

ICI VIEWPOINTS

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ICYMI: "The Feds Target Money Managers"

By Mike McNamee

Yesterday's editorial in the *Wall Street Journal*, "[The Feds Target Money Managers](#)," neatly summed up the case against treating asset managers as systemically important financial institutions (SIFIs) and subjecting them to bank-style regulation.

As the *Journal* notes, mutual funds and their managers are fundamentally different from the leveraged banks at the center of the financial crisis and post-crisis reforms. "Mutual funds have to put client assets in exactly the instruments in which they've promised to invest. Brokerages have to keep client cash in paper issued by the government. Banks, on the other hand, are allowed to take depositors' money—with Uncle Sam guaranteeing its return—and then lever it up and lend it out to dry cleaners, restaurants, condo developers and all manner of other ventures at home and abroad.

"While banks maintain thin levels of capital, mutual funds are hardly allowed to use any leverage at all. They have to maintain \$3 of assets for every dollar of cash they borrow."

And those assets are walled off from the fund adviser: "The firms don't even hold the clients' money—custodians do that—and the asset managers have no claim on client funds." That's why, the *Journal* notes, asset managers don't even meet the basic test for SIFI designation—\$50 billion in assets—"unless you count assets that don't belong to them."

Financial regulation has long recognized these distinctions, as the *Journal* points out: "Bank regulation has traditionally been much more onerous—albeit less effective—than securities regulation because banks are able to do much more dangerous things with customer money."

SIFI designation would apply those onerous bank-like regulations to funds—an unnecessary move that would change the fundamental nature of funds, raise their costs, and potentially put fund shareholders in line to pay for future bailouts of riskier financial institutions. That's not a result that 90 million fund shareholders saving for retirement and other financial goals should accept.

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