

Minutes of the Financial Stability Oversight Council

September 22, 2023

PRESENT:

Janet L. Yellen, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)

Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System (Federal Reserve)

Martin Gruenberg, Chairman, Federal Deposit Insurance Corporation (FDIC)

Gary Gensler, Chair, Securities and Exchange Commission (SEC)

Rostin Behnam, Chairman, Commodity Futures Trading Commission (CFTC)

Rohit Chopra, Director, Consumer Financial Protection Bureau (CFPB)

Sandra L. Thompson, Director, Federal Housing Finance Agency (FHFA)

Michael J. Hsu, Acting Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)

Todd M. Harper, Chairman, National Credit Union Administration (NCUA) (via videoconference)

Thomas E. Workman, Independent Member with Insurance Expertise

James Martin, Acting Director, Office of Financial Research (OFR), Department of the Treasury (non-voting member)

Steven Seitz, Director, Federal Insurance Office (FIO), Department of the Treasury (non-voting member)

Adrienne Harris, Superintendent, New York State Department of Financial Services (non-voting member)

Elizabeth K. Dwyer, Superintendent of Financial Services, Rhode Island Department of Business Regulation (non-voting member) (via videoconference)

Melanie Lubin, Securities Commissioner, Maryland Office of the Attorney General, Securities Division (non-voting member)

GUESTS:

Department of the Treasury (Treasury)

Nellie Liang, Under Secretary for Domestic Finance

Sandra Lee, Deputy Assistant Secretary for the Council

Laurie Schaffer, Principal Deputy General Counsel

Eric Froman, Assistant General Counsel (Banking and Finance)

Sean Hoskins, Director of Policy, Office of the Financial Stability Oversight Council

Board of Governors of the Federal Reserve System

Andreas Lehnert, Director, Division of Financial Stability

Federal Deposit Insurance Corporation

Susan Baker, Corporate Expert, Division of Complex Institution Supervision and Resolution

Securities and Exchange Commission
Amanda Fischer, Chief of Staff

Commodity Futures Trading Commission
David Gillers, Chief of Staff

Consumer Financial Protection Bureau
Gregg Gelzinis, Advisor to the Director

Federal Housing Finance Agency
Naa Awaa Tagoe, Deputy Director, Division of Housing Mission and Goals

Comptroller of the Currency
Jay Gallagher, Senior Deputy Comptroller for Supervision Risk and Analysis

National Credit Union Administration
Elizabeth Eurgubian, Director of External Affairs and Communications and Policy Advisor (via videoconference)

Office of the Independent Member with Insurance Expertise
Charles Klingman, Senior Policy Advisor

Federal Reserve Bank of New York
John Williams, President
Richard Crump, Financial Research Advisor, Macrofinance Studies

Office of Financial Research
Sriram Rajan, Associate Director, Research and Analysis Center

Federal Insurance Office
Philip Goodman, Senior Insurance Regulatory Policy Analyst (via videoconference)

New York State Department of Financial Services
Karen Lawson, Executive Vice President for Policy and Supervision, Conference of State Bank Supervisors

Rhode Island Department of Business Regulation
Ethan Sonnichsen, Managing Director, National Association of Insurance Commissioners (via videoconference)

Maryland Office of the Attorney General, Securities Division
Vincente Martinez, General Counsel, North American Securities Administrators Association

PRESENTERS:

Update on International Market Developments

- *John Ammer, Senior Economic Project Manager, Federal Reserve*

- *Andrew Coflan, Principal Markets Group, Federal Reserve Bank of New York*
- *Jeff Dawson, International Policy Advisor, Federal Reserve Bank of New York (available for questions)*

Update on Proposed Analytic Framework on Financial Stability Risks and Proposed Interpretive Guidance on Nonbank Financial Company Determinations

- *Sandra Lee, Deputy Assistant Secretary for the Council, Treasury*
- *Eric Froman, Assistant General Counsel (Banking & Finance), Treasury*

2023 Annual Report

- *Sandra Lee, Deputy Assistant Secretary for the Council, Treasury*
- *Paula Tkac, Executive Vice President and Director of Research, Federal Reserve Bank of Atlanta*

