

## Minutes of the Financial Stability Oversight Council

Held November 16, 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)  
Rick Metsger, 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 (non-voting member)  
Michael McRaith, Director, Federal Insurance Office, Department of the Treasury (non-voting member)  
Ray Grace, Commissioner, North Carolina Office of the Commissioner of Banks (non-voting member)  
Peter Hartt, Director, Insurance Division, New Jersey Department of Banking & Insurance (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  
Jonah Crane, Deputy Assistant Secretary for the Council  
Eric Froman, Deputy Assistant General Counsel and Executive Director of the Council  
Mark Kaufman, Counselor to the Deputy Secretary

#### Board of Governors of the Federal Reserve System

Daniel Tarullo, Governor (executive session only)  
Laurie Schaffer, Associate General Counsel

#### 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  
Grace Dailey, 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  
Charles Klingman, Senior Policy Advisor

Federal Reserve Bank of New York  
William Dudley, President and Chief Executive Officer (by telephone)

Office of Financial Research  
Stacey Schreft, Deputy Director for Research and Analysis

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

North Carolina Office of the Commissioner of Banks  
Margaret Liu, Senior Vice President and Deputy General Counsel, Conference of State Bank Supervisors

New Jersey Department of Banking & Insurance  
Mark Sagat, Assistant Director, 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:

### *Central Counterparty Stress Tests*

- *Jeff Bandman, Acting Director, Division of Clearing and Risk, CFTC*
- *James Marcello, Assistant Director, Division of Clearing and Risk, CFTC*
- *Glenn Schmeltz, Risk Analyst, Division of Clearing and Risk, CFTC*
- *Steve Greska, Associate Director, Division of Clearing and Risk, CFTC (available for questions)*
- *John Lawton, Deputy Director, Division of Clearing and Risk, CFTC (available for questions)*

### *Update on Annual Reevaluation of Nonbank Financial Company Designation*

- *Steven Seitz, Deputy Director (Financial Stability), Federal Insurance Office, Treasury*
- *Satyam Khanna, Policy Analyst, Treasury*
- *Eric Froman, Principal Deputy Assistant General Counsel (Banking and Finance) and Executive Director of the Council, Treasury (available for questions)*
- *Stephen Ledbetter, Director of Policy, Treasury (available for questions)*

### *Confidential Data Related to the Review of Asset Management Products and Activities*

- *Jonah Crane, Deputy Assistant Secretary for the Council, Treasury*
- *Charles Cohen, Deputy Director of Analysis, Treasury*
- *Stephen Ledbetter, Director of Policy, Treasury (available for questions)*

### *Alternative Reference Rates Committee Update*

- *Jerome H. Powell, Governor, Federal Reserve*

### *Update on Review of Asset Management Products and Activities*

- *Jonah Crane, Deputy Assistant Secretary for the Council, Treasury*
- *Charles Cohen, Deputy Director of Analysis, Treasury (available for questions)*

### *Revisions to Freedom of Information Act Regulations*

- *Stephen Milligan, Attorney-Advisor, Treasury*

## **Executive Session**

The Chairperson called the executive session of the meeting of the Council to order at approximately 3:01 P.M. (EST). The Chairperson began by acknowledging the recent announcement by the Chair of the SEC, Mary Jo White, that she intended to resign from the SEC at the end of the current administration, and he thanked her for her service. 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 for the executive session of the meeting included the following subjects: (1) central counterparty stress tests; (2) an update on the annual reevaluation of a nonbank financial company designation; and (3) confidential data related to the Council's review of asset management products and activities.

The Chairperson then noted that the Council was approaching its first transition to a new administration. He stated that the Council's work, including promoting interagency communication, remains important, and he thanked the Council members for helping to establish the Council as a bulwark against financial crises.

#### 1. Central Counterparty Stress Tests

The Chairperson then introduced the first agenda item, central counterparty stress tests. He turned to Timothy Massad, Chairman of the CFTC. Chairman Massad explained that the CFTC had conducted supervisory stress tests across five major clearinghouses to assess the impact of hypothetical stressed market conditions, analyze the risk posed by the largest clearing members, and evaluate the sufficiency of pre-funded resources of individual clearinghouses. He then turned to Jeff Bandman, Acting Director of the Division of Clearing and Risk at the CFTC; James Marcello, Assistant Director of the Division of Clearing and Risk at the CFTC; and Glenn Schmeltz, Risk Analyst in the Division of Clearing and Risk at the CFTC.

