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Important strides in addressing systemic risks in NBFI

I recently tried to transfer money from my Spanish account to my account in India. The amount was quickly debited in Spain but took a long time to arrive in India. I couldn't get either bank to track it. The only comfort was that both were large banks under central bank supervision, but more information would have been reassuring.

While this is an example from the banking sector, this is also the kind of anxiety we also see as regulators – albeit at a higher, global level – with respect to systemic risks in the non-bank sector or so called “NBFI”. To start, the term “NBFI”, is too broad, covering many different entity types with vastly different characteristics and risks, often making any sweeping policy suggestions inappropriate.

Given the breadth of NBFI, there are unsurprisingly large gaps in data and statistics within NBFI. This presents a serious challenge for regulators when trying to effectively monitor and address systemic risk, which is one of IOSCO's three objectives—alongside investor protection and market integrity.

It's no surprise IOSCO has been front and centre on the policy development regarding NBFI over the last few years. Our work has been targeted, acknowledging that one size doesn't fit all. With carefully targeted policy and,

ideally, with the right data, we can be effective in addressing specific sector vulnerabilities while also dealing with broader systemic risks.

The focus over the last few years cover familiar risks: liquidity, leverage, counterparty credit, operational.

Liquidity risk: A key area of focus has been liquidity mismatch in open-ended funds, particularly those with illiquid and less-liquid assets. In stress, the failure to meet redemptions could become an amplifying factor. Work by the FSB and IOSCO has promoted Liquidity Management Tools, including questioning daily liquidity for illiquid assets and encouraging more and consistent use of such tools. In this vein, IOSCO updated its 2018 liquidity risk management recommendations and added practical guidance last year: a good example of microprudential tools serving stability and investor protection together.

Leverage: While leverage can boost returns, excessive levels are risky, especially when combined with liquidity stress. FSB research found NBFI leverage matches household sector levels but is concentrated in certain pockets -- family offices, broker-dealers, hedge funds -- while traditional UCITS and mutual funds have little. The FSB's July 2025 recommendations that strongly benefitted from IOSCO's expertise and input call for better monitoring tools, clearer visibility on where leverage concentrates, and powers to act. IOSCO has long tracked synthetic leverage via derivatives, stressing the need for transparency to maintain trust.

How to live with and address the residual discomfort: having more and better data.

Counterparty credit risk: CCPs, especially in derivatives, have improved transparency and netting. IOSCO has worked with both CPMI, and BCBS to strengthen cleared and uncleared margin frameworks. During pandemic market stress, some participants were surprised by margin calls, so we are working on making initial and variation margin more transparent and predictable.

Operational risk: This covers everything from power outages to cyber-attacks, cloud computing, AI, and other innovations. IOSCO and sister bodies are focusing on these risks.

Looking ahead, market, product, and technological innovation is knocking on our door and with it, uncertainty. While being cautious is our job, we should also avoid rejecting something just because it feels uncomfortable. At one time, creation of the corporate legal personality and the creation of shares would have been seen as innovation and would have caused unease, yet they drove growth. It is important that regulators foster the appropriate environment for growth while keeping a firm finger on the pulse.

While a lot of progress has been made, many supervisors still lose sleep over one thing: the lack of reliable and actionable data. As alluded to earlier, better market data lets firms manage risks themselves, reducing the need for heavy-handed regulation. Many of our recommendations urge boards -- whether of funds, CCPs, or broker-dealers -- to actively engage with risks, supported by better firm-level and market-wide data. The more we know, the less blunt future measures are likely to be. Technology and identifiers can help without overburdening firms with reporting obligations.

At IOSCO we are trying to do our part to bridge the information gap. This year, IOSCO launched its first public funds dashboard, using data from 39 jurisdictions covering 80% of global AUM and 120,000 funds, with figures on leverage by country, fund type, and strategy. Our ambition is to continue to build on this in the years to come.

While more and better data won't guarantee supervisors an eight-hour sleep, it will hopefully help them rest easier—as I was able to, once I received confirmation that my money finally reached India.