

Minutes of the Financial Stability Oversight Council

March 2, 2017

PRESENT:

Steven T. Mnuchin, 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)
Michael S. Piwowar, Acting Chairman, Securities and Exchange Commission (SEC)
J. Christopher Giancarlo, Acting 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)
J. Mark McWatters, Acting Chairman, National Credit Union Administration (NCUA)
S. Roy Woodall, Independent Member with Insurance Expertise
Richard Berner, Director, Office of Financial Research (OFR), 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)

Andrew Baukol, Acting Deputy Secretary of the Treasury
Craig Phillips, Counselor to the Secretary
David Lebryk, Fiscal Assistant Secretary
Eric Froman, Principal Deputy Assistant General Counsel (Banking and Finance) and Executive Director of the Council

Board of Governors of the Federal Reserve System

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

Federal Deposit Insurance Corporation

Arthur Murton, Director, Office of Complex Financial Institutions

Securities and Exchange Commission

Richard Grant, Co-Chief of Staff

Commodity Futures Trading Commission

Richard Danker, Special Advisor

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

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)

North Carolina Office of the Commissioner of Banks

Michael Stevens, Senior Vice President, 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

- *Fabio Natalucci, Deputy Assistant Secretary for International Financial Stability and Regulation, Treasury*
- *Clay Berry, Deputy Assistant Secretary for Europe and Eurasia, Treasury*
- *John Fagan, Director, Markets Room, Treasury*

2017 Annual Report

- *Stephen Ledbetter, Director of Policy, Office of the Financial Stability Oversight Council, Treasury*
- *John Driscoll, Economist, Federal Reserve*
- *Dan Fichtler, Policy Advisor, Office of the Financial Stability Oversight Council, Treasury (available for questions)*

Update on Annual Reevaluation of Nonbank Financial Company Designation

- *Stephen Ledbetter, Director of Policy, Office of the Financial Stability Oversight Council, Treasury*
- *Satyam Khanna, Policy Advisor, Office of the Financial Stability Oversight Council, Treasury*
- *Bruce Saul, Senior Insurance Regulatory Policy Analyst, Federal Insurance Office, Treasury*
- *Eric Froman, Principal Deputy Assistant General Counsel (Banking and Finance) and Executive Director of the Council, Treasury (available for questions)*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 1:00 P.M. (EST).

He began by outlining the meeting agenda, which had previously been distributed to the members together with other materials. The agenda for the meeting included the following subjects: (1) an update on market developments; (2) the Council's 2017 annual report; and (3) an update on the annual reevaluation of a nonbank financial company designation.

The Chairperson then stated that he strongly valued the Council as a forum for its members to meet and share information. He also noted that the President had signed an executive order in February on core principles for regulating the financial system, and that the executive order instructed the Treasury Secretary to consult with the heads of Council member agencies and report on a number of areas relating to financial regulation. He said that he would seek input from Council members and stakeholders as part of Treasury's work on the executive order.

1. Update on Market Developments

The Chairperson then introduced the first agenda item, an update on market developments. He introduced Fabio Natalucci, Deputy Assistant Secretary for International Financial Stability and Regulation at Treasury; Clay Berry, Deputy Assistant Secretary for Europe and Eurasia at Treasury; and John Fagan, Director of the Markets Room at Treasury.

Ms. Berry provided an update regarding economic and political developments in Europe. She described forecasts for euro-area growth and inflation, and highlighted weaknesses in the financial sector, particularly the banking sector. With respect to economic vulnerabilities, she noted that in some countries, debt loads and unemployment were high and fiscal policy remained tight. Regarding political risks, she noted that elections were upcoming in several countries, and

that there was a high degree of uncertainty regarding the negotiations and timeline for the United Kingdom's departure from the European Union (Brexit), which could cause market volatility. With respect to Greece, she described the current status of negotiations with the European Union and the International Monetary Fund. She noted that certain payments would be due by Greece in July 2017 to the European Central Bank and other creditors and that the situation merited monitoring, but that Greece did not present an immediate risk to financial markets.

Mr. Natalucci then presented on developments with respect to the Italian banking sector, including recent capital-raising efforts. He described efforts of European and Italian authorities to address weaknesses in the sector. He stated that the sector appeared unlikely to pose a direct financial stability risk to the United States unless risks arose simultaneously through a number of contagion and spillover channels, for example related to Brexit or other European banks.

Mr. Fagan then described recent developments in European financial markets. He explained that market participants were engaging in proactive and tactical risk management with respect to French political developments but that there was no evidence of broader risk aversion. He noted that authorities were monitoring the potential effects that political developments, including elections, could have on markets. He then described recent trends in financial markets including bank stocks, corporate and sovereign yields, and foreign exchange rates.

The Chairperson noted that Treasury would continue to monitor these developments.

2. 2017 Annual Report

The Chairperson then introduced the next agenda item, the Council's 2017 annual report, and introduced Stephen Ledbetter, Director of Policy in the Office of the Financial Stability Oversight Council at Treasury, and John Driscoll, Economist at the Federal Reserve.

Mr. Ledbetter first provided an overview of the process for developing the Council's annual report. He noted that the report includes a signed statement by Council members, recommendations, descriptions of financial and regulatory developments, and a discussion of potential emerging threats and vulnerabilities.

Mr. Driscoll then provided an update regarding staff's progress in developing the report. He noted that the drafting of the report was a collaborative process among all of the Council members. He stated that the next steps in the process would be to seek further input from Council members and member agencies regarding the draft report. He also described certain topics that could be addressed in the report.

Members of the Council then asked questions and had a discussion, including regarding the expected timeline for drafting the report.

3. Update on Annual Reevaluation of Nonbank Financial Company Designation

The Chairperson then introduced the next agenda item, an update on the annual reevaluation of a nonbank financial company that the Council had previously designated under section 113 of the

Dodd-Frank Wall Street Reform and Consumer Protection Act. The Chairperson introduced Stephen Ledbetter, Director of Policy in the Office of the Financial Stability Oversight Council at Treasury; Satyam Khanna, Policy Advisor in the Office of the Financial Stability Oversight Council at Treasury; and Bruce Saul, Senior Insurance Regulatory Policy Analyst in the Federal Insurance Office at Treasury. Mr. Ledbetter summarized the Council's basis for its original designation of the company and explained the Council's process for annually reevaluating each of its previous designations. He noted that as a part of the annual reevaluation process, the Council invites the company to submit information to the Council. He stated that the staff analysis of the company was ongoing and that staff would consult with the company's regulators.

Mr. Saul then provided an overview of the company. He described the company's business, assets, and liabilities. He also described recent developments at the company and the company's written submission to the Council in connection with the Council's annual reevaluation of the designation.

Mr. Khanna then described developments over time at the company with respect to the three transmission channels through which the Council assesses the potential for material financial distress at a nonbank financial company to pose a threat to financial stability. He described factors relating to the exposures of market participants to the company; the potential for forced asset liquidations by the company; and critical functions or services provided by the company. He also described developments related to the company's resolvability and complexity. Mr. Saul then described the existing regulatory scrutiny of the company.

Members of the Council then asked questions and had a discussion, including regarding the company's written submission to the Council, the availability of the information necessary to evaluate the risks the company could pose, the scope of the Council's review, and the company's size and complexity. The Chairperson asked staff to continue their analysis of the company.

The Chairperson adjourned the meeting at approximately 2:15 P.M. (EST).