

Financial Research Advisory Committee Meeting

February 25, 2016

Discussion Topic: Risks in Financial Institutions Program

The Dodd-Frank Act broadly requires the OFR to conduct, coordinate, and sponsor research to support and improve regulation of financial institutions. We fulfill this mandate through our research on financial institutions.

Our research in this area is unique because we focus on financial stability and have no direct policymaking role. This perspective frees us to consider how risks migrate across the U.S. financial system. It also positions us to evaluate the unintended consequences of regulations.

Our research matches the breadth of the mandate. It spans bank and nonbank financial institutions. Nonbanks within its scope include asset management firms, insurance companies, broker dealers, and central counterparties.

OFR research addresses a range of questions. Which types of financial firms pose risks to the U.S. financial system as a whole? What aspects of those firms or their activities underlie those risks? Are firms engaging in shadow banking activities, and if so, how does that contribute to the risks they pose? How do financial regulations reduce the risk firms pose to the financial system? How are these firms adapting to regulatory changes? What innovations are occurring in the products or services they offer? How are the firms' internal operations changing and what risks could those changes introduce? What are participants' business models? How are business models evolving with the introduction of new products and services? How are regulatory changes driving business models?

The Risks in Financial Institutions program has four components:

1. Assess the risks financial firms pose that current regulations do not address.
2. Identify and fill gaps in data needed to assess systemic risks and stability policies.
3. Evaluate regulatory policies designed to promote safety and soundness and financial stability, including their interactions and unintended consequences.
4. Monitor and assess risks related to financial innovations.

Questions for discussion

1. How should we prioritize the program components?
2. What financial institution risks are you most concerned about today?