

Minutes of the Financial Stability Oversight Council

Held September 22, 2016

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)
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) (by telephone)
Rick Metsger, Chairman, National Credit Union Administration (NCUA) (by telephone)
Roy Woodall, Independent Member with Insurance Expertise
Richard Berner, Director, Office of Financial Research (OFR), Department of the Treasury (non-voting member)
Michael McRaith, Director, Federal Insurance Office, 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)

Sarah Bloom Raskin, Deputy Secretary of the Treasury
Antonio Weiss, Counselor to the Secretary
Jonah Crane, Deputy Assistant Secretary for 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 Tarullo, Governor
Nellie Liang, Director, Division of Financial Stability

Federal Deposit Insurance Corporation

Jason Cave, Special Advisor to the Chairman for Supervisory Matters

Securities and Exchange Commission
Nathaniel Stankard, Deputy Chief of Staff

Commodity Futures Trading Commission
Lawranne Stewart, Special Counsel

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
Diane Fraser, 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, Counsel and Manager, 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:

OFR Proposed Permanent Collection of Repurchase Agreement Data

- *Matthew McCormick, Research Economist, OFR*
- *Patrick Bittner, Senior Attorney-Advisor, OFR*
- *Matthew Reed, Chief Counsel, OFR (available for questions)*

Update on Review of Asset Management Products and Activities

- *Charles Cohen, Deputy Director of Analysis, Treasury*
- *Stephen Ledbetter, Director of Policy, Treasury (available for questions)*

Fiscal Year 2017 Council Budget

- *Jonah Crane, Deputy Assistant Secretary for the Council, Treasury*
- *Thomas Peddicord, Deputy Director, Division of Finance, FDIC (available for questions)*
- *Mark Stevens, Director of Operations for the Council, Treasury (available for questions)*

Shared National Credit Program Update

- *Kathy Gouldie, Credit & Consumer Risk Team Lead, Large Bank Supervision, OCC*

Update on Developments Regarding the Resiliency, Recovery, and Resolution of Central Counterparties

- *Jennifer Lucier, Deputy Associate Director, Division of Reserve Bank Operations and Payment Systems, Federal Reserve*
- *Art Murton, Director, Office of Complex Financial Institutions, FDIC (available for questions)*
- *Christian Sabella, Associate Director, Office of Clearing and Settlement, Division of Trading and Markets, SEC (available for questions)*
- *Robert Wasserman, Chief Counsel, Division of Clearing and Risk, CFTC (available for questions)*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 4:06 P.M. (EDT). He began by welcoming Ray Grace, Commissioner of the North Carolina Office of the Commissioner of Banks, and Peter Hartt, Director of the Insurance Division of the New Jersey Department of Banking & Insurance, to the Council. He then 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 meeting included the following subjects: (1) OFR's proposed permanent collection of repurchase agreement data; (2) an update on the Council's review of asset management products and activities; (3) consideration of, and a vote on, a resolution approving the Council's fiscal year 2017 budget; (4) an update on the Shared National Credit Program; (5) an update on developments regarding the resiliency, recovery, and resolution of central counterparties; and (6) consideration of, and a vote on, a resolution approving the minutes of the Council's meeting on July 18, 2016.

1. OFR Proposed Permanent Collection of Repurchase Agreement Data

The Chairperson introduced the first agenda item, a proposal by the OFR to establish a permanent collection of bilateral repurchase agreement data. The Chairperson introduced Matthew McCormick, Research Economist at the OFR, and Patrick Bittner, Senior Attorney-Advisor at the OFR. Mr. McCormick stated that the OFR intends to issue its first data collection rule, pursuant to which the OFR would collect data on bilateral repurchase agreements and certain securities lending activity. He noted that the Dodd-Frank Wall Street Reform and Consumer Protection Act requires the OFR to consult with the Council regarding the OFR's collection of financial transaction data and position data from financial companies. He then explained the purposes of the potential proposed data collection, including for use in monitoring risks to financial stability and supporting other FSOC member agencies. He also described two pilot programs for the collection of certain bilateral repurchase agreement and securities lending data that had been conducted jointly by the OFR, the Federal Reserve, and the SEC. He noted that the results of the pilot programs had been publicly released earlier in 2016. He then described the types of data the OFR intended to collect, including the scope of the collection and potential timing of its implementation.

Members of the Council then asked questions and had a discussion, including regarding the importance of collecting and sharing data regarding bilateral repurchase agreements and the size and characteristics of this market.

2. Update on Review of Asset Management Products and Activities

The Chairperson then introduced the next agenda item, an update on the review of potential risks to financial stability arising from asset management products and activities. He introduced Charles Cohen, Deputy Director of Analysis at Treasury, and noted that Stephen Ledbetter, Director of Policy at Treasury, was available for questions. Before the presentation, the Chairperson acknowledged the collaboration among the staff on the Council's interagency hedge fund working group and noted that the working group's analysis should be conducted within the framework of potential risks to financial stability, including by considering risk hypotheses and metrics to test those hypotheses. The Chairperson then turned to Mr. Cohen, who provided an update regarding the working group's ongoing efforts. Mr. Cohen explained that the working group's mandate was to evaluate potential risks to financial stability from the use of leverage; assess existing data regarding leverage and consider how those data might be augmented; and consider enhancements to measurements of leverage. He also noted that the working group would report on consolidated findings to the Council by the fourth quarter of 2016. He described preliminary analyses conducted by the working group regarding the primary sources of leverage used by large, highly leveraged hedge funds. He then explained that the working group was evaluating two primary ways in which the use of leverage by hedge funds could create risks to financial stability: either through market disruptions arising from forced asset sales or through counterparty risk transmission. He stated that the working group was working to identify and refine analytical tools that could be used to better understand these potential risks; to analyze existing data, such as data reported on the SEC's Form PF; and to identify data limitations or data gaps.

