

Minutes of the Financial Stability Oversight Council

Held September 21, 2015

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 (OFR), Department of the Treasury (nonvoting 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)
Melanie Lubin, Securities Commissioner, Maryland Office of the Attorney General, Securities Division (non-voting member)

GUESTS:

Department of the Treasury

Sarah Bloom Raskin, Deputy Secretary of the Treasury
Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council
Eric Froman, Deputy Assistant General Counsel for the Council
Mark Kaufman, Counselor to the Deputy Secretary

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

Art Murton, Director, Office of Complex Financial Institutions

Securities and Exchange Commission

Nathaniel Stankard, Deputy Chief of Staff

Commodity Futures Trading Commission

Lawranne Stewart, Special Counsel

Consumer Financial Protection Bureau
Meredith Fuchs, Acting 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
Ralph Monaco, 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
Greg Feldberg, Senior Associate Director

Federal Insurance Office
Steven Seitz, 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

Maryland Office of the Attorney General, Securities Division
Joseph Brady, General Counsel, North American Securities Administrators Association

PRESENTERS:

Update on International Market Developments

- *Ramin Toloui, Assistant Secretary for International Finance, Treasury*

Update on Review of Asset Management Products and Activities

- *Lyndsay Huot, Deputy Director of Policy, Treasury*
- *Stephen Ledbetter, Director of Policy, Treasury (available for questions)*

Update on Central Counterparties

- *Lyndsay Huot, Deputy Director of Policy, Treasury*

- *Robert Wasserman, Chief Counsel, Division of Clearing and Risk, CFTC*
- *Pen Starke, Assistant General Counsel, FDIC*
- *Travis Nesmith, Section Chief, Quantitative Risk Analysis, Federal Reserve*
- *Gary Goldsholle, Deputy Director, Division of Trading and Markets, SEC (available for questions)*
- *Christian Sabella, Counsel, Division of Trading and Markets, SEC (available for questions)*

Fiscal Year 2016 Council Budget

- *Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council, Treasury*
- *Mark Stevens, Director of Operations for the Council, Treasury (available for questions)*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 4:02 P.M. (EDT). The Chairperson outlined the meeting agenda, which had previously been distributed to the members together with copies of the resolutions and other materials. The agenda for the meeting included the following subjects: (1) an update on international market developments; (2) an update on the Council's review of asset management products and activities; (3) an update on central counterparties; (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, 2015. The Chairperson welcomed Commissioner Melanie Lubin of the Maryland Office of the Attorney General, Securities Division, to her first Council meeting.

1. Update on International Market Developments

The Chairperson introduced the first agenda item and turned to Ramin Toloui, Assistant Secretary of the Treasury for International Finance, who presented an update on international market developments related to China. He focused on three factors: the Chinese economy, Chinese equity markets, and foreign exchange markets. He noted that the Chinese economy had recently slowed, although services growth had performed better than industrial production and investment. He described recent actions by the Chinese government and central bank, including monetary and regulatory policy actions. With respect to Chinese equity markets, he described recent market fluctuations and actions the Chinese government has taken in response to those fluctuations. He also described recent Chinese policy changes with respect to exchange rates. Turning to channels for the potential transmission of stress, he noted that China is more connected economically than financially to the rest of the world and that foreign portfolio investments in China are relatively small. He noted that there could, however, be effects through the real economy, for example in emerging markets that supply commodities, as well as effects on investor confidence in global markets. He also noted that a lack of transparency into the Chinese economy increased the challenges of analyzing these issues. Following the presentation, members of the Council asked questions and had a discussion, including regarding market reactions to the fluctuations in exchange rates and the effects of these developments on various classes of U.S. financial institutions.

