

Minutes of the Financial Stability Oversight Council

July 15, 2026

PRESENT:

Scott Bessent, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)

Kevin Warsh, Chairman, Board of Governors of the Federal Reserve System (Federal Reserve)

Travis Hill, Chairman, Federal Deposit Insurance Corporation (FDIC)

Paul S. Atkins, Chairman, Securities and Exchange Commission (SEC)

Michael S. Selig, Chairman, Commodity Futures Trading Commission (CFTC)

Russell Vought, Acting Director, Consumer Financial Protection Bureau (CFPB)

Aaron Kofsky, Acting Deputy Director, Division of Housing Mission and Goals, Federal Housing Finance Agency (FHFA) (acting pursuant to delegated authority)

Jonathan V. Gould, Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)

Kyle S. Hauptman, Chairman, National Credit Union Administration (NCUA)

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

Lise Kruse, Commissioner, North Dakota Department of Financial Institutions (non-voting member)

Elizabeth K. Dwyer, Director, Rhode Island Department of Business Regulation (non-voting member)

GUESTS:

Department of the Treasury (Treasury)

Jonathan McKernan, Under Secretary for Domestic Finance

Christina Skinner, Deputy Assistant Secretary for the Council

Rachel Miller, performing the duties of the General Counsel

Eric Froman, Assistant General Counsel (Banking & Finance)

Silab Mohanty, Director of Policy, Office of the Financial Stability Oversight Council

Board of Governors of the Federal Reserve System

Michelle Bowman, Vice Chair for Supervision

Andreas Lehnert, Director, Division of Financial Stability

Federal Deposit Insurance Corporation

Alex LePore, Deputy to the Chairman for Policy

Securities and Exchange Commission

Kelsey Pristach, Senior Advisor

Commodity Futures Trading Commission

Meghan Tente, Senior Advisor

Consumer Financial Protection Bureau
Geoffrey Gradler, Chief of Staff

Federal Housing Finance Agency
James Jordan, Deputy General Counsel

Office of the Comptroller of the Currency
Jay Gallagher, Senior Deputy Comptroller and Chief National Bank Examiner
Adam Cohen, Senior Deputy Comptroller and Chief Counsel

National Credit Union Administration
Sarah Bang, Chief of Staff

Federal Reserve Bank of New York
John Williams, President (via videoconference)
Marco Cipriani, Deputy Director of Research, Research and Statistics Group

Office of Financial Research
Lincoln Foran, performing the duties of the Director
Sriram Rajan, Associate Director, Research and Analysis

North Dakota Department of Financial Institutions
Karen Lawson, Executive Vice President for Policy and Supervision, Conference of State Bank Supervisors

Maryland Office of the Attorney General, Securities Division
Vince Martinez, General Counsel, North American Securities Administrators Association (via videoconference)

PRESENTERS:

Geopolitical Tabletop Exercise

- *Christina Skinner, Deputy Assistant Secretary for the Council, Treasury*
- *Gary Shiffman, Senior Advisor, Office of the Financial Stability Oversight Council, Treasury (available for questions)*

Artificial Intelligence

- *Christina Skinner, Deputy Assistant Secretary for the Council, Treasury*
- *Paul Sforza, Director of AI Governance and Enablement, Treasury*

Quarterly Financial Stability Monitor

- *Christina Skinner, Deputy Assistant Secretary for the Council, Treasury*

Nonbank Financial Company Designation Guidance

- *Christina Skinner, Deputy Assistant Secretary for the Council, Treasury*

2026 Annual Report

- *Silab Mohanty, Director of Policy, Office of the Financial Stability Oversight Council, Treasury*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 1:39 p.m. He began by welcoming Kevin Warsh, Chairman of the Federal Reserve, to his first Council meeting. He also noted that Aaron Kofsky, Acting Deputy Director of the FHFA, was attending the meeting on behalf of William Pulte, Director of the FHFA. The Chairperson then outlined the meeting agenda, which had previously been distributed to the members together with other materials. The agenda for the executive session included presentations on the Council's (1) recent interagency geopolitical tabletop exercise, (2) work on artificial intelligence, (3) quarterly financial stability monitor, (4) proposed interpretive guidance on nonbank financial company designations, and (5) 2026 annual report.

