

FINANCIAL STABILITY OVERSIGHT COUNCIL

CONFERENCE ON ASSET MANAGEMENT

MAY 19, 2014

12:45pm – 1:00pm **Introductory Remarks**

Mary Miller, Under Secretary for Domestic Finance, U.S. Department of the Treasury

1:00pm – 1:30pm **Overview of the Asset Management Industry**

Norm Champ, Director, Division of Investment Management, Securities and Exchange Commission

1:30pm – 2:45pm **Investment Risk Management by Asset Management Firms**

Moderator: John Worth, Chief Economist, National Credit Union Administration

Panelists:

- Kent Daniel, Professor of Finance, Columbia Business School
- William De Leon, Global Head of Portfolio Risk Management, PIMCO
- Itay Goldstein, Joel S. Ehrenkranz Family Professor, Professor of Finance, The Wharton School of the University of Pennsylvania
- Michael Mendelson, Portfolio Manager, Risk Parity Strategies, AQR
- John Rogers, President and CEO, CFA Institute; Member, Systemic Risk Council

2:45pm – 3:00pm

Break

3:00pm – 4:15pm

Asset Management and Risks Across the Broader Financial System

Moderator: Nellie Liang, Director, Office of Financial Stability Policy and Research, Board of Governors of the Federal Reserve System

Panelists:

- Sarah Breeden, Head of Market Sectors and Interlinkages Division, Financial Stability, Bank of England
- Ken Griffin, CEO, Citadel
- Barbara Novick, Vice Chairman, BlackRock
- David Scharfstein, Edmund Cogswell Converse Professor of Finance and Banking, Harvard Business School
- Kim Schoenholtz, Professor of Management Practice, New York University Stern School of Business

4:15pm – 4:30pm

Break

4:30pm – 5:45pm

Operational Issues and Resolvability

Moderator: Lawranne Stewart, Senior Counsel, Commodity Futures Trading Commission

Panelists:

- John Gidman, Chief Information Officer, Loomis, Sayles & Company
- Alan Greene, Executive Vice President, U.S. Investor Services, State Street Corporation
- Andrew Metrick, Deputy Dean & Michael H. Jordan Professor of Finance and Management, Yale School of Management
- Philip Prince, Treasurer, Pine River Capital
- Peter Stahl, Associate General Counsel, Fidelity Investments

5:45pm – 6:00pm

Closing Remarks

Mary Miller, Under Secretary for Domestic Finance, U.S. Department of the Treasury

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PANELIST BIOGRAPHIES

Panel 1

Kent Daniel, Professor of Finance, Columbia Business School

Kent Daniel is a Professor in the Finance and Economics Division at the Graduate School of Business at Columbia University. From 1996 to 2006, Kent was at the Kellogg School of Management at Northwestern University, where he was the John and Helen Kellogg Distinguished Professor of Finance (on leave from 2004-2006). Previously, he served on the faculties of the University of Chicago and the University of British Columbia.

Between 2004 and 2010, Kent was with the Quantitative Investment Strategies group at Goldman Sachs Asset Management. In 2005, he became a managing director and head of the QIS equity research effort. He became a co-chief investment officer in 2009.

Kent's academic research, both theoretical and empirical, has been primarily in the areas of behavioral finance and asset pricing. In addition to other awards, his academic papers received the 1997 and 1999 Smith-Breeden awards for the best paper in the Journal of Finance. His papers have been reprinted in several books. He also received the Sidney J. Levy Teaching Award for 1996-1997 and 2000-2001 at the Kellogg School.

Kent is a research associate at the National Bureau of Economic Research. He has served as an associate editor for the Journal of Finance, as a director of the American Finance Association, and as a director of the Western Finance Association. Kent received a B.S. with honors in Physics from the California Institute of Technology in 1981 and an M.B.A. from UCLA in 1987. He received his Ph.D. in Finance from UCLA in 1992.

William De Leon, Global Head of Portfolio Risk Management, PIMCO

Mr. De Leon is a managing director in the Newport Beach office and global head of portfolio risk management. He previously served as a portfolio manager focusing on derivatives and absolute return strategies as well as interim head of analytics. He represents PIMCO on the board of ISDA and serves on PIMCO's risk committee and counterparty risk committee. Prior to joining PIMCO in 2007, he was a portfolio manager at Ellington Management Group, an investment management firm specializing in fixed income relative value trades. Previously, he was a managing director and a senior member of the investment strategy group at BlackRock. He has 23 years of investment experience and holds an undergraduate degree from the University of Pennsylvania.

