

Minutes of the Financial Stability Oversight Council

Held November 13, 2012

PRESENT:

Timothy F. Geithner, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council

Ben Bernanke, Chairman, Board of Governors of the Federal Reserve System (Federal Reserve)

Martin J. Gruenberg, Acting Chairperson, Federal Deposit Insurance Corporation (FDIC)

Mary Schapiro, 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

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)
(*participating by phone*)

John Huff, Director, Missouri Department of Insurance, Financial Institutions, and Professional Registration (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

Mary J. Miller, Under Secretary for Domestic Finance

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, Division of Complex Financial Institutions

Securities and Exchange Commission

Jennifer McHugh, Senior Advisor to the Chairman

Commodity Futures Trading Commission

Dan Berkovitz, General Counsel

Consumer Financial Protection Bureau

Raj Date, Deputy Director

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

Chris Ledoux, Senior Advisor

Federal Reserve Bank of New York

William Dudley, President and Chief Executive Officer

Federal Insurance Office

Matthew McKenney, Senior Insurance Regulatory Policy Analyst

Louisiana Office of Financial Institutions

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

Missouri Department of Insurance, Financial Institutions, and Professional Registration

Mark Sagat, Counsel and Manager, Financial Policy and Legislation, National Association of Insurance Commissioners

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

Joseph Brady, Deputy General Counsel, North American Securities Administrators Association

PRESENTERS:

Macro-environment Overview: Market Structure

- *Robert Cook, Director, Division of Trading and Markets, SEC*
- *Gregg Berman, Senior Policy Advisor, Division of Trading and Markets, SEC*

FSOC Governance Update

- *Amias Gerety, Deputy Assistant Secretary for FSOC, Treasury*

Executive Session

The Chairperson called the executive session of the meeting of the Financial Stability Oversight Council (Council) to order at approximately 1:03 P.M. (EST).

The Chairperson began by outlining the meeting agenda for the executive session, which had been previously distributed to the members together with the meeting agenda for the open session and copies of the resolutions and other materials. The agenda for the executive session of the meeting included the following subjects: (1) a market structure update; (2) a Volcker Rule status update; (3) proposed recommendations for money market mutual fund reform; and (4) a Council governance update.

1. Macro-environment Overview: Market Structure

The Chairperson turned to the first agenda item and asked Robert Cook, Director of the Division of Trading and Markets at the SEC, and Gregg Berman, Senior Policy Advisor, Division of Trading and Markets at the SEC, to give the presentation. The presenters provided an overview of the current equity market structure. They also discussed certain recent events relating to market structure. After the presentation, members of the Council asked questions.

2. Volcker Rule Status Update

The Chairperson introduced the next agenda item regarding an update on the status of the Volcker Rule. Daniel K. Tarullo, Federal Reserve Board Governor, and Mary Schapiro, Chairman of the SEC, provided an update.

3. Proposed Recommendations for Money Market Mutual Fund Reform

The Chairperson then introduced the agenda item regarding proposed recommendations for money market mutual fund (MMF) reform. He said that a vote to approve the proposed recommendations for MMF reform would occur during the open session of the meeting and that with the Council's approval, the proposed recommendations would be released to the public and published in the Federal Register, initiating a 60-day public comment period. Members of the Council then had a discussion.

4. Council Governance

The Chairperson turned to the next agenda item regarding Council governance and asked Amias Gerety, Deputy Assistant Secretary for FSOC at Treasury, to give the presentation. Mr. Gerety provided an overview of recent developments in staffing of the Council's Secretariat and progress made over the past year to establish the office.

The Chairperson adjourned the executive session of the meeting at approximately 2:24 P.M. (EST).

Open Session

The Chairperson called the open session of the meeting of the Council to order at approximately 2:30 P.M. (EST).

The agenda for the open session of the meeting included the following subjects: (1) consideration of, and a vote on, a resolution approving proposed recommendations for money market mutual fund reform; and (2) consideration of, and votes on, resolutions approving the minutes from the Council's meetings held on October 18, 29, and 30, 2012.

