

Systemic Risk Annual Report

2025 ANNUAL REPORT

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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 in 2013 following the Great Financial Crisis to provide a strong, independent voice for reforms that are necessary to protect the public from financial instability. The mission remains- to promote global economic resilience to help ensure a financial system in which we can all have confidence.

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Welcome to the 2025 Annual Report of CFA Institute Systemic Risk Council (SRC or the Council). This report reflects on a year marked not by a single defining crisis, but by the steady accumulation of interconnected risks that continue to shadow the resilience of the global financial system.

Since its formation in 2013, the SRC has provided an independent, noncommercial voice focused on identifying emerging threats to financial stability and strengthening the frameworks designed to address them. With a particular focus on the United States and Europe, the Council offers candid assessments of global systemic preparedness and advocates for improvements in how risks are detected, monitored, and addressed through comment letters, public engagement, and dialogue with regulators.

In 2025, the Council's work underscored how systemic risk is increasingly shaped by forces beyond traditional banking. Prolonged geopolitical conflict, particularly the Russia-Ukraine war, continues to generate uncertainty through energy markets, trade disruption, fiscal pressures, and investor confidence. At the

same time, vulnerabilities in non-bank financial intermediaries, private markets, and segments of the insurance sector are growing in complexity, often accompanied by limited transparency.

Technological change has further altered the risk landscape. Advances in phone apps, artificial intelligence, and digital finance have improved efficiency while accelerating the speed at which stress can propagate.

While core financial institutions have generally remained resilient, recent episodes of market stress underscore that resilience cannot be taken for granted.

This Annual Report captures the SRC's work and perspectives throughout 2025 as it continues to promote financial stability and public confidence in an increasingly complex global environment.

Thank you for your support. Visit us at www.systemicriskcouncil.org.

— **Kurt N. Schacht, JD, CFA, Executive Director**

LETTER FROM SRC CO-CHAIRS

SYSTEMIC RISK 2025: CHALLENGING SYSTEMIC RISK NORMS

The year 2025 unfolded amid an increasingly complex global environment. A shift in US governance toward reduced regulation and enforcement and a growing assortment of vulnerabilities to global economic stability made the financial landscape more difficult to interpret and manage. Against this backdrop, policymakers and market participants faced heightened uncertainty about how risks might emerge and propagate across borders.

Two major financial stability reports released in 2025—the US Office of Financial Research (OFR) Annual Report to Congress and the European Central Bank (ECB) Financial Stability Review—gave dueling assessments for how the world's two largest financial markets are approaching these vulnerabilities. Both regions saw elevated risks, but important differences call into question our global readiness and whether the level of cross-border collaboration needed to properly respond to economic disruption still exists. This coordination was essential in helping contain the cascading effects of the Great Financial Crisis. At first glance, the OFR and ECB reports share a common view that core institutions—particularly banks—appear resilient enough to endure potential shocks. Both frameworks view financial stability as the capacity to continue providing essential economic and market services under stress. And they both agree that vulnerabilities lie dormant until triggered by some adverse event. Yet the similarities mostly end there.

America: The OFR sees the American financial system as fundamentally robust, but needing internal structural reforms. The report emphasizes domestic concerns, not geopolitical issues. Technology and cybersecurity dominate the OFR's risk narrative. It also highlights the importance of improving data collection, particularly related to non-centrally cleared bilateral repos (NCCBRs) and nonbank financial intermediaries (NBFIs). The report declares US banking institutions as strong and resilient. The unrealized securities losses and commercial real estate credit risks have diminished, but liquidity risk from uninsured deposits remains.

Europe: The ECB's evaluation of systemic risks presents a different picture—where exposure to risk spillovers from the US has emerged as a key macro-financial vulnerability. Trade fragmentation, tariff uncertainty, military actions, and potential US fiscal spillovers are main features of the European risk narrative. So too is more urgent progress on the Savings and Investments Union (formerly Capital Markets Union) to reduce reliance on US capital markets and act as a buffer against US-originating shocks.

