

Strengthening Private markets
1st July, 2025

Background

Established in 1961, the World Federation of Exchanges (WFE) is the global industry association for exchanges and central counterparties (CCPs). Headquartered in London, it represents over 250 market infrastructure providers, including standalone CCPs that are not part of exchange groups. Of our members, 37% are in Asia-Pacific, 43% in EMEA, and 20% in the Americas.

The WFE's 87 member CCPs and clearing services collectively ensure that risk takers post some \$1.1 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. WFE exchanges, together with other exchanges feeding into our database, are home to over 49,000 listed companies, and the market capitalisation of these entities is over \$116.58 trillion; around \$155 trillion (EOB) in trading annually passes through WFE members (at end 2024).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back 49 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators, and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair, and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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Introduction

Private markets have long fed into public ones but the balance between them is changing rapidly, making it timely to introduce monitoring that will support future policy choices internationally. Public markets serve as a critical component of a well-functioning capital market ecosystem, providing essential price discovery, liquidity, and transparency. Private markets complement this function by offering tailored funding solutions for companies, particularly at early stages of their development, before they are ready for public listing. Fostering a strong and mutually beneficial ecosystem that leverages the benefits of both market types is essential.

Supervisory scrutiny of private markets needs to be intensified, with better-targeted data. This can inform financial services regulation and also policy more broadly. The stakes are high, because private assets have grown rapidly, while targeting retail investors and attempting to formalise secondary trading. At the same time, the private-credit component has increased its profile, introducing new risks.

As part of its continuous assessment of how capital markets are working, the WFE is highlighting a set of issues that require closer attention in private investment markets. This is to ensure that they continue to complement public markets, while operating on a level playing field.

The growth of private markets has undoubtedly been aided by a low-interest rate cycle in recent years but fundamentally it is underpinned by relatively favourable treatment in regulation and other policies, notably tax.

Retail investors appear to be increasingly interested in investing in private markets but existing investments are generally only available to 'qualified' investors. However, in some jurisdictions, investment firms are beginning to offer funds and ETFs. Of course, the same transparency requirements must apply here as for all other investments, and the specific risks of investing in private and relatively illiquid companies must be clearly disclosed. Investments in private markets should be viewed as a distinct asset class – and also a portfolio-diversification option – from which retail investors should not be excluded.

Some national regulators are starting to look more closely at these markets and valuable work has been done by the international standard setters at IOSCO. But the rapid growth and other developments referred to above – and the ever-present need for international consistency of approach – means that redoubled efforts are appropriate.

Issues to address

While private equity and other channels can play an important role in financing businesses and providing investment opportunities, healthy capital formation and trading require careful management, especially when they involve assets and transactions that exist outside the lit, public markets that form the foundation for public participation in financing.

The following are key issues in relation to private assets.

- Secondary trading, in its various forms, needs to be quantified and assessed, in its own right and in terms of any interaction with public markets, with market integrity as the regulatory nexus.
- Scrutiny of disclosures policy is necessary, as retail access increases and as the burden on listed companies grows.
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- As secondary-market activity increases, it is important to understand potential spillovers into public markets. It is also necessary to recognise that private investment may in practice benefit from and even rely on hedges available for public stock indices. Secondary-market deals should be reported to supervisors, who should have powers to put the information into the public domain, where there is any potential relevance to price formation in public markets.
- The role of leverage in private investments needs to be followed more closely. As with OTC derivatives, it is hard to get a clear picture of aggregate exposures, which can trigger disturbances in banks and in funding markets more generally.
- Private credit should be scrutinised more systematically, with special vigilance where it is bundled with equity.
- Regulatory and tax policy should ensure that the balance between public and private markets is appropriate and does not introduce distortions.

To reiterate, all this matters because nothing is as effective as capital markets in promoting social welfare, and public markets are the gold standard in this regard.

Differences between Public and Private Markets

Public markets provide clear and up-to-date price signals about individual companies and, indirectly, an economy overall. On the other side, private investments are prone to stale valuations.¹ Public markets provide access to all investors and traders while ensuring transparency not just of asset prices but of underlying business activity, via disclosures. (Interestingly, some jurisdictions have ensured that sustainability disclosures do apply to companies above a certain size, whether listed or not).

Nevertheless, private markets support companies in the early stages of their life and constitute a staging post on a journey to the ideal position for a company, where it has access to cheaper funding and other, indirect benefits related to listing, including staff retention and brand recognition. The disciplines associated with raising private finance are significant and these allow companies to prepare for a time when they meet the high standards required of listed issuers.

