Regulatory focus on non-bank finance: considerations for financial services providers

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Foreword

More than 15 years after the 2008 global financial crisis, the financial services landscape has transformed significantly. Technological advancements, new entrants into the market, and unforeseen events like the COVID-19 pandemic and the March 2023 banking turmoil have prompted policymakers to evaluate the financial services market and address new vulnerabilities to financial stability.

One area of change is the growth of non-bank financial institutions (NBFIs) in proportion to the financial sector. By one estimate, NBFIs grew 8.5% in 2023, outpacing banking sector growth at 3.3%, and raising total global financial assets held by NBFIs to 49.1%.[1] This growth has been fueled in part by a lack of available credit and capital from conventional market participants. Additionally, a 2024 EY survey found that 71% of corporate treasurers faced challenges securing bank funding, with 52% turning to private equity and 48% to private credit.[2] These trends, along with recent market volatility, have heightened regulatory focus on the risks NBFIs pose to financial stability.[3]

This paper examines the growth of NBFIs and the implications of that growth for banks, non-bank lenders and regulators. It offers EY insights on the efforts of global bodies like the Financial Stability Board (FSB), which monitors and makes recommendations about the global financial system, and regional bodies like the European Union (EU), as well as key jurisdictions like the United Kingdom (UK) and United States (US), to measure, monitor, and, if appropriate, mitigate the risks posed by NBFIs to financial stability. It also aims to inform traditional financial institutions that engage with NBFIs, and NBFIs themselves, in navigating the evolving regulatory landscape.

Key findings of this paper include:

- NBFIs have grown relative to the rest of the financial sector due in large part to (i) an evolving demand for credit from unconventional borrowers seeking credit on unconventional terms and (ii) technological advancements in the broader financial sector.
- Policymakers and regulators are focused on managing NBFIs' liquidity- and leverage-related risks and NBFIs' ability to withstand economic or other adverse disruptions.
- Boards and senior managers — such as chief risk and compliance officers — of regulated financial institutions doing business with NBFIs, especially private finance, need to prepare for the possibility that regulators will seek more information about their activities with NBFIs to better understand NBFIs' role in the financial sector and the economy, and to better assess whether NBFIs pose a risk to banks' safety and soundness and to the stability of the financial system. This oversight activity by regulators may involve increased engagement with supervisors and enhanced disclosure requirements.

As the global economy becomes increasingly complex, EY teams are committed to working with financial institutions, as well as regulators, to advance the shared goal of creating more resilient, dynamic, efficient and effective capital markets. This paper reflects that commitment, and our confidence that all stakeholders, working together, can contribute to a future of unparalleled opportunity for people across the globe.

Omar Ali
EY
Global Financial Services Leader

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Defining NBFIs

NBFIs offer a range of highly specialized and wide-ranging financial services to corporate clients and retail customers, complementing or providing competition to the credit and transaction services of traditional banks. Within this wide spectrum, NBFIs can include retail firms such as non-bank lenders (i.e., consumer finance companies). To date, regulatory scrutiny of NBFIs has largely concentrated on wholesale and business providers, such as private equity funds, hedge funds, broker-dealers, money market funds (MMFs) and open-end funds, among others, given their size in the market and corresponding implications on financial stability. In addition to being competitors of banks, NBFIs can also engage with banks as clients. For instance, an NBFI might place its funds in a bank account or secure a loan from a bank. Conversely, NBFIs can offer services to banks, including investing in securities and derivatives.

As a result of the wide range of services offered by NBFIs, their treatment by regulators varies. The term "shadow bank" has been used to refer to NBFIs that are not depository institutions, but that provide bank-like services such as lending and other credit-related services. While these NBFIs offer products similar to those offered by banks, they are not customarily regulated in the same way because they do not accept liabilities defined as customer deposits to fund their lending activities. Instead, they rely on different financing channels including bank loans, venture capital investment and supply chain financing.

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Central counterparties, MMFs and some investment firms fall under some form of financial regulatory oversight in many countries. Regulators in those countries have focused their efforts on raising liquidity, leverage and transparency standards, among others, in relation to these firms because they are already within the regulatory perimeter. In addition, regulators generally seek to mitigate the risk of regulatory arbitrage — i.e., the risk that less rigorous standards in their jurisdiction will attract firms and activities that pose risks to financial stability, as well as to the safety and soundness of regulated institutions.

