

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM



GOVERNMENT PERFORMANCE AND RESULTS ACT  
BIENNIAL PERFORMANCE PLAN  
2006–07



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## **FEDERAL RESERVE: THE NATION'S CENTRAL BANK**

### **Overview**

The Federal Reserve System is the central bank of the United States, established by the Congress to provide the nation with a safer, more flexible, and more stable monetary and financial system. Over the years, its role in banking and the economy has expanded, and today the Federal Reserve's duties fall into five general areas.

1. Conducting the nation's monetary policy by influencing money and credit conditions in the economy in pursuit of maximum employment and stable prices
2. Supervising and regulating banking institutions to ensure the safety and soundness of the nation's banking system, maintaining the stability of the financial system, and containing systemic risk that may arise in financial markets
3. Protecting the credit rights of consumers, and encouraging banks to meet the credit needs of consumers, including those in low- and moderate-income neighborhoods
4. Playing a major role in operating the nation's payment systems
5. Providing certain financial services to the U.S. government, the public, financial institutions, and foreign official institutions

The Federal Reserve System was created by passage of the Federal Reserve Act, which President Woodrow Wilson signed into law on December 23, 1913. The act stated that its purposes were "to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

Soon after the creation of the Federal Reserve, it became clear that the act had broader implications for national economic and financial policy. As time has passed, further legislation has clarified and supplemented the original purposes. Key laws affecting the Federal Reserve have been the Banking Act of 1935; the Employment Act of 1946; the Bank Holding Company Act of 1956 and the amendments of 1970; the International Banking Act of 1978; the Full Employment and Balanced Growth Act of 1978; the Depository Institutions Deregulation and Monetary Control Act of 1980; the Financial Institutions Reform, Recovery, and Enforcement Act of 1989; the Federal Deposit Insurance Corporation Improvement Act of 1991; the Gramm-Leach-Bliley Act of 1999; and the Check Clearing for the 21<sup>st</sup> Century Act of 2003. The Congress defined the primary objectives of national economic policy in the Employment Act of 1946, in an amendment to the Federal Reserve Act in 1977, and in the Full Employment and Balanced Growth Act of 1978, which is sometimes called the Humphrey-Hawkins Act after its original sponsors. These objectives include economic growth in line with the economy's potential to expand; a high level of employment; stable prices (that is, stability in the purchasing power of the dollar); and moderate long-term interest rates. Major financial services reform legislation, incorporated in the Gramm-Leach-Bliley Act, reflects changes in the nature of the

industry and the economy in general. Both the legislation and the underlying changes that had been occurring will continue to have a significant effect on the operations and workload of the Federal Reserve.

Since the late 1960s, the number of federal laws intended to protect consumers in credit and other financial transactions has been growing. The Congress has assigned to the Federal Reserve the duty of implementing these laws to ensure that consumers receive comprehensive information and fair treatment. Thus, consumer protection laws such as the 1968 Truth in Lending Act, the Community Reinvestment Act of 1977, the Expedited Funds Availability Act of 1987, the Truth in Savings Act of 1991, the Fair and Accurate Credit Transactions Act of 2003, and others have given the Federal Reserve rule-writing, compliance, and consumer education responsibilities.

The Federal Reserve System is an independent central bank, but only in the sense that its decisions do not have to be ratified by the President or anyone else in the executive branch of government. The entire System is subject to oversight by the Congress because the Constitution gives to the Congress the power to coin money and set its value—and that power was delegated to the Federal Reserve by the Federal Reserve Act. The Federal Reserve must work within the framework of the overall objectives of economic and financial policy established by the government; therefore, the description of the System as “independent within the government” is more accurate than “independent.”

## **Board of Governors**

The Board of Governors of the Federal Reserve System was established as a federal government agency. The Board is composed of seven members appointed by the President of the United States and confirmed by the U.S. Senate. The full term of a Board member is fourteen years; the appointments are staggered so that one term expires on January 31 of each even-numbered year. The Chairman and the Vice Chairman of the Board are also appointed by the President and confirmed by the Senate. The nominees to these posts must already be members of the Board or must be simultaneously appointed to the Board. The terms for these positions are four years.

