MANAGED FUNDS ASSOCIATION
The Voice of the Global Alternative Investment Industry
WASHINGTON, DC | NEW YORK

April 7, 2014

By email to fsb@bis.org

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

Re: MFA Comments on FSB/IOSCO Consultation Document – Assessment Methodologies for Identifying Non-Bank Non-Insurer Globally Systemically Important Financial Institutions

Dear Sir or Madam:

Managed Funds Association ("MFA")[1] welcomes the opportunity to provide comments on the Financial Stability Board's ("FSB") and International Organization of Securities Commissions' ("IOSCO") consultation paper, Assessment Methodologies for Identifying Non-Bank Non-Insurer Globally Systemically Important Financial Institutions (the "Consultation Paper"). MFA believes that each national systemic risk regulator should analyse financial institutions based on quantitative data when determining whether the regulator should designate a nonbank financial company as systemically important. In that regard, we generally support the FSB's and IOSCO's efforts to develop quantitative-based metrics for establishing thresholds at which investment funds might be considered to pose systemic risk, though we believe the FSB and IOSCO should modify the proposed metrics, as discussed in more detail below.

[1] Managed Funds Association represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent and fair capital markets. MFA, based in Washington, DC, is an advocacy, education and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry's contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk and generate attractive returns. MFA has cultivated a global membership and actively engages with regulators and policy makers in Asia, Europe, the Americas, Australia and many other regions where MFA members are market participants.

In considering the specific metrics and indicators proposed by the FSB and IOSCO in the Consultation Paper, we believe the FSB and IOSCO should adopt final recommendations consistent with the following key points:

- Systemic risk regulators should conduct analysis at the individual fund level and not at the level of the family of funds, the asset manager, or the asset manager and its funds collectively.

- The FSB and IOSCO should use a metric other than gross notional exposure ("GNE") to measure an investment fund's gross AUM, since GNE does not a reflect a fund's actual market risk or counterparty exposure and ignores material variations among positions by (i) asset class, (ii) tenor, (iii) netting terms, (iv) margining and collateral arrangements, and (v) clearing status.

- The FSB and IOSCO should only recommend indicators that are consistent with the statement in the Consultation Paper that investment funds may cause systemic risk via the counterparty channel and the market channel.

- The FSB and IOSCO should only recommend indicators well designed to measure systemic risk and not recommend indicators that are likely to measure other types of non-systemic risks.

Discussion of Hedge Fund Industry

Before discussing the proposed indicators in detail, MFA respectfully suggests that an analysis of the information already being reported by hedge funds will demonstrate that hedge funds do not pose systemic risks for the following reasons:[2]

- *Relative size of the hedge fund industry* – The global hedge fund industry is relatively small compared to other financial industries, such as mutual funds and banks, and relatively small compared to financial markets.

- *Diversity / Concentration / Substitutability* – Hedge funds engage in a wide variety of investment strategies and invest in a variety of asset classes. There is also a wide dispersion of assets among different funds and managers, demonstrating that there is not a concentration of risk among relatively few entities. This dispersion of assets among a broad group of managers and funds significantly reduces the risk that the failure of any one fund or manager would create systemic risk due to a lack of substitutes.

- *Asset-liability matching / Maturity or liquidity transformation* – There are two principal sources of funds for a hedge fund: its investors and its bank/broker counterparties. The

[2] For a more detailed discussion of the reasons we believe hedge funds do not pose systemic risk, see MFA's June 1, 2012 comment letter to the European Commission, available at: https://www.managedfunds.org/wp-content/uploads/2012/06/MFA_response_to_EuropeanCommission_greenpaper_on_shadowbanking.pdf and MFA's letter to the February 25, 2011 letter to the U.S. Financial Stability Oversight Council, available at: http://www.managedfunds.org/wp-content/uploads/2011/06/2.25.11-MFA.letter.on_.systemically.significant.institutions.pdf.

financing from counterparties is secured by collateral and inherently limited both by regulation and by the sophisticated counterparties' risk analysis. Most hedge funds also build strong liquidity protections into their contractual relationships with investors whose redemption or withdrawal rights are subject to a variety of restrictions. These measures are designed to more closely match the term or expected liquidity of the fund's assets with the term of the fund's financings and capital from equity investors.