The regulation of other types of NBFIs — such as buy-now-pay-later (BNPL) providers and issuers of private forms of digital money (e.g., stablecoins) — tends to focus on investor and consumer protection, rather than mitigating risks to financial stability or safety and soundness. However, in some cases consumer protection regulation has not kept pace with technological advancement. In other cases, policymakers are still debating how to close gaps and bring certain NBFIs into the regulatory perimeter. Examples of the former includes the regulation of stablecoins which is progressing at different speeds globally.[4] Examples of the latter include the UK HM Treasury's consultation on how to regulate BNPL providers.[5]

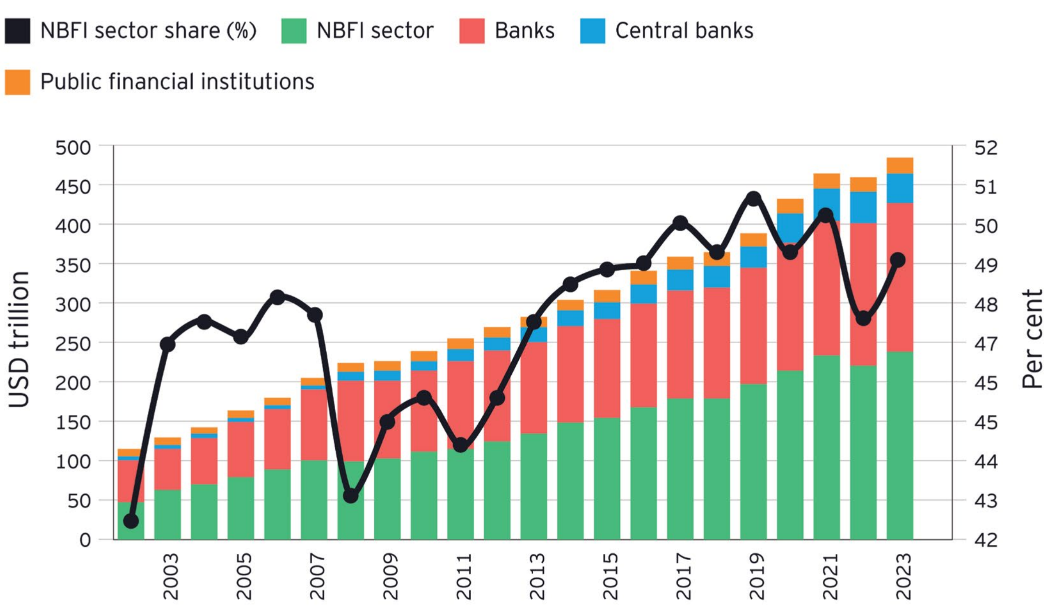
In part, regulators have focused more heavily on applying investor and consumer protection rules to NBFIs because NBFIs are not depository institutions and therefore have been viewed as less likely to pose risks to financial stability or safety and soundness. However, more recently, prudential supervisors have become more focused on the potential of NBFIs to pose these latter risks because of the extent to which regulated financial institutions are exposed to NBFIs.

Factors driving the growth of NBFIs

The growth of NBFIs is complex and shaped by an interplay of forces including regulatory, economic and technological factors. As banks faced increased regulatory scrutiny and higher capital requirements in the wake of the 2008 global financial crisis, NBFIs began to fill gaps in services like lending that banks were less able or willing to provide. For example, in some markets, small- and medium-sized enterprises (SMEs) have turned to NBFIs for financing when they could not meet the lending criteria of traditional banks. Within the Euro area, the share of credit extended by NBFIs to companies increased from 15% to 26% in the four years after 2008.[6] In other markets, such as the US, NBFIs today collectively originate and service most residential mortgages.[7]

Another driver of NBFIs' growth in the financial sector has been the rapidly expanding development of financial technologies. This trend has enabled consumer-facing non-bank lenders, including FinTech firms and large technology companies, to offer innovative financial services and products directly to consumers, often with greater efficiency and at lower cost than traditional banks offering comparable services. Examples of such services and products include flexible and integrated payment options offered to customers when they check out online, such as BNPL, and financial services involving crypto assets such as stablecoins. As technology-driven innovation in the financial sector continues, NBFIs will likely further expand their increasingly prominent role in the global economy.

