Nonbank leverage (and why it matters for core markets)

Paul Hiebert*

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4 November 2026

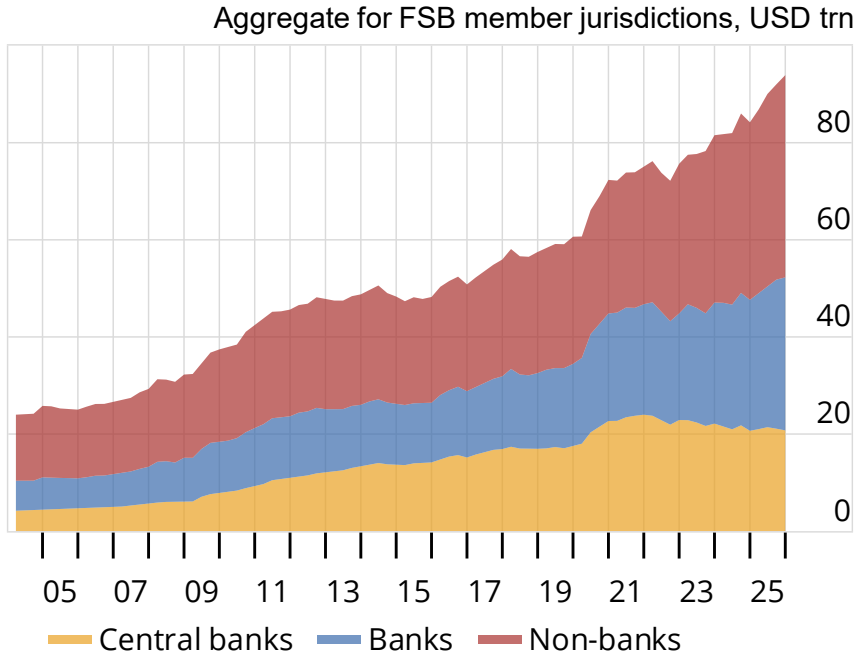
SUERF seminar, "Financial Markets: Too Many Faultlines?"

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* Note: The views expressed in this presentation do not necessarily reflect those of the FSB

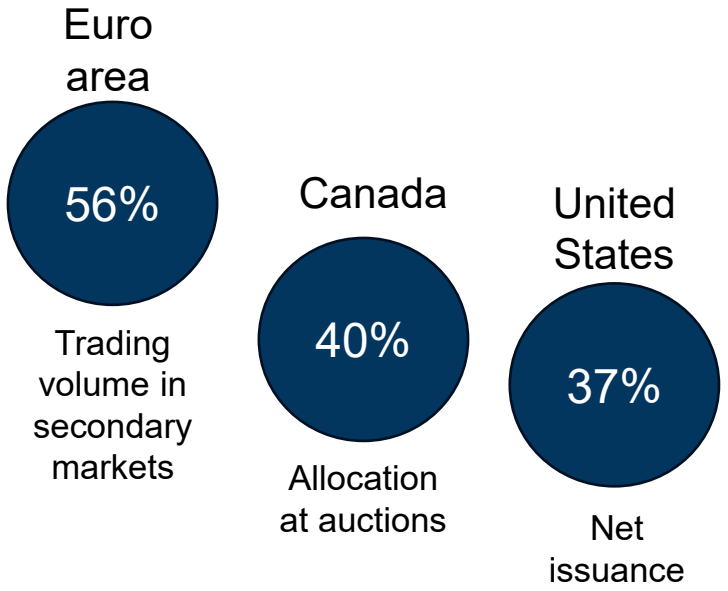
Non-bank investors have a growing role in sovereign markets

Investors in sovereign debt over time



Sources: Arslanalp & Tsuda dataset; IMF; FSB calculations.

