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Fund Finance
Friday

Management Facilities Meet Basel III Rules

April 3, 2026

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Management Company Facility Considerations

April 3, 2026

By **Katie Clardy**
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Many subscription facility lenders will offer management company facilities as a means to further develop their existing relationship with a fund sponsor. A management company facility is typically a revolving facility in favor of the fund sponsor's management company (or investment manager) as the borrower. The loans and letters of credit issued under the facility may be used as working capital for the management company's day-to-day operational expenses, including the payment of rent, salaries, year-end bonuses, service provider fees and other administrative expenses.

This article will discuss the management fees earned by the management company, the common covenants included in management company facilities and additional considerations regarding the payment of management fees.

Management Fees and Collateral

Management company facilities are usually secured by: (1) any management fees, including any fees for the provision of consulting, advising, investment or management services, that are due and payable to the management company; (2) the deposit accounts into which management fees are or may be deposited; and (3) an all asset pledge of the management company's personal property.

A management company will earn management fees for the provision of investment or management services for investment funds (such investment funds, "Managed Funds"). The investors in a Managed Fund will pay the management fees, which are based on a percentage of the capital commitments made by such investors to the Managed Fund.

The terms of the management fees are usually included in either the management agreement or the partnership agreement (or other governing document) of the Managed Fund. However, the investors in a Managed Fund may have side letter agreements with the Managed Fund that amends the terms of the management fee. For example, a Managed Fund may agree to a reduce the percentage or total amount that an investor may be required to pay in management fees.

Prior to providing a management company facility, a lender will want identify the Managed Funds. Frequently, a lender will already be familiar with the Managed Funds if it is also the subscription facility lender for such Managed Funds.

It is important to confirm that the management fees are contractually due and owing to the management company pursuant to the management agreement or a similar agreement with the Managed Funds. Without such an agreement, the management company does not have the legal ownership of the management fees to pledge as security to the lender.

Further, a lender will want to diligence the management agreements, partnership agreements of the Managed Funds and investor side letters to determine the amount of management fees payable and when such fees are due (annually, semi-annually or quarterly), whether there are any reductions, waivers or offsets of management fees, when a management fee may be terminated and whether there are any restrictions on the management company pledging the management fees as security for a credit facility. These determinations will allow the lender to confirm if the terms regarding the management fee match up with projected management fees and to mitigate for any risks in the loan agreement.

Common Covenants

The loan agreement for a management company facility will include various covenants tailored to the facility structure, the credit risk of the management company and the management fee income stream. We see a range of covenants, including the following:

- Constituent Documents: A covenant prohibiting the management agreement, the partnership agreement (or other governing document) of the Managed Funds or the investor side letters from being amended, modified or changed in a way that reduces or postpones the payment of any management fees or otherwise adversely affects the rights or remedies of the lender under the loan agreement.

- <u>Management Fee</u>: A limitation deferring, postponing, offsetting or waiving any management fees or directing management fees to any person other than the management company.
- <u>Minimum Management Fee</u>: Requirement that the management company will receive a minimum amount of management fee revenue, calculated on over a trailing twelve month period and project a minimum management fee revenue for the immediate succeeding twelve month period.
- <u>Coverage Ratio (of Debt Service Ratio)</u>: The management company will maintain a minimum coverage ratio (or debt service ratio) of the management company's adjusted net income to interest expenses (or the sum of principal payments over the following twelve month period, plus outstanding indebtedness and all interest (without duplication)).
- <u>Clean-Down</u>: The management company will agree to pay the outstanding principal balance of all loans and maintain a zero balance for a specified period of time with specified frequency.

Additional Considerations

Depending on the credit risk of the management company, a lender may consider supplemental credit support. This may be in the form of a guaranty by the founding members of the management company, the general partner of the Managed Funds or another affiliated entity. The guaranty may include covenants related monitoring the creditworthiness of the guarantor(s), including the liquidity of the guarantor(s) to cover liabilities. A lender may also consider including a pledge of the management company's equity interest in Managed Funds or the rights to distributions from such equity interest.

As previously noted, the management fee is paid by the investors of the Managed Funds and accordingly, the loan agreement for a management company facility will include the failure of such investors to fund the management fee as an event of default. While a lender may already be familiar with the investors in the Managed Funds because it is the subscription facility lender to such Managed Funds, the lender under a management company facility may consider requiring notice under the loan agreement if any investor to a Managed Fund fails to fund any capital contribution when due.

