The Case for Regulating Private Credit

Blue Owl, Broken Promises, and the $2.3 Trillion Gap

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Executive Summary

After the 2008 financial crisis, Dodd-Frank and Basel III forced banks out of leveraged lending. The capital had to go somewhere. It went to private credit funds. What was a $500 billion institutional asset class in 2015 is now a $2.3 trillion industry. It finances 90% of middle-market leveraged buyouts and is sold to retail and high-net-worth investors through semi-liquid wrappers. The product matured while framework around it did not.

This research uses Blue Owl Capital as the case study in what happens when scale outruns oversight. Blue Owl is not the case because it is uniquely bad; it is the case because every structural risk in private credit is playing out in one firm at once: 70% concentration in a single sector, $5.4 billion in redemption requests met with a 5% gate, $307 billion in AUM under no prudential regulation, and retail investors absorbing the result. Q1 2026 showed the pattern is not firm-specific, but rather an industry-wide problem. Ares and Apollo gated their semi-liquid funds in the same quarter, and Blackstone's BREIT had already gone through it in 2022.

The argument that follows is that the gap between the scale of these firms and the oversight they face is the risk, and that closing it is both possible and overdue. The deck makes the case in five parts: the rise of the industry, the Blue Owl case, the cross-firm pattern, four targeted recommendations (transparency and independent valuation, liquidity honesty, retail protections, and prudential basics for funds above $50 billion in AUM), and the international comparison. The EU is implementing three of the four through AIFMD II. Australia is acting through ASIC REP 820. The U.S. is not. More crises will come. The question is whether they happen under a framework that protects investors and the financial system, or in the dark.

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PART I

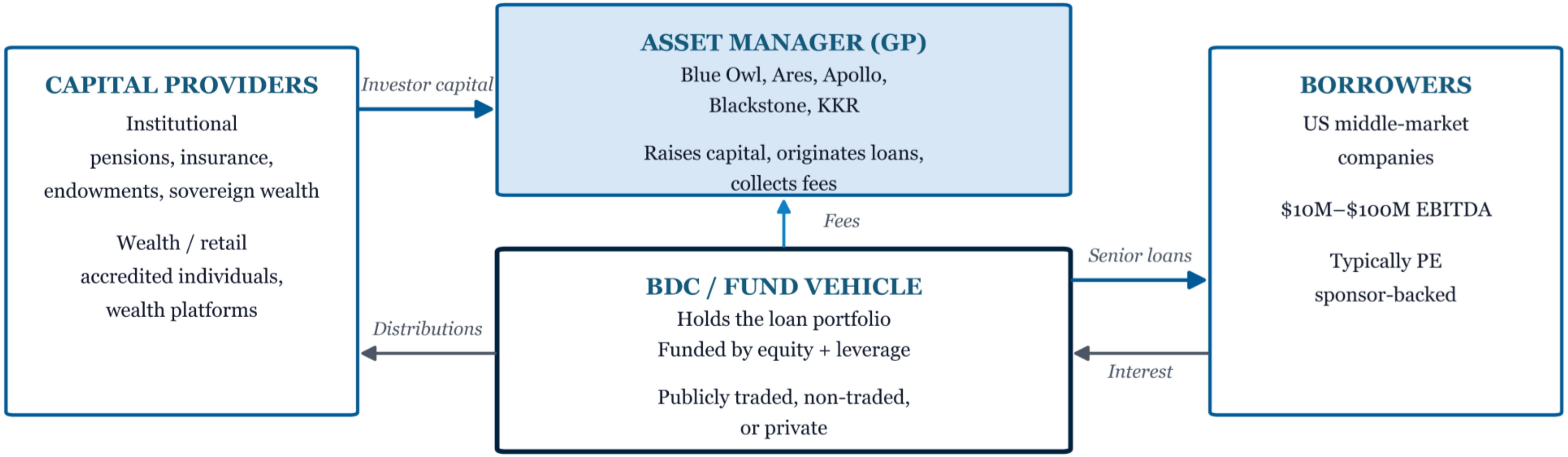
The Promise

How a $300 billion niche became a $2.3 trillion industry.

Private credit sold a simple pitch: stable returns, quarterly liquidity, and access to institutional credit. For a decade, the pitch worked. The asset class grew nearly eightfold in fifteen years.

How Private Credit Works

Every private credit deal moves through the same four nodes



What is a BDC?

BDC = Business Development Company. Congress created BDCs in 1980 under the Small Business Investment Incentive Act to channel capital into lending to small and mid-sized US companies. A BDC is an SEC-regulated investment fund under the Investment Company Act of 1940, with three defining rules:

1. 70% qualifying assets. At least 70% of holdings must be eligible US private companies.
2. RIC tax status. No corporate tax if the BDC distributes at least 90% of net investment income (NII) as dividends.
3. 150% asset coverage. Leverage is capped at roughly 2:1 debt-to-equity (raised from 1:1 by the 2018 SBCAA).

BDCs come in three flavors: publicly traded (ARCC, OBDC), non-traded / semi-liquid (OCIC, BCRED), or private. It is the legal wrapper that holds most private credit portfolios today.

Sources: Small Business Investment Incentive Act of 1980 (P.L. 96-477); Investment Company Act of 1940 §2(a)(48), §55, §61; Small Business Credit Availability Act of 2018; Blue Owl, Ares, Apollo, Blackstone, and KKR 10-Ks; Preqin; McKinsey Global Private Markets Review (2024, 2025); PitchBook LCD; LSTA; LSEG LPC.

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Private Credit: A 40-Year Timeline (From 1980s Niche to $2.3T Asset Class)

1980 BDC structure created

Small Business Investment Incentive Act creates the BDC, the legal wrapper most private credit funds still use.

1985 Insurance-led private lending

Insurance companies and specialty lenders make private placements and mezzanine loans the banks won't touch.

2004 Ares Capital IPO

First major publicly traded BDC shows direct-lending vehicles can scale and attract outside capital.

2008 Global Financial Crisis

Bank lending freezes and leveraged finance grinds to a halt; policymakers rewrite the rulebook.

2010 Dodd-Frank enacted

New capital and risk-retention rules make leveraged lending expensive for banks, pushing it to non-banks.

2013 Basel III phase-in

International capital standards accelerate the bank retreat from middle-market lending.

2015 Direct lending dominates LBOs

Private credit overtakes syndicated bank loans as the default financing source for middle-market buyouts.

2021 Blue Owl formed

Owl Rock and Dyal Capital merge via SPAC into a publicly traded alt-manager built on permanent-capital BDCs.

2022 Fed hiking cycle

Floating-rate private credit pays rising yields while fixed income takes mark-to-market losses; inflows spike.

2024 Semi-liquid retail vehicles scale

Non-traded BDCs (OCIC, BCRED, ADS, ASIF) cross hundreds of billions, reaching retail and HNW portfolios.

2025 First redemption stress

Quarterly redemptions spike across the biggest non-traded BDCs, exposing the liquidity mismatch.

Origins

A niche business: insurance companies and specialty lenders make private loans banks won't touch.

