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ICI Work on Financial Stability

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ICI Comment Letters to Policymakers on Financial Stability

Letter to International Organization of Securities Commissions on (1) CIS liquidity risk management recommendations and (2) open-ended fund liquidity and risk management—good practices and issues for consideration, September 2017.

Letter to Basel Committee on Banking Supervision (BCBS) responding to second consultation on proposed framework for identification and management of step-in risk, May 2017.

Letter to Financial Stability Board (FSB) on proposed framework for post-implementation evaluation of the effects of the G20 financial regulatory reforms, May 2017.

Letter to European Banking Authority on development of a new prudential regime for investment firms, February 2017.

Letter to UK Financial Conduct Authority on the FCA mission, January 2017.

Letter to Federal Reserve Bank of Minneapolis on proposed "shadow bank" tax on regulated funds, January 2017.

Letter to European Commission on review of the EU macroprudential framework, October 2016

- Framework
- Framework questions
- Framework survey

Letter to FSB on proposed policy recommendations to address structural vulnerabilities from asset management activities (appendix contains ICI Research analysis testing hypotheses about stability risks in open-end funds using empirical data from US, European, and Canadian funds; findings are contrary to what the hypotheses predict), September 2016.

Letter to Financial Stability Oversight Council (FSOC) responding to FSOC update on its review of asset management products and activities (appendix A explains why each of the academic studies FSOC cites provides little, if any, support for FSOC's stated concerns; appendix B contains ICI Research analysis testing hypotheses about stability risks in open-end funds using data from US high-yield bond funds; findings are contrary to what the hypotheses predict), July 2016.

Letter to Canadian Cooperative Capital Markets Regulatory System on revised proposed Canadian systemic risk legislation, July 2016.

Letter to US Federal Reserve Board on implications for regulated funds of proposed counterparty exposure limits for large banking organizations, June 2016.

Letter to BCBS responding to first consultation on identification and management of step-in risk, March 2016.

Letters to SEC on open-end fund liquidity risk management programs (suite of four letters), January 2016

- ICI
- ICI Research
- Independent Directors Council (IDC)
- Summary of ICI and IDC comments

Letter to FSB responding to second consultation on assessment methodologies for identifying non-bank, non-insurer global systemically important financial institutions (NBNI G-SIFIs) (letter and appendices include substantial ICI Research analysis), May 2015.

Letter to FSOC responding to notice seeking comment on asset management products and activities (letter and appendices include substantial ICI Research analysis), March 2015.

Letter to Canadian Cooperative Capital Markets System on proposed Canadian systemic risk legislation, December 2014.

Letter to FSB responding to first consultation on assessment methodologies for identifying NBNI G-SIFIs (appendices include substantial ICI Research analysis), April 2014.

Letter to SEC responding to request for public comment on Office of Financial Research study on asset management and financial stability (letter and appendices include substantial ICI Research analysis), November 2013.

Letter to BCBS on implications for regulated funds of proposed framework for measuring and controlling banks' large exposures, June 2013.

Letter to FSB responding to consultation on "Strengthening Oversight and Regulation of Shadow Banking: A Policy Framework for Oversight and Regulation of Shadow Banking Entities," January 2013.

Letter to European Commission on green paper on shadow banking, June 2012.

Letter to US Federal Reserve Board on proposed enhanced prudential requirements for large bank holding companies and nonbank SIFIs, April 2012.

Letter to US Treasury Department on proposal to assess fees on large bank holding companies and nonbank SIFIs to cover the expenses of the Financial Research Fund, March 2012.

Letter to FSOC responding to revised notice of proposed rulemaking and proposed interpretive guidance regarding process for nonbank SIFI designations (letter includes substantial ICI Research analysis), December 2011.

Letter to FSB commenting on background note, "Shadow Banking: Scoping the Issues," June 2011.

Letter to FSOC responding to second request for comment regarding process for nonbank SIFI designations (letter includes substantial ICI Research analysis), February 2011.

Letter to FSOC responding to advance notice of proposed rulemaking regarding process for nonbank SIFI designations (letter includes substantial ICI Research analysis), November 2010.

ICI Speeches on Financial Stability

Chairman's Address, ICI's 60th Annual General Membership Meeting, William F. "Ted" Truscott, ICI Chairman, May 23, 2018.
Debunks myths about "flighty" fund investors causing "runs" and "fire sales."

