Insight

# Is FSOC Just Following the FSB's Lead?

MEGHAN MILLOY | OCTOBER 11, 2016

In an ideal world, the regulators and agencies that oversee companies in the United States would have a vested interest in knowing exactly what sort of regulations they are levying and the effects those regulations have. One would also hope that, at the very least, these regulators and agencies have a grasp on the regulatory process because they are passionate about and educated on the issues with which they're dealing. Unfortunately, that's not always the case.

During a testimony before the House Financial Services Committee last week, Representative Keith Rothfus asked Federal Reserve Chairwoman Janet Yellen whether FSB designations predetermine Financial Stability Oversight Council (FSOC) designations. There has been speculation that, since the Financial Stability Board (FSB) designated Prudential and MetLife as globally systemically important insurers (G-SIIs) not long before FSOC followed suit, that FSOC wasn't conducting their own systemic importance analysis; rather, they were just following the FSB's lead. FSOC's own independent insurance expert, Roy Woodall, noted in his dissents of both Prudential and MetLife's designations that he was concerned that FSB designations were influencing FSOC.

Chairwoman Yellen, who, in her role as Chair, is a voting member of FSOC, responded by telling committee members that FSOC's designations of Prudential and MetLife as SIFIs were conducted *before* the FSB designated them as G-SIIs. In actuality, FSB released its first G-SIIs designee list in July of 2013, and FSOC designated Prudential in September 2013 and MetLife in December 2014.

There are a couple of problems here. First, as one of only ten voting members of FSOC, Chairwoman Yellen's vote is extremely consequential. It is imperative that she, and the other voting members, are as well-informed as possible throughout the designation process. If any of the voting members hasn't been paying enough attention to at least know the correct timeline of events, that's worrisome. Second, Janet Yellen, as chairwoman of the Fed, is active member of FSB. That she is so active in both relevant bodies and is still misreporting the dates to the committee, could lead observers to believe that FSOC is just following FSB's lead and is denying it. Of course, this could also be a simple case of a timing mix-up.

Interestingly, on the same day as Yellen's testimony, Thomas Sullivan, Associate Director of the Board of Governors of the Fed was testifying before an Insurance and Housing Subcommittee hearing. Representative Rothfus again followed up on his letter about FSB and FSOC designations and their timing, and the member of the Board of Governors repeated Chairwoman Yellen's response that FSB designations occurred after FSOC designations.

It's certainly understandable that someone would mix up specific dates under the pressure of a congressional hearing, but as a voting member of FSOC and an active participant at the FSB, Chairwoman Yellen should be one of the most informed actors in the process – at the very least the staff that do the bulk of the research and writing should have a firm grasp on the details. FSOC's designation process is already arbitrary and capricious enough as it is, but if they are truly foregoing an actual reasoned, systematic process of designating companies

in lieu of arbitrarily accepting an international body's recommendation, they need some real reform. In any case, there is room for improvement at the FSOC, which is responsible for levying costly designations on American companies.