

Minutes of the Financial Stability Oversight Council

Held May 7, 2014

PRESENT:

Jacob J. Lew, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)
Janet Yellen, Chair, 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)
Mark P. Wetjen, Acting Chairman, Commodity Futures Trading Commission (CFTC)
Richard Cordray, Director, Consumer Financial Protection Bureau (CFPB)
Melvin Watt, Director, Federal Housing Finance Agency (FHFA)
Thomas J. Curry, Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)
Debbie Matz, Chairman, National Credit Union Administration (NCUA)
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

Sarah Bloom Raskin, Deputy Secretary of the Treasury
Mary J. Miller, Under Secretary for Domestic Finance
Christopher J. Meade, General Counsel
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

Lona Nallengara, Chief of Staff

Commodity Futures Trading Commission

Lawranne Stewart, Special Counsel

Consumer Financial Protection Bureau
Steven Antonakes, Deputy Director

Federal Housing Finance Agency
George Sacco, Senior Analyst

National Credit Union Administration
John Worth, Chief Economist

Office of the Comptroller of the Currency
Paul Nash, Senior Deputy Comptroller and Chief of Staff

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

Office of Financial Research
Patricia Mosser, Deputy Director for Research and Analysis

Federal Insurance Office
John Nolan, Deputy Director (Financial Stability)

Louisiana Office of Financial Institutions
Michael Stevens, Senior Executive Vice President, Conference of State Bank Supervisors

Missouri Department of Insurance, Financial Institutions, and Professional Registration
Kay Noonan, General Counsel, 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:

2014 Annual Report

- *João Santos, Vice President and Function Head, Federal Reserve Bank of New York*
- *Trent Reasons, Senior Policy Advisor, Treasury*

Nonbank Financial Company Designations Stage 3 Analysis Update

- *Felton Booker, Senior Advisor, Banking Supervision & Regulation, Federal Reserve*
- *John Nolan, Deputy Director (Financial Stability), Federal Insurance Office*
- *Todd Cohen, Policy Advisor, Treasury*
- *Diane Fraser, Senior Policy Advisor, Office of the Independent Member with Insurance Expertise*

Consideration of Council Transparency Policy Revisions and Deputies Committee Bylaws

- *Mary J. Miller, Under Secretary for Domestic Finance, Treasury*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 1:02 P.M. (EDT). He outlined the meeting agenda, which had been previously 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) the Council's 2014 annual report; and (2) an update on the nonbank financial company designations stage 3 analysis.

1. 2014 Annual Report

The Chairperson then introduced the first agenda item, a discussion regarding the Council's 2014 annual report to Congress. He stated that before the Council voted on the annual report later in the open session, he would like to take a moment to provide an opportunity for any final questions or comments. He then introduced João Santos, Vice President and Function Head at the Federal Reserve Bank of New York, and Trent Reasons, Senior Policy Advisor at Treasury, who thanked the staff for their coordination and engagement in this year's report. The Chairperson then thanked the presenters and their teams who worked on the report.

2. Nonbank Financial Company Designations Stage 3 Analysis Update

The Chairperson introduced the next agenda item, an update on the ongoing analysis of a nonbank financial company that the Council previously had advanced to stage 3 of the designations process. The Chairperson introduced Felton Booker, Senior Advisor, Banking Supervision & Regulation, at the Federal Reserve, who provided an update. Diane Fraser, Senior Policy Advisor in the Office of the Independent Member with Insurance Expertise; John Nolan, Deputy Director for Financial Stability in the Federal Insurance Office; and Todd Cohen, Policy Advisor at Treasury, were available to answer questions. The members of the Council asked questions and had a discussion.

The Chairperson adjourned the executive session of the meeting at approximately 1:40 P.M. (EDT).

Open Session

The Chairperson called the open session of the meeting of the Council to order at approximately 1:48 P.M. (EDT). The agenda for the open session of the meeting included the following subjects: (1) the Council's 2014 annual report; (2) consideration of revisions to the Council's Transparency Policy and the adoption of new Deputies Committee bylaws; and (3) consideration of, and a vote on, a resolution approving the minutes of the Council's meeting on March 27, 2014.

The Chairperson began with observations related to the economic recovery that has taken place over the last five and a half years. He noted that a critical lesson from the financial crisis was recognizing the importance of detecting risks to financial stability and ways to mitigate them, and he observed that the annual report issued by the Council is part of that effort. The report informs the public about actions the Council has taken over the past year, developments in the financial system during that time, and the challenges ahead, and lays out specific recommendations to strengthen our financial system. It reflects the coordination of Council members and their staffs. The Chairperson briefly highlighted housing finance reform as one of the key areas covered in the report, and noted that, despite improvements in the housing market since the depths of the crisis, legislation is needed to achieve fundamental reforms to the housing finance system. The Chairperson also noted that other topics covered in this year's report include vulnerabilities in the wholesale funding markets, possible incentives for risk-taking by large financial institutions, and the dangers of potential interest rate volatility. He thanked members of the Council and their staff for their work on the report and their work to make the financial system more resilient.

