

Without data, the risk of a crash cannot be managed. We...

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The City is quietly panicking over the fact that AI losses might already be muting in the shadowy world of shadow banking. As The Telegraph reports this morning:

The \$2tn (£1.5tn) private credit industry is being quizzed by the City watchdog over fears its unrecognised losses could fuel a financial system meltdown, The Telegraph can reveal.

Officials from the Financial Conduct Authority have in recent weeks been piling pressure on so-called shadow banks – an increasingly critical source of funding for [the speculative AI boom](#) – to more rigorously mark down the value of loans that are at risk of not being repaid in full.

The FCA's confidential discussions were revealed by City sources amid growing concern about the rapid rise of private credit funds, which compete with traditional banks to make loans to companies. Private credit assets will be worth almost \$4tn by 2030, according to a recent report by Moody's.

Three things are worth noting.

First, shadow banking is popular. The scale of its investments is forecast to double between now and 2030. Reduced accountability coupled with lower regulation appeals in the murky world of finance.

Second, supposedly, the same accounting rules apply to loan recognition in regulated banks and shadow banking. The clear implication of the report is that no one thinks they are being treated in the same way, across the board. That requires auditor cooperation, then: shadow banking is still subject to the full audit regime. Who would have thought the audit profession might be involved in another scandal in the making?

Third, without data, the risk of a crash cannot be managed. We might be flying blind already.