AMIC The buy side voice of ICMA

ICMA International Capital Market Association

ASSET MANAGEMENT AND INVESTORS COUNCIL

ICMA AMIC response – Consultative Document: Proposed Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities

Introductory Comments

The ICMA Asset Management and Investors Council ('AMIC') was established in March 2008 to represent the buy-side members of the ICMA membership. ICMA is one of the few trade associations with a European focus and both buy-side and sell-side representation. AMIC welcomes the opportunity to respond to this consultation by the Financial Stability Board (FSB) on proposed policy recommendations to address structural vulnerabilities from asset management activities.

AMIC strongly welcomes the approach by the FSB to focus on the activities of asset managers rather than designating individual companies as systemically important. In our response to the second consultation on designating non-bank non-insurance global systemically important financial institutions (NBNI G-SIFIs) in 2015, we called for a consideration of the broader market ecosystem and in particular a greater focus on the activities that cause risk rather than the entities that cause risk.

We look forward to working with the FSB and the International Organization of Securities Commissions (IOSCO) in their work on asset management activities.

1. Introduction

Q1. Does this consultative document adequately identify the structural vulnerabilities associated with asset management activities that may pose risks to financial stability? Are there additional structural vulnerabilities associated with asset management activities that the FSB should address? If there are any, please identify them, as well as any potential recommendations for the FSB's consideration.

We note that the content of the consultation paper, by focusing on activities, is more appropriately focused on risks in the financial system stemming from asset management. We are particularly pleased that the section on the potential for liquidity mismatch reflects much of the industry input given in the two previous consultations on NBNI G-SIFI designation. However, we believe there are risks involved in focusing solely on asset management.

We welcome the focus on leverage. In our previous response we noted that in most of the previous asset manager failures, excessive leverage has always been involved. However, focusing only on the third party asset management sector will lead to an incomplete understanding of leverage.

We have taken note of Annex 2 on pension funds and sovereign wealth funds. We believe that a separate focus on certain types of entities (e.g. ETFs in Annex 3) is flawed. This siloed thinking about systemic risk fails to take into account the wider risks across the whole market. We believe the approach should focus on market-wide activities, irrespective of the type of market participant involved. This means that analysis and policy recommendations should take into account the broader

financial ecosystem of market participants, including asset managers, and their actions in capital markets.

The consultation paper recognises that third party asset managers only manage a quarter of the total financial assets of non-retail investors (according to the consultation paper itself, quoting McKinsey, the percentage of assets managed by third party asset managers relative to total financial assets has fallen to 22% in 2011). The majority of non-retail assets are managed directly by market participants instead of by third party asset managers.

Therefore, we find the proposed approach of focusing only on third party asset managers problematic. The consultation paper indicates that one reason for this approach is the lack of data on the rest of participants. It follows that one reason to focus on third party asset managers is that they are regulated in a way that provides a lot of data for analysis. We believe greater efforts should be made to survey the activities and investment decisions of all parts of the investment world before an exclusive focus on third party asset managers is confirmed. We would prefer a holistic, market-wide approach, which takes into account the impact of the actions of a range of market participants.

We believe that throughout the consultation paper the FSB is not focusing sufficiently on the underlying investors in the funds. If the FSB took account of underlying investors, having a "one size fits all" approach to the management of liquidity is less obvious (e.g. how a fund manager manages liquidity if he has a concentrated institutional investor base and a concentrated portfolio will be quite different from how he would manage it with a diverse retail base and a broad portfolio). Furthermore, liquidity management also depends on the kind of investment vehicle being used, e.g. a money market fund would have a very different approach to an illiquid real estate fund. This is why the analysis should take into account the diversity of the asset management world.

The need for a holistic approach should also be extended to the thinking about the use of tools to tackle perceived systemic concerns, where we believe the FSB cannot ignore the need to consider the interests of investors. In many cases the interests of the investors should coincide with the asset managers, but where they do not, or are covered by separate sectoral rules, the FSB should be very clear. Any policy responses following an improved holistic analysis should take into account existing sectoral rules to avoid unnecessary overlap.

Most importantly, we consider that this activities-based approach by the FSB should clearly repeal the previous approach based on the designating NBNI G-SIFIs. We are deeply concerned by the FSB statement on page 2 that the FSB will revisit the scope of NBNI G-SIFI assessment methodologies jointly with IOSCO, by keeping an entity-based approach in addition to the market-wide activities-based policy developed in this consultation.

