

Update on Asset management and Non-bank financial intermediation in Belgium

2025



FSMA



AUTORITEIT
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EN MARKTEN

Joint commitment of the FSMA and NBB

Monitor and address risks from NBFIs within an international context



- Publication on 13 January 2025
- Fifth update
- Recent developments in Belgium
- Update of key metrics
- Main changes
 - Increased focus on international work and areas of concern
 - Specific focus on *private finance* and *commercial real estate (CRE)*
 - Restructuring of the text

Key takeaways

Vulnerabilities



- Incidents and events in other countries have pointed to NBFIs vulnerabilities that need to be addressed, leading to a variety of international work streams

NBFI



- The report uses the risk-based “narrow” definitions of the FSB (€ 172 billion) and EU Regulation (€ 23 billion) to delineate NBFI in Belgium

Asset management



- Belgian investment funds accounted for € 215 billion in net assets, Belgian asset managers had € 208 billion in AuM at the end of 2023

Commercial real estate



- Investing in physical real estate via financial vehicles is subject to specific legal frameworks in Belgium, which have features that mitigate potential financial stability risks

Private finance



- Private investment companies are assessed to hold € 48 billion financial assets at the end of 2022, with a relatively reassuring picture from a financial stability point of view

Risk assessment



- No material financial stability risks arising from the size and nature of non-bank financial intermediation in Belgium or from the interconnectedness of Belgian entities with NBFI entities outside Belgium

Continued monitoring



- Commitment of the FSMA and NBB to continue monitoring and, where relevant, address risks, within an international context and considering new developments



Vulnerabilities and policies to enhance resilience

Incidents and events in other countries have pointed to vulnerabilities that need to be addressed

