

Minutes of the Financial Stability Oversight Council

February 28, 2022

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, Acting 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, Acting 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)
Charles G. Cooper, Commissioner, Texas Department of Banking (non-voting member)
Eric Cioppa, Superintendent, Maine Bureau of Insurance (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
Laurie Schaffer, Principal Deputy General Counsel
Sandra Lee, Deputy Assistant Secretary for the Council
Eric Froman, Assistant General Counsel (Banking and Finance)
Didem Nisanci, Chief of Staff
Sean Hoskins, Acting 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

Rae-Ann Miller, Associate Director, Risk Management Policy

Securities and Exchange Commission

Amanda Fischer, Senior Counselor

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, Acting Deputy Director, Division of Housing Mission and Goals

Comptroller of the Currency
Blake Paulson, Senior Deputy Comptroller for Supervision Risk and Analysis

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

Federal Reserve Bank of New York
John Williams, President and Chief Executive Officer
Richard Crump, Vice President, Capital Markets Function

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

Federal Insurance Office
Philip Goodman, Senior Insurance Regulatory Policy Analyst

Texas Department of Banking
Karen Lawson, Senior Vice President for Policy, Conference of State Bank Supervisors

Maine Bureau of Insurance
Ethan Sonnichsen, Managing Director of Government Relations, National Association of Insurance Commissioners

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

PRESENTERS:

Update on International Market Developments

- *Elizabeth Rosenberg, Assistant Secretary for Terrorist Financing and Financial Crimes, Treasury*
- *Lorie Logan, Executive Vice President, Markets Group, Federal Reserve Bank of New York*
- *Timothy Husson, Associate Director, Division of Investment Management, SEC*
- *Richard Haynes, Deputy Director, Division of Clearing and Risk, CFTC*
- *Michael Gibson, Director, Division of Supervision and Regulation, Federal Reserve*
- *Rahul Prabhakar, Deputy Assistant Secretary for Cybersecurity and Critical*

Infrastructure Protection, Treasury

- *Andy Baukol, Principal Deputy Assistant Secretary for International Monetary Policy, Treasury (available for questions)*
- *David Saltiel, Deputy Director, Division of Trading and Markets, SEC (available for questions)*
- *Rahul Varma, Associate Director, Division of Market Oversight, CFTC (available for questions)*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 5:31 P.M. The Council convened by videoconference. The Chairperson outlined the meeting agenda, which had previously been distributed to the members. The agenda for the executive session included an update on international market developments related to Russia's invasion of Ukraine.

1. Update on International Market Developments

The Chairperson turned to the meeting agenda item, an update from member agency staff on international market developments related to Russia's invasion of Ukraine. She stated that she called the meeting so that Council members could share information about the latest developments related to the Russian invasion. She noted that Treasury and other parts of the federal government, together with U.S. allies, were forcefully responding to the invasion. She stated that over the preceding several days, the United States had taken swift and decisive actions to impose costs on Russia and its leadership for its attack on a democratic nation. She said that U.S. sanctions targeted the core infrastructure of Russia's financial system, including its central bank and the 10 largest financial institutions in Russia. She said that U.S. government actions were preventing President Putin from accessing most of the \$600 billion of international reserves that he intended to rely on to minimize the impact of sanctions. She stated that Russia would not be able to access its assets that are held either in the United States or in U.S. dollars. She said that this would likely cause the ruble to fall even further and Russian inflation to spike.

The Chairperson stated that these types of actions had never been taken against an economy the size of Russia's, at such a rapid pace, and with such a broad coalition, including the largest economies of the world. She said that if the invasion continued, the United States may take additional steps that would further isolate Russia from international finance. She stated that U.S. financial institutions would play an important role in ensuring that sanctioned individuals and entities are cut off from the U.S. financial system. She noted that while the actions of the United States and its allies would be costly to Russia, the United States would need to monitor how these efforts affect financial markets more broadly, including commodity markets. She stated that the United States faced significant uncertainties, and that markets may be volatile as events unfolded. She said that the United States may also face heightened cyber risks that would require close coordination. She emphasized the importance of the Council collaborating on member agencies' steps and working together to monitor events occurring in regulated firms and markets. She noted that the Council is a key forum for members to share information, identify emerging risks, and coordinate on next steps. She said that today, the Council would hear

several presentations, beginning with an update from Treasury staff on U.S. sanctions and other actions, followed by updates from staff of the Federal Reserve Bank of New York, SEC, CFTC, Federal Reserve, and Treasury.

