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BY ELECTRONIC SUBMISSION

Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090
File Number AM-1

Re: Public Feedback on the Office of Financial Research Study, *Asset Management and Financial Stability*

Dear Commission Staff:

Invesco Ltd. ("Invesco") appreciates the opportunity to provide its comments to the Securities and Exchange Commission ("SEC") on the study, "Asset Management and Financial Stability" ("the study"), published by the Office of Financial Research ("OFR") of the Treasury Department in September 2013. Invesco is a leading independent global investment management firm with over $745 billion in assets under management as of September 30, 2013. Operating in more than 20 countries, Invesco provides a wide range of investment strategies and vehicles to our clients around the world and is listed on the New York Stock Exchange under the symbol "IVZ."

The study was undertaken at the express request of the Financial Stability Oversight Council ("FSOC") in the context of the FSOC's analysis of asset management firms under Section 113 of the Dodd-Frank Act ("Dodd-Frank Act" or "Act"). Section 113 authorizes the FSOC to designate for enhanced prudential supervision, administered by the Federal Reserve Board, a nonbank financial company whose activities or material financial distress could pose a threat to the financial stability of the United States – a company sometimes referred to as a systemically important financial institution or "SIFI." This section of the Act also sets forth standards for the FSOC to use in designating a nonbank financial company as a SIFI.

Given Invesco's size and other attributes relevant to the designation standards under Section 113, Invesco is extremely unlikely to be designated a SIFI. However, the implications of a possible future designation of any asset manager as a SIFI are very significant to Invesco and to other asset managers. Such a designation could have a material impact on the regulatory regime and nature of competition for the asset management industry. It could also have unknown and unintended long-term consequences given the stark differences between the regulatory approach of Section 113 – which presumptively involves bank-like regulation – and the existing regulatory regime applicable to asset managers and their asset management activities.

The fact that the study was conducted to inform the FSOC's use of its designation authority under Section 113 creates implications that the risks discussed in the study could have major, systemic consequences. In this context, Invesco joins others in the asset management industry in expressing deep concerns that the study: 1) exaggerates risks in the asset management industry; 2) fails to provide appropriate context in which to consider the size or implications of the risks it discusses; 3) ignores the positive historical record of the industry, especially during major financial panics and downturns; and 4) provides no meaningful discussion of the extensive regulatory regime currently applicable to the industry that addresses the particular risks associated with asset management firms.

1. The study exaggerates systemic risks in the asset management industry.

The study in a number of instances provides questionable analysis of the risks associated with asset managers, and it often exaggerates these risks. This letter is not intended to provide a detailed analysis of each instance in which this occurs, but there are two types of issues that stand out and warrant comment. First, after a brief mention, the study glosses over the critical, fundamental difference between an asset manager and those companies – securities firms (such as Bear Stearns and Lehman), banks (such as Washington Mutual and Wachovia), and government-sponsored enterprises (such as Fannie Mae and Freddie Mac) – that failed or were near failure during the most recent financial crisis. In those companies, and other similar companies that became troubled, losses and potential losses were borne by the institutions themselves, leading to a loss of capital and to liquidity problems as counterparties worried about the companies' solvency and their ability to fulfill contractual obligations and continue operations. The fundamental difference is that for asset managers, loss is borne by the investors served by the asset managers, and not by the asset managers themselves. Asset managers' capital is not at risk and therefore not subject to impairment. For example, registered investment companies do not fail through a loss of capital since they hold no "capital"; nor – with the possible exception of money market funds, where concerns are being addressed through recent and pending regulatory action – do such companies have material liquidity issues that differ from the markets as a whole or that could result in concerns on the part of counterparties.

