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Mutual Funds: Too Big to Fail? ICI Chief Economist Brian Reid on Mutual Funds and Systemic Risk

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ICI Chief Economist Brian Reid appeared on WSJ Live's *Opinion Journal* on July 27, 2015, to discuss why mutual funds don't pose a system risk to the U.S. financial system, and why designation by the Financial Stability Oversight Council would harm mutual fund investors.

Transcript

Mary Kissel, WSJ Editorial Board Member: Just when you thought the federal government was done strangling the financial industry, well, think again. Now mutual funds are in the crosshairs. Investment Company Institute Chief Economist Brian Reid joins the show. Brian, there's so many regulators in Washington. Which one are we talking about, and what are they thinking about doing?

Brian Reid, ICI Chief Economist: Well, we're talking about what's called the Financial Stability Oversight Council. It's all the financial regulators that get together periodically and think about what are the new areas that they need to focus on and worry about in terms of risk for the financial system.

Kissel: But what's so risky about mutual funds? These are individual investors, effectively putting their money in a different kind of savings account, right?

Reid: What mutual funds are, is they're investing in stocks, their investing in bonds. They're letting the asset manager create a portfolio that they think that clients or investors are going to want to put their money in.

What we're concerned about here is, while the Financial Stability Oversight Council has shifted its focus to the markets—kind of a more holistic approach—we're also concerned that they could begin to dictate how these asset managers manage their funds.

Kissel: Well, they're thinking about designating them as too big to fail, just like banks, correct?

Reid: They have put that on the back burner of saying there are some asset managers that may be requiring additional regulation. They haven't said we're taking that off the table, they're just putting it on the back burner.

So what they're turning to, they're saying, are "products and activities"—so, how are the markets operating, how does your fund operate as well?

Kissel: Well, what does that mean? Do they sit on high and kind of predict how the markets are going to move? Are they trying to regulate risk out of the market? What does this mean, exactly?

Reid: What they're looking at is, how is your fund manager actually managing his or her fund—what they're paid to do, to do on your behalf as an investor? They're also worried about, how are investors reacting during periods of market stress? So they're considering rules, proposals, whatever, to restrict the ability for you as an investor to trade, or even for how that asset manager constructs that portfolio.

Kissel: So won't that just result in higher costs for me as an investor?

Reid: It certainly will restrict the ability of your asset manager to work on your behalf. And so this is one of our concerns. We haven't been opposed to looking holistically at these markets but we are opposed to Washington coming in and setting up rules so the asset manager is looking to please Washington, rather than to please their investors.

Kissel: Pleasing Washington rather than pleasing investors. You just can't make it up. Investment Company Institute Chief Economist Brian Reid, thanks very much.

Reid: Thank you.

Additional Resources

ICI's Financial Stability Resource Center

Six Reasons Why SIFI Designation is Unnecessary for Regulated Funds—and Would Be Harmful to Funds, Investors, and the Capital Markets

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