2. The reshaping of the credit landscape in light of the development of private debt and its implications for financial stability

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The private credit market – i.e. financing granted to companies by non-bank entities in the form of unlisted debt – has grown significantly since 2010, driven by the United States, where it has become a significant corporate financing channel.[135] The market in Europe remains more modest but has also grown as an alternative to bank-intermediated financing and the bond market, primarily for medium-sized and highly indebted companies. This trend can be explained by the relative withdrawal of banks from certain types of highly leveraged financing, by the flexibility that this type of financing offers companies, despite its higher cost, and by investor appetite for products offering a higher expected return than more traditional bond products.

The market's development, particularly in the United States, has brought with it more complex financing structures prone to vulnerabilities related to liquidity mismatches, leverage, and growing interconnections with the rest of the financial system. The private credit market has traditionally consisted of closed-ended low-leverage investment funds – structures that limit systemic risks to financial stability. However, the development of funds that allow periodic exits for investors, particularly in the context of the gradual opening up to retail customers, can generate liquidity mismatches within the funds, given the illiquid nature of their assets. These vulnerabilities are exacerbated by increased leverage at the fund level, with an expanding use of bank financing, which is more pronounced in the United States but also present in Europe. In the United States, the development of structured debt instruments issued by funds further muddies the financing chain and spreads risks to other sectors, particularly the US life insurance sector. These interconnections increase the likelihood of newly emerging potential channels of contagion to the rest of the financial system in the event of tensions. However, the private credit market's lack of transparency makes it difficult for market participants and authorities alike to assess all of these vulnerabilities.

As the private credit market continues its transformation and signs of stress appear in the highly indebted corporate credit segment in the United States, transparency has to be improved to enhance the risk monitoring of all participants. The market is diversifying with the emergence of new segments, particularly due to the massive and capital-intensive financing needs of innovative sectors, most notably artificial intelligence (AI). This restructuring is seeing an increased concentration around a handful of managers operating at a global scale and capable of structuring large-scale transactions. In an environment of heightened competition, some players may be tempted to take greater risks using a range of different practices to deploy their capital quickly. Against this landscape, at a time when the market's resilience has not yet been tested during a prolonged macroeconomic downturn, greater transparency would seem to be needed to enable stakeholders to gain an overview of the risks to which they are exposed and to enable authorities to enhance their supervision.

[135] The scope of private credit varies depending on the definitions used and may, in some cases, include infrastructure and real estate financing. This chapter focuses on corporate financing.

2.1. The private credit market has grown rapidly as banks have withdrawn from certain segments of activity

The market has undergone strong growth in recent years, particularly in the United States, but remains relatively underdeveloped in France

Private credit refers to financing granted to companies by non-bank vehicles – often funds or similar entities – as opposed to bank lending or the public bond market. This financing is most often provided directly by private credit vehicles, either bilaterally or within a small group of lenders. The financing may also be acquired by these vehicles after origination, particularly under originate-to-distribute models agreed with banks. This class of assets encompasses several types of strategies.

- The main strategy is direct lending to highly indebted small and medium-sized enterprises (SMEs), typically companies that have undergone a leveraged buyout (LBO). These direct loans are conventionally variable-rate loans with financial covenants based on cash flow.
- Mezzanine loans are also among the most frequently applied strategies and often come with equity participation. This category of financing thus falls between debt and equity.
- Asset-based lending is a form of structured financing where loans are secured by tangible (real estate, infrastructure, etc.) or intangible (music royalties, patents, etc.) assets.
- Distressed lending involves purchasing speculative-grade debt securities on secondary markets at prices well below nominal value.

The global private credit market more than quadrupled between 2014 and 2024 to nearly USD 2,000 billion.[136] North America continues to dominate the market, accounting for nearly three-quarters of fundraising in 2024, compared with 20% for Europe (including the United Kingdom), where it is growing rapidly. France ranks second in Europe[137] after the United Kingdom, with a cumulative value of EUR 66 billion invested by French and foreign private credit funds between 2020 and 2024, of which approximately 55% was invested by domestic funds. In France, private credit continues to play a limited role in corporate financing: it is estimated that in 2024, private credit issued by French funds accounted for less than 4% of annual bank credit flows to non-financial corporations (NFCs).[138] In its April 2025 Financial Stability Report, the US Federal Reserve estimated that private credit accounted for around 9% of the total debt stock of NFCs in the United States. However, it is important to note that it remains difficult to measure this market accurately: The figures provided in this report are mainly derived from private sources, as official public data is limited relative to listed markets.[139]

The growth of private credit can be explained by several factors related to changes in credit supply and demand.

- The boom in private credit is generally linked to the reduction in banks' appetite for risk following the 2008 financial crisis and the tightening of the regulatory framework. In this context, private credit structures have been able to develop alongside companies that are too highly leveraged to be acceptable by banks or cannot provide adequate collateral.
- The rise of private credit should also be linked to that of the private equity market: it is estimated that nearly three-quarters of private credit transactions (excluding infrastructure) carried out in France in 2024 involved the participation of a private equity investor.[140]
- Borrowers are particularly attracted to private credit because of its speed and flexibility compared with bank lending. The possibility of dealing with a single point of contact and having flexible repayment terms

[136] PitchBook (2025), *Global private debt report*, March.
[137] France Invest (2025) *Activité des fonds de dette privée en France en 2024*, March. However, according to PitchBook France is neck and neck with the United Kingdom in terms of capital deployment.
[138] Estimate obtained from a comparison of two data sources (France Invest and Banque de France) whose scopes may differ.
[139] Methodologies and coverage scopes may vary depending on the provider.
[140] France Invest data. French and foreign funds combined.

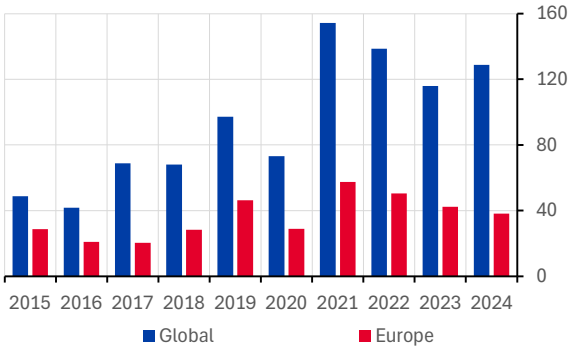
(such as payment-in-kind – PIK – allowing interest to be added to the loan principal) or a simplified structure incorporating unitranche debt are also potential arguments in favour of turning to private credit. For some borrowers, these advantages may offset the additional cost associated with this type of financing: in the United States, the median spread relative to the risk-free rate on private credit is around 6%, compared with between 1.2% and 1.8% for bank loans.

- As for investors, the search for yield in a low interest rates environment and diversification objectives partly explain the strong growth in fundraising.

The private credit market has cooled since its 2022 peak, largely due to the rise in key interest rates, which has prompted a slowdown in the number of leveraged buyouts and mergers and acquisitions. While dry powder (uninvested capital) reached record levels, investors may have been inclined to freeze or reduce their investments in this asset class, contributing to a slowdown in fundraising, while increased economic and trade uncertainties may also have played a part. Since the beginning of 2025, the relative share of investments directed towards Europe has grown, driven by large-scale fundraising by a few major international players.[141]

Chart 2.1: Capital raised by private credit funds

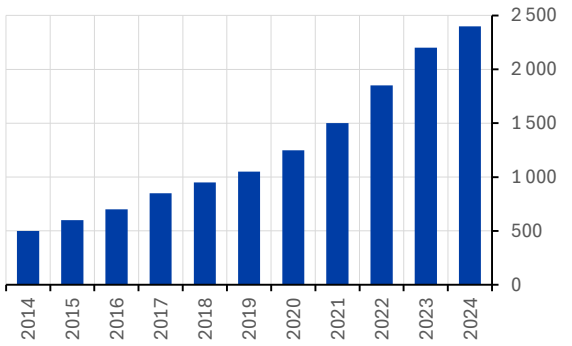
x: time/y: amount (USD billions)



Source: Preqin.
Most recent value: end of 2024.

Chart 2.2: Assets under management in private debt (all categories combined)

x: time/y: amount (USD billions)



Source: Pitchbook.
Most recent value: end of 2024.

A predominant role for institutional players

Management companies active in the private credit market are most often present in a number of segments of the private capital markets (private equity or investments in real assets). Private credit investment structures traditionally take the form of closed-ended vehicles that hold loans until maturity (generally between five and ten years) with coupon payments made at regular intervals. In France, these are alternative investment funds (AIFs) exclusively, which, depending on the risk profile, target clientele and applicable regulations favoured by the asset manager, can take several forms – *sociétés d'investissement à capital variable* (SICAVs – open-ended investment companies), *fonds communs de placements* (FCPs – mutual funds), *sociétés de libre partenariat* (SLPs – limited partnerships) – and correspond to different legal regimes – *fonds communs de placements à risques* (FCPR – equity capital mutual funds), European Long Term Investment Funds (ELTIF), etc. Luxembourg is the leading European Union jurisdiction for credit fund domiciliation, where players particularly appreciate the structure of the Luxembourg Reserved Alternative Investment Fund (RAIF).

