

## Minutes of the Financial Stability Oversight Council

October 16, 2018

### PRESENT:

Steven T. Mnuchin, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)  
Jerome H. Powell, Chairman, Board of Governors of the Federal Reserve System (Federal Reserve)  
Jelena McWilliams, Chairman, Federal Deposit Insurance Corporation (FDIC)  
Jay Clayton, Chairman, Securities and Exchange Commission (SEC)  
J. Christopher Giancarlo, Chairman, Commodity Futures Trading Commission (CFTC)  
J. Michael Mulvaney, Acting Director, Bureau of Consumer Financial Protection (Bureau)  
Melvin Watt, Director, Federal Housing Finance Agency (FHFA)  
Joseph Otting, Comptroller of the Currency, Office of the Comptroller of the Currency (OCC) (by telephone)  
J. Mark McWatters, Chairman, National Credit Union Administration (NCUA)  
Thomas E. Workman, Independent Member with Insurance Expertise  
Ken Phelan, Acting Director, Office of Financial Research (OFR), Department of the Treasury (non-voting member)  
Steven Dreyer, Director, Federal Insurance Office, Department of the Treasury (non-voting member)  
Charles G. Cooper, Commissioner, Texas Department of Banking (non-voting member)  
Eric Cioppa, Superintendent, Maine Bureau of 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)

Craig Phillips, Counselor to the Secretary  
David Malpass, Under Secretary for International Affairs  
Brian Callanan, Deputy General Counsel  
Bimal Patel, Deputy Assistant Secretary for the Council  
Eric Froman, Principal Deputy Assistant General Counsel (Banking and Finance) and Executive Director of the Council  
Stephen Ledbetter, Director of Policy, Office of the Financial Stability Oversight Council

#### Board of Governors of the Federal Reserve System

Randal Quarles, Vice Chairman for Supervision  
Andreas Lehnert, Director, Division of Financial Stability

#### Federal Deposit Insurance Corporation

Travis Hill, Senior Advisor to the Chairman

Securities and Exchange Commission

Elad Roisman, Commissioner

Commodity Futures Trading Commission

Eric Pan, Director, Office of International Affairs

Bureau of Consumer Financial Protection

Brian Johnson, Acting Deputy Director

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

Federal Reserve Bank of New York

John Williams, 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

Texas Department of Banking

James Cooper, Senior Vice President for Policy, Conference of State Bank Supervisors

Maine Bureau of 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:

### *2018 Annual Report*

- *Bimal Patel, Deputy Assistant Secretary for the Council, Treasury*
- *Stephen Ledbetter, Director of Policy, Office of the Financial Stability Oversight Council, Treasury*
- *Adam Minson, Analytical Coordinator, Federal Reserve Bank of New York (available for questions)*

### *Brexit*

- *J. Christopher Giancarlo, Chairman, CFTC*
- *David Malpass, Under Secretary for International Affairs, Treasury*

### *Update on Annual Reevaluation of Nonbank Financial Company Designation*

- *Stephen Ledbetter, Director of Policy, Office of the Financial Stability Oversight Council, Treasury*

### *Alternative Reference Rates*

- *Randal Quarles, Vice Chairman for Supervision, Federal Reserve*
- *Ken Phelan, Acting Director, OFR*

## **Executive Session**

The Chairperson called the executive session of the meeting of the Council to order at approximately 1:20 P.M.

The Chairperson began by welcoming Eric Cioppa, Superintendent of the Maine Bureau of Insurance, to his first Council meeting. The Chairperson then outlined the meeting agenda, which had previously been distributed to the members together with other materials. The agenda for the executive session of the meeting included (1) the Council's 2018 annual report, (2) an update on Brexit, and (3) an update on the annual reevaluation of the designation of a nonbank financial company.

### 1. 2018 Annual Report

The Chairperson then introduced the first agenda item, the Council's 2018 annual report, and turned to Bimal Patel, Deputy Assistant Secretary for the Council at Treasury; Stephen Ledbetter, Director of Policy in the Office of the Financial Stability Oversight Council at Treasury; and Adam Minson, Analytical Coordinator at the Federal Reserve Bank of New York.

Mr. Patel summarized the timeline and process for drafting the annual report. He and Mr. Ledbetter then provided an update regarding the topics and recommendations in the current draft of the report, and they described interagency staff deliberations regarding the draft.

Members of the Council then discussed certain topics to be included in the report.