Presentation at Cumberland Lodge Financial Services Summit, Paul Schott Stevens, ICI President and CEO, November 9, 2017.
Addresses US regulatory "reset" since the 2016 election and the need for effective, balanced regulation of asset management to address any concerns about stability. *Available upon request.*

Enough Already: Is Post-Crisis Financial Reform Going Too Far? Paul Schott Stevens, ICI President and CEO, keynote speech at American Chamber of Commerce of Japan Luncheon, October 19, 2016.
Discusses post-crisis regulatory burdens and lays out an agenda to seek "robustness" in financial systems.

Comments on "Investor Flows and Fragility in Corporate Bond Funds," by Goldstein et al., Sean Collins, Senior Director, Industry and Financial Analysis, ICI, Federal Reserve Bank of Atlanta conference "Getting a Grip on Liquidity," May 2, 2016.
Documents weaknesses in papers arguing that mutual fund investors will redeem heavily during market downturns because of a "first-mover effect."

A Strong Footing: The Critical Role of Capital Markets in the Post-Crisis World, Paul Schott Stevens, ICI President and CEO, keynote speech at American Chamber of Commerce of Japan Luncheon, April 21, 2015.
Documents the value of capital markets in bringing diversification, efficiency, economic stability, and economic flexibility to financial systems and economies.

Financial Stability and Asset Management: What's at Stake? Paul Schott Stevens, ICI President and CEO, Boston University/ICI Conference on Financial Stability and Asset Management, March 10, 2015.
Outlines the investor and economic costs of designating funds as systemically important financial institutions (SIFIs).

Preserving the Unique Role of Asset Management, Paul Schott Stevens, ICI President and CEO, Fourth Annual Malta Conference, September 18, 2014.
Rejects the "fables" of "shadow banking" and demonstrates how funds' regulations mitigate concerns about systemic risk.

Financial Stability: A Conversation with Investors, Paul Schott Stevens, ICI President and CEO, ICI 56th Annual General Membership Meeting, May 20, 2014.
Differentiates investment risk from systemic risk and describes potential harm to investors from SIFI designation.

Financial Stability and US Mutual Funds, Paul Schott Stevens, ICI President and CEO, 2014 Mutual Funds and Investment Management Conference, March 17, 2014.
Discusses why even the largest US mutual funds do not create systemic risk and describes implications of SIFI designation.

Failing to Understand the Nature of Our Capital Markets: The Office of Financial Research's "Asset Management and Financial Stability" Report, Karrie McMillan, General Counsel, ICI, 2013 Capital Markets Conference, October 10, 2013.
Shows that the "sweeping statements and broad generalizations" of the OFR report are "a made-up litany of nightmare closet 'could happens.'"

Global Challenges and Opportunities for Mutual Funds, Paul Schott Stevens, ICI President and CEO, Swiss Funds and Asset Management Forum, March 22, 2013.
Addresses asset management's role and warns against using the "shadow banking" label for market-based finance.

ICI Research Perspectives (Research Paper Series) on Financial Stability

Regulated Funds, Emerging Markets, and Financial Stability, April 2015.
Finds that, while regulated funds have contributed to the broad trend of portfolio capital flows to emerging economies over the past decade, they are unlikely to pose systemic risk to emerging markets. New empirical results suggest three main reasons: regulated fund holdings remain a small portion of the stocks and bonds of emerging markets; regulated funds provide a stable investor base; and regulated fund holdings are spread across more than 85 different countries, limiting their impact on any one country.

Understanding Exchange-Traded Funds: How ETFs Work, September 2014.
Provides an in-depth explanation of the unique structure of ETFs. Shows that 90 percent of activity in ETFs shares is in the secondary market (investors trading ETF shares among themselves), thereby limiting the impact of trading on the underlying securities. Details the US regulatory framework for ETFs and clearing and settlement for ETF creations and redemptions.

401(k) Participants in the Wake of the Financial Crisis: Changes in Account Balances, 2007–2011, October 2013.
Shows that workers who participated consistently in their 401(k) plans from 2007 to 2011 enjoyed a compound annual average growth rate of 5.4 percent in their average account balance, despite a 34.8 percent drop in 2008.

Money Market Mutual Funds, Risk, and Financial Stability in the Wake of the 2010 Reforms, January 2013.
Among other things, shows that 2010 money market reforms enhanced financial stability. For example, prime money market funds had plentiful liquidity to meet 2011 redemptions triggered by the eurozone crisis and US debt ceiling issues.

US Emerging Market Equity Funds and the 1997 Crisis in Asian Financial Markets, June 1998.
Studies US emerging market equity mutual funds during late 1990s, a period that included the crisis in Asian markets and spillover to Latin America. Finds that neither fund shareholders nor fund portfolio managers behaved in ways that raised market volatility.

