

Minutes of the Financial Stability Oversight Council

Held June 21, 2016

PRESENT:

Jacob J. Lew, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)
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)
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) (via telephone)
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) (via telephone)

GUESTS:

Department of the Treasury (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
Jonah Crane, Senior Advisor, Office of Domestic Finance

Board of Governors of the Federal Reserve System (Federal Reserve)

Daniel Tarullo, Governor (executive session only)
Nellie Liang, Director, Office of Financial Stability Policy and Research (executive session only)

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

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

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

- *Steven Kamin, Director, International Finance Division, Federal Reserve*
- *April Snyder, Manager, Large Institution Supervision Coordinating Committee Portfolio Analytics, Federal Reserve*
- *Nathan Sheets, Under Secretary for International Affairs, Treasury (available for questions)*
- *Lea Bouzis, Director, Office of Europe and Eurasia, Treasury (available for questions)*

Federal Reserve Insurance Rulemakings

- *Mark Van Der Weide, Deputy Director, Division of Banking Supervision and Regulation, Federal Reserve*
- *Tom Sullivan, Associate Director, Division of Banking Supervision and Regulation, Federal Reserve*

Annual Reevaluation of Nonbank Financial Company Designation

- *Todd Cohen, Senior Policy Advisor, Treasury*
- *Adam Nicoletti, Policy Analyst, Treasury*
- *Eric Froman, Deputy Assistant General Counsel for the Council, Treasury (available for questions)*

2016 Annual Report

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

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 3:02 P.M. (EDT). He began by welcoming Rick Metsger, Chairman of the NCUA, to the Council. He also noted that this was the last Council meeting for Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council at Treasury, and thanked him for his service.

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 executive session of the meeting included the following subjects: (1) an update on market developments; (2) recent Federal Reserve proposed rulemakings that would apply to insurance companies designated by the Council; and (3) the annual reevaluation of the Council's designation of GE Capital Global Holdings, LLC (GE Capital).

1. Update on Market Developments

The Chairperson introduced the first agenda item, an update on market developments, including the upcoming United Kingdom (U.K.) referendum on membership in the European Union. The Chairperson introduced Steven Kamin, Director of the International Finance Division at the Federal Reserve; April Snyder, Manager of Large Institution Supervision Coordinating Committee Portfolio Analytics at the Federal Reserve; and Nathan Sheets, Under Secretary for International Affairs at Treasury. Mr. Kamin explained the timing of the U.K. referendum and potential next steps the U.K. government could take following the referendum if the outcome were to leave the European Union. He noted potential economic issues for the U.K. that could arise from a separation from the European Union, including a reduction in foreign trade and reduced access of U.K. financial institutions to the European Union market. He also said that for the European Union, a separation of the U.K. would have negative economic and political effects. For the United States, he said that uncertainty regarding the potential impact of a separation of the U.K. from the European Union could pose risks to financial markets. He

described recent changes in foreign exchange rates, U.K. sovereign credit-default swap spreads, and other metrics leading up to the U.K. referendum. He also noted steps taken by U.K. financial institutions to prepare for a potential vote to leave the European Union.

Ms. Snyder then explained preparations that banking organizations, including U.S. global systemically important banks, were undertaking in advance of the U.K. referendum. She stated that the Federal Reserve was assessing the implications for those firms of a separation of the U.K. from the European Union, including operational changes. She noted that the firms had been conducting stress tests in relation to potential outcomes, and she described banking organizations' preparations for various contingencies in connection with the referendum. She also noted that the Federal Reserve had coordinated with the U.K. Prudential Regulation Authority.

The Chairperson then turned to Mr. Sheets, who explained that Treasury was coordinating with foreign counterparts in the U.K., Japan, and elsewhere, and was also engaging multilaterally, including with the Group of Seven. He also explained that potential risks arising from a decision by the U.K. to leave the European Union included short-term volatility in foreign exchange, equity, funding, and other markets, as well as political impacts on the European Union.

Members of the Council then asked questions and had a discussion, including regarding Council member agencies' efforts to monitor markets. Council members also discussed precautionary measures that various types of regulated financial entities were taking in anticipation of the U.K. referendum.