Post-GFC Expansion

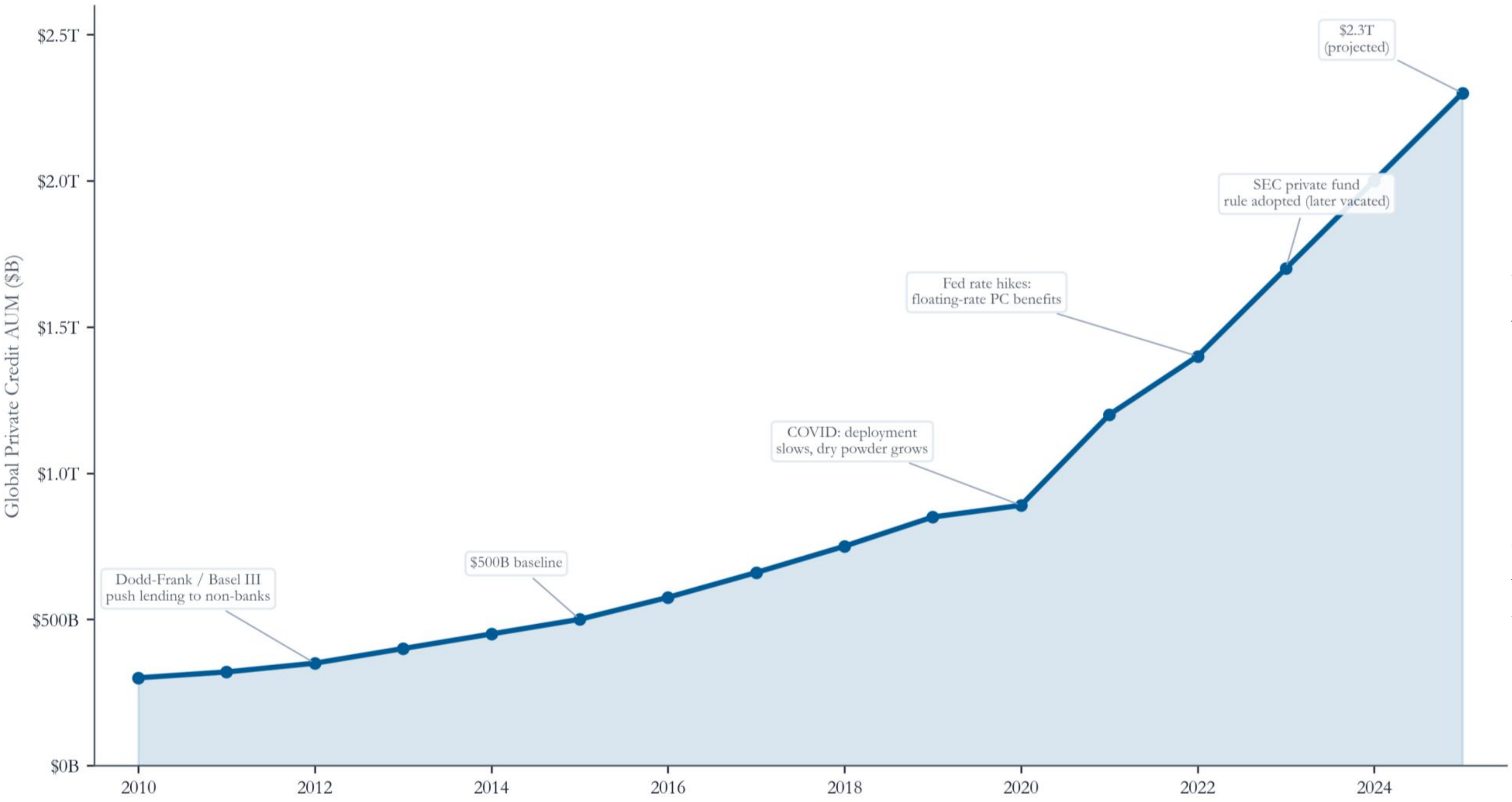
Dodd-Frank and Basel III push leveraged lending off bank balance sheets; non-bank lenders fill the gap.

Democratization Era

Semi-liquid BDCs open the asset class to retail and HNW investors; AUM reaches $2.3T.

Sources: Preqin; McKinsey Global Private Markets Review (2024, 2025); SEC; Ares Capital S-1; Blue Owl 10-K

Private Credit Has Outgrown Its Regulatory Framework



Private credit is lending done outside the banking system, by investment funds rather than deposit-taking banks. Loans are originated directly, held to maturity, and funded by institutional and, increasingly, retail capital.

The asset class grew from ~$300 billion in 2010 to $2.3 trillion by the end of 2025, now larger than the US high-yield bond market. It earned the growth: floating-rate structures protected investors through the 2022 hiking cycle, and direct lending held up when public credit sold off.

But the rules governing it were written when it was a tenth of the size and institutional-only.

Sources: Preqin Global Private Debt Reports; McKinsey Global Private Markets Review (2024, 2025)

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The Private Credit Promise

For a decade, the pitch was simple, and every piece of it delivered

STABLE RETURNS

~9%

Cliffwater Direct Lending Index, 2010 to 2024 annualized

Sharpe near 1.8, low correlation to public credit

QUARTERLY LIQUIDITY

5% / quarter

typical redemption cap on semi-liquid BDCs

On portfolios of 5 to 7 year illiquid loans

INSTITUTIONAL ACCESS

$0 to $300B+

non-traded BDC AUM growth, 2015 to 2025

Opened to retail and HNW investors

FLOATING RATES

SOFR + 500–700 bps

typical direct lending spread

Yields rose with the Fed, no duration risk

Institutional capital rotated into private credit because the asset class offered something each other alternative could not match.

Sources: Cliffwater Direct Lending Index; Bloomberg US Aggregate Bond Index; Federal Reserve (effective SOFR, federal funds target range); Preqin Global Private Debt Report (2025); PitchBook LCD; Morgan Stanley Investment Management, Semi-Liquid Private Credit.

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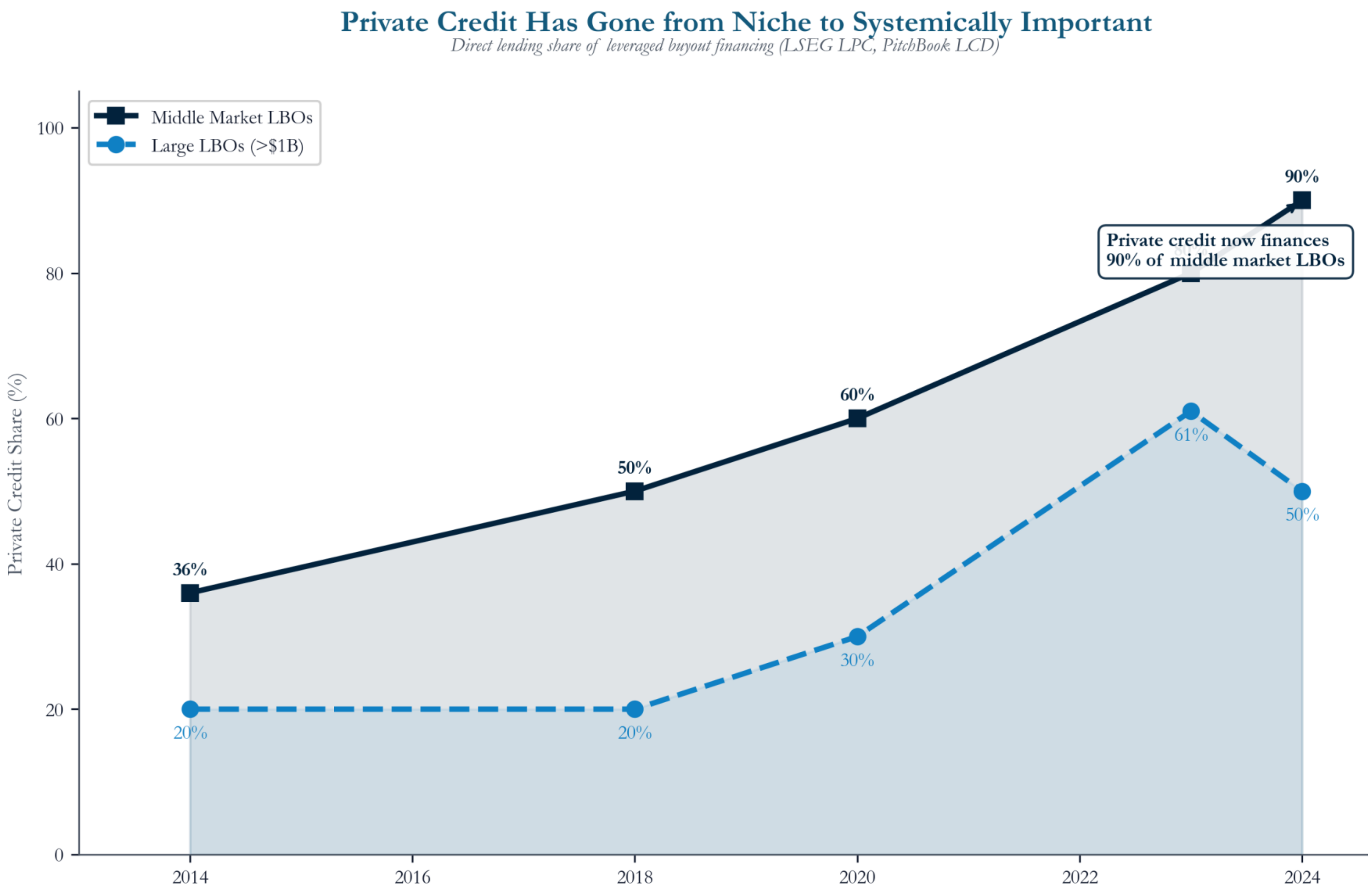
The Quiet Replacement of the Bank Loan



In a decade, private credit went from filling gaps banks wouldn't touch to writing nine out of ten middle-market buyout loans. The shift wasn't accidental; post-2008 rules made leveraged lending expensive for banks; direct lenders faced no such constraint. Capital followed the path of least regulation.

