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United States Senate

WASHINGTON, DC 20510

January 27, 2014

COMMITTEES:

FINANCE

BANKING, HOUSING, AND
URBAN AFFAIRS

ENVIRONMENT AND PUBLIC WORKS

BUDGET

INDIAN AFFAIRS

The Honorable Jacob Lew
Chairman
Financial Stability Oversight Council
1500 Pennsylvania Ave, NW
Washington, DC 20220

Dear Chairman Lew:

I am writing regarding the recent study issued by the U.S. Department of the Treasury's Office of Financial Research (OFR) on ways that activities in the asset management industry may create, amplify, or transmit systemic risk. I understand that OFR conducted its study at the request of the Financial Stability Oversight Council (FSOC), who appears to be contemplating whether or not certain asset management firms should be designated as systemically important financial institutions (SIFIs). To the extent that FSOC intends to rely on the information in the OFR study, it is critical that the study contains the best data available and reflects a proper public comment process.

Many questions have been raised as to the integrity of the OFR study as well as the lack of transparency surrounding its development. Among other things, market participants are concerned that the OFR conducted its study without the benefit of data and input from the asset management industry that it purports to describe – amounting to a complete lack of peer review. As to a lack of transparency of process, I note that it was the U.S. Securities and Exchange Commission (SEC) -- not the OFR or FSOC -- who voluntarily posted the OFR study to invite public comment.

I am concerned that OFR's failures to take into account the perspectives of and data from market participants will result in flawed evaluation of the asset management industry by FSOC and, worse, a move towards designation of asset management firms as SIFIs without an accurate understanding of the role they play in financial system. I firmly believe that most of these issues could have been prevented and subsequently addressed had OFR engaged in a more transparent and productive way with market participants and the SEC. There should have been a transparent process in place for soliciting comment from the industry and the SEC, who is the primary regulator of asset managers, *prior* to the issuance of the OFR study. Unfortunately, OFR chose not to pursue that route.

In July 2013, I requested that the Government Accountability Office initiate a study to examine the process the FSOC used to designate systemically important financial institutions for enhanced supervision, including financial markets utilities and nonbanks. The same concerns that gave rise to that request are at work here with respect to the OFR study.

Sincerely,



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