommendations in a more targeted way.

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?

3.6. Before the FSB implements any proposals relating to leverage in NBFI, we recommend that there should be clear and transparent definitions of leverage and early warning indicators that suggest financial stability risks arising from NBFI leverage.

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

3.7. Members state that the report is ambiguous throughout, as to what type of risks, entities and activities that the FSB are targeting in their report and recommendations. The FSB must define key points, such as what is excessive leverage, what are excessive levels of concentration and what is the exact risk which measurements are intended to address.

3.8. The FSB must also define when actions such as margin requirements, concentration add-ons, and leverage limits would be implemented, and to what entities.

3.9. Recommendation 5 states that 'measures include (i) concentration add-ons for margins and haircuts in connection with exposures of non-bank financial entities in derivatives and SFT markets, (ii) concentration and large exposure limits' which are specifically ambiguous, and suggest the role of banks for implementing and policing such measures. We do not support this approach.

3.10. Members are concerned about authorities' knee-jerk reactions to individual or esoteric episodes of volatility, especially where such episodes did not originate in the banking sector, to justify cross-cutting policies, without consideration of statutory risk metrics. This short-term reactive approach could result in reliance on inappropriate and / or incomplete risk mitigation methodologies.

3.11. Addressing loopholes in monitoring is a more effective policy response than using isolated, idiosyncratic episodes to justify broader policy interventions. We suggest that a more forwardlooking and inclusive approach that uses risk metrics relevant not just for recent events but more importantly for those that could emerge in future crises.

3.12. We believe that alongside a consideration of the risks taken on by NBFIs, the FSB and national authorities recognise the role of the banking prudential framework as a corollary to growing NBFI activity in certain markets.

3.13. In some cases, banking regulation has had inadvertent consequences on market functioning, by making it much more difficult for banks to act. For example, the Federal Reserve took emergency action to disapply the supplementary leverage ratio from US Treasuries, as it was preventing banks from intermediating in the market during the "dash for cash" episode in March/April 2020. The FSB should consider measures that are inadvertently displacing activities from banks to NBFIs, with a view to optimising liquidity in the market as well as distribution of risk across different market participants.

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

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(iii) concentration and crowded trading strategies

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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?**

3.14. We note that that the FSB consultation questions refer to Recommendation 3 but there are none relating to Recommendation 2. UK Finance members are concerned that this implies that the FSB have already decided that existing data reporting requirements are inadequate. We encourage authorities to review the current data availability and accessibility before proceeding with additional requirements.

3.15. In this regard we think authorities already have a wealth of data available to them through a range of disclosure and reporting requirements, such as trade repository data on derivatives, and securities financing transactions, including requirements under BCBS 's suggested practices. But due to silos in data architecture it is currently difficult for the authorities to maximise the benefit of these data for risk monitoring purposes. We are opposed to significant increases in data disclosure requirements until all current available data has been exhausted. The priority should be to assess the stock of data already available and address the frictions in sharing these data, for instance across borders between different regulators and data repositories.

3.16. Then, and only then, should authorities consider that they have insufficient information for risk monitoring purposes, and hence need to seek enhancements to disclosure requirements. But these enhancements should be targeted at the types of firms about which they judge they need additional information i.e. if they feel insufficiently sighted on NBFI exposures, they should apply enhancements to NBFIs themselves, not the banks that intermediate them.

3.17. We also note the FSB workplan to examine NBFI data challenges, which covers similar ground, and suggest that the proposals discussed in this paper are deferred until the conclusion of this exercise.

3.18. The need for further public data disclosure has not yet been sufficiently demonstrated by the FSB and the FSB's proposals suggest incomplete understanding of current data practices. We object to the proposals placing majority of responsibility for greater disclosure on banks. It is unclear what extra data or reporting practices would be required to enhance the authorities' risk detection and we seek clarification, along with defining the ambiguous term 'time of stress'.

3.19. In designing any enhancements, authorities should be mindful of the potential adverse consequences for market functioning and should ensure they apply appropriate mitigants.

Public information of trades can have disproportionate impacts on wider market dynamics. For example, in concentrated markets, an exit from the markets by a large investor could trigger herd behaviour if made public, increasing systemic risks.

3.20. Any public disclosure of data sets should be made (i) with adequate lagging, focused on time sensitivity to ensure market competition and stability; (ii) in an efficient and accessible format, aggregated where possible, rather than overly granular (iii) no more frequently than quarterly, as appropriate with risk build-up.

3.21. We suggest regulators survey and measure more behavioural information and responses about how firms react and their strategies change in market stress. The value of this should not be understated and is critical to understanding real-world stress scenarios. As mentioned by Andrew Bailey, the SWES test results showed that market shocks and instability was enhanced by the "mismatches in firms' expectations of how others would act in a stress scenario".

3.22. Members posit that it would also be pertinent to assess the possibility of sharing relevant data between authorities in different jurisdictions given that NBFIs invariably operate in global

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?**

3.23. We consider that measures listed in recommendations 4 and 5 are not sufficiently well calibrated to target NBFI operations and, in cases, instead unfairly place the onus entirely on banks. The recommendations do not balance risk with market competitiveness and in some cases remain unclear.

3.24. We recognise the need to avoid regulatory arbitrage, but regulation should also consider differences between different types of institutions and their balance sheets. Lifting and shifting the prudential framework for banks and applying it to NBFIs could have inadvertent consequences as well as increase costs in the financial system. Regulators should also avoid a one-size-fits-all approach across different types of entities.

3.25. The FSB needs to define the meaning of indirect and direct leverage limits, including defining where they would be applied.

