

Quarterly Systemic Risk Report

SPRING 2026

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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.

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Welcome to the Spring 2026 Report of CFA Institute Systemic Risk Council

The Systemic Risk Council (SRC or Council) brings together leading policymakers, regulators, and market experts to identify emerging threats to financial stability and promote pragmatic, forward-looking solutions. At its core, the Council's mission is to strengthen the resilience of the global financial system through independent analysis, open dialogue, and a commitment to evidence-based policy that anticipates—not reacts to—systemic risk.

This edition highlights a series of thought-leader discussions that underscore a common theme: today's financial system is resilient in many ways but also more complex, interconnected, and exposed to new forms of risk. As explored in recent sessions, strong market performance and solid economic fundamentals continue to coexist with structural vulnerabilities, including shifting global capital flows, evolving asset correlations, and growing concentrations in key sectors.

Across these areas, several critical fault lines emerge. The post-crisis regulatory framework—while largely successful in strengthening bank capital, liquidity, and oversight—is now at an inflection point, requiring modernization to address non-bank

financial intermediation, digital finance, and rapid technological change. At the same time, innovation is introducing new risks: from the growing role of private credit and leverage to the operational and liquidity challenges posed by stablecoins and blockchain-based systems.

Importantly, the discussions reinforce that systemic risk is no longer confined to traditional institutions or geographies. It is shaped by global interdependencies, policy fragmentation, and accelerating technological disruption. Maintaining financial stability depends on clear avenues for international coordination, stronger supervisory effectiveness, and a renewed focus on how risks migrate across markets and infrastructures. As the SRC continues to convene diverse perspectives, these insights aim to inform a more resilient and adaptive financial system in the years ahead.

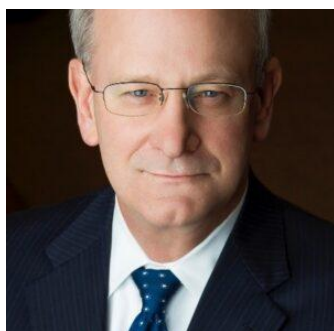
We welcome your comments and inquiries.

Visit us today at www.systemicriskcouncil.org.

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

SRC UPDATES

CFA INSTITUTE SYSTEMIC RISK COUNCIL WELCOMES FORMER FEDERAL RESERVE BANK PRESIDENT THOMAS HOENIG



9 March 2026: CFA Institute Systemic Risk Council has announced that former Federal Reserve Bank President Thomas Hoenig has joined the Council. Hoenig brings extensive experience in economic stability, banking, and financial policy, which will strengthen the Council's ability to assess and

respond to emerging systemic risks. He previously served as President and CEO of the Federal Reserve Bank of Kansas City and was a member of the Federal Open Market Committee from 1991 to 2011, including during the 2008–2009 financial crisis. He later served as Vice Chairman of the Federal Deposit Insurance Corporation and is currently a Distinguished Senior Fellow at the Mercatus Center at George Mason University.

See full announcement on the [SRC website](#).

THOUGHT-LEADER PRESENTATIONS ON SYSTEMIC RISK

BALANCING GROWTH AND STABILITY IN A CHANGING SYSTEM

A Conversation with Tobias Adrian, Financial Counsellor and Director of the Monetary and Capital Markets Department at the International Monetary Fund

31 January SRC meeting: A recent Systemic Risk Council discussion featured perspectives from Tobias Adrian on emerging risks across global markets and financial systems.

Shifting dollar dynamics and market resilience: The discussion highlighted a complex and evolving global risk environment, where strong market performance coexists with underlying structural vulnerabilities. There is a gradual shift in the role of the US dollar as a reserve asset underway, with recent changes driven more by hedging behavior and softer demand for US Treasuries. The Council discussed how this trend signals evolving global portfolio preferences that could have longer-term implications for dollar funding and market liquidity. Solid corporate profits and robust emerging market performance suggest conditions have not yet reached full bubble territory.

Equity valuations and concentration risks: It was noted that when compared with the dot-com bubble, today's "Magnificent Seven" valuations appear less extreme. Market cap-to-GDP stands near 120%, well below prior peaks, supported by strong profits and capital investment. However, concentration in mega-cap tech, AI exposure, private credit growth, and rising leverage still present meaningful systemic vulnerabilities.