The Chairperson then introduced Elizabeth Rosenberg, Assistant Secretary for Terrorist Financing and Financial Crimes at Treasury. Ms. Rosenberg described the principles that guided Treasury in establishing sanctions in response to the invasion of Ukraine. She noted that Treasury had worked closely with partners and allies from the European Union, United Kingdom, Canada, and elsewhere to limit Russian access to the global financial system. She provided an overview of restrictions imposed on Russian financial institutions, including transactions with the Russian central bank, restrictions on dealing in Russian sovereign debt, and sanctions on individuals and companies designated as “Specially Designated Nationals”; restrictions on certain individuals; and restrictions on trade in certain sectors. She noted that energy transactions had been excluded from these restrictions.

The Chairperson then introduced Lorie Logan, Executive Vice President in the Markets Group at the Federal Reserve Bank of New York. Ms. Logan discussed the impact of U.S. sanctions on Russian financial markets, noting that the Russian central bank had announced capital controls and closed the Moscow Stock Exchange. She noted that the sanctions had had significant effects and reduced liquidity in Russian markets. She then discussed the potential impacts of these actions on U.S. markets, including on commodity markets and broader financial conditions. Finally, she discussed potential financial risks, including related to energy prices.

The Chairperson then introduced Timothy Husson, Associate Director of the Division of Investment Management at the SEC. Mr. Husson said that the SEC was monitoring markets and conducting outreach to market participants. He noted that U.S. markets were operating normally, and while volumes and volatility were high in some segments, there were no reports of systems disruptions or disruptions to key service providers. He said that the total direct exposure to Russia of U.S.-registered and U.S. private funds was very small, and he noted that money market funds had no direct exposure to Russia. He also discussed potential risks to energy markets and cyber risks.

Members of the Council then had a discussion about market reactions to the sanctions.

The Chairperson then introduced Richard Haynes, Deputy Director of the Division of Clearing and Risk at the CFTC. Mr. Haynes stated that CFTC-regulated entities had engaged in significant risk-management preparation over the preceding weeks, for example increasing margin requirements for certain energy contracts. He described the efforts of clearing entities with Russian clients to wind down those positions with those clients, and noted that these winddowns were not expected to result in market disruptions. He said that while sovereign credit-default swaps on Russia are often cleared, no disruptions had occurred or were expected to occur. He concluded by discussing price volatility in ruble futures, noting that they are settled in U.S. dollars.

The Chairperson then introduced Michael Gibson, Director of the Division of Supervision and Regulation at the Federal Reserve. Mr. Gibson discussed the Federal Reserve’s coordination

efforts with domestic and foreign banks, in collaboration with the FDIC and OCC. He described banks' direct exposures to Russia, noting that they are in the process of winding down their positions with sanctioned Russian banks. He also described the impact of sanctions on the foreign exchange swap market and potential cyber risks.

The Chairperson then introduced Rahul Prabhakar, Deputy Assistant Secretary for Cybersecurity and Critical Infrastructure Protection at Treasury. Mr. Prabhakar provided an overview of the current cybersecurity status of the U.S. financial sector in relation to the Russian invasion of Ukraine. He said that Treasury was working closely with firms and agencies to monitor for several types of potential cybersecurity incidents, including disinformation, outages of websites and other applications, and destructive malware both overseas and domestically. He said that Treasury had not identified a significant or severe increase in such activity in the U.S. financial sector or in the foreign operations of U.S. entities in connection with the current conflict. He noted that Ukraine's banking sector had maintained operations since the Russian invasion began on February 24.

Mr. Prabhakar said that Treasury was collaborating with financial firms and U.S. government agencies to discuss suspicious and malicious cyber activity in Ukraine and other countries and to share technical information to help financial entities better defend their networks and systems. He said that Treasury was in contact with security organizations at financial firms to understand their potential cybersecurity and physical risks and had urged them to update and test their response and recovery protocols. He discussed efforts by Treasury to engage with key financial sector cybersecurity bodies to exchange updates and identify areas for follow-up. He also discussed certain protocols that Treasury intended to follow if it receives information that an adversary has targeted a U.S. financial firm or agency. He discussed efforts by Treasury to share information regarding potential cybersecurity events across the domestic and international regulatory community, including through the Financial and Banking Information Infrastructure Committee (FBIIC). He said that as the situation in Ukraine evolves, Treasury would continue to closely monitor the sector and share information with federal and state regulators and financial firms.

Members of the Council then had a discussion about further collaboration among member agencies to monitor developments in financial institutions and markets; potential macroeconomic effects of U.S. sanctions; potential effects of actions to disconnect certain designated Russian entities from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network; and the potential impact of the sanctions on certain commodity markets.

The Chairperson adjourned the meeting at approximately 6:21 P.M.