3.26. We suggest that "equivalent risks should result in equivalent regulation" rather than the "same regulation", as the latter approach could undermine some of the significant progress in enhancing market stability since the global financial crisis. Specifically, we

believe that the risk and investor profile between different NBFI entities, as well as the regulatory framework applied to them, can differ vastly.

3.27. The FSB should recognise that the role of different entities in scope of this paper play very different roles in the leverage ecosystem. Pension funds, for example, play a crucial role in the real economy, both in providing financial security for individuals in old age, as well as – as encouraged by national authorities – increasingly investing in "productive finance", such as unlisted equities and infrastructure assets. For example, the BoE noted in the recent SWES that defined benefit pension funds have much larger collateral buffers and can now be more easily be recapitalised by their corporate sponsors.

3.28. The measures taken to bolster the resilience of insurers and pension funds in recent years – such as the Solvency II / UK regimes respectively and measures taken in response to the UK's LDI episode – have not been shown to be insufficient and do not warrant additional entitybased regulation. Entity based measures the FSB has suggested will potentially have unintended consequences on pension funds, if the imposition of a leverage cap led to forced selling in order to meet regulatory requirements, which would be pushed out of the government bond markets.

3.29. Our members therefore view the proposed entity-based measures in the CP, such as leverage limits and concentration limits, as unlikely to significantly improve the financial resilience of pension funds, while also imposing significant costs in terms of returns for pension users and capital for investment. The FSB should instead focus its efforts on under or un-regulated parts of the market, rather than prematurely re-opening frameworks that have only been recently implemented.

3.30. Where individual entities pose increased systemic risk, which is only likely to be the case for a small number of very large NBFIs active in systemically important markets, these risks can be addressed by entity-specific expectations, rather than applying broad rules to a class of entities in a one-size-fits-all manner.

3.31. Members suggest the following suitable adjustments to the CP's approach on measures:

- include an assessment and suitable amendments to how and what type of data disclosure is likely and appropriate from various NBFIs and their connected operations, given current interconnectedness
- remove the recommendation to employ overreaching concentration and exposure limits on certain product types such as derivatives and SFTs for banks, irrespective of the counterparty, which may not always be an NBFI
- research and assess the wider activities and rolling impacts of NBFIs on markets, thereby calibrating an holistic response.

3.32. It is important to recognise that the BoE's SWES was not a formal stress test, rather it was a hybrid assessment seeking quantitative and qualitative inputs. If system wide assessments include a stress testing or new reporting components , then it should leverage off existing data and the results of relevant exercises, rather than introducing new burdensome requirements – especially where such exercises are "system-wide" including both NBFI entities and banks.

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?**

3.33. If authorities use activity-based measures (e.g., SFT haircuts, margining, central clearing) they must be implemented with a view to minimising opportunities for arbitrage or unintended distorting effects.

3.34. Any mandates applying to SFTs would also require authorities to agree a common definition

of 'SFT'.

3.35. Any requirements to centrally clear bond / repo transactions should be carefully considered in terms of the impacts they could have for end-users, clearing firms and CCPs as highlighted in the Vanderbilt Law Research Paper on Central Clearing in the US Treasury Market, published in January 2025. For example, while central clearing can bring risk management and multi-lateral netting benefits, it can also create new systemic risk concentrations at CCPs and create new constraints for clearing members and end-users such as, liquidity, RWA capital, single counterparty credit limits.

3.36. Any proposed measures to expand central clearing mandates for derivatives must consider the liquidity of the derivatives in question - only appropriately liquid products should be centrally cleared.

3.37. We suggest that regulators amend rules on collateral so that they:

- take a holistic, and systemic, approach to the regulation of collateral, and of activities requiring collateral
- are consistent across different types of activity, and across different types of market participant
- ensure that market participants can pool collateral. One example would be to allow central counterparties to diversify where they can hold collateral rather than restrict them to posting collateral with central security depositories.

3.38. We argue that there is merit in increasing consistency with the use of collateral, including margin, across different activities and market participants.

3.39. We suggest that the FSB re-work the SFT haircut standards rather than try to enforce them given the lack of progress to date.

3.40. Furthermore, as the FSB notes, the use of SFT minimum haircuts could have a detrimental impact on cost of hedging and adverse effects on market liquidity, particularly when netting and/or cross-margining arrangements are not appropriately reflected. In this regard, it is notable that the FSB's report suggests that authorities should "consider implementing minimum haircuts in SFTs, including government bond repos". In contrast, government bond repos were specifically excluded from the FSB's 2015 SFT minimum haircuts framework. Including government securities would significantly expand the scope of the minimum haircuts framework and further exacerbate our concerns highlighted above.

3.41. We believe that the implementation of new clearing mandates is not required and can be damaging to markets, locking entities out of markets, exacerbating illiquidity, and encouraging arbitrage and create negative impacts on competition. This has been demonstrated in clearing mandates issued in the US, which have proven problematic. Until there is further evidence from the work in the US, we would recommend against such measures being applied to different entities and markets, especially given the potential risks to the liquidity and functioning of such markets.

3.42. We seek clarification of the circumstances around CCP mandating concentration add-ons regarding the notification period as to when add-ons apply. Add-ons should not be applied in an ad-hoc manner and should be established from the outset and with due process.

3.43. The use of haircuts and haircut add-ons is a blunt instrument, and it is not a practical requirement; there is currently a similar banking regulatory requirement that has not been

successful. This, however, must be caveated with the understanding that markets with very low/no haircuts also come with their own issues, and do not necessarily reflect strong financial stability.

3.44. Increasing charges on SFTs may have the effect of pushing these transactions outside of the traditional banking sector altogether, which would have the opposite of the intended effect and result in increased leverage.