## **Structure of the System**

The Federal Reserve System was structured by the Congress to give it a broad perspective on the economy and on economic activity in all parts of the nation. It is a federal system, composed of a central governmental agency—the Board of Governors in Washington, D.C.—and twelve regional Federal Reserve Banks located throughout the nation. These components share responsibility for supervising and regulating certain financial institutions and activities, for providing banking services to depository institutions and the federal government, and for ensuring that consumers receive adequate information and fair treatment in their business with the banking system.

A major component of the System is the Federal Open Market Committee (FOMC), which is made up of the seven members of the Board of Governors, the president of the Federal Reserve Bank of New York, and presidents of four other Federal Reserve Banks, who serve on a rotating



basis. The FOMC is charged under law with overseeing open market operations, the principal tool of monetary policy. The FOMC also directs operations undertaken by the Federal Reserve in foreign exchange markets.

## Biennial Performance Plan

Consistent with the requirements of the Government Performance and Results Act (GPRA), this Biennial Performance Plan is based on the *Strategic Planning Document* provided to the public in 2006 (<http://www.federalreserve.gov/boarddocs/rptcongress/>). The plan is biennial rather than annual because the Board uses a biennial budget. Also, the plan is centered on the monetary policy function, the operations of the Board in overseeing the activities of the System, and management actions to improve effectiveness and efficiency. The following discussion of the System's structure helps explain the performance measures used by the Board; however, the document focuses solely on the operations of the Board.

As required by the GPRA, this plan is independent of other, related plans. However, considering this plan in conjunction with several other documents, gives a more detailed picture of the planning, budget, operations, and performance of the System. As required by the Federal Reserve Act, the Board annually submits to the Congress a report describing in detail the operations of the System for the previous year. Since 1985 the System has also provided the Congress with a supplement, the *Annual Report: Budget Review*, which provides a detailed explanation of the plans and resources discussed in the approved budgets of the Board and the Reserve Banks. The most recent versions of these two documents were provided to the Congress in spring 2006.

## Mission

The mission of the Board is to foster the stability, integrity, and efficiency of the nation's monetary, financial, and payment systems so as to promote optimal macroeconomic performance.

## Values

The following values of the Board guide its organizational decisions and its employees' actions.

- *Public interest.* In its actions and policies, the Board seeks to promote the public interest. It is accountable and responsive to the general public, the U.S. government, and the financial community.
- *Integrity.* The Board adheres to the highest standards of integrity in its dealings with the public, the financial community, and its employees.
- *Excellence.* The conduct of monetary policy, responsibility for bank supervision, and maintenance of the payment system demand high-quality analysis, high performance standards, and a secure, robust infrastructure. The pursuit of excellence drives the Board's policies concerning recruitment, selection, and retention policies for Board employees.

- *Efficiency and effectiveness.* In carrying out its functions, the Board is continually aware that its operations are supported primarily by public funds, and it recognizes its obligation to manage resources efficiently and effectively.
- *Independence of views.* The Board values the regional nature of the System as well as the diversity of its employees; input from a variety of sources; and the independent professional judgment that is fostered by the System's highly valued regional structure. It relies on strong teamwork to mold independent viewpoints into coherent, effective policies.

## Goals

The Board has six primary goals with interrelated and mutually reinforcing elements:

1. Conduct monetary policy that promotes the achievement of maximum sustainable long-term growth and the price stability that fosters that goal
2. Promote a safe, sound, competitive, and accessible banking system and stable financial markets
3. Effectively implement federal laws designed to inform and protect consumers, to encourage community development, and to promote access to banking services in historically underserved markets
4. Provide high-quality professional oversight of Reserve Banks
5. Foster the integrity, efficiency, and accessibility of U.S. payment and settlement systems
6. Foster the integrity, efficiency, and effectiveness of Board programs

## Role of Strategic Planning

Unlike most other government agencies, the Board's budget is not subject to the congressional appropriations process or to review by the administration through the Office of Management and Budget. Rather, the Board establishes its budget formulation procedures, conducts strategic planning to identify changes to its critical activities and the proper amount and allocation of resources to support its mission, approves its budget, and provides various reports and budget testimony to the Congress.

