

ICI VIEWPOINTS

AUGUST 22, 2018

“Common Ownership” Hypothesis Is Unconvincing

By Sean Collins and Susan Olson

Economists and legal scholars have issued pointed critiques and empirical rebuttals of the “common ownership” hypothesis—the notion that institutional investors holding small, non-controlling stakes in competing companies in concentrated industries, such as airlines or banks, decrease competition and raise consumer prices. Yet the issue continues to draw attention and was one of a long list of topics that the Federal Trade Commission (FTC) included in its [announcement that it would hold hearings](#) on competition and consumer protection in the 21st century.

In response, the Investment Company Institute (ICI) has submitted a [comment letter to the FTC](#) to provide a factual baseline on key elements of the discussion—including how investment advisers and their regulated fund clients operate—to help dispel misrepresentations underlying the common ownership hypothesis.

The FTC’s request for comment provides an opportunity to set the record straight on the role that investment advisers and regulated funds play in the financial markets and their interaction with the companies in which they invest. ICI’s letter demonstrates that the common ownership hypothesis relies on incorrect assumptions, misunderstandings and misinformation about the asset management industry, and unconvincing empirical work.

The letter also addresses policy proposals that have been put forward by advocates of the common ownership hypothesis to address alleged anticompetitive effects. A growing body of legal experts, regulators, and academics have warned that the proposed policies could cause enormous disruption and significant harm to millions of investors and to capital markets at large. ICI urges the FTC to recognize that such proposals are unwarranted and inappropriate.

ICI’s submission to the FTC reinforces three main points:

1. Analysis of Common Ownership Requires an Accurate Understanding of the Asset Management Industry

ICI’s comment letter seeks to correct misrepresentations by proponents of the common ownership hypothesis. The letter specifically addresses how the proponents err by conflating asset ownership and asset management, essentially treating an adviser and its clients as one and the same. In their search for a mechanism by which advisers could adversely influence competition, proponents also miscast how advisers and regulated funds engage with companies.

The letter provides a detailed description of the relationship between advisers and clients. It notes the range of investment strategies that a single adviser might pursue on behalf of its diverse clients, belying the assumption that an adviser and its clients take a single, uniform “view” of a stock or industry. The letter also describes how advisers engage with portfolio companies on behalf of their clients (including through proxy voting), and the regulation that guides and circumscribes this activity.

2. Research Linking Common Ownership to Decreased Competition Is Hotly Disputed

ICI’s submission summarizes two initial papers that claim common ownership decreases competition in the airline and banking industries, as well as other papers that search for a mechanism that causes the supposed reduced competition. The Institute’s letter also details several recent papers that critique the initial papers, showing that the airline and banking papers fail to prove that common ownership causes higher prices and rely upon unsupported assumptions about the influence that minority shareholders have on corporate managers. Indeed, some of the literature reviewed in ICI’s letter questions whether advisers and their clients have

either the incentives or a mechanism to control the competitive strategy of portfolio companies.

3. Measures to Curtail Common Ownership Are Inappropriate and Would Harm Investors, Companies, and the Economy

The final section of ICI's letter describes recent academic literature arguing that it would be inappropriate to consider policy measures intended to address the supposed harms of common ownership. This literature warns that adopting measures to curtail common ownership could have harmful consequences, such as increasing the cost of investing—particularly for retirement savers—and eroding the quality of corporate governance.

As a result, ICI believes the FTC and other authorities should not consider measures designed to limit common ownership or restrict institutional investors' ability to vote client shares in competing firms. Even if policymakers were convinced that common ownership softens competition, they would need to establish that measures to address common ownership would produce benefits that outweigh their significant costs. ICI cautions that forging ahead without a sound basis would impose substantial costs and burdens on American investors and businesses without any certain benefit to consumers.

ICI welcomes healthy discussions on the role of regulated funds and asset managers in the capital markets and the economy. But such discussions must be anchored in an accurate understanding of how asset management works. Proponents of the common ownership hypothesis lack that understanding, and their assertions don't stand up in the face of the facts.

Sean Collins is Chief Economist at ICI.

Susan Olson is General Counsel at ICI.