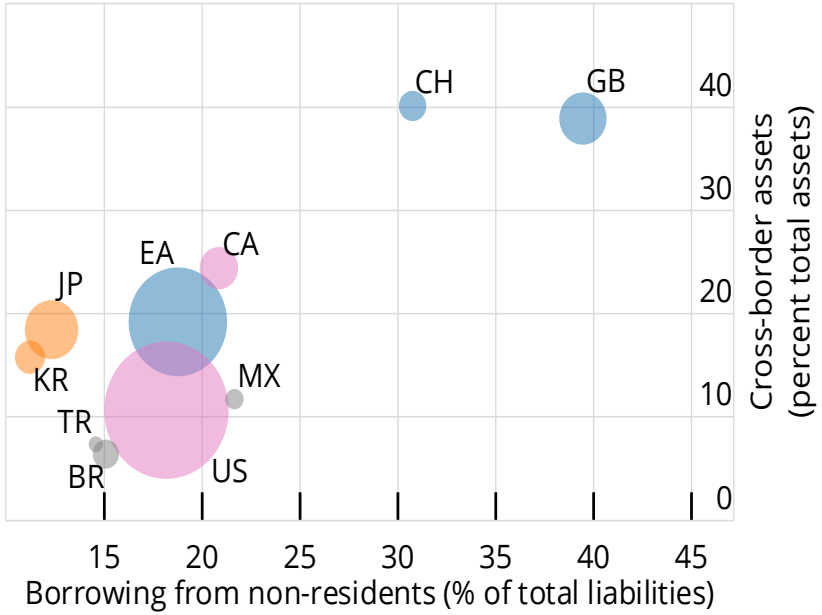
Hedge funds' role in sovereign debt markets



Sources: Barth et al (2025); Epp & Gao (2025); Ferrara et al (2024); Shin (2026).

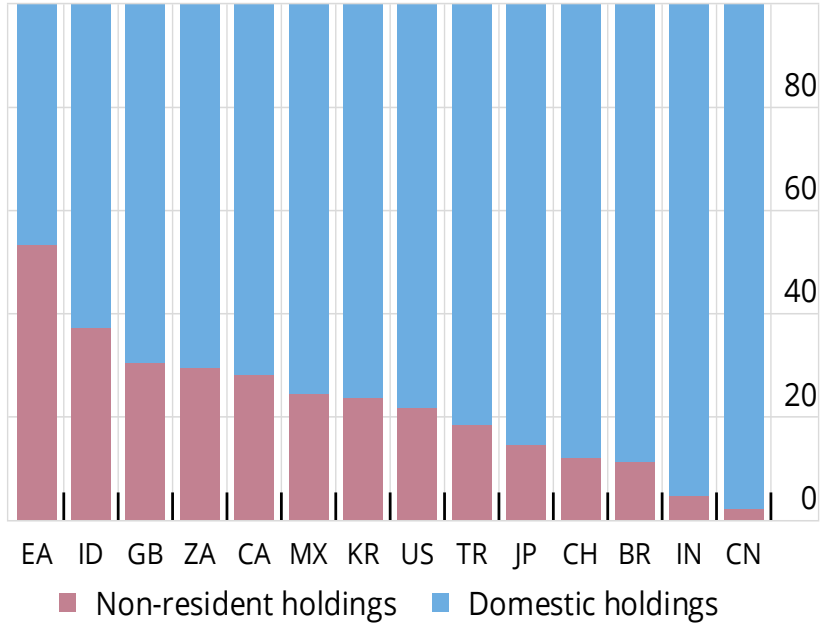
Non-resident holdings can be substantial

Jurisdiction assets and liabilities with non-residents (2026:Q1)



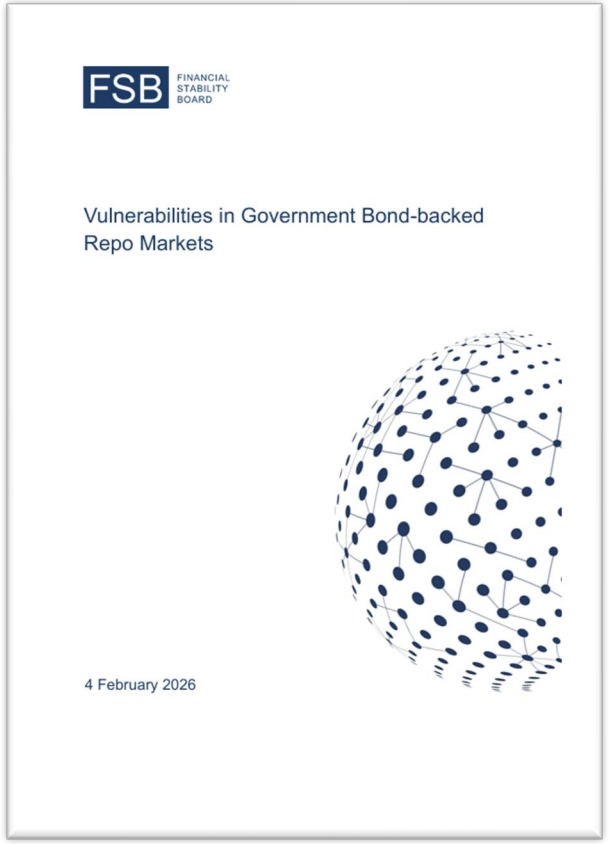
Non-resident holdings of sovereign debt (2025:Q4)

Percent of total debt issued



Sources: IMF; OECD; FSB calculations.

