U.S. DEPARTMENT OF THE TREASURY

Financial Stability Oversight Council Releases Annual Report

December 3, 2020

WASHINGTON – The Financial Stability Oversight Council (Council) today unanimously approved its 2020 annual report. This year's report analyzes the financial effects of the COVID-19 pandemic and the policy responses to mitigate its impact on the economy and the financial system. Additionally, the Council's annual report describes significant financial market and regulatory developments, potential emerging threats to U.S. financial stability, recommendations to promote U.S. financial stability, and the activities of the Council. The report was developed collaboratively by members of the Council and their agencies and staffs.

"This year's annual report reflects the Council's engagement throughout the pandemic as a key forum for federal and state regulators to share information, analyze risks, and coordinate their responses to the most severe U.S. economic shock since the Great Depression," said Treasury Secretary Steven T. Mnuchin. "The Council's recommendations in the report provide actionable steps for regulators and market participants to address potential risks to financial stability as our economy continues to recover."

The Council's recommendations in the annual report include the following:

- The Council recommends that regulators review structural vulnerabilities in short-term wholesale funding markets, including the vulnerability to large-scale redemptions from prime and tax-exempt money market mutual funds, and the role leveraged nonbank financial institutions may have played in market volatility in March 2020. The Council recommends that, if warranted, regulators take appropriate measures to mitigate these vulnerabilities.
- In response to the increased risk in nonfinancial business borrowing, the Council recommends that financial regulatory agencies continue to monitor levels of nonfinancial business leverage, trends in asset valuations, and potential implications for the entities they regulate in order to assess and reinforce the ability of the financial sector to manage severe, simultaneous losses.

- The Council recommends that regulators continue to monitor volatility in commercial real estate (CRE) asset valuations, the level of CRE concentration at banks, and the performance of CRE loans. The Council also recommends that regulators continue to encourage banks and other entities to bolster, as needed, their loss-absorption capacity by strengthening their capital and liquidity buffers commensurate with the levels of CRE concentration on their balance sheets.
- The Council recommends that financial regulators ensure that the largest financial institutions maintain sufficient capital and liquidity to ensure their resiliency against economic and financial shocks. The Council also recommends that regulators continue to monitor and assess the impact of rules on financial institutions and financial markets—including, for example, on capital and market liquidity—and ensure that bank holding companies are appropriately monitored based on their size, risk, concentration of activities, and offerings of new products and activities.
- The Council recommends 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. The Council also recommends that agencies work to improve information sharing among private firms and government partners.

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