



Practitioners' Post-Crisis Perspectives on the Utility of International Financial Regulation and Supervision

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The opinions expressed are as of March 2017 and may change as subsequent conditions vary.



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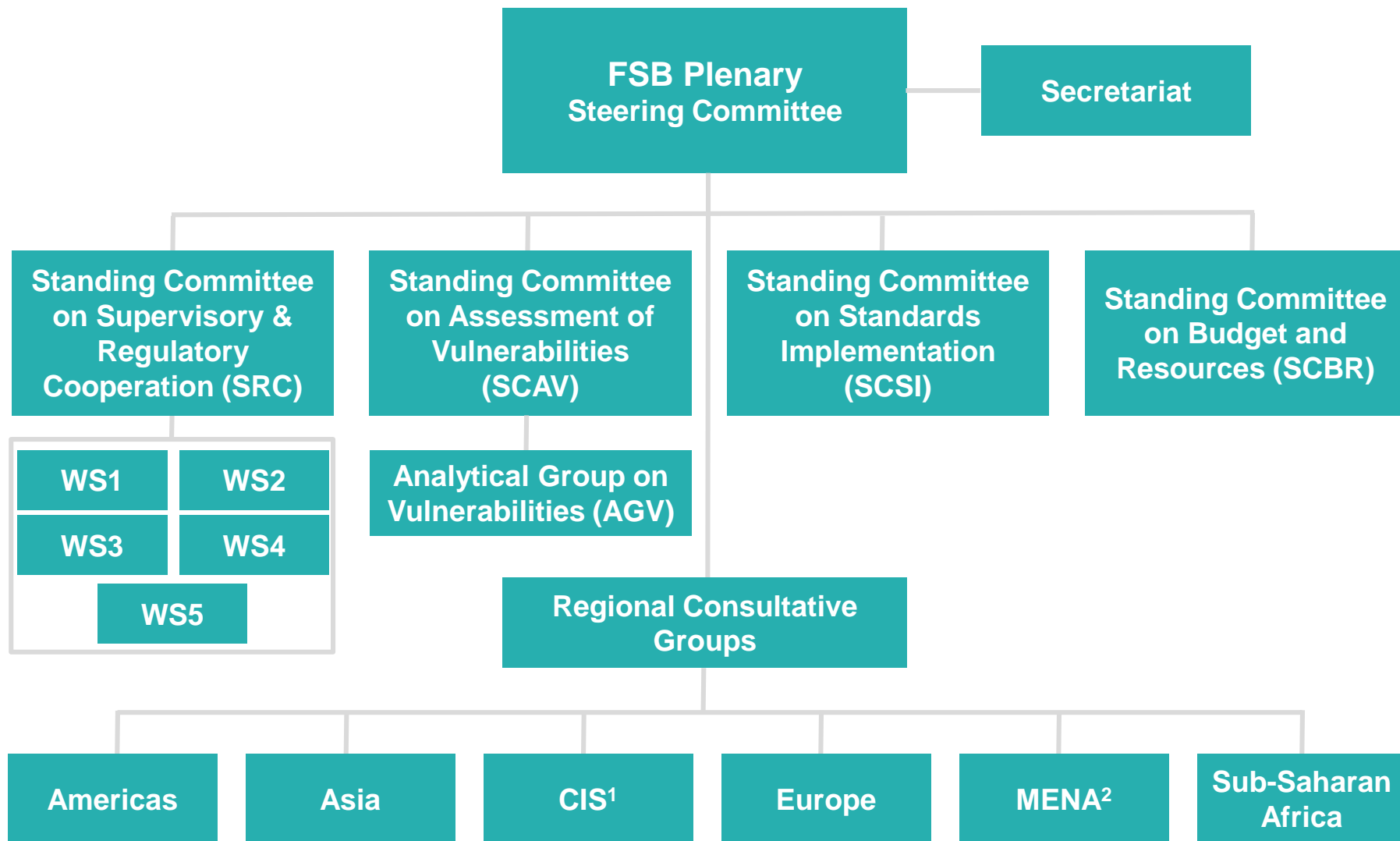
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Global Standard Setting Bodies Recognized by the Financial Stability Board (FSB)

BCBS	Basel Committee on Banking Supervision
CGFS	Committee on the Global Financial System
CPMI	Committee on Payments and Market Infrastructure
FATF	Financial Action Task Force on Money Laundering
FSB	Financial Stability Board
IADI	International Association of Deposit Insurers
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IAASB	International Auditing and Assurance Standards Board
IMF	International Monetary Fund
IOPS	International Organization of Pension Supervisors
IOSCO	International Organization of Securities Commissions
JF	Joint Forum, includes BCBS, IOSCO, and IAIS
OECD	Organization for Economic Cooperation and Development
WB	World Bank

Source: FSB, Standard-Setting Bodies in the Compendium, available at <http://www.fsb.org/what-we-do/about-the-compendium-of-standards/wssb/>. Accessed Mar. 13, 2017.

FSB Organization



WS = Work stream. Source: FSB, Organization Chart (Sep. 2016), available at <http://www.fsb.org/wp-content/uploads/FSB-Organisation-Chart-as-of-21-Apr-2015.pdf>; FSB Consultative Document, Strengthening Oversight and Regulation of Shadow Banking (Nov. 2012), available at http://www.fsb.org/wp-content/uploads/r_121118.pdf?page_moved=1.

1) Commonwealth of Independent States, 2) Middle East and North Africa.

