

The Association for Financial Markets in Europe (AFME) – Written evidence (PMG0017)

1. The Association for Financial Markets in Europe (AFME) welcomes this opportunity to respond to the Financial Services Regulation Committee inquiry on the growth of private markets in the UK following reforms introduced after 2008. AFME represents a broad array of European and global participants in the wholesale financial markets. Our members comprise UK, EU and global banks and other financial market participants. We advocate for stable, competitive, and sustainable financial markets that support economic growth and benefit society.
2. Given that we represent a broad array of UK, European, and global participants in the wholesale financial markets, we have prioritised our response on this basis.

Executive summary

3. Private markets have attracted growing attention in recent years, reflecting the sector's significant growth since 2008 and its important role in the global financial system. The sector has grown from less than \$4 trillion global assets under management in 2008 to around \$16 trillion today¹. Many different actors are involved in private markets, including banks and non-bank financial institutions (NBFIs). We welcome the Committee's inquiry, and in particular the focus on interconnections with the banking sector, to inform policymakers' work in this area.
4. Private markets play an important role in the UK economy, and indeed globally, providing a diversified source of finance for businesses. Since 2008, nearly all the £425 billion net increase in UK corporate debt has come from market-based finance². We note that banks continue to play an important role in market-based finance, for example by providing repo and other forms of wholesale finance to non-banks, doing so mainly on a secured basis. However, it is clear that regulations introduced after the global financial crisis, have impacted banks' ability to conduct certain activities and certain risks have moved off banks' balance sheets.
5. It is important that policymakers identify the causes of change in market structure to inform whether amendments to regulatory frameworks are needed, and to ensure they are appropriately targeted and focused on the sources of risk. This is particularly

¹ Bank of England Financial Stability Report July 2025 ([link](#))

² Bank of England, Bank Overground 'Why do UK companies raise market-based finance debt?' (August 2024) ([link](#))

relevant in the context of the Government's objective of ensuring the financial services sector supports growth within the real economy and finances the growth of corporates.

6. We welcome the continued engagement of the UK authorities on this issue³, as well as that of international standard-setters given the global nature of the sector. We encourage policymakers to incorporate the following principles into their regulatory approaches going forward:

- It is important to examine the reasons behind changes in market structure and assess whether such changes may lead to the emergence of new risks.
- Where risks are identified, they should be managed through targeted measures focused on the market participants that are the sources of risk.
- Reflecting the wide range of entities involved in private markets, any additional measures that are deemed necessary by the authorities must be appropriately tailored to different types of market participants.
- Authorities should consider whether changes in market structure may justify the simplification of existing requirements for banks, and not only whether new measures are needed to address risks posed by the growth in private markets.

Functions and Activities Performed

Non-bank financial institutions (NBFIs)

7. As acknowledged by the Committee, private markets are part of the non-bank sector. NBFIs play several roles within the broader financial sector and provide functions to support the real economy. These institutions provide wholesale funding across a range of sources (deposits, structured notes and money market funding, securitisation, sovereign debt, corporate and bank bonds, private equity and private debt). Different NBFIs have different degrees of risk appetite, all are sophisticated investors and/or market participants.

8. NBFIs' funding originates from a number of different sources.

³ For example, the Bank of England said in the most recent Financial Stability Report (July 2025) that it would undertake structured engagement with private market participants and key providers of capital to the sector.

9. NBFIs contribute to financial stability by enabling risk to be distributed across the financial sector, rather than being concentrated on banks' balance sheets. They also provide diversified funding sources and enhance overall market liquidity. However, authorities including the Bank of England⁴ and the European Central Bank (ECB)⁵ have noted that through their funding mechanisms, NBFIs can be particularly sensitive to stress events.
10. Unlike banks, which are subject to dual regulation by the FCA and PRA, most NBFIs are regulated solely by the FCA primarily due to the activities they perform and the narrower scope of their business models. The more limited range of activities NBFIs perform compared to banks means they have lighter capital, liquidity and governance requirements.
11. Most NBFIs are solely regulated by the FCA due to their MiFID 'Dealing on own account' activity and typically remain below the asset threshold that would subject them to Capital Requirement Regulation requirements (which would result in joint FCA and PRA regulatory oversight). NBFIs, including most electronic liquidity providers, may operate under the Investment Firm Prudential Regime (or the Investment Firm Directive and Investment Firm Regulation in the EU), which applies a "K-factor" method to assessing risk that is less complex than some alternative approaches.
12. We would highlight the following types of non-banks as being particularly relevant to the Committee's questions:

Electronic Liquidity providers

13. The largest Electronic Liquidity providers (ELPs) are specialised firms that undertake proprietary trading, offer execution services as Systematic Internalisers (SIs), and act as market makers, leveraging advanced technology and algorithms to provide liquidity.
14. These firms have a high expertise in electronic trading, with their market participation primarily focused on trading of highly liquid and electronically traded instruments such as ETFs, equities, and FX. However, many ELPs in recent years have diversified their activities to other asset classes such as bonds, and commodities.

