

## Minutes of the Financial Stability Oversight Council

Held October 18, 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

Mary J. Miller, Under Secretary for Domestic Finance

Amias Gerety, Deputy Assistant Secretary for FSOC

Christopher J. Meade, Acting General Counsel

#### Board of Governors of the Federal Reserve System

Daniel K. Tarullo, Governor

Nellie Liang, Director, Office of Financial Stability Policy and Research

#### Federal Deposit Insurance Corporation

Arthur Murton, Director, Division of Insurance and Research

#### Securities and Exchange Commission

Jennifer McHugh, Senior Advisor 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

Diane Fraser, Senior Policy Advisor

Federal Reserve Bank of New York

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

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, Counsel and Manager, Financial Policy and Legislation, 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: Fiscal Update*

- *Janice Eberly, Assistant Secretary for Economic Policy, Treasury*

*Nonbank Financial Company Designations: Advancement of a Subset of Nonbank Financial Companies Considered in Stage 2 to Stage 3*

- *John Nolan, Senior Policy Advisor, Federal Insurance Office, Treasury*
- *Diana Hancock, Deputy Associate Director, Division of Research and Statistics, Federal Reserve*

## Executive Session

The Chairperson called the executive session of the meeting of the Financial Stability Oversight Council (Council) to order at approximately 4:31 P.M. (EDT).

The Chairperson began by outlining 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 fiscal update; (2) nonbank financial company designations and the advancement of a subset of nonbank financial companies that were considered in stage 2 to stage 3 of the evaluation process; (3) an update on money market mutual funds; and (4) consideration of, and a vote on, a resolution approving the minutes from the Council's meeting on September 28, 2012.

### 1. Macro-environment Overview: Fiscal Update

The Chairperson turned to the first agenda item and asked Janice Eberly, Assistant Secretary for Economic Policy at Treasury, to give the presentation. Ms. Eberly explained that under current law, there are tax provisions that will expire and spending cuts to occur in 2013. She also discussed the potential economic impact and further described forecasters' expectations. After the presentation, members of the Council asked questions and had a discussion.

### 2. Nonbank Financial Company Designations: Advancement of a Subset of Nonbank Financial Companies Considered in Stage 2 to Stage 3

The Chairperson called on John Nolan, Senior Policy Advisor, Federal Insurance Office at Treasury, and Diana Hancock, Deputy Associate Director, Division of Research and Statistics at the Federal Reserve, to present on a subset of nonbank financial companies that were considered in stage 2 of the evaluation process for designations and were being considered for advancement or non-advancement to stage 3. After the presentations, members of the Council asked questions and had a discussion. Following the completion of the presentations and the discussion, the Chairperson presented to the Council the following resolution approving the advancement of a subset of nonbank financial companies and the non-advancement of a subset of nonbank financial companies that were considered in stage 2 to stage 3 of the evaluation process.

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

*WHEREAS, in making a determination under section 113 of the DFA, the Council must take into consideration the following: (A) the extent of the leverage of the company; (B) the extent and nature of the off-balance-sheet exposures of the company; (C) the extent and nature of the transactions and relationships of the company with other significant nonbank financial*

*companies and significant bank holding companies; (D) the importance of the company as a source of credit for households, businesses, and State and local governments and as a source of liquidity for the United States financial system; (E) the importance of the company as a source of credit for low-income, minority, or underserved communities, and the impact that the failure of such company would have on the availability of credit in such communities; (F) the extent to which assets are managed rather than owned by the company, and the extent to which ownership of assets under management is diffuse; (G) the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of the company; (H) the degree to which the company is already regulated by 1 or more primary financial regulatory agencies; (I) the amount and nature of the financial assets of the company; (J) the amount and types of the liabilities of the company, including the degree of reliance on short-term funding; and (K) any other risk-related factors that the Council deems appropriate; and*

*WHEREAS, the Council issued a final rule (the “Final Rule”) and accompanying interpretive guidance (the “Interpretive Guidance”) to be codified in 12 C.F.R. Part 1310 that describes the criteria and the processes and procedures by which the Council will determine that a nonbank financial company shall be supervised by the Federal Reserve and shall be subject to enhanced prudential standards under the DFA; and*

*WHEREAS, the Interpretive Guidance describes a three-stage process that the Council expects to use for evaluating a nonbank financial company prior to a Council vote on a proposed determination; and*

*WHEREAS, the staffs of the Council Members and their Agencies have evaluated an initial set of nonbank financial companies under stage 1, which consisted of the application of uniform quantitative thresholds to identify nonbank financial companies for further evaluation; and*

