M O N E Y M A N A G E M E N T I N S T I T U T E

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Financial Stability Board
Secretariat of the Financial Stability Board
c/o Bank for International Settlements
CH-4002, Basel, Switzerland
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Re: Consultative Document (2nd): Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions: Proposed High-Level Framework and Specific Methodologies

Ladies and Gentlemen:

The Money Management Institute ("MMI") appreciates the opportunity to respond to the Consultative Document (2nd) Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions Proposed High-Level Framework and Specific Methodologies ("Document") published by the Financial Stability Board ("FSB") and the International Organization of Securities Commissions ("IOSCO").

MMI is the national organization in the United States for the advisory solutions industry, representing a broad spectrum of investment advisers that manage separate accounts and sponsors of investment consulting programs. MMI was organized in 1997 to serve as a forum for the industry's leaders to address common concerns, discuss industry issues, and work together to better serve investors. Our membership is comprised of firms that offer comprehensive financial consulting services to individual investors, foundations, retirement plans, and trusts; related professional portfolio management firms; and firms that provide long-term services to sponsor, manager, and vendor firms. MMI is a leader for the advisory solutions industry on regulatory and legislative issues.

The Document proposes a framework for identifying Non-Bank Non-Insurer ("NBNI") Global Systemically Important Financial Institutions ("G-SIFIs"), revised following the consideration of responses to a methodology published in January 2014. The Document identifies three channels whereby FSB and IOSCO assert risk is most likely to be transmitted from an NBNI financial entity in financial distress to other financial firms and markets: the exposures/counterparty channel, the asset liquidation/market channel, and the critical function or service/substitutability channel.

The basic impact factors designated by FSB as key to identifying NBNI G-SIFIs are size, interconnectedness, substitutability, complexity, and global (cross-jurisdictional) activities. After setting forth the general conceptual and operational frameworks for identifying NBNI G-SIFIs, the Document discusses sector-specific methodologies, including one for asset managers.

Rather than addressing the nature of the channels, factors, and indicators discussed in the Document, our letter focuses on the threshold question of whether the Document's framework and methodology should be applied to asset managers with significant separately managed account ("SMA") businesses. The SMA activity of an asset manager should be excluded from consideration in applying any NBNI G-SIFI identification methodology, whether this methodology remains in the form set forth in the Document or evolves further in response to comments received by FSB and IOSCO. The Document suggests that dividing assets under management ("AUM") based on amounts held in funds and amounts held in SMAs may be appropriate for the purpose of applying the size indicator to assess the systemic importance of an asset manager.[1] This indicates that FSB and IOSCO already recognize some of the profound differences between SMAs and pooled investment vehicles in terms of their systemic risk impact. MMI would like to elaborate on these differences and demonstrate why SMA assets should not be considered at all in the NBNI G-SIFI assessment process.

SMA programs do not create, concentrate, or transmit systemic risk. Depending on their roles in the SMA industry, our members provide or facilitate the provision of investment management services to clients in ways that are designed to limit or manage risk. SMA program clients are predominantly high-net-worth and retail investors, and their assets are generally invested in liquid assets without the use of leverage. These clients have arrangements in place for their assets to be held by banks, broker-dealers, and other highly-regulated providers of custodial services that themselves take steps to limit or manage systemic risk. To the extent that certain risks sought to be addressed in the Document affect SMA programs, however, SMA program providers have established processes designed to monitor and mitigate the effects of those risks, thereby limiting the transmission of those risks in a way that could have systemic effects. MMI also notes, for example, that the SMA industry has historically facilitated the orderly transition of management services from one investment manager or custodian to another investment manager or custodian, including in circumstances that have involved the transition of a substantial number of client relationships and accounts.

Below, we provide an overview of the SMA industry and then highlight why various aspects of the methodology set forth in the Document are not relevant in the SMA context. We have recently addressed similar issues raised by the Financial Stability

[1] "Where possible, AUM should be… split according to assets managed in funds and SMAs." Document at 52.