Members of the Council then asked questions and had a discussion, including regarding data gaps, the importance of refining metrics for assessing potential risks to financial stability, trends in hedge funds' use of leverage, and the importance of data to the hedge fund working group's analysis. The Chairperson stated that the working group's next update to the Council should include a public update, any results of the working group's analysis, and any recommendations regarding data sharing or data gaps.

3. Fiscal Year 2017 Council Budget

The Chairperson introduced the next agenda item, the Council's fiscal year 2017 budget. He called on Jonah Crane, Deputy Assistant Secretary for the Council at Treasury, to give a presentation. Mr. Crane reported on the Council's proposed budget for fiscal year 2017, which had been distributed to the Council in August 2016 in accordance with the Council's bylaws. The fiscal year 2017 budget includes \$8.2 million budgeted for expenses of the Council Secretariat at Treasury and the Office of the Independent Member with Insurance Expertise and \$5.1 million for the reimbursement of certain implementation expenses of the FDIC relating to its responsibilities under Title II of the Dodd-Frank Act. Mr. Crane noted that the Council's proposed budget for fiscal year 2017 included information technology and office space alteration expenses that had been deferred from fiscal year 2016. He also noted that after the Council's approval of the budget, it would be made available on the Council's website. The Chairperson then presented to the Council the following resolution approving the Council's budget for fiscal year 2017.

“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the Council’s budget for fiscal year 2017 attached hereto is 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.

4. Shared National Credit Program Update

The Chairperson then introduced the next agenda item, an update from the OCC on the most recent review of the Shared National Credit Program, which assesses credit risk and trends as well as risk management practices associated with the largest and most complex credits shared by multiple regulated financial institutions. He introduced Kathy Gouldie, Credit & Consumer Risk Team Lead for Large Bank Supervision at the OCC. Ms. Gouldie noted that the Shared National Credit Program enables the federal banking agencies to have a unified approach to reviews of shared credit risks. She noted that the program had moved to a semi-annual examination schedule in 2016, rather than the previous annual examinations, and stated that reviews would now be conducted in the first and third quarters of the calendar year. She then described the results of the February 2016 review, which were publicly announced in July 2016. She stated that the total Shared National Credit portfolio totaled \$4.1 trillion, compared to \$3.91 trillion in 2015, and that non-pass loans totaled 10.3 percent of the portfolio, compared with 9.5 percent in the previous examination. She described the examination's results regarding categories such as leveraged lending commitments and oil and gas loans, which represented 23.7 percent and 12.3 percent, respectively, of the total Shared National Credit portfolio. In

particular, she noted that the risk profile of the leveraged lending portfolio remains high, and that the decline in energy prices had led to increased credit risk associated with commitments to borrowers in the oil and gas sector.

Members of the Council then asked questions and had a discussion, including regarding derivatives activity, commercial real estate loans, and trends in non-pass loans.

5. Update on Developments Regarding the Resiliency, Recovery, and Resolution of Central Counterparties

The Chairperson then introduced the next agenda item, an update on developments regarding the resiliency, recovery, and resolution of central counterparties (CCPs). He introduced Jennifer Lucier, Deputy Associate Director of the Division of Reserve Bank Operations and Payment Systems at the Federal Reserve. The Chairperson noted that Art Murton, Director of the Office of Complex Financial Institutions at the FDIC; Christian Sabella, Associate Director of the Office of Clearing and Settlement of the Division of Trading and Markets at the SEC; and Robert Wasserman, Chief Counsel of the Division of Clearing and Risk at the CFTC, were available for questions. Ms. Lucier began by noting that U.S. agencies actively participate in international efforts regarding the resolution and recovery of CCPs through groups including the Committee on Payments and Market Infrastructures (CPMI), the International Organization of Securities Commissions (IOSCO), and the Financial Stability Board (FSB). She then provided an overview of the CCP workplan that was issued in April 2015 by the chairs of certain relevant international groups, which focused on resilience, recovery, and resolution of CCPs and set out broad principles for international coordination. She described key milestones of the international work, including the publication in August 2016 of three reports: a consultative report on resilience and recovery of CCPs; a report on the financial risk management and recovery practices of 10 derivatives CCPs; and a consultative discussion note on CCP resolution planning. She further noted that CPMI and IOSCO have advanced three workstreams regarding CCPs: the consultative report on resilience and recovery of CCPs; monitoring of CCPs' financial risk management and recovery practices for implementation of the Principles of Financial Market Infrastructures (standards published by the Committee on Payment and Settlement Systems and IOSCO); and a framework for supervisory stress testing of CCPs. She also explained ongoing efforts of the FSB regarding CCP resolution.

Members of the Council then asked questions and had a discussion, including regarding the stress testing of CCPs and the collection of data related to CCPs' resiliency, recovery, and resolution.

6. Resolution Approving the Minutes of the Meeting Held on July 18, 2016

“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on July 18, 2016 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 resolutions without objection.

7. Other Business

Council members noted recent enforcement actions against Wells Fargo and had a discussion, including regarding the importance of taking seriously consumer financial protection issues.

The Chairperson adjourned the meeting at approximately 5:48 P.M. (EDT).