

Global Regulators Evolve on Money Manager Systemic Risks

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The Board of the International Organization of Securities Commissions (IOSCO) in June made an important recommendation concerning any risks that investment funds and advisors present to the global financial system. Specifically, it concluded that a full review of asset management activities and products in a broad global context should be the immediate focus of international efforts to address such "systemic" risks. IOSCO also plays a role in the ongoing systemic risk initiatives of the Financial Stability Board, an international standards-setting body established by the G20 countries. Indeed, in July the FSB's chairman signaled a move toward IOSCO's position, saying, "The thinking of the FSB is that we will address issues around activities first and then take an assessment if there's any residual risk." Previously, the FSB has focused more on developing standards for designating certain individual funds and advisers as presenting global systemic risks and subjecting them to additional, potentially bank-like regulation. **Many in the United States have strenuously criticized this concept of imposing systemic risk designations on funds or advisers, arguing that any such risks would be much better addressed through industry-wide measures developed by the entities' primary regulators.** That, for example, has been the SEC's view. Indeed, the SEC proposals discussed in "SEC Proposes Major Disclosure Changes for Funds and Advisers" on page 12 aim to identify and monitor for such risks. Accordingly, the SEC, which is a member of both IOSCO and the FSB, may be an influence on those organizations' developing positions. Likewise, Federal Reserve Board Governor Daniel Tarullo may have an impact in his capacity as Chairman of the FSB's Standing Committee on Supervisory and Regulatory Cooperation. Recently, Tarullo reportedly expressed a preference for an approach similar to what the FSB now espouses. The developing thinking of the FSB may, in turn, have at least some influence on the approach that its U.S. counterpart (the Financial Stability Oversight Council) develops for identifying and addressing any risks that investment funds or advisers present to the U.S. financial system.

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