

The Financial Stability Oversight Council approved the attached resolution by notational vote on December 24, 2020, with ten members voting in favor of the resolution and none opposed.

RESOLUTION APPROVING MINUTES  
OF THE DECEMBER 3, 2020 MEETING

BE IT RESOLVED, by the Financial Stability Oversight Council (Council), that the minutes attached hereto of the meeting held on December 3, 2020 of the Council are hereby approved.

## Minutes of the Financial Stability Oversight Council

December 3, 2020

### PRESENT:

Steven T. Mnuchin, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)  
Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System (Federal Reserve)  
Jelena McWilliams, Chairman, Federal Deposit Insurance Corporation (FDIC)  
Jay Clayton, Chairman, Securities and Exchange Commission (SEC)  
Heath P. Tarbert, Chairman, Commodity Futures Trading Commission (CFTC)  
Kathleen Kraninger, Director, Consumer Financial Protection Bureau (CFPB)  
Mark Calabria, Director, Federal Housing Finance Agency (FHFA)  
Brian Brooks, Acting Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)  
Rodney Hood, Chairman, National Credit Union Administration (NCUA)  
Thomas E. Workman, Independent Member with Insurance Expertise  
Dino Falaschetti, Director, Office of Financial Research (OFR), Department of the Treasury (non-voting member)  
Steven Seitz, Director, Federal Insurance Office (FIO), Department of the Treasury (non-voting member)  
Charles G. Cooper, Commissioner, Texas Department of Banking (non-voting member)  
Eric Cioppa, Superintendent, Maine Bureau of 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)

Justin Muzinich, Deputy Secretary  
Howard Adler, Deputy Assistant Secretary for the Council  
Eric Froman, Assistant General Counsel (Banking and Finance)  
Stephen Ledbetter, Director of Policy, Office of the Financial Stability Oversight Council, and Executive Director of the Council

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

Randal Quarles, Vice Chairman for Supervision  
Andreas Lehnert, Director, Division of Financial Stability

#### Federal Deposit Insurance Corporation

Travis Hill, Deputy to the Chairman for Policy

#### Securities and Exchange Commission

David Saltiel, Head of the Office of Analytics and Research; Associate Director, Division of Trading and Markets

Commodity Futures Trading Commission

Jaime Klima, Chief of Staff and Chief Operating Officer

Consumer Financial Protection Bureau

Thomas Pahl, Deputy Director

Federal Housing Finance Agency

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

Comptroller of the Currency

Blake Paulson, Senior Deputy Comptroller of the Currency and Chief Operating Officer

National Credit Union Administration

Andrew Leventis, Chief Economist

Office of the Independent Member with Insurance Expertise

Charles Klingman, Senior Policy Advisor

Federal Reserve Bank of New York

John Williams, President and Chief Executive Officer

Sandra Lee, Senior Vice President

Office of Financial Research

Alexander Pollock, Principal Deputy Director for Research and Analysis

Federal Insurance Office

Philip Goodman, Senior Insurance Regulatory Policy Analyst

Texas Department of Banking

Michael Townsley, Policy Counsel, Conference of State Bank Supervisors

Maine Bureau of Insurance

Mark Sagat, Assistant Director, Financial Policy and Legislation, National Association of Insurance Commissioners

Maryland Office of the Attorney General, Securities Division

Kameron Hillstrom, Counsel, North American Securities Administrators Association

PRESENTERS:

*2020 Annual Report*

- *Howard Adler, Deputy Assistant Secretary for the Council, Treasury*
- *Stephen Ledbetter, Director of Policy, Office of the Financial Stability Oversight Council, and Executive Director of the Council, Treasury*

## **Open Session**

The Chairperson called the open session of the meeting of the Council to order at approximately 3:03 P.M. The Council convened by conference call. The meeting consisted only of an open session, with no executive session.

The Chairperson outlined the meeting agenda, which included (1) a vote on the Council's 2020 annual report, and (2) a vote on the minutes of the Council's meeting on September 25, 2020.

### **1. 2020 Annual Report**

The Chairperson turned to the first agenda item, the Council's 2020 annual report. He stated that the annual report is the result of extensive analysis and collaboration across all of the Council member agencies. He noted that the annual report provides the Council's comprehensive assessment for the public of the Council's view of potential risks across the financial system. He stated that it also includes recommendations for regulators, Congress, and market participants. He said that this report has a particular focus on the effects of the COVID-19 pandemic on the financial system and the economy. He noted that it also addresses in detail the steps that financial regulators had taken to respond to the crisis.

The Chairperson then introduced Howard Adler, Deputy Assistant Secretary for the Council at Treasury, and Stephen Ledbetter, Director of Policy in the Office of the Financial Stability Oversight Council and Executive Director of the Council at Treasury, to provide an overview of the report's findings and recommendations.