Finally, with regard to asset management, the FSB does not sufficiently take into account the existing sets of regulatory measures. These have already been developed and tested in practice in various regions, in particular in the EU with the AIFM and UCITS Directives, as well as the conclusions drawn by IOSCO regarding the appropriate management of risks by asset management companies (e.g. the IOSCO 2015 report on fund liquidity risk management tools, which concluded that these tools allowed for managing situations without generating the occurrence of market-wide risk).

Q2. Do the proposed policy recommendations in the document adequately address the structural vulnerabilities identified? Are there alternative or additional approaches to risk mitigation (including

existing regulatory or other mitigants) that the FSB should consider to address financial stability risks from structural vulnerabilities associated with asset management activities? If so, please describe them and explain how they address the risks. Are they likely to be adequate in stressed market conditions and, if so, how?

The high level recommendations issued by FSB in this document are sensible, but do not sufficiently take stock of the diversity of funds and client investors. The overarching principle should be emphasised at the beginning that a "one size fits all" approach is not what is intended by FSB. A proportionate and differentiated approach is the only way to develop an effective framework.

For example, with regard to Recommendation 9, stress-testing should not replace a market-wide approach, which should take into account the type of trading whatever the profile of the market participant is.

Also, with regard to Recommendation 10 on the notion of consistent measures of leverage measurement, we will explore below in greater detail why mandating a particular single method across a range of different funds without taking into account the type of fund profile and strategy would potentially be problematic. We would recommend amending the recommendation to read "consistent measure**s** of leverage in funds". Equally, Recommendation 12 should also change "measure" to "measure**s**".

On the recommendations on stress testing (Recommendation 6), please note that the European fund directives already require managers to manage risks in both normal and stressed market conditions. Going further than the IOSCO guidelines should be avoided, as a prescriptive description of the stress parameters to be taken into account could generate a new systemic risk if all asset managers had to apply a single, detailed method. What is important instead is to make sure that regulators check and validate the various methods applied by asset managers, rather than requiring them to apply a single method which could lead to systemic risk.

Q3. In your view, are there any practical difficulties or unintended consequences that may be associated with implementing the proposed policy recommendations, either within a jurisdiction or across jurisdictions? If there are any, please identify the recommendation(s) and explain the challenges as well as potential ways to address the challenges and promote implementation within a jurisdiction or across jurisdictions.

As already noted above, **a prescriptive description of the parameters to be taken into account could generate new systemic risk if all asset managers had to apply a single, detailed method**. What is important instead is to make sure that regulators check and validate the various methods applied by asset managers, rather than requiring them to apply a single method which could lead to systemic risk.

2. Liquidity mismatch between fund investments and redemption terms and conditions for fund units

Q4. In your view, is the scope of the proposed recommendations on open-ended fund liquidity mismatch appropriate? Should any additional types of funds be covered? Should the proposed recommendations be tailored in any way for ETFs?

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We welcomed the helpful text on liquidity mismatch as it contains significant details about "mitigants", as we have, in cooperation with the European Fund and Asset Management Association (EFAMA), written a report in April 2016 on fund liquidity risk management in Europe.

We believe that Recommendations 1-3 on information collection and disclosure look broadly compatible with UCITS and AIFMD and market practice in Europe. Furthermore, we strongly welcome Recommendations 4 and 5, about increasing the availability of liquidity risk management tools to open-ended funds. This should not be limited to open-ended funds only.

With regard to Recommendation 6 on stress testing, we believe FSB and IOSCO should avoid the temptation to prescribe in great detail how funds should design stress tests for their funds. If stress tests look the same across the world without taking into account the diversity of funds and underlying end-investors, such tests could provide highly misleading results and potentially be the cause of increased systemic risk.

The governance process around using liquidity risk management tools in Recommendation 7 is important and is currently robustly regulated in AIFMD and UCITS in Europe.

We welcome guidance about the use of tools in Recommendation 8, particularly the clarification about the "extraordinary" nature of these liquidity risk management tools.

It is very important, with regard to Recommendation 9 on system-wide stress tests, that like in Recommendation 6, FSB and IOSCO are not tempted to over-prescribe stress tests. Furthermore, as we stated in our answer to Question 1, without sufficient data and methodologies to consider all types of participants in the financial system, market-wide stress testing is unlikely to yield meaningful results. Until the FSB has more information on the assets managed directly by asset owners a meaningful market-wide stress test is not possible and should be de-prioritised.

