EMBARGOED UNTIL DELIVERY

Statement of Secretary Scott K. H. Bessent
United States Department of the Treasury
Before the United States Senate Banking Committee
February 5, 2026

Chairman Scott, Ranking Member Warren, and members of the Committee—thank you for inviting me to discuss the Financial Stability Oversight Council's 2025 annual report. This report is the culmination of extensive collaboration among FSOC members. I would like to thank them for their hard work and dedication in advancing the President's bold vision for a better America.

Since Day One, President Trump has focused on building Parallel Prosperity—an era of economic expansion where Wall Street and Main Street grow together. To that end, Treasury has tirelessly pursued pro-growth policies to unlock the potential available to all Americans when they are free to save, invest, build businesses, and drive their own economic destinies. The Financial Stability Oversight Council plays an important role in delivering on this agenda.

Too often in the past, we have seen regulation by reflex. Rather than preempting crises, regulators have frequently reacted to them after the fact. They have played the role of a hazmat cleanup team instead of preventing dangerous spillovers in the first place.

Regulation by reflex has led to a regulatory myopia that has undermined safety and soundness. Under President Biden, the bank regulators preoccupied themselves with "reputation risk," "climate-related financial risks," and other risks with no clear nexus to safety and soundness. At the same time, they centered supervision on management and other governance matters that distracted examiners and banks' risk managers from the real risks to safety and soundness. The result, predictably, was the second, third, and fourth largest bank failures in U.S. history in 2023.

Besides undermining safety and soundness, regulation by reflex has driven excessive regulation. That can lead to economic stagnation. And economic stagnation is, itself, a threat to financial stability.

In calibrating regulations, federal agencies must avoid the temptation to create a zero-risk financial system, which would result in what others have called, "the stability of the graveyard." FSOC should aim to identify vulnerabilities that could lead to systemic crises and encourage the private sector to mitigate those risks before recommending additional regulation. FSOC should also work with its members to support efforts to avoid or pare back existing regulation that stifles pro-growth lending, capital formation, and innovation. And the best way to achieve these goals is by centering economic growth and economic security at the heart of FSOC's agenda.

Promoting economic growth and economic security is essential to ensuring financial stability. Economic growth strengthens household, business, and financial-institution balance sheets, creating capital buffers that reduce the risk of defaults and financial stress. And economic security reinforces domestic production capacity, raising living standards while reducing vulnerability to external shocks and supply-chain disruptions.

FSOC's annual report prioritizes economic growth and economic security accordingly with a specific focus on four policy areas: Treasury markets, cybersecurity, regulatory modernization, and AI.

First, the Council is ensuring that the U.S. Treasury market remains the deepest and most liquid in the world. The Council is supporting efforts by member agencies to strengthen this market against future shocks, including through the Inter-Agency Working Group on Treasury Market Surveillance and the Market Resilience Working Group. Ongoing monitoring and targeted reforms by individual agencies remain essential to financial stability.

Second, the Council is taking action to protect our financial system from increasingly sophisticated cyberattacks. Nation-state actors and criminal groups continue to target our financial institutions and critical infrastructure. To address this risk, the Council is supporting expanded information sharing, joint monitoring, and scenario-based exercises. And it is emphasizing the need for regulated firms to manage cyber risks tied to third-party service providers.

Third, the Council is committed to supporting efforts to modernize supervisory and regulatory frameworks for banks and credit unions. Going forward, regulation and supervision should address material risks, enhance transparency, and reduce unnecessary burdens—particularly for community banks.

Fourth, the Council is prioritizing the responsible use of artificial intelligence to strengthen financial stability. The Council is working with public- and private-sector partners, including international counterparts, to enhance system resilience while closely monitoring emerging risks.

I will close by highlighting our progress in enhancing the utility of our annual report. In this year's report, FSOC shifted away from its past approach, where nearly every major market and financial sector was described as a financial stability vulnerability. By introducing a new structure centered on fostering economic growth and security, we are tuning out the white noise to concentrate on the issues that matter most for U.S. financial stability.

With this overview, I look forward to taking your questions.

###