

Financial Regulations

FSOC Pulls The Plug on AIG's SIFI Status; Is PRU Next?

The Takeaway:

On Friday, the Financial Stability Oversight Council (FSOC) met and [voted](#) to rescind American International Group's (AIG) nonbank systemically important financial institution (SIFI) designation. This is a significant move for FSOC and could indicate that the government will withdraw its appeal of the lawsuit that invalidated MetLife Inc.'s (MET) nonbank SIFI status and that it could determine that Prudential Inc. (PRU) also does not pose a systemic risk to the U.S. financial system. FSOC's rescission of AIG's nonbank SIFI status is the clearest sign that the Trump Administration will use its agencies and regulators to roll back financial regulations put in place by the Dodd-Frank Act (DFA). We are beginning to see these regulatory rollbacks come to fruition. Last week, the Federal Reserve, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation issued press releases [reducing](#) the capital requirements for mortgage servicing rights, deferred tax assets, and limits on minority interests for banks with under \$250 billion in [assets](#).

Conclusion. FSOC's rescission of AIG's SIFI designation is significant and could result in the government dropping its case against MET, which means MET would also *not* be designated nonbank SIFI. It also indicates that FSOC could review and remove PRU's SIFI designation. FSOC's action on AIG marks a stark departure from the Obama Administration.

MET case could end without a ruling. The U.S. appeals court twice [delayed](#) issuing an opinion on the government's [case](#). The second time, the court stated the ruling would remain in abeyance until further court order. The delayed ruling was in response to President Trump's [Memorandum](#) to Treasury Secretary Steven Mnuchin requiring a review of FSOC's nonbank SIFI designation process. Treasury is required to issue its report and findings on or about October 18. The U.S. government and MET are required to file motions with court within 30 days of Treasury's response to the memorandum but no later than November 17. If Treasury's report raises significant concerns with FSOC's SIFI designation or finds the designation process to be flawed, it is very likely that the government will withdraw its appeal against MET, in our view.

PRU set to benefit. The rescission of AIG's nonbank SIFI designation is a clear positive for PRU. PRU's outlook for having its nonbank SIFI designation removed would improve further if Treasury's report highlights weaknesses in the nonbank SIFI designation process or if the government withdraws its case against MET. At present, we find it difficult to support that PRU will be the only company with a nonbank SIFI designation. It appears that it may be only a matter time before FSOC also rescinds PRU's designation.

RISKS

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