

Minutes of the Financial Stability Oversight Council

September 20, 2024

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)
Amanda Fischer, Chief of Staff, Securities and Exchange Commission (SEC) (acting pursuant to delegated authority)
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)
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)
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
Addar Levi, Acting General Counsel
Eric Froman, Assistant General Counsel (Banking and Finance)
Sean Hoskins, Director of Policy, Office of the Financial Stability Oversight Council
Nicholas Steele, Director of Analysis, Office of the Financial Stability Oversight Council

Board of Governors of the Federal Reserve System

Michael Barr, Vice Chair for Supervision
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

Corey Frayer, Senior Advisor

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

Office of the Independent Member with Insurance Expertise

Diane Fraser, Senior Policy Advisor

Federal Reserve Bank of New York

Richard Crump, Financial Research Advisor, Macrofinance Studies

Office of Financial Research

Stacey Schreft, Deputy Director, Research and Analysis

Federal Insurance Office

Philip Goodman, Senior Insurance Regulatory Policy Analyst

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 (NAIC)

Maryland Office of the Attorney General, Securities Division

Dylan White, Associate General Counsel, North American Securities Administrators Association

PRESENTERS:

Update on Inter-Agency Working Group on Treasury Market Surveillance

- *Joshua Frost, Assistant Secretary for Financial Markets, Treasury*

Climate-related Financial Risk

- *Timothy Stumhofer, Director of Climate Risk, OCC*
- *Kaitlin Hildner, Senior Policy Advisor, Office of the Financial Stability Oversight Council, Treasury*
- *Yue (Nina) Chen, Chief Climate Risk Officer, OCC (available for questions)*
- *Tim Nauheimer, Manager, Macroprudential Supervision, NAIC (available for questions)*
- *Juan Cárdenas, Senior Complex Financial Institution Specialist, FDIC (available for questions)*

2024 Annual Report Update

- *Sandra Lee, Deputy Assistant Secretary for the Council, Treasury*
- *Stefan Jacewitz, Research and Policy Officer, Federal Reserve Bank of Kansas City*

Fiscal Year 2025 Council Budget

- *Sandra Lee, Deputy Assistant Secretary for the Council, Treasury*
- *Dennis Lee, Acting 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 9:31 A.M. The Council convened by videoconference. 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 the Inter-Agency Working Group on Treasury Market Surveillance, (2) an update on climate-related financial risk, (3) an update on the Council's 2024 annual report, (4) a vote on the Council's fiscal year 2025 budget, and (5) a vote on the minutes of the Council's meeting on May 10, 2024.

1. Update on Inter-Agency Working Group on Treasury Market Surveillance

The Chairperson introduced the first agenda item, an update on recent work by the Inter-Agency Working Group on Treasury Market Surveillance (IAWG). She introduced Joshua Frost, Assistant Secretary for Financial Markets at Treasury.

Mr. Frost stated that he would describe the progress that the IAWG, whose members are Treasury, the Federal Reserve, the Federal Reserve Bank of New York, the SEC, and the CFTC, had made toward enhancing Treasury market resilience. He said that IAWG staff had focused their recent efforts on several workstreams: improving the resilience of market intermediation; improving data quality and availability; evaluating expanded central clearing; enhancing trading venue transparency and oversight; and examining the effects of leverage and fund liquidity risk management practices. He said that while 2024 had seen notable volatility in interest rates, Treasury market liquidity had remained robust. He said that trading volumes had continued to grow, and that the Treasury market remained the deepest and most liquid market in the world.

Mr. Frost stated that the IAWG had continued its efforts to enhance Treasury market resilience. He said that this work should remain a top priority, given the importance of the Treasury market for financing the government, implementing monetary policy, and the functioning of the financial system as a whole. He stated that since he had last briefed the Council on this topic last November, the member agencies of the IAWG had made significant progress, most notably in finalizing rules to implement policies that had been considered over the past several years. He said that he would summarize these accomplishments briefly, and he noted that the IAWG would, later the same day, publish another staff progress report providing greater detail on these activities. He stated that following the publication of the report, the IAWG members would co-host the tenth annual Treasury Market Conference on September 26, which he described as an important venue for the official sector and private sector to discuss the Treasury market.

