

Quarterly Systemic Risk Report

Summer 2025

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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:

Kurt N. Schacht, JD, CFA
Executive Director
CFA Institute Systemic Risk Council
systemicriskcouncil.org

Welcome to the Summer 2025 Report of CFA Institute Systemic Risk Council.

Over the past decade, the Systemic Risk Council (SRC) has served as an independent, noncommercial voice evaluating major financial and economic disruptions and recommending stronger frameworks for systemic risk oversight in the US, Europe, and beyond. The Council provides nonpartisan assessments of how prepared global regulators are to confront evolving vulnerabilities.

In recent years, financial markets have faced a series of unprecedented disruptions, each testing the resilience of systems and the post-crisis reforms introduced after 2008. While those reforms have generally held, they've still required some form of government intervention or backstop. These repeated stresses reveal both the value and the limits of existing safeguards, highlighting the need for vigilant monitoring, continuous learning, and greater preparedness to withstand future shocks.

As we reach the midpoint for 2025, concerns linger regarding central bank independence, immense growth in non-bank financial intermediaries (NBFIs), and efforts to lessen capital adequacy requirements for the world's largest banks known as GSIBs. At the same time, geopolitical hot spots persist and the effects of

aggressive shifts in global trade policy set the stage for continued economic uncertainty.

Summer 2025 continues the long tradition of trying to predict the unpredictable. Knowing the nature, timing, and extent of economic disturbances that may arise within the complex web of market, geopolitical, monetary, and fiscal conditions is a tall task for systemic preparedness. In this context, the trimming of the Office of Financial Research located within the US Treasury may limit progress on a more data driven, early-warning-system for systemic risk. Lastly, this is all happening at a time when the speed of financial information, trading technology, and interconnectivity of financial firms acts as an accelerant for systemic vulnerability.

The Council will continue to track the many systemic trials and tribulations noted above and we thank you for reviewing our Summer 2025 report. We welcome your support, comments, and inquiries.

Visit us today at www.systemicriskcouncil.org.

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

SRC UPDATES

COMMENT LETTER: SRC Opposes Proposal to Weaken GSIB Capital Requirements

25 August 2025: The CFA Institute Systemic Risk Council (SRC) has voiced strong opposition to proposed changes that would roll back key capital requirements for the eight US Global Systemically Important Banks (GSIBs) and their subsidiary insured depository institutions. In a [letter](#) submitted to the Office of the Comptroller of the Currency, the Federal Reserve Board, and the Federal Deposit Insurance Corporation, the Council warned that the proposal would undo critical safeguards put in place after the 2008 financial crisis.

“This proposal would dismantle key post-crisis safeguards that protect the U.S. economy from systemic risk,” said Simon Johnson, SRC co-Chair and former Chief Economist of the International Monetary Fund. “The Agencies have failed to show any compelling benefit to the real economy while exposing the financial system to increased instability and taxpayer risk.”

The SRC outlined several areas of concern:

- **Increased systemic risk without benefit:** Lowering capital buffers could lead to larger shareholder payouts while weakening resilience.
- **Undermining safeguards:** The plan would sharply reduce leverage ratios and long-term debt buffers, weakening protections designed to absorb losses.

- **Ignoring history:** Lessons from the 2008 and Eurozone crises demonstrate that leverage limits are essential and risk-based rules alone are insufficient.
- **Mischaracterizing leverage rules:** The Supplementary Leverage Ratio (SLR) is not just a “backstop,” but a critical complement to risk-based capital.
- **Unconvincing Treasury rationale:** Data show that US Treasury holdings have increased despite current leverage rules.
- **Sovereign subsidy risk:** Easing requirements to encourage Treasury demand could distort market rates and undermine financial benchmarks.

The Council urged regulators to withdraw the proposal. At minimum, it called for a comprehensive and transparent re-proposal covering the entire capital framework.

“The integrity of the U.S. financial system relies on robust safeguards,” Johnson concluded. “Weakening them now is the wrong move at the wrong time.”

For more information, see full letter on [SRC website](#).

THOUGHT-LEADER PRESENTATIONS ON SYSTEMIC RISK

GLOBAL RISKS DEMAND STRONGER SAFEGUARDS

A Conversation with Dr. Joachim Nagel, President of the Deutsche Bundesbank

27 June SRC Meeting: The Council welcomed Dr. Joachim Nagel, President of the Deutsche Bundesbank and member of the European Central Bank Governing Council to its June meeting. The discussion focused on the growing pressures on the global financial system, emphasizing that resilience requires robust safeguards, coordinated financial industry policies, and vigilance in the face of escalating uncertainty.

