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Chicago Fed and Yale Program on Financial Stability Host Inaugural Joint Conference on Financial Crises

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On February 19, 2026, the Federal Reserve Bank of Chicago hosted its inaugural Joint Conference on Financial Crises with the Yale Program on Financial Stability. This event's theme was Liquidity Provision to Nonbanks, and it provided expert practitioners, policy professionals, and academics the opportunity to discuss topics that benefit from a broad range of perspectives. The conference was held under the Chatham House Rule, with no press in attendance, to encourage participants to speak candidly. In this article, we summarize key insights from the event.

Nonbanks are a diverse and important part of financial system intermediation

The term "nonbanks" represents a wide range of financial market participants that play a role in financial market intermediation: from insurance firms to asset managers to financial market utilities. While their roles are diverse, they generally share a few common characteristics that make them different from banks: They do not take insured deposits, and they fall under different regulatory regimes compared with banks. In the U.S., nonbanks generally lack ready access to central bank liquidity tools, such as the Federal Reserve's discount window.[1]

Nonbank liquidity needs are important for central banks to examine for two key reasons. First, nonbanks are a large part of the global financial system. In particular, they play a key role in intermediation and risk management of markets that are critically important to central banks, including sovereign debt and short-term funding markets. At the event one participant highlighted research from the Bank of International Settlements showing that in major economies nonbanks now have more financial assets than banks.

Second, nonbanks often rely on banks for unplanned or urgent liquidity needs. In times of financial stress, nonbanks' demand for liquidity could spill over to the banking system because banks often provide credit lines to nonbanks for their liquidity needs. As one participant stated, "banks are the lender of last resort for nonbanks." Nonbanks such as hedge funds also rely on banks for prime brokerage and could see these services cut during periods of stress, forcing these firms to rapidly reduce their debt levels and potentially cause fire-sale dynamics or stress in other critical markets (Ulland, 2025). As another participant put it, nonbanks face a "triangle of vulnerabilities"—liquidity risk, leverage, and interconnectedness with other financial institutions.

Nonbanks use several tools to self-fund their liquidity needs in times of stress

Throughout the day, participants discussed the tools that nonbanks rely on for their short-term liquidity needs. They tend to use a common set of tools—cash on hand, sales of liquid assets like U.S. Treasury securities, repurchase agreements (repos), and drawdowns of credit lines with banks. For regulated nonbanks, the size and composition of these tools is a function of the regulatory requirements they must meet for managing liquidity risk.[2] Still, some participants noted that the elasticity of the central bank balance sheet can't be replicated by other institutions in the economy in providing liquidity to nonbanks during times of crisis.

Central banks rely on a range of approaches to address nonbank liquidity needs

Central banks can use a range of approaches in providing liquidity to nonbanks, but notably, they must take into account two sets of trade-offs: whether to provide assistance indirectly or directly and whether to announce availability of such assistance ex-ante or ex-post.

- *Indirectly versus directly.* Under a direct approach, central banks could offer tools that provide liquidity to the affected nonbank institutions. A prominent current example is the use of repurchase operations with broker-dealers, such as the Federal Reserve's standing repo operations. However, nonbanks that do not have ready access to this type of central bank tool can still indirectly benefit from it. In the case of one type of nonbank, central counterparties (CCPs),[3] much of the transaction volumes they clear are facilitated by broker-dealers or banks in their respective jurisdictions. A central bank tool that provides liquidity to these broker-dealers or banks can indirectly mitigate liquidity risks that the central counterparty may otherwise bear in times of stress. One participant suggested that banks' use of the Fed's discount window facilities to increase lending to nonbanks could also be an indirect way to meet nonbank liquidity needs in times of stress; however, that would likely only be possible in large volumes if such facilities had low stigma.
- *Ex-ante versus ex-post.* Some central banks have ex-ante tools in place to provide liquidity to a narrow set of nonbanks. Two examples mentioned at the conference are the Bank of England's Contingent Non-Bank Financial Institution Repo Facility (CNRF) and the European Central Bank's CCP credit facility. For such standing tools, one participant noted that their sole objective is to support critical markets in their respective jurisdictions, not the nonbanks themselves, and that having ex-ante tools in place before a stress event to provide liquidity to nonbanks is a means to that end.

