BlackRock, Vanguard Hail Regulatory Shift on Too-Big-to-Fail

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The world's largest asset managers have changed their tune after years spent slamming global regulators for trying to treat them like too-big-to-fail banks.

BlackRock Inc., Vanguard Group Inc. and Fidelity Investments sent letters last week praising the Financial Stability Board, whose **members** include the U.S. Federal Reserve and the Bank of England, for shifting its scrutiny of the industry to specific trading activities rather than the size or systemic importance of firms that manage trillions of dollars in assets.

The companies and their main trade associations, in hundreds of pages of letters, called on the Basel-based FSB to fine-tune potential constraints on how firms assess market stress, to collect more data and to broaden its review to companies that can threaten asset-managers. The FSB's previous proposals could have led to the sort of stricter oversight and even capital requirements that have been imposed on the world's biggest banks.

"We largely agree with the majority of recommendations, the implementation of which will improve protections for investors and, in turn, strengthen the financial system," Barbara Novick, vice chairman of BlackRock, wrote in a Sept. 21 letter to the FSB. Those comments were echoed by Vanguard and Fidelity, which last year **told** FSB that it was pursuing an "irredeemably flawed" plan that would fail to reduce systemic risk and harm investors.

Lobbying Campaign

"We are pleased that the FSB has shifted its approach," Fidelity executives wrote in a Sept. 21 letter in response to the regulator's **latest proposals** from June. The FSB said that it may still move to designate some asset-management companies as systemically important after it concludes its present work.

The comments show how the industry's lobbying campaign and regulatory oversight have entered a new phase focused on managers' policies for monitoring liquidity, leverage and risks to their operations from external companies like derivatives clearinghouses. The FSB and U.S. regulators have said additional restrictions are necessary to ensure the asset management industry, which grew to $76 trillion in 2014 from $50 trillion a decade earlier, is resilient to stress in financial markets and increasingly complex products.

The FSB will review the responses to its June proposals and complete recommendations for new regulations by the end of the year. National regulators, some of whom have already pitched new rules, would then pursue potential restrictions.

While they expressed support for many of the policies, the companies joined the Investment Company Institute and asset-management arm of the Securities Industry and Financial Markets Association in rejecting regulators' assertion that mutual funds could stoke panic in markets by fire-sales of securities at steep discounts to meet investor redemptions. The FSB **said** in June that extra oversight is necessary because funds may "amplify market stress" by rushing to sell assets to meet unanticipated or large demands from clients.

Fidelity faulted the FSB for relying on "conjecture" and speculation rather than research in its proposal.

“Vague terms unaccompanied by empirical evidence simply do not establish the necessary framework to determine whether asset management activities contribute to global systemic risk or to design effective and efficient policies to mitigate such a risk,” Fidelity said.

BlackRock and Vanguard said managers are best placed to oversee and test liquidity in funds and shouldn’t face regulatory requirements to use specific tools. The companies opposed system-wide stress-testing, arguing that there are too many different types of funds for the tests to be valuable.

The companies also urged regulators to broaden their review of potential risks they face from clearinghouses and payments systems. Some also called for the inclusion of other asset-managers including pensions and sovereign-wealth funds.