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Increase in NBFI Assets Reflects Strong Investment Markets, Not Systemic Risk

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Key Takeaways

- NBFI's share of total financial assets has risen since year-end 2023 in both the US and Euro area, but the composition of that increase matters more than its size.
- In both regions, equity investment funds and ETFs are driving much of the increase in NBFI aggregate metrics.
- These products, however, are explicitly excluded from the FSB and IOSCO revised international liquidity risk management framework and do not feature in the interconnectedness analysis that defines how regulators currently assess financial stability risks from the non-bank sector.
- Including equity investment funds in an NBFI aggregate and then citing to that aggregate metric as evidence of systemic threat, while regulators' own frameworks exclude them from systemic risk assessment, is not a coherent position. The two cannot both be right.
- Policymakers should assess NBFI risk at a more granular level, not in the aggregate.

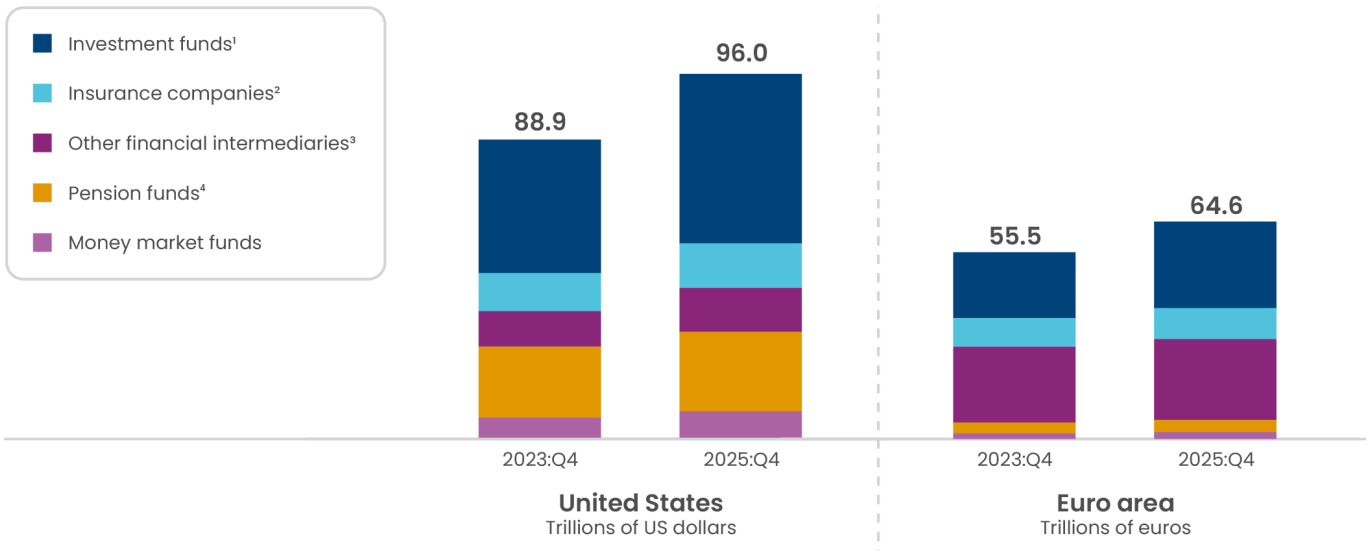
In a 2024 Viewpoints post, we showed that despite substantial growth in absolute terms, non-bank financial intermediation's (NBFI) share of total financial assets had remained broadly stable in both the United States and the Euro area since 2015. Updating that analysis through to year-end 2025 reveals a 3.7 percentage point (pp) rise in the NBFI share in both the United States and Euro area since year-end 2023. Policymakers have

cited this increase as evidence of growing systemic risk.[1] The data tell a different story.

NBFI Has Grown—So Has the Rest of the Financial System

NBFI assets increased in both regions between year-end 2023 and year-end 2025—from $88.9 trillion to $96.0 trillion in the United States, and from €55.5 trillion to €64.6 trillion in the Euro area (Figure 1). In both regions, total financial assets grew at a comparable pace. A sector growing in line with the broader financial system is not evidence of accumulating systemic risk, which is precisely why scale alone is the wrong metric.

