

# GAO Highlights

Highlights of [GAO-14-873T](#), a testimony before the Subcommittee on Oversight and Investigations, Committee on Financial Services, House of Representatives

## Why GAO Did This Study

The 2007-2009 financial crisis focused attention on weaknesses in the U.S. regulatory structure, including the lack of an agency or mechanism responsible for monitoring and addressing risks across the financial system. To address this weakness, the Dodd-Frank Wall Street Reform and Consumer Protection Act created FSOC to identify and address threats to financial stability. Among other statutorily defined authorities, FSOC may designate nonbank financial companies for heightened supervision by the Board of Governors of the Federal Reserve System. FSOC consists of 10 voting members and 5 nonvoting members. The 10 voting members include 9 federal regulators and an independent insurance expert.

In September 2012, GAO issued a report on FSOC's challenges, efforts to establish management mechanisms, activities for supporting collaboration among its members and external stakeholders, and processes for issuing reports and rules. GAO made nine recommendations to FSOC to improve the transparency and accountability of its decisionmaking, among other things.

This testimony is based on GAO's September 2012 report ([GAO-12-886](#)). It discusses FSOC's efforts to respond to GAO's 2012 recommendations. From June through September 2014, GAO obtained updated information from FSOC staff and reviewed documents related to GAO's recommendations.

View [GAO-14-873T](#). For more information, contact A. Nicole Clowers at (202) 512-8678 or [clowersa@gao.gov](mailto:clowersa@gao.gov).

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## FINANCIAL STABILITY OVERSIGHT COUNCIL

### Status of Efforts to Improve Transparency, Accountability, and Collaboration

## What GAO Found

The Financial Stability Oversight Council's (FSOC) has taken steps to address some of GAO's September 2012 recommendations, but additional efforts are needed. GAO made nine recommendations to FSOC in three areas: emerging threats and risks identification, transparency and accountability, and collaboration and coordination. GAO recommended, among other things, that FSOC:

- develop a systematic approach that includes collecting and sharing key financial risk indicators to help identify potential threats to financial stability;
- develop a strategy to improve communications with the public;
- keep detailed records of closed-door sessions;
- create a framework for assessing the impact of its decisions to designate nonbanks for enhanced supervision;
- develop policies to clarify when collaboration or coordination should occur;
- adopt leading practices, such as joint strategies, for collaboration; and
- clarify roles and responsibilities for monitoring threats to the financial system.

FSOC still lacks a comprehensive, systematic approach to identify emerging threats to financial stability. In 2012, GAO reported that FSOC's approach might not help identify new risks or threats that member agencies had not already identified. The Office of Financial Research (OFR) has made some progress in developing data tools to support FSOC since the 2012 report, but GAO's observations of two of these tools suggest that one tool does not focus on risks to the financial system, while another remains in a prototype phase.

FSOC has taken steps to improve its communication with the public but could do more to improve transparency and accountability. In May 2014, FSOC approved a revised transparency policy, and FSOC staff said they had attempted to provide more information in the minutes of meetings. But FSOC staff said that they did not intend to keep detailed minutes because of the confidential information discussed. Also, FSOC staff also said that the impact of designating nonbanks for enhanced supervision would be assessed as part of a mandated January 2016 study. However, FSOC has not begun to prepare for this study. GAO has reported on the importance of advance planning for retrospective studies so that needed data are collected.

FSOC has taken steps to improve collaboration and coordination among member agencies but does not plan to act on some of GAO's recommendations on coordination. In May 2014, FSOC approved one formal mechanism that supported coordination—bylaws for the Deputies Committee of senior officials from member agencies that describe its role in coordinating FSOC activities. FSOC staff said they did not plan to clarify the roles and responsibilities of FSOC, OFR, and member agencies because the overlapping responsibilities for monitoring systemic risk had not been problematic. Officials also said that FSOC would not adopt practices to coordinate rulemaking across member agencies, as it does not have the authority to direct independent agencies. GAO maintains that action is needed as its past work has shown that the lack of clear roles and coordination can lead to duplication, confusion, and regulatory gaps.