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Report to Congress

September 2023

FINANCIAL STABILITY OVERSIGHT COUNCIL

Assessing Effectiveness Could Enhance Response to Systemic Risks

GAO-23-105708

GAO Highlights

Highlights of GAO-23-105708, a report to Congress

September 2023

FINANCIAL STABILITY OVERSIGHT COUNCIL

Assessing Effectiveness Could Enhance Response to Systemic Risks

Why GAO Did This Study

The Dodd-Frank Wall Street Reform and Consumer Protection Act created FSOC in 2010 to identify and respond to potential risks to the stability of the U.S. financial system. The act granted FSOC authorities to make recommendations and designate certain entities and activities for additional regulation to allow it to respond to potential risks. Recent bank failures demonstrate the importance of a regulatory system that is able to respond to risks before they cause systemic issues.

This report examines FSOC's authorities to respond to potential threats to financial stability, including (1) how it used its authorities, (2) the extent to which its authorities and procedures support its ability to respond, and (3) the extent to which FSOC has evaluated whether its procedures and governance structure facilitate its ability to respond. GAO analyzed FSOC documents, including annual reports and guidance on the nonbank designation process. GAO also interviewed FSOC Secretariat staff, member agency staffs, and four experts, selected on factors including relevant research.

What GAO Recommends

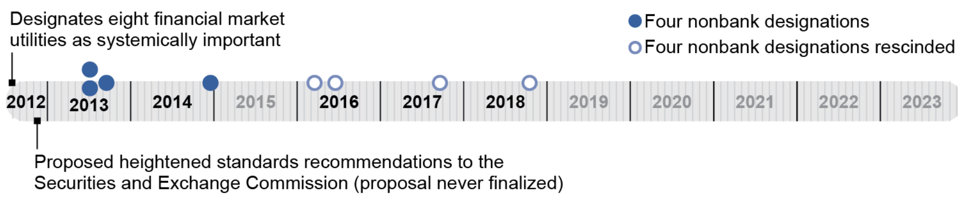
GAO reiterates its 2016 recommendation (GAO-16-175) that Congress consider legislative changes to align FSOC's authorities with its mission. GAO also recommends that FSOC establish a process for conducting regular and comprehensive reviews of its effectiveness. Treasury partially agreed with the recommendation. GAO maintains the recommendation is valid.

View GAO-23-105708. For more information, contact Michael E. Clements at (202) 512-8678 or ClementsM@gao.gov.

What GAO Found

The Financial Stability Oversight Council (FSOC) regularly uses its authority to issue nonbinding recommendations in its annual reports to address financial stability risks. From 2012 through 2014, FSOC used its authority to designate nonbank entities and financial market utilities for additional regulation. It also used its authority to recommend that regulators apply new or heightened standards for certain financial activities or practices once, in 2012. However, FSOC has never used its authority to designate certain activities as systemically important. According to FSOC Secretariat staff, most risks can be addressed through annual report recommendations or other means and thus, FSOC has not used its other authorities in recent years.

FSOC's Use of Selected Authorities, 2012–2023



Source: GAO analysis of Financial Stability Oversight Council (FSOC) information. | GAO-23-105708

Limitations in FSOC's authorities may affect its ability to respond to systemic risk. In previous work, GAO highlighted limitations in FSOC's authorities—including the nonbinding nature of its recommendations—and recommended Congress consider legislative changes to align FSOC's authorities with its mission to respond to systemic risks. GAO maintains that aligning FSOC's authorities with its mission to respond to systemic risk would help FSOC respond to risks that its current authorities do not effectively address. In April 2023, FSOC proposed new guidance on its authority to designate nonbank entities for additional regulation. The new guidance would facilitate FSOC's ability to exercise this authority, as well as its authority to apply new or heightened standards for financial activities or practices, because it removed some procedures FSOC was to perform under previous guidance in connection with these authorities. For example, the proposed guidance removed provisions for FSOC to perform cost-benefit analyses before it could use these authorities.

FSOC conducted three internal evaluations of its policies, procedures, and governance structure since 2013, but these reviews do not represent a comprehensive evaluation of all FSOC activities. FSOC does not have a process to determine what aspects of its activities it should evaluate and when. Regular and comprehensive reviews by FSOC on the effectiveness of its policies, procedures, and governance structure could help it identify areas for improvement and thus enhance its ability to respond to systemic risk. For instance, recent bank failures provide FSOC with an opportunity to assess its procedures for identifying and following up on annual report recommendations it made related to interest rate risk, a factor in the failures.

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Abbreviations

CFTC	Commodity Futures Trading Commission
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Federal Reserve	Board of Governors of the Federal Reserve System
FMU	financial market utility
FSOC	Financial Stability Oversight Council
NCUA	National Credit Union Administration
PCS	payment, clearing, and settlement
SEC	Securities and Exchange Commission

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September 14, 2023

The President Pro Tempore of the Senate

The Speaker of the House of Representatives

The financial crisis of 2007–2009 revealed weaknesses in the U.S. financial regulatory system and its ability to identify and respond to systemic risks to the financial system. In response, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in 2010. Its reforms included the creation of the Financial Stability Oversight Council (FSOC) to identify risks and respond to emerging threats to the stability of the U.S. financial system and to promote market discipline.[1]

The Dodd-Frank Act grants FSOC certain authorities. Among them, FSOC can make recommendations for addressing potential risks and emerging threats to financial stability. It can also make nonbinding recommendations to a financial regulator to apply new or heightened standards for a financial activity or practice, known as Section 120 recommendation authority. Furthermore, FSOC can designate that certain entities and activities be subject to additional regulation by applicable federal agencies. These include nonbank financial companies; financial market utilities (FMU); and payment, clearing, and settlement (PCS) activities.[2]

[1]FSOC consists of the heads of the Board of Governors of the Federal Reserve System, Commodity Futures Trading Commission, Consumer Financial Protection Bureau, Department of the Treasury, Federal Deposit Insurance Corporation, Federal Housing Finance Agency, Federal Insurance Office, National Credit Union Administration, Office of the Comptroller of the Currency, Office of Financial Research, and Securities and Exchange Commission. Other members are a state banking supervisor, a state insurance commissioner, a state securities commissioner, and an independent member with insurance expertise. In this report, we also use “Council” to collectively describe the 15 FSOC members in their capacity as members of FSOC.

[2]Financial market utilities are entities that manage or operate a multilateral system for the purpose of transferring, clearing, or settling payments, securities, or other financial transactions among or between financial institutions and the entity. Financial market utilities are a subset of financial market infrastructures, which are systems used for clearing, settling, or recording payments, securities, derivatives, or other financial transactions. A PCS activity is one that is carried out by one or more financial institutions to facilitate the completion of financial transactions.

FSOC has carried out its mission primarily by coordinating among federal and state regulators, promoting information sharing, making recommendations in its annual reports, and using some of its designation authorities. The recent bank failures demonstrate the importance of a regulatory system that is able to respond to risks before they cause systemic issues.[3]

We performed our work under the authority of the Comptroller General to assist Congress with its oversight responsibilities for FSOC. This report examines (1) how FSOC has used its authorities to respond to potential threats to financial stability; (2) the extent to which FSOC's authorities, policies, and procedures support its ability to respond to potential threats to financial stability; and (3) the extent to which FSOC has evaluated whether its policies, procedures, and governance structure facilitate its ability to respond to potential threats to financial stability.

For all these objectives, we reviewed prior GAO reports, and academic, think tank, and international organization literature. We also interviewed staff of all FSOC member agencies, as well as FSOC Secretariat staff from Treasury.[4] In addition, we interviewed experts on FSOC's authorities and its governance structure. We selected the experts on the basis of factors including their relevant research.

For our first two objectives, we sent written questionnaires to 14 of the 15 FSOC member agencies and conducted structured group interviews with representatives of FSOC's Deputies and Systemic Risk Committees.[5] We

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[3]In April 2023, we issued a preliminary report on the events surrounding the March 2023 bank failures. See GAO, *Bank Regulation: Preliminary Review of Agency Actions Related to March 2023 Bank Failures*, GAO-23-106736 (Washington, D.C.: Apr. 28, 2023). We are also conducting additional work examining regulators' actions leading up to the failures and the effectiveness and implications of their response.

[4]Although not all FSOC members represent federal agencies, we use "member agencies" to represent all FSOC members, including their agencies, offices, and staff. The FSOC Secretariat is a dedicated policy office in Treasury's Office of Domestic Finance that coordinates the work of the committees and assists FSOC's Chairperson in carrying out his or her responsibilities.

[5]FSOC's Deputies Committee consists of senior officials from each of the member agencies and coordinates and oversees the work of FSOC's staff committees. The Systemic Risk Committee monitors systemic risk and plays a role in prioritizing the review of sources of systemic risk and guiding the work of staff to analyze emerging threats to financial stability. For more information on FSOC's structure and the roles of its committees, see the Background and appendix II.

also sent written requests for information and documents to Treasury (FSOC Secretariat staff)—the remaining FSOC member agency.

Additionally, for our first objective, we reviewed Title I of the Dodd-Frank Act, as amended, and FSOC annual reports and other public statements from 2011 (FSOC's first full year of operations) through April 2023 to understand how FSOC has used its authorities. We categorized the recommendations made in the 2015–2021 annual reports and selected six categories of risk areas for further review.[6] Those categories were chosen because they involved a range of relevant member agencies and financial market areas and varied in terms of how frequently they were included in the annual reports. We analyzed the content of all of the recommendations in the selected categories, including those from the 2022 annual report, which was issued after we selected the categories.

For our second objective, we reviewed internal FSOC documentation, such as committee meeting agendas, minutes, and presentations, from January 2015 through January 2023.[7] We also reviewed FSOC's 2021 and 2022 annual reports for our discussion of FSOC's actions related to risks in a higher interest rate environment, which was a factor in the 2023 bank failures. In addition, we reviewed Title I of the Dodd-Frank Act, as amended, and the policies and procedures described in FSOC's December 2019 guidance on its use of Section 120 recommendation and nonbank designation authorities.[8] We also reviewed FSOC's April 2023 proposed guidance on its nonbank designation authority and its proposed

[6]We selected 2015 as the starting point for our annual report review because our audit work for our previous detailed review of FSOC's annual report recommendations ended in 2015. See GAO, *Financial Regulation: Complex and Fragmented Structure Could Be Streamlined to Improve Effectiveness*, GAO-16-175 (Washington, D.C.: Feb. 25, 2016). This time period also allowed us to capture trends in risk areas over a number of years. The six categories of risk we selected were climate-related financial risk, financial innovation, real estate (residential and commercial), reference rates, repurchase agreements and money market mutual funds, and risks related to low interest rates.

