WHY SIFI DESIGNATION IS NOT THE ANSWER TO POSSIBLE HERDING BEHAVIOR BY ASSET MANAGERS

CAMBRIDGE, Mass., May 17, 2014—As part of the Financial Stability Oversight Council’s ongoing assessment of risks to U.S. financial stability, it will host a conference on May 19, 2014 on whether asset management companies should be designated as systemically important institutions (SIFIs). In advance of this meeting, the Committee staff has compiled some important data that bears on consideration of this issue.

As of 2013, U.S. asset managers had $28 trillion in assets under management (AUM). Of this total, 35.7% or $10 trillion is managed by banks with $50 billion+ in assets (already subject to stringent prudential regulation by the Federal Reserve) and non-banks designated as systemically important by FSOC (two insurers and GE Capital). If FSOC designated the three largest independent U.S. asset managers as SIFIs (BlackRock, Fidelity, and Vanguard), 63.9% of AUM of U.S. asset managers would then be subject to regulation by the Federal Reserve (or a total of $17.9 out of $28 trillion). Adding in MetLife, which FSOC is currently considering designating as a SIFI, would raise the coverage to 66.25% ($18.55 out of $28 trillion).

From a global perspective, as of 2013, global asset managers had $57 trillion in AUM. Of this total, 41.6% is managed by banks designated as global systemically important banks (G-SIBs) and non-banks (insurers) designated as systemically important by the FSB. If the FSB designated the three largest global independent asset managers as SIFIs (Blackrock, Fidelity, and Vanguard), 55.4% of AUM of global asset managers would then be subject to a systemic designation (or a total of $31.6 out of $57 trillion).

The resulting U.S. (63.9% or 66.25%) and global (55.4%) coverage is far short of the entire industry. Further, the percentage coverage in particular asset classes could vary significantly from the overall numbers as dominant asset managers in different asset classes differ. More important, the percentage coverage would only be momentary as investors could well withdraw their funds from SIFIs or covered banking organizations and put them in entities not supervised by the Fed. The key point is that one cannot deal with systemic concerns about the herding behavior of asset managers through the SIFI designation approach.

“The only legitimate systemic risk concern with respect to asset managers is possible herding behavior,” said Prof. Hal S. Scott, Director of the Committee on Capital Markets Regulation. “But this concern cannot be addressed by SIFI designation of particular asset managers. It must be addressed on an overall industry basis.”

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The Committee on Capital Markets Regulation is an independent and nonpartisan 501(c)(3) research organization dedicated to improving the regulation of U.S. capital markets. The Committee’s membership includes thirty-five leaders drawn from the
finance, investment, business, law, accounting, and academic communities. The Committee is chaired jointly by R. Glenn Hubbard (Dean, Columbia Business School) and John L. Thornton (Chairman, The Brookings Institution) and directed by Prof. Hal S. Scott (Nomura Professor and Director of the Program on International Financial Systems, Harvard Law School).

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