FSB report on government bond-backed repo markets



Web link: [Report on Vulnerabilities in Government Bond-backed Repo Markets - Financial Stability Board]

Repo market at core of financial system

Repo markets play an important role in facilitating the flow of cash and securities throughout the financial system.

- They allow some market participants to source required short-term funding or collateral
- And others to undertake short-term, low-risk investment of cash

Structure / use of repo may give rise to vulnerabilities

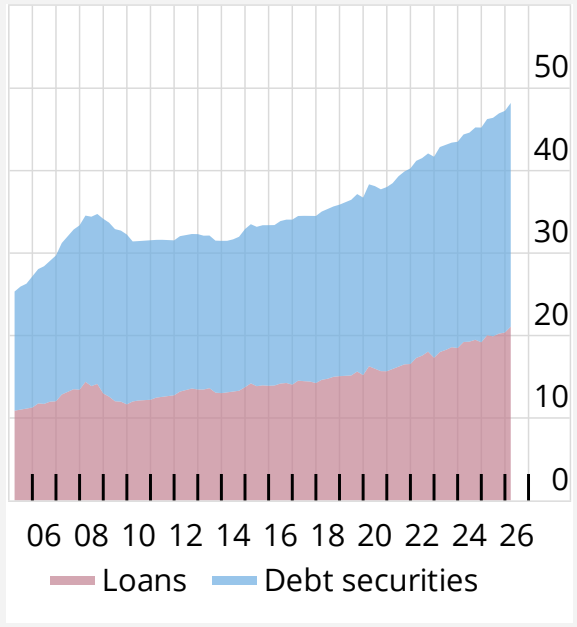
Borrowing through repo markets:

1. …can lead to over reliance on short-term funding
2. … enables leverage
3. … is concentrated
4. … can act as key channel of financial system interconnection

Rising financial system leverage

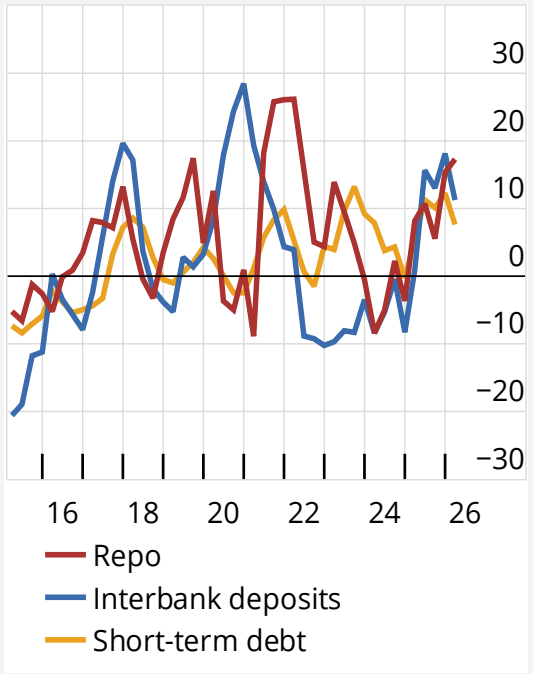
Borrowing by other financial institutions