1. Geopolitical Tabletop Exercise

The Chairperson introduced the first agenda item, a presentation on the Council's recent interagency geopolitical tabletop exercise hosted by Treasury. The Chairperson turned to Christina Skinner, Deputy Assistant Secretary for the Council at Treasury, for the presentation.

Ms. Skinner stated that in April, staff in the Office of the Financial Stability Oversight Council at Treasury (the Council Secretariat) organized a geopolitical tabletop exercise in connection with the Council's crisis-preparedness workstream. She stated that the exercise brought together staff from all Council member agencies. She said that the hypothetical scenario spanned agency boundaries and required coordination on operational, financial, legal, and communication issues. She noted that Council Secretariat staff had organized a previous tabletop exercise in June 2025 that focused on critical market infrastructure.

Ms. Skinner stated that the April exercise was designed to assess how Council members (played primarily by members of the Council's Deputies Committee) would respond to a complex series of hypothetical events involving geopolitical threat actors. She said that the scenario included operational disruptions, mis- and disinformation, cyber-enabled fraud, legal uncertainties, cross-border liquidity stress, and supply-chain shocks. She said that it was intended to simulate how geopolitical events could impact the financial system through multiple channels of stress. She said that the exercise enabled participants to evaluate how the Council can serve as a convening forum when geopolitical events are evolving quickly.

Ms. Skinner said that Treasury officials played the roles of adversaries and non-U.S. entities that exploited events and exacerbated the situation. She said the scenario began with disruptions to undersea cables and evolved through a series of events, including market-data manipulation, trading and settlement disruptions, cyber incidents, public disinformation, regional bank stress, supply-chain shocks, and funding-market pressure. She said this sequencing was designed to encourage participants to examine how the effects of concurrent events can be compounded across global financial markets.

Addressing key takeaways from the tabletop exercise, Ms. Skinner stated that Council meetings provide a forum for Council member agencies to quickly respond to overlapping systemic stresses. She noted that while individual agencies have distinct responsibilities, the scenario showed that those perspectives need to be shared quickly and coordinated broadly. She said that the exercise also demonstrated that ad hoc Council executive sessions are an efficient forum for sharing information and aligning expectations, policy tools, and public messaging. She stated that while bilateral or smaller multi-agency discussions are useful, Council meetings offer an opportunity to assess the broader implications of individual agency actions. She said that Council meetings reduce the risk that well-intentioned responses could inadvertently increase systemwide stress. She stated that participants learned that decision-making designed to protect economic security may require difficult trade-offs among institutional resilience, funding continuity, credit availability, and public confidence. She said that while participants did not identify specific limitations in Council member agencies' legal authorities related to the exercise, relevant response tools may remain effective only if payments, clearing, records, data, and public messaging channels remain credible. She said that the exercise also highlighted that, given the extent to which operational resilience and information integrity are central to economic security, harm to the U.S. financial system can occur even if core markets continue functioning, for example through credit contraction, loss of confidence, or supply-chain impairment. Ms. Skinner concluded by discussing proposals for additional work in this area. She stated that Council Secretariat staff would seek to build on the lessons of the exercise.

Following the presentation, the Chairperson stated that economic security is central to national security, and America's financial leadership is a source of strength and a strategic asset that must be protected. He stated that this exercise was a mechanism to help assess whether the Council's information-sharing and coordination frameworks are sufficient when geopolitical stress is transmitted quickly across the financial system. He said that exercises like this help ensure that the Council is prepared to respond effectively in ambiguous and fast-moving conditions. He said that they also strengthen Council member agencies' understanding of how geopolitical developments can affect financial stability.

Council members then had a discussion regarding communication procedures during a potential crisis, including for contacting relevant financial institutions.