Mr. Bandman described the use of initial margin and variation margin to mitigate risk at clearinghouses. He noted that clearinghouse margin requirements more than tripled from June 30, 2008, to September 30, 2016. He also explained that clearinghouses use several types of prefunded resources to mitigate the risk of potential defaults, including initial margin posted by the defaulting firm, the clearinghouse's capital, and guaranty fund contributions.

Mr. Marcello then described the stress test scenarios and assumptions. He noted that the stress tests applied hypothetical shocks to asset classes such as metals, energy, and equity futures, and he described the assumptions with respect to various instruments.

Mr. Schmeltz then explained the stress test methodology. He noted that the calculations in the stress tests were based on position and margin data filed with the CFTC, as well as other data. He then described the results of the stress tests. He stated that the stress tests indicated that all five clearinghouses had sufficient financial resources to cover a default by at least the two clearing members with the largest margin shortfalls, and no two clearing members generated the largest losses at more than one guaranty fund in any stress test scenario. He also noted that the stress tests found that clearing member risk was diversified across the stress test scenarios: A scenario that generated the maximum stress for one clearing member did not do so for all clearing members, and no scenario produced the worst outcome at more than eight clearing member accounts. He also described certain limitations of the stress tests, including that they were conducted only as of a single date, applied a limited number of scenarios, were calibrated to a single-event shock, and did not test factors such as liquidity or operational risk. He stated that the CFTC would conduct supervisory stress tests on a regular basis and was considering potential enhancements.

Members of the Council then asked questions and had a discussion, including regarding the importance of central counterparties and the additional visibility into clearinghouses and derivatives activity of clearing members made possible by newly available data.

## 2. Update on Annual Reevaluation of Nonbank Financial Company Designation

The Chairperson then introduced the next agenda item, an update on the annual reevaluation of a nonbank financial company that the Council had previously designated under section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Chairperson noted that Chair White recused herself from participating in the discussion. The Chairperson introduced Steven Seitz, Deputy Director (Financial Stability) of the Federal Insurance Office, and Satyam Khanna, Policy Analyst at Treasury. Messrs. Seitz and Khanna presented on the preliminary staff analysis that had been conducted during this annual reevaluation. The presenters described, among other things, the engagement that had occurred between staff of Council members and member agencies and the company, the consultations that staff had conducted with the company's regulators, recent developments at the company, and information submitted by the company to the Council. Peter Hartt, Director of the Insurance Division of the New Jersey Department of Banking & Insurance, briefed the Council on certain changes to state insurance regulation since the Council's designation. The Chairperson noted that the Council's analysis in annual reevaluations takes into account changes since the company's designation. Members of the Council then asked questions and had a discussion, including regarding the process for the Council's review.

## 3. Confidential Data Related to the Review of Asset Management Products and Activities

The Chairperson then introduced the next agenda item, a discussion of confidential data related to the Council's review of asset management products and activities. He noted that the Council's analysis involves certain confidential data reported by firms that can be discussed only in an executive session. The Chairperson introduced Jonah Crane, Deputy Assistant Secretary for the Council at Treasury, and Charles Cohen, Deputy Director of Analysis at Treasury. Mr. Crane noted that the Council's interagency hedge fund working group had been working to evaluate potential risks to financial stability from the use of leverage; assess existing data regarding leverage and consider how those data might be augmented; and consider enhancements to measurements of leverage. Mr. Cohen then described staff findings regarding the sources and uses of leverage by hedge funds, based on data reported on the SEC's Form PF. He also described the investments of large, leveraged hedge funds; hedge funds' sensitivities to market factors such as an interest rate shock; the market concentration of hedge funds' investments in certain instruments; and hedge funds' creditor concentration. Mr. Crane noted that staff recommended improving data and continued monitoring of hedge funds. Members of the Council then asked questions and had a discussion, including regarding the importance and uses of data reported on Form PF.

The Chairperson adjourned the executive session of the meeting at approximately 4:14 P.M. (EST).

## Open Session

The Chairperson called the open session of the meeting of the Council to order at approximately 4:24 P.M. (EST). The agenda for the open session included: (1) an update on the work of the Alternative Reference Rates Committee; (2) an update on the work of the Council's hedge fund working group, as part of the Council's analysis of asset management products and activities; (3) a vote on revising the Council's regulations implementing the Freedom of Information Act; and (4) a vote on the minutes of the Council's previous meeting.

