

Financial Stability Oversight Council Releases 2022 Annual Report



December 16, 2022

WASHINGTON – The Financial Stability Oversight Council (Council) today unanimously approved its 2022 annual report. The report notes that, amid heightened geopolitical and economic shocks and inflation, risks to the U.S. economy and financial stability have increased even as the financial system has exhibited resilience. The annual report reviews financial market developments, describes potential emerging threats to U.S. financial stability, identifies vulnerabilities in the financial system, and makes recommendations to mitigate those threats and vulnerabilities. The report was developed collaboratively by Council members and their agencies and staffs.

“This year’s annual report highlights the resilience of the financial system in the face of significant headwinds over the past year,” Secretary of the Treasury Janet L. Yellen said. “The Council will continue to coordinate to address the risks identified in this year’s report so that the financial system remains a source of strength for the U.S. economy.”

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

- **Nonbank Financial Intermediation:** The Council supports the initiatives undertaken by the Securities and Exchange Commission (SEC) and other agencies to address risks presented by investment funds. These include proposed data-collection improvements to Form PF, as well as new rules proposed by the SEC to address the liquidity mismatch in open-end funds and money market funds. The Council’s Hedge Fund Working Group will continue to evaluate potential risks to financial stability posed by hedge funds.
 - **Digital Assets:** The Council emphasizes the importance of agencies continuing to enforce existing rules and regulations applicable to the crypto-asset ecosystem. The Council has also identified gaps in the regulation of digital asset activities. To address these gaps, the Council recommends the enactment of legislation providing for rulemaking authority for federal financial regulators over the spot market for crypto-assets that are not securities. Steps should be taken to address regulatory arbitrage, since crypto-asset entities offer
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services similar to traditional financial institutions but do not have a consistent or comprehensive regulatory framework. An assessment should be made of whether vertically integrated market structures can or should be accommodated under existing laws and regulations. Finally, the Council recommends that Council members continue to build capacities related to data and the analysis, monitoring, supervision, and regulation of digital asset activities.

- **Climate-related Financial Risk:** The Council supports actions to improve the availability of data for assessing climate-related financial risks and recommends state and federal agencies coordinate to identify, prioritize, and procure the necessary data. The Council also recommends state and federal agencies continue their work to advance appropriately tailored supervisory expectations of regulated entities' risk management practices. Financial regulators should continue to promote consistent, comparable, and decision-useful disclosures that allow investors and financial institutions to consider climate-related financial risks in their investment and lending decisions. The Council recommends enhanced coordination of data and risk assessment through the Council's Climate-related Financial Risk Committee.
- **Treasury Market Resilience:** While the Treasury market has shown resilience in 2022, the Council recommends that member agencies continue to review Treasury market structure and liquidity challenges in the context of changes in the technology and the counterparties providing market liquidity, as well as the growth in Treasury debt outstanding. Policies should continue to be considered for improving data quality and availability, bolstering the resilience of market intermediation, evaluating expanded central clearing, and enhancing trading venue transparency and oversight. The Council also supports and encourages efforts by the Treasury Department to continue to enhance collection and transparency in post-trade transactions in the cash market for Treasury securities.
- **Cybersecurity:** The Council supports ongoing partnerships between state and federal agencies and private firms to assess cyber vulnerabilities and further build cyber resilience. The report notes that Council member agencies made significant strides in 2022 in their efforts to collect better data for managing cyber risk, and the Council encourages agencies to continue gathering additional information they need to monitor and assess cyber-related financial stability risks.
- **Transition from LIBOR:** Given the large volume of legacy U.S. dollar (USD) LIBOR contracts outstanding, the Council advises firms to take advantage of any existing contractual terms or opportunities for renegotiation to transition their remaining legacy LIBOR contracts



before the publication of USD LIBOR ends. Council members have emphasized that derivatives and capital markets should continue moving to SOFR, a broad and robust measure of borrowing rates.

In addition, the Council identified certain vulnerabilities related to the nonfinancial corporate credit sector, as well as the commercial and residential real estate sectors. The Council recommends supervisors and financial institutions continue to monitor credit risks and exposures to these sectors.

[The full report can be viewed here.](#) 

