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# COUNCIL OF INSPECTORS GENERAL ON FINANCIAL OVERSIGHT

# Presidential Transition Handbook

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December 2020



# COUNCIL OF INSPECTORS GENERAL ON FINANCIAL OVERSIGHT

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## MISSION

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)\* established the Council of Inspectors General on Financial Oversight (CIGFO) to provide oversight of the Financial Stability Oversight Council's (FSOC) operations and suggest measures to improve financial oversight.

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\* Public Law 111-203 (July 21, 2010).

# EXECUTIVE SUMMARY

## Introduction to CIGFO

In the aftermath of the 2008 financial crisis, Congress passed, and President Obama signed, the Dodd-Frank Act “to promote the financial stability of the United States by improving accountability and transparency in the financial system, to end ‘too big to fail’, to protect the American taxpayer by ending bailouts, to protect consumers from abusive financial services practices, and for other purposes.”

Created by the Dodd-Frank Act, CIGFO is comprised of the Inspectors General (IG) of the nine major government Financial-Sector Regulatory Organizations and the Special Inspector General for the Troubled Asset Relief Program to provide oversight of FSOC and facilitate information sharing among the IG members.

We are once again in the midst of a series of unprecedented events. A public health and subsequent economic crisis has gripped the United States and the world. In recent months, the Coronavirus Disease 2019 (COVID-19) has swept across the globe. Individuals, families, and businesses are affected by the pandemic. Many are in need of assistance, whether it is health care assistance caused by illness or financial assistance resulting from pandemic-related disruptions to their livelihoods. In keeping with its mission, CIGFO, which is authorized to provide oversight of FSOC operations, is monitoring the ongoing response of FSOC and its member agencies related to the public health and financial crisis. As warranted, this oversight will include reviews by the individual IG of their agencies and collectively as CIGFO, of FSOC and member Federal agencies’ preparedness and responses to events that cause significant stress to the U.S. financial system, like the COVID-19 pandemic.

In addition to CIGFO’s oversight activities, it has performed monitoring activities and shares financial regulatory information among the member IGs, which enhance each IG’s knowledge and insight about specific issues related to current and future work. For example, during its quarterly meetings, CIGFO members discuss audits on bank enforcement actions; financial research activities; compliance with the Bank Secrecy Act; issues with continuity of operations resulting from increased teleworking; as well as legislative activities that could impact the financial regulatory system.

## Transition Issues Relating to CIGFO

Once leadership of FSOC and its member agencies are appointed, it is critical for CIGFO and FSOC’s leadership to have regular and candid communications. Regular communications will enable CIGFO to inform FSOC leadership about ongoing work, the results of completed work, and the status of any open recommendations from CIGFO working group reports.

The transition team should review the *Top Management and Performance Challenges Facing Financial-Sector Regulatory Organizations* ([CIGFO TMPC 2019-07-19](#)) as this document consolidates the top management and performance challenges facing the Financial-Sector Regulatory Organizations identified by the CIGFO members.

# DODD-FRANK ACT, FSOC, AND ROLE OF CIGFO

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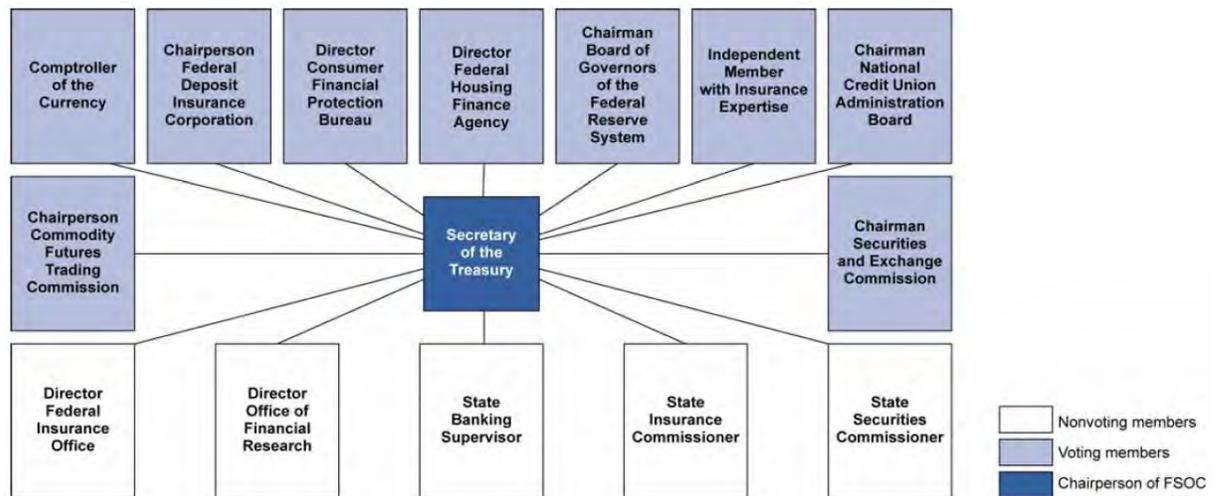
# DODD-FRANK ACT, FSOC, AND ROLE OF CIGFO