*WHEREAS, in stage 2, the staffs of the Council Members and their Agencies have analyzed certain of the nonbank financial companies identified in stage 1, based on a wide range of quantitative and qualitative information available to the Council, primarily through public and regulatory sources; and*

*WHEREAS, on September 28, 2012, the Council unanimously approved the advancement of an initial subset of the nonbank financial companies that were considered in stage 2 to stage 3 of the evaluation process, and unanimously determined not to advance a subset of the nonbank financial companies that were considered in stage 2 to stage 3 of the evaluation process; and*

*WHEREAS, based on the stage 2 evaluations, the staffs of the Council Members and their Agencies recommend that the Council approve the advancement of another subset of the nonbank financial companies that were considered in stage 2 to stage 3 of the evaluation process, which will include an evaluation of information collected directly from each nonbank financial company that the Council votes to advance, with a focus on whether such nonbank financial company being considered in stage 3 could pose a threat to U.S. financial stability under the Determination Standards; and*

*WHEREAS, based on the stage 2 evaluations, the staffs of the Council Members and their Agencies recommend that the Council not, at this time, approve the advancement of another subset of the nonbank financial companies that were considered in stage 2 to stage 3 of the evaluation process; and*

*WHEREAS, in furtherance of the evaluation of the subset advanced to stage 3 of the evaluation process, the Council intends to make certain information requests, coordinate and consult with certain regulatory agencies, and take certain other actions, which actions the Council deems appropriate to delegate to the Deputies Committee, pursuant to §§ XXX.6(i) and XXX.7(a) of the Rules of Organization of the Council.*

*NOW, THEREFORE, BE IT RESOLVED, that the Council hereby authorizes the advancement of another subset of nonbank financial companies that were considered in stage 2 (identified in an attachment hereto) to stage 3 of the evaluation process, and authorizes the staffs of the Council Members and their Agencies to begin the stage 3 evaluation process.*

*BE IT FURTHER RESOLVED, that another subset of nonbank financial companies that were considered in stage 2 (identified in an attachment hereto) will not, at this time, be advanced to stage 3 of the evaluation process, but shall be evaluated by the Nonbank Designations Committee from time to time, as appropriate, in accordance with sections 112 and 113 of the DFA and the Interpretive Guidance.*

*BE IT FURTHER RESOLVED, that the Council hereby approves the form of the attached notification letter required by the Final Rule (12 C.F.R. § 1310.21) and authorizes a letter in such form to be sent to each nonbank financial company advancing to stage 3 of the evaluation process.*

*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 any such notification letter.*

*BE IT FURTHER RESOLVED, that in accordance with §§ XXX.6(i) and XXX.7(a) of the Rules of Organization of the Council, the Council hereby delegates authority to the Deputies Committee, operating by consensus, to (1) prepare, approve, and cause to be transmitted requests for information to each nonbank financial company advancing to stage 3 of the evaluation process, (2) prepare, approve, and cause to be transmitted requests for information to, and engage in coordination and consultations with, the primary financial regulatory agencies (as defined in section 2(12) of the DFA) or foreign regulatory authorities with respect to each nonbank financial company advancing to stage 3 of the evaluation process, and (3) take other actions, in each case as the Deputies Committee may deem necessary or appropriate for the purpose of evaluating this subset in stage 3 of the evaluation process in accordance with the DFA, the Final Rule and the Interpretive Guidance.”*

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

### 3. Money Market Mutual Fund Update

The Chairperson next addressed the agenda item regarding money market mutual funds (MMF) and asked Mary J. Miller, Under Secretary for Domestic Finance at Treasury, to provide the update. Ms. Miller reported that staff is working on proposed MMF reform recommendations for consideration at the Council's November meeting and provided a progress report on the development of proposed recommendations. The members of the Council then had a further discussion regarding MMF reform.

### 4. Resolution Approving the Minutes of the Meeting held on September 28, 2012

*“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on September 28, 2012 of the Council are hereby approved.”*

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

### 5. Other Business

The Chairperson asked whether there was any other business before the meeting adjourned. The Council then had a brief discussion regarding progress on London interbank offered rate (LIBOR) reform. The Council also briefly discussed the status of the Volcker Rule.

The Chairperson asked for a motion to adjourn the meeting, and the Council voted to adjourn. The Chairperson adjourned the meeting at approximately 6:00 P.M. (EDT).