Itay Goldstein, Joel S. Ehrenkranz Family Professor, Professor of Finance, The Wharton School of the University of Pennsylvania

Itay Goldstein is the Joel S. Ehrenkranz Family Professor in the Finance Department at the Wharton School of the University of Pennsylvania. He is also the coordinator of the Ph.D. program in Finance. He has been on the faculty of the Wharton School since 2004. Professor Goldstein earned his Ph.D. in Economics in 2001 from Tel Aviv University. He is an expert in the areas of corporate finance, financial institutions, and financial markets, focusing on financial fragility and crises and on the feedback effects between firms and financial markets. His research has been published in major academic journals, including the Review of Economic Studies, the Journal of Finance, the Review of Financial Studies, the Journal of Financial Economics, and the Journal of Economic Theory. His research has also been featured in the popular press in the Economist, Financial Times, Bloomberg, Forbes, National Public Radio, and others. Professor Goldstein is an editor of the Review of Financial Studies. He has been an editor of the Finance Department in Management Science and an editor of the Journal of Financial Intermediation. He has been an academic visitor at the Federal Reserve Banks of New York, Philadelphia, and Richmond, and has served as an academic consultant of the Committee for Capital Markets Regulation. He was the co-founder and the first president of the Finance Theory Group. He has taught undergraduate, M.B.A., Ph.D., and executive education courses in finance and economics. Prior to joining Wharton, Professor Goldstein has served on the faculty of Duke University's Fuqua School of Business. He had also worked in the research department of the bank of Israel, where he was in charge of the analysis of the current account of Israel.

Michael Mendelson, Portfolio Manager, Risk Parity Strategies, AQR

Michael is a portfolio manager at AQR Capital Management and a member of the firm's executive committee. He is also a member of the Managed Funds Association's board of directors and chairman of its Trading & Markets Committee. Michael earned an S.B. in mathematics, an S.B. in management, and S.B. in chemical engineering and an S.M. in chemical engineering, all from the Massachusetts Institute of Technology, and an M.B.A. from the University of California at Los Angeles.

John Rogers, President and Chief Executive Officer, CFA Institute

John Rogers joined CFA Institute in January 2009 after more than two decades of global experience as an investment practitioner and executive in the Asia-Pacific region and the United States.

Mr. Rogers worked with Citibank and CIGNA in Japan and Australia prior to joining INVESCO. He served as president and chief investment officer of Invesco Asset Management Ltd., Japan, CEO and Co-Chief Investment Officer of Invesco Global Asset Management, N.A., and as CEO of Invesco's worldwide institutional division, with over \$200 billion in assets under management and 2,500 employees. After leaving Invesco in 2007, he founded Jade River Capital Management.

Mr. Rogers is a director of numerous boards, endowments, and advisory committees in both the not-for-profit and in the corporate sectors. He earned a BA in history from Yale University and an MA in East Asian studies from Stanford University. Mr. Rogers earned his CFA charter in 1993.

Panel 2

Sarah Breeden, Head of Market Sectors & Interlinkages Division, Financial Stability Directorate, Bank of England

Sarah Breeden is head of the Market Sectors & Interlinkages Division in the Financial Stability Directorate at the Bank of England. The division is responsible for assessing and identifying ways to reduce the risks to the stability of the UK financial system that arise in the non-bank financial sector and financial markets and in the real economy.

Before joining Financial Stability, Ms. Breeden led the Bank's work to support the transition of prudential regulation of banks and insurers from the Financial Services Authority to the Bank. Prior to that she was head of the Bank's Risk Management Division and head of Special Projects in the Markets directorate, leading the design and risk management of the financial market operations undertaken by the Bank including those launched during the financial crisis.

Kenneth Griffin, CEO, Citadel

Kenneth Griffin is the Founder and Chief Executive Officer of Citadel. A diverse financial institution, the Citadel group includes Citadel, an industry-leading alternative asset manager; Citadel Securities, one of the leading liquidity providers in America's capital markets; and Citadel Technology, a solutions provider for investment management technology.

Mr. Griffin graduated with a bachelor's degree from Harvard University. He is an active supporter of educational causes that drive community improvement, and he serves on the Board of Directors of the Chicago Public Education Fund.

Within the business community, Mr. Griffin is a member of numerous organizations, including the World Economic Forum, G100 and the Economic Club of Chicago.

Mr. Griffin actively supports Chicago's civic and cultural institutions. He is a member of the Board of Trustees for both the Art Institute of Chicago and the Museum of Contemporary Art.

