



---

## ICI VIEWPOINTS

January 9, 2026

# Congress Takes Up FSOC Reform—Why it Matters for Millions of Fund Investors

Authors:

[Erica Richardson](#)

More than fifteen years after the passage of the Dodd-Frank Act, Congress is now moving to enhance due process in the financial stability framework. As the House of Representatives prepares to vote on the Financial Stability Oversight Council Improvement Act of 2025, ICI welcomes these developments and supports this bipartisan legislation aimed at improving the procedural framework for financial-stability oversight.

Under Dodd-Frank, the Financial Stability Oversight Council (FSOC) may designate a US nonbank financial company as a systemically important financial institution (SIFI) if it determines that material financial distress at the company, or the nature of the company's activities, could pose a threat to US financial stability. A designated company could then be subject to prudential supervision by the Federal Reserve Board and subject to enhanced capital standards typically reserved for banks.

[Recent statements](#) from Treasury Secretary Scott Bessent reflect a growing recognition that financial stability oversight must be more targeted, disciplined, and grounded in the expertise of primary regulators.

The current designation protocol lacks due process, may sideline a firm's primary regulator and can create a regulatory mismatch with the firm's business model. Guidance on this designation process has flipped-flopped between Administrations and consistency and certainty is welcomed through Congressional action.

## **A Targeted Reform**

The FSOC Improvement Act adds a straightforward but important safeguard to the council's authority: before FSOC may vote on a proposed designation, it must consult with the company and its primary regulator to determine what other actions could be taken to address the potential risk. FSOC may move to designation only if it determines those alternatives would not be adequate, ensuring that designation is a last resort and reinforcing FSOC's role as a coordinator of expert regulators without usurping the role of the primary regulator.

This guardrail helps ensure that bank-style regulatory tools are applied only where appropriate and not needlessly imposed on a company that is already subject to a

comprehensive and well-tailored oversight regime. ICI has long advocated for a disciplined and transparent SIFI designation process, and the House bill represents meaningful progress toward that goal.

## **Why These Improvements Matter for Markets and Investors**

FSOC's designation authority is one of its most consequential tools. Once designated, a nonbank financial company is subject to capital, liquidity and operational requirements that are appropriate for deposit-taking institutions but may not align with the activities and risk profile of companies like asset managers.

As ICI has consistently emphasized, registered funds and their advisers do not warrant SIFI designation. Thanks to their structure and regulation, these entities do not pose risks to financial stability. If FSOC were to designate a registered fund or its adviser as a SIFI, it could saddle those entities with higher costs, resulting in lower returns for individuals saving for retirement, education, and other life goals.

A designated fund could even be assessed a monetary charge to help cover the resolution of a distressed, "too big to fail" financial institution—an outcome directly at odds with Congress's intent that Main Street investors should never be asked to bail out Wall Street. Even though registered funds and their advisers do not present the kinds of risks that warrant SIFI designation, it remains important that FSOC's processes be well-calibrated to avoid misapplication of bank-style oversight to this area of finance.

## **What Comes Next**

Experience has shown that FSOC's approach can shift significantly across administrations, underscoring the importance of clear statutory standards that endure beyond a single leadership team. By requiring that FSOC fully evaluates alternative approaches before invoking its designation authority, Congress can institute more effective oversight and reduce the likelihood of costly and misapplied regulation.

The bipartisan nature of the House bill reflects a growing recognition that FSOC's designation process benefits from clear guardrails that ensure accountability and respect for primary-regulator expertise. ICI urges Congress to pass this legislation promptly and continue the work of strengthening the nation's financial stability framework.