The Board, like the framers of the Federal Reserve Act, considers its budgetary independence directly relevant to independence in managing monetary policy. That said, the Board believes that to maintain budgetary independence, it must demonstrate effective and efficient use of its financial resources. Resource management begins with a clear mission statement, identification of goals, a review of factors that might affect the long-term attainment of these goals, and consideration of possible responses to those factors. With the establishment of objectives to attain those goals and identification of the resources needed to accomplish them, the Board develops the budget necessary to implement its strategic plan.

Strategic planning is a critical factor in ensuring the long-term effectiveness of Board operations and in minimizing costs. Effectiveness is improved through timely identification of threats and

opportunities for improving operations. Efficiency is increased by early identification of issues and timely responses. Major factors affecting the current strategic plan include the following:

1. The need to
  - implement Committee on Sponsoring Organizations (COSO) and Sarbanes-Oxley (SOX) requirements on a voluntary basis,
  - develop better performance metrics for each division and major Board function, and
  - provide comparative Boardwide management data to senior staff.
2. Continuing advances in automation and telecommunication technologies that will
  - foster efficiency associated with greater standardization of System supervision and regulation automation tools and databases and better coordination of plans, strategies, actions, and information sharing with other domestic and foreign regulators;
  - reduce reaction time available to address systemic issues;
  - further change the complexity of financial products;
  - require and make possible enhanced systems for identifying, measuring, and pricing risk;
  - improve capabilities for gathering, analyzing, and sharing data; and
  - provide significant opportunities for improving communication with the public.
3. The need for actions and policies that attract and retain a highly motivated, properly trained, and fairly compensated professional workforce.
4. The need for contingency plans related to the safety of personnel, disaster recovery, and information.
5. The current state of the U.S. and foreign economies, and the need to manage diverse views on the effect of the federal deficit on Board operations and expenses.

As technological and other changes accelerate, planning is essential to the effective and efficient conduct of Board operations. A continuing challenge to government agencies in this regard is identifying the appropriate measures of performance. The Board's strategic planning effort recognizes key differences between government and private-sector strategic planning and of measurement results. Private planning can use measures of cost and revenue derived from prices determined in competitive markets; the results of that planning are reflected in the ability of the private entity to prosper over time. The government does not have direct competition in certain areas and has a monopoly in others (conducting monetary policy, for example), and establishing a proxy for costs and prices is extraordinarily difficult. Moreover, the results are judged relative to public policy objectives embodied in law, which often are not readily measurable. Nonetheless, the Board tries to accomplish its mission effectively while creating the efficiencies that come from strategic planning, recognizing that analogies to the private sector are just that. Thus, the Board's central planning objective is oriented toward achieving effectiveness and efficiency specific to the functions it serves.

## **Interagency Coordination of Cross-Cutting Issues**

While many aspects of the Board's mission are unique to the organization, the Board does not operate in a vacuum. To coordinate its activities, the staff works closely with a variety of organizations and individuals on a daily basis. Regular meetings with senior officials of the U.S. Department of the Treasury, regulatory agencies such as the Securities and Exchange

Commission, and other executive branch agencies help ensure consistency of purpose and coordination of actions. One area of the Board's mission, supervision and regulation of financial institutions, is shared with other regulatory agencies. As required by the Government Performance and Results Act (GPRA), and in conformance with past practice, the Board has worked closely with other federal agencies to consider plans and strategies for programs, such as bank supervision, that transcend the jurisdiction of any one agency. Coordination of activities with the U.S. Department of the Treasury and other agencies is evident throughout both the strategic and performance plans.

Given the degree of similarity in missions and the existence of the Federal Financial Institutions Examination Council (FFIEC), the most formal coordination effort has occurred with the other depository institution regulatory agencies (Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision). The FFIEC, which was established in 1979 pursuant to title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978, promotes uniformity in the supervision of financial institutions by the five federal regulatory agencies. It is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of those institutions. In addition, the FFIEC provides uniform examiner training and has taken a lead in developing standardized software needed for major data collection programs to support the requirements of the Home Mortgage Disclosure Act (HMDA) and the Community Reinvestment Act (CRA). These actions have eliminated redundancy and lowered agency costs and, in the case of the HMDA and the CRA, have significantly lowered industry compliance costs while increasing public access to the data.