The result is concentration no one planned for. What used to sit on regulated bank balance sheets, stress-tested, capital-weighted, reportable, now sits in private funds that disclose less, mark less frequently, and answer to different rules.

Sources: LSEG LPC; PitchBook LCD

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Too Big, Too Fast: Three Catalysts That Built a $2.3 Trillion Asset Class

Regulation (2010–2013)

Trigger: Dodd-Frank (2010) and Basel III phase-in (2013).

What happened: Higher capital charges and leveraged-lending guidance made middle-market loans uneconomic for banks to hold. Banks retreated from originations between $100M and $1B.

Consequence: Non-bank lenders filled the gap. Private credit's share of middle-market LBO financing rose from 36% in 2014 to 90% by 2024.

Rates (2022–2023)

Trigger: The Fed hiked the policy rate from 0.25% to 5.50% in 16 months, the fastest cycle since 1980.

What happened: Private credit loans are almost all floating-rate (SOFR + spread). Yields jumped toward double digits while public fixed-income portfolios took the worst mark-to-market losses in 40 years.

Consequence: Institutional capital rotated in. US direct-lending dry powder hit a record $146B (PitchBook LCD, 2025).

Democratization (2021–2024)

Trigger: Managers launched semi-liquid BDCs with quarterly redemptions marketed to retail and HNW investors, not just pensions and endowments.

What happened: Blue Owl (OCIC, OTIC), Blackstone (BCRED), Apollo (ADS), and Ares (ASIF) collectively raised hundreds of billions from individual investors.

Consequence: What was a $500B institutional asset class in 2015 became a $2.3T asset class that ordinary savers now hold in their portfolios.

Catalysts

Each catalyst made sense on its own. Together, they built a system that got too big, too fast, for rules written when it was small.

Sources: Federal Reserve (SOFR, policy rate); Dodd-Frank Act §619; Basel III final framework; PitchBook LCD; Preqin; McKinsey

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II

PART II

The Case Study

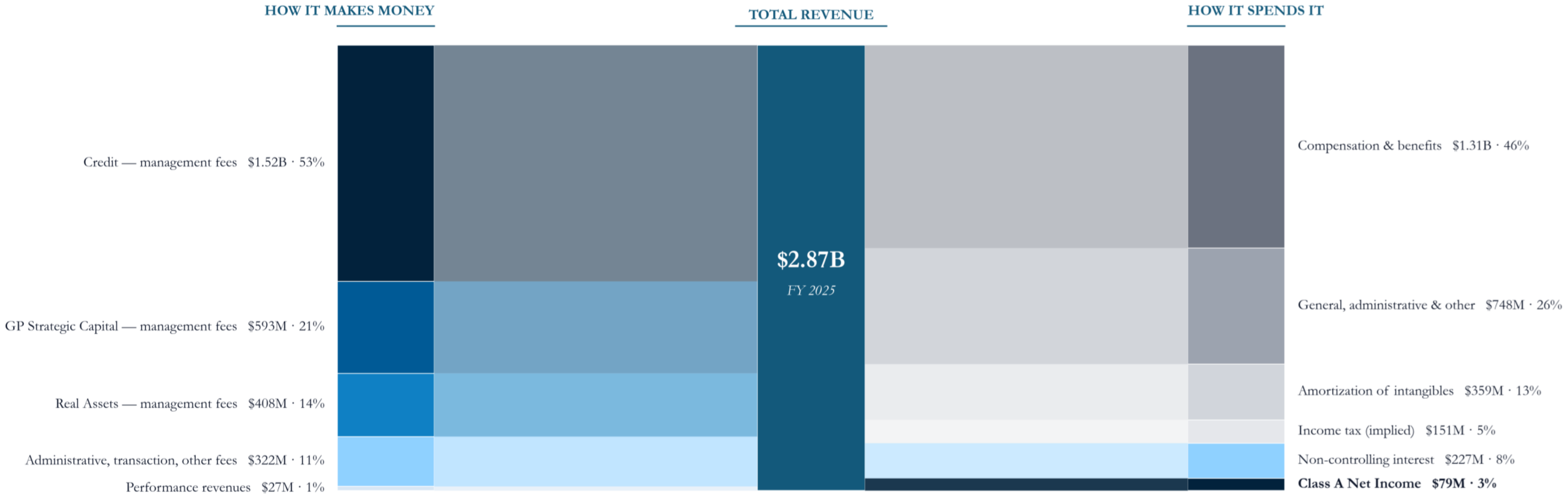
Opacity, liquidity, retail, scale.

Blue Owl is not the case study because it is uniquely bad. It is the case study because every structural risk in private credit is playing out simultaneously in one company.

Meet Blue Owl: A Five-Year-Old Alternative Asset Manager Built on Permanent Capital

FY 2025 GAAP income statement, in millions

Every percentage shows that item's share of the $2.87B total revenue



Only ~3% of revenue reaches Class A public shareholders after compensation, G&A, amortization, tax, and non-controlling-interest holders.

Blue Owl Capital (NYSE: OWL) was formed in May 2021 by merging Owl Rock, a 2016 direct lender founded by ex-GSO, KKR, and Goldman Sachs partners Doug Ostrover, Marc Lipschultz, and Craig Packer, with Dyal Capital Partners, Michael Rees's GP stakes business. The combination used the Altimar Acquisition Corp SPAC at a $12.2 billion valuation with a $1.5 billion PIPE from ICONIQ Capital, Federated Hermes, and Liberty Mutual.

Sources: Blue Owl Business Combination press release (2021); Altimar S-4 (2021); Blue Owl Q4 2025 Earnings Deck. Income tax implied from GAAP reconciliation.

