17 April 2026

Via online submission: https://ec.europa.eu/eusurvey/runner/banking-sector-competitiveness-2026

European Commission
1049 Bruxelles
Belgium

Re: Targeted consultation on the competitiveness of the EU banking sector

Dear Sir / Madam

MFA[1] appreciates the opportunity to represent the views of the global alternative asset management industry in this written contribution to the European Commission's ("**Commission**") targeted consultation on the competitiveness of the EU banking sector (the "**Consultation**")[2].

MFA welcomes the Commission's focus on developing a Savings and Investments Union ("**SIU**") that can itself contribute to enhancing the EU's competitiveness. As emphasised in the Draghi[3] and Letta[4] reports, the EU's over-reliance on bank-based financing has constrained economic dynamism and capital formation. Achieving a genuinely competitive financial sector entails fostering a diverse ecosystem in which bank and nonbank financing channels operate in a complementary manner.

Nonbank financial intermediaries ("**NBFIs**") – including private credit funds managed by MFA members – play a pivotal role in this ecosystem. As pointed out by the European Systemic Risk Board[5], nonbank credit provision increasingly complements traditional bank funding, with nonbank credit having roughly doubled since the global financial crisis. NBFIs now provide approximately a quarter of total credit extended to non-

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[1] Managed Funds Association ("MFA"), based in Washington, DC, New York, Brussels, and London, represents the global alternative asset management industry. MFA's mission is to advance the ability of alternative asset managers to raise capital, invest, and generate returns for their beneficiaries. MFA advocates on behalf of its membership and convenes stakeholders to address global regulatory, operational, and business issues. MFA has more than 180 member fund managers, including traditional hedge funds, credit funds, and crossover funds, that collectively manage over $3.2 trillion across a diverse group of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors to diversify their investments, manage risk, and generate attractive returns over time.

[2] European Commission, Directorate-General for Financial Stability, Financial Services and Capital Markets Union, Targeted consultation on the competitiveness of the EU banking sector (11 February 2026), available at https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-competitiveness-eu-banking-sector-2026_en

[3] Mario Draghi, "The Future of European Competitiveness" (September 2024), available at https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en

[4] Enrico Letta, "Much More Than a Market" (April 2024), available at https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf

[5] European Systemic Risk Board, EU Non-bank Financial Intermediation Risk Monitor 2025 (September 2025), available at https://www.esrb.europa.eu/pub/nbfi/html/esrb.nbfi202509.en.html

financial corporations in the EU.[6] This is a vital source of finance to businesses, helping to create jobs and drive economic growth across EU Member States.

This complementarity is partly the result of the post-crisis reforms, which have seen banks move towards shorter-dated, higher-rated and more liquid exposures. Private credit on the other hand is positioned to serve other parts of the capital structure, providing the longer-duration, bespoke and often subordinated financing that banks are structurally less well placed to hold on balance sheet. Banks and private credit funds also increasingly work in partnership, with banks providing warehouse facilities, subscription lines and fund-level leverage, while the private credit managers channel long-term institutional capital into the real economy. There is evidence that this trend of growing partnership between banks and private credit funds coincided with a measurable reduction in the riskiness of banks' balance sheets, reinforcing rather than undermining the resilience of the traditional banking sector.[7]

Alternative investment fund managers ("**AIFMs**") and their funds are regulated under the Alternative Investment Fund Managers Directive ("**AIFMD**"). It provides a comprehensive and tailored regulatory framework, helping to protect investors and provide transparency and financial stability. The existing regulatory framework, including margin requirements and collateral practices, adequately manages the risks arising from bank-NBFI interactions. Against this backdrop, regulatory reforms that seek to enhance banking competitiveness should support the diversity of financing channels upon which the EU economy increasingly depends. A regulatory framework that facilitates this complementary relationship will be essential to building a more competitive, diversified, and resilient EU financial system.

In addition, MFA takes this opportunity to highlight a number of broader regulatory considerations that bear upon the broader objective of financial sector competitiveness:

- ***Improving supervisory data quality:*** The recent review of AIFMD introduced loan origination limits, leverage constraints, and concentration requirements for certain fund types – a framework due to enter into force on 16 April 2026. However, the effectiveness of supervisory monitoring continues to be undermined by reliance on the Gross Notional Exposure ("**GNE**") metric in Annex IV reporting. GNE captures the total size of derivative positions without accounting for offsetting exposures, netting arrangements, collateral, or margin. As a result, it can significantly overstate true economic risk and distort supervisors' understanding of actual fund exposures. MFA encourages the Commission and supervisory authorities to prioritise the development of more comprehensive, risk-sensitive metrics that would provide regulators with an accurate understanding of actual exposures. More broadly, regulatory priority should focus on improving data quality, data sharing, and coordination among competent authorities – rather than imposing additional reporting requirements that may generate duplicative or misleading information.

