# Developments in private credit

Regulatory focus areas and responding to recent events

January 2026

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# Introduction and context

# Introduction

**For some time, the rapid growth of private credit and challenging market conditions have been on the radar of regulators and central banks.**

**Recent high-profile bankruptcies are likely to accelerate firms' review of their risk management processes and prompt new, more probing questions from regulators.**

**This paper explores some of the regulatory drivers in the private credit market and ways that firms can revisit their own processes to address potential regulatory concerns.**

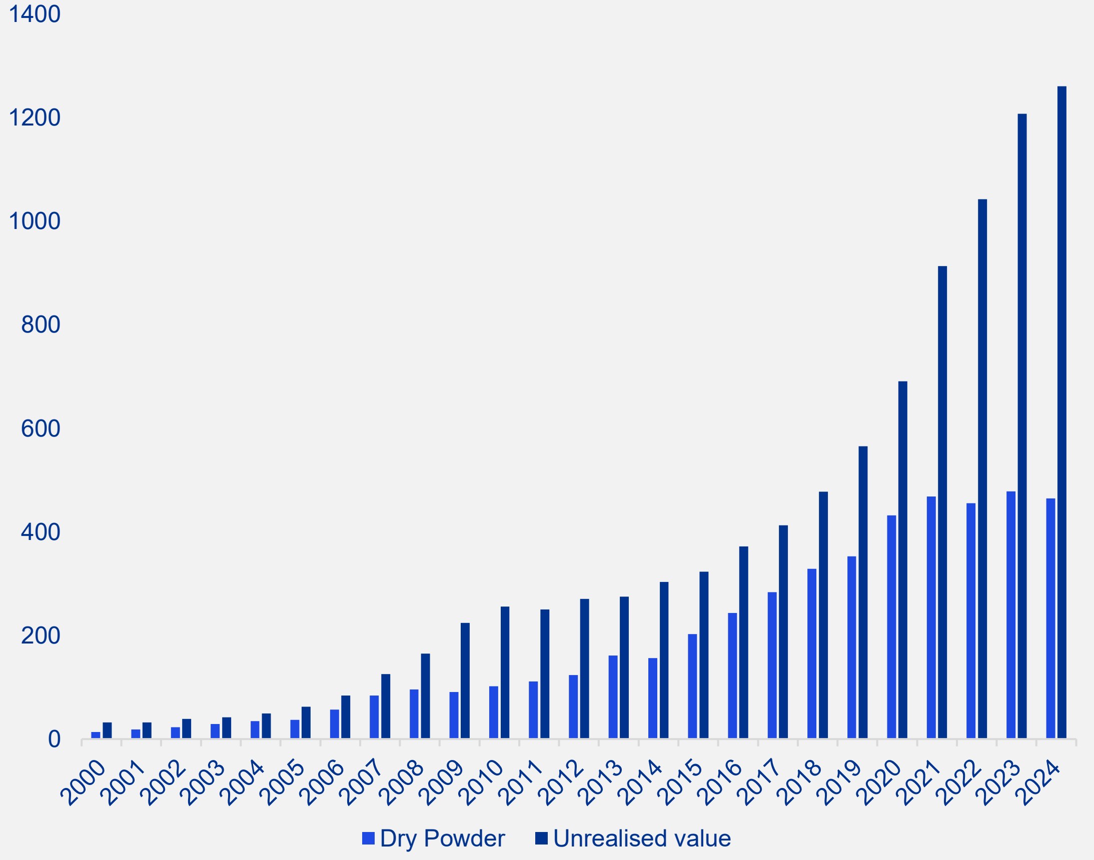
The growth of the private credit market has been a success story for the industry and helped support the real economy at a time when bank lending has become partially constrained by regulation introduced following the global financial crises. It was also supported by lower interest rates, resulting in investors seeking more attractive returns.

This growth has further intensified regulatory scrutiny of the industry, which is likely to accelerate following recent market events.

Investors, as well as risk and compliance functions within private asset managers, are adjusting their perspectives on private credit and increasingly viewing it as one of the riskiest asset classes within the range of private assets under management.

Recent bankruptcies have prompted private credit managers and banks to consider where they may need to tighten up internal arrangements – particularly in the context of invoice and trade finance.