US Emerging Market Funds: Hot Money or Stable Source of Investment Capital, December 1996.
Discusses the concern that US mutual funds might be a source of destabilizing capital flows to emerging market economies. Examines fund flows to 23 emerging economies, finding that equity funds generally did not shift investments between countries in a manner that would exacerbate price swings. Data show funds frequently bought shares when emerging markets were falling and sold when they were rising.

Mutual Fund Shareholder Activity During US Stock Market Cycles, 1944–95, March 1996.
Shows that investors redeemed only modestly from US-regulated equity funds during stock market downturns during a 51-year period that included the stock market crash of 1987. Funds had net inflows during the contraction phase of eight of the 14 cycles during this period.

Mutual Fund Shareholder Response to Market Disruptions, July 1995.
Responds to concerns that the rapid growth of mutual funds in the early 1990s could lead to systemic outflows. Considers the bellwether year of 1994, which saw sharp Federal Reserve tightening, the Mexican peso crisis, and the Orange County default, to which fund investors reacted modestly.

ICI White Papers on Financial Stability

What Happens When Rates Rise? A Forecast of Bond Mutual Fund Flows Under a 2013 Taper Tantrum Interest Rate Scenario, December 2016.
Applies the experience of the 2013 "Taper Tantrum" to estimate potential outflows from bond funds and the outflows' market impact after a sharp, unexpected increase in long-term interest rates. Outflows from bond mutual funds are predicted to be moderate—totaling 4.0 percent of assets over an eight-month period—and funds' sales of bonds would have a minimal impact on the broader bond markets.

Evaluating Swing Pricing: Operational Considerations, November 2016.
Examines the complex and multifaceted operational hurdles that mutual funds would need to overcome to implement swing pricing (a means of enabling funds to allocate transaction costs attributable to large purchase or redemption orders more equitably) after the US Securities and Exchange Commission amended rules to permit greater use of swing pricing as a tool to manage a fund's liquidity risk.

The Role and Activities of Authorized Participants of Exchange-Traded Funds, March 2015.
Describes what an authorized participant (AP) is and summarizes results of a special ICI survey on the number of APs under contract and the number that actively create or redeem ETF shares. Shows that secondary market liquidity in ETFs is supported by many liquidity providers that are not APs but regularly provide two-sided quotes in ETFs.

Report of the Money Market Working Group, March 2009.
Provides a comprehensive look at the structure and regulations of US-regulated money market funds, the circumstances surrounding the financial crisis, and suggestions for regulatory reforms likely to enhance the resilience of money market funds, as well as discussion of potential reforms that would likely harm money market funds and markets more generally.

ICI Research Department Academic Papers on Financial Stability

"Getting Out While the Getting's Good: A Test of First-Mover Behavior in Bond Mutual Funds," October 2018, unpublished working paper.
Provides a new test of the "first-mover hypothesis," using daily data to show that, contrary to earlier findings, first-mover effects among bond mutual funds are economically too small to warrant the concerns of systemic risk regulators. *Available upon request.*

"Are Bond Mutual Fund Flows Destabilizing? Examining the Evidence from the 'Taper Tantrum,'" November 2014.
Rebuts the evidence from Feroli, Kashyap, Schoenholtz, and Shin (2014) that bond fund flows destabilize financial markets. Details how minor adjustments to the data and methodology show that there is no evidence of a feedback effect from bond fund flows to financial markets.

"Assessing the Credit Risk of Money Market Funds During the Eurozone Crisis," *Journal of Financial Stability*, August 2016.
Shows that credit risk of prime money market funds, though small, rose in the second half of 2011. Contrary to common perceptions, this arose not because of money market fund exposure to eurozone banks but because of the deteriorating credit outlook of banks in the Asia-Pacific region.

ICI Testimony to Congress on Financial Stability

"Examining the Impact of the Volcker Rule on Markets, Businesses, Investors, and Job Creation," March 29, 2017.
Testimony before the House Financial Services Subcommittee on Capital Markets, Securities, and Investment

"The Financial Stability Board's Implications for US Growth and Competitiveness," September 27, 2016.
Testimony before the House Financial Services Subcommittee on Monetary Policy and Trade

"The Role of the Financial Stability Board in the US Regulatory Framework," July 8, 2015.
Testimony before the Senate Banking Committee

"Financial Stability Oversight Council Accountability: Nonbank Designations," March 25, 2015.
Testimony before the Senate Banking Committee

"Examining the Dangers of the FSOC's Designation Process and Its Impact on the US Financial System," May 20, 2014.
Testimony before the House Financial Services Committee