While publicly listed assets are designed to be tradable, secondary private markets are not yet well developed, which raises questions about the extent to which they lend themselves to active secondary trading.

Also, private companies are typically leveraged more than listed ones, which may increasingly lead to challenges for the financial system.

Moreover, debt is sometimes used to finance dividends to PE holders, to the extent that they achieve their financial objectives. This practice may reduce the incentive for a PE firm to scrutinise investee companies, increasing the risk that they fail.

Private markets play a different if complementary role but enjoy benefits that mean the playing field is not always level.

- In some jurisdictions, ESG disclosures apply equally to private companies (above a certain size) and this is a good principle, to ensure fairness.

¹ David Ricketts, Financial News, February 2024 [fnlondon.com...Skagen funds boss sounds alarm over private markets – pricing is a real issue](https://www.fnlondon.com/articles/skagen-funds-boss-sounds-alarm-over-private-markets-pricing-is-a-real-issue/2024/02/24)

- While acknowledging the differences between them, policy makers should carefully consider the balance of tax benefits between public and private markets. Public markets can be a powerful source for long-term investment and growth just as much as private ones, and this should be reflected in tax policy.²

The Policy Dimension

Our case is as follows.

Regulators and policymakers have started examining private markets. IOSCO looked in 2023, since when the UK's FCA, France's AMF, Singapore's MAS and Australia's ASIC have all published papers on the subject and the IMF has warned about private credit more specifically.³ All this comes in response to the rapid growth of private market capital raising; while many public markets suffer outflows that diminish the appeal and role of capital markets.

This regulatory interest is to be commended. As stated above, private funding has a legitimate role to play and WFE's stock-exchange members work closely with the private equity world, to support companies as they move to a position where going public is an option. But there needs to be a balance.

Like banking, private funding can be an attractive option to some companies, depending on their stage of development. But private investment is used by institutional investors who ultimately serve end-investors, meaning that it is essential to have information on fees, expenses and performance (and, where it occurs, trading in a fund or its underlying assets). This is doubly true where corporate and fund vehicles are more directly accessible to retail.

Moreover, it is well known that the private equity model focuses on maximising immediate cashflow from investee companies. This can mean less emphasis on the longer-term perspective of a business. Stock markets have the capacity to support that long-term view, which matters for investors and also when one is talking about major structural changes to the way an economy functions, for instance via digitisation.

An associated issue is that PE can involve not just relatively high but hidden leverage. This can be harmful to the system, especially if it forms part of a wider credit bubble.⁴

What public and private markets have in common is that market-based finance is playing an ever more important role in helping society to prosper. In this context, we note:

- Fully transparent equity capital markets facilitate economic growth, simultaneously providing strong returns for long-term savers.
- Shares and bonds constitute a full suite of products to finance companies – new and old – and give investors a wide choice of investment opportunities.

² 'Carried too far...' Dan Neidle, March 2023 papers.ssrn.com/...

³ [IOSCO 'Thematic Analysis...'](#);

[FCA 'Private market valuation practices'](#);

AMF '[Performance of unlisted financial-asset funds aimed at non-professional clients](#)'

MAS proposes a regulatory framework for retail private market investment funds

ASIC '[Australia's evolving capital markets – the dynamics between public and private markets](#)'

IMF GFSR April 2025, chapter 1 [imf.org/...Global financial stability report – April 2025](https://www.imf.org/.../Global-financial-stability-report-April-2025)

⁴ "[European Central Bank analysis](#) showed that private equity-controlled companies account for 80% of the European leveraged loan market, and represent a greater credit risk than the rest of the high yield investment universe." www.bruegel.org/blog-post/private-equity-and-europes-re-capitalisation-challenge

- Because they are adaptable and forward-looking, equity markets can support transformational finance.
- Derivatives complete the picture by allowing investors, issuers and intermediaries all to manage their financial risks in a flexible way.

But public markets are the gold standard, in terms of market-based finance.

- Public markets maximise the healthiness of markets, by performing in a way that all can see, with equality of access.
- Public markets ensure meaningful and authoritative prices for assets and risk, which is why the data that exchanges create is valuable.
- Because public markets are open to scrutiny and visible to all, they generate a confidence in the financial system as a whole that other markets do not and cannot.
- Public markets are resilient, supporting high levels of capital-raising, even through the Covid pandemic in 2020 and without credit crunches.

