

Minutes of the Financial Stability Oversight Council

Held January 31, 2013

PRESENT:

Neal S. Wolin, Acting Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)
Ben Bernanke, Chairman, Board of Governors of the Federal Reserve System (Federal Reserve)
Martin J. Gruenberg, Chairperson, Federal Deposit Insurance Corporation (FDIC)
Elisse Walter, Chairman, Securities and Exchange Commission (SEC)
Gary Gensler, Chairman, Commodity Futures Trading Commission (CFTC)
Richard Cordray, Director, Consumer Financial Protection Bureau (CFPB)
Edward DeMarco, Acting Director, Federal Housing Finance Agency (FHFA)
Debbie Matz, Chairman, National Credit Union Administration (NCUA)
Thomas J. Curry, Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)
Roy Woodall, Independent Member with Insurance Expertise
Richard Berner, Office of Financial Research, Department of the Treasury (non-voting 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)
John Huff, Director, Missouri Department of Insurance, Financial Institutions, and Professional Registration (non-voting member) (*participating by phone*)
David Massey, Deputy Securities Administrator, North Carolina Department of the Secretary of State, Securities Division (non-voting member)

GUESTS:

Department of the Treasury

Mary J. Miller, Under Secretary for Domestic Finance
Lael Brainard, Under Secretary for International Affairs
Amias Gerety, Deputy Assistant Secretary for FSOC
Christopher J. Meade, Acting General Counsel

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, Deputy Director for Complex Financial Institutions Monitoring

Securities and Exchange Commission

Sara Cortes, Counsel to the Chairman

Commodity Futures Trading Commission

Gary Barnett, Director, Division of Swap Dealer and Intermediary Oversight

Consumer Financial Protection Bureau

Ashwin Vasan, Senior Advisor

Federal Housing Finance Agency

Mario Ugoletti, Special Advisor to the Director

National Credit Union Administration

John Worth, Chief Economist

Office of the Comptroller of the Currency

John Lyons, Senior Deputy Comptroller and Chief National Bank Examiner

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

Office of Financial Research

Matthew Reed, Chief Counsel

Federal Insurance Office

John Nolan, Senior Policy Advisor

Louisiana Office of Financial Institutions

Mike Stevens, Senior Executive Vice President, Conference of State Bank Supervisors

Missouri Department of Insurance, Financial Institutions, and Professional Registration

Elise Liebers, Special Advisor, National Association of Insurance Commissioners

North Carolina Department of the Secretary of the State, Securities Division

Joseph Brady, General Counsel, North American Securities Administrators Association

PRESENTERS:

Macro-environment Overview: Fiscal Developments

- *Neal S. Wolin, Acting Secretary of the Treasury and Chairperson of the Council*

Customer Protection

- *Gary Gensler, Chairman, CFTC*
- *Gary Barnett, Director, Division of Swap Dealer and Intermediary Oversight, CFTC*

The Council's Annual Report

- *Tobias Adrian, Vice President and Function Head, Capital Markets Function, Federal Reserve Bank of New York*
- *Trent Reasons, Senior Policy Advisor, Treasury*

Nonbank Financial Company Designations: Consideration of the Advancement of a Subset of Nonbank Financial Companies Considered in Stage 2 to Stage 3

- *Ralph Monaco, Senior Economist, NCUA*

International Association of Insurance Supervisors (IAIS) Update

- *Michael McRaith, Director, Federal Insurance Office, Treasury*

Nonbank Financial Company Designations Stage 3 Analysis Update

- *Patrick Pinschmidt, Executive Director of the Council, Treasury*
- *Todd Cohen, Policy Advisor, Treasury*
- *John Nolan, Senior Advisor, Federal Insurance Office, Treasury*
- *Diane Fraser, Senior Policy Advisor, Office of the Independent Member*
- *Jose Berrospide, Economist, Federal Reserve*

Cyber Security

- *Leigh Williams, Director, Office of Critical Infrastructure Protection and Compliance Policy, Treasury*
- *Wayne Pacine, Interagency Project Manager, Federal Reserve*
- *Marlene Roberts, Senior Specialist, Critical Infrastructure Protection, FDIC*

Executive Session

The Chairperson called the executive session of the meeting of the Financial Stability Oversight Council to order at approximately 10:30 A.M. (EST). He began by welcoming the new Chairman of the SEC, Elisse Walter, and the newly confirmed Director of the Office of Financial Research, Richard Berner, to the meeting.