Mr. Adler began by stating that this was the first annual report the Council had prepared during a period of financial stress. Mr. Adler stated that, as in prior years, the report discussed significant financial markets and regulatory developments, potential emerging threats to U.S. financial stability, recommendations to promote U.S. financial stability, and the activities of the Council. He discussed changes to the format and content of the report in light of the pandemic. He stated that financial stress caused by COVID-19 was a recurrent theme in the annual report. Mr. Adler noted that another recurrent theme in the report was the efforts taken by the federal government to combat the financial impact of the pandemic. He said that the report also discussed the ameliorative impacts that these efforts had on financial stress. Mr. Adler stated that the annual report also discussed the Council's role in ensuring that throughout the pandemic, significant financial data and information was rapidly shared among Council member agencies.

Mr. Ledbetter then began his presentation by noting that the Council's 2020 annual report considered risks to financial stability in the context of the extraordinary shock to the U.S. financial system due to the onset of the COVID-19 pandemic. He noted that prior to the pandemic, the U.S. economy was in the midst of an extended economic expansion with very low levels of unemployment. Mr. Ledbetter said that the global pandemic led to an unprecedented contraction of economic activity, with the unemployment rate peaking at nearly 15 percent in April. He noted that since then, extraordinary measures undertaken by policymakers had succeeded in stabilizing markets, arresting the decline in economic conditions, initiating a recovery, and substantially lowering the unemployment rate.

Mr. Ledbetter stated that at the onset of the pandemic and throughout the year, the Council had facilitated coordination and analysis of risks across member agencies. He noted that the Council increased the frequency of staff-level meetings to allow analyses of major market developments to be shared in a timely manner with all Council member agencies. Mr. Ledbetter stated that the Council's previous identification of vulnerabilities and analyses of risks leading up to the financial stress helped ensure that policymakers' responses were more coordinated, well informed, and effective.

Mr. Ledbetter stated that, although policy actions to minimize the effects of the pandemic had been effective, risks to U.S. financial stability remained elevated compared to the previous year, largely due to remaining uncertainty regarding the severity and duration of the pandemic and its potential impact on financial markets and the U.S. economy. He then highlighted five of the key topics raised in the annual report.

The first issue Mr. Ledbetter addressed was short-term wholesale funding markets. He stated that the report noted that stresses on prime and tax-exempt money funds in March 2020 revealed the continued existence of structural vulnerabilities, leading to increased redemptions. He said that the report also discussed how liquidity demand from leveraged participants, such as hedge funds using Treasury collateral, and mortgage real estate investment trusts using agency mortgage-backed securities collateral, may have contributed to repo market volatility.

Mr. Ledbetter said that the report therefore recommended that regulators review these structural vulnerabilities, including the vulnerability of large-scale redemptions in prime and tax-exempt money market funds, and the role leveraged nonbank entities may have played in the repo market. He noted that the Council also recommended that, if warranted, regulators take appropriate measures to mitigate these vulnerabilities. He stated that the report included an analysis of how the activity in March exposed fragilities in the Treasury markets. Mr. Ledbetter stated that factors that likely contributed to the market dislocations included selling by leveraged and unleveraged investors, dealer balance sheet and risk management constraints, and the rapid decline in liquidity provisioning by principal trading firms. He stated that while the Federal Reserve's actions restored market functioning, the report noted the need for further study of these issues.

The second issue Mr. Ledbetter highlighted was the level of borrowing and leverage by nonfinancial businesses. He noted that the ratio of corporate debt to U.S. gross domestic product was at historic highs when the pandemic hit the United States, and that economic activity contracted in March, causing concerns about the sustainability of corporate debt. He stated that since then, despite the initial turmoil in credit markets, the rebound in business financing had been strong. Mr. Ledbetter stated that, as a result, the ratio of corporate debt to U.S. gross domestic product had reached further new record highs. He stated that the report noted the increase in nonfinancial corporate debt that had been downgraded since March, and the increased default rates on leveraged loans and corporate bonds. He said the report also noted the potential vulnerability of businesses with weakened balance sheets if, for example, there were a major repricing of risk that negatively impacted liquidity, increased borrowing costs, and heightened rollover risk.

Mr. Ledbetter stated that the report therefore made a number of recommendations, including that agencies continue to monitor levels of nonfinancial business leverage, trends in asset valuations, and potential implications for the entities they regulate, to assess and reinforce the ability of the financial sector to manage severe, simultaneous losses.

The third issue Mr. Ledbetter addressed was the adverse impact of COVID-19 on the commercial real estate (CRE) market, including the hotel, retail, and office segments. He stated that the report discussed the potential for a prolonged downturn to leave the CRE sector vulnerable to mortgage defaults and declines in valuations, with potential spillovers to the broader economy.