2. Federal Reserve Insurance Rulemakings

The Chairperson then introduced the next agenda item, a discussion of rulemakings by the Federal Reserve that would apply to certain insurance companies, including nonbank financial companies that the Council has designated for Federal Reserve supervision and enhanced prudential standards. The Chairperson introduced Mark Van Der Weide, Deputy Director of the Division of Banking Supervision and Regulation at the Federal Reserve, and Tom Sullivan, Associate Director of the Division of Banking Supervision and Regulation at the Federal Reserve.

Mr. Sullivan noted that the Federal Reserve had recently issued an advance notice of proposed rulemaking and a notice of proposed rulemaking that would apply to insurance organizations supervised by the Federal Reserve. He explained that the advance notice of proposed rulemaking would impose capital requirements on insurance firms supervised by the Federal Reserve, and that the notice of proposed rulemaking would impose enhanced prudential standards on insurance organizations that had been designated by the Council for Federal Reserve supervision under section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). He noted that the Federal Reserve supervises 14 firms that are predominantly engaged in insurance, constituting approximately one-fourth of the U.S. insurance industry as measured by assets.

Mr. Sullivan then described the Federal Reserve's advance notice of proposed rulemaking on insurance capital requirements. He noted that this proposal was intended to be insurance-centric, rather than bank-centric; to address the risks at the subject firms; to be standardized; to be U.S.-centric, rather than internationally focused; and to contribute to financial stability. He explained that the Federal Reserve had issued this proposal as an advance notice of proposed rulemaking, rather than as a notice of proposed rulemaking, because while the Federal Reserve has had significant engagement with the public regarding this proposal, it wanted to conduct additional engagement before issuing a notice of proposed rulemaking. Mr. Sullivan then explained that the proposal reflected a bifurcated approach, with a "consolidated approach" that would apply to insurance organizations that the Council has designated for Federal Reserve supervision and enhanced prudential standards, and a "building block approach" for insurance organizations that are subject to Federal Reserve supervision because they own an insured depository institution.

Mr. Sullivan then described the consolidated approach, which would be a consolidated risk-based capital standard based on U.S. generally accepted accounting principles (GAAP). He said that this approach would categorize the consolidated insurance firm's assets and insurance liabilities into risk segments, apply risk factors to the amounts in each segment, and set a minimum ratio of consolidated capital to consolidated risk-weighted assets and insurance liabilities. He noted that initially, this approach would be simple in design and use a relatively small number of risk segments. Mr. Sullivan then described the building block approach, which generally would aggregate existing legal entity capital requirements to calculate combined group capital requirements. He noted that the building block approach would not require GAAP reporting for firms that do not otherwise file GAAP financial statements.

Mr. Sullivan then turned to the Federal Reserve's notice of proposed rulemaking to establish enhanced prudential standards under section 165 of the Dodd-Frank Act for insurance organizations designated by the Council for Federal Reserve supervision. He noted that this proposal addressed corporate governance and liquidity risk management requirements. He explained that the proposal was tailored specifically to the business model of insurance and took a qualitative approach. With respect to corporate governance, he explained that the proposal called for enterprise-wide risk management, including a stand-alone risk committee of the board of directors, a chief risk officer, and a chief actuary who would report to the board of directors' audit committee. He then described the proposal regarding liquidity risk management, which would require subject firms to take steps including meeting internal control requirements regarding liquidity, producing enterprise-wide cash-flow projections, conducting monthly internal liquidity stress testing, and maintaining a buffer of highly liquid assets sufficient to meet stressed net cash outflows over a 90-day horizon. He said that the requirements under this proposal would address stresses similar to those that insurance companies experienced during the recent financial crisis, while recognizing the differences between the businesses of insurance and banking.

Members of the Council then asked questions and had a discussion regarding the Federal Reserve's proposals, including the implementation period for the requirements, if adopted, and how the proposals would address the types of risks that became evident during the financial crisis. Mr. Van Der Weide noted that there would likely be a phase-in period after the

promulgation of the regulations, and that the rules would address the lack of enterprise-wide capital requirements for insurance organizations.