3.45. Members would oppose dynamic approaches on the basis that they could cause:

- cliff edge effects
- perverse pro-cyclical effects that would amplify instability
- complexity, particularly for firms who do not pose financial stability risk but may have a particular holding in one asset class.

3.46. We do think there is merit in increasing consistency with the use of collateral, including margin, across different activities and market participants. The Basel Committee's work on margin practices noted very different approaches to margin across different markets and entities.

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?**

3.33. If authorities use activity-based measures (e.g., SFT haircuts, margining, central clearing) they must be implemented with a view to minimising opportunities for arbitrage or unintended distorting effects.

3.34. Any mandates applying to SFTs would also require authorities to agree a common definition

of 'SFT'.

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3.36. Any proposed measures to expand central clearing mandates for derivatives must consider the liquidity of the derivatives in question - only appropriately liquid products should be centrally cleared.

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3.38. We argue that there is merit in increasing consistency with the use of collateral, including margin, across different activities and market participants.

3.39. We suggest that the FSB re-work the SFT haircut standards rather than try to enforce them given the lack of progress to date.

3.40. Furthermore, as the FSB notes, the use of SFT minimum haircuts could have a detrimental impact on cost of hedging and adverse effects on market liquidity, particularly when netting and/or cross-margining arrangements are not appropriately reflected. In this regard, it is notable that the FSB's report suggests that authorities should "consider implementing minimum haircuts in SFTs, including government bond repos". In contrast, government bond repos were specifically excluded from the FSB's 2015 SFT minimum haircuts framework. Including government securities would significantly expand the scope of the minimum haircuts framework and further exacerbate our concerns highlighted above.

3.41. We believe that the implementation of new clearing mandates is not required and can be damaging to markets, locking entities out of markets, exacerbating illiquidity, and encouraging arbitrage and create negative impacts on competition. This has been demonstrated in clearing mandates issued in the US, which have proven problematic. Until there is further evidence from the work in the US, we would recommend against such measures being applied to different entities and markets, especially given the potential risks to the liquidity and functioning of such markets.

3.42. We seek clarification of the circumstances around CCP mandating concentration add-ons regarding the notification period as to when add-ons apply. Add-ons should not be applied in an ad-hoc manner and should be established from the outset and with due process.

3.43. The use of haircuts and haircut add-ons is a blunt instrument, and it is not a practical requirement; there is currently a similar banking regulatory requirement that has not been

successful. This, however, must be caveated with the understanding that markets with very low/no haircuts also come with their own issues, and do not necessarily reflect strong financial stability.

3.44. Increasing charges on SFTs may have the effect of pushing these transactions outside of the traditional banking sector altogether, which would have the opposite of the intended effect and result in increased leverage.

3.45. Members would oppose dynamic approaches on the basis that they could cause:

- cliff edge effects
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- complexity, particularly for firms who do not pose financial stability risk but may have a particular holding in one asset class.

3.46. We do think there is merit in increasing consistency with the use of collateral, including margin, across different activities and market participants. The Basel Committee's work on margin practices noted very different approaches to margin across different markets and entities.

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

3.47. The FSB must define what risks are being covered, whether that be entity-based, business strategy based, activity-based or market-based. We hope that measures can be defined appropriately to ensure they:

- create consistency between market participants
- minimise the risk of entities which do not pose the same risks being caught by the proposals (e.g. all defined benefit pension or investment funds would be subject to such requirements, even if they do not employ leverage)
- recognise differences between different entities (e.g. a bank-style prudential framework is designed for the specific risks faced by banks in terms of deposit flight, too-big-to-fail etc.

that do not generally apply to NBFIs)

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

3.33. If authorities use activity-based measures (e.g., SFT haircuts, margining, central clearing) they must be implemented with a view to minimising opportunities for arbitrage or unintended distorting effects.

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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?

3.48. We believe entity-based measures can be effective when used to address clearly identified risks. The advantage is that these measures can be targeted to firms or groups of firms where a financial stability risk has been identified.

3.49. We believe that further clarity is required regarding the meaning of indirect leverage limits. We are comfortable with the example provided in the paper of a yield buffer applied to certain LDI funds since this was a targeted measure that responded to a clearly identified risk.

3.50. Some of our members interpret an indirect leverage limit as a tool that could be applied to another entity as a means of limiting a counterparty's leverage, for example, a prime broker. We would strongly disagree with this approach as it would add unnecessary complexity and in some cases be impractical (for example because a single prime broker would not see the full portfolio of its NBFI counterparty). Risk should be addressed at the source, i.e. the relevant

NBFI entity rather than the prime broker. Leverage limits across entities are indiscriminate, blanket policies which would damage markets and competition, and would likely drive leverage use in unregulated markets.

3.51. While circumstances could exist when direct and indirect leverage limits may be effective in addressing financial stability risks, we do not support cross-entity measures to manage market stability, nor the de-facto use of banks to indirectly regulate NBFI entities as we do not think it would lead to a successful outcome.

3.52. The imposition of strict leverage limits could exacerbate market dynamics during a stress, by adding a pro-cyclical requirement that forces firms to sell assets in order to avoid breaching a regulatory threshold, in addition to the dual stress of meeting margin calls and investor redemption requests.

3.53. Furthermore, leverage is only one of many stripes of risk as discussed above.

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?

3.54. We are comfortable with the example of an entity-based measure provided in the paper of where introduced leverage limits on real estate funds. Similarly, if an authority can identify a firm with highly concentrated and risky position (e.g. Archegos), then they could impose leverage limits on that fund. An example would be ESMA guide on applying leverage caps to leveraged AIFs. The approach in 'Guidelines on the assessment of leverage-related systemic risk' could be useful in highlighting a clearly defined process for entity specific measures.