Before proceeding to the presentations on the annual report, the Chairperson provided an opportunity for other Council members to make remarks. Janet Yellen, Chair of the Federal Reserve, noted that the annual report documents the considerable progress that has been made to improve the strength and resiliency of the financial sector in recent years, along with remaining vulnerabilities and recommendations to address them. She acknowledged the efforts of interagency staff in putting together the report, along with valuable input from Council members. She highlighted the increased capital and liquidity positions of the largest bank holding companies as a chief accomplishment, and mentioned the recently concluded stress tests conducted by the Federal Reserve as providing a level of confidence in its assessment of how financial institutions would fare in an extended period of adverse conditions. She also highlighted the ongoing actions of the Federal Reserve, many in conjunction with other federal agencies, to continue to improve the resiliency of the financial system. She described a number of additional steps the Federal Reserve plans to take to further reduce risks to financial stability. She noted that other challenges remain, including the need for money market mutual fund reform, risks in the tri-party repo market, and incentives for large financial institutions to reach for yield in the current low interest rate environment. She closed by saying that the Council must continue its collective efforts to monitor risks, address vulnerabilities, and build a safer financial system.

Thomas Curry, Comptroller of the Currency, spoke next. He expressed his appreciation for the work of Council staff on the annual report. He then underscored the report's recommendations on cybersecurity, including the report's recommendations that Treasury continue to work with regulators, other appropriate government agencies, and the private sector to leverage information across the government and other sources to help inform the financial sector about cyber threats. He also noted the importance of working with institutions of all sizes. He noted he was pleased to see the recommendation for state regulators to work collaboratively on prudential and corporate governance standards for nonbank mortgage servicers, an example of the collaboration that the Council is intended to foster.

Debbie Matz, Chairman of the NCUA, spoke next, joining in thanks for the hard work by Council staff and staff of member agencies on the report. She stated that the process of working together on projects like the annual report has strengthened ties between Council member agencies and organizations, increased collaboration, and created new and important lines of communication. She highlighted some risks and recommendations in this year's report as particularly critical to the credit union sector, including a recommendation that the agencies continue to promote forward-looking capital and liquidity planning, and the risk of increased interest rate volatility. She noted the report's attention to changes in the financial system driven by technology, competitive forces, and new regulations, and stated that the credit union sector would remain attentive to potential implications for financial stability arising from these changes. Finally, she mentioned operational risks, including cybersecurity risks, as an emerging and rapidly changing threat, and stated that this would be an area of continued focus.

Martin Gruenberg, Chairperson of the FDIC, then spoke. He noted that the annual report underscored the value of the Council coming together and identifying key risks. He highlighted the report's treatment of the challenges to financial institutions from interest rate risks; cybersecurity as a key challenge to the financial system; and ongoing risks posed by large, complex financial institutions. He also noted the measures to support increased capital and liquidity requirements for large financial institutions as key steps.

Roy Woodall, the Independent Member with Insurance Expertise, then spoke. He expressed thanks for the staff work on the report and mentioned two specific areas. First, he noted that he appreciated the report's discussion of pension issues, including the increasing transfer of pension liabilities to insurers' books, which he noted he views as a potentially positive development. Mr. Woodall stated that, given the significance of the pension industry, this issue merits close attention. He then mentioned the report's treatment of the increased use of captive reinsurance by some life insurers, and remarked that the report's treatment of this will send an important signal to the state insurance regulators as they address the supervisory issues tied to its use.

Mary Jo White, Chair of the SEC, spoke next. She stated that the report represents hard and collaborative work, and thanked her fellow Council members and staff for developing the report. She noted that cybersecurity is a critical global issue for long-term security, and an area where a multi-regulatory body like the Council can play a constructive coordinating function. She also observed that the report discusses money market funds and reiterates that the SEC is best positioned to implement reforms in this area. She further noted that the report also describes the

SEC's 2013 proposal to reform the structure of money market funds, which included two alternative reforms of a floating net asset value for prime institutional funds and fees and gates to address redemption risks in times of stress. She noted that, as proposed, these reforms could be enacted individually or in combination. She stated that the SEC and the staff are actively engaged and look forward to adopting effective and meaningful reforms to address money market funds' risks.