[7]As with the analysis referenced in the previous footnote, we selected 2015 as the starting point for our review of documentation because our previous audit work on FSOC's committee processes ended in 2015. See GAO-16-175.

[8]Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, 84 Fed. Reg. 71740 (Dec. 30, 2019) (codified at 12 C.F.R. pt. 1310 App. A). For this objective, our scope did not include a review of changes to procedures for FMU or PCS designation authorities because FSOC had not made any such changes in recent years. We used prior GAO work to describe the extent to which FSOC's authorities support its ability to respond to systemic risk.

analytic framework issued that month.[9] Finally, we reviewed our past work on FSOC's authorities.[10]

For our third objective, we reviewed FSOC documentation on evaluations it conducted related to its governance structure and the use of its authorities. We also reviewed FSOC bylaws and charters for the Council, Deputies Committee, and other FSOC staff-level committees. We reviewed our prior work and reports from the Council of Inspectors General on Financial Oversight.[11] We also reviewed reports issued since FSOC's inception from the International Monetary Fund and the Financial Stability Board, international organizations that conduct recurring reviews of the U.S. financial regulatory system. We assessed FSOC's efforts for conducting internal evaluations against the evaluation principle in our macroprudential oversight framework.[12] For more information on our scope and methodology, see appendix I.

We conducted this performance audit from January 2022 to September 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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[9]Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, 88 Fed. Reg. 26234 (Apr. 28, 2023) and Analytic Framework for Financial Stability Risk Identification, Assessment, and Response, 88 Fed. Reg. 26305 (Apr. 28, 2023).

[10]GAO-16-175 and GAO, *Financial Stability: Agencies Have Not Found Leveraged Lending to Significantly Threaten Stability but Remain Cautious Amid Pandemic*, GAO-21-167 (Washington, D.C.: Dec. 16, 2020).

[11]The Council of Inspectors General on Financial Oversight was established by the Dodd-Frank Act and meets quarterly to facilitate information sharing among Inspectors General. Its members discuss their ongoing work, with a focus on concerns that may apply to the broader financial sector, and exchange ideas about ways to improve financial oversight, including that of FSOC.

[12]GAO, *Macroprudential Oversight: Principles for Evaluating Policies to Assess and Mitigate Risks to Financial System Stability*, GAO-21-230SP (Washington, D.C.: Jan. 28, 2021). We created the framework to serve as criteria for assessing the financial stability efforts of FSOC and its member agencies. The principles in the framework reflect governance and operational standards and practices that, if met, promote sound decision-making around financial stability policy.

Background

FSOC's Statutory Purposes and Key Authorities

FSOC's three primary purposes under the Dodd-Frank Act are to

1. identify 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 and nonbank financial companies, as well as risks that could arise outside the financial services marketplace;
2. promote market discipline by eliminating expectations on the part of shareholders, creditors, and counterparties of these large companies that the U.S. government will shield them from losses in the event of failure; and
3. respond to emerging threats to the stability of the U.S. financial system.

To achieve these purposes, the Dodd-Frank Act gave FSOC a number of authorities, including the following:

- **Annual report recommendations.** In its annual report to Congress, FSOC may make recommendations to regulators, market participants, and Congress to enhance the integrity, efficiency, competitiveness, and stability of U.S. financial markets; promote market discipline; and maintain investor confidence. FSOC also publishes other stand-alone reports with recommendations on specific topics, such as climate-related financial risks and digital assets. Recommendations FSOC makes in its annual and other reports are nonbinding.
- **Section 120 recommendations.** Section 120 of the Dodd-Frank Act gives FSOC authority to recommend that primary financial regulatory agencies, as defined by the Dodd-Frank Act, apply new or heightened standards and safeguards relating to activities or practices conducted by nonbank financial companies that could create or increase the risk of significant liquidity, credit, or other problems.[13] This authority is broad in scope and can be used to address a financial activity or practice that multiple financial companies conduct. The authority can provide clarity and public accountability for an identified risk by allowing FSOC to state which regulator should respond to the risk and how it should do so. If no primary regulator exists, FSOC can recommend appropriate legislation to Congress. However, the

[13] 12 U.S.C. §5330(a). Generally, a nonbank financial company is a company, other than a bank holding company, that is predominantly engaged in financial activities. 12 U.S.C. § 5311(a)(4).

recommendations are nonbinding, and regulators can impose the recommended standards or explain in writing their reasoning for not following FSOC's recommendation.

- **Nonbank financial company designation.** FSOC may determine that certain nonbank financial companies, depending on various factors, could pose a threat to the financial stability of the United States. If FSOC makes such a determination, it can designate the nonbank financial company for supervision by the Board of Governors of the Federal Reserve System (Federal Reserve) and for enhanced prudential standards.[14] These enhanced prudential standards may include risk-based capital requirements and leverage limits, liquidity requirements, overall risk-management requirements, resolution plan requirements, and certain concentration limits.[15] The Federal Reserve is responsible for establishing the prudential standards applicable to designated nonbank financial companies.
- **Financial market utilities designation.** FSOC may designate FMUs when FSOC determines they are, or are likely to become, systemically important. FMUs that are designated would be required to meet risk-management standards governing operations related to payment, clearing and settlement activities prescribed by the Securities and Exchange Commission (SEC), Commodity Futures Trading Commission (CFTC), or the Federal Reserve, as appropriate, and subjecting them to enhanced regulatory oversight.[16] These standards and oversight include conducting their operations in compliance with applicable risk-management standards; providing advance notice and review of changes to their rules, procedures, and

[14]FSOC also may make recommendations to the Federal Reserve concerning the establishment of enhanced prudential standards applicable to nonbank financial companies supervised by the Federal Reserve.

[15]Leverage is the use of borrowed money to finance investments or conduct financial activities. Resolution plans detail how a company could be resolved in a rapid and orderly manner under the Bankruptcy Code in the event of the company's material financial distress or failure. Concentration limits, in the case of enhanced prudential standards, generally refer to limits on a company's credit exposure to an unaffiliated company.

[16]Systemically important means a situation in which the failure of or disruption to the functioning of a financial market utility or the conduct of a payment, clearing, or settlement activity could create, or increase, the risk or significant liquidity or credit problems spreading among financial institutions or markets and thereby threaten the stability of the financial system of the United States. 12 U.S.C. § 5462(9). A financial market utility means an entity that manages or operates a multilateral system for the purpose of transferring, clearing, or settling payments, securities, or other financial transactions among financial institutions or between financial institutions and the entity, with enumerated exceptions. 12 U.S.C. § 5462(6).

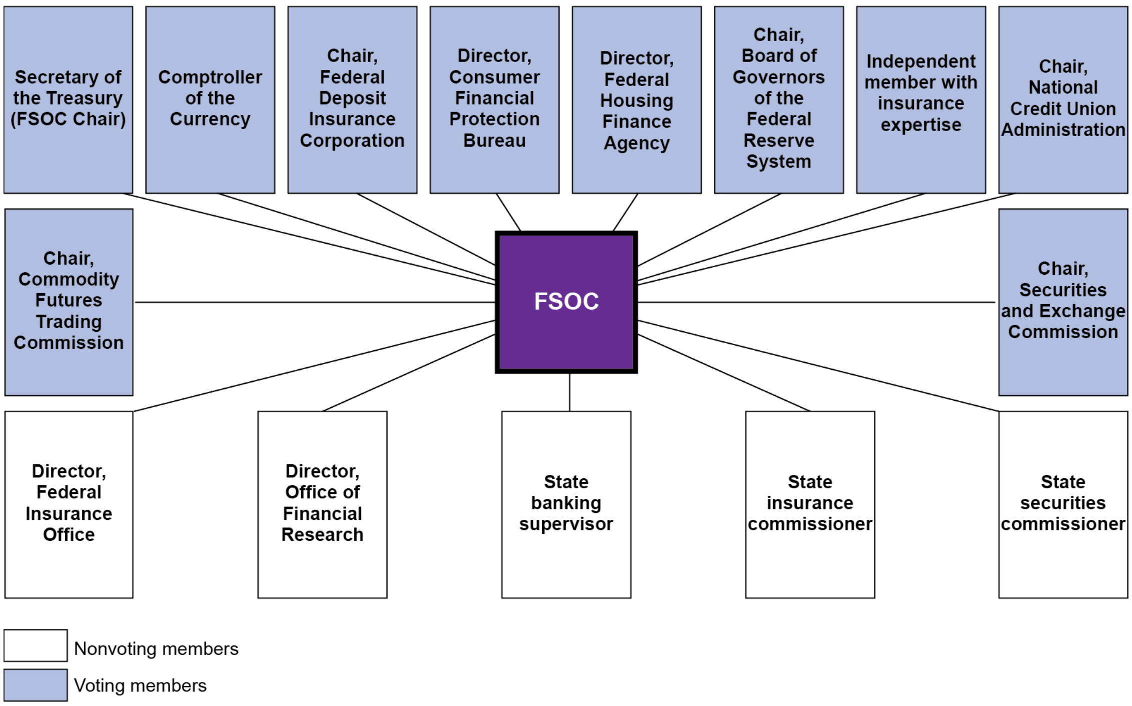
operations that could materially affect the nature or level of the risks presented by the FMU; and being subject to relevant examination and enforcement provisions.

- **Payment, clearing, and settlement activities designation.** FSOC may designate PCS activities that it determines are, or are likely to become, systemically important. Unlike the nonbank and FMU designations, this authority could apply to all financial institutions that engage in the designated activity. In certain circumstances, this designation would require SEC, CFTC, or the Federal Reserve to impose enhanced risk-management standards on those financial institutions.

FSOC Organization

FSOC consists of 15 members (or principals)—10 voting and five nonvoting (see fig. 1). The voting members provide a federal regulatory perspective and the views of an independent insurance expert (who is appointed by the President with the advice and consent of the Senate). The nonvoting members, who serve in an advisory capacity, offer different insights as state-level bank, securities, and insurance regulators or as directors of offices in Treasury—the Office of Financial Research and the Federal Insurance Office.

