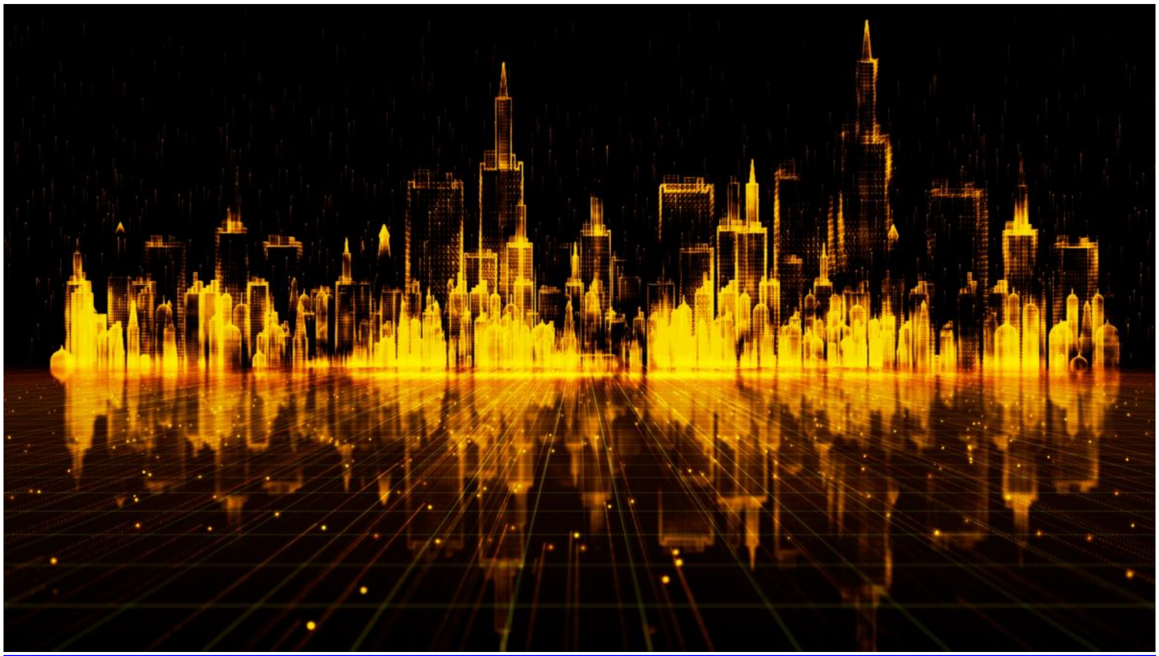


Basel iii News, October 2025

Market sentiment is the collective emotional and psychological state of investors and market participants, shaping how they perceive and react to financial information, economic developments, and geopolitical events. It reflects the mood of the market, whether optimism or pessimism prevails, and it often moves prices as powerfully as fundamentals do.

Although it is intangible and difficult to quantify, market sentiment is reflected in observable behavior. Rising demand for riskier assets signals confidence. A flight to safety reveals fear or uncertainty.

Market sentiment bridges the gap between economics and psychology. Classical economic theory assumes rational decision-making, where investors act logically based on available data. In practice, markets are human systems, and human behavior is influenced by emotions, biases, and crowd dynamics.

Optimism can inflate asset prices beyond their intrinsic value, creating bubbles. Panic can lead to rapid sell-offs and undervaluation. History offers countless examples, from the late 1990s technology boom to the collapse of 2008, demonstrating that sentiment can amplify cycles of boom and bust far beyond what fundamentals alone would justify.

Modern financial analysis treats sentiment as both an indicator and a driver. Traders and institutional investors often monitor sentiment through tools like volatility indices, investor surveys, and social media analytics. News tone, trading volume, and the spread between bullish and bearish positions can all reveal underlying attitudes. Yet interpreting these signals requires nuance. Excessive optimism may be a warning sign of overextension, while widespread pessimism can indicate that markets are near a bottom. In this sense, sentiment is both mirror and catalyst, it reflects current perceptions while influencing future behavior.

The influence of sentiment extends beyond equities. Currency markets, commodities, and even sovereign debt respond to shifts in confidence and fear. When uncertainty grows due to political instability, central bank policy changes, or emerging technological disruptions, investors tend to prioritize preservation over profit. This behavioral shift affects liquidity, volatility, and the global allocation of capital. As a result, sentiment becomes a force capable of shaping financial stability across interconnected economies.

The paper that follows starts with market sentiment. As we said, it is intangible and difficult to quantify, but is reflected in observable behavior.

BIS Quarterly Review, September 2025
International banking and financial market developments

Global financial markets maintained a risk-on tone during the review period, shrugging off concerns over mounting tariff and policy uncertainty.

Despite short-lived bouts of volatility triggered by incoming data and political developments, market sentiment remained upbeat, defying mounting challenges, including unease over the longer-run fiscal outlook in several key jurisdictions.

Equity markets in particular delivered strong returns, led by US stocks, which reached all-time highs.

Large cap technology stocks outperformed, buoyed by enthusiasm around artificial intelligence (AI) and strong earnings, despite high valuations.

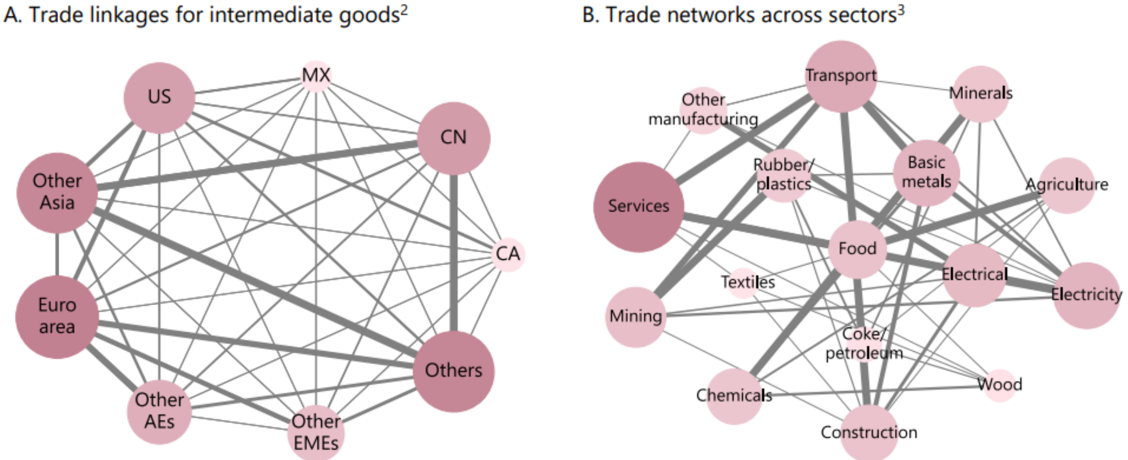
Japanese stocks also posted gains. After having rallied earlier this year, European stocks remained flat, on the back of relatively weaker earnings growth.

As is typical during risk-on phases, the rally was accompanied by subdued volatility, with the VIX receding.

Credit spreads remained compressed and declined to lows not seen in a decade in spite of default rates ticking up.

The US dollar paused its depreciation after a significant step down in the second quarter of 2025. While dollar depreciation has historically been a marker of risk-on phases in financial markets, the dynamics over the review period did not match historical patterns.

The network structure of global trade links[1] Graph 2



[1] The size of each node represents the sum of inputs and outputs for all other economies/sectors in the Asian Development Bank (ADB) Input-Output Table for 2023, while the width of each line represents the sum of inputs and outputs between the corresponding pair of economies/sectors. [2] For the regions, data are aggregated for 24 other Asian economies ("other Asia"), 17 euro area economies, six other AEs and seven other EMEs. "Others" is four economies combined with the rest of the world, as defined by the ADB. [3] To reduce complexity, only the three largest connections by outputs for each node are considered.

Sources: Asian Development Bank, Multiregional Input-Output (MRIO) Tables; authors' calculations.

The risk-on tone was accompanied by an appreciation of the currency following the unveiling of the US fiscal package in early July.

Overall, global financial conditions eased significantly, driven by equity gains and compressing credit spreads in the United States and benign conditions in emerging market assets.

Conditions in Europe remained more subdued following a strong half-year. The risk-on environment was underpinned by expectations of further monetary policy easing in the US and several other jurisdictions, coupled with expected fiscal largesse in the US and Germany.

This policy cushion supported investors' optimism by reducing their perceived likelihood of adverse scenarios. Central banks in major advanced economies (AEs) continued reducing policy rates.

The ECB, Sveriges Riksbank, the Swiss National Bank and the Bank of England implemented rate cuts.

The Federal Reserve kept rates on hold, but some Federal Open Market Committee (FOMC) participants signalled a preference for an easier stance in the future, and signs of a cooler labour market fuelled expectations of rate cuts.

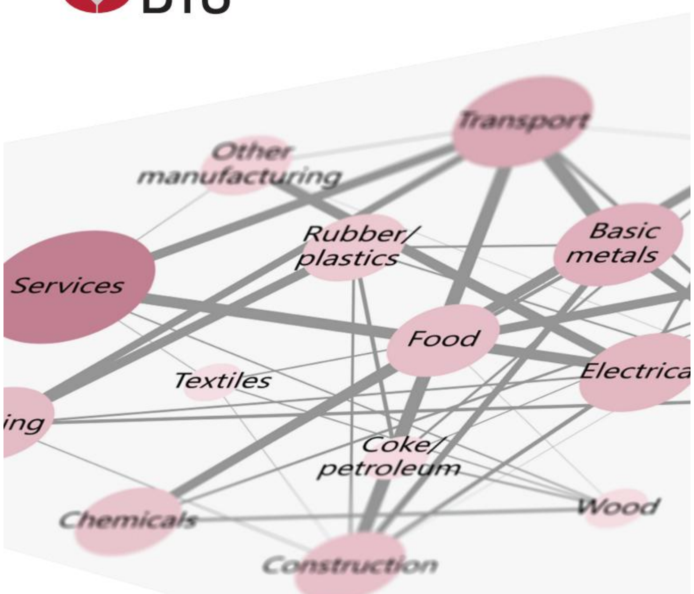
Such sanguine market assessments sit oddly with concerns about fiscal sustainability, which are arising from the dynamics of long-term government bonds.
Long-run yields remained elevated in the risk-on environment, with yield curves showing significant steepening at the ultra-long end.

This trend was probably driven by mounting unease about the fiscal outlook in certain jurisdictions and lingering concerns over a potential resurgence of inflation.

Emerging market economies (EMEs) capitalised on the global risk-on sentiment, benefiting from a softer US dollar and from market participants tuning out trade conflicts. EME currencies appreciated broadly, supported by both developments in the real economy and technical factors related to hedging activities.

Local currency bonds saw modest positive returns, while EME bond issuance picked up. EME equity markets rallied, with notable gains in China, Colombia and Korea.