A lender will want to consider whether the Managed Funds are borrowers or may become borrowers under a subscription facility, especially when the lender is not the subscription facility lender. Some subscription credit facilities will expressly provide that during a cash control event the payment of the management fees will be subordinated and inferior in right and payment to the obligations the Managed Funds owe the subscription facility lender. This subordination could impact the ability of the management company facility lender to be repaid.

A subscription facility lender in in the best position to recognize the benefits of providing a management company facility to its fund sponsor. This lender will already be familiar with the Managed Funds and the investment strategy, have an existing working relationship with the management team, and have already diligenced the partnership agreement and investors of the Managed Funds. Many of these factors are factors to consider in understanding credit risk in lending against management fees and in developing adequate covenants under the related loan agreement to mitigate such risks.

Federal Banking Agencies Issue Long-Awaited Basel III Endgame Reproposal

April 3, 2026

By **Daniel Meade**
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On March 19, 2026, the Federal Reserve Board ("FRB"), Office of the Comptroller of the Currency (“OCC”) and Federal Deposit Insurance Corporation (“FDIC”, collectively, the “Agencies”) released (i) a revised proposal for Basel III Endgame applicable to Category I and II institutions (the “**ERBA Proposal**”) and (ii) proposed amendments to the existing standardized approach capital rules (the “**Standardized Proposal**”), about which *Fund Finance Friday* readers received **our early read of the fund finance-related provisions** in the March 20 newsletter.

The FRB also proposed amendments to the calculation method for the surcharge applicable to the U.S. globally important banking organizations (the “**GSIB Surcharge Proposal**”), and amendments to information collections based on the three other proposals (the “**Information Collection Proposal**"). This article summarizes key changes in overall risk-based capital framework under the newly proposed rules.

The ERBA Proposal

The ERBA Proposal replaces the **July 2023 Basel endgame proposal** (which we discussed at the time, **here**) with something more aligned with the Basel agreements, and less gold-plating of the U.S. capital requirements. Like the 2023 proposal, the ERBA proposal would delete the current internal model-based advanced approach and replace it with the expanded risk-based approach (“ERBA”). The ERBA would be applicable to Category I and II institutions (generally the GSIBs and banking organizations with $700 billion in assets or more).

The ERBA generally would not rely on internal models, and instead would be a more-or-less standardized assignment of risk weights. The ERBA Proposal also would eliminate the “dual stack” calculations that are currently required of advanced-approach banking organizations. In place of internal models for credit and operational risk, the ERBA Proposal would institute a more granular standardized system. Risk weights for real estate exposures would be more dynamic and adjust based on factors such as the loan’s loan-to-value ratio.

Corporate exposure risk weights would be tied more directly to credit quality, and retail exposures reflect repayment structure. The framework is more differentiated than current standardized rules but less tailored than internal models. The Federal Reserve staff, in its **memo** to the Board of Governors, also noted that the risk sensitivity of the ERBA Proposal would be “bolstered by the stress capital buffer requirement, which adds a forward looking perspective to the requirements of large firms.”

Under the ERBA Proposal, investment-grade corporate exposures can move from a 100% risk weight to 65%. Governor Waller underscored the point that capital “is not free.” The proposal reflects that view. It reduces capital where the agencies see over-calibration and keeps or increases it where they do not.

Commercial real estate tells a similar story. Lower-LTV, strong-obligor exposures can fall well below 100 percent risk weights in some cases. But non-qualifying CRE and higher-risk structures move the other way, often to 150%. The ERBA Proposal tends to reward disciplined underwriting. Securitization is even more explicit. Senior securitization exposures may benefit from a lower risk-weight floor (15% rather than 20%). But resecuritizations and non-performing loan securitizations are subject to 100% floors.

Vice Chair of Supervision Bowman described the proposal as producing “more efficient regulation.” That efficiency is selective. It applies to traditional banking activity. It does not necessarily extend to more complex activities.

The introduction of an operational risk capital requirement reinforces that duality. The op-risk provisions in the ERBA Proposal are not tied to asset class so much as business model. Firms with operationally intensive or fee-driven businesses will carry additional capital regardless of credit quality. Any benefit on the credit side must be evaluated net of this op-risk overlay.