These characteristics may evolve as the industry develops, offering so-called semi-liquid fund structures that allow investors to exit periodically. This is largely the case in the United States, where business development companies (BDCs) have grown significantly alongside traditional closed-ended funds and have a specific regulatory framework (see Box 2.1). BDCs now account for one-fifth of the credit to middle-market

[141] For example, Ares raised USD 17.7 billion for its European direct lending fund in early 2025.

companies.[142] They are part of the closed-ended fund universe but offer investors liquidity options. Funds offering redemption options at regular intervals are also gaining ground in Europe (see below).

Institutional players with a preference for long-term investment horizons are the main investors in the private credit market. These notably include pension funds, insurers, other investment funds and sovereign wealth funds, which feel private credit offers low apparent volatility and provides a means of diversifying their portfolios. Private credit also offers attractive returns, often at between 6% and 10%, and nearly 6 percentage points higher than interbank rates in 2024. Retail investors remain in the minority, but their share is growing as structures specifically designed to meet their needs are being developed.

The private credit market mainly finances highly leveraged SMEs and mid-tiers. They are often supported by private equity funds, particularly as part of leveraged buyouts (LBOs). Fast-growing companies seeking rapid and flexible financing are also among the borrowers. Larger or less indebted companies have historically tended to favour more traditional sources of financing, such as bank lending, syndicated loans and public bond markets. Companies using private credit are mainly concentrated in sectors that generate predictable and regular cash flows or have strong growth prospects. In France, these notably include the healthcare, business services, technology and communications sectors.

Box 2.1: Comparative analysis of the regulation of private credit players in the European Union, the United Kingdom and the United States

By Brieuc Levené, Aubert Massengo, Camille Riesi, Nicolas Rigaudière and Inès Rispal

In the European Union, the adoption in 2024 of the amendment to the EU Alternative Investment Fund Managers Directive (AIFMD), known as AIFMD 2, established a harmonised framework authorising all alternative investment funds (AIFs) to grant loans[143] under specific conditions. The regulatory landscape had previously been fragmented, with some countries such as France, the United Kingdom, Spain and Italy allowing funds to grant loans, while others, such as Germany, prohibited it. The amendment to the AIFMD in March 2024 clarified AIFs's scope to grant loans, and subjects all lending funds to a minimum framework: a lending limit per entity set at 20% of the fund's capital; a 5% risk retention requirement for any loan issued and immediately resold; and a ban on the use of an originate-to-distribute strategy. Stricter requirements are set down for funds that originate loans as their main activity: in particular, they must be closed-ended – unless the notional value of loans granted is less than 50% of the fund's net asset value (NAV) or they can demonstrate that their liquidity management system is sufficiently robust – and their leverage is capped at 300% (open-ended funds are capped at 175%).[144] AIFMD 2 also sets down transparency requirements, with managers required to report to the competent authorities on the main markets and instruments on which they trade on behalf of the AIFs they manage, as well as the main exposures and concentrations of each AIF.[145] The adoption of AIFMD 2 into national law – required by 16 April 2026 at the latest – could lead to divergences between countries due to the options included in the text. For example, countries may choose at a national level to prohibit loan-originating AIFs from granting loans to individual consumers.[146] At the same time, the revised European Long-Term Investment Fund Regulation (ELTIF 2) of 2023 strengthens European long-term investment funds' ability to operate in the private credit market, notably by authorising their marketing from the first euro to retail investors and by raising the limit for borrowing liquidity. Although ELTIFs are closed-ended in nature, they may now allow for early

[142] Avalos (F.), Doerr (S.) and Pinter (G.) (2025), "The global drivers of private credit", *BIS Quarterly Review*, March.

[143] In France (since 2016) and other European countries, this has been accepted for several years.

[144] If they only originate shareholder loans, they are exempt from the rules applicable to lending activities as long as the aggregate notional value of the loans does not exceed 150% of the capital of the AIF.

[145] While AIFMD 2 requires managers to disclose to investors the "composition of the loan portfolio", this is not the case for reporting to the competent authorities.

[146] The main challenges of transposing AIFMD 2 into national law – lending by AIFs, harmonisation of liquidity management tools for open-ended AIFs and OPCVMs, extension of the list of activities that AIF managers may carry out – are detailed in the *rapport du Haut Comité Juridique de la Place Financière de Paris*.

redemptions under very strict liquidity conditions. Redemptions are capped at a percentage of liquid assets specified in the regulations.

Following Brexit, the United Kingdom has not adopted AIFMD 2. UK regulations therefore do not contain any provisions specific to loan-originating AIFs and only incorporate general provisions that are applicable to AIFs. AIFs can grant loans in the form of Qualified Investor Schemes (QIS) or Long-Term Asset Funds (LTAF). AIF managers in the United Kingdom are subject to obligations that vary according to their size and leverage, particularly in terms of reporting, capital requirements, the implementation of an appropriate liquidity management system and regular stress tests. The UK authorities have launched a consultation process to review the framework in place since AIFMD 1, which could have an impact on loan-originating AIFs.

In addition, LTAFs, introduced in 2021, are a specific legal category designed to facilitate investment in illiquid assets, similar to ELTIFs in the European Union. They must invest at least 50% of their NAV in unlisted assets (compared to 55% for European ELTIFs), but are authorised to access a wider range of assets than ELTIFs. Their leverage is capped at 30% (compared to 50% for ELTIFs marketed to retail investors and 100% for ELTIFs marketed to professional investors), redemptions can be made monthly with 90 days' notice, and they do not benefit from the European passport.

In the United States, the regulatory framework applicable to private credit funds is based primarily on the Dodd-Frank Act and the rules adopted by the Securities and Exchange Commission (SEC). The framework applies more generally to the entire private fund category.[147] Funds with at least USD 150 million in assets under management are subject to the SEC's Form PF,[148] whose requirements were stepped up in May 2023 in order to better assess the emergence of systemic risks. Form PF is a confidential, aggregated reporting tool that provides information on leverage, counterparty exposure, concentration and liquidity. However, the Financial Stability Oversight Council (FSOC) has warned that the private credit sector remains particularly opaque. It recommends improving Form PF data collection and that banks reinforce their management of the credit risk related to their fund counterparties.[149] However, in contrast to the European Union, no leverage limits or liquidity buffer requirements are imposed on lending funds. Nevertheless, the FSOC – whose influence has been reduced[150] – can theoretically designate entities that are likely to become systemically important, resulting in their being subject to US Federal Reserve[151] supervision and, notably, potential leverage and liquidity requirements that are not necessarily more lenient than those applicable to European lending funds. The regulatory framework for private credit in the United States has also been designed to support investment in middle market firms through business development companies (BDCs). These investment vehicles, many of which list their shares on stock exchanges, are subject to SEC disclosure requirements (including loan-by-loan reporting) and a debt limit typically set at an asset coverage ratio of 200% but which could be lowered under certain conditions to 150% as from 2018. BDCs are growing rapidly and have transcended their initial purpose of financing larger corporations. They now account for 20% of the private credit market in the United States.[152]

The US regulatory framework could soon be amended to promote access to private credit for retail investors. The SEC has relaxed the thresholds that limit individual investment in closed-end funds exposed to private credit, which were initially designed as a safeguard against complex or illiquid investment strategies.[153] The President of the United States has also signed an executive order calling on US federal regulators to facilitate access to the

[147] The private funds category includes hedge funds, private equity funds and real estate funds, as opposed to mutual funds.
[148] United States Securities and Exchange Commission, Form PF.
[149] FSOC (2024), *Annual Report*.
[150] Bessent (S.) (2025), Speech, 10 September.
[151] No entity currently is designated as systemically important.
[152] Avalos (F.), Doerr (S.) and Pinter (G.), op. cit., *BIS Quarterly Review*, March 2025.
[153] Closed-ended funds investing 15% or more of their assets in private funds are no longer required to impose a minimum initial investment of USD 25,000 and limit sales to accredited investors. SEC.gov | ADI 2025-16 - Registered Closed-End Funds of Private Funds.

private credit market for 401(k)-type retirement plans,[154] in order to support a growth trend that also concerns insurance companies.

A stronger position for US players

The private credit market tends to centre around major, integrated asset managers, most often based in the United States and operating internationally. In 2014, fundraising by vehicles with assets under management exceeding USD 5 billion accounted for less than 5% of total capital raised, compared with nearly 50% in 2024.[155] These players are now able to compete with syndicated loans for the largest transactions. In 2025, for example, Apollo provided EDF with GBP 4.5 billion in financing by way of an unlisted private placement.[156]

Private credit has thus recently shifted towards larger financing deals, which were previously reserved for syndicated loans, and higher levels of leverage. While deals worth less than EUR 100 million accounted for half of all transactions in Europe in 2021,[157] they now account for less than 15%, with a larger proportion of deals worth more than EUR 350 million (around 33%) and half of all transactions in the EUR 100 million to EUR 350 million range. Similarly, the proportion of jumbo deals (financing transactions of more than EUR 1 billion or USD 1 billion) is now considerable (10% of transactions in June 2025), despite there being no transactions of this size prior to 2021.