## Dodd-Frank Act and FSOC

In July 2010, the Dodd-Frank Act was signed into law and created a new regulatory and resolution framework designed to promote the financial stability of the United States. The Dodd-Frank Act is comprehensive in scope, providing for significant changes to the structure of federal financial regulation and substantive requirements that apply to a broad range of market participants, including public companies that are not financial institutions. Among other measures, the Dodd-Frank Act included corporate governance and executive compensation reforms, new registration requirements for hedge fund and private equity fund advisers, heightened regulation of over-the-counter derivatives and asset-backed securities, and new rules for credit rating agencies. The Dodd-Frank Act also mandated significant changes to the authority of the Board of Governors of the Federal Reserve System and the Securities and Exchange Commission as well as enhanced oversight and regulation of banks and non-bank financial institutions. Finally, the Dodd-Frank Act established the Consumer Financial Protection Bureau as a new federal agency to regulate the offering and provision of consumer financial products and services under various consumer financial protection laws.

The Dodd-Frank Act created FSOC which is comprised of ten voting members and five nonvoting members (see Figure 1). Chaired by the Secretary of the Treasury, FSOC is charged with identifying risks to the financial stability of the United States; promoting market discipline; and responding to emerging threats to the stability of the U.S. financial system.

Figure 1: FSOC Membership



Source: GAO 12-886, *Financial Stability – New Council and Research Office Should Strengthen Accountability and Transparency of Decisions*, September 2012

## Role and Authorities of CIGFO

The Dodd-Frank Act created, among other things, CIGFO, which is comprised of the IGs of the nine major government Financial-Sector Regulatory Organizations and the Special Inspector General for the Troubled Asset Relief Program, to facilitate information sharing among the IG members, provide a forum for discussion of IG member work as it relates to the broader financial sector, and evaluate the effectiveness and internal operations of the FSOC. CIGFO is chaired by the Inspector General of Treasury and its members include the Inspectors General of Treasury, the Federal Deposit Insurance Corporation, the Commodity Futures Trading Commission, the Department of Housing and Urban Development, the Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau, the Federal Housing Finance Agency, the National Credit Union Administration, the Securities and Exchange Commission, and the Special Inspector General for the Troubled Asset Relief Program. CIGFO members oversee one or more Financial-Sector Regulatory Organizations and the Troubled Asset Relief Program, as shown in Figure 2.

Figure 2: CIGFO Membership & Oversight Responsibilities

CIGFO MEMBERSHIP	OVERSIGHT OF FINANCIAL-SECTOR REGULATORY ORGANIZATIONS
Department of the Treasury (Chair)	Department of the Treasury Office of the Comptroller of the Currency
Federal Deposit Insurance Corporation	Federal Deposit Insurance Corporation
Commodity Futures Trading Commission	Commodity Futures Trading Commission
Department of Housing and Urban Development	Department of Housing and Urban Development
Board of Governors of the Federal Reserve System and Consumer Financial Protection Bureau	<ul style="list-style-type: none"> <li>• Board of Governors of the Federal Reserve System</li> <li>• Consumer Financial Protection Bureau</li> </ul>
Federal Housing Finance Agency	Federal Housing Finance Agency
National Credit Union Administration	National Credit Union Administration
Securities and Exchange Commission	Securities and Exchange Commission
Special Inspector General for the Troubled Asset Relief Program	Troubled Asset Relief Program