Barbara Novick, Vice Chairman, BlackRock

Barbara Novick, Vice Chairman, is a member of BlackRock's Global Executive and Global Operating Committees and Chairs the Government Relations Steering Committee. From the inception of the firm in 1988 to 2008, Ms. Novick headed the Global Client Group and oversaw global business development, marketing and client service across equity, fixed income, liquidity, alternative investment and real estate products for institutional and individual investors and their intermediaries worldwide. In her current role, Ms. Novick heads the firm's efforts globally on Government Relations and Public Policy.

Prior to founding BlackRock in 1988, Ms. Novick was a Vice President in the Mortgage Products Group at The First Boston Corporation. Ms. Novick joined First Boston in 1985 where she became head of the Portfolio Products Team. From 1982 to 1985, Ms. Novick was with Morgan Stanley.

Ms. Novick has authored numerous articles on asset management and public policy issues. Ms. Novick is a member of CFA Institute's Future of Finance Advisory Council and Reuters' Editorial Advisory Board. She currently serves as a Trustee of Cornell University, UJA-Federation, and the HCM Foundation, and coaches in the Westchester Youth Soccer League. Ms. Novick previously served on the boards of Robert Toigo Foundation

(2007–2010), City Harvest (2010-2012) and Westchester Day School (2000-2005), and served as both Treasurer and Trustee of Westchester Jewish Center (1994-2012). Ms. Novick earned a BA degree, cum laude, in economics from Cornell University in 1981.

David Scharfstein, Edmund Cogswell Converse Professor of Finance and Banking, Harvard Business School

David Scharfstein is the Edmund Cogswell Converse Professor of Finance and Banking at Harvard Business School. His research focuses on banking, financial distress, risk management, housing finance, venture capital and corporate investment. He teaches the introductory finance course in the MBA program and the Ph.D. corporate finance course. Previously, he has taught courses on private equity and venture capital.

Prior to joining the Harvard Business School faculty in 2003, Scharfstein was for 16 years on the finance faculty of MIT's Sloan School of Management, most recently as the Dai Ichi Kangyo Professor of Management. He has been Editor of the Rand Journal of Economics, Associate Editor of the Journal of Finance and Review of Financial Studies, and Director of the American Finance Association. He has received fellowships from the Sloan Foundation, Batterymarch Financial Management, and the Olin Foundation, as well as a Fulbright Scholarship at Oxford University.

Scharfstein is a Research Associate of the National Bureau of Economic Research. He is also a member of the Squam Lake Working Group on Financial Regulation, a nonpartisan, nonaffiliated group of fifteen leading economists which offers guidance on financial regulatory reform and recently published The Squam Lake Report: Fixing the Financial System (Princeton University Press). During 2009-10 Scharfstein served as Senior Advisor to the Secretary of the U.S. Treasury.

Scharfstein has a Ph.D in Economics from MIT (1986) and an A.B. summa cum laude from Princeton University (1982).

Kim Schoenholtz, Professor of Management Practice, New York University Stern School of Business

Kim Schoenholtz joined New York University Stern School of Business in 2009. He is a Professor of Management Practice in the Economics Department and teaches courses on money, banking and financial markets, and on macroeconomics. He also directs the Stern Center for Global Economy and Business. Previously, he was managing director and senior advisor in Citigroup's Economic and Market Analysis (EMA) department. Schoenholtz served as Citigroup's global chief economist from 1997 until 2005.

Schoenholtz started his career at Salomon Brothers in 1986. He worked in Bond Market Research in New York before moving to Tokyo in 1988. As director of EMA in Tokyo, he shared responsibility for Salomon's view on the Japanese economy and markets. In 1992, he transferred to London to serve as the head of EMA in Europe. He was named Salomon's chief economist in 1997, and subsequently became chief economist at Salomon Smith Barney and at Citigroup. Schoenholtz returned to New York in this role in 1999.

Schoenholtz was a visiting scholar at the Bank of Japan's Institute for Monetary and Economic Studies from 1983 to 1985. He received an M.Phil. in economics from Yale University in 1982 and an A.B. from Brown University in 1977. He also studied for one year in Marburg, Germany (1978-79) and completed a one-year intensive Japanese language program at Cornell (1979-80). He has served as a member of the Executive Committee of the Centre for Economic Policy Research in London and is currently a panel member of the U.S. Monetary Policy Forum. He is the co-author of a textbook on money, banking and financial markets, and blogs on that subject at www.moneyandbanking.com.

Panel 3

John Gidman, Chief Information Office, Loomis, Sayles & Co.

