Audit of the Financial Stability Oversight Council's Monitoring of Interest Rate Risk to the Financial System

Report to the Financial Stability Oversight Council and the Congress

PREPARED BY
THE COUNCIL OF INSPECTORS GENERAL
ON FINANCIAL OVERSIGHT

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CIGFO-2015-001

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ABBREVIATIONS AND ACRONYMS

CIGFO	Council of Inspectors General on Financial Oversight
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
FIO	Federal Insurance Office
FSOC or Council	Financial Stability Oversight Council
SRC	Systemic Risk Committee
Treasury	Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 27, 2015

The Honorable Jacob J. Lew
Chair, Financial Stability Oversight Council
Washington, D.C. 20220

Dear Mr. Chairman:

I am pleased to present you with the Council of Inspectors General on Financial Oversight ("CIGFO") report titled, *Audit of the Financial Stability Oversight Council's Monitoring of Interest Rate Risk to the Financial System*.

Since 2011, interest rate risk has been identified as a recurring potential threat and recommendation topic in the annual reports of the Financial Stability Oversight Council ("FSOC"), and this risk affects every financial institution to some degree. Accordingly, CIGFO convened a Working Group, based on the audit proposal submitted by the Federal Housing Finance Agency's Office of Inspector General, to assess the extent to which FSOC is monitoring interest rate risk to the financial system.

In this resulting audit report, we make one recommendation, which if adopted and implemented, should increase transparency in FSOC's annual reports. While the recommendation included in this report relates specifically to interest rate risk, it should be applied, as applicable, to other annual report recommendations.

I would like to take this opportunity to thank the FSOC members for their support, especially the Department of the Treasury staff who assisted with this effort.

CIGFO looks forward to working with you on this and other issues. In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act, CIGFO is also providing a copy of this report to Congress.

Sincerely,

/s/

Eric M. Thorson
Chair
Council of Inspectors General on Financial Oversight

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Executive Summary

WHY AND HOW WE CONDUCTED THIS AUDIT

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") created a comprehensive regulatory and resolution framework designed to reduce the severe economic consequences of economic instability. The Dodd-Frank Act established the Financial Stability Oversight Council ("FSOC" or "Council") and charged it with identifying risks to the nation's financial stability, promoting market discipline, and responding to emerging threats to the stability of the nation's financial system. Among other things, Title I of the Dodd-Frank Act charges FSOC with the duty to make recommendations to Federal agencies and others. It also requires FSOC to report to Congress annually about: (1) its activities; (2) significant financial market and regulatory developments; (3) potential emerging threats to the financial stability of the United States; and (4) recommendations (I) to enhance the integrity, efficiency, competitiveness, and stability of United States financial markets; (II) to promote market discipline; and (III) to maintain investor confidence, among other things.

Interest Rate Risk is the exposure of an individual's or an institution's financial condition to changing interest rates.

The Dodd-Frank Act also created a Council of Inspectors General on Financial Oversight ("CIGFO"), whose members include the Inspectors General with oversight authority for the majority of FSOC's members, and authorizes it to evaluate the effectiveness and internal operations of FSOC. In May 2014, CIGFO convened a Working Group to assess the extent to which FSOC is monitoring interest rate risk to the financial system.

To accomplish CIGFO's objective, the Working Group reviewed the Dodd-Frank Act to determine FSOC's statutory authority and duties. It inspected FSOC's governance documents, annual reports, and public meeting minutes to understand FSOC's organizational structure, and operational policies and procedures. It reviewed FSOC's interest rate risk monitoring plans developed by its Systemic Risk Committee ("SRC"). The Working Group reviewed information, collected by participating Offices of Inspectors General, from FSOC federal member agencies related to their involvement in FSOC's interest rate risk working groups in 2013 and 2014 and efforts to respond to FSOC's annual report recommendations on interest rate risk. It also interviewed staff from the office of FSOC Secretariat at the Department of the Treasury to develop a better understanding of FSOC's monitoring activities related to interest rate risk. The Working Group conducted fieldwork from October 2014 through April 2015 in accordance with generally accepted government auditing standards. On June 11, 2015, the Working Group briefed FSOC representatives on the overall results of our audit. Appendix I provides additional details about the objective, scope, and methodology of this audit.