Global Uncertainty and Market Risks: Extraordinary volatility is shaping 2025, driven by financial market swings, US Treasury issuance concerns, trade disputes, ongoing conflict in Ukraine, and persistent inflation pressures. Geopolitical shocks often materialize suddenly, leaving limited time for policymakers to respond, especially in an era of 24/7 trading and rapid information flows. Like many EU countries, Germany is contending with economic slowdown, energy supply challenges, and the ever-present need for infrastructure investment, even with fiscal stimulus. At the EU level, progress on advancing the Banking Union framework and implementing shared fiscal initiatives are critical to strengthening growth, digitalization, and defense.

Key issues include:

- **Concerns about a global regulatory retreat:** There is growing unease about delays in implementing the Basel III “endgame” reforms and broader deregulation trends.

Weakening capital and leverage standards risks eroding post-crisis protections and undermining prudential safeguards.



- **Shifts in trade and monetary policy:** Global trade frictions and questions around resulting currency impacts add stress to the international system. With inflation targets under pressure, monetary authorities face heightened challenges in balancing growth, stability, and credibility, emphasizing the importance of preserving central bank independence.
- **Need for collective action:** Shared challenges—from climate risk to technological disruption—require coordinated global responses. Advances in AI offer efficiency and supervision benefits but raise new oversight questions. Uneven global efforts at containing any of these potential financial disruptions will result in a fragmented response which will weaken economic stability.
- **Preparing for the next shock:** Systemic resilience cannot be taken for granted. In an era of heightened uncertainty, the right approach is to reinforce safeguards, ensuring financial systems remain stable, adaptive, and capable of withstanding future crises.

THOUGHT-LEADER PRESENTATIONS ON SYSTEMIC RISK

SYSTEMIC RISKS AND RESILIENCE CHALLENGES IN EUROPE'S FINANCIAL SYSTEM

A Conversation with Dr. Korbinian Ibel, Director General, DG Universal & Diversified Institutions at European Central Bank



30 May SRC Meeting: Dr. Korbinian Ibel, Director General, DG Universal & Diversified Institutions at European Central Bank joined the SRC meeting to share his perspective on current issues facing Europe.

As summer 2025 approached, the region's financial system faced a wide array of systemic risks, due to shifting geopolitical dynamics, volatile markets, and evolving vulnerabilities across both banks and non-bank financial institutions. European banks remain resilient, but the combination of trade conflicts, sovereign debt pressures, and rapid technological change underscored the need for vigilance, preparedness, and coordinated regulatory action. Most of the systemic concerns raised by Dr. Ibel still remain.

Key systemic risk factors include:

- **Geopolitical shocks:** Financial emergencies often follow adverse geopolitical events that are unpredictable in timing and scale. These risks are rarely priced into markets in advance, leaving the system vulnerable to sudden market reversals. Regular scenario planning and stress testing are essential and must keep pace with new financial technologies and products.
- **The speed of contagion:** Traditional tools such as trading limits and circuit breakers are no longer sufficient in the face of new trading technologies, as seen in recent banking and brokerage disruptions. The speed of technology-driven contagion can accelerate panic and liquidity stress.

- **Trade disruptions:** Escalating trade tensions pose risks to euro area firms reliant on imports of high-end technology, equipment and chemicals. Volatility in the access and supply of these items can damage both households and businesses. Add to this, the uncertainty for EU exports.
- **Sovereign fiscal pressures:** Weaker growth, rising defense spending needs, and uneven fiscal capacity across EU states could result in longer-term stress on public finances, especially for highly indebted sovereigns.
- **Non-bank financial intermediation (NBFI):** With NBFIs now holding around 10% of EU capital, their interconnectedness with banks increases the risk of amplifying adverse shocks. Persistent vulnerabilities in liquidity and leverage require more comprehensive and coordinated policy responses.
- **Bank capital adequacy:** While bank capital has proven resilient, maintaining strong buffers remains critical. Opaque exposures to NBFIs, rapid liquidity movements, and cyber-driven risks highlight the danger of complacency.

Looking ahead: Economic system resilience in the euro area depends on sustained monitoring, prudence, dynamic regulation, and international collaboration. Advances in banking and capital markets union, along with full implementation of Basel III standards, will be central to stability. At the same time, preparedness for cyber, climate, and AI-driven risks must remain a priority to ensure Europe's financial system can withstand the next crisis.

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.

- [Retail Investors Should Stay Away From Private Funds](#) (*Financial Times*, 20 August 2025): Sheila Bair, former FDIC chair, warns that retail investors should avoid private funds, highlighting concerns that the Trump administration's plans to broaden access to these asset classes will expose everyday investors to high fees, illiquidity, and a lack of transparency.
- [Politics Hindering Banking Consolidation: Former Bundesbank Official](#) (*CNBC*, 12 August 2025): Andreas Dombret, former executive board member of the German central bank, spoke to *CNBC's* Europe Early Edition about the economic outlook for the eurozone, potential ECB rate policy and how politics are coming in the way of banking consolidation.
- [Why Stablecoins are Silicon Valley's Pandora's Box](#) (*The Reaction*, 7 August 2025): Wessel Janse Van Rensburg and Andreas Dombret wrote that President Trump's signing of the GENIUS Stablecoin Act underscores the ongoing tension between innovation and regulation, with stablecoins carrying both promise and peril.
- [The Crypto Crises Are Coming](#), (*Project Syndicate*, 4 August 2025): Simon Johnson, SRC Co-Chair and former IMF Chief Economist, warned that under its emerging legislative framework, the United States is poised to become a major hub for cryptocurrency-related activities.
- [Wall Street to Trump Main Street with New Bank Rules](#) (*Financial Times*, 18 July 2025): Sheila Bair wrote that proposed weakening of capital rules for big lenders will not achieve the supposed aim of boosting the Treasuries market.
- [Nobel Prize Conversations Podcast](#), (*The Nobel Prize*, 2 July 2025): Economic sciences laureate Simon Johnson talks about how the past, future and present are interconnected, as well as how science fiction and history are intertwined.