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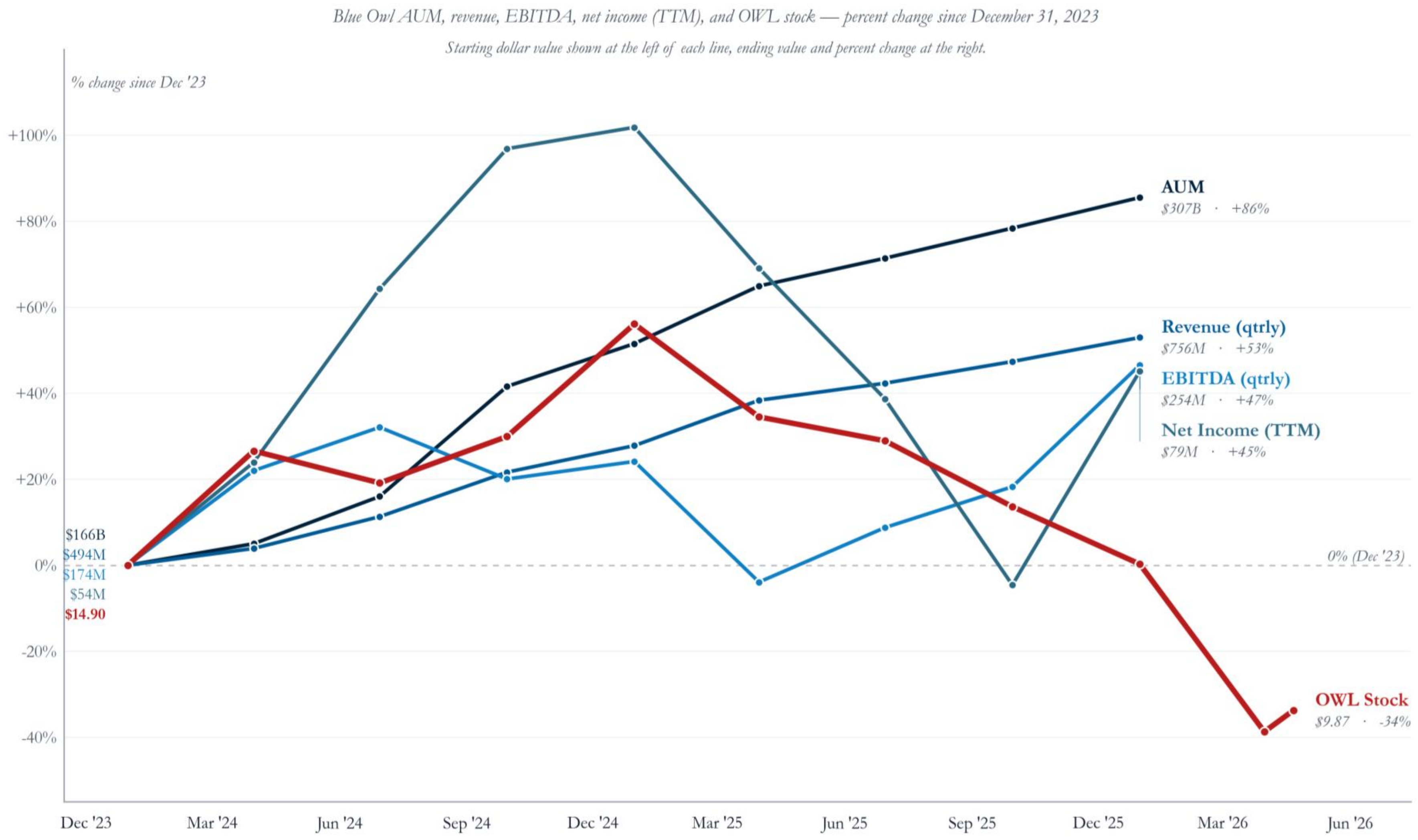
Blue Owl Behind the Numbers: The Business Grew While the Stock Cratered.



Sources: Blue Owl 10-K (FY 2025); Blue Owl quarterly earnings decks Q4'23–Q4'25; Yahoo Finance (OWL daily closes). EBITDA proxy = GAAP operating income + amortization of intangibles.

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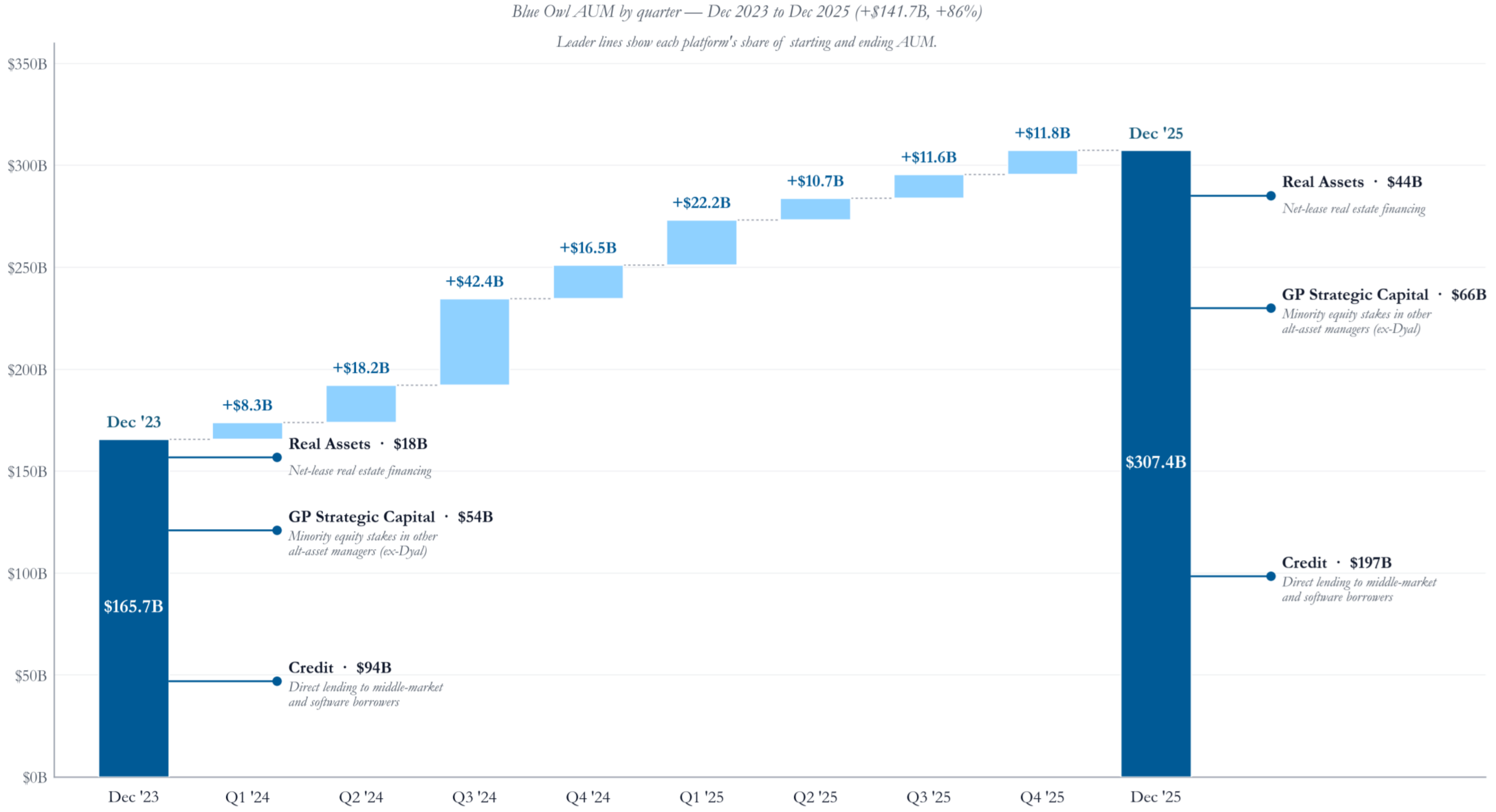
Two Years, $142 Billion of AUM Growth



Sources: Blue Owl Capital 10-K (FY 2025); Blue Owl quarterly earnings decks Q4'23 through Q4'25; Blue Owl investor relations press releases.
Disclaimer: Platform-level AUM shown at Dec '23 and Dec '25 are author estimates derived from Blue Owl's disclosed segment reporting; quarterly totals are as reported by the company.