2. Artificial Intelligence

The Chairperson then turned to the second agenda item, a presentation on the Council's work on artificial intelligence (AI). He turned to Christina Skinner and Paul Sforza, Director of AI Governance and Enablement at Treasury, for the presentation.

Ms. Skinner noted that the Council last discussed AI at its December 2025 meeting, where the Chairperson announced the launch of Treasury's AI Innovation Series. She said that since then, Treasury had conducted four roundtables as part of the AI Innovation Series. She stated that the AI Innovation Series provided a forum to engage the private sector on responsible AI adoption. She said that it was organized by the Council in collaboration with Treasury's AI Transformation Office. She said that concurrently, staff from Council member agencies had been engaged in related discussions through the Council's staff-level interagency AI Working Group (AIWG).

Mr. Sforza stated that the AI Innovation Series explored financial services sector use cases, practical approaches to scaling innovation, and regulatory barriers to responsible adoption. He noted that the AI Innovation Series convened approximately 80 private-sector participants, including global systemically important banks, regional and community banks, credit unions, insurers, financial market utilities, asset managers, hyperscalers, financial technology firms, consulting firms, and rating agencies. He said that the AI Innovation Series roundtables focused on AI strategy and governance, value generation and efficiency, cybersecurity and risk management, and financial stability and economic security.

Mr. Sforza addressed key takeaways from the AI Innovation Series discussions. He noted that participants presented on high-value AI use cases. He stated that firms described using AI tools to boost worker productivity, reduce operational costs, and manage risks. He said that they underscored the value of AI tools in combating increasingly sophisticated AI-powered cyber attacks and fraud. He said that participants noted that, given customers' rapid adoption of agentic tools for commerce, financial institutions and merchants need to be AI-ready to remain competitive.

Mr. Sforza also stated that financial institutions highlighted that it is critical for governance frameworks and supervisory approaches to evolve alongside AI adoption. He said that other participants offered views on approaches to AI model validation; the development of standards for agent-to-agent interactions across firms; and the value in sharing resources and best practices on governance, testing, and data management. He said that some participants also requested more public-private collaboration on shared challenges, such as AI access for smaller institutions, efforts to clarify liability in agentic commerce, and ways to combat AI-enabled cyber attacks and fraud. He noted that Treasury continues to engage with industry leaders to better understand how the latest capabilities were being deployed and their implications for the financial system.

Ms. Skinner stated that economic growth and economic security featured prominently across the four AI Innovation Series roundtables. She said that participants noted that AI can contribute to economic growth by raising productivity, facilitating the creation of new ventures and jobs, and repatriating knowledge work to the United States. She said that AI tools also contribute to economic security by improving financial institutions' risk management, cybersecurity, and profitability. She stated that participants indicated that the failure to adopt AI tools that enhance their resilience, security, and global competitiveness could pose a financial stability risk, particularly in a dynamic threat environment.

Ms. Skinner highlighted three policy considerations identified in the AI Innovation Series. First, she said that AI Innovation Series participants noted that firms and regulators need flexibility to adapt, given the rapid pace of technological change. She said that participants generally supported principles-based, technology-neutral, and outcomes-oriented regulatory approaches. Second, she said that innovation and competitiveness would be best supported by additional regulatory clarity and harmonization across agencies, especially on supervisory practices, third-party risk management, incident reporting, and AI governance. Third, she said that public-private partnerships and dialogue on certain topics, such as AI experimentation at smaller firms,

supply-chain dependencies, and combating the adversarial use of AI, would be beneficial for economic growth and economic security.

Ms. Skinner then discussed themes developed through interagency dialogue in the AIWG. She noted that the AIWG had held eight meetings since December 2025 and that its work focused on three objectives. First, she said that the working group sought to analyze financial stability through the lens of economic growth and economic security, while also monitoring for other risks. Next, she said that the working group sought to identify regulatory barriers to responsible AI adoption by considering industry views from the AI Innovation Series and emerging regulatory approaches domestically and internationally. Finally, she said that the working group served as a forum for discussing agency adoption of AI.