Private credit strength: In credit markets, private credit spreads remain tight and defaults low, though rising restructuring activity signals a potential turning point in the cycle. While concerns have

been raised, exposure in retail portfolios remains limited, tempering broader systemic risk.

Evolving asset preferences and policy risks:

The Council noted shifting stock–bond correlations and growing demand for alternative "safe assets," including precious metals, alongside record issuance of emerging market local-currency debt. Ongoing Basel III endgame debates, evolving capital standards, and stablecoin developments, highlighted in recent International Monetary Fund analysis, underscore potential new sources of run risk.

Looking ahead: The outlook reflects a fragile balance between resilience and rising uncertainty. Policy shifts, weakened supervision, and fragmented global coordination elevate risks, while unresolved EU structural challenges and potential market corrections loom. Of significant note, rapidly evolving cybersecurity threats assisted by AI stand out as a persistent, system-wide vulnerability demanding urgent, coordinated attention.



THOUGHT-LEADER PRESENTATIONS ON SYSTEMIC RISK

BASEL AT A CROSSROADS: RESILIENCE, COMPLEXITY, AND NEW SYSTEMIC RISKS

A Conversation with Pablo Hernandez de Cos, General Manager of the Bank for International Settlements



27 February SRC meeting: In discussion with the SRC, Pablo Hernández de Cos shared his perspectives on the evolution of global financial regulation and emerging systemic risks.

As the Great Financial Crisis (GFC) reforms reach their 15-year mark, the Basel framework

is undergoing a necessary reassessment, looking beyond big banks to include the rapid developments with non-bank financial institutions, crypto, and AI. Financial stability is inherently cross-border, requiring sustained global coordination.

Four key areas should guide the Basel endgame:

- **Objectives:** The original reforms following the GFC have largely met their objectives: banks are better capitalized and more liquid, weaker institutions have strengthened, and systemic risk is more effectively monitored, with improved market discipline.
- **Limited side effects:** While some constraints on credit availability are evident, non-bank financial institutions have partially filled the gap, and overall funding costs for banks remain broadly stable. The net impact has been to keep credit availability within a suitable range. However, faster online banking and deposit flows now pose new liquidity challenges, and unresolved gaps in resolution frameworks leave government backstops still in play.
- **Mitigating complexity:** Reducing complexity while preserving resilience is essential for the Basel framework. Modernization should reflect post-GFC economic changes, streamline existing rules and capital buffers, and leverage supervisory technology to enhance accuracy and reduce costs.

Proportionality also matters, as Basel was originally designed for globally systemic banks, and appropriate concessions for smaller institutions are necessary. Above all, supervisory effectiveness (acting with rigor and appropriate speed) must be prioritized.

- **Adapt to emerging risks:** The Council discussed the challenge of a global system that is not fully prepared for the pace of innovation in financial products and shifting economic dynamics. Changes in demographics and investment behavior may alter traditional correlations, as well as redirect risk through new channels such as non-bank financial intermediation, securitization, and derivatives. As noted, advances in AI, digital finance, and stablecoins introduce new uncertainties and evolving cybersecurity threats.

Maintaining resilience: Basel endgame should reinforce the core lessons of the GFC, particularly the importance of strong capital standards. Policymakers must carefully weigh whether easing requirements—such as adjustments to the enhanced Supplementary Leverage Ratio—risks triggering a global “race to the bottom.” While earlier reforms treated Basel as a floor, any pullback today, when markets and geopolitical risks are quite elevated, warrants caution to avoid undermining hard-won resilience.

Complexity and emerging risks: The Council emphasized the challenges with supervisory reluctance and the limits of regulatory simplification for markets that have become much more complex. While some streamlining may be appropriate, banks’ increasing complexity and the shift toward non-bank financial intermediation introduce new risks. This elevates the importance of effective modeling and stress testing to ensure emerging threats are properly captured.

STABLECOINS AND SYSTEMIC RISK: THE HIDDEN RISKS IN THE PATH TO MAINSTREAM

A Conversation with Neha Narula, the Director of the Digital Currency Initiative at the MIT Media Lab

27 March SRC meeting: A recent SRC discussion featured Dr. Neha Narula, who shared her research on whether US dollar-backed stablecoins can maintain a \$1 value as they scale under the GENIUS Act. Her analysis highlights a central point: high-quality reserves alone are insufficient to ensure stability.

