



07 April 2014

Via e-mail to fsb@bis.org

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

Re: Comment on Consultative Document on Assessment Methodologies for Identifying Non-Bank Non-Insurer Globally Systemically Important Financial Institutions: Proposed High-Level Framework and Specific Methodologies

Introduction and Summary of Comments

We are candidates for the Bachelor of Arts in Economics at Fordham University, which participates in the Regulatory Outreach for Student Education Program of the CSFME.¹ We have been selected to take a position and issue a comment letter in response to *Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions* (NBNI G-SIFIs), which was released by the Financial Stability Board (FSB) at the beginning of the year.²

We understand that the need for regulation grew after the 2008 financial crisis, acknowledge that non-bank non-insurer (NBNI) financial institutions are involved in systemic risk exposures, and thank the Financial Stability Board (FSB) as well as the BIS, BCBS, and IAIS for their contributions.³ As aspiring professionals, we take interest in the potential effects the proposed framework would have on the industry that we are about to enter. We believe that the proposed framework for designating NBNI G-SIFIs excessively resembles bank regulation, which might result in impracticalities as well as oversights of essential systemic risk factors.

Situation

Systemic risks in the financial sector came into the limelight with the onset of the global financial crisis in 2008. Although these risks had been studied, their increasing magnitude has seldom been recognized. The fact that global regulations should be developed parallel to the liberalization of financial market has been acknowledged as early as 1999, when the FSB's predecessor, the FSF, was founded.⁴ While the banking industry has attracted more regulatory attention due to the debt-nature of its commitments,⁵ the fact that other financial institutions can generate systemic risk has also been known. The role clearing institutions and interconnectedness play in spreading default risk throughout the market had been addressed since 2001.⁶ In fact, in 2005, four experts, including Andrew Lo, warned about increasing risks in the hedge fund industry, whose "symbiotic relationship with the banking sector" would result in systemic risk.⁷

¹ <http://csfme.org/Outreach.aspx>

² FSB, *Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions* (2014) *Financial Stability Board: International Organization of Securities Commissions*

³ See below, §I.i – Situation

⁴ Eatwell, J., & Taylor, L. (2001). *Global finance at risk: the case for international regulation*: The New Press.

⁵ Diamond, D. W., & Dybvig, P. H. (1983). Bank runs, deposit insurance, and liquidity. *The journal of political economy*, 401-419.

⁶ Eisenberg, L., & Noe, T. H. (2001). Systemic risk in financial systems. *Management Science*, 47(2), 236-249.

⁷ Chan, N., Getmansky, M., Haas, S. M., & Lo, A. W. (2005). Systemic risk and hedge funds: National Bureau of Economic Research.

It took a global financial crisis for all market participants to understand the urgent need for regulation. As market players recognized that institutions such as Lehman Brothers could fail and not be bailed out, the market experienced a sudden loss of confidence, which resulted in a liquidity freeze that led to this understanding. Many money market funds (MMFs) simultaneously experienced runs that would have been fatal without their sponsors' interventions.⁸ Together, these manifestations of the global financial crisis revealed previously neglected risk exposures, so that the international need for new regulations became apparent.

Basel III has already defined globally applied rules for banks;⁹ now, different authorities are addressing systemic risk in the rest of the financial market. When regulating this complex and diversified industry, we encourage regulators to closely examine existing regulatory authorities and organizations, as well as the specific features of industry participants and the distinctions between these entities and banks. We would also like to suggest that regulators consider the potential consequences of their framework.

Summary of Comments

I. Potential Impracticality of the Regulatory Framework

- Assessing NBNI financial institutions' systemic risk using a bank/insurer framework might be problematic.
- Applying a homogeneous regulatory framework to a diversified financial industry seems counterproductive.
- Basel III and other national supervisory bodies account for counterparty risk through existing regulations on lenders. Therefore, we believe the FSB should not focus on counterparty risk in the asset management industry.

II. Proposed Additions to the Regulatory Framework

- The high-level framework for identifying NBNI G-SIFIs should include an impact factor that addresses financial entities' operational complexity and use of computer-based trading (CBT).
- The proposed materiality thresholds for the NBNI financial entity types filter the NBNI financial universe, but their practicality might be limited by their lack of numerical specificity.
- The FSB might consider Credit Rating Agencies (CRAs), largely responsible for the failures of financial markets in 2008, in the high-level G-SIFI designation framework.
- The indicators "interconnectedness" and "substitutability" could interact.