USD trillion

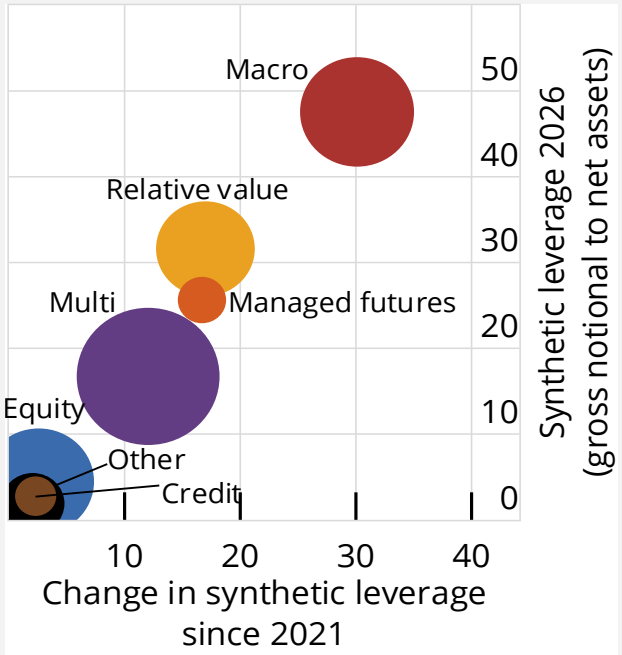


Short-term financial sector liabilities

Annual percent change

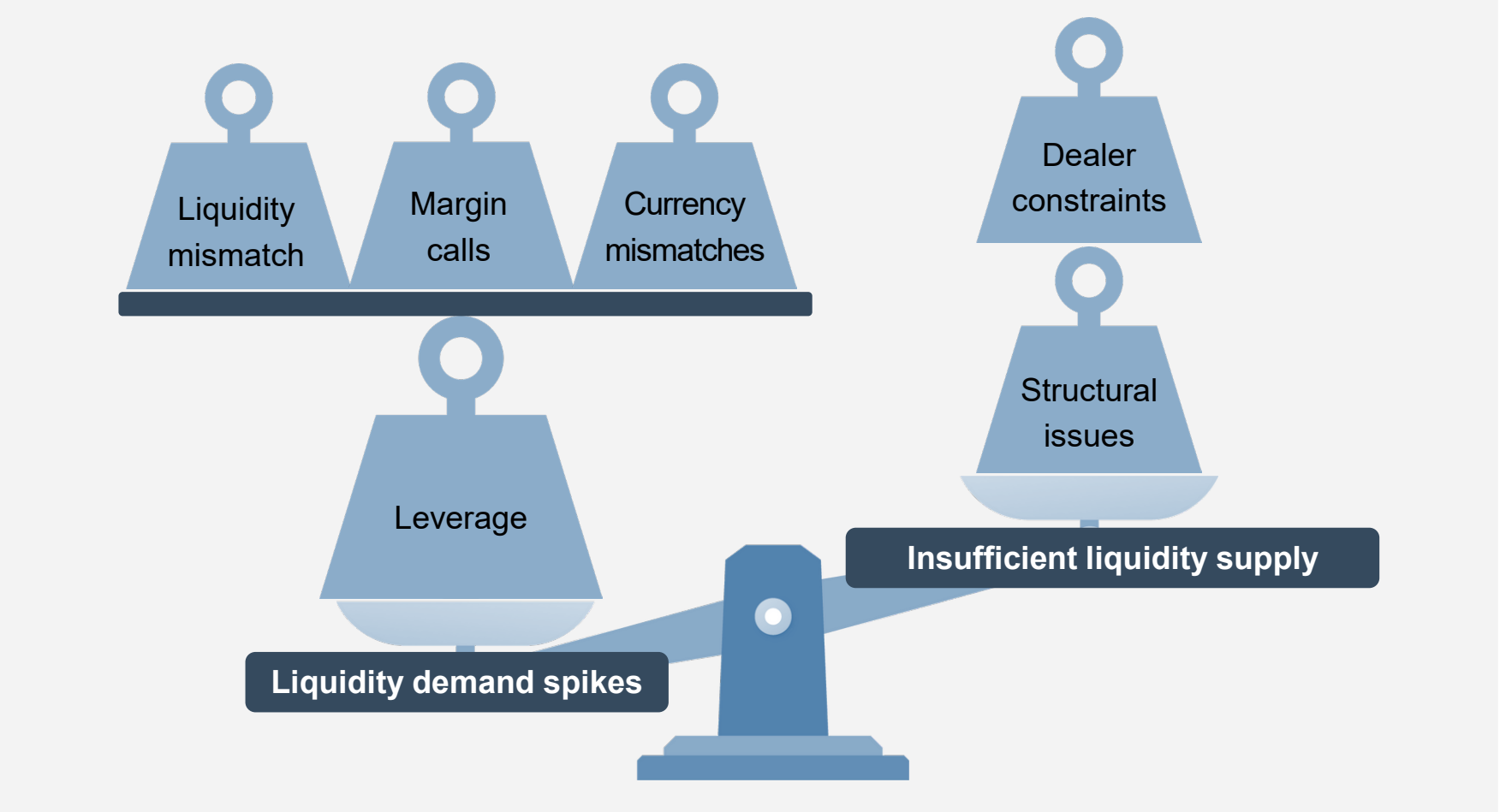


