

Minutes of the Financial Stability Oversight Council

Held October 11, 2011

PRESENT:

Timothy F. Geithner, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council

Ben Bernanke, Chairman, Board of Governors of the Federal Reserve System (Federal Reserve)

Martin J. Gruenberg, Acting Chairperson, Federal Deposit Insurance Corporation (FDIC)

Mary Schapiro, Chairman, Securities and Exchange Commission (SEC)

Gary Gensler, Chairman, Commodity Futures Trading Commission (CFTC) (*participating by telephone*)

Edward DeMarco, Acting Director, Federal Housing Finance Agency (FHFA)

Debbie Matz, Chairman, National Credit Union Administration (NCUA)

John Walsh, Acting Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)

Roy Woodall, Independent Member with Insurance Expertise

William Haraf, Commissioner, California Department of Financial Institutions (non-voting member)

John Huff, Director, Missouri Department of Insurance, Financial Institutions, and Professional Registration (non-voting member)

David Massey, Deputy Securities Administrator, North Carolina Department of the Secretary of State, Securities Division (non-voting member) (*participating by telephone*)

Michael McRaith, Director, Federal Insurance Office, Department of the Treasury (non-voting member)

GUESTS:

Department of the Treasury

Neal S. Wolin, Deputy Secretary

Mary J. Miller, Assistant Secretary for Financial Markets

Amias Gerety, Deputy Assistant Secretary for FSOC

Board of Governors of the Federal Reserve System

Daniel Tarullo, Governor

Laurie Schaffer, Associate General Counsel

Commodity Futures Trading Commission

Timothy Karpoff, Counsel to the Chairman

Office of the Comptroller of the Currency

David Wilson, Senior Deputy Comptroller and Chief National Bank Examiner

Federal Deposit Insurance Corporation

Jason Cave, Deputy Director for Monitoring, Office of Complex Financial Institutions

Federal Housing Finance Agency

Mario Ugoletti, Special Advisor to the Director

National Credit Union Administration

John Worth, Chief Economist

Securities and Exchange Commission

Jennifer McHugh, Senior Advisor

Office of the Independent Member with Insurance Expertise

Amanda Wise

Federal Reserve Bank of New York

William Dudley, President and Chief Executive Officer

California Department of Financial Institutions

Michael Stevens, Senior Vice President and Director of Regulatory Affairs, Conference of State Bank Supervisors

Missouri Department of Insurance, Financial Institutions, and Professional Registration

Mark Sagat, Government Relations Policy Counsel, National Association of Insurance Commissioners

North Carolina Department of the Secretary of State, Securities Division

Joseph Brady, Deputy General Counsel, North American Securities Administrators Association

PRESENTERS:

Macro-environment Overview: Update on Europe

- *Lael Brainard, Under Secretary for International Affairs, Treasury*
- *Michael Foley, Senior Associate Director, Division of Banking Supervision and Regulation, Federal Reserve*
- *Marty Pfinsgraff, Deputy Comptroller for Credit Market/Risk, OCC*
- *Eileen Rominger, Director, Division of Investment Management, SEC*
- *Michael McRaith, Director, Federal Insurance Office*

Money Market Fund Reform Update

- *Robert Plaze, Associate Director, Division of Investment Management, SEC*
- *Matthew Eichner, Associate Director, Division of Research and Statistics, Federal Reserve*
- *Matthew Rutherford, Deputy Assistant Secretary for Federal Finance, Treasury*

Annual Report Recommendations Update

- *Amias Gerety, Deputy Assistant Secretary for FSOC, Treasury*

Enhanced Prudential Standards

- *Mark Van der Weide, Chief of Staff for Policy, Division of Banking Supervision and Regulation, Federal Reserve*

Designation of Nonbank Financial Companies

- *Lance Auer, Deputy Assistant Secretary for Financial Institutions, Treasury*
- *Jason Cave, Deputy Director for Monitoring, Office of Complex Financial Institutions*
- *Michael Gibson, Senior Associate Director, Division of Research and Statistics, Federal Reserve*

Executive Session

Secretary Geithner called the executive session of the meeting of the Financial Stability Oversight Council (Council) to order at 1:15 p.m. (EDT).