III. Potential Consequences of the Regulatory Framework

- The regulatory framework may give regulators unprecedented authority and political power in the future.
- Regulation of NBNI G-SIFIs may result in asset managers' unwillingness to enter into debt contracts with other SIFIs.

⁸ Cipriani, M., Holscher, M., Martin, A., & McCabe, P. (2013). Twenty-Eight Money Market Funds That Could Have Broken the Buck: New Data on Losses during the 2008 Crisis. Retrieved from Liberty Street Economics website: <http://libertystreeteconomics.newyorkfed.org/2013/10/twenty-eight-money-market-funds-that-could-have-broken-the-buck-new-data-on-losses-during-the-2008-c.html>

⁹ Basel committee, (2010). Basel III: A global regulatory framework for more resilient banks and banking systems. *Basel Committee on Banking Supervision, Basel.*

I. Potential Impracticality of the Regulatory Framework

Assessing NBNI financial institutions' systemic risk using a bank/insurer framework might be problematic.

The FSB suggests a framework consistent with the one that identifies systemically important banks and insurers.¹⁰ Banks and insurers differ from other financial institutions in several ways. First, banks' and insurers' relations are based on debt contracts. Bank runs harm the economy rather than simply conveying existing damage.¹¹ As a comparison of the dot-com bubble with the 2008 crisis reveals, this difference in the nature of their contracts also accelerates the financial distress that banks and insurers can catalyze.¹² Also, banks' behavior can uniquely affect the economy, especially when they sell loans from struggling firms.¹³ Because banks are unique in these ways, it seems that a framework designed to target banks may not be appropriate for the rest of the financial sector.

Applying a homogeneous regulatory framework to a diversified financial industry seems counterproductive.

The FSB proposes to apply a unified framework to all NBNI financial institutions,¹⁰ but as expressed in Section II of the Consultative Document, the financial industry is highly diversified.¹⁴ The risk structures of its many agents are varied and suggest distinct risk assessment methodologies. In many countries, specialized authorities successfully regulate distinct financial entities. According to "The Effectiveness Criteria and Industry Structure" proposed by Richard K. Abrams and Michael Taylor, not only should regulatory structures vary between countries, but "the institutional structure of regulation should reflect [...] the structure of the industry it is called upon to regulate."¹⁵ For example, the financial industry of the United States is complex enough to demand eight different federal regulators. Despite the FSB's efforts to make its framework more flexible, the risk profiles of certain types of financial entities may remain incompatible, and we do not believe that the indicators resulting from these risk profiles should be applied homogeneously to all NBNI financial entities.

Basel III and other national supervisory bodies account for counterparty risk through existing regulations on lenders. Therefore, we believe the FSB should not focus on counterparty risk in the asset management industry.

The proposed framework identifies counterparty risk as a channel for systemic risk. We thank global and national regulators for assessing systemic risk, especially interconnectedness, in the Basel III framework.¹⁶ We believe that the counterparty risk framework implemented a year ago is efficient and captures the risk deriving from other financial institutions.

For example, hedge funds are often highly complex and interconnected. They use "complex trading strategies and instruments, leverage, opacity, and convex compensation structures, all of which increase the challenges to effective [counterparty credit risk management] CCRM,"¹⁷ and they interact

¹⁰ Schweizer, T. (2014). Globally Systemically Important Financial Institutions Capital Markets Monitor: Institute of International Finance.

¹¹ Eatwell, J., & Taylor, L. (2001). *Global finance at risk: the case for international regulation*: The New Press.

¹² Greenspan, A. (2013). *The Map and the Territory: Risk, Human Nature, and the Future of Forecasting*: Penguin.

¹³ Dahiya, S., Puri, M., & Saunders, A. (2003). Bank Borrowers and Loan Sales: New Evidence on the Uniqueness of Bank Loans. *The Journal of business*, 76(4), 563-582.

¹⁴ FSB, Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions (2014) *Financial Stability Board*: International Organization of Securities Commissions

¹⁵ Abrams, R. K., & Taylor, M. (2000). *Issues in the unification of financial sector supervision*: International Monetary Fund.

¹⁶ Basel committee, (2010). Basel III: A global regulatory framework for more resilient banks and banking systems. *Basel Committee on Banking Supervision, Basel*.

