

Why GAO Did This Study

In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act created FSOC to identify and address threats to the stability of the U.S. financial system and OFR to support FSOC and Congress by providing financial research and data. GAO was asked to examine (1) any challenges FSOC and OFR face in fulfilling their missions (2) FSOC and OFR's efforts to establish management structures and mechanisms to carry out their missions, (3) FSOC and OFR's activities for supporting collaboration among their members and external stakeholders, and (4) the processes FSOC used to issue rules and reports.

GAO reviewed FSOC documents related to the annual reports, rulemakings, and committee procedures, as well as documents on OFR's budget, staffing, and strategic planning. GAO also interviewed FSOC and OFR staff, FSOC member and member agency staff, and external stakeholders, including foreign officials, industry trade groups, and academics.

What GAO Recommends

GAO makes 10 recommendations to strengthen the accountability and transparency of FSOC and OFR's decisions and activities as well as to enhance collaboration among FSOC members and with external stakeholders. Treasury said, as Chairperson, that the council and OFR would consider the recommendations, but questioned the need for FSOC and OFR to clarify responsibilities for monitoring threats to financial stability and stated that OFR expects to share some risk indicators. However, stronger and more systematic actions are still needed in these areas.

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FINANCIAL STABILITY

New Council and Research Office Should Strengthen the Accountability and Transparency of Their Decisions

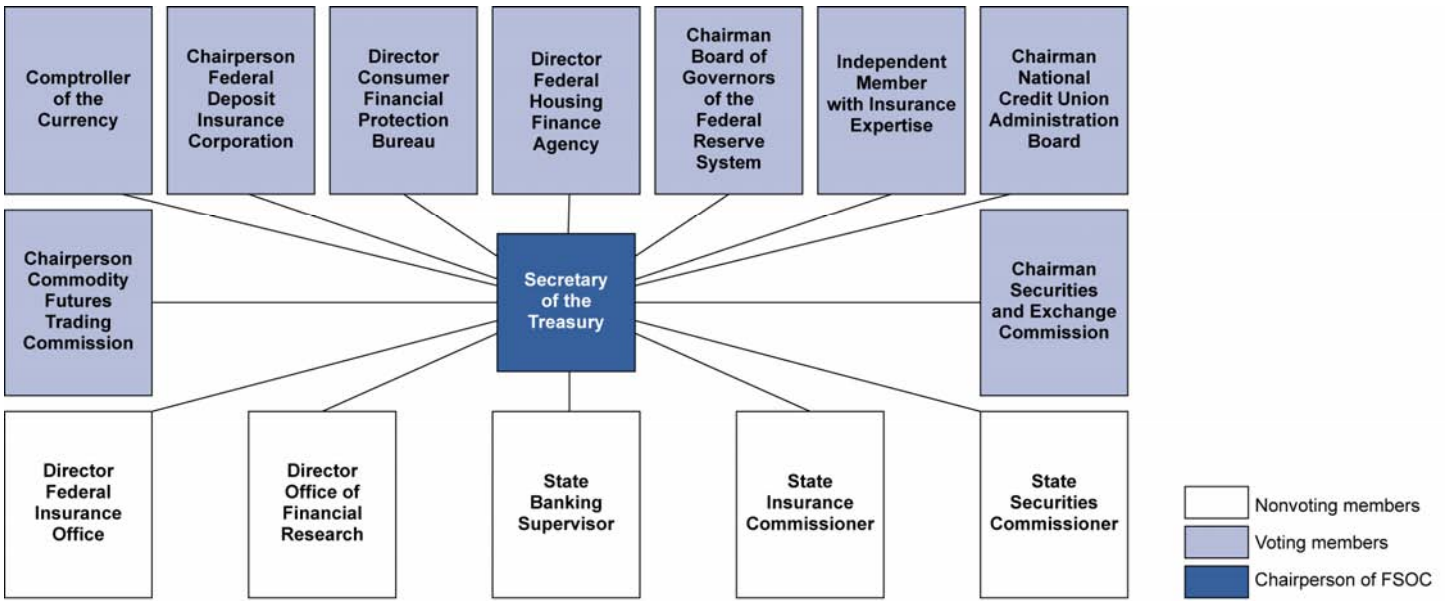
What GAO Found

These new organizations—the Financial Stability Oversight Council (FSOC) and Office of Financial Research (OFR)—face challenges in achieving their missions. Key FSOC missions—to identify risks and respond to emerging threats to financial stability—are inherently challenging, in part, because risks to financial stability do not develop in precisely the same way in successive crises. Collaboration among FSOC members can also be challenging at times, as almost all of them represent independent agencies that retained existing authorities. OFR faces the challenge of trying to establish and build a world-class research organization while meeting shorter-term goals and responsibilities.