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[6] Ibid

[7] The Bank of England Financial Policy Committee documented the prudential benefits of this shift, observing that major UK banks' average risk weights have fallen by around 7.5 percentage points since the beginning of 2016 – a trend partially attributed to banks financing less high-risk corporate lending directly while providing leverage to NBFIs that are now more active in direct lending. See Bank of England, *Financial Stability in Focus: The FPC's assessment of bank capital requirements*, December 2025, available at https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-in-focus/2025/fsif-the-fpcs-assessment-of-bank-capital-requirements.pdf

- ***Calibrating system-wide stress testing appropriately:*** Policymakers should prioritise effective use of existing supervisory data and sector-specific risk management practices, rather than introducing duplicative requirements that impose costs on market participants without commensurate benefits for financial stability oversight. To the extent that any further system-wide stress test is developed at EU level, it must be designed in close consultation with market participants and calibrated to reflect the distinct risk profiles of different NBFI components. In particular, there needs to be clarity on: (i) the specific policy objectives sought; (ii) the structure of the tests, including whether they focus on liquidity stress, asset price stress, or both; (iii) the governance of the test, including the methodology for modelling participants' behaviour and the authorities' plan to engage with market participants, and how their feedback will inform the test across its duration; (iii) the scenarios envisioned, including the active role that banks – as financing partners and trading counterparties – play in managing risks posed by NBFIs; and (iv) the treatment of unregulated entities within the assessment framework.

As the EU seeks to finance the green and digital transitions, strengthen its defence capabilities, and enhance its international attractiveness as an investment destination, ensuring a diversity of financing channels is of paramount importance. A regulatory framework that preserves and nurtures the complementary relationship between banks and NBFIs – rather than constraining it – will be essential to building a more competitive, diversified, and resilient EU financial system.

MFA's detailed responses to the relevant Consultation questions can be found in the annex.

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We appreciate your consideration of our comments and would be pleased to discuss our letter in further detail. . Should you have questions or require additional information, please do not hesitate to contact Nicolo Bertoncello (nbertoncello@mfaalts.org) or the undersigned (rhailey@mfaalts.org).

Yours faithfully,

/s/ Rob Hailey

Rob Hailey
Managing Director, Head of EMEA Government Affairs
MFA

ANNEX: QUESTIONS & RESPONSES

Q14. Does the prudential framework adequately account for the activities and the complexity of intermediaries performing financial services other than core banking services? Are there any perceived undue limitations to such activities? Reference is made to financial services performed by investment firms, financial advisors, custodians, wealth managers, market makers or other liquidity providers that are not primarily or not at all engaging in deposit taking and granting loans.

MFA Response

The broad existing prudential framework adequately accounts for the activities and complexity of intermediaries performing financial services outside core banking services. It should be applied in a manner that is proportionate, activity-based, and tailored to the distinct characteristics of different bank and nonbank market participants.

There are significant risks if regulatory approaches become misaligned or bank-centric frameworks are imposed on fundamentally different nonbank business models. So-called nonbank financial intermediaries ("**NBFIs**") comprise a diverse range of market participants, of which alternative investment fund managers ("**AIFMs**") and the funds they manage (including hedge funds and private credit funds) are only one element.

NBFIs collectively engage in a wide range of activities and serve different economic functions, with tailored regulatory frameworks – each carefully designed to reflect the risks and obligations posed. As such, it would be inappropriate to subject this disparate collection of nonbanks to a single set of prudential standards.

Alternative Investment Funds ("**AIFs**") are not funded like banks: by liabilities redeemable at par on demand. AIFs do not benefit from deposit insurance or government guarantees, do not perform significant maturity transformation, and do not operate payment systems critical to financial stability. Losses arising from investment activities are borne by the AIF's sophisticated investors rather than transmitted to the broader financial system or taxpayers. Liquidity risk in AIFs is structurally limited due to long-term funding models relying on committed capital with multi-year holding periods, preventing the run dynamics observed in banks.

Against this backdrop, an approach that seeks to apply more bank-like prudential measures to AIFMs could restrict the ability of AIFs to provide financing to businesses, increase the cost of borrowing for the real economy, reduce market liquidity and efficiency, and undermine the diversification benefits that AIFs bring to the financial system.

In the case of private credit funds, which lend investor assets to operating companies, loan losses are borne by the fund and there are no depositors. As such there is no need to reserve capital to meet withdrawal requests: investor redemptions are limited by contract and there is no "run risk" that a private credit fund need protect against, unlike a traditional bank. Overregulation could itself create macroprudential risks by removing an essential source of financial diversification.

It is also the case that the existing framework for prudential regulation of AIFMs does not adequately account for the low risks posed by alternative asset managers predominantly serving professional investors. Rigorous regulatory capital requirements may be appropriate for investment firms which, for example, hold client money or client assets, provide custody services, or act as intermediaries in market transactions to reflect the potentially serious adverse consequences of the failure of these firms. However, the current rules are not calibrated to the more limited risks posed by AIFMs. For example, as AIFMs principally trade on the account of their clients, the firms do not present material counterparty risk when carrying on their asset management business.