¹⁷ Kambhu, J., Schuermann, T., & Stiroh, K. J. (2007). Hedge funds, financial intermediation, and systemic risk: Staff Report, Federal

with SIFIs through securities lending and repurchase agreements. As a result, hedge funds stimulated regulatory interest related to CCRM in the United States.¹⁸ Though these regulations are not perfect, we are convinced that they “remain the best line of defense against systemic risk,”¹⁷ basing our judgment on a study conducted by the Wharton Financial Institution Center. “A more forceful alternative [...] could have substantial costs.”¹⁷ The study concludes that “if systemic risk were to originate through direct banking sector exposures, for example, then the banks themselves have the strongest incentive to monitor those exposures and limit risk.”¹⁷

By providing a compelling and effective framework, Basel III ensures that banks will do so. Regulating lenders appears to be both efficient and sufficient, while regulation of borrowers might harm the financial market. To further moderate counterparty risk, we believe it may be more effective to further regulate banks rather than regulating both ends of the counterparty interaction.

Money market funds (MMF) differ from hedge funds. MMFs are essential providers of market liquidity and alternative safe assets to federally insured bank deposits (FIBDs). MMFs have improved their investment practices with the help of their assigned regulatory authority in response to the 2008 financial crisis, in which market liquidity and FIBDs were central elements. Professor J. Macey, the Sam Harris Professor of Corporate Law, Corporate Finance and Securities Law at Yale University, further argues that these funds:

significantly reduce systemic risk. Certain contemplated changes to the way that MMFs are regulated would actually increase systemic risk by weakening the role of MMFs in the money markets and by increasing market participants' reliance on commercial banks ... overregulation of MMFs threatens to destroy their value and only stands to increase systemic risks.¹⁹

With regard to two potential types of NBNI G-SIFIs, ranging from risky and complex investment schemes to safe asset funds, it may be more efficient to regulate only the lenders' side. Further regulations of borrowers might only increase systemic risk. This is why, in our view, the FSB should not focus on the asset management industry when looking for counterparty risk.

Reserve Bank of New York.

¹⁸ *Interagency Supervisory Guidance on Counterparty Credit Risk Management*. (2011). Retrieved from <http://www.occ.gov/news-issuances/bulletins/2011/bulletin-2011-30a.pdf>.

http://www.federalreserve.gov/bankinforeg/topics/credit_risk.htm#Counterparty%20Credit%20Risk

¹⁹ Macey, J. (2011). Reducing Systemic Risk: The Role of Money Market Mutual Funds as Substitutes for Federally Insured Bank Deposits. *Stan. J.L. Bus. & Fin.*, 17, 131.

II. Proposed Additions to the Regulatory Framework

The high-level framework for identifying NBNI G-SIFIs should include an impact factor that addresses financial entities' operational complexity and use of computer-based trading (CBT).

The consultative document defines “complexity” as a SIFI status indicator. A financial institution’s business and structural complexity depends on the types of funds under management, but business and structural complexity of financial institutions is derived in part from the operational complexity of CBT. Operational complexity encompasses the costs and risks of a financial entity’s operations as well as its productivity.

It may be worth considering the complexity of CBT as an additional impact factor due to the recorded rise of high-frequency computer-based trading (HFT) and algorithmic trading (AT). HFT is estimated to represent 60% of equity and futures trading in the United States.²⁰ HFT can facilitate market efficiency, but it can amplify instabilities in particular markets. HFT has also reduced operational costs, but its risks have not been analyzed. We believe the rapid rate at which financial markets are becoming operationally complex through HFT and AT can complicate the assessment of financial entities under the five impact factors mentioned in the consultative document. By incorporating operational complexity as an impact factor, behavior that is attributed to systemic risk can be better captured.

Without proper planning, HFT can substantially increase operational risk. HFT activity creates counterparty risk by moving liquidity between markets.²¹ Considering the global reliance of financial operations on HFT, we believe that the operational complexity of IT systems is a benchmark for HFT’s inclusion as an impact factor.

