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April 4, 2014

Secretariat of the Financial Stability Board
c/o Bank of International Settlements
CH-4002, Basel, Switzerland

Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: “Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions”; “Asset Management and Financial Stability” Study by the Office of Financial Research

Dear Sirs/Madams:

Over the past few months, some policy makers have alluded to a lack of transparency into separate accounts managed by asset managers[1] which has led to significant conjecture regarding the risk profile of these portfolios. The OFR Study on Asset Management and Financial Stability[2] specifically cited data gaps related to separate accounts, and consultative document published by the Financial Stability Board (the “FSB”) and International Organization of Securities Commissions (“IOSCO”) on “Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions” referenced separate accounts as an area for further research.[3] In order to help policy makers gain insight into these accounts, the Asset Management Group (“AMG”)[4] of the Securities Industry and Financial Markets Association (“**SIFMA**”) asked its members and other firms listed in the “top 20 asset managers by AUM” in the OFR Study to respond to a survey regarding the separate

[1] One frequent source of confusion is the phrase “separate accounts” which has a very different meaning for insurance companies. Insurance separate accounts (“ISAs”) were originally designed for investment-linked variable annuities. While there is a separate allocation of assets for an ISA, an ISA is reflected on the balance sheet of the insurance company to the extent there is a call on the general account assets of the insurance company. Non-ISA separate accounts managed by asset managers, on the other hand, are not included on the balance sheet of the asset manager and are generally held in a segregated account at an independent custodian.

[2] See Office of Financial Research, “OFR Study of Asset Management and Financial Stability” (Sept. 30 2013) (the “OFR Study”).

[3] See FSB and IOSCO Consultative Document, “Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions,” January 8, 2014.

[4] The AMG’s members represent U.S. asset management firms whose combined assets under management exceed $30 trillion. The clients of AMG member firms include, among others, registered investment companies, endowments, state and local government pension funds, private sector Employee Retirement Income Security Act of 1974 pension funds and private funds such as hedge funds and private equity funds.

accounts that they manage. This letter summarizes the process undertaken and the findings of the survey.

The survey asked respondents to answer a number of questions about the separate accounts that they manage including investment strategy and asset class, use of leverage, investment in illiquid assets, use of securities lending, and the regulatory status of the underlying clients. The majority of questions in the survey asked respondents to focus on separate accounts with assets under management ("AUM") of $75 million or more ("Large Surveyed Separate Accounts"). Participants were also asked to detail their risk management processes, as well as the nature of their approach towards monitoring counterparty and other risks for separate accounts.

We are pleased to report that 9 managers with a combined firm total AUM of $11.2 trillion, and a median firm total AUM of $435 billion, voluntarily participated in this survey. In aggregate, these managers are responsible for $3.98 trillion in assets managed in separate accounts across a wide range of investment strategies – Large Surveyed Separate Accounts represent $3.86 trillion in AUM, or approximately 97% of the total separate account AUM reported in the survey. Additionally, the sum of each firm's 10 largest separate accounts represents just 8% of the combined firm total AUM. As detailed in the tables in the attached Appendix, 99% of the Large Surveyed Separate Accounts AUM reported in the survey were invested in long-only strategies, and 53% were invested in passively managed, index strategies.

In looking at the portfolios, we also asked firms to report the number of their Large Surveyed Separate Accounts that use leverage, hold illiquid assets, and engage in securities lending. In aggregate, less than 4% of the number of Large Surveyed Separate Accounts employ leverage and the average leverage reported for these accounts is modest.[5] Likewise, less than 2% of the number of these Large Surveyed Separate Accounts held illiquid securities.[6] Finally, less than 2% of the number of Large Surveyed Separate Accounts engage in securities lending and the majority of these portfolios are passively managed.[7]

In addition to looking at the investment strategies and investment practices, we asked the surveyed asset managers to provide information about the owners of these assets. Note that large institutional investors often prefer separate accounts over commingled investment vehicles for one of several reasons, including: the ability to negotiate fees, the ability to tailor the investment guidelines, and the ability to own the assets outright rather than owning a partial interest in the assets of a fund. Approximately 35% and 15% of the Large Surveyed Separate Accounts based on AUM are owned by

[5] Leverage was defined in the following manner: long market value that exceeds NAV for equity or gross market exposure minus margin for derivatives; long-only accounts that use derivatives for the purpose of hedging or benchmark replication were excluded.