3. Annual Reevaluation of Designated Nonbank Financial Company

The Chairperson then introduced the next agenda item, the annual reevaluation of a nonbank financial company, GE Capital, that the Council had designated in 2013 under section 113 of the Dodd-Frank Act. The Chairperson noted that Mary Jo White, Chair of the SEC, recused herself from participating in the discussion. The Chairperson then introduced Todd Cohen, Senior Policy Advisor at Treasury, and Adam Nicoletti, Policy Analyst at Treasury.

Mr. Cohen explained that under the Dodd-Frank Act, the Council is required at least annually to reevaluate each previous designation and rescind a designation if the Council determines that the company no longer meets the statutory standards for designation. He noted that annual reevaluations are robust and focus on material changes with respect to the companies or the markets in which they operate. Mr. Cohen said that staff had contacted GE Capital in March 2016 to invite the company to meet with staff and submit materials for the annual reevaluation, and he stated that the company had submitted materials requesting a rescission of its designation and had met with the Council's Nonbank Financial Company Designations Committee. He said that staff had also consulted with certain of the company's regulators, including the Federal Reserve, the FDIC, and the U.K. Prudential Regulation Authority.

Mr. Cohen then presented on the analysis and conclusions related to GE Capital, including staff's review of information submitted by the company to the Council during the annual reevaluation. He began by describing GE Capital as of the time of the Council's final designation of the company in 2013. He noted that the company had had over \$500 billion in assets and had extended credit to hundreds of thousands of companies and over 50 million U.S. consumers. He explained that the Council had concluded that the threat to U.S. financial stability posed by GE Capital's material financial distress arose primarily from the exposure and asset liquidation transmission channels. He noted that the company had been the largest issuer of commercial paper in the United States, and had significant lines of credit, long-term debt, and outstanding securitizations. He said that the Council had found that the company posed potential asset liquidation risks due to its short-term funding and large holdings of illiquid investments.

Mr. Cohen then described significant developments at GE Capital since the Council's designation. He noted that the company had implemented five primary changes: substantial divestitures; a reorganization of legal entities; a transformation of its funding model; the guarantee or assumption of GE Capital's debt by its parent, General Electric Corporation; and exiting a number of business lines.

Mr. Cohen then explained the staff analysis regarding the threat the company's material financial distress could pose to U.S. financial stability arising from market participants' exposures to GE Capital. Mr. Nicoletti then described the staff analysis regarding potential asset liquidations by GE Capital in the event of liquidity strains at the company and explained potential risks arising from the company's substitutability and resolvability. Mr. Nicoletti also noted the company's existing regulatory scrutiny. Mr. Cohen explained that the company had addressed many of the

potential risks the Council had identified at the time of the company's designation. Based on the analysis, and in light of the standard for designations under section 113 of the Dodd-Frank Act, staff recommended that the Council rescind its final determination with respect to GE Capital.

Members of the Council then asked questions and had a discussion, including regarding the company's ability to understand the reasons for its designation, the significant changes the company had implemented that resulted in a reduction of the risks it could pose, and the lengthy engagement between the Council and the company with respect to the changes implemented by the company. The Chairperson noted that he expected the Council to hold a notational vote the following week regarding the rescission of the Council's designation of the company. He also noted that if the Council voted to rescind the designation, the Council would publish an explanation of the basis for the rescission.

4. Other Business

The Chairperson then noted the importance of the Council's 2016 annual report, which would be discussed during the open session of the Council meeting, and thanked staff for their work on the report. Mr. Woodall noted his views on the importance of the discussion in the report of pensions-related risks. The Chairperson then noted that the Council had conducted a notational vote approving the annual report.

The Chairperson adjourned the executive session of the meeting at approximately 4:38 P.M. (EDT).

Open Session

The Chairperson called the open session of the meeting of the Council to order at approximately 4:46 P.M. (EDT). The agenda for the open session included (1) a discussion of the Council's 2016 annual report and (2) consideration of, and a vote on, resolutions approving the minutes of the Council's meeting on April 18, 2016.

1. 2016 Annual Report

Before discussing the Council's annual report, the Chairperson remarked that Congress had created the Council to bring together the entire financial regulatory community for the first time to identify and respond to potential financial stability threats. He noted that the Council convenes regularly to monitor market developments and to take action when needed to protect the American people from potential threats to the financial system. He said that, in addition, the Council's nonbank financial company designations authority addresses a key weakness exposed by the financial crisis: that the failure of large, complex, and interconnected companies, without appropriate supervision, could pose risks to financial stability.