This critical distinction between assets owned and assets managed for others is of such importance that Congress expressly recognized it in the Dodd-Frank Act: one of the factors the FSOC must consider in determining whether a nonbank financial company is a SIFI is "the extent to which assets are managed rather than owned by the company, and the extent to which ownership of assets under management is diffuse."[1]

Perhaps the most serious distortion in the study is its discussion of redeemability. This discussion seems to imply that redeemability is an inherently negative characteristic for financial activities – as it is in the particular context of a run on a bank. In fact, redeemability is a fundamental and beneficial aspect of investing in registered investment companies and similar open-end vehicles that provide daily liquidity. For example, the ability to easily buy and sell (redeem) shares of an open-end investment company is a key feature of this type of financial product that attracts investors and encourages savings. The rules governing redemptions in this context – both legal and contractual – are well tested and have raised few concerns. In the case of a registered investment company, assets are redeemed at market prices that represent fair value at that point in time. Moreover, if for some reason a registered fund has reason to cease operations, that process occurs through an orderly liquidation or merger with another registered fund, and in fact, such liquidations and mergers occur on a regular basis.

Some regulators, the FSOC itself, and some commentators have expressed concern about possible runs on one category of registered investment companies – money market funds (MMFs). MMFs are distinguished from all other types of registered funds in that they do not have a net asset value (NAV) that adjusts, or floats, with the value of the underlying portfolio. This has led to the concern that there can be a "first mover" advantage to redeeming from an MMF, depending on the circumstances. However, the stable NAV, which is an integral part of the structure of, and market for, MMFs, makes this type of investment vehicle fundamentally different from all other types of registered funds. Important MMF reforms were implemented by the SEC in the wake of the financial crisis to address concerns associated with such funds,[2] and further reforms are under consideration and almost certain to be implemented in some form that are expressly designed to mitigate systemic risk.[3] Given this extensive, targeted regulatory focus on MMFs, they should be clearly distinguished from other registered funds discussed in the study.

2. The study fails to provide appropiate context in which to consider the size or implications of the risks it discusses.

The study was undertaken to "inform" the "consideration" by FSOC of asset managers "for enhanced prudential standards and supervision under Section 113 of the Dodd-

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1 Dodd-Frank Act, section 113(a)(2)(F).

2 *See* SEC, Money Market Fund Reform, 75 Fed. Reg. 10059 (Mar. 4, 2010) (amending or adding 17 C.F.R. §§ 270.2a-7, 270.17a-9, 270.22e-3, 270.30b1-6T, 270.30b1-7 & 274.201).

3 *See* SEC Proposed Rule, Money Market Fund Reform; Amendments to Form PF, 78 Fed. Reg. 36834 (June 19, 2013).

Frank Act." The Act provides explicit standards to be used by FSOC in making Section 113 determinations, and FSOC has issued an extensive regulation and guidance on how it will apply those standards.[4] Yet the study at no point references these standards, although it loosely uses some of the same terminology. Because of the explicit linking of the study to Section 113, policymakers and the public could be misled into assuming that all risks discussed in the study are potentially systemic in nature. In reality, the study is a discussion of various types of perceived risks without any meaningful calibration as to the probability of the perceived problems actually occurring, the size of the risk, the systemic impact of the risk, or the extent to which the risk may be mitigated by other factors. It is difficult to understand why the study did not use as a point of reference the very clear statutory standards of Section 113 as further refined in the FSOC's regulation and guidance. If those standards had been referenced, it would have been clear that many, if not all, of the perceived risks in fact do not raise the type of systemic issues contemplated by the Act or considered by the FSOC in designating nonbank financial companies.

During the recent financial crisis, all types of financial institutions were subject to very severe market pressures, and yet there is no evidence that asset management firms – other than with respect to MMFs, discussed above – had significant problems, much less contributed in any material way to the financial crisis or raised systemic issues such as contagion or inter-connectedness. Furthermore, it is noteworthy that Congress, in the hundreds of pages of the Dodd-Frank Act, made few substantive changes to the regulation of asset management companies. This was no oversight: there was nothing in the lengthy record of congressional consideration indicating any material problems with such firms. To the contrary, as discussed above, Congress expressly referenced the need to distinguish between "assets [that] are managed rather than owned." Because the study provides no context, policymakers and the public may well infer magnitudes and implications of risk for the asset management industry that simply do not exist.

