INVESTMENT COMPANY INSTITUTE®

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The Honorable Jeb Hensarling
Chairman, Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member, Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Hensarling and Ranking Member Waters:

I am writing on behalf of the Investment Company Institute[*] to express support for H.R. 1550, the Financial Stability Oversight Council (FSOC) Improvement Act introduced by Congressmen Dennis Ross (R-FL) and John Delaney (D-MD). H.R. 1550 is cosponsored by 44 members equally split between Republicans and Democrats, 31 of whom sit on the House Financial Services Committee.

FSOC's goal should be to reduce systemic risk, not to designate additional nonbank financial companies as systemically important financial institutions ("SIFIs") for the Federal Reserve to regulate. Unfortunately, under current law the primary tool FSOC has to address systemic risk is SIFI designation. H.R. 1550 makes the FSOC nonbank SIFI designation process more accountable and transparent, and ensures that a SIFI designation is only used when systemic risk cannot be addressed more effectively by an entity's primary regulator or by an action of the entity itself.

H.R. 1550, the FSOC Improvement Act:

1. Codifies into law "supplemental procedures" that FSOC adopted earlier this year to provide more transparency to its nonbank SIFI designation process. While we appreciate that FSOC adopted these provisions, incorporating them in H.R. 1550 prevents FSOC from changing them at any time, and without public input, as currently could happen.

2. Requires FSOC to identify the reasons it believes an entity poses systemic risk.

3. Encourages de-risking prior to SIFI designation.
    - The bill allows an entity's primary regulator to address identified systemic risk broadly rather than simply designating an individual entity. An entity's primary regulator is often better positioned than FSOC to address the identified risks. Primary regulators generally have particular expertise and unique additional regulatory tools not available to FSOC and can address risks on an industry wide basis if necessary. Such action can have a greater risk mitigation impact than SIFI designation.

[*] The Investment Company Institute (ICI) is a leading, global association of regulated funds, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's U.S. fund members manage total assets of $17.5 trillion and serve more than 90 million U.S. shareholders.

- The legislation also allows an entity that FSOC has proposed to designate as a SIFI the opportunity to make changes to its structure or business practices to address identified systemic risks prior to designation. Allowing an entity the opportunity to change its business model or practices may be the most effective way to address the identified risks.

4. Encourages de-risking after SIFI designation by requiring FSOC to conduct a more robust review process every 5 years. Under H.R. 1550, FSOC would be required to vote on whether to rescind a company's designation every 5 years. At that time, the company would also be allowed to present FSOC with a plan on how it could de-risk and shed its SIFI designation by changing its business structure or practices.

ICI members—mutual funds and other registered investment companies—are the investment vehicles of choice for over 90 million Americans seeking to buy a home, pay for college, or plan for financial security in retirement.

Registered funds and their managers do not pose the types of systemic risks that may exist at other financial institutions. Registered funds do not fail like other financial institutions do—investment losses are absorbed by fund investors, so there's no need for a government bailout. Unlike other financial institutions, fund managers act as agents. Fund investors—not fund managers—bear the risks of any portfolio losses, or the benefits of any gains. By statute, registered funds use little to no leverage.

The consequences of designation—i.e., bank-style capital requirements and prudential supervision by the Federal Reserve—not only are unnecessary, but are altogether inappropriate in the case of registered funds and their managers. SIFI designation for registered funds and their managers would result in significant costs for investors and reduce their investment returns, harming retirement savers. In addition it would distort the fund marketplace as some funds or managers are designated while others engaging in the exact same practices are not, and impede the important role that funds play as a vital source of funding in our capital markets.

We believe that H.R. 1550 is a reasonable, bipartisan approach that enhances the ability of FSOC to mitigate systemic risk and ensures that nonbank SIFI designations are reserved for the limited cases where Federal Reserve oversight is more appropriate for addressing identified systemic risk than alternative regulatory tools or action by the entity.

We urge you to vote for H.R. 1550. Thank you for consideration of our views.

With very best regards.

Sincerely,

Paul Schott Stevens
President & CEO
Investment Company Institute

cc: Members of the House Financial Services Committee