Minutes of the Financial Stability Oversight Council

Held December 18, 2014

PRESENT:

Jacob J. Lew, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)
Janet Yellen, Chair, Board of Governors of the Federal Reserve System (Federal Reserve)
Martin J. Gruenberg, Chairperson, Federal Deposit Insurance Corporation (FDIC)
Mary Jo White, Chair, Securities and Exchange Commission (SEC)
Timothy Massad, Chairman, Commodity Futures Trading Commission (CFTC)
Richard Cordray, Director, Consumer Financial Protection Bureau (CFPB)
Melvin Watt, Director, Federal Housing Finance Agency (FHFA)
Thomas J. Curry, Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)
Debbie Matz, Chairman, National Credit Union Administration (NCUA)
Roy Woodall, Independent Member with Insurance Expertise
Richard Berner, Director, Office of Financial Research (OFR), Department of the Treasury (non-voting member)
Michael McRaith, Director, Federal Insurance Office, Department of the Treasury (non-voting member)
John P. Ducrest, Commissioner, Louisiana Office of Financial Institutions (non-voting member)
Adam Hamm, Commissioner, North Dakota Insurance Department (non-voting member)
David Massey, Deputy Securities Administrator, North Carolina Department of the Secretary of State, Securities Division (non-voting member)

GUESTS:

Department of the Treasury
Sarah Bloom Raskin, Deputy Secretary of the Treasury
Matthew Rutherford, Acting Under Secretary for Domestic Finance
Christopher J. Meade, General Counsel
Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council

Board of Governors of the Federal Reserve System
Daniel K. Tarullo, Governor

Federal Deposit Insurance Corporation
Jason Cave, Special Advisor to the Chairman for Supervisory Matters

Securities and Exchange Commission
Lona Nallengara, Chief of Staff

Commodity Futures Trading Commission
Lawranne Stewart, Special Counsel

Consumer Financial Protection Bureau
Steven Antonakes, Deputy Director

Federal Housing Finance Agency
Mario Ugoletti, Special Advisor to the Director

Comptroller of the Currency
Jennifer Kelly, Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner

National Credit Union Administration
John Worth, Chief Economist

Office of the Independent Member with Insurance Expertise
Chris Ledoux, Senior Advisor

Office of Financial Research
Patricia Mosser, Deputy Director for Research and Analysis

Federal Insurance Office
Steven Seitz, Acting Deputy Director (Financial Stability)

Louisiana Office of Financial Institutions
Michael Stevens, Senior Executive Vice President, Conference of State Bank Supervisors

North Carolina Department of the Secretary of the State, Securities Division
Christopher Staley, Counsel, North American Securities Administrators Association

PRESENTERS:

Asset Management

- *Lyndsay Huot, Senior Policy Advisor, Treasury*
- *Matthew Rutherford, Acting Under Secretary for Domestic Finance, Treasury (available for questions)*
- *Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council, Treasury (available for questions)*
- *Nellie Liang, Director, Office of Financial Stability Policy and Research, Federal Reserve (available for questions)*
- *Lona Nallengara, Chief of Staff, SEC (available for questions)*

Nonbank Financial Company Designations

- *Felton Booker, Senior Advisor, Banking Supervision and Regulation, Federal Reserve*
- *Eric Froman, Deputy Assistant General Counsel for the Council, Treasury*
- *Todd Cohen, Senior Policy Advisor, Treasury (available for questions)*
- *Steven Seitz, Acting Deputy Director (Financial Stability), Federal Insurance Office (available for questions)*
- *Diane Fraser, Senior Policy Advisor, Office of the Independent Member (available for questions)*
- *Laurie S. Schaffer, Associate General Counsel, Federal Reserve (available for questions)*

Update on International Market Developments

- *Ramin Toloui, Assistant Secretary for International Finance, Treasury*
- *Nellie Liang, Director, Office of Financial Stability Policy and Research, Federal Reserve*

2014 Council Annual Report Update

- *Amias Gerety, Counselor to the Secretary for Financial Institutions, Treasury*
- *Trent Reasons, Senior Policy Advisor, Treasury*

OFR Annual Report and Financial Stability Monitor

- *Rebecca McCaughrin, Associate Director, Current Analysis, OFR*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 10:08 A.M. (EST). He outlined the meeting agenda, which had previously been distributed to the members together with copies of the resolutions and other materials. The agenda for the executive session of the meeting included the following subjects: (1) asset management; (2) nonbank financial company designations; and (3) an update on international market developments.