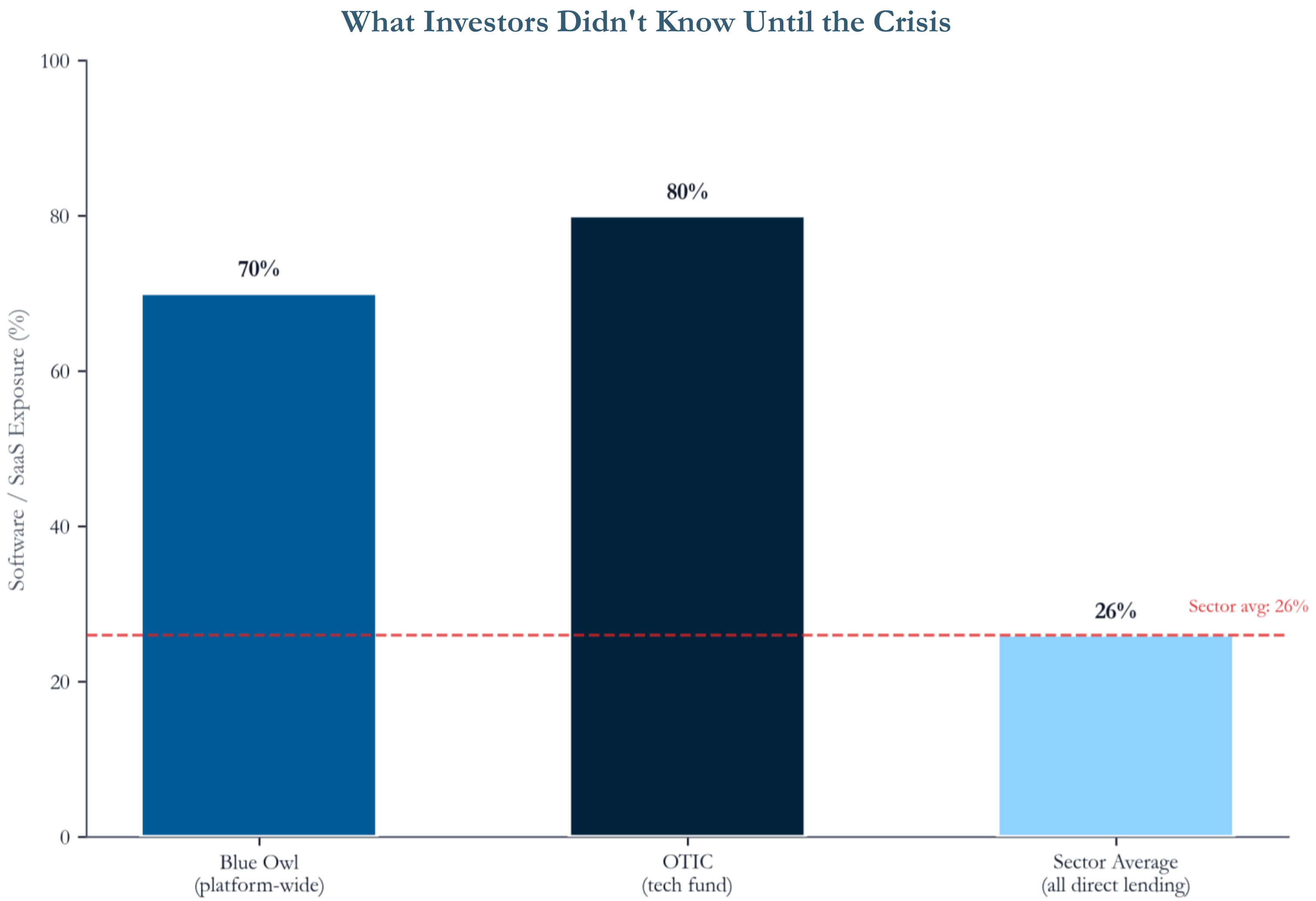
Why Blue Owl: Every Structural Risk in Private Credit is Playing Out in One Firm

Blue Owl is not the case study because it is uniquely bad. It is the case study because every structural risk in private credit is playing out simultaneously in one company. Ares and Apollo gated funds in the same quarter while BREIT set the precedent three years earlier.

The difference with Blue Owl is compression: opacity, liquidity mismatch, retail exposure, and scale without oversight, all stress-tested inside a single 90-day window.

Sources: Bloomberg, "Apollo Caps Private Credit Fund Withdrawals" (Mar 23, 2026); Bloomberg, "Ares Limits Private Credit Fund Withdrawals" (Mar 24, 2026); Blackstone press release, UC Investments Strategic Venture (Jan 3, 2023); FT, "Blue Owl struck by $5.4bn of redemption requests" (Apr 2026); Morgan Stanley Investment Management, Semi-Liquid Private Credit.

1. Opacity: Blue Owl's Software Concentration Is Nearly 3x the Sector Average



Concentration: About 70% of the direct lending book was exposed to software and SaaS borrowers. Morgan Stanley estimates the sector average at 26%. Blue Owl was nearly three times that. OTIC's(Blue Owl Technology Income Corp) mandate requires 80%+ of assets in software and technology-related companies.

Redemptions: Through the first nine months of 2025, OBDC II saw $150M in redemptions, up 20% YoY. Over the same period, management repeatedly told investors there was "no meaningful pressure to our asset base from redemptions."

Mark-to-market: On Nov 5, 2025 Blue Owl proposed merging OBDC with OBDC II at NAV. Because OBDC traded at a ~20% discount to its own NAV, OBDC II investors faced an effective 20% NAV haircut. The FT broke the story Nov 16; OWL fell ~5.8% the next day. The merger was terminated Nov 19.

Lawsuit: Goldman v. Blue Owl Capital Inc. (1:25-cv-10047, SDNY) filed Dec 3, 2025. Shareholders allege knowing misstatements under §§10(b) and 20(a) of the Exchange Act. Class period: Feb 6 through Nov 16, 2025.

Sources: Blue Owl Q4 2025 Earnings Deck; Blue Owl earnings call transcripts (Feb 6, May 5, Aug 1, 2025); Morgan Stanley IM, Semi-Liquid Private Credit; CNBC, "Blue Owl's Software Lending Triggers Another Quake in Private Credit" (Feb 20, 2026); FT, "Blue Owl private credit fund merger leaves some investors facing 20% hit" (Nov 16, 2025); Goldman v. Blue Owl Capital Inc., 1:25-cv-10047 (SDNY, Dec 3, 2025); OTIC prospectus (SEC EDGAR, CIK 1869453).

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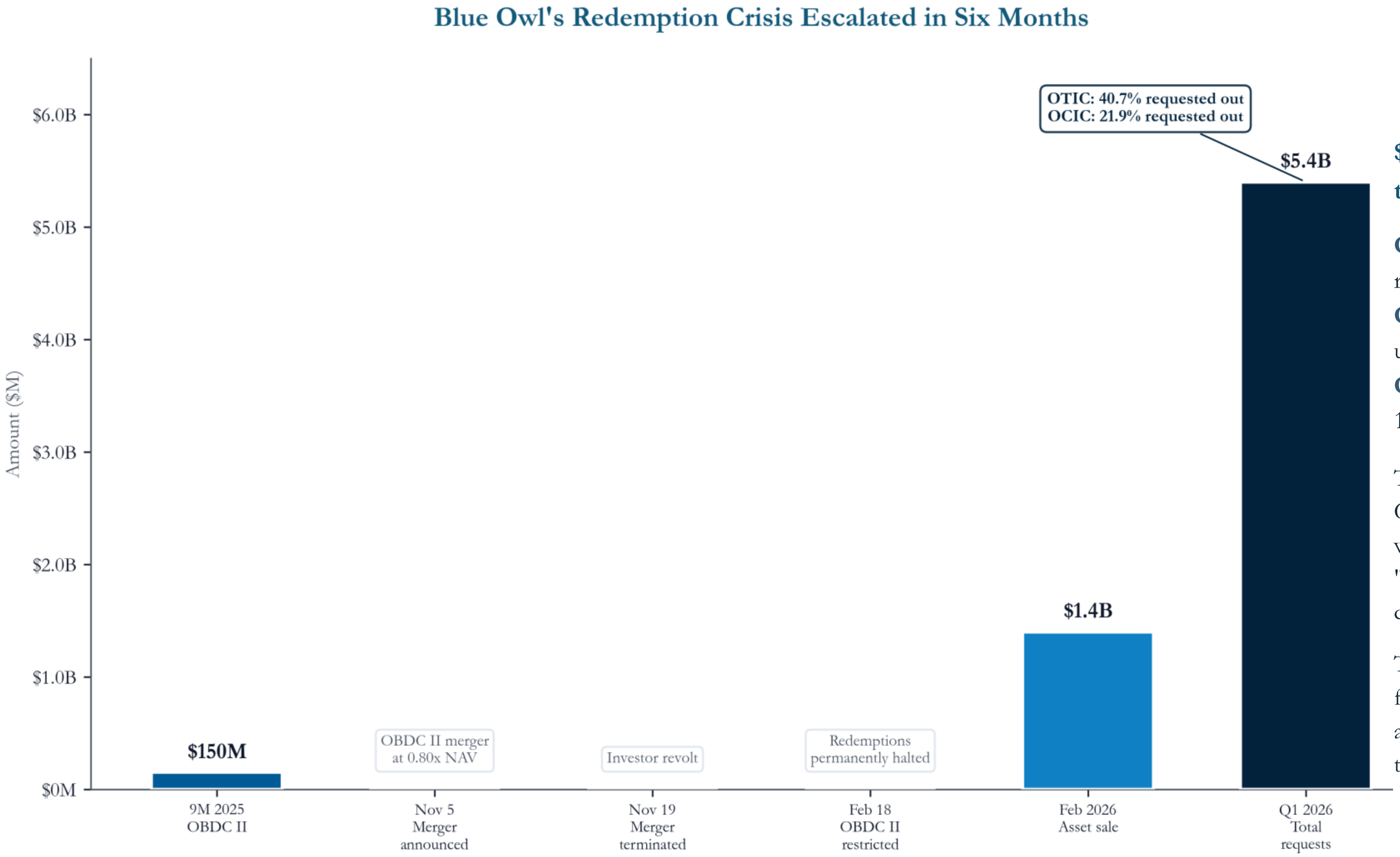
2. Liquidity Mismatch: Quarterly Liquidity on 5- to 7-Year Illiquid Assets



$5.4B in redemption requests hit Blue Owl's non-traded BDCs in a single quarter:

OCIC ($36B): 21.9% requested out. $988M honored of ~$4.2B requested.
OTIC ($6.2B): 40.7% requested out. $179M honored; ~$1B unfilled.
OBDC II (~$1.7B): redemptions permanently halted on Feb 18, 2026. Investors switched to return-of-capital distributions.

