Financial Stability:
FSOC and the Federal Reserve

March 1, 2012

John Schindler
Office of Financial Stability
Federal Reserve Board

Disclaimer

The opinions expressed here are my own and do not necessarily represent those of the Federal Reserve Board or its staff.

Goals of Recent Financial Reform

- Constrain buildup of systemic risks
- End too-big-to-fail
- Improve financial system's resiliency to adverse shocks
- Encourage market discipline
- New regulatory structure:
  - Enhanced supervision and regulation
  - New systemic risk council
  - New resolution process

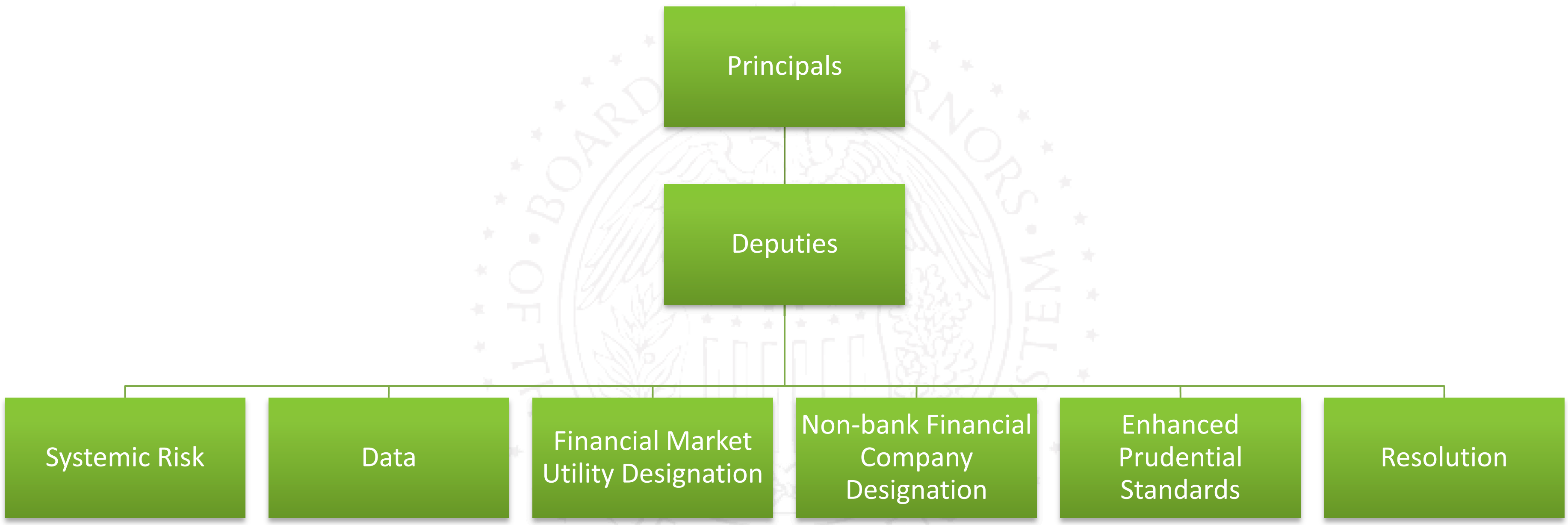
Financial Stability Oversight Council

- Identify systemic risks
- Promote market discipline
- Identify regulatory gaps
- Coordinate agencies' responses to emerging financial risks
- Use a new agency, OFR, to help collect new data

Members of the FSOC

Voting	Non-voting
• Treasury (chair) • Federal Reserve Board • Office of the Comptroller of the Currency • Consumer Financial Protection Bureau • Securities and Exchange Commission • Federal Deposit Insurance Corporation • Commodity Futures Trading Commission • Federal Housing Finance Agency • National Credit Union Association • Insurance expert	• Office of Financial Research • Federal insurance office • State insurance commissioner • State banking supervisor • State securities commissioner

FSOC Committee Structure



Organizational Changes at the Fed

Internal organizational changes

- Before Dodd-Frank, the Fed began a more quantitative macroprudential approach to supervision of the largest firms
- Created an oversight body for Financial Market Utilities
- Created the Office of Financial Stability to focus principally on financial stability issues
  - Identify and monitor threats to financial stability
  - Develop and evaluate alternative policy options to mitigate threats

External changes

- Increased cooperation with other regulatory agencies

Implications for Regulators: Policies for Structural Risks

- Reduce probability of default and losses given default (considering interconnectedness)
- Implement effective early remediation
- Require good recovery and resolution plans
- Reform shadow banking (MMFs, securitization, non-depository institutions) and short-term funding markets
- Improve standardization of OTC derivatives markets with centralized clearing

Implications for Regulators: Policies for Cyclical Risks

- Monitor build-ups of risks: leverage, maturity mismatch, asset values, new products
- Greater emphasis on tail risks
- Evaluate efficacy of cyclical macro-prudential tools
  - Counter cyclical risk weights
  - Margins
  - Loan-to-values
  - Monetary policy

Progress and Remaining Risks

- Some milestones reached by the FSOC and/or the Federal Reserve
  - Issued first FSOC Annual Report
  - Proposed enhanced prudential standards for largest and systemically important firms
  - Proposed criteria for designating non-bank financial companies
  - Working with SEC and other agencies on MMMF reform
  - Efforts on tri-party repo reform

- A number of risks and vulnerabilities remain on horizon:
  - Europe
  - Overreliance on wholesale short-term funding
  - Weakness in the U.S. housing market