"Impact of a Default on Financial Stability and Economic Growth," October 10, 2013.
Testimony before the Senate Banking Committee

"Examining the SEC's Money Market Fund Rule Proposal," September 18, 2013.
Testimony before the House Financial Services Subcommittee on Capital Markets and Government Sponsored Enterprises

"Examining the Impact of the Volcker Rule on Markets, Businesses, Investors, and Job Creation, Part II," December 13, 2012.
Testimony before the House Financial Services Committee

"Perspectives on Money Market Mutual Fund Reforms," June 21, 2012.
Testimony before the Senate Banking Committee

"Oversight of the Mutual Fund Industry: Ensuring Market Stability and Investor Confidence," June 24, 2011.
Testimony before the House Financial Services Subcommittee on Capital Markets and Government Sponsored Enterprises

ICI Viewpoints Commentary on Financial Stability

Fund Investors Will "Run"? Sorry, Charlie Brown, March 7, 2018.
Discusses modest fund shareholder response to February 2018 market volatility, citing among other reasons that fund investors have long-term horizons. (A figure shows that 75 percent of mutual fund investors cite retirement as their primary reason for saving.)

Pointing Fingers at Index Funds Won't Explain Market Volatility, February 14, 2018.
Shows that net redemptions to domestic equity ETFs were only 1 percent of assets under management and represented only 1 percent of trading in underlying stocks. Shows that markets were volatile for decades before index mutual funds or ETFs were sizable, indicating that it is wrong to blame those products for February 2018 market volatility. (Key chart shows that rise in VIX is associated with macroeconomic events.)

Applying Evidence to Theories on Regulated Funds, October 12, 2017.
Notes that FSOC appears to be putting greater weight on evidence and less on conjecture in determining whether nonbank financial institutions could pose financial stability concerns. (A graph shows that outflows from US equity mutual funds are modest, even during market turmoil.)

Simulating a Crisis, August 15, 2017.
Details how simulations indicating that funds could pose systemic risks depend critically on assumptions, not data. (A figure shows that net flows to European-domiciled corporate bond funds are modest when measured appropriately.)

What's the "Exposure" of Money Market Funds to Europe? January 26, 2017.
Shows that money market funds now hold nearly 90 percent of their assets in government securities or repurchase agreements backed by government securities, making them more resilient to shocks.

Mutual Funds and ETFs' Share of the Corporate Bond Market: What's the Right Answer? January 19, 2017.
Shows that mutual funds and ETFs held only 18 percent of the corporate bond market, far less than sometimes suggested. (A figure shows that corporate bond funds hold almost 40 percent of their assets in government securities.)

The Taper Tantrum—Take II, December 16, 2017.
Summarizes ICI's projections for what might happen to bond fund flows if interest rates rise sharply, as during the bond market "Taper Tantrum" of 2013. (Key chart shows minimal impact on bond markets from potential outflows from bond funds.)

Four-part series | Matching Models to Reality:

- Doomsayers Are Disappointed—Again—as Funds Weather Brexit Shock, July 13, 2016
- The Real-World Challenges to Regulators' "First-Mover" Hypothesis, July 14, 2016
- In a Falling Market, the Real "Movers" May Be...the Buyers, July 15, 2016
- Bond Market Investors Don't Follow the "First-Mover" Script, July 18, 2016

This series uses hard evidence to counter the hypothesis that regulated funds pose financial stability concerns. The series underscores that this hypothesis doesn't fit the facts and that systemic risk regulators have supported the hypothesis with assumptions and conjecture, rather than with data.

The Liquidity Provided by ETFs Is No Mirage, June 20, 2016.
Discusses that ETFs provide liquidity, rather than soaking it up, as speculated in a June 15, 2016, press report.

Yes, Funds Come and Go—Without Government Help, March 11, 2016.
Discusses that funds mutual funds do not "fail" like banks do and that hundreds of mutual funds and dozens of fund managers exit the business each year without government intervention or taxpayer assistance. (Chart shows number of mutual funds leaving and entering the industry, 2005–2015.)

Three-part series:

- New Research by New York Fed Confirms: Bond Funds Don't Pose Systemic Risks, February 23, 2016
- Models vs. the Real World—Why Bond Funds Aren't the Bond Market, February 25, 2016
- The "Waterfall Theory" of Liquidity Management Doesn't Hold Water, March 9, 2016

This series critiques a simulation study by economists at the New York Federal Reserve, which seeks to assess the spillover effects on the corporate bond market if high-yield funds see outflows far greater than those seen in history. This series shows that the estimated effects are too small to be economically significant and explains that funds are a small part of the high-yield market, hold and manage liquid assets to meet redemptions, and manage their portfolios in light of customer behavior. (One key chart shows that high-yield mutual funds account for only 10 percent of trading in high-yield bonds.)

