ICI VIEWPOINTS

January 20, 2014

Column Makes the Same Mistakes as OFR

In recent months, both the U.S. Treasury Department's Office of Financial Research (OFR) and international regulators such as the Financial Stability Board (FSB) have examined whether asset managers pose risks to financial stability. One report is deeply flawed; the other offers a more informed view. Unfortunately, Gretchen Morgenson’s New York Times column (“Bailout Risk, Far Beyond the Banks,” January 12) veers toward the flawed report.

The FSB carefully distinguishes among different types of asset managers and investment funds, and acknowledges that current fund regulation limits systemic risk. The FSB observes that “funds contain a specific ‘shock absorber’...fund investors absorb the negative effects [of fund losses], thereby mitigating” systemic risk. This is exactly the point of ICI Global’s statement, which Morgenson dismissed. Morgenson also ignores the FSB’s observation that fund liquidations during what Ben Bernanke called “history’s worst financial crisis” did not have systemic impact.

The recent report by the OFR largely obscures these important distinctions.

The U.S. and global fund industry supports reforms that will strengthen financial markets. But any regulation must be based in sound analysis—sadly missing from both Morgenson’s column and the Treasury report.