

## Minutes of the Financial Stability Oversight Council

Held October 6, 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)  
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)  
Adam Hamm, Commissioner, North Dakota Insurance Department (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  
Matthew Rutherford, Acting Under Secretary for Domestic Finance  
Christopher J. Meade, General Counsel  
Patrick Pinschmidt, Deputy Assistant Secretary and 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  
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  
Matthew Reed, Chief Counsel

Federal Insurance Office  
Steven Seitz, Acting Deputy Director (Financial Stability)

Louisiana Office of Financial Institutions  
James Cooper, Senior Vice President, Conference of State Bank Supervisors

North Dakota Insurance Department  
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  
Christopher Staley, Counsel, North American Securities Administrators Association

## PRESENTERS:

### *Asset Management Update*

- *Norm Champ, Director, Division of Investment Management, SEC*
- *David Grim, Deputy Director, Division of Investment Management, SEC*
- *Matthew Rutherford, Acting Under Secretary for Domestic Finance, Treasury (available for questions)*
- *Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council, Treasury (available for questions)*
- *Lyndsay Huot, Senior Policy Advisor, Treasury (available for questions)*

### *Nonbank Financial Company Designations Process*

- *Eric Froman, Deputy Assistant General Counsel for the Council, Treasury*
- *Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council (available for questions)*

### *Request for Oral Hearing by a Nonbank Financial Company*

- *Eric Froman, Deputy Assistant General Counsel for the Council, Treasury*

### *Office of Financial Research Presentation on Data Gaps and Data Quality*

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

## **Executive Session**

The Chairperson called the executive session of the meeting of the Council to order at approximately 2:04 P.M. (EDT). He welcomed Commissioner Adam Hamm of the North Dakota Insurance Department to his first Council meeting. 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) an update on staff work related to asset management; (2) a discussion of changes proposed by stakeholders to the nonbank financial company designations process; and (3) consideration of, and a vote on, a request for an oral hearing by a nonbank financial company.

### 1. Asset Management Update

The Chairperson then introduced the first agenda item, an update on staff work related to asset management. The Chairperson cited the Council's previous discussions regarding the asset management industry and noted that the Council had previously directed staff to further develop their detailed work plan for carrying out the analysis of industry-wide products and activities. The Chairperson then outlined potential areas of focus and risks across the industry, as well as possible processes for seeking input and evaluating information from market participants and other stakeholders. He then introduced Matthew Rutherford, Acting Under Secretary for Domestic Finance at Treasury; Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council at Treasury; and Lyndsay Huot, Senior Policy Advisor at Treasury. Members of the Council then asked questions and had a discussion, including about potential risks, the availability of necessary information, and the timing of next steps. The Chairperson

then introduced David Grim, Deputy Director of the Division of Investment Management at the SEC, who provided an update on recent market developments. Members of the Council asked questions and had a discussion. The Chairperson then introduced Norm Champ, Director of the Division of Asset Management at the SEC, who provided an update on asset manager risk management policy initiatives by the SEC. Following the presentation, members of the Council asked questions and had a discussion regarding the SEC's efforts and timeframe.

## 2. Nonbank Financial Company Designations Process

The Chairperson introduced the next agenda item, a discussion regarding the nonbank financial company designations process. The Chairperson introduced Eric Froman, Deputy Assistant General Counsel for the Council at Treasury, who provided an overview of certain changes that had been proposed by stakeholders to the process for reviewing companies for potential designation. The members of the Council asked questions and had a discussion about the proposals. The Council directed staff to continue to review and evaluate these and other potential changes for further discussion, including by continuing to reach out to the financial industry, the advocacy community, and others for input.

## 3. Request for Oral Hearing by a Nonbank Financial Company

The Chairperson introduced the next agenda item, consideration of, and a vote on, a request for an oral hearing by a nonbank financial company with respect to which the Council had made a proposed determination under section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. He then introduced Eric Froman, Deputy Assistant General Counsel for the Council at Treasury, to review the statutory framework and the Council's hearing procedures.

