



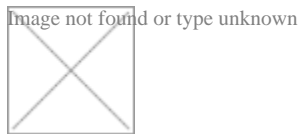
Insight

FSOC Takes Baby Steps Toward AAF Reform Recommendations

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Last fall the Financial Stability Oversight Council (FSOC) began the process of reviewing and evaluating its systemically important [designation process for nonbank financial companies](#), seeking input from stakeholders and assessing potential changes. Following that process FSOC staff presented council members with reform recommendations for consideration. And on February 4, [FSOC formally adopted](#) the staff's recommendations. In adopting these measures, FSOC has taken a step in the right direction, embracing many changes AAF has previously outlined.[\[1\]](#)[\[2\]](#)[\[3\]](#)

[FSOC organized the adopted changes](#) into three primary categories. These categories and the proposed reforms are listed below with similar AAF recommendations shaded in grey.



In adopting these changes, FSOC also extended the comment period for input on the risks to financial stability posed by assets management products and activities. [AAF has shown](#) that a more activity-based approach to oversight and regulation not only for asset managers but nonbanks generally has the benefit of identifying activities that truly pose a threat to financial stability while giving companies greater latitude to seek a solution that is in everyone's best interest. Though more activity-based regulation was eschewed in the designation of MetLife as systemically important, this approach would greatly enhance the designation process for nonbanks.

Altogether AAF has made numerous recommendations aimed at opening up FSOC's nonbank designation process to public scrutiny, improving communication and cooperation with firms under consideration, and narrowly tailoring regulation at activities that pose documented risks to the larger financial system. While FSOC has taken positive steps toward reforming its designation process by adopting commonsense reforms, more work can be done. Here are some AAF recommendations that the Council has still failed to address:

- Provide more detailed minutes of FSOC meetings, meetings that should involve broad discussions of to how a firm’s risk affects the financial system and not proprietary or transaction-level information
- Work with a company to address activities posing systemic risk, allowing the opportunity for a firm to remedy concerns, prior to advancing designation
- Fully assess economic costs as well as benefits
- Give primary regulators a presumptive enhanced role in early deliberations
- Final decision to designate should mention alternatives to designation offered for consideration and why those alternatives were insufficient to mitigate systemic risk
- Regular meetings with experts and stakeholders to better track risks to the financial system and inform the process

In summary, these efforts are broadly meant to improve the process by which FSOC recognizes, assesses, and addresses risks posed to our financial system. Both firms facing designation and the broader public must have confidence in FSOC and its ability to carry out its mission. Acting on these reforms shows FSOC is committed to opening up its process and improving its effectiveness. Yet the recently announced changes are but one step toward meeting that aim.

[1] Satya Thallam, “Considering an Activity-Based Regulatory Approach to FSOC,” (September 12, 2014); <http://americanactionforum.org/research/considering-an-activity-based-regulatory-approach-to-fsoc>