1. Asset Management

The Chairperson introduced the first agenda item, the Council's work on asset management. He explained that a Federal Register notice seeking public comment on potential risks in the asset management industry represented a key step in carrying out the Council's responsibility to identify and examine potential threats to financial stability. He then introduced Lyndsay Huot, Senior Policy Advisor at Treasury, who presented on the final draft of the proposed Federal Register notice and described its components. Members of the Council then had a discussion.

2. Nonbank Financial Company Designations

The Chairperson introduced the next agenda item, nonbank financial company designations under Section 113 of the Dodd-Frank Act, relating to MetLife, Inc. (MetLife). The Chairperson noted that the Nonbank Designations Committee staff had worked to address the information and arguments MetLife submitted in its written and oral hearings and other submissions. He then introduced Felton Booker, Senior Advisor, Banking Supervision and Regulation, at the Federal Reserve; Todd Cohen, Senior Policy Advisor at Treasury; Steven Seitz, Acting Deputy Director (Financial Stability) of the Federal Insurance Office; Diane Fraser, Senior Policy Advisor in the Office of the Independent Member; and Eric Froman, Deputy Assistant General Counsel for the Council at Treasury. Mr. Booker presented on the Nonbank Designations Committee's analysis of the company. Mr. Froman then explained the timing of next steps if the Council were to designate the company, noting that the company and certain of its regulators would be notified promptly of the final designation and be provided with the statement of the basis for the Council's final designation. Mr. Froman also noted that, consistent with the Council's interpretive guidance, the final designation would be announced publicly the following morning and a public version of the Council's basis for the final designation would be posted on the Council's website. Members of the Council asked questions and had a discussion.

The Chairperson then presented to the Council the following resolution.

"WHEREAS, section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "DFA") authorizes the Financial Stability Oversight Council (the "Council") to determine that a nonbank financial company shall be supervised by the Board of Governors of the Federal Reserve System (the "Federal Reserve") and shall be subject to enhanced prudential standards if the Council determines that material financial distress at the nonbank financial company, or the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the nonbank financial company, could pose a threat to the financial stability of the United States; and

WHEREAS, in making a determination under section 113 of the DFA, the Council must take into consideration the following: (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 the activities of the company; (H) the degree to which the company is already regulated by one or more primary financial regulatory agencies; (I) the amount and nature of the financial assets of the company; (J) the amount and types of the 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 a final rule and accompanying interpretive guidance (the "Rule and Guidance"), codified at 12 C.F.R. Part 1310, that describes the criteria and the processes and procedures by which the Council will determine that a nonbank financial company shall be supervised by the Federal Reserve and shall be subject to enhanced prudential standards under the DFA; and

WHEREAS, the Rule and Guidance describes a three-stage process that the Council expects to use for evaluating a nonbank financial company prior to a Council vote on a proposed determination; and

WHEREAS, the Council has evaluated MetLife, Inc. ("MetLife"), which the Council previously advanced to stage 3, in accordance with the DFA and the Rule and Guidance, including conducting an assessment of all of the considerations set forth in section 113 of the DFA; and

WHEREAS, the Council has considered a broad range of information available through existing public and regulatory sources, as well as information collected directly from MetLife; and

WHEREAS, based on the stage 3 evaluation, the Council made a proposed determination regarding MetLife and provided MetLife written notice of the proposed determination, including an explanation of the basis of the proposed determination; and

WHEREAS, the Council provided MetLife an opportunity to request a hearing before the Council to contest the proposed determination; and

WHEREAS, MetLife requested a written and an oral hearing before the Council; and

WHEREAS, the Council held a written and an oral hearing in which MetLife contested the proposed determination; and

WHEREAS, based on the evaluation of MetLife, the staffs of the Council Members and of their Agencies recommend that the Council make a final determination regarding MetLife; and

WHEREAS, under the provisions of the DFA and the Rule and Guidance, the Council is required to notify a nonbank financial company of the final determination of the Council, which shall contain a statement of the basis for the decision of the Council; and

WHEREAS, under the provisions of the Rule and Guidance, the Council is required to publicly announce any final determination of the Council under section 113 of the DFA.