Figure 1: Membership of Financial Stability Oversight Council (FSOC)



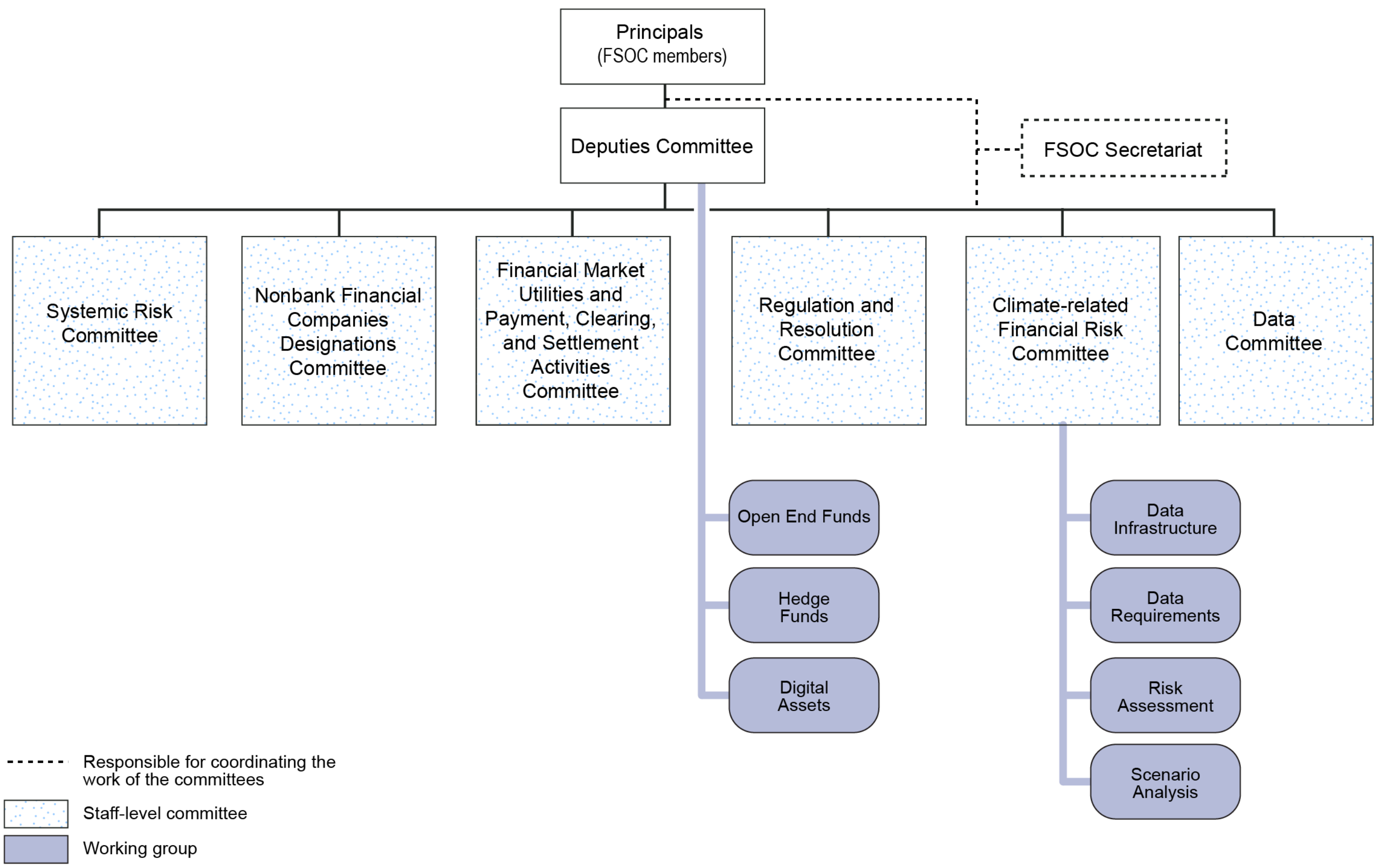
Source: GAO. | GAO-23-105708

As the chairperson of FSOC, the Dodd-Frank Act provides the Secretary of the Treasury certain powers and responsibilities. For example, the chairperson may call meetings of the Council at any time, but at least once a quarter, and must testify before Congress at least annually on the Council's activities. The chairperson, in consultation with the other FSOC members, also is responsible for regular consultation with the financial regulatory entities and other appropriate organizations of foreign governments or international organizations on matters relating to systemic risk to the international financial system.

Voting and nonvoting FSOC members generally participate in the Council meetings depending on the type of information being shared. Under the Dodd-Frank Act, nonvoting members may be excluded from certain proceedings, discussions, meetings or deliberations to safeguard and promote the free exchange of confidential supervisory information, confidential commercial or financial information, and other similar nonpublic information. The Chairperson may, with the approval of the Council, enter into memorandums of understanding or similar agreements with nonvoting members on the treatment and protection of such information.

FSOC conducts its business largely through its committee structure, which comprises staff from member agencies (see fig. 2).

Figure 2: Committee Structure of the Financial Stability Oversight Council (FSOC), 2022



Source: GAO analysis of FSOC information. | GAO-23-105708

FSOC established six **staff-level committees** to carry out the business of the Council. According to committee charters, staff-level committees are to meet at least quarterly.

- **Systemic Risk Committee:** Monitors systemic risk and plays a role in prioritizing the review of sources of systemic risk and guiding the work of staff to analyze emerging threats to financial stability.
- **Nonbank Financial Companies Designations Committee:** Supports FSOC in evaluating nonbank financial companies for supervision by the Federal Reserve and enhanced prudential standards.
- **Financial Market Utilities and Payment, Clearing, and Settlement Activities Committee:** Supports FSOC in considering, making, and reviewing designations of financial market utilities and payment, clearing, and settlement activities that may be systemically important.
- **Regulation and Resolution Committee:** Promotes information sharing and consultation (among staff of FSOC members, member agencies, and other federal and state agencies, as appropriate) about rulemakings and policy development for domestic financial services.
- **Climate-related Financial Risk Committee:** Supports FSOC in identifying climate-related financial risks and in responding to climate-related emerging threats to the financial system.
- **Data Committee:** Supports FSOC on data-related matters, such as identifying data and information gaps and data integration needs to support FSOC's collection of information from member agencies.

The **Deputies Committee** coordinates and oversees the work of the staff committees and, as needed, establishes working groups composed of staff of FSOC members or member agencies, to perform specific functions. The committee is made up of senior officials from each of the member agencies and meets at least monthly. For additional information on the roles and responsibilities of the Deputies Committee, see appendix II.

The **FSOC Secretariat**—a dedicated policy office in Treasury's Office of Domestic Finance—coordinates the work of the committees and assists FSOC's Chairperson in carrying out his or her responsibilities.

FSOC Issues Nonbinding Annual Report Recommendations, but Has Not Used Its Other Authorities in Recent Years

FSOC's Annual Reports Regularly Contain Recommendations to Enhance Financial Stability

FSOC regularly issues nonbinding recommendations to its member agencies, as well as to Congress and market participants in its annual report. Since it released its first annual report in 2011, every FSOC annual report has included numerous recommendations.[17]

Our review of FSOC recommendations from 2015–2022 for six selected risk areas found that more than half did not specify any individual entities responsible for implementing the recommendation (see table 1). In almost all cases, the recommendations did not identify specific time frames for implementation, although a few cited specific dates. Nearly 50 percent of the recommendations used the following four terms or groups of terms for actions in the recommendations we reviewed: assess or evaluate; monitor; coordinate, cooperate, collaborate, or communicate; and consider.

[17]FSOC also has authority to set aside a final regulation prescribed by the Consumer Financial Protection Bureau if FSOC decides, in accordance with specified rules, that the regulation would put the safety and soundness of the U.S. banking system or the stability of the financial system of the United States at risk. 12 U.S.C. § 5513.

Table 1: Characteristics of FSOC Annual Report Recommendations for Selected Risk Areas, 2015–2022

Specific entity named	Count	Percentage
Individual entity(ies) specified by name	22	13
FSOC members or banking regulators specified collectively	23	14
Industry participants	29	18
No entity specified	90	55
Total	**164**	**100**

Time frame provided	Count	Percentage
None	95	58
Continue / ongoing	57	35
Specific date or timeline	12	7
Total	**164**	**100**

Type of action recommended	Count	Percentage
Assess / evaluate	37	17
Monitor	31	15
Coordinate / cooperate / collaborate / communicate	21	10
Consider	13	6
Review / examine / study	12	6
Identify	11	5
Encourage / support / endorse / promote	9	4
Ensure	7	3
Understand	6	3
Other	67	31
Total	**214**	**100**

Source: GAO analysis of Financial Stability Oversight Council (FSOC) annual reports. | GAO-23-105708

Note: The selected risk areas were climate-related financial risk, financial innovation, real estate (residential and commercial), reference rates, repurchase agreements and money market mutual funds, and risks related to low interest rates. The total number of recommendations for the "Type of action recommended" category is greater than the total number of recommendations in the other categories because some recommendations included multiple actions.

According to Secretariat staff, if a particular entity were key to a recommendation's implementation, the recommendation would identify the appropriate entity or entities responsible for implementing it. As discussed in more detail later in this report, the FSOC Secretariat develops annual report recommendations collaboratively with staff from FSOC member agencies. Secretariat staff explained that through these collaborative efforts, all the member agencies are aware that recommendations that fall within their responsibilities apply to them, even if they are not explicitly named. They added that the relevant agencies already could be working on or planning to work on the efforts presented in the annual report recommendations. For example, one member agency told us that it is not uncommon that activities relating to annual report recommendations—such as climate-related financial risks and digital asset issues—are actively being monitored by appropriate agency staff prior to issuance of the annual report.

Secretariat staff also stated that some risks are ongoing and that their related recommendations do not lend themselves to specific time frames. Our review of annual report recommendations identified a few recommendations that included a specific deadline to respond. For example, recommendations related to alternative reference rates in the 2022 annual report included a specific timeline for implementation because U.S. dollar rates related to a key interest rate risk index were set to expire in June 2023.[18] As a result, FSOC recommended that firms and other responsible parties facilitate efforts to transition contracts that utilized those rates prior to their expiration in June 2023.

FSOC also uses its annual reports to highlight major findings and recommendations of its stand-alone reports on certain topics. For example, FSOC's 2021 and 2022 annual reports discuss findings and recommendations from FSOC's recent stand-alone reports on climate-related financial risk and digital assets, respectively.[19]

FSOC Has Not Used Its Designation or Section 120 Authorities in Recent Years

FSOC used some of its designation authorities from 2012 through 2014 and used its Section 120 authority in 2012, but has not used these authorities in recent years. Through the use of its nonbank and FMU designation authorities, FSOC imposed additional regulation on these entities. That is, designated nonbank financial companies became subject to supervision by the Federal Reserve and enhanced prudential

[18]The London Interbank Offered Rate is intended to reflect the rate at which large, globally active banks can borrow on an unsecured basis in wholesale markets (based on submissions from a panel of banks). The Federal Reserve and other regulators worked to transition this rate to a more robust alternative reference rate, the Secured Overnight Financing Rate and formed the Alternative Reference Rates Committee to facilitate a successful transition from the U.S. dollar London Interbank Offered Rate to the alternative Secured Overnight Financing Rate.

[19]Financial Stability Oversight Council, *Report on Digital Asset Financial Stability Risks and Regulation* (Washington, D.C.: Oct. 3, 2022); and *Report on Climate-Related Financial Risk* (Washington, D.C.: Oct. 21, 2021).