March 2020 market turmoil

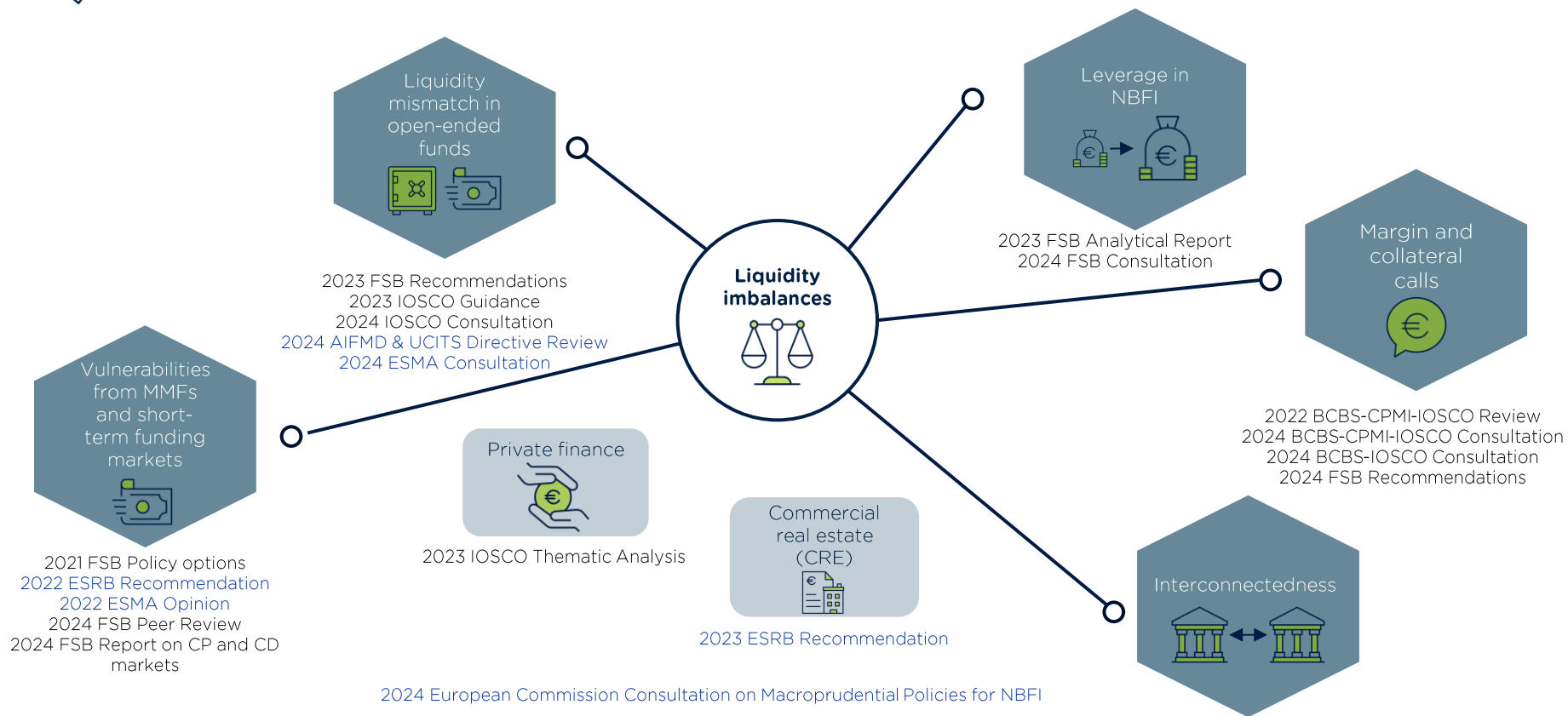
2021 Archegos collapse

2022 UK gilt market stress



Vulnerabilities and policies to enhance resilience

International work aimed at mitigating financial stability risks focuses mainly on liquidity and leverage



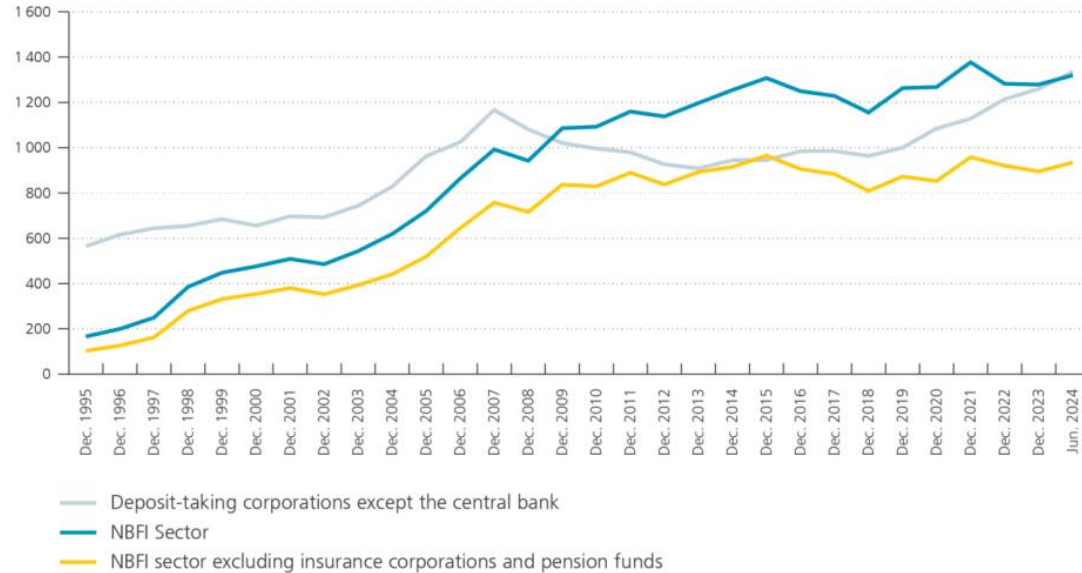


Developments in NBFi in Belgium

Different methods to delineate NBFi can be used

Broad measure (NBFi sector)

- All financial institutions that are not central banks, banks or public financial institutions
- Insurance corporations and pension funds
- “Other financial intermediaries”: money market funds, hedge funds, other investment funds, CCPs, broker-dealers, finance companies, structured finance vehicles, ...
- € 1,279 billion in Belgium at the end of 2023, roughly similar to the banking sector





Developments in NBFIs in Belgium

Focus on the risk-based “narrow” definition of the FSB and EU Regulation

Narrow measure of NBFIs

- NBFIs entities that authorities have assessed as being involved in **credit intermediation activities that may pose bank-like financial stability risks** (i.e. credit intermediation that involves maturity/liquidity transformation, leverage or imperfect credit risk transfer) and/or regulatory arbitrage
- **Activity-based** assessment of risks
- 5 “Economic functions”

Economic function

Typical entities

1. Collective investment vehicles with features that make them susceptible to runs

MMFs, fixed income funds, mixed funds, credit hedge funds, real estate funds

2. Lending dependent on short-term funding

Finance companies, leasing/factoring companies, consumer credit companies

3. Market intermediation dependent on short-term funding

Broker-dealers, custodial accounts, securities finance companies

4. Facilitation of credit intermediation

Credit insurance companies, financial guarantors, monoline insurers

5. Securitisation-based credit intermediation

Securitisation vehicles, structured finance vehicles, asset-backed securities



Developments in NBFi in Belgium

According to the FSB definition NBFi amounts to € 172 billion

Narrow measure of NBFi

- NBFi entities that authorities have assessed as being involved in **credit intermediation activities that may pose bank-like financial stability risks** (i.e. credit intermediation that involves maturity/liquidity transformation, leverage or imperfect credit risk transfer) and/or regulatory arbitrage

