Testimony on "Oversight of the Financial Stability Oversight Council"
by
Chair Mary Jo White
U.S. Securities and Exchange Commission

Before the
Committee on Financial Services
United States House of Representatives
December 8, 2015

Chairman Hensarling, Ranking Member Waters, and Members of the Committee:

Thank you for inviting me to testify regarding the Financial Stability Oversight Council (Council).[1] Below I highlight my perspective on the Council and my role on it.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) established the Council to provide comprehensive monitoring of the stability of our nation's financial system. Specifically, the Council is responsible for:

- Identifying risks to the financial stability of the United States that could arise from the material financial distress or failure – or ongoing activities – of large, interconnected bank holding companies or nonbank financial companies, or that could arise outside the financial services marketplace;

- Promoting market discipline by eliminating expectations on the part of shareholders, creditors, and counterparties of such companies that the government will shield them from losses in the event of failure; and

- Responding to emerging threats to the stability of the United States financial system.[2]

In addition, the Council provides a formal forum for coordination among the various financial regulators, a structure that, during my tenure, has resulted in at least monthly meetings or teleconferences among members. This kind of collaborative sharing of information and concerns is, in my view, very important to safeguarding the U.S. financial system.

---

[1] The views expressed in this testimony are those of the Chair of the Securities and Exchange Commission and do not necessarily represent the views of the full Commission, or any Commissioner.

[2] *See* Dodd-Frank Act § 112(a)(1).

Pursuant to the Dodd-Frank Act, the Chair of the Commission serves as a voting member of the Council, along with the heads of eight other federal financial authorities and an independent member with insurance expertise.[3] In addition to the ten voting members of the Council, there are five nonvoting members that serve in an advisory capacity.[4] Pursuant to this statutory construct, I, together with certain SEC staff as needed, participate in the activities of the Council, which include: determining if certain nonbank financial companies' material financial distress could pose a threat to the financial stability of the United States and should be subject to heightened prudential supervision by the Board of Governors of the Federal Reserve System;[5] preparing an Annual Report, which analyzes potential emerging threats to financial stability and makes certain recommendations; and studying areas identified in the Annual Report, as well as other issues that arise that could potentially impact the financial stability of the U.S. In addition, staff-level activities of the Council, as well as meetings of the principals, provide a new and important avenue for regulators to share information, discuss approaches, and foster cooperation.

As you know, the Dodd-Frank Act gave the SEC significant new responsibilities for, among other things, over-the-counter derivatives, hedge fund and other private fund advisers, municipal advisors, and clearing agencies. These are measures designed in part to promote financial stability and strengthen our financial system. They are also important areas implicating the SEC's mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. Tackling systemic risk in most areas, of course, requires a broader

---

[3] *See* Dodd-Frank Act § 111(b)(1). By statute, the Secretary of the Treasury serves as Chairperson of the Council. *Id.*

[4] See Dodd-Frank Act § 111(b)(2)

[5] *See* Dodd-Frank Act §§ 112(a)(2)(H) and 113. *See also* Financial Stability Oversight Council Makes First Nonbank Financial Company Designations to Address Potential Threats to Financial Stability (July 9, 2013), *available at* http://www.treasury.gov/press-center/press-releases/Pages/jl2004.aspx

program beyond any particular agency's jurisdiction and authority. Risks that could cascade through our financial system could impact a range of market participants, many of whom, for example, the SEC does not oversee. The Council provides an important forum for studying and identifying systemic risks across different markets and market participants.

As one of two capital markets regulators on the Council – the other being the Chairman of the Commodity Futures Trading Commission – the market perspective that I and SEC staff bring to the Council is essential. In particular, the SEC's historical tripartite mission necessarily gives the SEC unique insight into many areas on which the Council is focused, such as the potential financial stability risks of asset management activities and products, the ongoing changes to market structure, and the role of central counterparties. SEC engagement with the Council on these issues helps to ensure that relevant expertise is brought to bear on these important subjects.

