Remarks by Secretary of the Treasury Janet L. Yellen at the Open Session of the meeting of the Financial Stability Oversight Council

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As Prepared for Delivery

Today, the Financial Stability Oversight Council will vote on releasing its 2023 annual report. Before we turn to the presentation, I would like to mark this occasion by describing how the Council continues to promote financial stability in the current macroeconomic environment, as detailed in the report.

Despite facing tighter financial conditions and heightened global economic uncertainty over the last year, the U.S. financial system remains resilient. The U.S. banking system as a whole is sound, with strong capital and liquidity positions. This is a testament to the reforms implemented in the aftermath of the global financial crisis; the government’s response to the COVID pandemic; and more recent actions. When two regional banking firms and a global financial firm failed last March, FSOC member agencies acted quickly to mitigate the serious risk of contagion and to maintain confidence in the banking system. But the failures also underscored that vulnerabilities remain.

So, over the past year, the Council has continued to carry out its crucial mandate of enhancing the resilience of the financial system and monitoring a wide range of vulnerabilities, including by working with federal and state financial regulators. The Council specifically continues to assess risks arising from higher interest rates and additional financial uncertainty. This includes evaluating the sensitivity of uninsured bank deposits and short-term wholesale funding, as well as potential higher credit losses. The Council is also evaluating and responding to potential risks in the commercial and residential real estate sectors, as well as areas of the financial system where leverage is increasing.

This year’s annual report analyzes 14 different vulnerabilities, all of which the Council will continue to monitor and evaluate. For each, the annual report makes recommendations to further enhance the integrity, efficiency, and stability of U.S. financial institutions and markets.
As we look ahead to next year, let me highlight the Council's progress in several areas that we will continue to work on going forward.

First, last month, the Council issued a new analytic framework for financial stability risks and updated guidance on nonbank financial company designations. This represented a significant step forward in increasing the Council’s public transparency and strengthened the Council's ability to mitigate the risks of a financial crisis that can devastate businesses and households. The Council has a range of authorities for addressing risks to financial stability, and the framework makes clear that the Council’s response to a risk to financial stability will depend on the nature of the risk.

Second, since first identifying climate change as an emerging threat to U.S. financial stability two years ago, the Council and its member agencies have significantly increased their capacity to evaluate and address climate-related financial risks. The Council’s Climate-related Financial Risk Committee is developing a framework to identify and assess climate-related financial risk, focusing on the intersection of physical risk, real estate, and insurance. This work is an important step towards fully and durably integrating climate risk into macroprudential policy, to preserve U.S. financial stability and protect the U.S. economy. The Council’s work is also supported by a newly established external Climate-related Financial Risk Advisory Committee, which held its first three meetings this year. Leveraging its members’ diverse backgrounds, that committee provides the Council with information on and analysis of climate-related financial risks from a broad array of perspectives.

Third, this year, the Council specifically identified the use of artificial intelligence in financial services as a vulnerability in the financial system. As financial institutions continue to evaluate and adopt innovative technologies, uptake of AI could accelerate. President Biden’s recent Executive Order on this topic called on agencies to enhance the safe, secure, and trustworthy development of AI. The Council will play its part by monitoring evolving technologies to respond to emerging risks. Supporting responsible innovation in this area can allow the financial system to reap benefits like increased efficiency, but there are also existing principles and rules for risk management that should be applied.

And, finally, I’ll highlight that the Council remains focused on improving the cyber resilience of the financial system. This requires continuous assessment of vulnerabilities and information-sharing between the U.S. government and domestic and foreign private firms.

With that, thank you to our staff for their hard work on the annual report and to all Council members for the significant progress across many issues. I look forward to seeing the Council
make further progress in the year ahead informed by the report’s recommendations.

Now, let me turn to Sandra Lee, Deputy Assistant Secretary for the Council at Treasury, and Paula Tkac, Executive Vice President and Research Director at the Federal Reserve Bank of Atlanta, for the presentation.

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