Fiscal Year 2024 Council Budget

- *Sandra Lee, Deputy Assistant Secretary for the Council, Treasury*
- *Samantha MacInnis, Director of Operations, Office of the Financial Stability Oversight Council, Treasury (available for questions)*
- *Dennis Lee, Deputy Director of Operations, Office of the Financial Stability Oversight Council, Treasury (available for questions)*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 9:27 A.M. The Chairperson began by outlining the meeting agenda, which had previously been distributed to the members together with other materials. The agenda for the executive session included (1) an update on international market developments, (2) an update on the Council’s proposed analytic framework on financial stability risks and the Council’s proposed interpretive guidance regarding nonbank financial company determinations, (3) an update on the Council’s 2023 annual report, (4) a vote on the Council’s fiscal year 2024 budget, and (5) a vote on the minutes of the Council’s meeting on July 28, 2023.

1. Update on International Market Developments

The Chairperson introduced the first agenda item, an update on international market developments, including the outlook for global financial stability and macroeconomic and financial conditions in China. The Chairperson introduced John Ammer, Senior Economic Project Manager at the Federal Reserve, and Andrew Coflan, from the Principal Markets Group of the Federal Reserve Bank of New York, for the update.

Mr. Ammer presented on the Federal Reserve’s international financial stability assessment. He noted that the assessment annually evaluates prominent international financial stability risks, foreign vulnerabilities, and potential transmission to the United States. He stated that overall vulnerabilities were medium to notable in emerging market economies and moderate in advanced foreign economies. He noted that potential risks from interest rates and energy prices had been manageable so far. He stated that real estate valuations were generally elevated in advanced

foreign economies, but that banks appear resilient. He also noted that corporate debt remains high in China. He stated that the risks of potential transmission of stress arise from countries with financial links to the United States. He then highlighted certain geopolitical risks, including risks related to China and the war in Ukraine. He noted that higher interest rates had not stressed foreign banks so far, but that further risks from higher rates may emerge, particularly if inflation persists. He noted that higher rates had resulted in higher debt service for leveraged households, businesses, and governments. He said that in advanced foreign economies, higher rates could exacerbate property market risks, and he noted that in these countries housing valuations generally remained stretched and that stresses had emerged in the commercial real estate sector. He also noted that stress in advanced foreign economies could lead banks from those jurisdictions to reduce their lending in the United States.

Mr. Coflan then provided an update regarding China's macroeconomic and financial outlook. He stated that China's macroeconomic outlook had continued to soften, with the property sector at the center of the downturn. He noted, however, that broader economic activity—outside the property sector—had not slowed dramatically. He stated that financial markets indicated growing concerns, with equity markets down and net outflows of foreign investment. He also noted that the cyclical slowdown was occurring amid broader structural problems, including high debt levels, overreliance on property and local government borrowing, a policy shift from high-speed to high-quality growth, and demographic headwinds. He stated that policy efforts to rein in the property sector were reducing growth. He also stated that financial risks remained elevated, including due to exposures in the banking system. He noted, however, that financial distress so far had arisen primarily on the periphery of the financial system, and that deleveraging in shadow financing had reduced some risks. He stated that local government debt was a key risk factor, and that local government financial vehicles were a potential catalyst for further economic and financial stress. He concluded by describing China's near-term policy challenges, and he noted that global spillovers had been muted so far.

Council members then asked questions and had a discussion, including regarding the Chinese economy and financial markets and potential channels for the transmission of financial risk from China to the United States.

2. Update on Proposed Analytic Framework on Financial Stability Risks and Proposed Interpretive Guidance on Nonbank Financial Company Determinations

The Chairperson then turned to the second agenda item, an update on the Council's proposed analytic framework for financial stability risk identification, assessment, and response, and the Council's proposed interpretive guidance regarding nonbank financial company determinations. She introduced Sandra Lee, Deputy Assistant Secretary for the Council at Treasury, and Eric Froman, Assistant General Counsel (Banking & Finance) at Treasury, for the update.

