

The Financial Stability Oversight Council approved the attached resolution by notational vote on January 19, 2017, with nine members voting in favor of the resolution and none opposed. The Chairman of the National Credit Union Administration abstained from the vote.

RESOLUTION APPROVING MINUTES
OF THE JANUARY 11, 2017 MEETING

BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”),
that the minutes attached hereto of the meeting held on January 11, 2017 of the
Council are hereby approved.

Minutes of the Financial Stability Oversight Council

Held January 11, 2017

PRESENT:

Jacob J. Lew, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)
Janet Yellen, Chair, Board of Governors of the Federal Reserve System (Federal Reserve)
Martin J. Gruenberg, Chairperson, Federal Deposit Insurance Corporation (FDIC)
Mary Jo White, Chair, Securities and Exchange Commission (SEC)
Timothy Massad, Chairman, Commodity Futures Trading Commission (CFTC)
Richard Cordray, Director, Consumer Financial Protection Bureau (CFPB)
Melvin Watt, Director, Federal Housing Finance Agency (FHFA)
Thomas J. Curry, Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)
Roy Woodall, Independent Member with Insurance Expertise
Richard Berner, Director, Office of Financial Research (OFR), Department of the Treasury (non-voting member)
Michael McRaith, Director, Federal Insurance Office, Department of the Treasury (non-voting member)
Ray Grace, Commissioner, North Carolina Office of the Commissioner of Banks (non-voting member)
Peter Hartt, Director, Insurance Division, New Jersey Department of Banking & 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)

Antonio Weiss, Counselor to the Secretary
Jonah Crane, Deputy Assistant Secretary for the Council
Eric Froman, Principal Deputy Assistant General Counsel (Banking and Finance) and Executive Director of the Council
Eric M. Thorson, Inspector General and Chairman of the Council of Inspectors General on Financial Oversight

Board of Governors of the Federal Reserve System

Daniel Tarullo, Governor
Andreas Lehnert, Director, Division of Financial Stability

Federal Deposit Insurance Corporation

Jason Cave, Special Advisor to the Chairman for Supervisory Matters

Securities and Exchange Commission

Nathaniel Stankard, Deputy Chief of Staff

Commodity Futures Trading Commission

Lawranne Stewart, Special Counsel

Consumer Financial Protection Bureau

Ron Borzekowski, Assistant Director for Research

Federal Housing Finance Agency

Sandra Thompson, Deputy Director, Division of Housing Mission and Goals

Comptroller of the Currency

Grace Dailey, Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner

National Credit Union Administration

Ralph Monaco, Chief Economist

Office of the Independent Member with Insurance Expertise

Diane Fraser, Senior Policy Advisor

Federal Reserve Bank of New York

William Dudley, President and Chief Executive Officer (by telephone)

Office of Financial Research

Stacey Schreft, Deputy Director for Research and Analysis

Federal Insurance Office

Steven Seitz, Deputy Director (Financial Stability)

North Carolina Office of the Commissioner of Banks

Jim Cooper, Senior Vice President for Policy, Conference of State Bank Supervisors

New Jersey Department of Banking & Insurance

Mark Sagat, Assistant Director, Financial Policy and Legislation, National Association of Insurance Commissioners

Maryland Office of the Attorney General, Securities Division

Christopher Staley, Counsel, North American Securities Administrators Association

PRESENTERS:

Update on Market Developments

- *Ramin Toloui, Assistant Secretary for International Finance, Treasury*

2017 Annual Report

- *Charles Cohen, Deputy Director of Analysis, Treasury*

Nonbank Financial Company Designations Stage 1 Thresholds

- *Stephen Ledbetter, Director of Policy, Treasury*
- *Alexandra Somers, Policy Analyst, Treasury*
- *Eric Froman, Principal Deputy Assistant General Counsel (Banking and Finance) and Executive Director of the Council, Treasury (available for questions)*

Money Market Mutual Fund Developments

- *Sarah ten Siethoff, Deputy Associate Director, Rulemaking Office, Division of Investment Management, SEC*
- *Viktoria Baklanova, Senior Financial Analyst, OFR*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 3:06 P.M. (EST). He began by noting that this was the last meeting for several members of the Council. He thanked the Council members for their cooperation and stated that the Council's work, including in building a framework for interagency communication, remained important. He then outlined the meeting agenda, which had previously been distributed to the members together with copies of the resolution and other materials. The agenda for the meeting included the following subjects: (1) an update on market developments; (2) the Council's 2017 annual report; (3) the quantitative thresholds applied in Stage 1 of the Council's process for nonbank financial company designations; (4) an update on money market mutual fund developments; and (5) consideration of, and a vote on, a resolution approving the minutes of the Council's meeting on November 16, 2016. He also welcomed Eric Thorson, Treasury's Inspector General and Chairman of the Council of Inspectors General on Financial Oversight, who was invited to observe the meeting.

1. Update on Market Developments

The Chairperson introduced the first agenda item, an update on market developments. He introduced Ramin Toloui, Assistant Secretary for International Finance at Treasury, who presented an update on developments in 2016 related to the Italian banking sector. Mr. Toloui described private-sector and governmental efforts to improve the capitalization of Italian banks. He also described ongoing challenges posed by European economic and political uncertainty. He stated that these issues do not appear to pose any immediate threat to U.S. financial markets. Following the presentation, members of the Council asked questions and had a discussion, including regarding potential next steps for the Italian government.