MetLife Case Shows That "Assuming the Worst of the Worst of the Worst" Doesn't Work, February 24, 2016.
Discusses systemic risk regulators' unreasonable tenet that "if you can imagine that a systemic event might happen, then you must assume that it will happen—and regulate accordingly."

Derivatives—Please Don't Let Them Be Misunderstood, February 22, 2016.
Corrects a misimpression in an International Monetary Fund blog that funds use derivatives primarily to speculate. Shows that for many bond funds, derivatives reduce volatility. (Key chart shows that bond funds that use derivatives the most have returns that are less volatile than those of the bond market itself.)

Liquidity Risk Management Must Be Done Right, January 15, 2016.
Summarizes ICI's comment letters to the SEC on its liquidity risk management rule. Offers ICI support for a rule, but notes the proposed rule's highly prescriptive elements, which do not comport with sound risk management practices.

How the SEC's Six-Bucket Approach Could Provide a False Picture of Liquidity, January 14, 2016.
Summarizes ICI Research Department comment letter on the Securities and Exchange Commission's proposed liquidity rule, showing that the rule would mechanically classify fund portfolio holdings into various liquidity buckets, creating potentially false or misleading signals about a fund's liquidity. This raises the possibility that a liquidity bucket approach could amplify and compound liquidity risks in financial markets. (A figure shows that the SEC's approach would likely classify mid- to large-sized index funds as highly illiquid.)

The SEC's Liquidity Proposal: Good Goals, Unintended Consequences, January 13, 2016.
Details potential unintended consequences of the prescriptive elements of the Securities and Exchange Commission's liquidity proposal, including lowering market liquidity and increasing systemic risk, thus exacerbating the very issues it was created to address.

High-Yield Bond Mutual Fund Flows: An Update, December 23, 2015.
Updates December 16 *Viewpoints* with subsequent data on outflows from high-yield bond mutual fund flows during a time of market turmoil.

High-Yield Bond ETFs: A Source of Liquidity, December 22, 2015.
Finds that exchange-traded funds added substantial liquidity to the high-yield bond market at the height of recent market turmoil, refuting hypothesis that bond ETFs would add to instability. Secondary market trading of bond ETFs relieved pressure on trading in the high-yield bond market by providing an alternative mechanism for investors to adjust exposure to high-yield debt. (Key chart shows that secondary market trading in high-yield bond ETFs added an additional 26 percent in liquidity in the high-yield bond market.)

High-Yield Bond Mutual Fund Flows: Some Perspective, December 16, 2015.
Examines turmoil in the high-yield credit market using a new data series on mutual fund flows, and finds that recent flows in high-yield bond mutual funds are not unprecedented; that individual high-yield mutual funds can experience outflows that are much larger than average; and that individual high-yield mutual funds have weathered periods of outflows without posing challenges to financial stability. (Key chart shows that some high-yield funds see inflows even as others have outflows in times of market turmoil.)

The First Move: MSRB Issues a Proposal for Shortened Settlement Cycle, December 8, 2015.
Details progress toward moving US securities markets to a shortened settlement cycle—from the current standard of trade date plus three business days (T+3) to T+2—a voluntary industry initiative designed to reduce operational, counterparty, and liquidity risks.

Traders, Start Your Engines: After August 24, Exchanges Need to Coordinate, November 30, 2015.
Calls on securities exchanges to address a lack of harmonization in rules for reopening trading after "limit up–limit down" trading halts, a problem that caused extraordinary volatility in US equity markets on August 24, 2015. Explains that exchange leaders concluded that flaws in the trading rules for US equity markets, rather than the design of exchange-traded products, were responsible for the wild ride.

US Bond ETFs Resilient on August 24, November 20, 2015.
Refutes hypothesis by Bank of England that turmoil in the equity markets on August 24, 2015, spilled over to US bond ETFs. Key charts show that average discount on US bond ETFs remained in a narrow range throughout the day and the magnitude of the discount was consistent with that observed on the trading days immediately prior to and after August 24, 2015.

The *Wall Street Journal*'s Dangerous Disservice to Investors, September 22, 2015.
Criticizes the *Wall Street Journal*'s self-invented measure of mutual fund "liquidity"—a measure that no regulator has endorsed and no informed market participant would credit.