Total global financial assets



Source: Global Monitoring Report on Non-Bank Financial Intermediation 2024

Regulatory concerns about NBFIs

NBFIs play an important role in financial markets by providing essential capital to fuel economic growth and broaden access to finance. They offer alternative funding options beyond traditional banks, especially to businesses and consumers with higher risk profiles who may face challenges securing traditional bank loans due to stricter regulations that can impact banks' appetite to take risks. However, NBFIs' expanding role in the financial system opens the financial system to a greater range of risks.

Financial stability

While many argue that NBFIs contribute positively to the financial system, their operations can also contribute to instability within their own institutions, within banks and other institutions that they do business with, and within the financial system as a whole. For instance, some NBFI activities can involve significant use of leverage, and if an NBFI faces financial strain or collapses — such as when a fund with illiquid assets sees a surge in investor redemptions — the repercussions can cause turbulence in the financial markets.

Regulatory bodies have historically faced challenges in detecting and mitigating the potential adverse impact of NBFIs on financial stability due to the intricate web of interactions between these institutions and banks, compounded by the fact that certain NBFI activities fall entirely outside the scope of regulation.

Reforms put in place in the wake of the 2008 global financial crisis were intended to promote banking stability, but commentators have observed that the effect has been to "migrate risk" from regulated banks to NBFIs, where prudential regulation does not apply.[8] Regulators are particularly concerned that these effects could spill over into the rest of the financial sector, reducing the safety and soundness of systemically important financial institutions (SIFIs), like banks, and thereby causing risks to the stability of the financial system. There have been instances where such spillovers have materialized. For example, instability in the US Treasury market linked to the emerging COVID-19 pandemic caused the "dash for cash" in March 2020. The collapse of a private wealth management firm in March 2021 led to significant losses for some of the world's largest banks and required a major coordinated intervention by central banks to calm the situation. Additionally, the US Financial Stability Oversight Council (FSOC) prioritized focus on financial stability risks associated with three types of NBFIs — hedge funds, open-end funds and MMFs — in response to the market stress experienced in March 2020.[9]

Regulators are also increasingly concerned that — like banks — certain NBFI activities are impacted by economic conditions, changes in monetary policy and market sentiment, but without the same ability to absorb risk events. In the recent COVID-19 pandemic, the US and UK central banks intervened in the market in March 2020 to stabilize conditions, partly driven by concerns about exposures of real economy businesses to NBFIs. Last year, a US FSOC report observed financial stability risks related to the significant increase in non-banks originating mortgages and managing the servicing for most mortgage balances, citing non-banks' susceptibility "... to macroeconomic fluctuations in the housing market, such as changes in housing prices, interest rates and delinquency rates," among others.[10]

The emergence of technology-enabled products and services offered by NBFIs are prompting some regulators to evaluate how financial stability could be adversely impacted in the future, and to take prudent actions to mitigate these stability risks. For example, the US Federal Deposit Insurance Corporation (FDIC) proposed a new rule requiring banks that receive deposits via a non-bank third party, such as a FinTech firm, to keep records of the actual owner of deposits placed in the bank. This proposed rule, if adopted, would allow banks to quickly return deposits to customers if the third party failed.[11] This clarification was prompted by the May 2024 failure of a non-bank FinTech firm that held customer deposits in a custodial account at a regulated bank. When the third party failed, customers experienced delayed access to their funds while the bank reconciled the funds held in the custodial account with customer claims.

Alternatively, banks could experience instability if significant volumes of customer deposits are withdrawn, or if banks unknowingly lend to over-indebted customers. The former could occur if private forms of digital money grow to compete with bank money, which is one reason why some central banks are developing central bank digital currencies (CBDCs). The latter could occur if, for example, BNPL became a material proportion of overall consumer lending, and BNPL lenders were not obliged to: (1) conduct affordability assessments before lending to customers, or (2) report lending to credit bureaus, which provide vital information to banks to assess a customer's ability to repay. If a significant proportion of a bank's loan portfolio defaulted, this could impact a bank's safety and soundness, as well as cause consumer harm. A report by the US Consumer Financial Protection Bureau (CFPB) found that BNPL users in the US are more likely to default on loans and are more highly indebted than non-users.[12] Efforts by regulators to provide a framework for securely sharing customer information with third parties (known as open banking or open finance) could further broaden the participation of NBFIs in providing consumer financial services.