The 5% quarterly cap, authorized under §23(c) of the Investment Company Act of 1940, did exactly what the prospectus said it would. The mismatch is that the product was marketed as offering "quarterly liquidity" when the underlying portfolios cannot be sold quickly without taking a loss.

To partially meet requests, Blue Owl sold $1.4B in credit assets to four public pension and insurance investors at 99.7% of par. The asset quality is not the red flag; however, the need to sell $1.4B in three months to meet investor withdrawals is.

Sources: Blue Owl press release, "$1.4B asset sale" (Apr 2026); Blue Owl OCIC 10-K FY2025 (SEC EDGAR, CIK 1812554); OTIC filings (SEC EDGAR, CIK 1869453); AltsWire, "Blue Owl sells $1.4B in loans, halts OBDC IIredemptions" (2026); FT, "Blue Owl struck by $5.4bn of redemption requests" (Apr 2026); Citywire, "Redemption requests top 40% in Blue Owl private credit tech fund" (Apr 2026); Investment Company Act of 1940 §23(c).

3. Retail Exposure: These Are Individuals' Savings, Not Institutional Allocations

Blue Owl's semi-liquid BDCs were distributed primarily through broker-dealers and RIAs to retail and high-net-worth investors. Sales are governed by FINRA's Regulation Best Interest, which sets a suitability standard for how the product is disclosed. Reg BI does not address whether the product itself fits a retail balance sheet.

Apollo, Blackstone, KKR, and Blue Owl are all working to place private credit into 401(k) and other defined-contribution retirement vehicles. The argument is that ordinary Americans deserve the same access as pensions and endowments. That argument ignores a basic asymmetry.

Retail investors are structurally worse off than institutions inside these semi-liquid funds

No Bloomberg terminals

Institutions have analysts and market-data access to independently value illiquid loans. Retail investors rely entirely on what the manager reports.

NAV is the only signal

The manager's stated NAV is the only price retail sees. When OBDC II's NAV turned out to be 20% above realizable value, investors had no way to know until the FT reported it on Nov 16, 2025.

They cannot absorb a cap

A pension rebalances over decades and can sit through a 5% quarterly cap. A retail investor funding a down payment or retirement draw cannot.

Sources: FINRA Regulation Best Interest (Reg BI); Morgan Stanley Investment Management, Semi-Liquid Private Credit; Bloomberg, "Private Lenders From Blue Owl to Blackstone Ready for 401(k) Win" (Jul 2025); FT, "Blue Owl private credit fund merger leaves some investors facing 20% hit" (Nov 16, 2025); FT, "Retail private credit is an unsolvable problem" (2026); Morningstar, "Blue Owl Offers a Harsh Lesson for Semiliquid Fund Investors" (2026).

4. Scale Without Oversight: Same Scale, Different Rules

Blue Owl manages $307.4B. A bank that size faces all of these requirements. Blue Owl faces almost none.

Blue Owl manages $307.4B. By assets, that puts it past the $250B Category III prudential threshold, larger than every U.S. Category IV bank including M&T ($214B) and Citizens Financial ($226B).

A bank at that scale faces the full Category III regime: CET1 capital, DFAST stress testing, LCR/NSFR liquidity ratios, single-borrower limits under 12 CFR 32, CECL provisioning, OCC or Fed examinations, FDIC premiums, and resolution planning.

Blue Owl faces essentially none of these. BDCs are regulated under the Investment Company Act of 1940, a statute written for mutual funds before direct lending existed. The perimeter is three rules: 70% qualifying assets, 150% asset coverage, 90% income distribution. No capital framework, no liquidity ratio, no single-borrower limit, no stress test, no resolution plan.

The SEC tried: the Private Fund Advisers Rule (August 2023) would have required quarterly disclosures, independent valuation audits, and side-letter restrictions. The Fifth Circuit vacated it in NAPFM v. SEC (June 5, 2024). Chair Paul Atkins has not re-proposed.

The product functions like a bank deposit: money in, regular returns, quarterly access. However, the oversight does not match that.

Sources: Investment Company Act of 1940 §2(a)(48), §55, §61; Small Business Credit Availability Act of 2018; IRC Subchapter M (§852, RIC pass-through tax rules); 12 CFR 32 (national bank single-borrower lending limits); Federal Reserve Regulation YY (Category III tailoring); Basel III: Finalising post-crisis reforms (BIS, Dec 2017); NAPFM v. SEC, No. 23-60471 (5th Cir., Jun 5, 2024); SEC Private Fund Advisers Rule, Release No. IA-6383, 88 Fed. Reg. 63206 (Sept 2023).

III

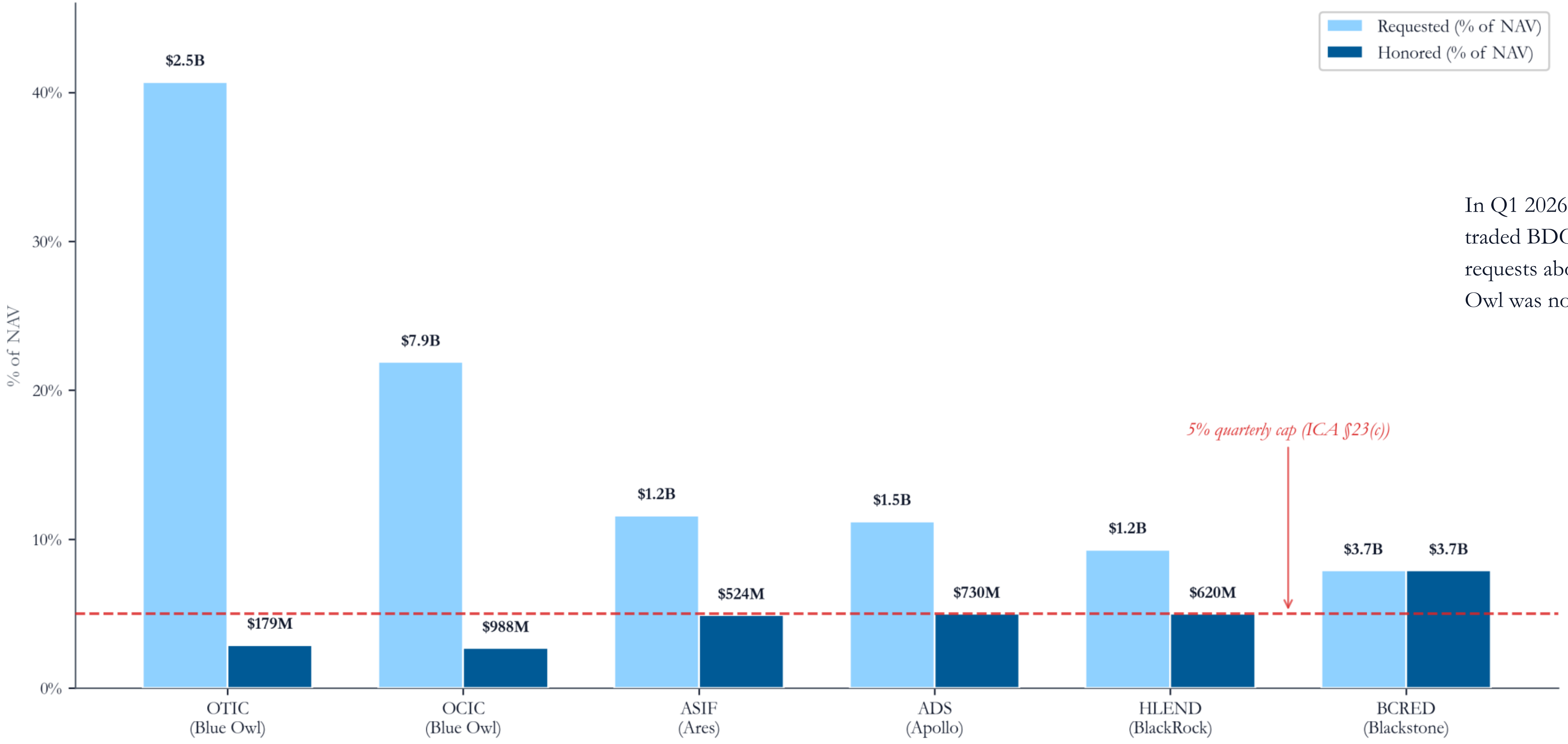
PART III

The Pattern

Three firms, one structural mismatch.

