Financial Stability Oversight Council Created Under the Dodd-Frank Wall Street Reform and Consumer Protection Act: Frequently Asked Questions

Q: What is the Financial Stability Oversight Council and what will it do?

A: The Financial Stability Oversight Council (FSOC) has a clear statutory mandate that creates for the first time collective accountability for identifying risks and responding to emerging threats to financial stability. It is a collaborative body chaired by the Secretary of the Treasury that brings together the expertise of the federal financial regulators, an insurance expert appointed by the President, and state regulators.

The FSOC has important new authorities to constrain excessive risk in the financial system. For instance, the FSOC has authority to designate a nonbank financial firm for tough new supervision and therefore avoid the regulatory gaps that existed before the recent crisis. Closing these gaps in supervision will help minimize the risk of a nonbank financial firm threatening the stability of the financial system.

Additionally, to help with the identification of emerging risks to financial stability, the FSOC can provide direction to, and request data and analyses from the newly created Office of Financial Research (OFR) housed within Treasury.

Q: How will the FSOC help maintain our nation's financial stability?

A: Prior to the crisis, the existing regulatory framework focused regulators narrowly on individual institutions and markets, which allowed supervisory gaps to grow and regulatory inconsistencies to emerge—in turn, allowing arbitrage and weakened standards. No single entity had responsibility for monitoring and addressing risks to financial stability, which too often involves different types of financial firms operating in and institutions across multiple markets and important parts of the system were left unregulated. The Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Act") addresses these problems through the creation of the FSOC, which is authorized to:

- Facilitate Regulatory Coordination: The FSOC has a statutory duty to facilitate information sharing and coordination among the member agencies regarding domestic financial services policy development, rulemaking, examinations, reporting requirements, and enforcement actions. Through this role, the FSOC will help eliminate gaps and weaknesses within the regulatory structure, to promote a safer and more stable system.
- Facilitate Information Sharing and Collection: By statute, the FSOC has a duty to facilitate the sharing of data and information among the member agencies. In instances where the data available proves insufficient, the FSOC has the authority to direct the OFR to collect information from certain individual financial companies to assess risks to the financial system, including the extent to which a financial activity or financial market in which the financial company participates, or the financial company itself, poses a threat to the financial stability of the United States. The collection and analysis of this data will aid the FSOC and OFR in their shared goal of removing blind spots in the financial system so that regulators will be more able to see the entire landscape and be better equipped to identify systemic risks and other emerging threats.
- Designate Nonbank Financial Companies for Consolidated Supervision: In the run up to the financial crisis, some of the firms which posed the greatest risk to the financial system were not subject to tough consolidated supervision. The Act gives the FSOC with the authority to require consolidated supervision of nonbank financial companies, regardless of their corporate form.
- Designate Systemic Financial Market Utilities and Systemic Payment, Clearing, or Settlement Activities: The Act authorizes the FSOC to designate financial market utilities and payment, clearing, or settlement activities as systemic, requiring them to meet prescribed risk management standards prescribed and heightened oversight by the Federal Reserve, the Securities and Exchange Commission, or the Commodities Futures Trading Commission.

- Recommend Stricter Standards: The FSOC has the authority to recommend stricter standards for the largest, most interconnected firms, including nonbanks, designated by the FSOC for Federal Reserve supervision. Moreover, where the FSOC determines that certain practices or activities pose a threat to financial stability, the FSOC may make recommendations to the primary financial regulatory agencies for new or heightened standards.
- Break Up Firms that Pose a "Grave Threat" to Financial Stability: The FSOC has a significant role in determining whether action should be taken to break up those firms that pose a "grave threat" to the financial stability of the United States.
- Recommend Congress close specific gaps in regulation.

Q: What can the American people expect from the FSOC?

A: Over the next year, the FSOC will work to establish processes for designating nonbank financial companies and financial market utilities, recommending stricter standards, for monitoring and reporting on systemic risk, and for monitoring the financial system for emerging risks. In the near term, the staffs of the FSOC member agencies are focused on fulfilling its statutory mandate, including four studies that are required to be completed by January 22, 2011. Illustrated by the items released in conjunction with the first meeting of the FSOC on October 1, 2010, work is already well underway. The FSOC can help provide a coordination role among the member agencies to help bring agencies together and to coordinate complex interagency rulemakings, where appropriate. The FSOC released an integrated roadmap following its first meeting that is based on each independent agency's internal planning processes, which puts into the public domain timeframes statutory deadlines for key deliverables.

Q: Who does the FSOC report to?

A: The FSOC provides new accountability to Congress and the American people to address emerging threats to financial stability and to coordinate regulatory actions to address them. The FSOC will be held accountable through a requirement that the FSOC report to Congress annually and that the Chairperson testify on the FSOC's activities and emerging threats to financial stability. Moreover, the FSOC will report to Congress as appropriate on particular topics. For instance, the FSOC is required to conduct four studies in its first six months following enactment, including a report providing recommendations on implementation of the Volcker Rule.

Q: Will FSOC Meetings be open to the public?

A: The FSOC is committed to conducting its business in an open and transparent manner. The FSOC will open its meetings to the public whenever possible. At the same time, the central mission of the FSOC is to monitor systemic and emerging threats. This will require discussion of supervisory and other market-sensitive data, including information about individual firms, transactions and markets that may only be obtained if maintained on a confidential basis. Protection of this information will be necessary in order to prevent destabilizing market speculation that could occur if that information were to be disclosed.

Accordingly, the FSOC has adopted public transparency policies that enumerate the reasons that the Chairperson may close a meeting, in whole or in part. In any event, the FSOC commits to holding two open meetings each year. In addition, when FSOC Members are asked to vote on a draft of a proposed or final rule, the FSOC will make those agenda items open to the public.

Q: How has Treasury been working with other Federal agencies to form the FSOC?

A: The FSOC will operate under a committee structure to promote shared responsibility among the member agencies and to leverage the expertise that already exists at each agency. The FSOC will form committees around its various statutory responsibilities and core issues that relate closely to systemic risk where more than one agency has a significant interest.

The FSOC will require some independent staff to provide advice on statutory authorities and obligations, and to manage its document flow, records retention, and public records disclosure. A staff of policy experts, with many detailed by member agencies, will also be required to help coordinate the work of the committees and, where appropriate, complex inter-agency rule makings, to support FSOC functions such as designations, and to draft reports to Congress.

Q: Who serves on the FSOC?

A: The FSOC is made up of ten voting members – nine federal financial regulatory agencies and an independent member with insurance expertise – and five nonvoting members.

- Voting Members: The Secretary of the Treasury, who serves as the Chairperson of the FSOC, the Chairman of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Director of the Consumer Financial Protection Bureau, the Chairman of the Securities and Exchange Commission, the Chairperson of the Federal Deposit Insurance Corporation, the Chairperson of the Commodity Futures Trading Commission, the Director of the Federal Housing Finance Agency, the Chairman of the National Credit Union Administration Board, and an independent member with insurance expertise that is appointed by the President and confirmed by the Senate for a six-year term.
- Nonvoting Members Who Serve in an Advisory Capacity: The Director of the OFR, the Director of the Federal Insurance Office, a state insurance commissioner selected by the state insurance commissioners, a state banking supervisor chosen by the state banking supervisors, and a state securities commissioner designated by the state securities supervisors. The state nonvoting members have two-year terms.

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