**Center for Capital Markets Competitiveness**

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Secretariat of the Financial Stability Board
c/o Bank for International Settlements
CH-4002
Basel, Switzerland

**Re: Consultative Document on Proposed Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities**

Dear Sir or Madam:

The U.S. Chamber of Commerce (the "Chamber")[1], the world's largest business federation, represents the interests of more than three million businesses and organizations of every size, sector, and region. The Chamber appreciates the opportunity to comment on the Financial Stability Board's ("FSB") Consultative Document on Proposed Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities (the "Consultation") issued on June 22, 2016. The Consultation is the third in a series of consultations on the regulation and oversight of the global asset management industry. The Chamber previously commented on the first and second FSB consultations opposing proposed assessment methodologies for identifying non-bank non-insurer global systemically important financial institutions ("NBNI G-SIFIs").

The Chamber believes that global initiatives need to be considered in light of their potential impact on capital markets and the economic growth they facilitate, taking into account global developments as well as jurisdiction-specific reforms, characteristics, and circumstances. While systemic risk should be appropriately monitored and managed, actions to pursue this objective should not be unduly detrimental to the functioning of capital markets and global economic growth. Moreover, at a time when the economic growth remains stagnant, specific geopolitical events are expected to impact the global economic outlook (e.g., Brexit), and key

[1] The Chamber created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy.

jurisdictions across the globe are seeking to further open, enlarge, and deepen their capital markets, such as the European Union ("EU") through the proposed Capital Markets Union ("CMU") initiative.

Consequently, we strongly believe that the FSB and International Organizations of Securities Commissions ("IOSCO") should assess and consider the impacts of their actions and proposals on the functioning of global capital markets and ensure a balanced approach that does not limit investors' choice or the attractiveness of specific investment vehicles. In light of this, we remain concerned about the Consultation's proposed standards and assessment methodologies. In particular, we are concerned that:

1. Any new standard should be backed by studies, impact assessments, and substantive evidence, and a cumulative impact assessment of reforms to the financial services sector heretofore;

2. Asset managers and funds are not banks, and this should be fully recognized when global regulators consider creating new rules, tools and methodologies for the asset management sector, which is already heavily regulated and has not been shown empirically to threaten global financial stability;

3. The relationship between potential new standards to address structural vulnerabilities from asset management activities and the stability of the global financial system must be clarified;

4. Any reform or new standard should adopt a balanced approach regarding liquidity, in order to avoid draining investors' assets and liquidity away from the capital markets;

5. More data is needed before proposing standards to address the use of derivatives by the asset management industry;

6. Measures regarding operational risk are not required to protect global financial stability as operational risk in asset management does not create systemic risk; any new policies should be applied narrowly; and

7. Securities lending proposals should be based on thorough analyses of existing experiences and major reforms in different jurisdictions.

These concerns are addressed in greater detail below.

## Discussion

The Chamber appreciates the modified approach that the FSB is taking for possible additional regulation of the asset management industry. A shift in focus on the activities of the industry and applying any needed regulation or standards to specific activities or products is a more effective way to identify and address any risk that may exist rather than focusing on individual entities. As you are aware, the Chamber opposed proposals by the FSB and IOSCO to create methodologies to designate certain investment funds and asset managers as NBNI G-SIFIs and took the view that global regulators should abandon the entity-based proposals in favor of an activities-based approach. We continue to oppose the creation of an NBNI G-SIFI methodology for the asset management sector because it is unnecessary and would be a wholly inappropriate policy for the identification and regulation of risk in asset management and the capital markets. In this regard, the Chamber welcomed the FSB's and IOSCO's decision in July 2015 to forego finalizing the assessment methodologies for NBNI G-SIFIs and prioritize its work on structural vulnerabilities from asset management activities. Moreover, we are pleased that securities market regulators through IOSCO are playing a larger role in constructing this framework.

