Separate Accounts

Policymakers have indicated that more information is needed to assess if separate accounts pose a threat to financial stability. The [OFR Study] on Asset Management and Financial Stability specifically cited data gaps related to separate accounts and their leverage practices and risk exposures; a [consultative document] published by the FSB and IOSCO on G-SIFI designation referenced separate accounts as an area for further research; and recent [testimony] from OFR director Richard Berner suggested risk-taking in separate accounts could give rise to threats to financial stability. This fact sheet highlights the results of a SIFMA AMG survey[i] that shows separate accounts do not present systemic risk.

Overview:
A separate account is an individual investment account with a flexible structure that can be customized to meet the specific objectives of an institutional or individual investor. Unlike an investment fund, separate account investors directly own the securities in the portfolio. These characteristics make separate accounts an attractive option for large investors.
Separate accounts managed by asset managers should not be confused with "Insurance Separate Accounts" (ISAs). ISAs were originally designed for investment-linked variable annuities and sit on Insurers' balance sheets. Non-ISA separate accounts are not included on the balance sheet of the asset manager and are generally held in a segregated account at an independent custodian, and therefore do not present a significant risk to the asset manager's stability.

Separate accounts typically do not engage in systemically risky activities:

- 99% of the large separate accounts surveyed were invested in long-only strategies, and 53% were invested in passively managed, diversified index strategies.
- In aggregate, less than 4% of the separate accounts surveyed employ leverage and the average leverage reported for these accounts is modest.
- Less than 2% of the large separate accounts surveyed held illiquid securities and less than 2% engage in securities lending and the majority of those portfolios are passively managed.

Separate accounts are typically held by sophisticated investors and subject to robust risk management practices:

- 100% of asset manager respondents robustly monitor counterparty risk and employ comprehensive risk management procedures.
- Separate accounts are typically held by sophisticated investors who apply their own risk management processes to supplement the work done by asset managers.

- Many separate accounts are also subject to the rules of the clients' regulators (e.g., ERISA for certain U.S. pension plans) in addition to the SEC's oversight of the asset managers.
    - Approximately 35% and 15% of large separate accounts surveyed are owned by pension funds and insurance companies, respectively, and therefore are subject to additional regulations and standards of care.
    - Approximately 40% are owned by official institutions, foundations and endowments, or are sub-advisory mandates.
    - Approximately 10% are subject to other types of regulatory oversight.

The full survey results are available here:
http://www.sifma.org/issues/item.aspx?id=8589948419

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[i] SIFMA surveyed asset managers on the risk profile of separate accounts they managed. In total, nine managers with a combined firm total AUM of $11.2 trillion and a combined total AUM in separate accounts of $3.98 trillion voluntarily participated in this survey. The majority of questions in the survey focused on large separate accounts with at least $75 million in assets. Full survey info is available here: http://www.sifma.org/issues/item.aspx?id=8589948419