To: Members of the Committee on Financial Services

From: FSC Majority Committee Staff

Date: February 1, 2018

Subject: February 6, 2018, Full Committee Hearing on "The Annual Report of the Financial Stability Oversight Council"

The Committee on Financial Services will hold a hearing at 10:00 a.m. on Tuesday, February 6, 2018 in Room 2128 of the Rayburn House Office Building to receive the "Annual Report of the Financial Stability Oversight Council" and the Secretary of the Treasury's testimony on the report. The Honorable Steven Mnuchin, Secretary of the Treasury, will be the only witness.

Background

Title I of the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203) established the Financial Stability Oversight Council (FSOC). The FSOC is charged with three statutory mandates: (1) to identify risks to the financial stability of the United States; (2) to promote market discipline by eliminating the expectation of government bailouts; and (3) to respond to emerging threats to the U.S. financial system.[1] The FSOC consists of ten voting members and five nonvoting members.[2] The ten voting members are the heads of nine federal financial regulatory agencies[3] and an independent member with insurance expertise; the five nonvoting members are the directors of the Office of Financial Research and the Federal Insurance Office, a state insurance commissioner, a state banking supervisor, and a state securities commissioner. The FSOC meets at least quarterly, subject to the call of the Chairperson, who is the Secretary of the Treasury, or to the call of a majority of the members then serving.

The Dodd-Frank Act grants the FSOC numerous authorities and tools to carry out its statutory purposes. Section 113 of the Dodd-Frank Act vests the FSOC with the authority to determine whether nonbank financial companies should be subjected to heightened prudential standards and supervision by the Federal

[1] Dodd-Frank Act § 112(a)(1), *codified at* 12 U.S.C. 5322(a)(1).
[2] Dodd-Frank Act § 111(b), *codified at* 12 U.S.C. 5321(b).
[3] These agencies are the Department of the Treasury; the Board of Governors of the Federal Reserve System; the Office of the Comptroller of the Currency; the Consumer Financial Protection Bureau; the Securities and Exchange Commission; the Federal Deposit Insurance Corporation; the Commodity Futures Trading Commission; the Federal Housing Finance Agency; and the National Credit Union Administration.

Reserve.[4] Such a designation may be made where two-thirds of the voting members of the FSOC, with the concurrence of the Chairman, determine that a nonbank financial company's "material financial distress"—or the "nature, scope, size, scale, concentration, interconnectedness, or mix of the activities"—could pose a threat to U.S. financial stability.[5]

The FSOC's Annual Reporting and Testimonial Requirements

The Dodd-Frank Act requires the FSOC to submit an annual report to Congress that details the FSOC's activities; significant financial market and regulatory developments; potential emerging threats to U.S. financial stability; designations of non-bank financial institutions for heightened prudential supervision by the Federal Reserve; recommendations for resolving jurisdictional disputes among the FSOC's member agencies; and recommendations to enhance the integrity, efficiency, competitiveness, and stability of U.S. financial markets, to promote market discipline, and to maintain investor confidence.[6] In addition, the Dodd-Frank Act requires the Secretary of the Treasury to testify at annual hearings to discuss the FSOC's efforts, activities, objectives, and plans, and to answer questions concerning the annual report.[7]

The FSOC's 2017 Annual Report

On December 14, 2017, the FSOC submitted its 2017 annual report to Congress.[8] In its annual report, FSOC identified the following as potential emerging threats and vulnerabilities: ongoing, structural vulnerabilities; cybersecurity; asset management products and activities; managing vulnerabilities in an environment of low, but rising, interest rates; changes to financial market structure and implications for financial stability and global economic and financial developments.

Additionally, the FSOC annual report provides recommendations regarding: cybersecurity; asset management products and activities; capital, liquidity, and resolution; central counterparties; wholesale funding markets; reforms related to reference rates; data quality, collection, and sharing; housing finance reform; managing vulnerabilities in an environment of low, but rising, interest rates; changes in financial market structure and implications for financial stability; financial innovation; and regulatory efficiency and effectiveness.

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[4] Dodd-Frank Act § 113, *codified at* 12 U.S.C. 5323. Bank holding companies with assets in excess of $50 billion are automatically subject to the heightened supervision and prudential regulation by the Federal Reserve pursuant to Dodd-Frank Act § 165.
[5] Id.
[6] Dodd-Frank Act §112(a)(2)(N), *codified at* 12 U.S.C. 5322(a)(2)(N).
[7] Dodd-Frank Act §§ 112(c), *codified at* 12 U.S.C. 5322(c). The Financial Services Committee held hearings to consider the first four annual FSOC reports on October 6, 2011, July 25, 2012, May 22, 2013, and June 24, 2014.
[8] https://www.treasury.gov/initiatives/fsoc/studies-reports/Documents/FSOC_2017_Annual_Report.pdf. The report details significant financial market and regulatory developments, potential emerging threats to U.S. financial stability, recommendations to promote financial stability, and the activities of the Council.