The Chairperson then presented to the Council the following resolution approving the request for an oral hearing by a 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, 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, on April 4, 2013, the Council adopted amended hearing procedures (the “Council Hearing Procedures”) that govern hearings to be conducted by the Council in connection with proposed determinations under section 113 of the DFA; and*

*WHEREAS, under section 113 of the DFA and under the Rule and Guidance, a nonbank financial company subject to a proposed determination may request an opportunity for a written or oral hearing before the Council to contest the proposed determination; and*

*WHEREAS, under the Council Hearing Procedures, any request for an oral hearing shall specify why the Council should exercise its discretion to grant such a hearing; and*

*WHEREAS, under section 113 of the DFA and under the Rule and Guidance, upon receipt of a timely request for a written or oral hearing, the Council shall fix a time and place at which a nonbank financial company may appear to submit written materials (or, at the sole discretion of the Council, oral testimony and oral argument); and*

*WHEREAS, under the Council Hearing Procedures, upon receipt of a timely written request for a hearing, the Chairperson of the Council shall appoint a hearing clerk with respect to such hearing; and*

*WHEREAS, on September 4, 2014, the Council made a proposed determination regarding a nonbank financial company (identified in an attachment hereto), and provided such nonbank financial company written notice of the proposed determination, including an explanation of the basis of the proposed determination; and*

*WHEREAS, the Council provided such nonbank financial company an opportunity to request a hearing before the Council to contest the proposed determination; and*

*WHEREAS, in accordance with the Council Hearing Procedures, on October 3, 2014, such nonbank financial company timely requested an oral hearing before the Council and specified why the Council should exercise its discretion to grant such an oral hearing.*

*NOW, THEREFORE, BE IT RESOLVED, that the Council hereby grants the request by the nonbank financial company (identified in an attachment hereto) for an oral hearing to contest the Council’s proposed determination.*

*BE IT FURTHER RESOLVED, that the Council hereby approves the attached form of hearing order and authorizes the hearing clerk to issue an order in such form.*

*BE IT FURTHER RESOLVED, that the Council hereby delegates authority to the hearing clerk to make technical, nonsubstantive, or conforming changes to the text of the attached hearing order.*

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

The Chairperson then introduced Richard Berner, Director of the Office of Financial Research (OFR), who provided a brief introduction to the topic of data gaps and data quality.

The Chairperson adjourned the executive session of the meeting at approximately 3:15 P.M. (EDT).

## **Open Session**

The Chairperson called the open session of the Council meeting to order at approximately 3:21 P.M. (EDT). The agenda for the open session of the meeting included (1) a presentation from Director Berner on data gaps and data quality, and (2) consideration of, and a vote on, a resolution approving the minutes of the Council's meeting on September 4, 2014.

The Chairperson began by welcoming Adam Hamm, Commissioner of North Dakota's Insurance Department, to the Council and thanking his predecessor, John Huff, Director of the Missouri Department of Insurance, Financial Institutions, and Professional Registration, for his service. The Chairperson also made brief remarks on the Council's nonbank financial company designations process. He observed that among the many factors that caused the recent financial crisis was an outdated regulatory structure with no single authority accountable for identifying, monitoring, and addressing risks to financial stability. He explained that the Council brings together federal and state regulators to collaborate and respond to potential threats to financial stability. He noted that the ability to designate certain nonbank financial companies for Federal Reserve supervision is among its tools for fulfilling its mission. The Chairperson noted the Council's process for considering companies for potential designation, which, among other things, allows extensive interaction with companies under consideration. He also noted that the Council is a relatively young organization and is committed to improving its effectiveness and engaging with the public. The Chairperson stated that the Council had reviewed suggestions received in recent months for changes to the designations process, and had asked Council staff to continue its outreach to stakeholders and to report back to the Council in the coming months so that the Council can consider possible changes to its process.

### **1. OFR Presentation on Data Gaps and Data Quality**

Director Berner presented on three OFR initiatives that address data-related recommendations in the Council's 2014 annual report. As an introduction, he explained that the financial crisis revealed significant gaps in the data available to regulators.