- *Redemption rights / Liquidity protection / Potential for runs* – Hedge funds are subject to investor redemptions; however, because of the redemption restrictions agreed to between funds and their investors, hedge funds are not subject to "runs" to the same extent as other financial institutions funded by demand deposit accounts. Hedge funds are launched and liquidated all the time and fund liquidations, including during the financial crisis, have not created systemic risk or required government intervention.
- *Leverage* – Because hedge funds post collateral and margin in connection with their borrowings, hedge fund leverage has been and continues to be modest compared to that of other financial institutions.

General Comments on Consultation Paper

We generally agree with the Consultation Paper that there are limited channels by which an investment fund could cause systemic risk and that the counterparty and market channels are the most relevant for regulators to consider. In that regard, we believe it is important that the methodology and indicators proposed by the FSB and IOSCO (and ultimately any methodology and indicators implemented by national regulators) should be consistent with the FSB statement that investment funds can cause systemic risk via the counterparty channel (as a counterparty, causing large, destabilizing losses to a systemically important financial institution) or the market channel (as a market participant, liquidating one or more large positions and thereby causing material and destabilizing disturbance to a systemically important financial market). Set out below are MFA's views on the extent to which the proposed indicators are likely to assist regulators in assessing the systemic risk that an investment fund may present through these channels.

Even when the quantitative metrics are exceeded, however, we believe that the particular characteristics of a given investment fund might be such that it does not pose systemic concerns. As such, we believe that the FSB and IOSCO should make clear that none of the indicators listed in the Consultation Paper are necessarily determinative that an investment fund poses systemic risk or should be designated as a systemically important financial institution ("SIFI"). We further encourage the FSB and IOSCO also to make clear that national systemic risk regulators should have discretion to determine that an investment fund does not need to be designated as a SIFI even if the fund meets multiple indicators in the FSB's and IOSCO's final recommendations.

Level of Analysis

MFA agrees with the Consultation Paper's proposed approach of assessing investment funds at the individual fund level. Specifically, we agree that assessment on an individual fund basis is appropriate because it is the fund which holds the financial assets and transacts with trading counterparties, generally on a collateralized basis, and to which investors commit capital.

This approach is consistent with the Consultation Paper's statement (with which we are in agreement) that the exposures/counterparty channel and the asset liquidation/market channel are the two systemic risk transmission channels relevant to investment funds. The activities described in these two channels are conducted at the individual investment fund, not at the asset manager, and the risks associated with these activities are generally limited to an individual fund, rather than across multiple funds managed by the same adviser.

While we believe that the proper level of analysis should be at the individual fund level, we note that the Consultation Paper seeks comments on whether there should also be an assessment of families of funds managed by the same manager, asset managers on a stand-alone basis, or asset managers and their funds collectively. Set out below are MFA's views on these alternative levels of analysis.

Families of funds – Generally, conducting assessments at the level of a family of funds managed by the same manager is not instructive because legally distinct funds, even when managed by the same manager, typically have different investors and often engage in entirely distinct trading activities in different assets and markets. Any losses at one fund are borne by the investors in that fund and do not subject other funds managed by the same manager to losses. Further, unlike related entities in holding company or other similar structures, the different funds managed by a common manager do not typically have the kind of intercompany loans or transactions that can create interconnectedness and tie the risks associated with one company to other companies in the same ownership structure. The analysis level that is consistent with the FSB's stated systemic risk channels is the level of the individual fund.

To the extent that funds managed by the same manager do not fit this profile (*i.e.*, funds with substantially identical investment strategies which are invested in substantially identical assets), we would agree that assessment across such funds could, under these limited circumstances, be appropriate.

Asset managers on a stand-alone-basis – We believe that assessment at the asset manager on a stand-alone basis level similarly is not appropriate. Fund managers typically do not guarantee the performance or financial obligations of the funds they manage, and do not otherwise create counterparty exposure with respect to the trading activities of their funds or other clients.

Asset managers and their funds collectively – Finally, for the reasons discussed above regarding analysis at the level of families of funds or at the level of the asset manager, we also believe it would not be appropriate to analyse asset managers and their funds collectively.