WHAT WE LEARNED AND WHAT WE RECOMMEND

FSOC monitors interest rate risk on an ongoing basis by facilitating the sharing of financial expertise and information among FSOC members and member agencies and by making annual report recommendations.

As we explain more fully within the report, we are recommending that FSOC document in its annual reports to Congress its rationale for removing prior year recommendations related to interest rate risk. The lack of public documentation explaining the Council's decision to remove any recommendations with respect to interest rate risk creates a lack of transparency around the process for removing recommendations from previous years. Our recommendation, if adopted and implemented, would increase transparency in FSOC's annual reports.

While the recommendation included in this report relates specifically to interest rate risk, it should be applied, as applicable, to other annual report recommendations.

FSOC RESPONSE

In a written response, FSOC stated that its annual reports are designed to focus the attention of regulators, policymakers, Congress, and members of the public on potential risks to financial stability and how they should be addressed, rather than describing all market developments and potential risk hypotheses. At the same time, the Council is committed to providing as much transparency as possible regarding its work. Since the publication of the 2014 annual report, the Council has adopted enhancements to its transparency policy that provide the public with greater visibility into the Council's deliberations on an ongoing basis, in addition to the accountability provided in its annual report. Nevertheless, to the extent that the Council no longer recommends action related to a risk area identified in the prior annual report, FSOC will consider how to provide additional information regarding the Council's analysis.

CIGFO WORKING GROUP COMMENTS

We note that FSOC did not specifically agree or disagree with our recommendation in its response. To the extent that FSOC intends to include the rationale for removing recommendations in its annual reports, we consider FSOC's comments and planned action responsive to our recommendation. Implementation of the recommendation will further enhance transparency and will provide accountability in its annual report.

CIGFO Working Group Audit

This report presents the results of the CIGFO Working Group's audit of FSOC's monitoring of interest rate risk to the financial system. This is the fourth audit report that a CIGFO Working Group has issued to FSOC and the Congress as part of CIGFO's responsibility to oversee FSOC under the Dodd-Frank Act. CIGFO issued its first three audits in June 2012,[1] July 2013,[2] and July 2014.[3]

BACKGROUND

Congress recognized that no one regulator had responsibility to identify potential risks to the stability of the nation's financial system, promote market discipline, and respond to emerging threats, and that such efforts would require collective engagement by the entire financial regulatory community. One element of the Dodd-Frank Act's comprehensive framework was the creation of FSOC, a body that includes federal financial regulators, an independent insurance expert appointed by the President, and state regulators. The Dodd-Frank Act vests FSOC with authorities to constrain excessive risk in the financial system. Among other things, Title I of the Dodd-Frank Act established FSOC to monitor potential threats to the financial system and provide for more stringent regulation of nonbank financial companies and financial activities that the Council determines, based on consideration of risk-related factors, pose risks to financial stability. As shown in Figure 1, the Council consists of 10 voting members and 5 non-voting members.

1 CIGFO, *Audit of the Financial Stability Oversight Council's Controls over Non-public Information, June 2012*, http://www.treasury.gov/about/organizational-structure/ig/Documents/CIGFO%20Document/Audit%20of%20the%20Financial%20Stability%20Oversight%20Council%27s%20Controls%20over%20Non-public%20Information.pdf , accessed on May 13, 2015.

2 CIGFO, *Audit of the Financial Stability Oversight Council's Designation of Financial Market Utilities, July 2013*, http://www.treasury.gov/about/organizational-structure/ig/OIG%20Sorter/CIGFO_AUDIT_71713.pdf , accessed on May 13, 2015.

3 CIGFO, *Audit of the Financial Stability Oversight Council's Compliance with Its Transparency Policy*, July 2014, http://www.treasury.gov/about/organizational-structure/ig/Documents/CIGFO%20Audit%20July%202014.pdf , accessed on May 13, 2015.