New York Times Paints False Picture of Funds' Emerging Market Investments, August 24, 2015.
Responds to a *New York Times* story containing myths and falsehoods about mutual funds, the behavior of their investors, and investment in emerging markets.

Ignore the IMF's Uninformed Call for a Third Round of Reforms to US Money Market Funds, July 23, 2015.
Points out that the International Monetary Fund offers no credible evidence to back up its recommendation that all US money market funds should be required to "float" their value. Notes that money market funds were comprehensively reformed in 2010 and 2014.

ICI Welcomes IOSCO's Call to Focus on Products and Activities in Asset Management, June 17, 2015.
Strongly commends the Board of the International Organization of Securities Commissions (IOSCO) for a communiqué concluding that regulatory efforts to address systemic risk should focus on activities and products in the asset management sector.

How SIFI Designation Could Undermine Fund Governance: Parsing the Fed's Proposal for GE Capital, June 16, 2015.
Details the Federal Reserve's proposal for "a remarkable intrusion" into the governance of GE Capital and its parent, General Electric Corporation, and how similar measures could undermine mutual fund governance if applied to a fund designated as a systemically important financial institution (SIFI).

Four-part series | The IMF on Asset Management:

» The Perils of Inexperience, May 28, 2015
» Which Herd to Follow? June 1, 2015
» Sorting the Retail and Institutional Investor "Herds," June 4, 2015
» Handle Empirical Results with Care, July 15, 2015

Rebuts claims by the International Monetary Fund in its April 2015 *Global Financial Stability Report* that funds pose systemic risks. Shows that the IMF report contains numerous data errors, misinterpretations, and misleading charts—issues that arise because the IMF lacks expertise in regulated funds.

Opinion: The Tax Threat to Your Mutual Fund, May 7, 2015.
Details "an open letter to all mutual fund investors" by Vanguard Chairman and CEO Bill McNabb in the *Wall Street Journal*, warning that fund investors face a clear threat of higher costs, weaker returns, and a bailout tax for failing financial institutions if regulators get their way in imposing new rules on funds or their managers.

The IMF Quietly Changes Its Data, but Not Its Views, April 21, 2015.
Notes that the International Monetary Fund quietly revised erroneous data in its April 2015 *Global Financial Stability Report*. Yet even though the revised data clearly no longer support the IMF's claim that bond funds and their investors have rushed into emerging markets, the agency did not update its analysis or policy recommendations.

More Unfounded Speculation on Bond ETFs and Financial Stability, April 13, 2015.
Refutes unfounded premises in a *Financial Times* article that bond ETFs are financial alchemy and offer an "illusion" of liquidity. ETFs are just the latest in a long line of financial instruments created to provide greater liquidity than their underlying assets. Research shows that most activity in bond ETFs does not create transactions in underlying bonds, and that claims that ETF investors will "move en masse, and quickly," were tested—and disproven—during the summer of 2013.

The IMF Is Entitled to Its Opinion, but Not to Its Own Facts, April 10, 2015.
Offers first response to the International Monetary Fund's *Global Financial Stability Report* and its treatment of asset management. The IMF's figures overstate by a wide margin both the level and growth in the emerging market bonds held by regulated funds domiciled outside of emerging market economies. And the overall message of risk posed by emerging market funds is also inflated.

Designation's Vast Reach into Investor Portfolios, March 24, 2015.
Summarizes testimony by ICI President and CEO Paul Schott Stevens before the Senate Committee on Banking, Housing, and Urban Affairs about the Financial Stability Oversight Council's process for designating nonbank firms as systemically important financial institutions (SIFIs).

Once Again, Information Moves Markets, March 18, 2015.
Demonstrates that sharp positive moves in stock and bond markets resulted from that day's release of Federal Open Market Committee minutes suggesting that the committee would be unlikely to raise interest rates at its upcoming meeting. Fund investors couldn't have caused the moves because they occurred two hours before the 4:00 p.m. deadline for fund trading.

Does Liquidity in ETFs Depend Solely on Authorized Participants? March 16, 2015.
Shows, based on results of a special ICI survey, that for most ETFs there are many authorized participants (APs) to keep the primary market in ETF shares running smoothly. In addition, results show that there are a host of entities, besides APs, that provide liquidity in secondary market trading of ETF shares.

Simple Answers to the Federal Reserve's Quandaries, February 24, 2015.
Offers evidence to rebut concerns in the Federal Reserve's *Monetary Policy Report* that "the growth of bond mutual funds and exchange-traded funds…heightens the potential for a forced sale in the underlying markets." Notes that the Fed keeps returning to its hypothetical scenarios without providing any analysis or evidence of why it clings to them.