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

3.55. To successfully implement effective measures, sufficient, well managed and well analysed data is crucial. It is not yet apparent that the data handling and analysis framework is in place for this. Current gaps in data usage must be bridged in order to have a suitable framework.

3.56. Measures can be complimented by specific expectations on a small number of systemically important NBFI entities.

3.57. As discussed above, activity-based measures, when correctly calibrated, may be a useful way of improving resilience in particular markets across all participants. These can then be complemented by specific expectations on the small population of systemically important NBFIs.

3.58. Some of the entity-based measures could risk running liquidity spirals which would need to be taken into account before application.

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?

3.55. To successfully implement effective measures, sufficient, well managed and well analysed data is crucial. It is not yet apparent that the data handling and analysis framework is in place for this. Current gaps in data usage must be bridged in order to have a suitable framework.

3.56. Measures can be complimented by specific expectations on a small number of systemically important NBFI entities.

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3.58. Some of the entity-based measures could risk running liquidity spirals which would need to be taken into account before application.

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?

3.59. The FSB's recommendations should align with the recent BCBS Guidelines on Counterparty Risk Management which are expected to be of most relevance to firms with large exposures to NBFI counterparties. These guidelines, which include on-boarding, credit risk mitigation and better CCR measurements, were finalised in December 2024 and are now being incorporated by firms. It is premature to consider if credit risk management needs to be "enhanced" further.

3.60. Banks should not be employed by authorities as a proxy mechanism to supervise / regulate NBFIs.

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?

3.61. As highlighted by BoE's Rebecca Jackson in her speech on prime brokerage in January 2025, reflecting on counterparty private data disclosure, different firms share different levels of information on different trades, and typically counterparties do not meet sufficient risk mitigating standards.

3.62. Our members support efforts to improve private data disclosures by leverage users to their to leverage providers. As in the Rebecca Jackson speech, this would place appropriate reporting responsibility on NBFI entities and reflect the 'equivalent risk, equivalent regulatory standards' ethos. Although members note it is difficult to manage and maintain data sharing between

entities, enhancements to private disclosure requirements would be helpful and would likely positively impact financial stability risk management of NBFI leverage.

3.63. Members support an approach that uses a code of conduct, similar in practice to the FX Global Code used by the Global Foreign Exchange Committee, or the UK Money Markets Code, led by the Money Markets Committee. This would provide suitable guidance, without the burden of regulation, and not disrupt competitive market forces.

3.64. Members suggest that the adoption of an appropriate and pragmatic code of conduct, which they have been involved in developing will facilitate greater international cooperation and after time, a move towards more standardised market practices and potentially lead to regulatory standards where needed.

3.65. Based on minimum disclosure requirements, the FSB would need to curate a clear and consistent definition of leverage users. However, it is unclear if minimum data disclosure requirements would be enforceable.

3.66. Members continue to maintain that it is not the responsibility of banks to regulate NBFI activity.

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?

3.61. As highlighted by BoE's Rebecca Jackson in her speech on prime brokerage in January 2025, reflecting on counterparty private data disclosure, different firms share different levels of information on different trades, and typically counterparties do not meet sufficient risk mitigating standards.

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3.66. Members continue to maintain that it is not the responsibility of banks to regulate NBFI activity.

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?

3.61. As highlighted by BoE's Rebecca Jackson in her speech on prime brokerage in January 2025, reflecting on counterparty private data disclosure, different firms share different levels of information on different trades, and typically counterparties do not meet sufficient risk mitigating standards.

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3.66. Members continue to maintain that it is not the responsibility of banks to regulate NBFI activity.

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?

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3.66. Members continue to maintain that it is not the responsibility of banks to regulate NBFI activity.

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?

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3.66. Members continue to maintain that it is not the responsibility of banks to regulate NBFI activity.

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?

3.67. As we set out in response to Question 5, we consider that the approach should be equivalent risk, equivalent regulation rather than same risk, same regulatory treatment.

3.68. We believe NBFIs should be scrutinised more rigorously over risks taken but the current proposal may not allow for nuances in their activities and could potentially disturb market mechanisms.

UK Finance

1. Introduction

1.1. UK Finance[1] is pleased to respond to the Financial Stability Board's (FSB) consultation report on Leverage in Non-bank Financial Intermediation (the consultation or CP or proposals). Our members who participated in the Bank of England (BoE)'s System-wide Exploratory Scenario (SWES) work and other members have contributed to this response.

1.2. Section 2 contains our suggestions and recommendations to the FSB. Section 3 contains the rationale for these recommendations within responses to the questions posed in the consultation.

2. Suggestions and Recommendations

2.1. We agree that the recent increase in the NBFI sector's share of financing of the real economy impacts on risk and financial stability. So, the FSB's work in this topic is appropriate.

2.2. We recommend that the FSB:

2.2.1. research and assess the wider activities and rolling impacts of NBFIs on markets, thereby calibrating a more holistic response to reflect new risks, particularly related to leverage, liquidity management, and market interconnectedness, as highlighted by Andrew Bailey, the Governor of the BoE in his recent speech[2].

2.2.2. reflect on the important insights revealed by the new scenario testing work under the BoE SWES, relating to:

- how the behaviours of different financial institutions can interact to amplify market shocks
- mismatches in market participants' expectations
- surveillance and systemic risk assessment capabilities
- vulnerabilities in the UK financial markets and the potential for cross-border spillovers, particularly in repo markets and derivatives trading.

2.2.3. urge other central banks to carry out and share learnings from exercises like the BoE's SWES.