The Chairperson said that the Council's approach has been data-driven and deliberative, while providing the public with considerable information regarding the Council's actions and views. He said that the Council has adapted its procedures and engaged broadly with stakeholders over the last few years. He noted that the Council had enhanced its transparency policy, strengthened

its internal governance, approved supplemental procedures to the nonbank financial company designations process, and solicited public comment on potential risks from asset management products and activities.

The Chairperson said that the Council continues to defend itself against legislative proposals that would weaken its ability to do its work. He stated that U.S. markets and financial institutions are constantly evolving, and that the Council must remain alert and responsive to new challenges in order to maintain the safety, soundness, and resiliency of the financial system.

The Chairman stated that the annual report provides transparency regarding the Council's priorities for the coming year. He said that the Council has closely examined a number of potential emerging threats and vulnerabilities in the previous months, including cybersecurity, market structure, and market instability in Europe and emerging markets. He said that the Council's analysis of these and other risks will be priorities in the coming year.

The Chairperson said that the report documents the Council's views of the risks in all corners of the market and explains its assessment of how those risks might be transmitted to the broader financial system, and its recommendations for specific actions to mitigate those risks. He said that, at a time of transition for some members of the Council, this report will be an important roadmap so that new Council members can continue to build on the Council's work. The Chairperson thanked the members of the Council and their staffs for working to prepare the report.

Before closing, the Chairperson recognized Mr. Pinschmidt. The Chairperson said that Mr. Pinschmidt had helped stand up and guide the Council through a critical period, and that he was grateful for Mr. Pinschmidt's leadership.

The Chairperson then introduced Trent Reans, Director of Analysis at Treasury, and Erik Heitfield, Assistant Director of Research and Statistics at the Federal Reserve, to provide a presentation on the major risk themes identified in the report.

Mr. Reans said that, despite increasing market volatility driven in part by concerns about global growth and geopolitical developments, the resiliency and performance of the U.S. financial system and the economy continues to improve. He said that financial stability vulnerabilities remain moderate. However, he said that, as highlighted in the report, continued vigilance is necessary to maintain and improve systemic resiliency in light of potential shocks.

He said that over the last year, member agencies have taken great strides to address a number of structural vulnerabilities that could pose a threat to financial stability. He said these included increasing loss-absorbing capacity and term liquidity standards for global systemically important banks; a comprehensive review of resolution plans for the largest, most complex U.S. bank holding companies and guidance for ways to strengthen such plans as appropriate; international agreement on common supervisory standards for central counterparties (CCPs) operating in Europe and the United States; minimum margin requirements for uncleared swaps in the United States; the finalization of trade reporting and dealer and major participant registration for securities-based swaps; and a targeted interagency data collection and analysis program to

improve transparency in securities financing markets. Mr. Reasons also noted that the Council had continued its analysis of potential risks related to certain asset management products and activities and that, since May 2015, the SEC had issued several proposed rules affecting the asset management industry.

Mr. Reasons said that, notwithstanding these efforts, vulnerabilities and potential emerging threats in the financial system remain. He said that this year's annual report is centered on 12 risk themes. He and Mr. Heitfield then described the annual report's discussion of each of these risk themes, along with corresponding recommendations and member agency efforts.

With respect to cybersecurity, Mr. Reasons said that, over the past year, financial sector organizations and other U.S. businesses experienced numerous cyber incidents, including large-scale data breaches that compromised financial information. He said that malicious cyber activity is likely to continue and that financial sector organizations should be prepared to mitigate the threat posed by cyber attacks that have the potential to destroy critical data and systems and impair operations. He said that Treasury and U.S. regulators have taken steps to prompt financial institutions to mitigate risks to the financial system posed by malicious cyber activities. He said that as cyber threats continue to evolve, strong collaboration and data sharing among financial service companies and government agencies; improvements in technology infrastructure; and adequate plans for responding to and recovering from cyber incidents will remain critical areas of focus.

