U.S. Securities and Exchange Commission
Credit Ratings Roundtable: November 1, 2013 – Comments

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date of submission: November 1, 2013

On 4/20/12 and 4/16/13, I provided comments to the OFR Working Paper Series-Working Paper #0002 and Working Paper #0006, respectively. Today (11/01/13), I am providing comments to the OFR Study on Asset Management Issues entitled "Asset Management and Financial Stability" for your consideration. My views and opinions are the result of my experience attained when I served in the following capacities: Wells Fargo Bank, N.A. – Vice President; MGM MIRAGE – Senior Vice President and Treasurer; and Walmart Stores, Inc. – Vice President Finance, Capital Markets & Assistant Treasurer.

Prior to my specific comments, I have one general observation:

Although the financial crisis of 2008 has its roots in the U.S., the lessons and effects of this event have been felt globally and continue today – in large part simply due to the sheer size and magnitude of the markets and economy from which it originated. Accordingly, I believe that this paper's emphasis on the characteristics of and interconnectivities and interdependencies inherent in the asset management industry is an important element in better understanding the layers and complexities of the global financial market system and concur with the importance in gaining greater clarity and insight into this segment of the market system. With that being said, I also believe that it would be helpful to expand upon the system itself in which said assets under management (AUM) are allocated so as to gain even greater appreciation for the importance of narrowing the existing data gaps of the asset management industry given the system interdependencies as a whole. For example, as reflected in Figure 4, the largest Domestic Asset Managers manage assets under a variety of business lines. However, the one single business line which is common to all Asset Managers listed is that of Fixed Income with all but two of the sixteen firms listed utilizing Separate Accounts. Furthermore, as reflected in Figure 2, several of the world's largest Asset Managers are banks and often major lenders in some of the world's largest globally syndicated credit facilities. At the same time banks work closely and have relationships with the Asset Managers listed in this report, with said Asset Managers often an important element in mergers and acquisitions, bond and leveraged loan transactions, and equity IPO's ,as examples. Given the global, ongoing regulatory reform and potential impacts of said reform (Basel III, Dodd-Frank (including the Volcker Rule), Money Market Fund) coupled with the ever-increasing connectivity of the channels between and among global financial markets, asset managers and the global companies which heavily rely upon these market elements for growth, acquisition and leverage, I believe that a reader can gain even greater appreciation for the importance of furthering this analysis by presenting the framework and structure of this global financial market system, including the electronic transmission channels, which enable asset managers to extend their reach beyond their respective borders as countries and the companies within said countries do the same.

General comments:

1. Specific to funding mismatches via transmission channels, I believe that it would be helpful to include transmission benefits that could be attained as a result of funding match. For example, debt securities, on average, have relatively standard tenors (3/5/7/10/15/30 year), with the 15 and 30 year tenors more commonly associated with investment grade transactions. In addition, a company's debt issuance patterns often move in tandem with long-range macroeconomic cycles and their corresponding interest rates. This macroeconomic dynamic can often result in uneven debt maturity towers for a company and lead to

significant future refinancing risk corresponding to those years with elevated maturities. With that being said, greater transparency into an asset manager's fund objectives could enable bond underwriters to gain greater insight into demand by non-standard duration and match funding supply to demand, which, in turn, can enable companies to fill maturity tower gaps and reduce their refinancing risk.

2. Specific to separate accounts, I would be interested to understand if asset managers' bank accounts could afford certain insights into aggregate exposures and asset management complexes without their incurring significant technological expense. As an example, companies with a large number of individual bank accounts often structure said accounts in various layers and subcategories (entity, transaction type, location). These accounts are then often labeled accordingly and maintained in a single hierarchy at a parent level, thus, enabling a company to effectively track and monitor its bank accounts across the entire organization. With that being said, much like the ongoing LEI initiative, it would be interesting to understand if developing a standard industry classification specific to bank accounts by separate account type (fixed income-emerging market…) could allow for certain data capture elements specific to the funds maintained in said account. In turn, this standardized report could be generated on a consistent and regular basis in sync with the statement cycle, thus, allowing for critical insights into worldwide fund flows at a more granular level.
3. Specific to vulnerabilities and ETFs, I believe that reaching for yield and herding poses even greater risk as financial markets and their respective transactions are evolving and opening up on a global basis (China offshore market, ASEAN, sukuk bonds). In addition, the speed in which ETFs move through the electronic channels that serve to connect said global markets may introduce exponential volatility that may be more challenging to contain with the ever-increasing connectivity of the global financial system, as a whole. This reach for yield and herding by asset manager investors can often be traced directly to the financial market transactions themselves with ETFs often following this initial investor allocation of assets under management. China's offshore bond market would be an example of one in which large U.S. domestic asset managers have invested at the early stages of foreign issuance[1] transactions, with ETF activity and growth following thereafter. Much like the reach for yield and herding specific to asset managers outlined in this report, these corporate transactions can often be partially attributed to reach, as well, as companies seek new markets for capital structure diversification. Furthermore, as evidenced in China's offshore market, herding has also played a role as many non-China companies and countries have issued transactions in this offshore market in the last few years with both depth and breadth of said market continuing to grow and evolve. Given the ongoing growth of offshore RMB trade and clearing centers, the recent announcement specific to Shanghai's free trade zone as well as the rising growth of Islamic finance and sukuk bonds, I believe that this global element increases the vulnerabilities and complexities specific to ETFs as asset managers reach for these new markets and the respective transactions.
4. Specific to redemption risk, I believe that the redemption risk inherent in collective investment vehicles is compounded by the impact said redemption risk can have on not only those companies that have issued the securities but, often times, the company's respective industry, as a whole, depending upon the degree of concentration and correlation between and among the asset management industry and the company's industry. As many of these corporate securities do not possess unrestricted redemption rights but, instead, detailed and restrictive covenants, this can lead to a locked, loss-bearing negative circular loop for the company and its securities, with the root of the declining security value and degree of redemption risk