There is a wider question arising from the leverage point, where there are strong incentives to maximise debt financing, because it is typically tax deductible. That question is beyond the scope of this paper but, as the WFE has pointed out, there may be a downside to heavy reliance on debt financing and policy makers should consider this, in relation to private funding and more broadly.⁵

Moreover, it is not just the private equity relies on debt financing. Private credit is a major issue in its own right. It:

- 1) can be bundled together with private equity. There is nothing to prevent this and (as regulators are perfectly aware⁶) we know little about how much of it happens, meaning we don't know enough about the crucial issue of interconnectedness – the same phenomenon that caused so much of the panic in the global crisis of 2008.
- 2) is growing in its own right – tenfold in the seven years to mid-2024.⁷

Even senior professionals who have spent their working lives in finance cannot be sure about where the biggest risks in the system currently reside. To be specific, banks and private credit accuse each other of being 'the problem'⁸. (Bank credit is also 'private': it does not trade publicly, albeit its management is subject to banking supervision.)

On the plus side, the advent of ETFs on private assets promises to offer the best form of price discovery, in the same way that ETFs have proved useful in relation to the otherwise episodic bond markets⁹. Provided the right disclosures are in place, reflecting the degree of liquidity and volatility in the underlying, the public price formation afforded by ETFs will bring benefits to any asset class.

Fees and benefits

⁵ 'Financing the future' WFE, September 2023 <https://www.world-exchanges.org...>

⁶ See IOSCO, September 2023: [Emerging Risks in Private Finance](#). The report also highlights the conflicts that can arise in the circumstances where private credit and equity are mixed together and issues with preferential treatment for certain investors in a given company.

⁷ BNY Mellon Aerial View, June, 2024: [The Inexorable Rise of Private Credit](#)

⁸ See the entertaining but also troubling article (FT Alphaville, January 2024) on the intense debate between the CEO of the largest Swiss bank and the head of the world's biggest private credit firm: [Is Private Credit a Systemic Risk?](#)

⁹ See Aramonte and Avalos, April 2020 <https://www.bis.org/publ/bisbull06.pdf>

Looking at more detail in some aspects of private markets that may have policy implications, a key one is fees, especially around collective investment in private equity. These may be particularly high and may erode the returns, even on those underlying investments that do prove successful. Fees can run to several percentage points, compared with as little as 6 basis points (0.06%) in regular index ETFs.

The January 2025 paper by the French securities markets regulator (alluded to earlier) gives a good flavour of legitimate concerns. It points out that disclosures need to be better around publicly accessible investment in private assets. This report came in response to the significant growth of private equity and debt funds, which were 15 times bigger at end-2024 than they were seven years earlier, in 2017. The AMF looked at the performance and management of funds aimed at non-professional clients, especially as compared with those aimed at professionals.¹⁰ As the AMF says; “performance indicators remain significantly lower than the average historical performance of funds reserved for professional clients.”

Regarding the fees associated with the management of private investments assets, there is a point that can easily get overlooked, in the rush to find the next ‘Big Winner’. Even basic fees come in at 0.5-1% higher than regular investment. And fees are arguably the biggest issue in collective investment more generally, mainly because they compound over time, eroding any gains on the underlying assets. That additional half a percent or more adds up to a significant reduction in returns.

As the AMF underlines in its January 2025 paper, that is before you take into account management and distribution fees in the life-insurance contract that typically acts as the ‘wrapper’ of such investments.

“The effective performance attained by retail clients when funds are marketed in unit-linked life insurance contracts must also consider the management fees of life insurance contracts, which are added to the fees levied by the funds themselves, thereby reducing the net performance for the investor.”

Private investment is clearly attractive, hence the growth figures. The clear inference is that people believe it is a reasonably reliable source of alpha. Yet ‘alpha’ is notoriously difficult to achieve systematically and the big if anecdotal evidence from the analogous area of hedge fund management is that it becomes exponentially harder to attain, the bigger a fund gets. One thinks not just of peak Soros but also Long-Term Capital Management (LTCM), which later proved to be spectacularly damaging to the system as well as to those who invested in it.

A more subtle problem is that risk-return numbers can deteriorate significantly, late in the life of an investment. We have added our own highlight to the following section of the AMF summary note. Specifically, in addition to observing that stale valuations are a problem, there is a question regarding *the frequency and valuation methods used*.

