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SPEECH

Remarks before the Financial Stability Oversight Council: 2024 Annual Report

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Thank you, Secretary Yellen, for your leadership of this council these last four years. I also want to thank my fellow council members and their staffs for the collaborative efforts we've all put in to ensure that the risks in our financial sector don't spill out and hurt everyday Americans.

Today's formal agenda includes a vote on the 2024 annual report, which I am pleased to support. As today's open meeting, though, is likely to be the last of this Administration, I'd like to share some reflections about this Council and our financial system.

Congress formed the Financial Stability Oversight Council (FSOC) in the aftermath of the most significant financial crisis of our lives. I was honored to serve on the first Council and take part in its inaugural meeting in October 2010. I'm just as honored to serve on the Council 14 years later. At its core, FSOC brings together the various regulatory perspectives we represent to collaborate and consult on how best to prevent fires in one corner of the financial system or at one financial institution spread to the broader economy.

Today, the U.S. economy and, importantly, the public — both investors and issuers — benefit from our large, vibrant \$120 trillion capital markets, which measure nearly five times larger than our \$26 trillion banking and credit union

sector. Our significant reliance on the capital markets is a distinguishing element of the United States. I believe it's our comparative advantage — a feature, not a bug.

Let me be clear: promoting financial resiliency is at the core of the SEC's mission. In normal times, it helps promote trust in capital markets. In times of stress, it protects investors, issuers, and markets alike.

When it comes to risk and fragility in finance, though, it's important not to paint with a broad brush. Not every risk is the same. In fact, the financial sector is about allocating and pricing risk, not eliminating it. It's important to focus on the activities that are more likely to contribute to fragility in the system.

That's what we do at the SEC every day. It's why we've taken on numerous projects over the past four years to ensure efficiency, integrity, and resiliency in our capital markets.

It's why we've embarked on key reforms, including rules to promote central clearing in our \$28 trillion Treasury markets.[1]

It's why we adopted reforms in the \$7 trillion money market fund sector.[2]

It's why, along with the CFTC, we updated Form PF, an important reporting tool for the \$30 trillion private funds sector.[3]

It's why we've enhanced transparency to the markets as a whole through publishing aggregated, anonymized data regarding registered investment funds, private funds, and investment advisers.[4]

It's why we shortened the settlement cycle for equities, corporate bonds, and municipal bonds to one day.[5] For the first time in 20 years, we also comprehensively updated rules in the nearly \$60 trillion U.S. equity market, including narrowing increments for stock quotes down to half a penny.[6]

It's why we adopted rules requiring broker-dealers and investment advisers to notify customers of data breaches that might put personal information at risk. [7]

The job, though, of this Council and the SEC in promoting financial resiliency, is never finished. Technology and business models are forever changing. Thus, our successors will need to be just as vigilant about assessing risks in our financial system that may spill out and hurt everyday Americans.

As the FSOC annual report highlights, certain large multi-strategy and macro hedge funds are significantly leveraged, receiving the vast majority of their

repo financing in the non-centrally cleared market.[8] That's part of the reason why successful implementation of the new Treasury clearing rules is so important.

Second, while artificial intelligence presents great opportunities in finance, policy makers will need to assess the systemic risks of potentially thousands of financial entities relying on just one or a small number of base models or data providers. Further, mitigating fraud, deception, manipulation, and conflicts of interest will remain key to protecting investors.

Lastly, with regard to the crypto markets, without compliance with our time-tested rules related to disclosures, conflicts, and business conduct, investors will get harmed — similar to what we've seen all too often over the last four years. Though these markets are well less than one percent of our capital markets, such non-compliance not only can undermine trust that investors, issuers, and market participants have in our financial system, but also risks being imported to the rest of the financial system.

I deeply believe in markets, and the benefits they bring to our economy and everyday Americans. Having worked in and around them for 45 years, I'm also well aware of the financial stability risks they can pose to everyday Americans. That's why I want to thank everybody here for their remarkable work under Secretary Yellen these past four years.

I also want to say to those who will fill these seats in the future: remember that the privilege of this service comes with a responsibility to look out for the everyday bystanders along the highways of finance.

Thank you.