Common Ground: Despite these differing perspectives, both reports converge on one source of market vulnerability in particular: NBFIs, also referred to as shadow banking. Hedge funds, investment funds, and other market-based finance providers represent systemic risk channels in both regions due to leverage, liquidity mismatches, and growing interconnectedness with traditional banking. Both regulators warn that abrupt price corrections in concentrated asset markets could trigger fire sales by non-banks, amplifying market stress through procyclical deleveraging.

Looking Ahead: In 2026, the SRC will continue to focus on data access, transparency, and standards. Both regions share a fundamental concern: the growing systemic importance of NBFIs and the potential for over-leverage, illiquidity shocks, and interconnected market participants that can amplify shocks in ways the current regulatory framework may be ill-equipped to address. Cross-border coordination on closing data gaps through standardized reporting/disclosures on NCCBRs and NBFI exposures is key.

At the same time, the build-out and attributes of crypto assets, and a growing market for payment stablecoins, present novel and potentially material implications for systemic risk. Both geopolitical and climate risks remain a serious threat for global economic stability, orderly markets, and social disruption. At the top of everyone's list is the constant and AI-enhanced threat to cybersecurity.

We will continue our efforts to engage with government leaders and regulators from around the world as we press for systemic awareness and actions needed to improve systemic risk preparedness. In the context of ever-increasing market complexity, changing technologies, and uncertain geopolitics, economic resilience is no small task. As always, we welcome your comments and suggestions on the SRC's agenda.

SRC Systemic Risk Priorities for 2026

- **NBFIs:** Elevated leverage, liquidity mismatches, and growing interconnectedness between nonbanks and traditional banks continue to present significant channels for systemic risk, particularly during periods of market stress.
- **Data Gaps and Transparency:** Persistent limitations in data access and inconsistent reporting—especially for non-centrally cleared bilateral repos (NCCBRs) and NBFI exposures—reduce regulators' ability to assess and respond to emerging risks.
- **Crypto Assets and Payment Stablecoins:** The rapid growth and evolving structure of crypto assets and stablecoin markets carry novel implications for financial stability and illicit activity. The potential for market panics increases.
- **Geopolitical and Climate Risks:** Geopolitical fragmentation, military conflict, trade uncertainty, and climate-related disruptions remain material sources of stress for global economic stability and orderly markets.
- **Cross-Border Coordination:** Diverging regulatory perspectives and policy priorities across regions raise concerns about the durability of international coordination needed to manage global financial shocks.
- **Cybersecurity and Technology Risk:** Cyber threats, increasingly amplified by artificial intelligence, pose an ongoing and potentially systemic risk to financial institutions, markets, and critical infrastructure.

- *Simon Johnson, Co-Chair*

- *Erkki Liikanen, Co-Chair*

2025 IN REVIEW

SRC ACTIVITIES IN 2025:

The Council continues to advocate for stronger regulatory measures to address emerging threats to financial stability, including these recent measures and actions:

Comment Letter: SRC Calls for Stronger Stablecoin Oversight

In March 2025, the CFA Institute Systemic Risk Council (SRC) submitted a [comment letter](#) calling for swift and robust regulatory oversight of the stablecoin market. The SRC welcomed bipartisan efforts in Congress, including the House's STABLE Act and the Senate's GENIUS Act, which would require stablecoin issuance through licensed entities, mandate dollar-for-dollar reserve backing with highly liquid assets, and enforce compliance with anti-money laundering and counter-terrorism laws.

At the same time, the SRC identified critical gaps that could weaken the effectiveness of the proposed frameworks. The Council emphasized that final legislation must deliver substantive, not merely cosmetic, oversight and reiterated concerns about systemic risks posed by unregulated stablecoins. Key recommendations included applying rules to US dollar-backed stablecoins issued abroad, strengthening federal oversight of state-licensed issuers, providing regulators with prudential flexibility, and establishing a clear resolution framework for failed issuers.

SRC Urges Caution on Deregulation of Bank Capital Rules

In May 2025, the SRC raised concerns on proposals to roll back bank capital adequacy requirements established in the aftermath of the Great Financial Crisis. These post-crisis reforms were designed to strengthen oversight of leverage, liquidity, and trading risks, improve banks' ability to absorb shocks, and reduce the likelihood of taxpayer-funded rescues.