## I. Need for Additional Study and Cumulative Impact Assessment

If implemented, the proposed policy recommendations in the Consultation will not occur in a vacuum. The Consultation is the latest in a series of financial regulatory initiatives that could ultimately impair the flow of capital available to the businesses that power the real economy. As such, the Chamber believes that a comprehensive review by IOSCO, the international regulatory body with expertise in the capital markets, would be helpful in understanding the cumulative impact on non-financial businesses and the capital markets. In addition, the implementation of this Consultation along with regulatory initiatives that are being imposed on other financial institutions may be duplicative and overlapping.

These initiatives include a series of regulations under consideration by the U.S. Securities and Exchange Commission ("SEC") on liquidity risk management and derivatives rules that are being imposed on asset management, as well as money market fund reforms in the U.S. and the E.U. that harm the ability of non-financial businesses to access the short-term commercial paper markets and manage cash. The failure by FSB to undertake a comprehensive analysis of banking regulations has no doubt led to underperformance and inefficiencies in the banking section. For example, there has been no analysis of the interaction and cumulative impact of the Volcker rule, as well as the proposed Vickers and Liikanen rules, that are expected to impact the ability of non-financial businesses to enter the debt and equity markets by raising costs and creating barriers of entry to the capital markets; bank capital and liquidity rules, such as the leverage ratio, the liquidity coverage ratio and net stable funding ratio rules; and capital surcharges for G-SIFIs that will force large internationally active banks to withdraw additional capital form productive capital formation streams

The combination of these initiatives could contribute to an underperforming financial sector, create barriers to capital formation and have unintended ramifications throughout the rest of the global economy. The inability of businesses to be able to engage in normal capital formation activities, efficient cash management and effective risk management will raise costs and create inefficiencies adversely impacting economic growth.

Therefore, we believe that the IOSCO should determine:

(1) how all of these initiatives will interact and work together;

(2) the impacts of these initiatives upon the broader macro economy; and

(2) use modeling techniques to "war-game" these new regulatory structures, identify faults, and shape comprehensive fixes.

The IOSCO is uniquely positioned to carry out this work and the information it yields will be invaluable to shaping the standards developed as a result of this Consultation and would strongly benefit any other new policy initiatives. Finally, it would help mitigate potential unintended consequences with the other initiatives discussed above.

At the same time, IOSCO should undertake a comprehensive review of various preexisting and newly placed regulations on the asset management industry. Only IOSCO has the requisite market expertise and responsibility to review the current state of regulation of the asset management industry, as it draws its authority from the consensus of global securities regulators.

Accordingly, we believe that no new policy standards for asset management nor for other capital markets participants be established without a comprehensive impact study and without the complete input of market regulators, particularly the expertise and perspective of IOSCO. In this regard, we welcome the informed input of IOSCO in developing the standards outlined in the Consultation.

## II. Timing

We understand that the FSB intends to finalize the recommendations to address structural vulnerabilities from asset management activities by the end of 2016, some of which "will then be operationali[z]ed by IOSCO and the relevant FSB groups."[2] We are very concerned about this aggressive timeline, given that the FSB will only formally receive feedback on its Consultation in September 2016 but will then issue final recommendations less than three months later.

Furthermore, while it has enlisted the help of IOSCO and other FSB groups to begin work on these recommendations, it is very clear that the necessary predicates to certain recommendations will not be completed in less than three months' time. For example, recommending that authorities move forward with providing direction on open-ended funds' use of extraordinary liquidity risk management tools will necessarily come before IOSCO has had the opportunity to review and enhance its existing guidance on this topic.[3] As a result, we anticipate that certain domestic regulators will move forward on these recommendations without the benefit of IOSCO's work on this topic. This is particularly troubling given that IOSCO's work

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[2] *See* Pg. 2, FSB Consultation on Proposed Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities (hereinafter, the "Consultation.")
[3] *See* Recommendation 8, Consultation at Pg. 20.

is the result of an international consensus on best practices for various asset management markets globally.

