Regulation by Conjecture: Central Bankers’ Push to Regulate Capital Markets

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The FSB’s Second Consultation Is Fundamentally Flawed for Four Reasons

» Places undue emphasis on size
» Adds a methodology for asset managers
» Follows a “foolish consistency” by insisting that methodologies for funds and their managers should be broadly consistent with standards applied to G-SIFI banks and insurers
» Relies on conjecture rather than empirical and historical evidence about regulated funds
Activities-Based Approach Is the Best Way to Address Potential Systemic Risks

» Enables policymakers to comprehensively monitor and analyse activities throughout the entire financial system

» Targeting activities and practices would engage the primary and appropriate regulators that have deep experience and expertise with specific industries and markets
Total Net Bond Fund Flows Are Modest in All Markets—Calm or Troubled

Flows as a percentage of assets; monthly, January 1990–August 2014

In Oct. 2008, 10% of bond funds had inflows of 4% or more.

In Oct. 2008, 10% of bond funds had outflows of 8% or more.

Source: Investment Company Institute
US Equity and Bond Mutual Fund Investors Are Households, Retirement Savers

Household and institutional ownership of US stock and bond mutual funds

- Households: 95%
- Institutional investors: 5%

Retirement account holdings of US stock and bond mutual funds

- Retirement accounts: 53%
- Other investors: 47%

US stock and bond mutual fund assets: $13.1 trillion

*Retirement accounts includes defined contribution plans, e.g., 401(k) plans, as well as IRAs.

Note: Figures report percentage of assets. Data are for December 2014 and exclude assets in exchange-traded funds. Source: Investment Company Institute
How Do Funds Manage Liquidity and Redemptions?

» Funds have many tools to counter first-movers:
  » Mark-to-market pricing and fair valuation requirements
  » Bid-pricing—used by 50% to 60% of mutual funds
  » Redemption fees
  » Offsetting redemptions with new sales
  » Managing market exposure through derivatives
  » Redemptions in kind—standard for ETFs and can be used by mutual funds

» And selling fund shares is not risk-free for investors