4 Bank of England: system-wide exploratory scenario exercise final report, November 2024 ([link](#))

5 ECB: Financial Stability Review, May 2024 ([link](#))

15. Some ELPs are covered by the Investment Firm Prudential Regime (or the Investment Firm Directive and Investment Firm Regulation in the EU), and as such are treated as investment firms in the UK and EU for the activities that they undertake. This means that they have to meet specific requirements for the activities that they undertake – noting that they do not hold retail deposits.

Private Funds

16. Private equity and private credit markets have expanded in recent years, including across Europe. Banks maintain exposures to these private markets through multiple channels and have extensive counterparty credit risk management systems in place to manage the risks arising from these interconnections.

Private equity funds

17. Private equity funds make investments in companies that are not publicly traded on stock exchanges. Investors, typically institutional investors (including pension funds and insurers) or high-net-worth individuals, provide capital to private equity firms, which then use that capital to acquire, restructure, or grow businesses with the goal of selling them later at a profit. These funds help finance innovation, business expansion, and operational improvements, often through long-term strategic involvement. According to research by McKinsey & Company in 2025⁶, private equity assets under management, was around \$9 trillion, with growth across Europe (including the UK), reaching 3.0% between H1 2023 and H1 2024.
18. The number of initial public offerings (IPOs) has decreased sharply. Funds have historically used IPOs as an exit path to liquidate investments and return money to investors (exiting). The decline in the number of IPOs means that funds have resorted to other ways to return capital to investors, most notably the use of leverage at the fund level. This additional layer of leverage can be a source of risk and creates a less transparent environment for market participants and regulatory bodies.

Private Credit Funds

19. Private credit funds are investment vehicles that provide loans directly to companies, typically those companies that are unable to access traditional bank financing or public debt markets. These funds are managed by private investment firms and are funded by institutional investors. Unlike public bonds, private credit deals are

⁶ McKinsey & Company Global Private Markets Report 2025 ([link](#))

negotiated privately and often tailored to the borrower's specific needs, offering flexibility in terms and structure. They play a growing role in corporate finance, especially during the growth stage of a company.

20. Private credit markets have seen significant growth in recent years, driven by demand from both borrowers and investors. Global assets under management are expected to reach \$3 trillion by 2028, representing an almost ten-fold increase since 2010⁷. As private credit funds have expanded their operations, through larger deals and by moving into the investment grade space, competition between banks and private credit funds has increased. Banks have also contributed to the private credit market growth by providing financing to private credit funds. In addition, an increasing number of banks are partnering with asset managers to enter the private credit market themselves through a variety of business models.

Trends in non-bank activities and private markets

Data on UK and EU market structure

21. Private markets (i.e. non-bank funding from private equity or private credit funds), as reflected in the latest Financial Stability Report⁸ from the Bank of England, have become a key part of how businesses in the UK, especially fast-growing small and medium-sized enterprises (SMEs), secure funding. Today, companies backed by private equity account for around 15% of all corporate debt and employ roughly 10% of the UK's private sector workforce, highlighting their growing influence and significance in the real economy.
22. These markets are largely supported by institutional investors such as pension funds and insurers, who provide capital to private investment funds. Banks also play a major role by offering various forms of lending, including net asset value (NAV)-based loans, revolving credit facilities, and syndicated loans. With fewer companies going public in the UK (this is a trend that we explore in our most recent UK Key Performance Indicator report⁹) investors are turning to alternative strategies like continuation vehicles and NAV financing to maintain returns. The system is therefore highly interconnected, and banks already have thorough counterparty credit risk management systems in place to manage the risks arising from these interconnections.