Figure 1: Euro Area and US NBFI Assets Have Increased in Absolute Terms...
Assets, year-end



[1]Investment funds in the United States are composed of the following entities: mutual funds (Table S124.1.s, line 1), closed-end funds (Table S124.2.s, line 1) and ETFs (Table S124.3.s, line 1) are from the Federal Reserve Board's Financial Accounts of the United States ("flow of funds"); and net assets of hedge funds and private equity funds are from the Securities and Exchange Commission's (SEC) Private Funds Statistics (Form PF). Investment funds in the euro area are composed of open-end funds, closed-end funds, ETFs, hedge funds, and private equity funds from Eurostat.

[2]Insurance companies in the United States are composed of property-casualty insurance companies (Table S1282.1.s, line 1) and life insurance companies (Table S1281.1.s, line 1) from flow of funds. Insurance companies' holdings of money market funds (Table S1281.1.s, line 16, and Table S1282.1.s, line 15) and mutual funds (Table S1281.1.s, line 17, and Table S1282.1.s, line 16) are excluded from the data because they are already accounted for in the investment funds category.

[3]Other financial intermediaries in the United States are composed of the following entities: issuers of asset-backed securities (Table S125s1.3.s, line 1), finance companies (Table S125s2.1.s, line 1), real estate investment trusts (REITs) (Table S124.4.s, line 1), security brokers and dealers (Table S125s3.s, line 1), and other financial business (Table S127.2.s, line 1) from flow of funds. Other financial intermediaries in the euro area are composed of other financial intermediaries (Table s125) and captive financial institutions and money lenders (Table s127) from Eurostat.

[4]Pension funds in the United States are private and public pension funds (Table S129.s, line

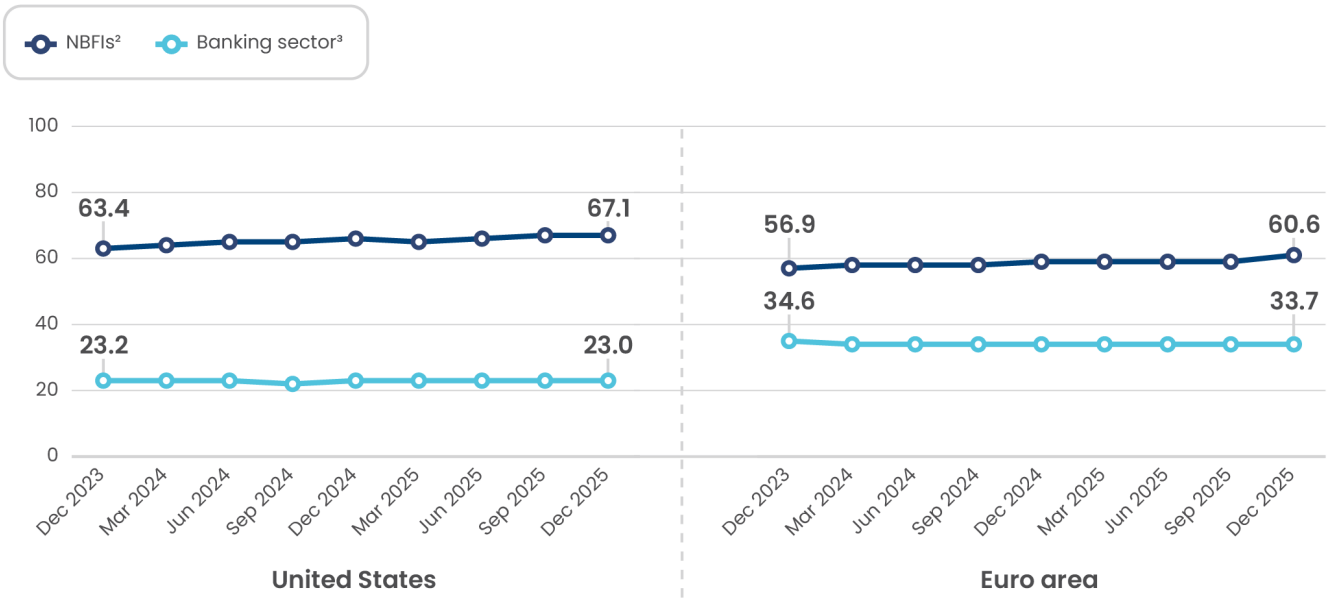
1) from flow of funds. Pension funds' holdings of money market funds (Table S129.s, line 15) and mutual funds (Table S129.s, line 16) are excluded because they are already accounted for in the investment funds category.