NOW, THEREFORE, BE IT RESOLVED, that, based on the information, considerations, and analysis set forth in the attached "Basis for the Financial Stability Oversight Council's Final Determination Regarding MetLife, Inc." (the "Basis"), and on a review of the administrative record, the Council hereby determines, pursuant to section 102 of the DFA and the Federal Reserve's Regulation PP, that MetLife is a nonbank financial company and thus eligible for a determination by the Council under section 113 of the DFA.

BE IT FURTHER RESOLVED, that, based on the information, considerations, and analysis set forth in the Basis, and on a review of the administrative record, the Council hereby makes a final determination, pursuant to section 113 of the DFA, that material financial distress at MetLife could pose a threat to the financial stability of the United States and that MetLife shall be supervised by the Federal Reserve and shall be subject to prudential standards, in accordance with Title I of the DFA.

BE IT FURTHER RESOLVED, that the Council has considered and hereby approves the attached "Notice of Final Determination and Statement of the Basis for the Financial Stability Oversight Council's Final Determination Regarding MetLife, Inc." (the "Notice") and authorizes the Notice to be sent to MetLife.

BE IT FURTHER RESOLVED, that the Council hereby approves the Basis and authorizes the Basis to be released to the public.

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 Notice and the Basis."

The Chairperson asked for a motion to approve the resolution, which was made and seconded. The Council approved the resolution by a vote of nine to one, with Mr. Woodall dissenting and Commissioner Hamm noting his opposition to the designation.

3. Update on International Market Developments

The Chairperson then introduced Ramin Toloui, Assistant Secretary of the Treasury for International Finance, and Nellie Liang, Director of the Office of Financial Stability Policy and Research at the Federal Reserve, who presented a brief update on recent international market developments related to Russia and emerging markets. Following the presentation, members of the Council asked questions and had a discussion.

Before moving to the open session of the meeting, the Chairperson provided an update to the Council regarding staff work on potential changes to the nonbank financial company designations process. Federal Insurance Office Director Michael McRaith also noted that authority for the Terrorism Risk Insurance Program will expire and stated that his office would monitor related developments and report back to the Council.

The Chairperson adjourned the executive session of the meeting at approximately 11:22 A.M. (EST).

Open Session

The Chairperson called the open session of the Council meeting to order at approximately 11:28 A.M. (EST). The agenda for the open session of the meeting included: (1) two updates on the 2014 Council annual report; (2) a presentation on the OFR's annual report and Financial Stability Monitor; (3) a vote on publication of a Federal Register notice seeking public comment on asset management products and activities; and (4) consideration of, and a vote on, a resolution approving the minutes of the Council's meeting on November 3, 2014.

The Chairperson noted Congress's modification the prior week of the so-called "swaps push-out" provision of the Dodd-Frank Act and said it was a step in the wrong direction in that it pared back an element of the Dodd-Frank Act aimed at reducing taxpayer exposure to derivatives activities within banks. The Chairperson also said, however, that the new and comprehensive architecture for swaps regulation in Title VII of the Dodd-Frank Act remains and that regulators have a duty to fully implement these critical reforms.

More broadly, the Chairperson observed that the Council has worked together vigorously on implementing the Dodd-Frank Act since its 2010 enactment and that the law represents the most comprehensive set of reforms to the financial system since the Great Depression. He stated that he and the President remain committed to defending the Dodd-Frank Act, and that implementing the Dodd-Frank Act has been a core recommendation in the Council's annual report for the past four years.

1. 2014 Council Annual Report Update

    a. Cybersecurity

The Chairperson then introduced Amias Gerety, Counselor to the Secretary of the Treasury for Financial Institutions, and Comptroller of the Currency Thomas Curry, who provided updates related to cybersecurity.

