ICI The Asset Management Industry SERVING INDIVIDUAL INVESTORS

INVESTMENT COMPANY INSTITUTE

Washington, DC // Brussels // London // www.ici.org

ICI Supports FSOC Reforms of SIFI Designation Process, Offers Recommendations for Further Improvement

ICI Supports FSOC Reforms of SIFI Designation Process, Offers Recommendations for Further Improvement

Washington, DC; May 14, 2019—The Investment Company Institute (ICI) today offered strong support for the Financial Stability Oversight Council's (FSOC) proposal on treatment of potential systemic risk among nonbank financial companies, in a comment letter to FSOC. As ICI has long advocated, the proposal's major reforms include an activities-based approach to addressing risks and measures to help ensure that financial entities are designated as systemically important financial institutions (SIFIs) only as a last resort. If FSOC does pursue designation of an individual entity, ICI believes the proposed changes would make the process more transparent, accountable, and rigorous. ICI's letter calls for the prompt adoption of the proposal.

"I commend the Council for a well-reasoned and thoughtful proposal—one that rightly seeks to make the most of FSOC's coordinating power," said ICI President and CEO Paul Schott Stevens. "Under this proposal, FSOC will make better use of the expertise and different perspectives of financial regulators, while operating in a more transparent and accountable manner. The proposal also appropriately reserves FSOC's SIFI designation authority as a last resort for cases when a specific company clearly poses significant risks to the US financial system that cannot be adequately addressed through other means."

FSOC's Proposed Guidance includes the following major reforms, which ICI strongly supports:

Activities-Based Approach: The proposal outlines a process to guide FSOC's efforts to detect, assess, and address potential risks, focused primarily on monitoring financial markets and market developments to identify products, activities, or practices that could pose risks to financial stability. Like FSOC, ICI believes that an activities-based approach is a more effective way to address underlying sources of risk, rather than addressing risks only at an individual company that may be designated. This approach also enhances the role of individual financial regulators that have the "front-line" expertise (pages 3–10).

Threshold for SIFI Consideration: The proposal makes clear that SIFI designation will be reserved for use in rare circumstances, such as if the Council's collaboration and engagement with the relevant financial regulatory agencies does not adequately address a potential threat identified by the Council, or a potential threat to US financial stability is outside the jurisdiction or authority of financial regulatory agencies. ICI believes it is helpful for the Council to establish these parameters around its choice of regulatory approaches. In so doing, the Council is providing welcome transparency to nonbank financial companies and the public (pages 12–13).

Cost-Benefit Analysis: The proposal adds a new section to the analytic framework that requires FSOC to consider the expected benefits and costs of a nonbank SIFI designation. ICI believes this addition will help improve the Council's decision making and is consistent with a sound regulatory process (pages 22–24).

ICI's letter highlights many important features of the proposal and offers recommendations for further improvements. For example, the letter calls upon FSOC to:

- Involve industry stakeholders to a greater degree in the Council's reviews of products, activities, and practices (pages 7–9).
- Provide as much public transparency as possible into the Council's assessments of particular products, activities, and practices (pages 9–10).
- Ensure that, in any analysis of an individual nonbank financial company, the Council focus on specifically identifying any plausible scenarios in which the company could pose a threat to financial stability, giving due regard to relevant institutional details (e.g., structural and regulatory characteristics; investor behavior patterns and their underlying causes), refraining from improper bias (e.g., viewing the company through a bank regulatory lens), and striving for a high degree of accuracy (e.g., steering clear of assumptions that are not supported by evidence) (pages 13–25).

- Clarify that a company can act to mitigate risks identified by the Council at any time prior to a designation, thereby expanding the pre-designation “off-ramp” concept in the proposal (pages 25–26).