First, Director Berner described the OFR's cooperation with the CFTC to improve data quality in swap data repositories. The OFR and CFTC announced in March a memorandum of understanding for a joint project to enhance the quality, types, and formats of data collected from registered swap data repositories. The OFR and the CFTC have since completed a second agreement for OFR and CFTC staff to temporarily collaborate on the project. Director Berner thanked the CFTC and its Chairman for their collaboration.

Second, Director Berner presented on the legal entity identifier (LEI) data standard. Director Berner noted that the LEI has gone from concept to full-fledged operational system in just a few

years and is being used in reporting requirements around the world, with over 300,000 LEIs provided to legal entities in 180 countries. Director Berner explained that despite this progress, greater adoption is necessary to bring efficiencies to reporting entities and useful information to the Council. He noted that the OFR and the Council have called for mandatory LEI use in regulatory reporting when appropriate, so that the full benefits of the LEI can be realized.

Third, Director Berner presented on the ongoing project relating to bilateral repurchase agreement (or “repo”) market data. He noted that the OFR and the Federal Reserve have worked together to gather data about the repo market. The SEC also has been a key contributor to the project and will have access to the data collected. Director Berner stated that the project would bring more transparency to a short-term funding market that is instrumental in providing liquidity to keep the global financial system operating. Director Berner stated that he expected data gathering would begin early next year for a pilot project focusing on the bilateral repo market, where the data gaps are largest.

The Chairperson asked Director Berner about shadow banking entities and their exposures, citing a recent International Monetary Fund report on the topic. Director Berner explained that liquidity and funding maps provide a template for the detailed data needed to understand shadow banking activities. He stated that the repo data collection project will help fill data gaps in these markets.

The Chairperson also asked Director Berner what the next steps are for using data standards in regulatory reporting. Director Berner answered that the next step is for regulators to use the LEI wherever possible. Beyond that, he encouraged development of other standard identifiers, such as universal loan identifiers.

Timothy Massad, Chairman of the CFTC, thanked Director Berner for the OFR’s collaboration with the CFTC. He emphasized the importance of data efforts in the over-the-counter derivatives market, noting the substantial progress since 2008, but also recognizing the significant work left to be done.

Thomas Curry, Comptroller of the Currency, commented that the LEI is an important development as a regulatory information and oversight tool. He noted that the Federal Financial Institutions Examination Council, which he chairs, established an LEI working group to better use the LEI in data analytics and supervision efforts.

Martin Gruenberg, Chairman of the FDIC, then asked Director Berner to discuss the data gaps that still exist. Director Berner replied that there are gaps across the system and that he would like to report back to the Council on this question.

Mary Jo White, Chair of the SEC, commented that the SEC has begun incorporating the LEI and would continue seeking opportunities to do so. She also expressed support for the bilateral repo project. She then asked Director Berner what analyses the collected data would support. Director Berner responded that the data would help answer questions about the bilateral repo market’s size and maturity structure. It would also show the types of counterparties that typically lend and borrow. Director Berner stated that he expected that analyzing these data

ultimately would improve the ability to analyze factors behind the demand for short-term liquid assets and help develop policy tools to mitigate vulnerabilities.

Michael McRaith, Director of the Federal Insurance Office, then expressed his thanks for the OFR's LEI work and asked Director Berner for his views on how the insurance industry has responded to the LEI. Director Berner noted the importance of insurers to the LEI initiative. He reported that insurers, as major participants in the derivatives market, already are subject to CFTC rules and use LEIs for over-the-counter derivative transaction counterparties. Moreover, Director Berner stated that the state insurance regulators, through the National Association of Insurance Commissioners, already adopted the LEI for annual financial statement reporting of insurer investments.

Richard Cordray, Director of the CFPB, noted that a current CFPB proposal related to the Home Mortgage Disclosure Act incorporates the LEI. He commented positively on the OFR's LEI efforts and stated that they would benefit both industry and regulators.

John Ducrest, Commissioner of the Louisiana Office of Financial Institutions, asked Director Berner about the interplay of the National Mortgage Licensing System & Registry Unique Identifier and the LEI. In response, Director Berner stated that the LEI is designed to support the financial system as a whole, and can connect and coexist with other unique identifiers. He also noted the potential to realize benefits by linking different identifiers.

