June 26, 2015

Secretariat of the Financial Stability Board
c/o Bank for International Settlements
CH-4002
Basel, Switzerland

Re: Consultative Document (2nd); Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions: Proposed High-Level Framework and Specific Methodologies

Dear Sir or Madam:

The undersigned are associations representing the investment funds industry in some 23 jurisdictions and regions worldwide. We jointly are submitting these comments to the Financial Stability Board ("FSB") and the International Organization of Securities Commissions ("IOSCO") concerning the second consultation ("Second Consultation") on assessment methodologies for identifying non-bank non-insurer global systemically important financial institutions ("NBNI G-SIFIs") .

Our members, investment funds and their managers, play critically important roles in national and global financial markets. For this reason, we are supportive of the work underway at the FSB and IOSCO to identify and mitigate risks to the global financial system. In addition, we welcome the recent statement from the IOSCO Board that "a full review of asset management activities and products in the broader global financial context should be the immediate focus of international efforts to identify potential systemic risks and vulnerabilities . . . [and] that this review should take precedence over further work on methodologies for the identification of systemically-important asset management entities." Nonetheless, we still feel it is important to voice our serious concerns, as outlined below, about the methodologies proposed in the Second Consultation.

First, we are troubled by the *process and underlying premises* of this work. For any resulting methodologies to be credible and to genuinely address risk at a global level, they must be based on sound empirical data and careful analysis, not conjecture or theory. The Second Consultation, however, provides no basis for the materiality thresholds it proposes for funds or managers. In addition, although the Second Consultation correctly states that leverage is a key driver of risk for the financial system, leverage is not duly considered with respect to the materiality thresholds, which accordingly remain, in effect, mainly asset size-based.

More generally, it does not appear that the FSB and IOSCO have given sufficient consideration to a broad range of inputs that would bear on this work – including industry data, historical experience, industry structure and practices, existing regulations, and other factors that have a direct bearing on the kind or extent of the risks that a fund or fund manager may pose. In the context of investment funds, there are distinct differences in national markets that also must inform this global work. Without an appreciation for these differences, it seems difficult to develop a valid global approach.

Further, in the aftermath of the global financial crisis, regulations have been reformed in numerous, significant ways. This is a process in which both FSB and IOSCO have been deeply involved, yet the nature and impact of these reforms is not acknowledged or considered in the course of the Second Consultation. For example, the FSB and IOSCO have both very recently made recommendations on how to address perceived risks in money market funds. Various national regulators, in turn, also have been considering or implementing money market fund reforms. Yet, the Second Consultation includes within its scope money market funds, apparently ignoring the substantial work already devoted to this sector. The same applies to the substantial work committed by the FSB and IOSCO to the identification of "other shadow banking entities". In particular, the Second Consultation fails to build upon the findings of the final report by the FSB WS 3 which conducts a thorough analysis of potential systemic risk associated with such entities, including investment funds, and outlines possible remedial measures to mitigate such risks.

Second, we remain concerned that the Second Consultation, like its predecessor, views funds and their managers through *an inappropriate bank regulatory prism*. Concepts and concerns that are characteristic of bank regulation but have far less relevance in the asset management world seem to pervade this Second Consultation. Thus, funds and fund advisers do not "fail" as banks commonly do. They are highly substitutable. Fund managers act as agents, not principals. Assets of managed funds are segregated from the fund manager's own assets and shielded from the risk of the manager's insolvency. Risks of investment gain or loss are passed through to the underlying investors, who knowingly accept this trade-off. Managers are fiduciaries, and both they and the funds they manage are subject to extensive regulation and oversight. They offer investors, markets and regulators a high degree of transparency, and they are obligated to operate within stated investment mandates consistent with their disclosures to their investors. Other laws also may affect fund activities or their attractiveness as an investment, *e.g.*, tax laws, pension laws, market restrictions or limitations on "foreign" investment such as by amount or repatriation. In short, funds and their managers are not banks – nor shadow banks.

Third, if size is the key consideration under the Second Consultation's methodology, it is puzzling that the FSB and IOSCO should propose simply to exclude sovereign wealth funds and pension funds altogether, while effectively focusing on funds and their managers. Many sovereign wealth funds and pension funds are far larger than the largest regulated funds. Not surprisingly they also are major, active market participants. We do not mean to suggest that sovereign wealth funds or pension funds pose systemic risks or should be designated; rather we view the justification offered for the proposed exclusions as cursory and unconvincing.

