

FSOC Shift to an Activities-Based Approach Signals an Emphasis on the Risks to Financial Stability from Digital Transformation

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The Financial Stability Oversight Council's (**FSOC**) recently revised guidelines (the **2019 Guidelines**) on how it will identify and address financial stability risks are a major shift from the guidelines it issued in the immediate aftermath of the Financial Crisis. The 2019 Guidelines draw upon lessons learned from FSOC's ultimately fruitless attempts to designate nonbank financial companies as systematically important. Instead, the 2019 Guidelines focus on identifying and regulating systemically important activities rather than entities, conducting cost-benefit analyses, enhancing transparency and engagement in the nonbank SIFI designation process, and providing an off-ramp from designation for nonbank SIFIs. By prioritizing an activities-based approach, the 2019 Guidelines more definitively position FSOC to focus on addressing new or existing activities that it views as posing undue risks to the financial system.

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