Blue Owl is not the outlier. The same liquidity break played out at Ares and Apollo in the same quarter, and at Blackstone three years earlier. The product structure is the constant.

Not Just Blue Owl: More Managers Hit Their 5% Redemption Cap in the Same Quarter



In Q1 2026, five of the largest non-traded BDCs faced redemption requests above their 5% cap. Blue Owl was not the outlier.

Sources: HLEND Q1 2026 Repurchase 8-K (SEC EDGAR, Mar 6, 2026); Bloomberg (Mar 2 and Mar 6, 2026); CNBC (Mar 23, 2026); AltsWire (Mar 2026); Blue Owl OCIC and OTIC tender-offer disclosures (SEC EDGAR, CIK 1812554, CIK 1869453).

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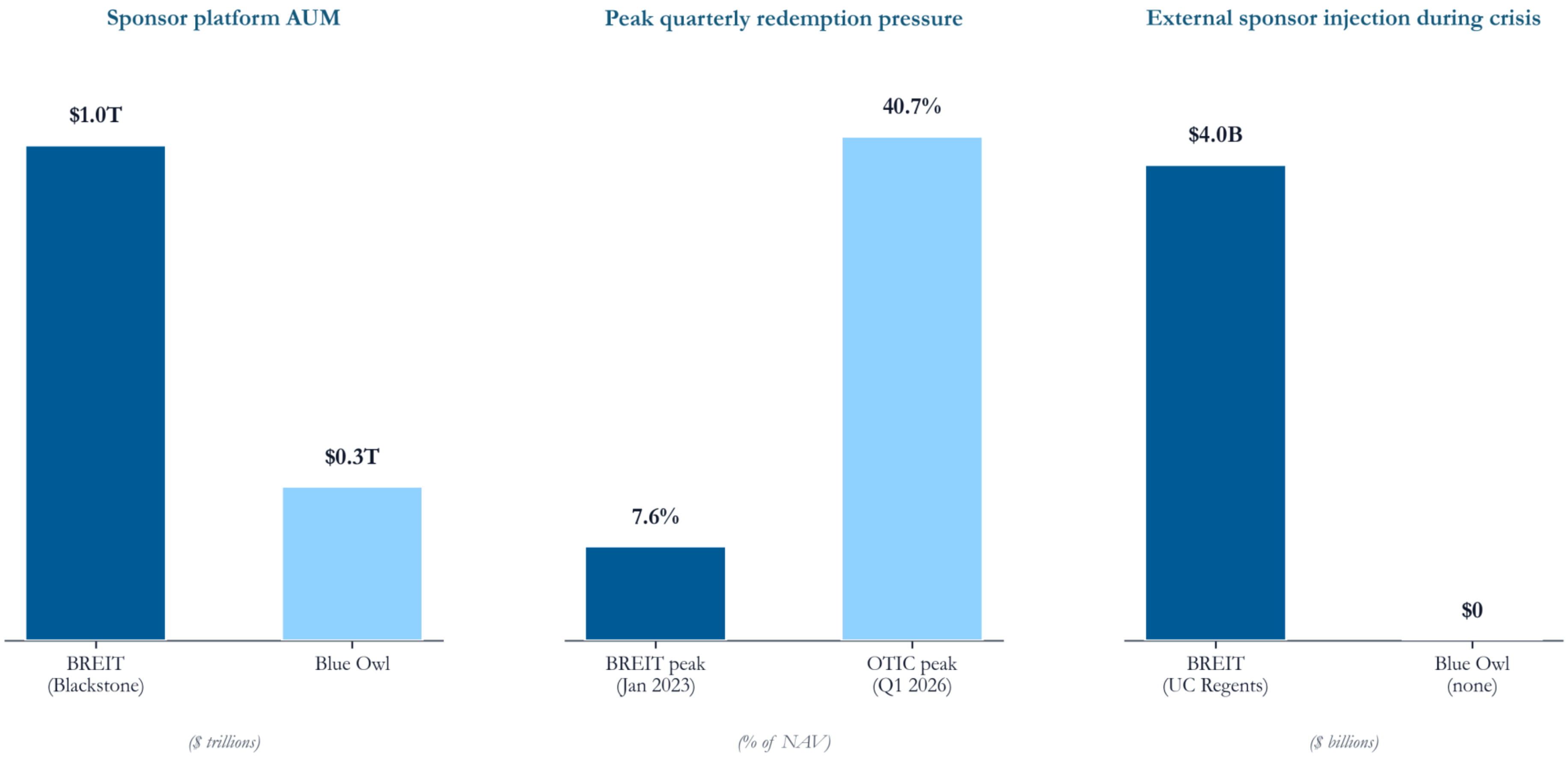
The BREIT Precedent

This has happened before. Blackstone needed fifteen months and a $4 billion injection to stabilize.



What saved BREIT:

1. Blackstone's $1 trillion platform absorbed the operational stress.

2. UC Investments injected $4 billion into BREIT Class I shares on Jan 3, 2023, at an 11.25% return floor backed by Blackstone's balance sheet.

3. The underlying asset class, primarily US logistics and rental housing, held its value through the gating period.

Why Blue Owl is structurally weaker:

1. $307B platform, less than one-third of Blackstone's at the time.

2. No comparable sponsor injection has been announced.

3. Largest concentration is software and SaaS, an asset class being re-rated lower as AI disruption pressures recurring revenue.

BREIT (Blackstone Real Estate Income Trust), Blackstone's non-traded retail REIT, gated November 2022 to February 2024. Peak month: $5.3B requested in January 2023 alone (~3x the 2% monthly cap on a ~$70B fund).

Sources: Blackstone Press Release (Jan 3, 2023); Bloomberg (Jan 3, 2023; Mar 2, 2026); Commercial Observer (Mar 2024); AltsWire (Mar 2026); Blue Owl OCIC and OTIC tender-offer disclosures (SEC EDGAR, CIK 1812554, CIK 1869453).

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The Structural Problem: Semi-liquid Wrappers on Illiquid Assets Are the Issue, Not Any One Manager

The recurring pattern across Blue Owl, Ares, Apollo, and Blackstone is not a story about manager quality. It is a story about a product structure that promises quarterly liquidity on assets that take five to seven years to monetize.

When sentiment turns, the structure breaks the same way every time. The 5% cap activates, redemptions defer, and investors who sought liquidity get a fraction of what they asked for.

More crises will come. The question is whether they happen in the open, or in the dark.

The Mismatch

Quarterly liquidity is a marketing feature, not a portfolio feature. The underlying loans are direct lending, mostly floating-rate term debt to private companies, with hold periods of 5 to 7 years. There is no public market to sell into.

The Constant

Every major gating event in the asset class, BREIT in 2022, OBDC II / OCIC / OTIC in 2025-26, ASIF and ADS in Q1 2026, has run through the same 5% quarterly cap mechanism. The mechanism is the constant.

The Next Round

Private credit financed roughly 83% of leveraged buyouts announced in early 2025 by deal count. The asset class is now systemically connected to corporate credit. The next gating event will be larger, not smaller.

Sources: S&P Global Market Intelligence, "Private debt's share of buyout financing hits decade high" (Feb 2025); Morgan Stanley IM, "Evolution of Direct Lending" (2026); fund-level gating disclosures cited on Slides 22–23.