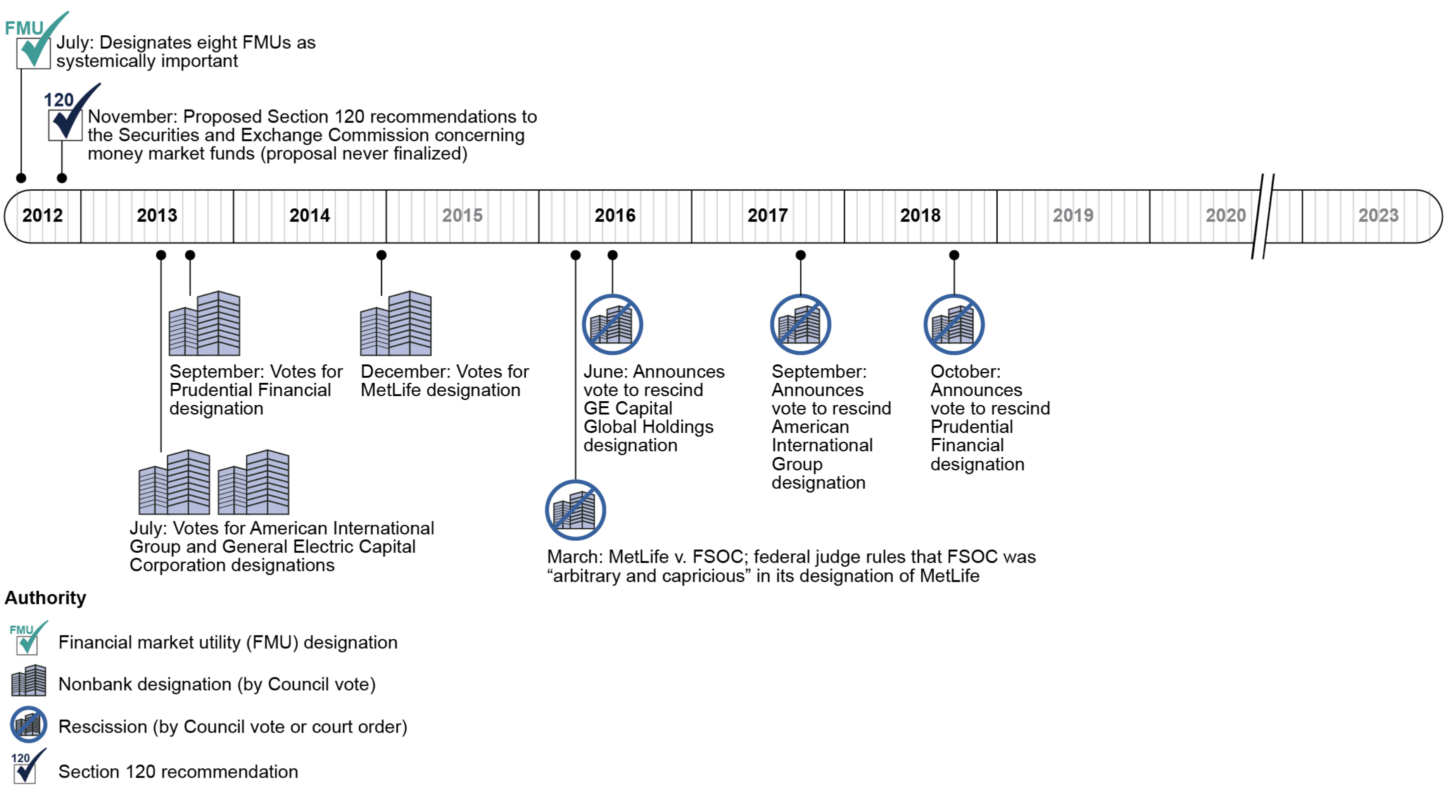
standards and designated FMUs became subject to certain risk-management standards and enhanced regulatory oversight.

According to FSOC Secretariat staff, FSOC has not extensively used these authorities because they believe most risks can be addressed through other means, such as annual report recommendations.

Designation Authorities

In 2012, FSOC used its authority to designate a number of FMUs (see fig. 3). In July 2012, FSOC voted unanimously to designate eight FMUs as systemically important, but it has not subsequently designated additional FMUs.

Figure 3: FSOC Use of Designation and Section 120 Authorities, 2012-2023



Source: GAO analysis of Financial Stability Oversight Council (FSOC) information. | GAO-23-105708

FSOC has not used its nonbank designation authority to designate a new nonbank financial company since 2014. FSOC last used its nonbank designation authority in 2013 and 2014, to designate four companies—American International Group, Inc., General Electric Capital Corporation, Inc., Prudential Financial, Inc., and MetLife, Inc. Operating under its original process for designating nonbank financial companies, FSOC concluded that material financial distress at these companies could pose a threat to the financial stability of the United States. That process, in part, required FSOC to consider factors, including size, interconnectedness, substitutability, leverage, liquidity risk, and existing regulatory scrutiny in its evaluation of a company.[20]

Following a civil suit from MetLife, Inc., the U.S. District Court for the District of Columbia ruled in March 2016 that FSOC was "arbitrary and capricious" in its designation of MetLife, Inc. and had failed to adequately follow its own designation process.[21] The court rescinded MetLife, Inc.'s designation. Although FSOC initially appealed the district court's decision, it filed a motion to dismiss the appeal in January 2018, which the court granted, ending the case.[22] From June 28, 2016, through October 17, 2018, FSOC voted to rescind the three remaining nonbank designations. In public statements, FSOC stated it had determined that the designated companies significantly mitigated the potential threat they posed to financial stability or otherwise did not meet the statutory standard for designation. FSOC has not subsequently used its nonbank designation authority to designate any additional nonbank financial companies, and its 2022 annual report stated that no companies were under consideration at that time.

In addition, as of June 2023, FSOC had not designated any PCS activities as systemically important.

[20]In April 2012, FSOC issued a final rule and interpretive guidance that outlined and clarified its authority to make determinations under section 113 of the Dodd-Frank Act. Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, 77 Fed. Reg. 21637 (April 11, 2012) (codified at 12 C.F.R. pt. 1310). The rule incorporated statutory considerations for nonbank designations into six general categories. We described the original nonbank designation process in detail in GAO, *Financial Stability Oversight Council: Further Actions Could Improve the Nonbank Designation Process*, GAO-15-51 (Washington, D.C.: Nov. 20, 2014).

[21]The court in the March 2016 *MetLife* decision found that FSOC was required by the Dodd-Frank Act to consider of the cost of designation to MetLife, Inc.. Based on its interpretation, the court found FSOC's assumption of the upside benefits of designation but not the downside of costs of its decision to be arbitrary and capricious. *Metlife, Inc. v. Financial Stability Oversight Council,* 117 F.Supp.3d 219 (D.D.C. 2016).

[22]*MetLife, Inc. v. Financial Stability Oversight Council*, 2018 WL 1052618 (D.C. Cir., 2018).

Section 120 Authority

As of June 2023, FSOC used its authority to make nonbinding recommendations to member agencies through its Section 120 authority once since its formation. Specifically, in November 2012, FSOC issued for public comment proposed recommendations to SEC to implement reforms in money market mutual funds to address structural vulnerabilities in that market.[23] However, SEC issued a rulemaking to undertake reforms, and noted that it had considered the proposed Section 120 recommendation among other regulatory alternatives.[24] To date, FSOC has not taken further action on its Section 120 recommendation.[25]

Proposed Procedures Aim to Assist FSOC's Use of Its Nonbank Designation Authority, but Limitations Remain with Other Authorities

FSOC's Collaborative Process for Developing Recommendations Aims to Address Financial System Risks

As previously discussed, FSOC has authority to make recommendations to agencies, market participants, and Congress in its annual or other reports to address threats to financial stability. Although FSOC does not have written policies and procedures for making annual report recommendations beyond the statutory requirements for the annual report, it has implemented a collaborative process to develop and track its annual report recommendations. Through this process, FSOC identifies

[23]*Proposed Recommendations Regarding Money Market Mutual Fund Reform Process*, 77 Fed. Reg. 69455 (Nov. 19, 2012).

[24]Money Market Fund Reform: Amendments to Form PF, 79 Fed. Reg. 47736 (Aug. 14, 2014).

[25]In February 2023, we issued a report reviewing these and subsequent reforms SEC made relating to money market mutual funds. We found that SEC's reforms did not prevent runs during the COVID-19 pandemic and that prime money market mutual funds held by institutional investors experienced net redemptions of about 30 percent of their total assets in a 2-week period in March 2020. See GAO, *Money Market Mutual Funds: Pandemic Revealed Unresolved Vulnerabilities*, GAO-23-105535 (Washington, D.C.: Feb. 2, 2023).

vulnerabilities in the financial system and develops recommendations to mitigate the risks.

According to information from Secretariat staff, FSOC member agencies, and FSOC documentation we reviewed, the process encompasses the following elements:

- **Bilateral discussions between the Secretariat and the member agencies.** The annual report and recommendation drafting process begins with Secretariat staff meeting individually with each member agency to discuss vulnerabilities contributing to risks in the marketplace.[26] Member agency staff engage in brainstorming sessions and work with the Secretariat staff through different iterations of the annual report and its recommendations.
- **Discussions between the Secretariat and FSOC committees.** The Secretariat also engages in discussions among FSOC member agencies within the committee structure (including the Systemic Risk Committee and the Deputies Committee) to develop annual report recommendations.
- **Consideration by the Council.** The Council also typically considers the potential content of the annual report. This step enables Council members to weigh in on potential topics.
- **Follow-up dialogue on recommendations.** FSOC Secretariat staff said they follow up on the status of previous annual report recommendations during discussions at Systemic Risk, Deputies, and Council meetings and through dialogue with member agencies. We reviewed the Systemic Risk, Deputies, and Council's agendas from 2015 through August 2022 for the six risk areas of recommendations we selected. We found these committees regularly discussed and followed up on the risk areas, which included recommendations, in the annual report. For FSOC's most recent efforts relating to one such set of recommendations, on interest rate risk, see the text box.

[26]According to Secretariat staff and FSOC documentation, efforts to develop the annual report generally start in the summer and the report is published in December.

FSOC Efforts Relating to Risks of a Higher Interest Rate Environment, June 2022–April 2023

In March and May of 2023, three U.S. banks failed in an environment of rising interest rates. To address inflation pressures, the Board of Governors of the Federal Reserve System increased the target range for the federal funds rate nine times from March 2022 to March 2023. For this period, the cumulative increase was 475 basis points (4.75 percentage points). Multiple banking regulatory agencies, inspectors general, and GAO are currently investigating the nature and causes of the failures. GAO's preliminary findings on two failures showed risky business strategies and weak liquidity and risk-management practices contributed to the failures (see GAO-23-106736).