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Regulatory actions regarding NBFIs

Some regulators at national as well as multinational levels continue to face the complex task of understanding and mitigating the risks posed by NBFIs to financial stability, safety and soundness, investors, and consumers. Their strategies have typically included enhancing the oversight of currently regulated NBFI activities, increasing the transparency of their transactions and governance, and implementing enhanced requirements for liquidity and leverage, along with enforcing standards for risk management. For example, in 2021, the FSB put forward recommendations to enhance MMF resilience following the market disruption of 2020.[13] In December 2023, the UK Financial Conduct Authority (FCA) consulted on updating the current UK MMF regime,[14] including taking forward the FSB's proposed reforms in a UK context. Draft legislation to create the framework for the new regime was published by the UK government in December 2023[15] and the FCA is expected to publish a policy statement in 2025.

Moreover, in the wake of recent disturbances in the financial markets, regulatory bodies and international organizations that set standards are taking a second look at these protective measures to determine if they have been effective and are likely to be effective in addressing new and potential risks to the safety and soundness of regulated institutions, as well as to the stability of the financial system. The growing interconnections between regulated banks and NBFIs has further raised concerns, as current available data may not be providing an accurate picture of these risks.

Approaches and solutions vary depending on the remit of the regulator or standard-setter. For example, authorities with financial stability mandates prioritize efforts designed to protect bank safety and soundness, particularly for those banks that are deemed systemically important, and to identify and mitigate potential risks to the stability of the financial system. Securities authorities, on the other hand, have a different remit than central banks and prudential regulators, so their work programs focus more on reducing leverage, promoting liquidity, enhancing transparency and protecting investors.[16] Regulators with consumer protection mandates are focused on understanding the impact of NBFIs on consumers, especially in areas like BNPL where consumers are not always afforded the same protections as when they obtain loans from a regulated bank.

Multinational approaches to addressing the risks of NBFIs

Given the global nature of financial markets, internationally coordinated efforts have played an important role in the development of regulation designed to manage financial stability risks associated with NBFIs.

In the wake of the 2008-2009 global financial crisis, the Group of 20 (G20), a forum for international economic cooperation among the world's largest economies, called for the strengthened supervision of NBFIs because it was becoming clear that systemic risks were not confined to traditional banks. In response, the G20 tasked the FSB and other international standard-setters[17] with identifying what gaps exist in the supervision of NBFIs.[18]

The FSB has since undertaken a comprehensive program of work designed to monitor, assess and encourage remediation of risks arising from NBFIs. This work, which is principally focused on the FSB's mandate to promote financial stability, includes: (i) the publication of an annual report on its work to enhance resilience in NBFIs; (ii) the completion of a holistic review of the March 2020 market turmoil following the COVID-19 pandemic and related implications for NBFIs;[19] (iii) proposals to improve MMF resilience;[20] and (iv) policy recommendations to enhance the liquidity preparedness of non-bank market participants for margin and collateral calls through liquidity stress tests and collateral arrangements.[21]

Moreover, the FSB's Chair, Klaas Knot, has warned that NBFI vulnerabilities remain a potential source of systemic risk, and that the implementation of NBFI reforms agreed to by FSB members has been uneven across jurisdictions. In response, Knot has urged the full and timely implementation of such reforms by jurisdictions, so that liquidity risks are internalized by market participants and the risk of reliance on interventions by central banks and other public authorities is reduced during times of stress.[22] Of immediate concern are the financial stability risks arising from increasing leverage in NBFIs, and the FSB has recently consulted on proposed policy approaches to address such risks.[23] Proposals include a focus on NBFI leverage risk management and monitoring, related counterparty risk management, and disclosures to improve transparency of leverage.