He said that the report therefore included a number of recommendations, including that regulators continue to closely monitor the performance of CRE loans, volatility in CRE asset valuations, and the level of CRE concentration at banks and other entities that hold CRE loans.

The fourth issue Mr. Ledbetter highlighted was the performance of large bank holding companies through the pandemic. He stated that the report discussed the potential for financial distress at large, complex, interconnected bank holding companies to affect financial markets and the broader economy, but noted that the banking system had been able to withstand the financial fallout of the pandemic in part because of the stronger capital and liquidity positions built up over the previous decade. He said that the report also noted that large bank holding companies had benefitted from the extraordinary policy measures and supervisory and regulatory relief provided under these exigent circumstances.

Mr. Ledbetter noted that the report therefore emphasized the importance of continued vigilance regarding the resilience of large bank holding companies and made a number of recommendations, including that financial regulators ensure that the largest financial institutions maintain sufficient capital and liquidity to ensure their resiliency.

The fifth and final issue Mr. Ledbetter addressed was cybersecurity risk. He stated that the report highlighted the potential for the pandemic to accelerate financial institutions' reliance on technology and third-party service providers through increased use of teleworking systems and dual-work locations. He said that the report noted that while greater use of technology can provide significant benefits in terms of reduced costs and increased efficiency and resiliency, it can also potentially increase the risk that institutions experience a severe cybersecurity event.

Mr. Ledbetter stated that the report thus provided recommendations, including that federal and state agencies continue to monitor cybersecurity risks and conduct cybersecurity examinations of financial institutions and financial infrastructures to ensure, among other things, robust and comprehensive cybersecurity monitoring, especially in light of new risks posed by the pandemic.

Mr. Ledbetter concluded by noting that the development of the annual report was a collaborative effort among all of the Council members and member agencies, and said that it provided a clear view into the Council's identification of potential risks or vulnerabilities, highlighted key actions taken, and made additional recommendations for addressing these risks.

The Chairperson called on other Council members to comment on the annual report.

Jerome Powell, Chairman of the Federal Reserve, expressed his support for the report, noting that the report was particularly significant. He said that it represented a careful and thoughtful analysis with a robust set of recommendations. He stated that the report was a testament to the cooperation and coordination among the Council member agencies.

Jay Clayton, Chairman of the SEC, also expressed support for the annual report, and stated that it presented a comprehensive and nuanced assessment of the recent period of financial stress. He also commented favorably on the collaboration and close engagement of the Council member agencies in responding to the economic effects of COVID-19.

Mark Calabria, Director of the FHFA, noted that on November 18, 2020, the FHFA had finalized its capital regulation on the safety and soundness of Fannie Mae and Freddie Mac. He discussed the benefits of the Council's activities-based review of secondary mortgage market activities and the related public statement issued by the Council on September 25, 2020. He stated that the review was an important step in reforming the country's mortgage finance system. Director Calabria noted that the FHFA made efforts to incorporate the Council's suggestions from its activities-based review into the FHFA's regulation. He stated that he shared the Council's view that risk-based capital and leverage ratio requirements materially less than those in the regulation would likely not adequately mitigate potential stability risks posed by Fannie Mae and Freddie Mac. Director Calabria expressed support for the Council's commitment to monitoring activities of Fannie Mae and Freddie Mac and the FHFA's implementation of the regulatory framework to ensure that these risks to financial stability were appropriately addressed.

Heath Tarbert, Chairman of the CFTC, also expressed his support for the annual report. He stated that, as the annual report noted, COVID-19 was an extraordinary shock to the global financial system and led to substantial financial stress, but he said that it did not lead to a financial crisis. He stated that financial markets, market participants, and regulatory agencies all performed well. Chairman Tarbert noted, however, that risks to financial stability remained and the magnitude of those risks was tied to the severity and duration of the pandemic.

Jelena McWilliams, Chairman of the FDIC, expressed support for the annual report, and commented favorably on the resilience of the banking system and the ways that banks responded to the needs of their customers. She stated that at the onset of the pandemic and economic shutdown, banks had to determine how to operate with limits on physical movement, while making sure that much-needed liquidity was available to businesses and customers. She said that insured institutions had served as a source of strength to the economy and their communities. Chairman McWilliams stated that the recently released FDIC quarterly banking profile for the third quarter indicated that overall, banks had strong capital and liquidity, relatively low loan delinquencies, and recovering earnings. She noted that, as described in the annual report, the FDIC remains vigilant, particularly but not exclusively for knock-on effects in the CRE sector. Chairman McWilliams said that the FDIC continued to monitor, with fellow regulators, a number of community and regional banks with CRE concentrations. She noted that the composition of the industry's CRE holdings was different than in the 2008 crisis; she stated that aggregate concentrations were lower than before the 2008 crisis, particularly for acquisition,

development, and construction loans. Chairman McWilliams noted that some subsectors that were struggling due to the pandemic did not warrant heightened regulatory scrutiny before the pandemic. She stated that the FDIC continued to urge banks to work with their borrowers. She stated that the FDIC had been focused, through its examination program, on underwriting and the risk management practices for institutions that were concentrated in CRE.