⁷ McKinsey & Company, 'The next era of private credit' ([link](#))

⁸ Financial Stability Report - July 2025 ([link](#))

⁹ AFME: Capital Markets in the UK - Key Performance Indicators ([link](#))

23. Looking at Europe, private markets in the euro area are still relatively small compared with North America and traditional bank lending, according to a recent report¹⁰ by the European Central Bank (ECB). However, these markets have grown rapidly over the past decade. As of Q2 2024, Private Equity and Private Credit funds domiciled in the euro area held €628 billion and €106 billion in assets respectively, while North American counterparts held €5 trillion and €1.2 trillion. Private Equity markets in the euro area have grown at an annual rate of 9% since 2010, and Private Credit markets at 13%, although this growth has slowed since 2021.

Changes to market structure since 2008

24. The growth in NBFIs and private markets that we have seen since 2008 was to an extent foreseen. In a discussion in Brussels on 18 February¹¹, Andrew Bailey, Governor of the Bank of England stated that the rise of NBFIs was inevitable after the Global Financial Crisis (GFC) to an extent, but not at the scale we have seen in recent years. NBFIs are now an integral part of the European and UK financing landscape.
25. Today, NBFIs are expanding the size of the activities they undertake in several asset classes: including fixed income, FX, and private credit.
26. AFME's assessment is that the growth of private markets is partly a response to the low-interest rate environment observed in the years between 2008-2022 but also post crisis strengthening of the banking system, where banks are subject to stringent oversight and capital requirements. This reflects the range of activities banks undertake, but the consequence has been that certain risks have moved off banks' balance sheets. Since 2008, nearly all the £425 billion net increase in UK corporate debt has come from market-based finance¹².
27. We recognise the diversification benefits of this change. However, it raises important questions about whether the current regulatory framework strikes the right balance to enable the financial services sector as a whole to best, and safely, support growth.

Interconnections between Banks and Private Markets

¹⁰ ECB - Private markets: risks and benefits from financial diversification in the euro area ([link](#))

¹¹ Andrew Bailey participated in a panel discussion titled *"Preserving and enhancing open financial markets"* at an event hosted by Bruegel, in Brussels on 18 February 2025.

¹² Bank of England, Bank Overground 'Why do UK companies raise market-based finance debt?' (August 2024) ([link](#))

28. Since the GFC, links between banks and private markets have deepened, diversified, and professionalised. What began as a necessary reset of banks' risk appetite and balance sheets has become a series of connections that now underpin credit formation, liquidity, and risk transfer across the system.
29. These channels enable leverage, liquidity, and portfolio hedging, but they also raise the bar for counterparty risk governance, robust legal documentation and frameworks, and collateral management. Banks are highly cognisant of this and have established and put thorough controls in place to monitor and address counterparty risk, and to comply with the regulators' expectations in this respect. Understanding the system-wide interconnectedness of non-banks with other financial entities goes beyond bank to non-bank linkages and should also include non-bank to non-bank linkages.
30. NBFIs, including ELPs, bring technology driven solutions and often operate across multiple asset classes and venues. That improves execution quality in normal conditions, but it can increase the risk of cross market spillovers if activity retrenches suddenly (for example during times of stress). The right policy response should take a balanced approach to regulation, recognising that banks and private markets are now complementary intermediaries, and that healthy linkages are central to the competitiveness and stability of UK wholesale markets.

Systemic Risk and Principles for Mitigation Strategies

31. The following systemic risks are associated with non-bank institutions and have been identified by the ECB and Bank of England: increased sensitivity at times of stress; contagion channels; challenges in identifying and monitoring excessive leverage, risk exposures and ownership structures; and margining risks.
32. Stringent regulatory regimes are already in place to address risks posed by certain NBFIs, for example through the IFPR and the Alternative Investment Fund Managers regulatory framework. In addition, intragroup exposures are already comprehensively regulated and monitored under the bank prudential framework, and are supplemented in specific areas—for example, the Money Market Fund Regulation (MMFR), which restricts sponsor support from banks to MMFs.
33. If authorities were to consider introducing additional measures to address risks, it is important that any new measures recognise the

existing oversight and avoid duplication of existing reporting requirements, and regulatory frameworks for banks. We also consider that regulators should ensure they are already making best use of existing data reporting before introducing additional requirements and coordinate effectively. The FCA has shown a greater focus on promoting competitiveness and growth in private markets, including exploring reductions in capital requirements for specialised trading firms. Meanwhile, the Bank of England has raised concerns about the systemic risks posed by NBFIs, highlighting a divergence in regulatory priorities.