Mr. Gerety explained that cyber-related vulnerabilities are a top priority of the Council and have remained a considerable threat to financial stability since the Council's 2012 annual report identified them as such. He reported that in early 2013, the Chairperson hosted over 50 bank chief executive officers at the Treasury Department to receive a classified briefing on cybersecurity threats, and in summer 2014, the Chairperson and Deputy Secretary of the Treasury Sarah Bloom Raskin convened principal-level engagement on strategic matters related to cybersecurity through the Financial and Banking Information and Infrastructure Committee (FBIIC).

Mr. Gerety reported that awareness and resilience efforts also continue in the private sector through the Financial Services Sector Coordinating Council (FSSCC), which includes the largest financial services firms and relevant trade groups. In addition to routine, direct contact with individual government agencies and private-sector firms, Mr. Gerety stated that the Treasury Department coordinates regularly with the intelligence and law enforcement communities who respond to incidents and also set strategic policy and planning related to cybersecurity.

Mr. Gerety noted that malicious cyber activity is likely to continue and that the Council's 2014 annual report recommended specific actions to help reduce risks associated with that activity, including efforts to enhance information sharing, improve best practices, and support incident response efforts. As to information sharing, Mr. Gerety stated that private firms continue to join the financial sector's Information Sharing and Analysis Center (FS-ISAC), which now includes close to 6,000 members. He reported that last month, the Federal Financial Institutions Examination Council (FFIEC) publicly recommended that financial institutions of all sizes participate in information-sharing organizations. He also stated that the government continues to distribute unique information about cyber threats quickly to network defenders to enable effective cyber defense.

Turning to best practices, Mr. Gerety reported that FBIIC continues to encourage firms to implement the National Institute of Standards and Technology's Framework for Improving Critical Infrastructure Cybersecurity. This framework lays out a model for considering cyber risk based on five functions: identify, protect, detect, respond, and recover. Mr. Gerety stated that one important aspect of the framework is that it considers the management of third-party service providers, which offer essential services to the financial sector, as requiring appropriate oversight. He said that regulators have recognized the value of this framework, citing the SEC's recommendation of the framework as a tool for exchanges and other entities required to comply with the SEC's newly adopted Regulation SCI. Mr. Gerety also stated that the financial sector continues to adapt and tailor the framework, noting that the Securities Industry and Financial Markets Association is developing auditable standards for the framework that firms can use to evaluate their own practices, as well as those of their suppliers, business partners, and third-party vendors.

In connection with incident response, Mr. Gerety described the FBIIC's work in conjunction with the FSSCC; the Department of Homeland Security; and others in the national security, law enforcement, and intelligence communities on a series of cybersecurity simulation exercises to improve cyber incident response preparedness. While recognizing that synchronizing complex incident responses across multiple organizations and sectors poses operational, legal, and strategic challenges, he stated that acting on the lessons learned from these exercises would improve response planning.

In conclusion, Mr. Gerety stated that the FBIIC would continue to improve its coordination with applicable organizations and also continue to brief the Council on its efforts.

Comptroller Curry then presented on the FFIEC's cybersecurity efforts. He reported that cybersecurity is a top priority for all FFIEC members and the FFIEC's work is leveraging the examination and supervisory authorities the banking regulators already have to this end. He described a multi-pronged approach to cybersecurity that involves ongoing communications about emerging threats and risks, supervisory policies and standards, and ongoing supervision to assess compliance of both financial institutions and key third-party technology service providers.

Comptroller Curry stated that the FFIEC has established a cybersecurity and critical infrastructure working group that over the past year has hosted a webinar for community bank executives with over 5,000 registrants, launched a cybersecurity web page, and published numerous joint statements on the risks posed by specific cyber threats and wide-scale vulnerabilities. He reported that agencies, through the FFIEC, also piloted a cybersecurity exam work program over the summer at over 500 community institutions, an assessment focusing on five key areas: cybersecurity risk management and oversight, threat intelligence and collaboration, cybersecurity controls, external dependency management, and cyber incident management resilience.