2.2.4. gives more credence to the benefits that international cooperation and coordination on data sharing can bring, especially when looking at reporting and regulating standards.

2.2.5. includes an assessment and suitable amendments to its proposals to how and what type of data disclosure is likely and appropriate from different types of NBFIs and their business models, given current interconnectedness.

2.2.6. adopt a flexible approach between entity-based and activity-based measures and seeks to understand the impact of these measures in experimental stress scenarios and exercises and to scrutinise the application of those measures proposed in the consultation.

2.2.7. appreciates that adopting codes of conduct to improve private disclosure may be a suitable course of action initially to address the risks posed by leverage in NBFI.

2.2.8. remove the recommendation to employ overreaching concentration and exposure limits on certain product types such as derivatives and SFTs for banks, irrespective of the counterparty which may not be an NBFI.

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[1] UK Finance is the collective voice for the banking and finance industry. Representing 300 firms, we are a centre of trust, expertise and collaboration at the heart of financial services, championing a thriving sector and building a better society.

[2] "Are we underestimating changes in financial markets?" given at The University of Chicago Booth School of Business, London

2.2.9. should not make recommendations on measures whereby banks are used by authorities as a proxy to supervise or regulate NBFIs, for example encouraging excessive focus on banks' counterparty risk management as a way of limiting the financial stability risks of NBFIs.

2.2.10. clearly defines the scope of firms intended to be captured under its proposals. For example, any direct or indirect limits on leverage should not apply to those firms that do not use leverage (e.g. money market funds, non-leveraged pension funds and investment funds).

3. Responses to questions in the FSB consultation

Recommendation 1

Q1. 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?

3.1. We welcome and support the work the FSB has undertaken and the related papers and reports that have been published highlighting the growing financial stability systemic risk posed by NBFI. We consider the description is accurate regarding leverage in NBFI. However, we encourage the FSB to undertake more work on the interconnectedness of NBFI entities' activities and leverage. Leverage is only a part of the NBFI ecosystem. A more holistic approach should be considered to properly tackle the financial stability related risks that leverage in NBFI potentially brings. For example, we suggest considering the network learnings from the recent BoE SWES work and particularly the follow up report and paper published in late 2024[3][4] and related speeches in 2025.

3.2. We further suggest an exploration of international regulatory discrepancies and financial stability risks across jurisdictions, reflecting the interconnectedness.

3.3. Similarly, we suggest that the FSB explore the behavioural actions and network dynamics at play amid NBFI activities and markets, to reflect the realistic fallout from episodes on market stress. As mentioned by Andrew Bailey, different non-banking financial entities, including various trading groups, hold different types of strategies which are increasingly crucial to understanding market dynamics.

3.4. We further suggest considering learnings from the BoE's staff paper[5] on LDI minimum resilience - recommendation and explainer – which describes the FPC's recommendations on steady-state minimum levels of resilience for LDI funds, and contains more detail on assessment of resilience, including on design and calibration. BoE used targeted interventions to reduce liquidity stress among pension entities, by implementing specific regulation that did not impact the banking sector.

3.5. We encourage the FSB to approach NBFI leverage in a more modulated way, taking account of the different types of NBFI, analysing their different activities, liabilities and operations as there is no 'one-size-fits all' NBFI. This could in turn lead to it making individual recommendations in a more targeted way.

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[3] The Bank of England's system-wide exploratory scenario exercise final report - https://www.bankofengland.co.uk/financial-stability/boe-system-wide-exploratory-scenario-exercise

[4] The SWES: using system-wide scenario analysis to spot systemic risks - https://www.bankofengland.co.uk/speech/2024/december/lee-foulger-speech-at-bloomberg-uk-policy-series

[5] https://www.bankofengland.co.uk/financial-policy-summary-and-record/2023/bank-staff-paper-ldi-minimum-resilience

UK Finance

Q2. What are the most effective risk metrics that should be considered by authorities to identify and monitor financial stability risks arising from NBFI leverage?

3.6. Before the FSB implements any proposals relating to leverage in NBFI, we recommend that there should be clear and transparent definitions of leverage and early warning indicators that suggest financial stability risks arising from NBFI leverage.

Q3. 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?

3.7. Members state that the report is ambiguous throughout, as to what type of risks, entities and activities that the FSB are targeting in their report and recommendations. The FSB must define key points, such as what is excessive leverage, what are excessive levels of concentration and what is the exact risk which measurements are intended to address.

3.8. The FSB must also define when actions such as margin requirements, concentration add-ons, and leverage limits would be implemented, and to what entities.

3.9. Recommendation 5 states that '*measures include (i) concentration add-ons for margins and haircuts in connection with exposures of non-bank financial entities in derivatives and SFT markets, (ii) concentration and large exposure limits'* which are specifically ambiguous, and suggest the role of banks for implementing and policing such measures. We do not support this approach.

3.10. Members are concerned about authorities' knee-jerk reactions to individual or esoteric episodes of volatility, especially where such episodes did not originate in the banking sector, to justify cross-cutting policies, without consideration of statutory risk metrics. This short-term reactive approach could result in reliance on inappropriate and / or incomplete risk mitigation methodologies.

3.11. Addressing loopholes in monitoring is a more effective policy response than using isolated, idiosyncratic episodes to justify broader policy interventions. We suggest that a more forward-looking and inclusive approach that uses risk metrics relevant not just for recent events but more importantly for those that could emerge in future crises.

3.12. We believe that alongside a consideration of the risks taken on by NBFIs, the FSB and national authorities recognise the role of the banking prudential framework as a corollary to growing NBFI activity in certain markets.