John Gidman is an executive vice president and chief information officer at Loomis, Sayles & Company, where he is responsible for operations and technology. John joined Loomis Sayles in 2000 and is a member of the firm's Board of Directors and management committee. He serves on the firm's new product, ethics and trading oversight committees, and is a member of the risk management committee, overseeing credit, market, liquidity, compliance, legal, regulatory, valuation, financial, operational and reputational risk management. Additionally, John is president of Loomis Sayles Solutions, LLC. John has 22 years of investment industry experience and previously held executive leadership positions with Evergreen Investments, State Street Corporation and Fidelity Investments. Active in several industry efforts, he is a long-time member of the joint market calendar and emergency management committee, responsible for coordinating the opening and closing of the global bond markets. He is president of the Association of Institutional INVESTORS, and is a director of DTCC Deriv/SERV, the Warehouse Trust Company, the Securities Industry and Financial Markets Association, the Association of Institutional INVESTORS, the SIFMA Foundation for Investor Education and the Massachusetts Council on Investor Education. He is also a trustee of the INLY School. John earned a BA from the University of Connecticut and is a former commissioned officer in the United States Army.

Alan Greene, Executive Vice President, State Street Global Services

Alan Greene is an executive vice president responsible for State Street Global Services' US Investor Services business, which provides fund accounting, custody, fund administration and technology support services to mutual fund investment management firms. He is also responsible for the company's Institutional Investor Services in North America, which supports private and public pension funds. These two businesses have more than 7,500 employees. Mr. Greene also serves as chairman of Boston Financial Data Services (BFDS). He joined State Street in 1994.

Prior to joining State Street, Mr. Greene was executive vice president at The Boston Company, where he was responsible for domestic and international fund accounting, treasury, tax, performance reporting, training and client services. Previously, he was a partner at Coopers & Lybrand specializing in mutual funds with a concentration in international funds.

Mr. Greene is a member of the board of NICSA. He served as chairman of NICSA and of the Investment Company Institute's (ICI) technology advisory committee, and was a member of the President's Commission for the Protection of Critical Infrastructure. He is also on the board of directors of the Urban League of Eastern Massachusetts. In addition, Mr. Greene is a frequent speaker at industry conferences and has published articles on a variety of topics.

A graduate of the Yale CEO College and the Wharton Executive Development Program, Mr. Greene holds a Master of Science degree with honors in accounting and a Master of Business Administration from Northeastern University, as well as a Bachelor of Arts degree in economics from Amherst College. He is a certified public accountant (CPA).

Andrew Metrick, Deputy Dean & Michael H. Jordan Professor of Finance and Management, Yale School of Management

Andrew Metrick joined the Yale School of Management in 2008 as a professor of finance. He has previously held faculty positions in the finance department at Wharton and the economics department at Harvard. In the 2009-2010 academic year, he was on leave working for the Council of Economic Advisers.

Professor Metrick's current research and teaching is focused on financial stability, including the regulation of systemic risk, the activities of complex financial institutions, and the causes and consequences of the financial crisis of 2007-2009. His past work has been in financial intermediation more generally, with a focus on investment management and corporate governance.

Phil Prince, Head of Treasury, Pine River Capital Management

Phil Prince is Managing Director and Head of Treasury for Pine River Capital Management, where he is responsible for all aspects of financing, margin, and liquidity risk management. Phil joined Pine River this April with thirty years of experience in the financial industry. Just prior to joining Pine River, Phil was a Managing Director and Head of Central Funding at Goldman Sachs Asset Management, with similar responsibilities. Prior to moving into GSAM in 2007 Phil held a number of different positions in the Securities Division at Goldman Sachs and Co., including repo trading, US Government Bond Trading, GSE debt trading and underwriting, and managing short-term US Dollar funding for GS Group. Phil received a Masters of Business Administration from the University of Chicago Graduate School of Business in 1982 and attended Vanderbilt University.

Peter Stahl, Associate General Counsel, Fidelity Investments

Pete Stahl joined Fidelity in 2006. As vice president and associate general counsel, Pete leads the Fidelity legal department's corporate, compensation and benefits groups. His team advises clients across Fidelity, including the board and senior management of Fidelity's holding company; the business development, finance, government relations, public policy, and benefits organizations; and operating companies within various business units. Since the recent financial crisis, Pete has led much of Fidelity's work on systemic risk and related regulatory policy matters. He is actively involved in multiple industry groups and chairs the SIFMA AMG working group on systemic risk. Pete came to Fidelity from Ropes & Gray LLP, in Boston. He received his BA from Bowdoin College and his JD from the University of Michigan.

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PANELIST SUBMISSIONS

Stephen Cecchetti and Kermit Schoenholtz, Money, Banking and Financial Markets (blog).