### 1. Alternative Reference Rates Committee Update

The Chairperson introduced the first agenda item, an update on the work of the Alternative Reference Rates Committee (the ARRC).

The Chairperson stated that financial benchmarks like the London Interbank Offered Rate (LIBOR) play a critical role in the financial system and that doubts about their integrity could threaten financial stability. He noted that the Council's previous annual reports had recommended both improved governance of existing benchmarks and a transition towards new benchmarks. He stated that the Federal Reserve had convened the ARRC to identify potential alternative benchmark rates and develop plans to facilitate a transition to these new rates.

The Chairperson then introduced Jerome Powell, Governor of the Federal Reserve, to provide an update on the work of the ARRC.

Governor Powell noted that the Council previously endorsed the basic strategy for reforming major interest rate benchmarks in its annual reports, which called for two workstreams, the first aimed at strengthening LIBOR and the second aimed at identifying alternatives to LIBOR and promoting their use.

Governor Powell described recent reforms to LIBOR and the transfer of its administration to ICE Benchmark Administration. He noted how, despite these reforms, risks still remain because activity in the markets underlying LIBOR have declined markedly since the financial crisis. He noted the risk that banks could withdraw from the LIBOR panel, and stated that if enough leave the panel LIBOR could cease to be published. He said that the risks of disruption if this were to occur would be substantial and would be even greater if there were no viable alternative to which market participants could quickly move.

Governor Powell then outlined the three goals for the ARRC: first, to identify one or more alternative U.S. dollar reference rates based on robust underlying markets that could meet the market's needs and adhere to best standards of practice; second, to develop a plan to promote the adoption of the chosen rate; and third, to encourage robust contingencies in contracts that rely on LIBOR. He said that the ARRC has named two preliminary candidate rates: the overnight bank funding rate, which is already published by the Federal Reserve, and an overnight general collateral repo rate, which is not currently published.

Governor Powell said that the rate selected by the ARRC could be used to reduce LIBOR-related risks in two ways. First, the rate could be designated as a backup in the event LIBOR were to cease publication. Second, the ARRC plans to promote the use of the new rate, once it is chosen, by creating a baseline level of liquidity in the new rate. He said that the transition plan would involve a change in price alignment interest (the interest rate used in determining payments on collateral posted to central counterparties on cleared interest rate derivatives) only for new cleared trades, to avoid unnecessary disruptions. He said the ARRC will also look for other ways to encourage use of the new rate. He said that the ARRC will need the support of end-users and the Council and its members.

The Chairperson expressed support for the work of the ARRC and commended the progress that has been made. He stated that a successful transition from LIBOR will require strong coordination among the relevant regulatory authorities. The Chairperson asked whether there was additional support the Council could give to ease impediments to the transition, and Governor Powell replied that the Council's support for this activity is very important and that broader support from market participants was also needed.

Timothy Massad, Chairman of the CFTC, noted that the CFTC had brought several cases concerning LIBOR manipulation that exposed the flaws in LIBOR and articulated the remedial actions that were needed. He agreed that much has been done to reform the administration of LIBOR but said that developing alternative rates based on transactions is important. He encouraged private market participants to continue supporting this effort.

Richard Berner, Director of the OFR, stated that he looked forward to collaborating further on the work of the ARRC.

## 2. Update on Review of Asset Management Products and Activities

The Chairperson introduced the next item on the agenda, a discussion of the Council's work related to asset management products and activities, in particular the work of the Council's interagency hedge fund working group. The Chairperson asked Jonah Crane, Deputy Assistant Secretary for the Council at Treasury, to provide an update on progress made by the working group.

Mr. Crane explained the purpose of the hedge fund working group. He noted that data collected by the SEC on Form PF does not provide complete information on the risk exposures arising from hedge fund leverage or potential practices that may reduce the risk associated with reported leverage levels and that understanding the role of leverage at hedge funds is made more difficult because hedge funds' major counterparties, and the markets they operate in, are regulated by various regulators with different jurisdictions.

Mr. Crane noted that although on average hedge funds do not appear to employ significant amounts of leverage, the use of leverage appears to be concentrated among a small number of hedge funds. He said that hedge fund strategies that typically employ the highest amounts of

leverage have grown as a percentage of overall hedge fund assets, so that their market footprint far exceeds their assets under management.

Mr. Crane said that the hedge fund working group has three objectives: first, to use regulatory and supervisory data to evaluate the use of leverage; second, to assess the sufficiency and accuracy of existing data and information; and third, to consider potential enhancements to measurements of leverage. He said that the working group has focused on two channels through which hedge funds' use of leverage could pose potential risks to financial stability: by causing or contributing to significant disruptions of key financial markets through forced selling, or by transmitting risks to counterparties that are large, highly interconnected financial institutions.

