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Washington, DC; March 14, 2019—Investment Company Institute (ICI) President and CEO Paul Schott Stevens testified before the US Senate Committee on Banking, Housing, and Urban Affairs today at a hearing examining Financial Stability Oversight Council (FSOC) designations of nonbank financial companies as systemically important financial institutions (SIFIs). Here are excerpts from his prepared remarks:

“Ten years after the financial crisis, the financial system is more robust and resilient. The time is right to review the effectiveness of postcrisis reforms and to make tailored adjustments.

“Designation of specific firms can create significant market distortions, including increased moral hazard and reduced competition and consumer choice. We believe there is and should be a very high bar for singling out individual companies as SIFIs.

“The SIFI designation process should be reformed to address widely recognized shortcomings.

“Officials from both the current and prior administrations have recognized the need to allow:

- greater engagement with a company being considered for designation;
- a greater role for the company’s primary financial regulator;
- more analytical rigor and attention to actual experience; and
- greater transparency to markets and the public.

“Policymakers are moving in the proper direction.

“The Treasury Department’s November 2017 report on FSOC offered a series of constructive recommendations for the designation process. And just last week, the FSOC itself proposed to implement these recommendations. FSOC has proposed “prioritizing” an activities-based approach to addressing systemic risk, while reserving SIFI designation as a last resort whenever necessary.

“Four members of this committee—Senators Rounds, Jones, Tillis, and Sinema—have introduced bipartisan legislation to achieve this goal. S. 603, the “Financial Stability Oversight Council Improvement Act of 2019,” would require the council to consider whether other steps could mitigate any potential risks posed by a nonbank financial company before voting to designate that company. Those steps could include a different action by FSOC; action by the company’s primary regulator—including industrywide regulation of products or activities; or de-risking action by the company itself. This legislation would help ensure that the council considers the full range of options available to mitigate risks and makes an informed decision—rather than simply reaching for the hammer of designation. The result would be an FSOC that is more effective in meeting its primary goal—reducing risks to the financial system.

“ICI urges this committee to consider S. 603 and report it favorably to the full Senate.”

- Stevens’s remarks, as prepared for delivery, can be found [here](#).
 - Click [here](#) to view ICI’s written testimony for the hearing.
 - Click [here](#) to view ICI’s Resource Center on Financial Stability and the Asset Management Industry.
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