FSOC expressed concerns about the impacts of rising interest rates on financial institutions and made related recommendations, which are nonbinding, in its 2021 and 2022 annual reports. For example, the 2021 annual report had a recommendation for member agencies to ensure financial institutions they oversee were attentive to certain risks, including higher levels of inflation and interest rates accompanying uneven or volatile global growth.

From June 2022 through January 2023, FSOC committees (including the Systemic Risk Committee and Deputies Committee) and the Principals of the Council monitored and discussed interest rate risk at 12 committee meetings, according to Secretariat staff. We observed multiple discussions of higher interest rates in the 2022 Council meeting minutes we reviewed. Secretariat staff also held bilateral discussions with relevant member agencies throughout August 2022.

These efforts resulted in several recommendations in FSOC's 2022 annual report addressing risks and impacts from higher interest rates in areas including commercial and residential real estate, corporate credit, and bank liquidity. These recommendations frequently used terms such as monitor, review, and ensure to facilitate action. For example, the report recommended that banking supervisors "ensure that banks maintain adequate capital and liquidity, sound interest rate risk management practices, and well-developed operational resiliency plans." After the bank failures began in March 2023, the Systemic Risk Committee, Deputies Committee, and Council continued to meet several times from March 12, 2023, to April 5, 2023 (the time period for which GAO reviewed relevant meeting agendas) to discuss interest rate risk.

Source: GAO analysis of Financial Stability Oversight Council (FSOC) documents. | GAO-23-105708

- **Approval of annual report by the Council.** The Council approves and signs the annual report through a member statement of the 10 voting members of FSOC. The voting members attest that issues and recommendations in the annual report should be fully addressed. They also attest that the Council and its member agencies should exercise their respective authorities for oversight of financial firms and markets, so that the private sector employs sound financial risk-management practices to mitigate potential risks to financial stability.

Recently Proposed Guidance Intends to Facilitate FSOC's Ability to Exercise Its Nonbank Designation Authority

In April 2023, FSOC proposed for public comment new guidance on its nonbank designation authority, which would replace the 2019 guidance that is currently in place.

2019 Guidance

In December 2019, FSOC issued final interpretive guidance prioritizing an activities-based approach to identifying, assessing, and addressing potential financial stability risks.[27] This approach, which replaced prior guidance issued in 2012 and supplements issued in 2015, prioritizes working with regulators to address potential financial stability risks on a system-wide basis.[28] The preamble to the 2019 guidance states that measures FSOC typically may take in response to risks will be informal, such as sharing information among regulators. However, FSOC may take more formal measures, such as publicly issuing recommendations to regulators (for example, through its annual report). The guidance also states that FSOC will coordinate among member agencies and follow up on regulators' actions to ensure the potential risk is adequately addressed. Finally, under the guidance, FSOC will pursue a nonbank designation or a Section 120 recommendation only if a potential risk cannot be adequately addressed by regulators taking other actions through the activities-based approach.

The 2019 guidance also made key changes to other policies and procedures related to FSOC's use of its nonbank designation authorities:

Addition of cost-benefit analysis. The 2019 guidance specifies that FSOC is to perform a cost-benefit analysis before making a nonbank designation. It is to designate a nonbank financial company only if the expected benefits to financial stability justify the expected costs the designation would impose.

Assessment of likelihood of material financial distress. Under the 2019 guidance, FSOC is to assess the likelihood of the nonbank financial company's material financial distress based on its vulnerability to a range of factors. These factors may include leverage, reliance on short-term funding or other fragile funding markets, and maturity transformation.[29] The guidance also states that FSOC's vulnerability analysis is to take into

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[27]Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, 84 Fed. Reg. 71740 (Dec. 30, 2019) (codified at 12 C.F.R. pt.1310 App. A).

[28]Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, 77 Fed. Reg. 21637 (April 11, 2012) (codified at 12 C.F.R. pt. 1310); FSOC, *Supplemental Procedures Relating to Nonbank Financial Company Determinations* (Feb. 4, 2015); FSOC, *Staff Guidance: Methodologies Relating to Stage 1 Thresholds* (June 8, 2015).

[29]Maturity transformation is the funding of long-term assets with short-term liabilities. This process can create a balance-sheet mismatch that can pose risks when short-term funding markets are constrained.

account a period of overall stress in the financial services industry and a weak macroeconomic environment.

According to the 2019 guidance, consideration of a nonbank designation would be rare—for instance, if the products, activities, or practices of a nonbank financial company that pose a potential threat to U.S. financial stability are outside the jurisdiction or authority of financial regulatory agencies. The guidance also states that if FSOC identified a potential risk related to products, activities, or practices arising at a limited number of individual financial companies (which could include nonbank financial companies), FSOC nonetheless would prioritize a remedy that addressed the underlying risk across all companies that engage in the relevant activity. As noted previously, FSOC has not designated a nonbank financial company since 2014.

The 2019 guidance also established procedures related to FSOC's Section 120 recommendation authority. If, after engaging with relevant financial regulators, FSOC believes their actions are inadequate to address the identified potential risk to U.S. financial stability, FSOC may make formal public recommendations to primary financial regulatory agencies under section 120 of the Dodd-Frank Act. The Section 120 recommendation process also is to include a cost-benefit analysis relating to the expected recommendation.

2023 Proposed Guidance

In April 2023, FSOC proposed for public comment new guidance on its nonbank designation authority, which effectively would reverse many of the provisions introduced in the 2019 guidance.[30] Specifically, the proposed guidance would eliminate the expectations that FSOC would prioritize an activities-based approach and rely on federal and state regulators to address financial stability risks before considering a nonbank financial company designation. According to the preamble of the proposed guidance, although FSOC would maintain its commitment to engaging extensively with existing regulators, this change would provide FSOC the flexibility to use the most appropriate tool for addressing potential risks.

The proposed guidance also would eliminate the cost-benefit analysis and assessment of the likelihood of a firm's material financial distress

[30] 88 Fed. Reg. 26234 (Apr. 28, 2023).

established in the 2019 guidance.[31] The preamble to the proposed guidance states that these steps are not required by the Dodd-Frank Act, are not useful or appropriate, and unduly hamper FSOC's ability to use the statutory authority Congress provided to it.

Finally, the proposed guidance on nonbank designations is limited to FSOC's procedures rather than substantive analysis related to the nonbank financial company designation process. Instead, FSOC released for public comment a proposed analytic framework that describes how FSOC expects to identify, evaluate, and address potential financial stability risks.[32] FSOC expects to apply the analytic approach to potential risks regardless of the source (including those arising both from widely conducted activities and from individual entities) and regardless of the authorities FSOC might apply to mitigate such risks. According to the proposed guidance's preamble, FSOC believes it is most appropriate to describe these substantive analytic approaches broadly through its proposed analytic framework, rather than in a context limited to nonbank designations.

Past GAO Work Identified Limitations in FSOC's Authorities to Respond to Risks

Although FSOC's mission is to respond to systemic risks to financial stability, in previous work, we highlighted limitations in FSOC's authorities to do so. In 2016, we found that FSOC's authorities to designate nonbank financial companies, FMUs, or PCS activities may not allow FSOC to address certain broader risks, particularly those whose origins are not specific to a particular entity.[33] For such risks, FSOC can recommend but not compel regulatory action, even with broad consensus among FSOC members. For example, regulators can choose to proceed with FSOC's Section 120 recommendations or explain in writing their reasoning for not doing so.

Furthermore, our current review of annual report recommendations for six selected risk areas found that FSOC annual report recommendations can be broad and do not necessarily identify specific systemic risk-mitigation

[31]The proposed guidance generally only discusses FSOC's nonbank designation authority. However, because it would replace the 2019 guidance, it also would eliminate the expectations established in the 2019 guidance for using FSOC's Section 120 recommendation authority, including the expectation for a cost-benefit analysis.

[32]88 Fed. Reg. 26305 (Apr. 28, 2023). FSOC stated in the proposed analytic framework that it would not be a binding rule, but is intended to help market participants, stakeholders, and other members of the public better understand how FSOC expects to perform certain of its duties.

[33]GAO-16-175.

actions or timelines for regulators or other entities. However, even if they did, actions to respond to systemic risks lie in the hands of individual regulators because the recommendations are nonbinding.

Our 2016 report concluded that FSOC may lack the tools needed to comprehensively respond to systemic risks that may emerge. Accordingly, we recommended that Congress consider whether legislative changes are necessary to align FSOC's authorities with its mission to respond to systemic risks. We noted that Congress could do so by making changes to FSOC's mission, its authorities, or both, or to the missions and authorities of one or more of the FSOC member agencies to support a stronger link between the responsibility and ability to respond to systemic risks. As of June 2023, Congress had not done so, and therefore we reiterate our 2016 recommendation. Aligning FSOC's authorities with its mission could improve FSOC's ability to respond to systemic risks, especially those that are not specific to a particular entity.

FSOC Does Not Have a Systematic Approach for Reviewing the Effectiveness of Its Procedures for Responding to Systemic Risk

FSOC occasionally has evaluated the effectiveness of its policies, procedures, and governance structure for facilitating the use of its authorities to respond to systemic risks, but the evaluations have not taken place regularly and have not comprehensively evaluated all FSOC activities. In 2013, FSOC initiated a review of its governance structure and practices. The review assessed concerns raised by auditors (including GAO), members of Congress, market participants, and academics, about transparency, engagement with market stakeholders, and interagency collaboration. FSOC implemented several recommendations that resulted from the review. This included publication of charters for each FSOC committee, reorganization of several subcommittees, and an increased commitment to public engagement, such as by issuing public notice and summaries of Council meetings.

In 2022, FSOC undertook two internal reviews related to the use of its authorities to respond to systemic risk. The first assessed the policies and procedures put in place in the 2019 guidance on nonbank designation authorities. This review resulted in the proposed nonbank designation guidance that FSOC released in April 2023, discussed previously. The second assessed FSOC's annual report structure. Secretariat staff explained they wanted to sharpen the annual report's focus on emerging threats and vulnerabilities, consistent with FSOC's statutory authorities. As a result of the review, FSOC reorganized and streamlined the annual report. The new format, implemented as of the 2022 annual report, focuses more on financial vulnerabilities and regulatory developments and less on extensive market analysis (which can be found in other regulatory publications).