Oversight Council ("FSOC") in a letter submitted in response to the Notice Seeking Comment on Asset Management Products and Activities (Docket Number FSOC–2014–0001), submitted to FSOC on March 25, 2015 ("FSOC Comment Letter"). We commend the FSOC Comment Letter to you for your consideration. In connection with the FSOC Comment Letter, we conducted a broad survey of key participants in the U.S. SMA industry ("FSOC Response Survey"). Survey respondents include five of the ten largest SMA program sponsors in the United States by number of client accounts, with over $630.4 billion of AUM, representing over 73% of U.S. market share and over 960,000 SMA accounts. The FSOC Response Survey also reflects responses received from portfolio managers, including three of the top five portfolio managers participating in SMA programs, representing a U.S. market share of 15.8%, $135 billion of assets under management or supervision, and over 180,000 SMA accounts. We have used certain data collected from the FSOC Response Survey to support our comments below.

I. Overview of SMA Industry and General Assessment of Systemic Risk Implications

SMA programs are managed account programs sponsored by a financial institution such as a broker-dealer, bank, or investment adviser that offer discretionary investment advisory services to clients, typically pursuant to arrangements with other firms. SMA programs are not specifically defined by the rules of the U.S. Securities and Exchange Commission (the "SEC"), but include so-called "wrap fee" programs – which the SEC defines as programs "under which any client is charged a specified fee or fees not based directly upon transactions in a client's account for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and execution of client transactions"[2] – as well as programs where the customers receive the same complement of services in unbundled form. Unlike clients in pooled vehicles such as U.S. registered investment companies, in SMA programs clients retain direct and sole ownership of their account assets, which are held with a regulated custodian.

SMA programs are designed to make institutional asset management options available to individual clients. The sponsor of an SMA is typically a financial institution, such as a broker-dealer or bank, that creates and oversees the SMA program under which client accounts are managed by, or in accordance with strategies of, portfolio managers selected for the client. Many SMA programs use overlay managers as an extra layer of investment management oversight to help harmonize the strategies within an investor's SMA, increase tax and transaction efficiencies, monitor concentration risks, and – in some cases – facilitate communications between separate portfolio managers.

[2] 17 C.F.R. § 275.204-3(g)(5).

No matter the role of a particular financial institution in an SMA program, that financial institution acts in an agency capacity in connection with the services provided pursuant to program agreements that typically allocate responsibilities for various tasks among the financial institutions based on their roles and regulatory authorizations. Under U.S. law, an investment adviser cannot maintain "custody" of client funds or securities – as broadly construed by the SEC[3] – unless it is a regulated custodian that satisfies the requirements of a so-called "qualified custodian" pursuant to SEC Rule 206(4)-2 under the Investment Advisers Act of 1940. Consequently, risks relating to the custody of investor funds and securities, such as certain risks relating to withdrawals and redemptions, are not implicated in the case of SMA programs. Nor do SMA programs provide for the extension of credit to clients for purposes of purchasing securities.[4] Further, investors have no expectation that SMA program sponsors or portfolio managers will guarantee them or their accounts against investment losses. Applicable securities regulatory requirements, for example, restrict both broker-dealers and investment advisers from guaranteeing client investments against loss.[5] Because investors cannot rely on SMA program sponsors and portfolio managers to protect them against investment losses, investors have an incentive to scrutinize programs and participating financial institutions based on the financial strength of the financial institutions and the "due diligence" undertaken by them to scrutinize other program participants, which tends to promote financial stability rather than undermine it.

