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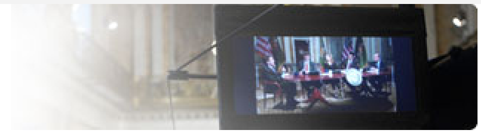

Opening Remarks Of Under Secretary Mary Miller At The Financial Stability Oversight Council Conference On Asset Management

5/19/2014

WASHINGTON - Thank you all for joining us today. My name is Mary Miller. I am the Under Secretary for Domestic Finance here at the Treasury Department. I also have the pleasure of serving as the Chair of the Deputies Committee of the Financial Stability Oversight Council. This group of senior government officials meets frequently to advance the work of the Council by overseeing ongoing projects and developing recommendations for Council members. It is a role I take seriously, as do my colleagues on the committee with whom I am privileged to serve.

As many of you know, for over two and a half decades before joining the Treasury Department, I was also privileged to work at a large asset management firm, where I was responsible for overseeing portfolio management, research, and trading. I know firsthand the crucial role that asset managers play in the economy, helping millions of Americans save for retirement while channeling trillions of dollars into the market that allow businesses to hire, invest, and grow. And I bring to my current job a deep appreciation for many of the issues facing asset managers, including the importance of effective risk management.

Before we get into the substance of today's discussion, I wanted to take a moment to discuss the Council, what we do, and why we are here today. One of the critical lessons from the financial crisis was that financial market risks and vulnerabilities can sometimes fall through the cracks, particularly when responsibility for broader financial stability concerns is not clearly assigned. The Dodd-Frank Act established the Council to do just that: bring regulators from across the financial system together to collectively identify, monitor, and respond to potential threats to financial stability.

As the Council fulfills that statutory duty, it takes seriously the need to monitor the entire financial system. We have a responsibility to understand the risks that may arise from all corners of the market, and how those risks might be transmitted to the broader financial system. And we have a responsibility to develop tools to mitigate those risks. Getting it right will strengthen the financial system while allowing innovation and competition to flourish.

This work involves asking tough questions, and our pursuit of the facts often requires us to ask for additional data. Sometimes it results in a conclusion that a particular entity or activity creates risks that the Council needs to address. And sometimes it results in a conclusion that an entity or activity does not create risks that need to be addressed. But we would not be doing our job if the Council simply cordoned off an entire sector or activity without even considering it. In fact, that would be a dereliction of the duties Congress assigned the Council.

Therefore, it is entirely appropriate for the Council to analyze all the major sectors of the financial system, including the asset management industry, to determine whether they pose any risks to U.S. financial stability. This is what the Council was designed to do.

Our discussion today helps advance that important mandate. While the Council recognizes the importance of the asset management industry, it also clearly recognizes that asset managers are different from banks and other financial services companies. For example, the industry largely manages assets on an agency basis, investing money on behalf of clients. We also know there are meaningful differences across firms within the industry, with different investment strategies, corporate structures, regulatory oversight, and customers. Indeed, it is precisely because of the industry's importance and diversity that a deeper dive by the Council is warranted.

We are here today because the Council is working to determine what, if any, risks exist in the asset management industry, before we consider what, if any, action the Council should take in this area. Our work to assess these risks is ongoing, and it will be based on a thorough analysis of information from a wide array of sources.

I want to emphasize that we do not come to today's conversation with any predetermined outcome. As Secretary Lew recently noted, "there's no one at FSOC who knows the outcome of this process because we're still in the fact-finding stages." Indeed, it is possible that at the end of this comprehensive review, the Council may choose to take no action. However, if the Council identifies risks posed by asset managers or their activities that pose a threat to financial stability, it has a number of policy options.

The Council's authorities include highlighting potential emerging threats in its annual reports to Congress, making recommendations to existing primary regulators to apply heightened standards and safeguards, and designating individual firms on a company-specific basis. If we identify risks that require action, we will seek to deploy the most appropriate remedy.

Let me also note that the United States is not alone in considering potential risks posed by asset managers and a variety of other types of nonbank financial companies. The Financial Stability Board, which represents a global body of regulators, is also engaged in ongoing work regarding the identification of global systemically important financial institutions.

While the FSB and the Council have a shared objective of promoting financial stability, it bears emphasizing that the domestic and international processes are entirely independent. In its work, the Council adheres to the standard and considerations for designations that are listed in the Dodd-Frank Act and in the Council's public guidance. The Council is the only authority that can designate an entity for Federal Reserve Board supervision and enhanced prudential standards.

Today's opportunity to hear directly from a diverse group of experts on the industry will be particularly valuable for us. We are joined today by practitioners – including CEOs, treasurers, and risk officers – as well as academics and other stakeholders. This is an opportunity to engage in an open dialogue, hearing from those on the front lines about how they approach their business, manage exposures, and prepare for operational and other contingencies.

As the agenda highlights, this is meant to be an opportunity to ask questions and have a substantive discussion based on the insight of industry insiders and close observers. Let me say at the outset that these questions are unlikely to lead to "check-the-box" yes or no answers. But it is important to ask questions and to develop policies based on the best possible information.

We will begin today by hearing from an official of the SEC, a member agency of the Council, who will provide an overview of the asset management industry. Throughout our discussions on this industry, as the primary regulator the SEC's participation has been particularly important. We will then dive into our panels, each moderated by a senior official from a Council member agency, who will also facilitate questions from the audience after we hear from all of the panelists.

Our first panel will feature a discussion of investment activities and practices within the asset management industry. This panel will focus on risk management approaches inside firms and the extent to which they differ across firms and investment strategies.

Our second panel will focus on industry characteristics and the interaction of asset management activities with the broader financial system.

Finally, our third panel will discuss key operational functions and what obstacles, if any, exist to resolving a failing manager or fund in a rapid and orderly manner. This panel will include discussions of firm complexity and interconnectedness, as well as the substitutability and transferability of business lines and assets.

It is a full agenda, but it is important to recognize that this conference is only one part of our ongoing engagement on this issue. We greatly appreciate the constructive engagement by our panelists. I look forward to building on this dialogue as we continue our review of the asset management industry.

I would be remiss if I did not thank the over 40 representatives from the Council's Deputies Committee and other staff of Council members who are here today to listen and learn. We appreciate the engagement of a wide range of stakeholders on this issue, including your input on key topics to be explored in our discussion today.

Finally, I want to also thank our panelists who have generously taken time from their demanding schedules to help us explore these important issues. I am very enthusiastic about the breadth and depth of experience gathered in this room. And I am glad others agree. The Wall Street Journal described our panel lineup as "fairly wonky," which I take as a validation of the substantive discussions we can look forward to this afternoon.

And I want to make sure that we allow enough time for questions for our panelists. If you want to ask a question during the Q&A period, you will find cards on your seats that we will collect for the moderators during the last 20 minutes of each panel discussion.

So with that, I will turn this over to Norm Champ, the Director of the Division of Investment Management at the SEC, for our opening presentation.

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