

# Quarterly Systemic Risk Report

Fall 2024

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CFA Institute Systemic Risk Council (SRC or the Council) is a private sector, nonpartisan body of former government officials and financial and legal experts committed to addressing regulatory and structural issues related to global systemic risk, with a particular focus on the United States and Europe. It was formed to provide a strong, independent voice for reforms that are necessary to protect the public from financial instability. The goal is to help ensure a financial system in which we can all have confidence.

### CONTACT:

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As we close out 2024, the CFA Institute Systemic Risk Council (SRC) remains steadfast in its mission to monitor and address the vulnerabilities that threaten global financial stability. The recent US elections have created uncertainty regarding US banking regulation policies, drawing the attention of systemic risk regulators worldwide. This election and the political shifts worldwide remind us that systemic risks are not confined to political cycles or leadership changes. These risks transcend borders and administrations, requiring vigilant oversight and coordinated action from regulators, central banks, and industry leaders.

During this past quarter, the SRC has convened several key meetings to address the most pressing systemic risk concerns. In October, SEC Chair Gary Gensler discussed the Commission's initiatives, emphasizing reforms in money market funds, crypto regulation, and the rapidly evolving role of artificial intelligence (AI) in financial markets. Later in the month, Acting Comptroller of the Currency Michael J. Hsu joined us to address rising concerns over commercial real estate (CRE) risks, cyber threats, and the designation of nonbank financial institutions (NBFIs) as systemically important financial institutions (SIFIs). Earlier, Federal Reserve Vice Chair for Supervision Michael Barr contributed critical insight on credit risk transfer (CRT) transactions, an issue with significant systemic implications that the SRC continues to monitor closely.

We are also extremely proud that our co-chair Simon Johnson was just awarded (along with his colleagues) the prestigious [2024 Nobel Prize in Economic Sciences](#) for their work on how institutions are formed and affect prosperity. Congratulations, Simon!

In addition, we are pleased to highlight the recent CFA Institute survey, "[The Dollar's Exorbitant Privilege—CFA Institute Global Survey on the US Debt and the Role of the US Dollar](#)," which revealed growing concerns among investment professionals about the sustainability of US government finances and the continued dependence on unfunded budget deficits. In her foreword to the report, Sheila Bair, former FDIC chair and founding chair of the SRC, underscores the political challenges of addressing budget deficits, warning against the reliance on deficit financing for politically convenient initiatives.

We thank you for your continued support and collaboration in these critical efforts—and wish you a happy and healthy holiday season. Please reach out with questions or comment—and to find more information, check out our web site at [www.systemicriskcouncil.org](http://www.systemicriskcouncil.org).

— **Kurt N. Schacht, JD, CFA, Executive Director,**  
**CFA Institute Systemic Risk Council**

# SRC UPDATES

## ANNOUNCEMENT

### SRC Co-Chair Simon Johnson Awarded 2024 Nobel Prize in Economic Sciences



On 14 October, the [Royal Swedish Academy of Sciences](#) awarded the [Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2024](#) to Simon Johnson, Co-Chair of the Systemic Risk Council, along with Daron Acemoglu of the Massachusetts Institute of Technology and James A. Robinson of the University of

Chicago. Acemoglu, Johnson, and Robinson received this honor for their research into how institutions are formed and affect differences in prosperity between nations.

See Professor Johnson's live stream lecture for the Nobel Prize in economic sciences here: <https://youtu.be/YcuxbYUW8R8>.



**“Reducing the vast differences in income between countries is one of our time’s greatest challenges. The laureates have demonstrated the importance of societal institutions for achieving this.”**

- Jakob Svensson, Chair of the Committee for the Prize in Economic Sciences

## THOUGHT-LEADER PRESENTATIONS ON SYSTEMIC RISK

### ADDRESSING SYSTEMIC RISKS: FSOC’S STRATEGIES FOR SAFEGUARDING US FINANCIAL CHALLENGES

A Conversation with Michael J. Hsu, Acting Comptroller of the Currency of the Office of the Comptroller of the Currency



**25 October SRC Meeting:** In a meeting with Acting Comptroller of the Currency Michael J. Hsu, key issues facing the US financial system were discussed, centering on current challenges, emerging risks, and the role of the Office of the Comptroller of the Currency (OCC) and the Financial Stability Oversight Council (FSOC) in addressing these.

**Current Risks:** Mr. Hsu highlighted current risks, such as concentration, liquidity, and interest rate risks, with new concerns arising around commercial real estate (CRE), which remains uncertain in terms of timing and impact. Additionally, credit risk transfers (CRTs) are generally low-risk transactions but can become problematic when linked to leverage and securitization. Mortgage servicing risks are also emerging as a concern for regulators.