To the extent the FSB and IOSCO nonetheless determine that some level of analysis should be at the level of a family of funds, the asset manager on a stand-alone basis, or the asset manager and its funds collectively, we believe the proposed thresholds and metrics would need to be significantly modified. For example, we believe the proposed size thresholds would need to be significantly increased from the proposed thresholds to avoid being overly broad in scope. Even more fundamentally, the FSB and IOSCO would need to consider that a single, aggregate, assets under management ("AUM") threshold likely would not be the appropriate metric for any level other than the individual fund level; instead a more nuanced approach to aggregating assets would be needed.

In addition, the FSB and IOSCO would need to give additional consideration to the various indicators to determine how those indicators should be applied at any of the other proposed levels. For example, simply aggregating leverage ratios would not provide a useful metric in determining the systemic risk profile for a family of funds, an asset manager on a stand-alone basis, or a manager and its funds collectively because an aggregate leverage ratio would not account for the different risk levels associated with leverage on different types of assets nor for the fact that the leverage ratios of individual funds could be significantly different than an aggregate ratio. As such, to the extent the FSB and IOSCO modify the proposed level of analysis, we believe they should release a new consultation paper that proposes metrics for the alternative level of analysis being proposed; we do not believe the FSB and IOSCO should simply change the level of analysis from the individual fund level to the any of the alternative levels without further consideration and consultation of the appropriate assessment methodologies and indicators.

Size Thresholds

Net AUM – We agree with the Consultation Paper that size is an important factor in assessing whether the risks associated with an entity's activities could be of sufficient scope to create systemic risks (as opposed to operational or market risks that are not systemic in nature). For any investment fund, net AUM is the fund's loss-absorbing capacity. Given the limited channels through which funds can generate systemic risk, we support measuring size based on an individual fund's net AUM.

GNE – While we understand the FSB's and IOSCO's goal of measuring a fund's market footprint, we do not believe that GNE is an appropriate metric for determining the relevant size of a hedge fund. When assessing the potential impact of derivative portfolios, total GNE does not in fact represent a fair appreciation of economic or market exposure, as the consultation asserts. Given that the intent is to assess the *market* or *counterparty* "exposure through derivatives, considering the resulting exposure to the underlying asset or reference," it is improper to look at gross notional amounts alone without adjusting for significant variations in actual risk and exposure that vary by (i) asset class, (ii) tenor, (iii) netting terms, (iv) margining and collateral arrangements, and (v) clearing status. As proposed, GNE is thus a highly flawed metric that is ill suited to this purpose and significantly overstates fund's true market or counterparty exposure.

With respect to asset class, GNE is easily overinflated by interest rate derivatives, which for similar risk have much higher notional amounts than other derivatives. For example, the risk of a $100 million notional USD 5 year interest rate swap and the risk of a $100 million notional 5 year single-name CDS are significantly different and bear no relation to each other. This is why, for example, the Basel conversion factors vary by asset class (*e.g.*, 0.5% for a 1-5 year interest rate swap compared to 8% for a 1-5 year Equity Swap). Moreover, BIS data show that the global OTC derivative notional amount outstanding is approximately $693 trillion, of which $561 trillion (81%) is interest rate derivatives and only $7 trillion (1%) is equity derivatives. Given the size of the interest rate derivatives market, the GNE threshold with respect to interest rates derivatives is significantly less likely to create disruption via the market channel than a similar GNE threshold with respect to derivatives of other asset classes. Further, because of the difference in risk exposure per dollar of notional of derivatives in different asset classes, the potential for a fund to lose money – and hence cause losses for its counterparties – is significantly different per dollar of notional depending on what asset class the derivative represents.

With respect to tenor, we believe that notional exposures of derivatives (listed and OTC) without modification to account for differences in duration do not provide a particularly useful measure for purposes of understanding the true size or systemic impact of an investment fund. The risk of a $100 million notional 1 year interest rate swap is significantly different than the risk of a $100 million notional 30 year interest rate swap. In addition, the delta adjustment for options fails to differentiate not only among options of different terms, but also between long and short options – the maximum loss on a long option is generally much less than its delta equivalent, while the maximum loss on a short option can be considerably higher. Using an approach that accounts for differences in duration is consistent with the systemic risk reports in the U.S. (Securities and Exchange Commission (the "SEC")/Commodity Futures Trading Commission (the "CFTC") Form PF/PQR), which provide for the calculation of exposures of interest rate derivatives in terms of the 10-year equivalent duration-adjusted value for such positions. Similarly, exposure for options positions (both interest-rate and otherwise) is reported on a delta-adjusted basis.

