

## U.S. DEPARTMENT OF THE TREASURY

## Press Center



## Lew Op-Ed: Why We're Reviewing Asset Management

4/19/2016

**WASHINGTON** – In an op-ed to be published in the Wednesday print edition of the Wall Street Journal, Treasury Secretary Jacob J. Lew writes about the Financial Stability Oversight Council's (FSOC) public update on its review of potential risks to U.S. financial stability that may arise from asset management products and activities. In the piece, published online today, Secretary Lew describes the FSOC's efforts to bring the financial regulatory community together to look across the entire system, ask tough questions, and address potential risks to financial stability before they materialize.

Read the article online [here](#).

*The full text of the piece is below:*

### Why We're Reviewing Asset Management

By: Jacob J. Lew

Opponents of financial reform are cheering a court decision to rescind the Financial Stability Oversight Council's designation of MetLife for heightened regulatory supervision. FSOC designated MetLife after determining that material financial distress at the company could threaten U.S. financial stability. Leaving aside whether the decision will be overruled on appeal, efforts to depict the court's decision as a positive for our financial system are mistaken and dangerously ignore the lessons of the financial crisis.

Congress passed Wall Street Reform after the financial crisis with the aim of uncovering and protecting against risks to financial stability, wherever they may arise. A historic set of reforms—including increased capital requirements so that financial institutions bear the burden of their own risks and the creation of the FSOC—have helped to bolster our largest institutions and markets, and our system is far safer and more resilient as a result.

FSOC brings the entire financial regulatory community together in one place to identify and address risks to financial stability. Before the financial crisis, no single body played this role. Congress gave the council the responsibility to look across the system to address gaps exposed by the crisis, to identify risks to financial stability, and to respond collectively to those risks before they destabilize markets or damage our economy.

The council has worked carefully and judiciously in carrying out this role. It has to date identified only four individual nonbank financial companies whose distress could pose a threat to financial stability and that should be subject to heightened supervision.

While FSOC's nonbank designation authority is an important tool, and one we will continue to defend, it is not the only tool at FSOC's disposal. FSOC's examination of a potential risk does not inevitably lead to the council's taking action—there are no predetermined outcomes. Each task that the FSOC has undertaken has proceeded in a data-driven and deliberative fashion, careful to avoid a one-size-fits-all approach.

It is particularly important that FSOC look over the horizon, to where future risks may develop. FSOC has been examining products and activities in the asset management industry, a fast-growing sector with increasing significance in the broader economy, to evaluate whether risks may be developing and, if so, what actions could be taken.

Asset management encompasses a diverse set of corporate structures, strategies and characteristics. While investment risk is inherent in capital markets, FSOC has explored the activities across the industry to determine whether they present risks that could threaten financial stability. This week we provided a public update on FSOC's asset-management work, following an extensive, multiyear review that included a public conference on the topic and a request for public comment.

The council has focused on two key areas—liquidity and redemption risk, and leverage. With respect to liquidity and redemption risk, FSOC highlighted the need for robust risk management practices to ensure that funds are able to meet redemption requests from investors. The council also noted the need for clearer guidelines about the extent to which funds can hold assets with very limited liquidity, and noted that enhanced reporting and disclosure by mutual funds would help regulators and investors better monitor and mitigate potential liquidity risk.

The council also found that leverage is concentrated in larger hedge funds, but that individual regulators lack access to the data necessary to develop a comprehensive understanding of the risk such leverage may pose. FSOC is creating a working group to address this gap. The group will share information to better understand fund activities, including whether their use of leverage poses potential risks, and to inform the council on whether additional actions should be considered.

Additionally, FSOC's update highlighted potential risks and the need for more analysis related to the use by asset managers of one or a small group of service providers for key functions, data collection and reporting on securities lending activities, and transition plans for certain stress scenarios.

FSOC's asset-management review reflects the collaboration and collective expertise of all its member agencies. In addition, the Securities and Exchange Commission has issued several proposed rules related to asset management activities, and FSOC will work with the SEC and other member agencies to monitor the effect of regulatory developments on financial stability.

The council's unanimous approval of the update issued this week is an important step toward improving the stability of our financial system. Going forward, we will gather the information and undertake the analysis necessary to better understand this expanding sector and determine whether further action is needed. Our review will seek to gather the relevant facts and ask the right questions in a prudent and careful manner. We are not making presumptions or jumping to any conclusions; data and thorough analysis will continue to guide FSOC's work.

It is crucial that we not forget the history of the recent financial crisis. We must continue to work together to identify and respond to emerging threats well before we are standing on the precipice of another crisis. FSOC is doing its part to learn from the past so it can lead in the future. This is a critical mission that the American people are counting on us to get right.

###