

Minutes of the Financial Stability Oversight Council

Held September 4, 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)
Timothy Massad, Chairman, Commodity Futures Trading Commission (CFTC)
Richard Cordray, Director, Consumer Financial Protection Bureau (CFPB)
Melvin Watt, Director, Federal Housing Finance Agency (FHFA) (by telephone)
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
Mary J. Miller, Under Secretary for Domestic Finance
Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council
Eric Froman, Deputy Assistant General Counsel for the Council

Board of Governors of the Federal Reserve System

Daniel K. Tarullo, Governor

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

Clark Ogilvie, Chief of Staff

Consumer Financial Protection Bureau
Steve Antonakes, Deputy Director

Federal Housing Finance Agency
Mario Ugoletti, Special Advisor to the Director

Comptroller of the Currency
Jennifer Kelly, Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner

National Credit Union Administration
John Worth, Chief Economist

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 (by telephone)

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
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:

Resolution Plans Update

- *Scott Alvarez, General Counsel, Federal Reserve*
- *Art Murton, Director, Office of Complex Financial Institutions, FDIC*

Asset Management Update

- *Mary Miller, Under Secretary for Domestic Finance, Treasury*
- *Jon Hertzke, Assistant Director, Division of Investment Management, Risk and Examinations Office, SEC (available for questions)*
- *Lyndsay Huot, Senior Policy Advisor, Treasury (available for questions)*
- *Nellie Liang, Director, Office of Financial Stability Policy and Research, Federal Reserve (available for questions)*
- *Stephen Ledbetter, Corporate Expert, Complex Financial Institutions Division of Risk Management Supervision, FDIC (available for questions)*

Nonbank Financial Company Proposed Designation

- *Todd Cohen, Policy Advisor, Treasury*
- *Felton Booker, Senior Advisor, Banking Supervision and Regulation, Federal Reserve*
- *Diane Fraser, Senior Policy Advisor, Office of the Independent Member with Insurance Expertise*
- *John Nolan, Deputy Director (Financial Stability), Federal Insurance Office*
- *Eric Froman, Deputy Assistant General Counsel for the Council, Treasury*

Fiscal Year 2015 Council Budget

- *Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council*
- *Tom Peddicord, Deputy Director, Corporate Planning and Performance Management, FDIC (available for questions)*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 10:02 A.M. (EDT). He began by thanking Mary Miller, Under Secretary for Domestic Finance at Treasury, for her service as Chairperson of the Council's Deputies Committee. He then outlined the meeting agenda, which had previously been distributed to the members together with copies of the resolutions and other materials. The agenda included the following subjects: (1) a resolution plans update; (2) an asset management update; (3) the proposed designation of a nonbank financial company and consideration of, and a vote on, a resolution approving the proposed designation; (4) consideration of, and a vote on, a resolution approving the Council's 2015 budget; and (5) consideration of, and a vote on, a resolution approving the minutes of the Council's meeting on July 31, 2014.

1. Resolution Plans Update

The Chairperson then introduced the first agenda item, an update related to resolution plans. He introduced Scott Alvarez, General Counsel of the Federal Reserve, and Art Murton, Director of

the Office of Complex Financial Institutions at the FDIC, who provided an update on their agencies' recent review of the largest banks' resolution plans. Title I of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires all bank holding companies (including foreign banks or companies that are treated as bank holding companies pursuant to the International Banking Act of 1978) with total consolidated assets of \$50 billion or more and nonbank financial companies supervised by the Federal Reserve to periodically submit plans for rapid and orderly resolution of the company under the U.S. Bankruptcy Code in the event of material financial distress or failure. The presenters noted that on August 5, 2014, the Federal Reserve and FDIC announced the completion of reviews of the second round of resolution plans that were submitted in 2013 by 11 banking organizations. The Federal Reserve and FDIC identified shortcomings in the plans, including certain unrealistic or inadequately supported assumptions and a failure to make or identify changes in firm structure and practices that would be necessary to enhance the prospects for orderly resolution. The presenters stated that the Federal Reserve and FDIC will work with these banking organizations and will require them to demonstrate that they are making significant progress to address all the shortcomings in their next annual plans submitted by July 1, 2015. After the presentation, members of the Council asked questions and had a discussion.

2. Asset Management Update

The Chairperson introduced the next agenda item, an update related to the Council's work on asset management. He introduced Mary Miller, Under Secretary for Domestic Finance at Treasury. Under Secretary Miller described the history of the Council's asset management review, including the Council's statement in April 2012 that it would further analyze the extent to which there are potential threats to U.S. financial stability arising from asset management companies; the report issued in September 2013 by the Office of Financial Research regarding asset management firms and activities; a discussion by the Council in October 2013 regarding potential approaches for the Council's analysis; and the public asset management conference hosted by the Council in May 2014. She then provided an update, following the Council's direction to staff at its previous meeting, on efforts relating to the analysis of industry-wide products and activities for the Council's ongoing assessment of potential risks associated with the asset management industry. Under Secretary Miller noted the importance of gathering information for the Council's analysis. Council members discussed the work that had been conducted, including work related to analyzing industry-wide and firm-specific risks. After discussing Council members' views of priorities for the analysis of potential risks associated with the asset management industry, the Council directed staff to further develop their detailed work plan for carrying out the analysis of industry-wide products and activities.