Mr. Crane said that, with respect to potential market disruptions from forced selling, the use of significant leverage means that even small changes in asset prices could lead to margin calls or funding pressures, particularly for funds relying on short-term funding, which could transmit risk by requiring rapid liquidation of positions, thereby leading to sharp changes in asset prices and significant losses or funding problems for other firms with similar holdings. He added that while hedge funds may act as liquidity providers during times of low volatility, if they were to cease these activities during periods of stress, the resulting loss of liquidity could magnify the forced sale dynamics.

Mr. Crane said that there are two additional factors that are relevant to an analysis of the potential risks from fire sales: the size of positions and correlation of strategies. He said that the risk of instability is greater if leveraged investors hold large positions in relatively illiquid instruments or if other market participants hold similar positions or have correlated strategies. He said that the hedge fund working group's analysis of position-level data for interest rate derivatives, provided by the CFTC, showed that positions held by a relatively small group of funds constituted a meaningful share of certain key markets, relative to both market size and trading volume. He said that position sizes were more modest in other cases and that further work is required to better understand the implications of the results. He said that, with respect to correlation, more detailed reporting of asset class exposures or more frequent returns data would greatly improve the Council's ability to identify correlated strategies.

Mr. Crane said that the second channel the hedge fund working group has focused on is the potential for hedge funds to transmit stress to their counterparties. He said that in recent years, these risks have been somewhat mitigated by increased central clearing of derivatives and other regulatory reforms, including minimum margin requirements for uncleared derivatives, but that counterparties' exposures to hedge funds are still meaningful and should be analyzed further. He said that some of the largest banking institutions appear to have large notional exposures to hedge funds in uncleared interest rate and foreign exchange swaps, although a majority of derivative exposures for the largest funds are centrally cleared and a significant amount of bilateral swaps are now cleared and subject to regulatory oversight. He said that exposure to a small group of funds constitutes a significant percentage of aggregate credit extended to hedge funds, which consists primarily of repurchase agreements and other secured borrowing. He said that significant losses at these funds could transmit stress to their counterparties under extreme but plausible market movements. He said that data on margin posted by funds to their

counterparties, which is not currently available to the hedge fund working group, could provide a useful risk-based measure of these exposures.

Mr. Crane said that the working group was proposing two areas of focus for the next phase of work: addressing data gaps and limitations, and continued monitoring of potential financial stability risks, including further refinement of measurements of leverage.

Mr. Crane next outlined the working group's five categories of recommendations regarding data: (1) improved data harmonization and sharing, particularly that swap data repositories should continue working with the CFTC to establish consistent standards for reporting swaps data; (2) more detail regarding hedge funds' portfolio exposures, for example, information on the tenor and asset class of their fixed income investments, and historical volatility, which would allow better estimates of netting and provide insights into fund strategies and correlations between funds, helping the Council assess both fire sale and counterparty risks; (3) more information about the terms of the financing hedge funds rely on, such as the maturities of their obligations and the extent to which they use overnight funding, which would allow better estimates of asset/liability matching, particularly with respect to assessment of the risk of asset fire sales caused by funding stress; (4) the collection of bilateral repurchase agreement data, which is important to understand the cash positions of hedge funds and the terms on which the positions are financed; and (5) comprehensive information on hedge funds' posted initial margin and unencumbered cash, which would provide insights into potential counterparty exposures and the ability of funds to withstand margin calls without resorting to forced asset sales. He said that there are likely also opportunities to refine the SEC's Form PF to reduce firms' compliance burdens without undermining the Council's ability to monitor financial stability risks.

Mr. Crane said that, because that the hedge fund industry continues to evolve, the hedge fund working group recommends that regulators periodically review available data and analyze funds' use of leverage in combination with other factors to identify potential emerging risks to financial stability from fire sales or counterparty risks. He said that the working group also recommends that key findings from this analysis be shared regularly with the Council and the regulators of relevant leverage providers. He said that an important element of the working group's continued monitoring will be an analysis of broader fund flows and other financial market developments to identify asset classes or strategies that may be more vulnerable to fire sale or counterparty risks.