Fourth, we are concerned by the *divorce of the methodology from the consequences of designation*. The potential adverse consequences of designation – selective imposition of bank-like supervision and requirements on some funds and managers -- are quite significant. We strongly believe that regulated funds and their managers do not pose risks to the global financial system, and whatever risks they in fact may pose are best addressed by capital markets regulators, who have the requisite expertise and experience for this purpose.

Fifth, because the methodologies are not grounded in empirical data or historical experience, but instead built on theory and speculation, we question whether they provide a rational basis for further action by national authorities. Based on our experiences as associations active in national regulatory debates, this process does not meet standards for regulatory policymaking in our national markets, nor do we believe it to meet the standards adopted and embraced by IOSCO since 1998.

We urge the FSB and IOSCO to consider carefully these and other comments received on this Second Consultation. The FSB and IOSCO have described their mandate as follows: "to identify NBNI financial entities whose distress or disorderly failure, because of their size, complexity and systemic interconnectedness, *would cause* significant disruption to the wider financial system and economic activity *at the global level*." We do not think the work done to date provides any basis, much less an adequate one, upon which to adopt a NBNI G-SIFI methodology for investment funds and managers. To that end, we strongly support the IOSCO's Board's recommendations as well as the recent statements of Mr. Greg Medcraft, in his capacity as Chairman of the Board of IOSCO, to consider asset management activities as an immediate focus over the designation methodologies. We agree such work must be undertaken through an evidence-based framework, with a balance between financial stability and economic growth, and through a capital markets regulatory lens rather than a banking or insurance approach.

* * * * *

We invite you to contact any of the undersigned if you wish to discuss our comments or if we can be of further assistance. We also refer you to the letters submitted by individual investment fund associations, which provide more detail. Once again, thank you for the opportunity to submit comments.

Very truly yours,

Austrian Association of Investment Fund Management Companies (VÖIG)

Per: "*Armin Kammel*"
Title: Head of Legal and International Affairs

Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais (ANBIMA)

Per: "*Patrícia Herculano*"
Title: Head of Institutional Representation

The Investment Funds Institute of Canada (IFIC)

Per: "*Joanne De Laurentiis*"
Title: President & CEO

Asociacion de Administradoras de Fondos Mutuos de Chile – A.G. (AAFM)

Per: "*Monica Cavallini*"
Title: Chief Executive Officer

European Fund and Asset Management Association (EFAMA)

Per: "*Peter De Proft*"
Title: Director General

German Investment Funds Association (BVI)

Per: "*Thomas Richter*"
Title: Chief Executive Officer

Hong Kong Investment Funds Association (HKIFA)

Per: "*Sally Wong*"
Title: Chief Executive Officer

Association of Mutual Funds in India (AMFI)

Per: "*H N Sinor*"
Title: Chief Executive

Irish Funds Industry Association

Per: "*Pat Lardner*"
Title: Chief Executive

The Investment Trusts Association, Japan (JITA)

Per: "*Fumio Inui*"
Title: Vice Chairman

Association of the Luxembourg Fund Industry (ALFI)

Per: "*Camille Thommes*"
Title: Director General

Asociación Mexicana de Intermediarios Bursátiles, A. C. (AMIB)

Per: "*Ernesto Reyes Retana Valdés*"
Title: Director of Technical Committees

Dutch Fund and Asset Management Association

Per: "*H.M. Janssen Daalen*"
Title: General Director

Polish Chamber of Funds and Asset Management (IZFiA)

Per: "*Marcin Kowal*"
Title: Legal Counsel

Investment Management Association of Singapore (IMAS)

Per: "*Michael Lim*"
Title: Executive Director

Association for Savings and Investment SA (ASISA)

Per: "*Leon Campher*"
Title: CEO

Korea Financial Investment Association (KOFIA)

Per: "*Sung Uk Yang*"
Title: Senior Director

Swedish Investment Funds Association (Fondbolagens förening)

Per: "*Pia Nilsson*"
Title: CEO

Swiss Funds and Asset Management Association (SFAMA)

Per: "*Markus Fuchs*"
Title: Managing Director

Securities Investment Trust and Consulting Association of the R.O.C. (SITCA)

Per: "*Henry Lin*"
Title: Chairman

Association of Investment Management Companies (AIMC)

Per: "*Ekachai*"
Title: Chief Executive Officer

The Investment Association

Per: "*Daniel Godfrey*"
Title: Chief Executive Officer

Investment Company Institute (ICI)

Per: "*Paul Schott Stevens*"
Title: President and CEO