

## ICI VIEWPOINTS

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## The IMF Makes All of OFR's Mistakes—And More

By Sean Collins and Chris Plantier

The International Monetary Fund (IMF) just released its latest *Global Financial Stability Report*. In the immortal words of Yogi Berra, it is *déjà vu* all over again.

The IMF report bears more than a passing resemblance to *Asset Management and Financial Stability*, published by the U.S. Treasury Department's Office of Financial Research (OFR) in September 2013. The OFR report was met with widespread criticism for its misinformed discussion of hypothetical "vulnerabilities" posed by mutual funds and other asset managers.

The IMF report is more than 150 pages long, with a significant portion devoted to asset management, mutual funds, and other regulated investment companies, or to issues related to those. Like the OFR report, the IMF's analysis regarding funds suffers from unsubstantiated assertions and unproven speculations about "risks" that are not backed by historical experience. It contains broad generalizations, mischaracterizations, or misimpressions regarding facts and data. For example, it criticizes mutual funds without acknowledging that these funds constitute a relatively [small share of the total size](#) of financial markets—and an even smaller share of trading activity.

The IMF repeats the OFR's unfounded assertions about "herding" and "run risks" in mutual funds—assertions that ICI's research [has demonstrated have no basis in history](#). And it repeats old canards about mutual funds' emerging-market capital flows without acknowledging data and analysis showing that funds' flows tend to be a [stable source of financing for emerging economies](#).

The IMF report also reveals minimal understanding of the sound regulatory structure that surrounds mutual funds and exchange-traded funds in the United States and similar funds in other jurisdictions. It argues, for example, that funds suffer from "liquidity mismatch" but says little about how funds manage liquidity or redemptions, or about the regulatory requirements related to these. For example, a U.S. mutual fund must invest 85 percent of its portfolio in liquid securities (assets that can be sold within seven days at a price approximating market value)—consistent with the requirement that funds pay investors' redemption proceeds within seven days.

The report is also internally inconsistent. Chapter 1 cites a range of hypothetical risks related to mutual funds. But Chapter 2 offers the IMF's impressionistic assessment that U.S. long-term mutual funds pose minimal risks in terms of maturity risk, liquidity risk, credit risk, leverage, and interconnectedness (see "other funds" in Figure 2.10 of the IMF's report). The one area that the figure highlights as a potential concern is that these funds have grown larger since 2009. But as ICI has noted in a [comment letter to the OFR and one to the Financial Stability Board \(FSB\)](#), size alone is not the proper measure of risk for regulated funds.

Going the OFR report one better, the IMF paper proceeds to make policy recommendations, some of which would be damaging to investors. Some funds, the IMF argues, should price their shares *less* frequently and limit investors' ability to redeem their assets. Of course, no open-end fund designed to these specifications could be sold to investors in the United States, because daily pricing and daily redeemability are core requirements of mutual funds regulated under the Investment Company Act of 1940—features that have served both investors and markets well for almost 75 years.

The IMF could have avoided these missteps if it had consulted more closely with securities market regulators and paid closer attention to the [feedback that the OFR received on its report](#), as well as to the comments that the FSB received on its [January 2014 consultation](#) regarding nonbank, noninsurance financial institutions.

ICI continues to stand ready to work with regulators and others to foster better understanding about institutional details of the fund industry and how those features are reflected in the data. We hope that such interactions will lead to more sound analysis and more appropriate use of the data as the IMF and others continue their studies in this area. We urge others who know the facts about regulated funds, the capital markets, and financial stability to weigh in as well.

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