3.13. In some cases, banking regulation has had inadvertent consequences on market functioning, by making it much more difficult for banks to act. For example, the Federal Reserve took emergency action[6] to disapply the supplementary leverage ratio from US Treasuries, as it was preventing banks from intermediating in the market during the "dash for cash" episode in March/April 2020. The FSB should consider measures that are inadvertently displacing activities from banks to NBFIs, with a view to optimising liquidity in the market as well as distribution of risk across different market participants.

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[6] https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200401a.htm

Recommendation 2 and 3

Q4. 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?

3.14. We note that that the FSB consultation questions refer to Recommendation 3 but there are none relating to Recommendation 2. UK Finance members are concerned that this implies that the FSB have already decided that existing data reporting requirements are inadequate. We encourage authorities to review the current data availability and accessibility before proceeding with additional requirements.

3.15. In this regard we think authorities already have a wealth of data available to them through a range of disclosure and reporting requirements, such as trade repository data on derivatives, and securities financing transactions, including requirements under BCBS[7]'s suggested practices. But due to silos in data architecture it is currently difficult for the authorities to maximise the benefit of these data for risk monitoring purposes. We are opposed to significant increases in data disclosure requirements until all current available data has been exhausted. The priority should be to assess the stock of data already available and address the frictions in sharing these data, for instance across borders between different regulators and data repositories.

3.16. Then, and only then, should authorities consider that they have insufficient information for risk monitoring purposes, and hence need to seek enhancements to disclosure requirements. But these enhancements should be targeted at the types of firms about which they judge they need additional information i.e. if they feel insufficiently sighted on NBFI exposures, they should apply enhancements to NBFIs themselves, not the banks that intermediate them.

3.17. We also note the FSB workplan[8] to examine NBFI data challenges, which covers similar ground, and suggest that the proposals discussed in this paper are deferred until the conclusion of this exercise.

3.18. The need for further public data disclosure has not yet been sufficiently demonstrated by the FSB and the FSB's proposals suggest incomplete understanding of current data practices. We object to the proposals placing majority of responsibility for greater disclosure on banks. It is unclear what extra data or reporting practices would be required to enhance the authorities' risk detection and we seek clarification, along with defining the ambiguous term 'time of stress'.

3.19. In designing any enhancements, authorities should be mindful of the potential adverse consequences for market functioning and should ensure they apply appropriate mitigants. Public information of trades can have disproportionate impacts on wider market dynamics. For example, in concentrated markets, an exit from the markets by a large investor could trigger herd behaviour if made public, increasing systemic risks.

3.20. Any public disclosure of data sets should be made (i) with adequate lagging, focused on time sensitivity to ensure market competition and stability; (ii) in an efficient and accessible format, aggregated where possible, rather than overly granular (iii) no more frequently than quarterly, as appropriate with risk build-up.

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[7] BCBS: Basel Committee on Banking Supervision

[8] https://www.fsb.org/2025/02/fsb-chairs-letter-to-g20-finance-ministers-and-central-bank-governors-february-2025/

3.21. We suggest regulators survey and measure more behavioural information and responses about how firms react and their strategies change in market stress. The value of this should not be understated and is critical to understanding real-world stress scenarios. As mentioned by Andrew Bailey, the SWES test results showed that market shocks and instability was enhanced by the "*mismatches in firms' expectations of how others would act in a stress scenario*".

3.22. Members posit that it would also be pertinent to assess the possibility of sharing relevant data between authorities in different jurisdictions given that NBFIs invariably operate in global markets.

Recommendation 4 and 5

Q5. 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?

3.23. We consider that measures listed in recommendations 4 and 5 are not sufficiently well calibrated to target NBFI operations and, in cases, instead unfairly place the onus entirely on banks. The recommendations do not balance risk with market competitiveness and in some cases remain unclear.

3.24. We recognise the need to avoid regulatory arbitrage, but regulation should also consider differences between different types of institutions and their balance sheets. Lifting and shifting the prudential framework for banks and applying it to NBFIs could have inadvertent consequences as well as increase costs in the financial system. Regulators should also avoid a one-size-fits-all approach across different types of entities.

3.25. The FSB needs to define the meaning of indirect and direct leverage limits, including defining where they would be applied.

3.26. We suggest that "equivalent risks should result in equivalent regulation" rather than the "same regulation", as the latter approach could undermine some of the significant progress in enhancing market stability since the global financial crisis. Specifically, we believe that the risk and investor profile between different NBFI entities, as well as the regulatory framework applied to them, can differ vastly.

3.27. The FSB should recognise that the role of different entities in scope of this paper play very different roles in the leverage ecosystem. Pension funds, for example, play a crucial role in the real economy, both in providing financial security for individuals in old age, as well as – as encouraged by national authorities – increasingly investing in "productive finance", such as unlisted equities and infrastructure assets. For example, the BoE noted in the recent SWES that defined benefit pension funds have much larger collateral buffers and can now be more easily be recapitalised by their corporate sponsors.

3.28. The measures taken to bolster the resilience of insurers and pension funds in recent years – such as the Solvency II / UK regimes respectively and measures taken in response to the UK's LDI episode – have not been shown to be insufficient and do not warrant additional entity-based regulation. Entity based measures the FSB has suggested will potentially have unintended consequences on pension funds, if the imposition of a leverage cap led to forced selling in order to meet regulatory requirements, which would be pushed out of the government bond markets.

3.29. Our members therefore view the proposed entity-based measures in the CP, such as leverage limits and concentration limits, as unlikely to significantly improve the financial resilience of pension funds, while also imposing significant costs in terms of returns for pension users and capital for investment. The FSB should instead focus its efforts on under or un-regulated parts of the market, rather than prematurely re-opening frameworks that have only been recently implemented.