Source: ICI calculations of data from ECB Statistical Data Warehouse, Federal Reserve Board, and SEC

NBFI's Share of Total Financial Assets Has Risen—but for Benign Reasons

In the United States, NBFI's share rose from 63.4 percent at year-end 2023 to 67.1 percent by year-end 2025, a 3.7pp increase. In the Euro area, the increase was of a similar magnitude—from 56.9 percent to 60.6 percent over the same period (Figure 2). That increase warrants examination, but the relevant question should be: what is driving this increase?

Figure 2: …And Have Increased as a Proportion of Total Financial Assets[1]
NBFI and banking sector share of total financial assets, percent, quarter-end



[1]Total financial assets in the United States is composed of domestic financial sectors (Table S12.s) less insurance companies' and pension funds' holdings of money market funds and mutual funds from flow of funds plus net assets of hedge funds and private equity funds from Form PF. Total financial assets in the euro area is total financial assets of financial corporations (Table s12).

[2]NBFIs closely follow the FSB definition and include the following entities: money market funds, investment funds, other financial intermediaries, pension funds, and insurance companies.

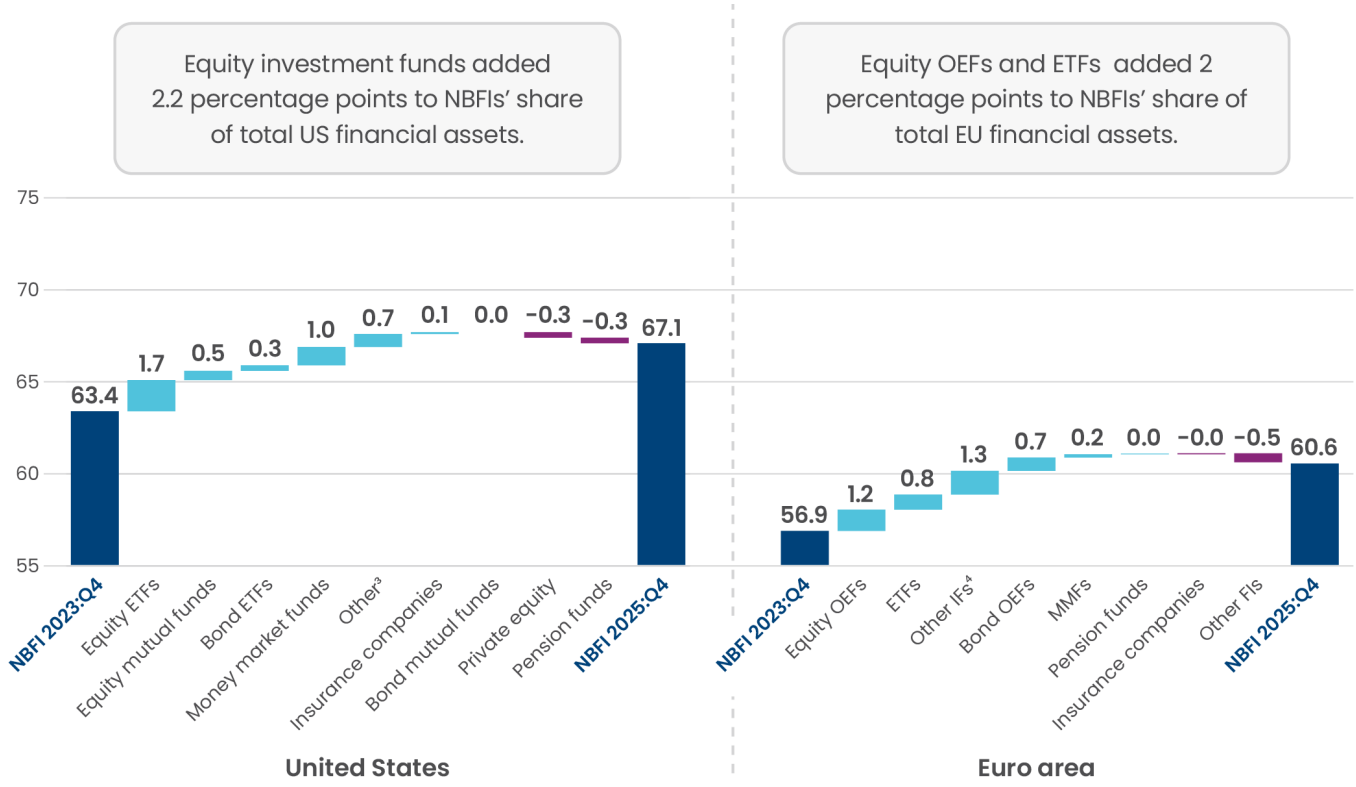
[3]The banking sector in the United States is composed of private depository institutions (Table S122.s, line 1) and holding companies (Table S127.1.s, line 1) from flow of funds. The banking sector in the euro area is composed of monetary financial institutions less central bank assets and money market funds from Eurostat.

