

## **Minutes of the Financial Stability Oversight Council**

Held December 9, 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)  
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  
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**

Mary J. Miller, Acting Deputy Secretary and 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, Special Advisor to the Chairman for Supervisory Matters

#### **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

John Lyons, Senior Deputy Comptroller and Chief National Bank Examiner

Office of the Independent Member with Insurance Expertise

Chris Ledoux, Senior Advisor

Office of Financial Research

Matthew Reed, Chief Counsel (Executive Session)

Patricia Mosser, Deputy Director for Research and Analysis (Open Session)

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:

*Housing Finance Update*

- *Jacob J. Lew, Secretary of the Treasury and Chairperson of the Council*
- *Richard Cordray, Director, CFPB*
- *Edward DeMarco, Acting Director, FHFA*

*Cybersecurity*

- *Cyrus Amir-Mokri, Assistant Secretary for Financial Institutions, Treasury*
- *Kelly King, Chairman and CEO, BB&T Corporation*

*Office of Financial Research Update*

- *Richard Berner, Director of the Office of Financial Research, Treasury*

## **Executive Session**

The Chairperson called the executive session of the meeting of the Council to order at approximately 1:32 P.M. (EST). He then outlined the meeting agenda, which had previously been distributed to the members together with copies of the resolution and other materials. The agenda for the executive session of the meeting included the following subjects: (1) a housing finance update; and (2) cybersecurity. The Chairperson recognized and thanked CFTC Chairman Gary Gensler, who was attending his last meeting of the Council, for his significant contributions to the Council.

### **1. Housing Finance Update**

The Chairperson introduced the first agenda item, which was an update on housing finance, and began with a presentation on the subject. He noted that significant progress had been made in the housing market, but that much work remains to be done.

The Chairperson then called on Richard Cordray, Director of the CFPB, to give a presentation on certain CFPB housing finance rules. Director Cordray provided an overview of the ability-to-repay/qualified mortgage rule and explained that beginning on January 10, 2014, mortgage lenders must make a reasonable and good faith determination that the borrower will have the ability to repay the loan. He also presented on the servicing rules, which apply to both banks and nonbanks and take effect of January 10, 2014. Director Cordray explained that the CFPB is working with the industry on the implementation of these rules.

The Chairperson next asked Edward DeMarco, Acting Director of the FHFA, to give a presentation. Acting Director DeMarco provided an overview of the components of the current Fannie Mae/Freddie Mac securitization model, and the FHFA's efforts to implement a common securitization platform that will focus on securitization functions that are routinely repeated across the secondary mortgage market. He also discussed the reduction of the footprint of the government sponsored enterprises. He then discussed mortgage data collection initiatives and issues associated with the changing landscape in the servicing industry.

### **2. Cybersecurity**

The Chairperson turned to the next agenda item, regarding cybersecurity, which he noted would also be discussed in the open session, and asked Cyrus Amir-Mokri, Assistant Secretary for Financial Institutions at Treasury and Chair of the Financial and Banking Information Infrastructure Committee, and Kelly King, Chairman and CEO of BB&T Corporation and Chair of the Financial Services Roundtable BITS Committee Board of Directors, to give presentations. Mr. Amir-Mokri presented on cybersecurity, the role of the public sector, and collaboration with the financial services sector. He noted that cyber threats to financial institutions and markets are ongoing and growing in both frequency and sophistication. He noted that a public-private partnership with respect to cybersecurity is necessary to protect the financial system.

Mr. King then presented on the financial services sector's progress and needs with respect to cybersecurity. He explained that the financial services sector continues to raise awareness about cybersecurity issues within the industry and has made progress in helping to support the President's Executive Order on cybersecurity. He also noted the importance of coordination between the financial services sector and U.S. government agencies dealing with cybersecurity.

The Chairperson adjourned the executive session of the meeting at approximately 2:41 P.M. (EST).

## **Open Session**

The Chairperson called the open session of the meeting of the Council to order at approximately 2:46 P.M. (EST).

