

Minutes of the Financial Stability Oversight Council

Held May 22, 2012

PRESENT:

Timothy F. Geithner, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council

Ben Bernanke, Chairman, Board of Governors of the Federal Reserve System (Federal Reserve)

Martin J. Gruenberg, Acting Chairperson, Federal Deposit Insurance Corporation (FDIC)

Mary Schapiro, Chairman, Securities and Exchange Commission (SEC)

Gary Gensler, Chairman, Commodity Futures Trading Commission (CFTC)

Richard Cordray, Director, Consumer Financial Protection Bureau (CFPB)

Edward DeMarco, Acting Director, Federal Housing Finance Agency (FHFA)

Debbie Matz, Chairman, National Credit Union Administration (NCUA)

Thomas J. Curry, Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)

Roy Woodall, Independent Member with Insurance Expertise

Michael McRaith, Director, Federal Insurance Office, Department of the Treasury (non-voting member)

John P. Ducrest, Commissioner, Louisiana Office of Financial Institutions (non-voting member)

John Huff, Director, Missouri Department of Insurance, Financial Institutions, and Professional Registration (non-voting member) (*participating by phone*)

David Massey, Deputy Securities Administrator, North Carolina Department of the Secretary of State, Securities Division (non-voting member)

GUESTS:

Department of the Treasury

Neal S. Wolin, Deputy Secretary of the Treasury

Amias Gerety, Deputy Assistant Secretary for FSOC

Christopher J. Meade, Principal Deputy General Counsel

Board of Governors of the Federal Reserve System

Daniel K. Tarullo, Governor

Federal Deposit Insurance Corporation

Jason Cave, Deputy Director for Monitoring, Office of Complex Financial Institutions

Securities and Exchange Commission

Ricardo Delfin, Special Counsel to the Chairman

Commodity Futures Trading Commission

Dan Berkovitz, General Counsel

Consumer Financial Protection Bureau

Raj Date, Deputy Director

Federal Housing Finance Agency

Mario Ugoletti, Special Advisor to the Director

National Credit Union Administration

John Worth, Chief Economist

Office of the Comptroller of the Currency

John Lyons, Senior Deputy Comptroller and Chief National Bank Examiner

Office of the Independent Member with Insurance Expertise

Chris Ledoux, Senior Advisor

Federal Reserve Bank of New York

William Dudley, President and Chief Executive Officer (*participating by telephone*)

Federal Insurance Office

John Nolan, Senior Policy Advisor

Louisiana Office of Financial Institutions

Michael Stevens, Senior Vice President and Director of Regulatory Affairs, Conference of State Banking Supervisors

Missouri Department of Insurance, Financial Institutions, and Professional Registration

Mark Sagat, Government Relations Policy Counsel and Manager, National Association of Insurance Commissioners

North Carolina Department of the Secretary of the State, Securities Division

Joseph Brady, Deputy General Counsel, North American Securities Administrators Association

PRESENTERS:

Macro-environment Overview: Update on Europe

- *Lael Brainard, Under Secretary for International Affairs, Treasury*
- *Nellie Liang, Director, Office of Financial Stability Policy and Research, Federal Reserve*

JP Morgan Chase & Co. Trading Losses

- *Sally Belshaw, Deputy Comptroller, Large Bank Supervision, OCC*
- *Mike Hsu, Assistant Director, Banking Supervision and Regulation, Federal Reserve*

Financial Markets Utilities Proposed Designations

- *Lance Auer, Deputy Assistant Secretary, Financial Institutions Policy, Treasury*

- *Jeff Stehm, Associate Director of Financial Market Infrastructure Oversight, Federal Reserve*
- *Robert Wasserman, Chief Counsel, Division of Clearing and Risk, CFTC*
- *Peter Curley, Associate Director for Clearance and Settlement, SEC*

Designations Hearing Procedures

- *Christopher J. Meade, Principal Deputy General Counsel, Treasury*

Executive Session

The Chairperson called the executive session of the meeting of the Financial Stability Oversight Council (Council) to order at approximately 1:07 P.M. (EDT).