“An analysis of funds that have been liquidated shows a decline in returns as the funds approach liquidation. This can be explained by difficulties in selling the assets at the end of their life cycle, thereby reducing investors' returns. The bankruptcy of certain portfolio undertakings can also lead to significant losses. This situation highlights the risky nature of investments in funds invested in unlisted assets, despite the fact that their volatility (the usual measure of risk) is generally lower than that of funds invested in listed companies *due to the frequency and valuation methods used*.”

To ensure more rigour, we need the Sharpe ratio to be applied here. In fact, we need a ‘Sharper’ ratio, which takes into account not only the return over the risk-free rate but also that same return, adjusted for fees.

How one addresses stale valuations is a rather more existential question. It is also an emblem of the issues that will affect private investment, especially if it goes through other growth spurts like the one we have witnessed in recent years.

Risk and secondary trading

A second issue that bears closer scrutiny is the emergence of secondary trading, if the market continues to grow in size and range of investors targeted.

In such circumstances, while private equity can be seen as both a diversifier and a performance enhancer for portfolios, the leverage that is typically deployed to run may make it susceptible to market downturns, as reflected in the share prices of listed private equity firms.¹¹

More generally, private assets will tend to be inherently less liquid. This can make the pressure on their market price more intense in a downturn and can also force people to sell other more liquid assets to raise cash. The uncertainty engendered by stale valuations only makes this more challenging and, in this context, the phenomenon of investors using private assets to collateralise loans may merit particular vigilance.¹² The incidence of exits and distributions is clearly subject to fluctuation from one year to the next, and the emergence of the 'continuation fund' technique (shuffling an investment from one fund to another) in reality demonstrates that it is easy to in effect get locked in to a private asset.

All of this, combined with the importance from a public policy perspective of encouraging lit, public markets, means that special care needs to be deployed when it comes to organised platforms for secondary trading. These are a step in the right direction, unless it results in fewer companies coming to public listing than otherwise; and in price formation that interacts with lit, public markets in ways that harm the latter.

It is also worth bearing in mind that private equity may in practice rely on lit markets for two things: proxy valuations and hedging via derivatives. And large transactions in private assets may influence the protagonists' views on similar, listed assets, ultimately affecting the price movements of the latter and raising interesting questions from a market abuse perspective.

Secondary-market activity used to typically mean an exit via listing. Now it includes various other options, including sale to another PE firm, trade sale or the use of more formalised trading platforms that aim to support intermittent trading activity. They also include a variation on securitisation, known as collateralised fund obligations – in other words, complex financial engineering. The overall picture is one of greater activity and more ways in which it could affect tried and tested public markets.

¹¹ Even PE firms find benefits from listing. The volatility point is made well by Robert Armstrong (FT Unhedged) March 24th 2025 [Private equity's struggles](#)

¹² [Big investors borrow against private equity holdings amid cash crunch](#), Amelia Pollard and Antoine Gara, Financial Times, 1st May 2025

Conclusions

Listing is not perceived to be as appealing as it used to be for companies, some of whom may have less extensive capital requirements. Part of that shift is because of the increased burdens placed on publicly listed companies, relative to private ones. But another part is the main focus of this paper and that is private investment markets.

The topic of the decline in listings is beyond the remit of this paper but we note in passing that it merits policy attention and includes a range of factors, including the fragmentation of secondary markets and, in many countries, a lack of significant retail participation.

Private markets may still be relatively small in absolute terms But it is important to bear two things in mind when talking about the trend. The first is the marginal change, where the growth is generally in private assets – not listings. The second is that, as the crisis of 2008 and other episodes illustrate, small, supposedly peripheral markets, can be troublesome. We should learn the lessons of LTCM in the late 1990s and CDO squared in the 2000s.

One of the lessons about the collapse of hedge fund LTCM was the market turbulence and even systemic impact of crowded trades in illiquid markets. That may well not be true of private equity but it would be wise to check.

And, even without that question, the growth of private markets needs to be assessed against the broader interests of effective, healthy public markets that best serve the full range of investors and companies.

To foster a healthy balance between public and private markets, policymakers should consider a) streamlining regulations for accessing both public and private capital; b) developing tax incentives to promote investment in both markets; c) creating standardised disclosure requirements for private offerings, to improve transparency; and d) enhancing regulatory cooperation to address cross-border challenges.