



Highlights of [GAO-13-467T](#), a testimony before the Subcommittee on Oversight and Investigations, Committee on Financial Services, House of Representatives

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 financial stability and OFR to support FSOC and Congress by providing financial research and data. This testimony primarily discusses findings from a September 2012 GAO report and addresses four topics (1) challenges FSOC and OFR face in carrying out their missions, (2) FSOC's and OFR's efforts to establish management mechanisms, (3) FSOC's and OFR's activities for supporting collaboration among their members and external stakeholders, and (4) FSOC's rules for designating nonbank financial firms that pose threats to financial stability.

For this testimony, GAO updated some information on the entities' response to the recommendations in its September 2012 report.

What GAO Recommends

In its September 2012 report, GAO made 10 recommendations to FSOC and OFR, which among other things, recommends ways to improve the transparency and accountability of their decisions. In response to GAO's report, Treasury said, as Chairperson, that the council and OFR had considered the recommendations. In March 2013 Treasury and OFR officials described steps that each entity was considering or taking to address some of them.

View [GAO-13-467T](#). For more information, contact A. Nicole Clowers at (202) 512-8678 or clowersa@gao.gov

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FINANCIAL STABILITY

Continued Actions Needed to Strengthen New Council and Research Office

What GAO Found

The Financial Stability Oversight Council (FSOC) and Office of Financial Research (OFR) face challenges in achieving their missions. For example, collaboration among FSOC members can be challenging, as almost all members represent independent agencies that retain existing authorities. Additionally, OFR faces the challenge of building a world-class research organization while meeting shorter-term responsibilities.

FSOC and OFR have developed some management structures to carry out their missions and taken steps to promote collaboration among their members and stakeholders. For example, FSOC established several standing committees composed of members' and member agencies' staffs to support the council in carrying out its business. FSOC also issued rules on the process for designating nonbank financial firms for additional oversight. However, GAO reported in September 2012 that these efforts could be strengthened to conform to key standards and practices and made 10 recommendations.

- FSOC should develop a systematic approach to help identify potential threats to financial stability that includes collecting and sharing key financial risk indicators. FSOC's Systemic Risk Committee, which is responsible for identifying risks to financial stability, has procedures to facilitate risk analysis but does not have a systematic approach or comprehensive information. FSOC member agencies on their own may not be well positioned to judge which potential threats will benefit from interagency discussions.
- FSOC should develop more systematic approaches that are forward looking and help prioritize threats to the financial system in its annual reports. To date, FSOC's annual reports have not reflected a forward-looking process for identifying emerging threats.
- To improve transparency, (1) FSOC should keep detailed records of closed-door sessions and (2) both FSOC and OFR should develop a communication strategy to improve communications with the public. Currently, public information on FSOC's and OFR's decision making and activities is limited.
- OFR needs to further develop its strategic planning and performance management system to include some leading practices. OFR issued a strategic framework in March 2012 that did not, among other things, link activities to strategic goals and performance measurement systems.
- FSOC should identify an agency or agencies to monitor or implement each recommendation from its annual reports within specified time frames. FSOC's annual reports have not consistently identified which entities should monitor or implement the identified recommendations.
- FSOC should (1) develop policies to clarify when formal collaboration or coordination should occur, (2) more fully incorporate key practices for successful collaboration, and (3) clarify with OFR responsibility for implementing requirements to monitor risks to the financial system.
- FSOC should develop a comprehensive framework for assessing the impact of its designation decisions. For example, FSOC has issued rules on processes for designating nonbank financial entities for additional oversight, but it has not developed plans to comprehensively evaluate whether the designations are having their intended impact.