

VIDEO

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ICI Chief Economist Explains Why Mutual Funds Do Not Pose Systemic Risk

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In a September 9, 2014, appearance on WSJ Live's Opinion Journal, ICI Chief Economist Brian Reid discusses recent reports that the Securities and Exchange Commission (SEC) will be examining mutual funds and financial stability. He also looks at the potential impact of new mutual fund regulations on U.S. capital markets.

Transcript

Mary Kissel: The Securities and Exchange Commission is really, really worried about mutual funds. But, why? Investment Company Institute Chief Economist Brian Reid joins me now from Washington. Brian, I don't understand the concern here. I thought that investors bore the risk when you invest in a mutual fund. Explain what's going on.

Brian Reid: Well, investors do bear the risk, and I think that's one of the key points that we've been making. What the SEC is doing is stepping back and saying, are the rules that we have in place already the right rules for mutual funds, are they protecting investors, and, in the same way, are they also helping to protect the financial markets? We don't know exactly what they're considering, but for a while they've been looking at derivative usage, can they get some more data to monitor the markets. We think that's where the SEC is going, and actually, we think that is a good trend—rather than having to sit with the Financial Stability Oversight Council. The SEC knows. They have experience with regulating funds and the asset managers.

Mary Kissel: OK, you've raised what's called FSOC, it's another big government overseer, and they can deem funds systemically important. Now, Brian, the FSOC said that they wouldn't do that, but you say the matter isn't closed yet?

Brian Reid: From our point of view and from the statements that FSOC has made, the matter is still open. At any time, they can designate a large asset manager as systemically important. Our concern about that all along is that those costs, if not done right—if that designation or any other sort of regulations directed by FSOC is not done right—mutual fund investors are going to bear the cost of that. But worse, this could really upend the U.S. capital markets. The U.S. capital markets are designed for investors to bear risk, and they're compensated for that risk, as opposed to the banking sector, where we're always trying to tamp down risk because banks have a limited ability to absorb that. Investors in a mutual fund absorb that risk and the losses every single day when that fund is repriced.

Mary Kissel: Well, you're raising a larger theme here, the Obama Administration doesn't seem to want anybody to bear risk except us, the taxpayer. Isn't that what Dodd-Frank was all about, the Consumer Financial Protection Bureau, eliminating risk from the market?

Brian Reid: You know, you can't eliminate risk. One of the more negative consequences of trying to eliminate risk is that we'll eliminate, then, capital flow for investment to U.S. businesses. Inherently, investing entails risk. And if we try to take that out of the system, then there's not going to be a source of capital for U.S. businesses to grow. And that is really what's critical. The U.S. economy is so much more robust because we have robust, large capital markets. Our view of this is, don't destroy what's working. It's adding resiliency to our economy and that's why we're growing so much more rapidly coming out of this recession than other countries did—because of those robust capital markets.

Mary Kissel: I don't know, we're not growing very robustly—2 percent. It looks to me like we've got to keep an eye on the SEC and this FSOC business, and hope they don't destroy our mutual fund industry in the process. Investment Company Institute Chief Economist Brian Reid, thanks so much for joining us.

Brian Reid: Thank you.

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- [ICI Statement on SEC Role in Financial Stability](#)
- [ICI Resource Center on Financial Stability and the Asset Management Industry](#)

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