BIS



To read more: https://www.bis.org/publ/qtrpdf/r_qt2509.pdf

Banking regulation - as complex as necessary, as simple as possible

Dr Joachim Nagel, President of the Deutsche Bundesbank, at the13th regulatory conference, Frankfurt am Main.

1 Introduction

Ladies and gentlemen, it gives me great pleasure to open the thirteenth regulatory conference. A warm welcome, too, to our speakers and panellists.

To kick off my speech today, I would like to take you on a brief excursion into the world of medicine. For a long time, hospitals striving to lower the number of deaths from infectious diseases used to deploy a whole host of measures: regularly airing the rooms, frequently changing the bed covers, isolating patients, and giving doctors special protective clothing to wear.

Then, in the mid-19th century, a Hungarian physician called Ignaz Semmelweis introduced a simple rule: All doctors and medical students were to wash their hands with a chlorinated solution before every examination. The results were spectacular: The mortality rate dropped within the space of a few months from more than ten per cent to less than three per cent.

The solution to the problem I will be talking about in just a moment is certainly not quite as simple, and the effect might be smaller as well. But you can probably tell what I'm getting at: Sometimes, a simple, yet appropriate solution to a problem is better suited than a complex bundle of measures.

Today's European banking regulation is just such a complex bundle of measures. It sets out to achieve different objectives, relying on a multitude of instruments that are often intertwined.

Banking regulation in its current form came into being in a long and iterative process. New capital instruments were introduced, minimum requirements were raised, and additional capital buffers were created. Further requirements were added – like the leverage ratio – alongside new resolution rules.

The outcome: Our banking system today is far more resilient than it was prior to the 2007 global financial crisis. We have seen compelling evidence of this in recent years: Neither the coronavirus pandemic nor the energy crisis, nor the turmoil in the US banking market in 2023, spelled any serious danger for the European banking system.

In terms of resilience, then, the European banking system has delivered in every respect imaginable. That's unreservedly positive. And it's something that's worth stressing over and again. But an honest stocktake also means acknowledging that banking regulation today is more complex than it ever was.

Just over six months ago, I joined my ECB Governing Council colleagues José Luis Escrivá (Banco de España), Fabio Panetta (Banca d'Italia) and François Villeroy de Galhau (Banque de France) in writing a letter to Maria Luís Albuquerque, the European Commissioner responsible for Financial Services and the Savings and Investments Union.

In that letter, we called on the European Commission to widen its simplification initiative to also include the banking sector. In the Eurosystem, we are now working on this topic as part of a High-Level Task Force.

I will begin my speech by briefly outlining what exactly is meant by the term "simplification" – and what is not. After that, I will give you an idea of the complexity of the existing own funds regulation in Europe and explain why this can lead to inefficiencies.

I will then close my speech by explaining, with the aid of four concrete thought-provoking impulses, how effective banking regulation could be simplified.

2 What does simplification mean?

Let me start with the question of what simplification means exactly – and what it doesn't. I think it's important to emphasise that simplification in banking regulation is not synonymous with deregulation. What we want to avoid at all costs is a potential situation where we jeopardise the stability of the banking system or underestimate risks.

Rather, simplification stands for a targeted reduction of unnecessary or perhaps even counterproductive complexity. In other words, we are striving to make regulation clearer, more understandable and more efficient – while continuing to safeguard the stability of the banking system. True to the motto: as simple as possible, as complex as necessary.

One vivid example of simplification can be found in the area of disclosure requirements and reporting standards. At the European and national levels, there are already numerous initiatives aimed at eliminating reporting overlaps and at streamlining and harmonising reporting requirements.

One concrete example is the joint initiative with BaFin to discontinue the reporting scheme for loans of €1 million or more at the end of 2026. For that to happen, the necessary legal amendments will have to have been made by then.

But there are other fields of banking regulation, too, where it's worth exploring the topic of simplification. Because today's banking regulation is the result of multiple reforms that were often rolled out in response to specific crises and new challenges. Those reforms had to take different interests and objectives into account. Every single measure had a good reason for existing.

But over time, these have grown to become an ever more dense mesh of regulations. Many rules are intertwined, some overlap, others are difficult to understand or arduous to implement. That's not to fault the legislators – rather, it is the outcome of a long and complicated process of negotiations.

That is why we at the Bundesbank asked ourselves: What would optimal banking regulation look like if we had the opportunity to rewrite it today entirely from scratch? Even things that work well need to be evaluated at regular intervals – that's neither unusual nor reprehensible.

In monetary policy, incidentally, that's something we do as a matter of course. Just recently, we conducted another assessment of our monetary policy strategy. And an approach that has proven its worth in monetary policy can benefit banking regulation as well.

3 Own funds regulation: the status quo

How does the complexity of European banking regulation manifest itself – and what unintended side effects can it have? I'd like to spend some time focusing on own funds regulation. It's a good example of the complexity that I'm talking about.

Nowadays, European banks are faced with a plethora of parallel own funds requirements. These requirements pertain to the capital regime and to the resolution regime.

The capital regime governs the amount and type of own funds a bank has to hold on a going concern basis. The aim is to safeguard the solvency and stability of the bank in its day-to-day operations and to cushion losses from ongoing business.

The capital regime incorporates four key capital requirements, three of which are risk-weighted and one of which is unweighted. Risk-weighted means that assets are weighted differently depending on their risk content.

A collateralised loan to a reliable debtor is thus assigned a smaller risk weight than an unsecured loan to a risky debtor. Weighting is a way of more precisely capturing credit risk.

Banks need to meet three requirements for their risk-weighted assets – for common equity tier 1 capital, additional tier 1 capital and total own funds. Let's make these terms – that are perhaps a little abstract to some – more tangible.

Common equity tier 1 capital includes, for example, shares issued by the bank or retained earnings. This form of capital is the best at absorbing losses. Contingent convertible bonds, also known as CoCo bonds, are an important instrument when it comes to additional tier 1 capital.

They are automatically converted from debt to equity if specific trigger events occur. Tier 2 capital primarily includes subordinated liabilities.

Banks are also required to comply with a leverage ratio. In simple terms, this involves measuring tier 1 capital in relation to total assets – without risk weighting. The leverage ratio curbs banks' debt and provides an additional layer of protection alongside the risk-weighted capital requirements.

If a bank is being wound up – i.e. in the case of a "gone concern" – the resolution regime contains further requirements. The aim here is to enable even banks whose insolvency could jeopardise financial stability to be wound up in an orderly manner – without placing a burden on the taxpayer.

The resolution regime governs the way this should work in Europe. The minimum requirement for own funds and eligible liabilities (MREL) is one element of it. Again, it includes both risk-weighted and unweighted components.

To meet the requirements imposed by the resolution regime, banks are permitted to use not only equity capital but also certain instruments of debt capital. Global, systemically important institutions are also subject to international standards such as total loss-absorbing capacity (TLAC).

All in all, large banks in Europe have to meet up to nine different own funds requirements. We have a number of different requirements side by side, so we're talking about horizontal complexity here. On top of that, there's also vertical complexity, with these requirements consisting, in turn, of multiple stacked layers.

All European banks must meet certain minimum requirements – that's the first layer. Then, there are various capital buffers to be met in the second layer.

Looking at risk-weighted capital requirements, these include the capital conservation buffer, the buffer for systemically important institutions, the countercyclical capital buffer and the systemic risk buffer.

In some cases, minimum requirements and buffers are the same across all banks, and in others they are bank-specific or country-specific – and they can change over time, too.

Pillar 2 guidance creates a third layer, in the form of an additional capital reserve recommended by supervisors. And the resolution regime consists of multiple layers as well.

If your mind's already in overdrive, you wouldn't be alone – many banks and financial investors feel the same. The complexity becomes problematic if it leads to inefficiencies or if the individual elements get in each other's way. I'd now like to briefly highlight two key problem areas.

First, the multitude of capital requirements makes it difficult for banks, supervisors and market participants to readily work out which requirement is binding in a given case. That's because the answer to that question will depend on many factors – the capital structure and the buffers available, to name a couple.

Second, there are a number of side effects and interactions that can undermine the actual objectives behind the rules. For instance, double counting of own funds towards buffers and parallel minimum requirements reduce the buffers available for use. And this, in turn, can lead to a situation where supervisors release buffers but banks cannot actually use them. This problem is already well documented.4

Another example is that large banks often meet some of their requirements with additional tier 1 capital, such as contingent convertible bonds. As a result, they have less common equity tier 1 capital to cushion losses.

Crisis measures have different trigger points and this discrepancy can also prove problematic. From a capital regime perspective, it makes sense to set the trigger point as late as possible, as this would ensure that banks also use their buffers and maintain lending. From a resolution angle, however, this might then leave insufficient capital to facilitate orderly resolution.

As you can see, complex regulation leads to undesirable side effects in some cases – which undermines the actual purpose of regulation.

To read more:
https://www.bundesbank.de/en/press/speeches/banking-regulation-as-complex-as-necessary-as-simple-as-possible-965952

Anti-fragility and the financial system

Brad Jones, Assistant Governor (Financial System) of the Reserve Bank of Australia, to FINSIA: The Regulators, Sydney.

Thank you to FINSIA for the opportunity to be here with you.

For industry and those of us in the policymaking community charged with the responsibility of promoting stability, structural change in the external operating environment is making for unusually challenging times.

I am not talking about standard business cycle uncertainty here, but rather a new era of strategic, technological and operational disruption that is cutting across the financial system and wider society in complex ways.

But my main point today is that while these challenges will require a laser-like focus on resilience over the coming years, this does not have to come at the expense of innovation, competition and efficiency. Far from it – these objectives can be mutually reinforcing.

As industry and regulators, our challenge here is to work creatively to build a financial system that has an 'anti-fragile' character. A system that is vulnerable to disruption – geopolitical, technological, or otherwise – has inherent fragility and is more likely to break when stressed.

By contrast, and to invoke Nassim Taleb's characterisation, an anti-fragile system is one that can not only weather most storms but stands to benefit from disruptive change.

A new era of disruption?

The international system is undergoing seismic adjustment – on a scale and speed unseen in eight decades. The wheels of globalisation are grinding with more friction. Key tenets of the rules-based international order are being challenged.

The strategic environment is becoming more contested and complex. And for financial institutions, and even nations, self-insurance against a wide range of scenarios is assuming more prominence than at any time since the end of the Cold War. In short, the era of the peace dividend is over.

We are also navigating a period of rapid technological transformation. As the financial system is increasingly digitalised, the surface for cyber-attacks is expanding, fuelling a new cyber arms race. Cloud computing is helping to alleviate single points of failure, but concentration risk in cloud and other advanced technology service offerings risks amplifying third-party dependencies.

Quantum computing will also raise its own set of challenges and opportunities. And while artificial intelligence (AI) could unleash a burst of productivity across industries and economies, my discussions with international counterparts reveal concerns about its potential to accelerate fraud, misinformation and other sources of financial instability.