  In contrast, some central banks, such as the Federal Reserve, appear to have a de facto ex-post approach to nonbank liquidity facilities or tools, meaning that they are not standing and are deployed only in response to stress events that appear to be systemic. Participants noted that one challenge with this approach is that there may initially be confusion on the terms and conditions of the facilities and how to use them, including how to access them or how to read the collateral schedules. Such hurdles to operational implementation can affect a facility's timely use and its effectiveness. Participants also discussed the value of large-scale asset purchases as an ex-post tool to support market functioning.[4] While such asset purchases may provide fast and effective relief to market dysfunction, they can be more difficult to unwind than lending facilities. Clear communication is also important to separate monetary policy implementation from the financial stability crisis response.

Moral hazard is a key concern with lending tools

When it comes to liquidity provision tools for nonbanks, central bank officials often cite concerns over moral hazard, which in this case is the possibility that a firm will assume additional risks because they expect they will be bailed out if things go wrong. A desire to minimize moral hazard can drive central banks to refrain from explicit communication about their liquidity tools ex-ante and instead to rely on ex-post approaches when they determine the circumstances warrant. However, there is a trade-off in risks between moral hazard and operational readiness—having the people, process, and technology in place to use the liquidity tool. In addition, once a tool is deployed for one stress event, market participants may perceive that this ex-post tool could be used again in future stress events, which can then introduce moral hazard.

One central bank participant outlined four principles they use to guide the design and implementation of liquidity backstop tools to mitigate moral hazard. The first is to clearly communicate that the tool is a contingent tool intended to support the market, not individual firms. The second principle is to price these tools punitively rather than use market-based pricing. The third is to demand collateral for the loan and apply a haircut on the value of the collateral. The final principle is to ensure that firms that can access the liquidity tools are regulated by a domestic government agency. Throughout the day, conference participants emphasized this last principle as a key prerequisite: Many stressed that to be considered for backstop liquidity tools, nonbanks must be able to demonstrate to their regulator that they have sufficient capital, possess access to other liquidity tools, and consistently comply with other applicable regulations, such as consumer protection and fraud rules.

Critical nodes can amplify or reduce liquidity demands from nonbanks

The liquidity needs of nonbanks can disrupt all three stages of the typical financial transaction life cycle—trading, clearing, and settlement—and have negative feedback loops to firms that serve as critical nodes in each stage, amplifying financial stresses. Critical node firms include dealers, central counterparties, and large banks.

In the United States, the Fed's primary dealers play a key role in implementing monetary policy and intermediating between the central bank and financial markets. The conference participants assessed the role that market intermediaries such as primary dealers play in getting liquidity from the central bank to nonbanks in the U.S. financial system during times of financial stress. Some participants noted that in March–April 2020, when there was market stress, several factors prevented primary dealers from intermediating between the central bank and nonbanks as effectively as they might have. Some of these factors were dealer balance sheet and leverage constraints; market structure frictions, such as lack of netting and clearing; and deleveraging and margin dynamics. Participants noted that market structure changes since then—including the U.S. Treasury clearing mandate, changes to the enhanced supplementary leverage ratio (eSLR),[5] and expansion of Fed repo operations and counterparties—have improved primary dealer intermediation capacity on the margin.

Central counterparties can play a role in both reducing and amplifying market liquidity risk. Dealers that novate transactions to a central counterparty can net down their exposure, which creates capacity for more trading activity between dealers and their nonbank clients. However, during periods of market volatility, central counterparties may require more margin from market participants. This could create an additional source of liquidity demand that can potentially strain liquidity conditions for nonbanks. If a large dealer then defaults on its variation margin obligations to the central counterparty, the central counterparty itself could face a sudden shortfall of liquidity to meet its margin obligations to others, which could pose systemic risk (see also note 3). In that case, the central counterparty would rely on its own funding tools (e.g., credit lines). In extreme but plausible scenarios, these funding sources could be insufficient. Some participants noted that in some countries ex-ante backstop liquidity tools for central counterparties exist, but the approaches to providing liquidity for them are not uniform across jurisdictions. They also pointed to Title VIII of the Dodd–Frank Wall Street Reform and Consumer Protection Act in the U.S., which provides the authority for such liquidity provision, subject to stringent conditions, during "unusual or exigent circumstances."