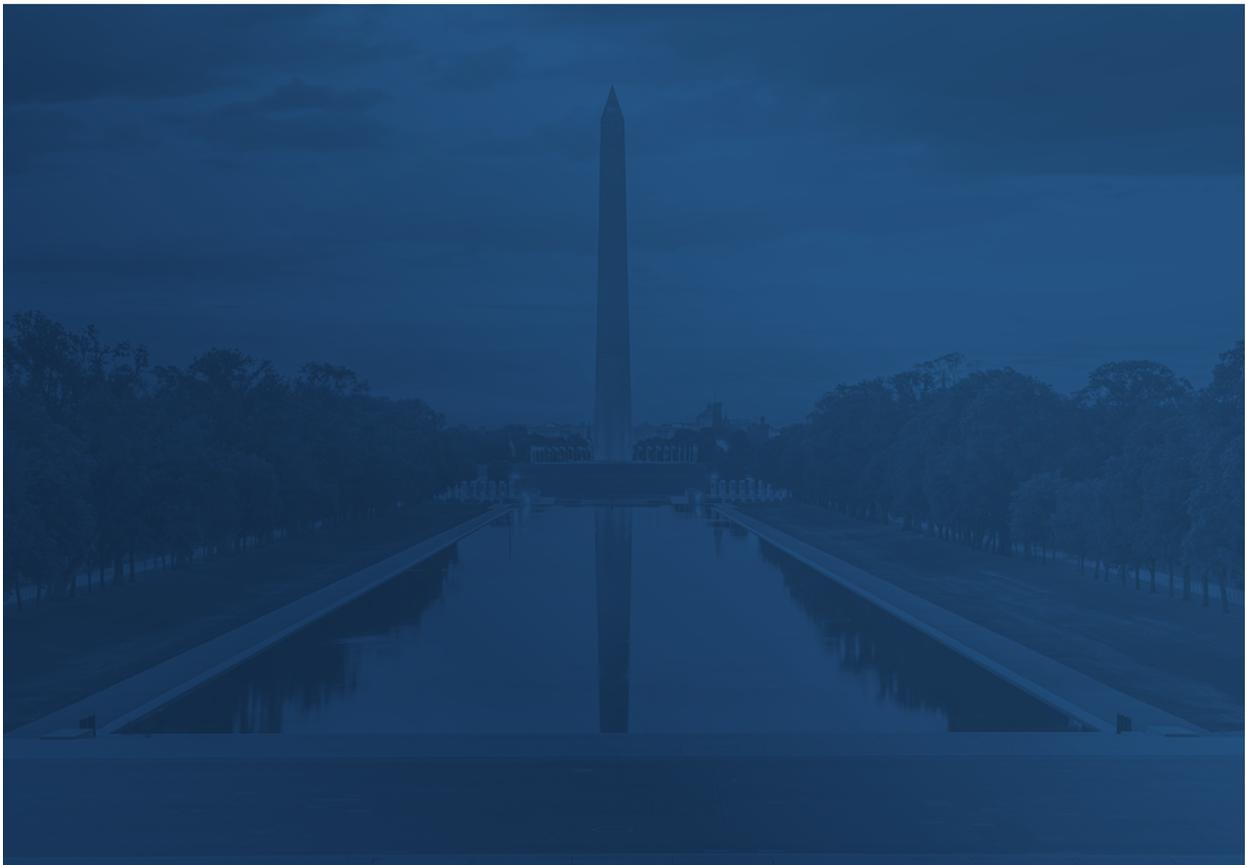
Source: CIGFO's Top Management and Performance Challenges Facing Financial-Sector Regulatory Organizations (July 2019).

CIGFO provides an opportunity to leverage the expertise and experience of its IG members, who bring unique independent perspectives to the table on both joint projects and individual efforts.

The Dodd-Frank Act assigns CIGFO the following duties:

- Meet not less than once each quarter to facilitate the sharing of information and to discuss the ongoing work of each IG who is a member of CIGFO as it applies to the broader financial sector and ways to improve financial oversight.
- Submit annually to Congress and FSOC a report highlighting the concerns and recommendations of each IG, with a focus on issues that may apply to the broader financial sector, and a summary of general observations of CIGFO, with a focus on measures that should be taken to improve financial oversight.

