

## Minutes of the Financial Stability Oversight Council

Held July 16, 2013

### PRESENT:

Jacob J. Lew, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)  
Ben Bernanke, Chairman, Board of Governors of the Federal Reserve System (Federal Reserve)  
Martin J. Gruenberg, Chairperson, Federal Deposit Insurance Corporation (FDIC)  
Mary Jo White, Chair, Securities and Exchange Commission (SEC)  
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  
Richard Berner, Director, Office of Financial Research, Department of the Treasury (non-voting member)  
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)  
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  
Christopher J. Meade, General Counsel  
Amias Gerety, Deputy Assistant Secretary for FSOC  
Patrick Pinschmidt, Executive Director of the Council

#### 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

Jason Cave, Deputy Director for Complex Financial Institutions Monitoring

#### Securities and Exchange Commission

Jennifer B. McHugh, Senior Advisor to the Chair

#### Commodity Futures Trading Commission

Eric Juzenas, Chief Operating Officer and Senior Counsel

Consumer Financial Protection Bureau

Ron Borzekowski, Senior Economist in Research, Markets, and Regulations

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

Paul Nash, Senior Deputy Comptroller

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*)

Office of Financial Research

Matthew Reed, Chief Counsel

Federal Insurance Office

John Nolan, Deputy Director (Financial Stability)

Louisiana Office of Financial Institutions

Margaret Liu, Senior Vice President, Conference of State Bank 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, General Counsel, North American Securities Administrators Association

PRESENTERS:

*Market Volatility*

- *Richard Berner, Director, Office of Financial Research, Treasury*
- *Norm Champ, Director, Division of Investment Management, SEC*
- *Gregg Berman, Associate Director, Office of Analytics and Research, SEC*

*Money Market Mutual Fund Reform*

- *Norm Champ, Director, Division of Investment Management, SEC*
- *Craig Lewis, Chief Economist and Director, Division of Economic and Risk Analysis, SEC*

### *Nonbank Financial Company Designations*

- *Felton Booker, Senior Advisor, Banking Supervision and Regulation, Federal Reserve*
- *Patrick Pinschmidt, Executive Director of the Council, Treasury*
- *John Nolan, Deputy Director (Financial Stability), Federal Insurance Office, Treasury*
- *Scott Alvarez, General Counsel, Federal Reserve*
- *George Sacco, Senior Analyst, FHFA*
- *Michael McRaith, Director, Federal Insurance Office, Treasury*

### *Annual Report Recommendations*

- *Trent Reasons, Senior Policy Advisor, Treasury*
- *Patrick Pinschmidt, Executive Director of the Council, Treasury*

### **Executive Session**

The Chairperson called the executive session of the meeting of the Council to order at approximately 1:07 P.M. (EDT). 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 presentation on market volatility; (2) an update on money market mutual fund (MMF) reform; (3) nonbank financial companies designations and the advancement of a nonbank financial company that was considered in stage 2 to stage 3 of the evaluations process; (4) an update on recommendations from the Council's 2013 annual report; and (5) consideration of, and a vote on, a resolution approving the minutes of the Council's meeting on June 3, 2013.

#### 1. Market Volatility

The Chairperson introduced the first agenda item, which was a presentation on recent market volatility. He asked Richard Berner, Director of the Office of Financial Research at Treasury; Norm Champ, Director of the Division of Investment Management at the SEC; and Gregg Berman, Associate Director of the Office of Analytics and Research at the SEC, to give a presentation. After the presentation, members of the Council asked questions and had a discussion.