Ms. Skinner summarized the AIWG's analysis of the impact of AI on economic growth. She stated that AI was beginning to support meaningful economic growth through three pathways. First, she said that AI was boosting worker productivity and delivering productivity gains. She stated that AI's efficiency gains were also reducing the cost and complexity of launching a company, helping to fuel new business formation. She said that startups using AI were delivering benefits beyond productivity gains, including scientific and medical breakthroughs, novel customer experiences, and more affordable goods and services. Second, she stated that investments in generative AI were contributing meaningfully to gross domestic product (GDP) growth. She said that while estimates of this contribution varied, they consistently indicated a positive effect on GDP growth. Finally, she said that AI was stimulating adjacent sectors that provide the infrastructure for AI growth, such as data centers, utilities, and energy. She said that responsible AI adoption has the potential to deliver sustainable long-term growth that strengthens financial stability.

Ms. Skinner stated that AI was increasingly a strategic issue because global leadership will depend not only on model performance but also on the infrastructure, energy, chips, minerals, and governance ecosystem that support deployment at scale. She said that the United States remained well-positioned because of its private-sector innovation base, public-private partnerships, and ability to mobilize capital and infrastructure quickly. She discussed trends in the development and regulation of AI in various jurisdictions. She stated in conclusion that the Administration and Treasury remained engaged in efforts to address geostrategic considerations, including onshoring production, diversifying supply chains, and coordinating internationally.

Following the presentation, the Chairperson stated that it was important for Council members to ensure that regulatory approaches keep pace with technological developments and facilitate responsible AI adoption that enhances the strength of the U.S. financial system. He stated that the countries that lead in AI would be strategically positioned to shape the global economy. He said that Treasury had been working closely with the White House, other agencies, and the private sector to implement Executive Order 14409, "Promoting Advanced Artificial Intelligence Innovation and Security," which was issued the prior month. He said that these efforts would help ensure that advanced AI use cases are deployed rapidly and securely.

Council members then had a discussion regarding lessons learned from the AI Innovation Series, the use of agentic AI models to address software vulnerabilities, and efforts to share information regarding these models with smaller financial institutions.

3. Quarterly Financial Stability Monitor

The Chairperson then introduced the next agenda item, a presentation on the Council's quarterly financial stability monitor. He turned to Christina Skinner for the presentation.

Ms. Skinner stated that Council Secretariat staff had developed the quarterly financial stability monitor to add precision in discussions of financial stability by identifying indicators that can be assessed, measured, and tracked over time. She stated that the general conclusion from this quarter's monitor was that the U.S. financial system continued to be resilient and that the core pillars of financial stability remained strong. She stated that banks were well capitalized and liquid, funding markets were functioning normally, household balance sheets remained healthy, and the macroeconomic outlook continued to point to moderate growth.

Ms. Skinner stated that these trends remained directionally consistent since the presentation on the Council's quarterly financial stability monitor in the March Council meeting. She said that since March, bank profitability had strengthened further, markets had continued to function smoothly despite higher Treasury yields, and the economic outlook had improved modestly. She said that several developments continued to warrant attention. She said that equity valuations remained elevated, particularly in parts of the market connected to AI. She said that relatively low household indebtedness and strong home equity should help limit the broader financial stability implications of any market repricing. She said that the monitor also placed greater emphasis this quarter on how AI was influencing capital markets and labor markets, the re-emergence of supply-chain pressures, and the growing importance of operational resilience, including cybersecurity. She said that traditional indicators of financial vulnerability remained broadly favorable. She said that this quarter's monitor focused less on emerging systemic stress and more on tracking the evolution of these longer-term developments and their implications for financial stability over time.