**Systemic Risks and Cybersecurity Concerns:** Cyber risks also continue to pose a significant threat to financial stability, with the potential for

severe disruption through stealthy attacks that infiltrate systems undetected, exploiting vulnerabilities. Such risks have become a top national security concern. Other systemic issues include crowded trades and highly leveraged financial activities, such as liability-driven investments (LDIs), which can create market instability, as seen in the United Kingdom’s 2022 “mini-budget” crisis. Additionally, NBFIs and payment platforms like PayPal are increasingly taking on banking-like roles, posing new risks with limited oversight.

**FSOC’s Approach to Mitigating Risks:** FSOC continuously monitors and manages evolving financial risks, emphasizing timely and measured actions. One key strategy is designating certain NBFIs as SIFIs, requiring more oversight based on factors like asset size and leverage. FSOC is refining this designation process for transparency and efficiency, aiming to mitigate risks before they threaten economic stability. Additional FSOC efforts include rigorous stress testing, expanded data collection, and advanced risk modeling to improve monitoring and response capabilities.

# THOUGHT-LEADER PRESENTATIONS ON SYSTEMIC RISK

## NAVIGATING UNCERTAINTY: SEC TARGETS MARKET STABILITY WITH NEW REFORMS

### A Conversation with Gary Gensler, Chair, US Securities and Exchange Commission

**4 October SRC Meeting:** In a recent meeting, SEC Chair Gary Gensler updated Council members on the SEC's initiatives to strengthen market resilience and address systemic risks. Building on past discussions, Gensler highlighted several key reforms aimed at enhancing market stability and transparency, including updates to money market mutual fund regulations, accelerated trade settlement cycles, and expanded disclosures for private funds. He also pointed to ongoing work to improve investor protections and governance in other collective investment vehicles not currently under SEC oversight.

**Crypto Concerns:** On crypto regulation, Gensler reiterated the SEC's measured stance. Despite calls for regulatory leniency to promote crypto market growth, Gensler underscored concerns about crypto's role in facilitating undetected transactions, tax evasion, and money laundering. While the SEC already enforces various regulations for custody, trading, and exchange in crypto markets, Gensler emphasized the need for more specific rules around crypto brokerage and exchange designations. Innovation in crypto should be paired with appropriate regulatory safeguards.

**AI Technologies:** Gensler highlighted the significant, rapidly evolving impact of AI on finance, noting potential disruptions in supply chains, data storage, and financial markets. Despite AI's growth, key uncertainties remain regarding global oversight, risk monitoring, and the ability to identify and address issues early. He warned that AI could heighten market herding and concentration, raising the risk of

systemic disruptions, and he advocated for proactive monitoring and international cooperation to manage these challenges.

**Court Rulings:** Finally, Gensler addressed the impact of recent Supreme Court decisions limiting regulatory powers, which could hinder the SEC's efforts in areas like private fund disclosures and climate reporting. He concluded by stressing the importance of global collaboration on financial stability issues, citing the recent Credit Suisse and UBS merger as an example of complex global financial challenges that require cohesive oversight strategies.



## HIGHLIGHTING CREDIT RISK TRANSFER ISSUES AND NEXT STEPS

### A Conversation with Michael S. Barr, Vice Chair for Supervision of the Board of Governors of the Federal Reserve



**8 October SRC Meeting:** Federal Reserve Vice Chair for Supervision Michael Barr joined our Council meeting to discuss the issues outlined in a recent [SRC letter](#) to US Federal Reserve Chair Jerome Powell.

The SRC's letter urged the Federal Reserve Board (FRB) to address

systemic risks linked to CRT transactions, widely used by large banks to shift credit and interest rate risks to private market investors. The SRC remains concerned on the potential for CRTs to concentrate risk within the financial system, drawing parallels to the 2008 GFC. To address the market risks, the SRC supports increased oversight, strict limits on CRT leverage, enhanced reporting, and stress tests to assess CRT impacts on financial stability.

# SYSTEMIC RISK IN THE NEWS

## MEMBERS WEIGH IN ON SYSTEMIC RISK ISSUES

Expert voices weigh in on key news and issues: Our members are in the news—and making news—on important financial issues.