(www.moneyandbanking.com)

Qi Chen, Itay Goldstein, and Wei Jiang, “Payoff Complementarities and Financial Fragility: Evidence from Mutual Fund Outflows,” Journal of Financial Economics, April 2, 2010.

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Douglas Elliott “Systemic Risk and the Asset Management Industry,” May 2014.

(http://www.brookings.edu/~media/research/files/papers/2014/05/systemic%20risk%20asset%20management%20elliott/systemic_risk_asset_management_elliott.pdf)

Michael Feroli, Anil Kashyap, Kermit Schoenholtz, and Hyun Shin, “Market Tantrums and Monetary Policy,” USMPF 2014 Conference Paper, February 1, 2014.

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(<http://www.sec.gov/comments/am-1/am1-48.pdf>)

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(<http://www.sec.gov/comments/am-1/am1-42.pdf>)

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Andy Haldane “The Age of Asset Management,” April 4, 2014.

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Barbara Novick, BlackRock, “Letter to Securities and Exchange Commission,” March 14, 2014.

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Barbara Novick, “Systemic Risk and Asset Management: Improving the Financial Ecosystem for All Market Participants,” Harvard Law School EU-U.S. Symposium Concept Paper, March 2014.

(<http://www.blackrock.com/corporate/en-us/literature/publication/improving-financial-ecosystem-harvard-031114.pdf>)

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U.S. Securities and Exchange Commission

FSOC Conference on Asset Management Overview of the Asset Management Industry

May 19, 2014

**Norm Champ
Director**

**Division of Investment Management
U.S. Securities and Exchange Commission**

The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publication or statement of any SEC employee or Commissioner. This presentation expresses the author's views and does not necessarily reflect those of the Commission, the Commissioners, or members of the staff.



Asset Management Overview

- Invest money for institutional and individual clients
 - For institutions to reach financial goals
 - For individuals to reach financial goals
 - SEC-regulated mutual funds are the primary investment vehicle of U.S. individual investors



Asset Managers Serve as Agents

- Invest on behalf of clients and investors
- Follow prescribed investment mandates
- Generally do not take investment risk with their own balance sheets
- Investment risk and rewards borne by clients and investors
- Do not make financial “promises”
- Typical compensation structure



Asset Managers are Diverse

- Diversity of amount of assets under management
 - Federal or State registered
- Diversity of client base and services provided
- Diversity of strategies
- Diversity in types of products or accounts
- Diversity of potential risk



Key Asset Management Categories

- Asset managers
 - Range from Main Street firms to large wealth management entities
- Three main types of products
 - Mutual funds
 - Private funds
 - Separate accounts

