GAO Highlights

Highlights of GAO-15-51, a report to the Ranking Member, Committee on Banking, Housing, and Urban Affairs, U.S. Senate

November 2014

FINANCIAL STABILITY OVERSIGHT COUNCIL

Further Actions Could Improve the Nonbank Designation Process

Why GAO Did This Study

FSOC has authority to designate systemically important nonbank financial companies for enhanced supervision by the Board of Governors of the Federal Reserve System. GAO was asked to review these designations because they may have significant implications for the companies as well as the stability of the financial system. This report examines how FSOC has managed the designation process to date and the extent to which FSOC's process has been transparent and systematic, among other objectives.

GAO analyzed FSOC documents, including the final rule and guidance on the designation process, bylaws, and nonpublic documentation supporting determination decisions. GAO also collected data about FSOC members' participation in determination evaluations and interviewed FSOC staff, FSOC members and their staffs, officials of evaluated companies, and external stakeholders, including industry groups.

What GAO Recommends

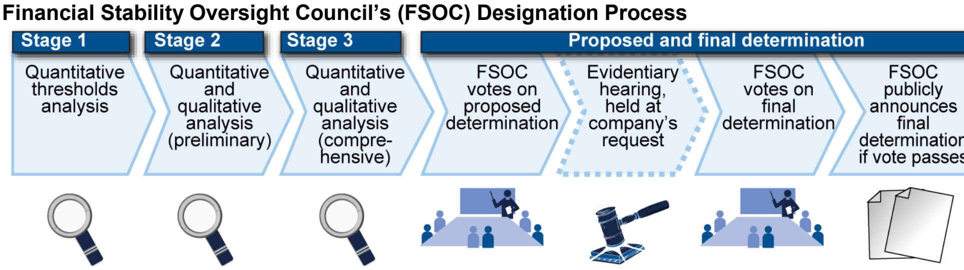
GAO makes several recommendations to help enhance the accountability and transparency of FSOC's determination process, such as tracking key evaluation information, including additional details in public documentation about the rationale for determination decisions, and establishing procedures to evaluate companies under both statutory determination standards. Treasury neither agreed nor disagreed with the recommendations but said (in its capacity as Council chair) that FSOC would consider the recommendations.

View GAO-15-51. For more information, contact Lawrance L. Evans, Jr. at (202) 512-8678 or EvansL@gao.gov.

What GAO Found

The Financial Stability Oversight Council (FSOC) uses committees comprising staff from member agencies to help it evaluate nonbank financial companies and determine if they will receive enhanced supervision. FSOC has developed and followed a process for making determination decisions that is, in part, systematic and transparent. FSOC published a final rule and guidance that establish a three-stage process and an analytical framework for evaluating whether nonbank financial companies meet a statutory determination standard and for proposing and finalizing determinations. Generally, companies told GAO they were satisfied with FSOC's communication with them during the evaluation process.

Financial Stability Oversight Council's (FSOC) Designation Process



Source: GAO analysis of FSOC's final rule and guidance. | GAO-15-51

However, GAO identified key areas in which FSOC could enhance the accountability and transparency of the designation process.

- **Tracking and monitoring.** Federal internal control standards call for clear documentation of transactions and monitoring to assess the quality of performance over time. FSOC has not centrally recorded key processing dates, tracked the duration of evaluation stages, or collected information on staff conducting evaluations, such as the number or type of staff contributed by member agencies. Without such data, FSOC's ability to effectively monitor the progress and evaluate the quality and efficiency of determination evaluations is limited.
- **Disclosure and transparency.** FSOC's transparency policy states its commitment to operating transparently, but its documentation has not always included certain details. For example, FSOC's public documents have not always fully disclosed the rationales for its determination decisions. The lack of full transparency has resulted in questions about the process and may hinder accountability and public and market confidence in the process.
- **Scope of evaluation procedures.** FSOC has evaluated how companies might pose a threat to financial stability using only one of two statutory determination standards (a company's financial distress, not its activities). By not using both standards when appropriate, FSOC may not be able to comprehensively ensure that it has identified and designated all companies that may pose a threat to U.S. financial stability.

Making FSOC's designation process more systematic and transparent could bolster public and market confidence in the process and also help FSOC achieve its intended goals.