In addition to this work, the FSB collaborates with various international organizations to address the monitoring and supervision of NBFIs. The International Organization of Securities Commissions (IOSCO), which serves as a global policy forum for securities regulators and is recognized as a global standard-setter for securities regulation, is contributing to the FSB's work to improve oversight of leverage within the NBFI sector.[24] IOSCO is focused on NBFIs because of concerns related to the growth of private finance in lending and the "interconnectivity" of private finance with regulated public markets.[25] Furthermore, the Basel Committee on Banking Supervision (BCBS), a global forum for banking regulatory authorities, also contributes to the FSB's work on NBFIs. The group is primarily focused on understanding the linkages between NBFIs and banks, and addressing risks related to these linkages. Among other activities, the BCBS has carried out a risk horizon-scanning exercise related to banks' NBFI activities,[26] as well as proposed guidelines for counterparty credit risk (CCR) management for banks that have high-risk exposures to counterparties like NBFIs.[27]

Common issues that have emerged from the work of the FSB, IOSCO and the BCBS include: (i) the need for NBFIs to implement robust risk management and governance protocols, with a special emphasis on managing liquidity and leverage-related risks effectively; (ii) enhanced transparency through better disclosure by banks of NBFI leverage levels and risk exposures to NBFIs, enabling a clearer understanding of the potential impact NBFIs may have on financial stability; (iii) the significance of stress tests to evaluate NBFI capacity to withstand economic or other adverse disruptions; and (iv) comprehensive resolution strategies for NBFIs that are deemed systemically important to financial stability.

Domestic and regional approaches

Domestic and regional authorities play an important role in contributing to internationally coordinated work programs. Some, set out in the sections below, have gone further than the policy measures recommended by the FSB and the other multinational standard-setting bodies, reflecting specific features of local markets and different approaches to regulation. This is particularly relevant to addressing consumer protection risks deriving from NBFI activity, since no international standards have been developed.

Where action has been taken, authorities have used two approaches: directly extending regulation to NBFIs or using existing levers to exert influence over NBFIs via regulated banks. In the retail space, policymakers in Australia and the United Arab Emirates (UAE) have proposed new BNPL rules, and measures have already been introduced in the EU and New Zealand.[28] In the UK, BNPL providers will be brought inside regulatory remits by the end of 2025.[29] Singapore's Monetary Authority (MAS) has introduced a voluntary code and will contemplate stronger regulation if necessary.[30] New measures were required because regulators could not use their existing tools to protect consumers. In the case of private equity lending, however, where the concern is more about risks to financial stability, central banks tend to use their supervisory authority over regulated banks to try to assess exposures of those banks to NBFIs, as they do not have authority over privately held investment firms. They have not yet chosen or been given the authority to extend prudential regulation to NBFIs.

United States

In addition to the increasing involvement of NBFIs in US mortgage lending, the regulated financial services industry is concerned that current and prospective US capital requirements for regulated institutions may put those institutions at a competitive disadvantage relative to NBFIs, which do not have to meet such requirements. Without broad and direct authority to impose similar requirements on NBFIs, some regulators have been more focused on identifying and mitigating risks posed by NBFIs to regulated financial institutions. To that end, they have so far concentrated on greater transparency by regulated institutions as a means to monitor and limit NBFI exposures.

In recent years, some US regulators have taken several steps recently to better understand and mitigate risks posed by NBFIs. These steps include i) a proposal by the US Federal Reserve for banks to provide greater disclosure of exposures to NBFIs, which could inform future exploratory stress tests of banks,[31] ii) reiteration by the US Consumer Financial Protection Bureau (CFPB) of its authority to oversee non-banks whose activities pose significant risk to consumers,[32] iii) in response to the market stress experienced in 2020, an increase by the US Securities & Exchange Commission (SEC) in the minimum liquidity requirements for MMFs to provide a more substantial buffer against rapid redemptions,[33] and iv) the SEC's action to enhance the disclosure requirements for open-end funds related to liquidity risk management.[34]

Additionally, in response to the March 2023 banking volatility, the US FSOC increased the speed by which it could designate NBFIs as SIFIs, reversing protocols adopted during the first Trump administration that would have slowed the SIFI designation process. Such a designation could subject NBFIs designated as SIFIs to oversight from the US Federal Reserve, including new capital and liquidity requirements.[35] In response to concerns about the growth of NBFI mortgage providers in the US, FSOC has recommended that Congress legislate in several areas, including to provide the US Federal Housing Finance Agency (FHFA) and Government National Mortgage Association (known as Ginnie Mae) with additional authorities to better manage non-bank mortgage company counterparty risk, as well as create a fund financed by the industry to provide liquidity to failing non-bank mortgage servicers.[36] The US FDIC is also reportedly contemplating proposals to enhance oversight of large investment firms' acquisitions of shares of FDIC-supervised banks, due to concerns about risks posed by passive investment strategies and ownership concentration.[37]

