

Minutes of the Financial Stability Oversight Council

Held May 19, 2015

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) (by telephone)
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) (by telephone)
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)
David Massey, Deputy Securities Administrator, North Carolina Department of the Secretary of State, Securities Division (non-voting member)

GUESTS:

Department of the Treasury

Sarah Bloom Raskin, Deputy Secretary of the Treasury
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

Roberta McInerney, Deputy General Counsel

Securities and Exchange Commission

Lona Nallengara, Chief of Staff

Commodity Futures Trading Commission

Lawranne Stewart, Special Counsel

Consumer Financial Protection Bureau

Steve Antonakes, Deputy Director

Federal Housing Finance Agency

Mario Ugoletti, Special Advisor to the Director

Comptroller of the Currency

Jennifer Kelly, Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner

National Credit Union Administration

John Worth, Chief Economist

Office of the Independent Member with Insurance Expertise

Chris Ledoux, Senior Advisor

Office of Financial Research

Greg Feldberg, Senior Associate Director

Federal Insurance Office

Steven Seitz, Acting Deputy Director (Financial Stability)

Louisiana Office of Financial Institutions

Michael Stevens, Senior Executive Vice President

North Dakota Insurance Department

Mark Sagat, Counsel and Manager, Financial Policy and Legislation, National Association of Insurance Commissioners (executive session only)

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

Christopher Staley, Counsel, North American Securities Administrators Association

PRESENTERS:

2015 Annual Report

- *Trent Reasons, Director of Analysis, Treasury*
- *Daniel Beltran, Senior Economist, Federal Reserve*

Resolution Plans Update

- *Barbara Bouchard, Senior Associate Director, Division of Banking Supervision and Regulation, Federal Reserve*
- *Art Murton, Director, Office of Complex Financial Institutions, FDIC*

Update on International Market Developments

- *Ramin Toloui, Assistant Secretary for International Finance, Treasury*

Council Committee Charters

- *Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council, Treasury*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 1:34 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 executive session of the meeting included the following subjects: (1) the Council's 2015 annual report; (2) an update on international market developments; and (3) a resolution plans update.

1. 2015 Annual Report

The Chairperson introduced the first agenda item, the Council's 2015 annual report to Congress. He noted that the preparation of the report had involved extensive interagency engagement and asked if Council members had any final questions or comments regarding the report. The Chairperson then thanked the staff of Council members and member agencies who had contributed to the preparation of the report.

2. Resolution Plans Update

The Chairperson then introduced the second agenda item, an update related to resolution plans. He introduced Barbara Bouchard, Senior Associate Director of the Division of Banking Supervision and Regulation at the Federal Reserve, and Art Murton, Director of the Office of Complex Financial Institutions at the FDIC, who provided an update on their agencies' efforts to improve the quality of the resolution plans that were submitted by the largest bank holding companies. Title I of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires all bank holding companies (including foreign banks or companies that are treated as bank holding companies pursuant to the International Banking Act of 1978) with total consolidated assets of \$50 billion or more and nonbank financial companies supervised by the Federal Reserve to submit plans periodically for rapid and orderly resolution of the company under the U.S. Bankruptcy Code in the event of material financial distress or failure. The presenters noted that on August 5, 2014, the Federal Reserve and FDIC announced the completion of reviews of the second round of resolution plans that were submitted in 2013 by 11 banking organizations. The Federal Reserve and FDIC had identified shortcomings in the plans, including certain unrealistic or inadequately supported assumptions and a failure to make or identify changes in firm structure and practices that would be necessary to enhance the prospects for orderly resolution. The presenters stated that the Federal Reserve and FDIC had identified five corrective actions for these firms' next resolution plans: (1) establishing a less complex legal structure; (2) developing a holding company structure that supports resolvability; (3) amending financial contracts to provide for a stay on certain early termination rights triggered by insolvency proceedings; (4) ensuring continuity of critical shared services and core business lines during a resolution; and (5) demonstrating operational capabilities for resolution preparedness.