Four-part series | Why Long-Term Fund Flows Aren't a Systemic Risk:

» Past Is Prologue, February 18, 2015
» Plus Ça Change, Plus C'est La Même Chose, February 19, 2015
» Understanding the Data on Institutional and Retail Investors, February 20, 2015
» Multi-Sector Review Shows the Same Result, March 4, 2015

Details the institutional, regulatory, and investor reasons why regulated equity and bond funds do not suffer "runs" or cause "fire sales" in underlying assets. (Charts for eight categories of funds show that outflows are consistently modest even during periods of stress in the financial markets.)

Plenty of Players Provide Liquidity for ETFs, December 2, 2014.
Clears up some common misperceptions regarding authorized participants (APs), market makers, and secondary market trading in bond exchange-traded fund shares. The vast majority of trading activity in bond ETFs occurs in the secondary market—and these trades can be accomplished without any intermediation by APs. Experience indicates that secondary market liquidity in bond ETFs will not evaporate in the aftermath of a shock.

The IMF Makes All of OFR's Mistakes—And More, October 10, 2014.
Criticizes the International Monetary Fund's latest *Global Financial Stability Report*, which bears more than a passing resemblance to *Asset Management and Financial Stability*, published by the US Treasury Department's Office of Financial Research (OFR) in September 2013. The IMF report suffers from unsubstantiated assertions and unproven speculations about "risks" that are not backed by historical experience. It contains broad generalizations, mischaracterizations, or misimpressions regarding facts and data.

Bloomberg Ignores the Evidence on Bond ETFs, September 26, 2014.
Responds to Bloomberg article on bond exchange-traded fund trading, noting that debates over financial stability need to be informed by data and research. ICI's empirical research shows that the vast majority of ETF market activity does not trigger activity in the underlying markets—contrary to the story's assertion that every bond ETF trade requires someone to buy or sell bonds.

Why Regulated Funds Are a Relatively Stable Source of Foreign Investment for Emerging Economies, September 26, 2014.
Provides data and analysis to demonstrate that regulated funds provide a sizable and relatively stable source of foreign financing for emerging market countries.

Four-part series | Securities Lending by Mutual Funds, ETFs, and Closed-End Funds:

» The Basics, September 15, 2014
» The Market, September 16, 2014
» Regulators' Concerns, September 17, 2014
» Are the Risks Systemic? September 18, 2014

Responds to regulators' concerns that securities lending could create systemic risk by explaining how regulated funds use securities lending, how the practice is regulated, and why the conservative approach employed by US-regulated funds simply does not pose a threat to financial stability.

A Look Inside ETFs and ETF Trading, September 23, 2014.
Shows that investors in the primary market for exchange-traded funds—where authorized participants (APs) place orders to create and redeem shares—account for less than 10 percent of daily ETF market activity and involve less than 0.5 percent of the industry's $1.8 trillion in assets. The other 90 percent takes place in the secondary market, where investors trade existing ETF shares with each other on exchanges and other venues.

"Preemptive Runs" and Money Market Fund Gates and Fees: Theory Meets Practice, August 20, 2014.
Shows that actual experience with redemption gates and fees on various types of regulated funds does not support speculation by Federal Reserve economists that gates and fees will cause "preemptive runs" on money market funds.

Sizing Up Mutual Fund and ETF Investment in Emerging Markets, August 18, 2014.
Finds that regulated funds' participation in the stock and bond markets of emerging market countries, while markedly increased in recent years, remains a relatively small share of the total markets in those countries. That suggests that any concerns about funds' increased presence in emerging markets could be overemphasized.

Living Wills and an Orderly Resolution Mechanism? A Poor Fit for Mutual Funds and Their Managers, August 12, 2014.
Notes that funds do not "fail" in the way that banks do, rendering such banking measures as living wills and orderly resolution mechanisms unnecessary for mutual funds and the firms that sponsor or manage them. ICI analysis shows that funds and fund managers exit the business routinely, in an orderly way, aided by the structure and regulation of funds, along with the competitive dynamics of the fund industry.

Across the Universe: Seeing the Whole Picture in the Systemic Risk Debate, July 30, 2014.
Draws parallels between astrophysics and finance: the regulated fund industry, which makes up about 15 percent of the financial universe, is, by virtue of its transparency and success, comparable to the 15 percent of the matter in the universe that is observable. Just as scientists cannot ignore the remaining "dark matter," financial regulators must look beyond the easily observed fund industry in their search for systemic risk.

