

# Testimony of Secretary of the Treasury Janet L. Yellen Before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate

February 8, 2024

*As Prepared for Delivery*

Chairman Brown, Ranking Member Scott, and Members of the Committee: Thank you for inviting me to testify.

Over the past three years, the Biden Administration has driven a historic recovery. GDP growth is strong and inflation has declined significantly.

We have also achieved a healthy labor market. The prime-age labor force participation rate is up by over two percentage points from January 2021. The unemployment rate remains below 4 percent, continuing the longest streak in 50 years. Real wages have increased. Household median wealth has too, by 37 percent between 2019 and 2022. That is the largest three-year increase on record. Families are now putting their additional income and accumulated savings back into the economy.

Our continued economic strength depends on a solid and resilient U.S. financial system. Throughout 2023, the Financial Stability Oversight Council monitored a wide range of risks, including risks stemming from the commercial and residential real estate sectors and from global geopolitical conflicts and technological developments. When two regional banks failed last March, we acted quickly to prevent contagion to banks with similar vulnerabilities and to maintain confidence in the banking system. The Council also increased transparency this year, issuing an analytic framework that for the first time provides the public with in-depth information on how it monitors, assesses, and responds to potential financial risks.

Let me now highlight five areas of ongoing work that are further detailed in the Council's 2023 annual report.

First, the Council is focused on risks from the banking sector and from nonbank financial institutions. It supports member agencies' plans to review whether capital measures appropriately reflect a banking institution's ability to absorb losses; improve resolvability at large, complex, or interconnected banks; and address vulnerabilities from uninsured deposit levels and depositor composition.

Nonbank financial institutions are an important source of capital in financial markets but also pose potential risks to the financial system, including risks related to liquidity mismatch and leverage. Securities and Exchange Commission initiatives focused on hedge funds, money market funds, and other investment funds are an important step forward here.

Second, the Council is focused on member agencies enhancing assessment efforts and increasing coordination around climate-related financial stability risks from increasingly severe and frequent climate-related events. Financial regulators should also continue to promote disclosures that allow investors and financial institutions to consider these risks in their investment and lending decisions.

Third, a key focus has been bolstering protections against cybersecurity risks. The Council promotes sharing timely and actionable cybersecurity information, including through ongoing partnerships between state and federal agencies and the private sector.

Fourth, the Council is closely monitoring the increasing use of artificial intelligence in financial services, which brings potential benefits such as reducing costs and improving efficiencies and potential risks like cyber and model risk. Financial institutions, regulators, and market participants should continue deepening their expertise and monitoring capacity in this area.

Fifth, the Council is focused on digital assets and related risks such as from runs on crypto-asset platforms and stablecoins, potential vulnerabilities from crypto-asset price volatility, and the proliferation of platforms acting outside of or out of compliance with applicable laws and regulations. Applicable rules and regulations should be enforced, and Congress should pass legislation to provide for the regulation of stablecoins and of the spot market for crypto-assets that are not securities. We look forward to continuing to engage with Congress on this.

With this overview, I look forward to taking your questions on these and other areas.

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