Mr. Frost first noted that Treasury had launched a Treasury buyback program earlier in 2024 with the goals of providing liquidity support and making Treasury's cash management practices more effective. He stated that buybacks can play an important role in helping to make the Treasury market more liquid and resilient, by providing a regular source of demand for less-liquid securities. He said that the buyback program would also help Treasury to better manage its cash balance and reduce the volatility of bill issuance. He said that the Treasury buybacks were not intended to substantively shift the structure of outstanding debt or to ameliorate periods of acute market stress. He emphasized that the Treasury buyback program is still new. He said that while the initial feedback had been positive, Treasury would continue to monitor its buyback operations and their potential effects and consider ways to further enhance the program.

Mr. Frost highlighted two additional developments related to improving the resilience of market intermediation. First, he noted that the SEC had finalized a rule expanding the definition of "dealer" and "government securities dealer" to improve the oversight of important liquidity providers in the Treasury market, including principal trading firms. Second, he stated that IAWG staff members had done some analysis on the market structure of the off-the-run segment. He noted that a previous paper had found that all-to-all trading was more prevalent in the on-the-run segment than in the off-the-run segment.

Next, Mr. Frost highlighted several ways that data quality and availability had improved. First, he noted that the OFR had finalized a rule for collecting data on non-centrally cleared bilateral repurchase agreement (repo) transactions. He said that the OFR rule built on a previous pilot data collection that highlighted the prevalence of bilateral repo occurring at what appear to be zero haircuts. He stated that a permanent collection should further improve the official sector's ability to regularly monitor this sizable market segment and assess these practices and associated risks. He said that data regarding this market segment would be important in monitoring the transition toward expanded central clearing. Second, he stated that transparency regarding securities transactions in the Treasury market had dramatically increased this year. He said that the Financial Industry Regulatory Authority (FINRA), in consultation with Treasury, had begun disseminating, via the Trade Reporting and Compliance Engine (TRACE), transaction-level data for on-the-run Treasury securities at the end of each day. He said that this data set represented approximately half of all Treasury securities transactions each day and approximately three-quarters of all transactions in nominal coupon securities. He said that the IAWG would continue to evaluate the impact of this additional transparency and consider potential steps to facilitate

further transparency. Finally, he noted that the SEC and CFTC had adopted several amendments to Form PF in order to improve the monitoring of systemic risk. He noted that this new format would facilitate better understanding of positions held in derivatives versus cash Treasuries. He said that with the focus across the official sector on understanding the risks associated with leverage and activity in the Treasury market, these changes collectively would significantly strengthen the information available to the official sector and, in certain areas, the public.

Mr. Frost then described recent progress and additional work remaining with respect to central clearing. He noted that in December 2023, the SEC had finalized rules to expand central clearing of both cash and repo transactions in the Treasury market. He noted that the final rule includes, among other amendments, changes regarding segregation of customer assets. He noted industry efforts to implement the SEC rule, and stated that industry groups were developing offerings under the new clearing arrangements and creating standardized documentation where possible. He said that as this work continues, it would be important to monitor industry preparedness for the central clearing deadlines at the end of 2025 for cash securities and in the middle of 2026 for repo. He stated that it would be important to monitor the effects of new clearinghouses for Treasury securities.

Mr. Frost stated that, in the area of fund leverage and liquidity risk, the Council's Hedge Fund Working Group had been using its risk-monitoring framework to track threats, facilitate communication, and inform the Council. He said that the OFR's recently published Hedge Fund Monitor also enhanced the public's ability to understand this sector. He said that the Treasury Market Practices Group, sponsored by the Federal Reserve Bank of New York, had established a working group that was studying risk-management practices related to non-centrally cleared bilateral repo. He said that the working group had completed a market survey and anticipated publishing a white paper with its findings.

Mr. Frost concluded by addressing the progress since 2021 on Treasury market resilience. He stated that this work had left the Treasury market more resilient than it was at the time of the disruptions that occurred in March 2020. He said that, in light of the importance of this market, efforts to improve Treasury market resilience would continue. He said that these issues would be further discussed at the Treasury Market Conference the following week.

Following the presentation, the Chairperson noted that the Treasury market is a pillar of the global financial system, and emphasized the importance of efforts to improve Treasury market resilience. She commended the progress of the IAWG and others in this area. She stated that this work had been a core focus for Treasury. She then invited James Martin, Acting Director of the OFR, to provide an update on the OFR's publication of its new Hedge Fund Monitor.

Acting Director Martin discussed the OFR's new Hedge Fund Monitor, and noted the SEC's assistance in launching the monitor. He noted that the new data visualization tool provides insight into hedge fund size, risk management, and other areas.