## 2. Brexit

The Chairperson then introduced the next agenda item, a discussion of the end of the membership of the United Kingdom (U.K.) in the European Union (Brexit). He then turned to J. Christopher Giancarlo, Chairman of the CFTC, for a presentation.

Chairman Giancarlo described potential risks to firms and derivatives markets arising from Brexit. He first noted that a significant amount of derivatives activity is cleared in London. He then described potential risks if the U.K. leaves the European Union on March 29, 2019, without a withdrawal agreement with the European Union (referred to as a “hard Brexit”). He stated that a hard Brexit would have an immediate and significant impact on the global financial system, including U.S. banks. He stated that U.S. non-financial institutions would also be affected, and that the effects could be long-lasting. He noted that recent reports by the Bank of England and the International Monetary Fund also highlighted these risks.

Chairman Giancarlo then described four key risks related to a hard Brexit. First, he stated that if U.K. central counterparties are not recognized by European authorities by the time of Brexit, European firms could be forced to move their outstanding derivatives contracts away from U.K. central counterparties. He noted that this shift could impose substantial costs on market participants. Second, he stated that U.K. firms could lose authorization to continue to service existing bilateral, uncleared swaps and insurance contracts. Third, he stated that firms in the European Union could lose their ability to use U.K.-based exchanges for hedging and risk management and could be forced to find alternative contracts at other exchanges. He noted that affected derivatives markets could include interest rates, energy, and metals. Fourth, he stated that if derivatives contract parties bilaterally amend their contracts due to Brexit, the amendments could potentially be viewed as the creation of new swaps for regulatory purposes, which could create additional challenges for firms.

David Malpass, Under Secretary for International Affairs at Treasury, then described recent international discussions aiming to resolve issues related to Brexit. He also described goals for these discussions and preparations for potential spillovers related to Brexit.

Jay Clayton, Chairman of the SEC, noted that capital markets faced similar Brexit-related issues as those described by Chairman Giancarlo. He also noted that the potential negative effects from Brexit could start to manifest before March. He stated that the SEC was encouraging SEC-registered firms to evaluate the potential effects Brexit could have on them.

## 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, Prudential Financial, Inc. (Prudential), that the Council had previously designated under section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Chairman Clayton recused himself from participating in the discussion, and Elad Roisman, SEC Commissioner, participated in the discussion. The Chairperson then introduced Stephen Ledbetter, Director of Policy in the Office of Financial Stability Oversight Council at Treasury.

Mr. Ledbetter stated that staff of Council members and member agencies had completed their analysis and recommended that the Council rescind its designation of Prudential. He then presented on staff's analysis and conclusions regarding Prudential. He first described the exposures of customers, counterparties, and other market participants to Prudential. He noted that aggregate capital markets exposures to Prudential had not changed significantly, but that the exposures of global systemically important banks and other large bank holding companies had decreased. He also described exposures arising from Prudential's institutional and retail insurance products. Mr. Ledbetter then explained the potential for risks arising from a forced asset liquidation by Prudential in the event of the company's material financial distress. He described the volume of the company's general account liabilities that are available for immediate withdrawal and Prudential's capital markets transactions that could be terminated by counterparties. He explained analyses that had been conducted to evaluate the range of potential outcomes in the event of a forced asset liquidation by Prudential. He stated that these analyses indicated that there was not a significant risk that a forced asset liquidation by Prudential would disrupt trading in key markets or cause significant losses or funding problems for other firms with similar asset holdings.

Mr. Ledbetter then explained that Prudential's market share in its key businesses had been stable since the Council's designation of the company in 2013. He stated that while the company was a leading provider of insurance and retirement products, the provision of these services by Prudential was not critical to the functioning of the U.S. economy or financial system. Mr. Ledbetter then noted that Prudential's legal structure remains complex, but that in light of staff's conclusions regarding its other analyses, the difficulty to resolve Prudential did not lead to a conclusion that Prudential's material financial distress could pose a threat to U.S. financial stability. Finally, Mr. Ledbetter noted that since the Council's designation of Prudential a number of changes had occurred in the company's regulation, including that under New Jersey law, the New Jersey Department of Banking and Insurance is Prudential's group-wide supervisor.

Council members then asked questions and had a discussion, including regarding Prudential's use of derivatives; changes in state insurance regulation for large, internationally active insurance organizations; and potential challenges associated with the failure of Prudential. Mel Watt, Director of the FHFA, stated that he was submitting a separate written statement regarding the statutory standards for the designation of a nonbank financial company.