Source: ICI calculations of data from ECB Statistical Data Warehouse, Federal Reserve Board, and SEC

Equity Investment Funds Are Driving the Increase and That Should Not Concern Regulators

A detailed decomposition reveals a consistent story on both sides of the Atlantic. In the United States, equity investment funds—equity ETFs (+1.7pp) and equity mutual funds (+0.5pp)—together contributed 2.2pp, or 60 percent of the 3.7pp total rise.[2] In the Euro area, equity open-end funds (+1.2pp) and ETFs (+0.8pp) contributed 2.0pp, or 54 percent of an equivalent rise.[3] In both regions, every other major component of NBFI contributed either negligibly or as a net offset (Figure 3).

Figure 3: Equity Investment Funds and ETFs Significantly Contributed to the Increase in the NBFI Share[1] Over the Past Two Years
Change in NBFI share between Q4 2023 and year-end 2025 by component, percent[2]



[1]NBFIs closely follow the Financial Stability Board (FSB) definition and include money market funds, other financial intermediaries, pension funds, insurance companies, and investment funds.

[2]Changes in equity ETFs (Table S124.3.s, line 10), equity mutual funds (Table S124.1.s, line 16), MMFs (Table S123.s, line1), bond ETFs (Table S124.3.s, line 14), pension funds (Table S129.s, line 1), insurance companies (Table S1281.s, line 1 & Table S1281.2.s, line2), and bond mutual funds (Table S124.1.s, line 19) are calculated from the Federal Reserve Board's Financial Accounts of the United States ("flow of funds"); and private equity funds are calculated from the SEC's Private Funds Statistics Report (Form PF). Changes in equity OEFs, ETFs, bond OEFs, MMFs, pension funds, insurance companies and Other FIs are calculated from Eurostat.

[3]Other includes closed-end funds, hybrid ETFs, hybrid mutual funds, commodity ETFs, hedge funds, and other financial intermediaries. Other financial intermediaries consist of issuers of asset-backed securities, finance companies, real estate investment trusts, security brokers and dealers, and other financial business.

[4]Other IFs include mixed OEFs, real estate OEFs, hedge fund OEFs, other OEFs, closed-end funds and private equity as classified by the ECB Statistical Data Warehouse.

Note: Components may not sum to the total change due to rounding.