Brian Brooks, Acting Comptroller of the Currency, expressed support for the annual report. He stated that the report's recommendations would strengthen the progress on enhancing risk management and prudential controls in the financial system. He stated that he particularly supported the annual report's treatment of innovation. He said that financial innovation offers considerable benefits to consumers and providers of financial services by reducing cost, increasing the convenience of payments and other services, and potentially increasing credit availability. He noted that innovation can also create new risks that need to be understood. He stated that such risks underscored the need for the development of oversight standards, appropriate regulation, and U.S. leadership. He said that some nations had begun exploring or using central bank digital currencies, for example, to enhance the global standing of their currencies and enable faster payments. He stated that several nations had begun assessing whether and how privately issued stablecoins may facilitate faster and more efficient payments, provided that such activities are subject to appropriate regulation and oversight. He noted that it was important that U.S. regulators adopt an approach to digital assets that would provide for responsible innovation in a manner that is safe, fair, and compliant with all applicable laws.

Kathleen Kraninger, Director of the CFPB, stated that the effects of the pandemic continued to pose a challenge to U.S. financial stability. She noted that the annual report summarized the efforts of Council member agencies to support financial stability and to carry out their respective missions. She expressed support for the annual report and highlighted several of the CFPB's efforts described in it. She stated the CFPB was engaged in consumer outreach to ensure that consumers understand their rights and available options under the CARES Act. She also noted that the CFPB had produced resources on pandemic-related consumer education. Director Kraninger noted that CFPB materials were available on mortgages, debt collection, student loans, frauds and scams, and other areas. She said that in the area of housing, the CFPB launched an interagency housing website with the Department of Housing and Urban Development and in partnership with FHFA, to provide information to consumers concerned about how they will pay their mortgage or rent and the relief options available to them. She highlighted the discussion of household finance and consumer protection in the annual report. Director Kraninger concluded by expressing the CFPB's support for the annual report recommendation that relevant state and federal regulators take additional steps to coordinate, collect and share data and information, identify and address potential risks, and strengthen the oversight of nonbank companies involved in the origination and servicing of residential mortgages, given the importance of such actions to consumers and broader financial stability.

Rodney Hood, Chairman of the NCUA, expressed support for the annual report and discussed the efforts of the Council member agencies to mitigate the effects of the pandemic and protect financial stability. He stated that the credit union system continued to serve its members and provide much-needed capital to families and small businesses. He stated that the credit union system was well capitalized, having a net worth ratio of 10.5 percent, \$1.75 trillion in assets, and

ample liquidity, following recent statutory enhancements to the Central Liquidity Facility. Chairman Hood noted that while challenges remain, credit unions were well-positioned to support the economic recovery following the pandemic.

The Chairperson then presented to the Council the following resolution approving the Council's 2020 annual report:

*WHEREAS, the Financial Stability Oversight Council (the "Council") under section 112 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") is required to annually report to and testify before Congress on: (1) the activities of the Council; (2) significant financial market and regulatory developments, including insurance and accounting regulations and standards, along with an assessment of those developments on the stability of the financial system; (3) potential emerging threats to the financial stability of the United States; (4) all determinations made under section 113 or title VIII of the Dodd-Frank Act, and the basis for such determinations; (5) all recommendations made under section 119 of the Dodd-Frank Act and the result of such recommendations; and (6) recommendations (a) to enhance the integrity, efficiency, competitiveness, and stability of U.S. financial markets; (b) to promote market discipline; and (c) to maintain investor confidence; and*

*WHEREAS, the staffs of the Council members and their agencies prepared the attached 2020 annual report of the Council (the "2020 Annual Report") pursuant to section 112 of the Dodd-Frank Act, and members of the Council have reviewed and commented on the attached report.*

*NOW, THEREFORE, BE IT RESOLVED, that the Council hereby approves the 2020 Annual Report and authorizes the Chairperson, or his designee, to take such action as they may deem necessary or appropriate to transmit the 2020 Annual Report to Congress and to release it to the public; and*

*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 2020 Annual Report and to take such other actions as they may deem necessary or appropriate to prepare the report for transmittal to Congress and release to the public.*

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

## 2. Resolution Approving the Minutes of the Meeting Held on September 25, 2020

*BE IT RESOLVED, by the Financial Stability Oversight Council (the "Council"), that the minutes attached hereto of the meeting held on September 25, 2020 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 3:29 P.M.