Ms. Lee noted that the Council had approved the proposed guidance and framework on April 21, and that the comment period for the proposals closed on July 27. She stated that the purpose of the proposed guidance was to establish a durable process for the Council's use of its authority to designate nonbank financial companies for Federal Reserve supervision and prudential standards, maintain rigorous procedural protections for firms that are reviewed for potential

designation, and remove inappropriate hurdles to designation imposed by guidance the Council issued in 2019. She stated that the proposed framework described how the Council expects to identify, assess, and respond to potential risks to financial stability, irrespective of the source, across its authorities.

Ms. Lee then briefly described key changes that the proposed guidance would make compared to the Council's existing guidance on nonbank financial company designations, including that the proposed guidance would remove several requirements that the 2019 guidance had imposed. She noted that staff had reviewed the public comments and had engaged in interagency discussions regarding the comments and the timeline for completing the guidance and the analytic framework.

Ms. Lee then summarized key themes that staff had identified in the public comments on the two proposals. She noted that a broad range of commenters had submitted letters. She then described certain themes in the public comments, including regarding cost-benefit analysis, the prioritization of an activities-based approach, the assessment of the likelihood of a nonbank financial company's material financial distress, the Council's interpretation of "threat to financial stability," and the substantive factors set forth in the proposed analytic framework. For each topic, Ms. Lee and Mr. Froman described the public comments and potential approaches the Council could take.

Council members then asked questions and had a discussion regarding the public comments and potential Council approaches for the final guidance and analytic framework.

3. 2023 Annual Report

The Chairperson then introduced the next agenda item, an update on the Council's 2023 annual report. She introduced Paula Tkac, Executive Vice President and Director of Research at the Federal Reserve Bank of Atlanta, for the update.

Ms. Tkac noted that Council member agency staffs were working collaboratively on drafting the Council's 2023 annual report. She described the timeline for developing the report and the anticipated report structure. She described certain vulnerabilities and other issues the annual report may address, and she also noted risks that had been addressed in the Council's 2022 annual report.

Council members then asked questions and had a discussion, including regarding risks and other issues that may be addressed in the annual report.

4. Fiscal Year 2024 Council Budget

The Chairperson introduced the next agenda item, the Council's fiscal year 2024 budget. She turned to Sandra Lee, Deputy Assistant Secretary for the Council at Treasury, for the presentation.

Ms. Lee noted that the Council is funded by the Financial Research Fund. She stated that the

Council’s budget includes support for the Office of the Financial Stability Oversight Council at Treasury and the office of the Council’s independent member with insurance expertise. She said that the proposed fiscal year 2024 budget included \$14.2 million for these expenses, an increase of \$750,000 from the budget approved for fiscal year 2023. She said that the Council’s budget also includes reimbursement of certain FDIC expenses related to the implementation of Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and she noted that the proposed budget included \$3.2 million for the reimbursement of these expenses.

Ms. Lee stated that the proposed increase in funding was largely intended to enable the hiring of additional staff to support the Council’s priorities. She stated that the proposed budget called for a total of 40 full-time-equivalent employees in the Office of the Financial Stability Oversight Council at Treasury. She stated that a larger staff would support a variety of Council priorities and key initiatives, including climate-related financial risk, Treasury market resilience, nonbank financial intermediation, digital assets, and financial market utilities. She said that the proposed budget would also be used to support the recently reestablished Analysis team in the Office of the Financial Stability Oversight Council at Treasury and to develop further the Council’s Systemic Risk Committee.

Council members then asked questions and had a discussion, including regarding the need for adequate staffing levels to support the Council’s mission.

The Chairperson then presented to the Council the following resolution approving the Council’s budget for fiscal year 2024.

BE IT RESOLVED, by the Financial Stability Oversight Council (Council), that the Council’s budget for fiscal year 2024 attached hereto is 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.

5. Resolution Approving the Minutes of the Meeting Held on July 28, 2023

BE IT RESOLVED, by the Financial Stability Oversight Council (Council), that the minutes attached hereto of the meeting held on July 28, 2023 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.

6. Other Business

Rohit Chopra, Director of the CFPB, noted that the Supreme Court would soon hear arguments in a case that could affect the validity of actions taken by agencies that are not funded by annual appropriations. He stated that the case could have secondary effects, including on the CFPB’s qualified mortgage rule and its definition of “qualified residential mortgage.” Council members discussed this and related issues.

The Chairperson adjourned the meeting at approximately 10:53 A.M.