VENABLE LLP client alert

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SEC Requests Public Comment on OFR Study of Risks in the Asset Management Industry

Yesterday, the Securities and Exchange Commission requested comments from the public regarding a recently released study by the Treasury Department's **Office of Financial Research** (OFR). The study, ***Asset Management and Financial Stability***, is an analysis of the $53 trillion U.S. asset management industry. ***Comments are due November 1, 2013.***

OFR carried out the study at the direction of the Financial Stability Oversight Council (FSOC) to help FSOC determine which asset management companies should be designated as systematically important pursuant to **Section 113 of the Dodd-Frank Act**. The study was designed to analyze industry activities, describe the factors that make the industry and firms vulnerable to financial shocks, and consider the channels through which the industry could transmit risks across financial markets.

OFR found that asset management firms have a diverse mix of businesses and business models. Asset management firms include registered investment advisers, broker-dealers, insurance companies, bank holding companies, and private funds. These firms manage and invest in a wide variety of financial products, including money market funds, fixed-income funds, exchange traded funds (ETFs) short-term funds, hedge funds, private equity funds, and other private funds. The study revealed, however, that unlike commercial banks and insurance companies that typically act as principles, asset managers act primarily as agents – managing assets on behalf of clients rather than investing on the managers' behalf.

The study identified four factors that purportedly make asset management companies vulnerable to financial shocks:

- Reaching for yield and herding behaviors;
- Redemption of risk in collective investment vehicles;
- Leverage; and
- Firms as sources of risk.

It also found that asset managers could transmit risks across the financial system through two primary channels: (1) exposure of creditors, counterparties, investors, or other market participants to an asset manager; and (2) disruptions to financial markets caused by fire sales.

Finally, the study noted that there are significant gaps in the data available for different types of asset managers. While mutual funds, registered investment companies, banks, and private funds now report information to regulators, the study expressed concern that data for separate accounts managed by U.S. asset managers are not reported publicly. The study also identified data gaps in the securities lending and repo markets.

If you have any questions about this request for comment, please contact **Scott Gluck** at 202.344.4426 or **Andrew Olmem** at 202.344.4717.

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