3. Nonbank Financial Company Proposed Designation

The Secretary then introduced the next agenda item, which was the proposed designation of a nonbank financial company that the Council previously advanced to stage 3 of the designations process. The Chairperson introduced Todd Cohen, Policy Advisor at Treasury; Felton Booker, Senior Advisor, Banking Supervision and Regulation at the Federal Reserve; Diane Fraser, Senior Policy Advisor at the Office of the Independent Member with Insurance Expertise; John Nolan, Deputy Director (Financial Stability) of the Federal Insurance Office; and Eric Froman,

Deputy Assistant General Counsel for the Council at Treasury. The presenters discussed the analysis of the company. The Chairperson then called on Mr. Froman, who explained that if the Council made a proposed determination, the Council would provide the company with a detailed written explanation of the basis of the proposed determination, and the company would have 30 days to request a hearing before the Council to contest the proposed determination. After any hearing, the Council may make a final determination regarding the company. Following the presentation, Council members discussed the proposed designation.

The Chairperson then presented to the Council the following resolution approving the proposed designation of the nonbank financial company.

“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, 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 and accompanying interpretive guidance (the “Rule and 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 Rule and 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 Council has evaluated a nonbank financial company that the Council previously advanced to stage 3, in accordance with the DFA and the Rule and Guidance, including conducting an assessment of all of the considerations set forth in section 113 of the DFA; and

WHEREAS, the Council has considered a broad range of information available through existing public and regulatory sources, as well as information collected directly from the nonbank financial company; and

WHEREAS, based on the stage 3 evaluation, the staffs of the Council Members and their Agencies recommend that the Council make a proposed determination regarding the nonbank financial company; and

WHEREAS, the Council provided the nonbank financial company with notice when the Council deemed its evidentiary record to be complete, in accordance with the Rule and Guidance; and

WHEREAS, under the provisions of the DFA and the Rule and Guidance, the Council is required to provide the nonbank financial company written notice of a proposed determination of the Council, including an explanation of the basis of the proposed determination.

NOW, THEREFORE, BE IT RESOLVED, that, to avoid the appearance of any uncertainty regarding certain actions previously taken by the Council, the Council hereby ratifies the Resolution Approving the Advancement of a Nonbank Financial Company That Was Considered in Stage 2 to Stage 3 of the Evaluation Process, approved by the Council July 16, 2013.

BE IT FURTHER RESOLVED, that, based on the information, considerations, and analysis set forth in the attached explanation of the basis of the proposed determination, the Council hereby makes a proposed determination, pursuant to section 113 of the DFA, that material financial distress at the nonbank financial company (identified in an attachment hereto) could pose a threat to the financial stability of the United States and that the nonbank financial company shall be supervised by the Federal Reserve and shall be subject to prudential standards, in accordance with Title I of the DFA.

BE IT FURTHER RESOLVED, that the Council has considered and hereby approves the attached notice of proposed determination and explanation of the basis of the proposed determination regarding the nonbank financial company, and authorizes the notice and explanation to be sent to the nonbank financial company.

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 and explanation and the attachments thereto.”

The Chairperson asked for a motion approving the proposed designation and the resolution, which was made and seconded. The Council approved the proposed designation and the resolution. The vote on the proposed designation was 9 in favor and none opposed, with Mr.

Woodall voting “present,” and Director Huff expressed several areas of concern with the basis of the proposed designation.

As a result, the proposed designation fulfilled the requirement that a proposed designation of a nonbank financial company shall be made by a vote of not fewer than two-thirds of the voting members of the Council then serving, including the affirmative vote of the Chairperson of the Council.

4. Council Budget

The Chairperson next introduced the agenda item regarding the Council’s fiscal year 2015 budget. He called on Patrick Pinschmidt, Deputy Assistant Secretary for the Council at Treasury, to give a presentation. Tom Peddicord, Deputy Director, Corporate Planning and Performance Management at the FDIC, was available to answer questions. Mr. Pinschmidt reported on the Council’s proposed budget for fiscal year 2015. The fiscal year 2015 budget totals \$16.3 million. This total includes \$8.7 million budgeted for expenses of the Council Secretariat and the Office of the Independent Member with Insurance Expertise and \$7.6 million for the reimbursement of certain implementation expenses of the FDIC relating to its responsibilities under Title II of the Dodd-Frank Act. Mr. Pinschmidt noted that the Council’s fiscal year 2014 actual expenses were forecasted to be \$1.4 million under budget, due to lower-than-expected non-labor expenses. He also noted that the fiscal year 2015 budget included an increase to the Council Secretariat’s headcount by five full-time equivalent staff. The Chairperson then presented to the Council the following resolution approving the Council’s budget for fiscal year 2015.

“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the Council’s budget for fiscal year 2015 attached hereto is 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. Resolution Approving the Minutes of the Meeting held on July 31, 2014

“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on July 31, 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.

6. Other Business

The Chairperson asked whether there was any other business before the meeting was adjourned. Chairman Massad provided the Council with an update on the CFTC’s evaluation of U.S. parent companies’ terminations of guarantees of swaps transactions conducted by foreign subsidiaries.

In addition, Director Huff noted that his term as a member of the Council was ending. The Chairperson thanked Director Huff for his service.

The Chairperson adjourned the meeting at approximately 11:56 A.M. (EDT).