In addition, the Dodd-Frank Act authorizes CIGFO to convene working groups to evaluate the effectiveness and internal operations of the FSOC and shall submit regular reports to FSOC and to Congress on these evaluations.



# CIGFO INDEPENDENCE

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## CIGFO INDEPENDENCE

IGs, and by extension, CIGFO, must perform their audits, investigations, evaluations, and special reviews objectively and independently from the agency. As in past transitions, the CIGFO member IGs remain in office when Presidential Administrations change.

Several key provisions of the Inspector General Act of 1978, as amended (IG Act),<sup>1</sup> seek to ensure IG independence, in both reality and appearance. For example, according to the IG Act, an agency head may not prevent the IG from initiating, carrying out, or completing any audit or investigation, except for in very limited circumstances.

Moreover, IGs report only to the agency head or in certain instances, the officer next in rank below the agency head. To ensure IG access to relevant information, the IG Act requires IGs to report to their agency heads “without delay” the circumstances of any unreasonable refusal of their information requests. In regards to FSOC, CIGFO reports to its chair, the Treasury Secretary and its members.

1. Public Law 95-452 (October 12, 1978).



# CIGFO REPORTS AND PROCESS

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## CIGFO Working Group Projects

Since 2011, CIGFO has established working groups, comprised of staff from the CIGFO member IG offices, to conduct reviews of FSOC operations. CIGFO relies on these working groups to fulfill its mission as outlined in the Dodd-Frank Act. To learn more about CIGFO and to review each of the reports mentioned below and others, visit our website: [Council of Inspectors General on Financial Oversight](#).

A current working group project is the compilation of *Forward Looking Guidance for FSOC and Its Members in Preparing for a Crisis*. This forward-looking guidance is intended to be a compilation of lessons learned drawn from the experiences of federal agencies during prior crises and any lessons learned during the recent pandemic. The forward-looking guidance will facilitate effective crisis response as FSOC fulfills its mission to identify threats to the financial stability of our country, promote market discipline, and respond to emerging threats to the stability of the U.S. financial system. This report is expected to be issued in spring 2021.

In recent years, CIGFO has convened working groups and reported on such projects as; *CIGFO Audit of FSOC's Monitoring of International Financial Regulatory Proposals and Developments* and *CIGFO Working Group's Survey of FSOC and its Federal Member Agencies' Efforts to Implement the Cybersecurity Act of 2015*.

### ***CIGFO Audit of the Financial Stability Oversight Council's Monitoring of International Financial Regulatory Proposals and Developments (CIGFO-2019-01; May 2019)***

CIGFO convened a working group to assess FSOC's monitoring of international financial regulatory proposals and developments. CIGFO concluded that FSOC has a process for monitoring international financial regulatory proposals and developments. All FSOC members or member representatives who offered an opinion described FSOC's monitoring process as adequate but several FSOC members or representatives offered suggestions for enhancing the process. The report does not make any recommendations but encourages FSOC to consider incorporating the suggestions made by members. FSOC acknowledged the findings and conclusions in this report and stated that the suggestions made to further enhance FSOC's work would be considered.

### ***Survey Results— CIGFO Working Group's Survey of FSOC and its Federal Member Agencies' Efforts to Implement the Cybersecurity Act of 2015 (CIGFO-2020-01; January 2020)***

The working group conducted a survey of FSOC and its Federal voting member agencies' efforts to implement the information sharing provisions under the Cybersecurity Information Sharing Act of 2015 (CISA)<sup>2</sup>. Agencies provided responses to a set of questions on their implementation of CISA. Specifically, the responses addressed: (1) sufficiency of policies and procedures related to sharing cyber threat indicators (CTIs)<sup>3</sup> within the federal government, (2) classification of the CTIs

2. Public Law 114-113 (December 18, 2015).

3. Per CISA, CTI is information used to describe or identify security vulnerabilities, tools and procedures that may be used by attackers to compromise information systems.

and defensive measures (DMs)<sup>4</sup>, and an accounting of the security clearances for the purpose of sharing with the private sector, (3) actions taken based on CTIs or DMs sharing with the Federal Government, (4) CTIs and DMs shared with federal entities containing information not directly related to a threat that is personal information, and (5) any barriers to sharing information among federal entities. The working group provided FSOC and its Federal voting member agencies comparative information on how member agencies have implemented CISA from January 1, 2017 through March 31, 2019. The working group did not assess Federal voting member agencies' compliance with CISA and did not make any recommendations to FSOC.