2. 2017 Annual Report

The Chairperson then introduced the next agenda item, the Council's 2017 annual report, and introduced Charles Cohen, Deputy Director of Analysis at Treasury. Mr. Cohen explained that staff were working to prepare the report on a timeline consistent with previous years, prioritizing

the descriptions in the report of financial and regulatory developments. He requested that Council members provide input over the coming months regarding issues that the report should address. He also noted that there had been developments over the last year regarding certain potential emerging threats to financial stability that were cited in the Council's previous annual report. Members of the Council then had a discussion, including regarding potential topics to be considered in the report.

3. Nonbank Financial Company Designations Stage 1 Thresholds

The Chairperson then introduced the next agenda item, an update on the review of the quantitative thresholds applied in Stage 1 of the Council's process for nonbank financial company designations under Section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). He introduced Stephen Ledbetter, Director of Policy at Treasury, and Alexandra Somers, Policy Analyst at Treasury. In Stage 1 of the nonbank financial company designations process, the Council applies six quantitative thresholds to a broad group of nonbank financial companies. Mr. Ledbetter noted that the interpretive guidance issued by the Council in April 2012 called for the Council to review the Stage 1 thresholds at least every five years. He then described the background for the Stage 1 thresholds. He noted that the Dodd-Frank Act requires the Council to take 10 considerations into account when evaluating a nonbank financial company for potential designation, and that the Council's interpretive guidance established an analytic framework that grouped the 10 considerations into six categories: size, interconnectedness, substitutability, leverage, liquidity risk and maturity mismatch, and existing regulatory scrutiny. He then described key considerations cited in the interpretive guidance regarding the selection of the Stage 1 thresholds, including that they should align with the six-category framework; rely solely on information available through existing public and regulatory sources; be applicable to firms in diverse financial industries; and relate to the analytic framework categories that are readily quantifiable. He noted that the six Stage 1 thresholds are set forth in the Council's interpretive guidance, including thresholds relating to total consolidated assets, credit-default swaps, derivative liabilities, outstanding debt, leverage, and short-term debt. He noted that a company that meets both the total consolidated assets threshold and any one of the other thresholds may become subject to active review in Stage 2 of the Council's process. Mr. Ledbetter explained that the Council's Nonbank Financial Company Designations Committee applied the Stage 1 thresholds to nonbank financial companies on a quarterly basis.

Ms. Somers then described the staff's preliminary analysis regarding the methodologies, data sources, and results over time of the Stage 1 thresholds. She explained statistics regarding companies exceeding the Stage 1 thresholds, including changes in the numbers of companies that exceeded each of the Stage 1 thresholds over time. Mr. Ledbetter then described the next steps that staff expected to take in its analysis. Members of the Council then had a discussion, including regarding the Council's use of the Stage 1 thresholds. Mr. Ledbetter stated that Stage 1 is part of an effective risk-monitoring process for the Council and noted that the Council and staff had issued procedures and guidance in February and June 2015 that provided the public with additional detail regarding the Council's methodology in Stage 1.

4. Money Market Mutual Fund Developments

The Chairperson then introduced the next agenda item, an update on money market mutual fund (MMF) developments. He noted that there had been a broad recognition following the financial crisis that MMF reform was needed, and he stated that significant progress had been made. He introduced Sarah ten Siethoff, Deputy Associate Director of the Rulemaking Office in the Division of Investment Management at the SEC, and Viktoria Baklanova, Senior Financial Analyst at the OFR. Ms. ten Siethoff noted that the SEC had adopted MMF reforms in July 2014. Ms. ten Siethoff briefly described the final rules, noting that the reforms established a floating net asset value (NAV) for institutional prime MMFs and permitted MMF boards to impose liquidity fees and redemption gates in certain circumstances. She noted that the compliance date for these reforms was October 2016. She then described MMF industry developments in 2015 and 2016. She noted that while aggregate MMF assets had remained stable, there had been significant reallocations from prime to government MMFs and that the transition had been orderly. She stated that prime MMFs had substantially increased the liquidity of their portfolios by shortening the duration of their investments prior to the effective date of the reforms.

Ms. Baklanova then further described the reallocation of assets from prime to government MMFs in 2015 and 2016. Ms. ten Siethoff noted that regulators had not observed significant asset shifts from prime MMFs into alternative investment vehicles. Ms. Baklanova described fluctuations in borrowing costs, including the London Interbank Offered Rate and municipal funding rates, which had increased by a small amount. The presenters then described the experience with floating NAVs, noting that NAVs had not significantly deviated from \$1.0000 and that those NAVs that had floated generally rose rather than falling below \$1.0000. Ms. ten Siethoff concluded that the SEC's MMF reforms had had a significant effect on the MMF industry, but that those effects had been anticipated during the SEC's rulemaking process, and that the transition showed the ability of the financial system to undergo significant shifts in an orderly manner with sufficient time and planning.

Members of the Council then asked questions and had a discussion, including regarding the orderly transition in the MMF industry, municipal funding rates, MMFs' use of the Federal Reserve's reverse repurchase agreement facility, possible future funds flows, and the importance for the Council to continue to monitor how market participants respond to the reforms over time.

5. Resolution Approving the Minutes of the Meeting Held on November 16, 2016

“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on November 16, 2016 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 resolutions without objection.

6. Other Business

The Chairperson then stated that the Council members had worked together to create an orderly and productive organization. He noted the importance of the Council's ongoing work, and he thanked Council members and their staffs for their efforts to support the Council. Members of the Council then expressed appreciation for the work of the Council and its members. Eric Thorson, Inspector General of Treasury and Chairman of the Council of Inspectors General on Financial Oversight, expressed appreciation for the access and engagement Council members had provided.

The Chairperson adjourned the meeting at approximately 4:19 P.M. (EST).