The Chairperson then presented to the Council the following resolution regarding the reevaluation of the Council's designation of Prudential.

*WHEREAS, section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "DFA") authorizes the Financial Stability Oversight Council (the "Council") to determine that a nonbank financial company shall be supervised by the Board of Governors of the Federal Reserve System (the "Federal Reserve") and shall be subject to enhanced prudential standards if the Council determines that material financial distress at the nonbank financial company, or the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the*

*nonbank financial company, could pose a threat to the financial stability of the United States; and*

*WHEREAS, section 113(d) of the DFA requires the Council not less frequently than annually to reevaluate each determination regarding a nonbank financial company under section 113 and rescind any such determination if the Council determines that the nonbank financial company no longer meets the standards for a determination under section 113; and*

*WHEREAS, the Council issued a final rule and accompanying interpretive guidance (the “Rule and Guidance”), codified at 12 C.F.R. Part 1310, and adopted supplemental procedures on February 4, 2015, that describe the processes and procedures by which the Council will reevaluate each currently effective determination; and*

*WHEREAS, on September 19, 2013, the Council made a final determination, in accordance with the DFA and the Rule and Guidance, that Prudential Financial, Inc. (Prudential) shall be supervised by the Federal Reserve and shall be subject to enhanced prudential standards under the DFA; and*

*WHEREAS, in connection with the Council’s reevaluation of its determination regarding Prudential, the Council provided Prudential an opportunity to submit written materials to the Council to contest the Council’s determination and to meet with the staffs of the Council members and their agencies; and*

*WHEREAS, Prudential submitted materials to the Council in connection with the Council’s reevaluation of its determination regarding Prudential; and*

*WHEREAS, the Council has considered a broad range of information available through existing public and regulatory sources, as well as information submitted to the Council by Prudential; and*

*WHEREAS, based on the reevaluation of the Council’s determination regarding Prudential, the staffs of the Council members and their agencies recommend that the Council rescind its determination regarding Prudential; and*

*WHEREAS, the members of the Council have considered the issues and the record in connection with the following actions.*

*NOW, THEREFORE, BE IT RESOLVED, that, based on the information, considerations, and analysis set forth in the attached “Notice and Explanation of the Basis for the Financial Stability Oversight Council’s Rescission of Its Determination Regarding Prudential Financial, Inc.” (the “Basis”), and on a review of the administrative record, the Council hereby determines that Prudential no longer meets the standards for a determination under section 113 of the DFA and hereby rescinds its determination, pursuant to section 113 of the DFA, that material financial distress at Prudential could pose a threat to the financial stability of the United States and that Prudential shall be supervised by the Federal Reserve and shall be subject to prudential standards, in accordance with Title I of the DFA.*

*BE IT FURTHER RESOLVED, that the Council has considered and hereby approves the Basis and authorizes the Basis to be sent to Prudential.*

*BE IT FURTHER RESOLVED, that the Council hereby authorizes the Basis to be released to the public, with such redactions of confidential, sensitive, or nonpublic information as the Chairperson or his designee 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 Basis.*

The Chairperson asked for a motion to approve the resolution, which was made and seconded. The Council approved the resolution by unanimous vote, with Commissioner Roisman participating in the vote. Eric Cioppa, Superintendent of the Maine Bureau of Insurance, expressed his support for the rescission of the designation.

The Chairperson adjourned the executive session of the meeting at approximately 2:12 P.M.

### **Public Session**

The Chairperson called the open session of the meeting of the Council to order at approximately 2:18 P.M.

The Chairperson then outlined the agenda for the open session, which included (1) alternative reference rates and the collection of data on centrally cleared repurchase agreements; (2) Brexit; and (3) a vote on the minutes of the Council's meeting on September 12, 2018.

#### **1. Alternative Reference Rates and the Collection of Data on Centrally Cleared Repurchase Agreements**

The Chairperson introduced Randal Quarles, Vice Chairman for Supervision at the Federal Reserve, to provide an update on the work of the Alternative Reference Rates Committee (ARRC). Mr. Quarles noted that the Council has warned for several years that the small number of transactions underpinning reference rates like the London Interbank Offered Rate (LIBOR) raise financial stability concerns. He stated that in view of this risk, the Council had recommended that U.S. regulators work with market participants to identify alternative reference rates that are anchored in observable transactions and develop plans to move to these new benchmarks in a smooth and orderly transition. Mr. Quarles then described the creation in 2014 of the ARRC, which was asked to identify a robust, transactions-based alternative to U.S. dollar LIBOR and develop a plan that would encourage the voluntary use of its recommended rate.

