

Minutes of the Financial Stability Oversight Council

Held January 28, 2016

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)
Debbie Matz, Chairman, National Credit Union Administration (NCUA)
Roy Woodall, Independent Member with Insurance Expertise
Richard Berner, Director, Office of Financial Research (OFR), Department of the Treasury (nonvoting member)
Michael McRaith, Director, Federal Insurance Office, Department of the Treasury (non-voting member)
John P. Ducrest, Commissioner, Louisiana Office of Financial Institutions (non-voting member)
Adam Hamm, Commissioner, North Dakota Insurance Department (non-voting member)
Melanie Lubin, Securities Commissioner, Maryland Office of the Attorney General, Securities Division (non-voting member)

GUESTS:

Department of the Treasury (Treasury)

Sarah Bloom Raskin, Deputy Secretary of the Treasury
Antonio Weiss, Counselor to the Secretary
Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council
Eric Froman, Deputy Assistant General Counsel for the Council
Mark Kaufman, Counselor to the Deputy Secretary

Board of Governors of the Federal Reserve System

Daniel K. Tarullo, Governor
Nellie Liang, Director, Office of Financial Stability Policy and Research

Federal Deposit Insurance Corporation

Jason Cave, Special Advisor to the Chairman for Supervisory Matters

Securities and Exchange Commission

Michael Liftik, 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

Jennifer Kelly, 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

Office of Financial Research

Stacey Schreft, Deputy Director for Research and Analysis

Federal Insurance Office

Steven Seitz, Deputy Director (Financial Stability)

Louisiana Office of Financial Institutions

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

North Dakota Insurance Department

Mark Sagat, Counsel and Manager, 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

- *Simon Potter, Executive Vice President, Markets Group, Federal Reserve Bank of New York (via telephone)*
- *Robert Dohner, Deputy Assistant Secretary for International Economic Analysis and Senior Advisor for Asia, Treasury*

2016 Annual Report

- *Trent Reasons, Director of Analysis, Treasury*
- *Erik Heitfield, Assistant Director, Research and Statistics, Federal Reserve*

Update on Review of Asset Management Products and Activities

- *Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council, Treasury*
- *Charles Cohen, Deputy Director of Analysis, Treasury*
- *Stephen Ledbetter, Director of Policy, Treasury*
- *Buddy Donohue, Chief of Staff, SEC (available for questions)*
- *Lyndsay Huot, Deputy Director of Policy, Treasury (available for questions)*
- *Dave Johnson, Senior Researcher, OFR (available for questions)*
- *Nellie Liang, Director, Office of Financial Stability Policy and Research, Federal Reserve (available for questions)*
- *Jake Liebschutz, Director, Office of Capital Markets, Treasury (available for questions)*
- *Anjan Mukherjee, Deputy Assistant Secretary for Financial Institutions, Treasury (available for questions)*
- *Trent Reasons, Director of Analysis, Treasury (available for questions)*
- *Penelope Saltzman, Senior Special Counsel, Division of Investment Management, SEC (available for questions)*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 4:04 P.M. (EST). He 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 2016 annual report; (3) an update on the Council's review of asset management products and activities; and (4) consideration of, and a vote on, a resolution approving the minutes of the Council's meeting on December 17, 2015.

1. Update on Market Developments

The Chairperson introduced the first agenda item and turned to Simon Potter, Executive Vice President of the Markets Group at the Federal Reserve Bank of New York, who presented an update on recent market developments. Mr. Potter described asset price changes since the start of 2016, noting that factors affecting markets included economic and financial stability in China and declines in oil and commodity prices. He noted that there had been substantial movement in equity market prices and described recent movements in metrics including exchange rates, interest rates, and credit-default swap spreads for banks and high-yield issuers. The Chairperson then introduced Robert Dohner, Deputy Assistant Secretary for International Economic Analysis and Senior Advisor for Asia at Treasury, to present on international market developments. Mr. Dohner described recent global market volatility and noted concerns about slowing global growth. He noted that while lower oil prices are a net economic positive for the United States, there were negative impacts on oil producers, oil-producing countries, and concentrated impacts on firms in the oil sector, including in the United States. He explained that fluctuations in Chinese stock markets had relatively little direct effects on other economies, and he described actions the Chinese government has taken with respect to renminbi exchange rates that had fundamentally changed expectations for the currency and precipitated large capital outflows. Following the presentations, members of the Council asked questions and had a discussion,

including regarding regulators' efforts to monitor financial institutions' exposures to oil and commodity price volatility. Council members noted that the exposures of large U.S. financial institutions with respect to recent market volatility generally appeared to be limited and that these developments had not impaired market functioning.