One example is contagion and herding risk, where parties could come to rely on similar models trained on similar data that therefore generate similar actions – including in a crisis. Moreover, the complexity of AI systems developed outside the regulatory perimeter means that systemic vulnerabilities could grow in a way that is not obvious to the boards of financial institutions or supervisors.

The resilience of the financial system to disruptions to critical infrastructure – the electrical grid and telecommunications network – is also a growing focus internationally. These challenges are not just limited to cyber intrusions, surging energy demands from big data and extreme weather events.

In April, cascading power outages on the Iberian Peninsula affected 50 million households and prompted the Spanish Government to declare a national emergency.

While economic activity declined by almost half its daily level, these disruptions would have been worse still had the functioning of key financial infrastructure also been compromised. And small, low orbit satellites are increasingly being viewed as an important source of 'all hazard' redundancy when mainland telecommunications capabilities are stressed, as seen in Ukraine and elsewhere.

Anti-fragility – building resilience through innovation and dynamism

Confronted with extreme-but-plausible sources of systemic disruption, it might be tempting for financial system regulators to prioritise resilience over all else, including innovation, competition and efficiency.

But I'm not persuaded that casting these objectives as a trade-off – resilience on the one hand, or innovation, competition and efficiency on the other – is a helpful framing. Rather, the opportunity we must grasp is to have these concepts mutually reinforce one another.

To that end, the RBA's Payments System Board has long had a mandate to support competition and efficiency in a manner that is consistent with stability in the financial system. My colleagues and I are well aware of the regulator curse, otherwise known as 'the stability of the graveyard', where an excessive desire to minimise risk in the system could come at the cost of robbing it of all vitality and therefore its ability to support economic growth over the long term.

With that in mind, our recently updated Strategic Plan places considerable emphasis on harnessing the forces of innovation, dynamism and competition to better promote resilience in the Australian payments system and across our financial market infrastructure more generally. It is in this sense that we are striving to give our system an 'anti-fragile' character. Let me provide some recent examples.

First, under a rebooted Industry Resilience Initiative, the RBA and APRA are working with the major banks, Australian Payments Plus and AusPayNet to enhance existing capabilities and develop new ones to ensure essential payment services can continue to operate in the event of a significant disruption to our payments system.

This 'all hazards' initiative is one of the key pillars of a significant program of work the Council of Financial Regulators are progressing with industry to strengthen the resilience of our financial system to geopolitical and operational risk. This includes a system-wide mapping of potential vulnerabilities.

Second, as the vision for Australia's future account-to-account (A2A) payments takes shape, the RBA is engaging with industry to ensure that resilience is baked into new technological solutions. Following our Risk Assessment in March, we recently set out a Public Interest Framework to guide industry in their strategic planning for the future A2A system.

This is a technology agnostic, principles-based framework that prioritises the reliability of the payments system through robust contingency and recoverability arrangements, alongside new functionality spurred by competitive tension and innovation. As a practical example, we view interoperability – the ability for systems to connect to each other – as integral to promoting resilience, competition and efficiency. In good times, end users will have greater choice over service providers; when systems go down, contingency options will be available.

Third, given advances in quantum computing will pose a risk to the secure exchange of payment details, we are strongly supporting industry efforts to migrate to the Advanced Encryption Standard (AES), which is viewed as a quantum-safe solution.

Nefarious actors are already storing vast amounts of data with the expectation of breaking current encryption standards down the track – a strategy known as 'harvest now, decrypt later'.

In the absence of greater urgency and effective industry coordination, there is a risk that the migration to the AES for card payments will occur too slowly, leaving end users exposed to increased risk of fraud. This could undermine trust in card payments and the wider financial system.

Fourth, in an effort to promote more competition in financial market infrastructure (FMI), the Payments System Board recently raised the threshold beyond which firms are required to comply with the Financial Stability Standards for Securities Settlement Facilities. This step, where the annual settlement activity threshold increased from $200 million to $40 billion, has already helped to streamline clearing and settlement facility licence applications for small firms, and we hope to see more entrants emerge to stimulate competition and diversify risk across the FMI landscape.

To read more: https://www.rba.gov.au/speeches/2025/sp-ag-2025-09-12.html

Financial health in review: current practices in different financial authorities

WORLD BANK GROUP

Financial Stability Institute | BIS

Financial health is a state in which people can manage their financial needs, cope with negative shocks, pursue their goals and feel confident about their financial lives. This multidimensional nature means that financial health is influenced by several factors, policies and players, both within and outside the financial sector.

Within the financial sector, financial authorities have tools that can contribute to fostering financial health. They can promote financial inclusion, establish and enforce sound financial regulations and help enhance financial literacy.

This paper provides a stocktake of different approaches by seven financial authorities in defining, measuring and collecting data on financial health, as well as the various programmes and policy interventions they are pursuing to help improve financial health in their jurisdictions.

FSI Insights
on policy implementation
No 68

Financial health in review: current practices in different financial authorities

by Sheirin Iravantchi, Jermy Prenio and Friederike Rühmann

October 2025

The emergence of the concept of financial health.

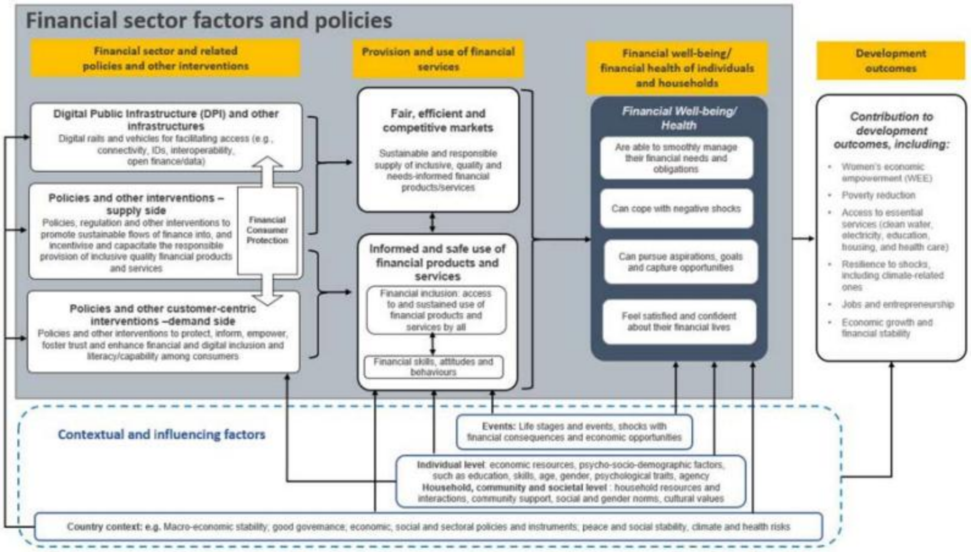
Financial health has emerged as an evolving and increasingly prevalent concept over the last 20 years, through national and international initiatives.

While the concept has varying definitions, financial health typically centres on the notion of individual resilience to weather income shocks and encompasses elements of financial outlook towards the future, such as reaching goals.

Definitions may also incorporate consumer sentiment, such as the consumer sense of confidence.

G20 Global Partnership for Financial Inclusion (GPFI) theory of change for financial well-being

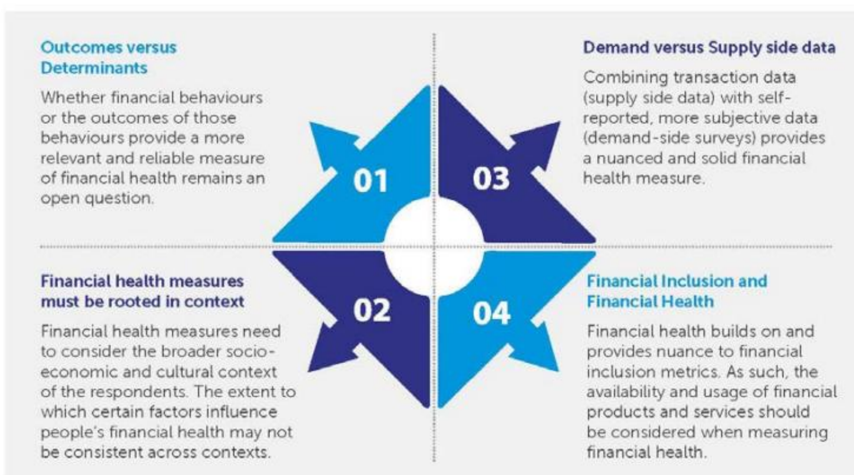
Figure 1



Source: G20 GPFI (2024).

Considerations when measuring financial health

Figure 2



Source: UNCDF (2022).

To read more: https://www.bis.org/fsi/publ/insights68.pdf

What's Past is Prologue: Building Resilience in Nonbank Financial Intermediation

John Schindler, Secretary General of the Financial Stability Board (FSB).

Opening remarks for the Program on International Financial Systems (PIFS) and Financial Stability Board (FSB) Seminar on Leverage in the NBFI Sector.

Introduction

Hello everyone,

Thank you for joining this virtual seminar. Let me begin by expressing my gratitude to the Program on International Financial Systems for organising this event and for assembling such an impressive lineup of speakers. The breadth of expertise in today's seminar is a testament to the importance of nonbank financial intermediation (NBFI) in the global financial system.

Events like these give us the opportunity to step back from our day-to-day work and to engage in a deeper dialogue about the challenges and opportunities we face. They allow us to share insights, exchange ideas, and reflect on the progress we have made while also identifying the work that still lies ahead.

The topic we are here to discuss, leverage in the nonbank financial sector, is one of the most pressing issues in financial stability today. It is a subject that has been central to the Financial Stability Board's agenda in recent years, and it will continue to demand our attention as the financial system evolves.

What's in a name?

Before we delve into the substance of today's discussions, I want to take a moment to reflect on the term "nonbank financial intermediation." For years, we referred to this sector as "shadow banking," a term that evoked opacity and risks.

While it served its purpose at the time, its negative connotations diverted attention from the fundamental role that nonbanks play in the global financial system. Today, we use the term "nonbank financial intermediation" to better capture the wide range of entities and activities that make up this critical part of the financial system.

But even the term "NBFI" has its limitations. Using a single term may suggest that NBFI is a monolithic entity, when in reality, the sector is anything but.

It encompasses everything from money market funds (MMFs) and open-ended funds (OEFs), to hedge funds, pension funds, insurance companies, and more. These entities perform different functions, operate under different business models, and therefore the vulnerabilities and the risks they may present to the financial system are equally varied.

While the term is a useful shorthand, at the FSB, most of our work takes a more targeted approach, focusing on specific entities and activities that fall under the umbrella term NBFI but where vulnerabilities are most pronounced and where risks to financial stability are most significant. The shift to this more targeted approach reflects the maturity of our collective understanding of NBFI and the need for a more nuanced approach to addressing its challenges.

