

VIDEO

April 11, 2014

Focus on Funds: Responding to the Financial Stability Board Regarding Asset Management and Systemic Risk

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The April 11, 2014, edition of *Focus on Funds* outlines ICI's response to the Financial Stability Board (FSB) on behalf of U.S. and global funds, noting that—in determining risk—a focus on fund size is misplaced, and leverage is critical.

Transcript

Stephanie Ortbals-Tibbs, Director, ICI Media Relations: Welcome to *Focus on Funds*, the Investment Company Institute's weekly roundup of industry news, ICI activities, and research findings. A global issue is brewing for funds and their investors. The Financial Stability Board (FSB) is examining the issue of asset management and systemic risk. I spoke with ICI Global Managing Director Dan Waters about ICI comments to the FSB regarding this issue.

This is really a curtain raiser on an issue that's going to be of tremendous importance to funds and their investors. Could you outline for us the question at hand and the concerns that we have?

Dan Waters, ICI Global Managing Director: The problem is that we think the Financial Stability Board is starting from the wrong place. The question they're asking is: "are funds, are large mutual funds, systemically risky institutions?" We think the answer is very clearly no. There are four reasons for that. The first reason is that they are not leveraged, and we know that leverage has been the source of every major financial crisis in known history. Second, they don't fail or unwind or close in a disorderly manner. Funds come and go on a routine basis and we know that from the history and a look at the data. Third, they don't panic in crises. They don't behave like that. And fourthly, they are comprehensively regulated.

Stephanie Ortbals-Tibbs: So now of course we all watch and wait. What comes next?

Dan Waters: What comes next is the Financial Stability Board will consider the submissions that we and other stakeholders have made. We expect sometime in the autumn for them to come forward with their proposals.

Stephanie Ortvals-Tibbs: And we're hoping that maybe they will pick up on one of the places where they did seem be going in the right direction in their consultation. Can you tell me about that?

Dan Waters: Indeed. They did open the door to the discussion about whether a better way of looking at financial stability risk in capital markets is looking at activities in the markets. This, we think, is a more fruitful approach.

Stephanie Ortvals-Tibbs: That's this week in funds...see you next week.

Additional Resources

- [Letter: ICI Comments on FSB's Proposed Assessment Methodology for Identifying G-SIFIs](#)
- [Release: ICI: G-SIFI Designation of Regulated Funds Unnecessary and Inappropriate, Would Harm Investors](#)
- [ICI Viewpoints: Why Asset Management Is Not a Source of Systemic Risk](#)
- [Financial Stability Resource Center](#)

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