The Chairperson then outlined the meeting agenda, which had been previously distributed to the members together with copies of the resolutions and other materials. The agenda for the meeting included the following subjects: (1) fiscal developments; (2) customer protection; (3) the Council's annual report; (4) nonbank financial company designations and consideration of the advancement of a subset of nonbank financial companies that were considered in stage 2 to stage 3 of the evaluation process; (5) an update on the work of the IAIS; (6) an update on the nonbank financial company designations stage 3 analysis; (7) cyber security; and (8) consideration of, and a vote on, a resolution approving the minutes of the Council's meeting on December 13, 2012.

1. Macro-environment Overview: Fiscal Developments Update

The Chairperson turned to the first agenda item and provided the Council with an update on recent fiscal developments, including an update on fiscal negotiations. After the update from the Chairperson, members of the Council asked questions and had a discussion.

2. Customer Protection

The Chairperson then called on Gary Gensler, Chairman of the CFTC, to give a presentation on the CFTC's customer-protection efforts. Gary Barnett, Director of the Division of Swap Dealer and Intermediary Oversight at the CFTC, was available to answer questions. Chairman Gensler provided background on the protection of customer funds by futures commission merchants, including permitted investments and the types of accounts in which funds are held. He also explained reforms completed by the CFTC and self-regulatory organizations in 2012 and discussed further CFTC rulemaking, including proposed rules that the CFTC intends to finalize in 2013. After the presentation, members of the Council asked questions and had a discussion.

3. The Council's Annual Report

The Chairperson then introduced the agenda item regarding planning for the Council's 2013 annual report and asked Tobias Adrian, Vice President and Function Head, Capital Markets Function at the Federal Reserve Bank of New York, and Trent Reasons, Senior Policy Advisor at Treasury, to give the presentation. Mr. Adrian and Mr. Reasons reported that the Council's 2013 annual report is currently under development and outlined the general timeline and proposed structure of the report. After the presentation, members of the Council asked questions and had a discussion.

4. Nonbank Financial Company Designations: Consideration of the Advancement of a Subset of Nonbank Financial Companies Considered in Stage 2 to Stage 3

The Chairperson next called on Ralph Monaco, Senior Economist at the NCUA, to present on a subset of nonbank financial companies that were considered in stage 2 of the evaluation process for designation and were being considered for advancement or non-advancement to stage 3. After the presentation, members of the Council asked questions and had a discussion. The Chairperson then presented to the Council the following resolution approving the non-advancement to stage 3 of a subset of nonbank financial companies that were considered in stage 2 of the evaluation process.

“WHEREAS, section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “DFA”) authorizes the Financial Stability Oversight Council (the “Council”) to determine that a nonbank financial company shall be supervised by the Board of Governors of the Federal Reserve System (the “Federal Reserve”) and shall be subject to enhanced prudential standards if the Council determines that material financial distress at the nonbank financial company, or the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the nonbank financial company, could pose a threat to the financial stability of the United States; and

WHEREAS, in making a determination under section 113 of the DFA, the Council must take into consideration the following: (A) the extent of the leverage of the company; (B) the extent and nature of the off-balance-sheet exposures of the company; (C) the extent and nature of the transactions and relationships of the company with other significant nonbank financial companies and significant bank holding companies; (D) the importance of the company as a

source of credit for households, businesses, and State and local governments and as a source of liquidity for the United States financial system; (E) the importance of the company as a source of credit for low-income, minority, or underserved communities, and the impact that the failure of such company would have on the availability of credit in such communities; (F) the extent to which assets are managed rather than owned by the company, and the extent to which ownership of assets under management is diffuse; (G) the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of the company; (H) the degree to which the company is already regulated by one or more primary financial regulatory agencies; (I) the amount and nature of the financial assets of the company; (J) the amount and types of the liabilities of the company, including the degree of reliance on short-term funding; and (K) any other risk-related factors that the Council deems appropriate; and