By dissecting NBFI into its constituent parts and looking at the behaviour of those parts during stress, we can better identify potential threats to financial stability and develop policies that are appropriately designed to the specific vulnerabilities and risks involved.

Why we care about NBFI

Before talking about the FSB's work in this area, let me spend a few minutes highlighting why the FSB devotes so much time and effort to studying NBFI. The answer is simple: because it matters.

NBFI is big

The nonbank sector has grown significantly since the global financial crisis. As of 2023, it accounted for nearly half of global financial assets, amounting to approximately $240 trillion. This growth has been driven by a range of factors, including regulatory changes, the prolonged low-interest-rate environment, and technological innovation. Our flagship NBFI publication, the Global Monitoring Report on Non-Bank Financial Intermediation is a rich source of information on trends and developments in the nonbank sector.

NBFI is everywhere

NBFI is deeply embedded in the global financial system and intertwined with banks and central counterparties. It provides credit to households and businesses, liquidity to markets, and investment opportunities to savers. It is a vital source of financing for the real economy and plays a critical role in supporting economic growth.

NBFI is increasingly critical to the functioning of the financial system

The importance of NBFI extends beyond its size and reach. The sector is integral to the functioning of the financial system, given the increasingly large role nonbank institutions play in core financial markets and the broader economy. But with this importance comes responsibility. When vulnerabilities in the nonbank sector go unaddressed, they can amplify shocks and destabilise the financial system.

Recent history provides several stark examples of how vulnerabilities in NBFI can lead to or amplify market turmoil. Let me take you through a few recent examples:

- Runs on Money Market Funds (March 2020): At the onset of the COVID-19 pandemic, MMFs faced significant liquidity pressures as investors sought to redeem their holdings amid heightened uncertainty. These redemptions created a feedback loop, amplifying stress in short-term funding markets and necessitating central bank intervention.

- Archegos Capital Management (March 2021): The collapse of Archegos highlighted the risks associated with leverage and concentrated exposures within the nonbank sector. The event led to significant losses for counterparties and raised questions about the adequacy of risk management practices of prime brokers, as well as that of bilateral counterparty disclosure between leveraged entities and their leverage providers.

- Liability-Driven Investment (LDI) strategies in the UK (September 2022): In September 2022, a sharp rise in gilt yields exposed vulnerabilities in the investment strategies of some UK pension funds, leading to severe liquidity challenges. The resulting market turmoil required intervention by the Bank of England to restore market stability.

- Asset swap spread trade unwinding in the US (April 2025): In April of this year, the unwinding of certain relative value trades by leveraged nonbank investors added to the upward pressure on US Treasury bond yields, highlighting the need to closely monitor leveraged trading strategies, especially when they are crowded or concentrated, as well as the broader issue of interconnectedness.

Each of these episodes was different in nature, but they shared a common thread of vulnerabilities in the nonbank sector that amplified stress and propagated shocks across the financial system.

Because of the fundamental importance of this sector, because it has grown, and because recent periods of stress have highlighted areas where the resilience of this sector can be strengthened, the FSB has put a lot of effort into work on NBFI. Let me highlight a few examples of the broad range of work the FSB is doing in this area, before I hone in on leverage, the main topic of today's seminar.

Money Market Funds (MMFs):

The March 2020 market turmoil underscored the vulnerabilities of money market funds to sudden and disruptive redemptions. The scale and speed of the redemptions were unprecedented, and they highlighted the need for further reforms.

In response, in 2021, the FSB issued policy recommendations to enhance the resilience of MMFs, focusing on measures to address liquidity mismatches and reduce the risk of runs. We have been closely monitoring the implementation of these reforms across jurisdictions and, while progress has been made, it has been uneven among jurisdictions so far. We are currently discussing plans to assess the effectiveness of MMF reforms.

FSB FINANCIAL STABILITY BOARD

Policy Proposals to Enhance Money Market Fund Resilience

Final report

Our note: You may visit: https://www.fsb.org/uploads/P111021-2.pdf

Open-Ended Funds (OEFs):

Liquidity mismatches in open-ended funds remain a concern, particularly when investor redemption terms and conditions are not aligned with the liquidity of the underlying assets and when a first-mover advantage exists that can amplify investor redemption requests.

In 2023, the FSB revised its policy recommendations to address these vulnerabilities, emphasising the importance of anti-dilution liquidity management tools and the need for fund managers to align redemption terms with the liquidity of their assets. We are working closely with IOSCO to operationalise these recommendations through guidance and good practices, and we will continue to monitor their implementation.

FSB FINANCIAL STABILITY BOARD

Revised Policy Recommendations to Address Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds

Leverage in Sovereign Bond Markets:

Leveraged trading strategies in sovereign bond markets can amplify stress and propagate shocks across the financial system. This was evident, for instance, during the March 2020 turmoil, when leveraged investors unwound positions in response to margin calls, exacerbating dislocations in government bond markets.

The FSB is currently assessing vulnerabilities in government bond-backed repo markets, examining market structures, recent stress episodes, participant roles, bank-nonbank interconnections, concentration areas, and cross-border spillover risks. The findings aim to enhance the monitoring of these vulnerabilities and to support efforts to address NBFI data challenges linked to leveraged trading in sovereign bond markets. I will come back to the issue of data later.

These three efforts reflect the broader shift in our approach to NBFI away from treating the sector as a monolith that I mentioned earlier. We are drilling down into the constituent parts to better understand the unique challenges this complex and diverse sector poses and to develop policies that are appropriately designed and calibrated to the specific risks involved.

FSB Recommendations on NBFI Leverage

Finally, let me now turn to today's subject. Recognising the risks posed by NBFI leverage, the FSB has developed a set of policy recommendations to enhance the monitoring of NBFI leverage and to address the financial stability risks that it creates. We focused on two key areas:

- First, risks that may arise in core financial markets. These markets are critical to the functioning of the financial system and the real economy; and

- Second, risks that may arise through interlinkages between leveraged nonbanks and systemically important financial institutions that act as leverage providers.

Building on several steps already taken by authorities and the work done by the sectoral standard-setting bodies, our recommendations should be viewed as a package that urges authorities to: have a domestic framework in place to identify and monitor risks in an effective, frequent, timely and proportionate manner; and to select, design and calibrate policy measures that address the risks that they identify in a flexible, targeted and proportionate way.

Before going into more depth on the recommendations, let me stress a few aspects that are important to understand the framing of the policy package, which integrates the need to identify risks to financial stability with the tailoring of the policy response.

- The recommendations are not a one-size-fits all solution.

- The recommendations are addressed to FSB member authorities and focus on markets, entities, and activities where NBFI leverage can create financial stability risks.

- Entities in scope are nonbanks that use either financial or synthetic leverage (including hedge funds, other leveraged investment funds, pension funds and insurance companies).

- Recognising the heterogeneity in the sector and the varying nature of leverage in different jurisdictions, the recommendations provide authorities with flexibility to tailor their policy response to the circumstances prevailing in their jurisdiction.

Turning to the recommendations themselves.

The first three recommendations relate to risk identification and monitoring. For example, we set out the need for authorities to address data challenges in their domestic risk identification and monitoring framework and to collaborate to reduce those challenges that may hinder effective cross-border risk identification and monitoring. We also stress the need to review and enhance public disclosure, as well as to increase transparency, particularly regarding concentration and crowdedness, thereby supporting market discipline.

The fourth and fifth recommendations focus on policy measures to address financial stability risks created by NBFI leverage in core financial markets, such as sovereign bond markets. These measures include: activity-based measures, such as minimum haircuts and initial margin requirements in securities financing transactions backed by government securities; and stricter margin requirements in derivatives markets, particularly for transactions that are not centrally cleared.

Promoting the use of central clearing is also a focus. The measures also include entity-based measures, such as imposing direct and indirect limits on the amount of leverage that certain entities can take. An example of this is the yield buffer requirement for British-pound-denominated LDI funds.

For both activity- and entity-based measures, the recommendations include potential measures to address concentration risks, which are particularly prominent in some cases. The objective of these two recommendations is to prompt authorities to consider specific measures – for example, large exposure limits – in case other policy measures do not appropriately mitigate the system-wide risks that large, concentrated exposure can generate.

The sixth and seventh recommendations cover counterparty credit risk management. They recommend that authorities ensure the timely and comprehensive implementation of the recently issued BCBS guidelines on counterparty credit risk for bank leverage providers.

In addition, the recommendations ask that authorities review the adequacy of existing counterparty-disclosure practices between leveraged nonbanks and leverage providers and consider developing, possibly in partnership with the industry, mechanisms, standards, or guidelines to enhance the effectiveness of these disclosure practices. Such a public-private partnership could also explore the adoption of technology-based mechanisms that might enable leverage providers to manage risk and verify that counterparty exposures remain within agreed tolerances without compromising the confidentiality of their clients' proprietary investment strategies or positioning.

The final recommendation asks authorities to engage proactively with their peers to facilitate a coordinated crisis and policy response. The recommendation recognises the important role that cross-border cooperation can play in enhancing the monitoring of risks that can propagate across borders and how we can foster more efficient and aligned policy responses to mitigate regulatory arbitrage and spillovers.

Cross-border cooperation is also important to ensure that the framework we have built to enhance the resilience of NBFI is underpinned by effective implementation and robust foundations in terms of data and policy solutions.

Next steps

Nonbank financial intermediation is critical to the global financial system and the global economy. As I highlighted, there have been recent periods of turmoil where parts of that sector did not display the resilience that we would have desired, and the FSB and other standard setters have taken steps to enhance the resilience of this sector. While significant progress has been made, more work is needed to ensure the nonbank sector is resilient. We are joined by people much wiser than I, but before I hand over to them, let me leave you with some thoughts, with the help of Shakespeare, whose wisdom far exceeds my own and whose words often hold a mirror to the challenges and opportunities we face today.

Be great in act as you have been in thought

With respect to leverage, in the near term, authorities are considering the recommendations and some of them are already taking concrete steps. The FSB is currently discussing plans to organise supervisory discussions on policy measures taken by jurisdictions to address risks created by leverage in NBFI. This could be important to assist in coordinating supervisory issues that have cross-sector implications and advise on and monitor best practice in meeting regulatory standards with a view to ensure consistency, cooperation, and a level-playing field across jurisdictions.

I will swear to study so, to know the thing I am forbid to know

Critically, we must continue to address data challenges. While we no longer use the term "shadow banking", the negative connotations of that term hinted at the difficulty that authorities have in understanding the sector owing to the lack of data. The FSB's recently established task force on nonbank data is working to identify and address gaps in data reporting, to enhance data quality and data use, and to promote data and information sharing among authorities. The test case we launched earlier this year focuses on leveraged trading strategies in sovereign bond markets.

