

Statement of
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before the
Committee on Banking, Housing, and Urban Affairs
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Chairman Johnson, Ranking Member Shelby, and members of the Committee, I appreciate the opportunity to provide an update on the OCC's work to implement the Dodd-Frank Act provisions related to monitoring systemic risk and promoting financial stability, and our perspectives on the functions and operations of the Financial Stability Oversight Council, or FSOC.

The Dodd-Frank Act includes several provisions to address systemic issues that played a role in the financial crisis. These include constraining excessive risk taking, instituting stronger capital requirements and more robust stress-testing requirements, and bridging regulatory gaps. The OCC is among the financial regulators that have rule-writing authority for many of these provisions, and my testimony describes our progress in these areas.

One of the key provisions of the Dodd-Frank Act created the Financial Stability Oversight Council, which brings together the views, perspectives, and expertise of the financial regulatory agencies and others to identify, monitor, and respond to systemic risk.

FSOC has three major objectives:

- To identify risks to the financial stability of the United States,
- To promote market discipline, and
- To respond to emerging threats to the stability of the U.S. financial system.

In some cases, the Council has direct responsibility to make decisions and take actions. This includes designating certain non-bank financial companies to be supervised by the Federal Reserve and subject to heightened prudential standards should the Council determine that material financial distress at such companies would pose a threat to the financial stability of the U.S. In other areas, the Council's role is more of an advisory body to the primary financial regulators, such as conducting studies and making recommendations to inform future agency rulemakings.

The varied roles and responsibilities that Congress assigned to the Council appropriately balance and reflect the desire to enhance regulatory coordination for systemically important firms and activities, while preserving and respecting the independent authorities and accountability of primary supervisors.

As detailed in my written statement, FSOC has taken action on a number of items, including the publication of two required studies and proposed rulemakings on the designation of systemically important non-bank financial firms and financial market utilities.

The Council and its committees are also making strides in providing a more systematic and structured framework for identifying, monitoring, and deliberating potential systemic risks to the financial stability of the United States. Briefings and discussions on potential risks and the implications of current market developments on financial stability are a key part of the closed deliberations of each Council meeting.

While I believe FSOC enhances the agencies' collective ability to identify and respond to emerging systemic risks, I would offer two cautionary notes.

First, I believe the Council's success ultimately will depend on the willingness and ability of its members and staff to engage in frank and candid discussions about emerging risks, issues, and institutions. These discussions are not always pleasant as they can challenge one's longstanding views or ways of approaching a problem. But being able to voice dissenting views or assessments will be critical in ensuring that we are seeing and considering the full scope of issues.

In addition, these discussions often will involve information or findings that require further verification or that are extremely sensitive to the operation of either an individual firm or an entire market segment. In some cases, the discussions, if misconstrued, could undermine public and investor confidence and create or exacerbate problems in the financial system. As a result, I believe that it is critical that these types of deliberations – both at the Council and staff level – be conducted in a manner that assures their confidential nature.

Second, even with fullest deliberations and best data, there will continue to be unforeseen events that pose substantial risks to the system, markets, or groups of institutions. We should not expect FSOC to prevent such occurrences. FSOC will, however, provide a mechanism to communicate, coordinate, and respond to such events to help contain and limit their impact.

The issues that the Council will confront in carrying out these duties are, by their nature, complex and far-reaching in terms of their potential effects on our financial markets and economy. Developing appropriate and measured responses to these issues

will require thoughtful deliberation and debate among the member agencies. The OCC is committed to providing its expertise and perspectives and in helping FSOC achieve its mission.

Thank you, and I'll be happy to respond to your questions.