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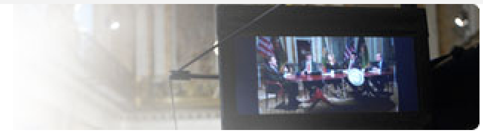

Remarks by Treasury Secretary Jacob J. Lew at a Meeting of the Financial Stability and Oversight Council

4/18/2016

As Prepared for Delivery

WASHINGTON - At today's meeting, the Council will provide an update on our review of potential risks from asset management products and activities. Patrick Pinschmidt, the Executive Director of the Council, will discuss the Council's review and describe the public statement the Council will consider for release.

Before we turn to the presentation, I would like to say a few words about the Council's work on asset management and how it underscores the importance of the Council's mission. The Council's most fundamental duty is to monitor for potential risks and emerging threats to financial stability, looking across the horizon and around corners—asking tough questions in order to make our financial system stronger, safer, and more resilient.   Our job is to ask questions which may or may not lead to the conclusion that action is required, and to be driven by data and analysis in forming our judgements.

This work only can be achieved by bringing the entire regulatory community together, relying on each of our perspectives to determine the nature of potential financial stability risks, and using our collective judgment to determine when and how to respond. Before the financial crisis, no single entity had this responsibility and excessive risks grew within regulatory gaps and across markets, contributing to the largest economic collapse since the Great Depression. Wall Street Reform addressed this fundamental flaw by creating the Council and giving us, the members of the Council, the collective responsibility to address emerging risks before they threaten the financial system and damage our economy.

This is important context for the Council's analysis of asset management activities. We did not begin our work with pre-conceived notions or pre-determined outcomes, but with a recognition that the asset management industry is a significant and growing segment of the U.S. financial system. We have a responsibility to understand the potential implications for financial stability as markets evolve. We approached this inquiry mindful of the important role it plays for millions of Americans saving for retirement or investing in the future of their children. We have focused on the issues and questions that are being studied by market participants, academic experts, and other market observers as they seek to understand and manage risk in a changing world. We have a common interest in well-functioning markets that promote stable economic growth, particularly in times of stress.

Today, we are providing a public update on our work. The statement that we will vote on today is not a rulemaking. It is instead the Council's collective views on key areas of focus and next steps to respond to these potential risks. In coming to these views, the members of the Council have consulted and worked closely with each other, and we have harnessed the extensive analytical resources of our expert staffs. And throughout the process, we have conducted extensive outreach to the asset management industry and market observers to inform our analysis, including holding a public conference and issuing a request for comment.

Let me note that the Council benefited greatly from the expertise of many of its member agencies in this analysis, particularly the insights of Chair White and the SEC staff. The SEC is engaged in important rulemaking initiatives affecting the asset management industry in a number of the areas explored in the Council's review. The Council welcomes these initiatives by the SEC. And while the Council is not a primary regulator, the Council does have a clear mandate to look across the system for potential threats to financial stability.   So it is important that the work of the Council and the work of the other regulators, particularly in this case, the SEC, are complementary.

Finally, I want to underscore the importance that by addressing these issues, the Council continues to lead the international regulatory conversation in this area. The Council's work represents a domestic consensus on potential risks to financial stability from asset management products and activities. Given that many of these same issues are being discussed globally, it is important that the United States clearly establish its views on potential risks and the appropriate regulatory approach to those risks based on the collective insight of member agencies and relevant stakeholders through the Council's process.

Before we get into the details of this public update, I would like to highlight two key findings of the Council's analysis—the areas of liquidity and leverage risk.

Regarding liquidity, the Council's analysis indicates that financial stability concerns may arise from liquidity and redemption risks in pooled investment vehicles, and in particular in mutual funds, and we have laid out a number of important policy steps that should be considered, including robust liquidity management practices and disclosures for mutual funds, as well as clearer guidelines limiting a fund's ability to hold assets with very limited liquidity. These are important steps to help regulators and investors better understand, monitor, and mitigate potential financial stability risks.

As to leverage, we have not come to any conclusions yet that the use of leverage by private funds currently presents financial stability risks. Overall, the use of leverage in the financial system has come down dramatically since the crisis, and in hedge funds, leverage does not appear high on average but, by several measures, leverage appears to be concentrated in large funds. It does not, however, mean that risk is concentrated in these funds. Greater leverage does not necessarily imply greater risk, or systemic risk, and many other factors need to be considered. Individual regulators do not have a complete picture of the risks being taken, further complicating our ability to understand these issues. Thus, the need for further analysis and information sharing is clear, which is why we plan to create a working group comprised of experts from the relevant Council agencies to address the questions identified by our initial review. This is exactly the sort of exercise – bringing together data and expertise across the regulatory spectrum – that the Council is well-situated to lead.

Let me now ask Patrick Pinschmidt to go into the details of this public update, and then open it up for a discussion among the Council members.

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