[6] Illiquid securities were defined as tradeable securities that cannot be sold in 30 days or less at the price the security is current valued at.

[7] Simply because separate accounts hold illiquid assets or engage in securities lending does not imply that the entirety of the securities in the account are illiquid or are on loan. As such, a calculation using the portion of a separate account's assets that are invested in illiquid securities or on loan would be more precise and likely significantly smaller than the figures reported.

pension funds and insurance companies, respectively. These assets are subject to regulation by the clients' regulators (e.g., ERISA for certain US pension plans), in addition to the SEC's oversight of the asset managers. In addition, 10% of the Large Surveyed Separate Accounts AUM are subject to other types of regulatory oversight. The remaining approximately 40% of Large Separate Accounts AUM is managed primarily for official institutions, foundations and endowments, or are sub-advisory mandates. The clients who own the assets in separate accounts are sophisticated investors who monitor these portfolios for compliance with guidelines and to understand the risk exposures, or they employ an independent third party to perform these functions, in addition to the oversight provided by asset managers.

As a complement to the quantitative separate account data requested in the survey, we also asked firms to describe the risk management processes that they employ in the management of separate accounts. We are pleased to report that 100% of respondents monitor counterparty risk for their separate accounts and employ robust procedures to this end. As a primary measure, counterparty selection is a multi-departmental process with a strict evaluation of potential counterparties based on factors ranging from their creditworthiness, pricing, regulatory oversight, and trading capacity. Some counterparties may be approved for use in all markets, whereas others may be limited based on their review. After the selection process, asset management firms continue to monitor counterparties on a daily basis and particularly focus on their exposures (both current and potential future exposure) and any change in the counterparty's creditworthiness.

Asset managers also monitor a number of other risk metrics in the course of separate account management, such as traditional portfolio risk measures, including duration, convexity, volatility, concentration risk, and liquidity risk. Many of the responding asset managers also reported using stress test analyses to observe the sensitivities of portfolios to particular factors, as well as value-at-risk models. These tests may be performed by a variety of disciplines within an asset manager, including the portfolio management, risk management, and compliance teams to ensure risk is managed appropriately and accounts adhere to their mandates. In summary, asset management firms treat separate client accounts using the same process applied to all fiduciary assets and accounts that they manage. A more detailed summary of the findings of our survey relating to risk management is included in the attached Appendix.

* * *

AMG, together with investment managers who participated in this survey, have provided this information to better inform discussions of separate accounts. We welcome the opportunity to engage further on this topic if warranted. Should you have any questions, please do not hesitate to contact Tim Cameron at 212-313-1389 or Matt Nevins at 212-313-1176.

Sincerely,

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Timothy W. Cameron, Esq.
Managing Director and Asset Management Group, Head
Securities Industry and Financial Markets Association

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Matthew J. Nevins, Esq.
Managing Director and Associate General Counsel, Asset Management Group
Securities Industry and Financial Markets Association

cc: Mary Jo White, Chairman, Securities and Exchange Commission
Luis A. Aguilar, Commissioner, Securities and Exchange Commission
Daniel M. Gallagher, Commissioner, Securities and Exchange Commission
Kara M. Stein, Commissioner, Securities and Exchange Commission
Michael S. Piwowar, Commissioner, Securities and Exchange Commission
Norm Champ, Director of the Division of Investment Management, Securities and Exchange Commission
Jacob J. Lew, Secretary of the Treasury, Department of the Treasury
Mary J. Miller, Under Secretary for Domestic Finance, Department of the Treasury
Richard Berner, Director of the Office of Financial Research

Appendix

Separate Account Data Tables[8]

General Information about Sample ($ billions)