1. 2014 Annual Report

The Chairperson then asked João Santos, Vice President and Function Head at the Federal Reserve Bank of New York, and Trent Reasons, Senior Policy Advisor at Treasury, to present on some of the key elements of the annual report. Mr. Santos and Mr. Reasons provided a summary of the annual report. They also outlined the nine themes of the annual report: (1) the vulnerability to runs in wholesale funding markets, including tri-party repo and money market mutual funds, that can lead to destabilizing fire sales; (2) risks that can arise from financial innovation, new business practices and the migration of certain financial activities outside of prudential regulation; (3) potential risk-taking incentives of large, complex, interconnected financial institutions; (4) the need for significant reform in the housing finance system, including increased private capital, a reduction in the footprint of government-sponsored enterprises, and improvements in infrastructure; (5) cyber threats and the increase of certain trading-related operational outages and incidents that could cause major disruptions to markets and the financial system; (6) the reliance on certain reference rates that may be susceptible to manipulation, such as the London Interbank Offered Rate (LIBOR) and foreign exchange rates used as benchmarks; (7) the need for financial institutions and market participants to remain vigilant in relation to potential interest rate volatility; (8) possible negative externalities from foreign economies and capital markets that could impact the U.S. financial system; and (9) the importance of closing financial data gaps and improving financial data quality.

After their presentation, the Chairperson thanked them, as well as the large number of staff who collaborated to produce the report. He observed that the report reflects the scope of issues that the Council intends to look at in the year ahead and provides accountability for each member agency by laying out its analysis each year and looking at what has transpired between reports. It also underscores how much progress has been made and how much more resilient the financial system is today than just a few years ago. He observed that the report reflects that there will be no single point in time when one can have a definitive evaluation of everything that needs to be done, because the financial system does not stop changing, and the job of the Council is to keep asking questions about whether there are issues that require vigilance.

The Chairperson then presented to the Council the following resolution approving the publication and transmittal to Congress of the Council's 2014 annual report:

“WHEREAS, the Financial Stability Oversight Council (the “Council”) under the provisions of section 112 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “DFA”) is required to annually report to and testify before Congress on: the activities of the Council; significant financial market and regulatory developments, including insurance and accounting regulations and standards, along with assessment of those developments on the stability of the

financial system; potential emerging threats to the financial stability of the United States; all determinations made section 113 or title VIII of the DFA, and the basis for such determinations; all recommendations made under section 119 of the DFA and the result of such recommendations; and recommendations to enhance the integrity, efficiency, competitiveness, and stability of the United States financial markets; to promote market discipline; and to maintain investor confidence; and

WHEREAS, staff of the Council Members and their Agencies prepared the attached 2014 annual report pursuant to section 112 of the DFA, and members of the Council have reviewed and commented on the attached report.

NOW THEREFORE, BE IT RESOLVED, that the Council approves the attached report prepared under the provisions of section 112 of the DFA and authorizes the Chairperson, or his designee, to take such action as necessary to formally transmit the attached report to the Congress and to otherwise make it available to the public as the Chairperson deems appropriate; and

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 report and to take such other actions as they deem necessary or appropriate to prepare the report for release to the Congress and the public.”

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

2. Consideration of Council Transparency Policy Revisions and Deputies Committee Bylaws

The Chairperson introduced the next agenda item, consideration of proposed enhancements to the Council’s existing transparency policy and new bylaws for its Deputies Committee. The Chairperson began with remarks about the Council’s commitment to working in an open manner. He noted that the Council is continually examining how it can open up more of its work to the public by balancing the Council’s responsibility to be transparent with its central mission to monitor emerging threats to the financial system. He observed that the Council has recognized the importance of transparency since its first meeting in 2010, when it voluntarily adopted a transparency policy. Although not statutorily required, the Council committed to conducting its meetings in public whenever possible and to releasing minutes for all of its meetings. He noted that this was the Council’s twelfth open meeting, going far beyond the official policy of holding at least two open sessions each year.

The Chairperson observed that the Council’s mission requires that Council members frequently discuss supervisory and other market-sensitive data during Council meetings, including information about individual firms, transactions, and markets that require confidentiality. He noted that the Council’s consideration of individual firms under review for potential designation and deliberations about potential risks to financial stability involve information that needs to remain confidential and that does not always become less sensitive with the passage of time.

He noted, however, that within these limitations, the Council has taken a number of important steps to communicate with the public, including its detailed annual reports citing risks to financial stability; the voluntary process through which the Council sought public comment and conducted rulemakings in the designations context; the public release of explanations of all its final designations; and Council members' regular meetings with firms and other stakeholders from across the spectrum.

