

Hedge funds are a risk

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I've been reading the [report](#) of the Financial Stability Forum on hedge funds. The UK and USA might be resisting Germany's call for more regulation of this sector, but the FSF makes a compelling (if muted) case for regulation. As their press release says:

Given the importance of strengthening protection against systemic risks, the FSF makes the following five recommendations to support and where relevant build upon ongoing supervisory and private sector work:

- 1. Supervisors should act so that core intermediaries continue to strengthen their counterparty risk management practices*
- 2. Supervisors should work with core intermediaries to further improve their robustness to the potential erosion of market liquidity*
- 3. Supervisors should explore and evaluate the extent to which developing more systematic and consistent data on core intermediaries' consolidated counterparty exposures to hedge funds would be an effective complement to existing supervisory efforts*
- 4. Counterparties and investors should act to strengthen the effectiveness of market discipline, including by obtaining accurate and timely portfolio valuations and risk information*
- 5. The global hedge fund industry should review and enhance existing sound practice benchmarks for hedge fund managers in the light of expectations for improved practices set out by the official and private sectors.*

The FSF underscores the importance of ongoing cooperation among financial authorities in taking forward these recommendations and in spreading good practices.

Read that another way and they're saying that all the arguments about hedge funds creating liquidity in the market are threatened by excessive exposure by banks to these institutions and a lack of transparency and accountability by these bodies to anybody and everybody.

In the circumstances I'm with the Germans on this, and regret that their efforts to regulate this sector look certain to fail. As my mother used to say, this could end in tears.