## The growth in global private credit AUM (USD bn)




Source: Preqin, a part of BlackRock

# Regulatory context

For more on these wider topics, see KPMG in the UK's dedicated series on regulation and private assets **here**.

## Policymaking

Private credit managers in the EU and the UK must comply with various requirements, including those derived from the AIFMD. These require firms to have in place robust and independent risk management arrangements and to meet various other rules such as those on due diligence and valuation practices. Notably, while the FCA is looking to simplify its rules, the EU is introducing new requirements for funds that originate loans from April 2026.

## Supervision

The FCA has already completed a supervisory review on private asset valuation and launched a follow-up on conflicts of interest (for example on related party loans and equity and credit investments in the same company). Private credit is a particular focus for regulators around the world. For example, the Australian Securities & Investments Commission has just published detailed findings on the Australian private credit market, identifying good practices and areas for improvement.

Meanwhile, prudential regulators such as the PRA have challenged banks on their counterparty credit risk management and exposures to private assets, including private credit. For insurers, the focus is on interlinkages through private equity owners / partners or as part of funded reinsurance collateral. Supervisors also want to ensure insurers understand their exposure to this asset class, be it direct or indirect via externally managed credit funds.

## What's next?

In the wake of recent market events, regulators are likely to step up their scrutiny of asset management, banking and insurance participants in the private credit market.

This likely to focus on their due diligence, monitoring and risk management capabilities.

More broadly, the Bank of England has announced it will undertake a system-wide exploratory scenario (SWES) exercise, focused on risks from the private markets ecosystem (see more on this in the SWES section of this paper).

> "The exponential growth of private credit has raised concerns that credit provision is migrating from strictly regulated banks and relatively transparent public markets to the comparatively lightly regulated and opaque private credit industry."
>
> **IMF Global Financial Stability Report**
>
> October 2025

# Key risks in private credit

## Default

Private credit borrowers can have weaker financial profiles or higher leverage than public market companies, which can be more difficult to spot because of complex arrangements.

As illustrated by recent events, this can particularly be the case with companies that rely on invoice financing that are more sensitive to adverse trading conditions.

## Deterioration

Underwriting standards can come under pressure in a competitive market, where covenants can be diluted or repayment plans can be adjusted to be more flexible.

A lack of market transparency can mean that creditors have little visibility of deteriorating standards or borrowers' arrangements across their range of creditors.

## Valuation

A lack of readily observable inputs means that credit valuations can involve estimation and subjectivity. Given these assets are more likely to be privately or internally rated – including by a growing number of small and/or new rating agencies – there can be additional opacity added to the valuation methodology.

Where credit quality deteriorates, firms face greater challenges around judgements and whether revised assumptions are needed.

## Liquidity

As private credit investments are relatively illiquid, there can be a liquidity mismatch between those assets and the liquidity of the fund vehicle that invests in them.

There is a risk that issues in the underlying credit market can result in redemption pressures on funds that need adequate liquidity management tools to protect the best interests of investors.

As further facts are uncovered regarding the specific circumstances of recent defaults, it will become clearer to what extent these are isolated events or could be indicative of something more systemic. Later in this paper, we explore 'no regrets' actions that asset managers, banks and insurers can be taking already. The upcoming SWES exercise – see further in the pack – will also explore whether interactions in private markets may amplify risks to UK financial stability and the provision of finance to the UK corporate sector.

"The reputational risks associated with large exposures to companies that enter bankruptcy are likely to far outweigh the dollar value of losses associated directly with defaults.

Lenders will likely need to refine their due diligence processes and monitoring processes to ensure such exposures are minimised."

**David Miller**

Partner and Head of ERS
KPMG in the UK

# Private credit asset classes

**Private credit is a varied asset class that can be complex and interconnected with the broader financial system. There are many different types of private credit issued by fund managers, as illustrated in the left hand column below. Each of these has its own idiosyncratic risks.**

**This ecosystem also sits alongside public debt markets, bank lending, and participation in bond markets by pension funds and insurers – see more on page 14.**

## Private credit asset classes

There are a wide range of asset classes within private credit, each with unique risks. These include:

### Corporate lending

**Direct lending:** lending to companies including senior secured and unsecured, and subordinated debt.

**Opportunistic:** distressed lending, special situations, risk sharing and specialty lending.

**Venture credit:** senior credit with attached equity, convertible loans, preference shares.

### Asset backed lending

**Real estate:** senior and subordinated commercial real estate loans, loans on single/multi family housing portfolios, and data centres.