FSOC's and OFR's management mechanisms to carry out their missions could be enhanced to provide greater accountability and transparency. FSOC and OFR have taken steps toward establishing such mechanisms. FSOC has established seven standing committees generally composed of staff of its members and member agencies to support the council in carrying out its business and provide information to the council for decision making and adopted a memorandum of understanding on information sharing to help govern its activities. FSOC and OFR have also issued annual reports on their activities and created web pages that provide some information to the public. However, certain mechanisms could be strengthened. For instance:

- FSOC's Systemic Risk Committee, which is responsible for identifying risks to financial stability, has procedures to facilitate analysis of risks raised by staff. However, without a more systematic approach and comprehensive information, FSOC member agencies, on their own, may not be well positioned to judge which potential threats will benefit from interagency discussions. GAO recommends that FSOC collect and share key financial risk indicators as part of a systematic approach to help identify potential threats to financial stability.
- Public information on FSOC's and OFR's decision making and activities is limited, which makes assessing their progress in carrying out their missions difficult. GAO recommends that (1) FSOC keep detailed records of closed-door sessions and (2) both entities develop a communication strategy to improve communications with the public.
- FSOC's annual reports—which serve as its key accountability documents—do not consistently identify which entities should monitor or implement the identified recommendations or give time frames for specific actions. To hold FSOC accountable for its recommendations, GAO recommends that FSOC recommend a lead agency or agencies to monitor or implement each recommendation within specified time frames.
- OFR issued a strategic framework in March 2012 as an important first step in adopting a strategic planning and performance management system. However, that document lacked some leading practices such as linking activities to strategic goals and performance measurement systems. GAO recommends that OFR further develop a strategic planning and performance management system that includes these elements and will allow it to be held accountable.

FSOC Membership



Source: GAO analysis of Dodd-Frank Act.

Although FSOC and OFR have taken steps to promote collaboration among FSOC members and external stakeholders, FSOC could further adopt key practices. FSOC member agency staff noted that agencies have leveraged their joint expertise and resources to produce FSOC’s mandated reports and rules. OFR has also taken steps to collaborate with external stakeholders by initiating a working paper series, moving to form an advisory committee, and coordinating U.S. efforts at the international level to help create a legal entity identifier for financial entities that could enable regulators to identify parties to financial transactions. However, FSOC could do more to promote collaboration. For instance, FSOC, and OFR are required to monitor risks to financial stability, but they have not yet clarified agency responsibilities for implementation—creating the potential for regulatory gaps or duplication of effort. In addition, FSOC could take better advantage of statutory mechanisms to leverage external resources, including developing advisory committees. To improve collaboration and coordination among its member agencies and with external stakeholders, GAO recommends that FSOC (1) develop policies to clarify when formal collaboration or coordination should occur and FSOC’s role in such efforts, (2) more fully incorporate key practices for successful collaboration that GAO has previously identified, and (3) clarify roles and responsibilities for implementing requirements to monitor risks to the financial system.

FSOC has issued rules that improve the transparency of its processes, and statutorily mandated reports but has not established processes to help ensure that these will have their intended results. While FSOC has issued rules on

processes for designating nonbank financial entities for additional oversight and intends to review certain aspects of those rules, it has not developed plans for comprehensively evaluating whether designations are having their intended impact—reducing threats to financial stability. The impact of the designations on the economy and the financial entities will depend, in part, on a number of rules being issued by independent FSOC member agencies that will be applied to those being designated. Without a comprehensive assessment of the impact of these rules that will require the cooperation of individual FSOC members, understanding whether the designations are having their intended impact will be difficult. GAO recommends that FSOC develop a comprehensive framework for assessing the impact of its designation decisions. In addition, FSOC has not developed a systematic forward-looking process for identifying potential emerging threats in its mandated annual reporting process. In particular, FSOC does not have processes for consistently identifying such threats, separating them from more current threats, or prioritizing them. Identifying a large number of threats—the 2011 report identified over 30—without prioritizing them makes focusing on those that are most important difficult for decisionmakers. The 2012 report also included many threats, and neither report separates current threats from those that are potentially emerging. To improve FSOC’s annual reporting on potential emerging threats, GAO recommends that FSOC develop more systematic approaches that are forward looking and help to prioritize the threats.