Financial Stability
Oversight Council Designations

Recommendations to ensure that the Financial Stability Oversight Council’s (FSOC’s) designation processes promote market discipline, address risks to U.S. financial stability as appropriate, and are transparent to firms and the public.

Nonbank Financial Company Recommendations

Prioritizing an activities-based or industry-wide approach to addressing risks to U.S. financial stability

- FSOC should prioritize its efforts to address risks to financial stability through a process that emphasizes an industry-wide or activities-based approach. This would entail three steps:
  - FSOC should review potential risks to financial stability from activities and products.
  - If FSOC identifies a potential risk to financial stability, FSOC should work with the relevant primary financial regulators to address the identified risks. If the regulators’ actions are insufficient, FSOC can use its authority to make formal, nonbinding recommendations to the regulator.
  - If one or more companies may pose risks to financial stability, FSOC should consider individual firms for designation only after consultation with relevant primary regulators.

Increase the analytic rigor of designation analyses

- FSOC should revise its guidance to provide that FSOC will assess the likelihood of a firm’s material financial distress as part of analysis.
- FSOC should revise its guidance to provide that FSOC will conduct a cost-benefit analysis as part of its analysis, and should only designate a company if the expected benefits to financial stability outweigh the costs of designation.
- FSOC should develop frameworks under its “exposure transmission channel” and “asset liquidation channel” that are more rigorous, clear, and comprehensible to firms and to the public.

Improve engagement and transparency in the designation process

- FSOC should enhance its communication with nonbank financial companies under review for potential designation, undertake greater engagement with companies’ primary regulators throughout the process, and increase transparency to the public regarding the basis for any determinations.

Simplify FSOC’s processes

- FSOC should consider amending the current $50 billion asset threshold in Stage 1, and combine Stages 1 and 2 to simplify the process.
Recommendations to ensure that the Financial Stability Oversight Council’s (FSOC’s) designation processes promote market discipline, address risks to U.S. financial stability as appropriate, and are transparent to firms and the public.

Provide a clear “off-ramp” for designated nonbank financial companies

- FSOC should articulate more clearly to a designated nonbank financial company the specific risks that led to the designation.
- FSOC’s annual reevaluations should include a process to enable a designated company to receive feedback regarding the extent to which potential changes by the company may address FSOC’s concerns.

Financial Market Utility (FMU) Recommendations

Maintain highly individualized framework for FMU designation to ensure appropriate tailoring

- FSOC should add important enhancements to improve the analytical rigor, engagement, and transparency of the process, and ensuring that the designation process is individualized and appropriately tailored.
- Key issues related to FMU operation, designation, and resolution, such as Federal Reserve account access and potential access to Federal Reserve emergency facilities, should be studied further.

Resilience, recovery, and resolution

- Relevant supervisory agencies should continue to coordinate the supervision of all designated FMUs and continue to work collaboratively to develop effective resolution strategies focused on ensuring the continuity of the critical services provided by these entities.

Increase the analytic rigor of designation analyses

- FSOC should consider incorporating cost-benefit analyses into its evaluations of FMUs for potential designation.

Improve engagement and transparency in the designation process

- FSOC should enhance its engagement with FMUs throughout the process, and increase its transparency to the public regarding the basis for any determinations.
- The expertise of the primary regulators should be leveraged to inform any consideration of whether to designate an FMU, and to inform strategies for regulating and supervising designated FMUs.