**Infrastructure:** lending on energy transition, grid, fibre optics, power generation, water, rail, and data centres.

**Financial assets & structured credit:** lending secured on loan portfolios, as well as CLOs, CRE, ABS and SRT.

**Real assets:** loans secured by shipping, aviation, rolling stock and industrial hardware.

**Intellectual property:** loans secured by royalties and patents.

## Risk transmission

There are multiple holders of risk and potential transmission mechanisms from private credit into financial services and the real economy.

**Pension holders:** Pension funds of many sorts, in search of diversification, are large investors in private credit funds.

**Banks:** Private credit funds relate to the banking system in various ways. They can be a bank's client, competitor, debtor or partner. Banks' primary exposure to risk from private credit is from providing leverage to funds. Depending on the specific circumstances this may be via subscription lines, NAV loans, revolving credit facilities, warehouses or repo agreements.

**Insurance companies:** Insurance companies can have direct exposure to private credit through their investments or indirect exposure through collateralised reinsurance, unitised funds or externally managed credit funds.

**Retail investors:** Retail investors and higher net worth clients can invest directly in private credit listed vehicles, ETFs and newer vehicles such as ELTIFs with a variety of strategies including CLOs.

**Real economy:** Private credit is playing an increasingly important role. There is a risk of overreliance on private funding and risk of pro-cyclicality in a downturn.

# Responding to market events

## Sector perspectives

# Asset managers

| | Existing exposure | Potential exposure | Fund liquidity management | Wider adjustments |
|---|---|---|---|---|
| **Focus area** | Achieve full visibility of any existing exposures to highly leveraged companies with complex or opaque financing arrangements. | Gain comfort that any companies with similar characteristics to companies in bankruptcy have been identified. | Validate liquidity management tools can be activated in investors' best interests in the event of redemptions from impacted open-ended funds. | Improve the capabilities and effectiveness of the risk management function, as well as its prominence within the organisation. |
| **Next steps** | • Complete assessment of all relevant portfolios to identify exposure to companies in bankruptcy.<br>• Be clear on next steps to recover exposures to the extent possible.<br>• Be prepared to respond to investor queries and engagement from regulators. | • Identify the common characteristics of companies such as those that are heavily reliant on invoice finance and trade finance.<br>• Deploy forensic data analysis and tools across portfolios to identify specific exposures that may require additional diligence or monitoring.<br>• Confirm and verify ownership of collateral.<br>• Uplift exposure monitoring to enable a clear view of risk across various concentration factors (e.g. geography, sector) as well as the capital stack.<br>• Increase frequency of performance of agreed-upon-procedures. | • Identify funds and assets with exposure to private credit, both directly and indirectly.<br>• Review and test existing liquidity management tools and their calibration to ensure they reflect potential flows and the cost of liquidity.<br>• Ensure risk modelling is able to factor in liquidity mismatch and cashflows, as well as ensuring stress and scenario testing is tailored to idiosyncratic risk within portfolios.<br>• Increase focus on hybrid or retail funds where notice periods are likely to be shorter or liquidity demands may be more volatile. | • Review the risk management capability across 1LOD and 2LOD. Particularly consider whether 2LOD has sufficiently granular thresholds and indicators to trigger more detailed reviews where required.<br>• Consider whether 2LOD is truly independent and has sufficient representation and influence at key committees.<br>• Ensure data gathered is effective for evaluating exposures at asset- and portfolio-level. This should be sufficiently granular and be categorised by loan-type.<br>• Review the diligence-related approach and controls to ensure they are robust. |