With respect to asset management, Mr. Reasons said that the asset management industry's increasing significance to financial markets and to the broader economy underscores the need for the Council's consideration of potential risks to U.S. financial stability. He stated that the Council believes that robust liquidity risk management practices for mutual funds along with clear regulatory guidelines for mutual funds with very limited liquidity, enhanced reporting and disclosures, and other measures should be considered. He noted that, with respect to potential risks from the use of leverage, the Council's review suggests a need for further analysis of the activities of hedge funds. With respect to operational risks, securities lending, and resolvability and transition planning, he said that the Council's work going forward will involve additional data collection, further engagement and analysis, and monitoring.

With respect to large, complex, interconnected financial institutions, Mr. Reasons said that although the largest bank holding companies have become larger, some market-based measures indicate they have become less interconnected and less complex since the passage of the Dodd-Frank Act. He added that some credit rating agencies have lowered their assessments of the likelihood of government support for the largest banks in times of stress. He said that the full implementation of the orderly liquidation authority and the phasing in of enhanced prudential standards in the coming years should help reduce remaining perceptions of government support for large, complex, interconnected financial institutions.

With respect to CCPs, Mr. Reasons noted that, following the financial crisis, U.S. and foreign regulators have encouraged or required over-the-counter derivatives and other financial transactions to be cleared through CCPs. He said that these efforts have created greater transparency into the risks related to these transactions but have also concentrated those risks in

CCPs and that therefore CCPs require robust frameworks for risk management if they are to enhance financial stability and increase market resiliency. He said that regulators have taken significant steps in recent years to promote strong risk management and governance practices at systemically important CCPs and remain focused on identifying and mitigating potential threats to financial stability that could stem from the failure of a CCP. He noted that in particular it is important to evaluate whether existing rules and standards are sufficiently robust to mitigate the risk that CCPs could transmit credit and liquidity problems among financial institutions and markets during periods of market stress.

With respect to short-term wholesale funding, Mr. Reasons said that U.S. banks' reliance on this type of funding has decreased since the financial crisis. He said that these developments reflect in part the large growth in retail deposits and adjustments some banks are making to their funding and balance sheet structures in response to enhanced liquidity standards and capital requirements. Mr. Reasons also noted that significant progress has been made in recent years to address structural vulnerabilities in the tri-party repurchase agreement market, in particular reducing market participants' reliance on intraday credit from clearing banks, but that the risk of fire sales of collateral deployed in repurchase agreement transactions remains an important financial stability concern. In addition, Mr. Reasons noted that for money market mutual funds (MMFs), in July 2014, the SEC had adopted structural and operational reforms of MMFs in order to address the risk of investor runs in those funds. He said that the new rules, among other things, require a floating net asset value for institutional prime MMFs.

With respect to reforms of reference rates, Mr. Reasons said that investigations of manipulation of the widely used London interbank offered rate (LIBOR) that surfaced in 2012 highlighted concerns about the integrity of interest rate and other financial benchmarks. He said that incidents of manipulation reduce public confidence in the financial system and create risks to financial stability. He said that administrators of LIBOR and other interest rate benchmarks have made substantial progress toward enhancing oversight, governance, transparency, and accountability. He said that official-sector efforts have focused on developing multiple reference rates, which would allow the rate used in a financial transaction to be more closely tied to the underlying economic purpose, reduce the incentive to manipulate, and enhance stability by having more ready alternatives. He said that concerns have also been raised about other financial benchmarks, including swap rates and foreign exchange rate, that are used for valuing numerous contracts and portfolios of assets. He noted that U.S. regulators continue to cooperate with foreign regulators and official sector bodies in their assessment of market practices for these benchmarks.

Mr. Heitfield then continued the presentation. He explained that data limitations can hamper the ability of market participants and regulators to assess and respond to systemic risks that span institutions, markets, and regulatory jurisdictions. He said that, as the annual report highlights, markets continually evolve and financial transactions cross regulatory jurisdictions, making data sharing and integration among regulators imperative. He said that Council members have made important progress in filling data gaps but that additional work is needed to improve the scope, quality, and accessibility of financial data.

With respect to housing finance reform, Mr. Heitfield noted that the government-sponsored enterprises are now in their eighth year of conservatorship. He said that regulators and supervisors have worked within the constraints of conservatorship to promote greater investment of private capital and improve operational efficiencies but that housing finance reform legislation is needed to promote a more sustainable system that enhances financial stability.