Figure 1: FSOC Council Membership[4]

Federal and Independent Members	State Members
• Secretary of the Treasury, Chairperson (v) • Chairman of the Board of Governors of the Federal Reserve System (v) • Comptroller of the Currency (v) • Director of the Consumer Financial Protection Bureau (v) • Chairman of the Securities and Exchange Commission (v) • Chairperson of the Federal Deposit Insurance Corporation (v) • Chairperson of the Commodity Futures Trading Commission (v) • Director of the Federal Housing Finance Agency (v) • Chairman of the National Credit Union Administration Board (v) • Director of the Office of Financial Research • Director of the Federal Insurance Office • Independent member with insurance expertise (v) (v) Indicates Voting Member	• State Insurance Commissioner • State Banking Supervisor • State Securities Commissioner

The statutory purposes of FSOC are to:

- identify risks to the financial stability of the United States that could arise from the material financial distress or failure, or ongoing activities, of large, interconnected bank holding companies or nonbank financial companies, or that could arise outside the financial services marketplace;
- promote market discipline, by eliminating expectations on the part of shareholders, creditors, and counterparties of such companies that the United States Government will shield them from losses in the event of failure; and
- respond to emerging threats to the stability of the United States financial system.[5]

Each year, FSOC issues an annual report to fulfill its Congressional mandate to report on the activities of the Council, significant financial market and regulatory developments, potential emerging threats, and its recommendations, among other things.[6]

Within the Department of the Treasury ("Treasury"), a dedicated policy office, led by a Deputy Assistant Secretary, functions as the FSOC Secretariat and assists in coordinating the work of the Council among its members and member agencies. The voting members of FSOC provide a federal financial regulatory perspective as well as an independent insurance expert's view. The non-voting members offer different insights as state-level representatives from bank, securities, and insurance regulators or as the directors of offices within Treasury — the Office of Financial Research and the Federal Insurance Office ("FIO").

4 12 U.S.C. § 5321(b).

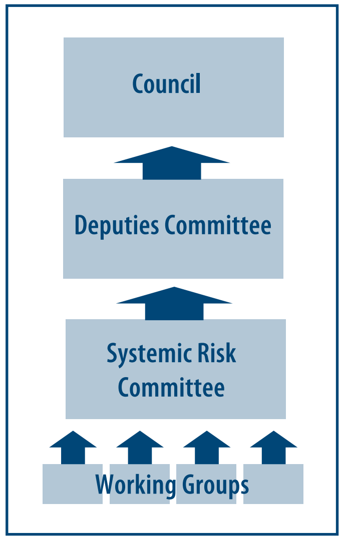
5 12 U.S.C. § 5322(a)(1).

6 12 U.S.C. § 5322(a)(2)(N).

FSOC's committee structure – interest rate risk

FSOC has developed a committee structure — for monitoring interest rate risk and other issues that could affect financial stability — to promote its members' mutual responsibility to share information and coordinate expertise among the member agencies. See Figure 2 below.

Figure 2: FSOC's Committee Structure – Interest Rate Risk[7,8]



The Council is a collaborative body chaired by the Secretary of the Treasury that brings together the expertise of the federal financial regulators, an independent insurance expert appointed by the President, and state regulators, and is charged with constraining risks to financial stability. See Figure 1. The Deputies Committee, composed of senior officials from each Council member or member agency, reports to the Council and coordinates and oversees the work of the SRC. See Figure 2. The SRC, composed primarily of member agency staff in supervisory, monitoring, examination, and policy roles, serves as a forum to assist the Council with the identification and analysis of potential risks, including risks that may extend beyond the jurisdiction of any one agency. The SRC, in consultation with the Deputies Committee, is charged with prioritizing the review of sources of risk and guiding the work of staff and working groups of the SRC. FSOC Secretariat staff advised us that working groups — which could include participants of the SRC — monitor areas of risk the Council identifies, follow trends, and determine if changes have occurred that may mitigate risks or address recommendations noted in the previous annual report. The Council, Deputies Committee, SRC, and working groups each meet periodically to discuss risks to the nation's financial stability, including interest rate risk.

7 Figure derived from CIGFO Working Group's analyses of FSOC's governance documents, *Rules of Organization of the Financial Stability Oversight Council; Bylaws of the Deputies Committee of the Financial Stability Oversight Council; and Council's Committee Charters*, http://www.treasury.gov/initiatives/fsoc/governance-documents/Pages/default.aspx, accessed June 11, 2015, along with information obtained from FSOC Secretariat staff.