Mr. Quarles stated that the ARRC had selected the Secured Overnight Financing Rate (SOFR) as its recommended alternative to U.S. dollar LIBOR. He explained that in making this recommendation, the ARRC had placed a high weight on selecting the most robust rate possible. He said that SOFR represents the largest rates market at a single maturity in the world, with an

average of more than \$750 billion of daily transactions underlying it, reflecting an accurate measure of the private sector risk-free rate and a market that performed stably even during the financial crisis.

Mr. Quarles cautioned that even as the ARRC worked to make its selection, the risks to LIBOR that the Council had warned of became much more material. He noted that last year, the Chief Executive Officer of the United Kingdom's Financial Conduct Authority (FCA) announced that he had reached an agreement with the remaining LIBOR panel banks to continue their submissions on a voluntary basis until the end of 2021. Mr. Quarles noted that despite encouragement from the FCA, two banks had left the U.S. dollar panel in recent years. He said that it is far from clear that enough banks will continue submitting to allow for LIBOR's publication. He stated that even if LIBOR continues to be published, the FCA is required to judge whether it is reliably and accurately representative. If the FCA finds that it is not, Mr. Quarles said that European Union-supervised entities would then be prohibited from using LIBOR in new swap and debt transactions, which would severely diminish LIBOR's liquidity and usefulness.

Mr. Quarles said that many participants in cash markets referencing LIBOR have come to understand that business as usual may no longer be workable. He stated that with the start of SOFR's production six months ago, a wide range of market participants had worked to (1) steadily build liquidity in SOFR futures; (2) offer clearing of SOFR swaps; (3) add SOFR to the list of hedge accounting benchmarks; and (4) issue \$10 billion in floating rate debt referencing SOFR.

Mr. Quarles noted that some market participants will likely choose to continue to use LIBOR despite these risks. He said that it will be crucial that they incorporate safer contractual fallback language. He noted that the language in most legacy contracts does not envision and does not allow for economically appropriate terms in the event that LIBOR permanently stops publication. He stated that ARRC has launched two consultations that will enable it to make recommendations for safer language for cash products and that several more consultations are in process. He stated that ISDA is also consulting on safer language for derivatives, but that ISDA should offer a consultation on U.S. dollar LIBOR next year in order to give market participants time to prepare.

Mr. Quarles said that the Council had supported the ARRC's work, and that it was important for the Council to continue to do so. He also noted that the LIBOR transition raises a number of questions related to banking regulations, such as swap margin requirements and market risk rules, that should be considered as regulators work with the private sector in seeking a smooth transition. He said that the Federal Reserve and the CFTC's Market Risk Advisory Committee are working to address these issues. He said that federal and state regulators are also working through the Federal Financial Institutions Examination Council to coordinate efforts on communication and education of supervised financial institutions and examiners about what is happening to LIBOR and its potential effect on institutions and financial products.

Mr. Quarles said that the Federal Reserve encourages banks to understand the upcoming LIBOR transition and how it will affect them. He said that although the Federal Reserve was not



currently planning to follow regulators in the United Kingdom by sending formal letters to the chief executive officers of its supervised entities, supervisory teams at large firms were including LIBOR in their routine monitoring discussions. He also stated that supervisory teams at regional and community banks had been advised to engage with firms regarding LIBOR. He said that as the LIBOR transition date approaches, the Federal Reserve will expect to see an appropriate level of preparedness at the banks it supervises and will ask further questions about firms' readiness to adopt the new industry standards on reference rates.

Mr. Quarles concluded by saying that with the active engagement of market participants and the continued support of Council members, he believes that the ARRC's plans will materially lessen the risks to the U.S. financial system related to LIBOR, and that the next four years will be crucial in ensuring that this is the case.

Following Mr. Quarles's presentation, Ken Phelan, Acting Director of the OFR, presented on a proposed data collection by the OFR and the proposed use of the data to support the calculation of reference rates.

