

Minutes of the Financial Stability Oversight Council

Held July 18, 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) (by telephone)
Thomas J. Curry, Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)
Rick Metsger, 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 (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)
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
Jonah Crane, Deputy Assistant Secretary for 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 Tarullo, Governor
Nellie Liang, Director, Division of Financial Stability

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 (by telephone)

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

Charles Klingman, 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)

Louisiana Office of Financial Institutions

Margaret Liu, Senior Vice President & Deputy General Counsel, Conference of State Bank Supervisors

Maryland Office of the Attorney General, Securities Division

Christopher Staley, Counsel, North American Securities Administrators Association

PRESENTERS:

Update on Market Developments

- *Nellie Liang, Director, Division of Financial Stability, Federal Reserve*
- *Nathan Sheets, Under Secretary for International Affairs, Treasury*
- *Daleep Singh, Acting Assistant Secretary for Financial Markets, Treasury*
- *Tara Rice, Deputy Assistant Secretary for International Financial Stability and Regulation, Treasury (available for questions)*

Update on Review of Asset Management Products and Activities

- *Charles Cohen, Deputy Director of Analysis, Treasury*
- *Stephen Ledbetter, Director of Policy, Treasury (available for questions)*

Federal Reserve Stress Tests

- *Andreas Lehnert, Deputy Director, Division of Financial Stability, Federal Reserve*

Bilateral Repurchase Agreement and Securities Lending Data Collection and Analysis

- *Viktoria Baklanova, Senior Financial Analyst, OFR*
- *Frank Keane, Policy Adviser, Markets Group, Federal Reserve Bank of New York*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 3:03 P.M. (EDT). He outlined the meeting agenda, which had previously been distributed to the members together with copies of the resolutions and other materials. The agenda for the meeting included the following subjects: (1) an update on market developments; (2) an update on the Council's review of asset management products and activities; (3) the Federal Reserve's stress tests; (4) bilateral repurchase agreement and securities lending data collection and analysis; and (5) consideration of, and a vote on, resolutions approving the minutes of the Council's meetings on June 21, 2016, and June 24, 2016.

1. Update on Market Developments

The Chairperson introduced Daleep Singh, Acting Assistant Secretary for Financial Markets at Treasury; Nellie Liang, Director of the Division of Financial Stability at the Federal Reserve; and Nathan Sheets, Under Secretary for International Affairs at Treasury. Tara Rice, Deputy Assistant Secretary for International Financial Stability and Regulation at Treasury, was available to answer questions.

Mr. Singh described market reactions since the announcement that the outcome of the United Kingdom (U.K.) referendum on membership in the European Union was to leave the European Union. He noted that the immediate market reaction had been sharp and broad-based but not disorderly or disproportionate to the catalyst. He explained that prices of most risk-sensitive assets had returned to levels from before the referendum, but that assets, markets, and firms more directly exposed to the U.K. continued to experience visible effects. He then reviewed market functioning across various asset classes, noting that conditions remained orderly despite some pullback in liquidity in the immediate aftermath of the referendum.

Ms. Liang then described the impact of the U.K. referendum on financial institutions. She described stresses on some European financial institutions and noted that U.S. financial institutions had little direct exposure to those firms but that the U.S. economy and financial sector would not be immune if there were serious distress in Europe. She also noted that there were upcoming European Union bank stress tests.

Mr. Sheets then explained that the levels of market volatility following the U.K. referendum were consistent with expectations. He also described challenges facing some European banks. He then explained that the U.K. referendum was expected to have a meaningful impact on U.K. gross domestic product as a result of reduced trade, capital flows, and confidence, but that the effects on U.S. and euro-area gross domestic products would likely be much smaller. He noted that the potential political implications for the European Union were not yet clear.

Members of the Council then asked questions and had a discussion, including regarding stresses on European financial institutions and possible next steps by the U.K. and European Union.