Liquidity, not just solvency: Stablecoin resilience depends on the ability to meet redemptions in real time. Even with one-to-one backing in cash or short-term Treasuries, maintaining par value requires timely liquidation. In stress conditions, Treasury markets can become illiquid before asset values decline, leaving issuers unable to meet redemptions on demand.

Fragile market infrastructure: Redemptions rely on broker-dealers, and capacity is now somewhat constrained by

Supplementary Leverage Ratio (SLR) rules. Past episodes have shown that relatively modest selling pressure can disrupt Treasury market functioning. As stablecoins grow, even a limited run could create a feedback loop on UST markets, where forced asset sales strain market liquidity and intensify redemption pressure.

Structural and institutional gaps: Stablecoin issuers are structurally more fragile than either banks or money market funds.



Unlike banks, they lack deposit insurance, robust capital buffers, and access to central bank liquidity, while nearly all liabilities are redeemable on demand. Although their reserves resemble money market funds, stablecoins cannot impose redemption gates or fees and must meet immediate redemptions under the GENIUS Act, leaving many issuers effectively undercapitalized by traditional bank standards.

Technology-driven risks: Stablecoins also depend on permissionless blockchain infrastructure, introducing operational risks absent from traditional finance. Smart contract bugs, congestion, validator censorship, bridge exploits, or oracle failures can disrupt transfers or redemptions, eroding confidence even if reserves remain sound. As stablecoins scale, incentives to attack

networks grow, while large issuers may exert outsized influence over governance, challenging decentralization.

Policy tradeoffs and gaps: The GENIUS Act strengthens reserve standards and oversight but leaves key issues unresolved, including redemption mechanics, capital requirements, and access to central bank liquidity. Policymakers will face a fundamental tradeoff between reducing run risk and preserving the existing banking system structure.

A systemic question: Stablecoins can fail even when fully backed, due to liquidity bottlenecks, market constraints, and operational risks. Ensuring long-term stability will require deeper integration with financial infrastructure, clearer redemption frameworks, and enforceable technical standards, areas where further policy development remains critical.

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.

- [Is a Perfect Financial Storm Gathering?](#) (*Project Syndicate*, 22 April 2026): Agustín Carstens, Stijn Claessens, and Klaas Knot, Former Chair of the Financial Stability Board, highlighted the rapid growth of shadow banking, rising public debt, and stalled post-2008 reforms, leaving financial stability at risk.
- [Famed Investor Jeremy Grantham Warns of 'Painful' Consequences from the Oil Spike](#) (*Business Insider*, 21 April 2026): The cofounder of GMO Jeremy Grantham warned investors of a "dangerous" investing climate and painful consequences of higher oil prices.
- [Dombret: ECB on Hold for Now, Hard to Gauge Policy "Scenario" for War, Rate Hikes Possible](#) (*Kathleen Hays Presents: Central Bank Central*, 17 April 2026): Former member of Deutsche Bundesbank Board Andreas Raymond Dombret said if energy price shock turns into food price shock, "central banks can't be looking through this."
- [AI Threatens 'Jobs with Dignity,' says Nobel Laureate Economist](#) (*Bloomberg*, 16 April 2026): Simon Johnson, CFA Institute Systemic Risk Council cochair, warned AI technology could erode middle-class jobs and widen inequality, unless policymakers start tackling the issue.
- [Legendary Investor Says the AI Boom Masks a Deeper Crisis: Falling Sperm Counts, Shrinking Populations, and Vanishing Resources](#) (*Fortune*, 12 April 2026): Jeremy Grantham has warned that financial markets are inflated to dangerous, unsustainable heights.
- [In the age of AI, the US Must Rethink the Taxation of Labour and Capital](#) (*Financial Times*, 30 March 2026): Former FDIC Chair Sheila Bair argued that the US tax system must be overhauled to address inequality driven by AI, which favors capital over labour.
- [Former ECB President: Macroeconomic Situation 'Really Rather Grave'](#) (*CNBC Squawk Box Europe*, 20 March 2026): Jean-Claude Trichet, former president of the ECB, discussed the ECB's latest rate decision as geopolitical uncertainty weighs on the global economy.
- [Fed Keeping 'Dry Powder' as Inflation Persists](#) (*Bloomberg*, 18 March 2026): Sheila Bair discussed the need for the Fed to keep their 'powder dry' given current economic uncertainties, and the inflationary effects of the war in the Middle East.
- [Inside Trump's Plan to Remake the Housing Market](#) (*MarketWatch*, 16 March 2026): Sheila Bair broke down what lies ahead for the mortgage giants and the housing market.
- [Simon Johnson on Iran War: The Global Economy Has a Major Problem](#) (*CNBC Squawk Box*, 10 March 2026): Simon Johnson talked on recent private credit disruptions and geopolitical events impacting systemic risk.
- [What Makes America Strong?](#) (*Project Syndicate*, 5 March 2026): Simon Johnson wrote US net migration was likely negative in 2025, as the number of legal immigrants has been reduced in various ways, slowing economic growth.
- [Power and Consequences Podcast](#) (2 March 2026): In its first episode, Gary Gensler and Simon Johnson discussed the history and economics of American immigration, attempting to place current policies and controversies in perspective.
- [A Dangerous Playbook is Being Revived for the Giant US Housing Agencies](#) (*Financial Times*, 27 February 2026): Sheila Bair wrote that increased buying of mortgage securities by Freddie Mac and Fannie Mae marks a return to a risky business model.
- [US Banks Need to Cut their Credit Card Rates](#), *Financial Times*, 23 January 2026): Sheila Bair argued that US banks must proactively cut high credit card interest rates—often exceeding 22%—to ease consumer burdens.
- [Fmr. FDIC Chair: Supreme Court Could Step In to Protect Fed](#) (*Bloomberg*, 16 January 2026): Sheila Bair said the Supreme Court may draw a line to protect the Fed's independence.
- [Trump's Attacks on Powell 'Extremely Grave,' says ex-ECB Chief](#) (*CNBC Squawk Box Europe*, 14 January 2026): Jean-Claude Trichet reacted to the criminal investigation into Federal Reserve Chair Jerome Powell, arguing it represents a threat to central bank independence.