Mr. Phelan noted that the OFR had published a notice of proposed rulemaking in July 2018 requesting public comment on a proposed rule that would establish a data collection covering centrally cleared transactions in the U.S. market for repurchase agreements (repos). He noted that the OFR had consulted with the Council twice previously on the schedule for the proposed collection, in September 2016 and November 2017. He stated that under the proposed rule, the OFR would collect daily transactional information on general- and specific-collateral repos cleared by central counterparties. He said that the two primary purposes of the proposed collection are to (1) enhance the ability of the Council and the OFR to identify and monitor risks to U.S. financial stability; and (2) support the calculation of alternative reference rates, currently the SOFR and the Broad General Collateral Rate (BGCR). Mr. Phelan then described public comments on the proposed rule, noting that all the public comments supported OFR issuing a rule to collect this data. He stated that the OFR was reviewing the feedback and expected to issue a final rule in the coming months.

Mr. Phelan said that under the proposal, the Federal Reserve Bank of New York would act as the OFR's collection agent and would collect the data directly from reporting firms on behalf of the OFR. He noted that Federal Reserve Bank of New York currently publishes the SOFR and BGCR in cooperation with the OFR, relying on voluntary data submissions. He stated that the OFR proposed sharing the data collected under the proposed rule with the Federal Reserve Bank of New York, apart from its role as the OFR's collection agent, to enable the Federal Reserve Bank of New York to calculate reference rates using the collected data. Mr. Phelan said that as a result, the proposed collection would provide an ongoing source of data to the Federal Reserve Bank of New York on U.S. cleared repo transactions for the SOFR and BGCR, and that it would also expand the fields and transactions available for rate production and monitoring. He stated that the OFR anticipates that after a mandatory collection based on the OFR's rule is in place, the Federal Reserve Bank of New York would discontinue its existing limited voluntary data feed and rely instead on the more expansive mandatory collection under the OFR's rule.

Mr. Phelan noted that the Dodd-Frank Act generally requires the Council's approval before the OFR shares data and information with any entity other than the Council and its member

agencies. As a result, he stated that the OFR was requesting the Council's authorization to share the data collected under the final rule with the Federal Reserve Bank of New York. He noted that the data shared with the Federal Reserve Bank of New York is required to be maintained with at least the same level of security used by the OFR.

After Mr. Phelan completed his remarks, the Chairperson highlighted two points regarding the work of the ARRC and the development of SOFR. First, he said that the goal is a market-led transition away from LIBOR. He noted that the LIBOR issue affects a broad range of market participants and that the Council was looking to the market to coalesce around constructive solutions. Second, he said that while the end of 2021 is a frequently cited date in the LIBOR transition discussion, market participants should not wait to think about transition. The Chairperson noted that the sooner market participants act, the easier the transition will be.

The Chairperson then invited Jerome Powell, the Chairman of the Federal Reserve, to comment on the presentations.

Mr. Powell expressed his support for the work of the ARRC in organizing the transition to SOFR. He also expressed support for both the OFR's proposed rule on data collection, which Mr. Powell said would help support the transition to SOFR, and for the OFR's proposal to share data collected under the proposed rule with the Federal Reserve Bank of New York.

The Chairperson then presented to the Council the following resolution approving the sharing of certain data and information by the Office of Financial Research.

*WHEREAS, under section 153(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the purposes and duties of the Office of Financial Research (the "OFR") include to support the Financial Stability Oversight Council (the "Council") in fulfilling the purposes and duties of the Council, and to support member agencies, by collecting data on behalf of the Council, standardizing the types and formats of data reported and collected, and performing other related services; and*

*WHEREAS, under section 153(b) of the Dodd-Frank Act, the OFR may not share data and information with any individual or entity except the Council, member agencies, and the Bureau of Economic Analysis without the permission of the Council; and*

*WHEREAS, the OFR has issued for public comment a proposed rule pursuant to which the OFR would collect data covering centrally cleared transactions in the U.S. repurchase agreement market (the "Repo Data"); and*

*WHEREAS, the primary purposes of the OFR's proposed rule are to (1) enhance the ability of the Council and the OFR to identify and monitor risks to financial stability and (2) support the calculation of certain alternative reference rates by the Federal Reserve Bank of New York (the "FRBNY"); and*

*WHEREAS, the Council has previously made recommendations related to the importance of a smooth transition to alternative reference rates and regarding the collection of data on securities financing transactions.*

*NOW, THEREFORE, BE IT RESOLVED, that the Council hereby authorizes the OFR to share with the FRBNY any Repo Data collected under the final rule the OFR adopts regarding the collection of the Repo Data, provided that such Repo Data shall be maintained by the FRBNY with at least the same level of security as is used by the OFR; and*

*BE IT FURTHER RESOLVED, that the Council hereby delegates authority to the Chairperson, or his designee, to take such other actions incident and related to the foregoing as the Chairperson, or his designee, may deem necessary or appropriate to fulfill the Council's objectives in connection with the foregoing.*

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

## 2. Brexit

The Chairperson then introduced David Malpass, Under Secretary for International Affairs at Treasury, for a presentation on Brexit.