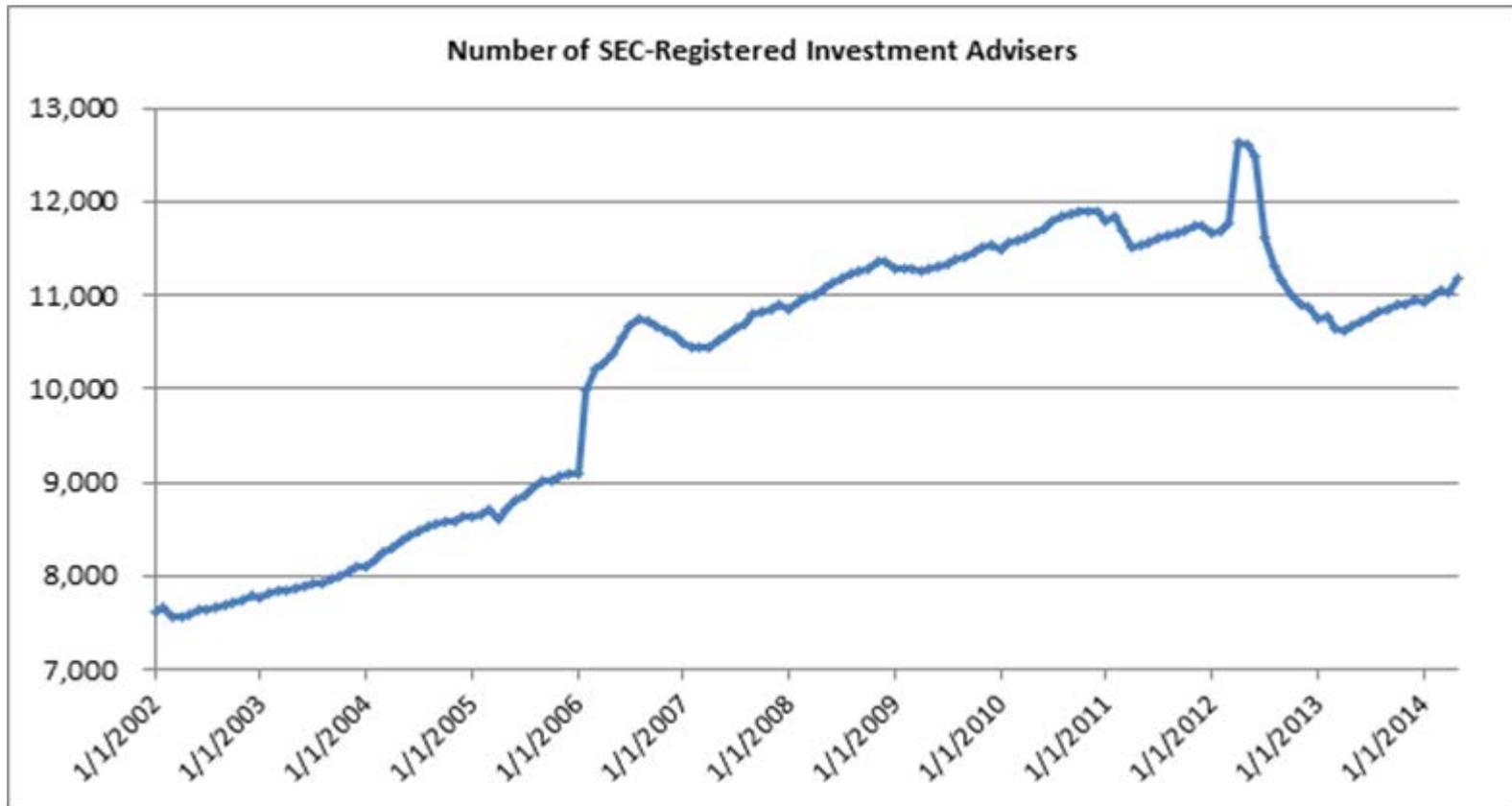


Asset Managers are Fiduciaries and are Regulated by the SEC or the States

- U.S. Supreme Court: investment advisers are fiduciaries
- Investment advisers subject to SEC or State oversight
 - On-site examination
 - Substantive regulatory requirements
 - Public disclosure requirements
- Mutual funds subject to a comprehensive regulatory regime
 - On-site examination
 - Substantive investment limits
 - Governance requirements
 - Affiliated transaction prohibitions
- SEC regulatory functions and examination