Council members then had a discussion about the activities of hedge funds in the Treasury market and the potential impacts of various market developments on Treasury market structure, and requested follow-up briefings from staff.

2. Climate-related Financial Risk

The Chairperson then turned to the second agenda item, an update on the Council's work on climate-related financial risk, followed by a vote on approving additional members of the Council's Climate-related Financial Risk Advisory Committee (CFRAC). She introduced Timothy Stumhofer, Director of Climate Risk at the OCC, and Kaitlin Hildner, Senior Policy Advisor in the Office of the Financial Stability Oversight Council at Treasury, for the update.

Mr. Stumhofer stated that he would provide an update on the work of the Risk Assessment Working Group (RAWG), which reports to the Council's Climate-related Financial Risk Committee (CFRC). He said that the RAWG's work is guided by the Council's 2021 climate report, which recommended that Council member agencies coordinate to develop consistent data standards to facilitate common definitions of climate-related data terms, data sharing, and data analysis and aggregation. He described the RAWG's approach for developing climate-related financial risk indicators. He said that this work was significantly constrained by data limitations. He said that, in addition to building climate-related metrics, the RAWG was working to better understand vulnerabilities and risk transmission channels. He stated that the RAWG was continuing to monitor physical and transition risk drivers relevant to the financial sector.

Mr. Stumhofer stated that the RAWG had examined various sectors, including banking and insurance. He said that a subgroup focused on banking had considered a range of metrics in areas such as credit risk, market risk, and operational risk. He noted, however, that there are limits to the extent to which historical metrics can help identify forward-looking risks. He stated that a subgroup focused on insurance was considering topics such as protection gaps, premium rate changes, and residual markets. He said that the collaborative climate data call undertaken by FIO and the NAIC would help develop more granular analysis of climate-related financial risks. As an example, he noted that a number of states had experienced large premium increases, driven by a variety of factors, which impacted insurance coverage and generated knock-on effects to the financial system. He stated that a RAWG subgroup was undertaking qualitative analyses to identify climate-related vulnerabilities and risk transmission channels. In conclusion, he described the RAWG's next steps, including further exploring potential financial stability risks; improving data sharing, coverage, and granularity; data management; identifying forward-looking risk metrics; and further evaluating potential financial impacts of the transition to a low-carbon economy.

Ms. Hildner then provided an update on the work of the CFRAC. She noted that the CFRAC was established in October 2022 and responded to a specific recommendation in the Council's climate report to establish an external advisory committee to help gather information on and analysis of climate-related financial risks from a broad array of stakeholders. She said that the CFRAC had held five meetings so far, beginning in March 2023. She stated that at these meetings, CFRAC members had presented on topics related to climate-related financial risk, including reverse stress analyses; how climate risks amplify traditional sources of financial risks; and the interaction between climate-related financial risk mitigation and equity. She stated that the CFRAC had 19 members, whose terms would end in March 2026. She noted that the Council would vote in the meeting on adding three new CFRAC members and one government observer, conditional upon certain administrative requirements.

Following the presentation, the Chairperson noted the importance of developing risk indicators in this area. She also stressed the importance of Council member agency collaboration on this topic. Noting that climate-related financial risks are cross-cutting, she said that no single agency can assess them on its own, with the result that sharing granular data would continue to be important. She also noted that CFRAC members had enhanced the Council's understanding of climate-related financial risk. She stated that the Council had benefited from the CFRAC's expertise. She stated that in addition to the work highlighted in the meeting, the OFR had made significant progress on the Joint Analysis Data Environment (JADE). She said that JADE would be a critical tool for Council member agencies to share data and jointly develop analysis with respect to climate-related financial risk and other areas. She then invited Acting Director Martin to provide an update on JADE.

Acting Director Martin described potential uses of JADE, a cloud-based platform that was developed to support research by Council member agencies. He said that the OFR was working to ensure that all Council member agencies have access to JADE, and that the OFR would continue to add capabilities to the platform as needed.

Council members then asked questions and had a discussion, including about insurance markets, climate-related financial risk indicators, the impact of climate-related financial risks on financial institutions, and the anticipated benefits of the climate data call undertaken by FIO and the NAIC.