In late January 2013, SEC regulators discovered a Legg Mason purchase of \$90 million in restricted, prohibited private investments made through inappropriate cross-trading.²² Despite uncovering the error in October 2008, Western Asset, Legg Mason’s principal manager, avoided telling investors what had caused losses. The failure to address the mistake when it occurred and the need to cover the risk resulted from the operational complexity of cross-trading. Cross-trading is complemented by an interconnected financial environment, which permits multiple trading and pricing venues. Interconnectedness reflects the stability and flow of information. Together with broker crossing networks, aggregate liquidity across all venues may be larger. In stressed markets, however, capital may be limited, and traders may doubt prices. As mistrust valuations rise, HFT no longer contributes to aggregate liquidity and aggravates price divergence across all trading venues. The shock is transmitted and reinforced by trades and transactions made at socially inefficient prices.²³ The systemic divergence feedback loop is just one example of an operational risk due to the complexity of CBT.

A methodology that accounts for the risks CBT poses could be best implemented on a circumstantial basis, just as the proposed framework would for its five originally stated impact factors. In doing so, self-reinforcing feedback loops that tend to lead financial entities toward systemic risk with computer-based trading can be more sufficiently monitored and consulted through FSB’s regulatory framework. Avoided feedback loops can then be assessed for potential adverse effects by monitoring market volume or volatility or delays in distributed reference data.²⁴

²⁰ *The Future of Computer Trading in Financial Markets* (2012), Final Project Report, The Government Office for Science, London, 42.

²¹ *Ibid.*, 43.

²² Sarah N. Lynch, “UPDATE 1-Legg Mason unit to pay \$21 mln over SEC, Labor Dept charges,” *Reuters*, January 27, 2014.

²³ *The Future of Computer Trading in Financial Markets* (2012), Final Project Report, 84.

²⁴ *Ibid.*, 61.

Systems failures or processing errors can damage the balance sheet of any asset manager, so an indicator that addresses the global scope of CBT with accompanying materiality thresholds may be beneficial. Further, a study conducted by Boehmer *et al.* (2012), confirmed that higher volatility and CBT moved together over a period from 2001 to 2009, which would make for clearer monitoring of CBT.²⁵ Based on this research, we believe that indicators that monitor and measure the movements of CBT and high market volatility may indicate price volatility and the systemic risk of price shocks on trading venues.

The proposed materiality thresholds for the NBNI financial entity types filter the NBNI financial universe, but their practicality might be limited by their lack of numerical specificity.

When setting materiality thresholds for NBNI financial entities, we believe that adding specific numerical benchmarks could make the assessment framework more effective. Finding general trends in revenue and cost flows may help create clearer materiality thresholds for each financial entity. At the same time, the effects of a business model approach may be used to predict whether the high-level framework for discovering G-SIFIs substantially threatens the financial sector.

As in Section 3.2 of the consultative document, which sets a quantitative materiality threshold for determining the assessment pool with numerical benchmarks, we believe that Sections 4, 5, and 6 should incorporate quantitative ratios. Describing leverage ratios as indicators provides initial clarity for distinguishing G-SIFIs, but the benchmarks may be more effective with a specific numerical value or range. Without the specific numerical parameters, national authorities and IOG may find it more challenging to agree on which financial entities should be classified as G-SIFIs. Bilateral agreements between national authorities and the IOG serve as the foundation for further review by the IOSCO Board and FSB, and without specific numerical benchmarks, IOG supervisors may find it more difficult to review assessments, perhaps resulting in a lengthy and inefficient acceptance process.

The FSB might consider Credit Rating Agencies (CRAs), largely responsible for the failures of financial markets in 2008, in the high-level G-SIFI designation framework.

In Section 7 of the Consultative Document, which addresses guiding methodologies for all other NBNI financial entities, we suggest the inclusion of credit rating agencies. Some of the criticism regarding the source of the 2008 crisis has been directed at these institutions, and we find that their interest in remaining essential in financial markets has hardly been affected by financial reform or public aversion. The October 2010 FSB document “Principles for Reducing Reliance on CRA Ratings” establishes several guiding principles for financial entities that depend on the ratings of these agencies. However, the degree to which financial entities have taken the principles into consideration may not be fully understood. Credit rating agencies are still relevant to financial markets, but they have extensively modified their approach and assessments towards NBNI financial entities since the 2008 crisis. Nonetheless, CRAs maintain an interest to stay profitable. Of the credit rating agencies designated as Nationally Recognized Statistical Rating Organizations (NRSROs) by the SEC, many gained an oligopolistic advantage and reduced investor due diligence. Incentives of investors, credit rating agencies, and regulators became severely misaligned and resulted in CRAs’ central role in the financial crisis. In the future, we suggest that monitoring the volume of ratings under new CRA provisions can prevent similar problems. This approach may serve as a preliminary step towards creating a guiding methodology for credit rating agencies and other NBNI financial entities that may spread systemic risk, but it may also offer improvements in how these agencies conduct their operations. The interconnectedness between

²⁵ *The Future of Computer Trading in Financial Markets* (2012), Final Project Report, The Government Office for Science, London, 63.

credit rating agencies and the financial entities considered might also facilitate the FSB's role in distinguishing how systemic risk is linked among financial entities.