1. Proposed Recommendations for Money Market Mutual Fund Reform

The Chairperson began by providing remarks on the proposed recommendations for MMF reform, the approval of which he noted was the central item on the agenda for the meeting. He acknowledged the work of Chairman Schapiro and her colleagues at the SEC who recognized early on that reforms to the MMF industry were essential to the financial stability of the United States, and further stated that the Council's own work on MMF reform owes a great deal to the early work of the SEC staff on the issue. The Chairperson explained that during the fall of 2008, basic vulnerabilities in the design of MMFs helped to accelerate and exacerbate the financial crisis, and the full range of reforms needed to address those vulnerabilities has not yet been achieved. He added that while the SEC took some important initial steps in 2010 to begin improving the resilience of MMFs, the view of Chairman Schapiro and the Council was that the reforms did not go far enough. He noted that in August of this year, Chairman Schapiro announced that a majority of SEC Commissioners did not support soliciting public comments on staff proposals for reforms to MMFs. He further noted that, in response, the Council had been considering a set of recommendations about which to obtain comments from the public. The Chairperson expressed his hope that a public debate on a series of concrete options for reform would provide a basis for the SEC to move forward. He also emphasized that if, at any point, the SEC finds a majority to support a set of recommendations for MMF reform, the Council would suspend its work, to allow the SEC process to play out.

The Chairperson then set forth the Council's three recommendations on which it would seek public comment: (1) requiring a floating net asset value, meaning that MMF shares would not be fixed at \$1; (2) requiring MMFs to have a capital buffer of up to 1 percent of the fund's value to absorb losses, combined with a requirement that a small percentage of MMF shareholders' funds could be redeemed only on a delayed basis; and (3) requiring MMFs to maintain a buffer of up to 3 percent, potentially combined with other measures that could reduce the size of the required buffer if they are deemed to be sufficiently strong. He mentioned that other possible reform options also exist, and that the Council would also seek public comments on such options.

The Chairperson then recognized Chairman Schapiro. Chairman Schapiro stated that she had asked the Council to address structural weaknesses in MMFs that make them vulnerable to runs, and that she was pleased that the Council was taking this important action, in which options could be published and would benefit from public input. She noted that in the fall of 2008, the run on prime MMFs happened in a matter of days and was a core part of the financial crisis that abated only with federal government intervention. She went on to say that the Council had put forth three options for reform, and that she believed that the floating NAV was the purest and simplest option and the most consistent with the SEC's regulatory approach to investment products. She recognized, however, that MMF investors value a stable-NAV product, and she was therefore open to receiving feedback on additional options.

The Chairperson next called on Ben Bernanke, Chairman of the Board of Governors of the Federal Reserve System. Chairman Bernanke began by noting that four year ago, runs on prime MMFs furthered the financial crisis, and that in just five days, there were more than \$300 billion of redemptions. He also said that the 2008 runs were stopped only by extraordinary interventions by the federal government, using powers that are no longer available. He added that the SEC took important steps regarding MMF reform in 2010, but that these were only first steps. Chairman Bernanke also pointed to the withdrawals from MMFs that occurred in the summer of 2011 when concerns about MMFs' exposure to European banks led institutional investors to redeem \$180 billion from prime MMFs over the course of eight weeks. He recognized that while this was a smaller event than 2008, it suggested that the basic run issue relating to MMFs had not been solved. He hoped that the public comments on the Council's proposed recommendations would be helpful to the SEC, which he stated is the agency that should be responsible for making the appropriate MMF rules. In closing, Chairman Bernanke expressed his support for the Council's actions.

The Chairperson then recognized Gary Gensler, Chairman of the Commodity Futures Trading Commission. Chairman Gensler stated that in considering MMF reform, a key consideration would be how policy makers could find an appropriate balance between risks of runs on MMFs and how the alternatives may significantly change the MMF products on which many Americans rely. He noted that changes to MMFs could diminish their use as an investment product and as a source of funding. He also said that while the Council plays an advisory role, the SEC ultimately has authority to set policies in the area of MMF reform. Chairman Gensler closed by saying that he supported the Council's proposal because he believed it was important to obtain broad public input on how policy makers should balance the risk of runs with the effects that the alternatives may have on the utility of MMFs and on the economy.