The Chairperson outlined the meeting agenda, which had been previously distributed to the members together with copies of the resolutions and other materials. The agenda for the meeting included the following subjects: (1) an overview of the current macro-environment with an update on Europe; (2) an update on money market fund reform efforts; (3) a discussion of the status of the Annual Report recommendations; (4) an update on development of enhanced prudential standards; (5) consideration of, and a vote on, a revised notice of proposed rulemaking and proposed interpretive guidance regarding criteria to be used in the designation of nonbank financial companies; (6) consideration of, and a vote on, the Council's budget for fiscal year 2012; and, (7) consideration of, and a vote on, the resolution approving minutes of the meetings held on the July 18, 2011 August 8, 2011 and September 15, 2011. The Chairperson indicated that the first four items would be considered in the executive session and that the remaining items would be considered in the open session.

1. Macro-environment Overview: Update on Europe

The Chairperson turned to the agenda item regarding the current macro-environment overview and an update of Europe and asked Lael Brainard, Under Secretary for International Affairs, Treasury, Michael Foley, Senior Associate Director, Division of Banking Supervision and Regulation, Federal Reserve, Marty Pfinsgraff, Deputy Comptroller for Credit Market/Risk, OCC, Eileen Rominger, Director, Division of Investment Management, SEC, and Michael McRaith, Director, Federal Insurance Office, Treasury, to make the presentation.

The individuals listed above provided the presentation. A discussion took place regarding the current macro-economic environment and the exposure of the U.S. financial system to Europe.

2. Money Market Fund Reform Update

The Chairperson then turned to the agenda item regarding an update on money market fund reform and called on Robert Plaze, Associate Director, Division of Investment Management, SEC, Matthew Eichner, Associate Director, Division of Research and Statistics, Federal Reserve, Matthew Rutherford, Deputy Assistant Secretary for Federal Finance, Treasury, to make the presentation. The individuals listed above provided the presentation which included a review of the actions taken since the last presentation regarding money market fund reform to the Council, the reform options under consideration, and next steps.

The members of the Council asked questions about the presentation.

3. Annual Report Recommendations

The Chairperson raised the agenda item regarding the annual report recommendations. He called on Amias Gerety, Deputy Assistant Secretary for FSOC, Treasury, to provide the presentation. Mr. Gerety outlined the four broad sets of recommendations in the Annual Report. After Mr. Gerety's presentation, the members of the Council discussed coordination of rulemakings.

4. Enhanced Prudential Standards

The Chairperson then turned to the agenda item regarding an update on the development of enhanced prudential standards and called on Mark Van der Weide, Chief of Staff for Policy, Division of Banking Supervision and Regulation, Federal Reserve, to discuss the status of the Federal Reserve's rulemaking implementing the standards. Mr. Van der Weide reviewed the requirements of sections 165 and 166 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. He discussed international developments regarding capital surcharges for systemically important banks and that the Federal Reserve was reviewing the international framework as part of its work on developing a proposed rule regarding the capital element under the enhanced prudential standards. Mr. Van der Weide also indicated that the Federal Reserve staff had consulted with the Council's Heightened Prudential Standards Committee. The members of the Council asked questions about the presentation.

Open Session

The Chairperson called the open session of the meeting of the Council to order at 2:51 p.m. (EDT). The Chairperson presented three resolutions for consideration by the Council.

1. Consideration of and Vote on Resolution Approving the Revised Notice of Proposed Rulemaking and Proposed Interpretive Guidance Regarding Designation of Nonbank Financial Companies

The Chairperson recognized Lance Auer, Deputy Assistant Secretary for Financial Institutions, Treasury, Jason Cave, Deputy Director for Monitoring, Office of Complex Financial Institutions, FDIC, and Michael Gibson, Senior Associate Director, Division of Research and Statistics, Federal Reserve, to give a presentation on revised notice of proposed rulemaking and interpretive guidance. After the presentation, the Chairperson presented to the Council the following resolution approving the proposed rule and guidance and their publication.

