

**MEMO# 28602**

December 19, 2014

# **FSOC Request For Comment on Asset Management and Possible Risks to Financial Stability**

[28602]

December 19, 2014

TO: ACCOUNTING/TREASURERS MEMBERS No. 21-14  
BOARD OF GOVERNORS No. 3-14  
CHIEF RISK OFFICER COMMITTEE No. 10-14  
CLOSED-END INVESTMENT COMPANY MEMBERS No. 36-14  
COMPLIANCE MEMBERS No. 18-14  
ETF (EXCHANGE-TRADED FUNDS) COMMITTEE No. 19-14  
ETF ADVISORY COMMITTEE No. 18-14  
INVESTMENT COMPANY DIRECTORS No. 16-14  
OPERATIONS MEMBERS No. 23-14  
SEC RULES MEMBERS No. 52-14  
SMALL FUNDS MEMBERS No. 28-14  
UNIT INVESTMENT TRUST MEMBERS No. 10-14  
VARIABLE INSURANCE PRODUCTS ADVISORY COMMITTEE No. 14-14 RE: FSOC REQUEST FOR COMMENT ON ASSET MANAGEMENT AND POSSIBLE RISKS TO FINANCIAL STABILITY

At an open session on December 18, the Financial Stability Oversight Council (FSOC or Council) considered whether to issue a request for comment on asset management products and activities. This memorandum briefly describes the request for comment and highlights certain FSOC members' comments on this topic at the meeting. [\[1\]](#)

FSOC Chairman and Treasury Secretary Jacob Lew began by noting that FSOC staff had held a public conference on asset management and financial stability in May and, in late July, FSOC instructed the staff to conduct a more focused inquiry into industry-wide products and activities to assess potential risks associated with the asset management industry. He commented that this work has highlighted various areas of interest for further review and analysis: (1) liquidity and redemptions; (2) leverage; (3) operational functions; and (4) resolution.

FSOC members voted unanimously to issue the request for comment. [\[2\]](#) The Notice poses several questions in each of the four areas noted above and invites public input on other areas associated with asset management products and activities that could affect U.S.

financial stability. Comments will be due 60 days from publication of the Notice in the Federal Register.

During the discussion preceding the vote, Securities and Exchange Commission Chair Mary Jo White observed that the issues discussed in the FSOC notice are important and complex, and that the FSOC request for comment is a “constructive complement” to SEC initiatives focused on the asset management industry. [3] White also said that the information obtained from public comments may further inform the SEC’s work. The SEC initiatives are mentioned in the Notice, which states that the Council “intends to consider the impact these initiatives may have in reducing any risks to U.S. financial stability associated with the asset management industry.”

Roy Woodall, the independent member of FSOC with insurance expertise, spoke briefly about the intersection of insurance and asset management, and he urged the insurance community to provide comments. Woodall commented that he is particularly interested in others’ views about redemption risks in insurance products, noting that FSOC had articulated its views on that topic in the document explaining the basis for FSOC’s designation of Prudential Financial, Inc. as a systemically important financial institution, or SIFI. [4]

Secretary Lew emphasized at the meeting that there are no predetermined outcomes. In this regard, the Notice states:

The Council has not made any determination regarding the existence or nature of any potential risks to U.S. financial stability discussed in this Notice. Throughout this Notice, the Council asks questions regarding areas of potential risk in the asset management industry and will consider the input received in each case in evaluating whether any of these areas might present potential risks to U.S. financial stability. In the event the Council’s analysis identifies risks to U.S. financial stability, the Council will consider potential responses.

ICI intends to file a comment letter in response to the Notice, and urges its members and other stakeholders to consider filing their own comment letters.

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#### **endnotes**

[1] A readout from the meeting, which also included discussion of other topics, is available at <http://www.treasury.gov/initiatives/fsoc/council-meetings/Documents/December%2018,%202014.pdf>.

[2] FSOC, Notice Seeking Comment on Asset Management Products and Activities, Docket No. FSOC-2014-0001 (Dec. 18, 2014) (“Notice”), available at <http://www.treasury.gov/initiatives/fsoc/rulemaking/Documents/Notice%20Seeking%20Comment%20on%20Asset%20Management%20Products%20and%20Activities.pdf>.

[3] See Enhancing Risk Monitoring and Regulatory Safeguards for the Asset Management Industry, Speech by SEC Chair Mary Jo White at The New York Times Dealbook Opportunities for Tomorrow Conference, New York, NY (Dec. 11, 2014), available at <http://www.sec.gov/News/Speech/Detail/Speech/1370543677722#.VloGhTHF884>.

[4] That document is available at <http://www.treasury.gov/initiatives/fsoc/designations/Documents/Prudential%20Financial%20Inc.pdf>.

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