With respect to netting and hedging, GNE would overstate the risk from positions that have demonstrable and widely accepted offsetting exposures. Such positions should not be included in the calculation of an exposure threshold designed to identify funds that may present systemic risk, absent a sound basis for recognizing the offsetting risks. In particular, options that are hedged with the reference asset or other offsetting options, futures hedged with the deliverable reference asset, interest rate swaps hedged with corresponding government bonds, and interest rate derivatives held under the same master agreement or at the same clearinghouse should, to the extent of offsetting cash flows, be recognized as such as part of any effort to measure a fund's total exposure. The fact that interest rate derivatives do not currently have standardized starting dates or fixed rates means that offsetting positions with nearly identical cash flows, durations, and other risk characteristics will generate notional exposure without creating any material economic risk to a clearinghouse or a counterparty, let alone creating systemic risk through the counterparty or market channels.

With respect to margin and collateral, it is important that any final exposure threshold account for the fact that derivatives positions for which initial and daily variation margin are posted are significantly less risky than derivatives positions for which margin or collateral is not posted. We note in this regard that many hedge funds have zero net uncollateralized exposure. When a fund posts initial margin and exchanges daily variation margin, the fund poses less counterparty risk because the initial margin protects the counterparty against future exposure to the fund and the daily variation margin protects the parties against current exposures. It is worth noting that, as part of the U.S. SEC's and CFTC's "major swap participant" calculations, uncleared swaps that are subject to daily margining arrangements receive a discount factor (0.2x).

With respect to clearing, it is important to note that positions cleared through a central counterparty (a "CCP") create less risk than uncleared transactions. In broad terms, a CCP reduces systemic risk by interposing itself as a counterparty to every trade, performing multilateral netting, and providing various safeguards and risk management practices to ensure that the failure of a clearing member to the CCP does not affect other members. Moreover, CCPs ensure that initial and variation margin is posted with respect to all cleared positions, also resulting in less risk for cleared transactions than uncleared transactions. Given the different risk profiles of cleared positions compared to uncleared positions, we believe that any final exposure threshold needs to provide for adjustments to account for cleared versus uncleared positions.

Finally, the proposed $400-$600 billion threshold for GNE does not appear to be appropriately calibrated. According to the latest BIS statistics, the notional amount outstanding of all OTC derivatives as of June 2013 was $693 trillion.[3] Comparing the proposed $400-$600 billion GNE range to the $693 trillion figure suggests that a fund whose derivative portfolio represents as little as 0.06% of the global OTC derivatives market should nonetheless warrant consideration as a global SIFI due exclusively to the size of its derivatives portfolio. Separately, when the Basel-IOSCO Working Group on Margin Requirements ("WGMR") published its final policy framework establishing minimum standards for margin requirements for *non-centrally cleared* derivatives only, they set a 5 year phase-in process that segmented entities by their aggregate notional amount of non-centrally cleared derivatives.[4] The relevant aggregate notional thresholds for that phase-in are: $3 trillion in year 1; $2.25 trillion in year 2; $1.5 trillion in year 3; $0.75 trillion in year 4; and finally $8 billion in year 5. Assuming the phase-in and associated scaling of the thresholds was intended to capture more systemically relevant entities in the earlier phases, it is an anomaly to suggest a fund with as little as $400-$600 billion in gross notional derivatives exposure is potentially systemically significant, when such an entity would not even have been considered relevant enough by the WMGR for inclusion until the very end of its phase-in process. Further, the WGMR thresholds only looked at *uncleared* OTC derivatives, not all OTC derivatives.

For reasons similar to those discussed above, we believe that any other gross asset test that might be used in lieu of GNE should also provide for differentiation based on the kinds of assets that make up the gross asset test. A variety of legitimate policy considerations associated with [AA/AAA] sovereign debt portfolios, as well as the relatively reduced risk associated with such sovereign debt, suggest the importance of such differentiation. Accordingly, we encourage the FSB to use an alternative metric other than GNE for determining a fund's total exposure, which is calibrated to account for each of the issues discussed above.