Comptroller Curry stated that the FFIEC released its general observations report from this assessment, which addresses a range of risks and provides suggested considerations for management and directors to consider in assessing their institutions' preparedness. He noted that the report also lists sound practices, such as setting an appropriate tone at the top and recognizing the critical first line of defense bank employees play, maintaining sufficient awareness of cybersecurity threats and vulnerabilities, joining FS-ISAC to help monitor threats and emerging risks, and establishing and routinely testing incident response plans throughout the institution to strengthen the ability to address breaches that occur. He stated that the FFIEC hopes to use results of assessments to inform additional steps to further strengthen the banking sector against cyber threats. Comptroller Curry thanked his FFIEC colleagues for their cybersecurity work.

FDIC Chairman Martin Gruenberg then underscored Comptroller Curry's FFIEC's comments, emphasizing that cyber risks are among the key operational risks the industry faces. He noted that the FFIEC is particularly focused on the cybersecurity risks posed to community banks. Chairman Gruenberg also thanked the Chairperson for the leadership the Treasury Department has taken on this issue.

Louisiana Office of Financial Institutions Commissioner John Ducrest also thanked Comptroller Curry for his FFIEC leadership and noted that the FFIEC's work has helped those who regulate both small and large institutions to present a common message.

Director McRaith asked Mr. Gerety about the Treasury Department's view on cyber risk insurance. Mr. Gerety responded that while having cyber risk insurance will not prevent attacks, the underwriting process could be helpful in highlighting risks. He observed that cyber risk insurers could play a role in response and recovery from cyber events and help their policyholders adopt best practices for their response and recovery plans.

FHFA Director Melvin Watt then stated that the FHFA had issued an advisory bulletin on cybersecurity in May covering seven areas and that the FHFA's new inspector general is making cybersecurity a priority for oversight.

NCUA Chair Debbie Matz acknowledged Comptroller Curry's work as FFIEC chairman. She also explained the NCUA is the only financial services regulator without vendor authority and described this as a challenge to providing oversight in this arena. She said she would continue to call on Congress for this authority.

The Chairperson then thanked the presenters and recognized Comptroller Curry's leadership in the FFIEC. He also noted Deputy Secretary of the Treasury Sarah Bloom Raskin's work in fostering principal-level involvement among financial regulatory agencies. The Chairperson expressed the hope that industry will participate in the FS-ISAC.

b. Interest Rate Risk

The Chairperson recognized Trent Reasons, Senior Policy Advisor at Treasury, who presented on the ongoing work of the Council's Systemic Risk Committee related to monitoring interest rate risks and preparedness for potential rate shocks.

Mr. Reasons stated interest rate risk and the preparedness of financial firms against potential rate shocks has been an important issue for the Council since its first annual report. He stated that the Council's efforts have complemented individual member agencies' longstanding efforts by providing greater visibility of the risks across different types of institutions, markets, and asset classes. He noted there are signs of "reach for yield," where some investors and institutions significantly increase their risk profiles for incrementally higher yields, and that this makes continued monitoring and vigilance by member agencies, regulators, and supervisors crucial.

With respect to depository institutions, Mr. Reasons described uncertainties in modeling deposit behavior given post-crisis deposit growth but delineated some steps member agencies have taken to evaluate the resilience of deposit funding for the institutions they supervise in the event of interest rate shocks.

With respect to broker-dealer institutions, Mr. Reasons stated that persistently low rates have lowered volatility and trading volume while spurring new corporate issuance in debt and equity and other investment banking activity. He explained that while certain measures of broker-dealer risk have declined, an overall decline in market volatility has been the key driver and new measures, such as stressed value at risk or SVaR, are helping to confirm the derisking of some broker-dealers.

Finally, Mr. Reasons described continued investment margin pressure on life insurers and heightened reinvestment risk stemming from the continued low interest rate environment. He stated that life insurers have extended portfolio duration and moved gradually toward lower-rated credit. He also reported that risk-based capital ratios have continued to improve gradually but expressed concern that some insurance companies could be less resilient in the event of a rapid increase in rates.

Federal Reserve Chair Janet Yellen then stated that the Federal Reserve recognizes low rates can encourage reach for yield and taking additional credit or duration risk or increasing leverage to boost margins. She said the Federal Reserve has paid close attention to these risks at the institutions it supervises and more broadly in the financial system while also working with those firms to increase their resilience to possible credit or interest rate shocks. She reported that Federal Reserve supervisors periodically estimate the effects of a variety of interest rate scenarios on banks' earnings and capital, including loan securities and deposits. Chair Yellen also stated that she and her colleagues on the Federal Open Markets Committee have the goal of communicating as clearly as possible about monetary policy to avoid unnecessary surprises that could lead to sharp, unanticipated interest rate movements.