The ERBA Proposal removes the common equity tier 1 ("CET1") deduction regime and replaces it with a flat 250% risk weight. The agencies seem to be stepping away from a structure that constrained mortgage servicing and replacing it with one that allows the business to operate at a cost, but not a prohibition or steeper disincentives that exist now.

Vice Chair Bowman emphasized that the framework should better support economic growth, and stop squeezing out traditional banking activities from the regulated perimeter to private credit. The Agencies also addressed a long-standing technical issue: threshold drift. Key thresholds would be indexed for inflation. This prevents regulatory tightening through nominal growth alone. It is a small change with structural implications.

The Agencies estimate that the overall capital impact will be "reasonable." CET1 requirements for large holding companies is estimated to increase by approximately 1.2%. At the insured depository institution level, estimated requirements decline by roughly 5.1%.

When combined with the GSIB surcharge proposal, discussed below, and the October 2025 stress capital buffer revisions, CET1 requirements decline by approximately 5% for Category I and II firms.

<u>The Standardized Proposal</u>

The Standardized Proposal focuses on three core areas: (i) the definition of regulatory capital, (ii) the calibration of risk weights for key asset classes, and (iii) targeted technical adjustments to existing methodologies. Taken together, these changes reflect a deliberate effort to improve risk sensitivity while avoiding the operational complexity associated with the expanded risk-based approach.

The Standardized Proposal follows the ERBA's proposed treatment of MSAs by eliminating the deduction for mortgage servicing assets (MSAs) and instead applies a uniform 250% risk weight for MSAs. More consequentially, the proposal would require Category III and IV banking organizations to recognize most elements of accumulated other comprehensive income ("AOCI") in CET1 capital, subject to a five-year transition period. This change aligns these firms with the treatment applicable to the largest banking organizations and reflects a clear policy preference for greater transparency in capital measurement. It will, however, introduce additional volatility into regulatory capital ratios, particularly for institutions with significant available-for-sale securities portfolios, and will likely prompt adjustments to interest rate risk management and balance sheet strategy.

The Standardized Proposal also recalibrates risk weights across several key exposure categories. Similar to the ERBA Proposal, the Standardized Proposal would rely more on an LTV-based framework for residential mortgage exposures, replacing the current binary approach.

Adjustments to corporate exposures and other assets are more modest in the Standardized Proposal, reducing the risk weight for corporate exposures from 100% to 95% and for other assets from 100% to 90%. These changes are calibrated based on analysis conducted in connection with the ERBA Proposal and are intended to better approximate underlying risk without introducing additional segmentation or complexity.

The Standardized Proposal also includes targeted revisions to off-balance sheet exposures and securitization. The definition of "commitment" is broadened to ensure more consistent treatment across institutions, capturing a wider range of arrangements that may result in future credit exposure. The securitization framework remains anchored in the existing standardized approach, but with refinements to exposure measurement and credit risk mitigation that align more closely with the ERBA.

Notably, the proposal bolsters the framework for significant risk transfer (SRT) transactions. While synthetic securitizations and credit derivatives are addressed within the existing structure, the proposal introduces a new form of credit risk mitigant, the "eligible prepaid credit protection arrangement," that is intended to facilitate the direct issuance of credit linked notes by banks.

The practical consequence is a shift in how capital is allocated and managed. Institutions with lower-risk residential mortgage portfolios and more traditional lending profiles may benefit from reduced capital requirements. In contrast, institutions with significant securities portfolios or reliance on AOCI opt-outs will face increased volatility and new strategic considerations. For many firms, the inclusion of AOCI will be the dominant driver of change, requiring a reassessment of balance sheet composition, hedging strategies, and capital planning.

<u>GSIB Surcharge Proposal</u>

The GSIB Surcharge Proposal addresses what some have called a structural flaw in the existing framework—one that has quietly but persistently distorted capital outcomes over the past several years.

At the center of the proposal is Method 2 of the GSIB surcharge framework. As practitioners are well aware, Method 2 was designed to provide a more predictable and firm-specific measure of systemic importance by relying on fixed coefficients rather than global aggregates. In practice, however, that design choice has created a different problem: the coefficients have remained static while the economy—and GSIB balance sheets—have not.