Our doubts are traitors and make us lose the good we oft might win by fearing to attempt

Also important, we must implement agreed reforms and assess their effectiveness. For money market fund and open-ended fund reforms, this means beginning the process of evaluating their effectiveness. For more recent reforms, like the FSB recommendations on NBFI leverage, this means making best efforts to ensure consistent implementation by FSB members.

I am as vigilant as a cat to steal cream

Finally, we must remain vigilant to emerging risks. The financial system is constantly evolving, and so too must our approach to safeguarding it. This requires ongoing collaboration among authorities, experts, and market participants, both domestically and internationally. We must adapt our surveillance of the sector as quickly as the sector itself evolves.

I look forward to hearing the discussions.

Thank you.

To read more:
https://www.fsb.org/2025/10/whats-past-is-prologue-building-resilience-in-non bank-financial-intermediation/

Federal Reserve Board modifies Morgan Stanley's stress capital buffer requirement, after the firm requested reconsideration

The Federal Reserve Board modified Morgan Stanley's stress capital buffer requirement, after the firm requested reconsideration. As a result, the bank's requirement for this year is 4.3 percent, down from a preliminary 5.1 percent.

The Board's stress test process allows banks to request reconsideration of their stress capital buffer requirement, which is the capital requirement stemming from the stress test. A bank is required to submit a detailed explanation of why reconsideration should be granted, and the Board then conducts an independent assessment of the request.

Based on an analysis of information presented by Morgan Stanley, the Board determined that estimated losses in the bank's fair value option loan portfolio were too conservative. This was due, in part, to the unique composition of the bank's loan portfolio. In addition, the Board determined to use the bank's second largest counterparty when measuring counterparty losses associated with default of the largest counterparty, as doing so would be more consistent with the Board's treatment of similar counterparties.

The Board will also consider any potential stress test model refinements related to this request in its upcoming proposal to improve the transparency of the stress test.

2025 Federal Reserve Stress Test Results

Revisions

The Federal Reserve revised this report on September 30, 2025, to reflect updated projections for Morgan Stanley following its request for reconsideration of its preliminary stress capital buffer requirement.* Aggregate results were also revised based on the updated projections, where applicable. The revisions are listed below:

Table A.13. Morgan Stanley

Projected stressed capital ratios, loan losses, risk-weighted assets, losses, revenues, and net income before taxes

Federal Reserve estimates: Severely adverse scenario

Capital ratios and risk-weighted assets, actual 2024:Q4 and projected 2025:Q1–2027:Q1

Percent except as noted

Item	Actual 2024:Q4	Projected 2027:Q1	Projected minimum
Common equity tier 1 capital ratio	15.9	16.6	12.9
Tier 1 capital ratio	18.0	18.7	15.0
Total capital ratio	20.3	21.0	17.4
Tier 1 leverage ratio	6.9	7.2	5.8
Supplementary leverage ratio	5.6	5.8	4.7
Risk-weighted assets[1] (billions of dollars)	471.8	476.0	

Note: The capital ratios are calculated using the capital action assumptions provided within the supervisory stress testing rules. See 12 C.F.R. § 238.132(d); 12 C.F.R. § 252.44(c). These projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. The minimum capital ratios are for the period 2025:Q1 to 2027:Q1. Supplementary leverage ratio projections only include estimates for banks subject to Category I, II, or III standards.

[1] For each quarter, risk-weighted assets are calculated under the Board's standardized approach to risk-based capital in 12 C.F.R. pt. 217, subpt. D.

Projected losses, revenue, and net income before taxes through 2027:Q1

Item	Billions of dollars	Percent of average assets[1]
Pre-provision net revenue	27.0	2.2
equals		
Net interest income	36.2	3.0
Noninterest income	91.5	7.5
less		
Noninterest expense[2]	100.7	8.3
Other revenue[3]	0.0	
less		
Provisions for loan and lease losses	12.7	
Credit losses on investment securities (AFS/HTM)[4]	0.1	
Trading and counterparty losses[5]	5.4	
Other losses/gains[6]	5.6	
equals		
Net income before taxes	3.3	0.3

To read more:
https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250930a.htm

European supervisors tell financial institutions to stay alert to stability risks in uncertain and volatile times

Global trade and security developments have led to sudden structural changes and contributed to a deteriorating economic outlook.

On trade, the US announced a series of sizeable and widespread tariffs, indicating protectionist intent and marking a step towards a more fragmented global economy.

The scale and frequency of US trade policy announcements and the international responses to them added to already elevated geopolitical uncertainty from ongoing wars and conflicts.

In June there were concerns that the Israeli-Iran and Israeli-Hamas conflict in the Middle East could reignite and have impact on the financial sector.

Until end of August, developments around the Russian war against Ukraine – including the latest diplomatic efforts, whose outcome and next steps seem to be open – and around the conflict in the Middle East remain unpredictable.

With these geopolitical developments, growth forecasts were revised downwards, with signs of divergence between EU and US monetary policy.

In April, the IMF lowered its global growth estimates to 2.8% for 2025 and 3% for 2026, both down from the 3.3% January estimates.

US growth in 2025 was lowered to 1.8%, 0.9 ppt down, and EA growth was lowered from 1% to 0.8%.

In May, the European Commission revised its growth forecasts down for the EU, to 1.1% for 2025, down 0.4ppt, and to 1.5% for 2026, down 0.3ppt.

The reduction in growth was associated mostly with the ongoing uncertainty and to a lesser extent with the economic impact of tariffs. More severe tariffs or further retaliation would worsen the outlook.

The ECB cut interest rates by 25bps in April and June, while the Federal Reserve kept rates unchanged amid inflation concerns associated with the new tariffs.

According to the latest available projection as of end of August, as clarity on the tariffs grew, the IMF presented upward revisions to its global growth estimates to 3.0% for 2025 and 3.1% for 20262 US growth estimates for 2025 have been revised upwards to 1.9% as well as EA estimates increased back to 1%, in line with January IMF projections.

Against this background, the Joint Committee advises the European Supervisory Authorities (ESAs), national competent authorities, financial institutions, and market participants to take the following policy actions:

- Geopolitical risks are cross cutting and impact various aspects of financial institutions' operations, and risk exposures. Currently, it is particularly important for financial institutions to continue to incorporate risk considerations stemming from geopolitical developments into day-to-day business processes and risk assessments.

  In the current geopolitical context, the continued access to market infrastructures, including from service providers domiciled outside the EU, remains central to preventing potential market disruptions and maintaining investor confidence.

- With ongoing deep geopolitical uncertainties and rapidly changing global trade policies, financial institutions need to plan for different scenarios.

  They should have proper risk management capacities in place to address unexpected short-term and medium-term multi-fold challenges, particularly sudden changes that can materialise through many channels, such as market corrections.

  This includes adequate provisioning levels and forward-looking provisioning policies. Stress testing and scenario analysis are powerful tools to support such risk assessments, and to test resilience and liquidity positions.

- Financial institutions and supervisors should remain vigilant to operational and financial stability risks that could arise from cyber risks. Cyberattacks continue, including successful ones, and the sophistication of attacks is growing.

  In addition, high levels of concentration in the use of third-party IT providers and dependencies on them can further increase cyber risk and exacerbate contagion as well as the potential systemic impact of cyber incidents.

  Entities operating in the financial sector and their supervisors should address cyber risks more holistically, and swiftly and thoroughly implement the framework that DORA provides about risk management, incident reporting, threat-led penetration testing and supervisory cooperation.

  They should include providing sufficient resources to address cyber-risks. Entities and supervisors should also be prepared to address challenges brought by the rapid evolution of technologies, such as artificial intelligence, while also acting on the opportunities they offer.

- While contagion risks from crypto assets remain limited, these should be monitored as these markets expand, and interlinkages grow between crypto markets and the traditional financial sector.

  Close relationships and new business lines have been developing between traditional market players and digital asset markets. Some banks have further progressed their engagement with digital assets, including direct exposures. This presents opportunities to provide clients with access to the digital assets market, but it also entails risks.

- Financial institutions can play a significant role in supporting plans for the Savings and Investments Union (SIU) as announced by EU legislators. Further steps towards the finalisation of the Banking Union will be important as well. These are not least relevant in light of the EU Commission's strategy of competitiveness, burden reduction and simplification.

  Given the ambition to connect savings to most productive investments, a sound supervisory system will be important to build the necessary trust with consumers in the market.

  Also, the structural shift toward alternative investments observed in the UK and US—now gradually emerging in the EU— underscores the growing importance of understanding the expanding NBFI sector. The intrinsically lower liquidity and credit risk of alternative investments compared to traditional investments should be monitored to safeguard financial stability.

BOX 1 – Dependencies on US and other non-EU infrastructures and service providers

In the current geopolitical context, the continued stability of and access to market infrastructures remains central to preventing potential market disruptions and maintaining investor confidence. The sudden policy shifts on global trade and resulting market developments is highlighting the importance of inter-dependencies in the global financial system. The importance of US financial markets and market infrastructure render the EU financial sector vulnerable to risks and volatility originating from outside the EU.

Also, many key third party service providers of EU financial institutions are domiciled outside the EU. Information technology providers are particularly salient examples. The Draghi report[8] illustrates how information technology services have become increasingly dominated by US firms. From 2013 to 2023, the EU's share of global revenues in information technology fell from 22% to 18%, while the US share rose from 30% to 38%, and China's from 10% to 11%. Cloud-service providers are a specific case, where three largest firms are US-based and hold 63% of the global market share.[9] Such dependencies strengthen arguments for greater EU autonomy in financial markets.

EU market infrastructures have important dependencies on the US, and EU firms have important dependencies on US- or US-owned infrastructures. For example, US entities have an important stake in EU-registered trading venues, owning 14% of these by number, while 11% of benchmarks are administered by US entities. There is significant listing in the US by EU firms, with over 100 EU companies solo listed in the US and over 650 dual-listed in US and EU. In derivative clearing, 98% of the clearing of products denominated in EU currencies that is carried out by Tier1 CCPs is done by two US-owned CCPs.

BOX 2 – Heightened cyber risks and risks related to crypto assets in the current geopolitical context.

The current geopolitical landscape and ongoing global trade disputes pose significant risks to financial market stability, requiring vigilant management of risks related to digitalisation, including to mitigate potential disruptions. While geopolitical risks remain high, it may further increase digital risk via, e.g., state sponsored malicious cyber activities and "hacktivism".[18] The increasing reliance on digital systems and technology also emphasises the need for robust information and communication technology (ICT) frameworks and risk management strategies to be implemented and regularly updated to protect against these emerging threats.