The Chairperson then introduced Mary Miller, Under Secretary for Domestic Finance at Treasury and the Chairperson of the Council's Deputies Committee, to provide information about two documents for the Council's consideration and vote. Under Secretary Miller began by highlighting some of the ways the Council already makes information about its activities available to the public, including maintaining an active website to provide the public with access to a wide range of materials. She also noted that the Council is committed to communicating directly with companies and industries affected by its work, and continues to look for more ways to give the public clear and useful information.

Under Secretary Miller then provided more background about the two documents the Council would be voting on. With respect to the transparency policy, she stated that last summer, the Deputies Committee began a broad review of the Council's governance framework to review ways in which the Council might enhance its communication with the public. Based on that review, the Deputies Committee identified some important steps to improve public communications. She then outlined the key proposed changes to the transparency policy: (1) to formalize the Council's practice of providing public notice on its website at least seven days before all regularly scheduled meetings; (2) to include preliminary information about the agenda in the notice for each upcoming meeting, including the reasons why certain meetings are held in a closed session; (3) to post to the Council's website immediately after each meeting a brief summary of the topics discussed at that meeting, before the release of formal meeting minutes; and (4) to formalize the practice of releasing its minutes immediately following its next regularly scheduled meeting. She also noted that the Council had already begun to enhance the level of detail in its meeting minutes to help provide the public with as much information as it can about its confidential deliberations.

Under Secretary Miller then described the proposed bylaws of the Council's Deputies Committee, which coordinates and oversees the work of the Council's other staff committees. The bylaws are intended to further clarify the purpose, duties, and composition of the committee, and improve accountability.

Chair Yellen stated that she supported the amendments to the Council's transparency policy and said she encouraged the Council to continue to pursue ways to provide greater transparency. John Huff, Director of the Missouri Department of Insurance, Financial Institutions, and Professional Registration, also noted that he was supportive of the Council's efforts to improve transparency, and noted that state insurance regulators made similar changes to their transparency policy earlier this year with an updated NAIC open meetings policy, and urged federal and state regulators to push for more transparency at the international standard-setting organizations where they participate.

Mr. Woodall noted that he also appreciated the work on the transparency policy, and approved the improvements to the policy, which balance the Council's commitment to openness while preserving the value of the Council as a forum for frank discussions on sensitive issues. He noted that the nature of the Council's work and deliberations is highly sensitive. He also stated that he remains interested in developing an appropriate framework that would be more inclusive toward consultations with primary financial regulators. Finally, he urged greater transparency at international bodies that do work similar to the work of the Council.

The Chairperson then put forward the following resolution to amend the Council's transparency policy.

WHEREAS, the Financial Stability Oversight Council (the "Council") is committed to conducting its business in an open and transparent manner to the extent practicable; and

WHEREAS, at its first meeting, on October 1, 2010, the Council adopted a transparency policy;

WHEREAS, the Council has identified changes to its existing transparency policy that are intended to enhance the Council's communications with the public; and

WHEREAS, the staffs of the Council Members and their Agencies have prepared the attached amended transparency policy (the "Transparency Policy").

NOW, THEREFORE, BE IT RESOLVED, that the Council hereby adopts the Transparency Policy and authorizes the Transparency Policy to be published on the Council's website, in a form and manner acceptable to the Chairperson or his designee.

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 Transparency Policy, and to take such other actions 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 to approve the resolution, which was made and seconded. The Council approved the resolution by unanimous vote.

The Chairperson then presented the following resolution to approve the Deputies Committee's Bylaws.

WHEREAS, section 111(e)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "DFA") provides that the Council shall adopt such rules as may be necessary for the conduct of the business of the Council; and

WHEREAS, on November 23, 2010, the Council approved a committee structure that established a Deputies Committee responsible for coordinating and overseeing the work of the Council's interagency staff committees;

WHEREAS, the staffs of the Council Members and their Agencies have prepared the attached Bylaws of the Deputies Committee of the Financial Stability Oversight Council (“Deputies Committee Bylaws”) in order to enhance the ability of the Deputies Committee to conduct its business for the Council; and

WHEREAS, staff from the Council Members and their Agencies recommend that the Council approve and adopt the Deputies Committee Bylaws.

NOW, THEREFORE, BE IT RESOLVED, that the Council hereby adopts the Deputies Committee Bylaws and authorizes the Deputies Committee Bylaws to be published on the Council’s website, in a form and manner acceptable to the Chairperson, or his designee.

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 Deputies Committee Bylaws, and to take such other actions 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 to approve the resolution, which was made and seconded. The Council approved the resolution by unanimous vote.

3. Resolution Approving the Minutes of the Meeting held on March 27, 2014

“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on March 27, 2014 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 2:39 P.M. (EDT).