Ms. Bouchard noted that the agencies are working with firms regarding their next annual plans, which must be submitted by July 1, 2015. She noted that many U.S. firms are developing resolution plans using a “single point of entry” strategy, in which a holding company recapitalizes key material entities before a bankruptcy filing and the holding company then enters bankruptcy, while foreign banking organizations cannot rely on a single point of entry approach. She also noted that resolution plans must demonstrate that adequate liquidity and capital will be available to material entities for a resolution. She also stated that the Federal Reserve and FDIC had directed the firms to make significant progress to address the shortcomings in the plans, and that failure to make significant progress may result in determinations by the agencies that the resolution plans are not credible or would not facilitate an orderly resolution under the Bankruptcy Code. The Chairperson then had to briefly leave the meeting. Members of the Council then asked questions and had a discussion, including regarding potential impediments to resolution and the Federal Reserve’s and FDIC’s engagement with firms regarding their upcoming resolution plan submissions.

3. Update on International Market Developments

The Chairperson then introduced Ramin Toloui, Assistant Secretary of the Treasury for International Finance, who presented a brief update on recent international market developments related to Greece. Following the presentation, members of the Council asked questions and had a discussion.

The Chairperson adjourned the executive session of the meeting at approximately 2:10 P.M. (EDT).

Open Session

The Chairperson called the open session of the meeting of the Council to order at approximately 2:24 P.M. (EDT). The agenda for the open session included: (1) the Council’s 2015 annual report; (2) consideration of, and a vote on, proposed charters for the Council’s interagency staff committees; and (3) consideration of, and a vote on, resolutions approving the minutes of the Council’s meetings on March 11, 2015, and April 20, 2015.

The Chairperson began with observations related to the upcoming five-year anniversary of the Dodd-Frank Act, which created the Council. He noted that the Council has served as a forum for the entire financial regulatory community to come together to consider and respond to potential threats to financial stability. He noted that the Council’s recent discussions led to many of the recommendations made in this year’s annual report and will continue to be areas of focus in the coming year. He also noted that the Council relies on its member agencies and also engages regularly with market participants and other stakeholders. As an example, he noted the Council’s request for public comments regarding potential risks from asset management products and activities, and he expressed an expectation that the Council will discuss the preliminary review of these comments in the coming months. The Chairperson explained that the annual report is a critical means for the Council to communicate with the public about its past efforts, current priorities, and plans for future action. Among the risks cited in the 2015 annual report, he highlighted cybersecurity, central counterparties (CCPs), and evolving market structures as

key areas of focus. The Chairperson noted the danger in forgetting the lessons of the financial crisis in light of the reforms over the last five years that have made the system safer, emphasizing the importance of leaving intact the Council's ability to monitor for potential risks. He thanked members of the Council and their staffs for their work on the report and their efforts to make the financial system more resilient.

Debbie Matz, Chairman of the NCUA, expressed her thanks to the Council staff and the staffs of the Council member agencies for their work on the annual report. She urged credit union officials to read the report carefully, in particular its recommendations on cybersecurity, interest rate risk, and asset-liability management. She noted that the Council serves a vital role in identifying risks to financial stability, promoting market discipline, and responding to emerging threats. She noted that it is critically important that NCUA continually reevaluate risks to the credit union system, and stated that participation in the Council is valuable to doing so. She highlighted certain risks and recommendations in this year's annual report as particularly important to the credit union sector, including a recommendation that NCUA be granted examination and enforcement powers to oversee third-party service providers engaged with credit unions. She also noted the dangers of increased risk-taking in a low yield environment.

Timothy Massad, Chairman of the CFTC, spoke next. He highlighted two items from the report of particular interest to the CFTC. First, he noted the importance of the Council's continued focus on CCPs. He stated that the percentage of swap transactions that are cleared has risen from 15 percent in 2007 to 75 percent today, and that this evolution requires CCPs to be strong and resilient. Second, he cited the Council's continued examination of issues involving changes in financial market structure. In particular, he observed that automated trading has increased across all asset classes in the futures market over the last several years and noted that the CFTC had implemented related controls at exchanges and firms.

Richard Cordray, Director of the CFPB, then highlighted the productive nature of the work on the Council's annual report from one year to the next. He noted that last year, the report identified a problem in the mortgage servicing market: Although bank mortgage servicers have a federal prudential regulator, the same could not be said for nonbank mortgage servicers. He noted that the Council had recommended that there be joint action by regulators to consider developing such prudential standards, and the FHFA has since issued proposals regarding this issue. He noted that this progress is a sign of how Council attention can improve safety and soundness.