An asset class showing vulnerabilities

Valuation risk

Like other unlisted asset classes, the private credit market is exposed to valuation risk due to the absence of a secondary market. The valuation of unlisted assets depends on asset managers' assumptions, in contrast to listed assets, whose valuation is based on the opinions of market participants and reflects larger transaction volumes.[158] Private credit funds are generally valued at regular – quarterly or even monthly – intervals, but the practices applied by asset managers are not the same across the board. This lack of standardisation can create a risk of overvaluation, which may notably stem from agency conflicts between asset managers (paid commissions partly calculated on the basis of asset-under-management valuations) and their investors. Inaccurate valuations could mask potential unrealised losses, which would only be made public when the underlying loans mature. This valuation risk would be particularly likely to materialise in the event of an economic downturn and a tightening of financing conditions, with indebted companies finding themselves in a weakened position without the situation being immediately reflected in the fund's net asset value. In these circumstances, it is essential that asset managers guarantee their investors the fullest possible transparency by ensuring the independence of their valuation functions and recognising any deterioration in the quality of the underlying assets at a sufficiently early stage.

Risk associated with the use of leverage

The private credit ecosystem is exposed to leverage at several levels. This use of debt may occur at the level of the financed companies, the funds themselves, or their investors (see Chart 2.1) and the accumulation of leverage can amplify losses in the event of a market downturn when credit risk materialises on the underlying loan portfolio. Moreover, using leverage increases the sensitivity of funds to financing conditions.

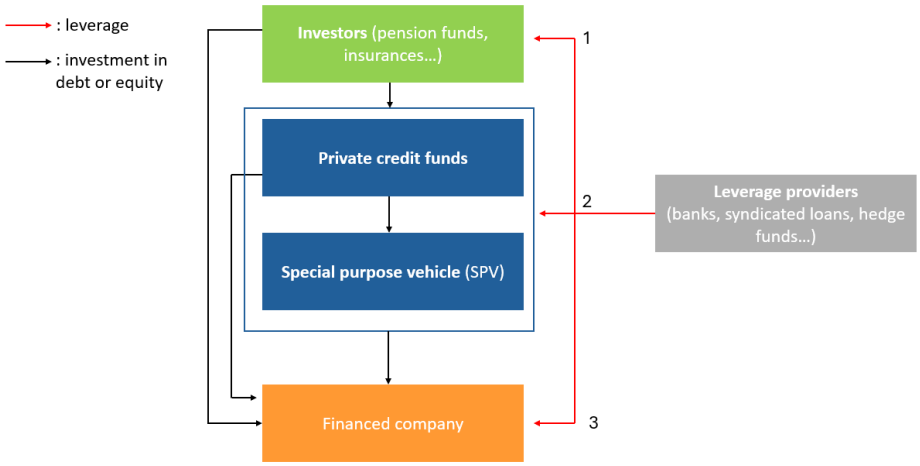
By their nature, private credit funds are exposed to heightened credit risk due to the concentration of their investments in highly indebted companies, generally at variable rates and with higher risk premiums than

[154] The White House (2025), "Democratizing access to alternative assets for 401(k) investors", 7 August.
[155] PitchBook (2024), *Private Debt Annual Report*.
[156] EDF (2025), "EDF announces the signature of an agreement with Apollo for the issue of up to £4.5 billion of unlisted bonds", 20 June.
[157] PitchBook (2025), "European direct lending volume grows in Q2, driven by jumbo deals", 29 July.
[158] See Assessment of risks to the French financial system – June 2023.

traditional financing. The resilience of private credit funds requires strict management of this credit risk through a rigorous selection of borrowers, regular monitoring of their financial situation, loan structures tailored to their profile (financial covenants, level of indebtedness), and sound portfolio diversification.

Although private credit funds have typically had low levels of debt, there has been an increase in the use of leverage and greater diversification and complexity in their funding sources. The use of leverage can help to improve fund performance, meet temporary liquidity requirements and offset slowdowns in fundraising. However, identifying this leverage is difficult due to the limited and often incomplete data available. According to a report by the Alternative Credit Council,[159] the proportion of unleveraged funds fell from 42% in 2016 to 31% in 2024, while the proportion of funds employing leverage ratios of between 10% and 150% rose from 33% to 51%. While banks continue to be the main providers of financing for private credit funds, other sources, such as insurers and other asset managers, are now gaining ground (see below).

Diagram 2.1: An illustration of levels of leverage in a private credit transaction



Sources: IMF, IOSCO.

A liquidity risk that is limited but varies depending on the type of vehicle

Private credit vehicles are traditionally closed-ended funds with a defined lifespan, during which investors commit to keeping their capital locked in. This means that the fund's investment horizon can be aligned with the liquidity of the underlying assets, thereby reducing the risk of liquidity mismatch. As there is no possibility of early redemption, managers can focus on maximising fund performance without worrying about investor movements.

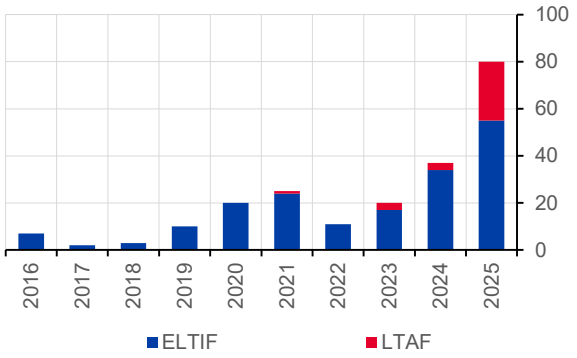
However, the opening up of private markets to retail clients has encouraged the development of semi-liquid funds, which allow for occasional early redemptions. These investment vehicles are generally evergreen, meaning that their lifespan is unlimited, or more often for a renewable period of 99 years. These types of structures have been growing sharply in number and in terms of the size of their assets since 2020. Globally, assets under management in private credit funds managed by semi-liquid or open-ended structures exceed USD 500 billion.[160] In Europe, where this trend is gaining momentum thanks to the ELTIF 2 regulation and the introduction of LTAFs in the United Kingdom (see Box 2.1), the number of funds adopting this format is growing rapidly (see Chart 2.3), despite assets under management remaining relatively modest. Around 60% of ELTIFs are domiciled in Luxembourg.[161] In the United States, this trend is linked to the development of BDCs (see Chart 2.4), which can take several forms: listed BDCs, whose shares are freely traded on public markets, and

[159] AIMA, "*Financing the economy 2024*".
[160] S&P Global (2025), Evergreen credit AuM surpasses $500bn, March.
[161] Register maintained by the European Securities and Markets Authority (ESMA).

unlisted BDCs, which allow periodic redemptions.[162] Among unlisted BDCs, perpetual BDCs have no liquidation horizon and raise capital continuously.

Chart 2.3: Number of ELTIFs and LTAFs in Europe (not solely dedicated to private credit)

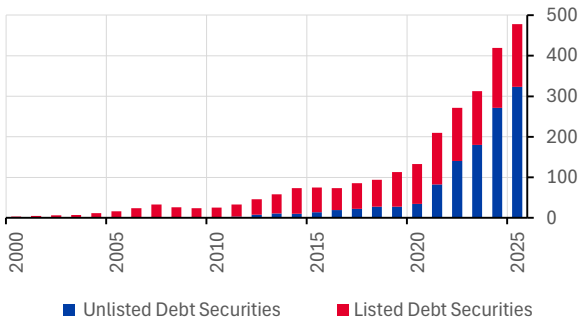
x: time/y: number of funds



Source: Preqin.
Note: LTAFs, introduced in the United Kingdom in 2021, are a specific legal category designed to facilitate investment in illiquid assets, similar to ELTIFs in the European Union.
Most recent value: end of 2025.

Chart 2.4: BDCs' assets under management in the United States

x: time/y: assets under management (USD billions)

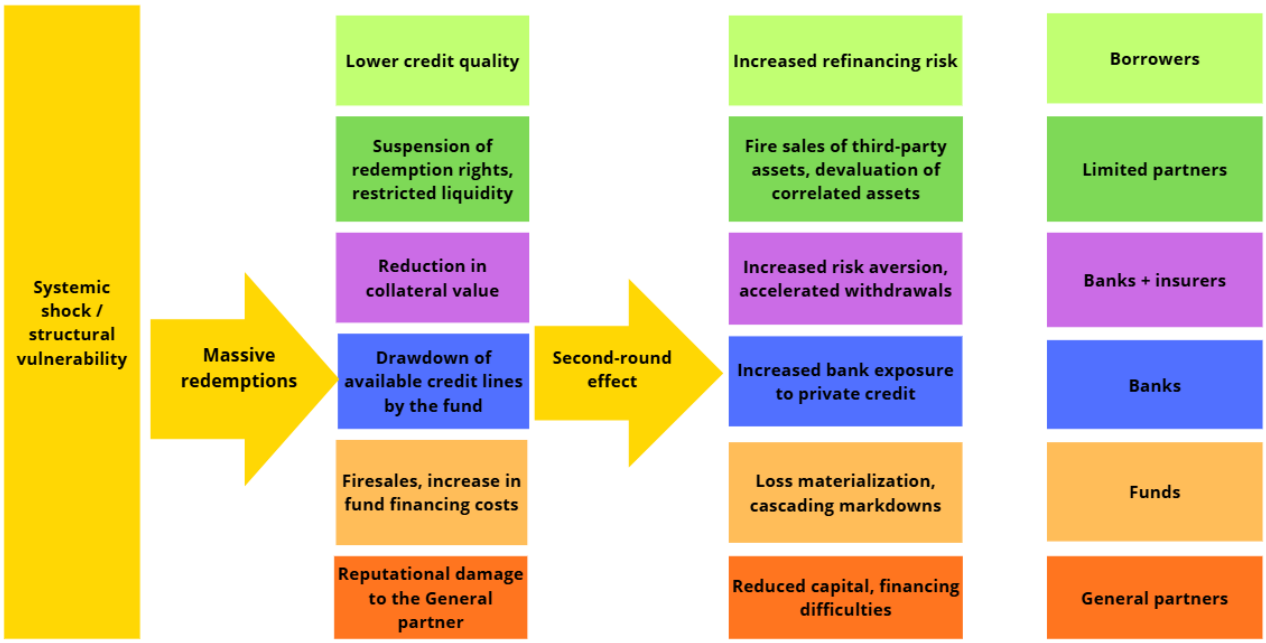


Source: Chernenko (S.), Ialenti (R.), Scharfstein (D.S.), (2025).
Note: Data for the fourth quarter of each year.
Most recent value: end of 2025.