3.30. Where individual entities pose increased systemic risk, which is only likely to be the case for a small number of very large NBFIs active in systemically important markets, these risks can be addressed by entity-specific expectations, rather than applying broad rules to a class of entities in a one-size-fits-all manner.

3.31. Members suggest the following suitable adjustments to the CP's approach on measures:

- include an assessment and suitable amendments to how and what type of data disclosure is likely and appropriate from various NBFIs and their connected operations, given current interconnectedness
- remove the recommendation to employ overreaching concentration and exposure limits on certain product types such as derivatives and SFTs for banks, irrespective of the counterparty, which may not always be an NBFI
- research and assess the wider activities and rolling impacts of NBFIs on markets, thereby calibrating an holistic response.

3.32. It is important to recognise that the BoE's SWES was not a formal stress test, rather it was a hybrid assessment seeking quantitative and qualitative inputs. If system wide assessments include a stress testing or new reporting components , then it should leverage off existing data and the results of relevant exercises, rather than introducing new burdensome requirements – especially where such exercises are "system-wide" including both NBFI entities and banks.

Q6. 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?

Q7. 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?

Q9. For non-centrally cleared securities financing transactions, including government bond repos, what are the merits of margin requirements compared to minimum haircuts?

3.33. If authorities use activity-based measures (e.g., SFT haircuts, margining, central clearing) they must be implemented with a view to minimising opportunities for arbitrage or unintended distorting effects.

3.34. Any mandates applying to SFTs would also require authorities to agree a common definition of 'SFT'.

3.35. Any requirements to centrally clear bond / repo transactions should be carefully considered in terms of the impacts they could have for end-users, clearing firms and CCPs[9] as highlighted in the Vanderbilt Law Research Paper[10] on Central Clearing in the US Treasury Market, published in January 2025. For example, while central clearing can bring risk management and multi-lateral netting benefits, it can also create new systemic risk concentrations at CCPs and create new constraints for clearing members and end-users such as, liquidity, RWA capital, single counterparty credit limits.

3.36. Any proposed measures to expand central clearing mandates for derivatives must consider the liquidity of the derivatives in question - only appropriately liquid products should be centrally cleared.

3.37. We suggest that regulators amend rules on collateral so that they:

- take a holistic, and systemic, approach to the regulation of collateral, and of activities requiring collateral
- are consistent across different types of activity, and across different types of market participant
- ensure that market participants can pool collateral. One example would be to allow central counterparties to diversify where they can hold collateral rather than restrict them to posting collateral with central security depositories.

3.38. We argue that there is merit in increasing consistency with the use of collateral, including margin, across different activities and market participants.

3.39. We suggest that the FSB re-work the SFT haircut standards rather than try to enforce them given the lack of progress to date.

3.40. Furthermore, as the FSB notes, the use of SFT minimum haircuts could have a detrimental impact on cost of hedging and adverse effects on market liquidity, particularly when netting and/or cross-margining arrangements are not appropriately reflected. In this regard, it is notable that the FSB's report suggests that authorities should "*consider implementing minimum haircuts in SFTs, including government bond repos*". In contrast, government bond repos were specifically excluded from the FSB's 2015 SFT minimum haircuts framework. Including government securities would significantly expand the scope of the minimum haircuts framework and further exacerbate our concerns highlighted above.

3.41. We believe that the implementation of new clearing mandates is not required and can be damaging to markets, locking entities out of markets, exacerbating illiquidity, and encouraging arbitrage and create negative impacts on competition. This has been demonstrated in clearing mandates issued in the US, which have proven problematic. Until there is further evidence from the work in the US, we would recommend against such measures being applied to different entities and markets, especially given the potential risks to the liquidity and functioning of such markets.

3.42. We seek clarification of the circumstances around CCP mandating concentration add-ons regarding the notification period as to when add-ons apply. Add-ons should not be applied in an ad-hoc manner and should be established from the outset and with due process.

3.43. The use of haircuts and haircut add-ons is a blunt instrument, and it is not a practical requirement; there is currently a similar banking regulatory requirement that has not been

[9] CCPs: Central Clearing Counterparties
[10] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5099565

successful. This, however, must be caveated with the understanding that markets with very low/no haircuts also come with their own issues, and do not necessarily reflect strong financial stability.

3.44. Increasing charges on SFTs may have the effect of pushing these transactions outside of the traditional banking sector altogether, which would have the opposite of the intended effect and result in increased leverage.

3.45. Members would oppose dynamic approaches on the basis that they could cause:
- cliff edge effects
- perverse pro-cyclical effects that would amplify instability
- complexity, particularly for firms who do not pose financial stability risk but may have a particular holding in one asset class.

3.46. We do think there is merit in increasing consistency with the use of collateral, including margin, across different activities and market participants. The Basel Committee's work on margin practices[11] noted very different approaches to margin across different markets and entities.

Q8. Are there any potential unintended consequences from activity-based measures beyond those identified in the consultation report?

3.47. The FSB must define what risks are being covered, whether that be entity-based, business strategy based, activity-based or market-based. We hope that measures can be defined appropriately to ensure they:
- create consistency between market participants
- minimise the risk of entities which do not pose the same risks being caught by the proposals (e.g. all defined benefit pension or investment funds would be subject to such requirements, even if they do not employ leverage)
- recognise differences between different entities (e.g. a bank-style prudential framework is designed for the specific risks faced by banks in terms of deposit flight, too-big-to-fail etc. that do not generally apply to NBFIs)

Q10. 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?