The indicators “interconnectedness” and “substitutability” could interact.

When applying the indicators to determine G-SIFI designation, we believe regulators should consider interconnectedness and substitutability in tandem. Institutions that participate in more widely traded markets are more substitutable, whereas those in narrower markets tend to be less substitutable. Low substitutability could be paired with low interconnectedness, while less counterparty risk could be permitted in less substitutable markets. Unsubstitutable firms should, perhaps, be allowed no interconnectedness at all. Alternatively, highly substitutable institutions might be allowed more interconnectedness and counterparty risk, in order to preserve the liquidity of their markets.

III. Potential Consequences of the Regulatory Framework

The regulatory framework may give regulatory institutions unprecedented authority and political power in the future.

The FSB proposes to extend “the SIFI framework that currently covers banks and insurers to all other financial institutions” to include NBNI financial institutions in order to determine their systemic importance.²⁶ The proposed criteria, indicators, and methodologies used to assess the systemic importance of NBNI financial institutions would remain consistent with those used to determine the systemic importance of other systemically important financial institutions, including banks and insurers. This framework seems to imply that regulators of the banking industry would be responsible for determining the systemic importance of NBNI financial institutions. This situation might result in further complications because banking regulators may be unfamiliar with the various business models and risk profiles of NBNI G-SIFIs, which differ substantially from the financial institutions to which they are accustomed. Furthermore, the FSB does not specify the extent to which standards and policy measures for NBNI G-SIFIs should differ from those used to regulate banks and insurers, which could lead to additional problems.²⁶ Thus, it appears the FSB may unintentionally give banking regulators unprecedented authority in the future, by enabling them to use their discretion to determine which policy measures should be implemented to regulate NBNI G-SIFIs.

The FSB does not propose any policy measures that would apply to NBNI G-SIFIs in its Consultative Document.²⁶ Further, the FSB has not publicly dedicated itself to the development of specific activities, restrictions, or recommendations for systemically important financial institutions. Nevertheless, the FSB and G20 encourage national regulatory authorities to independently identify and regulate all G-SIFIs within their respective jurisdictions.²⁷ Thus, each G20 jurisdiction maintains its full capacity to independently establish, implement, and enforce domestic policy measures through its regulators.²⁸

Additionally, political forces have increasingly determined the priorities, implementation efforts, and effectiveness of the FSB.²⁹ The FSB's mandate ultimately represents the participants' collaborative political effort to influence the policy measures of global regulatory institutions that remain beyond their

²⁶ FSB, Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions (2014) *Financial Stability Board: International Organization of Securities Commissions*

²⁷ Daniel E. Nolle, "U.S. Domestic And International Financial Reform Policy: Are G20 Commitments And The Dodd-Frank Act In Sync?," 20.

²⁸ Stavros Gadinis, "The Financial Stability Board: The New Politics Of International Financial Regulation," 161.

²⁹ Gadinis, 159.

jurisdiction.³⁰ Despite its ability to monitor domestic regulatory practices, the FSB cannot control them. Therefore, it seems that the proposed framework relies on the international cooperation of regulators from various sectors.³¹ The proposed framework holds member jurisdictions accountable to each other in order to enforce the commitment of domestic institutions to the international standards established by the FSB.³² Regulators could substantially increase the political influence they have in their respective jurisdictions by determining domestic policy in this context.

Regulation of NBNI G-SIFIs may result in asset managers' unwillingness to enter into debt contracts with other SIFIs.