Since 2019, Method 2 scores have increased materially across U.S. GSIBs, even as Method 1 scores have remained broadly stable. The Federal Reserve explicitly acknowledges that this divergence is not primarily driven by increased systemic risk, but by nominal growth—balance sheet expansion, inflation, and broader macroeconomic changes. In other words, Method 2 has been capturing scale, not relative systemic importance.

The GSIB Surcharge Proposal responds with a two-part solution. First, it applies a one-time downward adjustment to Method 2 coefficients of approximately 20 percent, effectively resetting the framework to account for post-2019 growth. Second, it introduces an ongoing indexing mechanism tied to nominal GDP growth, calculated as a three-year moving average. This ensures that, going forward, Method 2 scores should remain stable if a firm grows in line with the broader economy.

The GSIB Surcharge Proposal also would make a significant change to the treatment of short-term wholesale funding ("STWF"). Under the current framework, the STWF indicator is expressed as a ratio to risk-weighted assets. This has produced counterintuitive results: firms with higher risk-weighted assets can appear less risky, even if their absolute reliance on short-term funding is unchanged.

The Federal Reserve proposes to eliminate this distortion by removing the risk-weighted assets denominator and replacing the ratio with an absolute measure of weighted STWF. The indicator would then be scaled by a coefficient calibrated to represent approximately 20% of Method 2 scores, which is consistent with the intended weighting of systemic indicators.

To address the point-in-time measurement "window dressing", the GSIB Surcharge Proposal would require that key indicators be calculated using averages of daily or monthly values over the reporting period. The Federal Reserve notes that this change should result in GSIB scores that better reflect a firm's typical risk profile rather than its year-end snapshot.

Comments on the three proposals are due June 18, 2026.

How Women Can Advance in Big Law

April 3, 2026

Cadwalader partners **Holly Chamberlain** and **Angela Batterson** co-authored a Women's History Month feature for *Attorney At Law Magazine*, noting that "there is no single blueprint for career progression in Big Law," and that female attorneys may very well face additional challenges. They explain that, as lawyers in traditionally male-dominated practice areas and members of Cadwalader's Management Committee, they are "sharing a set of the behaviors and actions that have guided us and can serve as signposts for others as they look to advance in their careers."

They urge women to "do great work and make yourself the go-to attorney on the team," to "raise your hand, ask for more responsibility, and volunteer for new assignments," and to take opportunities "even if you think you're too busy," because "you only get so many chances to impress so don't become the person known for saying no."

They emphasize that "success isn't about not making mistakes; it is about how to fix the mistake without losing your confidence," that mistakes "aren't the end of your career, they are spring boards to a better you," and that "you cannot assume that opportunities are going to come your way. You have to go out and grab them" by asking for deals, partners, pitches and CLEs.

They describe a good mentor as crucial early in your career, whether it is a sponsor who gives direct feedback and guidance or a senior lawyer who pushes you hard and forces you to be prepared. They also point out that mentors are not always obvious and that sticking with difficult situations can itself provide guidance that drives career progress.

Once in leadership, they advise, "don't slink into the background. You have earned your 'seat at the table,' so take full advantage of it. Speak up. Voice your opinion. Share your perspectives." While no single approach fits everyone, these habits helped them build the credibility and trust needed to become effective leaders.

Read the full story **here**.

Women in Fund Finance Boston Hosting April 13 Lunch Event

April 3, 2026

On Monday, April 13, Women in Fund Finance Boston is hosting "Spill the Beans: Secrets of Deception from a FBI Profiler," an exclusive luncheon and fireside chat with Dawn Norris Doak, a former leader in FBI's Behavior Analysis Unit.

Drawing on nearly two decades advising on counterintelligence and behavioral risk, Dawn will share how the science of behavioral analysis can help professionals better assess people, navigate complex situations and make stronger decisions in high-pressure environments.

Event Details:

Venue: State Street Bank, One Congress Street, Boston

Date: Monday, April 13, 2026

Time: 12:00 PM – 2:00 PM EST (Registration opens at 11:30 a.m.)

Space is limited — reserve your place today.

Additional information and registration are available **here**.

Register Now for FFA U 1.0: EMEA

April 3, 2026

Now in its second year, FFA University 1.0 returns to London! Join the Fund Finance Association for this comprehensive two-day fund finance training program, offering a comprehensive look at the fund finance market through expert-led sessions on core products, legal and documentation considerations, market dynamics and key industry developments.