Although the expectations of retail customers are better met by making early redemptions possible, it creates a risk of mismatch between the liquidity of the fund's assets (unlisted loans, which are inherently illiquid) and the liquidity of its liabilities (subscribers' capital). Due to their relatively new status, the resilience of these semi-liquid funds has never been put to the test during a prolonged economic downturn. A market downturn could trigger a very substantial number of redemption requests from subscribers, thus forcing the fund manager to precipitously sell part of its assets at distressed prices. By way of a retroactive feedback loop, these forced sales would likely accentuate market participants' risk aversion and reduce liquidity even further. To mitigate this risk, ELTIF 2 requires asset managers to put in place liquidity management tools, such as the implementation of a redemption percentage cap for a defined period or the creation of liquid asset pockets within the fund. Asset managers may also draw on any credit lines available to meet redemption requests, which in turn could increase their refinancing risk and strengthen their interconnections with the rest of the financial system.

[162] One of the largest is the BCRED fund, managed by Blackstone, which has assets under management of USD 79 billion.

Diagram 2.2: Transmission of a liquidity shock on the private credit market



Source: Banque de France.

2.2. Proliferating interconnections with the banking and insurance sectors

The rapid expansion of the private credit market has brought with it the development of multiple types of interconnections between non-bank lenders and the rest of the financial system. Acharya et al.[163] argue that the growing importance of private credit funds and, more broadly, non-bank financial intermediaries (NBFIs), does not correspond to a simple migration of risk away from banks, but rather reflects a gradual reconfiguration of risks through cross-exposures between banks and NBFIs and the joint evolution of their business models. This dynamic of reconfiguration, which appears to be more advanced in the United States than in Europe, can have positive effects, notably by enabling banks to optimise their capital requirements and by strengthening the financial system's overall capacity to support the economy. However, it also gives rise to new vulnerabilities for both the banks and the funds, which must be properly measured and managed by intermediaries. Banks' exposure to private credit funds remains low relative to their total assets, but their rapid growth and the increasing complexity of the interconnections between players demand greater transparency for the authorities and the market.

Competition and partnerships: an evolving balance between banks and funds in the corporate finance market

While the growth in private credit has seen investment funds gain ground in certain segments traditionally occupied by banks, the dynamics of competition have had a balancing effect between the different modes of financing. In 2024, borrowers took advantage of improved financing conditions in the syndicated bank loan and public bond markets to refinance private credit.[164] These developments suggest that the competitive

[163] Acharya (V. V.), Cetorelli (N.) and Tuckman (B.) (2024), "Where Do Banks End and NBFIs Begin?", April.
[164] According to the Alternative Credit Council, a large part of broadly syndicated loans (BSL) and high-yield (HY) bond issuance in the first half of 2024 involved the refinancing of loans originated by private credit funds (64% of the BSL market and 88% of the HY market). Financing-the-Economy-2024 (3).pdf

dynamic (with a cyclical dimension) between banks and credit funds will persist, as evidenced by the continued presence of banks in the leveraged loan market.

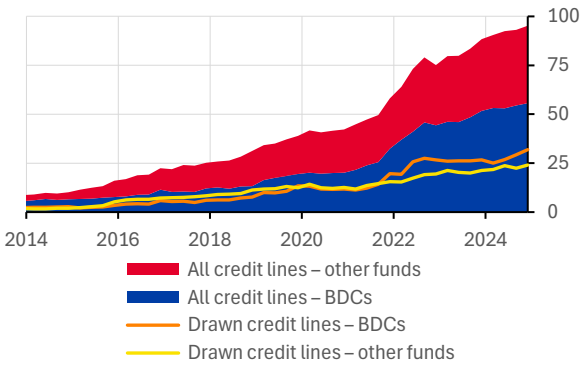
Faced with the growth of private credit, banks are also adapting by developing partnerships with private credit players, notably by implementing originate-to-distribute agreements. In concrete terms, banks draw on of their customer networks and expertise to set up loans (origination) that are then sold to private credit entities (distribution). The advantage of this strategy for banks is that they can maintain their customer relationships and increase their commission income, while making less use of their balance sheet and regulatory capital. For private lenders, originate-to-distribute agreements allow them to strengthen and diversify their credit flows. Several partnerships between asset managers and banks have been made public in both Europe and the United States. These partnerships can take several forms, ranging from simple origination by banks without any bank financing to co-investment between private credit funds and banks. Synthetic securitisation transactions fit into this logic of partnership between banks and NBFIs, as they allow them to share credit risk while maintaining their commercial relationship with borrowers (see Box 1.4).

Banks provide leverage to private credit vehicles

Bank financing supports the development of private credit. Private credit structures are increasingly making use of leverage, albeit to varying degrees (see Section 2.1), alongside a rapid growth in bank financing. The US Federal Reserve has highlighted the remarkable growth in the United States of bank lending to BDCs and other private credit funds, with committed amounts rising from USD 7.8 billion at the beginning of 2013 to more than USD 95.2 billion at the end of 2024 (although this amount remains limited compared to the USD 2,300 billion in total loans made by US banks to non-bank financial intermediaries at the end of 2024). Other estimates suggest higher loan volumes. Moody's estimates US bank exposure to private credit at around USD 280 billion and European bank exposure (including the United Kingdom) at USD 140 billion at the end of 2023. Insufficient detail in the financial statements and the complexity of the relationships between banks and funds make it difficult for the authorities to accurately measure these exposures. According to an ad hoc survey carried out by the European Central Bank (ECB),[165] large euro area bank exposure to private credit funds is limited but can occur at several levels of the financing chain (funds, debtor companies, investors). In general, the players most exposed to this asset class are large investment banks and the main global asset managers.

Chart 2.5: Drawn and undrawn credit lines made available to private credit vehicles in the United States

x: time/y: amount (USD billions)



Source: US Federal Reserve.
Most recent value: Q4 2024

[165] Buch (C.) (2025), "Hidden leverage and blind spots: addressing banks' exposures to private market funds", *The Supervision Blog*, ECB, June.

The instruments used most often consist of collateralised credit lines that intervene at various stages of the fund life and are based on different underlying assets (see Table 2.1). Some of these facilities, backed by investors' commitments or assets held in the portfolio, can be structured by special purpose vehicles (SPVs) and, in part, follow a logic similar to that of securitisation. They enable funds to adjust their liquidity, anticipate capital calls or apply leverage. In addition to their technical characteristics, these instruments carry cross-cutting risks: vulnerability to the quality of collateral, dependence on illiquid assets or assets under formation, sensitivity to valuations, and heightened exposure to liquidity pressures in the event of market stress or defaulted capital calls.

Table 2.1: Types of main banking facilities for private equity funds according to collateral used

Type of collateral	Instrument(s)	Objective	Phase of use	Structure
Investor commitments (LP/GP)	Subscription facilities	**Provide immediate liquidity** prior to capital calls to quickly finance investments: reducing operational delays (bridge financing) and smoothing out calls for funds	Beginning of life (initial investment phase)	Generally, direct loan to the fund (revolving credit line)
Net asset value (NAV)	NAV financing	**Generate liquidity or leverage** from existing assets to (re)finance investments, or distribute to investors prior to asset liquidation	Maturity (portfolio already constructed)	Generally, credit line granted via an SPV or directly to the fund
Portfolio of loans granted by the fund	Loan facilities to an ad hoc SPV linked to the fund	**Leverage assets** held to increase investment capacity and performance	Intermediary or fund maturity	Generally credit lines, more rarely term loans Loans via SPVs can be structured into different risk tranches (securitisation)
	Loan facilities granted directly to a BDC (United States only)		Ongoing activity for loans to BDCs	
Loans accumulated before they are securitised	Warehouse facilities	**Bridge financing** to "store" loans for subsequent securitisation (CLO-type)	Aggregation phase (pre-CLO)	"Temporary warehouse" SPVs

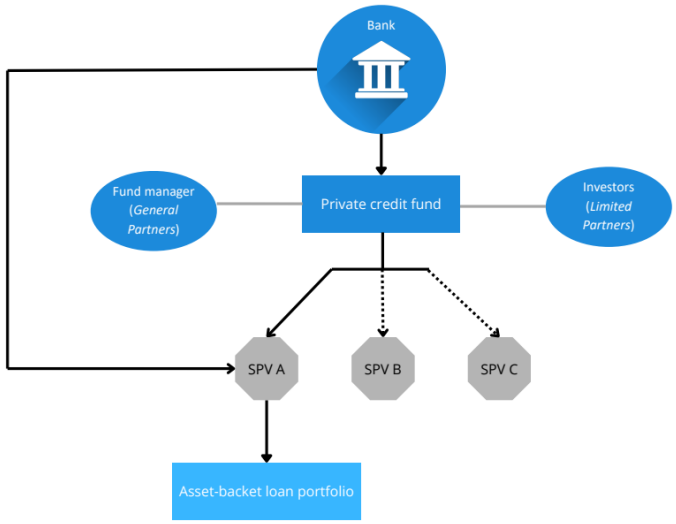
Source: Banque de France.
Note: The "phase of use" mentioned in the table refers to the economic life of the fund, not the contractual maturity of the facilities.

