

[Securities Regulation Daily Wrap Up, INTERNATIONAL NEWS—FSB makes suggestions to address asset management threats, \(Jun. 22, 2016\)](#)

Securities Regulation Daily Wrap Up

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The Financial Stability Board has published for public comment 14 proposed policy recommendations to address vulnerabilities from asset management activities that could present financial stability risks. According to the FSB, the main threats include liquidity mismatch, use of leverage, operational risk and challenges, and securities lending activities. The FSB recommends that authorities reevaluate existing requirements and consider enhancements to items including disclosures, stress testing, and leverage limits to ensure that investors are protected.

In its [Proposed Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities](#), the FSB notes that issues associated with liquidity mismatch and leverage are key vulnerabilities for many funds while operational risks tend to involve large, complex asset managers. Asset management activities have increased significantly over the past decade, according to the FSB, and the recommendations are designed to provide authorities and asset management entities with the tools necessary to detect and respond to identified risks.

Liquidity mismatch. To address potential mismatch between fund investments and redemption terms and conditions, the FSB recommends that authorities collect information on the liquidity profile of open-ended funds proportionate to the risks they may pose and review existing reporting and disclosure requirements, enhancing them as appropriate to ensure sufficient quality. In addition, according to the FSB, authorities should have rules in place or issue guidance stating that funds' assets and strategies should be consistent with the terms and conditions governing redemptions and should broaden the availability of liquidity risk management tools to increase the likelihood that redemptions are met and to reduce first-mover advantage. Authorities should also consider requiring stress testing to support liquidity risk management and mitigate risk, the FSB stated.

Leverage, operational risk, lending. Noting that funds' use of leverage is another potentially important vulnerability in the asset management industry and that consistent and accessible data on leverage is lacking, the FSB recommended that the International Organization of Securities Commissions develop simple, consistent measures of fund leverage in funds and collect additional information on it to assist authorities in understanding and monitoring leverage risks. In addition, according to the FSB, to address operational risk in transferring investment mandates or client accounts, authorities should have requirements or guidance for large, complex asset managers to have comprehensive risk management frameworks and practices. Authorities should also monitor indemnifications provided by agent lenders to clients in relation to their securities lending activities and confirm that asset managers adequately cover potential losses, the FSB concluded.

Comments. In a [press release](#), FSB Chair Mark Carney said: "Given its increased importance, a resilient asset management sector is vital to finance strong, sustainable and balanced growth. These policy recommendations are designed to ensure that across the FSB membership asset managers can continue to fulfil these roles to the benefit of all." Comments on the recommendation should be submitted by September 21, 2016.

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