As discussed above, each year, as required by the Dodd-Frank Act, the Council is required to report to Congress on, among other things, the activities of the Council, significant financial market and regulatory developments, and potential emerging threats to the financial stability of the United States.[6] Each of the Council's five reports has been approved unanimously, the most recent one in May of this year.[7] In that most recent report, the Council identified a need for continued attention and/or action with respect to certain key potential emerging threats and vulnerabilities, including the need for:

---

[6] *See* Dodd-Frank Act § 112(a)(2)(N).

[7] The 2015 Annual Report is available at http://www.treasury.gov/initiatives/fsoc/studies-reports/Documents/2015%20FSOC%20Annual%20Report.pdf. Links to prior year annual reports are available at http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2015-Annual-Report.aspx.

- Financial sector companies to continue to mitigate risks associated with cyberattacks, and the need for strong collaboration and data sharing among financial service companies and government agencies;

- Market participants and regulators to continue to monitor how financial market structure changes may affect liquidity and market functioning in all sectors including Treasuries and other fixed income, equities, and futures;

- Regulators to continue evaluating whether existing standards are sufficiently robust to mitigate the risk that central counterparties could transmit credit and liquidity problems among financial institutions and markets during periods of market stress; and

- Regulators to continue to address gaps in the scope and quality of available data on financial markets and institutions, as well as to continue improving data sharing that may enhance risk identification and monitoring efforts.

Since 2012, the Council has also focused on, among other areas, potential risks to financial stability associated with the asset management industry.[8] In May 2014, Council staff hosted a Public Asset Manager Conference that permitted the staffs of the member agencies to hear directly from the asset management industry and other stakeholders. In July 2014, the Council directed staff to undertake a focused analysis of industry-wide products and activities to assess potential risks to financial stability. To inform that analysis, in December 2014, the Council voted unanimously to release a notice seeking public comment on aspects of the asset management industry, in particular seeking input from the public about potential risks to the U.S. financial system associated with liquidity and redemptions, leverage, operational functions, and resolutions in the asset management industry. The public comment period closed in March 2015, and the staff's analytical work in this area continues. Throughout, SEC staff has been actively engaging with representatives of other Council members in the analysis of potential financial

[8] Independently, at my direction, SEC staff has been developing recommendations for enhancing the asset management industry's risk monitoring and regulatory safeguards. I publicly outlined those initiatives last December. *See* http://www.sec.gov/News/Speech/Detail/Speech/1370543677722. To date, the Commission has proposed: (1) new rules and forms, as well as amendments to its rules and forms, to modernize the reporting and disclosure of information by registered investment companies; and (2) a new rule that would require open-end mutual funds to adopt and implement liquidity management programs.

stability risks posed by asset management activities and has been sharing its expertise on asset management, including the ways in which asset management activities differ from banking activities.

With respect to designations of any nonbank financial companies as systemically important pursuant to the Council's authority under section 113 of the Dodd-Frank Act, I believe it is important to be data-driven and to conduct rigorous analysis throughout the process. The framework for the analysis is provided by the Dodd-Frank Act and the guidance adopted by the Council after notice and comment. In connection with each firm that is analyzed in the designation process, SEC staff including economists in our Division of Economic and Risk Analysis assist my review of the data and analysis provided by both the Council staff and the company under consideration.

Another area of focus by the Council is on enhancing the transparency of its functions, which I consider to be an important focus. Toward that end, in February 2015, the Council unanimously adopted changes to the designation process, including: (1) increased and earlier engagement with companies under review; (2) increased public transparency concerning, for example, the designation factors and the metrics assessed in stage one of the process; and (3) an annual opportunity for designated firms to meet with Council staff to discuss and present relevant information as part of the annual review process. While any changes to the process must be cognizant of the sensitive, company-specific information that is being assessed and required to be kept confidential, it is important for the Council to be mindful of calls for greater transparency and to provide ways for the public and other interested parties to have greater insight and input into issues concerning U.S. financial stability. I fully supported the Council's efforts to increase transparency, and look forward to our continued study of possible further enhancements.

Thank you again for the opportunity to testify today, and I would be pleased to take your questions.