CIGFO also issued a report by a working group convened in March 2019 that reported on the top management and performance challenges identified across CIGFO member agencies.

***Top Management and Performance Challenges Facing Financial-Sector Regulatory Organizations (July 2019)***

The purpose of this report was to consolidate and provide insight into cross-cutting management and performance challenges facing Financial-Sector Regulatory Organizations in 2019, as identified by members of CIGFO. The challenges identified in this report are: (1) enhancing oversight of financial institution cybersecurity, (2) managing and securing information technology at regulatory organizations, (3) sharing threat information, (4) ensuring readiness for crises, (5) strengthening agency governance, (6) managing human capital, and (7) improving contract and grant management.

**CIGFO Annual Reports**

The Dodd-Frank Act mandates that CIGFO submit to FSOC and Congress an annual report that summarizes the general observations of CIGFO based on the views expressed by each IG with a focus on measures that should be taken to improve financial oversight. Each IG who is a member of CIGFO has a section within the annual report with exclusive editorial control to highlight the concerns and recommendations from ongoing and completed work of their office. Additionally, CIGFO provides a section within the annual report on all CIGFO issued working group reports. In July 2020, CIGFO was proud to issue its tenth annual report to FSOC and Congress and noted that to date, the corrective actions described by FSOC, with respect to the issued CIGFO working group reports, have met the intent of CIGFO's recommendations.

4. Per CISA, DM is an action, device, procedure, technique, or other measure that detects, prevents, or mitigates a known or suspected cybersecurity threat or security vulnerability.

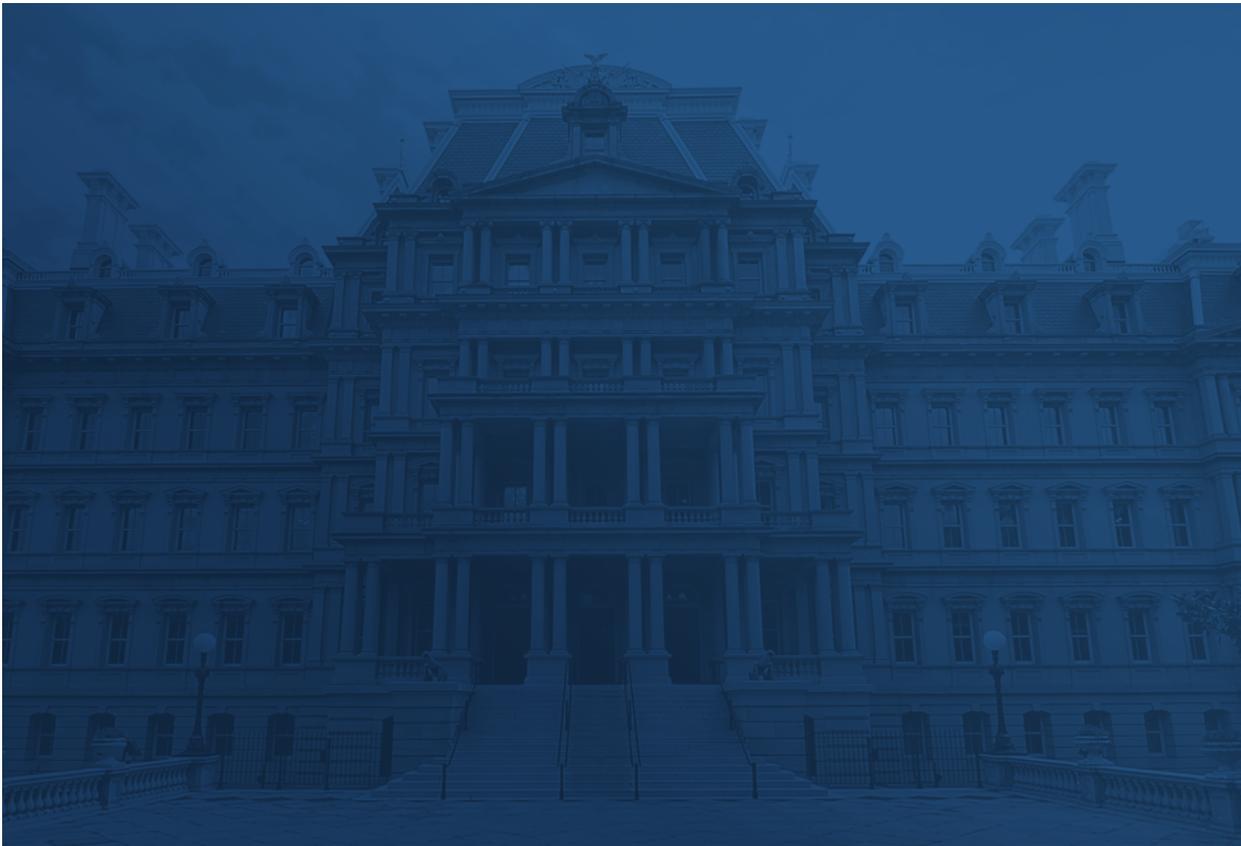
**CIGFO AND COUNCIL  
OF THE INSPECTORS GENERAL  
ON INTEGRITY AND EFFICIENCY  
(CIGIE) COORDINATION**