Structuring bank loans to private credit funds reduces risk exposure and capital requirements compared to direct loans to companies. Capital requirements for banks directly financing private credit funds are generally lower than those associated with the direct financing of underlying companies due to certain specific features of the financing granted to funds (greater loan seniority, overcollateralisation of guarantees). By choosing to finance private credit funds rather than the underlying companies, banks avoid directly bearing the credit risk of an underlying company. Risk is assessed at the level of the counterparty (fund or SPV) and the collateral received, and banks appear to treat some of these exposures as securitisation investments, thereby reducing their risk weighting compared to traditional loans and, consequently, their capital requirements. This mechanism seems to have been widely adopted by institutions in several jurisdictions, even if the regulatory frameworks applied to credit risk vary due to differences in the transposition of the Basel framework. A range of academic research on the subject,[166] focusing on the US market, suggests a risk weighting of close to 20% for bank financing with private credit funds. This weighting level, at least for BDCs, is due to the securitisation schemes used by banks to provide legal collateral for financing.

[166] See for example the description of this mechanism in Chernenko (S.), Ialenti (R.) and Scharfstein (D. S.) (2025), *Bank Capital and the Growth of Private Credit*, 14 January.

Banks need to have an appropriate risk management framework in place to deal with the complexity of these exposures. Even though these loans are generally overcollateralised and have seniority in the order of payment, banks are still exposed to losses in the event of an economic downturn, and the difficulty involved in valuing the loans due to a lack of information on the funds' assets can exacerbate the risk. Over and above the credit risk, these exposures could present a liquidity risk for banks if a large number of funds simultaneously drew on these credit lines during a period of tension. The ECB has stressed that it is extremely important for banks to manage the risks associated with their exposure to the unlisted markets ecosystem in a holistic manner, given the interconnections between the two.

Diagram 2.3: An example of financing for a private credit fund



Source: Banque de France.
Note: Black arrows indicate loans, dotted arrows indicate other similar investments in other SPVs.

Insurers' exposure to private credit is growing

Measuring insurers' exposure to private credit is far from clear-cut and has been the subject of a great deal of methodological research. Depending on the exhaustiveness of the coverage chosen, the concept of private credit for the insurance sector may include loans and bonds that are not listed or traded on the markets, as well as exposure to funds (specialised or otherwise) holding this type of investment. According to the definition and calculations currently used by the European Insurance and Occupational Pensions Authority (EIOPA),[167] insurers' private credit exposures have increased in recent years at the European level and accounted for 5.8% of total assets in the second quarter of 2025, compared with 5.1% in the fourth quarter of 2024 and the fourth quarter of 2023.

French insurers' exposure to unlisted debt securities issued by non-financial sector companies accounts for a limited proportion, at 2.8% of exposures (EUR 81 billion), mainly derived from financial sector or real estate securities. The European countries with the greatest exposures are the Netherlands (22%), Belgium (10.6%) and Germany (7.9%). However, the exposure calculation is based on a range of different forms of private credit to several sectors of the economy. At the European level, only 25% of the total exposure measured by EIOPA relates to financing of the non-financial sector, excluding individuals. Loans to individuals, which are very

[167] EIOPA (2025), *Financial Stability Report*, 15 December, pp. 11 et seq.

marginal among French insurers, account for 32% of total European exposures, while 24% of exposures are to the financial sector and 7% are intra-insurance sector exposures (e.g. subordinated debt).

Under the Solvency II framework, the differences in treatment between private debt and bonds arise from the capital charge calculation for interest rate risk for the former and spread risk for the latter. Loans, on the other hand, are subject to counterparty risk. Unrated debt (that does not have a credit rating from any rating agency, such as private debt) is subject to lower spread shocks than high-yield bonds. For example, for unrated debt with a 10-year maturity, the shock would be 23.5%, compared with 35% for a BB-rated bond and 58.5% for bonds with a lower rating. The low liquidity of the unlisted debt market may lead to significant discounts in the event of a forced sale. However, this situation remains hypothetical in the case of insurers, as most often they apply hold-to-maturity strategies These securities are also held as diversification assets alongside more liquid securities.

Heightened complexity of fund financing driven largely by the US market

US private credit funds have been turning to structured bond instruments more intensively to raise capital and optimise returns. In addition to bank lending, private credit funds can issue debt securities to finance themselves and increase their leverage. The characteristics of these instruments are presented in Table 2.2. In the case of private credit collateralised loan obligations (CLOs), loans originated by a private credit fund are pooled in a securitisation vehicle, which finances their acquisition by issuing tranches of debt and equity with different seniority. The cash flows generated by the underlying loans are redistributed according to a predefined hierarchy, with the most senior tranches benefiting from priority payment and lower risk. In practice, private credit CLOs are generally backed by loans originated by funds managed by the same manager. The funds or their managers frequently retain the most subordinated tranche (equity), remaining exposed in the first instance to potential losses. In the United States, private credit CLO issuances now account for nearly 20% of the total CLO market, up from 5% in 2015. The European market is still in its very early stages: market participants consider that the diversification conditions necessary for private credit funds to issue CLOs are more difficult to meet in Europe due to the smaller size of eligible portfolios and the shallower market depth. At the same time, private rated notes (PRNs), which are private bonds issued by funds with private ratings (not made public), are expanding rapidly, particularly in the United States. They offer higher yields than traditional investment grade bonds (around 100 basis points) and now represent outstanding amounts of approximately USD 422 billion, mainly on the balance sheets of US life insurers.

Table 2.2: Types of securitisation instruments used by private credit funds

Instrument	Structure	Objectives	Technical characteristics	Estimated market size in 2024
Private credit CLOs (or middle market CLOs)	Portfolio of leveraged loans originated by the funds, securitised by an SPV issuing several bond tranches.	Raise capital and create attractive rated assets for institutional investors.	- Larger equity tranches and smaller AAA tranches than in traditional CLOs. - More senior and guaranteed portfolios; fewer covenant-lite agreements. - Frequent retention of the equity tranche by the manager.	In the United States, approximately USD 200 billion out of a total of USD 1,000 billion.
Private credit CFOs	Portfolio of private credit fund units refinanced by an SPV issuing bond tranches.	Generate liquidity, accelerate distributions to investors and obtain investment grade tranches.	- Typical tranches: senior A+, junior BBB. - Overlay debt on already leveraged portfolios. - Valuation based on internal models and reported data.	Expanding market, volumes difficult to estimate.
PRNs	Bonds issued by a master or feeder fund, privately rated by an agency.	Enable bond investment in line with prudential constraints.	- Private rating not published. - Solvency II-compatible bond format. - Frequently used in intra-group structuring.	Approximately USD 422 billion held mainly on the balance sheets of US life insurers.

Source: Banque de France.

These instruments meet institutional investors' demand for rated assets, but could increase the complexity – and reduce the transparency – of the private credit ecosystem thereby amplifying the transmission of potential shocks. This development is part of a trend generated by strong demand from institutional investors, particularly US life insurers, for investment-grade rated assets rather than fund units due to more favourable prudential treatment. However, these instruments appear to be less liquid and more difficult to value than traditional bonds. Private credit CLOs are generally backed by riskier loans and have a less active secondary market than traditional CLO syndicated loans. Other structures, such as private credit collateralised fund obligations (CFOs), involve the creation of additional layers of debt, which complicate the interpretation of real economic leverage and limit the authorities' ability to monitor developments.

The lesser degree of transparency around these transactions is also illustrated in the case of PRNs by the risk of "ratings shopping", as issuers may be tempted to approach the agency most likely to assign a favourable rating or to structure their portfolios accordingly. These factors have prompted the US insurance regulator to raise concerns regarding transparency, governance and the quality of the signalling provided by the ratings.

Box 2.2: Asset-intensive reinsurance operations and links with unlisted asset markets

By Frédéric Ahado and Raphaël Gorrand

The interconnections between private asset managers and life insurers in the United States have grown significantly. This trend has notably been driven by the increase since 2010 in the proportion of US life insurers owned by private asset managers, which has seen a rise in holdings of less liquid and more complex alternative assets, such as private assets and CLOs. Furthermore, there has been a surge in reinsurance agreements in the life insurance market in the United States that exploit regulatory differences between jurisdictions. Although they are rarely seen in Europe, these dynamics are likely to complicate the analysis of interconnections in the private credit ecosystem and its links with insurers.