Next, Chairman Gruenberg stated that the FDIC has been monitoring interest rate risk regularly in the quarterly banking profiles it has been issuing and noted the potential risk for institutions investing in higher-yielding securities; he stated that the FDIC has focused on this dynamic in its supervisory capacity. He noted that the FDIC periodically releases its Supervisory Insights journal and that an installment released on the morning of December 18 focuses on insured depository institutions' management of interest rate risk.

North Dakota Insurance Department Commissioner Adam Hamm asked Mr. Reasons to compare life insurance industry risk taking today with historical levels. Mr. Reasons responded that while there clearly is increased risk taking, it should be considered not just in nominal terms but as a percentage of total portfolio assets. As a percentage of invested assets, Mr. Reasons stated that risk growth has been only gradual and still remains below pre-crisis levels. He clarified that his observations apply to the U.S. life industry as a whole and not to any particular insurer.

4. Office of Financial Research Annual Report and Financial Stability Monitor

The Chairperson then introduced OFR Director Richard Berner and Associate Director for Current Analysis Rebecca McCaughrin to make a presentation about the OFR's recent annual report and the Financial Stability Monitor, which the OFR has updated since first unveiling it in its 2013 annual report.

Director Berner described three key risks identified in the OFR's annual report: excessive risk-taking during an extended period of low interest rates and low volatility; an increase in market fragility resulting in declining market liquidity and persistent risks of asset fire sales and runs; and the migration of financial activity away from banks toward non-traditional venues that are less regulated and where the threats could be significant, but are more difficult to assess.

Ms. McCaughrin then presented on the OFR's Financial Stability Monitor, which she described as one of the key tools in monitoring and reporting on threats to financial stability. She stated that the OFR introduced the tool in its annual report last year to track and quantify the vulnerabilities and conditions that may weigh on financial stability and that the OFR has refined the framework in two respects this year: expanded metrics and testing all the indicators underpinning the monitor to gauge reliability.

Ms. McCaughrin stated that the OFR adopted a risk-based approach to assessing and monitoring threats and organized the indicators in five functional areas of risk: macroeconomic risk, market risk, credit risk, funding and liquidity risk, and contagion. She described two advantages of this approach. First, she stated that these risks are aligned with the services a well-functioning financial system should provide, such as credit allocation, provision of leverage, maturity transformation, risk transfer, and liquidity intermediation. Second, she stated that it allows tracking risks across the system, rather than in any particular institution or market.

Ms. McCaughrin stated that the monitor currently suggests overall threats are not high when compared to, for example, the peak of the financial crisis, but that there are a few areas where risks have intensified and several indicators are approaching values that were seen before the crisis, including duration risk, valuations in some market segments, and credit positions. She stated that while most measures of funding remain stable, market liquidity remains a concern.

Ms. McCaughrin reported that credit risks among non-financial companies also warrant scrutiny. While many measures of credit risk look benign, she explained that this may be a reflection of low interest rates. She stated that other evidence increasingly shows the corporate credit cycle is in its latter stages as seen, for example, in rising balance sheet leverage, less-productive use of debt proceeds, and looser bank lending conditions. The OFR believes that these require further analysis and scrutiny. Ms. McCaughrin stated that the monitor does not predict when or how material shocks could materialize, but rather it is one tool to identify vulnerabilities that shocks could expose and is part of systematic monitoring and research efforts.

5. Asset Management Federal Register Notice

The Chairperson then provided an update on the Council's ongoing assessment of potential risks in the asset management industry. He explained that based on efforts including a public conference earlier this year on asset management, the Council had identified certain areas of interest that warrant further review and analysis. The Chairperson described a proposed Federal Register notice that would seek public comment on potential risks to U.S. financial stability from asset management products and activities. He stated the notice would request information about risks in four areas: liquidity and redemption, leverage, operational functions, and resolution.

