

Minutes of the Financial Stability Oversight Council

Held March 2, 2016

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 (Treasury)

Sarah Bloom Raskin, Deputy Secretary of the Treasury
Antonio Weiss, Counselor to the Secretary
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

Jason Cave, Special Advisor to the Chairman for Supervisory Matters

Securities and Exchange Commission

Nathaniel Stankard, Deputy Chief of Staff

Commodity Futures Trading Commission

Lawranne Stewart, Special Counsel

Consumer Financial Protection Bureau

Ron Borzekowski, Assistant Director for Research

Federal Housing Finance Agency

Sandra Thompson, Deputy Director, Division of Housing Mission and Goals

Comptroller of the Currency

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

National Credit Union Administration

Scott Borger, Senior Economist

Office of the Independent Member with Insurance Expertise

Diane Fraser, Senior Policy Advisor

Office of Financial Research

Stacey Schreft, Deputy Director for Research and Analysis

Federal Insurance Office

Steven Seitz, Deputy Director (Financial Stability)

Louisiana Office of Financial Institutions

Michael Stevens, Senior Executive 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

Christopher Staley, Counsel, North American Securities Administrators Association

PRESENTERS:

Update on Market Developments

- *Tim Clark, Deputy Director, Division of Banking Supervision and Regulation, Federal Reserve*
- *Ramin Toloui, Assistant Secretary for International Finance, Treasury*

2016 Annual Report

- *Trent Reasons, Director of Analysis, Treasury*
- *Erik Heitfield, Assistant Director, Research and Statistics, Federal Reserve*

Annual Reevaluation of Nonbank Financial Company Designation

- *Steven Seitz, Deputy Director (Financial Stability), Federal Insurance Office, Treasury*
- *Bruce Saul, Senior Policy Analyst, Federal Insurance Office, Treasury*
- *Stephen Ledbetter, Director of Policy, Treasury (available for questions)*
- *Eric Froman, Deputy Assistant General Counsel for the Council, Treasury (available for questions)*

Update on Review of Asset Management Products and Activities

- *Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council, Treasury*
- *Charles Cohen, Deputy Director of Analysis, Treasury*
- *Stephen Ledbetter, Director of Policy, Treasury*
- *Lyndsay Huot, Deputy Director of Policy, Treasury (available for questions)*
- *Nellie Liang, Director, Office of Financial Stability Policy and Research, Federal Reserve (available for questions)*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 1:06 P.M. (EST). He 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 market developments; (2) the Council's 2016 annual report; (3) the annual reevaluation of a previously designated nonbank financial company, MetLife, Inc. (MetLife), (4) an update on the Council's review of asset management products and activities; and (5) consideration of, and a vote on, a resolution approving the minutes of the Council's meeting on January 28, 2016.

1. Update on Market Developments

The Chairperson introduced the first agenda item and turned to Tim Clark, Deputy Director of the Division of Banking Supervision and Regulation at the Federal Reserve, who presented an update on recent developments related to the European banking sector. Mr. Clark described various market indicators of potential stress related to European banks, including share price performance, credit default swap spreads, and contingent capital yields. Mr. Clark noted that factors driving a weak outlook for European banks included a slowdown in global growth, the low interest rate environment, exposures to emerging markets, and exposures to the energy sector. He stated that there were no signs at this time of significant liquidity stress on European banks, especially the largest banks, although he noted that increased market volatility or any credit rating downgrades could pose potential risks. He also noted that European banks would be required to continue to build capital before additional regulatory requirements under the Basel III standards become effective in 2019. Following the presentation, members of the Council asked questions and had a discussion, including regarding exposures of U.S. banks. Mr. Clark noted that direct exposures of U.S. global systemically important banks to the largest European banks are modest, but that indirect exposures could be more significant in the event of market disruptions. He explained that the Federal Reserve monitors these and other exposures, including through stress tests.

Later in the meeting, Ramin Toloui, Assistant Secretary for International Finance at Treasury, presented on European economic developments. Mr. Toloui noted that while euro-area gross domestic product growth has improved, it remains too weak and inflation is significantly below the European Central Bank's target. He described recent European developments related to migrant-related government spending, as well as risks including the potential for the United Kingdom to leave the European Union, ongoing negotiations between Greece and its creditors, and political developments throughout the region. Council members then asked questions and had a discussion.

2. 2016 Annual Report

The Chairperson introduced Trent Reasons, Director of Analysis at Treasury, and Erik Heitfield, Assistant Director for Research and Statistics at the Federal Reserve, to present on the next agenda item, the Council's 2016 annual report. Mr. Reasons noted that there had been extensive engagement with staffs from across the Council member agencies in drafting the report. Mr. Heitfield described structural vulnerabilities and emerging threats to financial stability that could be included in the report. Members of the Council then asked questions and had a discussion, including regarding the presentation of certain risks in the report and the importance of focusing both on new issues and on ongoing risks that have been addressed in the Council's previous annual reports.

