



FSOC OPEN MEETING

OVERVIEW

For questions please contact [Kwon Park](#) at (202) 547-3035.

Yesterday, the Financial Stability Oversight Council (FSOC or Council) held an open and an executive session to discuss 1) the Council's 2016 annual report; 2) updates on market developments; 3) the Federal Reserve's (Fed) proposed rulemaking that would apply to certain insurance companies; and 4) the annual re-evaluation of the designation of nonbank financial companies.

Please click below for additional information:

[2016 FSOC Annual Report](#)

[FSOC Annual Report Charts](#)

[FSOC Annual Report Data](#)

Key Takeaways

- FSOC members approved the minutes for the prior open meeting discussing the Council's 2016 annual report.
- Treasury staff outlined 12 themes that highlight the 2016 annual report. Topics focused on central counterparties (CCPs), cybersecurity, market structure, and other issues.
- While not specifically discussed during the meeting, the 2016 annual report specifically addresses opportunities and risks presented by distributed ledger systems.

SUMMARY

Opening Statements

Jacob J. Lew, Secretary of the Treasury

- FSOC will defend against legislative proposals designed to weaken the Council's work. Proposed legislation will impede member regulators' ability to identify and respond to threats to financial stability.
- The annual report discusses cybersecurity, market structure, and market instability in Europe and in emerging markets, and reinforces prior recommendations.
- The report's recommendations will serve as priorities for member regulators' in upcoming years and will also serve as an important roadmap for those that succeed us.

FSOC 2016 Annual Report

Staff Presentation

- The report focuses on increasing loss absorbing capacity, resolution plans for large bank holding companies, CCP plans, margin requirements for uncleared swaps, security-based swaps reforms, and the interagency data collection and analysis program.
- FSOC will continue to study asset management products and risks, data reporting for registered investment companies, liquidity management programs, financial disclosures, and leverage for derivatives transactions.
- The annual report centered on twelve risk themes:
 1. Cybersecurity
 2. Asset management products and activities
 - Further analysis is required on liquidity, leverage, and the retention of risks for pooled investment vehicles.
 3. Large complex interconnected financial institutions
 4. CCPs
 5. Short-term wholesale funding
 6. Reference rate reforms
 7. Data reporting and collection
 8. Housing finance reform
 9. Risk management and asset price volatility
 10. Changes in financial market structure
 - Proprietary trading firms and other firms are growing and the reliance on automated trading systems have improved market access and efficiency, but may introduce operational risks and destabilize price feedback dynamics. Increased coordination is needed amongst regulators.
 11. Financial innovation and the migration of activities
 12. Global economic and financial developments

Discussion

Martin J. Gruenberg, Chairman of the Federal Deposit Insurance Corporation (FDIC): The value of having the responsible financial regulatory agencies come together annually to analyze and to publish their results is an advance compared to practices prior to the establishment of FSOC.

[Timothy G. Massad, Chairman of the Commodity Futures Trading Commission \(CFTC\)](#): The CFTC is involved in many areas highlighted in report, in particular, cybersecurity, CCPs, and automated trading. CCPs have already worked to enhance resiliency, but more work is needed. Collaboration amongst agencies is extremely valuable and important.

Michael T. McRaith, Director of the Federal Insurance Office (FIO) (non-voting member): Risk taking in the low interest rate environment is a big concern in the insurance sector, and I support the recommendation to focus on governance and risk management. We must continue to monitor longer dated liabilities throughout the financial sector.

Rick Metsger, Chairman of the National Credit Union Administration (NCUA): With regard to cybersecurity, the lack of authority over third party vendors remains as a big regulatory gap. It is critical to support legislation to provide the FHAA and NCUA the authority to supervise third party vendors.

Distributed Ledger Technology Addressed in the 2016 FSOC Annual Report

- The FSOC annual report specifically addresses distributed ledger systems and states that this technology has “ the potential to change the way some asset classes are traded and settled. Financial regulators have often worked with those market infrastructures and firms which facilitate trading and settlement, such as exchanges, dealers, and clearinghouses, to monitor markets and, in some cases, regulate market activity. To the extent that distributed ledger systems ultimately reduce the importance of these types of more centralized intermediaries, regulators will need to adapt to the changing market structure.”
- The report also notes that “like most new technologies, distributed ledger systems also pose certain risks and uncertainties which market participants and financial regulators will need to monitor.”