Reinsurance operations are transactions in which an insurer transfers part of its risks associated with insurance policies (mortality, claims, etc.) to a reinsurer. Asset-intensive reinsurance transactions are reinsurance agreements under which the financial assets and their management are also transferred to the reinsurer. In addition to the risk associated with the insurance contract, the reinsurer also bears the financial risk associated with the management of assets previously held by the insurer. These asset-intensive reinsurance operations[168] lead to the transfer of the management of large volumes of assets to a reinsurer, often based in a third country. They involve life insurance portfolios (savings, retirement plans) whose profitability has deteriorated during the period of low interest rates and for which the level of guarantees (e.g. via guaranteed rates) represented a significant burden for insurers given the return on traditional assets. The reinsurer may then invest the transferred assets in unlisted securities or funds managed by an asset manager affiliated to the reinsurer, while the cedant may also have a hand in defining the investment strategy to be implemented.

The development of these forms of reinsurance has coincided with the growth of investments in unlisted assets, including private credit assets, in order to support portfolio returns by taking advantage of liquidity premiums, as life insurance portfolios represent very long-term commitments. In particular, the increase in these transactions has gone hand-in-hand with an expansion of affiliate relationships between private asset managers and insurers, mainly in the United States.[169] This dynamic allows asset managers to capture the financial flows associated with life insurers, which can be reinvested in assets issued by private credit

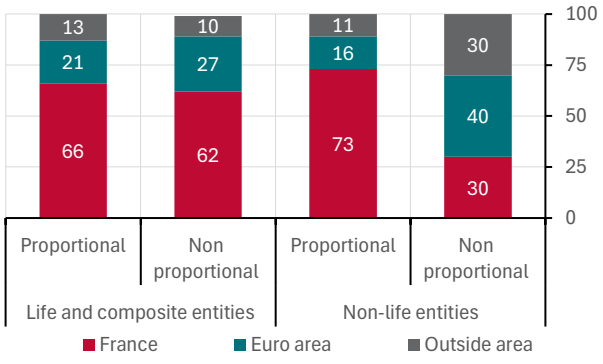
[168] Garavito (F.), Lewrick (U.), Stastny (T.) and Todorov (K.) (2024), "Shifting landscapes: life insurance and financial stability" , BIS Quarterly Review, September.
[169] In some cases, the implementation of these reinsurance operations has been preceded by the asset manager's acquisition of the insurer itself.

funds linked to the same manager.[170] In addition to the investment synergies offered by asset managers, these reinsurance mechanisms can exploit the loopholes between the different prudential and tax regimes in the various jurisdictions.

Bermudian reinsurers are the main players in the asset-intensive reinsurance market, and their services are mainly used by insurers located in the United States. According to a report published by the Bermuda Monetary Authority in March 2025,[171] the United States accounts for 70% of transactions carried out by Bermudian reinsurers, while Europe (excluding the United Kingdom) accounts for only 2%. However, this type of transaction is rare or non-existent in France, where reinsurance is generally organised domestically and in-group. The reinsurance of certain activities may have an international dimension, but in general, French insurers have little dependence on reinsurers domiciled outside the euro area: excluding intra-group reinsurance, premiums ceded to non-euro area reinsurers accounted for around 14% of cessions. However, this proportion rises to 30% for non-proportional reinsurance[172] of non-life activities (mainly general liability and property insurance), particularly in Switzerland, the United Kingdom, Bermuda and the United States. Only 13% of life and mixed insurers' operations are affected (almost exclusively in proportional insurance), mainly on their health and death and disability activities and only marginally on euro-denominated life insurance (see Chart 1).

Chart 1: Geographical domiciliation of reinsurers of French insurers (excluding intra-group reinsurance)

x: activities/y: share (%)



Source: ACPR.

2.3 The restructuring process is continuing

In an increasingly competitive environment, credit risk is intensifying

The credit risk associated with this asset class has evolved in line with changing interest rates, the uncertain macroeconomic environment and a shifting borrower population. In addition to the movement towards the large corporate segment and transactions involving large financing volumes, the levels of leverage mobilised by companies financed in new private credit transactions have also increased slightly. In Europe, the share of financing granted to companies with debt leverage of more than 5x EBITDA rose from 12.2% of new transactions in the first quarter of 2025 to 17.9%,[173] though still below 35% observed in 2022. Credit quality

[170] Carlino (S.), Foley-Fisher (N.), Heinrich (N.), and Verani (S.) (2025). "Life Insurers' Role in the Intermediation Chain of Public and Private Credit to Risky Firms", FEDS Notes. Washington: Board of Governors of the Federal Reserve System, March 21.
[171] Bermuda Monetary Authority (2025), *Insights and Reflections on Asset Intensive Reinsurance in Bermuda*, March.
[172] Under proportional reinsurance (e.g. quota share treaty), the insurer transfers to the reinsurer the same percentage, up to 100%, of (i) premiums, (ii) claims and (iii) technical provisions. Conversely, in a non-proportional reinsurance treaty, the reinsurer only intervenes after a certain number of claims has been reached (threshold effect). These non-proportional agreements are well-suited to the transfer of catastrophe risks (particularly in non-life insurance), while proportional treaties result in the outsourcing of part of the business to the reinsurer. Asset-intensive reinsurance generally involves proportional treaties.
[173] Deloitte (2025), *Private Debt Deal Tracker Europe,* autumn.

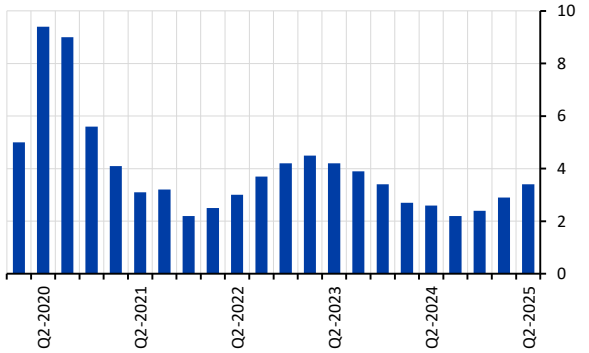
remains relatively low, concentrated around BB and B ratings, while the borrower population appears focused on a few sectors with high growth potential, which could increase the risk of correlated defaults.

Furthermore, the development of the private credit market and the accumulation of uninvested capital ("dry powder") have led to intensified competition between lenders. Several market players mention that the development of perpetual BDCs, with continuous fundraising, has contributed to this intensification because, unlike traditional funds, the capital raised is immediately available. In these circumstances, managers of unlisted assets may be prompted to relax their financing standards, for example by reducing the number of financial covenants associated with medium-sized transactions,[174] bringing the terms of these types of financing closer to those of syndicated bank loans. This appetite for risk has recently been confirmed by the spreads on these transactions compressing, now rarely exceeding SOFR + 500 basis points, in sharp decline from 2024.

At the same time, loan repayment and interest payment facilities have evolved, with developments such as interest capitalisation or payment-in-kind (PIK). PIKs can be implemented at the origination of the loan, thereby allowing the leverage associated with the transaction to be increased or allowing the borrower to avoid default when experiencing repayment difficulties. For private lenders, these facilities are a competitive selling point, but they can also contribute to obscuring credit risk and delaying defaults, particularly when they are implemented on a discretionary basis during the term of the contract. Thus, while private credit defaults remain below 1.5% of outstanding loans in the United States, the default rate including selective defaults (i.e. loan restructuring, covenant breaches and recourse to PIKs) exceeds 4% (see Chart 2.7). Furthermore, the uncertain macroeconomic environment has served to exacerbate the difficulties faced by certain debtor companies, exposing private credit vehicles to heightened credit risk.

Chart 2.6: Default rates on direct lending covenants in Europe

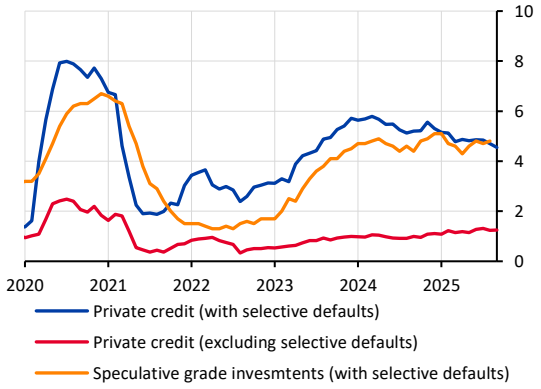
x: year/y: default rate (%)



Source: Lincoln International.
Most recent value: Q2 2025.

Chart 2.7: Default rates on private credit and speculative-grade financing in the United States

x: year/y: default rate (%)



Source: S&P Global.
Note: Selective defaults include breaches of covenants and borrower recourse to interest capitalisation (payment-in-kind).
Most recent value: September 2025.

In this context, the increasing complexity of the financing strategies employed by private credit funds is likely to mask debtors' vulnerabilities. Recent credit incidents in the United States (see Box 2.3) have highlighted the risks associated with the use of opaque off-balance-sheet financing and the importance of maintaining strict credit standards and transparency in the market.

[174] In general, the largest transactions are not subject to covenants.

