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FSOC Presses SEC on Money Managers’ Systemic Risks

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The SEC is stepping lively to preserve a role in formulating any additional requirements for money managers—such as mutual funds and investment advisers—to limit perceived risks to the financial system.

Although the Dodd-Frank Act gives the FSOC authority to impose such requirements, money managers have strenuously argued that they do not present such "systemic" risks, and many in Congress agree. (*See* "Mutual Funds Get Congressional Help Against FSOC" in the Spring 2014 edition of *Expect Focus*.) Nevertheless, SEC Chair Mary Jo White, who is an *ex officio* member of the FSOC, gave a speech on December 11 detailing major SEC initiatives that would help reduce any systemic risks that money managers present. These include:

- Enhancing controls on risks resulting from the composition of investment portfolios. For example, SEC officials have indicated that a group of 10 SEC staffers are hard at work on a white paper that addresses the risks presented by exchange-traded funds (ETFs)—particularly those that make extensive use of derivatives—including the risk of increased financial volatility.
- Enhancing data reporting, which would improve regulators’ ability to evaluate any systemic risks.
- Improving transition planning and stress testing.

Nevertheless, **just one week after Chair White’s speech, the FSOC voted unanimously to request input from the public on many of the same types of issues pertaining to money managers as are included within the SEC’s initiatives**. Chair White observed that the FSOC’s effort is a "constructive complement" that may produce information useful to the SEC’s work. Similarly, the FSOC stated that it intends to consider the impact of the SEC’s initiatives in reducing any risks to U.S. financial stability.

Although the SEC and FSOC therefore appear to be embracing, it may feel to the SEC more like a bear hug.