A recent report by the EU Agency for Cybersecurity's (ENISA) also highlights a substantial increase in the variety of cyberattacks[19]. The financial sector remains a prime target due to the vast amounts of sensitive data and transactions it handles. Cyberattacks on financial institutions and critical market infrastructure can disrupt critical services, erode confidence, and cause spillovers to other sectors. ENISA's Threat Landscape for the financial sector identifies DDoS and ransomware as the most reported forms of attacks in the EU, and the sector saw peaks in DDoS activity linked to geopolitical events, Geopolitical tensions can not only amplify operational risk, but can also indirectly affect the financial sector, by increased risks of malicious behaviour, such as, e.g., acts of sabotage potentially affecting the financial infrastructure.

To read more:
https://www.eba.europa.eu/publications-and-media/press-releases/european-supervisors-tell-financial-institutions-stay-alert-stability-risks-uncertain-and-volatile

Tariffs in a world of large global capital flows - implications for central banks

Andréa M Maechler, Deputy General Manager, Bank for International Settlements, at Bruegel, Brussels.

Thank you for the kind invitation to speak here at Bruegel. Bruegel is of course well known for its excellent analysis of many policy-important topics.

These include European and global perspectives on international finance, macroeconomics and trade, which have increasingly come together in recent policy discussions.

Today, I will explore the growing global financial ties that interconnect economies, investors and markets.

These ties have profound implications for the economic outlook, the way economies respond to shocks and the formulation of policy responses.

We live in an era of large supply headwinds, including the recent shock of trade tariffs. These shocks are complex because they affect the real economy through different channels, on both the demand and the supply side of the economy.

When the effects of tariffs resemble a supply shock, limiting their inflationary impact through tighter monetary policy risks worsening the impact on growth. By contrast, monetary policy does not face such a trade-off for demand shocks, as they push economic activity and prices in the same direction.

The long-standing common prescription for central banks to "look through" supply shocks may no longer apply today, particularly with the inflation surge during the pandemic recovery still fresh in the minds of households and businesses.

Central bank responses should be guided by the need to keep inflation expectations well anchored. And as financial factors can shape the impact of real shocks to the economy, policymakers must complement their assessment of the monetary and financial stability outlook with close consideration of financial linkages and the transmission to financial conditions.

Indeed, the global economy is far more interconnected than when tariffs were last a prominent feature of trade many decades ago.

Today, trade flows have been supported by long and complex supply chains that span the globe.
But the world has also become highly interconnected through large financial capital flows. In the past, gross trade – the red line in the graph, reflecting trade

openness and integration – was similar in size to external financial liabilities – the blue line, reflecting financial openness and integration (Graph 1).

External financial flows have outpaced trade

As a percentage of world GDP[1] Graph 1

[1] "World" refers to a sample of 43 advanced and emerging market economies. Exports and imports cover goods and services.

Sources: IMF, *International Investment Position* and *World Economic Outlook*; BIS calculations.

Today, external financial flows dominate trade. Since the 1980s, when these both stood at 30% of world GDP, financial positions have grown to near 170% of GDP today, compared with 50% of GDP for trade.

Understanding the web of financial interlinkages and the nature of large capital flows is critical for policymakers' assessment of macroeconomic and financial stability. A resilient banking system and buoyant financial markets have helped to buffer the economy from the expected negative impact of tariffs.

But financial market sentiment can quickly reverse in the wake of negative news. In a world of large global capital flows, market stress will quickly reverberate across countries, potentially fuelling a feedback loop between economic and financial vulnerabilities.

To read more: https://www.bis.org/speeches/sp250923.pdf

The European Banking Authority (EBA) published its Q2 2025 Risk Dashboard (RDB)

	RI	Threshold	Current vs previous quarters for the worst bucket	202209	202212	202303	202306	202309	202312	202403	202406	202409	202412	202503	202506
Solvency	Tier 1 capital ratio	> 15%		65.6%	75.3%	78.1%	84.0%	84.3%	86.5%	77.7%	87.0%	78.9%	78.8%	77.7%	78.8%
		[12% - 15%]		33.7%	24.6%	21.8%	15.8%	15.6%	13.5%	22.3%	13.0%	21.1%	21.2%	22.3%	21.2%
		< 12%		0.6%	0.2%	0.2%	0.2%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	CET1 ratio	> 14%		53.6%	59.9%	59.7%	63.4%	62.2%	63.3%	62.7%	59.7%	63.3%	61.7%	61.4%	66.9%
		[11% - 14%]		45.8%	39.9%	40.3%	36.6%	37.8%	36.7%	37.3%	40.3%	36.7%	38.3%	38.6%	33.1%
		< 11%		0.6%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Leverage ratio	> 8%		3.7%	5.4%	5.4%	7.1%	6.4%	7.6%	6.6%	7.9%	7.4%	8.6%	7.3%	8.2%
		[5% - 8%]		37.6%	55.7%	41.8%	49.7%	50.5%	60.4%	52.1%	50.6%	53.1%	56.1%	50.9%	49.9%
		< 5%		58.7%	38.9%	52.7%	43.2%	43.2%	32.0%	41.3%	41.4%	39.6%	35.3%	41.8%	41.9%
Credit Risk & Asset Quality	Ratio of non-performing loans and advances (NPL ratio)	< 3%		93.6%	93.8%	94.1%	94.1%	94.2%	91.1%	84.2%	91.4%	85.3%	96.7%	90.3%	96.7%
		[3% - 8%]		6.4%	6.2%	5.9%	5.9%	5.8%	8.9%	15.8%	8.6%	14.7%	3.3%	9.7%	3.3%
		> 8%		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Coverage ratio of non-performing loans and advances	> 55%		5.4%	6.1%	6.0%	5.2%	5.2%	4.3%	4.4%	3.5%	3.7%	3.5%	4.8%	3.9%
		[40% - 55%]		54.6%	53.4%	58.0%	54.9%	54.4%	49.5%	49.1%	51.3%	50.4%	50.6%	49.1%	50.0%
		< 40%		40.0%	40.5%	36.0%	39.9%	40.3%	46.2%	46.5%	45.3%	45.9%	45.9%	46.1%	46.1%
	Forbearance ratio for loans and advances	< 1.5%		63.1%	62.8%	64.9%	64.7%	63.3%	61.8%	58.4%	54.7%	55.4%	55.5%	58.3%	64.8%
		[1.5% - 4%]		32.8%	34.4%	32.8%	33.6%	35.2%	36.6%	40.2%	44.0%	43.3%	43.2%	40.3%	34.2%
		>4%		4.1%	2.8%	2.3%	1.8%	1.5%	1.6%	1.4%	1.3%	1.4%	1.2%	1.4%	0.9%

- ➢ The Common Equity Tier 1 ratio for EU/EEA banks stood at 16.3%, showing an increase of 10 basis points from the prior quarter. Bank capital increased at a higher rate than risk-weighted assets, which rose by approximately 2.2% due to growth in credit risk RWAs.

- ➢ The liquidity coverage ratio and net stable funding ratio both increased in the second quarter, reaching 161.6% (up from 159.5% in Q1) and 127.2% (compared to 126.9% in Q1), respectively. The large-scale transition from cash to central government assets in the High-Quality Liquid Assets composition has decreased in pace.

- ➢ EU/EEA banks' total assets showed a small increase of EUR 100bn vis-à-vis previous quarter, amounting to EUR 29 trillion. Their cash balances reduced to 10.2% of total assets, while at the same time allocation to other classes and derivatives increased marginally. Their total liabilities stood at EUR 27 trillion, slightly increased compared to last quarter, with little changes in the liability structure.

- ➢ Outstanding loans to both households and non-financial corporates remained stable over the quarter, despite the modest decrease of 0.8%

QoQ in loans to small and medium-sized enterprises. Sovereign exposures continued to rise, reaching EUR 4 trillion (+9.5% year-to-date and +13.6% year-on-year) (see Figure 3). Banks raised their sovereign exposures to other EU/EEA countries, resulting in a decrease in the proportion of domestic sovereign exposures to 45%, compared to 47% in December 2024

- EU/EEA banks reported non-performing loans totalling EUR 372.6 billion (1.84% of total loans), reflecting a slight decrease from EUR 375.5 billion in the previous quarter. The allocation to IFRS 9 stage 2 declined to 9.4%, with stage 2 loans decreasing by approximately EUR 20 billion. The cost of risk also fell to 48 basis points, down from 57 bps in Q1 2025.

- During the second quarter of 2025, EU/EEA banks recorded a return on equity (RoE) of 10.7%, compared to 10.5% in the first quarter. Notably, only five jurisdictions reported a weighted average RoE below 10%. The return on assets also increased marginally to 0.75%. Net interest margin (NIM) continued to tighten during the period, with banks posting a NIM of 1.58%, down from 1.6% in Q1 2025 and 1.68% in Q2 2024.

  Consequently, net interest income for declined further, reaching levels last observed in December 2023. Unlike previous quarters, EU/EEA banks were unable to achieve additional growth in revenue from net fees and commissions, which experienced a slight decline compared to the first quarter of the year.

To read more:
https://www.eba.europa.eu/sites/default/files/2025-09/0b362777-be60-43a4-a8dd-3287500d7cc6/EBA%20Dashboard%20-%20Q2%202025.pdf

Preserving the dynamism and credibility of stress testing

Michael S Barr, Member of the Board of Governors of the Federal Reserve System, at the Peterson Institute for International Economics, Washington DC

Today, I would like to discuss a vital tool for supervising the safety and soundness of the largest banks and preserving the stability of our financial system.

I was there, at the Treasury Department in 2009, when stress testing was first used in the United States in the heat of battle, an ad hoc measure to reverse a loss of confidence in U.S. banks that was a major force then driving the Great Recession.

By examining how the balance sheets of banks would be affected by a worsening of financial and economic conditions, this process was intended to reveal weaknesses that could threaten the solvency of banks and prevent them from playing their central role in the economy.

Stress testing ultimately succeeded in helping to restore confidence during the crisis, and in the aftermath this battle-tested tool became a formal and integral part of the effort to repair the ensuing damage and strengthen the banking system.

Stress testing has continued to evolve in the years since then to maintain that strength and help limit the chances of another devastating financial crisis. Stress testing changed as its purpose changed from wartime to peacetime—from mitigating the crisis to preserving safety, soundness, and stability.

It has changed as banks and regulators learned more about how stress testing works in practice and as part of an otherwise evolving supervisory and regulatory framework for banks that must necessarily adjust as finance itself evolves.

Adjusting regulation in this dynamic environment is challenging, and one of those challenges is dealing with unintended consequences.

The Federal Reserve made changes to stress testing in 2020 intended to make it more predictable and to better integrate it with overall capital regulation, but those changes are now at the center of litigation brought by large banks.

The Fed responded in April by proposing more changes intended to address these criticisms. But as I explained in voting against those measures, I believe these steps will substantially impair stress testing, concealing rather than revealing crucial weaknesses in the risk management of individual banks and in the stability of the financial system.

As the Federal Reserve Board considers these changes, I believe we should focus on how best to address the original purpose—and preserve the effectiveness—of stress testing.