# Banks

| | Review | Engage | Strengthen | Re-evaluate |
|---|---|---|---|---|
| **Focus area** | Perform a comprehensive review of the private credit portfolio, including re-evaluating ratings and stress testing covenants. | Engage proactively with borrowers at risk to build a better picture of their financial situation and challenges. | Revisit underwriting standards and review the approach to due diligence, incorporating more rigorous assessments where needed. | Maintain prudent capital and liquidity positions. Re-evaluate the capital allocation strategy for private credit, including exposures to particular segments. |
| **Next steps** | • Conduct robust due diligence on private credit funds, including their investment strategies, leverage and redemption terms.<br>• Require regular reporting on fund performance, underlying asset quality and collateral valuations.<br>• Review transparency and governance/culture. Strengthen counterparty and credit risk management.<br>• Align incentives and remuneration to discourage excessive risk-taking or reliance on opaque counterparties.<br>• Revisit the selection of third-party subject matter experts and their relevant skills and capabilities. | • Track borrower performance, detect early warning signals and assess counterparty interlinkages.<br>• Improve visibility over complex fund structures and exposures.<br>• Apply conservative lending standards when providing financing or leverage to non-bank lenders.<br>• Ensure board-level oversight of all relationships with non-bank lenders and private capital markets.<br>• Ensure that borrowers act on feedback gathered as well as identified development areas and improvements are made. | • Develop sufficiently bespoke scopes of DD work that reflect the underlying complexity of the businesses' legal entity structure and associated assets.<br>• Monitor emerging risks in specific sectors or geographies.<br>• Integrate private credit monitoring into enterprise risk dashboards for senior management.<br>• Model extreme but plausible scenarios, such as a severe credit downturn, sudden liquidity freeze or correlated fund losses.<br>• Assess potential second-round effects through funding markets and counterparty chains. | • Maintain adequate capital and liquidity buffers commensurate with indirect exposures to private credit markets.<br>• Consider countercyclical provisioning or capital overlays for concentrated exposures to leveraged borrowers.<br>• Review liquidity contingency plans to manage funding strains linked to private credit stress.<br>• Encourage cross-functional collaboration between corporate lending, capital markets and risk management divisions. |

# Insurers

| | Assess exposure | Evaluate impact | Manage liquidity | Review governance |
|---|---|---|---|---|
| **Focus area** | Map exposure to private assets, including private credit, and identify potential sources of vulnerability. | Assess impact of potential market turbulence and understand firm-level impact. | Demonstrate that liquidity management systems and tools can deliver decision-useful information. | Improve the effectiveness risk management and board oversight. |
| **Next steps** | • Complete assessment of all relevant portfolios to identify exposure to private assets, including private credit, both directly and on a look-through basis.<br>• Identify risks affecting private assets and demonstrate how the potential sources of systemic and idiosyncratic risk have been considered.<br>• Assess concentration risk across various parameters, e.g. sector, geography, single counterparty (e.g. reinsurers).<br>• Where an insurer manages investment via an external private credit manager, consider if there is sufficient transparency to the underlying fund investments to able to manage risk in line with the prudent person principle. | • Validate the robustness of internal ratings and valuation approaches; identify any potential model weaknesses.<br>• Where using third parties for valuation, consider the strengths and limitations of these services, and how to mitigate these.<br>• Assess/respond to insights from the Life Insurance Stress Test (LIST), including the asset concentration and Funded Re scenarios. | • Review and update liquidity frameworks and systems to meet the demands of the upcoming PRA obligations, as well as any business model changes such as Bulk Purchase Annuity (BPA) or Funded Reinsurance activity.<br>• Review collateral management systems to allow data to be retrieved quickly and at the right level of granularity.<br>• Evidence the availability of timely, decision-useful information including to management, board, and regulators – in line with the incoming PRA expectations. | • Confirm the appropriateness of the investment strategy, supported by a robust process to assess and challenge investment acceptance.<br>• Ensure the board understands the insurer's exposure to private assets, its risk drivers and can set/challenge the firm's risk appetite and how this fits into its broader strategy.<br>• Identify and mitigate conflicts of interests, particularly where private assets are used in Funded Re transactions or where the insurer invests into affiliated firms of their private equity owners/sponsors. |