We agree with the FSB that ETFs do not necessarily pose the same issues as open-ended funds with regard to on-demand liquidity and first-mover advantage. Liquidity risk management in ETFs may be different, not least because the vast majority of redemptions in ETFs are in-kind as opposed to open-ended funds that must liquidate assets to meet redemptions in cash. Therefore, we recommend that FSB develop separate rules and recommendations which take into account the structure of ETFs, and that IOSCO, in updating its principles, consider developing principles which are compatible with liquidity risk management in ETFs. In Europe the majority of ETFs are UCITS funds, so they already manage liquidity risk in line with existing UCITS requirements. As an example of helpful existing ETF specific guidance, ESMA has already allowed in their 2014 Guidelines on ETFs and other UCITS issues that where the value of the units or shares in the ETF significantly diverge from the stock exchange value, investors may redeem their units directly with the ETF provider.

The FSB should pay attention to some unique risks posed by ETFs. With their increasing growth and their similar objectives and index asset basis, they can act pro-cyclically, while actively managed funds looking for alpha generation may adopt a more diverse approach to asset allocation. Furthermore, unchecked growth of ETF AUM may lead to a dislocation in the price discovery mechanism provided by actively managed funds.

Q5. What liquidity risk management tools should be made available to funds? What tools most effectively promote consistency between investors' redemption behaviours and the liquidity profiles of funds? For example, could redemption fees be used for this purpose separate and apart from any impact they may have on first-mover advantage?

In the EFAMA/AMIC report on fund liquidity risk management, we reviewed a significant number of tools, both to reduce first-mover advantage and to protect investors in case of severe stress in markets. We believe that competent authorities should allow as many tools as possible for fund managers, while noting that they are only meant to be used in exceptional circumstances.

Q6. What characteristics or metrics are most appropriate to determine if an asset is illiquid and should be subject to guidance related to open-ended funds' investment in illiquid assets? Please also explain the rationales.

ICMA recently published an updated study on investment grade corporate bond liquidity. In the study we have used a definition of liquidity as follows: "the ability to execute buy or sell orders, when you want, in the size you want, without causing a significant impact on the market price". This is important because it emphasises the essentially qualitative nature of liquidity from an investor's perspective. It is always possible to find a bid, but it is much harder to find a bid for your order in the size you want and at a price you are willing to accept. Perhaps the most important indicator of liquidity is not so much what has traded, but rather what could **not** be traded. Any post-trade data will always give the impression of liquidity, since it represents something that actually traded. But this does not take account of orders that could not be filled, because there was no other side to the trade, the price was too far from the perceived fair value, or the price that the fund manager tried to execute on was not honoured.

Therefore, we recommend that FSB and IOSCO avoid specific metrics and refrain from prescribing liquidity criteria for open-ended funds' investment in illiquid assets. As can be seen in the ICMA study, there are problems with using metrics like trade volumes, quotes, or bid-ask spreads. Using certain metrics can give a misleading picture of liquidity in the market. This is particularly important because a number of international studies[1], including, most recently IOSCO[2], have implied that by looking at certain metrics the corporate bond markets are not necessarily illiquid.

However, we welcome Recommendation 3, that funds' asset allocation strategies should be consistent with expected redemption conditions, taking into account the expected liquidity of the assets - as long as it remains a general principle without a specific asset liquidity metric, and as long as regulators validate and monitor the internal methods of asset managers for assessing the liquidity profile of the funds.

Q7. Should all open-ended funds be expected to adhere to the recommendations and employ the same liquidity risk management tools, or should funds be allowed some discretion as to which ones they use? Please specify which measures and tools should be mandatory and which should be discretionary. Please explain the rationales.

[1] AMF, 2015, 'Study of liquidity in French bond markets' and FCA, 2016, 'Liquidity in the UK bond market: evidence from the trade data'

[2] IOSCO, 2016, 'Examination of Liquidity of the Secondary Corporate Bond Markets'

We believe that it is important that open-ended funds should be allowed discretion in choosing what tools to use. It is important to allow flexibility for fund managers and their supervisors to tailor any extraordinary measures correctly to the situation, as fund failures or risk of failure have to be treated on an ad hoc basis. As we have stated above, we believe that the broadest possible range of tools should be made available to open-ended funds (and closed-ended funds), but their use should not be mandated in a prescribed way.

The potential diversity in actions may be helpful, as it could help avoid destabilising the markets (as compared to a single action by all fund managers, which might potentially lead to an unintended market reaction).

Q8. Should authorities be able to direct the use of exceptional liquidity risk management tools in some circumstances? If so, please describe the types of circumstances when this would be appropriate and for which tools.