Therefore, in order to ensure a level playing field, it is important to propose a package of reforms that is consistent in terms of timing as well as content and objectives. We believe that the recommendations should require that national regulators not move forward with implementing the recommendations in the Consultation until after IOSCO has updated its guidance on issues such as liquidity risk management, the use of leverage, and other asset management activities highlighted in the Consultation. This will permit IOSCO, the FSB, and global securities regulators to first focus on the needed data collection and impact assessment of these reforms, rather than beginning with a recommendation and then considering its potential impact.

Finally, we are also concerned about the process of reforms and the potential interaction between the various parts of the asset management reforms being considered. It is highly unclear at this stage how the new global standards to address structural vulnerabilities from asset management activities would interact with the continued work of domestic regulators like the SEC on the same topics. Moreover, we strongly believe that the FSB and IOSCO should develop a framework for determining and reporting whether hypothetical structural vulnerabilities are found not to exist, not to threaten global financial stability, or new policies are adopted in FSB jurisdictions to mitigate any risks that are found. In any event, the FSB should publicly acknowledge that work on NBNI G-SIFI designation for investment funds and their managers has been abandoned and will not be a policy option.

## III. Fundamental Difference between Banking and Asset Management

More fundamentally, we would like to continue stressing the distinction between bank financial institutions and asset managers and funds. Asset managers act as agents for their clients. They typically have small balance sheets that are systemically immaterial. Most managers do not employ significant leverage for their own accounts or in the funds and accounts that they manage for their clients. They are not primary creators of risk and do not threaten the stability of the global financial system.

The same is true of collective investment funds. They primarily serve as a low-cost means for investors to access financial assets and professional management, save for long-term goals like retirement, diversify risk, and convert equity investments into cost-effective stable funding for the real economy. Given all of these qualities, they are natural holders of risky financial assets and have a stabilizing effect on financial markets.[4] In particular, we note that concerns of contagion as a result of a U.S. registered fund's distress or improbable disorderly failure are misplaced. Such funds do not cause systemic risk. On the contrary, in several respects they act to reduce systemic risk. The FSB's and IOSCO's First Consultation agreed, and stated that:

> [F]rom a purely systemic perspective, funds contain a specific "shock absorber" feature that differentiates them from banks. In particular, fund investors absorb the negative effects that might be caused by the distress or even the default of a fund, thereby mitigating the eventual contagion effects in the broader financial system.[5]

Moreover, U.S. registered funds are fundamentally different from financial institutions that operate through the use of leveraged capital where depositors and creditors rely on the institution's capital cushion for payment of their claims. In sharp contrast, in U.S. registered funds, the shareholders place their money fully at risk and accept the gains and losses to which their investment is exposed.

Finally, U.S. registered funds are designed and regulated in a way that naturally reduces the potential for systemic risk. Such funds are required to register with the

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[4] See, e.g., Matthew Richardson, Prof. of Applied Econ., NYU Stern Sch. Of Bus., Asset Management and Systemic Risk: A Framework for Analysis, at 16 ("[g]iven their limited levels of leverage, relatively high degree of transparency, high degree of substitutability, and the pass-through nature of any gains and losses suffered on investments, it seems to me that mutual funds are a natural holder of risk securities in terms of minimizing systemic risk.") (Mar. 19, 2015) (on file with the Fin. Stability Oversight Council, Docket No. FSOC 2014-0001, *available at* https://www.regulations.gov/document?D=FSOC-2014-0001-0033); see also, Letter from Paul Schott Stevens, President & CEO, Investment Company Institute to the Fin. Stability Oversight Council, at 28 at 28 ("Portfolio management of stock, bond, hybrid and other funds can provide natural stabilizers for their respective markets, with these funds buying some undervalued securities during a downturn and selling some overvalued securities in a bull market. For many kinds of funds, the investment objectives, policies, and strategies described in the funds' prospectuses may dictate this outcome. Hybrid funds, target risk funds and target date funds all may need to sell securities that have increased in value and buy securities that have fallen in value in order to keep their portfolios in balance.") (Mar. 25, 2015), *available at* http://www.ici.org/pdf/15_ici_fsoc_ltr.pdf.

[5] FSB-IOSCO, Consultative Document, Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions (Jan. 8, 2014) at 1 (the "First Consultation").