[1] See Securities and Exchange Commission, "SEC Adopts Rules to Improve Risk Management in Clearance and Settlement and Facilitate Additional Central Clearing for the U.S. Treasury Market" (Dec. 13, 2023), *available at* <https://www.sec.gov/news/press-release/2023-247> (<https://www.sec.gov/news/press-release/2023-247>); See also Securities and Exchange Commission, "SEC Adopts Rules to Include Certain Significant Market Participants as 'Dealers' or 'Government Securities Dealers'" (Feb. 6, 2024), *available at*

<https://www.sec.gov/newsroom/press-releases/2024-14> (<https://www.sec.gov/newsroom/press-releases/2024-14>); See also Securities and Exchange Commission, “SEC Adopts Amendments to Exemption From National Securities Association Membership” (Aug. 23, 2023), *available at* <https://www.sec.gov/newsroom/press-releases/2023-154> (<https://www.sec.gov/newsroom/press-releases/2023-154>).

[2] See Securities and Exchange Commission, “SEC Adopts Money Market Fund Reforms and Amendments to Form PF Reporting Requirements for Large Liquidity Fund Advisers” (July 12, 2023), *available at* <https://www.sec.gov/newsroom/press-releases/2023-129> (<https://www.sec.gov/newsroom/press-releases/2023-129>).

[3] See Securities and Exchange Commission. “SEC Adopts Amendments to Enhance Private Fund Reporting” (May 3, 2023), *available at* <https://www.sec.gov/newsroom/press-releases/2023-86> (<https://www.sec.gov/newsroom/press-releases/2023-86>); See also Securities and Exchange Commission, “SEC Adopts Amendments to Enhance Private Fund Reporting” (Feb. 8, 2024), *available at* <https://www.sec.gov/newsroom/press-releases/2024-17> (<https://www.sec.gov/newsroom/press-releases/2024-17>).

[4] The SEC’s Division of Investment Management publishes the Registered Fund Statistics report, which aggregates data about the registered fund industry. The Division publishes a report based on aggregated data filed by investment advisers on Form ADV, providing statistics on the investment advisory industry and showing trends over time. It also has updated and enhanced public reporting of data regarding hedge funds, private equity funds, and other private funds from Form PF. The report provides the public with information about the leverage, borrowing, and other activities of this rapidly growing sector.

[5] See Securities and Exchange Commission, “SEC Finalizes Rules to Reduce Risks in Clearance and Settlement” (Feb. 15, 2023), *available at* <https://www.sec.gov/newsroom/press-releases/2023-29> (<https://www.sec.gov/newsroom/press-releases/2023-29>).

[6] See Securities and Exchange Commission, “SEC Adopts Rules to Amend Minimum Pricing Increments and Access Fee Caps and to Enhance the Transparency of Better Priced Orders” (Sept. 18, 2024), *available at* <https://www.sec.gov/newsroom/press-releases/2024-137> (<https://www.sec.gov/newsroom/press-releases/2024-137>).

[7] See Securities and Exchange Commission, “SEC Adopts Rule Amendments to Regulation S-P to Enhance Protection of Customer Information” (May 16, 2024), *available at* <https://www.sec.gov/newsroom/press-releases/2024-58> (<https://www.sec.gov/newsroom/press-releases/2024-58>).

[8] As a 2021 G30 report put it, “In principle, if all repos were centrally cleared, the minimum margin requirements established by FICC would apply marketwide, which would stop competitive pressures from driving haircuts down (sometimes to zero), which reportedly has been the case in recent years.” See Group of 30 Working Group on Treasury Market Liquidity, “U.S. Treasury Markets: Steps Toward Increased Resilience” (2021), *available at* <https://group30.org/publications/detail/4950> (<https://group30.org/publications/detail/4950>). In addition, as a 2021 Federal Reserve Board report said, “Most of hedge fund repo is transacted bilaterally, with only 13.7% of the repo centrally cleared.” See Federal Reserve Board Division of Research & Statistics and Monetary Affairs, “Hedge Fund Treasury Trading and Funding Fragility: Evidence from the COVID-19 Crisis” (April 2021), *available at* <https://www.federalreserve.gov/econres/feds/files/2021038pap.pdf> (<https://www.federalreserve.gov/econres/feds/files/2021038pap.pdf>).

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