Ms. Skinner stated that the banking sector remained a source of resilience. She said that profitability remained strong and loan growth continued to accelerate, even as capital ratios declined somewhat from their early-2025 highs. She said that return on equity was almost 12.5 percent in the first quarter of 2026, which she noted was above both first-quarter and full-year 2025 results. She said that recent earnings releases indicated that these trends were continuing into the second quarter. She said that while regulatory capital ratios had drifted lower, the decline was mostly a consequence of balance-sheet growth rather than deteriorating asset quality or funding pressure. She noted that unrealized securities losses rose somewhat with higher long-term rates in the first quarter but remained below the levels recorded two quarters ago, while nonperforming loans remained favorable overall. She stated that the banking system continued to support credit creation without showing signs of broad stress, and that the underlying earnings picture was even stronger than it was in March.

Ms. Skinner stated that financial markets remained orderly, even though prices and rates had shifted. She said that yields had moved up across the curve as investors adjusted their expectations for the path of short-term rates in response to inflation expectations and stronger-than-expected economic and labor market data. She said that this repricing was not accompanied by Treasury market dysfunction. She said that liquidity indicators remained robust and demand

remained broad-based. She said that equities were able to absorb higher yields in part because earnings were strong. She stated that S&P 500 earnings growth improved sharply, and technology earnings growth had moved above 50 percent year-over-year. She said that this helped explain why equity markets continued to advance even as discount rates rose. She said that valuations remained elevated by historical standards, although she noted that the recent run-up in prices had been supported by stronger earnings. She said that because household balance sheets were relatively strong, a decline in asset prices would be less likely to spill over quickly into broader financial stress. She said that corporate credit also remained broadly calm, with spreads near the low end of historical ranges.

Ms. Skinner stated that household finances remained stable overall, with some areas that merited ongoing monitoring. She said that non-mortgage consumer delinquencies had edged up over the past few years, but excluding student loans, they remained close to long-term averages. With regard to the mortgage market, she said that high rates were still suppressing home turnover and refinancing activity. She said that household finances were largely unchanged from March, although she noted that there was some weakness in consumer credit, including student loans. She said that home equity remained strong and that household balance sheets as a whole remained a stabilizing force rather than a source of stress.

Ms. Skinner stated that financial innovation was influencing valuations, market concentration, and the evolution of intermediation. She said that information technology (IT) companies comprised nearly 40 percent of the S&P 500 by index weight. She said that this reflected, in part, expectations regarding the growth of AI. She said that while this development raised concentration questions, the IT sector had recently experienced the strongest earnings growth of any sector. She also stated that stablecoin market capitalization had continued to rise but was still small relative to the broader financial system.

Addressing macroeconomic conditions, Ms. Skinner stated that while economic growth was expected to soften mid-year, the broader outlook still pointed to sustained GDP growth. Additionally, both the headline and core consumer price index inflation rates for June were softer than expected, although she said that inflation remained elevated. She also said that payroll growth in 2026 had been stronger than it was in 2025, which she said was a constructive sign for labor market resilience. She said that overall, macroeconomic and financial conditions remained stable and continued to support financial stability.

Ms. Skinner stated that supply-chain pressures had started to rise again, mainly because shipping costs had risen and firms were waiting longer for key inputs. She said that this trend could impact inflation, raise working-capital needs, and increase financing costs for affected firms. She said that the industries most exposed to this trend included semiconductors, pharmaceuticals, autos, and aerospace, given how dependent they are on cross-border production networks and specialized inputs. She stated that the market response to this trend this quarter had not been uniform. She said that semiconductor stocks had performed well so far this year, notwithstanding the supply-chain pressure, while autos, aircraft, and pharmaceuticals had lagged the broader market.

Turning to recent developments related to AI, Ms. Skinner stated that evidence did not indicate a broad AI-driven labor shock. She said that recent research from the Federal Reserve and the Federal Reserve Bank of New York did not show a clear connection between AI adoption and large job losses, and she noted that some of the declines in vacancies for AI-exposed occupations appeared to have begun before the public release of generative AI models several years ago. She said that demand for AI-related skills was rising and that firms were not just eliminating jobs, but rather retraining employees, redeploying them, and reshaping roles. She said that AI was changing the composition of work, and that uneven effects across industries and occupations were likely to occur as adoption continued.