The agenda for the open session of the meeting included the following subjects: (1) cybersecurity; (2) a research update from the Office of Financial Research; and (3) consideration of, and a vote on, a resolution approving the minutes of the Council's meeting on October 31, 2013.

The Chairperson began by recognizing and thanking Chairman Bernanke and Chairman Gensler, both of whom were attending their last scheduled open session of the Council. He then recognized Chairman Gensler to offer remarks. Chairman Gensler thanked the members of the Council, noted improvements in the economy over the past five years, and highlighted several important areas of reform pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). After that, Chairman Bernanke thanked the members of the Council for the opportunity to work with them. Before proceeding to the agenda items, the Chairperson noted that the recent months had been one of the most active periods of financial reform implementation since the President signed the Dodd-Frank Act into law, but that more work remains to be done.

### **1. Cybersecurity**

The Chairperson introduced the agenda item regarding cybersecurity, and asked Mr. Amir-Mokri and Mr. King to give presentations. Mr. Amir-Mokri noted that cyber threats to financial institutions and markets are growing. He further explained that in response to these threats, the U.S. government and the financial sector have worked together to identify financial system vulnerabilities, to improve the resilience of the financial system, and to refine incident management protocols. He also highlighted some key aspects of the Treasury Department's ongoing work on cybersecurity; as the sector specific agency for the financial sector, Treasury plays a leading role in policy development and a coordinating role in incident response. Mr. Amir-Mokri then noted the important role of other U.S. government agencies in the collective efforts to protect against cyber threats. He also noted the importance of cybersecurity legislation.

Mr. King then presented on cybersecurity from the perspective of the financial services sector. He noted progress regarding cybersecurity that the financial services sector has made during the last eighteen months. He explained three areas in which the sector is working to reduce the risk

of cyber threats: 1) attempting to secure the rights to own and operate two new Internet domains for banking and insurance to create more secure channels to conduct online financial activity; 2) working to automate the sharing of threat information to make it faster and more efficient across the sector; and 3) creating a more secure environment for payment transactions and information. He also stated that continuously improving the security and resiliency of the financial services sector against cyber threats was important, as was working with key U.S. government agencies on this effort. He said that it was necessary to focus on the cybersecurity needs of all industry participants, large and small. He expressed appreciation for the support that the industry had received from the government. He also stated that the financial services sector would continue to advocate for effective cybersecurity legislation that would allow for better information sharing.

Following Mr. King's presentation, the Chairperson also noted the need for cybersecurity legislation. The Chairperson then recognized Thomas J. Curry, Comptroller of the Currency at the Office of the Comptroller of the Currency. As the Chairman of the Federal Financial Institutions Examination Council (FFIEC), Comptroller Curry provided a brief update on the FFIEC's actions regarding cybersecurity. He explained that the FFIEC had established a cybersecurity critical infrastructure working group, that it was committed to helping smaller financial institutions, and that cybersecurity is an ongoing issue that requires close cooperation between government agencies and the private sector.

## 2. Research Update from the Office of Financial Research

The Chairperson then introduced the next agenda item, which was an update on research and analysis by the Office of Financial Research (OFR), and called on Richard Berner, Director of the OFR at Treasury, to give a presentation. Director Berner gave a presentation on three broad areas of OFR's work. First, he discussed OFR's efforts to analyze and monitor threats to financial stability. He stated that OFR was developing a new tool to monitor threats and has been using that tool to analyze five functional areas of risk. OFR has identified eight potential threats to financial stability, similar to those included in the Council's 2013 annual report. Second, Director Berner reported on OFR's financial data priorities, including how it is filling data gaps and some of the results of its data research. Third, he discussed the promotion of data standards and explained that data standards are essential to compare, aggregate, link, and analyze data. Director Berner also stated that OFR is seeking broader implementation of the Legal Entity Identifier, a data standards initiatives, in U.S. financial reporting.

## 3. Resolution Approving the Minutes of the Meeting held on October 31, 2013

*"BE IT RESOLVED, by the Financial Stability Oversight Council (the "Council"), that the minutes attached hereto of the meeting held on October 31, 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 3:32 P.M. (EST).