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ICI Credits FSB's Focus on Asset Management Activities and Delegation to Securities Regulators

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FSB Work Requires More Rigor and Transparency

Washington, DC, September 21, 2016—Recent work in asset management from the Financial Stability Board (FSB) properly focuses on activities across the sector rather than individual investment funds and asset managers, according to the comment letter filed today by the Investment Company Institute (ICI). ICI's filing also welcomes the delegation of further work to securities regulators, who have the right expertise and experience to evaluate risks in asset management.

"The latest work out of the FSB demonstrates an important evolution in its approach. By focusing on activities across the sector—rather than singling out individual funds or asset managers for possible SIFI designation—the FSB rightly recognizes that any reforms to mitigate potential risk must be broad based," said ICI President and CEO Paul Schott Stevens. "We also applaud the FSB's decision to charge IOSCO and national securities regulators with shaping those reforms."

ICI's letter raises few objections to the policy recommendations suggested by the FSB. At the same time, the letter strenuously objects to the continued FSB narrative about purported "structural vulnerabilities" in asset management. The letter highlights that the FSB continues to rely on conjecture and assumptions about regulated funds and their managers, while discounting abundant empirical evidence and long-time real-world experience to the contrary.

"Since the FSB first began looking at asset management in 2014, ICI has provided extensive data, analysis, and commentary demonstrating that regulated funds and their managers do not pose risks to global financial stability," said Stevens. "Unfortunately, public comments on FSB's work—including factual rebuttals of its conjectures—seem to have precious little impact on its deliberations."

ICI's letter urges the FSB to adopt more exacting principles and standards to govern its work going forward—reforms that, in ICI's view, would enhance the quality of its regulatory policymaking.

ICI Responds to Request for Comments on Proposed Policy Recommendations

ICI's letter responds to the proposed policy recommendations in each of the FSB's four areas of focus:

- Liquidity and redemptions. ICI welcomes efforts to promote a "high bar" for liquidity management among regulated funds across jurisdictions, including recent work by the International Organization of Securities Commissions (IOSCO). ICI is pleased that the FSB envisions a lead role for IOSCO in future work evaluating liquidity and redemptions in open-end funds. The letter outlines ICI's views regarding the FSB's recommendations with regard to disclosure and reporting, liquidity management tools, and stress testing. (See pages 8-27 of the letter.)

  ICI's letter is highly critical of the FSB's continuing failure to substantiate its concerns that there could be destabilizing redemptions from open-end funds, including those invested in less-liquid assets. The letter points out parallels to the FSB's flawed work on trying to identify individual investment funds for possible designation as global systemically important financial institutions (G-SIFIs). (See page 10.) ICI also responds directly to the FSB's hypothetical scenarios, using recent market experience and data from US, European, and Canadian funds. (See appendix.)

- Leverage. ICI's letter disagrees with the FSB's recommendations that IOSCO develop a "simple and consistent" measure of leverage—because the FSB itself acknowledges that such an approach may fall short in measuring actual risk. The letter indicates that, at a minimum, leverage metrics must be risk-based and consistent with the diversity seen across different fund types and jurisdictions. (See page 27 of ICI's letter.)

- Operational risk and the transfer of investment mandates. ICI's letter notes potential benefit to investors and markets from regulatory requirements or guidance that encourage asset managers to take reasonable steps—proportionate to their business operations and actual risks presented—to plan in advance for potential business interruptions. ICI recommends that such requirements or guidance be applied across the sector and not just to the largest asset managers. (See page 30 of ICI's letter.)

- Securities lending. ICI generally supports targeted collection of securities lending data, to better inform authorities' understanding of this practice. (See page 36 of ICI's letter.)

ICI Calls for More Rigor and Transparency in FSB Work

The closing section of ICI's letter calls upon the FSB to "consider formal adoption of more exacting principles and standards to govern and enhance its processes." The letter suggests the FSB should be required to (1) examine all of the relevant evidence; (2) define clearly the problem to be addressed; and (3) provide reasoned explanations, supported by evidence in the record, for any recommended policy approaches. ICI also calls upon the FSB to "consider more robust rules designed to bring greater transparency to the input that shapes FSB policy initiatives."

ICI's letter also recommends that IOSCO take charge of further work on asset management activities at the global level. Finally, the letter comments on the FSB's stated intention to return to its prior work on methodologies to identify G-SIFIs outside of the banking and insurance sectors. If the FSB engages in an evidence-based analysis, the letter notes, ICI believes the FSB will conclude—at a minimum—that there is no basis for considering regulated funds and their managers for possible G-SIFI designation.