Given the structure and operation of SMA programs and, in particular, the role of SMA program sponsors and overlay managers in monitoring and modeling for risk, SMA programs are well suited to dampening – not introducing – systemic risk. Moreover, the failure, insolvency, or impairment of an SMA program sponsor or portfolio manager would not by itself create systemic risk. Clients are typically able to arrange for the replacement of one firm with another regardless of the reason for the change. The industry has established practices that are designed to facilitate the transition of services to a new provider, including through automated account transfer processes administered

[3] In the context of this letter, references to "custody" mean, per the definition in 17 C.F.R. § 275.206(4)-2, "holding, directly or indirectly, client funds or securities, or having any authority to obtain possession of them. You have custody if a related person holds, directly or indirectly, client funds or securities, or has any authority to obtain possession of them, in connection with advisory services you provide to clients. Custody includes: (i) Possession of client funds or securities (but not of checks drawn by clients and made payable to third parties) unless you receive them inadvertently and you return them to the sender promptly but in any case within three business days of receiving them; (ii) Any arrangement (including a general power of attorney) under which you are authorized or permitted to withdraw client funds or securities maintained with a custodian upon your instruction to the custodian; and (iii) Any capacity (such as general partner of a limited partnership, managing member of a limited liability company or a comparable position for another type of pooled investment vehicle, or trustee of a trust) that gives you or your supervised person legal ownership of or access to client funds or securities."

[4] Institutional clients may elect to introduce leverage within agreed-upon parameters, but this borrowing would not reflect an extension of credit from an asset manager.

[5] *See* FINRA Rule 2150(b) (prohibiting guarantees against loss) *and* 15 U.S.C. § 80b–5 (restricting investment advisers from charging fees based upon the profit or loss of client investments).

through the Financial Industry Regulatory Authority.[6] Importantly, in transitions involving only the change in a portfolio manager, the transition of management services does require the transition of client accounts or assets, which may remain with the same custodian.

Further, the investment management industry provides many choices of managers offering the same strategies (or variations on them), so that the failure of one portfolio manager offering a particular strategy would not inhibit finding a replacement manager offering the same strategy. Ninety-two percent of respondents to the relevant FSOC Response Survey question agreed that the insolvency of any manager does not present material risks to client accounts or client assets in the program due to limited availability of other managers experienced in managing the now-insolvent manager's investment strategy.

SMA program sponsors and portfolio managers are regulated investment advisers that already account, within their own operations, for the variety of risks presented to them. As SEC-registered and regulated investment advisers, these firms are required to have policies and procedures that, among other things, address various types of risk. These policies and procedures are a significant focus of SEC staff commentary and attention in the course of regulatory examinations. Similarly, for regulated bank asset managers, applicable regulatory requirements and supervisory guidance place substantial emphasis on the risk management of banks' fiduciary and asset management activities. The existing body of applicable law and regulation thus helps ensure that SMA program sponsors and portfolio managers stay alert for and actively manage the risks in their businesses and clients' accounts.

The Document focuses on three channels that transmit risk from an NBNI financial entity experiencing financial distress to other financial firms and markets: the exposures/counterparty channel, the asset liquidation/market channel, and the critical function or service/substitutability channel. The Document also sets forth five key impact factors for assessing the systemic importance of an NBNI financial entity: size, interconnectedness, substitutability, complexity, and global (cross-jurisdictional) activities, which are then further sub-divided into specific indicators specific to asset managers (among other specific sectors, which are outside the scope of this letter). As discussed below, in the context of SMA programs, these channels, factors, and indicators are not implicated in the transmission of systemic risk, in each case either by the nature of the SMA programs themselves, or because SMA program providers generally monitor

[6] FINRA is an independent, not-for-profit organization authorized by the U.S. Congress to protect U.S. investors against fraud and bad practices by writing and enforcing rules and regulations for U.S. brokerage firms and brokers, and by examining broker-dealers for compliance with its own rules, federal securities laws, and rules of the Municipal Securities Rulemaking Board.

and carefully control risks that arise. Thus, the Document framework and methodology is not relevant to SMA programs and should not be applied to them.