WHEREAS, the Council issued a final rule and accompanying interpretive guidance (the “Interpretive Guidance”), codified at 12 C.F.R. Part 1310, that describes the criteria and the processes and procedures by which the Council will determine that a nonbank financial company shall be supervised by the Federal Reserve and shall be subject to enhanced prudential standards under the DFA; and

WHEREAS, the Interpretive Guidance describes a three-stage process that the Council expects to use for evaluating a nonbank financial company prior to a Council vote on a proposed determination; and

WHEREAS, the staffs of the Council Members and their Agencies have evaluated nonbank financial companies under stage 1, which consisted of the application of uniform quantitative thresholds to identify nonbank financial companies for further evaluation; and

WHEREAS, in stage 2, the staffs of the Council Members and their Agencies have analyzed certain of the nonbank financial companies identified in stage 1, based on a wide range of quantitative and qualitative information available to the Council, primarily through public and regulatory sources; and

WHEREAS, based on the stage 2 evaluations, the staffs of the Council Members and their Agencies recommend that the Council not, at this time, approve the advancement of a subset of the nonbank financial companies that were considered in stage 2 to stage 3 of the evaluation process.

NOW, THEREFORE, BE IT RESOLVED, that a subset of nonbank financial companies that were considered in stage 2 (identified in an attachment hereto) will not, at this time, be advanced to stage 3 of the evaluation process, but shall be evaluated by the Nonbank Designations Committee from time to time, as appropriate, in accordance with sections 112 and 113 of the DFA and the Interpretive Guidance.”

The Chairperson asked for a motion approving the resolution, which was made and seconded. The Council then approved the resolution by unanimous vote.

5. IAIS Update

The Chairperson turned to the next agenda item and called on Michael McRaith, Director of the Federal Insurance Office at Treasury, to give the presentation. Mr. McRaith provided an update on the IAIS's process and timeline for the designation of global systemically important insurers. After the presentation, members of the Council asked questions and had a discussion.

6. Nonbank Financial Company Designations Stage 3 Analysis Update

The Chairperson then addressed the agenda item regarding an update on the analysis being conducted regarding a subset of nonbank financial companies that the Council previously had advanced to stage 3 of designation process, and asked Patrick Pinschmidt, Executive Director of the Council at Treasury, to give the presentation. Todd Cohen, Policy Advisor at Treasury; John Nolan, Senior Advisor in the Federal Insurance Office at Treasury; Diane Fraser, Senior Policy Advisor in Office of the Independent Member; and Jose Berrospide, Economist at the Federal Reserve, were available to answer questions. Mr. Pinschmidt provided an update on the status of the process and timing regarding possible proposed designations. He also discussed the statutory standard for designation and the analytic framework. After the presentation, members of the Council asked questions and had a discussion.

7. Cyber Security

The Chairperson turned to the next agenda item and called on Leigh Williams, Director of the Office of Critical Infrastructure Protection and Compliance Policy at Treasury, to give a presentation on cyber security. Wayne Pacine, Interagency Project Manager at the Federal Reserve, and Marlene Roberts, Senior Specialist for Critical Infrastructure Protection at the FDIC, were available to answer questions. Mr. Williams explained how cyber attacks are assessed. He also discussed the responses of industry and the U.S. government to cyber attacks. After the presentation, members of the Council asked questions and had a discussion.

8. Resolution Approving the Minutes of the Meeting held on December 13, 2012

“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on December 13, 2012 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 asked for a motion to adjourn the meeting, and the Council voted to adjourn. The Chairperson adjourned the meeting at approximately 12:38 P.M. (EST).