In connection with the GPRA, a coordinating committee representing the five depository institution regulatory agencies was created some years ago to address and report on issues of mutual concern. The interagency working group has been meeting since June 1997 to work on issues related to those general goals and objectives that cross agency functions, programs, and activities. The results of interagency coordination, whether effected through the FFIEC, the coordinating group, or interaction between agency staff, have been positive and have yielded better plans, creating substantial benefits to the public.

## **MONETARY POLICY FUNCTION**

### **Annual Goals, Objectives, and Performance Measures**

#### **Goal**

Conduct monetary policy that promotes the achievement of maximum sustainable long-term growth and the price stability that fosters that goal

#### **Objective 1**

Stay abreast of recent developments and prospects in the U.S. economy and financial markets, and in those abroad, so that monetary policy decisions will be well informed.

##### *Actions*

- Staff will provide to policymakers periodic briefings and written reports, analyzing incoming economic data. Staff will also prepare ad hoc analyses, as needed, to address special questions.
- Staff will regularly prepare formal, quantitative forecasts for use by policymakers.
- Policymakers and staff will draw on extensive contacts in the private sector to obtain timely information about tendencies in the economy and in financial markets. The *Beige Book*, summaries prepared by Reserve Bank staff, will be one source of such information.
- Policymakers and staff will maintain close contacts with officials in international organizations and at foreign official institutions to remain current on economic developments and policies abroad.

#### **Objective 2**

Enhance our knowledge of the structural and behavioral relationships in the macroeconomic and financial markets, and improve the quality of the data used to gauge economic performance, through developmental research activities.

##### *Action*

- Staff will undertake research into the broad range of topics relevant to the conduct of monetary policy. In the period ahead, this research will focus especially on the consequences for the behavior of the economy of low rates of inflation, advancing technology, financial market innovation and deregulation, and globalization.

### **Objective 3**

Implement monetary policy effectively in rapidly changing economic circumstances and in an evolving financial market structure.

#### *Action*

- The Federal Open Market Committee will seek, through the operations of the Trading Desk at the Federal Reserve Bank of New York, to effect changes in money market conditions consistent with the longer-term objectives of policy.

### **Objective 4**

Contribute to the development of U.S. international policies and procedures, in cooperation with the U.S. Department of the Treasury and other agencies.

#### *Actions*

- The Board will seek to reduce risks to the U.S. economy and financial system from external shocks and to improve stability in domestic and international financial markets.
- The Board will provide leadership in the evolution of international institutions and arrangements in response to the changing shape of the world economy.
- Staff research will contribute to international efforts to understand the origins and consequences of, and develop effective responses to, international economic and financial disruptions.

### **Objective 5**

Promote understanding of Federal Reserve policy among other government policy officials and the general public.

#### *Actions*

- Twice a year, the Board will report formally to the Congress on its monetary policy plans. The Board will also seek to improve public understanding of economic developments and policy through congressional testimony, speeches, and other means.
- The Board will publish, in downloadable form, data on monetary and financial market developments and on industrial production and capacity utilization to inform the public about the environment in which the Federal Reserve is operating.

## **Performance Measures**

The performance of monetary policy in relation to evolving economic and financial circumstances will continue to be reviewed by the Congress in the context of the Board's semiannual monetary policy report and the accompanying testimony. The Congress has not chosen to establish quantitative objectives for monetary policy in statute. Moreover, it is recognized that monetary policy has only a partial and indirect influence on economic performance.

## **Operational Process and Resources Required to Meet Performance Goals**

### **Operational Process, Skills, and Technology**

The Divisions of Research and Statistics, Monetary Affairs, and International Finance conduct activities in support of the Federal Reserve's monetary policy responsibilities. These divisions develop and present economic and financial data and analysis for use by the Board, the Federal Open Market Committee, and the Reserve Banks. The staff of the divisions are mainly economists, statisticians, research assistants, and data processing professionals. They rely on sophisticated automation support, including both a mainframe computer and a complex distributed-processing network, to provide the computing power and analytical tools needed to manage, process, and analyze the large volumes of data necessary to support the monetary policy function.