Outside entities also have reviewed some of FSOC's policies, procedures, and governance structure and suggested areas for improvement. For example, in 2012 and 2014, we reviewed FSOC's efforts to establish management structures and mechanisms to carry out its mission, and aspects of its policies and procedures relating to its nonbank designation authority, respectively.[34] We made several recommendations to FSOC, including for establishing additional procedures related to the nonbank designation process and improving the transparency of other processes.[35]

The Council of Inspectors General on Financial Oversight also periodically has evaluated the effectiveness and internal operations of FSOC, ranging from its FMU designation process to its monitoring of international financial regulatory developments. For example, in 2013, it recommended FSOC establish a formal structure for the Financial Market Utilities and Payment, Clearing, and Settlement Activities Committee that would include documenting committee deliberations and key recommendations. It also recommended FSOC establish a timeline for periodic reviews of nondesignated FMUs that may be systemically important.[36]

[34]GAO, *Financial Stability: New Council and Research Office Should Strengthen the Accountability and Transparency of Their Decisions*, GAO-12-886 (Washington, D.C.: Sept. 11, 2012); and GAO-15-51.

[35]We made a total of 16 recommendations in the two reports. As of May 2023, 13 had been closed and implemented, one recommendation was not implemented, and two remained open. Some of the actions FSOC took in 2014 and 2015 in response to the recommendations included updating its transparency policy to reflect improvements in how it communicates with the public, issuing bylaws clarifying the role of the Deputies Committee, and creating charters for its other committees. In 2015, FSOC also issued supplemental procedures for nonbank financial company designations that included procedures for enhancing disclosure, strengthening transparency, and engaging with companies during evaluations for potential determination and during annual reevaluations.

[36]For example, see The Council of Inspectors General on Financial Oversight, *Audit of the Financial Stability Oversight Council's Designation of Financial Market Utilities* (Washington, D.C.: July 12, 2013); and CIGFO, *Audit of the Financial Stability Oversight Council's Monitoring of International Financial Regulatory Proposals and Developments*, CIGFO-2019-01 (Washington, D.C: May 2019). In its July 2022 annual report, the Council of Inspectors General on Financial Oversight noted that FSOC's corrective actions to date had met the intent of recommendations in all Inspector General audits.

In addition, two international organizations—the International Monetary Fund and Financial Stability Board—conduct recurring reviews of how FSOC, other U.S. financial regulators, and authorities in other countries monitor and address systemic risks.[37] These organizations suggested various improvements, including changes to FSOC's annual report, adjustments to its governance structure, and improvements and clarifications to its procedures.[38] For example, in 2020, the International Monetary Fund recommended that Congress give the State Insurance Commissioner voting member status, a change for which staff at some FSOC member agencies expressed support in our interviews. The report also recommended that FSOC provide an overview of how the activities-based approach would be put into operation.[39]

However, FSOC does not have a formal process to determine what aspects of its activities it should evaluate or when they should be evaluated. As a result, although FSOC conducted some evaluations related to its governance structure and the use of its authorities to respond to systemic risk, it has not done so on a regular basis. FSOC's

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[37]Financial Stability Board, *Peer Review of the United States: Review Report* (Basel, Switzerland: Aug. 27, 2013). Also see International Monetary Fund, *Financial Sector Assessment Program: Financial System Stability Assessment* (Washington, D.C.: July 2015); *Financial Sector Assessment Program: Systemic Risk Oversight and Management—Technical Note* (Washington, D.C.: July 2015); and *Financial Sector Assessment Program: Technical Note—Systemic Risk Oversight and Systemic Liquidity* (Washington, D.C.: August 2020). The Financial Stability Board conducts a regular program of peer reviews, consisting of thematic reviews and country reviews. Similarly, the International Monetary Fund's Financial Sector Assessment Program provides a comprehensive, in-depth analysis of the resilience of a country's financial sector, which can include an evaluation of the quality of supervision and regulation of the sector.

[38]According to Secretariat staff, FSOC has a process to respond to recommendations from these organizations through Treasury's Office of International Affairs. This office coordinates responses from relevant federal regulators regarding recommendations from the International Monetary Fund and Financial Stability Board. As part of this process, Secretariat staff said they review the FSOC-related recommendations and describe the relevant developments that respond to the recommendations. According to International Monetary Fund's 2020 report (*Financial Sector Assessment Program: Technical Note—Systemic Risk Oversight and Systemic Liquidity)*, FSOC implemented some of the recommendations from its prior *Financial Sector Assessment Program* reports. The International Monetary Fund tracks the status of recommendations it makes in its reports, but the status of its 2020 recommendations has not yet been made public. The Financial Stability Board's 2020 peer review of the United Sates was put on hold due to circumstances surrounding the COVID-19 pandemic and resumed in 2022. As of June 2023, the review had not yet been published and therefore, an update on recommendations it made in its 2013 review has not yet been released.

[39]*Financial Sector Assessment Program: Technical Note—Systemic Risk Oversight and Systemic Liquidity*.

first internal review occurred in 2013 and it did not initiate its two additional reviews until 2022. Furthermore, FSOC has not reevaluated changes made to its governance structure and practices since its 2013 review. At that time, Secretariat staff noted they would continue discussions to identify ways to assess FSOC's performance in fulfilling its responsibilities. However, as of November 2022, staff could not identify any outcomes specifically related to these 2013 discussions. FSOC also did not begin reviewing the changes it made through its 2019 guidance related to its nonbank designation authority until 2022.

Secretariat staff told us that the three reviews were the only reviews FSOC has conducted to date. However, these reviews also were limited to certain aspects of FSOC's activities and do not collectively represent a comprehensive evaluation of all FSOC activities. For example, FSOC has not reviewed its policies and procedures related to the use of its other authorities, including its annual and other report recommendations and FMU and PCS designation authorities.[40]

Secretariat staff said the process they use for internal evaluations, including how they are initiated and their scope, depends on the nature of the evaluation undertaken. They explained that they rely on FSOC committees and working groups to consider and raise relevant issues for internal evaluation and that additional areas for review may come up in regular bilateral discussions with member agencies. They noted that member agencies also have a responsibility to raise issues that may warrant internal evaluation, including the reform of FSOC's policies and procedures for responding to financial stability risks. Secretariat staff noted that FSOC's annual report provides transparency and accountability regarding the Council's work to address potential risks to financial stability.

[40]In 2017, at the request of the President, Treasury reviewed FSOC's nonbank and FMU designation processes. Treasury Secretariat staff participated in this review with other staff from Treasury. The review evaluated the effects and efficacy of FSOC's designation processes, rigor of the analyses, and FSOC's engagement and transparency with firms, regulators, and the public. As a result of the review, Treasury recommended that FSOC prioritize an activities-based approach, a finding that contributed to the development of FSOC's 2019 guidance. Treasury also recommended enhancing the analytical rigor, engagement, and transparency of the FMU designation process, and ensuring that the designation process is individualized and appropriately tailored. Secretariat staff stated that FSOC has not considered or pursued changes to its FMU designation process since the report's publication, and no FMUs have been designated since 2012.

The evaluation principle of our macroprudential oversight framework states that the macroprudential entity—FSOC—should evaluate the effectiveness of all activities within its control.[41] The evaluations may cover both the entity's activities and the policies and procedures it uses to put them into operation. The principle explains that policies and procedures should be developed to ensure timely, objective, and consistent evaluation of policy efforts.

Regular and comprehensive reviews (inclusive of all of FSOC's activities) by FSOC on the effectiveness of its policies, procedures, and governance structure could help it identify areas for improvement and thus enhance its ability to respond to systemic risk. For example, given recent bank failures, FSOC could review if its policies and procedures for issuing and following up on annual report recommendations are sufficient for allowing FSOC to respond to potential threats to financial stability. A more systematic approach also could help ensure that any policy and procedural changes resulting from changes in FSOC leadership are routinely reviewed. Such an approach also could help FSOC evaluate if recommendations made by external organizations could provide opportunities for it to improve its policies and procedures for responding to systemic risks. Furthermore, ensuring that internal reviews are comprehensive might allow FSOC to better identify gaps or limitations related to its authorities to respond to potential threats to financial stability.

Conclusions

FSOC plays an important role in helping to identify, monitor, and respond to systemic risks in the U.S. financial system. Limitations in FSOC's authorities—including the nonbinding nature of its recommendations—may constrain its ability to effectively respond to different kinds of systemic risks. We therefore reiterate our 2016 recommendation that Congress consider legislative changes to align FSOC's authorities with its mission to respond to systemic risks. Such changes could help FSOC respond to risks that its current authorities do not effectively address.

Ensuring that FSOC is optimally positioned to respond to potential threats requires FSOC to evaluate the effectiveness of its policies, procedures, and governance structure. However, FSOC does not have a systematic approach for reviewing the effectiveness of its activities on a regular basis. The reviews it did were ad hoc and did not allow for a comprehensive assessment of all FSOC activities. As FSOC begins

[41] GAO-21-230SP.

implementing revised procedures for its nonbank designation authority and its proposed analytic framework, a process that ensures regular and comprehensive evaluations of all FSOC activities would help it assess the effectiveness of the revised procedures and their implementation. In turn, this could help FSOC identify areas for improvement and better position FSOC to effectively respond to potential threats to financial stability.

Recommendation for Executive Action

The Secretary of the Treasury should ensure that FSOC establishes a process for conducting regular and comprehensive reviews of its effectiveness, including the extent to which its policies, procedures, and governance structure facilitate its ability to respond to financial stability risks. (Recommendation 1)

Agency Comments and Our Evaluation

We provided a draft of this report to the Secretary of the Treasury—as the Chairperson of FSOC—for review and comment. We also provided a draft of this report to the Consumer Financial Protection Bureau; CFTC; Federal Deposit Insurance Corporation; Federal Housing Finance Agency; Federal Insurance Office; Federal Reserve; National Credit Union Administration (NCUA); Office of the Comptroller of the Currency; Office of Financial Research; SEC; the independent FSOC member with insurance expertise; and the FSOC-appointed state banking, insurance, and securities regulators for review and comment. NCUA and Treasury provided written comments, which are reprinted in appendix III and IV, respectively. Treasury, CFTC, Federal Deposit Insurance Corporation, Federal Reserve, Office of the Comptroller of the Currency, and SEC provided technical comments on the draft report, which we incorporated as appropriate.

In its written comments, NCUA noted that it acknowledged our observations.

In its written comments, Treasury partially agreed with our recommendation. The letter notes that Treasury agrees that FSOC should be conducting regular and comprehensive reviews of its effectiveness. It also noted that FSOC is committed to continuing to improve its policies, procedures, and governance structure, as needed. However, it does not discuss FSOC's plans for developing a process to ensure such reviews will occur. The letter details several reviews and outcomes from those reviews that FSOC, as well as external parties, have conducted to evaluate FSOC's policies, procedures, and governance structure. But, as we discuss in the report, the reviews FSOC has initiated on its own have not been done on a regular basis and have not been inclusive of all of FSOC's activities.