Interconnectedness

Leverage ratio – We agree that a fund's leverage ratio is a relevant factor for assessment, but, for the reasons discussed above, disagree with the proposed use of GNE as a metric for determining the ratio.

Counterparty exposure ratio – We agree that counterparty exposure is a relevant factor for regulators to consider and we further agree that counterparty exposure should be calculated on a net basis after considering valid netting agreements and collateral/margin posted by a fund.
We believe, however, that regulators considering counterparty exposure should not consider this ratio in isolation, but in connection with the counterparty's exposure to the fund relative to the counterparty's size. While a high counterparty exposure ratio may indicate that the fund poses more risk to the counterparty, systemic risk will only arise if the level of counterparty risk could potentially destabilize a systemically important creditor.

Intra-financial system liabilities -- We agree that a fund's total exposure to counterparties, especially globally systemically important counterparties, is a relevant factor for regulators to

[3] http://www.bis.org/statistics/dt1920a.pdf

[4] http://www.bis.org/publ/bcbs261.pdf

consider. Similar to the comment above, we believe that regulators should not consider the total amount of counterparty credit exposure in isolation, but in connection with whether that level of exposure could potentially destabilize a systemically important counterparty.

Substitutability

We agree with the Consultation Paper that investment funds generally have substitutes in the market. We also agree that the list of indicators in the Consultation Paper – (1) turnover of the fund related to a specific asset compared to the daily trading volume of that asset; (2) total fund turnover compared to the total turnover of funds in the same category/classification; and (3) investment strategies (or asset classes) with less than 10 market players globally – are reasonable factors to consider in determining whether or not there are substitutes for a particular fund's investment activities, but only to the extent these indicators are measuring the trading activities of a fund compared to the relevant market and not merely measuring of the amount of turnover of a fund's portfolio. While we generally agree with the indicators discussed in the Consultation Paper, we believe that a lack of available substitutes does not raise systemic risk concerns unless the relevant market is of sufficient size or importance to be of systemic relevance. Therefore, we believe that assessments related to substitutability should be limited to market participants only in these markets.

We note that at present, high-quality turnover data for OTC derivatives markets is not generally available even to regulators. As such, measuring the proposed ratios will be a significant challenge.

Complexity

We agree that the complexity of a fund's structure and its investment strategies are relevant factors for regulators to consider.

<u>Portfolio liquidity compared to investor liquidity</u> -- We also agree that indicator 4-4, the weighted average portfolio liquidity compared to the weighted average investor liquidity is an important factor in considering the likelihood that an investment fund could be subject to a bank-like "run." In that regard, however, investors in hedge funds are almost always required to give lengthy advance notice of redemptions and in addition are subject to redemption restrictions agreed to between funds and their investors. As such, hedge funds are not exposed to "runs" to the same extent that may be seen in financial institutions funded by demand deposits. In the context of hedge funds, to the extent that risk does exist, it would be limited to funds offering liquidity to investors which is significantly greater than the liquidity of such funds' underlying assets. We further note that the UK Financial Service Authority's (now the Financial Conduct Authority) Hedge Fund Surveys have consistently shown that hedge funds' portfolios can be liquidated more quickly than their liabilities fall due.

<u>OTC derivatives trade volumes compared to total trade volumes</u> – Given the Consultation Paper's view that trading in OTC derivatives could expose a fund to higher counterparty risk, we believe that the FSB and IOSCO should make clear that derivatives traded on an exchange or that are otherwise centrally cleared would not be considered as part of a fund's OTC derivatives trading volume.

Ratio of collateral posted by counterparties that has been re-hypothecated by the fund – We generally support this indicator, but believe it should exclude cash and should be limited to initial margin only, as initial margin represents what creditors would be entitled to recover in the event of a fund's failure. For example, we do not believe this indicator should include sales of securities in reverse repurchase transactions (as this would be picked up in a leverage ratio) or the sale of borrowed securities. While securities sold pursuant to such transactions are technically collateral under the reverse repurchase or short selling arrangement, we do not believe that treating such transactions as a "re-hypothecation" of collateral is appropriate in light of the concern that regulators are trying to address by including re-hypothecation as an indicator of systemic risk. An indicator focused on initial margin would avoid an overly broad scope, while still capturing the relevant risks associated with re-hypothecation of collateral.