Quality of staff is a major issue in meeting the analytical needs of the Board. Almost all economists and statisticians have advanced degrees. Highly qualified research assistants support the economists and statisticians. To attract and retain the quality staff necessary to meet the Board's objectives, the Board offers a compensation package designed to provide some degree of comparability with the market.

### **Summary of Required Human, Capital, and Information Resources**

#### *Research and Statistics*

Information, data, and analyses prepared by staff in the Division of Research and Statistics serve as a background for the formulation and conduct of monetary policy. The division fosters a broader understanding of issues relating to economic policy by providing leadership in economic and statistical research and by supplying data and analyses for public use. The division also provides economic and quantitative analyses and services to other functional areas, including payment system policy and oversight, supervision and regulation, and consumer affairs. In addition, the division provides distributed processing automation support unique to the monetary policy function.

## Monetary Policy Function

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The monetary policy portion of the division's budget for 2006–07 is approximately \$77.2 million. The largest component of the budget is \$63.9 million for salaries, retirement, and insurance for staff in the 254 budgeted positions.

While the division is responsible for managing two major data surveys, the cost of the surveys, \$9.0 million, is included in the extraordinary items budget. The Survey of Consumer Finances will provide an update of a data series concerned with aspects of consumer finances such as household assets and liabilities, spending, and use of credit. The Survey of Small Business Finance will update a data series concerned with small-business balance sheets, income statements, and access to credit and other financial services.

### *Monetary Affairs*

The primary responsibility of the Division of Monetary Affairs is to support the Board and the Federal Open Market Committee (FOMC) in the conduct of domestic monetary policy through open market operations, discount rates and the administration of the discount window, and reserve requirements. The division produces data series on, and analyzes developments in, money, reserves, bank credit and profits, and interest rates. The division also forecasts movements in money, reserves, and bank credit and serves as liaison with the Trading Desk at the Federal Reserve Bank of New York in the daily conduct of open market operations.

The division budget for 2006–07 is \$28.4 million, \$19.7 million of which is for salaries, retirement, and insurance for a budgeted staff of 75. The proportion of the budget used for automation resources in this division is equivalent to that in the Division of Research and Statistics, with \$5.9 million budgeted for this purpose.

### *International Finance*

The Division of International Finance provides the Board, the FOMC, and other System officials with assessments of current and prospective international economic and financial developments. The division evaluates and forecasts major economic and financial developments abroad, developments in foreign exchange and other international asset markets, and U.S. international transactions. The division also analyzes international banking activities and their implications. The monetary policy portion of the division's 2006–07 budget is \$29.1 million, again largely for salary, retirement, and insurance costs for staff in the 106 budgeted positions.



**Federal Reserve Board Expenses and Operations Budget**

**Monetary Policy Function**

Millions of dollars

2002–03 Actual	2004–05 Estimated	2006–07 Budgeted
\$191.6	\$224.3	\$243.6

**Note:** Data for the operations budget includes an allocation of support and overhead costs. The Board uses the calendar year for budgeting and reporting purposes.

**Federal Reserve Board Staffing**

**Monetary Policy Function**

2002–03 Actual	2004–05 Estimated	2006–07 Budgeted
417	434	435

**Note:** Data shows authorized positions as of year-end. Support and overhead positions are not allocated to the functional areas.

**Validation and Verification of Measured Values**

Macroeconomic performance is monitored through a broad range of indicators, including both quantitative and qualitative information. The staff updates its analyses of macroeconomic and financial conditions in part through extensive data collection and analysis. In addition, the financial markets provide a daily barometer on the nation’s economic status. The FOMC meets eight times a year to review the latest data and staff analyses and makes any necessary adjustments in policy. The Board formally reviews the state of the economy with the Congress semiannually, in its monetary policy report. The Chairman and other members of the Board testify on particular aspects of the economy on an ongoing basis.