“WHEREAS, the Financial Stability Oversight Council (the “Council”) was established by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “DFA”) for the purposes of “(A) . . . identify[ing] risk to the financial stability of the United States that could arise from the material financial distress or failure, or ongoing activities, of large, interconnected bank holding companies or nonbank financial companies, or that could arise outside the financial services marketplace; (B) . . . promot[ing] market discipline, by eliminating expectations on the part of shareholders, creditors, and counterparties of such companies that the Government will shield them from losses in the event of failure; and (C) . . . respond[ing] to emerging threats to the stability of the United States financial system;” and

WHEREAS, section 113 of the DFA gives the Council the authority to require that a nonbank financial company be supervised by the Board of Governors of the Federal Reserve System and be subject to prudential standards if the Council determines that material financial distress at such a firm, or the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the firm, could pose a threat to the financial stability of the United States; and

WHEREAS, under the provisions of the DFA, in making a determination on whether the company should be subject to supervision by the Board of Governors of the Federal Reserve System, the Council must consider a number of factors including (A) the extent of the leverage of the company; (B) the extent and nature of the off-balance sheet exposures of the company; (C) the extent and nature of the transactions and relationships of the company with other significant nonbank financial companies and significant bank holding companies; (D) the importance of the company as a source of credit for households, businesses, and State and local governments and as a source of liquidity for the United States financial system; (E) the importance of the company as a source of credit for low-income, minority, or underserved communities, and the impact that the failure of such company would have on the availability of credit in such communities; (F) the extent to which assets are managed rather than owned by the company, and the extent to which ownership of assets under management is diffuse; (G) the nature, scope, size, scale, concentration, interconnectedness, and mix of activities of the company; (H) the degree to which the company is already regulated by 1 or more primary financial regulatory agencies; (I) the amount and nature of the financial assets of the company; (J) the amount and types of liabilities of the company, including the degree of reliance on short-term funding; and (K) any other risk-related factors that the Council deems appropriate; and

WHEREAS, the Council issued an advance notice of proposed rulemaking on October 1, 2010, through which it sought public comment to gather information in developing the criteria and analytical framework by which it will consider designating nonbank financial companies for enhanced supervision under the DFA; and,

WHEREAS, the Council issued a notice of proposed rulemaking on January 18, 2011, through which it sought public comment to gather information in developing the criteria to inform the Council's designation of nonbank financial companies for enhanced supervision under the DFA and sets forth the process for the Council's consideration of such designations; and,

WHEREAS, in response to the public comments received on the notice of proposed rulemaking issued on January 18, 2011, the staffs of the Council Agencies have prepared a second notice of proposed rulemaking and proposed interpretive guidance ("NPR") to provide (a) additional details regarding the framework that the Council intends to use in the process of determining whether a nonbank financial company should be subject to Federal Reserve supervision and enhanced prudential standards, and (b) further opportunity for public comment on the Council's proposed approach for making these determination.

WHEREAS, staff from the Council Agencies recommend that the Council approve and publish the NPR as set forth in the attached Federal Register document.

NOW, THEREFORE, BE IT RESOLVED, that the Council hereby authorizes the Chairperson, or his designee, to cause the attached NPR to be published in the Federal Register, in a form and manner acceptable to the Chairperson, or his designee and to otherwise make it available to the public as the Chairperson deems appropriate.

BE IT FURTHER RESOLVED, that the Council hereby delegates authority to the Chairperson, or his designee, to make technical, nonsubstantive, or conforming changes to the text of the attached Federal Register document to ensure that the Council can issue this document in the Federal Register, and to take such other actions and issue such other documents incident and related to the foregoing as they deem necessary or appropriate to fulfill the Council's objectives in connection with its publication."

The Chairperson asked for a motion approving the resolution which was made and seconded. The Council then approved the resolution by unanimous vote.

2. Consideration of and Vote on Resolution Approving the Council's Budget for FY 2012

The Chairperson recognized Amias Gerety, Deputy Assistant Secretary for FSOC, Treasury, to provide a presentation regarding the Council's proposed budget for FY 2012. After the presentation, the Chairperson presented to the Council the following resolution approving the study and its publication and transmission to the Congress.

"BE IT RESOLVED, by the Financial Stability Oversight Council (the "Council") that the Council's budget for FY 2012 attached hereto is hereby approved."

The Chairperson asked for a motion approving the resolution which was made and seconded. The Council then approved the resolution by unanimous vote.

3. Consideration of and Vote on the Resolution Approving Minutes of the Meetings held on July 18, 2011, August, 8, 2011, and September 15, 2011.

"BE IT RESOLVED, by the Financial Stability Oversight Council (the "Council") that the minutes attached hereto of the meetings held on July 18, 2011, August, 8, 2011, and September 15, 2011 of the Council are hereby approved."

The Chairperson asked for a motion approving the resolution which was made and seconded. The Council then approved the resolution by unanimous vote.

The Chairperson then asked for a motion to adjourn the meeting, which was made. The Chairperson adjourned the meeting at approximately 3:15 p.m. (EST).