8 In addition to the Systemic Risk Committee, the Deputies Committee also oversees other staff-level committees that help carry out the responsibilities and authorities of FSOC.

FSOC's responsibilities

The Dodd-Frank Act charges FSOC with, among other things, reporting annually to Congress on the Council's activities; significant financial market and regulatory developments; potential emerging threats to the financial stability of the United States; and recommendations to enhance the integrity, efficiency, competitiveness, and stability of United States financial markets to promote market discipline and to maintain investor confidence.[9]

Based on the recommendations included in its annual report from the prior year, the SRC is tasked with creating monitoring plans to follow-up on prior year recommendations. The monitoring plans include establishing working groups, describing the expected deliverables from these groups, and presenting questions the working groups should consider while performing monitoring activities. FSOC Secretariat staff explained to us that the working groups are tasked with reassessing risks within the current economic environment. The results of the working groups' activities are presented to the SRC, Deputies Committee, and the Council in the form of PowerPoint presentations. For example, the presentations included the working groups' analyses of the impacts of sustained low interest rates, such as increased risk-taking in search of yield, and the potential impacts of rising interest rates, such as liquidity issues, at various types of financial institutions. Based on analyses of the working groups, FSOC decides which recommendations should be included in its subsequent annual report.

FSOC'S APPROACH TO MONITORING INTEREST RATE RISK

Interest rate risk is experienced by all financial institutions.[10,11] FSOC defines interest rate risk as the exposure of an individual's or an institution's financial condition to changes in interest rates.[12] In FSOC's view, a prolonged low interest rate environment weighs on financial institutions' earnings and puts pressure on pension and retirement funds' ability to meet long-term liabilities.[13] A rise in interest rates could lead to: (1) weakening of some financial sectors and (2) sizeable losses incurred by investors.[14] Sizeable spikes in interest rates could result in damage to the entire financial system.[15] It should also be noted that the Federal Financial Institutions

9 12 U.S.C. § 5322(a)(2)(N). FSOC Secretariat staff informed us that they rely on 12 U.S.C. § 5322 as the authority to make recommendations in the FSOC's annual reports.

10 Federal Deposit Insurance Corporation, *Types of Interest Rate Risk*, August 6, 2013, https://www.fdic.gov/regulations/resources/director/technical/irr.html#two, accessed on March 30, 2015.

11 Federal Financial Institutions Examination Council, Advisory on Interest Rate Risk Management, January 6, 2010,https://www.fdic.gov/news/news/press/2010/pr1002.pdf, accessed on April 30, 2015.

12 Financial Stability Oversight Council, *2011 Annual Report*, http://www.treasury.gov/initiatives/fsoc/Pages/annual-report2011.aspx, accessed on March 29, 2015.

13 Financial Stability Oversight Council, *2014 Annual Report*, http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2014-Annual-Report.aspx, accessed on April 6, 2015.

14 Financial Stability Oversight Council, *2014 Annual Report*, http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2014-Annual-Report.aspx, accessed on April 6, 2015.

15 William Bednar and Mahmoud Elamin, *Interest Rate Risk and Rising Maturities*, Federal Reserve Bank of Cleveland, October 16, 2014, https://www.clevelandfed.org/en/Newsroom%20and%20Events/Publications/Economic%20Commentary/2014/Interest%20Rate%20Risk%20and%20Rising%20Maturities.aspx, accessed on March 25, 2015.

Examination Council issued an advisory statement in 2010 that financial institutions should have sound practices in place to monitor interest rate risk, especially in the environment of historically low interest rates.[16]

In interviews, FSOC Secretariat staff stated that FSOC mainly monitors interest rate risk in two ways: by making recommendations in its annual reports and by sharing and coordinating information among FSOC members.