SEC and comply with a comprehensive regulatory regime under the Investment Company Act of 1940 (the "1940 Act"). For 75 years the 1940 Act has enabled investors to access a transparent investment vehicle that, to our knowledge, has never had a significant, adverse impact on financial stability. The reason for this success is that the 1940 Act contains many explicit requirements and limitations, and the SEC has promulgated rules that mitigate risk associated with U.S. registered funds, including:

- maintaining a portfolio consisting of 85% liquid assets;[6]
- prohibiting the issuance of senior securities by open-end funds;[7]
- daily calculation of NAV and forward pricing;[8]
- maintaining 300% asset coverage for borrowings;[9]
- segregating, earmarking or offsetting assets equal to 100% of any obligation to a counterparty created through the use of derivatives;[10]
- limiting a fund's exposure to its counterparties through collateral control requirements and the use of qualified custodians;[11]
- limiting a fund's investment concentration in a single industry to 25% (unless otherwise disclosed in the fund's prospectus) of the fund's holdings;[12] and
- limiting a fund's investment in any one financial firm to 5%.[13]

[6] *See* Revisions of Guidelines to Form N-1A, Investment Company Act Release No. 18612 (Mar. 12, 1992).
[7] *See* 1940 Act § 18.
[8] *See* Rule 22c-1under the 1940 Act.
[9] *Id.*
[10] *See, e.g.*, Securities Trading Practices of Registered Investment Companies, Investment Company Act Release No. 10666 (Apr. 18, 1979), 44 Fed. Reg. 25128 (Apr. 27, 1979).
[11] *See* 1940 Act § 17(f) and rules thereunder.
[12] *See id.* § 8(b)(1)(E), see also 76 Fed. Reg. 55237, 55254 (Sept. 7, 2011).
[13] *See id.* § 12(e)(2)

These significant differences strongly counsel against rigidly applying bank-like standards to the asset management industry, which is already heavily regulated, and for further review by IOSCO on whether asset management products or activities could pose risks that are not already mitigated and, if so, what tools are appropriate to mitigate any such potential risks.

## IV. Comments on Specific Recommendations Made in Consultation

### Liquidity

The Chamber has repeatedly urged domestic and international regulators to consider the impact of recent regulatory reforms on market liquidity, particularly as several rules arising from Basel III have had the effect of siphoning off productive capital to meet new regulatory requirements. In this regard, the FSB must adopt a balanced approach in its proposed measures on liquidity to avoid and minimize any potential impacts on the ability of businesses of all sizes to access needed financial services. Moreover, it is of paramount importance to ensure that these forthcoming standards do not hamper the asset management sector's ability to continue to invest in their portfolio companies.

Consequently, the Chamber supports some of the measures in the Consultation, such as the collection of additional information on the liquidity profile of mutual funds proportionate to the risk they may pose from a financial stability perspective. This broadly comports with current proposals by the SEC to collect additional information through Form N-PORT, which requires identification of portfolio assets according to the number of days it would take to convert the asset to cash and disclosure of the quantities of assets that are subject to strict liquidation timetables. This disclosure, on top of additional internal risk management structures and procedures, ensures that the liquidity profile of mutual fund is both understood by investors and well-managed by fund advisers. We refer the FSB and IOSCO to the comments made on the SEC's proposal, which are constructive and offer insight into the appropriate design and implementation of these new policies.

However, we are opposed to comprehensive measures that are inappropriate for the asset management industry and that needlessly sideline investor capital, especially after enhanced liquidity disclosures and risk management programs have been implemented. In particular, these include designated liquidity buffers in variable net asset value funds, suspension of redemptions, gates, and withdrawal limits. These are all highly disruptive measures which could adversely impact the activities and business model of the asset management industry as well as overall investment in financial assets by fund investors.