Event Details

- Cost: £399
- Dates: April 28 & 29, 2026
- Format:
  - Day One – April 28: In-Person Training & Networking Reception
    - Location: Deutsche Bank, 21 Moorfields, London, EC2Y 9DB
  - Day Two – April 29: Virtual Training

Day one will conclude with a networking reception, providing an opportunity to continue discussions and connect with peers and speakers. Speakers will be announced soon.

View the agenda **here** and register **here**.

Fund Finance Hiring

April 3, 2026

Fund Finance Hiring

Here is who's hiring in fund finance:

Cadwalader, Wickersham & Taft LLP is seeking associates with three to six years of relevant experience for its Fund Finance practice in New York, Charlotte or London. Qualified candidates will have experience in syndicated lending, commercial lending, leverage finance, fund formation, CLOs, asset-based lending, NAV financings or acquisition financings. Candidates must possess excellent academic credentials and solid legal experience. Selected candidates will get extensive interaction with preeminent bank, asset manager and lending clients. If interested, **please email Margaret Cart**.

Santander is seeking a Structured Finance Analyst in New York. The individual will be responsible for supporting the Fund Solutions Group across the range of products and solutions, from Equity & Credit NAVs, Subscription lines, ABLs, GP lines and other related Equity financing solutions. The successful candidate will be expected to support the transaction across the full life cycle of the deal from origination, credit analysis, execution and active portfolio management. The role will cover a broad range of products and private capital funds with a focus in Private Equity, Infrastructure and Real Estate strategies. Interested candidates should email their resume and a subject line of "Fund Solutions Analyst" to both **atef.hasan@santander.us** and **kyle.wettlaufer@santander.us**.

Stifel is seeking a Director/Managing Director of Fund Banking (Fund Finance). This individual will be the lead business development position for New York City and surrounding northeast geographies and will be focused on building new Fund Banking/Fund Finance business with VC/PE firms and being the senior relationship manager to those firms. Learn more **here**.

Redding Ridge Asset Management, which was stablished and seeded by Apollo Global Management, is seeking candidates for a number of roles, including:

An **Associate, Asset Backed & Fund Finance Junior Deal Captain.** The Structuring & Advisory team is seeking a highly motivated Associate with strong attention to detail to join its expanding team in New York. This individual would work work closely with senior team members and other stakeholders to assist in all stages of deal execution. Learn more **here**.

An **Associate, CLO Structuring** to join the firm's dynamic Structuring & Advisory team, supporting both its market-leading global CLO issuance business and other platforms within the Apollo ecosystem utilizing securitization technology. Learn more **here**.

A **Rating Advisory Analyst/Associate** to work closely with Rating Advisory and Structuring professionals, along with other senior investment professionals, in solving Apollo and Redding Ridge's most challenging capital structure challenges related to credit ratings. Learn more **here**.

Goldman Sachs is seeking candidates to fill two Vice President roles, including:

A **Vice President** on the Private Lending Capital Call Financing (CCF) team in London, which is an integral part of the Private Bank's alternative asset lending capabilities. The candidate will evaluate all risk and economic implications of transactions, using strong analytical and technical skills and advise and develop credit solutions for clients that meet their needs and remain within acceptable risk parameters for the Bank. Learn more **here**.

A **Vice President** on the Capital Call Financing (CCF) team in New York. This role sits at the intersection of origination, underwriting, and relationship management, supporting private equity and alternative investment sponsors with bespoke subscription finance solutions. The individual will be responsible for sourcing opportunities, structuring facilities, and ensuring disciplined credit execution in partnership with Credit Risk Management and broader Private Bank stakeholders. Learn more **here**.

BMO is seeking a Vice President, Corporate Banking, FIG Asset & Wealth Managers. The position supports the origination and structuring of corporate lending transactions and coordinates with other products as an integral part of a larger coverage team. The candidate will act as a portfolio manager for the team, providing ongoing management of the lending portfolio. Learn more **here.**

Harneys (Luxembourg) is seeking associates with three to six years of relevant experience for its Fund Finance, Investment Funds and Corporate practices in Luxembourg. Qualified candidates will have experience in one of subscription finance, NAV financings, leverage finance, fund formation, securitization, or general corporate and commercial matters (including mergers, acquisitions and restructuring). Applications of interest should be sent to Cyrielle Nicolas at **cyrielle.nicolas@harneys.com.**