2. Update on Review of Asset Management Products and Activities

The Chairperson then introduced the next agenda item, an update on the staff evaluation of potential financial stability risks arising from asset management products and activities. The Chairperson introduced Lyndsay Huot, Deputy Director of Policy at Treasury, who provided a progress update on the ongoing staff efforts. She explained that staff had prioritized the areas for evaluation following their review of public comment letters and other relevant information and are conducting further analysis of potential financial stability risks in these areas. She noted that staff had organized their analysis of whether certain asset management products and activities could pose risks to U.S. financial stability into six categories, which were addressed in the Council's December 24, 2014, request for public comment: liquidity and redemption risk; leverage; securities lending; data and disclosure; operational risks of service provider concentrations; and resolvability and transition planning. She noted that staff expected to work on an interagency basis to evaluate potential risks, consider any relevant existing or proposed regulations, take into account public comment letters submitted to the Council and other data, and assess whether available information is sufficient to assess the extent of any potential risks to financial stability. After the presentation, members of the Council asked questions and had a discussion, including regarding the importance of the Council's work focusing on potential risks to financial stability and of the Council coordinating with all Council member agencies with relevant expertise.

3. Update on Central Counterparties

The Chairperson then introduced the next agenda item, an update about central counterparties (CCPs). The Chairperson introduced Lyndsay Huot, Deputy Director of Policy at Treasury; Robert Wasserman, Chief Counsel of the Division of Clearing and Risk at the CFTC; Pen Starke, Assistant General Counsel at the FDIC; and Travis Nesmith, Section Chief, Quantitative Risk Analysis at the Federal Reserve. Ms. Huot noted that staff had briefed the Council regarding CCPs in March 2015 and were now providing an update regarding progress on key issues. She noted that staff had prioritized three CCP-related risk areas that had been highlighted in the Council's 2015 annual report: CCP credit, default, and liquidity risk management; interactions between banks and CCPs and related risk management; and CCP recovery and resolution planning. She informed the Council that staff were working to identify any outstanding risks with financial stability implications, discuss significant policy considerations and questions, and consider potential policy recommendations, if necessary. She also noted that U.S. regulatory agencies were working separately with relevant international bodies regarding these issues.

Mr. Wasserman then described the ongoing staff analysis of CCP risk areas. He noted that interagency discussions of CCP credit risk and default management had explored issues including the allocation of default waterfall components and risk management incentives, CCP clearing members' modeling of exposures, and the evaluation of loss absorption capacity standards. With respect to CCP liquidity risk management, he noted that discussions had addressed issues including the nature of liquidity exposures, the sufficiency of existing standards, and key challenges. He also noted that staff will be considering CCP risk management governance and potential risks arising from the expansion of centrally clearable products to

include more-complex or less-liquid products. With respect to interactions between banks and CCPs, Mr. Wasserman noted that the ongoing interagency discussions were addressing topics including banks' practices for managing exposures to CCPs; supervisory frameworks for banks' measurement, management, and control of exposures to CCPs; and potential financial stability risks from interconnections between banks and CCPs. He noted that certain reporting rules related to CCPs are in place and that CCPs will begin releasing enhanced public disclosures by January 2016.

Mr. Starke then presented on the ongoing interagency discussions regarding resolution planning. He noted that relevant agencies have been engaged in discussions with respect to planning for the potential resolution of a CCP and had established information-sharing arrangements to advance these resolution-planning efforts. He also noted the importance of continuity of service in the context of a CCP resolution. Ms. Huot noted that the interagency work was continuing regarding these issues and that CCPs were expected to be addressed in the Council's 2016 annual report. After the presentation, the Chairperson thanked staff working on these issues.

4. Council Budget

The Chairperson next introduced the agenda item regarding the Council's fiscal year 2016 budget. He called on Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council at Treasury, to give a presentation. Mr. Pinschmidt reported on the Council's proposed budget for fiscal year 2016. The fiscal year 2016 budget includes \$8.1 million budgeted for expenses of the Council Secretariat at Treasury and the Office of the Independent Member with Insurance Expertise and \$6.6 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 2016 proposed expenses were less than the fiscal year 2015 budget, driven by factors including reduced estimates of administrative and information technology costs. He also noted that the fiscal year 2016 budget included an increase to the Council Secretariat's headcount, to a total of 31. In addition, he noted that expenses for FDIC reimbursement had decreased 14 percent from the previous year, attributable largely to reduced expenses related to Title II rule writing. The Chairperson then presented to the Council the following resolution approving the Council's budget for fiscal year 2016.

“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the Council’s budget for fiscal year 2016 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 without objection.

5. Resolution Approving the Minutes of the Meeting held on July 31, 2015

“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on July 31, 2015 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 without objection.

The Chairperson adjourned the meeting at approximately 5:26 P.M. (EDT).