One set of data watched closely by the Board is the set of statistics describing price increases. The Board pays careful attention to the consumer price index, the producer price index, the gross domestic price deflator, the price index for personal consumption expenditures, and other measures of inflation to gauge its success in maintaining the price stability seen as important to the long-term economic well-being of the country. Because the tools used to support price stability take some time to have an effect, data that help to forecast changes in prices are used to help guide policy. These data include measures of industrial output, wage increases, hours worked, unemployment, and a host of others. As part of the strategy for maintaining price stability, the Board works with other government agencies and private institutions to improve the quality of the economic data used in making decisions. Funding is included in the budget for economic surveys, studies of the methodologies for calculating price changes, and a review of the effect of changes in the price and quality of automation and telecommunications equipment.



## **SUPERVISION AND REGULATION FUNCTION**

### **Annual Goals, Objectives, and Performance Measures**

#### **Goals**

*Safety and Soundness.* Promote a safe, sound, competitive, and accessible banking system and stable financial markets

*Consumer Protection.* Effectively implement federal laws designed to inform and protect consumers, to encourage community development, and to promote access to banking services in historically underserved markets

#### **Objective 1**

Promote overall financial stability, manage and contain systemic risk, and identify emerging financial problems early so that crises can be averted.

##### *Actions*

- Continue to develop a regulatory framework that promotes a comprehensive and systematic approach to risk taking in banking.
- Conduct and encourage effective contingency planning by financial institutions to respond to crises and shocks that could occur in the banking industry.
- Maximize the cooperation, coordination, and flow of information with domestic and foreign supervisory authorities and among different functions within the Federal Reserve (macroeconomic, bank supervision, payment systems, and discount window functions) to address systemic risk posed by supervised organizations.

#### **Objective 2**

Provide a safe, sound, competitive, and accessible banking system through comprehensive and effective supervision of U.S. banks, bank and financial holding companies, foreign banking organizations, and related entities. At the same time, remain sensitive to the burden on supervised institutions.

##### *Actions*

- Refine System processes designed to identify and assess risks within financial institutions and across portfolios of supervised institutions to respond to changes in the planning environment.

- In the face of increasingly complex risks, enhance the supervision function's ability to adapt supervision programs to respond to shifting priorities and issues in the most timely, consistent, and effective manner.

### **Objective 3**

Provide a dynamic work environment that is challenging and rewarding. Enhance efficiency and effectiveness, while remaining sensitive to the burden on supervised institutions, by addressing the supervision function's procedures, technology, resource allocation, and staffing issues.

#### *Actions*

- Ensure that the Federal Reserve hires and maintains a qualified staff with the right mix of experience, education, and specialized skills to meet the challenges of a rapidly evolving banking system.
- Coordinate the use of examiners throughout the System to ensure that skill sets, schedules, and priorities of the staff at all Reserve Banks are aligned.
- Use System resources as efficiently as possible.
- Harness the benefits of technology in carrying out responsibilities to improve efficiency and consistency in the supervisory process so as to effectively manage the increased information needs as required. Seamlessly integrate technology into the supervisory business process.

### **Objective 4**

Promote compliance by domestic and foreign banking organizations supervised by the Federal Reserve with applicable laws, rules, regulations, policies, and guidelines through a comprehensive and effective supervision program.

#### *Actions*

- Enhance supervised institutions' understanding of relevant rules and regulations and provide education and other resources to help them better manage their legal and reputational risk.
- Promote System efforts to develop and implement a risk-focused framework for assessing the overall compliance risk in supervised institutions.

### **Objective 5**

Take a leadership role in shaping the national dialogue on consumer protection in financial services, addressing the rapidly emerging issues that affect today's consumers, strengthening consumer compliance supervision programs when required, and remaining sensitive to the burden on supervised institutions.

### *Actions*

- Inform the policy development, applications analysis, and decisionmaking processes with timely information obtained from consumer compliance examination processes and analyses of trends in complaint activity.
- Maintain a constructive presence within the financial services industry and among state and federal regulators, consumer and community advocates, financial sector trade groups, researchers, and other interested parties through participation in meetings, seminars, and other appropriate outreach venues.
- Address emerging consumer financial services issues with high-quality research and analysis, responsive examination policies, revised or new regulations, timely industry guidance, and effective consumer education campaigns.

### **Objective 6**

Promote, develop, and strengthen effective communications and collaborations within the Board, the Federal Reserve Banks, and other agencies and organizations.