3. Annual Reevaluation of Designated Nonbank Financial Company

The Chairperson then introduced the next agenda item, the annual reevaluation of a nonbank financial company, MetLife, that the Council had designated in 2014 under section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Chairperson noted that this was the first annual review of the designation of MetLife. He introduced Steven Seitz, Deputy Director (Financial Stability) of the Federal Insurance Office, and Bruce Saul, Senior Policy Analyst at the Federal Insurance Office. Mr. Seitz explained that under the Dodd-Frank Act, the Council is required at least annually to reevaluate each previous designation and rescind a designation if the Council determines that the company no longer meets the statutory standards for designation. He noted that annual reevaluations focus on material changes with respect to the companies or the markets in which they operate. Mr. Seitz also noted that staff had contacted MetLife in October 2015 to invite the company to meet with staff and submit materials for the annual reevaluation, and he stated that the company had submitted a letter requesting a rescission of its designation but had not requested a meeting with staff. He said that staff had consulted with certain of the company's state and federal regulators, including its lead state insurance regulator, during the annual reevaluation. He then presented on the analysis and conclusions related to MetLife, including staff's review of information submitted by the company to the Council during the annual reevaluation. He noted that MetLife had announced a plan to pursue a separation of certain of its businesses but that the structure and completion of the transaction were uncertain. Mr. Saul then explained the threat the company's material financial distress could pose to U.S. financial stability arising from market participants' exposures to MetLife and potential asset liquidations by MetLife in the event of liquidity strains at the company. Mr. Saul also described potential risks arising from the company's substitutability and resolvability, and

he noted the company's existing regulatory scrutiny. Based on the analysis, and in light of the standard for designations under section 113, staff recommended that the Council not rescind its final determination with respect to MetLife. The Chairperson then asked whether there were any questions. Michael McRaith, Director of the Federal Insurance Office, expressed his agreement with and support for the staff analysis and recommendation that the designation not be rescinded.

The Chairperson then presented to the Council the following resolution regarding the reevaluation of the Council's determination regarding MetLife.

"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, section 113(d) of the DFA requires the Council not less frequently than annually to reevaluate each determination regarding a nonbank financial company under section 113 and rescind any such determination if the Council determines that the nonbank financial company no longer meets the standards for a determination under section 113; and

WHEREAS, the Council issued a final rule and accompanying interpretive guidance (the "Rule and Guidance"), codified at 12 C.F.R. Part 1310, and adopted supplemental procedures on February 4, 2015, that describe the processes and procedures by which the Council will reevaluate each currently effective determination; and

WHEREAS, on December 18, 2014, the Council made a final determination, in accordance with the DFA and the Rule and Guidance, that MetLife, Inc. ("MetLife") shall be supervised by the Federal Reserve and shall be subject to enhanced prudential standards under the DFA; and

WHEREAS, in connection with the Council's reevaluation of its determination regarding MetLife, the Council provided MetLife an opportunity to submit written materials to the Council to contest the Council's determination and to meet with the staffs of the Council Members and their Agencies; and

WHEREAS, MetLife submitted materials to the Council in connection with the Council's reevaluation of its determination regarding MetLife; and

WHEREAS, the Council has considered a broad range of information available through existing public and regulatory sources, as well as information submitted to the Council by MetLife; and

WHEREAS, based on the reevaluation of MetLife, the staffs of the Council Members and their Agencies recommend that the Council not rescind its determination regarding MetLife; and

WHEREAS, the members of the Council have considered the issues and the record in connection with the following actions.

NOW, THEREFORE, BE IT RESOLVED, that, based on the information, considerations, and analysis set forth in the attached “Notice and Explanation of the Basis for the Financial Stability Oversight Council’s Decision Not To Rescind its Determination Regarding MetLife, Inc.” (the “Reevaluation Notice”), and on a review of the administrative record, the Council hereby does not rescind its determination, pursuant to section 113 of the DFA, that material financial distress at MetLife could pose a threat to the financial stability of the United States and that MetLife 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 hereby authorizes the Reevaluation Notice to be sent to MetLife and its primary financial regulatory agencies.

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 Reevaluation Notice.”

The Chairperson asked for a motion approving the resolution, which was made and seconded. The Council approved the resolution by a vote of 9 to 1, with Mr. Woodall dissenting.

4. 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 risks to financial stability arising from asset management products and activities. He noted that the purpose of this discussion was to discuss potential risks to financial stability and potential next steps. The Chairperson then introduced Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council at Treasury, to provide an overview of the staff work.

Mr. Pinschmidt noted that staff had worked on an interagency basis to identify key areas of potential financial stability risks for potential next steps. He said that staff would work to enable the Council to issue a public statement in the spring providing a progress update on these efforts. Mr. Pinschmidt then introduced Charles Cohen, Deputy Director of Analysis at Treasury. Mr. Cohen presented on the interagency staff’s analysis of potential liquidity and redemption risks arising from asset management products and activities, including factors affecting the materiality of those potential risks. He also described proposed rules regarding fund liquidity risk management that the SEC had issued for public comment, and explained potential means for addressing potential financial stability concerns. Stephen Ledbetter, Director of Policy at Treasury, then presented on the interagency staff analysis regarding potential risks to financial stability arising from leverage at investment vehicles. He also described factors affecting the materiality of those risks in hedge funds and in registered funds. He explained regulations and practices that directly or indirectly limit funds’ leverage. He then described potential next steps and limitations on existing data regarding leverage.

The Council then asked questions and had a discussion, including regarding the importance of additional data to assess potential risks arising from leverage and areas of regulatory fragmentation or gaps. Mr. Pinschmidt then explained the staff's analysis of potential risks arising from securities lending, service provider concentrations, and resolvability and transition planning.

5. Resolution Approving the Minutes of the Meeting held on January 28, 2016

“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on January 28, 2016 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 2:57 P.M. (EST).