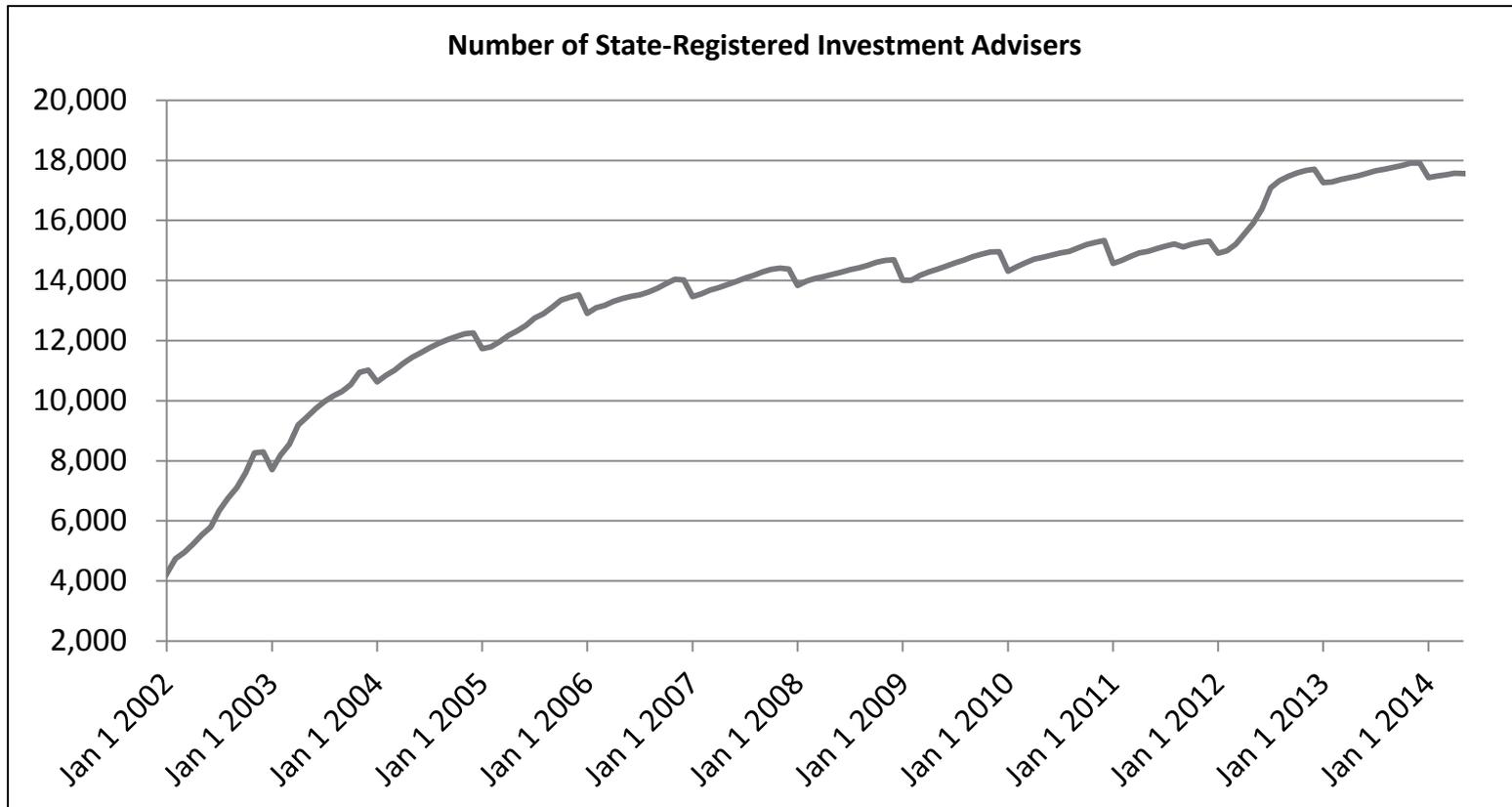


May 2014: Approximately 11,000 SEC-Registered Investment Advisers





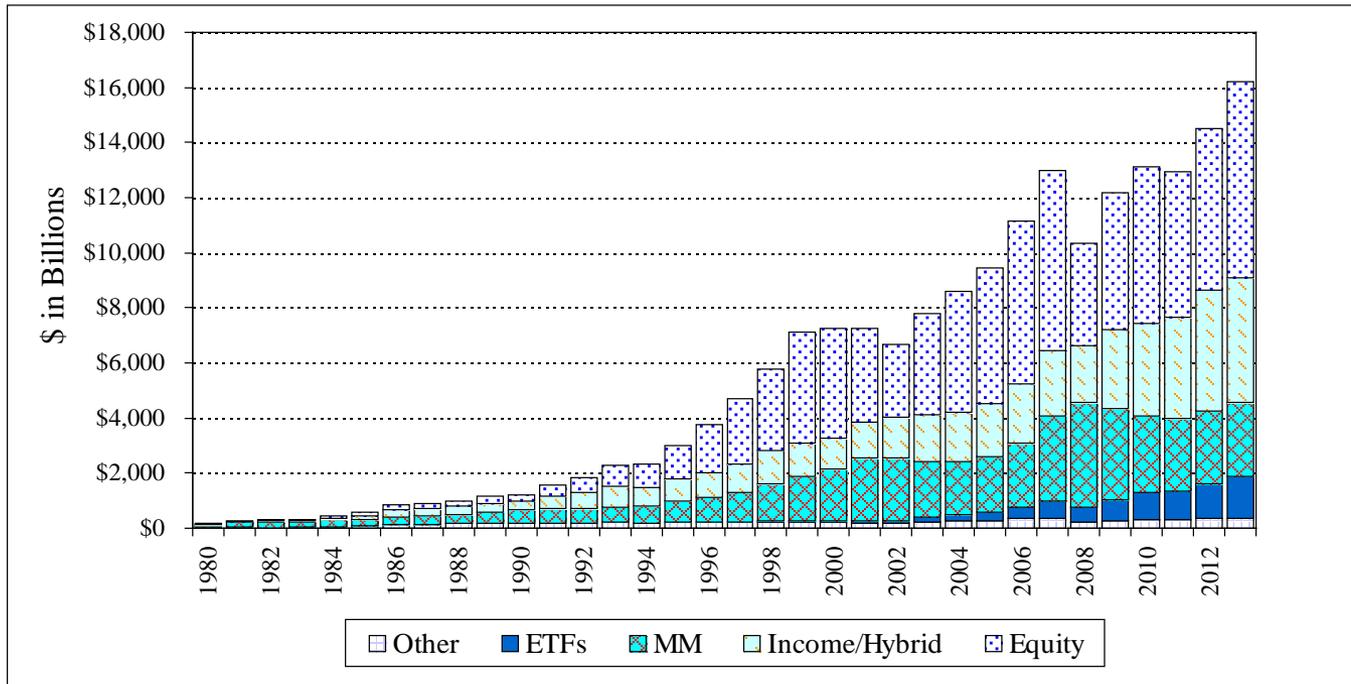
May 2014: Approximately 17,400 State-Registered Investment Advisers*



*Approximately 141 State-registered investment advisers are also SEC-registered.