The Consultation also states that such measures, including tools to "reduce first-mover advantage" and "extraordinary liquidity risk management tools," should first be reviewed by IOSCO according to its own guidance and then, as appropriate, enhanced.[14] We strongly agree with this approach and the decision to give IOSCO, the preeminent international capital markets and securities standard setter, the authority and responsibility to develop any additional measures, *if necessary*. The first step is to determine empirically whether there is a risk that warrants a policy response. If there is, the second step is to design and propose a policy or standard to address it effectively and efficiently. In the development of such standards, however, we stress the need for flexibility—in particular, the need for flexibility at the national level and at the individual fund level. Each fund manager should have discretion in using these extraordinary tools rather than facing a "one-size-fits-all" approach applied uniformly to all fund managers.

Finally, we strongly urge both the FSB and IOSCO to examine the cumulative impact of all of these tools on market liquidity before establishing new liquidity standards in the asset management space. Several other reforms being implemented worldwide for the financial services sector, such as the liquidity coverage ratio, the net stable funding ratio, and money market fund reform, has created a strong demand for liquid assets, which ultimately remain on the balance sheets of financial services companies to comply with these requirements. As a result of these reforms, we are starting to witness an inability of corporate treasurers and government finance officers to raise short-term capital and manage cash in ways that were once available to them.[15] Consequently, it is critically important that any new liquidity reforms be examined in the broader context of global financial services regulatory reform efforts to date and

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[14] *See* Consultation at Pg. 19.

[15] *See* Kirsten Grind, James Sterngold, and Juliet Chung, *Banks Urge Clients to Take Cash Elsewhere*, WALL STREET JOURNAL, Dec. 7, 2014, http://www.wsj.com/article_email/banks-urge-big-customers-to-take-cash-elsewhere-or-be-slapped-with-fees-1418003852-lMyQjAxMTA2MjI1MzcyNjMzWj.

how new reforms may impact the global economy.

## Leverage

In examining the use of leverage by the asset management industry, the FSB and global regulators must recognize the extensive new regime regulating the over-the-counter ("OTC") derivatives markets that has been implemented since the financial crisis. This includes Dodd-Frank's Title VII reforms for OTC derivatives in the United States and MiFID II/EMIR in the European Union, which both require financial entities using derivatives to hold capital and margin for swaps and other derivatives.

In addition, in the United States, mutual funds are among the most highly regulated entities in the financial industry and their regulatory regime effectively limits the leverage they can employ. Broadly, the Investment Company Act of 1940 (the "1940 Act") requires funds to "cover" their derivatives exposure by maintaining a segregated account of liquid assets or entering into offsetting transactions. These requirements have effectively limited the use of derivatives by funds while permitting them the flexibility to hedge risk and structure their investment objectives as intended.

Consequently, we firmly believe that before proposing or issuing any new standards, international regulators should first collect more data on the use of leverage by the asset management industry and what tools are already used and available to mitigate any risk associated with such leverage. The FSB clearly envisions this by benefitting from the work already being conducted by IOSCO on this very topic, as the Consultation notes that IOSCO is currently engaged in an initiative to address data gaps related to funds that includes leverage of funds.

We believe that this is a positive development, but we strongly underscore that more information needs to be gathered on how and in what quantities funds employ leverage in order to ensure fully informed standard setting. This concern has unfortunately played out in the United States with respect to newly proposed derivatives rules for registered investment companies ("RICs") and business development companies ("BDCs"), which have been issued without the completion of previous rulemaking that would provide more information on how leverage is being used. SEC Commissioner Piwowar emphasized this point in his dissent at an

SEC open meeting approving these rules, noting that recent disclosure rules proposed by the Commission for RICs should be finalized prior to proposing new leverage limits, since such information would assist the Commission in establishing meaningful portfolio limitations based on economic analysis.[16]

Therefore, we agree with the Consultation that supervisory authorities should focus their efforts on improving their systems for aggregating and analyzing information.[17] A more structured and consistent cross-border approach would facilitate data collection, aggregation, and use. For example, in the United States, the Financial Stability Oversight Council has recently created an interagency working group to collect and assemble relevant data on the use of leverage. Such work is critical to understanding the use of leverage by asset management entities of all types, how any potential risk is mitigated through the use of margin, segregated accounts, contractual limits and other means and determining whether remaining issues need to be addressed by regulators or market participants.