2. Update on Review of Asset Management Products and Activities

The Chairperson then introduced the next agenda item, an update on the review of potential risks to financial stability arising from asset management products and activities. The Chairperson asked Jonah Crane, Deputy Assistant Secretary for the Council at Treasury, to provide an update regarding the analysis. Mr. Crane noted that the SEC was engaged in ongoing rulemakings relevant to the Council's evaluation of potential threats to financial stability arising from liquidity and redemption risks, the use of derivatives by registered funds, and resolvability and transition planning. He also noted that staff continued to analyze potential risks arising from service provider concentration and securities lending. He then turned to Charles Cohen, Deputy Director of Analysis at Treasury, who provided an update regarding the ongoing efforts of the Council's interagency hedge fund working group. Mr. Cohen explained that the hedge fund working group's mandate was to evaluate potential risks to financial stability from the use of leverage; assess existing data regarding leverage and consider how those data might be augmented; and consider enhancements to measurements of leverage. He described preliminary analyses conducted by the hedge fund working group regarding the primary sources of leverage used by large, highly leveraged hedge funds. He also described the availability and quality of certain existing data regarding hedge funds' sources of leverage, including data regarding futures, swaps, bilateral repurchase agreements, and loans from prime brokers.

Members of the Council then asked questions and had a discussion, including regarding data gaps and the importance of data to the hedge fund working group's analysis.

3. Federal Reserve Stress Tests

The Chairperson then introduced the next agenda item, the Federal Reserve's stress tests. He turned to Andreas Lehnert, Deputy Director of the Division of Financial Stability at the Federal Reserve, to provide an overview of the Federal Reserve's bank holding company stress-testing process for 2016, including the process and results of the Dodd-Frank Wall Street Reform and Consumer Protection Act stress tests (DFAST) and the Comprehensive Capital Analysis and Review (CCAR). Mr. Lehnert explained the stress testing procedures, noting that stress tests with both quantitative and qualitative exercises are run on the largest bank holding companies each year. He noted that the Federal Reserve published scenarios for the stress tests in January 2016, firms submitted their capital plans in April 2016, and the Federal Reserve released the DFAST and CCAR results in June 2016. He then described several key elements of the projections applied in the stress tests, including the terms of the assumed market shock and

macroeconomic scenarios. Mr. Lehnert then summarized the results of the stress tests, including changes since the previous year. He explained that the Federal Reserve had objected to the capital plans of two firms on a qualitative basis, and that one other firm was required to resubmit its capital plan within six months.

The Chairperson noted that stress tests are an important part of financial reform and thanked Mr. Lehnert.

4. Bilateral Repurchase Agreement and Securities Lending Data Collection and Analysis

The Chairperson then introduced the next agenda item, bilateral repurchase agreement and securities lending data collection and analysis. He introduced Viktoria Baklanova, Senior Financial Analyst at the OFR, and Frank Keane, Policy Adviser in the Markets Group at the Federal Reserve Bank of New York. Mr. Keane began by explaining that securities lending and repurchase agreement transactions can involve substantial liquidity and maturity transformation and therefore pose potential run risks. He then described market practices regarding securities lending transactions, including the use of securities and cash as collateral. He then explained that the Federal Reserve, OFR, and SEC had conducted a joint pilot program to collect data regarding securities lending. Under the program, pilot program participants provided data during the fourth quarter of 2015 and the first quarter of 2016. He noted that the agencies' effort was the first official data collection regarding the securities lending market. Ms. Baklanova then explained the limitations on available data regarding securities lending and described the information that was submitted during the pilot program, including data regarding securities available for lending and details regarding collateral. She explained that the pilot program involved the collection of data from seven lenders. She then described the findings from the pilot program, including information regarding the size of the securities lending market, contract types, sources of securities available for lending, and types of collateral. Mr. Keane described the pilot program's findings regarding compensation for securities lending transactions. Ms. Baklanova then explained the data limitations from the pilot program, including the small number of participating lenders, the short time period covered by the reported data, and data quality issues.

Members of the Council then discussed the pilot program, including the potential creation of a permanent program for collecting securities lending data.

5. Other Business

The Chairperson asked whether there was any other business before the Council voted on the minutes of the previous Council meeting. Richard Berner, Director of the OFR, noted that the OFR would be publicly releasing a new money market mutual fund monitor. He explained that the OFR had collaborated with the SEC in developing the monitor, which uses publicly available data regarding funds' investment portfolios.

6. Resolutions Approving the Minutes of the Meetings Held on June 21, 2016, and June 24, 2016

“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on June 21, 2016 of the Council are hereby approved.”

“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on June 24, 2016 of the Council are hereby approved.”

The Chairperson asked for a motion to approve the resolutions, which was made and seconded. The Council approved the resolutions without objection.

The Chairperson adjourned the meeting at approximately 4:30 P.M. (EDT).