

U.S. DEPARTMENT OF THE TREASURY

Financial Stability Oversight Council Releases 2024 Annual Report

December 6, 2024

WASHINGTON – The Financial Stability Oversight Council (Council) today unanimously approved its 2024 annual report. The annual report reviews developments in financial markets, identifies vulnerabilities and emerging threats to U.S. financial stability, and makes recommendations to mitigate those vulnerabilities and threats. The report also details the activities of the Council and summarizes significant regulatory developments. The report was developed collaboratively by Council members and their agencies and staffs. Overall, the Council finds that the U.S. financial system remains resilient, though vulnerabilities warrant ongoing vigilance.

“The prosperity of the U.S. economy and the American people depend on the stability of the U.S. financial system,” Secretary of the Treasury Janet L. Yellen said. “This year, the financial system has continued to support a strong economy, marked by declining inflation, solid economic growth, and a healthy labor market. But we must remain focused on ensuring the financial system remains resilient and addressing emerging vulnerabilities. The annual report demonstrates the Council’s commitment to monitoring and responding to current and emerging risks to enhance market resilience, efficiency, and stability.”

The Council’s recommendations in the annual report include the following:

- *Cybersecurity:* Cyber incidents have become increasingly frequent over the past two decades, posing risks to financial stability. Significant incidents at major financial institutions have the potential to disrupt critical operations and services more broadly. Financial institutions and systems are highly interconnected, so it is important for all financial sector participants to stay updated on cybersecurity developments within the financial sector and work to reduce cybersecurity risk. The Council supports ongoing partnerships between state and federal agencies and private firms and recommends continued information sharing related to cyber risk and additional work to assess and mitigate cyber-related financial stability risks. The Council also supports the G7 Cyber Expert Group’s international efforts to help financial institutions better understand cybersecurity risks and improve the resilience of the financial system to cyber incidents

through preparedness, a consensus understanding of the threat landscape, and a shared approach to mitigating risk.

- *Depository Institutions:* Depository institutions play a central role in the U.S. economy and the global financial system by providing credit to retail and commercial borrowers, helping firms raise capital or hedge risk, providing asset management and custody services, and facilitating payments. Overall, the U.S. banking system remains resilient, supported by sound levels of regulatory capital, adequate liquidity buffers, and healthy levels of profitability. However, some potential vulnerabilities warrant continued monitoring, including the weakening credit conditions in commercial real estate (CRE) and the strong reliance of some banks on non-deposit funding and uninsured deposit funding. The Council recommends that banks continue to ensure they have sound risk management practices, including contingency planning for funding and liquidity events. The Council also encourages efforts to complete the Basel III reforms to further enhance the resilience of the banking system.
- *Third-Party Service Providers:* Financial institutions are increasingly using third parties to provide a range of products and services. While third-party service providers can offer benefits, they may also introduce or amplify risks, in part by limiting a financial institution's access to, control over, and oversight of its data or systems. Additionally, the authority to supervise third-party service providers varies among financial regulators. To enhance information security within third-party service providers and address other critical regulatory challenges, the Council recommends that Congress pass legislation ensuring the Federal Housing Finance Agency, National Credit Union Administration, and other relevant agencies have adequate examination and enforcement powers to oversee third-party service providers that interact with their regulated entities. The Council also recommends that federal banking regulators continue to coordinate third-party service provider examinations, work collaboratively with states, and identify additional ways to support information sharing among state and federal regulators.
- *Commercial Real Estate:* Signs of CRE credit risk have been evident in 2024. Increasing vacancies, slower rent growth, and higher borrowing costs were particularly notable in the office sector and to a lesser degree in the multifamily sector. These pressures on borrowers have led to increasing delinquencies, loan losses, and provision expenses for banks. The Council recommends regulators continue to focus on the financial industry's ability to withstand CRE stress from declines in property prices and loan quality. CRE exposure among bank and nonbank industry participants can also be interconnected. Therefore, the Council recommends that member agencies ensure financial institutions

continue to monitor these correlated risks in their risk management and contingency planning.

- *Digital Assets:* The Council continues to monitor risks related to crypto assets. Though the market value of the crypto-asset ecosystem remains small compared with traditional financial markets, it has continued to grow. Absent appropriate risk management standards, stablecoins represent a potential risk to financial stability because of their vulnerability to runs. The Council reiterates its prior recommendation that Congress pass legislation to create a comprehensive federal prudential framework for stablecoin issuers. The Council also recommends that Congress pass legislation providing federal financial regulators with explicit rulemaking authority over the spot market for crypto assets that are not securities.
- *Investment Funds:* The Council and its member agencies have made progress addressing financial vulnerabilities stemming from investment funds, including the SEC's reforms to make money market funds more resilient, liquid, and transparent. Nevertheless, open-end funds with significant liquidity mismatches may face challenges meeting large redemption requests during times of market stress, potentially disrupting market functioning. Collective investment funds (CIFs) and other short-term investment vehicles share similar features that can contribute to financial stability risk. The Council supports the SEC's continued engagement on open-end funds, including the SEC's adoption of amendments to require more frequent and timely reporting of funds' portfolio information. The Council and state and federal regulators should consider what steps are needed to address financial stability risks from open-end funds and CIFs. Lastly, the Council has continued working to support better data collection and monitoring to identify risks from highly leveraged hedge funds and the growth in private credit.

[The full report can be viewed here](#) .

[Secretary Yellen's remarks on the report during the open session can be viewed here.](#)

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