3. The study ignores the historical record of the industry, especially during major financial panics and downturns.

The United States, and indeed much of the world, has just experienced a very severe financial crisis – a crisis that tested all sectors of the financial industry. Yet the study makes no real attempt to look at the asset management industry's history during and after the financial crisis. In fact, this history would have been the logical place for the study to start. With the exception of MMFs, discussed above, there is in fact no evidence that asset managers either had significant problems or were a transmitter of financial problems during the crisis. To the contrary, there is clear and convincing evidence that the asset management industry performed well throughout this difficult period.

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[4] *See* FSOC, Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, 77 Fed. Reg. 21637 (Apr. 11, 2012) (adding 12 C.F.R. Part 1310).

Furthermore, there is ample data available – not only from the financial crisis, but also from significant negative financial events such as the 1987 stock market crash, problems with emerging markets in 1997, and the market sell-off after the dot.com bubble – against which to test risk theories espoused in the study.[5] Yet apart from references to MMFs, the study does not, and in fact could not, cite any examples during any of these events of problems of a systemic nature in the asset management industry.

4. The study provides no meaningful discussion of the extensive regulatory regime applicable currently to asset management firms.

While the study does refer at times to aspects of asset management regulation, it does not include a full discussion of the regulatory regime applicable to such activities under the Investment Company Act, other federal securities laws, and related SEC regulations. For example, registered mutual funds are required to value their portfolio holdings on a daily basis based on market values or other fair value, thereby helping to ensure that fund shares are purchased and redeemed at fair prices. Registered mutual funds must maintain sufficient liquidity to cover ordinary redemptions and are limited in their ability to enter into transactions involving leverage. Invesco believes that it is inappropriate to discuss perceived risks of asset management firms or their activities in the absence of a discussion about these and other significant regulatory provisions that are expressly designed to mitigate risk. In this regard, Invesco believes the study would have been more effective and useful had OFR relied especially on the expertise and regulation that the SEC has brought to bear on the asset management industry for over 70 years. Two areas singled out in the study as raising problems – securities lending and repurchase agreements – are currently the subject of specific regulatory efforts designed to address these problems.[6]

Of particular concern is the brief, in fact cryptic, discussion of capital on pages 19 and 20 of the study, especially in the context of the accompanying chart referring to the book value of certain asset managers including Invesco. In our view, this discussion unnecessarily raises concerns about the capital levels of industry participants. As previously discussed, a major problem in the study is its failure to fully recognize the fundamental difference between an institution's ownership of assets and its management of assets owned by third parties. The capital discussion and book value chart simply gloss over that distinction. A primary, although certainly not exclusive, regulatory approach to increasing the safety and soundness of designated non-bank SIFIs could be the imposition of capital requirements comparable to those applicable to banks. There is, however, no evidence that capital inadequacy has been a problem for asset managers, as has clearly been the case for banks and securities firms that own substantial

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[5] *See* Comment Letter from the Investment Company Institute, SEC File No. AM-1, Appendix A (Nov. 1, 2013).

[6] *See, e.g.*, Financial Stability Board, Strengthening Oversight and Regulation of Shadow Banking: Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos (Aug. 29, 2013).

amounts of assets. There is also no developed rationale for using increased capital as a regulatory tool for addressing perceived risks of asset managers. As a result, the assessment of appropriate levels of capital for asset management firms should not be simplistically tied to levels of assets under management as if they were assets owned.

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The asset management industry provides invaluable services to businesses, governments, and individuals. Any designation by the FSOC of an asset manager as a SIFI under Section 113 could have profound implications not only for that individual firm, but also for the entire industry and its customers, as well as for the process for raising capital and investing, which is so necessary for economic growth. Asset managers are fundamentally different from other types of financial firms, and there is nothing in the history of the financial crisis or other recent financial shocks that would justify designating any such company as a SIFI. Unfortunately, the OFR study does not provide a sound analytical basis for FSOC consideration of asset managers under Section 113. It also raises needless, and, in some cases, harmful and misleading concerns about perceived risks in the industry. Finally, it is disappointing that the OFR did not seek more input from the SEC in designing and carrying out this study; Invesco strongly urges the FSOC to fully utilize the SEC's long history and expertise with respect to the asset management industry as the FSOC carries out its duties under the Act.

Invesco appreciates this opportunity to express its views.

Sincerely,

Kevin M. Carome
Senior Managing Director and
General Counsel