#### 2. MMF Reform Update

The Chairperson turned to the next agenda item, regarding an update on the SEC's proposal on MMF reform, and asked Mary Jo White, Chair of the SEC, to introduce the topic. After Chair White's introduction, Norm Champ, Director of the Division of Investment Management at the SEC, and Craig Lewis, Chief Economist and Director of the Division of Economic and Risk Analysis at the SEC, gave a presentation. Mr. Champ provided an overview of the SEC's June 5, 2013, proposed rule for MMF reform. He explained that the proposed rule set forth two alternatives for amending the rules that govern MMFs. The first alternative proposal is floating net asset value, and would require MMFs to sell and redeem shares based on the current market-based value of the securities in their underlying portfolios, rounded to the fourth decimal place. The second alternative proposal is liquidity fees and gates, and would require an MMF to impose a liquidity fee (unless the fund's board determines that it is not in the best interest of the fund) if the fund's liquidity

levels fall below a specified threshold and would permit a fund to suspend redemptions temporarily under the same circumstances. Mr. Champ stated that the SEC is seeking public comments on each alternative standing alone, as well as on the possibility of combining the two alternatives. Following the presentation, the members of the Council asked questions and had a discussion.

### 3. Nonbank Financial Company Designations

The Chairperson then introduced the agenda item regarding nonbank financial company designations. He called on Felton Booker, Senior Advisor for Banking Supervision and Regulation at the Federal Reserve, to present on a nonbank financial company that was considered in stage 2 of the evaluation process for designations and was being considered for advancement to stage 3. After the presentation, members of the Council asked questions and had a discussion. Following the completion of the presentation and the discussion, the Chairperson presented to the Council the following resolution approving the advancement of the nonbank financial company 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 (the “Council”) to determine that a nonbank financial company shall be supervised by the Board of Governors of the Federal Reserve System (the “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 of the nonbank financial company (the “Determination Standards”) 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 one 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”), codified at 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 a 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 a nonbank financial company 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, based on such stage 2 evaluation, the staffs of the Council Members and their Agencies recommend that the Council approve the advancement of a nonbank financial company that was considered in stage 2 to stage 3 of the evaluation process, which will include an evaluation of information collected directly from such nonbank financial company, with a focus on whether such nonbank financial company being considered in stage 3 could pose a threat to U.S. financial stability under one or both of the Determination Standards; and*

*WHEREAS, in furtherance of the evaluation of the nonbank financial company 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 a nonbank financial company that was 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 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 the 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 the 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 § 2(12) of the DFA) or foreign regulatory authorities with respect to the 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 the nonbank financial company 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 approving the resolution, which was made and seconded. The Council approved the resolution by unanimous vote.

Following the vote, the Chairperson called on Patrick Pinschmidt, Executive Director of the Council at Treasury, and John Nolan, Deputy Director (Financial Stability) of the Federal Insurance Office at Treasury, to provide an overview of the written materials that had been submitted to the Council by a nonbank financial company subject to a proposed designation. Scott Alvarez, General Counsel of the Federal Reserve, and George Sacco, Senior Analyst at the FHFA, were available to answer questions. Mr. Pinschmidt and Mr. Nolan also provided an update on the process and preparations for the oral hearing for a nonbank financial company subject to a proposed designation. After the presentation, the members of the Council asked questions and had a discussion.

The Chairperson then called on Michael McRaith, Director of the Federal Insurance Office at Treasury, to give a presentation on the International Association of Insurance Supervisors’ process for the designation of global systemically important insurers. Following the presentation, Council members asked questions and had a discussion.

#### 4. Annual Report Recommendations Update

The Chairperson next introduced the agenda item regarding an update on recommendations from the Council’s 2013 annual report. He asked Trent Reasons, Senior Policy Advisor at Treasury, and Patrick Pinschmidt, Executive Director of the Council at Treasury, to give the presentation. Mr. Reasons and Mr. Pinschmidt provided an update on the actions taken and planned with respect to the recommendations made in the annual report. After the presentation, the members of the Council asked questions and had a discussion.

#### 5. Resolution Approving the Minutes of the Meeting held on June 3, 2013

*“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on June 3, 2013 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.

The Chairperson adjourned the meeting at approximately 2:30 P.M. (EDT).