We maintain that developing a process for conducting regular and comprehensive evaluations on the effectiveness of its policies, procedures, and governance structure, would help FSOC to ensure that reviews occur regularly and would be comprehensive of all of FSOC's activities. This, in turn, would help FSOC identify areas for improvement and enhance its ability to respond to systemic risk. Treasury's written response also describes examples some reviews that have been conducted on FSOCs policies, procedures, and governance structure, as well as updates to policies and procedures that have been made in response to those reviews. Our report describes some of these efforts, but not others because we focused on reviews FSOC had conducted on its own initiative. The examples noted in Treasury's letter that are not described in our report were reviews that were not self-initiated by FSOC, and rather were the result of FSOC directives contained in Executive Orders.

We are sending copies of this report to the appropriate congressional committees, Secretary of the Treasury, Director of the Consumer Financial Protection Bureau, Chairman of the Commodity Futures Trading Commission, Chairman of the Federal Deposit Insurance Corporation, Director of the Federal Housing Finance Agency, Chairman of the Board of Governors of the Federal Reserve System, Acting Comptroller of the Currency, Chairman of the Securities and Exchange Commission, Chairman of the National Credit Union Administration, and other interested parties. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or ClementsM@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix V.

Michael E. Clements
Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

Our objectives were to examine (1) how the Financial Stability Oversight Council (FSOC) has used its authorities to respond to potential threats to financial stability, (2) the extent to which FSOC's authorities, policies, and procedures support its ability to respond to potential threats to financial stability; and (3) the extent to which FSOC has evaluated whether its policies, procedures, and governance structure facilitate its ability to respond to potential threats to financial stability.

To address our first objective, we reviewed FSOC's annual reports and other public statements on its use of its authorities from 2011 (FSOC's first full year of operations) to 2023, as well as prior GAO reports that discussed FSOC's use of its authorities. We also reviewed Title I of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), as amended, FSOC's 2012 proposed recommendations regarding money market mutual fund reform, and the court decision invalidating FSOC's designation of MetLife, Inc.[1]

We obtained written questionnaire responses on FSOC's use of its nonbank designation and Section 120 authorities from 14 of 15 FSOC member agencies.[2] These agencies were the Board of Governors of the Federal Reserve System, Commodity Futures Trading Commission, Consumer Financial Protection Bureau, Federal Deposit Insurance Corporation, Federal Housing Finance Agency, Federal Insurance Office, National Credit Union Administration, Office of the Comptroller of the Currency, Office of Financial Research, Securities and Exchange Commission, and a designated state banking supervisor, state insurance commissioner, state securities commissioner, and independent member with insurance expertise. In lieu of written questionnaires to the Department of the Treasury (the remaining FSOC member agency), we sent written requests for information and documents to the FSOC Secretariat staff.[3]

We also reviewed all recommendations made in FSOC annual reports from 2015 through 2021, the most current year available when we began

[1] *MetLife, Inc. v. Financial Stability Oversight Council*, 117 F. Supp.3d 219 (D.D.C. 2016).

[2] Although not all FSOC members represent federal agencies, we use "member agencies" to represent all FSOC members, including their agencies, offices, and staff.

[3] The FSOC Secretariat is a dedicated policy office in Treasury's Office of Domestic Finance that coordinates the work of the committees and assists FSOC's Chairperson in carrying out his or her responsibilities.

our review. We selected 2015 as the starting point for our annual report review because our audit work for our previous detailed review of FSOC's annual report recommendations ended in 2015.[4] This time period also allowed us to capture trends in risk areas over a number of years. For these annual reports, we identified all statements that recommended actions to regulatory agencies, quasi-government agencies, market participants, or Congress, and we included statements with language such as "the Council encourages" and "It is important that…." We grouped all of the recommendations by category.

Because the recommendation categories cited in the annual reports were not always consistent across the 7-year period, we established unique category names for some of the recommendations. We identified 16 recommendation categories and selected six for further review. These categories were climate-related financial risk, financial innovation, real estate (residential and commercial), reference rates, repurchase agreements and money market mutual funds, and risks related to low interest rates. We selected these categories to reflect risk areas that involved a range of relevant member agencies and a variety of financial market areas. In addition, we selected them to reflect variance in the frequency with which these were included in the annual reports (from only in one year to every year).

For the selected recommendation categories, we evaluated the extent to which the recommendations named specific entities responsible for implementing the recommendations and time frames and actions for implementing them. Our analysis included relevant recommendations from the 2022 annual report, which was issued after we selected the six recommendation categories. Finally, we reviewed the two stand-alone reports FSOC issued on specific risk areas during 2015–2022 (on digital assets and climate-related financial risk).[5]

To address our second objective, we reviewed public FSOC meeting minutes and internal FSOC documentation (such as committee meeting agendas, presentations, and work plans) from January 2015 through January 2023 to understand FSOC's policies and procedures related to annual report recommendations. We selected 2015 as the starting point

[4]GAO, *Financial Regulation: Complex and Fragmented Structure Could Be Streamlined to Improve Effectiveness*, GAO-16-175 (Washington, D.C.: Feb. 25, 2016).

[5]Financial Stability Oversight Council, *Report on Digital Asset Financial Stability Risks and Regulation* (Washington, D.C.: Oct. 3, 2022); and *Report on Climate-Related Financial Risk* (Washington, D.C.: Oct. 21, 2021).

for our review of documentation for the same reason we noted for our first objective. We also obtained written responses to questions on FSOC's process for developing annual report recommendations from all 14 FSOC member agencies and the Secretariat staff. We also reviewed FSOC's 2021 and 2022 annual reports for our discussion of FSOC's actions related to risks in a higher interest rate environment, which was a factor in the 2023 bank failures.

In addition, we reviewed the Dodd-Frank Act, as amended, and related regulations, including FSOC's December 2019 final interpretive guidance on its authority to require supervision and regulation of certain nonbank financial companies.[6] We also reviewed FSOC's April 2023 proposed guidance on its nonbank designation authority and its proposed analytic framework, which was issued in the same month.[7] Finally, we reviewed our 2016 report on fragmentation and overlap in the financial regulatory structure and our 2020 report on leveraged lending to describe limitations we previously identified in FSOC's authorities.[8] We compared FSOC's efforts against risk-assessment and risk-mitigation principles in our macroprudential oversight framework.[9]

For this objective, we scoped our work to include changes FSOC had made in recent years to policies and procedures related to the use of some of its authorities. Because FSOC had not made any changes in recent years to the procedures for its financial market utility or payment, clearing, and settlement designation authorities, we did not include the

[6]Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, 84 Fed. Reg. 71740 (Dec. 30, 2019) (codified at 12 C.F.R. pt. 1310 App. A).

[7]Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, 88 Fed. Reg. 26234 (Apr. 28, 2023); Analytic Framework for Financial Stability Risk Identification, Assessment, and Response, 88 Fed. Reg. 26305 (Apr. 28, 2023).

[8]See GAO-16-175; and *Financial Stability: Agencies Have Not Found Leveraged Lending to Significantly Threaten Stability but Remain Cautious Amid Pandemic*, GAO-21-167 (Washington, D.C.: Dec. 16, 2020).

[9]GAO, *Macroprudential Oversight: Principles for Evaluating Policies to Assess and Mitigate Risks to Financial System Stability*, GAO-21-230SP (Washington, D.C.: Jan. 28, 2021). In developing this framework, we reviewed literature on macroprudential policy, prior GAO reports, relevant laws and regulations, and international risk-management guidelines. We also interviewed or held discussion groups with representatives of FSOC and its member agencies; international financial stability entities, supreme audit institutions, and international organizations; public interest and industry groups; former regulators and civil servants; and academic and regulatory experts.

guidance or procedures related to these authorities in the scope of this objective. In addition, we used prior GAO work to describe the extent to which FSOC's authorities support its ability to respond to systemic risk.

To address our third objective, we reviewed internal FSOC documentation on FSOC's 2013–2014 governance and transparency review and its 2022 reorganization of its annual report structure. We reviewed FSOC bylaws and charters for the Council, Deputies Committee, and staff-level committees to determine if changes from FSOC's previous governance review reflected the committees' current operations. We reviewed our previous reports and reports from the International Monetary Fund and Financial Stability Board (international organizations that conduct recurring reviews of the U.S. financial regulatory system), as well as the Council of Inspectors General on Financial Oversight, since FSOC's inception.[10] We identified recommendations in these reports concerning FSOC's policies and procedures, governance structure, and use of its authorities. We assessed FSOC's efforts for conducting internal evaluations against the evaluation principle in our macroprudential oversight framework.[11]

For all these objectives, we also reviewed academic, think tank, and international organization literature. We interviewed representatives of all FSOC member agencies, as well as the Secretariat. We conducted structured group interviews with member agency staff who serve on FSOC's Deputies and Systemic Risk Committees. For the Systemic Risk Committee, we conducted two group interviews with representatives from a total of 10 member agencies. For the Deputies Committee, we conducted three group interviews with representatives from a total of 13

[10]Financial Stability Board, *Peer Review of the United States: Review Report* (Basel, Switzerland: Aug. 27, 2013). Also see International Monetary Fund, *Financial Sector Assessment Program: Financial System Stability Assessment* (Washington, D.C.: July 2015); *Financial Sector Assessment Program: Systemic Risk Oversight and Management—Technical Note* (Washington, D.C.: July 2015); and *Financial Sector Assessment Program: Technical Note—Systemic Risk Oversight and Systemic Liquidity* (Washington, D.C.: August 2020). And see Council of Inspectors General on Financial Oversight, *Annual Report of the Council of Inspectors General on Financial Oversight* (12 reports from 2011 to 2022); *CIGFO's Corrective Action Verification on the Audit of the Financial Stability Oversight Council's Designation of Financial Market Utilities: Report to the Financial Stability Oversight Council and the Congress* (Washington, D.C.: May 2017); and *CIGFO Audit of the Financial Stability Oversight Council's Monitoring of International Financial Regulatory Proposals and Developments* (Washington, D.C.: May 2019).

[11]GAO-21-230SP.

member agencies.[12] In addition, we interviewed four experts on FSOC's authorities and its governance structure and practices. We selected the experts on the basis of their relevant research and their participation in interviews for prior GAO audit work on financial stability.

We conducted this performance audit from January 2022 to September 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[12]The Systemic Risk Committee interviews included staff from all FSOC member agencies except the Commodity Futures Trading Commission, Federal Insurance Office, Office of Financial Research, Treasury, and the designated state banking supervisor. The Deputies Committee interviews included staff from all FSOC member agencies except Treasury and the designated state banking supervisor.

Appendix II: Structure of the Financial Stability Oversight Council and Roles and Operating Mechanisms of Its Components

The Financial Stability Oversight Council (FSOC) generally operates by consensus. Its structure consists of the Council, Deputies Committee, Secretariat, and staff-level committees.