Mary Jo White, Chair of the SEC, spoke next. She identified cybersecurity as an important issue on which the Council should continue to focus. Chair White added that the SEC had this year adopted Regulation SCI, and that many of its requirements related to the resiliency of systems will become effective in the fall. She also cited evolving market structures as a critical priority for continued attention. Noting the complexity of the issue, she added that the SEC had recently proposed a rule that would improve oversight of broker-dealers engaged in off-exchange proprietary trading.

1. 2015 Annual Report

The Chairperson then asked Trent Reasons, Director of Analysis at Treasury, and Daniel Beltran, Senior Economist at the Federal Reserve Bank of New York, to present on some of the key elements of the annual report. Mr. Reasons and Mr. Beltran provided a summary of the annual report. They also outlined the 11 risk themes of the annual report: (1) cyber threats, including attacks that have the potential to destroy critical data and systems and to impair operations; (2) potential consequences of increased risk-taking in the historically low-yield environment; (3) changes in financial market structure and implications for the provision of liquidity and financial market functioning, including operational risks; (4) the importance of CCPs; (5) spillover effects for U.S. financial stability arising from foreign economic or financial shocks; (6) financial innovation and the immigration of activities in the financial system to less-regulated or unregulated institutions; (7) reliance on short-term wholesale funding and the potential for fire sales of collateral in the tri-party repurchase agreement market; (8) potential risk-taking incentives of large, complex, interconnected financial institutions; (9) the reliance on certain reference rates that may be susceptible to manipulation, such as the London Interbank Offered Rate (LIBOR) and foreign exchange rates used as benchmarks; (10) the need for reform of the housing finance system, including increased private capital and a reduction in the footprint of government-sponsored enterprises; and (11) the importance of improving financial data quality, collection, and sharing.

After the presentation, the Chairperson recognized other Council members who had comments on the report.

Janet Yellen, Chair of the Federal Reserve, began by thanking the staff for their work on the report. She noted that the report documents the continued improvements in the resiliency of the financial sector, while also highlighting vulnerabilities that the Council should continue to monitor. She added that the Federal Reserve would continue to enforce regulatory standards and to assess firms' resolution plans. She noted that financial market practices must be not only transparent and fair, but also sufficiently robust to promote financial stability.

Martin Gruenberg, Chairperson of the FDIC, then underscored the value of the report in synthesizing the insights of all the Council members. He noted that cybersecurity remains a major issue for the Council and the institutions that its member agencies supervise. He added that increased attention on CCPs and the role of money market mutual funds are also significant issues worthy of continued focus.

Thomas Curry, Comptroller of the Currency, noted that the report can serve as a catalyst for Council members to address the identified risks. He noted cybersecurity and CCPs as two key areas of concern.

Michael McRaith, Director of the Federal Insurance Office, highlighted two issues from the report with particular relevance for the insurance industry: cybersecurity and the use of captive reinsurers in the life insurance sector. He endorsed the recommendation of the report for better data collection and greater transparency with respect to captive reinsurance. Adam Hamm, Commissioner of the North Dakota Insurance Department, cited the report's recommendations

regarding cybersecurity as critical, and described ongoing work among state insurance regulators with respect to cybersecurity. Deputy Administrator Massey thanked the staff. Director Watt added that he had, earlier in the day, approved final standards regarding nonbank mortgage servicers.

The Chairperson then presented to the Council the following resolution approving the publication and transmittal to Congress of the Council's 2015 annual report:

“WHEREAS, the Financial Stability Oversight Council (the “Council”) under the provisions of section 112 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “DFA”) is required to annually report to and testify before Congress on: the activities of the Council; significant financial market and regulatory developments, including insurance and accounting regulations and standards, along with assessment of those developments on the stability of the financial system; potential emerging threats to the financial stability of the United States; all determinations made section 113 or title VIII of the DFA, and the basis for such determinations; all recommendations made under section 119 of the DFA and the result of such recommendations; and recommendations to enhance the integrity, efficiency, competitiveness, and stability of the United States financial markets; to promote market discipline; and to maintain investor confidence; and

WHEREAS, staff of the Council Members and their Agencies prepared the attached 2015 annual report pursuant to section 112 of the DFA, and members of the Council have reviewed and commented on the attached report.