The Chairperson next called on Martin Gruenberg, Acting Chairperson of the Federal Deposit Insurance Corporation. Acting Chairperson Gruenberg stated that the financial stability issues raised by MMFs have been made apparent and that the Council had a useful tool in Section 120 of the Dodd-Frank Act to make recommendations to the agency with jurisdiction to consider responses to this important issue. He further expressed his support for the Council's efforts.

The Chairperson then presented to the Council the following resolution approving the proposed recommendations regarding MMF reform.

“WHEREAS, section 120 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “DFA”) authorizes the Financial Stability Oversight Council (“Council”) to provide for more stringent regulation of a financial activity by issuing recommendations to the primary financial regulatory agencies to apply new or heightened standards and safeguards for a financial activity or practice conducted by bank holding companies or nonbank financial companies under their respective jurisdictions, if the Council determines that the conduct, scope, nature, size, scale, concentration, or interconnectedness of such activity or practice could create or increase the risk of significant liquidity, credit, or other problems spreading among bank holding companies and nonbank financial companies, financial markets of the United States, or low-income, minority, or underserved communities; and

WHEREAS, under section 120 of the DFA, the Council is required to consult with the primary financial regulatory agencies and provide notice to the public and opportunity for comment for any proposed recommendation that the primary financial regulatory agencies apply new or heightened standards and safeguards for a financial activity or practice; and

WHEREAS, under section 120 of the DFA, the new or heightened standards and safeguards for a financial activity or practice recommended by the Council are required to take costs to long-term economic growth into account and may include prescribing the conduct of the activity or practice in specific ways or prohibiting the activity or practice; and

WHEREAS, the staffs of the Council Members and their Agencies have evaluated the conduct, scope, nature, size, scale, concentration, or interconnectedness of activities and practices of money market mutual funds (“MMFs”) and recommend that the Council propose to determine that such activities and practices could create or increase the risk of significant liquidity, credit, or other problems spreading among bank holding companies and nonbank financial companies, financial markets of the United States, or low-income, minority, or underserved communities; and

WHEREAS, the staffs of the Council Members and their Agencies have prepared the “Proposed Recommendations Regarding Money Market Mutual Fund Reform” attached hereto (the “Proposed Recommendations”); and

WHEREAS, the Council proposes to determine that the activities and practices of MMFs could create or increase the risk of significant liquidity, credit, and other problems spreading among bank holding companies, nonbank financial companies, and U.S. financial markets, due to the conduct and nature of the activities and practices of MMFs that leave them susceptible to destabilizing runs; the size, scale, and concentration of MMFs and the important role they play in the financial markets; and the interconnectedness between MMFs, the financial system, and the broader economy that can act as a channel for the transmission of risks and contagion and curtail the availability of liquidity and short-term credit, and create other problems, such as destabilizing runs; and

WHEREAS, the Council has consulted with the Chairman and staff of the Securities and Exchange Commission, which is the primary financial regulatory agency for MMFs, regarding the Proposed Recommendations; and

WHEREAS, the staffs of the Council Members and their Agencies recommend that the Council approve and publish in the Federal Register and on the Council’s website the Proposed Recommendations.

NOW, THEREFORE, BE IT RESOLVED, that the Council hereby approves the Proposed Recommendations and authorizes the Chairperson, or his designee, to cause the Proposed Recommendations to be published in the Federal Register and on the Council’s website, in a form and manner acceptable to the Chairperson or his designee, and to otherwise make it available to the public as the Chairperson deems appropriate.

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 Proposed Recommendations to ensure that the Council can issue and publish the Proposed Recommendations in the Federal Register, and to take such other actions and issue such other documents incident and related to the foregoing as they may deem necessary or appropriate to fulfill the Council's objectives in connection with its publication."

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

2. Resolutions Approving the Minutes of the Meetings Held on October 18, 29, and 30, 2012

The Chairperson next presented the following three resolutions approving minutes from Council meetings held on October 18, 29, and 30, 2012.

"BE IT RESOLVED, by the Financial Stability Oversight Council (the "Council"), that the minutes attached hereto of the meeting held on October 18, 2012 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 October 29, 2012 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 October 30, 2012 of the Council are hereby approved."

The Chairperson asked for motions to approve each of the three resolutions, which were made and seconded. The Council approved each of the three resolutions 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 2:50 P.M. (EST).