

Minutes of the Financial Stability Oversight Council

June 15, 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, Chairperson, Federal Deposit Insurance Corporation (FDIC)
J. Christopher Giancarlo, Chairman, Commodity Futures Trading Commission (CFTC)
Melvin Watt, Director, Federal Housing Finance Agency (FHFA)
Joseph Otting, Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)
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)
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) (by telephone)

GUESTS:

Department of the Treasury (Treasury)

Craig Phillips, Counselor to the Secretary
Brent McIntosh, General Counsel
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
Mark Van Der Weide, General Counsel

Federal Deposit Insurance Corporation

Jason Cave, Special Advisor to the Chairman for Supervisory Matters

Securities and Exchange Commission

Michael Piwowar, Commissioner
Richard Grant, Counsel to Commissioner Michael Piwowar

Commodity Futures Trading Commission

Michael Gill, Chief of Staff

Bureau of Consumer Financial Protection

Brian Johnson, Senior Advisor to the Acting 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

William Dudley, President and Chief Executive Officer (by telephone)

Federal Reserve Bank of San Francisco

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

North Carolina Office of the Commissioner of Banks

Margaret Liu, Senior Vice President and Deputy General Counsel, Conference of State Bank Supervisors

Maryland Office of the Attorney General, Securities Division

Zachary Knepper, Deputy General Counsel, North American Securities Administrators Association

PRESENTERS:

Interpretive Guidance on Nonbank Financial Company Designations

- *Bimal Patel, Deputy Assistant Secretary for the Council, Treasury*
- *Stephen Ledbetter, Director of Policy, Office of the Financial Stability Oversight Council, Treasury*

Application to the Council Under Section 117 of the Dodd-Frank Act

- *Bimal Patel, Deputy Assistant Secretary for the Council, Treasury*
- *Stephen Ledbetter, Director of Policy, Office of the Financial Stability Oversight Council, Treasury*

Update on Annual Reevaluation of Nonbank Financial Company Designation

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

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 1:32 P.M.

The Chairperson began by welcoming Jelena McWilliams, Chairman of the FDIC, to her first meeting of the Council. The Chairperson also welcomed John Williams, President and Chief Executive Officer of the Federal Reserve Bank of San Francisco and the incoming President and Chief Executive Officer of the Federal Reserve Bank of New York, to his new role, and the Chairperson thanked William Dudley, President and Chief Executive Officer of the Federal Reserve Bank of New York for his services. 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 interpretive guidance on nonbank financial company designations, (2) a vote on the minutes of the Council's meeting on April 12, 2018, (3) an application to the Council under section 117 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), and (4) an update on the annual reevaluation of the designation of a nonbank financial company.

1. Interpretive Guidance on Nonbank Financial Company Designations

The Chairperson then introduced the first agenda item, a discussion of the Council's interpretive guidance on nonbank financial company designations under section 113 of the Dodd-Frank Act. The Chairperson introduced Bimal Patel, Deputy Assistant Secretary for the Council at Treasury, and Stephen Ledbetter, Director of Policy in the Office of the Financial Stability Oversight Council at Treasury. Mr. Patel described staff efforts to develop potential amendments to the Council's interpretive guidance on nonbank financial company designations. He explained the ongoing consideration of issues associated with the report issued by the Secretary of the Treasury on November 17, 2017, regarding the Council's processes for designating nonbank financial companies and financial market utilities. In particular, Mr. Patel described the preliminary staff deliberations regarding Treasury's recommendations on (1) an activities- or industry-based approach to addressing potential risks to financial stability; (2) an assessment of costs and benefits of designations; and (3) the consideration of the likelihood of a firm's material financial distress as part of the designation process.

2. Resolution Approving the Minutes of the Meeting Held on April 12, 2018

BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on April 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.

3. Other Business

The Chairperson then asked Craig Phillips, Counselor to the Secretary at Treasury, and Melvin Watt, Director of the FHFA, to address the proposed regulation recently issued by the FHFA on capital requirements for Fannie Mae and Freddie Mac. Mr. Phillips noted the importance of the FHFA’s action and stated that the proposal, which would establish a risk-based capital requirement and a leverage capital requirement, helped create a public, regulatory framework for the two enterprises. Director Watt explained that the FHFA had two objectives for the proposal: first, to use the experience of the financial crisis and 10 years of conservatorship of the enterprises to make sure that the proposed capital levels for the enterprises would have addressed the weaknesses revealed during the crisis; and second, to use input on the FHFA’s proposal to improve the conservatorship capital framework. He stated that the proposal was not related to proposals to recapitalize and release the enterprises from conservatorship. The Chairperson stated that he appreciated the FHFA’s work and was disappointed in the lack of a bipartisan Congressional solution to housing finance reform.

The Chairperson then asked Bimal Patel, Deputy Assistant Secretary for the Council at Treasury, to provide an update on the work of the Council’s cryptocurrency working group. Mr. Patel described the initial efforts of the working group, including ongoing staff-level meetings and preliminary analyses. Members of the Council then asked questions and had a discussion, including regarding potential risks arising from cryptocurrencies, financial institutions’ exposures to these assets, and coordination between federal and state regulators.

4. Application to the Council Under Section 117 of the Dodd-Frank Act

The Chairperson then introduced the next agenda item, an application to the Council under section 117 of the Dodd-Frank Act. The Chairperson turned to Bimal Patel, Deputy Assistant Secretary for the Council at Treasury, and Stephen Ledbetter, Director of Policy in the Office of the Financial Stability Oversight Council at Treasury.

Mr. Patel then provided an update regarding the preliminary analysis of a company that had submitted an application to the Council under section 117 of the Dodd-Frank Act. Mr. Patel described staff’s preliminary analysis regarding the company under the three transmission channels the Council uses in evaluating nonbank financial companies under section 113 of the Dodd-Frank Act (the exposure, asset liquidation, and critical function or service transmission channels). He described the company’s size, capital markets activities, counterparty exposures, liabilities, potential fire sale risks, market share, and complexity and resolvability. He also

described the company's existing regulation. Members of the Council then asked questions and had a discussion, including regarding certain exposures to the company, the company's regulatory scrutiny, the scope of the Council's authority under section 117, and the importance of a consistent and transparent process for applications to the Council under section 117.

5. 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 that the Council had previously designated under section 113 of the Dodd-Frank Act. The Chairperson introduced Stephen Ledbetter, Director of Policy in the Office of the Financial Stability Oversight Council at Treasury. Mr. Ledbetter provided an update regarding the Council's annual reevaluation of the company. He described the preliminary analysis of the company, including the company's size, leverage, capital markets activities, counterparty exposures, liabilities, investment portfolio, and regulatory scrutiny. He also described the anticipated timing of the Council's review. Members of the Council then asked questions and had a discussion, including regarding aspects of the company's business, the scale of potential fire sale risks, and the existing regulation of the company.

The Chairperson adjourned the meeting at approximately 2:34 P.M.