SEC Chair Mary Jo White stated that she supports the decision to seek comment on the issues identified in the proposed notice and looks forward to public input on these important and complex issues. She stated that the SEC has regulated asset managers since 1940, adding that the industry is constantly evolving and presents new challenges and risks, which the SEC's regulatory program addresses. She stated that systemic risks, by definition, cannot be addressed by any single agency alone and the Council is an important forum for identifying and studying systemic risk. She described the proposed request for comment as a constructive complement to the SEC's initiatives.

Chair Yellen stated that the asset management initiatives described in the proposed Federal Register notice are critically important given the increased amount of credit market debt that has flowed to this sector in the past few years. She stated that the Council's efforts can be an important complement to the SEC's efforts and that the Council may want to evaluate whether financial stability risks could arise from liquidity risks, leverage, and interconnectedness, even if policies are in place to protect individual investors in funds. She stated she was particularly attuned to the risks of the build-up of leverage across the financial system. She also voiced support for the notice, describing it as a way to help the Council better understand how and to what extent different types of investment funds use derivatives and how they manage the risks from such exposures. She stated her hope that the notice also would provide insight on how funds manage the liquidity of their asset holdings to meet redemption requests. She complimented the staff for its work and said she looks forward to public comments on whether and how certain asset management products and activities could create risks to financial stability.

Chairman Gruenberg concurred with Chair White and Chair Yellen and stated that the proposed Federal Register notice aptly lays out the key issues for the Council to consider and on which to receive public comments.

Comptroller Curry thanked the Council staff for its work on the Federal Register notice, stated that he supported the notice, and commented that the relevant perspective for the Council is not performance in the ordinary course of business but rather a focus on periods of financial distress.

CFPB Director Richard Cordray concurred with publication of the Federal Register notice and also stated that the Council intends to move forward rapidly with assessing the asset management sector of the economy. He also stressed the importance of collecting additional data related to asset management products and activities to further inform the work of the Council in this area.

CFTC Chairman Timothy Massad also expressed support for publishing the notice. He emphasized that the Council's purpose is focused on risks to financial stability.

Independent member Roy Woodall stated support for the notice and especially encouraged insurance companies, regulators, and experts to provide input to the Council. He expressed a particular interest in views on redemption risk for certain insurance products and how it is distinct from the risk that other asset management products face.

The Chairperson stated that the Council needs to be alert to risks stemming from evolving financial markets and respond with appropriate policy tools and that the request for comment goes to the very core of the Council's responsibilities. He also said that the Council had no predetermined view about the conclusions to draw or actions to take following the notice. He thanked the staff and Council members for their work on the proposed notice and then presented to the Council the following resolution.

"WHEREAS, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "DFA") established the Council to identify risks to the financial stability of the United States, promote market discipline, and respond to emerging threats to the stability of the U.S. financial system; and

WHEREAS, over the past year the Council has been engaged in work to analyze risks associated with the asset management industry and whether any such risks could affect U.S. financial stability; and

WHEREAS, the Council is evaluating industry-wide products and activities to assess potential risks associated with the asset management industry; and

WHEREAS, certain areas of interest have been identified as warranting further review and analysis, particularly whether risks associated with liquidity and redemptions, leverage, *operational functions, and resolution in the asset management industry could affect U.S. financial stability; and*

WHEREAS, the staffs of the Council Members and their Agencies have prepared the attached "Notice Seeking Comment on Asset Management Products and Activities" (the "Notice").

NOW, THEREFORE, BE IT RESOLVED, that the Council hereby approves the Notice and authorizes the Chairperson, or his designee, to cause the Notice 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 Notice to ensure that the Council can issue and publish the Notice 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 to approve the resolution, which was made and seconded. The Council approved the resolution by unanimous vote.

6. Resolution Approving the Minutes of the Meeting held on November 3, 2014.

"BE IT RESOLVED, by the Financial Stability Oversight Council (the "Council"), that the minutes attached hereto of the meeting held on November 3, 2014 of the Council are hereby approved."

The Chairperson asked for a motion to approve the resolution, which was made and seconded. The Council approved the resolution by unanimous vote.

The Chairperson adjourned the meeting at approximately 12:17 P.M. (EST).