FSOC's recommendations relating to interest rate risk

Since 2011, FSOC's annual reports to Congress have discussed interest rate risk and recommended actions that would address that risk. FSOC's 2013 annual report made three recommendations related to interest rate risk:

- Depository Institutions, Broker-Dealers, and Bank Holding Companies: The Council recommends that regulatory agencies and private sector risk managers continue their scrutiny of the ways in which potential changes in interest rates could adversely affect the risk profiles of financial firms. This should be done with regular assessments of interest rate and credit risk management strategies, including thorough assessments of how institutions will perform in a stressed or rapidly changing market environment.
- Insurance Companies: The Council recommends that FIO and state insurance regulators continue to be vigilant in monitoring the impact of the low interest rate environment on insurance companies and that state insurance regulators continue to ensure that the economic scenarios run by insurance companies are sufficiently robust and appropriately capture interest rate and other economic risks.
- Pension Funds: The Council recommends that appropriate authorities continue their scrutiny of the ways in which low interest rates could adversely affect the risk profiles of pension funds and continue to address the funding status of pension funds.

FSOC's 2014 annual report contained two interest rate risk recommendations:

- Depository Institutions, Broker-Dealers, and Bank Holding Companies: The Council recommends that supervisors, regulators, and firm management continue to monitor and assess the growing risks resulting from the continued search-for-yield behaviors as well as the risks from potential severe interest rate shocks.
- Insurance Companies: The Council recommends that FIO and state insurance regulators continue to monitor and assess interest rate risk resulting from severe interest rate shocks.

16 Federal Financial Institutions Examination Council, *Advisory on Interest Rate Risk Management*, January 6, 2010, https://www.ffiec.gov/press/pr010710.htm, accessed on April 6, 2015. The Federal Financial Institutions Examination Council is a formal interagency body empowered to prescribe uniform policies, standards, and report forms for the federal examination of financial institutions in the supervision of financial institutions and to make recommendations to promote uniformity in the supervision of financial institutions.

FSOC's efforts to share and coordinate information relating to interest rate risk

After the issuance of its 2013 annual report, FSOC developed three working groups for the interest rate risk recommendations: (1) Depository Institutions, Broker-Dealers, and Bank Holding Companies, (2) Insurance Companies, and (3) Pension Funds. The working groups performed a reassessment of interest rate risk, within the then current economic environment, which looked at a number of different data points to include an evaluation of whether the related risk had been mitigated or had changed since the 2013 report. The working groups presented their reassessment of interest rate risk to the SRC, the Deputies Committee, and the Council; and we were told by FSOC Secretariat staff that this analysis factored into the findings and recommendations of the 2014 FSOC annual report. Also, member agencies provided updates on their respective agency's own actions to monitor interest rate risk. FSOC implemented the same process following the issuance of its 2014 annual report. In addition, in December 2014, a presentation regarding the status of a number of working groups was presented to the Council during an open session. Further, the Office of Financial Research presented updates at the monthly SRC meetings which included information and analyses related to interest rate risk.

ASSESSMENT OF FSOC'S EFFORTS TO MONITOR INTEREST RATE RISK

As noted above, FSOC's 2013 annual report to Congress included an interest rate risk recommendation related to pension funds, but its 2014 annual report did not continue the recommendation. FSOC Secretariat staff told us that FSOC relied on the collective judgment of its members to determine whether to continue any recommendations from the prior year but did not document the reasons for its decision in its annual report.

When asked why the pension funds recommendation was not continued in 2014, FSOC Secretariat staff explained that working group analyses indicated that the interest rate risk stemming from pension funds was more of an economic issue than a financial stability concern.[17] FSOC's 2014 annual report discussed the continuing interest rate risk related to pension funds but did not distinguish between economic issue and financial stability concern:

> "The prolonged period of low interest rates and low volatility has led financial institutions and investors to search for yield. Low interest rates weigh on earnings of banks, credit unions, broker-dealers and insurance companies, thereby incenting companies to seek higher-yielding investments. The ability of pension and retirement funds to meet their long-term liabilities is under pressure, incenting them to seek more yield."[18]

FSOC did not document in its annual report the rationale for removing the interest rate risk recommendation related to pension funds. We believe that public documentation of the rationale for removing interest rate risk recommendations helps to contextualize those decisions. In this instance, documentation would have publicly memorialized the efforts undertaken by the working groups, the SRC, and the Deputies Committee to reassess interest rate risk throughout the year, thus enhancing transparency.

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17 The distinction between economic issues and financial stability concerns is based on the Council's judgment about whether a risk rises to a level that will have an impact on financial stability.

