Further Actions Could Improve the Nonbank Designation Process

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.

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.

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