At the state level, regulators approved a harmonized approach to the supervision of non-bank mortgage lenders, via the Conference of State Bank Supervisors (CSBS). The model standards focus on financial condition requirements (i.e., for capital, liquidity and certain assets), and corporate governance requirements (i.e., for board oversight, risk management, and internal and external audit).[38] So far, seven US states have enacted the CSBS prudential standards, and others are progressing toward adoption, such as California and Texas.[39]

Looking ahead, whether financial regulators serving in the second Trump administration will carry forward the NBFI-related initiatives undertaken during the Biden administration cannot be determined at this time. In one of his early actions upon taking office in January 2025, US President Trump issued an executive order endorsing a separate regulatory framework for crypto assets and trading platforms. In the same week, the Acting Chair of the SEC established a crypto task force to develop a regulatory framework for crypto assets.

More recently, US Treasury Secretary, Scott Bessent, suggested the need for US financial regulation to be more proportionate and targeted to where risks reside in the financial system. In a speech to the American Bankers Association in April 2025, Bessent observed that capital requirements have caused a shift towards NBFIs in mortgage lending, which has "…undercut an important line of business for community banks."[40]

In addition, President Trump's nominee for Vice Chair for Supervision at the US Federal Reserve, Michelle Bowman, has previously stated that NBFIs should receive the "same regulation, guidance, and supervisory expectations" as traditional banks as they engage in the same activities. Bowman is currently a member of the Board of Governors of the US Federal Reserve System; however, it is unclear if this statement will inform Bowman's new role if her nomination is secured. [41]

Europe

The rapid expansion of the NBFI sector and recent examples of market instability has led European policymakers to revisit existing prudential supervision of NBFIs. The Eurozone's NBFI sector has more than doubled — from EUR15t to EUR32t — since 2008, with private equity and credit markets expanding by 29% in the last three years.[42] In response, the European Banking Authority (EBA) is continuing to monitor the sector and has emphasized the need for banks to understand their exposures to NBFIs and employ effective risk management techniques.[43] The European Commission is considering if the current system is adequate, highlighting a lack of coordination among EU frameworks and key NBFI vulnerabilities, including unmitigated liquidity mismatches, excessive leverage and interconnectedness between sectors.[44] In her Mission Letter to the proposed Commissioner-designate for Financial Services, Commission President Ursula von der Leyen requested continued work on NBFIs as part of ongoing international work.[45] Considering the Commission's other goals, any activity will need to balance securing financial stability without stifling capital availability for SMEs, especially those that are advancing the bloc's digital and sustainability objectives.[46]

The UK has a largely similar regulatory framework to the EU, partly due to its decision to assimilate directly applicable EU legislation on its departure from the EU. The UK is, however, following a process of reform to tailor the EU requirements to the UK. As well as implementing international standards, the UK is continuing to evolve its approach to addressing risks posed by NBFIs. For example, in 2024, the BoE conducted a system-wide exploratory scenario exercise (SWES), involving banks and NBFIs such as insurers, central counterparties (CCPs) and funds, to explore how the UK financial system would respond to a market shock. The findings in the final report included that many NBFIs underestimate their ability to access the financing they need in times of stress. The BoE has committed to further policy work, including taking steps to enhance repo market resilience.[47] Similar to the EU, UK regulators are particularly focused on the potential risks stemming from banks' exposures to private equity funds. In April 2024, the UK Prudential Regulation Authority (PRA) published the results of a thematic review to investigate banks' private equity-related financing activities, focusing on banks' risk management practices in relation to their exposures to private equity. That same month, a UK PRA official commented in a speech that banks are leaving themselves open to "severe, unexpected losses" and that banks are unable to measure or identify their exposure to the private equity sector. [48] And, in June 2024, the BoE's Financial Policy Committee noted that risks from market-based finance (such as private equity funds) have worsened stress events in recent years, and that "...risk management practices in some parts of the sector need to improve, including among lenders to the sector such as banks."[49] Separately, in March 2025, the UK FCA published the results of a multi-firm review of valuation processes for private market assets,[50] with firms expected to remedy any gaps in their approach.