NOW THEREFORE, BE IT RESOLVED, that the Council approves the attached report prepared under the provisions of section 112 of the DFA and authorizes the Chairperson, or his designee, to take such action as necessary to formally transmit the attached report to the Congress and to otherwise make it available to the public as the Chairperson deems appropriate; and

BE IT FURTHER RESOLVED, that the Council hereby delegates authority to the Chairperson, or his designee, to make technical, nonsubstantive, or conforming changes to the text of the attached report and to take such other actions as they deem necessary or appropriate to prepare the report for release to the Congress and the public.”

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

2. Consideration of Proposed Charters for the Council's Interagency Staff Committees

The Chairperson introduced the next agenda item, consideration of proposed charters for the Council's interagency staff committees. The Chairperson asked Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council, to present the proposed charters.

Mr. Pinschmidt noted that the proposed charters represent another important step in demonstrating the Council's commitment to build a strong and effective organization. He stated that the Council has a proven track record of reviewing how it conducts its work and responding

to constructive ideas from stakeholders. He noted that within the last year, the Council had enhanced its transparency policy, approved bylaws for the Council's Deputies Committee, solicited public comment on potential risks from asset management products and activities, and adopted supplemental guidance to its nonbank financial company designations process. He noted that the development of staff committee charters, which formalize the purposes, duties and operating structure of each committee, began last year, and that the Council's Deputies Committee had asked the committees to draft charters to provide more transparency and accountability into the work of the Council and foster interaction across the regulatory agencies. He noted that this work culminated in new charters for the Council's Systemic Risk Committee, Data Committee, and the two committees focused on nonbank financial companies and financial market utilities. He also explained that the Deputies Committee was recommending combining the Council's Heightened Prudential Standards Committee and Resolutions Committee into one committee focused on regulatory matters related to financial stability. He concluded by noting that staff recommended approval of the charters.

Mr. Woodall expressed his appreciation for the work of Council staff and the Council members.

The Chairperson then presented the following resolution approving charters for the Council's interagency staff committees:

“WHEREAS, section 111(e)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “DFA”) provides that the Council shall adopt such rules as may be necessary for the conduct of the business of the Council; and

WHEREAS, on November 23, 2010, the Council approved a committee structure that established and described the work of the Council's interagency staff committees, which consisted of the Deputies Committee, the Systemic Risk Committee and its sub-committees, and five standing functional committees (the “2010 Committee Structure”);

WHEREAS, on May 7, 2014, the Council adopted bylaws of the Deputies Committee;

WHEREAS, the staffs of the Council Members and their Agencies have prepared the attached charters for the Data Committee; the Financial Markets Utilities and Payment, Clearing, and Settlement Activities Committee; the Nonbank Financial Companies Designations Committee; the Regulation and Resolution Committee; and the Systemic Risk Committee (collectively, the “Committee Charters”) in order to enhance the ability of the Council to conduct its business; and

WHEREAS, staff from the Council Members and their Agencies recommend that the Council approve and adopt the Committee Charters.

NOW, THEREFORE, BE IT RESOLVED, that the Council hereby approves and adopts the Committee Charters, and that the bylaws of the Deputies Committee and the Committee Charters together supersede the 2010 Committee Structure;

BE IT FURTHER RESOLVED, that the Council hereby authorizes the Committee Charters to be published on the Council's website, in a form and manner acceptable to the Chairperson, or his designee.

BE IT FURTHER RESOLVED, that the Council hereby delegates authority to the Chairperson, or his designee, to make technical, nonsubstantive, or conforming changes to the text of the Committee Charters, and to take such other actions incident and related to the foregoing as may be deemed necessary or appropriate to fulfill the Council's objectives in connection with its publication."

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

3. Resolutions Approving the Minutes of the Meetings held on March 11, 2015 and April 20, 2015.

"BE IT RESOLVED, by the Financial Stability Oversight Council (the "Council"), that the minutes attached hereto of the meeting held on March 11, 2015 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 April 20, 2015 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 by unanimous vote.

The Chairperson adjourned the meeting at approximately 3:18 P.M. (EDT).