[1] McDonald's was the first U.S. company to issue a bond in China's offshore market (2010). Subsequent thereto, this offshore market has seen rapid growth and numerous transactions that span both industry and rating category, with order books of said transactions often comprised of the largest asset managers that dominate much of the U.S. bond markets today.

exposure challenging to ascertain given the asset management industry data gaps and lack of current holder information.

5. Specific to data gaps and Figure 7, I believe that monitoring and analyzing worldwide fund flows can not only help to measure system risk at a macro level but also pricing spreads and new issue premiums incurred across the markets. With that being said, I believe that the data gaps currently in existence today can add an element of risk simply as a result of the inability to segment these fund flows in a manner that is reflective of the transactions themselves (industry, rating, tenor, size, currency). This lack of data transparency can often lead to macro uncertainty and transaction risk that, with more insight into the data, could be narrowed and confined to the micro elements from which it originates, resulting in improved price transparency and transaction execution.
6. Specific to firms as sources of risk via the concentration and correlation among firms' portfolio assets, this concentration and correlation can often extend to both companies and industries, in many cases due to the reach for yield and herding behavior of asset managers, as a whole. This risk can increase exponentially given the lack of data available in monitoring inflows and outflows of assets under management. Given the banks' role in the transactions in which asset managers are investing (underwriter, advisor), however, I believe that minimizing asset management industry data gaps can serve to mitigate increasing concentration and correlation within firms' portfolio assets and, at the same time, allow for more effective movement of liquidity supply to its demand. With global markets continuing to expand in regards to both depth and breadth of product offering coupled with the rapidly advancing technology that serves to channel these funds, I believe that closing said gaps becomes ever more critical given the complexities and interconnectivities of the system, as a whole.
7. Specific to transmission channels and counterparty risk, I would be interested to understand if there is a requirement or standard practice for asset managers to prepare a recurring (monthly, quarterly) counterparty exposure report that lists all exposures specific to assets under management. Companies often prepare detailed counterparty exposure reports (cash and cash equivalents, guarantees, letters of credit, investments, derivatives) segmented by bank or respective counterparty that is monitored and analyzed in connection with their recurring risk management functions. With that being said, I believe that incorporating counterparty exposure reporting into the asset management industry data equation can aid in developing greater insights into the concentration and correlation risk within the existing system and serve as an important foundation in assessing counterparty exposure across the rapidly evolving and growing global system.
8. Specific to Figure 8 (and as reflected in Figure 2), banks play an important role in securities lending from end to end, often serving as owner, lender, borrower and user. Furthermore, they can also play additional roles as lender, underwriter, advisor and administrative agent to companies which issue the leveraged loans and securities in which said banks participate and invest. Finally, many of these banks are an element of the sovereign rating methodology and also play an important role within the Federal Reserve system as primary dealers and participants in treasury auctions, as examples. Given the role of leverage specific to assets under management, coupled with the ongoing regulatory reform, I believe that it would also be helpful to incorporate leverage reporting metrics into the equation so as to better understand and monitor leverage within the system, as a whole, and the ways in which leverage is used in meeting global market liquidity demands.
9. Specific to transmission channels and as reflected in Figure 2, assets under management flow worldwide with certain risks and threats a potential outcome of said transmission. With fixed income flows comprising the largest segment of these worldwide fund flows (Figure 7), fixed income markets and their respective

products an important component of the growing global financial system (China offshore market, ASEAN markets, sukuk bonds), and regulatory reform raising uncertainties specific to access to bank capital, I believe that fixed income flows will continue to rise. However, as reflected in many of those fixed income transactions that have already occurred in non-U.S. markets, the world's largest asset managers have often comprised a major segment of the investor base in said transactions. Aside from the asset managers' transmission of liquidity into these developing markets, though, there is also transmission of their developed market knowledge, which in the case of fixed income and their often complex covenant requirements, can be an important attribute in reducing risk and furthering the advancement of not only the developing markets but the global financial system, as a whole. Accordingly, minimizing data gaps within the asset management industry can not only serve to better track and monitor granular inflows and outflows of fixed income flows worldwide but also global knowledge transmission and system evolution, as well.