II. Channels, Impact Factors and Indicators

A. Exposures / counterparty channel: "involves the impact that the distress or failure of an asset manager could have on other market participants through their exposures to the distressed asset manager. Specifically, this channel describes the risks that asset managers may transmit to the global financial system when their distress or failure leads to losses or other impairment to their counterparties, including banks or brokers that have extended them financing or have direct trading linkages to them. Consequently, a failure of an asset manager could, if exposures to such asset manager are significant and have not been adequately managed, generate losses to the asset manager's counterparties and ultimately destabilise creditors who might be systemically important in their own right."[7]

As mentioned in the Document[8] and explained above, the core function of an asset manager is managing assets as an agent on behalf of investors. In this connection, an SMA program sponsor or portfolio manager does not extend credit to clients or finance or guarantee the trading positions of its clients with counterparties or financial intermediaries. Consequently, the exposure of those third parties runs to an asset manager's clients, and not to the asset manager itself. Thus, it is impossible for an asset manager to transmit risks through this channel to the financial system in the event of its distress or failure. This is especially the case in the SMA context, where ancillary services of the type contemplated in the Document – like securities lending – are non-existent and the overwhelming majority of client assets are invested in highly liquid investments without the use of leverage. In addition, assets of SMA clients would not be impaired by the distress or failure of a manager.[9] Management of those assets would be transmitted in an orderly fashion to one or more other managers. It follows that the counterparties and intermediaries with which those assets are traded would not experience any material (let alone systemically significant) losses or impairment to their businesses.

Nor would the failure of an asset manager provide counterparties with the option to accelerate, terminate, or net derivative or other types of contracts with affiliates or investment vehicles that have not entered insolvency. In the retail SMA program context, there is no meaningful exposure to OTC derivatives that could give rise to these types of risks. In the institutional context, OTC derivatives may be used. The counterparty to the bank or other financial institution in such a situation would be the underlying SMA client

[7] Document at 48.
[8] *Id.* at 47.
[9] There are developed mechanisms in the SMA program industry to provide for the transition of management services from one portfolio manager to another, as discussed above.

rather than the asset manager. Generally, the insolvency of a manager would not be documented to give rise to a cross-default or an additional termination event. However, often very large asset managers have umbrella agreements with many principals listed, and some of those agreements will have a termination event tied to the insolvency of the manager, typically for commercial reasons (the bank would not take the business but for the presence of the manager). As a practical matter, the insolvency would be addressed, and the trading agreement would continue, based on the substitution of another manager acceptable to the bank. It would be expected, and consistent with its fiduciary duty, for the insolvent manager to seek to arrange for its replacement by a suitable substitute manager in such a situation.

B. Asset liquidation / market channel: "describes the indirect impact of distress or the forced liquidation of an asset manager on other market participants."[10]

As the Document explains, "[s]ince the core function of an asset manager is managing assets as an agent on behalf of others in accordance with a specified investment mandate, asset managers tend to have small balance sheets and the forced liquidation of their own assets would not generally create market disruptions."[11] MMI agrees with this statement, and adds that no aspect of a manager's involvement in the SMA business would present a markedly greater risk of a forced liquidation for the reasons discussed in the Document. Nor does participation in the SMA business alter the balance sheet characteristics described by the Document – i.e., the relatively small size of the balance sheet assets compared to the amount of assets managed. In addition, assets in SMAs are overwhelmingly liquid, so management of those assets in SMA programs is unlikely to transmit systemic risk in the event of their liquidation by large or numerous SMA program participants..[12] Eighty-seven percent of respondents to the relevant FSOC Response Survey question stated that client accounts are predominantly invested in liquid assets. Even where SMA accounts are invested in alternative or privately offered funds, typically the SMA program sponsor or portfolio manager will make provision for special transparency and liquidity rights permitting access to enhanced information on the fund's holdings in the quiddity and more frequent redemptions. SMA accounts that hold illiquid assets generally are limited to high-net-worth and institutional accounts held by investors who are sophisticated parties that can work with the portfolio manager to set restrictions on exposure to illiquid assets. In that context, illiquid positions are generally monitored and managed in a manner that seeks to comply with those restrictions.

