

# **Dodd-Frank Implementation: A View from the FSOC**

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# Financial Stability Oversight Council -- Purposes

- To identify risks to financial stability that could arise from the material financial distress or failure, or ongoing activities, of large, interconnected BHCs or nonbanks.
- To promote market discipline by eliminating expectations on the part of shareholders, creditors and counterparties...that the government will shield them from losses in the event of failure.
- To respond to emerging threats to financial stability

# Financial Stability Oversight Council Membership

## Voting

- Secretary of the Treasury
- Chair of FRB
- Comptroller
- Director of CFPB
- Chair of SEC
- Chair of FDIC
- Chair of CFTC
- Director of FHFA
- Chair of NCUA
- Insurance representative appointed by President

## Nonvoting

- Director of office of financial research
- Director of federal insurance office
- State insurance commissioner
- State banking commissioner
- State securities commissioner

# Financial Stability Oversight Council -- Duties

- Information gathering and sharing
- Recommending supervisory priorities/prudential standards
- Identifying gaps in regulation
- Identify nonbank FIs that may pose risks to the financial system for supervision by FRB
- Identify systemically important financial utilities and payment, clearing and settlement activities
- Reporting to Congress & testimony by Chair annually
- Statements by voting members

# Office of Financial Research

- Supports both FSOC and Treasury Secretary
  - Central administrative body supporting FSOC's agenda
- Data collection and analysis/data sharing
- Chart packs
- Legal entity identifiers
- Conferences and research
- Annual report

# Committees and Work Groups

- Deputies
- Systemic Risk
  - Institutions Subcommittee
  - Markets Subcommittee
- Designations of Nonbanks (SIFIs)
- Designations of Financial Market Utilities (FMUs)
- Heightened Prudential Standards
- Orderly Liquidation and Resolution Plans
- Data
- Lawyers Group

# Key Near-Term Deliverables

- Volcker Rule NPR – comments due in Feb.
- Nonbank Designations -- comments on 2<sup>nd</sup> NPR closed in Dec.
- Financial Market Utility Designations – moving to “stage 2 evaluations”
- Enhanced Prudential Standards – comments due in March
- Orderly liquidation (e.g., enforcement of subsidiary contracts in receivership)
- Financial Data & analytics improvements

# Financial Risk Discussion Topics

- Europe
- MMMFs
- Housing/Housing Finance/Servicing
- Repo Market Operations (esp. 3<sup>rd</sup> Party)
- MF Global

**Table 1.1. Indebtedness and Leverage in Selected Advanced Economies<sup>1</sup>**

(Percent of 2011 GDP except as noted)

	United States	Japan	United Kingdom	Canada	Euro area	Belgium	France	Germany	Greece	Ireland	Italy	Portugal	Spain
Government gross debt, 2011 <sup>2</sup>	100	233	81	84	89	95	87	83	166	109	121	106	67
Government net debt, 2011 <sup>2,3</sup>	73	131	73	35	69	80	81	57	n.a.	99	100	102	56
Primary balance, 2011 <sup>2</sup>	-8.0	-8.9	-5.6	-3.7	-1.5	-0.3	-3.4	0.4	-1.3	-6.8	0.5	-1.9	-4.4
Households' gross debt <sup>4</sup>	92	77	101	n.a.	70	53	61	60	71	123	50	106	87
Households' net debt <sup>4,5</sup>	-232	-236	-184	n.a.	-126	-195	-137	-132	-57	-67	-178	-123	-78
Nonfinancial corporates' gross debt <sup>4</sup>	90	143	118	n.a.	138	175	150	80	74	245	110	149	192
Nonfinancial corporates' debt over equity (percent)	92	181	83	70	106	48	69	92	182	90	125	136	134
Financial institutions' gross debt <sup>4</sup>	94	188	547	n.a.	143	112	151	98	22	689	96	61	111
Bank leverage <sup>6</sup>	12	24	24	18	26	30	26	32	17	18	20	17	19
Bank claims on public sector <sup>4</sup>	8	80	9	19	n.a.	23	17	23	28	25	32	24	24
Total economy gross external liabilities <sup>4,7</sup>	151	67	607	98	169	390	264	200	202	1,680	140	284	212
Total economy net external liabilities <sup>4,7</sup>	16	-54	11	12	13	-40	10	-41	104	98	26	106	88
Government debt held abroad <sup>8</sup>	30	15	19	16	25	58	50	41	91	61	51	53	28

# Where Should State Regulators Focus Attention?

- State FSOC representatives need mechanisms for gathering input and advice on systemic risks from a state perspective.
- In addition, we should ask ourselves what are the key risks, “systemic” or not, that the state regulated and supervised financial system faces?
- How would we, as state regulators, assess degree of vulnerability, the potential for disruption and/or reputational damage, develop possible policy responses?

# State Financial Stability Task Force

## State Team

- Jim Cooper, IN
- Bill Haraf, CA
- Mark Kaufman, MD
- Ed Leary, UT
- Regina Stone, NY
- Joe Smith, NC
- Wendy Spicher, PA

## CSBS Team

- Jeff Allen
- Margaret Liu
- John Ryan
- Mike Stevens

# Significant Risks from a State Regulatory Perspective

- Future of community banks and banking
- Future of housing finance
- Rapid evolution of consumer payments
- Oversight of nonbank consumer financial services
- Resource constraints