2. 2016 Annual Report

The Chairperson introduced Trent Reasons, Director of Analysis at Treasury, and Erik Heitfield, Assistant Director for Research and Statistics at the Federal Reserve, to present on the next agenda item, the Council's 2016 annual report. Mr. Reasons described potential themes that could be included in the report and noted that the report was expected to be published in the spring. He also explained that staff were working to prioritize risk topics that may be addressed in the report as recommendations or as potential emerging threats to financial stability. He noted that the prioritization may include condensing, modifying, or removing some recommendations or potential emerging threats to financial stability included in previous annual reports in cases where there had been either a significant reduction in their likelihood or severity or a significant increase in resiliency or preparedness. Members of the Council then asked questions and had a discussion, including regarding potential topics to be considered in the report and the importance of continuing efforts to implement recommendations made in the Council's 2015 annual report. Mr. Heitfield noted that the report will discuss progress that has been made in various areas of financial regulatory reform.

3. Update on Review of Asset Management Products and Activities

The Chairperson then introduced the next agenda item, an update on the staff evaluation of potential risks to financial stability arising from asset management products and activities. He noted that the purpose of this discussion was to discuss staff's assessments of potential risks to financial stability and to provide feedback on those assessments. He said that the Council should seek to issue a public statement in the spring providing a progress update on these efforts. He also acknowledged the proposed rules the SEC had recently issued related to asset management. The Chairperson then introduced Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council at Treasury, and noted that staff from several agencies were available in the room to answer questions that arose.

Mr. Pinschmidt noted that staff had worked on an interagency basis to evaluate potential risks to financial stability from asset management products and activities. He explained that in recent months the analysis was organized into six categories: liquidity and redemption risk; leverage; securities lending; data and disclosure; operational risks of service provider concentrations; and resolvability and transition planning. He noted that the mandate for staff in each of the six areas was to evaluate potential risks; examine potential mitigants, including existing or proposed regulations; and identify any potential risks to financial stability. He explained that staff had prioritized the analyses of liquidity and redemption risk and leverage, although work was also continuing in the other areas.

Mr. Pinschmidt then introduced Charles Cohen, Deputy Director of Analysis at Treasury. Mr. Cohen presented on the interagency staff's analysis of potential liquidity and redemption risks

arising from asset management products and activities. He discussed factors that could affect the materiality of these risks. He also described proposed rules regarding fund liquidity risk management that the SEC had issued for public comment. The Council then asked questions and had a discussion regarding potential liquidity and redemption risks, including risks from funds holding less-liquid assets and potential mitigants to liquidity and redemption risks. It was also noted that the Council's focus is on potential risks to financial stability, rather than the potential for investor losses.

The Chairperson then introduced Stephen Ledbetter, Director of Policy at Treasury. Mr. Ledbetter presented on the interagency staff analysis regarding potential risks to financial stability arising from leverage at investment vehicles. He noted that the evaluation was addressing the ways in which leverage could increase the potential for forced asset sales or expose counterparties to losses. He described differences in the nature and extent of leverage obtained by various types of investment vehicles. He noted that the SEC had issued proposed rules for public comment that would limit the use of derivatives by registered funds. He also noted that hedge funds are not subject to regulatory leverage limits. The Council then asked questions and had a discussion, including regarding the extent of risks arising from funds' derivatives activities and ongoing efforts to conduct further analysis. Following the discussion regarding potential risks related to leverage, Mr. Pinschmidt explained that staff had also analyzed potential risks arising from securities lending, service provider concentrations, and resolvability and transition planning.

4. Resolution Approving the Minutes of the Meeting held on December 17, 2015

“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on December 17, 2015 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 without objection.

The Chairperson adjourned the meeting at approximately 6:15 P.M. (EST).