34. Within the broad NBFI category, risk profiles and systemic relevance vary materially. We recommend that regulators assess each NBFI's systemic footprint, given the activities that they undertake, and the size of their undertaking, and tailor requirements accordingly.
35. While we recognise that bank-style approaches won't always fit NBFIs, it is an important point of principle that equivalent risks should face equivalent regulation. If regulators consider that the growth of private markets introduces new risks that require mitigating, it is crucial that any mitigating measures address these risks at source and are targeted at the NBFI sector in order to address the risks effectively. This would align with the approach taken in respect of insurance companies, via the Solvency II framework. Any attempt to address risks indirectly, for example by placing additional requirements on banks, would be highly ineffective by leading to duplication, fragmented data and unnecessary costs. Crucially, they could not address risks arising from exposures between NBFIs themselves.
36. The activity that has moved from banks to the NBFI sector raises questions about the future regulatory treatment of banks and non-banks. Whilst we recognise the difference in regulatory treatment results from the different activities and scope of business models, there are still important competition considerations that need to be taken into account when designing and implementing appropriate frameworks. This tension was highlighted in a speech by Nikhil Rath, ¹³ in which he outlined that the FCA are "exploring how adjustments could encourage wholesale trading and improve market liquidity...and may in turn reduce barriers to entry for specialised trading firms that don't hold retail deposits."
37. In our opinion this approach risks expanding the difference in regulatory treatment that already exists between PRA designated investment firms and those who are regulated solely by the FCA under the Investment Firm Directive and Investment Firm

¹³ Predictable volatility -speech by Nikhil Rath ([link](#))

Regulation. Both the FCA and PRA need to be mindful of competition considerations when looking to reform rules in this area – ensuring that non-banks do not benefit from a loosening of requirements compared to banks. This point was acknowledged by Andrew Bailey who stated in a speech this year, that the “the distinction between banks and other financial institutions is becoming progressively blurred.”

38. The attention the growth in private markets is receiving also provides regulators with an opportunity to consider whether simplification of existing rules for banks may be justified given the change in market structure since 2008. To this end we welcome the Bank of England’s Financial Policy Committee review of the overall level of bank capital requirements. The review aligns with the government’s growth objective to ensure the banking sector can best support the economy. To date, banks’ competitiveness has been impacted due to the higher compliance costs and more stringent risk management requirements they are subject to. We also note similar initiatives in other jurisdictions. The European Commission has initiated a review of the competitiveness of the European banking sector¹⁴ while one of the motivations for the review of the enhanced supplemental leverage ratio in the US is the observation that it has reduced liquidity in US Treasury markets, thereby increasing market fragility.¹⁵

Conclusion

39. The regulatory reforms introduced after 2008 have placed additional requirements and regulatory burdens on banks’ who offer a full suite of services in the UK and EU. These constraints, stemming from heightened capital requirements and compliance costs have led to pressures on banks’ ability to undertake activities in certain markets. Combined with the natural progression of market structures (for example as a result of changing technologies) this has created space for NBFIs to expand their role in global financial markets.
40. This shift is moving risk away from the traditional banking sector and into private markets, where entities such as electronic liquidity providers (ELPs), hedge funds, and private credit funds now play a more prominent role in market-making and lending activities. While this shift has, in part, enhanced liquidity and diversification, it has also introduced new vulnerabilities. It is important that these are fully understood and the impact that this evolving market structure will have.

¹⁴ Communication on the Savings and Investment Union, March 2025 ([link](#))

¹⁵ Speech by Michelle Bowman, Fed Vice Chair for Supervision, June 2025 ([link](#))

41. It is vital that as regulators assess the impacts, their approach incorporates consideration of the reasons for changes in market structures and that any additional regulatory measures considered necessary to address new risks, are targeted at the source of the risk. In relation to private markets, this would mean that any regulatory or supervisory measures proposed are targeted specifically at NBFIs themselves, rather than relying on banks as proxies for the oversight. Whilst NBFIs and banks may perform similar activities across departments, they differ markedly in their overall structures, risk profiles, and operational practices; and imposing measures via banking channels risks obscuring the unique vulnerabilities and dynamics inherent to NBFI activities.
42. In addition, a one-size-fits-all approach should be resisted in favour of a nuanced and entity-specific regulatory regime, ensuring that oversight is both proportionate and effective in addressing the distinct risks present within the NBFI sector. This should also take account of the existing regulatory regimes that apply to the entities.
43. Finally, we note that reviews of regulatory frameworks should also reflect on where simplifications may be introduced as a result of changes to market structures.

18 September 2025