As I will explain, I believe that the best way to further these goals is to separate stress testing from capital requirements in order to maximize the informative value of the tests and their results and untangle them from the larger and complex task of setting capital requirements.

I will lay out that alternative approach toward the end of these remarks, but first I believe it is helpful to take a step back and recall how stress testing has evolved to this point, then turn to where it should go from here.

It all began during the Global Financial Crisis. Capital markets froze, resulting in business failures and prompting the need for unprecedented public-sector intervention. Credit to households and businesses slowed to a trickle, and millions of people were losing homes and jobs. By the fall of 2008, there was a broad-based lack of confidence in the banking system, as large banks faced questions about their exposures to losses related to real estate and other assets.

These were questions that large banks in many cases couldn't credibly answer because of the complexity and opacity of their direct and indirect exposures to mortgages at the center of the crisis. Without this information, investors assumed the worst, driving down equity prices of banks, which complicated efforts by banks to bolster their balance sheets. Restoring confidence in the banking system required credible information from a reliable source.

Treasury worked with the Federal Reserve to design the Supervisory Capital Assessment Program (SCAP) to test the capital adequacy of what were determined to be the 19 most systemically important banking and financial institutions.

In addition, Congress had provided a backstop in the form of the Troubled Asset Relief Program (TARP), the Federal Deposit Insurance Corporation (FDIC) had backstopped bank funding through guarantees, and the Federal Reserve had stepped up in significant ways to bolster the financial system and the economy.

The existence of a government backstop played a big role in the success of the first stress test. With the use of public funding on the line, the rigor and transparency of the stress test was doubly important.

To read more:
https://www.federalreserve.gov/newsevents/speech/barr20250925a.htm

PRA proposes reduced reporting requirements for banks

The Prudential Regulation Authority (PRA) has today announced proposals to reduce regulatory requirements for banks by deleting 37 individual reporting templates.

Bank of England

The Prudential Regulation Authority (PRA) announced proposals to reduce regulatory requirements for banks by deleting 37 individual reporting templates.

The proposals represent an initial set of targeted deletions of whole reporting templates that were inherited from European Union regulations. This is a first deliverable from the PRA's strategic review of its banking data collections – the Future Banking Data project.

The vast majority of the templates being removed relate to financial reporting, improving an area which has been previously identified by firms as having overlapping and complex requirements.

The PRA has decided that these templates cover data which are either no longer necessary to support its work or are already available elsewhere. Their removal should benefit firms by reducing their administrative costs.

Rebecca Jackson, Executive Director for Authorisations, Regulatory Technology, and International Supervision and executive sponsor of Future Banking Data, said: "It's essential to get the right data from firms in order to supervise them properly. But it's also important that we do that as efficiently as possible and in a low-cost way, so they can focus on their core business and supporting their customers. Today's announcement is another example of our ongoing work to enhance the proportionality of our regulation and support growth without risking the stability of firms or the wider financial system."

The proposals build on a raft of simplifications the PRA has already made to reporting for insurers, reducing insurance reporting by one third. Firms are already benefitting from those changes.

This consultation will run for one month, with the goal of implementing the changes on 1 January 2026. This would save the industry an estimated £26 million annually.

The consultation forms an initial phase of the PRA's Future Banking Data initiative, which aims over time to significantly reduce burdens on firms whilst ensuring the PRA receives the high-quality data it needs to do its job.

The proposed changes, and the planned future work in this area, build upon other recent announcements by the PRA designed to support growth. These include options to enhance competition in the mortgage market, work to make the resolution regime more proportionate, and plans to simplify the capital regime for smaller, UK-focused banks.

The Bank's Statistical Reporting team have launched a consultation to discontinue the collection and publication of Form BN on the further sectoral breakdown of non-resident monetary financial institutions.

To read more:
https://www.bankofengland.co.uk/news/2025/september/pra-proposes-reduced-reporting-requirements-for-banks

Innovate to simplify, simplify before innovating - some ideas for effective, risk-based supervision

Denis Beau, First Deputy Governor of the Bank of France, at the Supervision Innovators Conference, Frankfurt am Main.

Ladies and gentlemen,

There is now broad consensus across Europe that financial sector regulation, supervision and reporting have become overly complex, costly and burdensome.

This leads to heavy operational burdens for financial institutions, which must allocate significant resources to ensuring compliance, sometimes at the expense of innovation and agility.

This complexity also weighs on supervisors, who must carry out extensive controls and sometimes devote disproportionate resources in terms of the results ultimately achieved.

The remedy for this situation is well known: simplification.

It is one of the key recommendations of the Draghi and Letta reports, and we have already begun work on simplification within the SSM, notably with the revision of the SREP, which we want to make more flexible and effective.

However, we must recognise that simplifying regulation, supervision or reporting is not always so simple! As Leonardo da Vinci so aptly put it, "Simplicity is the ultimate sophistication".

On the one hand, supervisory rules and processes do not simply result from excessive bureaucratic zeal.

These rules were often introduced for good reasons; it is rather their accumulation that poses a problem.

On the other hand, any simplification process inevitably raises the question of how far to go.

The consensus is that we must simplify without deregulating, i.e. without dismantling the entire preventive framework that protects us from a new financial crisis.
In this context, technology can provide part of the solution. It enables us to build powerful tools – known in our supervisory jargon as "SupTech" tools – to optimise the management of our supervisory processes.

However, technology cannot do everything, and it is often more effective to consider simplifying the processes themselves before embarking on the construction of SupTech tools: beware of technosolutionism!

Therefore, we need to reflect on the best way to combine technological innovation – our SupTech approaches – with simplification measures to make our supervision more effective.

To contribute to this discussion, I would like to share with you today some lessons we have learned from our SupTech experience at the ACPR in recent years (I), before discussing our current roadmap and future plans (II).

I/ In terms of sharing experiences, I would like to point out three pitfalls to avoid and, conversely, a few best practices to favour.

1/ The first pitfall, as I mentioned a few moments ago, is believing that SupTech tools alone can solve all problems. Of course, new technologies – particularly artificial intelligence (AI) – can help us manage the wealth of information inherent to our work as financial supervisors.

However, innovation must not be a crutch that allows us to continue moving in the wrong direction.

For example, technology is not designed to manage the ambiguity of concepts that often results from the complexity of regulations or supervisory processes.

Quite the contrary: for new technologies to be deployed effectively, it is essential to have reliable, consistent and properly structured data.

Reporting issues illustrate this point very well: for a time, some argued that banking sector reporting would disappear, replaced by supervisors having direct access to granular data from institutions. In principle, this seems like an excellent idea.

However, for it to work in practice, it would require extreme standardisation of the information systems of all European banks, which currently seems beyond reach.

Without such standardisation, this would in practice amount to transferring to supervisors the burden of selecting the relevant information for each statistical concept to be measured, which would not only be excessively costly but would also have the major disadvantage of leading to a loss of accountability on the part of institutions.

2/ The second pitfall to avoid is entrusting the design of SupTech tools solely to IT specialists and developers, on the pretext that their technological expertise will necessarily enable them to identify the most effective solutions. In our experience, this type of approach, which is entirely supply-driven, inevitably results in solutions in search of a problem... and therefore end up gathering dust on the shelf.

Furthermore, my experience with IT projects has led me to understand that the quality of tool design is essential for effective adoption.

It is therefore crucial to design our SupTech tools in close collaboration with the business lines, not only to ensure their relevance, but also to guarantee their usability, knowing – and this is an additional difficulty – that user expectations are growing alongside the progress of "everyday technologies".

To read more:
https://www.banque-france.fr/en/governors-interventions/innovate-simplify-simplify-innovating-some-ideas-effective-risk-based-supervision

Simplification and Implementation

Speed, coherence, and simplification are key political priorities in everything the Commission does. The Political Guidelines highlight simplification of EU policies and laws, and their better implementation as essential to make business easier and faster in Europe. Those efforts also lay at the heart of the Commission's focus to strengthen European competitiveness.

The Simpler and Faster Europe communication sets out a new approach to boost prosperity and resilience and unleash new opportunities, innovation and growth. One the one hand, we propose unprecedented simplification measures that aim to radically lighten the regulatory load and related costs for people, businesses, stakeholders and public administrations in the EU.

To deliver on this, the first Commission work programme of this mandate is heavily focused on simplification initiatives, introducing 11 key proposals that aim at cutting red tape and simplifying rules. On the other hand, we are focusing on better implementation of EU policies and laws by working with and supporting Member States in this endeavour and cooperating with other EU institutions as we are confident that shared responsibility drives better results.

EUROPEAN COMMISSION

Strasbourg, 11.2.2025
COM(2025) 45 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Commission work programme 2025

Moving forward together: A Bolder, Simpler, Faster Union

A third element of this agenda is enforcement. When cooperation fails and Member States do not implement the law, infringement procedures are necessary to protect the Single Market and safeguard the interests of the citizens.

Simplification, Implementation, Enforcement

a. Simplification

The Commission is dedicated to strengthening EU competitiveness and growth while upholding high standards and achieving economic, social, and environmental goals. For this, it aims to streamline rules and reduce the administrative burdens for businesses by 25%, and by 35% for SMEs by the end of this mandate. The 25% reduction target will translate to 37.5 billion savings for businesses. More information here.

b. Implementation

Over the past years, the EU has tackled challenges head-on, agreeing rapidly on ambitious policies that respond to the multiple and complex crises and events happening inside and outside our continent. Europe's success depends on the effective implementation of all policies.

Shortcomings in implementing EU policies and laws can seriously affect the effectiveness of these policies, and as a result – EU prosperity and competitiveness. They can also undermine the EU's ability to defend its values. As a result, people and businesses do not enjoy the full benefits of EU policies, and companies often face significant challenges in overcoming regulatory obstacles, Single Market fragmentation and administrative burdens. The Commission works closely with Member States to help them implement EU law and policies, using a wide array of tools ranging from meetings-based tools to technical and financial support, and including guidance, workshops, implementation strategies, trainings, etc.

c. Enforcement

Infringement procedures are necessary legal tools that the Commission uses when cooperation has failed, and Member States do not implement EU law. They are accompanied by a clear communication explaining the reasoning. As guardian of the treaties, the Commission pursues a resolute enforcement action to ensure that laws are implemented in order to fight fragmentation of the Single Market and any unlawful gold plating. When enforcing EU law, the Commission prioritises breaches that have the most significant impact on Europeans. More information.

The Commission publishes information on its enforcement activities and Member State's compliance with EU law through interactive maps and customisable graphs. Information about Commission decisions on infringements is also available online.

Annual cycle

1

Commissioners launch process of the two implementation dialogues of the year

2

Commissioners prepare annual progress reports on enforcement and implementation

3

Commissioners meet Parliament Committees and Council configurations to present reports and simplification work.