→ **Activity-based** assessment of risks

→ 5 “Economic functions”

- € 172 billion in Belgium at the end of 2023, equivalent to 14% of the size of the Belgian banking sector

Economic function

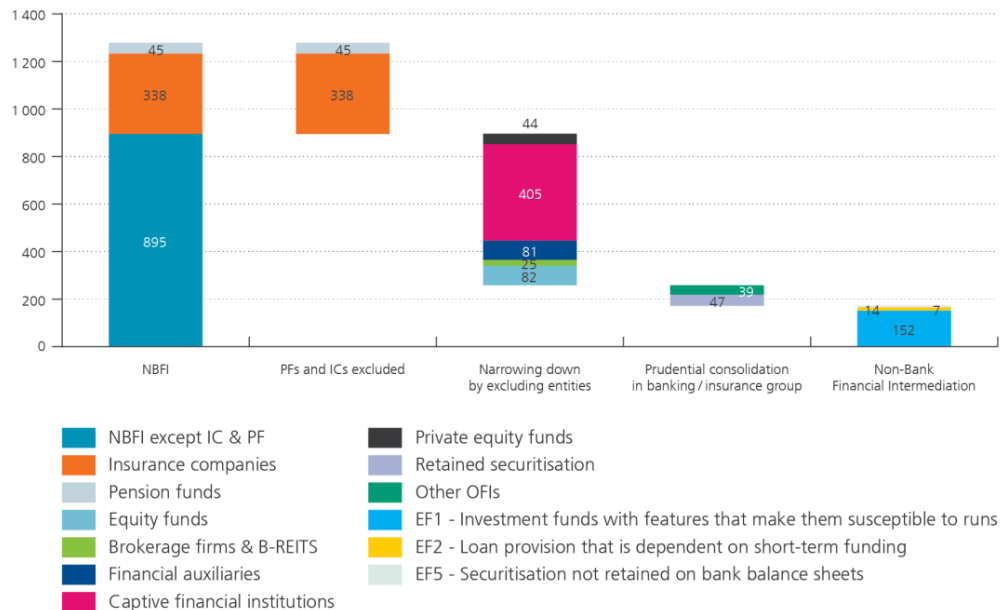
1. Collective investment vehicles with features that make them susceptible to runs

2. Lending dependent on short-term funding

3. Market intermediation dependent on short-term funding

4. Facilitation of credit intermediation

5. Securitisation-based credit intermediation





Developments in NBFi in Belgium

According to the definition from the EU Regulation NBFi amounts to € 23 billion

Narrow measure of NBFi

- **NBFi entities** that authorities have assessed as being involved in **credit intermediation activities that may pose bank-like financial stability risks** (i.e. credit intermediation that involves maturity/liquidity transformation, leverage or imperfect credit risk transfer) and/or regulatory arbitrage
- **Activity-based** assessment of risks
- 5 “Economic functions”
- **€ 23 billion in Belgium** at the end of 2023

Economic function

1. Collective investment vehicles with features that make them susceptible to runs

2. Lending dependent on short-term funding

3. Market intermediation dependent on short-term funding

4. Facilitation of credit intermediation

5. Securitisation-based credit intermediation

⇒ Only Belgian money market funds and AIFs with a leverage that exceeded 300% or that were granting/purchasing loans included



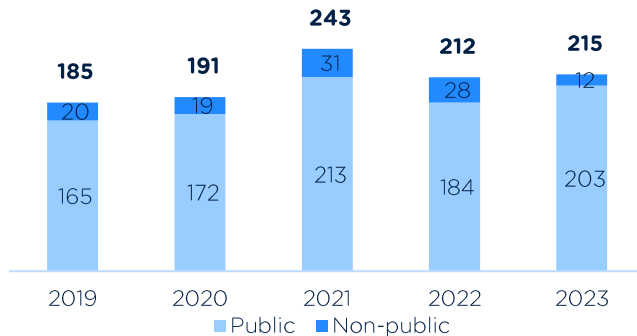
Developments in asset management in Belgium

Belgian investment funds accounted for € 215 billion in net assets, Belgian asset managers had € 208 billion in AuM at the end of 2023

