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Geithner: FSOC Will Bring Clarity to the Designation of 'SIFIs'

By Rachel McTague

The Financial Stability Oversight Council (FSOC) will bring “as much clarity as possible” as soon as it can to its designation of systemically important financial institutions (SIFIs) under the Dodd-Frank financial reform law, said Treasury Secretary Timothy Geithner at a policy forum, part of ICI’s 53rd General Membership Meeting in Washington, DC.

In a question and answer session with ICI President and CEO Paul Schott Stevens, Geithner emphasized that the SIFI designation process is designed to ensure that constraints on leverage that apply to banks also apply to institutions engaged in fundamentally similar activities. He suggested that the regime put in place will not be “something you can lock in and never change, because institutions will adapt.” Geithner did not address specifically the FSOC’s potential treatment of mutual funds, including money market funds.

Asked by Stevens about how to preserve the benefits of money market funds to investors and the economy while improving the management of risks they may raise in the very worst market conditions, Geithner said the question was framed well. He responded that Securities and Exchange Commission Chairman Mary Schapiro, whose agency is now considering options for further money market fund regulation, is “doing a nice job” of thinking through the issue. “We’re not going to rush agreement where we’re not sure we have a good balance,” Geithner said.

As for concerns that changes to money market funds will divert flows into less-regulated alternatives, the Treasury Secretary acknowledged that it is “important to set checks and balances that don’t simply shift the risks somewhere else.”

Geithner and Stevens closed their colloquy with words of advice for younger Americans. The Treasury Secretary urged them to consider public service and to explore the world. “Make sure you try to understand the basics of economics and finance,” he added. “It’s critical to everything.”

Rachel McTague is a director in ICI’s media relations department.