The SRC noted that despite these reforms, emergency government intervention has been required on multiple occasions since 2019, underscoring the persistence of systemic vulnerabilities. Against this backdrop, the Council expressed concern about efforts to

weaken key capital measures, particularly the US Supplemental Leverage Ratio (SLR). The SRC views the SLR as a foundational and transparent tool for assessing bank capitalization and systemic resilience. The Council will continue to monitor these developments and will urge regulators to preserve the integrity and effectiveness of the SLR.

Comment Letter: SRC Opposes Proposal to Weaken GSIB Capital Requirements

In August 2025, the SRC submitted a [comment letter](#) opposing a regulatory proposal that would weaken capital requirements for US Global Systemically Important Banks (GSIBs) and their insured depository subsidiaries. In its letter to the Office of the Comptroller of the Currency, the Federal Reserve Board, and the Federal Deposit Insurance Corporation, the SRC warned that the proposal would roll back key post-crisis safeguards designed to protect financial stability.

The Council raised concerns that lowering capital buffers could increase systemic risk without clear benefits to the real economy, weaken leverage and long-term debt protections, and repeat mistakes from past financial crises. The SRC also emphasized that the Supplementary Leverage Ratio remains a critical complement to risk-based capital rules. The Council urged regulators to withdraw the proposal or, at a minimum, issue a comprehensive and transparent re-proposal.

CFA Institute SRC Welcomes Former FSB Chair Klaas Knot

In November 2025, the SRC announced that Klaas Knot, former Chair of the Financial Stability Board and President of De Nederlandsche Bank, had joined the Council. Knot brings decades of experience in global financial stability and systemic risk oversight, strengthening the Council's international perspective. See [full announcement](#) on the SRC website.

2025 SRC THOUGHT-LEADER PRESENTATIONS

SRC ROUNDTABLES AND PRESENTATIONS:

Throughout 2025, the SRC convened a series of meetings to examine emerging and persistent threats to financial stability. This year's thought-leader presenters included:

Yuriy Gorodnichenko, Quantedge Presidential Professor of Economics, University of California, Berkeley

Sarah Breden, Deputy Governor for Financial Stability, Bank of England

Dr. Joachim Nagel, President, Deutsche Bundesbank

Dr. Korbinian Ibel, Director General, DG Universal & Diversified Institutions, European Central Bank

John Berrigan, Director-General, Financial Stability, Financial Services and Capital Markets Union (DG FISMA), European Commission

Paul S. Atkins, Chairman, US Securities and Exchange Commission

Beth Dwyer, Director, Department of Business Regulation, State of Rhode Island, NAIC Representative to FSOC

2025 SRC THOUGHT-LEADER PRESENTATIONS

INSIGHTS FROM SRC THOUGHT-LEADER PRESENTATIONS:

Throughout 2025, the Systemic Risk Council convened a series of thought-leader discussions with senior policymakers, regulators, and academic experts to assess emerging threats to global financial stability. These conversations reflected a shared recognition that systemic risk is increasingly shaped by geopolitical conflict, rapid technological change, evolving market structures, and uneven regulatory responses across jurisdictions. While core banking institutions generally remain resilient, vulnerabilities are migrating toward non-bank financial intermediaries, private markets, digital infrastructure, and cross-border transmission channels that can amplify shocks at unprecedented speed.

The 2025 discussions underscored that systemic risk today is less about isolated institutional weakness and more about interconnected fragilities—where leverage, liquidity, technology, and geopolitics intersect. Participants repeatedly emphasized the importance of preparedness, data transparency, operational readiness, and international coordination in a financial system where stress can emerge suddenly and propagate globally.

Geopolitical Risk and Uncertainty

Geopolitical tensions increasingly shaped the systemic risk landscape in 2025. The Russia war on Ukraine remains a persistent source of uncertainty, with limited prospects for near-term resolution. Its effects extend well beyond the immediate region, influencing energy markets, global supply chains, sovereign fiscal capacity, and investor sentiment. The risk of escalation—whether military, economic, or political—introduces tail risks that are difficult to price and manage within traditional financial models.