The Consultation also specifically asks whether "simple and consistent measures of leverage in funds be developed before consideration of more risk-based measures" or whether both efforts should be developed simultaneously.[18] We strongly believe that there must be a global consensus on measuring leverage in funds before any risk-based measures are adopted, especially given that many definitions of leverage imply an inaccurately high level of risk. For example, rulemaking in the United States on this issue has focused on the use of aggregate notional value test for exposure-based limits, which is an exceedingly blunt method of measuring potential risk posed by a fund's derivatives holdings. As we have noted in our comments to the SEC, while it is administratively "easy" to use a notional test, that metric does not accurately measure potential risk profiles, particularly amongst different types of derivatives. The risk profile of an interest rate swap, for example, can differ dramatically from the risk profile of a credit default swap, even if they both have the same notional value. Additionally, different derivatives often offset risk to one another, but a test that uses notional value will be treated as having greater risk when

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[16] *See* Commissioner Michael S. Piwowar, Dissenting Statement at Open Meeting on Use of Derivatives by Registered Investment Companies and Business Development Companies (Dec. 11, 2015), available at http://www.sec.gov/news/statement/piwowar-dissentingstatement-use-of-derivatives-funds.html.
[17] *See* Consultation at Pg. 26
[18] *Id.*

calculating the risk exposure of these derivatives when those derivatives cannot be netted against each other.

Accordingly, more work on collecting and analyzing data on the use of leverage by the asset management industry is critically important, and must be completed prior to the development of any risk-based measures. As we have seen in the United States, there is a real risk that such risk-based measures will inevitably be crafted in ways that unfairly accentuate the potential amount of risk posed by the use leverage. Adoption of tools based on a poor understanding of leverage will inevitably:

1. force funds to charge investors more, given the substantially higher amount of capital that must be held when using derivatives;

2. fundamentally restructure their investment strategies; or

3. deregister and either exit the market completely or reorganize as a different entity.

These consequences, which hurt investors and the broader economy, can be avoided by delaying the development of risk-based standards until further study on the use of leverage by the asset management industry is completed.

## Operational Risk

While we agree that asset managers should be prepared to address potential operational risks, such as transferring investment mandates or client accounts, asset managers generally do have such plans in place and are prepared to take action in circumstances where there is a disruption in operations.[19] Additionally, while we agree that operational risk and challenges might represent a serious concern for a specific firm, it remains very unclear how an idiosyncratic operational risk issue at one firm could threaten the stability of the global financial system. This is even true in the case of natural disasters that have impacted broad geographic areas, such as Hurricane Sandy in 2012.

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[19] The Consultation Paper also notes that "a number of regulatory tools and market practices are currently in place to directly or indirectly address operational difficulties and challenges in transferring investment mandates." *Id.* at Pg. 29.

Importantly, operational risk is not inherently financial. The operations of an asset manager and its service providers are not reliant on market financing and do not change if financial markets are stressed. Volumes of transactions may increase or decrease, for example, but they will be administered in the same way. When operational risk materializes, it is typically isolated, insurable, and able to be fixed. It does not lead to the sort of aggregate capital shortfall that can impede financial intermediation and damage the global economy.

As such, the Chamber supports measures that are narrow in scope, balanced, and well-calibrated to tackle perceived residual operational risk. Such requirements should only be adopted after a thorough review of existing legal requirements that are applicable in FSB member jurisdictions. For example, in the United States, the SEC has indicated that an investment adviser's compliance policies and procedures should address business continuity plans ("BCPs") to the extent that they are relevant to the adviser.[20] Such requirements also require registered funds' or their advisers' policies and procedures to address the issues identified for advisers, including BCPs.