- [A Government Agency Worth Saving](#) (*Wall Street Journal*, 27 June 2025): Sheila Bair and Lawrence Goodman argued that instead of shutting down the Office of Financial Research (OFR), Congress should restructure and strengthen it to better fulfill its mission of detecting and preventing financial crises.
- [Former FDIC Chair Fears Deregulation Could Spur New Crisis](#) (*American Banker*, 10 June 2025): The former Chair of the FDIC Sheila Bair said she is concerned that the current push to deregulate banks could lead to a calamity in the financial system down the road.
- [Nobel Lecture: The Institutional Origins of Shared Prosperity](#) (*American Economic Review*, 6 June 2025): Simon Johnson explored the intersections of political processes, bureaucracy, and institutions with economic history and growth, examining how governance, lobbying, corruption, and policy shape long-term development outcomes.
- [Bankthink: The Senate's Stablecoin Bill Risks Repeating Past Legislative Mistakes](#) (*American Banker*, 2 June 2025): Brooksley Born, former US Commodity Futures Trading Commission Chair, and SRC Chair Simon Johnson wrote that the GENIUS Act, in its current form, fails to account for the substantial risk of stablecoin runs and blocks regulators from imposing necessary oversight. It also lacks measures to prevent their use in illicit transactions.
- [What's A World Without Federal Regulations? It Gets Dark Real Quick...](#) (*MSNBC*, 11 May 2025) In an interview with Ali Velshi, Sheila Bair warned that excessive deregulation often follows crises, risking new financial instability. While supporting simplification and better coordination of regulations—especially to aid community banks—she emphasized the need to maintain safeguards that protect Main Street depositors.
- [Banking Regulation: Reforming Without Retreating](#) (The European Money and Finance Forum, SUERF Policy Brief, May 2025): Elke Koenig, Former Chair of the Single Resolution Board (SRB), argued that enhancing European competitiveness requires financial stability paired with thoughtful regulatory reform. It calls for simplifying and harmonizing banking rules—particularly around reporting and securitizations—while preserving core safeguards learned from past crises.

SYSTEMIC RISK REPORTS AND UPDATES

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

- [Euro Area Policies: Financial System Stability Assessment](#) (IMF Staff Country Reports, 23 July 2025): The euro area financial system remains resilient with strong bank buffers and a growing nonbank sector, but market integration is constrained by national fragmentation. Recent geopolitical tensions and policy uncertainty have heightened volatility, clouding the region's recovery outlook.
- [Retail Investors in Private Credit](#) (*BIS Bulletin*, 9 July 2025): The report explores how retail-focused vehicles like BDCs and private credit ETFs are expanding access to private credit, increasing transparency, and potentially driving the development of secondary markets that could reshape the asset class.
- [Is the Fed Ready for an AI Economy?](#) (*Wall Street Journal*, 25 June 2025): The author explores how artificial intelligence could transform the economy by enabling machines to make financial decisions—such as applying for and approving loans—at massive scale. This shift raises profound questions about how the Federal Reserve will manage the money supply and financial stability in an AI-driven system.
- [Crypto Nearing 'Tipping Point' Toward Systemic Risk, FSB's Knot Says](#) (*Bloomberg*, June 12, 2025): Reports that the outgoing chair of the Financial Stability Board, Klaas Knot, warned that risks from crypto assets could soon become systemic. He noted that stablecoin issuers are now holding substantial amounts of US Treasuries, a segment requiring close monitoring.
- [A New Financial Order](#) (*The Economist*, 23 May 2025) This special report explores how innovative financial giants are reshaping Wall Street, surpassing traditional banks in influence. It examines the rise of private lenders, superstar hedge funds, and speculative investment trends, while cautioning that concentrated power and illiquidity could amplify risks in the next financial crisis.
- [What Has Changed Since Silicon Valley Bank Collapsed? Not Much](#) (*New York Times*, 17 May 2025): The collapse of Silicon Valley Bank sounded an alarm over vulnerabilities in the banking system. Two years later, no major legislation or regulation has passed, and the basic problem that caused the crisis persists.

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

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