

## Alternative Credit Council Summary Note - Private Markets System-Wide Exploratory Scenario (SWES)

Why is the Bank undertaking a SWES focused on private markets?

Policymakers undertake a SWES to help them understand how different parts of the financial markets and whether interactions across the system could amplify stress and pose risks to UK financial stability or to financing for UK corporates.

Private credit and private equity markets have grown rapidly, becoming a major source of financing for UK businesses. Policymakers, including the Bank of England, believe there are some data gaps with respect to leverage, valuations, liquidity management and interconnections with banks, insurers and public credit markets that make it difficult for authorities to fully assess systemic risks.

The SWES addresses this by examining the ecosystem holistically and assessing how stress could propagate across private and public markets and into the real economy.

The exercise is intended to build understanding of market dynamics, not to cast a view on the markets themselves – much like the first SWES on the UK gilt and Treasury markets, which was not taken as a critique of any type of market participant or strategy.

How does this SWES differ from traditional stress tests?

Unlike firm-specific regulatory stress tests, the SWES is not a test of individual firm resilience. Instead, it is a system-wide analytical exercise designed to understand the *collective actions* of institutions and the feedback loops that may arise during a downturn. It brings together information from across the ecosystem to analyse behaviours that cannot be captured through siloed or model-based approaches.

What questions will the exercise seek to answer?

The SWES aims to explore:

- The resilience of the provision of private market and related public market finance (including via leveraged loans and high-yield bonds) to the UK corporate sector
- How financial institutions active in private markets respond to a significant economic downturn
- How their actions interact at the system level
- Whether such interactions could transmit or amplify stress within private markets or the broader financial system
- The consequences for the availability and resilience of finance for UK corporates

Who is participating in the Private Markets SWES and why?

Participation is voluntary and includes key actors across private markets, specifically:

- Asset managers investing in private credit, private equity, broadly syndicated loans and CLOs
- Large banks that lend to both private markets funds and PE-backed corporates
- Institutional investors that provide capital to private and related public markets

A range of asset managers active in UK private markets have already agreed to participate, representing a significant share of assets and investment strategies in the sector.

What markets and asset classes are in scope?

The SWES focuses on parts of private markets most relevant to UK financial stability and corporate financing, including:

- UK PE-backed corporates
- Credit supporting those corporates, including:
  - Private credit funds
  - Leveraged loans
  - High-yield bonds
- Private credit provided to investment-grade or non-PE-owned corporates

The SWES will not assess venture capital, growth equity or UK commercial real estate.

What will participating firms be asked to do?

Participating firms will model the impact of a prolonged global economic downturn on their relevant portfolios and identify the actions they would take in response.

This includes:

- Assessing portfolio impacts
- Outlining expected management actions under stress
- Providing data for system-wide analysis

The exercise will run in two rounds, with firms able to adjust responses once they receive insights on the behaviours of other market participants.

Participants will be asked to contribute by:

- Providing data and assessments of the downturn's impact on their portfolios
- Explaining how they expect to act under stress
- Giving feedback on scenario design and interim findings

- Helping authorities understand potential system-wide behaviours and vulnerabilities

The exercise is collaborative and designed to minimise burden on firms, while ensuring analytical rigour.

Is there any benefit for participating firms or the private markets industry?

Participants gain:

- Insight into how their own actions interact with those of other institutions in stress
- Greater transparency on system-wide dynamics
- Early visibility of emerging supervisory priorities
- A platform to help shape the scenario and analytical approach to understanding systemic risk

These benefits support improved internal risk management and industry understanding of system-wide risks.

For the private credit industry, the SWES offers an opportunity to demonstrate, with independent supervisory analysis, the resilience and performance characteristics that the ACC's work has highlighted over the past decade.

By providing a clearer picture of underlying portfolio dynamics, funding structures and risk management, the exercise can help address persistent misconceptions about the sector's systemic footprint and contribute to a more evidence-based understanding of its role in financial stability.

How will the Bank use the findings?

The SWES will help:

- Identify system-wide vulnerabilities across private market finance
- Analyse how stress may propagate to or from private markets
- Assess implications for financial stability and UK corporate financing
- Inform future policy, supervisory focus, data collection and international engagement

Only aggregated system-wide insights will be published. Published material will not provide information on any individual firms and no firm-level or commercially sensitive information will be disclosed.

Over what timeline will the SWES take place?

During the second half of 2025 the Bank of England has engaging with asset managers to gather information to help design the stress scenario.

In Q1 2026 the Bank of England will launch the stress-scenario phase. There will then be two rounds of firm submissions and feedback provided to participants. The Bank of England intends to publish initial findings in Q3 2026 with a publication of the final report in early 2027.

Is this a regulatory assessment of individual firms?

No. The SWES does not evaluate individual firm resilience, capital strength or regulatory compliance. Its purpose is to understand system-wide dynamics, market functioning and cross-sector interactions in stress, not to assign firm-level judgments.

How does this SWES relate to the first (public-market) SWES?

The private markets SWES builds on the Bank's first SWES, which assessed stresses in sterling rates and corporate bond markets. The new exercise extends the approach to private markets – seeking system-wide insights in a sector where data gaps, heterogeneity and leverage structures make risk transmission less well understood.

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