

FSOC Reform and Systemic Risk

Improving the Financial Stability Oversight Council's (FSOC) approach to addressing potential risks to U.S. financial stability creates a strong and stable regulatory environment for all.

In response to the 2008 financial crisis, Congress created the FSOC, a council of regulators tasked with preventing systemic risk. The FSOC has authority to designate financial firms as systemically important financial institutions (SIFIs).

However, the FSOC misinterpreted the law and the initial process was deeply flawed. **The SIFI designation process:**



Targeted individual companies for designation without any notice or process.



Was premised on financial thresholds that were not indicative of systemic risks.



Misapplied bank-like regulations to nonbanks that have fundamentally different business models.



Failed to evaluate whether designation would mitigate risks or weigh the costs and benefits to the company, its stakeholders, and the financial system.



Failed to give SIFI designees due process or an opportunity to address perceived risks before designation.



Failed to incorporate views of the primary financial regulators.

Improvements to the FSOC's Process

Based on lessons learned, in 2019, the FSOC finalized guidance that greatly improves its approach to addressing systemic risk and firm designation by:



Focusing on activities-based risks, positioning the FSOC to better identify and address system-wide issues.



Incorporating the views and expertise of the firm's primary regulator.



Making SIFI designation a last resort, only considered when the alternatives, including action by the company, primary regulator, or a coordinated activities-based approach, are inadequate.



Incorporating an economic analysis to consider the expected benefits and costs of designation.



Providing due process and enhancing the transparency of the designation process.

Next Steps

Policymakers should support efforts that promote transparency and create a stable and reliable regulatory environment.

Pass the bipartisan Financial Stability Oversight Council Improvement Act (S. 603)

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