Ms. Skinner stated that AI was increasingly affecting how capital is raised and allocated in financial markets. She said that year-to-date investment-grade debt issuance in 2026 was ahead of 2025 totals, including for both technology and non-technology issuers. She said that while technology spreads had widened modestly relative to the broader market, they remained contained overall. She said that this indicated that markets had been able to absorb the added supply and that issuance from technology firms was not crowding out debt from other sectors. She said that equity issuance remained low by historical standards.

Turning to cybersecurity, Ms. Skinner said that while AI can help strengthen cyber defenses, it can also make attacks faster, more scalable, and harder to detect. She said that because basic cyber hygiene remains essential, firms may face trade-offs in how quickly they can test and roll out patches, how they allocate resources, and how much they rely on third parties.

Ms. Skinner stated that overall, the financial system remained stable. She said that banks were well capitalized and liquid, household balance sheets were holding up, and funding markets remained orderly. She noted that this quarter's monitor placed some emphasis on the parts of the financial landscape that were changing most quickly, such as valuations, market concentration, supply chains, and operational resilience. She said that while those developments did not indicate broad financial stress, they did reflect a structural transformation in the economy.

Following the presentation, the Chairperson stated that the quarterly monitor had become an important tool for the Council to monitor market developments and financial stability conditions consistently and objectively. He said that the monitor was useful in facilitating interagency dialogue on important issues. He said that not all, or even most, of these issues necessarily represented current risks, but that they were key developments relevant to economic growth and economic security. He said that the financial system remained resilient overall and well-positioned to support economic growth. He said that the Council would continue to monitor developments across the entire financial system.

4. Nonbank Financial Company Designation Guidance

The Chairperson then introduced the next agenda item, the Council's proposed interpretive guidance on nonbank financial company designations. He turned to Christina Skinner for the presentation.

Ms. Skinner noted that in the Council's March meeting, Council members unanimously voted to issue proposed interpretive guidance on nonbank financial company designations for public comment. She noted that the guidance relates to the Council's authority under section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) to designate a nonbank financial company for Federal Reserve supervision and prudential standards. She noted that the Council had issued interpretive guidance regarding nonbank financial company designations in 2012, 2019, and 2023. She stated that the public comment period closed in May and the Council Secretariat received 26 submissions.

Ms. Skinner then highlighted several issues that numerous comment letters had addressed. She discussed certain changes to the proposed guidance that Council Secretariat staff recommended making in response to the comments.

Following the presentation, the Chairperson stated that the guidance would make the Council's process clearer, more targeted, and more responsive to changing market conditions, while remaining balanced in considering the effects of regulation on economic growth and economic security.

Council members then had a discussion regarding certain aspects of the proposed interpretive guidance, including the factors the Council should consider in conducting a cost-benefit analysis.

5. 2026 Annual Report

The Chairperson then introduced the next agenda item, the Council's 2026 annual report. He turned to Silab Mohanty, Director of Policy in the Office of the Financial Stability Oversight Council at Treasury, for the presentation.

Mr. Mohanty noted that the Council has published an annual report every year since 2011, as required by the Dodd-Frank Act. He discussed the development, structure, and timing of the report and certain key areas of focus and recommendations that may be included in the report.

Following the presentation, the Chairperson stated that the Council's annual report is a critical part of the Council's messaging to Congress and the public about its work and priorities. He noted that last year, the Council streamlined the report and underscored the importance of economic growth and economic security to financial stability. He said that this year, the Council has the opportunity to highlight the Council's substantial progress in integrating economic growth and economic security into its analyses and work.

6. Resolution Approving the Minutes of the Meeting Held on May 6, 2026

BE IT RESOLVED, by the Financial Stability Oversight Council (Council), that the minutes of the meeting held on May 6, 2026 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 2:49 p.m.