Financial Stability Oversight Council Issues Final Guidance on Nonbank Designations

December 4, 2019

WASHINGTON – The Financial Stability Oversight Council (Council) today voted unanimously to issue final guidance regarding nonbank financial company designations. The guidance implements an activities-based approach for identifying and addressing potential risks to financial stability. The guidance also enhances the analytical rigor and transparency of the Council's process for designating nonbank financial companies.

"The guidance announced today enhances the Council's ability to identify, assess, and respond to potential risks to U.S. financial stability," said Treasury Secretary Steven T. Mnuchin. "These changes will help the Council achieve its mission by promoting careful analysis and creating a more streamlined process. I would like to thank the Council members and their staffs for the significant collaborative effort and commitment to this guidance."

With today's adoption, the guidance:

- *Prioritizes an activities-based approach for the Council's efforts to identify, assess, and address potential risks and threats to U.S. financial stability. The Council will examine a range of financial products, activities, or practices that could pose risks to U.S. financial stability. The activities-based approach leverages the expertise of financial regulators to monitor markets and market developments. If a potential risk to U.S. financial stability is identified, the Council will work with federal and state financial regulators to seek the implementation of appropriate actions to address the identified potential risk.*

- *Enhances the analytic framework—including a rigorous cost-benefit analysis—for a potential nonbank financial company designation.* If the activities-based approach does not adequately address a potential threat to U.S. financial stability, the Council may consider a nonbank financial company for potential designation. In those cases, the Council would consider the benefits and costs of a designation for the U.S. financial system and the relevant company. The Council would designate a nonbank financial company only if the expected benefits justify the expected costs of the designation. The Council would also consider the likelihood of the company's material financial distress, based on its vulnerability to a range of factors. This assessment will serve to focus the Council on those risks to U.S. financial stability that are most likely to be realized.

- *Creates a more efficient and effective nonbank financial company designation process.* The guidance condenses the previous three-stage process into two stages and increases engagement with and transparency to nonbank financial companies under review and their regulators by creating both pre- and post-designation off ramps to allow firms to understand and address potential risks to U.S. financial stability.

The Council issued the proposed interpretive guidance on March 6, 2019. The Council received 26 comment letters in response to the proposed guidance.

The final guidance revises and updates the interpretive guidance the Council adopted in 2012 in order to ensure its work is clear, transparent, and analytically rigorous, and to enhance the Council's engagement with companies, regulators, and other stakeholders.

The final guidance can be viewed here.

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