April 7, 2014

By electronic mail: fsb@bis.org

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

Dear Sirs:

RE: FSB/IOSCO Consultative Document Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions - Proposed High-Level Framework and Specific Methodologies (the "Consultation Paper")

We are writing to provides comments of the Members of The Investment Funds Institute of Canada in response to the Consultation Paper.

About the Institute

The Investment Funds Institute of Canada is the voice of Canada's investment funds industry. IFIC brings together 150 organizations, including fund managers and distributors, to foster a strong, stable investment sector where investors can realize their financial goals. The organization is proud to have served Canada's mutual fund industry and its investors for more than 50 years.

General Comments Regarding Proposed Methodology

Respectfully, we submit that it is premature to propose an assessment methodology to identify mutual funds or mutual fund management firms as systemically important in the absence of academic research as to whether the failure of a mutual fund or mutual fund management firm could, in fact, cause significant disruption to the global financial system and economic activity across jurisdictions[1].

The Consultation Paper correctly notes a number of key differences between investment funds and banks and insurers, including the types of risks inherent in the operations of such entities. Nevertheless the Paper proceeds on the presumption that a large investment fund or fund company failure would cause significant market disruption and therefore an assessment methodology is warranted. No empirical evidence is provided to justify this presumption, nor does the Paper offer any data or empirical analysis to support the application of the assessment criteria or thresholds contained within the methodology to investment funds or investment fund companies.

[1] The Consultation Paper states that the FSB focused on two principles in developing the proposed methodologies:

(i) The overarching objective in developing the methodologies is to identify NBNI financial entities *whose distress or disorderly failure*, because of their size, complexity and systemic interconnectedness, *would cause significant disruption to the global financial system and economic activity across jurisdictions*; and

(ii) The general framework for the methodologies should be broadly consistent with methodologies for identifying G-SIBs and G-SIIs, i.e. an indicator-based measurement approach where multiple indicators are selected to reflect the different aspects of what generates negative externalities and makes the distress or disorderly failure of a financial entity critical for the stability of the financial system (i.e. "impact factors" such as size, interconnectedness, and complexity).

We therefore urge the FSB and IOSCO to defer further action to allow for consideration and assessment of substantive research on this topic. We understand that some salient research is in progress: For one, the Investment Company Institute ("ICI") has commissioned research on systemic risk and investment funds from The Brookings Institution. We believe that this and other empirical research – and not unsubstantiated assertions – should form the basis of any FSB and IOSCO decision making in this area.

Our colleagues at the ICI have raised a number of fundamental methodological concerns with a similarly-focused study by the Office of Financial Research (OFR).[2] Specifically, they show that mutual funds are not, and have historically not demonstrated themselves to be, systemically risky entities – a very different result than for banks and insurers. Mutual funds make little to no use of leverage; they do not fail in the way banks and insurance companies do; the structure and regulation of mutual funds and their managers protects investors and limits systemic risks and risk transmission; and historical data confirms mutual funds and their investors have never demonstrated the behaviours the Consultation Paper identifies as posing systemic risk.

We agree with the ICI's analysis regarding the OFR report; it is well-reasoned, comprehensive and fact-based. As such we will not repeat the content of ICI's submission beyond the excerpts noted above. Instead we simply urge the FSB and IOSCO to thoughtfully consider ICI's comments and supporting data therein as they are equally relevant and applicable to the proposals in the Consultation Paper. Similarly we have reviewed the submission filed by the Asset Management Group of the Securities Industry and Financial Markets Association in response to the Consultation Paper and we are in support of the analysis and conclusions presented in that letter.

We acknowledge the Consultation Paper "does not propose any specific entities for designation, nor any policy measures that would apply to NBNI G-SIFIs" but that these proposals would be made at a later date. Nevertheless, the obvious similarities to the assessment methodologies for other sectors causes us to expect that similar enhanced measures to those implemented for bank and insurer G-SIFIs will eventually apply to NBNI G-SIFIs. We believe that designating investment funds as G-SIFIs will do little to reduce systemic risk, yet could have significant and negative regulatory and market consequences.

It is essential therefore that the FSB and IOSCO proceed with caution, and first establish whether a large investment fund failure could cause significant disruption to the global financial system, in theory and in fact, rather than simply assuming from the outset that it would. Only if the answer is affirmative would it be appropriate at that stage to suggest a methodology to determine which funds, managers and intermediaries should be designated as G-SIFIs.

We look forward to continuing to work with the FSB and IOSCO on this matter, including assessing research as it becomes available. Our goals are mutual and consistent - to ensure appropriate regulatory principles are applied to those entities the failure of which would legitimately pose a risk to global financial markets.

We thank you for considering our comments. Please feel free to contact me by email at rhensel@ific.ca or by telephone at (416) 309-2314 should you have any questions, or should you wish to discuss any of our general comments in more detail.

Yours very truly,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

Ralf Hensel
General Counsel, Corporate Secretary and Director of Policy

[2] ICI letter to Office of Financial Research, November 2013 http://www.ici.org/pdf/13_ici_ofr_asset_mgmt.pdf.