As a result, the existing regulatory capital rules require AIFMs to hold disproportionately high levels of regulatory capital, considering the risk these firms' business models represent to consumers, market stability or the financial system. While it is appropriate to ensure that asset managers are able to effect an orderly wind-down of their operations, the high levels of regulatory capital required under the current rules present a significant disincentive to establishing and continuing to operate an asset management business in the EU, create a barrier to entry for new managers, and are out of line with the established approach to regulatory capital in other international financial centres.

Finally, the links between banks and AIFs do not pose significant risks to financial stability. Exposures are generally modest, collateralised, and subject to existing regulatory safeguards, limiting the potential for contagion. In many cases, interactions between banks and AIFs – such as secured lending or risk transfer transactions – have a risk-stabilising effect, reducing overall systemic risk. Significant risk transfers between banks and AIFs can also reduce banking risks and free up bank capital that can otherwise be utilised for additional lending or invested in employees, technology, or expansion. The ECB's analysis[8] confirms that large banks are generally well-positioned to withstand significant additional credit and liquidity stresses arising from their NBFI exposures.

Q15. How would you assess the competition between banks and other entities performing financial services (such as financial conglomerates, investment firms, FinTechs, etc.) from the perspective of the overall functioning of capital markets (provision of liquidity, transparent market information and pricing, scaling up of trading venues etc.)?

<u>MFA Response</u>

Banks and a wide range of NBFIs share a complementary and mutually reinforcing relationship that strengthens the overall functioning of the EU's financial system. This dynamic helps to foster a financial system with a diverse source of funding channels that is inherently more resilient and capable of supporting sustainable economic growth.

Both the public and private capital markets play critically important roles at different stages of a company's lifecycle, providing businesses with access to capital and investors with opportunities for portfolio diversification. NBFIs already make substantial contributions to the EU business

[8] European Central Bank, 2025 Stress Test of Euro Area Banks – Final Results (August 2025), available at https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.Report_2025_Stress_Test_202508.en.pdf

financing landscape: according to the ESRB's 2025 NBFI Monitor[9], nonbanks are a growing source of funding for EU companies, and provide nearly a quarter of the total credit extended to non-financial corporations in the EU.

NBFIs make important contributions to liquidity, price discovery, and market efficiency. AIFs and other investment funds are active participants in both primary and secondary markets for corporate bonds and equities. Their activities provide liquidity and help maintain efficient pricing, narrow bid-ask spreads, support companies' ability to raise capital, and contribute to the development and scaling of trading venues.

Private credit funds in particular provide flexible financing solutions to businesses that complements bank lending, especially where traditional bank lending may be constrained. The growth of European private credit reflects genuine market demand for financing diversification. European private credit assets under management increased from approximately US$92 billion in 2014 to over US$656 billion in 2024.[10] This expansion has been driven by institutional investors seeking yield, portfolio diversification, and attractive risk-adjusted returns. The nonbank lending market share in Europe currently stands at approximately 12%, compared to 75% in the US – indicating there is still considerable room for growth.[11] A diversified financing landscape enhances overall financial system resilience and supports the objectives of the Savings and Investments Union (“**SIU**”).

Private credit fund investors are typically sophisticated institutional actors – pension funds, insurance companies, sovereign wealth funds, and endowments – that commit capital over multi-year holding periods. This stable, long-term funding model prevents run dynamics and provides sustained support to borrowers even during periods of economic downturn. Private credit loans also tend to be structured as floating rate loans, which means that the interest rate adjusts to reflect changes in interest rates.

Private credit funds are not backed by government guarantees, engage in limited maturity transformation, and use leverage modestly and appropriately to their business models. When a fund fails, losses are borne by that fund's investors, without affecting other funds or the broader financial system. Moreover, the presence of NBFIs enhances competition within the financial system, driving innovation, efficiency, and better outcomes for all market participants.

Inappropriate regulatory interventions could undermine these benefits, particularly where they fail to account for the distinct characteristics of NBFIs relative to banks. Overly stringent or poorly calibrated regulation could reduce liquidity in capital markets, limit the ability of NBFIs to provide financing, increase the cost of capital for businesses, and weaken the overall resilience of the financial system. At a time when EU policymakers are actively seeking to deepen capital markets and reduce over-reliance on bank lending, constraining NBFIs through disproportionate regulation would be counterproductive to the objectives of the SIU and the broader competitiveness agenda.

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[9] European Systemic Risk Board, EU Non-bank Financial Intermediation Risk Monitor 2025, supra note 5

[10] PwC Global AWM & ESG Research Centre analysis, based on Preqin and Monterey data (2025)

[11] Apollo Global Management, *The Continental Shift: Europe's Private Credit Moment*, June 2025, available at https://www.apollo.com/insights-news/insights/2025/06/the-continental-shift-europes-private-credit-moment

MFA therefore encourages the Commission to ensure that any regulatory initiatives affecting NBFIs are evidence-based, proportionate, and designed to preserve the complementary role that nonbank financing plays in the EU economy.