Mr. Heitfield then stated that the Council has long highlighted the possibility that low interest rates may lead some market participants to take on risk by financing longer-term assets with shorter-term liabilities, by increasing leverage, or by shifting toward assets that are less liquid or embed greater credit or market risk. He said that such behavior can contribute to excessive asset valuations in some sectors, leaving investors susceptible to rapid, unexpected price declines. He said that excessive asset price volatility in turn can pose challenges for those market participants that are highly leveraged or hold concentrated and inadequately hedged exposures to affected market segments. He noted that Council member agencies have provided guidance to financial institutions with respect to appropriate levels of risk taking to improve resiliency.

Mr. Heitfield then turned to changes in financial market structure. He said that in a number of markets, the growth of market participants that rely heavily on automated trading systems has helped to expand market access and increase efficiency but that this shift may introduce new vulnerabilities. He said that these include operational risks associated with the high speed and volume of trading activity and potential destabilizing price feedback dynamics arising from interactions among algorithmic trading decisions. He said that increased coordination among regulators is needed to evaluate and address these risks, particularly in circumstances in which economically similar products, such as U.S. Treasury securities and Treasury futures, are traded in different markets and fall under the purview of different regulators.

With respect to financial innovation and the migration of activities, Mr. Heitfield said that new financial products, delivery mechanisms, and business practices offer important opportunities to improve the efficiency of financial intermediation but that such innovations may also embed known risks, such as the credit risk arising from new and untested underwriting models. He said that in other cases, risks may be difficult to foresee until new technologies are developed and deployed at scale. He stated that financial regulators will continue to monitor new and rapidly growing financial products and business practices, even if those products and practices do not constitute a current risk to financial stability.

Last, Mr. Heitfield said that developments in emerging market economies and Europe pose risks to U.S. firms and markets linked to those regions. He said that slowing growth in a number of important economies has put downward pressure on commodities prices and has adversely affected some countries' balance sheets. He said that concerns over the pace of global growth and changes in monetary and currency policies abroad contributed to considerable volatility in U.S. equity, bond, and currency markets in the summer of 2015 and in early 2016. He explained that uncertainty about the U.K. referendum on an exit from the European Union and other challenges to European cohesion continue to weigh on markets. He noted that Council member agencies and market participants should remain vigilant in monitoring and assessing potential risks to financial stability associated with global economic and financial developments.

Mr. Heitfield concluded by saying that the Council will continue to expand its monitoring and response capabilities to address emerging threats to the stability of the U.S. financial system, including those described in the Council's 2016 annual report. He said that the Council and its member agencies will also continue to exercise their respective authorities for oversight of financial firms and markets so that the private sector employs sound financial risk management practices to mitigate potential risks to the financial stability of the United States.

The Chairperson then invited other Council members to offer remarks regarding the 2016 annual report.

Martin Gruenberg, Chairperson of the FDIC, observed that prior to the creation of Council, there was no obligation on the part of the regulatory agencies on an annual basis to look across systemic risks and that there is value in having them do so and publish the results for the benefit of the public and financial markets.

Timothy Massad, Chairman of the CFTC, expressed his support for the annual report. He noted that the CFTC is involved in many of the areas highlighted by the report, and noted that he supported the report's recommendations regarding cybersecurity. As to the report's discussion of market structure, he said that the CFTC is very focused on automated trading and is working on a proposal in that area. He noted that a considerable amount of work has been done to enhance the resilience of CCPs and that more work continues to be performed in that area.

Michael McRaith, Director of the Federal Insurance Office, noted his office's support for the annual report's discussion regarding risk taking in the current low interest rate environment. He stated that this is a significant concern within the insurance sector, and that the report's recommendation regarding risk management in this area applies not only to the banking sector but also to the insurance sector.

Rick Metsger, Chairman of the NCUA, expressed his support for the Council's recommendation in the report for granting examination and enforcement powers to the NCUA and the FHFA to oversee third-party service providers.

The Chairperson concluded by observing that the annual report shows that issues like market structure and cyber security have risen in prominence but that there are a number of other issues that the Council is continuing to monitor.

2. Resolutions Approving the Minutes of the Meeting Held on April 18, 2016

“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on April 18, 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 resolution by unanimous vote.

The Chairperson adjourned the meeting at approximately 5:14 P.M. (EDT).