Beyond direct economic impacts, the conflict highlights the fragility of global coordination. Diverging policy responses across the United States, Europe, and other allies raised questions about collective readiness to contain escalation or mitigate spillover effects. The experience of recent crises underscores that effective global cooperation is not only desirable but essential when managing systemic events.

NBFIs, Private Markets, and Hidden Leverage

An important issue in 2025 continues to be the growing systemic footprint of non-bank financial intermediaries (NBFIs). Hedge funds, private credit vehicles, investment funds, and insurance-linked structures now play a much larger role in credit provision and market liquidity than in previous cycles. While these entities contribute to financial innovation and diversification, they also introduce vulnerabilities tied to leverage, liquidity mismatches, and opaque risk transfer.

Stress scenarios involving NBFIs often unfold through margin calls, asset fire sales, and rapid deleveraging, particularly during periods of market volatility. Interconnections between non-banks and traditional banks further amplify these risks, as shocks originating in market-based finance can transmit quickly into the regulated banking system. Limited and inconsistent data on exposures and

funding structures complicate risk assessment and constrain timely intervention.

Speed, Technology, and Market Contagion

Liquidity risk remains a defining systemic concern, exacerbated by changes in market structure and trading behavior. Automation, algorithmic trading, and digital platforms have increased efficiency but also accelerated the pace at which stress can spread. Recent market disruptions illustrate how quickly liquidity can evaporate when confidence falters, leaving little time for policy response.

Traditional tools such as circuit breakers and trading halts may be less effective, as stress can migrate across asset classes and jurisdictions before safeguards are triggered. As a result, emphasis has shifted toward advanced preparedness, including stress testing, liquidity buffers, collateral management, and operational resilience across financial institutions and market infrastructure.

Regulatory Fragmentation and Reform Fatigue

Discussions in 2025 highlighted growing concern about regulatory divergence and reform fatigue. European policymakers expressed unease over delays in implementing Basel III “endgame” reforms and warned that weakening capital and leverage standards could undermine post-crisis protections. US perspectives reflected debates over regulatory scope, competitiveness, and the role of bodies such as the Financial Stability Oversight Council.

Differences in regulatory philosophy across jurisdictions complicate the picture. Balancing financial stability, market competitiveness, and innovation remains challenging, particularly as risks migrate beyond the traditional regulatory perimeter. The prevailing view emphasized that resilience depends on adjusting, not just rolling back safeguards, to take advantage of new innovations in financial products and markets.

Digital Assets and AI

Emerging technologies featured prominently as both opportunities and sources of systemic concern. Digital assets and stablecoins were discussed as emerging and largely untested systemic risk vulnerabilities, but with clear parallels to past financial instruments that became economic shock amplifiers under stress. AI was recognized for its efficiency gains in supervision and markets, while also raising concerns about herding behavior, model risk, market concentration, and accelerated volatility.

Cybersecurity Risk

Cybersecurity was consistently identified as a top-tier systemic threat. The increasing reliance on digital infrastructure across financial institutions heightens the risk that cyber incidents—particularly when enhanced by AI—could trigger widespread operational and financial disruption. There is an elevated probability that a cyber incident of systemic-level consequences will occur in the near term, and our global readiness to detect and neutralize such an event will be put to the test.

Climate Risk and Insurance Market Pressures

Climate-related financial risk continues to move from a long-term concern to an immediate source of stress, particularly within insurance markets. Increasing frequency and severity of natural disasters are challenging traditional underwriting models and capital adequacy assumptions. Rising premiums, reduced coverage availability, and reassessment of risk exposures have broader implications for financial stability and economic resilience.

At the same time, insurers' growing involvement in private credit and alternative investments introduces additional layers of interconnected risk. Climate risk, investment strategy, and capital adequacy are becoming increasingly intertwined, underscoring the need for comprehensive oversight of insurers along with clear, consistent regulatory disclosures.

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:

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

Marg Franklin

President and Chief Executive Officer, CFA Institute

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)

Klaas Knot

Former Chair of the Financial Stability Board and former President of De Nederlandsche Bank

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