18 Financial Stability Oversight Council, *2014 Annual Report*, http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2014-Annual-Report.aspx, accessed on April 6, 2015.

Conclusion and Recommendation

Based on our interviews with FSOC Secretariat staff, we were able to gain an understanding of the efforts by FSOC's working groups, SRC, Deputies Committee, and Council to monitor interest rate risk during the year. That said, we are concerned that a lack of discussion in its annual reports explaining the Council's decision to remove any prior year recommendation could raise a question of transparency around the process to monitor recommendations and decisions with respect to them.

Accordingly, to further increase transparency around monitoring of interest rate risk, we recommend that FSOC document in its annual report to Congress its rationale for removing prior year recommendations related to interest rate risk.

While the recommendation included in this report relates specifically to interest rate risk, it should be applied, as applicable, to other annual report recommendations.

FSOC response

In a written response, FSOC stated that its annual reports are designed to focus the attention of regulators, policymakers, Congress, and members of the public on potential risks to financial stability and how they should be addressed, rather than describing all market developments and potential risk hypotheses. At the same time, the Council is committed to providing as much transparency as possible regarding its work. Since the publication of the 2014 annual report, the Council has adopted enhancements to its transparency policy that provide the public with greater visibility into the Council's deliberations on an ongoing basis, in addition to the accountability provided in its annual report. Nevertheless, to the extent that the Council no longer recommends action related to a risk area identified in the prior annual report, FSOC will consider how to provide additional information regarding the Council's analysis.

CIGFO working group comments

We note that FSOC did not specifically agree or disagree with our recommendation in its response. To the extent that FSOC intends to include the rationale for removing recommendations in its annual reports, we consider FSOC's comments and planned action responsive to our recommendation. Implementation of the recommendation will further enhance transparency and will provide accountability in its annual report.

APPENDIX I: OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The audit objective was to assess the extent to which FSOC is monitoring interest rate risk to the financial system.

Scope and methodology

The scope of this audit included FSOC's monitoring of interest rate risk during 2013 and 2014.

To accomplish our objective, we:

- reviewed the Dodd-Frank Act to determine FSOC's statutory authority and duties;
- reviewed FSOC's governance documents, annual reports, and meeting minutes to understand FSOC's organizational structure and operational policies and procedures;
- analyzed FSOC's 2010 through 2014 membership to determine the level of turnover;
- reviewed FSOC's interest rate risk monitoring plans developed by the SRC and the results of interest rate risk research (presented in PowerPoint presentations) conducted by FSOC member agency representatives to assess FSOC's monitoring and recommendation process;
- reviewed information, collected by participating Offices of Inspectors General, from FSOC's federal member agencies relating to the member agency's involvement in FSOC's interest rate risk working group committees in 2013 and 2014 and efforts of their agencies to respond to FSOC annual report recommendations on interest rate risk;
- viewed FSOC meeting webcasts where staff from the FSOC Secretariat provided updates on selected annual report recommendations from 2013 and 2014; and
- interviewed staff from the FSOC Secretariat to determine FSOC's monitoring activities related to interest rate risk. Topics discussed included FSOC's information sharing and coordination, processes for development and inclusion of recommendations in the annual report, and identifying regulatory gaps.

We performed field work from October 2014 through April 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX II: FSOC RESPONSE

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

July 8, 2015

The Honorable Eric M. Thorson
Chair, Council of Inspectors General
on Financial Oversight (CIGFO)
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Re: Response to CIGFO's Draft Audit Report: *Audit of the Financial Stability Oversight Council's Monitoring of Interest Rate Risk to the Financial System*

Dear Mr. Chairman:

Thank you for the opportunity to review and respond to your draft audit report, *Audit of the Financial Stability Oversight Council's Monitoring of Interest Rate Risk to the Financial System*, dated June 2014 (the Draft Report). The Financial Stability Oversight Council (Council) appreciates the CIGFO working group's review of the Council's efforts related to interest rate risk. This letter responds on behalf of Secretary Lew to the Draft Report.