# The Bank of England's SWES

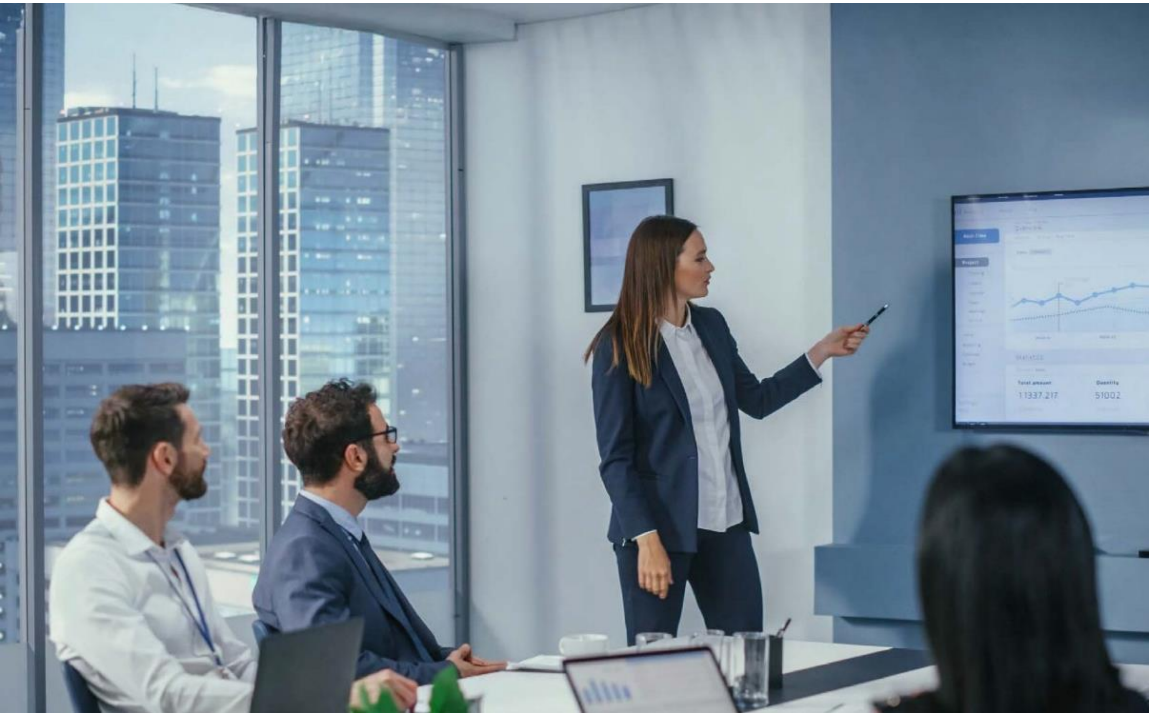
## Overview and implications

# What is the SWES?

**The Bank of England's first system-wide exploratory exercise (SWES) was conducted in 2023/24 and focused on gilt and sterling-related markets.**

**In December 2025, the BoE launched its second SWES exercise. This latest iteration will focus on potential developments and vulnerabilities in the private markets ecosystem.**

**The SWES exercises are conducted under the remit of the BoE's Financial Policy Committee and Prudential Regulation Committee, working with the PRA and FCA.**



## Key topics to be explored

The second SWES will evaluate the impact of a global downturn on UK private markets assets originated by alternative asset managers.

This will include looking at how institutional investor allocations to private market assets evolve, and the willingness of banks to provide financing during a downturn.

It will also consider how related and substitutable corporate financing markets are likely to function during a stress.

## Asset classes in focus

The exercise will focus on:

- Private equity funds investing in UK corporates
- Credit supporting these corporates (including private credit funds and substitutable products like leveraged loans and high-yield bonds)
- Private credit funds lending to investment grade or non-PE-owned corporates.

## Scenario

The SWES will evaluate the impact of a severe but plausible "global downturn" on firms and their portfolios and the actions they would take in response.

## Timeline

The exercise will take place over two phases, with firms updated on the behaviours and actions of others.

Interim findings will be published over the course of 2026, with the final report published in early 2027.

## Participants

Participants will include alternative asset managers, large banks providing credit to private market funds and PE-sponsored corporates, and institutional investors.

> "[The SWES] will aim to improve our understanding of the behaviour of banks and non-bank financial institutions (NBFIs) active in private markets in response to a downturn, and whether these interactions can amplify stress across the financial system and pose risks to UK financial stability and the provision of finance to the UK corporate sector."