In addition, SEC staff has examined fund complexes and their critical service providers' BCPs and related capabilities and has published its findings several times, including those impacted by Hurricane Sandy in 2012.[21] SEC staff has also issued guidance addressing business continuity risks for registered fund complexes, highlighting a number of measures that funds should consider in operational risk mitigation.[22]

Finally, we note that the SEC has recently issued a proposed rule that will expressly require investment advisers to adopted business continuity and transition plans through amendments to the Investment Advisers Act. We agree that enhancing preexisting BCPs of investment advisers is an important step to mitigate potential disruptions in an investment adviser's operations; however, we see no need for

[20] Compliance Programs of Investment Companies and Investment Advisers, SEC Release No. IA-2204, 68 FR 74714, 74716 (Dec. 24, 2003).

[21] SEC Examinations of Business Continuity Plans of Certain Advisers Following Operational Disruptions Caused by Weather-Related Events Last Year (Aug. 27, 2013), *available at* https://www.sec.gov/about/offices/ocie/business-continuity-plans-risk-alert.pdf. *See also* SEC Compliance Alert (Jun. 2007), available at www.sec.gov/about/offices/ocie/complialert.htm

[22] Business Continuity Planning for Registered Investment Companies, SEC Division of Investment Management Guidance Update (Jun. 2016), available at www.sec.gov/investment/im-guidance-2016-04.pdf

separate transition plans given that advisers regularly enter and exit the market without them and without market impact. Accordingly, we believe that any requirements for so-called business transition plans should be justified by empirical evidence that has not been provided to date, and should not be duplicative of the requirements of BCPs.

## Securities Lending and Stress Tests

*Securities Lending*

Securities lending transactions are an integral part of our capital markets, and are critical to market-making activities, investment in popular cash management vehicles such as money market funds and risk-management strategies. We agree with the Consultation Paper that "risk management practices seem to be in place for funds that engage in securities lending as beneficial owners and for asset managers acting as agent lenders."[23] As such, we encourage the FSB to continue collecting information in this area, including the use of indemnifications by agent lenders, before taking any action to disrupt the securities lending markets.

*Stress Tests*

Stress tests are mentioned throughout the Consultation - for example, in Recommendations 6 (stress testing at the level of individual funds) and 9 (system-wide stress testing) with regards to liquidity. While stress tests have been used for the banking sector, it is highly unclear how stress tests for funds will look like or is organized, and on the basis of which metrics and assumptions they would be developed. To this end, we strongly believe that FSB should defer to IOSCO's expertise on this, and that the principle of *proportionality* should be embraced in fund-level stress testing.

Additionally, with respect to Recommendation 9, the feasibility of system-wide stress testing has not been established. Nor has anyone proposed methodologies for such a test, received comments on them, or considered the costs and benefits. A system-wide stress test is a worthy goal, but it may be premature given the lack of

[23] *See* Consultation at Pg. 33.

consensus on how such a system-wide stress test could be conducted. Moreover, given that the vast majority of financial assets are self-managed and not managed by a third party, this recommendation seems out of place in an asset management consultation and would require data on all asset owners that does not currently exist. We therefore recommend that any work on system-wide stress tests be discontinued until more data is collected and consensus on how such tests can be designed is achieved.

## Conclusion

In sum, the Chamber strongly believes that the Consultation is heading in the right direction by pursuing an approach focused on first determining whether specific activities or products of the asset management industry threaten global financial stability and then designing appropriate policy responses for any such threats, rather than assuming that threats exist and attempting to identify individual funds or managers that present them through an entities-based approach. However, the Chamber continues to have serious reservations about the timing and content of these reforms and strongly urges FSB and IOSCO to collect all necessary data on asset management activities and place them in proper context before moving forward with any recommendations to domestic regulators. This will help develop a fully-informed standard setting process that takes into account the numerous reforms already occurring within the asset management industry and appropriately balances a desire to limit risk with an understanding that investment risk is inherent in capital markets and promotes economic growth.

Sincerely,

Tom Quaadman

cc: Paul Andrews, Secretary General of IOSCO

Attachments: March 2016 Letter to the SEC re: Use of Derivatives by RCIs and BDC
September 2016 Letter to the SEC re: Business Continuity and Transition Plans