The Real Lessons to Be Learned from 1994's Bond Market, July 29, 2014.
States that bond mutual funds hold 11 percent of US corporate debt, far less than the 19.4 percent estimated by the *Wall Street Journal*. Contrary to the newspaper's assertion, the 1994 bond market experience offers a prime example of the fact that mutual fund investors do not panic or redeem heavily, even in periods of market turmoil. (Chart shows bond mutual funds' small share of the bond market.)

“The Age of Asset Management”—Less Risk, Not More, July 24, 2014.
Responds to a speech by Andrew Haldane, chief economist at the Bank of England, by pointing out that Haldane, like others, fails to make the crucial distinction between investment and systemic risks. Moving investment risk out of highly leveraged banks to other financial market participants—notably, to asset managers—may actually reduce systemic risk.

Former ICI President Matt Fink Decries FSOC’s “Revisionist History,” May 30, 2014.
Highlights arguments by former ICI president Matt Fink that large stock and bond mutual funds are not prone to “runs,” a key issue in the Financial Stability Oversight Council’s examination of asset managers and financial stability.

Errors of the Times: Getting the FSOC Debate All Wrong, May 23, 2014.
Responds to a *New York Times* column on the House Financial Services Committee hearing and the broader debate around the FSOC’s review of asset management.

“Market Tantrums” and Mutual Funds: A Second Look, May 19, 2014.
Responds to an academic paper claiming to find new evidence of feedback from bond fund flows to bond market returns and “highlight(ing) unlevered investors as the locus of potential financial stability.” Concludes that the paper fails to meet the very highest standard for statistical quality and that its reported findings appear to be considerably weaker than the broad assertions drawn from them.

Seven-part series:

- SIFI Designation for Funds: Unnecessary and Harmful, May 8, 2014
- Size Itself Doesn’t Matter—Leverage Does, May 9, 2014
- The Market Crash That Never Came, May 12, 2014
- Who Are the FSB 14? May 13, 2014
- How SIFI Designation Could Lead to a New Taxpayer Bailout, May 14, 2014
- Overseas Overreach, May 15, 2014
- For Concerns About Risk, a Better Way Forward, May 16, 2014

Provides a comprehensive look at the reasons why regulated funds do not pose risks to financial stability; discusses the role of central banks and global regulatory bodies in targeting large US-regulated funds; warns of the consequences for funds, investors, and taxpayers of designating funds as systemically important financial institutions (SIFIs); offers a better course for regulation: addressing specific activities and practices that pose demonstrable risk.

ICYMI: “The Feds Target Money Managers,” May 7, 2014.
Summarizes an editorial in the *Wall Street Journal*, “The Feds Target Money Managers,” that makes the case against treating asset managers as systemically important financial institutions (SIFIs) and subjecting them to bank-style regulation. The *Journal* notes that mutual funds and their managers are fundamentally different from the leveraged banks at the center of the financial crisis.

ICI Statement: FSOC Seeking “Pretexts” to Designate Funds, April 24, 2014.
Reports an ICI statement in response to press stories that the Financial Stability Oversight Council is stepping up scrutiny of regulated funds for designation as systemically important financial institutions (SIFI). Statement says that “these reports suggest that the Council is less concerned with serious deliberation about risks to the financial system than it is with finding pretexts to subject regulated funds and their managers to unprecedented Federal Reserve oversight” and warns of the “highly adverse” impact on millions of investors.

ICI Responds to the FSB Consultation on Systemic Risk and Investment Funds, April 8, 2014.
Reports on ICI’s response to the Financial Stability Board’s consultation paper on systemic risk and investment funds. ICI’s comment says that the FSB consultation uses a flawed methodology that focuses on fund size and singles out only 14 funds—all regulated US funds—as candidates for further investigation.

ICI Response to Bank of England Haldane Speech on Asset Management and Potential Risk, April 4, 2014.
Reports ICI President and CEO Paul Schott Stevens's response to a speech by Andrew Haldane, then executive director of the Bank of England. Stevens notes that asset management is not one monolithic industry and that issues raised in the speech, "whatever their merit, are simply not recognizable in the case of US mutual funds."

Why Asset Management Is Not a Source of Systemic Risk, March 17, 2014.
Summarizes a speech by ICI President and CEO Paul Schott Stevens, who warns that regulators' interest in regulating funds and their managers for systemic risk could have consequences well beyond the largest funds and firms identified in reports to date.

Column Makes the Same Mistakes as OFR, January 20, 2014.
Criticizes a flawed *New York Times* column that dismisses regulator statements that "funds contain a specific 'shock absorber'" and that fund liquidations during the global financial crisis did not have systemic impact.