Hedge fund synthetic leverage

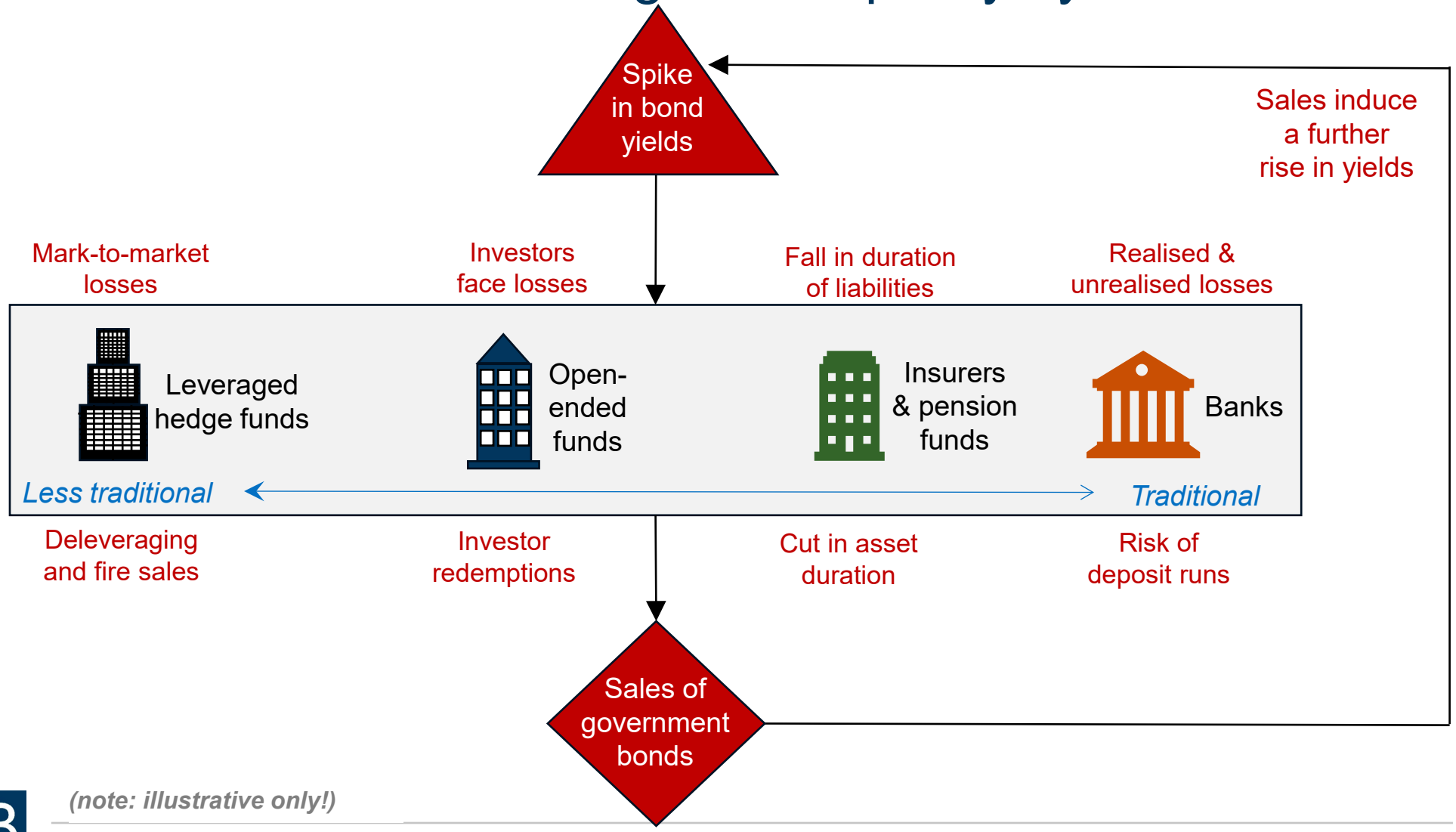


Sources: OECD; OFR; national statistics; FSB calculations.