**Bank of England SWES webpage**

December 2025

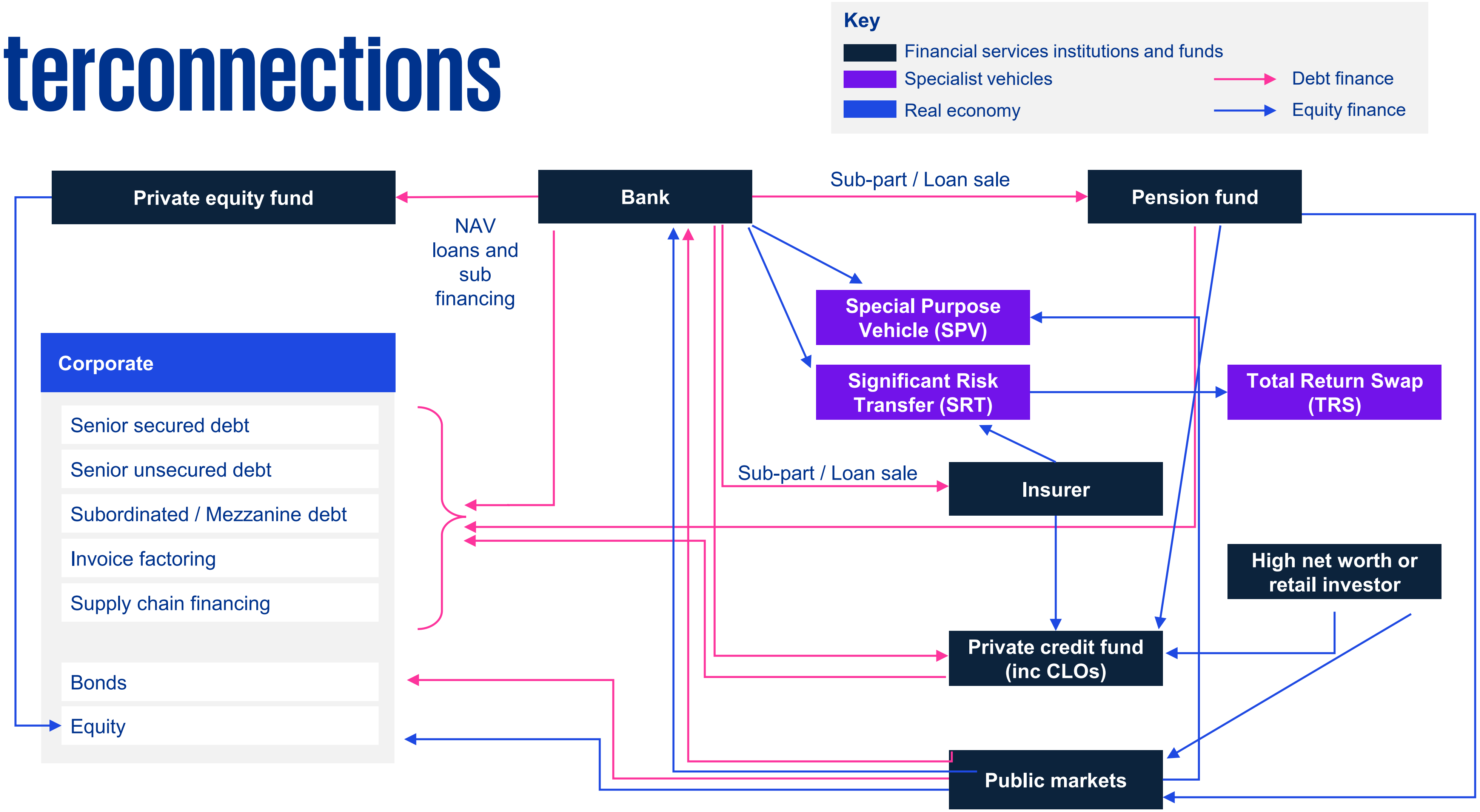
# Mapping interconnections

The SWES will focus on interactions between participants in the private markets ecosystem in the event of a global economic downturn.

This map aims to illustrate some of the key connections.

The roles of all participants shown here are likely to be examined in the SWES under the scenario of a global downturn, apart from public markets (which we have included here for completeness).