Furthermore, SMAs are generally managed with concentration and liquidity in mind so as to reduce risk. For example, in the retail context, SMA programs typically

[10] Document at 48.
[11] *Id*. at 47.
[12] "Liquid" assets refer to assets at Level 1 of the hierarchy described in ASC 820, with quoted prices in active markets, e.g., publicly traded equity and debt instruments.

maintain concentration limits to gauge an account's exposure to any given issue or investment issuer. These exposures are monitored on an ongoing basis. In this regard, SMA programs typically monitor for concentration of client assets within specified parameters (e.g., exposure to particular issuers, industries, and geographies, as applicable to the given strategy). Ninety-two percent of respondents to the relevant FSOC Response Survey questions reported having such mechanisms in place, and 80% reported having triggers for enhanced monitoring for investments exceeding specific concentration levels. These reviews often include assessments of exposures to underlying funds, including evaluations of constraints on their ability to handle large-scale redemptions in times of market stress. For instance, many SMA program sponsors or portfolio managers undertake quarterly or other periodic reviews of client positions in funds in an effort to gauge concentrated exposures. SMA program sponsors and portfolio managers have developed mechanisms over time to facilitate the orderly transition out of concentrated positions, including positions in fund shares, that may have become outsized based on an assessment of client strategies and market conditions, with 82% of respondents to the relevant FSOC Response Survey questions reporting having in place mechanisms to facilitate the orderly liquidation of concentrated positions in client accounts, as deemed appropriate. The goal of these mechanisms is to decrease exposure in the manner desired in an orderly, measured way that seeks to minimize price movements, equitably allocate redemption prices and proceeds, and, in the case of mutual funds, minimize the chances for in-kind redemptions that could adversely affect clients. MMI believes that these monitoring and position management features reduce any impact the large-scale changes in asset composition may have in the broader financial system.

The operational risk noted in the Document as an additional cause for concern within this channel is substantially mitigated in the SMA context because SMA industry participants have adopted processes designed to identify and constrain operational risks; as service models in the industry continue to evolve, so will the techniques deployed to manage operational issues. SMA program sponsors generally have a strong operational risk or audit group that evaluates third-party service providers, including their financial stability. As part of this evaluation, third-party audit reports, including SSAE 16 reports,[13] are frequently requested. In addition, annual onsite meetings are typically conducted to discuss the ongoing viability of the providers and their intention and commitment to remain players in the space, as well as to review their processes, their staffing, their technological maintenance and upgrades, their systems oversight and cyber protections, and any other areas of potential concern. To further ensure continued

[13] An SSAE 16 report describes a service organization's controls of financial information and may also include testing of the service organization's controls over a period of time. SSAE 16 is an acronym for Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization, which is an accounting standard for reporting on service organization. SSAE 16 was drafted by the Auditing Standards Board of the American Institute of Certified Public Accountants, and effectively replaces prior accounting standards and mirrors new international service organization reporting standards. *See* http://ssae16.com/SSAE16_overview.html.

provision of services, SMA program sponsors have terms within their contracts requiring service providers to give notifications of potentially disruptive events, to ensure a smooth transition should such a situation arise.

Plainly, outsized movements in the financial markets or material disruptions to the broader economy might affect investors generally – their investments may be worth dramatically less, and they may face near-term liquidity needs or otherwise wish to withdraw from the markets. In that context, SMA programs can play a helpful role by bringing to bear the considerable expertise of participating investment advisers in managing client portfolios through times of market turbulence.

C. Critical function or services / substitutability channel: "describes the impact of distress or failure of an asset manager that provides a critical function or service to market participants or clients."[14]

As the Document concedes, the agency role of asset managers "makes their provision of this particular activity generally substitutable as there is considerable competition in the market place... [i]n addition, third-party custody arrangements facilitate the substitution of asset managers, depending on the circumstances."[15] Despite this general substitutability, however, the Document expresses concern that the stress or default of a manager could result in delays or other obstacles in transferring contracts to another manager.