### *Actions*

- Maintain ongoing and consistent contact with Board members, especially with the Division of Consumer and Community Affairs' oversight committee, to keep them apprised of emerging issues, high-priority initiatives, pending policy matters, and the implications and consequences of the Board's options and actions.
- Maintain effective relationships with senior management and staff at the Reserve Banks, and seek their participation in policy development and implementation.
- Collaborate with other Board divisions on matters of overlapping or mutual interest.
- Work effectively with other government agencies and interested parties to receive input on issues and strengthen policies and to assist in the identification and development of best practices.
- Provide thoughtful, sound legal analysis, counsel, and policy recommendations in support of the Board's statutory and regulatory responsibilities.

### **Objective 7**

Develop a staff that is highly skilled, professional, innovative, and diverse, providing career development opportunities to ensure the retention of highly productive and qualified staff and recruiting highly qualified and skilled employees.

### *Actions*

- Implement a performance evaluation process that ensures high standards of performance and focuses on staff competencies, skills, and behaviors.
- Establish a multidimensional leadership-training program that includes tailored classroom training, developmental work assignments, mentoring, and job rotations.
- Use data on emerging issues and information on the changing financial services marketplace to structure training that will assist staff in refining technical skills, increasing productivity levels, and achieving excellence.
- Collaborate with the Board's Management Division to develop responsive recruiting mechanisms to ensure qualified and diverse candidate pools for vacant positions.

### **Objective 8**

Promote an efficient and effective work environment by aligning business functions with appropriate work processes and implementing solutions for work products and processes that can be handled more efficiently through automation.

### *Actions*

- Develop a process to validate and measure the effectiveness and efficiency of the Division of Consumer and Community Affairs' business functions.
- Strengthen collaboration between the division's Information System staff and individual business functions to improve the quality and effectiveness of work products.
- Implement automated solutions to increase the effectiveness and efficiency of work products and processes.
- Maintain a secure, but readily accessible, automation environment.

### **Objective 9**

Increase public understanding of consumer protection and community development and the Board's role in these areas through increased outreach and by developing programs that address the information needs of consumers and the financial services industry.

### *Actions*

- Expand outreach activities to consumers, the financial services industry, local governments, and other interested parties.

- Raise awareness of Board activities in consumer protection and community development among relevant constituencies.
- Develop programs and activities that address constituencies' information needs.
- Provide clear, concise, and complete disclosures for consumers.

### **Performance Measures**

1. Identify and resolve supervisory and financial problems in a timely manner, working alone or in cooperation with other authorities, to minimize disruptions to the financial and payment systems and the economy more generally.
2. Minimize net losses to the Bank Insurance Fund associated with state member banks consistent with trend data associated with prevailing economic conditions.
3. Complete financial institution examinations as required by statute and as dictated by review of supervisory data and CAMELS ratings, experience, and an assessment of current risks to the financial industry.
4. Complete reports of examinations within established time frames.
5. To the extent to which they are received by the Board, process applications within established time frames.
6. Conduct consumer compliance and CRA examinations in accordance with Board and statutory requirements.
7. To the extent to which they are received by the Board, process consumer complaints in accordance with established time frames.
8. Review and update various consumer regulations for which the Board has rule-writing authority.
9. Improve the accessibility of consumer information on banking products and services available in the market, such that consumers are better able to make informed choices.
10. Provide advisory services, conduct outreach, sponsor conferences to promote community development in underserved areas, and provide technical assistance that supports an ongoing dialogue with financial institutions, government agencies, and communities to address barriers and challenges to credit and capital access.
11. Improve understanding of effective practices in financial and consumer education through research and development of consumer education materials.

## **Operational Process and Resources Required to Meet Performance Goals**

### **Operational Process, Skills, and Technology**

The supervision and regulation function plays a key role in carrying out some of the Board's core responsibilities. Through the supervision and regulation of banking institutions and holding companies, the staff in this function work to ensure the operation of safe and sound financial institutions, stability in the financial markets, the containment of systemic risks that may arise in financial markets, and the fair and equitable treatment of consumers in their financial transactions.