Competent authorities already possess the power to direct the use of exceptional tools. It is important that authorities act in cooperation with both affected funds and the industry as a whole when facing such situations. Equally, fund managers would obviously be expected to coordinate closely with their competent authorities before employing exceptional liquidity risk management tools.

3. Leverage within funds

Q9. In developing leverage measures (Recommendation 10), are the principles listed above for IOSCO's reference appropriate? Are there additional principles that should be considered?

When considering leverage limits for individual funds it is important for legislators to remember that leverage does not by itself equal riskiness, particularly depending on how it is calculated. Accurately depicting risks in leverage requires care. With this in mind, we make a number of observations below.

We believe any measure of leverage for market-wide risk monitoring should include consideration of netting and hedging assumptions as well as accounting for leverage achieved through borrowing or derivatives exposures, so we agree with the general thrust of Recommendation 10. We believe the AIFMD commitment method provides a good answer for such a calculation. The AIFMD commitment leverage approach reflects economic exposure obtained through derivatives and borrowing and accounts for the fact that derivatives used for hedging or offsetting positions do not create leverage.

However, Recommendation 10, contains the somewhat ambiguous wording of developing a "simple and consistent" measure of leverage in funds.

While we agree in principle that regulators could collect data about the use of leverage by investment funds for market-wide risk monitoring purposes, we are concerned by the use of "consistent" and what this could lead to. In Europe AIFs and UCITS funds have different methods of measuring leverage (the commitment method and the gross notional method are widely used, and the value-at-risk (VaR) method is used to measure risk-based leverage). Investment funds, whether open-ended or closed-ended, represent a very wide diversity of investors and employ a wide diversity of investment strategies. Different measurement of leverage is appropriate to be more meaningful for a particular type of fund.

We would not want this FSB/IOSCO work on a harmonisation of leverage measurement (for the purpose of reporting market-wide risk) to fetter the ability of managers to measure, monitor and manage risks in their funds. For example, in Europe the experience of the UCITS and AIFM Directives have shown that regulators and investors are used to several methods without any evidence that this approach is a failure. We would want to keep enough flexibility for methods of measuring leverage so that the figures reflect leverage appropriately. In particular, the commitment method and the VaR method, successfully tested in Europe for many years through the UCITS and AIFM Directives and detailed in European secondary legislation and ESMA guidance further, should be kept. FSB should thus confirm the plural of measure**s** in the language of the recommendations.

With regard to Recommendation 11, we can agree that authorities should collect data, in line with current EU rules in UCITS and AIFMD. However, we would welcome further guidance on the ambiguous wording relating to 'significant leverage-related risks' and taking 'action as appropriate'

For the purposes of monitoring market-wide risk, we could envisage a separate broadly comparable framework of measuring leverage to be used solely for reporting to IOSCO in order to collect data in line with Recommendation 12. However, IOSCO should remain sanguine about the information such data would yield. Given the diversity of the fund world, such measurements could give very misleading information. It could also be argued that such measures should only be taken with regard to non-mutual funds, as in the EU for example UCITS funds are strictly limited in how much leverage the fund can employ (to two times the NAV). This UCITS rule does not prove that a cap is universally needed or workable, but that the sort of market-wide risks the FSB wants to monitor or restrict are not evident or a problem in leverage capped funds like UCITS funds.

Q10. Should simple and consistent measure(s) of leverage in funds be developed before consideration of more risk-based measures, or would it be more appropriate to proceed in a different manner, e.g. should both types of measure be developed simultaneously?

We believe that in developing consistent leverage measures for monitoring market-wide risk, IOSCO should consider the possibility of a risk-based leverage measure, such as VaR, for some fund profiles. The VaR leverage approach has been approved by regulators and positively tested in Europe through the UCITS Directive for many years.

Q11. Are there any particular simple and consistent measures of leverage or risk-based measures that IOSCO should consider?

As stated in our response to Question 10, we can agree that authorities should collect data, in line with current measurement of leverage found in EU rules in UCITS and AIFMD, multiple existing calculation methods should be allowed to co-exist with any measure developed for monitoring market-wide risk purposes, as some methods are more appropriate to certain funds than others (even within fund types there can be multiple methods, as the method used may be more suited to different kinds of underlying assets or derivatives used by the funds).