3.48. We believe entity-based measures can be effective when used to address clearly identified risks. The advantage is that these measures can be targeted to firms or groups of firms where a financial stability risk has been identified.

3.49. We believe that further clarity is required regarding the meaning of indirect leverage limits. We are comfortable with the example provided in the paper of a yield buffer applied to certain LDI funds since this was a targeted measure that responded to a clearly identified risk.

3.50. Some of our members interpret an indirect leverage limit as a tool that could be applied to another entity as a means of limiting a counterparty's leverage, for example, a prime broker. We would strongly disagree with this approach as it would add unnecessary complexity and in some cases be impractical (for example because a single prime broker would not see the full portfolio of its NBFI counterparty). Risk should be addressed at the source, i.e. the relevant

[11] https://www.bis.org/bcbs/publ/d537.pdf

NBFI entity rather than the prime broker. Leverage limits across entities are indiscriminate, blanket policies which would damage markets and competition, and would likely drive leverage use in unregulated markets.

3.51. While circumstances could exist when direct and indirect leverage limits may be effective in addressing financial stability risks, we do not support cross-entity measures to manage market stability, nor the de-facto use of banks to indirectly regulate NBFI entities as we do not think it would lead to a successful outcome.

3.52. The imposition of strict leverage limits could exacerbate market dynamics during a stress, by adding a pro-cyclical requirement that forces firms to sell assets in order to avoid breaching a regulatory threshold, in addition to the dual stress of meeting margin calls and investor redemption requests.

3.53. Furthermore, leverage is only one of many stripes of risk as discussed above.

Q11. 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?

3.54. We are comfortable with the example of an entity-based measure provided in the paper of where introduced leverage limits on real estate funds. Similarly, if an authority can identify a firm with highly concentrated and risky position (e.g. Archegos), then they could impose leverage limits on that fund. An example would be ESMA[12] guide on applying leverage caps to leveraged AIFs. The approach in 'Guidelines on the assessment of leverage-related systemic risk' could be useful in highlighting a clearly defined process for entity specific measures.

Q12. Are there any potential unintended consequences from entity-based measures beyond those identified in the consultation report

Q13. 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?

3.55. To successfully implement effective measures, sufficient, well managed and well analysed data is crucial. It is not yet apparent that the data handling and analysis framework is in place for this. Current gaps in data usage must be bridged in order to have a suitable framework.

3.56. Measures can be complimented by specific expectations on a small number of systemically important NBFI entities.

3.57. As discussed above, activity-based measures, when correctly calibrated, may be a useful way of improving resilience in particular markets across all participants. These can then be complemented by specific expectations on the small population of systemically important NBFIs.

3.58. Some of the entity-based measures could risk running liquidity spirals which would need to be taken into account before application.

[12] esma34-32-552_final_report_guidelines_on_article_25_aifmd.pdf

Recommendation 6

Q14. 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?

3.59. The FSB's recommendations should align with the recent BCBS Guidelines on Counterparty Risk Management[13] which are expected to be of most relevance to firms with large exposures to NBFI counterparties. These guidelines, which include on-boarding, credit risk mitigation and better CCR measurements, were finalised in December 2024 and are now being incorporated by firms. It is premature to consider if credit risk management needs to be "enhanced" further.

3.60. Banks should not be employed by authorities as a proxy mechanism to supervise / regulate NBFIs.

Recommendation 7

Q15. 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?

Q16. 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?

Q17. 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?

Q18. 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?

Q19. 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?

3.61. As highlighted by BoE's Rebecca Jackson in her speech on prime brokerage[14] in January 2025, reflecting on counterparty private data disclosure, different firms share different levels of information on different trades, and typically counterparties do not meet sufficient risk mitigating standards.

3.62. Our members support efforts to improve private data disclosures by leverage users to their to leverage providers. As in the Rebecca Jackson speech, this would place appropriate reporting responsibility on NBFI entities and reflect the 'equivalent risk, equivalent regulatory standards' ethos. Although members note it is difficult to manage and maintain data sharing between

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[13] https://www.bis.org/bcbs/publ/d574.htm

[14] https://www.bankofengland.co.uk/speech/2025/january/rebecca-jackson-speech-at-uk-finance-prime-brokerage

entities, enhancements to private disclosure requirements would be helpful and would likely positively impact financial stability risk management of NBFI leverage.

3.63. Members support an approach that uses a code of conduct, similar in practice to the FX Global Code used by the Global Foreign Exchange Committee, or the UK Money Markets Code, led by the Money Markets Committee. This would provide suitable guidance, without the burden of regulation, and not disrupt competitive market forces.

3.64. Members suggest that the adoption of an appropriate and pragmatic code of conduct, which they have been involved in developing will facilitate greater international cooperation and after time, a move towards more standardised market practices and potentially lead to regulatory standards where needed.

3.65. Based on minimum disclosure requirements, the FSB would need to curate a clear and consistent definition of leverage users. However, it is unclear if minimum data disclosure requirements would be enforceable.

3.66. Members continue to maintain that it is not the responsibility of banks to regulate NBFI activity.

Recommendation 8

Q20. 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?

3.67. As we set out in response to Question 5, we consider that the approach should be equivalent risk, equivalent regulation rather than same risk, same regulatory treatment.

3.68. We believe NBFIs should be scrutinised more rigorously over risks taken but the current proposal may not allow for nuances in their activities and could potentially disturb market mechanisms.

4. Engagement

4.1. We appreciate the opportunity to share our members' views in the UK Finance's response to the FSB's Leverage in NBFI consultation report. We would be happy to facilitate discussions as needed.

4.2. UK Finance is content for this response to the FSB's consultation report to be recorded publicly.