MMI notes that, in the SMA context, not only are asset managers generally substitutable, but a change in manager is a routine process that clients in SMA programs undertake regularly. Furthermore, as mentioned above, in the SMA context the ancillary non-management services mentioned in the Document as an additional source of concern, such as securities lending, are not provided. To date, changes in management have not had any impact on the stability of the overall financial system. The transition of clients from one manager to another often does not mean the transfer of client assets from one custodian to another. Even where liquidation of investment positions is required as part of the transition to a new manager, SMA programs and portfolio managers frequently have procedures for effecting such transitions in an orderly fashion. In the event that a client would like to transfer account assets to a different custodian, this can be done pursuant to a well-established process that is designed to address operational risks associated with the transfer of assets between custodians. The Document also concedes that "in many cases where investors change asset managers, assets may never move from an existing custodian, and there may be no immediate sales of assets in the market."[16]

The custodian, whose role, as discussed above, is separate from the role of asset manager, has the direct responsibility for the transfer of assets. SMA platforms are

[14] Document at 49.
[15] *Id.*
[16] *Id.*

designed to be able to manage this type of event as a matter of course. For example, an SMA sponsor may make a decision to terminate a given portfolio manager and transition clients to a successor portfolio manager. Consequently, SMA programs have established procedures for managing this transition process, including any necessary transitions in client portfolio holdings. SMA sponsors generally manage associated risks at the client level, by establishing clients in risk-appropriate diverse portfolios that avoid over-concentration in any one holding, and at the program level, through offering clients many choices in strategies and asset classes. Programs with overlay managers offer the added ability to manage a smooth transition if needed, as the overlay manager can manage the transition process from one model to another.

There are two general types of arrangements under which portfolio managers deliver their strategies to program clients – discretionary and nondiscretionary (or model-based) arrangements. In a discretionary arrangement, a portfolio manager has direct management responsibility for a client account and will generally be informed when an account is terminated. At that point, the portfolio manager ceases to have further responsibility for managing that account, with no additional action being required that would affect the transfer of a client's assets. In a nondiscretionary or model-based arrangement, a portfolio manager provides a model portfolio pursuant to which client assets are purchased and sold by the SMA program sponsor or an overlay manager. The portfolio manager is only responsible for the model and typically does not have direct a role in managing actual client assets or implementing client transactions. In this sense, the portfolio manager (or model manager) in a nondiscretionary arrangement does not even have to "turn off" management of clients assets, because the portfolio manager was not managing them in the first instance.

Certain market practices in the SMA industry further help ease any transitions from one asset manager to another and minimize any operational risk associated with such a transfer. Only 25% of respondents to the relevant FSOC Response Survey questions agreed that there are significant differences in IT systems, processes, or data formats among managers or other service providers that present material risks to client accounts or client assets, with 100% agreeing that any associated risk level is low or medium and that the risks are properly mitigated through policies and procedures. None had experienced client losses resulting from the exposure to such risks. SMA program sponsors have managed potential operational risks stemming from technological differences across participating asset portfolio managers. Specifically, SMA program sponsors provide the majority of the technology used by asset managers to manage client accounts and place orders and perform account reconciliations, as well as define the processes and formats used to exchange data across order management and other systems. MMI undertakes ongoing efforts to create uniform communication data standards, which will lead to even greater efficiency and scalability. Adoption of these standards could further reduce potential risks.

D. Materiality thresholds, impact factors, and indicators

Because, as discussed above, SMA programs do not create or transmit systemic risks through the channels identified in the Document, and should thus be excluded from consideration in applying any NBNI G-SIFI methodology, MMI does not provide specific comments to the proposed materiality thresholds or the impact factors and indicators for assessing the systemic importance of asset managers. The issues we have discussed above support the argument that SMA assets should be excluded from the materiality threshold calculation for asset managers, whether such thresholds are balance sheet total assets of USD 100 billion, AUM of USD 1 trillion, or any other filtering mechanisms or amounts. However, we would like to make an additional comment regarding risk associated with leverage, which FSB discusses in relation to the interconnectedness impact factor.