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# CIGFO AND COUNCIL OF THE INSPECTORS GENERAL ON INTEGRITY AND EFFICIENCY (CIGIE) COORDINATION

All nine IGs comprising CIGFO are also members of the Council of the Inspectors General on Integrity and Efficiency (CIGIE). Several of them are currently serving, or have served, on various CIGIE committees and working groups such as CIGIE's Inspection and Evaluation Committee which supports and promotes evaluation and inspection practices in the IG community, and CIGIE's Suspension and Debarment Working Group which is charged with improving the effectiveness of federal suspension and debarment practices. CIGIE's Pandemic Response Accountability Committee (PRAC) was established under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act),<sup>5</sup> to promote transparency and ensure coordinated oversight of the government's spending and coronavirus response. Many of the CIGFO IGs serve on this important committee and provide their expertise in leading the PRAC's Financial Institutions Oversight Issue Group. CIGFO working group efforts generally adhere to the Government Auditing Standards, also known as the Yellow Book, and when applicable, conform to the quality standards developed by CIGIE. To learn more about CIGIE, visit [www.ignet.gov/content/about-igs](http://www.ignet.gov/content/about-igs).

5. Public Law 116-136 (March 27, 2020).



# TRANSITION ISSUES RELATING TO CIGFO

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Historically, because of their nonpartisan, independent status, IGs have remained in office when Presidential Administrations change. As a result, CIGFO, which is composed of IGs from the nine Financial-Sector Regulatory Organizations and the Special Inspector General for the Troubled Asset Relief Program, will remain largely unchanged preserving the knowledge and experience that is crucial to FSOC, CIGFO, and each IG's respective office.

### Role of CIGFO in the Transition to a New Administration

Just as individual CIGFO member IGs can perform a valuable role during Presidential transitions at their respective agencies, CIGFO, as a collective body, can provide an equally valuable role in a transition. Based on its experience and unique perspective, CIGFO can be a valuable source of information about the key financial oversight issues that will confront the new Administration's management team.

In the past, the transition teams for many agencies have met individually with the IG of that agency for a briefing on the IG's ongoing and recently completed work, as well as the IG's view of the important issues within the agency that will confront the new Administration. It is useful for the transition teams to meet with the IG of that agency early in the transition process. Reflecting the IGs' independence and unique perspective on their agency, transition teams should meet with the IGs separate from their meetings with other management officials within the agency.

We suggest the transition teams review CIGFO's *Top Management and Performance Challenges Facing Financial-Sector Regulatory Organizations* (July 2019). This critical report consolidates the top management and performance challenges issued by the CIGFO members into a singular report identifying cross-cutting challenges facing multiple Financial-Sector Regulatory Organizations. Although Financial-Sector Regulatory Organizations have individual missions, this report emphasizes the importance of addressing challenges holistically through coordination and information sharing. Considering issues on a whole-of-Government approach versus a siloed, agency-by-agency basis allows for more effective and efficient means to address challenges through a coordinated approach.

