

## Press release

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### FSB report assesses vulnerabilities of leveraged loans and CLOs

The Financial Stability Board (FSB) today published a report on [Vulnerabilities associated with leveraged loans and collateralised loan obligations](#) (CLOs). The report assesses the financial stability implications of developments in the leveraged loan and CLO markets. It provides a global perspective by combining available data and analyses from FSB members.

Markets for leveraged loans and CLOs have grown significantly in recent years, with the majority of issuance concentrated in the US and to a lesser extent the European Union. The securitisation of leveraged loans through CLO issuance, which had come to a halt almost entirely between 2009 and 2010, exceeded pre-crisis levels in 2014 and has remained strong since then. While most leveraged loans are originated and held by banks, and banks have the largest exposure to the market, the role of non-bank financial institutions has increased.

The report concludes that:

- Vulnerabilities in the leveraged loan and CLO markets have grown since the global financial crisis. Borrowers' leverage has increased; changes in loan documentation have weakened creditor protection; and shifts in the composition of creditors of non-banks may have increased the complexity of these markets.
- Banks have the largest direct exposures to leveraged loans and CLOs. These exposures are concentrated among a limited number of large global banks and have a significant cross-border dimension.
- A number of non-bank investors, including investment funds and insurance companies, are also exposed to the leveraged loan and CLO markets.
- Given data gaps, a comprehensive assessment of the system-wide implications of the exposures of financial institutions to leveraged loans and CLOs is challenging.

Using supervisory and market data, the report identifies the direct holders of roughly 79% of leveraged loans and 86% of CLOs. Little is known, however, about the direct exposures of certain non-bank investors to these markets. Including their holdings of lower-rated CLO tranches. The FSB will consider whether there is scope to close data gaps, will continue to analyse the financial stability risks and will discuss the regulatory and supervisory implications associated with leveraged loans and CLOs.

FSB Chair Randal K. Quarles said: "Scanning the horizon to identify, assess and address new and emerging risks to global financial stability is at the core of the FSB mandate. This report provides a fact base that authorities and market participants can use to help assess the risks posed by leveraged loan and CLO markets and respond accordingly."

## **Notes to editors**

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Randal K. Quarles, Governor and Vice Chairman for Supervision, US Federal Reserve; its Vice Chair is Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, [www.fsb.org](http://www.fsb.org).