… which can interact with liquidity as a key stress amplifier

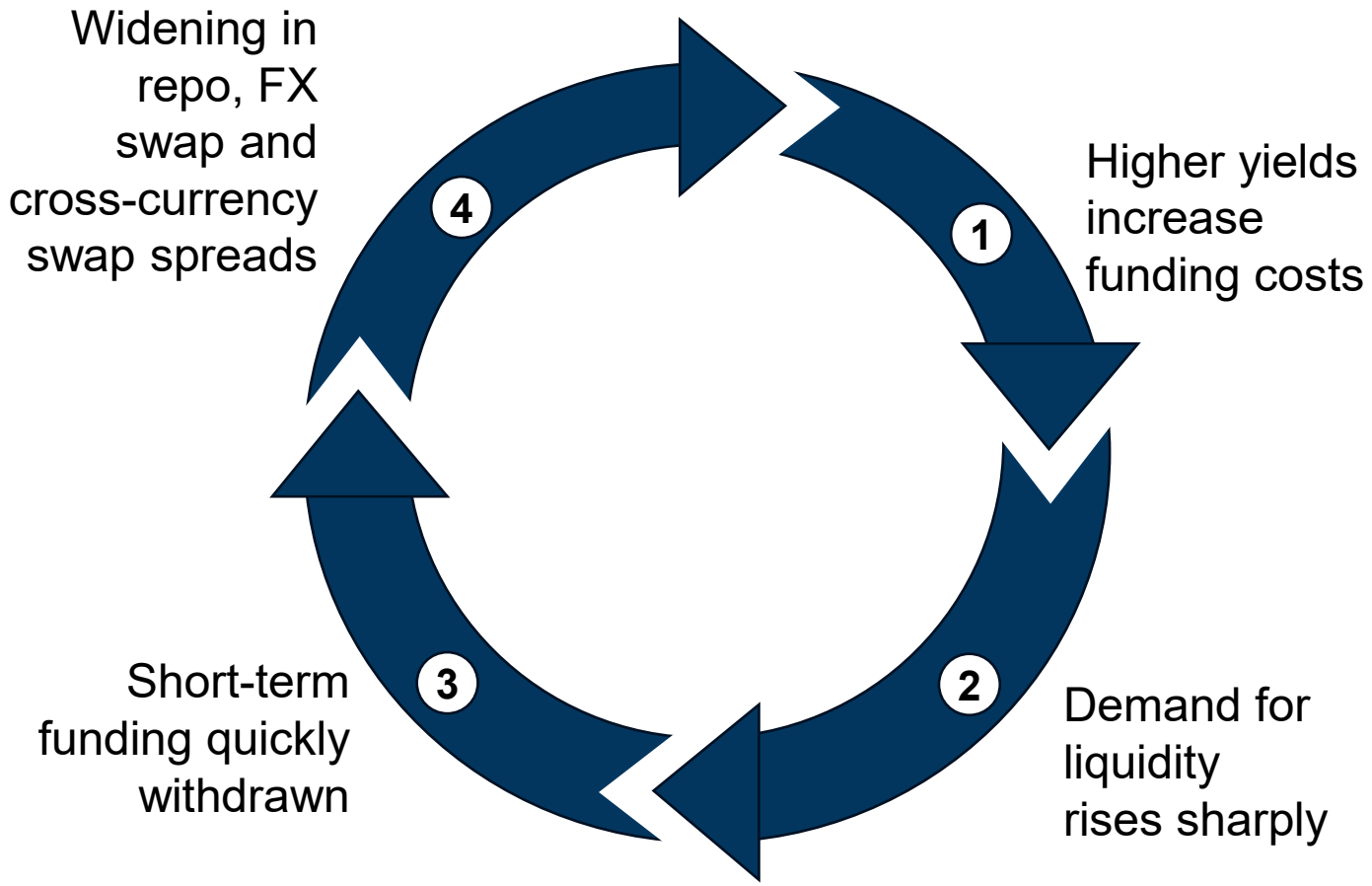


A yield shock could set leverage and liquidity dynamics in train



(note: illustrative only!)

Funding market liquidity could come under particular strain



(note: illustrative only!)

“What you can measure, you can manage”

Nonbank data challenges

Gaps in four areas hamper effective risk assessment

- **Availability**
- **Quality**
- **Use**
- **Sharing**

TEST CASE:



Leveraged trading strategies in sovereign bond markets

Critical for *financial* stability and cross-border by nature

Concentrated or crowded positions and/or reliance on short-term funding

‘Light under lamppost’ analogy*: Home-host issues, and offshore jurisdictions*

see FSB_2025) Workplan to Address Nonbank Data Challenges

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