Ratio of NAV managed using high frequency trading strategies – We do not believe that this is an indicator of a fund's complexity, nor is it an indicator of whether a fund poses systemic risk. For example, an investment fund that trades listed equities, but does so as part of a high frequency trading strategy would not present additional complications to the extent the fund is liquidated. This is particularly the case because high frequency trading strategies trade liquid securities, which are would not present additional complications in the event a fund is liquidated. To the extent regulators are concerned about market disruptions if a high frequency trading firm were to fail, we believe the indicators regarding the trading volume of a fund and the availability of other market participants as substitutes (subject to the caveat above regarding the analysis of these indicators) would already address this concern. As such, we encourage the FSB and IOSCO to delete this indicator.

Ratio of unencumbered cash to GNE – We do not agree with the rationale stated in the Consultation Paper regarding unencumbered cash, which we do not believe is a useful measure of comparing the relative riskiness of different investment funds. For example, a fund that invests in securities generally will have a low level of unencumbered cash while another fund that has exactly the same market risk profile but expressed via derivatives would have a very high level of unencumbered cash. We believe that the relationship between unencumbered cash and the potential draws on that cash is most relevant to determining risk. A distressed debt fund, for example, might be 100% invested with no unencumbered cash – but since such funds often do not use repurchase agreements or derivatives, the only significant draw on the fund's cash would be investor redemptions. Also, as discussed above, we do not believe that GNE is an appropriate metric in assessing investment funds. Accordingly, we encourage the FSB and IOSCO to delete this proposed indicator.

Cross-Jurisdictional Activities

We respectively disagree that the proposed indicators under the section – Cross-Jurisdictional Activities – are indicative of increased potential to create systemic risk; in fact we believe each of the indicators likely would make an investment fund more diversified and, therefore, relatively less risky. Investment funds that invest in a variety of jurisdictions have geographic diversification, which reduces the risk that adverse events in a particular market or jurisdiction would affect the fund's entire portfolio. Further, by investing across different markets and jurisdictions, an investment fund will have a smaller footprint in each individual market than a similarly sized investment fund that concentrates its investments in a single jurisdiction. Similarly, investment funds that have investors in multiple jurisdictions have greater diversification than funds with investors from a single jurisdiction, which reduces the risk that events relevant to a particular market might cause all or a majority of a fund's investors to seek to redeem their interests and reduces the risk that a fund's failure would affect a large number of investors in a particular jurisdiction or market.

Many investment funds use multiple prime brokers and other counterparties to reduce the fund's counterparty risk. Using multiple counterparties reduces the risk that a single counterparty's failure would destabilize an investment fund. Using multiple counterparties also reduces the risk that investment funds present to their counterparties as individual counterparties would only have exposure to a portion of a fund's portfolio. Finally, when a fund uses multiple counterparties, each counterparty's exposure to that fund is reduced as compared to a fund using a single counterparty, making it less likely that losses caused by a fund's failure would destabilize any particular counterparty. As such, diversification of counterparties not only reduces the risk of a fund failing, it also reduces the risk that a fund's failure could destabilize a counterparty.

Because each of the indicators set out in the Consultation Paper under the section – Cross-Jurisdictional Activities – provide diversification for a fund, we believe those indicators are more appropriately viewed as mitigating risks rather than indicators of increased risk.

Moreover, even if the FSB and IOSCO believe that these factors may be indicative of the potential for a fund to create systemic risks because of its exposure to global markets, we do not believe that the indicators are likely to be useful for differentiating among investment funds with respect to size or risk. Many funds, including smaller funds, are likely to invest in multiple markets around the globe, have investors from multiple jurisdictions, and use multiple counterparties in various jurisdictions. As such, these factors are unlikely to provide meaningful information to regulators in differentiating among investment funds. Accordingly, we encourage the FSB and IOSCO to delete this section from the Consultation Paper.