With regard to risk-based leverage measures, combining leverage with something like the VaR method seems the best way for IOSCO to pursue this, as European regulators already have experience with this for many years. Such a strategy would help because it would reflect genuine risk better. A single leverage measurement without offering the added value of a VaR leverage method as currently

allowed in Europe could misstate a fund's true economic exposure and risk. It is important to tailor such a risk measure to take into account how a fund uses derivatives to reduce risks.

Q12. What are the benefits and challenges associated with methodologies for measuring leverage that are currently in place in one or more jurisdictions?

With regard to leverage, we believe the AIFMD commitment method used in Europe for non-UCITS funds provides a helpful calculation method. The AIFMD commitment leverage approach reflects economic exposure obtained through derivatives and borrowing and accounts for the fact that derivatives used for hedging or offsetting positions do not create leverage.

With regard to risk-based methodologies, we believe VaR, currently used in the EU is a helpful calculation method.

Q13. Do you have any views on how IOSCO's collection of national/regional aggregated data on leverage across its member jurisdictions should be structured (e.g. scope, frequency)?

The most important consideration for IOSCO with regard to the scope of data collection is to ensure that the coverage is sufficiently wide. As we have stated above, to obtain a true picture of leverage and risk in the investment world, asset owners should also be captured. Most importantly, all users of derivatives should be subject to the same reporting rules in order to build a complete picture for monitoring risk in the system.

Since the objective is to monitor risk in the system, not obtaining this information across the market would leave a significant gap in the data. Any national / regional aggregation should include asset owners to provide a meaningful perspective on the use of derivatives and leverage.

It may be that improved systems for aggregating and analysing data provided to supervisors is required. To this end, we accept that consistent definitions and reporting requirements would facilitate monitoring of risks across jurisdictions. FSB and IOSCO can improve the situation by harmonising data collection efforts and the removal of barriers to cross-jurisdictional data sharing. In this regard, we believe the experience learned from the UCITS and AIFM Directives by the European national regulators members of IOSCO should be helpfully be taken into account to allow for the aggregation of data at IOSCO level.

However, before requiring new data reporting from market participants, regulators and supervisors should first assess the usefulness of all the data they already collect, including how they themselves use the data.

Q14. Do the proposed policy recommendations on liquidity and leverage adequately address any interactions between leverage and liquidity risk? Should the policy recommendations be modified in any way to address these interactions? If so, in what ways should they be modified and why?

The monitoring of derivatives use across the whole financial system is important. Many asset owners enter into derivatives transactions directly without the involvement of a third party asset manager. This can lead to liquidity considerations for entities that do not normally face liquidity risk. To this end, both monitoring and any eventual rules on leverage and derivatives use should apply equally to all market participants.

With regard to asset managers, existing good practices already require to take into account in practice the leverage in fund risk management, including regarding liquidity risk management. In addition, in a European context the AIFMD (Implementing Regulation Article 48(2)(c)) specifically requires that stress-testing should take into account market effects, which necessarily involves leverage.

4. Operational risk and challenges in transferring investment mandates or client accounts

Q15. The proposed recommendation to address the residual risks associated with operational risk and challenges in transferring investment mandates or client accounts would apply to asset managers that are large, complex, and/or provide critical services. Should the proposed recommendation apply more broadly (e.g. proportionally to all asset managers), or more narrowly as defined in Recommendation 13? If so, please explain the potential scope of application that you believe is appropriate and its rationales.

We note with concern that the language in Recommendation 13 tries to identify "large" managers or "significant" managers, which is seemingly similar to the debate in the previous two consultations on designating NBNI G-SIFIs. We do not agree with this approach: we think that the same set of regulations should apply to the whole world of asset managers, in an appropriate manner and proportionate to the activity being addressed. Potential operational risks within a smaller asset manager might even have greater market-wide effects because smaller asset managers are less well equipped and have fewer means to cope with them – e.g. business continuity plans. In particular, market-wide risk may be generated by a player which is not necessarily large – that is why, more generally, for market-based finance we are strongly advocating for consideration of the whole market rather than individual entities. Therefore, contrary to Footnote 57, we do not think that the amount of AuM should lead to a differentiated regulatory treatment among asset managers. Recommendations should be for the whole universe of asset managers – i.e. Recommendation 13 should apply more broadly (including business continuity plans, which are already specifically required through European legislation for asset managers).

As is recognised in this consultation paper, we welcome that the focus on potential risk in asset management activities is a more appropriate way to look at market-wide risk than to identify entities that may be risky.

