



## U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

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### FINANCIAL STABILITY OVERSIGHT COUNCIL RELEASES SIXTH ANNUAL REPORT

**WASHINGTON** – The Financial Stability Oversight Council (Council) today unanimously approved its 2016 annual report, which was developed collaboratively by the members of the Council and their agencies and staffs. The Council reports annually to Congress on a range of issues, including significant financial market and regulatory developments, potential emerging threats to the financial stability of the United States, and the activities of the Council. The report also makes recommendations to promote market discipline; maintain investor confidence; and enhance the integrity, efficiency, competitiveness, and stability of U.S. financial markets.

“The Council’s annual report is a vital vehicle to publicly highlight potential threats to financial stability and is another example of how Wall Street Reform has improved coordination among financial regulators,” said Treasury Secretary Jacob J. Lew. “In this year’s annual report, the Council outlines potential threats on the horizon and offers an important roadmap to help guide the Council’s focus in the coming years. I look forward to continued collaboration with members of the Council as we carry forward this work.”

The Council’s findings are organized around the following 12 themes that warrant continued attention and, in many cases, further action from the Council’s members or member agencies:

- **Cybersecurity:** Government agencies and the private sector should continue to work to improve and enhance information sharing, baseline protections such as security controls and network monitoring, and response and recovery planning.
- **Risks Associated with Asset Management Products and Activities:** The asset management industry’s increasing significance to financial markets and to the broader economy underscores the Council’s ongoing consideration of potential risks to U.S. financial stability from products and activities in this sector, including further analysis of the activities of hedge funds.

- **Capital, Liquidity, and Resolution:** Regulators should continue working to ensure that there is enough capital and liquidity at financial institutions to reduce systemic risk, including finalizing rules setting standards for the minimum levels of total loss-absorbing capacity and long-term debt maintained by certain large banking organizations operating in the United States.
- **Central Counterparties (CCPs):** Member agencies should continue to evaluate whether existing rules and standards for CCPs and their clearing members are sufficiently robust to mitigate potential threats to financial stability, and should also continue working with international standard-setting bodies to implement more granular guidance with respect to international risk management standards in order to enhance the safety and soundness of CCPs.
- **Reforms of Wholesale Funding Markets:** Counterparty risk exposure has been significantly reduced in the tri-party repurchase agreement, or repo, market, though the potential for fire sales of collateral by creditors of a defaulted broker-dealer remains an important risk. Better data are needed to assist policymakers' understanding of how the aggregate repo market operates. Furthermore, regulators should continue to monitor and evaluate the effectiveness of structural reforms of money market mutual funds.
- **Reforms Relating to Reference Rates:** Regulators and market participants should continue their efforts to develop alternative benchmark interest rates and implementation plans to achieve a smooth transition to these new rates.
- **Data Quality, Collection, and Sharing:** While Council members have made progress in filling gaps in the scope, quality, and accessibility of data available to regulators, regulators and market participants should continue to work together to improve the scope, quality, and accessibility of financial data.
- **Housing Finance Reform:** While regulators and supervisors have taken great strides to work within the constraints of conservatorship to promote greater investment of private capital and improve operational efficiencies with lower costs, federal and state regulators are approaching the limits of their ability to enact wholesale reforms that are likely to foster a vibrant, resilient housing finance system. Housing finance reform legislation is needed to create a more sustainable system that enhances financial stability.
- **Risk Management in an Environment of Low Interest Rates and Rising Asset Price Volatility:** Depressed energy and metals commodities prices, large swings in equity valuations, and upward movement in high-yield debt spreads underscore the need for supervisors, regulators, and managers to remain vigilant in ensuring that firms and funds maintain robust risk management standards.
- **Changes in Financial Market Structure and Implications for Financial Stability:** The growing importance in certain markets of propriety trading firms and automated trading systems may introduce new vulnerabilities, including operational risks associated with the very high speed and volume of trading activity. Increased coordination among regulators is needed to evaluate and address these risks.
- **Financial Innovation and Migration of Activities:** Financial regulators will need to continue to be vigilant in monitoring new and rapidly growing financial products and business practices, even if those products and practices are relatively nascent and may not constitute a current risk to financial stability.

- **Global Economic and Financial Developments:** Market participants and regulators should be vigilant to potential foreign shocks that could disrupt financial stability in the United States.

The annual report is available at [fsoc.gov](http://fsoc.gov).

In attendance at the Council meeting, in person or by phone, were:

- **Jacob J. Lew**, Secretary of the Department of the Treasury (Chairperson of the Council)
- **Thomas Curry**, Comptroller of the Currency
- **Richard Cordray**, Director of the Consumer Financial Protection Bureau
- **Mary Jo White**, Chair of the Securities and Exchange Commission
- **Martin J. Gruenberg**, Chairman of the Federal Deposit Insurance Corporation
- **Timothy G. Massad**, Chairman of the Commodity Futures Trading Commission
- **Melvin L. Watt**, Director of the Federal Housing Finance Agency
- **Rick Metsger**, Chairman of the National Credit Union Administration
- **S. Roy Woodall, Jr.**, Independent Member with Insurance Expertise
- **Richard Berner**, Director of the Office of Financial Research (non-voting member)
- **Michael T. McRaith**, Director of the Federal Insurance Office (non-voting member)
- **Adam Hamm**, Commissioner, North Dakota Insurance Department (non-voting member)
- **John Ducrest**, Commissioner, Louisiana Office of Financial Institutions (non-voting member)
- **Melanie Lubin**, Securities Commissioner, Maryland Office of the Attorney General, Securities Division (non-voting member)

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