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As Market Stabilizes, Stable Value Industry Looks to Growth

By Randy Myers

With the turmoil of the 2008 financial crisis largely in the past, the stable value industry is turning its focus to growth.

The latest SVIA survey of 22 stable value managers shows that from the end of 2012 through the first half of 2014 stable value assets held fairly steady. In total, stable value funds now account for about $721 billion in assets, or roughly 12 percent of the money held in defined contribution retirement savings plans as of 2013.

"That's pretty amazing," SVIA Chairman James King said in opening the 2014 SVIA Fall Forum in Washington, D.C., on October 13.

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Millennials and Stable Value: Made for Each Other?

By Randy Myers

The millennial generation and the stable value industry may be made for each other.

The young are often painted as risk-takers, but in the case of millennials—those Americans born between 1982 and 2004—old measures may be misleading, says Neil Howe.

Neil Howe is the founding partner and president of LifeCourse Associates, a publishing, speaking and consulting company focused on generational research.

He contends that millennials are more risk averse than their predecessors in Generation X and the baby-boomers.

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Dodd-Frank Remains Work in Progress

By Randy Myers

Four years after its passage, the Dodd-Frank Wall Street Reform and Consumer Protection Act remains a work in progress. While 73 percent of its rule changes and other requirements were completed by July of 2014, 27 percent were not finished, including 11 percent on which work had not yet begun.

"It won't be until the 10th anniversary of Dodd-Frank that we will know the full range of its impact," said Cady North, senior finance analyst for Bloomberg, in a presentation to the 2014 SVIA Fall Forum in October.

Over the past year, North said, regulators have made progress on a number of Dodd-Frank's directives: writing rules to improve internal controls at credit rating agencies, re-proposing rules for margin and capital on uncleared swaps, addressing some of the confusion on the cross-border application of swaps rules, and approving rules to prevent runs on money market funds.

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Save the date: SVIA's Tenth Spring Seminar, April 12-14, 2015 in Key Biscayne, FL

Dodd-Frank Remains Work in Progress

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Among the significant work still to be done, North said, is:

• Completing corporate governance rules, including rules on disclosing the ratio of CEO-to-employee pay.

• Writing new rules for broker-dealers, including a fiduciary standard.

• Writing tailored standards for nonbank systemically important financial institutions (SIFIs), and determining whether any additional institutions, beyond the four already named, should be designated as SIFIs.

• Completing rules governing emergency assistance programs to financial institutions.

• Completing a study on stable value investments.

North said she expects the Securities and Exchange Commission to work on the disclosure rules for CEO pay ratios in the year ahead. She said she does not expect regulators to make a decision anytime soon on whether stable value contracts should be regulated as swaps. Until they do—the SEC and the Commodities Futures Trading Commission must both weigh in—the contracts are not being treated as swaps.

New rules on fiduciary standards are being delayed in part, North said, by the fact that both the SEC and the Department of Labor have yet to act on the issue. Beyond that, there is still "quite a bit of disagreement" on the subject among the SEC commissioners themselves, she said. So while investment advisors and broker-dealers can expect the SEC to devote some attention to the topic in the year ahead, "I don't think this is something that will happen very quickly at all," North said. "It falls very low on the priority list for the SEC compared to some of the other issues under Dodd-Frank."

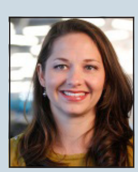
Additional issues the SEC may address, North said, are new disclosure requirements for investment advisors and the possibility of imposing a user fee on them. She also said it would not be surprising to see regulators push for greater disclosures to consumers about target-date investment funds.The SEC did recently publish new rules for money market funds that allow non-government money market funds to impose redemption fees or temporarily suspend redemptions if their liquid assets fall below 30 percent of their total assets.

North predicted that government money market funds—those that invest at least 99.5 percent of their assets in cash, government securities and/or fully collateralized repurchase agreements—will see deposit inflows as a result, and non-government funds will see outflows. If that has a negative impact on the commercial paper market—commercial paper is a staple holding of non-government money market funds—North speculated that the SEC might extend the implementation deadlines for the new money market rules to allow time for "other options to bubble up" to meet the needs of corporate treasurers.

Another big area of concern for regulators is identifying which nonbank financial institutions should be designated as systemically important financial institutions, or SIFIs—institutions so large and influential on the world financial stage that their failure could pose a risk to the broader economy. SIFIs are subject to increased supervision and regulation by the Federal Reserve, which is expected to impose more stringent capital restrictions on SIFI designees and require that they file so-called "living wills" outlining how they would wind down should they become insolvent. So far the Financial Stability Oversight Council, a regulatory authority created under Dodd-Frank, has identified three such institutions: Prudential Financial, AIG and GE Capital. It also has moved to include MetLife in that group, although MetLife is contesting the designation. Now, North said, the FSOC also is considering whether some of the country's biggest asset managers should be considered SIFIs too.

North said the financial services industry should anticipate slow implementation of derivatives regulations, as funding challenges at the CFTC push more surveillance and enforcement duties to self-regulatory organizations such as the National Futures Association, the Financial Industry Regulatory Authority (FINRA), exchanges and clearing organizations. She noted that Timothy Massad, the new CFTC chairman, has indicated that his agency will probably want to tweak the existing regulations and provide new guidance on them. Areas where the financial industry will have an opportunity to provide input include final margin and capital requirements for uncleared swaps and the cross-border application of swaps rules. The SEC is soliciting comments on the latter subject, and CFTC guidance on the issue will not take full effect until its no-action letter expires at the end of this year. It's possible, North said, that the CFTC could provide additional guidelines after investigating the effects on the market.

While there are a number of legislative initiatives underway to revamp Dodd-Frank, North said it is unlikely that any legislation will pass the Senate, at least in 2014 while Democrats still hold a majority of the Senate's seats.



"New rules on fiduciary standards are being delayed in part, North said, by the fact that both the SEC and the Department of Labor has yet to act on that issue." - Cady North