The Brookings Institution
Regulating Asset Management

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

Financial Regulatory Reform

Key Pieces of Financial Legislation / Regulation	Key Reforms
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)	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

Asset Owners	Assets ($trillions)
Pension funds	$33.9
Insurers	$24.1
Sovereign wealth funds	$5.2
Banks[1]	$50.6
Foundations / Endowments[2]	$1.4
Family Offices[3]	$0.14 – $0.42
High Net Worth Individuals (HNWI)[4]	$52.4
Mass Affluent	$59.5

See BlackRock ViewPoint "Who Owns the Assets? Developing a Better Understanding of the Flow of Assets and the Implications for Financial Regulation"

Source (unless otherwise noted below): "Asset Management 2020: A Brave New World". PWC. Data as of 2012. PWC analysis based on data from various sources including Credit Suisse Global Wealth Data Book, SWF Institute, TheCityUK, OECD, and Insurance Europe . Available at http://www.pwc.com/gx/en/asset-management/publications/pdfs/pwc-asset-management-2020-a-brave-new-world-final.pdf. Some assets may be double counted.

1. Represents largest 25 Banks. Source: http://www.relbanks.com/worlds-top-banks/assets. As of 2013.
2. Source: McKinsey & Company. As of 2012.
3. Source: Cerulli estimates for US single-family offices. As of November 2011. Limited data available on family office assets.
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

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