Growth in Assets of SEC-Registered Funds: December 1980-September 2013 \$16.2 Trillion as of Sept. 2013*



Note: "Other" includes: Unit Investment Trusts and Closed-End Funds.

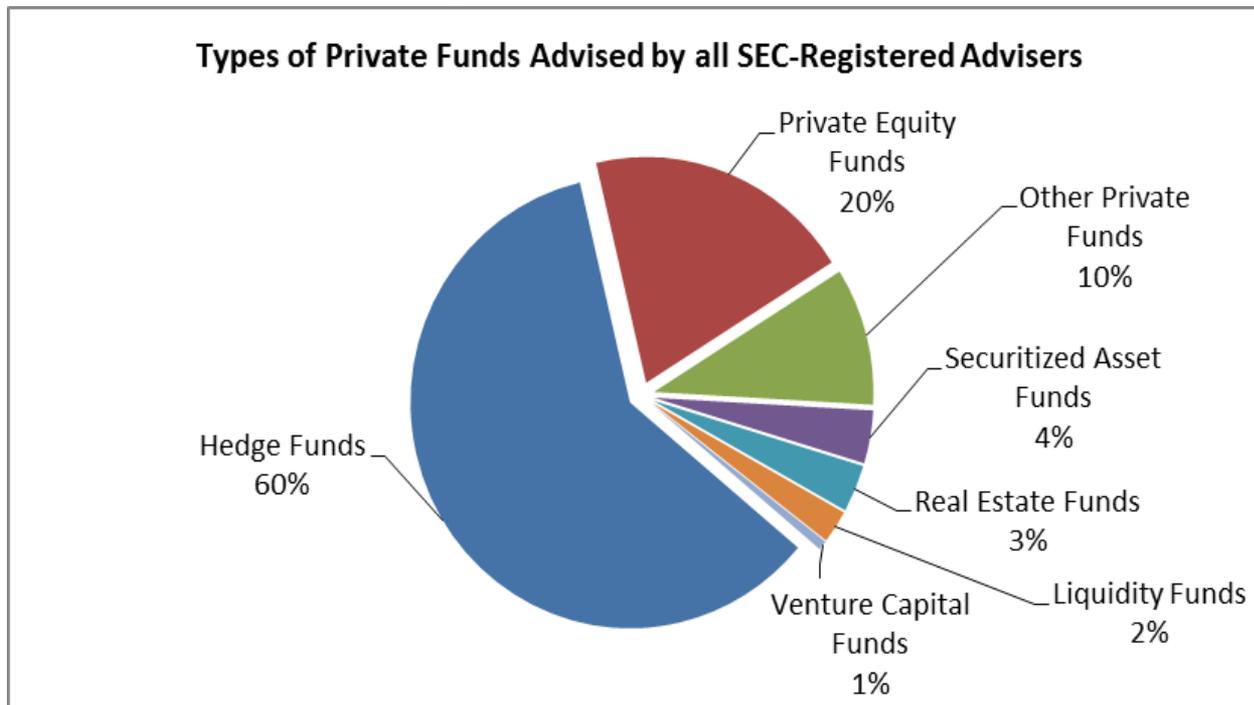
Source: SEC FY 2015 Congressional Justification and Performance Plan & FY 2013 Annual Report (Mar. 7, 2014).

* Registered under the Investment Company Act of 1940; advised by SEC-registered investment advisers.



Private Fund Overview*

May 2014: Approximately \$11 Trillion in Private Fund Regulatory Assets Under Management Reported by all SEC-Registered Investment Advisers



* Based on Form ADV data filed by SEC-registered investment advisers, as of May 1, 2014.



Significant Data is Filed; Some is Collected in Exams

- SEC collects data about investment advisers and funds

Publicly available

- Mutual funds, ETFs, MMFs and other registered investment companies
 - Initiative to enhance data gathering and usefulness of data
- Investment advisers
- “Census information” about private funds

Non-public

- Information about private funds filed with regulators
- Detail on separate account data available through regulatory examinations.



Asset Managers Use Third Party Providers to Perform Many Operational Functions

- “Back-office” or operational functions
- Third-party custodians
- Other operational services
 - Generation of client account statements
 - Transfer agency services
 - Securities lending agency services
 - Valuation input



Conclusion