Total Firm AUM Responding	$	11,241
Total Separate Account AUM	$	3,975
Separate Account AUM (accounts >$75M)	$	3,861
Total Number of Separate Accounts		12,197
Total Number of Separate Accounts w/AUM >$75M		5,463

Asset Class by AUM ($ billions)

		AUM	% of Sep. Accts. >$75M	% of Total Sep. Accts.
Equity (long-only)	$	1,539	40%	39%
Fixed Income (long Only)	$	1,621	42%	41%
Multi-Asset (long-only)	$	349	9%	9%
Cash Management	$	330	9%	8%
Subtotal: Long-only	*$*	*3,839*	99%	97%
Alternatives	$	22	1%	1%
TOTAL	*$*	*3,861*	*100%*	*97%*

Investment Approach by AUM ($ billions)

		AUM	% of Sep. Accts. >$75M	% of Total Sep. Accts.
Passively Managed	$	2,042	53%	51%
Active (long only)	$	1,797	47%	45%
Active - Alternative	$	22	1%	1%
TOTAL	*$*	*3,861*	*100%*	*97%*

[8] The data were aggregated from 9 participating firms. Please note that responding firms may have provided good faith estimates in response to certain questions. Totals may not sum exactly due to rounding.

Asset Class by Number of Accounts

	Number of Sep. Accounts	% of Sep. Accts. >$75M	% of Total Sep. Accts.
Equity (long-only)	1,693	31%	14%
Fixed Income (long Only)	2,680	49%	22%
Multi-Asset (long-only)	644	12%	5%
Cash Management	347	6%	3%
Subtotal: Long-only	*5,364*	*98%*	*44%*
Alternatives	99	2%	1%
TOTAL	*5,463*	*100%*	*45%*

Investment Approach by Number of Accounts

	Number of Sep. Accounts	% of Sep. Accts. >$75M	% of Total Sep. Accts.
Passively Managed	1,891	35%	16%
Active (long only)	3,473	64%	28%
Active - Alternative	99	2%	1%
TOTAL	*5,463*	*100%*	*45%*

Leverage in Separate Accounts

Leverage was defined as the following: long market value that exceeds NAV for equity or gross market exposure minus margin for derivatives. Long-only accounts that use derivatives for the purpose of hedging or benchmark replication purposes were excluded.

	Number of Sep. Accounts	% of Sep. Accts. >$75M	% of Total Sep. Accts.
Separate Accounts that Employ Leverage	207	3.79%	1.70%
Average Gross Leverage for separate accounts that employ leverage:		1.35x	

Illiquid Securities in Separate Accounts

Illiquid securities were defined as tradeable securities that cannot be sold in 30 days or less at the price the security is currently valued at. Importantly, even if a separate account holds illiquid securities, only a portion of the securities in the portfolio may be illiquid.

	Number of Sep. Accounts	% of Sep. Accts. >$75M	% of Total Sep. Accts.
Separate Accounts that Invest in "Illiquid" Securities	71	1.30%	0.58%

Separate Accounts the Engage in Securities Lending			
Importantly, even if a separate account engages in securities lending, only a portion of all of the securities in the portfolio may be on loan.			
	Number of Sep. Accounts	**% of Sep. Accts. >$75M**	**% of Total Sep. Accts.**
Equity (long-only)	28	0.5%	0.2%
Fixed Income (long Only)	13	0.2%	0.1%
Multi-Asset (long-only)	13	0.2%	0.1%
Cash Management	0	0.0%	0.0%
Subtotal: Long-only	54	1.0%	0.4%
Alternatives	6	0.1%	0.0%
TOTAL	60	1.1%	0.5%

Separate Accounts that Use Manager or Affiliate as Lending Agent			
(for accounts that engage in securities lending)			
	Number of Sep. Accounts	**% of Sep. Accts. >$75M**	**% of Total Sep. Accts.**
Equity (long-only)	3	0.1%	0.0%
Fixed Income (long Only)	3	0.1%	0.0%
Multi-Asset (long-only)	0	0.0%	0.0%
Cash Management	0	0.0%	0.0%
Subtotal: Long-only	6	0.1%	0.0%
Alternatives	0	0.0%	0.0%
TOTAL	6	0.1%	0.0%

