Views of the Director of the Federal Housing Finance Agency

Under Section 113 of the Dodd-Frank Act, the Council may determine that a nonbank financial company will be supervised by the Federal Reserve Board of Governors and be subject to enhanced prudential standards if it determines that:

1. Material financial distress at the nonbank financial company could pose a threat to the financial stability of the United States; or
2. The nature, scope, size, scale, concentration, interconnectedness, or mix of activities of the nonbank financial company could pose a threat to the financial stability of the United States.

The Council may subject a nonbank financial company to Board of Governors supervision and prudential standards if either of these two statutory standards is met.

As the Council’s decision to rescind Prudential’s designation clearly states: “The Council made its final determination with respect to Prudential under the first standard for a determination under section 113(a) of the Dodd-Frank Act—that material financial distress at Prudential could pose a threat to U.S. financial stability.” Consequently, no evaluation of whether Prudential meets the criteria in the second standard has ever been made.

I concur with the Council’s determination that Prudential no longer meets the standard for designation under the first criteria and therefore should be de-designated under that criteria. However, I continue to be concerned that no independent evaluation has been made by FSOC under the second standard. As I said in my AIG dissent, “Congress obviously intended for the second standard to be regarded as on equal legal footing with the first standard and understood that it would be possible for a company to be ‘too big to fail’ even if it passed the test set out in the first standard and was not experiencing financial distress.”

Because I believe Prudential would also qualify for de-designation under the second standard if it were evaluated under that standard, I will vote today to de-designate Prudential. However, I believe it is important for me to reiterate in writing the view I have previously expressed that I believe FSOC has an obligation to look independently at both standards in the process of deciding whether to designate or to de-designation a company in order to fairly comply with the provisions of Section 113 of the Dodd-Frank Act.

This 16th day of October, 2018.

Respectfully submitted,

Melvin L. Watt,
Director, Federal Housing Finance Agency