With regard to operational risk, several of the issues the FSB has raised with regard to operational risk and challenges in transferring investment mandates are important but deserve separate focus. There are a number of strands to this debate that should not be confused. There are **operational business continuity risks** faced by asset managers. There are issues around **transitioning the management of client accounts** including OTC derivatives. There are issues faced by **other transitioning service providers** such as custodians, market data providers, or order management systems. Finally, there are **transition management issues at the asset manager level** itself.

With regard to operational and business continuity risks, these are important issues that all asset managers should implement, not merely those that are "large and/or complex third party asset managers". In the EU, there are already detailed rules for continuity management for both UCITS and AIFs.

With regard to transitioning client assets the asset management industry believes this is relatively straightforward and already operating robustly currently. The asset management industry is highly competitive and asset managers are easily substituted. In many cases transitioning from one manager to another is done by assigning a replacement asset manager. This is particularly true for many passive investment strategies and actively-managed long-only strategies in publicly traded assets like equities and many fixed income asset classes. Often in such cases, transitioning only requires a change of manager, not investment strategy as the strategies are substitutable. Where more specialised investment strategies are used, transition managers exist to help facilitate and coordinate the transition from one investment manager to another.

Asset managers use a number of key third party service providers for services like market data, index composition and calculation, risk models and analytics, investment systems, execution platforms, pricing and valuation, accounting, custody, and administration. In addition, all market participants must rely on financial market infrastructure such as exchanges, clearing and settlement entities and cash transfer organisations. We note that in many cases, providers of these services are not recognised as systemically relevant. We recommend additional analysis and surveys to understand potential emerging vulnerabilities in financial market infrastructure that require action by FSB and IOSCO.

Furthermore, limiting the scope of the analysis to asset managers who provide third party services omits the presence of a large number of third party service providers who play important roles in the provision of services to the asset management industry. We recommend the FSB spends time and effort to understand this universe better before proceeding in this area.

With regard to the transfer of mandates under abnormal market conditions, we note that the role of the depositary as safe-keeper of client assets is crucial. We think that the transfer of assets over to a new manager is necessarily a coordinated and thought-through process to ensure the protection of clients, which would be very difficult to achieve in the short-term considerations around how markets at any one moment are performing. Therefore, we do not see why asset owners would need to necessarily change managers in the midst of a market panic.

Finally, coming to the language used in Recommendation 13, the word “comprehensive” should be replaced with the word “appropriate”, as it is very difficult to guarantee a “comprehensive” risk management framework in practice: it is never possible to anticipate all the risks which might occur in the future.

5. Securities lending activities of asset managers and funds

Q16. In your view, what are the relevant information/data items authorities should monitor for financial stability purposes in relation to indemnifications provided by agent lenders/asset managers to clients in relation to their securities lending activities?

We recognise the FSB’s concern in the area of asset managers acting as agent lenders and providing indemnification and agree that authorities should monitor this area carefully. However, borrower default indemnification can be a relatively limited obligation. The potential liability under borrower default indemnification arrangements is often limited to the difference between the replacement cost of the security if a borrower defaults and the value of the collateral pledged. It is common practice for asset managers when acting as securities lending agents to mark loans to borrowers that are

independent of the asset manager. Collateral is often marked-to-market daily and typically borrowers are required to over-collateralise their positions.

We have more concern about the claim that different regulation of banks and asset managers could lead to regulatory arbitrage in securities lending. There are important differences between banks and asset managers that are reflected in their regulatory frameworks. Most importantly, asset managers do not rely on government-insured deposits to support their liquidity and asset managers do not have access to central bank liquidity.

Also, those asset managers who act as lending agents frequently only act as agent for client assets where it is also the asset manager, not seeking "new business" outside their own clients. This limits the ability for migration of activities to asset managers as lending agents.

Nonetheless, we would welcome a nuanced discussion with the relevant regulators about enhancing risk management for those asset managers who undertake this activity, as it is not a common activity of asset managers.

Q17. Should the proposed recommendation be modified in any way to address residual risks related to indemnifications? For example, should it be more specific with respect to actions to be taken by authorities (e.g. identifying specific means for covering potential credit losses) or more general (e.g. leaving to authorities to determine the nature of appropriate action rather than specifying coverage of potential credit losses)?

Rather than focus on regulatory capital as any kind of "adequate coverage" of losses, the FSB should focus on risk management practices for securities lending activities. This is not a case of ignoring potential risks in this area. We agree that indemnification is not a traditional asset management activity and should be monitored carefully. Relevant regulators should explore with managers they supervise about any further risk mitigation necessary when undertaking this activity.

ENDS

21 September 2016