Source: ICI calculations of data from ECB Statistical Data Warehouse, Federal Reserve Board, and SEC

This matters because equity investment funds are explicitly excluded from the US, European and international regulatory frameworks through which NBFI growth is assessed as a potential a systemic threat. The FSB's own "shadow banking" monitoring framework, established as far back as 2013, excluded equity funds from its narrow measure on the grounds that they have "no direct relation to credit intermediation"—the activity that gives rise to bank-like financial stability risks.[4] The FSB and IOSCO's revised liquidity risk management recommendations reflect the same logic, explicitly stating that their scope is "…not applicable to ETFs…"[5] The same conclusion follows from the system-wide modelling exercises that regulators now use to map how stress transmits across financial markets and institutions: equity ETFs and equity mutual funds lack the funding relationships, counterparty exposures, and asset holdings that characterize the vehicles regulators are concerned about.[6]

What the data do reveal, however, is that the aggregate NBFI statistics some policymakers cite as evidence of growing systemic risk is, in both regions, overwhelmingly driven by growth in equity investment fund assets—a category explicitly absent from both the FSB and IOSCO's liquidity risk framework and the BOE's interconnectedness analysis. Counting those assets toward an NBFI total and then citing that total as a systemic threat is not a coherent position. The two cannot both be right.

The growth in equity investment funds that has driven the recent increase in NBFI's share of total financial assets in the United States and Euro area is not a warning sign —it is evidence of investment markets functioning as intended, generating returns for the millions of Americans and Europeans saving for retirement and other long-term goals. As policymakers refine their focus toward the interconnections between NBFI and the banking system as the primary channel of systemic risk, the composition of the growth in NBFI matters as much, if not more. A framework built on granular, vehicle-level analysis, rather than aggregate size metrics, would better reflect the diversity of the NBFI sector and incorporate current regulatory thinking regarding the role equity investment funds play in assessing financial stability risk.

Notes

[1] See Financial Stability Board (FSB), "Global Monitoring Report on Non-Bank Financial Intermediation 2025," December 2025; International Monetary Fund (IMF), "Global Financial Stability Report," October 2025; European Central Bank (ECB), "Financial Stability Review,"

May 2026; and European Systemic Risk Board (ESRB), "EU Non-bank Financial Intermediation Risk Monitor 2025," September 2025.

[2] Money market funds (MMFs) also contributed 1.0 percentage point to the increase in US NBFI's share of total financial assets over this period. MMFs are not discussed since they are subject to a dedicated and separate regulatory regime—including the FSB's 2021 MMF policy proposals and subsequent national implementations—that specifically addresses their structural features and any associated financial stability considerations.

[3] ETF data for the Euro area are sourced from the ECB's Investment Funds Balance Sheet Statistics (IVF dataset), which reports ETF assets at the total level and does not provide a breakdown by underlying asset class. As a result, the Euro area ETF contribution reported here includes both equity and non-equity ETFs. This contrasts with the United States, where Federal Reserve Flow of Funds data permit identification of equity ETFs separately. To the extent that a portion of the Euro area ETF figure reflects non-equity exposures, the contribution of equity investment funds to the Euro area NBFI share increase reported above may be marginally overstated.

[4] See FSB, "Global Shadow Banking Monitoring Report 2013," November 2013; and FSB, "Global Shadow Banking Monitoring Report 2014," October 2014

[5] See International Organization of Securities Commissions (IOSCO), "Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes," Final Report, November 2024. The revised recommendations explicitly state that their scope "is not applicable to ETFs and MMFs," reflecting the structural distinction between ETFs and other open-ended funds with respect to liquidity mismatch and first-mover advantage dynamics. Also, see FSB, "Revised Policy Recommendations to Address Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds," December 2023.

[6] See Bank of England, "System-Wide Exploratory Scenario: Final Report," November 2024, which centred its analysis on leveraged positions and funding relationships as the primary transmission channels of systemic stress - equity ETFs and equity mutual funds — which carry no leverage and have no material funding relationships with bank balance sheets — do not feature in that transmission story; Also see International Monetary Fund, "Systemwide Stress Test at the IMF: Integrating Nonbank Financial Intermediary Risks", IMF Working Paper WP/26/170, August 2026, which identifies the primary transmission channels of systemic NBFI risk as leverage, repo markets, margin and collateral calls, and derivatives exposures;

Also see ICI Viewpoints, "What the Bank of England's System-Wide Exploratory Scenario Exercise (SWES) Tells Us," 2025.

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