

Why regulators are in a bind over private credit

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In early 2024, Blackstone was breaking ground on its new London office. In attendance, Rishi Sunak, then-prime minister, reportedly joked: “Where’s my office?”

The quip set the tone for how UK politicians have looked at private markets in recent years. Unlisted assets - including those in the currently infamous private credit sector - were seen as key to revitalising moribund growth in the economy.

Fast forward to early 2026, and regulators aren’t so sure that optimism is justified. What started as the apparently idiosyncratic collapse of two US companies - First Brands and Tricolor - has morphed into something bigger after bridging lender Market Financial Solutions went to the wall last month.

Investors have fled the sector in such volumes that top fund managers have had to impose gates to stop withdrawal.

The trouble is, watchdogs are hamstrung by the political environment in which they operate, and the ever-changing sector of the sector itself.

Royal rumbles

The latest warning around the potential risks emerging in private credit came from the Bank of England on 1 April.

Imagine if inflation spiked - highly likely due to ongoing Iran war - and central banks were forced to raise interest rates again. Floating-rate lending could feel the strain, exacerbated by fears about how AI could impact the software companies that borrowed millions in private credit.

There are undeniably some competing interests between politicians and regulators here. Ministers wouldn’t want the City’s watchdogs to kill what has been a key driver of growth - the government’s oft-stated number one objective. But regulators are increasingly seeing the echoes of 2008, and wouldn’t want to be hauled in for being asleep at the wheel again.

The government has specifically promoted initiatives directed at private credit-adjacent areas too, like the Mansion House Compact, a flagship piece of policy to get 5% of default pension funds into unlisted assets.

“Competitiveness and growth is (officially) only a secondary objective, but all the rhetoric and political pressure pushes for it to be their prime aim. This creates impossible contradictions for regulators,” says Gavin Stewart, a former regulator. “Memory of 2008 has faded for most - industry, regulators, politicians, media - and few who really experienced it are still active. The pendulum is swinging - violently in the US, and sharply here - with regulation (not least post GFC measures) often portrayed as the villain.”

That’s not to say politicians face easy choices either. Banks - key lenders to private credit funds - have only just left taxpayer control. Regulators took most of the blame last time bailouts were needed, naturally, but Whitehall didn’t exactly come out of the financial crisis smelling of roses either.

Walking the tightrope

But what makes the job of regulators looking to stop a private credit blowup particularly difficult today is that their powers over the sector are limited, and using them comes with unpalatable consequences.



For example, regulators care about conflicts of interest. They said as much in a review last year; when assets are valued by the same firms that are managing the private credit funds, there are obvious incentives to mark their own homework favourably, or at a time that suits them best.

But the Financial Conduct Authority can't exactly stop private equity owners of software companies, say, also lending to them through their private credit arms, without ripping liquidity out of the system.

The FCA is not a price regulator, as it so often reminds everyone. You might think that private credit assets are grossly overvalued. The FCA's own economists might think the same. But that's a different thing to telling investors what their actual value is - which, even if they wanted to, would be a nightmare for regulators to do.

And for every investor about to complain they've been ripped off, there are others that see the market working exactly as it should, and would hate regulators to stop a buying opportunity.

"In 2008 we saw private equity step back from doing deals, even though it was the best investing window in a generation. I am not sure whether we'll see that with private credit if valuations fall heavily," says a senior financial services regulatory lawyer in the City.

Regulators need private credit firms to keep the system afloat given how far banks have retrenched from lending since 2008. But they also need them to cooperate while they figure out exactly what is going on.

The Bank and FCA are steadfastly avoiding giving any more information on their system-wide exploratory scenario and conflict of interests review respectively. If firms thought the kind of interactions they are having would get out into the public domain, they wouldn't be as keen to have them in the future, the watchdogs' argument goes.

Given regulators don't actually supervise a lot of what private markets firms do, they need those businesses to play ball even more than they need the cooperation of traditional finance firms or listed entities, given they are subject to long-established disclosure rules.

And the more you regulate, the more you move credit to areas that might be subject to even less regulatory oversight.

"A key question for me is whether bank regulation has made it harder for banks to provide credit, so we have created this separate channel displacing banks, but without yet knowing how it will react when stressed," says the senior financial regulatory lawyer.

Regulators have to answer that question, but might have to tread lightly as they do.