Asia-Pacific

The drivers of regulation of NBFIs in Asia-Pacific are diverse and differ from Europe and the US. For example, multiservice online platforms, or "super-apps," have increased in popularity across the region, broadening access to finance through digital wallets, payments and credit, alongside other nonfinancial services such as travel and social networking. According to the People's Bank of China (PBoC), non-bank payment institutions processed a total of 1.23t online payment transactions in 2023.[51] NBFIs operating in China now fall under the regulatory authority of the newly created National Financial Regulatory Administration (NFRA), whereas previously such entities fell under the purview of the PBoC. The new NFRA is responsible for the supervision and regulation of the financial industry and succeeds the China Banking and Insurance Regulatory Commission (CBRIC). Under the previous supervisory structure, NBFIs did not experience the same oversight as other financial institutions, given the PBoC's remit largely focused on monetary policy. With this change, NBFIs are more aligned to financial services industry oversight, given the NFRA's supervisory remit. Additionally, the development of a Chinese retail Central Bank Digital Currency — the e-Yuan or e-RMB — is intended in some part to address financial stability concerns by providing an alternative source of payments. In Hong Kong, regulators have flexible powers to designate a wider range of financial services firms as systemically important from a financial stability perspective. This allows regulators to apply resolution laws to these firms, so they can be resolved in the event of failure.

In contrast, Australian regulators are primarily focused on minimizing the risk that financial instability stemming from NBFIs in overseas markets spills over into the domestic market. They consider local NBFI-related risks to be relatively contained given the size of the market and low level of interconnectedness, so are less likely to act on those issues.[52]

Considerations for firms

Recent market events have informed efforts among regulators to better understand and address potential stability risks arising from regulated firms' interactions with NBFIs.

Boards and senior managers, especially chief risk and compliance officers, should consider the scenarios set out below, which are organized according to a firm's role in the market.

For prudentially regulated firms that are exposed to NBFIs:

- Prepare for ongoing or possibly greater supervisory scrutiny regarding policies, personnel and procedures related to risk assessment and risk management, particularly regarding exposures to less visible markets such as private finance, where regulators will be concerned about counterparty risk, concentration risk and liquidity risk.
- Consider investing in data analytics and aggregation capabilities to support identification and monitoring of material exposures and risk concentrations. Regulators will likely expect firms to integrate assessments of NBFI risks into their existing risk management and compliance frameworks with the ability to aggregate exposures at a group-wide level, as well as by individual entities and sectors.

For institutional-facing NBFIs that sit entirely or partially outside of prudential regulatory perimeter:

- Expect increased pressure from regulated firms and their supervisors to share information to help them better understand exposures, leverage and concentration risk. Authorities may introduce mandatory disclosures if they believe that they are receiving insufficient information from NBFIs.

For consumer-facing NBFIs:

- Expect consumer protection agencies to drive higher standards of customer care, in line with their expectations of regulated firms. As take-up of innovative propositions increases, regulators will focus more of their attention on ensuring that customers are receiving good outcomes and seek to plug gaps in regulation.

For all firms:

- Develop a strategic approach to regulatory engagement and monitoring, in anticipation of greater interest and scrutiny. Monitor regulatory statements and policy documents to identify potential future areas of policy change or attention. Be prepared to engage proactively with regulators on these issues.
- Revisit risk management processes and procedures to ensure they are aligned to regulatory expectations.
- Ensure boards and senior management understand regulators' concerns, and specific feedback is discussed in relevant forums (e.g., risk committees).

Authors

Shawn Maher

EY Global Vice Chair, Public Policy
Ernst & Young LLP
shawn.maher@ey.com

Chris Woolard CBE

EY Global Regulatory Network Chair
Ernst & Young LLP
christopher.woolard@uk.ey.com

Fatima Hassan-Szlamka

Director, Global Public Policy
Ernst & Young LLP
fatima.hassan@ey.com

Fran Clausen

Manager, Financial Services
Consulting – Regulatory Insights
Ernst & Young LLP
fran.clausen@uk.ey.com

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