Regulators may use their jurisdiction to restrict or limit transactions between NBNI G-SIFIs and other systemically important financial institutions.³³ The FSB has proposed adjustments to capital requirements of systemically important banks to reflect the risks that may arise from interacting with NBNI G-SIFIs and has also proposed adjustments to capital and liquidity requirements of NBNI G-SIFIs.³⁴ These regulatory proposals would limit the amount of debt a bank could issue while limiting the amount of debt asset managers could take on. We believe regulators may restrict the amount of leverage asset managers can use as a result, thereby discouraging asset managers from entering into debt contracts.³⁵ Regulators might also impose strict debt-to-equity ratio requirements on NBNI G-SIFIs, which would limit their ability to enter into debt contracts with other systemically important financial institutions.³⁶

Increased capital and liquidity requirements consistent with these proposed adjustments could also prevent asset managers from entering into debt contracts with SIFIs by reducing the amount asset managers are able to lend to them. Market instability might cause the value of assets supported by debt contracts to decline drastically. As a result, systemically important financial institutions may refuse to enter into debt contracts with one another, as debtors would be confronted with severe losses if they were forced to sell their assets at a loss in order to meet requests from creditors.³⁷ Asset managers may be unwilling to enter into debt contracts with G-SIFIs under increased regulatory conditions to prevent such losses.

Asset managers may also be unwilling to enter into debt contracts with G-SIFIs as a result of prudential supervision. According to this framework, prudential supervision primarily seems to focus on preserving the banking system, rather than on upholding fiduciary duty. It is therefore possible that regulators may require NBNI G-SIFIs to continue financing a troubled company or financial institution, despite the interests of its shareholders, when faced with market instability.³⁸ Forcing asset managers to continue funding these institutions may compromise the financial stability of NBNI G-SIFIs and reduce their credibility according to shareholders. These potential consequences could transmit financial distress

³⁰ Stavros Gadinis, "The Financial Stability Board: The New Politics Of International Financial Regulation," 165.

³¹ *Ibid.*, 172.

³² *Ibid.*, 175.

³³ Edward Hida and Marc Greathouse. *SIFI designation and its potential impact on nonbank financial companies*. The Deloitte Center for Regulatory Strategies, 2013. Web. 22 Mar. 2014 <http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_aers_grr_crs_SIFI%20Designation%20%20_0313.pdf>, 10.

³⁴ Daniel Meade, Laura Biddle, and Hugh Merritt. "Shadow Banking: The Growing Sector Of Non-Bank Credit Activity." *Business Law Today* 21.21 (2012): 1-6. *Business Source Complete*. Web. 23 Mar. 2014.

³⁵ Hida and Greathouse, 10.

³⁶ Hida and Greathouse, 9.

³⁷ Peter J. Wallison. "Unrisky Business: Asset Management Cannot Create Systemic Risk." *AEI Outlook Series* (2014): 1. *Publisher Provided Full Text Searching File*. Web. 23 Mar. 2014.

³⁸ Paul Schott Stevens. "Why Asset Management Is Not a Source of Systemic Risk." Mutual Funds and Investment Management Conference. 17 Mar. 2014. *Investment Company Institute*. Web. 23 Mar. 2014. <http://www.ici.org/viewpoints/view_14_assetmgr_sifi>.

to NBNI G-SIFIs from other systemically significant financial institutions. Asset managers may become unwilling to enter into debt contracts with such systemically important financial institutions as a result of these risks.

Asset managers continue to provide essential funding to global economies at an increasing rate. We anticipate that the regulation of asset managers, in accordance with NBNI G-SIFI designation, might compromise such funding by rendering asset managers unwilling to enter into debt contracts with other systemically important financial institutions.³⁹ Increased regulation of NBNI G-SIFIs may therefore result in the unwillingness of asset managers to provide “a critical function or service relied upon by market participants or clients for which there are no ready substitutes.”⁴⁰

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We thank you again for the opportunity to provide our insight on the Consultative Document. We look forward to the Financial Stability Board’s successful development of assessment methodologies regarding systematically important financial institutions.

Sincerely,

Yelena Aleynik

Maryanne Caramia

Arthur Esteves-Ferreira

Ellen Fishbein

³⁹ Dan Waters. “Financial Stability and Regulated Funds.” Chatham House. London, United Kingdom. 17 Mar. 2014. *ICI Global*. Investment Company Institute. Web. 23 Mar. 2014.
<http://www.ici.org/financial_stability/statements/speeches/ci.14_dw_chatham_house.global>.

⁴⁰ FSB, *Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions* (2014) *Financial Stability Board: International Organization of Securities Commissions*