IV

PART IV

What Needs to Change

Four failures, four fixes.

The structural problems demonstrated in Parts II and III are fixable. Each fix below is tied directly to a failure that already happened. None of them are theoretical.

Four Recommendations

The four recommendations below are not a wish list. They are the minimum framework needed to close the gap between what private credit funds promise investors and what the rules actually require. The EU is implementing three of the four through AIFMD II. Australia is acting on all four through ASIC REP 820. The United States has done none of them.

Liquidity Mismatch → Liquidity Honesty:
Either real liquidity buffers sized to a stress-tested level of redemptions, or honest lock-up terms that match the actual liquidity of the underlying assets. No more "quarterly liquidity" with a 5% gate.

Opacity → Transparency:
Standardized quarterly disclosure of portfolio composition, sector concentration, NAV methodology, and redemption statistics. Independent third-party valuation of illiquid assets at least annually.

Recommendations

Retail Exposure → Retail Protections:
Suitability standards on semi-liquid private credit products marketed to retail. Standardized risk disclosure before retirement money enters private credit. Fee caps for retail-facing vehicles.

Scale Without Oversight → Prudential Basics:
Concentration limits by sector and borrower, leverage reporting, and periodic stress testing for funds above a size threshold (for example, $50B in AUM).

Sources:: EU Directive 2024/927 (AIFMD II), transposition deadline 16 April 2026; ASIC, REP 820: Private credit surveillance report, retail and wholesale surveillance (Nov 5, 2025); UK FCA, Asset Management & Alternatives Portfolio Letter (Mar 1, 2024).

1. Transparency and Independent Valuation

Require private credit funds above a size threshold to provide standardized quarterly disclosures: portfolio composition, sector concentration, NAV methodology, and redemption statistics. Require independent third-party valuation of illiquid assets at least annually. Mark-to-market is the foundation of every other rule below; without it, leverage limits and stress tests have nothing to anchor to.

Blue Owl evidence

Management said there was "no meaningful redemption pressure" while year-over-year requests rose 20%. The OBDC II merger implied a NAV that was 20% above realizable value, a gap retail investors had no way to see. The 70% software concentration was not widely understood until the crisis broke.

International precedent

The UK FCA opened a multi-firm review of private market valuation governance in March 2024, focused on accountability, board oversight, and audit trail. ASIC REP 820 (Nov 2025) flagged inconsistent disclosures, opaque fee structures, and mixed valuation practices across 28 Australian private credit funds. AIFMD already mandates an independent depositary for fund asset oversight.

Sources: UK FCA, "Asset Management & Alternatives Portfolio Letter" (Mar 1, 2024); ASIC, REP 820 (Nov 5, 2025); Directive 2011/61/EU (AIFMD); Goldman v. Blue Owl Capital Inc., 1:25-cv-10047 (SDNY, Dec 3, 2025).

2. Liquidity Honesty

If a fund gates at 5% of NAV per quarter, it should not be marketed as offering "quarterly liquidity." Either require genuine liquidity buffers (cash or liquid assets sufficient to meet a stress-tested level of redemptions) or require honest lock-up terms that match the actual liquidity of the underlying assets. The product label has to match the product structure.

Blue Owl evidence

Two non-traded BDCs hit their 5% caps in Q1 2026 alone. OTIC investors requested 40.7% of NAV out and were paid 5%. OBDC II redemptions were halted permanently on Feb 18, 2026, and converted to a return-of-capital structure with no investor vote. Blue Owl sold an estimated $1.4B in credit assets to partially meet redemptions.

International precedent

AIFMD II (transposition deadline April 16, 2026) requires loan-originating open-ended AIFs to implement mandatory liquidity management tools, including gates, notice periods, and anti-dilution levies, and caps leverage at 175% of NAV. ASIC REP 820 named liquidity mismatches and limited stress testing as a sector-wide issue.

Sources: EU Directive 2024/927 (AIFMD II), Article 16 and Annex V, transposition deadline 16 April 2026; ASIC, REP 820 (Nov 5, 2025); Blue Owl OCIC and OTIC tender-offer disclosures (SEC EDGAR, CIK 1812554, CIK 1869453); OBDC II Form 8-K (Feb 18, 2026).

3. Retail Protections

Apply suitability standards to semi-liquid private credit products marketed to retail investors. Require clear, standardized risk disclosure, in particular on liquidity caps and NAV methodology, before any retirement money enters private credit. Consider fee caps for retail-facing vehicles, where layered management and incentive fees compound the gap between gross and net returns.

Blue Owl evidence

OCIC, OTIC, and OBDC II were marketed to retail and high-net-worth investors. The industry-wide push to extend private credit into 401(k) plans, supported by Apollo, Blackstone, and KKR, is accelerating. Retail investors did not have the data to verify NAV claims or redemption pressure. They relied on management representations. Both proved unreliable.

International precedent

The EU's AIFMD restricts most loan-originating AIFs to professional investors. ASIC has already issued stop orders on retail private credit fund Target Market Determinations and named private credit a 2026 enforcement priority. ASIC REP 820 specifically flagged poor disclosure and distribution to retail.

Sources: Directive 2024/927 (AIFMD II), retail-investor restrictions; ASIC, REP 820 (Nov 5, 2025); ASIC, "Enforcement priorities 2026" (Nov 2025); FT, "Retail private credit is an unsolvable problem" (2026).

4. Prudential Basics

Funds above a size threshold (for example, $50 billion in AUM) should face basic prudential requirements: concentration limits by sector and borrower, leverage reporting, and periodic stress testing. These are not exotic ideas. Banks have operated under them for decades. A $307 billion private credit manager is not a startup. It is a systemically meaningful institution that should be supervised like one.

Blue Owl evidence

Software and SaaS exposure is roughly 70% of one Blue Owl portfolio, nearly three times the sector average. The parent manages $307.4B in AUM with no prudential oversight. A bank with this asset base would face Reg YY enhanced prudential standards, lending-limit rules under 12 CFR 32, and concentration thresholds. Blue Owl faces none of those.

International precedent

AIFMD II caps leverage at 175% of NAV for open-ended loan-originating AIFs and 300% for closed-ended, requires 5% risk retention on transferred originated loans (held until maturity for loans up to 8 years), and imposes single-borrower exposure limits. The framework is already drafted; the United States simply has not adopted an equivalent.

Sources: EU Directive 2024/927 (AIFMD II), Article 15 and Annex V; 12 CFR Part 252 (Federal Reserve Regulation YY); 12 CFR 32 (OCC lending limits); Blue Owl Capital Q4 2025 Results.

V

PART V

The Gap Is the Risk

The rules have not kept up.

Private credit is not going away, and it should not. It fills a real financing gap that banks left after the financial crisis. But the industry has outgrown the framework it operates under.

Where We Stand and What Happens Next

While private credit grew nearly fivefold and opened to retail over the last decade, U.S. regulation stood still, and Europe and Australia did not.

What changed

AUM: $500B (2015) to $2.3T (2025). Preqin.

Investor base: institutional-only to retail and high-net-worth, via semi-liquid wrappers.

Buyout financing: 36% of middle-market LBOs (2014) to 90% (2024). LSEG LPC.

What did not

The SEC's Private Fund Advisers Rule was vacated in full by the 5th Circuit on June 5, 2024. The current administration has not proposed an equivalent.

The EU adopted AIFMD II in March 2024. Transposition deadline April 16, 2026. Leverage caps, mandatory liquidity tools, 5% risk retention on originated loans.

ASIC published REP 820 on November 5, 2025. Private credit is a 2026 enforcement priority. Stop orders against retail Target Market Determinations already issued.

What Happens Next

Blue Owl is not the last firm this will happen to. It is the one that happened to go first. Ares and Apollo gated their semi-liquid private credit funds in the same quarter. The product structure is the constant: quarterly liquidity on illiquid loans, retail capital, no prudential floor.

More crises will come. The question is whether they happen under a framework that protects investors and the financial system, or whether they happen in the dark.

Sources: 5th Circuit, NAPFM v. SEC, No. 23-60471 (Jun 5, 2024); EU Directive 2024/927 (AIFMD II); ASIC, REP 820 (Nov 5, 2025); Preqin Global Private Debt Report (2025); LSEG LPC.