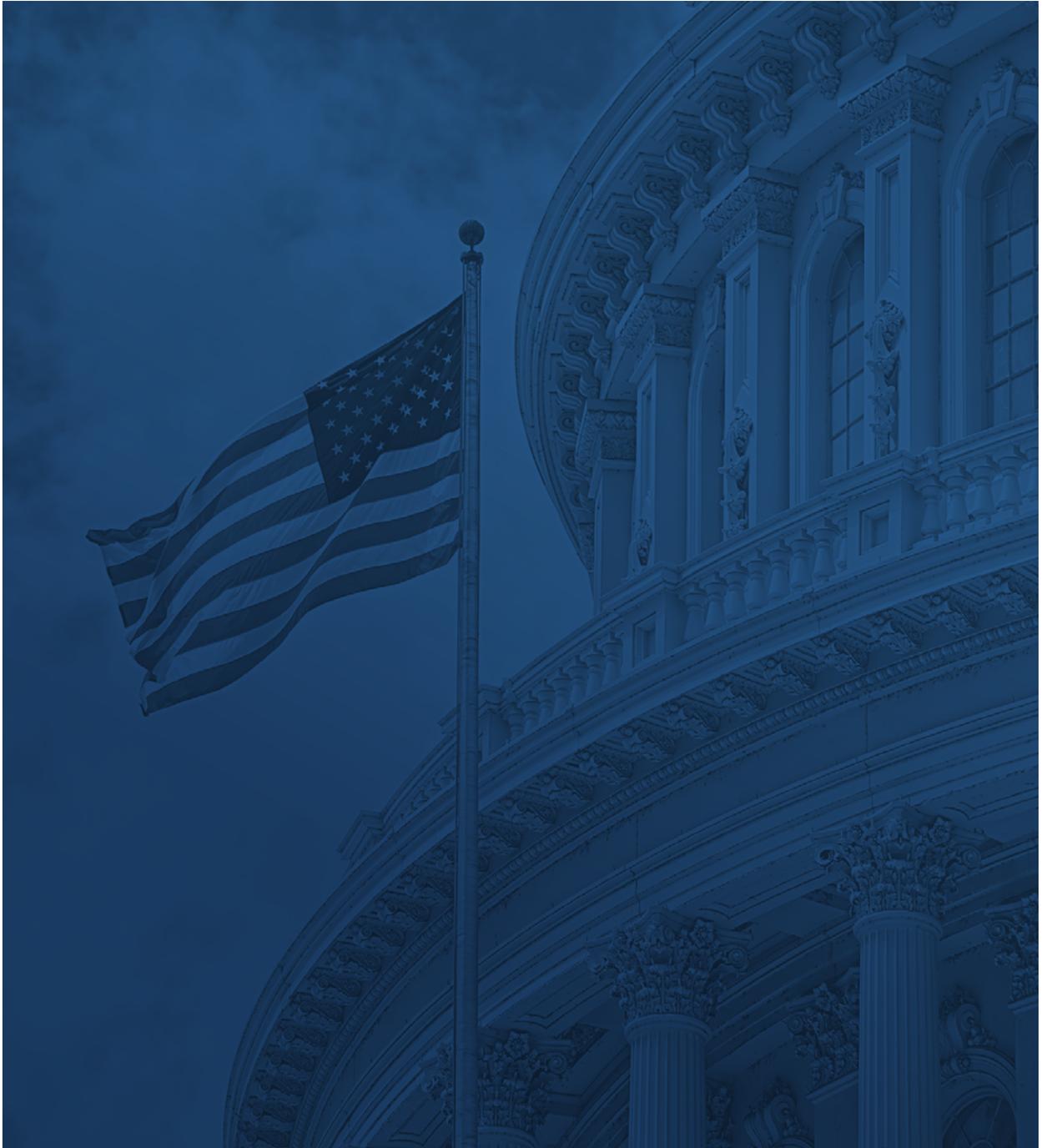
This report will provide a useful overview to transition teams and new Administration appointees in understanding the scope of the issues they will confront in the financial sector and within the Financial-Sector Regulatory Organizations.