Box 2.3: The First Brands and Tricolor bankruptcies and the risks associated with the lack of transparency in private credit

By Edith Stojanovic

At the end of September 2025, the successive bankruptcies in the United States of the subprime auto lender, Tricolor, and the autoparts supplier, First Brands, brought to light some of the vulnerabilities associated with the credit market and the proliferating interconnections between banking and non-banking players. These two US companies had resorted to multiple and varying forms of financing provided by banks (through syndicated loan and credit line intermediaries) and private credit, part of which involved alleged collateral fraud. Collateralised financing (an asset-based finance strategy) can be backed by any type of real assets, which therefore may include infrastructure, inventory or machinery, but can also be backed by factoring or reverse factoring mechanisms through which a company offers a factoring solution to its suppliers for their receivables. When First Brands filed for bankruptcy after failing to secure refinancing, in addition to its on-balance sheet debt of USD 6 billion, the company also owed approximately USD 6 billion obtained through off-balance sheet financing arranged through factoring and exposures that were greatly underestimated by lenders, for which First Brands is accused of fraud. Tricolor is accused of having pledged the same assets more than once as collateral to obtain financing from banks and private credit funds.

These two bankruptcies were not solely linked to players in the private credit market, and their impact was propagated throughout the financial system due to cross-exposures. Several banks were affected, notably J.P. Morgan and Barclays, whose exposures to Tricolor's debt amounted to USD 200 million and USD 110 million, respectively. Some banks took a hit by way of their private credit vehicles. A Jefferies fund held USD 715 million in receivables and invoices due linked to First Brands, while the exposure of a UBS private credit fund totalled USD 500 million. Numerous asset managers were also exposed through loans or holdings of tranches of collateralised loan obligations (CLOs), securities backed by portfolios of syndicated leveraged loans, meaning that 43% of CLOs in the United States held positions in First Brand.[175] The level of exposure per CLO was mostly moderate, although in 13 cases it exceeded 1% of the CLO's total portfolio. While the buffering from over-collateralisation helped to offset the losses, these incidents highlighted the risks of contagion associated with the widespread dispersion of these companies' debt within the financial ecosystem, resulting from their ability to borrow through multiple channels, from numerous players, under very flexible lending conditions.

These two incidents illustrate the vulnerabilities associated with debt strategies based on complex and opaque financing, in which several creditors were unable to obtain a comprehensive view of their debtors' commitments. The First Brands case particularly highlights the importance of ensuring transparency and sound information for lenders in a factoring system. In France and Europe, this strategy is mainly handled by banks and their subsidiaries,[176] with little demand addressed to private credit funds. This calls more generally for strict investment selection and monitoring of collateral quality in the broader asset-based finance segment. Many market players see this private credit strategy, which can cover a wide variety of collateral, as an important growth driver for the private credit market, even if it remains relatively underdeveloped in France. While these two bankruptcies were isolated incidents and did not precipitate a wave of corporate defaults, they illustrate the vulnerabilities associated with rapidly developing complex financing strategies and the growing interconnections between players.

[175] Fitch Ratings (2025), "US BSL CLO default exposure rises again after First Brands default", 10 October.
[176] Banque de France, « L'affacturage », *Le Référentiel des financements des entreprises,* fiche 422.

Private credit: a certain resilience across cycles

Private credit, in its traditional form, is perceived as less sensitive to short-term economic fluctuations than the bank credit and syndicated loan markets or bond markets. Indeed, due to a longer investment horizon than that of the investors in these segments, coupled with a large amount of dry powder, closed-ended private credit vehicles can provide financing without suffering from redemptions or devaluations before the initially set maturity date. These players were thus able to continue providing financing in March 2020 during the health crisis, at a time when bank lending and bond issuance contracted significantly.[177] Furthermore, private credit showed a certain resilience during the period of monetary tightening that began in 2022, and gained market share relative to syndicated bank credit during the period, largely replacing it for LBO financing. However, this development also saw higher spreads for financing of this type during the period (around two-thirds of LBO financing in 2022 was above the SOFR + 600 basis points threshold, compared with less than 10% today).

However, recent developments in private credit are likely to increase the vulnerability of the sector and its borrowers to an economic downturn. First, the growing use of semi-liquid vehicles to attract retail client investments exposes private credit funds to redemptions, although these are generally limited by liquidity management tools. Despite a high level of uncommitted capital (29.3% globally according to PitchBook), a wave of redemptions could force funds to draw on their bank credit lines to meet demand and thereby transmit the shock to the banking sector. Second, the increased leverage of private credit funds makes them vulnerable to the availability of bank credit.

In its current form and volume, private credit has not yet been subjected to a shock that would allow its implications for the financial system across cycles to be assessed. In terms of financial stability, it would be useful to be able to assess the extent to which private lenders' credit and liquidity risks are exposed could be transferred to the balance sheets of banks and insurers in the event of a shock. The variety, complexity and lack of transparency of the interconnections between private credit players and the rest of the financial system prevent such risks from being quantified at this stage, but a stress test exercise focused on a scenario affecting private markets could provide a better understanding.

Market diversification, with the emergence of new segments, driven by investment requirements in the artificial intelligence sector

Several market players expect the asset-based lending (ABL) strategy to accelerate. This strategy is underpinned by loans secured by real assets, such as real estate, aircraft or infrastructure, but also intangible assets, such as music rights. ABL is considered a more secure option than direct unsecured lending, and the largest private credit managers have actively targeted its development, devising structures for the granting of these complex products. This strategy is still rather underdeveloped in France, where it accounts for around 1% of funds raised[178] and often takes the form of leasing contracts, whereby funds lease assets (such as machinery or infrastructure) to companies. As the strategy develops, analysing the risks to which lenders are exposed is likely to become more complicated (see Box 2.3).

The boom in investment in artificial intelligence (AI) and data centres has become a significant driver of this new demand for structured debt, creating new "debt hotspots" bundling together illiquid assets. Sustained demand for infrastructure debt, directly linked to the rapid development of data centres, is one factor likely to drive demand for ABL and other private financing. Debt issuance by Big Tech and AI companies accelerated sharply in 2025: between September and October 2025 alone, USD 75 billion of investment-grade debt was issued by the sector (including USD 30 billion from Meta and USD 18 billion from Oracle). In addition, AI-related direct private credit activity is estimated to have nearly doubled in the 12 months leading up to November 2025, as illustrated by a record USD 27 billion deal struck between Meta and asset manager Blue Owl Capital

[177] International Monetary Fund (2024), "The rise and risks of private credit", *Global Financial Stability Review,* April.
[178] According to France Invest, *Activité des fonds de dette privée en 2024*.

to finance a data centre, using a complex structure that keeps the debt off-balance sheet. These financing strategies often include hybrid arrangements, including debt and equity financing.

Conclusion

To guarantee the resilience of a booming private credit market, several areas of action should be prioritised, starting with transparency. A substantial improvement in the availability of data for market participants and authorities is essential in order to reduce information asymmetries and better map exposures, whether in terms of fund portfolios, cross-border flows or links between banks and non-bank entities. This improvement in transparency should enable stakeholders to gain an overview of the risks to which they are exposed. This is a particularly important issue for banks, whose exposure to this ecosystem could be felt at several levels. While market resilience has not been tested in periods of prolonged tensions, the increase in vulnerabilities linked to liquidity mismatches and leverage necessitates closer monitoring. Particular attention must be paid to the liquidity risk of funds, especially for structures intended for retail clients, in order to ensure their ability to meet redemption requests in a deteriorating environment. In the European Union, the ELTIF 2 framework has set out requirements for liquidity risk management. Its effectiveness will need to be monitored closely as these products develop. Lastly, the increasing complexity of private credit fund financing arrangements, primarily in the United States, with structured product issuances, highlights the need for an enhanced rating-methodology framework and, given the cross-border nature of the market, close international cooperation.

Technical appendix: securitisation

Definitions

Significant risk transfer

Significant risk transfer (SRT) refers to securitisation transactions recognised by the competent prudential banking supervisor that can be used by a bank as a regulatory capital relief strategy. Articles 244 and 245 of the Capital Requirements Regulation (CRR, the current regulatory framework) specify these criteria and the conditions under which significant risk transfer may be recognised. In practice, two mechanical tests are often used, depending on the structure chosen for the transaction: (i) the "mezzanine" test, whereby the originator must transfer at least 50% of the risk-weighted exposure of all mezzanine securitisation positions in the transaction; or (ii) the "first loss" test, whereby the originator must transfer at least 80% of the exposure value of the first-loss tranche.

The European STS framework

A growing proportion of SRT securitisations also meets the criteria for the European "Simple, Transparent and Standardised" (STS) label.[179] This label has been in force since 2021 and guarantees that several cumulative criteria have been met, thereby assuring investors of a high level of quality and standardisation in the structuring of transactions and further enhanced transparency thanks to the provision of supplementary information. The prudential benefits that recognition of this label brings to banks investing in this type of product include reduced capital charges and improved liquidity treatment. This type of securitisation accounts for 88% of French banks' issues, compared with 51% for other Single Supervisory Mechanism (SSM) banks in 2025.