4

Commissioners start preparation of simplification measures to be included in the next Commission work programme

5

An annual overview report on Implementation and Simplification is published

6

Adoption of the Commission work programme for the following year including significant simplification measures and an annual plan of fitness checks and evaluations, as part of the stress test

2. Simplifying rules and effective implementation

The EU has long been a hub of industry and innovation, with a distinctive social market economy. To help boost competitiveness, prosperity and resilience in the EU, a **vision and tools for an implementation and simplification agenda** is laid out in a Communication accompanying this work programme. By forging strong partnerships with businesses and stakeholders, we will examine the design and application of our legislation to streamline regulations and implement policies more effectively. It will first and foremost benefit small and medium-sized enterprises (SMEs).

This work programme presents a first set of Omnibus proposals that simplify various pieces of legislation, alongside a record number of initiatives with a strong simplification dimension. They will contribute to achieving the goal of reducing administrative burdens by at least 25%, and at least 35% for SMEs. It also includes an annual plan of evaluations and fitness checks to ensure continuity of the simplification and burden reduction exercise.

The **Omnibus proposals**, adopted in subsequent steps, will tackle priority sectors signalled by stakeholders and referred to in the Draghi report. They will concentrate efforts to ensure coherence, build momentum and thereby maximise simplification by addressing the consequences of interactions of different pieces of legislation. Notably, the Commission will propose streamlining and simplification of **sustainability reporting, sustainability due diligence and taxonomy,** and create a **new category of small mid-caps** with adapted requirements. Other measures will facilitate the implementation of the **InvestEU programme and the European Fund for strategic investments**, including by simplifying reporting and boosting investment.

To read more:
https://commission.europa.eu/law/law-making-process/better-regulation/simplification-and-implementation_en?utm_source=chatgpt.com

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Readers that are interested in a specific topic covered in the newsletter must download the official papers, must find more information, and must ask for legal and technical advice, before making any business decisions.

Basel iii Compliance Professionals Association (BiiiCPA)

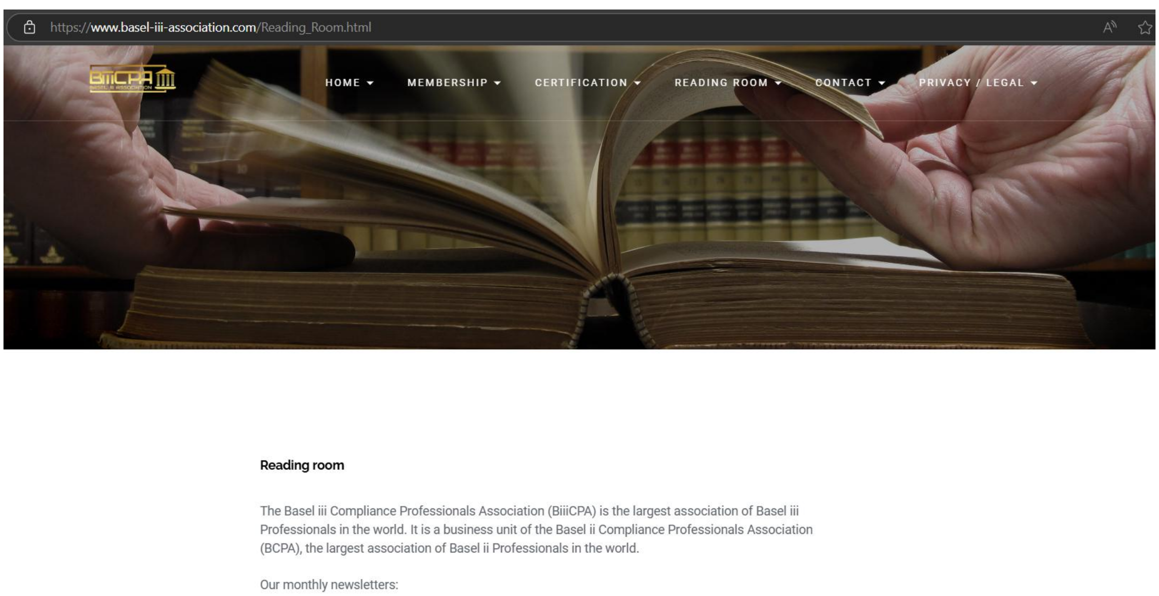
The Basel iii Compliance Professionals Association (BiiiCPA) is the largest association of Basel iii Professionals in the world. It is a business unit of the Basel ii Compliance Professionals Association (BCPA), the largest association of Basel ii Professionals in the world.

Both associations are business units of Compliance LLC, incorporated in Wilmington, NC, and offices in Washington, DC, a provider of risk and compliance training and executive coaching in 57 countries.

We invite you to connect with the global community of experts working for the implementation of the Basel III framework, to gain insight into the G20 efforts to regulate the global financial system, to explore new career avenues, and most of all, to acquire lifelong skills.

Join us. Stay current. Read our monthly newsletter with news, alerts, challenges and opportunities. Get certified and provide independent evidence that you are a Basel III expert.

Our reading room: https://www.basel-iii-association.com/Reading_Room.html



Our training and certification programs.

1. Certified Basel iii Professional (CBiiiPro), distance learning and online certification program. You may visit: https://www.basel-iii-association.com/Basel_III_Distance_Learning_Online_Certification.html

Certified Basel iii Professional (CBiiiPro), distance learning and online certification program

Overview

The Basel III framework is the most important international effort to strengthen the regulation, supervision, and risk management of banks. Developed by the Basel Committee on Banking Supervision in response to the weaknesses revealed by the global financial crisis, it has become the cornerstone of financial sector reform across jurisdictions.

The financial industry clearly needs qualified professionals who understand the Basel III framework — not only its core concepts, but also the precise **terminology and language** regulators, supervisors, and risk practitioners use when assessing capital adequacy, liquidity, leverage, and systemic risk. A deep familiarity with the Basel III vocabulary is essential for interpreting regulatory texts, contributing to internal risk discussions, preparing for supervisory dialogues, and ensuring consistent and accurate implementation across the organization. Without this shared language, even well-intentioned compliance efforts can become fragmented or misaligned with regulatory expectations.

2. Certified Pillar 3 Expert - Basel 3 (CP3E-B3), distance learning and online certification program. You may visit:
https://www.basel-iii-association.com/CP3E_B3_Distance_Learning_Online_Certification.html

Certified Pillar 3 Expert - Basel 3 (CP3E-B3), distance learning and online certification program (Updated: June 2025)

Overview

Pillar 3 focuses on transparency and disclosure of key information related to a bank's risk exposures, capital adequacy, and risk management practices. While Pillar 1 sets minimum capital and liquidity requirements, and Pillar 2 deals with supervisory review, Pillar 3 ensures that external stakeholders, such as investors, analysts, and customers, have access to the data needed to make informed decisions, as they can understand better risks and exposures, and compare institutions.

The Basel III enhancements to Pillar 3 addressed many of the shortcomings identified during the 2007–2009 financial crisis, such as inconsistent reporting, insufficient granularity, and lack of comparability across banks.

Key reforms include the new standardized templates and tables for disclosures to ensure consistency and comparability, and the frequency requirements (quarterly or semi-annually depending on the nature of the disclosure and the size of the institution).

3. Certified Stress Testing Expert - Basel 3 (CSTE-B3), distance learning and online certification program. You may visit:
https://www.basel-iii-association.com/CSTE_B3_Distance_Learning_Online_Certification.html

Objectives

The program has been designed to provide with the knowledge and skills needed to understand the financial stress testing requirements and supervisory expectations after the Basel III framework, and to work in Basel III stress testing projects. The course provides with the skills needed to pass the Certified Stress Testing Expert - Basel 3 (CSTE-B3) exam.

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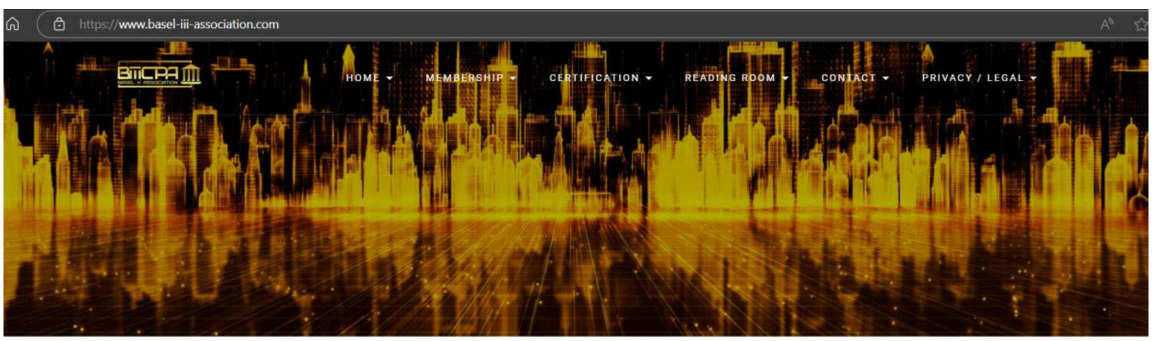

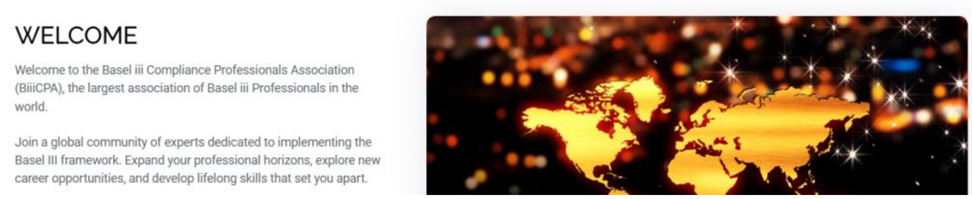

Basel IV

There is no official "Basel IV" framework issued by the Basel Committee on Banking Supervision (BCBS), at least not yet. The term Basel IV is used informally by some industry professionals to describe a set of significant revisions to the Basel III framework. These reforms, however, are officially considered part of Basel III.

The Basel III Compliance Professionals Association (BiiiCPA) will continue to monitor developments and keep you informed of any future updates.

Basel IV | Progress, Challenges, Outlook.

For a Basel IV framework to exist officially, we need a formal announcement from the Basel Committee on Banking Supervision (BCBS), supported by a clear naming convention. As of now, the Committee refers to the post-2017 reforms as the "finalization of Basel III," not as a new framework. Unless the BCBS decides to issue a distinct, standalone set of rules under a new name, Basel IV for example, there will be no official Basel IV framework.

To read more: https://www.basel-4.com/Basel_IV.html

Basel iii jobs

Knowledge of Basel III is very important in the recruitment market. Knowledge of Basel III demonstrates the ability to navigate complex regulatory environments and manage financial risks effectively.

With global enforcement of Basel III standards, professionals with this knowledge are seen as assets in ensuring institutional resilience. As financial regulations evolve, Basel III knowledge gives candidates a competitive edge.