The Chairperson then presented to the Council the following resolution approving additional members of the Council's Climate-related Financial Risk Advisory Committee:

WHEREAS, on October 3, 2022, the Financial Stability Oversight Council (Council) approved and adopted the charter (Charter) of the Climate-related Financial Risk Advisory Committee (CFRAC); and

WHEREAS, the Charter provides that Council members and staffs of Council members and Council member agencies may propose candidates for CFRAC membership, from which group the Office of the Financial Stability Oversight Council (Council Secretariat) at the Department of the Treasury will select a slate of proposed members, and the Council's Deputies Committee will consider the proposed slate, make any revisions (subject to Council Secretariat approval), and submit a recommended slate of members to be approved by vote of the Council; and

WHEREAS, on October 3, 2022, the Council approved the initial slate of members of the CFRAC; and

WHEREAS, in accordance with the Charter, the Deputies Committee has submitted the attached slate of additional members (the Additional Member Slate) to the Council, consisting of three proposed new members and one government observer, and recommends that the Council approve the Additional Member Slate.

NOW, THEREFORE, BE IT RESOLVED, that the Council hereby approves the Additional Member Slate; and

BE IT FURTHER RESOLVED, that the Council hereby authorizes the Additional Member Slate to be published on the Council's website, in a form and manner acceptable to the Chairperson or her designee; and

BE IT FURTHER RESOLVED, that the Council hereby delegates authority to the Chairperson, or her designee, to take such actions as they may deem necessary or appropriate to fulfill the Council's objectives in connection with the foregoing.

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

3. 2024 Annual Report Update

The Chairperson then introduced the next agenda item, an update on the Council's 2024 annual report. She turned to Sandra Lee, Deputy Assistant Secretary for the Council at Treasury, and Stefan Jacewitz, Research and Policy Officer at the Federal Reserve Bank of Kansas City, for the presentation.

Mr. Jacewitz explained that Council member agencies were collaborating in the drafting of the annual report. He described the anticipated timeline and proposed structure of the report, certain vulnerabilities, and other topics that may be addressed in the report.

Following the update, the Chairperson stated that the Council's annual report is a critical part of the Council's work and that it provides transparency to the public about the Council's work and concerns. Council members then had a discussion regarding certain topics that may be addressed in the report.

4. Fiscal Year 2025 Council Budget

The Chairperson then introduced the next agenda item, the Council's fiscal year 2025 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, which is funded through assessments on large bank holding companies. She stated that the Council's budget includes support for the Office of the Financial Stability Oversight Council at Treasury (Council Secretariat), certain staff of the Office of the General Counsel at Treasury, and the office of the Council's independent member with insurance expertise. 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.

Before addressing the fiscal year 2025 budget, Ms. Lee reviewed a number of Council accomplishments over the past fiscal year. She noted that during this period, the Council issued its analytic framework for financial stability risk identification, assessment, and response, and interpretive guidance on nonbank financial company determinations; published the 2023 annual report and the Report on Nonbank Mortgage Servicing; completed a reevaluation of the eight

financial market utilities previously designated as systemically important by the Council; advanced the climate-related financial risk work discussed earlier in the meeting; and started or continued interagency analytical work on hedge funds, commercial real estate, private credit, artificial intelligence, digital assets, and short-term funding markets. She said that work had been undertaken to strengthen the infrastructure supporting the Council's work, including completing the relaunch of the Council's Financial Market Utilities and Payment, Clearing, and Settlement Activities Committee, which had been dormant for six years; establishing a new Artificial Intelligence Working Group; and reinvigorating the Council's Systemic Risk Committee, which is responsible for monitoring and analyzing issues related to financial stability. She said that the Council Secretariat staffing had increased.

Ms. Lee stated that the proposed fiscal year 2025 budget would continue to support the Council's identified priorities. She said that the proposed budget provided \$14.8 million for Council expenses and \$4.2 million for reimbursement of the FDIC expenses previously described. She said that, relative to the budget approved for fiscal year 2024, the proposal would increase support for the Council Secretariat by approximately \$600,000 and reimbursement of FDIC expenses by approximately \$956,000. She said that the proposed budget did not request an increase from the level of full-time-equivalent employees approved by the Council for fiscal year 2024.

The Chairperson then presented to the Council the following resolution approving the Council's budget for fiscal year 2025.

BE IT RESOLVED, by the Financial Stability Oversight Council (Council), that the Council's budget for fiscal year 2025 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 May 10, 2024

BE IT RESOLVED, by the Financial Stability Oversight Council (Council), that the minutes attached hereto of the meeting held on May 10, 2024 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

Council members then had a discussion about the efforts of the Council's Systemic Risk Committee to monitor and report on each financial sector, including information on firms and activities that may pose risks that merit further review.

The Chairperson adjourned the meeting at approximately 10:43 A.M.