Separate Accounts that Use Performance Fees			
	Number of Sep. Accounts	**% of Sep. Accts. >$75M**	**% of Total Sep. Accts.**
Separate Accounts that charge performance fees	682	12%	5.59%

Regulatory Status of Separate Accounts by AUM ($ billions)

	AUM	% of Sep. Accts. >$75M	% of Total Sep. Accts.
Pension Regulation (i.e. ERISA, government pension rules, non-US pension rules)	$ 1,363	35.3%	34.3%
Insurance Regulation	$ 568	14.7%	14.3%
Other*	$ 386	10.0%	9.7%
TOTAL	*$ 2,317*	*60.0%*	*58.3%*

*Other includes SEC in the US, FCA in the UK, FINMA in Switzerland, FSA in Japan, MAS in Singapore and other various local regulators for clients around the world.
The majority of clients not subject to the above regulatory oversight are Central Banks and other official institutions, endowments, foundations, subadvisory relationships, and multi-family offices.

Regulatory Status of Separate Accounts by Number of Accounts

	Number of Sep. Accounts	% of Sep. Accts. >$75M	% of Total Sep. Accts.
Pension Regulation (i.e. ERISA, government pension rules, non-US pension rules)	1,903	35%	16%
Insurance Regulation	672	12%	6%
Other*	860	16%	7%
TOTAL	*3,435*	63%	28%

*Other includes SEC in the US, FCA in the UK, FINMA in Switzerland, FSA in Japan, MAS in Singapore and other various local regulators for clients around the world.
The majority of clients not subject to the above regulatory oversight are Central Banks and other official institutions, endowments, foundations and multi-family offices.

10 Largest Separate Accounts

Sum of AUM of 10 largest accounts at each firm:	$ 861
% of Firm AUM Represented in Survey	*8%*

Risk Management

Have Chief Risk Officer or Equivalent?	8 out of 9 firms that responded said they have Chief Risk Officers or the equivalent
Monitor Counterparty Risk for Separate Accounts?	100% of firms that responded said they monitor counterparty risk for separate accounts.

The following three tables represent a compilation of the responses received from the participating firms regarding risk management.

How firms monitor Counterparty Risk for Separate Accounts

Description	**Approach**
Overview of Counterparty Selection	Counterparty selection and review is a multi-departmental process. Several of the following functions are typically involved: Trading, Investment, Operations, Risk Management, Compliance, and Legal. Several areas may produce independent reporting and maintain oversight of counterparty activity. Counterparty selection and monitoring are multi-step, and on-going, processes.
Risk Management Systems	Firms may use proprietary (in-house) and/or external systems for reporting, portfolio simulation, risk analysis, correlations studies, indices studies, value-at-risk (VaR), and time series analysis.
Counterparty Approval	Counterparties may be approved for use in all markets, specified markets, or on an ad hoc basis for specified trades. The use of a counterparty may be limited based on the particular review. The review process tends to be a dynamic one and is conducted both on a periodic and as-needed basis. Firms reported that counterparties may be reviewed based on the following criteria: • Most recent available audited financial statements • Years in business • Capital structure • Reputation in local market(s) • Operational robustness • Any concerns that could significantly affect the counterparty’s relations, liquidity, or solvency • Sanctions, fines, and penalties • Execution quality • Commitment of capital • Confidentiality • Research • Responsiveness • Creditworthiness • Market risk and settlement risk information of the country

	or countries of origin • Access to and stability of long term funding • Systemic importance and regulatory oversight • Equity, bond and swaps prices • Compliance rigor • Risk management focus • Capacity and willingness to provide trading liquidity
Credit Limits	Counterparty limits may be determined, reviewed and approved by a number of parties within a firm. There may be individual counterparty risk sub-limits within the overall limit. Credit limits may be set for each counterparty based on: • Credit risk appetite • Creditworthiness of each counterparty • View of the prospects for each counterparty
Counterparty Monitoring	Firms reported that they may monitor counterparties based on the following: • Calculation of aggregate counterparty risk exposure • Review and approval of collateral used for term derivative exposure • Daily oversight and reports (may include current (mark-to-market) counterparty exposures by product type (both long and short exposures are monitored)) • Consistent and detailed exposure analysis • Monthly analysis and reporting of Potential Future Exposure (PFE) which extends the exposure analysis to include a VaR component • Any material adverse changes in the view of the quality of a counterparty • Management of the watch list of potentially risky counterparties • Negative statements or downgrades from the rating agencies • At some firms, counterparties for OTC derivatives must maintain a minimum rating at all times

