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Former ICI President Matt Fink Decries FSOC's "Revisionist History"

Arguments that large stock and bond mutual funds are prone to "runs" that can destabilize markets go back many decades, and are as misguided now as they were then, argues Matt Fink, ICI president from 1991 to 2004, and author of The Rise of Mutual Funds: An Insider's View.

In an opinion piece written for Ignites (subscription required), Fink cites claims by bank regulators and others that large mutual funds pose risks to the overall financial system, and thus require designation by the Financial Stability Oversight Council (FSOC) as systemically important financial institutions, or SIFIs. As ICI has pointed out previously, such designation—and the resulting "prudential supervision" by the Federal Reserve—would raise costs for investors, harm a fund's ability to serve its investors, and distort the marketplace.

Fink points out that claims of mutual fund "runs" were first brought up in the aftermath of the stock market crash of 1929, leading to calls to limit the size of mutual funds. But the unique structure of the funds and their managers, as well as the tough controls incorporated in the Investment Company Act of 1940, have meant that "no stock or bond fund has ever faced a run, failed, or otherwise posed a risk to the financial system," Fink writes.

He adds that two examples of risk most cited by modern critics—Reserve Primary Fund's "breaking the dollar" in 2008 and the failure of Long-Term Capital Management (LTCM) in 1998—are "red herrings." Though some regulators currently allege that risks arise from stock and bond mutual funds, neither Reserve Primary (a money market fund) nor LTCM (a hedge fund) supports their case. "If anything," he concludes, "these two cases highlight the remarkably successful history of stock and bond mutual funds, which have successfully weathered many crises without placing the financial system in peril."

For more information on ICI's views and research on financial stability, please visit our Financial Stability Resource Center or read the previous entries in our recent Viewpoints series on the subject:

- SIFI Designation for Funds: Unnecessary and Harmful
- Size by Itself Doesn't Matter—Leverage Does
- The Market Crash That Never Came
- Who Are the FSB 14?
- How SIFI Designation Could Lead to a New Taxpayer Bailout

- Overseas Overreach
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