

MEMO# 30283

September 30, 2016

ICI Files Response to FSB Policy Recommendations for Asset Management; ICI President Testifies Before Congress Regarding the FSB

[30283]

September 29, 2016

TO: ACCOUNTING/TREASURERS MEMBERS No. 27-16
CHIEF RISK OFFICER COMMITTEE No. 29-16
CLOSED-END INVESTMENT COMPANY MEMBERS No. 17-16
COMPLIANCE MEMBERS No. 30-16
ETF (EXCHANGE-TRADED FUNDS) COMMITTEE No. 23-16
ETF ADVISORY COMMITTEE No. 22-16
ICI GLOBAL STEERING COMMITTEE No. 18-16
ICI GLOBAL REGULATED FUNDS COMMITTEE No. 66-16
INVESTMENT COMPANY DIRECTORS No. 28-16
OPERATIONS MEMBERS No. 29-16
SEC RULES MEMBERS No. 54-16
SMALL FUNDS MEMBERS No. 43-16
UNIT INVESTMENT TRUST MEMBERS No. 9-16
VARIABLE INSURANCE PRODUCTS ADVISORY COMMITTEE No. 21-16 RE: ICI FILES RESPONSE TO FSB POLICY RECOMMENDATIONS FOR ASSET MANAGEMENT; ICI PRESIDENT TESTIFIES BEFORE CONGRESS REGARDING THE FSB

As we previously informed you, the Financial Stability Board issued a consultative document (“consultation”) in June regarding “structural vulnerabilities” in asset management activities.[\[1\]](#) On September 21, ICI submitted a detailed comment letter in response to the consultation. The following week, ICI President & CEO Paul Schott Stevens testified at a US Congressional hearing regarding the FSB and its implications for US growth and competitiveness. This memorandum briefly summarizes the comment letter and testimony.

Comment letter on the consultation

By way of background, the FSB’s consultation focuses on four areas: (1) liquidity mismatch between fund investments and redemption terms and conditions for fund units; (2)

leverage within investment funds; (3) operational risks and challenges in transferring investment mandates in a stressed condition; and (4) securities lending activities of asset managers and funds. The consultation sets forth 14 proposed policy recommendations to address “residual risks” to global financial stability. Nine of the proposed recommendations relate to liquidity mismatch and three relate to leverage, the two areas that the FSB describes as “key vulnerabilities”. Many of the proposed recommendations call for follow-up work by the International Organization of Securities Commissions (“IOSCO”).

ICI’s comment letter generally supports the delegation to IOSCO and national authorities of further work in the four areas covered by the consultation, and it raises few objections to the specific policy recommendations.^[2] The letter strenuously objects, however, to the FSB’s unsubstantiated assertions about potential risks to financial stability that underlie the recommendations. The letter includes an appendix that directly responds to the FSB’s hypothetical scenarios about open-end funds invested in less-liquid assets, using recent market experience in high-yield bond markets and publicly available data. The letter also: (1) urges the FSB to adopt more exacting principles and standards to govern its work; (2) recommends delegation to IOSCO of further work on asset management activities; and (3) suggests that, should the FSB later finalize its methodologies for identifying non-bank non-insurer global SIFIs, regulated funds and their managers (at a minimum) should be outside the scope of such methodologies.

FSB testimony

On September 27, ICI President Paul Stevens testified before the US House Committee on Financial Services, Subcommittee on Monetary Policy and Trade, on “the Financial Stability Board’s implications for US growth and competitiveness”.^[3] His testimony acknowledges positive developments in the direction of the FSB’s asset management work, but cautions that the FSB plans to revisit identification of funds or asset managers for possible global SIFI designation, which could have dire consequences for funds and their investors. It details ICI’s continuing, serious concerns with how the FSB’s central bank-dominated structure and flawed processes have affected its work on asset management, and draws parallels to ICI’s concerns regarding the US Financial Stability Oversight Council. The testimony outlines ICI’s recommendations for addressing these concerns.

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endnotes

^[1] See ICI Memorandum Attachment [30003](#), dated June 23, 2016.

^[2] ICI’s comment letter is *available at* https://www.ici.org/pdf/16_ici_fsb_ltr.pdf. A summary of ICI’s views on the proposed recommendations can be found on pages 4-7 of the letter.

^[3] Mr. Stevens’ written testimony and oral statement are *available at* https://www.ici.org/pdf/16_house_fsc_fsb.pdf and https://www.ici.org/policy/regulation/stability/16_house_fsc_fsb_oral, respectively.

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