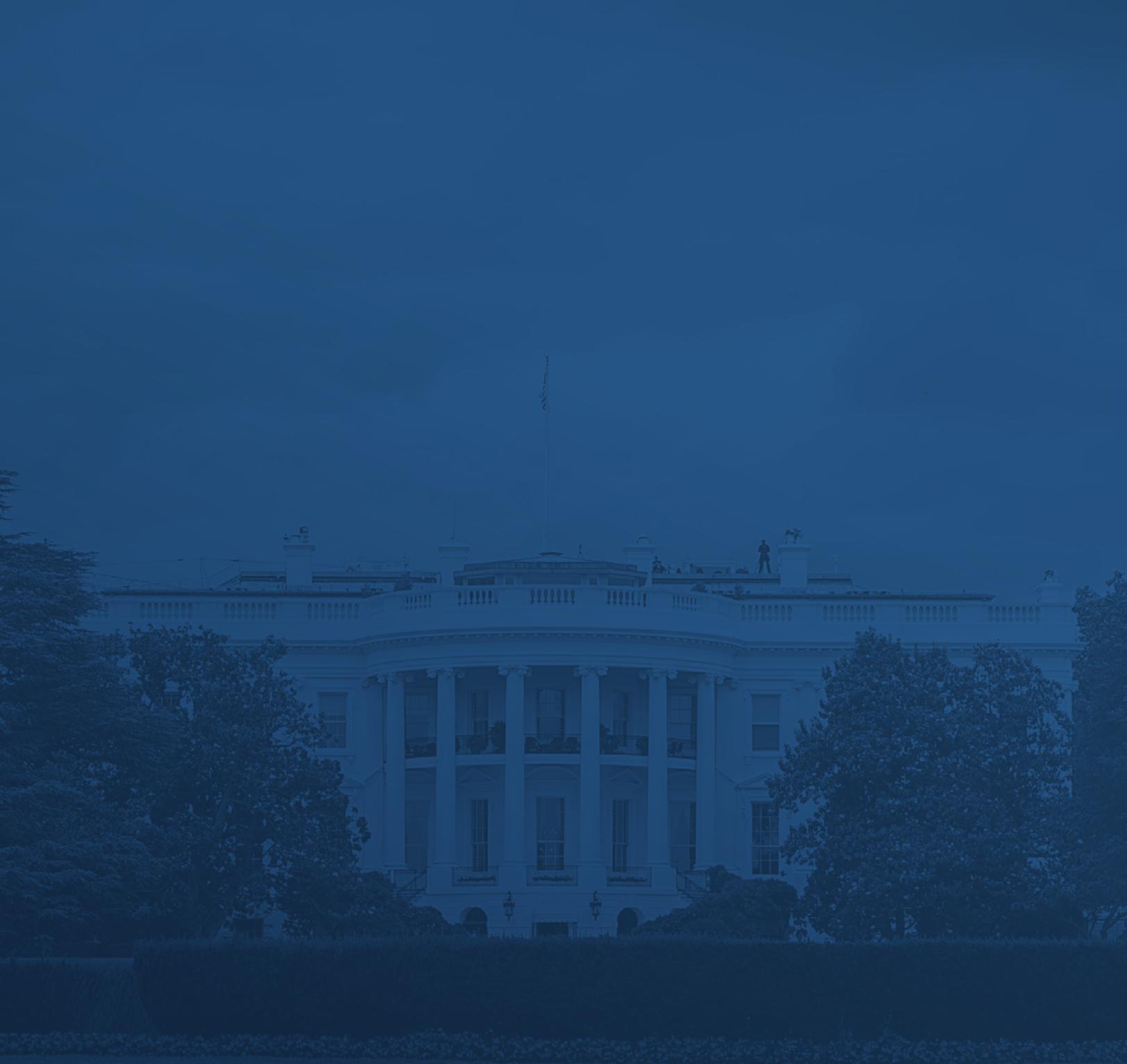
### New Administration Officials' Interaction with CIGFO

Once the new Administration takes office, it is critical for CIGFO and FSOC's leadership to have regular and candid communications. After leadership of FSOC and their member agencies are appointed, it is important that they establish regular communications with CIGFO and the IGs of their respective agency.

These meetings will enable CIGFO to inform FSOC leadership about ongoing work, the results of completed work, and the status of open recommendations from working group reports and other

working group projects. CIGFO will also be able to answer questions about the processes and procedures it uses in its work. In addition, the FSOC members will be able to discuss their priorities and their views on future CIGFO reviews that could be valuable for agency programs. CIGFO can raise any impediments to its work or any areas that it believes need management attention for corrective action. On these and other issues, effective and regular communication between FSOC and CIGFO is important to establish an effective and candid relationship that fulfills the purposes of the Dodd-Frank Act.





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