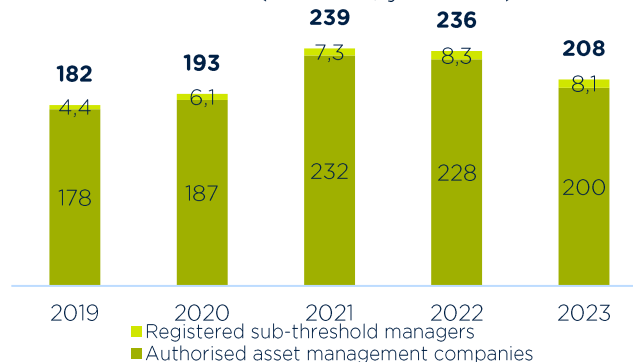
Net assets of
**Belgian
investment
funds**

€ 215 billion

Net assets of Belgian investment funds
(€ billion, year-end)



AuM of Belgian asset managers
(€ billion, year-end)



AuM of
**Belgian
asset
managers**

€ 208 billion

**Foreign
funds** held
by Belgians

€ 349 billion

Assets
generating
F&C income
for **Belgian
banks**

€ 732 billion

Investments
of **Belgian
insurance
companies**
in funds

€ 72 billion

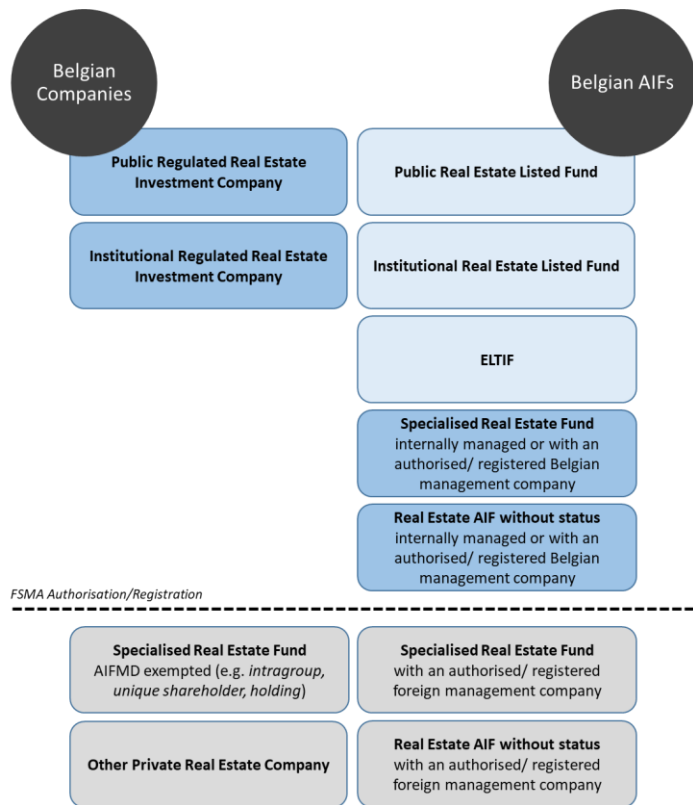
Investments
of **Belgian
IORPs** in
funds

€ 36 billion



Real estate within NBFI in Belgium

Investing in physical real estate via financial vehicles is subject to specific legal frameworks in Belgium, with features mitigating potential financial stability risks



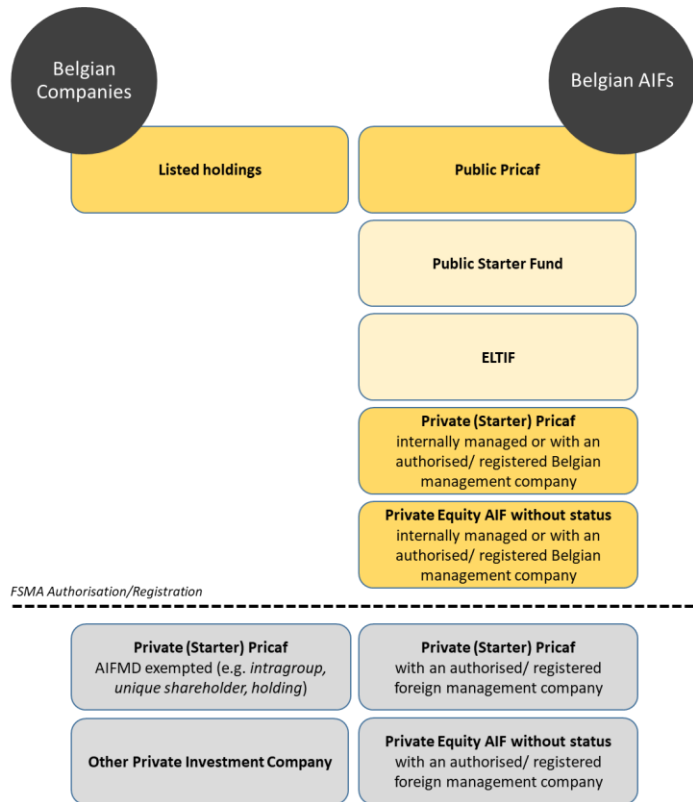
- **Regulated Real Estate Investment Companies (RREICs)**
 - Most successful regime: 26 companies and market value of more than € 18 billion at the end of 2023
 - Listed, fixed number of shares, diversification requirements and leverage limits
- **Specialised Real Estate Funds (SREFs)**
 - 197 entities registered with the FPS Finance at the end of 2023
 - Closed-ended, available to qualifying investors only, more flexible framework
- **Belgian authorised and registered fund managers**
 - Reported data on 44 alternative investment funds (AIFs) classified as real estate funds (net assets of € 2 billion)
 - Closed-ended or specific arrangements to mitigate liquidity risk