SYSTEMIC RISK REPORTS AND UPDATES

IN CASE YOU MISSED IT: Following is a selection of recent reports and updates on current systemic risk issues:

- [What Will Drag the Financial System into Another Crisis?](#) (*Financial Times*, 19 April 2026): Experts disagree on what will tip us into a new shock, but national debt, AI and private credit are all strong contenders.
- [Systemic Risk is the Hidden Tax on Growth. Here's How Insurance Can Help Build Economic Resilience](#) (World Economic Forum, 16 April 2026): Systemic risk is increasingly shaping the trajectory of economic growth in an era defined by geopolitical, climate and technological volatility. In a period of unprecedented risk complexity, the insurance industry can help transform systemic uncertainty into a foundation for sustainable growth.
- [Systemic Risk Survey Results - 2026 H1](#) (The Bank of England, 1 April 2026): The Systemic Risk Survey is conducted on a biannual basis, to quantify and track market participants' views of risks to, and their confidence in, the stability of the UK financial system.
- [The Real State of Global Financial System Might Surprise You](#) (*The Washington Post*, 20 March 2026): Despite a historic energy shock triggered by conflict and disruptions to oil, gas, and fertilizer supplies, the global financial system has remained stable and functional, avoiding panic or breakdown. While risks remain, improved monitoring and central bank responses have strengthened systemic resilience compared to past crises.
- [Enforcement is Down Under Trump. Is that a Problem?](#) (*American Banker*, 13 March 2026): The number of new bank-level enforcement actions dropped by more than half from 2024 to 2025, while the number of enforcement actions terminated rose dramatically over the same period.
- [The Global Risks Report 2026](#) (World Economic Forum, 14 January 2026): The 21st edition of this annual report analysed global risks through three timeframes to support decision-makers in balancing current crises and longer-term priorities.
- [Private Markets: Unknown Unknowns](#) (UK Parliament: Financial Services Regulation Committee Private Markets Report, 9 January 2026): Report warned that rapid growth in private markets has created potential financial stability risks, with limited data leaving significant "unknown unknowns."

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

Former President and CEO, CFA Institute/Current Advisor

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

Thomas Hoenig

Distinguished Senior Fellow at the Mercatus Center at George Mason University

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