The Chairperson began by welcoming Thomas Curry, the new Comptroller of the Currency, to the Council. He then outlined the meeting agenda, which had been previously distributed to the members together with copies of the resolutions and other materials. The agenda for the meeting included the following subjects: (1) a macro-environment overview and update on Europe; (2) an update on recent losses at JPMorgan Chase & Co.; (3) proposed designations of financial market utilities (FMUs) and consideration of, and a vote on, a resolution approving the proposed designation of an initial set of FMUs; (4) hearing procedures in connection with designations of nonbank financial companies and FMUs and consideration of, and a vote on, a resolution approving the adoption of these hearing procedures and publishing a notice in the Federal Register to seek public comment on the procedures; and (5) consideration of, and a vote on, a resolution approving the minutes from the Council's meeting on April 3, 2012.

1. Macro-environment Overview: Update on Europe

The Chairperson turned to the first agenda item and asked Lael Brainard, Under Secretary for International Affairs at Treasury, and Nellie Liang, Director of the Office of Financial Stability Policy and Research at the Federal Reserve, to give an update on Europe. After the presentation, members of the Council asked questions and had a discussion.

2. JPMorgan Chase & Co. Trading Losses

The Chairperson then raised the agenda item regarding recent losses at JPMorgan Chase & Co. He called on Sally Belshaw, Deputy Comptroller, Large Bank Supervision at the OCC, and Mike Hsu, Assistant Director, Banking Supervision and Regulation at the Federal Reserve, to give the presentation. The members of the Council asked questions about the presentation and had a discussion.

3. FMU Proposed Designations

The next item on the agenda was the proposed designation of an initial set of FMUs based on the stage 2 evaluations. Lance Auer, Deputy Assistant Secretary for Financial Institutions Policy at Treasury; Jeff Stehm, Associate Director of Financial Market Infrastructure Oversight at the Federal Reserve; Robert Wasserman, Chief Counsel, Division of Clearing and Risk at the CFTC;

and Peter Curley, Associate Director for Clearance and Settlement at the SEC, gave a presentation on the FMUs. After the presentation, members of the Council asked questions and had a discussion. The Chairperson then presented to the Council the following resolution approving the proposed designation of an initial set of FMUs as systemically important.

“WHEREAS, section 804 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “DFA”) authorizes the Financial Stability Oversight Council (the “Council”) to designate financial market utilities that the Council determines are, or are likely to become, systemically important; and

WHEREAS, under the provisions of the DFA, in making a determination on whether a financial market utility is, or is likely to become, systemically important, the Council must take into consideration the following: (A) the aggregate monetary value of transactions processed by the financial market utility; (B) the aggregate exposure of the financial market utility to its counterparties; (C) the relationship, interdependencies, or other interactions of the financial market utility with other financial market utilities or payment, clearing, or settlement activities; (D) the effect that the failure of or a disruption to the financial market utility would have on critical markets, financial institutions, or the broader financial system; and (E) any other factors that the Council deems appropriate; and

WHEREAS, the Council issued a final rule codified in 12 C.F.R. Part 1320 that describes the criteria and the processes and procedures by which the Council will designate financial market utilities as systemically important under the DFA; and

WHEREAS, the preamble to the final rule describes the process the Council expects to use for evaluating financial market utilities prior to a Council vote on a proposed designation of systemic importance; and

WHEREAS, the Council stated in the preamble to the final rule that it will not publicize which financial market utilities receive notices, such as advance notices of proposed determinations, because maintaining the confidentiality of the notices is important to prevent potentially destabilizing market speculation that could occur if the Council were to reveal the names of such financial market utilities; and

WHEREAS, the staffs of the Council Members and their Agencies have evaluated an initial set of financial market utilities under stage 2, which consisted of an in-depth review of each financial market utility, in addition to institutional and market specific considerations; and

WHEREAS, based on the stage 2 evaluations, the staffs of the Council Members and their Agencies recommend that the Council approve the proposed designation of an initial set of financial market utilities; and

WHEREAS, under the provisions of the DFA, the Council is required to provide each financial market utility advance notice of the proposed determination of the Council.

NOW, THEREFORE, BE IT RESOLVED, that the Council hereby determines to propose the designation of an initial set of financial market utilities (identified in an attachment hereto) as systemically important.