Mr. Crane then outlined the four categories of leverage measures that the hedge fund working group has identified as helping to identify risk to financial stability. He said that gross measures indicate adverse-case exposures that can be useful in identifying potential financial stability risks, especially for funds with offsetting positions that have low exposures on a net basis. He noted, however, that gross exposures overstate risk in normal markets because they count hedges as increasing exposures. He said that adjusted gross exposures, which account for volatility of the underlying assets, can help to normalize exposures across asset classes that have very different risk profiles but that these measures also do not account for the benefits of hedging. He said that net exposure metrics can account for the netting of offsetting positions. He noted, however, that these measures generally require complex and subjective self-reporting of offsetting positions and that even a simpler approach that provides a rough estimate of hedging

would require more detailed portfolio data than is currently available to the working group. He said that risk-based metrics, such as value-at-risk (VaR), can provide a more holistic view of risk-taking but that funds calculate VaR in different ways. He also said that while VaR measures may not account for tail events, the amount of initial margin funds post to their counterparties could act as a proxy for tail risk.

Mr. Crane concluded by saying that the hedge fund working group has made significant progress in identifying channels for the potential transmission of risks, factors relevant to assessing those channels, data gaps and limitations that impede the ability to identify evolving risks, and metrics for measuring the risks associated with hedge fund leverage. Mr. Crane said that the further analysis and continued monitoring recommended by the working group will provide the transparency needed to identify risks to financial stability as they emerge.

The Chairperson noted that the hedge fund working group's analysis could not be performed by any one agency because no single agency has all the required information. He thanked the Council members and member agencies for their cooperation. He said that the Council had made considerable progress and that this is an area that the Council must continue observing so that if risks develop to a point where action is required, the Council is in a position to make appropriate judgments. He said that the dynamic nature of the industry underscores the urgent need for the analysis of the Council to keep up with those changes.

Chair White commended the hedge fund working group for the transparency of its work. She noted that leverage can be a useful component of an investment strategy and may imply different levels of risk-taking by a fund but that leverage is only one of many factors used to measure a fund's risk. She said that the relationship between a fund's use of leverage and risk and whether that risk may have financial stability implications is quite complex and multi-factored. She said that the working group has identified other possible areas for further analysis that involve a review of a more comprehensive set of risk metrics, which, she said, is the right approach. She said that the working group has also provided good input on how to improve data collected from private fund advisers to make it more useful for the assessment of systemic risk. She expressed support for this continued work to further develop the analysis and better assess the impact of private fund activities involving leverage. She commended the working group for using all the analytical tools at its disposal, including various data sources and the expertise of the different members of the Council. She said that the Council is an important forum for studying and identifying systemic risk across diverse and complex markets market participants.

Janet Yellen, Chair of the Federal Reserve, noted how important it was that staff from agencies with different expertise and data collaborated to improve the Council's understanding of hedge fund leverage and the potential risks it could pose to the financial system. She said she supported the continued efforts of the hedge fund working group, especially efforts to develop more risk-sensitive leverage metrics that would allow the Council to better assess potential risks posed by hedge funds, including those that may hold less-liquid assets. She also expressed support for efforts to address significant data gaps for assessing the risks of hedge funds that would include establishing permanent data collection on activities and bilateral repurchase

agreement markets and adopting changes to Form PF that would allow regulators better to understand links between leverage and risk taking.

Martin Gruenberg, Chairperson of the FDIC, thanked the hedge fund working group for identifying the issue that there is a small number of hedge funds where the use of leverage appears to be concentrated and that fund strategies that typically employ the highest amounts of leverage have grown as a percentage of overall hedge fund assets. He expressed support for the ongoing work to address data gaps and limitations and the proposal for continued monitoring for potential financial stability risks.

Chairman Massad expressed his support for the work of the hedge fund working group and said he was pleased that the CFTC was able to provide data to the working group. He said that he agreed with the comments that have been made about the need to continue to address data gaps, particularly regarding repurchase agreement data. He said that it was important to continue to develop better metrics. He expressed his agreement with Chair White as to the relation of leverage and risks and the need to refine relevant metrics. He noted that hedging increases measurements under gross notional exposure metrics and said that it is important to distinguish between cleared and uncleared, and plain-vanilla and more exotic, instruments. He said that approximately 70 percent of the derivatives used by these larger hedge funds were in cleared futures or swaps, which are subject to both initial and variation margining by the clearinghouse, and that the uncleared swaps are subject to uncleared margin requirements that are being phased in. He said that the CFTC's data show that most of the activity is in more liquid portions of the markets rather than in exotic instruments. He also noted the progress made with respect to data and transparency since the financial crisis.