There is very little use of leverage in the SMA context.[17] Neither financial leverage, which is reflected on the balance sheet, nor synthetic leverage, which is embedded in the structure of financial instruments such as derivatives, is present in the retail SMA program context, where most assets in the SMA industry are held. In the much smaller institutional business, the risks associated with the two leverage types are assessed and accepted by the client, and monitored and managed by the manager, as affirmed by 89% of respondents to the relevant FSOC Response Survey questions, who reported having arrangements in place to monitor the use of leverage by client accounts. This management of leverage tends to constrain the potential for broader effects in the markets. The specific details of how risk is managed may vary based on the kind of underlying owner of the institutional account, and the degree to which this owner decides to take on risk. That may be informed, in turn, by applicable restrictions imposed by law or fundamental restrictions imposed by the client. Risk management may also be informed by the liquidity needs of the client. In addition, an SMA program sponsor or portfolio manager does not extend credit or make other commitments to a client that chooses to create financial leverage by borrowing. The asset manager is merely acting as an agent providing a service to the client, rather than creating or transmitting systemic risk.

III. Conclusion

MMI does not view SMA programs as creators, concentrators, or transmitters of systemic risk and, as such, urges that SMA assets be excluded from consideration in applying any NBNI G-SIFI identification methodology to asset managers.

SMA programs do not create or amplify systemic risk through the exposures / counterparty channel because of the asset manager's agency role, as well as the tendency

[17] MMI notes that registered investment companies are subject to legal restrictions on the use of leverage and have established procedures for monitoring and managing leverage involved in their investment activities, which are subject to oversight by their boards and examination by the SEC staff.

toward investment in liquid assets, coupled with the fact that illiquid assets are generally held only by sophisticated institutional investors who are in a position to work with managers to set and adhere to liquidity guidelines. Asset managers manage client assets for a fee, and do not guarantee or provide financial support or extensions of credit to clients. Thus, the failure of a manager to perform its duties under an advisory contract, or the termination of such a contract, would merely end the relationship between the manager and the client, rather than transfer risk to the client.

The SMA industry does not contribute to global systemic risk through the asset liquidation / market channel, but rather helps monitor and mitigate such risks to the financial markets by providing orderly management, ongoing monitoring of investment concentrations, and, when necessary, orderly transitions out of large positions in a manner that seeks to minimize adverse price effects on clients. Further, relationships with service providers are carefully monitored to mitigate any potential attendant operational risks.

Asset managers do not contribute to systemic risk through the critical function or services / substitutability channel because, in the SMA context, asset managers are generally substitutable, and a change in manager is a routine process that clients in SMA programs undertake regularly. The prospect of delays or other obstacles in transferring contracts to another manager is not a cause for concern because such transfers generally do not necessitate the movement of client assets from one custodian to another. When necessary, however, there exist well-established processes for transferring assets between custodians.

Lastly, the SMA industry does not create systemic leverage risk because there is very little use of leverage in the SMA context. Managers do not extend credit to clients who choose to create financial leverage by borrowing, but merely act as agents providing a service to the account holder. Any synthetic leverage present in the institutional account context generally is closely monitored by the client and the manager.

In conclusion, MMI believes that the services its member firms provide do not by themselves present systemic risks, and that the provision of SMA services should not cause asset managers to be designated as NBNI G-SIFIs. To the extent that certain risks are present, SMA programs dampen or prevent the systemic spread of these risks by carefully monitoring and mitigating their effects using processes well established in the industry, thereby facilitating the orderly functioning of the financial system and, when necessary, the orderly transition of management services.

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If you have any questions regarding this letter, please contact the undersigned at (202) 822-4949 or cpfeiffer@mminst.org.

Sincerely,

Craig D. Pfeiffer

President & CEO

Money Management Institute