Council. FSOC's Council consists of 15 members (or principals)—10 voting and five nonvoting members. A majority of voting members of the Council needs to be present to conduct Council business. The Council has the ultimate voting authority at FSOC. Voting records from Council meeting minutes since 2015 show that members generally reached consensus and votes on matters generally were unanimous. Voting members never submitted dissenting votes for the approval of annual reports.[1]

Deputies Committee. FSOC's Deputies Committee has multiple coordinating roles at FSOC, makes decisions by majority vote or by consensus, and helps determine what information to pass to the Council. The committee plays a substantive role in FSOC's operations, including directing work to staff-level committees and passing matters to the Council for consideration or voting. The bylaws state the duties of the Deputies Committee as (1) coordinating and overseeing the work of committees of the Council; (2) coordinating the Council's agenda; (3) assisting the Council in fulfilling its duties, including identifying and monitoring risks to U.S. financial stability; (4) considering recommendations to the Council on designations of nonbank financial companies; financial market utilities; and payment, clearing, and settlement activities; (5) coordinating with the Office of Financial Research; and (6) performing any other work assigned by the Council.

The Deputies Committee, in coordination with the Secretariat, plays a vetting role in determining and overseeing the work staff-level committees and working groups undertake, according to structured group interviews we conducted with members of the Deputies Committee.

Secretariat. The Secretariat is a dedicated policy office in Treasury's Office of Domestic Finance that coordinates the work of the committees

[1]When the Council submits its annual report to Congress, if each voting member believes that the Council, the government, and the private sector are taking all reasonable steps to ensure financial stability and mitigate systemic risk that would negatively affect the economy, the member submits a signed statement to Congress stating such belief. If a voting member does not believe that all reasonable steps are being taken, the member submits a signed statement to Congress stating what actions the member believes would be needed to ensure such steps would be taken.

and assists FSOC's Chairperson in carrying out his or her responsibilities. Secretariat staff said its primary work is to share information and facilitate collaboration to enable the Council to carry out its statutory duties.

Staff-level committees and working groups meet regularly, work by consensus, and generate ideas and analysis, which are reported to the Deputies Committee, according to documentation we reviewed.[2] If a committee is unable to reach consensus on an issue within a reasonable period of time, the committee reports to the Deputies Committee on the positions of all participants on the committee regarding the issue. According to staff-level committee charters, staff of all Council members and member agencies may participate in the work of staff-level committees.

FSOC member agency staff, staff-level committees, and working groups all can provide input, ideas, information, and feedback on FSOC's use of authorities and related work, according to our interviews with member agency and Secretariat staff, as well as structured group interviews with staff-level committee representatives. According to some committee members, the Systemic Risk Committee acts as an idea and information generator for potential threats to financial stability and discusses and facilitates presentations on ideas or matters to the Deputies Committee. It does not necessarily reach formal consensus on those ideas or matters.

[2]Staff-level committees are the Systemic Risk Committee; Nonbank Financial Companies Designations Committee; Financial Market Utilities and Payment, Clearing, and Settlement Activities Committee; Regulation and Resolution Committee; Climate-related Financial Risk Committee; and Data Committee. Working Groups are the Open End Funds, Hedge Fund, and Digital Assets groups under the Deputies Committee and the Data Infrastructure, Data Requirements, Risk Assessment, and Scenario Analysis groups under the Climate-related Financial Risk Committee.

Appendix III: Comments from the National Credit Union Administration

National Credit Union Administration
Office of the Executive Director

July 26, 2023

Michael E. Clements
Director, Financial Markets & Community Investment
U.S. Government Accountability Office
441 G Street NW
Washington, DC 20548

Dear Mr. Clements,

We reviewed GAO's draft report (GAO-23-105708) entitled *Financial Stability Oversight Council: Assessing Effectiveness Could Enhance Response to Systemic Risks*. While there are no specific recommendations for the National Credit Union Administration, we acknowledge GAO's observations.

Thank you for the opportunity to review and comment on the draft report.

Sincerely,

LARRY FAZIO Digitally signed by LARRY FAZIO Date: 2023.07.26 14:21:00 -04'00'

Larry Fazio
Executive Director

1775 Duke Street – Alexandria, VA 22314-3428 – 703-518-1175

Appendix IV: Comments from the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 28, 2023

Michael Clements
Director, Financial Markets and Community Investment
Government Accountability Office
441 G Street NW
Washington, DC 20548

Dear Mr. Clements:

I write regarding the Government Accountability Office's (GAO) draft report entitled *Assessing Effectiveness Could Enhance Response to Systemic Risks*, GAO-23-105708 (Draft Report). GAO's Draft Report reviews the Financial Stability Oversight Council's (FSOC) use of its statutory authorities, including recommendations issued in its annual report to Congress and its authorities to designate certain entities or activities for appropriate supervision and regulation. The Draft Report also recounts the steps FSOC has taken over time to evaluate and revise its policies and procedures—both on its own initiative and in response to external reviews—and recommends the adoption of another formal review process.

As the Draft Report details, FSOC's annual report is an important tool to identify, assess, and address risks to the U.S. financial system. To fulfill FSOC's congressional mandate, each annual report discusses FSOC's recent activities, describes significant financial market and regulatory developments, and analyzes potential emerging threats. Another key function of the annual report is to make recommendations to regulators, market participants, and Congress to enhance the integrity, efficiency, competitiveness, and stability of U.S. financial markets. Recent analyses and recommendations concern risks related to commercial real estate, digital assets, climate change, the Treasury market, and cybersecurity, among other topics.

Based on an interagency review process conducted by FSOC in 2022, FSOC reorganized and streamlined the structure of its annual reports to support their continued vitality. The result, embodied in the 2022 Annual Report, is a sharpened focus on emerging threats and vulnerabilities, and the Council's related recommendations to regulators, market participants, and Congress. As GAO notes, one topic specifically addressed in the 2022 Annual Report is the impact of interest rate risk on banks, insurance companies, and pension funds. As evidenced by the bank stress events beginning in March 2023, FSOC was right to highlight this important issue and recommend that regulators and market participants address the risks and impacts of higher interest rates.

Over the last year, FSOC also undertook a formal process to review and update its procedures related to systemic risk monitoring and the designation of nonbank financial companies. In

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particular, FSOC took steps to strengthen its effectiveness in April 2023 with the publication of its proposed interpretive guidance regarding nonbank financial company determinations (Proposed Guidance) and proposed analytic framework for financial stability risks (Proposed Analytic Framework). The Proposed Guidance describes the procedural steps FSOC would take in considering whether to designate a nonbank financial company for prudential standards and supervision by the Board of Governors of the Federal Reserve System. FSOC voted unanimously to issue the Proposed Guidance for public comment at its public meeting on April 21, 2023. That same day, FSOC also unanimously approved publication of the Proposed Analytic Framework, which is intended to provide greater transparency to the public about how FSOC identifies, assesses, and addresses potential risks to financial stability, regardless of whether the risk stems from activities or firms. As noted in GAO's Draft Report, these proposals—particularly the Proposed Guidance—resulted from FSOC's internal review of its existing policies.

For other examples of the results of FSOC's periodic reviews and updates to its policies and procedures, we would highlight updates to FSOC's transparency policy and staff committee charters (May 2014), amendments to FSOC's bylaws (April 2018), previous amendments to FSOC's nonbank financial company designations guidance (December 2019), and the establishment of a new Climate-related Financial Risk Committee (December 2021) and Climate-related Financial Risk Advisory Committee (October 2022).

As demonstrated by FSOC's efforts to review and improve its procedures to implement its crucial statutory authorities, we agree with GAO that FSOC should be "conducting regular and comprehensive reviews of its effectiveness, including the extent to which its policies, procedures, and governance structure facilitate its ability to respond to financial stability risks."[1] FSOC has taken many actions to review its effectiveness and to align its policies, procedures, and governance structure with its mission.

We would note that beyond FSOC's own periodic reviews of its policies and procedures like those described above, numerous other formal and informal processes for regular and comprehensive reviews of FSOC and its work already exist. First and foremost, Congress plays a vital role in reviewing FSOC's effectiveness. While FSOC's annual report has many audiences, it is addressed to Congress, as required by statute, and the Secretary of the Treasury, as FSOC's Chairperson, has a statutory duty to testify annually on FSOC's "efforts, activities, objectives, and plans."[2] At hearings and through correspondence, relevant committees and individual members of Congress routinely take the opportunity to review FSOC's activities and suggest changes to its policies, procedures, and governance structure.

In addition, Congress has empowered GAO and the Council of Inspectors General for Financial Oversight (CIGFO) to evaluate FSOC's activities, effectiveness, and internal operations.[3] Both GAO and CIGFO have made ample use of their authorities, and FSOC has acted in response.

[1] Draft Report at 25.
[2] Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), P.L. 111-203, § 112, 124 Stat. 1376, 1394 (July 21, 2010).
[3] Dodd-Frank Act § 989E(a)(3) (empowering CIGFO to establish working groups "to evaluate the effectiveness and internal operations of" FSOC); *id.* § 121 (granting GAO authority to audit FSOC's activities).

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Prior GAO reports have included detailed discussions of FSOC's existing authorities, committee structure, crisis preparedness, and nonbank financial company designation procedures. And CIGFO, which has published nearly a dozen audit reports and issued numerous recommendations to FSOC, acknowledged in 2022 that FSOC's actions in response to CIGFO's reports had met the intent of all CIGFO recommendations.[4] Finally, two international organizations—the International Monetary Fund (IMF) and Financial Stability Board (FSB)—regularly review FSOC's policies and procedures. Both the IMF and FSB make recommendations with the aim of improving FSOC's ability to respond to financial stability risks, which FSOC considers, as appropriate.[5]

In recent years, FSOC has proposed and implemented significant reforms to strengthen its ability to carry out its statutory mandate. FSOC is committed to continuing to improve its policies, procedures, and governance structure as needed, whether in response to external recommendations or internal reviews.

* * *

We appreciate GAO's review of FSOC's policies and recent initiatives as well as the opportunity to review the Draft Report. Thank you for your consideration of our comments.

Sincerely,

Sandra Lee

Sandra Lee
Deputy Assistant Secretary
Financial Stability Oversight Council

[4] CIGFO, 2022 Annual Report of the Council of Inspectors General on Financial Oversight (July 2022).
[5] *See* Draft Report at 22-23.

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Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

Michael E. Clements (202) 512-8678 or clementsm@gao.gov

Staff Acknowledgments

In addition to the contact named above, Christine McGinty (Assistant Director), Akiko Ohnuma (Analyst in Charge), John (Mac) Emery, Barry Kirby, Risto Laboski, Courtney LaFountain, Marc Molino, Lisa Reynolds, Barbara Roesmann, Jessica Sandler, and Farrah Stone made key contributions to this report. Other staff who contributed to this report are Rachel Demarcus, Tonita W. Gillich, Susan J. Irving, Yvonne D. Jones, and Rebecca Shea.

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