### 3. Revisions to Freedom of Information Act Regulations

The Chairperson then introduced Stephen Milligan, Attorney-Advisor at Treasury, to discuss proposed revisions to the Council's regulations implementing the Freedom of Information Act (FOIA).

Mr. Milligan noted that the Council had adopted regulations implementing the FOIA in 2012. He said that the Council was now considering amendments to those regulations, as mandated by the FOIA Improvement Act of 2016. He outlined the changes the proposed revisions would make, including requirements that materials be provided to requestors in electronic format; clarification of the availability of the Council's FOIA Public Liaison in assisting with requests and appeals; extension of the deadline for appeals from 35 to 90 days; and changes to the circumstances under which the Council is not permitted to charge fees for processing requests. He said that the proposed revisions would also provide, as required by the FOIA Improvement Act of 2016, that the Council may withhold requested information only if the Council reasonably foresees that disclosure would harm an interest protected by an exemption or if disclosure would be prohibited by law. He said that these revisions would ensure that the Council continues its practice of being as responsive to FOIA requests as possible.

Mr. Milligan explained that the Council is not required to engage in a notice and comment process for this rule because the proposed revisions are limited to those mandated by the FOIA Improvement Act of 2016, but that staff has proposed that the Council publish the revised rule as an interim final rule, which will make the changes effective immediately but will also provide the public with the opportunity to comment on the rules. He said that after a 60-day comment period, Council staff will consider any comments received and will present to the Council a recommendation as to whether any further changes to the rule should be made.

The Chairperson stated that it was a matter of good stewardship that the Council keep its FOIA regulations up to date with changes in law.

The Chairperson then presented to the Council the following resolution approving the interim final rule:

*“WHEREAS, the Freedom of Information Act (the “FOIA”) governs public access to federal agency records and requires each agency to publish implementing regulations; and*

*WHEREAS, on April 3, 2012, the Council approved a final rule that, consistent with the Dodd-Frank Wall Street Reform and Consumer Protection Act and the FOIA, sets forth procedures for requesting access to the Council’s records; and*

*WHEREAS, the FOIA Improvement Act of 2016 requires all agencies to revise the regulations they have adopted to implement the FOIA; and*

*WHEREAS, staff of the Council members and their agencies have prepared an interim final rule that makes the changes mandated by the FOIA Improvement Act of 2016 and certain other technical changes; and*

*WHEREAS, staff of the Council members and their agencies recommend that the Council approve the interim final rule and publish it as set forth in the attached Federal Register document.*

*NOW, THEREFORE, BE IT RESOLVED, that the Council hereby approves the interim final rule as presented and authorizes the Chairperson, or his designee, to cause the attached interim final rule to be published in the Federal Register, in a form and manner acceptable to the Chairperson, or his designee, and to otherwise make it available to the public as the Chairperson deems appropriate.*

*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 interim final rule to ensure that it can be published in the Federal Register, and to take such other actions and issue such other documents incident and related to the foregoing as the Chairperson, or his designee, deems 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.

#### 4. Resolution Approving the Minutes of the Meeting Held on September 22, 2016

*“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on September 22, 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 without objection.

#### 5. Other Business

The Chairperson, noting that this meeting might be the last public Council meeting before the transition to a new administration in January, thanked the Council members for their contributions to the work of the Council over the past six years. The Chairperson stated that the Council was created because before the financial crisis, no single entity had the information, the authority, or the obligation to look across the system as a whole to identify and respond to risks. He remarked that since its formation, the Council has created a practice of cross-institutional dialogue that has fostered a level of coordination that did not exist prior to the crisis.

The Chairperson remarked that a stable, well-functioning financial system is critical to promoting growth, creating jobs, and providing credit to consumers and businesses. He stated that the Council has always recognized that the time to act is not when a crisis is underway but rather as risks develop and grow. He said that we will be better equipped to respond to those risks due to the collective expertise of the Council and its member agencies, the Council’s comprehensive analysis of the risks of the future, and the analytic approach that the Council has developed for responding to financial shocks by collaborating and sharing information.

The Chairperson said that he has found the Council’s work to be fundamental to understanding emerging financial market developments and maintaining the safety and stability of the financial system. He said that the Council has been fact-based and analytical in its approach and has acted prudently when required. He said he expects the Council to carry on that legacy and to continue to fulfill its mission with skill, care, and diligence.

The Chairperson adjourned the meeting at approximately 5:07 P.M. (EST).