Potential financial stability risks from these vehicles strongly mitigated by their features and limited footprint, yet part of a broader ecosystem resulting in an overall sizeable exposure of the Belgian financial system to CRE



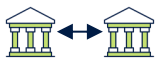
Private finance in Belgium

Private investment companies at € 48 billion at the end of 2022, with a relatively reassuring picture from a financial stability point of view



- Funding provided by non-bank investors to companies through bilateral transactions
- Generally subject to specific legal frameworks in Belgium
- **Private Pricaf** framework is quite successful: 193 entities registered with the FPS Finance at the end of 2023
- Belgian fund managers reported data on 209 alternative investment funds (AIFs) classified as private equity funds (net assets of € 6 billion)
- Unregulated private companies investing in securities issued by unlisted companies not authorised or registered by the FSMA (no reporting)
- Assessment of the size of the private investment sector in Belgium
 - 347 companies (listed companies, private pricafs and others)
 - € 48 billion total financial assets

Relatively reassuring picture from a financial stability point of view, as much of the investment risk is borne by financial market participants, leverage is low and bank funding links are limited



Interconnectedness of the Belgian economy with NBFIs worldwide

Interconnectedness with NBFIs limited and concentrated in activities that are generally part and parcel of normal business affairs

- **Banks**
 - On the asset side mostly loans and, to a lesser extent, debt securities
 - Funding links mostly from deposits
- **Insurance companies**
 - Mostly investment funds or debt securities and equities issued by NBFIs
- **Public sector**
 - Funding through government bonds (broad estimate)
- **Households**
 - Mainly investments in investment funds, (€ 150 billion domestic, € 108 billion foreign)
 - Loans granted by consumer credit institutions
- **Non-financial corporations**
 - Limited investments through funds
 - Limited funding through bonds held by investment funds, equity obtained from private investment companies or loans from OFIs (leasing and factoring)

Policy initiatives and supervisory activities

The FSMA assessed liquidity risks from investment funds and potential systemic risk related to the use of leverage by fund managers



Liquidity risk assessment

- Potential liquidity risks of Belgian investment funds assessed by the IMF and the FSMA
- IMF conclusion that the Belgian investment fund sector would be able to withstand severe but plausible redemption shocks (FSAP)
- FSMA liquidity risk assessment in two steps:
 1. Quantitative: comparison of redemption shocks to portfolio liquidity
 2. Qualitative: in-depth analysis of funds identified in step 1
- FSMA conclusion that Belgian funds are overall resilient to a severe, but plausible redemption shock
- High level of cash, low leverage, few illiquid assets in funds' portfolios and the presence of LMTs



Leverage risk assessment

- European legislation (AIFMD Article 25) requires NCAs to assess the systemic risk arising from the use of leverage by authorised AIFMs in two steps
 1. Identification of funds most likely to pose risks to the financial system
 2. Assessment of potential systemic risks associated with leverage within AIFs identified in step 1 using common indicators
- The FSMA has not identified any immediate systemic risks requiring the adoption of measures specific to leverage, such as imposing limits on the use of this technique
- Identification of a limited number of points requiring attention

Conclusion

No material financial stability risks arising from the size and nature of non-bank financial intermediation in Belgium or from the interconnectedness of Belgian entities with NBFIs outside Belgium

Commitment of the NBB and the FSMA to continue joint monitoring of NBFIs and asset management

Within an international context (cross-border nature of NBFIs and asset management)
→ Active participation in relevant international work

Contribute to the strengthening of the regulatory framework and supervision where necessary

Intention to publish an update of the monitoring report every two years from now on

Importance of enhanced resilience and investor protection in NBFIs and asset management within a CMU context



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