



Federal Financial Analytics, Inc.

Petrou Argues that Asset Management Poses Systemic Risk, Ready Resolution Best Response

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Boston, MA, March 10, 2014 -- In remarks today <http://bit.ly/1MoDN3V>, Karen Petrou, managing partner of Federal Financial Analytics, will counter industry arguments and lay out why asset management indeed poses systemic risk. Since asset managers no longer take risks exclusively on behalf of investors, the almost complete absence of prudential rules and resolution protocols makes the sector particularly worrisome, Petrou states.

“At its heart, asset management means holding other people’s money,” she said. “Now, though, other people’s money is held in institutions taking risk for their own reward, a fundamental restructuring that warrants a new policy framework,” Petrou stated. Ensuring that asset-management firms are resilient under stress and resolvable in a crisis is the best policy response, Petrou argues, not the firm-by-firm designation for systemic regulation recently re-proposed by global regulators.

“Just how much fun can asset managers have with other people’s money,” Petrou asked. “What risks are embedded in active-management strategies that may pose credit,

liquidity, operational, or other risk to investors?” Given that fund liquidity rules protect funds at the expense of small investors and that many new risks – e.g., those resulting from counterparty exposures and direct credit risk – are exempt from prudential regulation, Petrou argues that the business model is now very different than the rules crafted decades ago that still largely govern the sector.

Since different rules mean different costs, the disparity in prudential regulation means that significant financial-services operations will continue their sharp shift from banking organizations to non-bank asset managers. Petrou continues her longstanding argument that business shifts due to true competition are what makes markets work, but competitive restructuring due to policy drivers distorts markets even as it creates new, often systemic risk.

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