Process

We appreciate the opportunity that the FSB and IOSCO have provided for public review and comment on the proposed assessment methodologies and we believe it is important for the process of analyzing non-bank non-insurer ("NBNI") financial institutions to continue to be open and transparent at all levels of implementation. In that regard, we believe that it is that important for the FSB and IOSCO provide a clear process for how national systemic risk regulators will analyze such financial institutions and make determinations about which entities should be designated as NBNI SIFIs. We believe that once the FSB and IOSCO provide final recommendations on assessment methodologies, national systemic risk regulators should propose rules to implement assessment methodologies in a transparent manner that provides market participants the opportunity to review the proposals and provide comments. National systemic risk regulators should then engage in the process to determine which NBNI financial institutions should be designated as SIFIs, subject to providing affected institutions the opportunity to engage with their national regulator as part of that process. Only after a national systemic risk regulator makes a determination that an entity should be designated as an NBNI SIFI should the FSB consider whether to designate the entity as a global NBNI SIFI.

A public review and comment period in connection with national systemic regulators' efforts to implement an assessment methodology framework will provide those regulators with valuable feedback and, importantly, will help ensure that market participants understand how the national systemic risk regulators ultimately will make a determination that an institution is systemically important.

It also is important for national systemic risk regulators to ensure that there is a process by which an NBNI financial institution can engage directly with the relevant regulator when that institution is subject to review and analysis. In particular, it is important that NBNI financial institutions have the opportunity to engage with the relevant regulator substantially in advance of an institution being deemed systemically important and subjected to heightened regulation that would likely subject the NBNI institution and its investors to a competitive disadvantage. Given the significant consequences of an NBNI institution being designated as systemically important, we encourage systemic risk regulators to provide those institutions sufficient time to engage with national systemic risk regulators and to exercise any rights those institutions may have to request regulatory hearings, judicial review, or to make appropriate modifications to eliminate elements that regulators believe create systemic risk. In addition, we encourage national systemic risk regulators to engage in regular dialogue with market participants regarding relevant industry and market practices and, when appropriate, firm-specific practices. Such regular dialogue will better ensure that national systemic risk regulators have a full and complete understanding of markets and market participants. Regular dialogue with market participants may also help avoid the potential misperception and dampen rumors that any institution that engages with a systemic risk regulator is likely to be designated as systemically important.

Finally, we believe it is important that national systemic risk regulators and the FSB not publish the names of financial institutions that are subject to heightened analysis, but which have not been designated as NBNI SIFIs or global NBNI SIFIs, respectively. Market participants may misinterpret the relevance of any disclosure that an institution is being analyzed by systemic risk regulators, which could lead to unintended consequences if market participants act based on such misinterpretations.

Given the importance of the process to analyze and potentially designate NBNI financial institutions as SIFIs, we encourage the FSB and IOSCO to recommend that national systemic risk regulators implement rules in a transparent process that provides an opportunity for public review and comment, provide institutions subject to heightened analysis sufficient opportunities to engage directly with regulators prior to any decision to designate a firm as systemically important, and develop processes to ensure that individual financial institutions under review are not disclosed publicly. We further encourage the FSB to adopt similar provisions with respect to the analysis and potential designation of financial institutions as global NBNI SIFIs.

Use of fixed thresholds in U.S. Dollars

While the Consultation Paper is designed to apply to investment funds operating across all global markets, it incorporates fixed thresholds expressed in U.S. Dollars. A long-term move in exchange rates could cause the thresholds to diverge very materially from the desired level. Rather than use fixed thresholds, we would encourage the FSB to adopt thresholds that use floating exchange rates. If the FSB and IOSCO determine that fixed thresholds are necessary, then we believe they should be denominated in the same currency in all regulations.

Conclusion

MFA appreciates the FSB's and IOSCO's seeking to develop quantitative-based metrics for analyzing investment funds and for providing an opportunity for public review and comment of its proposed methodologies and metrics. We would be very happy to discuss our comments or any of the issues raised in the Consultation Paper with the FSB and IOSCO. If the FSB or IOSCO has any comments or questions, please do not hesitate to contact Benjamin Allensworth or the undersigned at +1 (202) 730-2600.

Respectfully submitted,

/s/ Stuart J. Kaswell

Stuart J. Kaswell

Executive Vice President & Managing Director, General Counsel