The Brookings Institution
Regulating Asset Management
Barbara Novick, Vice Chairman

January 9, 2015

The opinions expressed are as of January 2015 and may change as subsequent conditions vary.
Financial Regulatory Reform

Key Pieces of Financial Legislation / Regulation

- Basel Accords
- Solvency II
- Volcker, Vickers, Liikanen
- Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
- European Market Infrastructure Regulation (EMIR)
- Markets in Financial Instruments Directive (MiFID II / MiFIR)
- SEC Reform of Money Market Funds (2010 and 2014)
- OCC Reforms for Short Term Investment Funds (STIF) in 2012
- ESMA Guidelines on Money Market Funds in 2010
- ESMA Guidelines on ETFs and other UCITS issues in 2012
- Alternative Investment Fund Managers Directive (AIFMD)

Key Reforms

- Bank Capital, Stress Testing & Liquidity Rules
- OTC Derivatives Rules
- Improved Cash Investing Rules
- Private / Alternative Funds Reporting & Registration
Asset Managers are Fiduciaries to Asset Owners

**Asset managers do**
- Act on behalf of clients
- Rely on a generally stable fee-based income stream
- Receive regulatory oversight at both the manager and portfolio levels

**Asset managers do not**
- Invest with their own balance sheets by engaging in principal trades with clients
- Employ balance sheet leverage
- Guarantee investor principal
- Provide liquidity for funds
- Have access to central bank liquidity

**Asset management business model is fundamentally different than that of other financial institutions, such as:**
- Commercial banks
- Investment banks
- Insurance companies
- Government-sponsored enterprises
Asset Owners Have Different Investment Objectives and Constraints

<table>
<thead>
<tr>
<th>Asset Owners</th>
<th>Assets ($trillions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension funds</td>
<td>$33.9</td>
</tr>
<tr>
<td>Insurers</td>
<td>$24.1</td>
</tr>
<tr>
<td>Sovereign wealth funds</td>
<td>$5.2</td>
</tr>
<tr>
<td>Banks1</td>
<td>$50.6</td>
</tr>
<tr>
<td>Foundations / Endowments2</td>
<td>$1.4</td>
</tr>
<tr>
<td>Family Offices3</td>
<td>$0.14 – $0.42</td>
</tr>
<tr>
<td>High Net Worth Individuals (HNWI)4</td>
<td>$52.4</td>
</tr>
<tr>
<td>Mass Affluent</td>
<td>$59.5</td>
</tr>
</tbody>
</table>


4. HNWIs are defined as those having investable assets of US $1 million or more, excluding primary residence, collectibles, consumables, and consumer durables.
Financial Regulatory Reform: Looking Forward

- Market Structure
- Product Regulation
- Securities Financing Transactions (SFT)
- Data Gaps and Data Harmonization
- Financing Economic Growth
- Third Party Services
Conclusions on Regulating Asset Management

Asset management risks require industry-wide regulation of investment products and activities.

Need to understand the roles of asset owners, intermediaries, and asset managers.

Investment losses by investors are not the same as systemic risk, and market volatility is normal.

Investors will be at the center of true sustainable long-term economic growth.

Engagement between policy makers and market participants is more important than ever.
Important Notes

This presentation represents the views of BlackRock and is intended for educational purposes to discuss topics related to public policy matters and issues helpful in understanding the policy and regulatory environment. It should not be construed as research. Any reference to a specific company or security is for illustrative purposes and does not constitute a recommendation to buy, sell, hold or directly invest in the company or its securities, or an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.

This material may contain ‘forward-looking’ information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass.

The opinions expressed herein are as of January 2015 and are subject to change at any time due to changes in market, economic or other conditions. The information and opinions contained herein are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable, but are not necessarily all inclusive and are not guaranteed as to accuracy or completeness. No part of this material may be reproduced, stored in any retrieval system or transmitted in any form or by any means, electronic, mechanical, recording or otherwise, without the prior written consent of BlackRock.

©2015 BlackRock. All rights reserved. iSHARES and BLACKROCK are registered trademarks of BlackRock. All other marks are property of their respective owners.

Not FDIC Insured  •  No Bank Guarantee  •  May Lose Value