



HOUSE FINANCIAL SERVICES SUBCOMMITTEE HEARING

OVERVIEW

For questions on the note below, please contact [Daniel Austin](#) at (202) 547-3035.

Yesterday, the House Financial Services Subcommittee on Monetary Policy and Trade held a [hearing](#) entitled "The Financial Stability Board's Implications for U.S. Growth and Competitiveness."

Key Takeaways

- Some Republican Members and witnesses expressed concern over the Financial Stability Board's ("FSB") lack of transparency and whether codification of certain measures would help ensure accountability.
- According to the Investment Company Institute, if mutual funds are allowed to be designated as systemically important financial institutions ("SIFIs"), those labeled as SIFIs will fall under Fed supervision, perform worse, and become less competitive.
- Several witnesses called for allowing more input from the financial industry and the public (i.e. notice and comment) before the U.S. officials meet with international rulemaking bodies like the FSB.

SUMMARY

Opening Statements and Testimony

[Subcommittee Chairman Huizenga \(R-MI\)](#)

- The financial crisis underscored the interconnectedness and weaknesses of the global financial system.
- The FSB is charged with addressing vulnerabilities that may impact the global financial system. FSB decisions are not legally binding, but they have adopted some measures to ensure domestic implementation.
- I am concerned about FSB's arbitrary decision-making process and its role as a shadow regulator.

Subcommittee Ranking Member Moore (D-WI)

- Global markets are moving in nanoseconds, and weaknesses in the system will be exploited.
- The overarching regulatory goals of FSOC and the FSB are exactly on point. We need to understand that FSB decisions are not binding in the U.S.

- Returning to a pre-Dodd-Frank world will not help U.S. growth.

Paul Schott Stevens, President and CEO, Investment Company Institute

- The FSB has been predisposed to view virtually all financial activity conducted outside of banks as “shadow banking” and inadequately regulated because it is not subject to bank standards and supervision.
- Congress should enact the FSOC Improvement Act (H.R. 1550) to codify important improvements to the SIFI designation process that will advance the Dodd-Frank’s dual goals of reducing systemic risk while reserving SIFI designation as a tool to be used only in truly exceptional cases.

Mr. Carter McDowell, Managing Director and Associate General Counsel, Securities Industry and Financial Markets Association

- We have become very concerned that the more U.S. regulators base their rules on standards adopted internationally, the more U.S. financial institutions become subject to rules that do not make sense for the U.S. financial markets or broader economy.
- The FSB, and the U.S. regulators’ participation in it, should be subject to much more rigorous scrutiny, transparency, and procedural requirements.

Dr. Marcus Stanley, Policy Director, Americans for Financial Reform

- The FSB’s recommendations can only be legally realized through the actions of legislative or administrative bodies in member states.
- In the U.S., such actions would require either laws to be made through Constitutional processes, or regulations passed through notice and comment rulemaking.

Mr. Jonathan Bergner, Assistant Vice President for Federal Policy, National Association of Mutual Insurance Companies

- The mandates provided in the FSB's charter go well beyond generally-expressed objectives and require that the FSB assume a direct role in monitoring how various countries implement global rules at home.
- Multilateral organizations like the FSB have always been intended to promote and foster economic growth, not to regulate financial services markets everywhere in the world.

Discussion

Mutual Fund Regulation

Moore: Can you explain the impact of bank-like capital requirements on mutual funds? How is a floating net asset value (“NAV”) raising costs for state and local governments and causing their bonds not to be purchased? *Stevens:* We know that SIFIs are subject to capital requirements. If a mutual fund were designated as a SIFI, it would be subject to enhanced supervision by the Federal Reserve. We estimate

that \$910 billion has left prime and tax-exempt money market funds as a result of changes to money market fund rules.

Mulvaney (R-SC): What happens if a mutual fund is designated as a SIFI? *Stevens:* The mutual fund will be subject to Fed supervision, and capital requirements will make the fund less competitive and perform worse. If a SIFI failed, the mutual fund would have to put money into a fund to prop up that failing SIFI.

FSB Regulations

Huizenga: Do the FSB's action have a real effect on the U.S. economy? Do you believe the FSB parameters fit reality? *Stevens:* FSB's actions aren't an idle exercise. The FSB is intended to shape U.S. regulations. The FSB was on a path to designate every mutual fund with over \$100 billion in assets as a SIFI. We have invited to submit comments and to discussions, but none of our suggestions have been taken into account. Banking regulators want to call mutual funds shadow banks; *McDowell:* We know who sits on the FSB, but all of the work is done through Committees; however, you cannot find out who is on the Committee or when they meet. It is hard to have any influence on the decision-making process. There needs to be more cost/benefit analysis.

Moore: Do you think it is appropriate for the U.S. to begin the regulatory process on an international level? *McDowell:* In the U.S., about 80% of lending happens in capital markets. In the rest of the world, that is a much lower number—it is much more bank-centric lending. Almost everything U.S. regulators are doing in the prudential space is first being considered on a global perspective.

Pittenger (R-NC): What has been the cumulative effect on the international and U.S. economies as a result of the regulations enacted after the financial crisis? *McDowell:* No one is looking at the cumulative impact on a global or domestic level. You sometimes get divergent policies from these international bodies with very little coordination.

Heck (D-WA): When the U.S. discusses insurance in an international forum, should our representatives include our primary insurance regulators? Should U.S. financial policy be made in the U.S.? *Bergner:* Yes, insurance regulators are the ones that know how to regulate insurance companies. Insurance policy should be made in the U.S. because the U.S. market is quite different from international markets; *McDowell:* There should be an opportunity for notice and public comment before these U.S. representatives meet with international bodies.

Transparency

Mulvaney (R-SC): Why hasn't the FSB explained the process of how an institution is designated or de-designated a SIFI? Is there any objection to having the FSB codify its decision-making about SIFI de-designation? *Bergner:* We do not know about the FSB's SIFI designation process. Congress cannot pass a law to direct the FSB to do anything, but it can work with the U.S. individual before FSB meetings; *Stanley:* In the case of GE Capital, FSOC explained how it de-designated it as a SIFI. The FSB has no direct impact on the U.S. economy because FSB recommendations only take effect when the U.S. acts upon them. I do not think it is necessary for the FSB to write down its decision-making processes because their rules are not binding on the U.S.

Pittenger (R-NC): We have heard a lot of concern about international groups' transparency and their standards and the potential of locking up billions of dollars or credit—should this be a concern? What type of measures would you implement to promote transparency? *McDowell:* Before the U.S. signs on to these international accords, it would be nice to have something like the Administrative Procedure Act, so that we have an opportunity to weigh in on different proposals. The goal is harmonization, but that will never be achieved because of different tax, legal, and corporate systems. We are spending billions of dollars on compliance, and the timelines to implement some measures are often very arbitrary. Before the U.S. goes to these meetings, there should be an opportunity for notice and public comment on the types of things being proposed at these meetings.

Capital Markets

Pittenger (R-NC): Given the U.S. economy's reliance on capital markets over traditional banking, do you think we are put at a disadvantage? *McDowell:* The possibility exists. We see it in Europe and Asia where they have a universal bank model. Here, we have functional regulation.