The following slide unpacks potential implications of the SWES in more detail.



# Initial perspectives and implications for firms

## Possible SWES areas of focus and outcomes

### Bank lending

One of the key unknown factors is how market participants will respond in a scenario where banks cannot, or do not wish to, continue to provide funding to other participants (see existing relationships on page 14). Potentially substantial credit price corrections might also create losses in exposures to private credit with illiquid positions in assets and collateral supporting them (see below).

### Market liquidity

The SWES may shed more light on the implications of a scenario where, under macro stressed circumstances, banks and credit funds are exposed to underperforming or stressed assets that cannot be refinanced or do not merit additional/extended exposure, and/or are forced to sell below book value. Although unwelcome, this scenario would be easier to manage for closed-ended funds or long-term holders of assets such as insurers or pension funds, compared with open-ended or semi-liquid funds which may experience redemption requests.

### Potential impact on the real economy

The BoE will be keen to understand the impact of stress in private markets on the real economy, especially given the increasing importance of private credit funds as a source of finance for UK corporates. A wider reassessment of credit quality could ultimately result in higher borrowing costs for the real economy and reduced lending by banks and funds. Understanding market participants' appetite to continue lending in a macro downturn will be critical.

### Potential policy implications

Although the outcomes of the exercise remain to be seen, there could be a finding from the SWES around the perceived and potentially observed complexity and opacity of existing arrangements. This might lead to suggestions that regulators should require increased transparency over firms' and funds' exposures, or that existing arrangements are too complex to manage and supervise effectively. The FCA has plans to review AIFMD reporting, while the EU will expand existing reporting requirements under AIFMD II.

## Preparing for the SWES

**Portfolio aggregation and data collation:** Private markets are more complex than public markets. Fund managers may find it challenging to aggregate exposures and performance for funds, strategies and portfolios across managers and jurisdictions, with reference to UK assets, in the format which the BoE requires. This will especially be the case for larger managers where investments are split and allocated across various funds.

**Resources** will be required to gather and aggregate the data needed to respond to the BoE's request. This could be time consuming depending on firms' individual arrangements, systems and exposures.

**Assumptions:** Firms will need to think carefully about their assumptions when responding to changing scenarios and consider whether their response is realistic and calibrated appropriately.

**Scenario analysis outputs:** Firms will likely need to perform some form of quality assurance over their proposed response to the BoE.

## Beyond the SWES

**Risk management arrangements:** The SWES may prompt firms to reconsider oversight of their relationships and exposures and whether enhancements are needed. Additional steps that firms can consider now are outlined on pages 8-11.

# How KPMG can help

# Our services

**There are various ways that KPMG in the UK can support you with responding to recent market events to help uplift aspects of your private credit business and meet regulators' expectations.**

## Transformation services

KPMG consulting professionals can apply private asset sector knowledge and technology solutions to help deliver lasting results. This includes third party system selection and implementation support for covenant data ingestion, reporting and monitoring solutions, and integration into existing systems architecture. In addition, we can help with credit policies, limit frameworks, and defining risk appetite statements.

We can also help with process re-design to support enhanced control operating model across front-to-middle-back office, as well as data architecture and mapping re-design and implementation to support data flow improvements from deal origination to investment exit.

## Due diligence

Our professionals within transaction services offer due diligence services throughout the lifecycle of a transaction.

We can provide insights into borrowers and their platforms, ranging from governance to data checks, focussing on the existence and encumbrance of assets pertaining to recent market events.

We can design bespoke due diligence arrangements and coordinate and bring in experience from other KPMG member firms in the global organisation to help mitigate underlying risks in portfolios.

## Valuation services

KPMG firms can provide robust advice on valuation matters across multiple sectors, deal stages, and client types. Using the latest data analytics, simulations and visualisation tools, KPMG professionals can address the most complex modelling and valuation issues.

## Risk and regulation

We can support compliance with relevant regulatory requirements, meeting regulators' expectations and designing risk management functions that align with leading practice. This includes enhancing governance arrangements and MI, and the design of stress testing.

## Forensic services

UK firm specialists can help you detect, prevent and plan for vulnerabilities and potential defaults and bankruptcies in the private credit market, as well as advising on disputes if or when they arise.

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