

MEMO# 27613

October 1, 2013

OFR Report On Asset Management and Financial Stability; Comments Due to SEC By November 1, 2013

[27613]

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TO: BOARD OF GOVERNORS No. 13-13

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INVESTMENT ADVISER MEMBERS No. 68-13

SEC RULES MEMBERS No. 93-13

SMALL FUNDS MEMBERS No. 57-13

UNIT INVESTMENT TRUST MEMBERS No. 18-13 RE: OFR REPORT ON ASSET MANAGEMENT AND FINANCIAL STABILITY; COMMENTS DUE TO SEC BY NOVEMBER 1, 2013

The Office of Financial Research (OFR) has completed a report on the asset management industry and “how asset management firms and the activities in which they engage can introduce vulnerabilities that could pose, amplify or transmit threats to financial stability.” [\[1\]](#) The Financial Stability Oversight Council (FSOC) requested the report in order to better inform its analysis of whether—and how—to consider asset management firms for enhanced prudential standards and supervision by the Federal Reserve Board under Section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. [\[2\]](#) The Securities and Exchange Commission has announced that it will accept public feedback on the report until November 1, 2013. [\[3\]](#) ICI intends to comment on the report.

The report begins by describing the activities of asset management firms and the funds they manage. It also identifies the top 20 asset managers based on worldwide assets under management and the “significant asset class business lines” for 16 domestic asset managers. It then describes what OFR believes are:

- the key factors that make the industry vulnerable to shocks: (1) “reaching for yield” and herding behaviors; (2) redemption risk in collective investment vehicles; (3) leverage, which can amplify asset price movements and increase the potential for fire sales; and (4) firms as sources of risk;
- the key channels through which shocks can be transmitted: exposures across funds

and firms and the impacts of fire sales; and

- the data available to measure the activities, vulnerabilities and channels described in the report, and the nature of the gaps in those data.

The report “does not focus on particular risks posed by money market funds” and “the activities and risks posed by hedge funds, private equity and other private funds are not addressed in detail.” [4] Instead, OFR intends to conduct additional analysis on private funds in conjunction with further analysis of data filed on Form PF.

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endnotes

[1] OFR, Asset Management and Financial Stability (Sept. 2013), available at http://www.treasury.gov/initiatives/ofr/research/Documents/OFR_AMFS_FINAL.pdf.

[2] For background information, see Institute Memorandum 26036 (Apr. 10, 2012) (summarizing FSOC’s adoption of a final rule and interpretive guidance regarding the designation of systemically important financial institutions, or SIFIs), available at <http://www.ici.org/policy/regulation/sysrisk/memo26036>.

[3] See Public Feedback on OFR Study on Asset Management Issues (press release dated Sept. 30, 2013), available at <http://www.sec.gov/News/PressRelease/Detail/PressRelease/1370539852635#.UksBE6xZPIw>.

[4] ORF report, *supra* note 1, at 2.