Mr. Malpass described potential risks to economic activity and financial stability arising from Brexit. He stated that U.S. representatives were hopeful that U.K. and European Union authorities would successfully negotiate a withdrawal agreement, which would provide a transition period and an orderly exit of the U.K. from the European Union. Mr. Malpass noted that if a withdrawal agreement is not concluded, it would precipitate a so-called hard Brexit scenario. He said that Treasury and financial regulators were working with counterparts in the U.K. and European Union on a variety of measures to encourage a smooth transition.

Mr. Malpass then outlined three economic goals of the U.S. government in connection with Brexit: (1) ensuring that potential spillover effects, particularly in the event of a hard Brexit, are mitigated; (2) preserving deep and liquid global capital markets; and (3) supporting Europe's efforts to deepen its capital markets and foster a deeper economic relationship between the European Union and the U.K., to mitigate potential market fragmentation after Brexit.

Mr. Malpass then outlined three main concerns in relation to Brexit: (1) the potential for a "cliff edge" effect if there is no transition period; (2) how to preserve market access if there is a loss of passporting authorizations, or if there is a challenge to equivalence in outcomes-based regulatory assessments; and (3) ensuring contract continuity, particularly regarding derivatives contracts, which may require a public-sector solution.

Mr. Malpass concluded by noting that even if the U.K. and European Union secure a timely withdrawal agreement with a transition period, uncertainties remain in the Brexit process, and that Treasury and the Council would continue to engage in monitoring.

The Chairperson then invited other members of the Council to comment. Chairman Powell noted that the Federal Reserve holds regular discussions with counterparts in the U.K. and European Union to minimize potential economic and financial markets disruptions of Brexit. He stated that Brexit is a complicated process, and that it is difficult to quantify its economic impact, but that a disorderly Brexit would have spillover effects in the United States. He stated that U.S.

global systemically important banks with material U.K. exposures are implementing business continuity plans in response to Brexit, under the assumption that they may lose their passporting rights to the European Union. He noted that a slowdown in the European economy following Brexit could indirectly affect U.S. banks and their profitability. He stated that the Federal Reserve was also monitoring legal developments that may affect the financial sector, such as the continuity of over-the-counter derivatives contracts. He noted that due to the uncertainty surrounding Brexit, the Federal Reserve would continue to support strong capital levels at U.S. banks and strong risk management standards at critical financial market infrastructures.

Chairman Giancarlo then expressed concern that a hard Brexit would have a severe, negative impact on U.S. banks, which he said account for 40 to 60 percent of activity in global derivatives markets. He highlighted four concerns in the case of a hard Brexit: (1) derivatives central counterparties based in the U.K. being forced to offboard firms from the remaining 27 European Union member states (EU 27) and move their clearing away from the U.K., which could occur as much as 90 days before a final Brexit date; (2) U.K. firms losing authorization to service uncleared over-the-counter contracts with EU 27 counterparties; (3) EU 27 firms losing the ability to use U.K. exchanges for hedging and risk management; and (4) the impact on legacy swap contracts. He stated that Brexit raises a number of financial stability risks, which arise from moving potentially trillions of dollars of notional amount of swaps exposures across central counterparties in Europe in a matter of weeks. He stated that these risks include the potential for fire sales, with non-EU 27 financial institutions experiencing difficulties absorbing EU 27 open positions, and the potential for bank distress arising from the write-down of swaps positions.

Finally, Jay Clayton, Chairman of the Securities and Exchange Commission, stated that the material consequences of Brexit could begin to appear before March 2019. He noted that firms may choose to move operations or novate contracts in anticipation of Brexit. He highlighted the SEC's activities related to Brexit, including monitoring public companies' disclosures and financial services firms' activities as they evaluate whether they can continue to service their customers.

### 3. Resolution Approving the Minutes of the Meeting Held on September 12, 2018

*BE IT RESOLVED, by the Financial Stability Oversight Council (the "Council"), that the minutes attached hereto of the meeting held on September 12, 2018 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 2:46 P.M.