The Chairperson noted that Director Berner's presentation raised important issues necessary to improve the visibility into future risks. He thanked Director Berner and his team for their work and expressed the hope that they would continue working with the Council to improve data quality to enhance the ability to identify risks to financial stability and build the tools to respond if necessary.

## 2. Resolution Approving the Minutes of the Meeting held on September 4, 2014

*“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on September 4, 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 3:51 P.M. (EDT).



**ATTACHMENT**

**Financial Stability Oversight Council**

**[Name of Company]**

**Order for Written [and Oral] Hearing[s]**

1. Background. Under section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Financial Stability Oversight Council (Council) notified [name of Company] (Petitioner) on [date], that the Council had made a proposed determination that material financial distress at the Petitioner could pose a threat to the financial stability of the United States and that the Petitioner shall be supervised by the Board of Governors of the Federal Reserve System and be subject to prudential standards. On [date], the Petitioner timely submitted a written request for a written [and oral] hearing to contest the Council's proposed determination, in accordance with section 113(e)(2) of the Dodd-Frank Act and section 3(b) of the Council Hearing Procedures. [On [date], the Council voted to [grant/deny] the Petitioner's request for an oral hearing.]
  
2. Hearing Clerk. In accordance with section 3(c) of the Council Hearing Procedures, the Chairperson of the Council has appointed the undersigned to serve as the Hearing Clerk. The Hearing Clerk will serve as the central point of contact for the Petitioner. The Petitioner may communicate with the Hearing Clerk regarding any questions or requests regarding the hearing at:  
  
[e-mail address]  
[telephone number]  
[address]
  
4. Date[s] of hearing. The Petitioner hereby is directed to—

(a) Submit all written materials [(except supplemental materials permitted under paragraph (4)(c))] to the Council not later than [insert date (1) if no oral hearing, within 30 days after the date of the hearing request or (2) if oral hearing, not later than 10 days prior to the date in paragraph 4(b)];

[(b) Appear [before the Council] at the oral hearing to be conducted at [time] on [date], at [location]]; and

(c) Submit any written materials to supplement any materials presented during the oral hearing not later than [insert date 7 days after date of oral hearing].]

5. Form of submission. The Petitioner shall submit a written statement setting forth the reasons, legal and factual, for contesting the proposed determination. The Petitioner may submit relevant exhibits in support of the written statement.

The written statement must—

- (a) Be in the form of a memorandum, which may refer as appropriate to any materials previously submitted to the Council;
- (b) Include a table of contents and, if applicable, a list of exhibits;
- (c) Include an executive summary; and
- (d) Be submitted electronically to the Hearing Clerk.

6. [Conduct of the oral hearing. The oral hearing is scheduled for [xx] minutes. The Petitioner may allocate the time of the oral hearing at its discretion, subject to reserving 30 minutes to respond to questions. Not later than four days before the oral hearing, the Petitioner shall electronically submit to the Hearing Clerk a list of the individuals who are scheduled to appear for the Petitioner at the oral hearing, with each individual's title and a brief description of the nature of his or her presentation.]

7. [Transcript. The Hearing Clerk will arrange for a transcript of the oral hearing. The Petitioner may either inspect or obtain a copy of the transcript. Not later than two days after being notified that the transcript is available for review or delivery thereof, the Petitioner may submit to the

Hearing Clerk a signed statement (which may be transmitted electronically) reciting any corrections in form or substance to the transcript and the basis for making each of those corrections, after which the Hearing Clerk will arrange for the transcript to be finalized.]

8. Confidentiality. The Council will maintain the confidentiality of any information or materials submitted or otherwise obtained in the course of any hearing conducted under the Council Hearing Procedures, subject to applicable law and regulations. The Council's rule implementing the Freedom of Information Act, 12 C.F.R. Part 1301, applies to any information submitted in any written or oral hearing.
9. Dismissal of hearing. The Council may dismiss a hearing upon the request of the Petitioner or if the Petitioner fails to timely submit written materials.

\_\_\_\_\_  
[Name]  
[Title]

Date: \_\_\_\_\_