Risk metrics typically measured and monitored on an ongoing basis in the course of management of separate accounts

Description	**Approach**
Risk Monitoring Overview	Firms employ a holistic approach towards establishing risk metrics for separate accounts. In many instances, several teams (e.g., portfolio management, risk management, compliance department, and business operations) are all involved in the process. Additionally, portfolio management and risk management teams may be responsible for the day to day risk management of the strategies. Teams may meet to discuss and set the following criteria: • Formulation of risk appetite • Strategies

	• Policies and limit structures • Objective challenges to investment theses • Operational risk control, such as information/security risk, IT disaster recovery and business contingency planning exercises. • How management style has been affected by recent market conditions, changes to the team and other aspects of the investment decision making process. Besides the more quantitative risk metrics *(see Types of Risk Metrics below)*, some firms believe that the best approach to monitor the risks in separate accounts is to continually invest in their research teams. By having experienced analysts with the resources to know a company inside and out, firms can manage risk from the bottom up.
Types of Risk Metrics	Firms reported that they may monitor the following risk metrics in the course of separate account management: • Traditional portfolio risk sensitivities (i.e. duration, convexity, spread duration, basis risk, FX exposure, equity exposure, yield curve exposure, country exposures, sector exposure, commodity exposure, volatility, etc.) • Ex-ante tracking error • VaR - Monte Carlo simulations based on long and short term trading models, parametric, and historical • Stress testing analysis - historical stress testing, such as the market crashes and hypothetical scenario testing, such as commodity shocks, sensitivity analysis (direct and indirect) • Factor Risks - robust vendor based factor models • Macro scenario analysis • Sharpe ratios • Tail risk measures • Diversification - sector, security type and issuer limits • Concentration risk • Liquidity risk - time to liquidate and estimated incremental loss from the disposition of the asset • Transaction costs • Collateral sufficiency • Risk-adjusted performance • Risk decomposition (by risk factor) • Performance attribution • Exposures (delta and beta adjusted) • Portfolio turnover and portfolio performance against benchmarks and peer groups

<u>Risk management processes firms typically employ in the management of separate accounts (besides counterparty risk)</u>

Description	**Approach**
Risk Management Processes Overview	Many firms have stated that risk management begins at the investment team, or portfolio manager level, which has daily oversight and responsibility for the risk management and compliance of their respective separate account portfolios. These groups strive to be forward-looking in their ability to view and gauge risk, which means teams look to continuously expand and enhance risk management procedures, security risk factors, and systems to keep up with a constantly evolving world. Additionally, many firms feel that establishing a system of checks and balances is important to the risk management process, so other groups monitor the investment/portfolio teams' adherence to procedures, client mandates, and objectives.
Risk Management Processes	Firms reported that they may employ the following risk management process in the management of separate accounts: • Monitor adherence to targets or benchmarks for sectors, durations, etc. based on market weights and exposures. • Communicate targets between the investment teams and other parties involved in risk management (other parties provide independent challenges to theses) • Integration of risk analytics with portfolio management and other systems (i.e. accounting and reporting) • Generate risk analytics reports that are reviewed daily, weekly or monthly depending on the type of report • Policies and procedures implemented and assessed by individual business areas and undergo further review and enhancement by other policy and operational committees • Regular account reviews for asset mix, currency, country and industry exposures, portfolio concentration, and attribution of relative performance • Portfolio manager risk/return awareness and reviews • Performance attribution and analysis • Portfolio managers check orders/trades for compliance with all relevant limits or restrictions