FSB's Initiatives in Asset Management

Standing Committee on Supervisory & Regulatory Cooperation (SRC)

Workstream 3: Other Shadow Banking Entities

- Jan. 2014 – 1st Consultation on Assessment Methodologies for Identifying NBNI G-SIFIs
- Mar. 2015 – 2nd Consultation on Assessment Methodologies for Identifying NBNI G-SIFIs
- Jun. 2016 – Policy Recommendations to Address Structural Vulnerabilities from Asset Management
- Jan. 2017 – Final Policy Recommendations for Asset Management Activities

Standing Committee on Assessment of Vulnerabilities (SCAV)

SCAV focuses on macro financial related vulnerabilities and risks:

- Shadow banking
- Macroprudential frameworks and tools, including stress tests
- CCP resilience and resolution
- Market liquidity risks

Source: FSB. See <http://www.fsb.org/> for more information. Accessed Mar. 13, 2017.

Size is NOT the Key Determinant of Risk

Largest Asset Managers by AUM	AUM (\$ millions)
BlackRock	\$4,645,412
Vanguard Group	\$3,398,795
State Street Global Advisors	\$2,244,816
Fidelity Investments	\$2,035,658
J.P. Morgan Asset Management	\$1,722,503
BNY Mellon Investment Management	\$1,624,654
Capital Group	\$1,390,432
Goldman Sachs	\$1,252,000
Prudential Financial	\$1,183,673
Legal & General Investment Management	\$1,099,765

Pensions & Investments (P&I). As of Dec. 31, 2015.

Sponsors of Largest Funds (alphabetical order)
BlackRock
Dodge & Cox
DoubleLine Funds
Fidelity Investments
Franklin Templeton Investments
Pacific Investment Management Co.
State Street Global Advisors
TCW Group
Capital Group
Vanguard Group

Strategic Insight. Alphabetical list of the sponsors of the largest funds by AUM. Includes all funds excluding money market funds. As of Dec. 31, 2016.

Should We or Shouldn't We?

“Despite the clear message delivered by President Donald Trump in prioritizing America’s interest in international negotiations, it appears that the Federal Reserve continues negotiating international regulatory standards for financial institutions among global bureaucrats in foreign lands without transparency, accountability, or the authority to do so. This is unacceptable.”

– Patrick McHenry, Vice Chairman, Financial Services Committee,
Letter to Janet Yellen, Chair, Federal Reserve, Jan. 31, 2017

“By participating in the development of international regulatory standards, the Federal Reserve can influence the standards in ways that promote the financial stability of the United States and the competitiveness of U.S. firms...Strong global standards also enhance the competitiveness of internationally active U.S. banking firms by creating a more level playing field for all internationally active banking firms.”

– Janet Yellen, Chair, Federal Reserve, Letter responding to Patrick McHenry, Vice Chairman, Financial Services Committee, Feb. 10, 2017

**Policy makers should increase transparency and encourage dialogue
with practitioners.**

Executive Order on Principles for Regulating the US Financial System

- a) Empower Americans to make independent financial decisions and informed choices in the marketplace, save for retirement, and build individual wealth;
- b) Prevent taxpayer-funded bailouts;
- c) Foster economic growth and vibrant financial markets through more rigorous regulatory impact analysis that addresses systemic risk and market failures, such as moral hazard and information asymmetry;
- d) Enable American companies to be competitive with foreign firms in domestic and foreign markets;
- e) Advance American interests in international financial regulatory negotiations and meetings;
- f) Make regulation efficient, effective, and appropriately tailored; and
- g) Restore public accountability within Federal financial regulatory agencies and rationalize the Federal financial regulatory framework.

Source: Presidential Executive Order on Core Principles for Regulating the United States Financial System (Feb. 3, 2017), available at <https://www.whitehouse.gov/the-press-office/2017/02/03/presidential-executive-order-core-principles-regulating-united-states>.

Financial Regulatory Reforms since 2008

Key Pieces of Financial Legislation / Regulation

Basel Accords
Solvency II
Volcker, Vickers, Liikanen
Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
European Market Infrastructure Regulation (EMIR)
Markets in Financial Instruments Directive (MiFID II / MiFIR)
SEC Reform of Money Market Funds (2010 and 2014)
OCC Reforms for Short Term Investment Funds (STIF) in 2012
ESMA Guidelines on Money Market Funds in 2010
ESMA Guidelines on ETFs and other UCITS issues in 2012
Alternative Investment Fund Managers Directive (AIFMD)
SEC Proposals on Reporting and Liquidity Risk Management in 2015

Key Reforms

Bank Capital, Stress Testing & Liquidity Rules

OTC Derivatives Rules

Improved Cash Investing Rules

Private / Alternative Funds Reporting & Registration

Mutual Fund Rules & Reporting

Too Much of a Good Thing?

“Regulatory laboratories have greatly been expanded since the global financial crisis, and even seven years after the crisis they are operating at their full capacity. In fact, I can count some **140 work streams** taking place under the auspices of the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS).

All those work streams have been producing a vast number of new standards or keeping watch over their implementation. Individually each of those rules may make sense, but we have yet to know what effects they may have, collectively and cumulatively, on finance for growth. Too much medicine might make the patient sick rather than healthy.”

– Nobuchika Mori, Commissioner, Japan Financial Services Agency, Speech, “You cannot see the forest for the trees” Nov. 25, 2015

Source: Nobuchika Mori, Commissioner, Japan Financial Services Agency, Speech, You cannot see the forest for the trees (Nov. 25, 2015), available at <http://www.fsa.go.jp/common/conference/danwa/20151125/01.pdf>.

Conclusions

Global standards can reduce regulatory arbitrage.

Harmonization of data reporting would benefit everyone.

The tsunami of regulation already passed is difficult to digest.

The cumulative impact of regulation has not been assessed.

Constructive outcomes require participation and input from practitioners.

Source: BlackRock. As of Mar. 13, 2017.

Important Notes

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