BE IT FURTHER RESOLVED, that the Council hereby approves the attached advance notice of proposed determination letters and authorizes the letters (with attachments) to be sent to the initial set of financial market utilities.

BE IT FURTHER RESOLVED, that the Council hereby delegates authority to the Chairperson, or his designee, to make technical, nonsubstantive, or conforming changes to the text of the attached notification letters and the attachments thereto.”

The Chairperson asked for a motion approving the resolution, which was made and seconded. The Council then approved the resolution by unanimous vote, in accordance with the requirement that proposed designations of FMUs shall be made by a vote of not fewer than two-thirds of the members of the Council then serving, including the affirmative vote of the Chairperson of the Council.

4. Designations Hearing Procedures

The Chairperson then turned to the next agenda item and called on Christopher J. Meade, Principal Deputy General Counsel at Treasury, to give a presentation on the hearing procedures relating to proposed designations of nonbank financial companies and FMUs. Mr. Meade explained that when the Council proposes the designation of a nonbank financial company or a FMU under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the nonbank financial company or FMU can request a hearing. The statute, however, does not set forth procedures regarding the hearing. The hearing procedures would provide such procedures for a nonbank financial company or FMU that requests a hearing before the Council. After Mr. Meade’s presentation, the Council members asked questions and had a discussion. The Chairperson then presented to the Council the following resolution approving the adoption of the hearing procedures.

“WHEREAS, section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “DFA”) gives the Council authority to require that a nonbank financial company be supervised by the Board of Governors of the Federal Reserve System and be subject to prudential standards if the Council determines that material financial distress at such a company, or the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the company, could pose a threat to the financial stability of the United States; and

WHEREAS, section 804 of the DFA gives the Council authority to designate a financial market utility that the Council determines is, or likely to become, systemically important; and

WHEREAS, a nonbank financial company or a financial market utility is permitted to request a hearing before the Council to contest the Council’s proposed determination or emergency waiver or modification, pursuant to section 113 or section 804 of the DFA; and

WHEREAS, if a nonbank financial company or a financial market utility (“Petitioner”) requests a hearing, the Council intends to provide a fair and expeditious hearing in accordance with procedures known in advance to the Petitioner; and

WHEREAS, the staffs of the Council Members and their Agencies have prepared (1) the attached hearing procedures to be applied in proceedings conducted under Title I and Title VIII of the DFA (“Council Hearing Procedures”) and (2) the attached notice of availability and request for comments (“Notice”) to be published in the Federal Register; and

WHEREAS, the staffs of the Council Members and their Agencies recommend that the Council approve and (1) adopt the attached Council Hearing Procedures to be applied in proceedings conducted under Title I and Title VIII of the DFA, and (2) issue the attached Notice to be published in the Federal Register.

NOW, THEREFORE, BE IT RESOLVED, that the Council hereby approves the adoption of the Council Hearing Procedures and the issuance of the Notice, and authorizes the Chairperson, or his designee, to cause the attached Council Hearing Procedures to be published on the Council’s web site and to cause the attached Notice to be published in the Federal Register, in a form and manner acceptable to the Chairperson, or his designee, and to otherwise make them available to the public as the Chairperson deems appropriate.

BE IT FURTHER RESOLVED, that the Council hereby delegates authority to the Chairperson, or his designee, to make technical, nonsubstantive, or conforming changes to the text of the attached Notice regarding the Council Hearing Procedures to ensure that the Council can issue and publish this document in the Federal Register, and to take such other actions and issue such other documents incident and related to the foregoing as may be deemed necessary or appropriate to fulfill the Council’s objectives in connection with its publication.”

The Chairperson asked for a motion approving the resolution, which was made and seconded. The Council then approved the resolution by unanimous vote.

5. Resolution Approving the Minutes of the Meeting held on April 3, 2012

“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on April 3, 2012 of the Council are hereby approved.”

The Chairperson asked for a motion to approve the resolution, which was made and seconded. The Council then approved the resolution by unanimous vote.

The Chairperson asked for a motion to adjourn the meeting, and the Council voted to adjourn. The Chairperson adjourned the meeting at approximately 2:58 P.M. (EDT).