- [US Debt Could Drive the Next Financial Crisis, Says Former FDIC Chair Sheila Bair](#) (CNBC, 4 November 2024): Sheila Bair, former FDIC chair, joined “Power Lunch” to discuss the US debt problem and how it could lead to a financial crisis.
- [US Debt Could Drive the Next Financial Crisis](#) (Barron’s, 30 October 2024): Sheila Bair wrote that the resulting overhang of federal debt could itself be the cause of a future crisis.
- [The Dollar’s Exorbitant Privilege: Sheila Bair Foreword](#) (CFA Institute Global Survey: US Debt and the Role of the US Dollar, 24 October 2024): This new survey highlighted the investment industry’s concerns over soaring US government debt.
- [Former FDIC Chair Unpacks the Fed’s Rate Cuts, Economy as a Whole](#) (ABC News, 23 October 2024): Sheila Bair discussed how the economy has responded to the Fed’s rate cut last month and concerns for the months ahead.
- [Nobel Laureate Simon Johnson: We Need to Strengthen the Resilience of our Democracy in the US](#) (CNBC, 18 October 2024): Nobel laureate Simon Johnson joined “Squawk Box” to discuss how he found out he had won the 2024 Nobel prize in economic sciences and his work on global inequality.
- [US Economy Shows Strength Amid High Core Inflation; SRC Warns Against Unnecessary Fed Rate Cuts](#) (Financial Times, 17 October 2024): The SRC warned against unnecessary Federal Reserve rate cuts, which could exacerbate inflation and inequality.
- [The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2024](#) (The Nobel Prize, 14 October 2024): This Prize was awarded jointly to Daron Acemoglu, Simon Johnson, and James A. Robinson “for studies of how institutions are formed and affect prosperity.”
- [Nobel Winner Johnson on Jobs, Automation, AI](#) (Bloomberg, 14 October 2024): Simon Johnson, a former chief economist at the International Monetary Fund, won the Nobel Prize for economics and weighed in on key financial issues.
- [The Long View: Jeremy Grantham—The Bigger the New Idea, the More the Market Becomes Overpriced](#) (Morningstar Inc., 9 October 2024): A veteran value investor weighed in on bubbles, AI stocks, and the existential threat of climate change.

## SYSTEMIC RISK REPORTS AND UPDATES

In case you missed it: Following is a selection of recent reports and updates on current systemic risk issues:

- [Banks Face Growing Risk as Double Defaults on Commercial Loans Mount](#) (Financial Times, 7 November 2024): A bank practice known as “extend and pretend” has delayed a write-off reckoning but may hide a growing systemic risk.
- [Private Credit Valuations Worry World's Financial Watchdogs](#) (Bloomberg, 22 October 2024): Top financial regulators around the globe are voicing concern about private credit valuations, whether lenders are hiding troubled loans.
- [A Small Bank’s Failure Leaves Big Depositors Feeling the Pain](#) (Wall Street Journal, 22 October 2024): Washington sends a signal as uninsured customers at Oklahoma’s First National Bank of Lindsay face potential losses.
- [Secretary of the Treasury Janet L. Yellen Remarks at the Council on Foreign Relations](#) (CSPAN, 17 October 2024): Yellen discussed the Biden administration’s foreign policies.
- [Fed’s Kashkari Says Private Credit May Lessen Systemic Risk](#) (Bloomberg, 14 October 2024): The rise of the private credit market may lead to less systemic risk in the US financial system despite a lack of political appetite for increased regulation.

# SYSTEMIC RISK COUNCIL MEMBERS

**Chair: Simon Johnson**

SRC Co-Chair and former IMF Chief Economist

**Chair: Erkki Liikanen**

SRC Co-Chair and Chair of the IFRS Foundation Board of Trustees

**Senior Adviser: Sheila C. Bair**

Founding Chair of Systemic Risk Council and former FDIC Chair

**Senior Adviser: Jean-Claude Trichet**

Former President of the European Central Bank

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**Members:****Paul P. Andrews**

Managing Director, Research, Advocacy, and Standards, CFA Institute; former Secretary General of the International Organization of Securities Commissions (IOSCO)

**Brooksley Born**

Former US Commodity Futures Trading Commission Chair

**Sharon Bowles**

Former Member of European Parliament and former Chair of the Parliament's Economic and Monetary Affairs Committee

**Bill Bradley**

Former US Senator (D-NJ)

**Marina Brogi**

Full Professor of Banking and Capital Markets at Sapienza University of Rome and a former member of the Securities and Markets Stakeholder Group at the European Securities and Markets Authority (ESMA)

**Andreas Raymond Dombret**

Former member of executive board, Deutsche Bundesbank, founding member of the Supervisory Board of the European Central Bank, and board member of the Bank of International Settlements

**José Manuel González-Páramo**

Former member of the executive board of the European Central Bank (ECB), member of the Executive Board of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), and member of the executive board of the Bank of Spain

**Jeremy Grantham**

Co-founder and Chief Investment Strategist, Grantham Mayo Van Otterloo (GMO)

**Richard Herring**

Jacob Safra Professor of International Banking, Wharton School of the University of Pennsylvania

**René Karsenti**

Senior Adviser to the International Capital Market Association (ICMA)

**Elke König**

Former Chair of the Single Resolution Board (SRB)

**John S. Reed**

Former Chair and CEO, Citicorp and Citibank

**Christina Romer**

Professor of the Graduate School at the University of California, Berkeley