True sale or synthetic securitisation

The two definitions mentioned above are likely to apply to the two categories of securitisation discussed in Box 1.4:

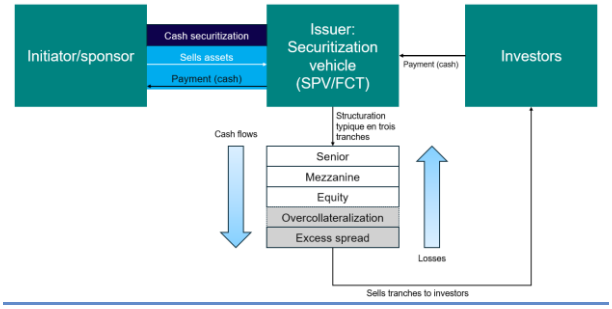
Cash or **true sale transactions**, in which originators pool financial assets (loans, receivables) and then sell them to an ad hoc entity (typically a vehicle set up for this purpose)[180] which finances the acquisition of the pool by issuing negotiable debt securities with varying levels of seniority. During the life of the transaction, the cash flows generated by the underlying assets are collected by the vehicle and redistributed to investors according to the seniority of the security tranches. In this arrangement, the credit risk initially borne by the originator is thereby transferred – at least in part – to the investors who have acquired the newly issued securities, which also helps to refinance the originator.

- **Synthetic** or **"on-balance" transactions**, in which the financial assets remain on the originator's balance sheet and the credit risk associated with the underlying exposure is transferred to investors through the use of credit derivatives or financial guarantees. These transactions can be carried out (i) without the use of an ad hoc vehicle (thereby reducing structuring costs), (ii) privately (thus preserving the confidentiality of the transaction and the commercial relationships established by the originating institution) or alternatively (iii) by using either ex ante funded credit protection[181] or unfunded credit protection.[182] Under funded credit protection, the protection provider uses collateral to secure the protection. The European regulatory framework explicitly requires funded credit protection – except

[179] Regulation (EU) 2017/2402 of the European Parliament and of the Council of 13 June 2024 on securitisation (SECR).
[180] Most commonly special purpose vehicles (SPVs) or securitisation special purpose entities (SSPEs).
[181] In practice, most often through the issuance of credit-linked notes (CLNs). A CLN is an instrument that transfers credit risk to the investor, usually via a credit derivative contract included in the arrangement, but sometimes by means of a guarantee or other risk transfer contract, so that reimbursement is dependent on the occurrence of a credit event. These credit protections are financed by the proceeds of the issue paid by investors.
[182] In practice, by taking unsecured guarantees or using derivatives.

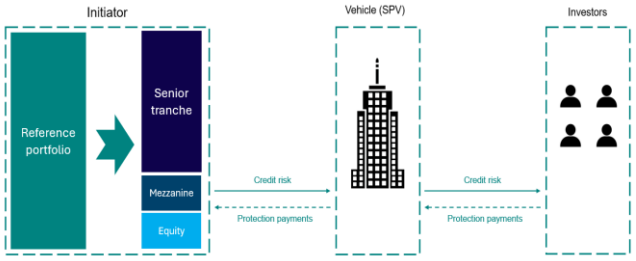
in specific cases of supranational or multilateral guarantees – for STS transactions. Synthetic securitisation transactions are one of the tools available to banks for managing their credit risk, notably along with credit default swaps (CDS), funded guarantee products and credit insurance. Unlike a CDS, which transfers the entire credit risk of a given exposure, synthetic securitisation allows the risk of an asset portfolio to be split into several tranches, some of which are retained by the bank while others are transferred to investors.

Diagram A.1: A true sale securitisation transaction



Sources: FSB, ACPR.

Diagram A.2: A synthetic securitisation transaction



Source: ESRB.
Note: For purposes of simplification, this diagram illustrates a synthetic securitisation transaction without collateral (i.e. an unfunded protection situation).

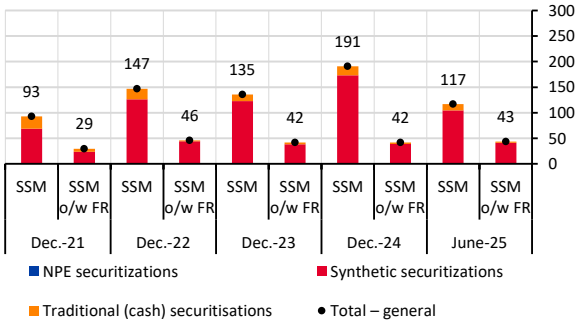
Description of the market

Dynamic issuance activity

The dynamic issuance activity (see Chart A.1) mentioned in Box 1.4 is reflected in an increase in the outstanding amount of SRT securitisations, which amounted to EUR 558 billion for euro area banks (including EUR 152 billion for French institutions) in the first half of 2025, compared with EUR 339 billion in 2021. Furthermore, euro area banks' synthetic SRT issuance accounted for 58%[183] of synthetic securitisation issuance worldwide.

Chart A.1: SRT issuance by transaction type

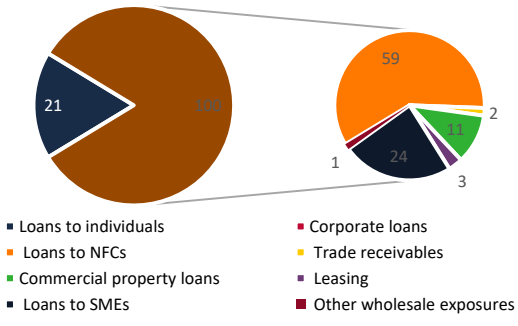
x: year of issuance/y: amounts issued (EUR billions)



Source: COREP reporting.
Note: Issuance includes all tranches, including those not retained by the institution.
Most recent value: Q3 2025.

Chart A.2: Type of loan counterparty making up SRT securitisations in the sample of 23 euro area banks

as a % of total loans in SRTs



Source: COREP reporting.
Note: The diagram on the left shows the breakdown between loans to individuals and corporate loans. The diagram on the right shows the breakdown of corporate loans.
Most recent value: Q3 2025.

[183] Source: International Association of Credit Portfolio Managers (IACPM).

Underlying assets

The exposures underlying issued SRT securitisations are largely made up of corporate loans (accounting for 79% in June 2025 for all SSM banks; see Chart A.2). The remaining underlying exposures, consisting of loans to households, are mainly consumer loans (9.4% of total exposures) and property loans (7.3% of total exposures). While the majority of counterparties that have taken out the loans that have been securitised are European, a significant proportion also come from the United States (21% for other European banks and 6% for French banks), exposing euro area investors to transatlantic credit risk.

The underlying loan portfolio has a low default rate,[184] which declined for euro area banks between 2023 and 2025 (down 0.5 percentage points, to 1.7%). The predominance of corporate loans in securitised outstanding amounts is notably due to banks seeking to strengthen their capital management, as these loans are subject to higher weightings in the capital requirement calculation. Securitisation also serves a risk management purpose as it allows banks to transfer part of their credit risk and thus reduce their exposure to specific risk classes, while also allowing them to maintain their commercial relationship with the customer, which is particularly important for corporate loans.

Supervisor verification of risk transfer

The European regulatory model explicitly makes the capital relief permitted by an SRT transaction conditional upon ex ante validation by the competent supervisor, which in most cases, given the size of the institutions concerned, is the SSM. This approach is unique to the European system: it is not provided for in the Basel standards and has not been legally adopted by all jurisdictions. Alongside other mechanisms, notably the supervisory review and evaluation process (SREP), it automatically strengthens the supervisory capacity and right of oversight of the competent European authorities over transactions eligible for capital relief. Furthermore, the regulatory requirements governing the conditions for granting securitised loans[185] require originators to apply the same credit granting criteria and procedures to exposures to be securitised as they would to non-securitised exposures, thereby reducing moral hazard. This moral hazard is further mitigated by the significant interest in securitised exposures retained by euro area banks (21% in the first quarter of 2025, well above the regulatory threshold of 5%).[186]

Monitoring interconnections associated with the expansion of securitisation

SRT securitisations are most often carried out through private placements,[187] **making it more difficult for the authorities to monitor the market as a whole** (95% private placements for French banks). This is mainly due to the predominance of synthetic securitisations negotiated bilaterally between banks and protection providers.[188]

The interconnections associated with securitisation are still difficult to measure accurately. Investors in synthetic securitisation transactions include non-bank financial intermediaries (NBFIs) such as investment funds, particularly credit funds, insurance undertakings and pension funds. Some investors in synthetic securitisation use bank financing, particularly in the form of repos, which increases leverage in the market and reinforces the interconnections between banks and the NBFIs. Public and parapublic sector players, led by the European Investment Fund (EIF), are major investors in synthetic securitisation in Europe. This type of investor

[184] The default rate does not include NPE (non-performing exposure) securitisation.
[185] Article 9 of Regulation (EU) 2017/2402 of the European Parliament and of the Council of 13 June 2024 on securitisation (SECR).
[186] Article 6 of Regulation (EU) 2017/2402 of the European Parliament and of the Council of 13 June 2024 on securitisation (SECR).
[187] A private placement is a securitisation transaction in which the securities are not offered to the public but are placed directly with a restricted number of qualified investors. This format allows for tailor-made structuring and increased confidentiality. It also facilitates the maintenance of long-term relationships between the originator bank and experienced investors. A private placement can therefore help to meet the requirements for significant credit risk transfer more effectively.
[188] According to Regulation (EU) 2016/867, the protection provider is the counterparty that grants protection against a contractually agreed negative credit event and that bears the credit risk of the negative credit event. This risk transfer can be achieved through a CDS, for example.

action responds to the explicit objective of supporting the financing of the economy through bank credit: by reducing banks' capital requirements, these investments enable them to grant new loans.

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