As noted in the Draft Report, the Council has highlighted potential risks related to a sustained period of low interest rates in each of its annual reports since its first report in 2011. Beginning in 2013, the Council's staff-level Systemic Risk Committee established working groups after the publication of each annual report to monitor the risks and recommendations made by the Council in the report. These working groups presented their findings to the Systemic Risk Committee, the Council's Deputies Committee, and the Council itself, as appropriate. These findings help inform the Council's subsequent deliberations on whether certain risk areas should continue to be included in future annual reports.

After the Council published its 2013 annual report, staff working groups investigated potential risks created by the low-risk environment's impact on pension funds. The staff surveyed relevant literature, spoke with external subject matter experts, and analyzed pension data. The staff found that the impact of the low interest rate environment on pension funds was less likely to cause an impairment of financial intermediation in the near term. Based on this analysis, which was provided to CIGFO during the course of its fieldwork, the Council did not include a recommendation on potential interest rate risk related to pension funds in the 2014 annual report. While the Draft Report acknowledges the continuing work conducted by the Council and its staff committees with regard to monitoring interest rate risk, the Draft Report notes that the Council did not state in its 2014 annual report the rationale for not including a recommendation made the previous year related to pension funds.

The Council's annual reports are designed to focus the attention of regulators, policymakers, Congress, and members of the public on potential risks to financial stability and how they should

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

be addressed, rather than describing all market developments and potential risk hypotheses. At the same time, the Council is committed to providing as much transparency as possible regarding its work. Since the publication of the 2014 annual report, the Council has adopted enhancements to its transparency policy that provide the public with greater visibility into the Council's deliberations on an ongoing basis, in addition to the accountability provided through its annual report. For example, as the Draft Report notes, the status of staff work regarding interest rate risk was presented to the Council during a public session in December 2014. Nevertheless, to the extent that the Council no longer recommends action related to a risk area identified in the prior annual report, we will consider how to provide additional information regarding the Council's analysis.

Thank you again for the opportunity to review and comment on the Draft Report. We value CIGFO's input and recommendations and look forward to working with you in the future.

Sincerely,

/s/

Patrick Pinschmidt
Deputy Assistant Secretary
Financial Stability Oversight Council

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APPENDIX III: CIGFO WORKING GROUP

Federal Housing Finance Agency Office of Inspector General, Lead Agency		
Laura Wertheimer, Inspector General, Federal Housing Finance Agency		
Tara Lewis	Patrice Wilson	Terese Blanchard
Pamela L. Williams		
Department of the Treasury Office of Inspector General		
Eric M. Thorson, Inspector General, Department of the Treasury, and CIGFO Chair		
Jeffrey Dye	Dana Duvall	Marla Freedman
April Ellison	Susan Marshall	Robert Taylor
Federal Deposit Insurance Corporation Office of Inspector General		
Fred Gibson, Acting Inspector General, Federal Deposit Insurance Corporation		
Michael Lombardi	Jeffery Smullen	Mary Carmichael
David Rubin	Marshall Gentry	Corinne Torongo
National Credit Union Administration Office of Inspector General		
James Hagen, Inspector General, National Credit Union Administration		
Marvin Stith		
Securities and Exchange Commission Office of Inspector General		
Carl Hoecker, Inspector General, Securities and Exchange Commission		
Kelli Brown-Barnes	Carrie Fleming	Rebecca Sharek
Board of Governors of the Federal Reserve System Office of Inspector General		
Mark Bialek, Inspector General, Board of Governors of the Federal Reserve System		
Michael VanHuysen	Shannon Williams	Michael Zeitler
Sopeany Keo		
Commodity Futures Trading Commission Office of Inspector General		
Roy Lavik, Inspector General, Commodity Futures Trading Commission		
Miguel Castillo	Tony Baptiste	

Board of Governors of the Federal Reserve System · Office of Inspector General · Consumer Financial Protection Bureau

Commodity Futures Trading Commission · 1975

Office of Inspector General · United States Department of Housing and Urban Development

Treasury Inspector General

Federal Deposit Insurance Corporation · 1933

Federal Housing Finance Agency · FHFA OIG · Office of Inspector General

Office of Inspector General · NCUA · National Credit Union Administration

U.S. Securities and Exchange Commission · MCMXXXIV

Special Inspector General · Troubled Asset Relief Program