Critical node firms face challenges to their ability to provide effective intermediation, manage risks, and facilitate transaction settlement. This ability involves the timing and speed of intraday cash flows, risk limits, clearing capacity, and the sheer scale of U.S. Treasury outstanding supply compared with intermediation capacity. In fact, an audience poll revealed that the dominant concern over intermediation capacity in the U.S. was the growth trajectory of the size of the Treasury market. The Congressional Budget Office estimates U.S. Treasury debt held by the public will grow to 120% of gross domestic product (GDP), or around $56 trillion, over the next decade—up from 101% of GDP, or around $32 trillion, in 2026.

Will stablecoin issuers someday seek central bank liquidity in times of stress?

Conference participants developed a similar set of insights for stablecoin issuers, an emerging class of nonbanks that may face contingent liquidity needs in times of stress. Participants drew parallels between stablecoins and money market mutual funds, as stablecoins are a financial instrument not backed by deposit insurance but instead by a pool of relatively safe and liquid assets and that promises on-demand redemption at full face value. These features could mean they might pose some liquidity demands similar to those of money market funds that received Fed liquidity backstops during the financial crisis in 2008 and in 2020. However, the extent to which they pose material vulnerabilities depends on the regulatory guardrails that are imposed by regulators at the federal banking regulatory agencies as part of the implementation of the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act).

One key vulnerability of stablecoins is the "technology mismatch" cited by one of the speakers. Stablecoins can be traded on secondary markets and redeemed on a 24/7 basis on a blockchain (subject to constraints imposed by exchanges). However, the underlying assets that a user receives upon redemption are still subject to the more limited hours of the traditional payments system; for example, the Fedwire Funds Service operates on a 22/5 basis (see figure 1 of DeCarlo, 2026). This means, for instance, that a market participant wishing to liquidate their stablecoin holdings on a Saturday could initiate that redemption request on the blockchain but still have to wait until the traditional payments system opens on Sunday night to receive cash in their bank account. Other potential vulnerabilities of stablecoins are whether the reserve assets backing stablecoins are exposed to potential runs and how regulation aimed at ensuring convertibility at par (full value) will develop in this area.

One participant noted that central banks should consider several conditions under which they should make backstop tools available to stablecoin issuers: how integral they are to the payment system; whether capital and liquidity requirements are sufficiently robust; and whether they adhere to strong anti-money-laundering and consumer protection provisions. Other participants said that in the U.S. it is unclear under which authority the Federal Reserve could provide liquidity to stablecoin issuers. Some offered section 13(3) of the Federal Reserve Act as one possible avenue. Others raised the possibility of leaning on the Fed's lending authority in Title VIII of the Dodd–Frank Act, although this would first require that stablecoin issuers be designated as systemically important by the Financial Stability Oversight Council.

Conference identifies areas for future study

Conference participants, including academics, market participants, and policy practitioners, shared ideas for future work with those who have different functions or work in different jurisdictions. Some participants pointed out that further progress needs to be made to trace vulnerabilities and analyze contagion risks during financial stress scenarios, building on work such as the Bank of England's system-wide exploratory scenario exercise. Other participants stressed the need for more "lampposts" to shed light on data gaps in the nonbank financial institutions landscape. Finally, many noted the importance of analyzing and sharing knowledge from case studies collected in repositories, such as the Yale Program on Financial Stability's New Bagehot Project. Staff at the Federal Reserve Bank of Chicago plan to explore such efforts in the coming months to advance understanding of financial system stresses that originate from nonbanks and the potential role of the banking system and central banks to provide timely and effective responses.

Notes

[1] The Bank for International Settlements' Markets Committee provides other examples of such tools.

[2] For more on the regulation of nonbanks, see Su (2025).

[3] A central counterparty is a financial institution that stands between buyers and sellers in a transaction, guaranteeing performance of contracts. See Steigerwald (2013) for a primer on central counterparties and central clearing. In addition, the definitions of key terms related to CCP clearing (including clearing member and initial and variation margin) are available online from the Basel Committee on Banking Supervision.

[4] For more on the distinction between asset purchases conducted to support market functioning and asset purchases to facilitate accommodative financial conditions, see, e.g., Logan (2022).

[5] The federal banking agencies (the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency) issued the final rule reforming the eSLR for U.S. global systemically important bank holding companies (G-SIBs) on November 25, 2025. For more on dealer intermediation capacity, see Cochran et al. (2024).