Although the terms *bank supervision* and *bank regulation* are often used interchangeably, they actually refer to distinct, though complementary, activities. Bank supervision involves monitoring, inspecting, and examining banking organizations to assess their condition and their compliance with relevant laws and regulations. When an institution is found to be in noncompliance with laws and regulations, the Federal Reserve may use its supervisory authority to take formal or informal action to have the institution correct the problems. Bank regulation entails making and issuing specific regulations and guidelines governing the structure and conduct of banking, under authority of legislation.

Information gained from bank examinations, reviews of loan portfolios, and oversight of lending terms and activity is vital input to decision making process concerning monetary policy. Similarly, the microeconomic research conducted at the Board provides valuable support to the supervision and regulation function.

The Federal Reserve shares supervisory and regulatory responsibilities with the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, various state banking agencies, and, for the international operations of U.S. banks and the U.S. operations of foreign banking organizations in the United States. This structure has evolved partly as a result of the complexity of the U.S. financial system, with its many kinds of depository institutions and numerous chartering authorities, and partly as a result of federal and state laws and regulations designed to remedy problems that the U.S. commercial banking system has faced over its history.

At the most senior levels, the work and plans of the Federal Reserve have been closely coordinated with the other agencies. In addition, Board staff members have worked with staff of the other financial regulatory agencies to review cross-cutting issues. Plans have been shared, and the discussions of issues are reflected in the submissions of the Board and other regulators. Finally, the Board has relied heavily on the Federal Financial Institutions Examination Council to assist with the coordination of safety-and-soundness and consumer issues. Examples include the development of common software to reduce costs and industry burden, policy development, critical examiner training, and common regulatory forms.



## **Summary of Required Human, Capital, and Information Resources**

Two entire divisions, the Division of Banking Supervision and Regulation and the Division of Consumer and Community Affairs, are associated with this function, as are parts of the Legal Division, the Division of Research and Statistics and the Division of International Finance.

The Division of Banking Supervision and Regulation is responsible for (1) keeping the Board informed about current and prospective developments in bank supervision and banking structure; (2) coordinating the System's bank supervision and examination activities, including development of policy, collection of data, preparation of hardware and software standards as well as requirements for software development, and training; (3) processing applications for prior consent to form or expand bank holding companies or to make other changes in banking structure; and (4) administering certain regulations.

The division budget for 2006–07 is \$99.3 million. The largest component of the budget is \$68.7 million for salaries, retirement, and insurance for staff in the 254 budgeted positions. Software development and maintenance and mainframe use -- for work with the FDIC to develop a call modernization report, to maintain the bank surveillance systems, and to provide access to data and analytical tools needed for timely policy analysis and recommendations -- are budgeted at \$20.7 million.

The Division of Consumer and Community Affairs (DCCA) focuses on the Board's responsibilities in the area of consumer protection, including, (1) preparing and interpreting regulations that are faithful to congressional directives and properly balance consumer protections and industry costs (in general, the consumer laws apply to all types of institutions--retailers, finance companies, mortgage bankers, and other nonbank businesses, as well as depository institutions); (2) developing proposals to improve federal consumer protection laws; (3) supporting and overseeing the Reserve Banks' supervisory efforts to ensure that compliance is fully and fairly enforced; (4) overseeing the Systemwide consumer complaint program to ensure thorough, prompt, and equitable treatment of the public; (5) assisting and monitoring the community affairs activities of the Federal Reserve System to produce a strong outreach program; and (6) reviewing bank and bank holding company applications for adverse CRA and compliance issues.

The DCCA budget for 2006–07 is \$29.5 million, of which \$24.0 million is for compensation expenses for the 95 budgeted positions. The budget provides \$2.1 million for the purchase of automation resources from the Division of Information Technology -- specifically, for gathering, storing, and evaluating data needed to analyze compliance issues associated with CRA, HMDA, and other legislation for which the division has enforcement responsibilities.

The Legal Division provides legal analysis and counsel in support of Board statutory and regulatory responsibilities. The effort focuses on the preparation, legal interpretation, and distribution of information concerning statutes, Board decisions, regulations, rules, interpretations, and proposed legislation. Approximately half of the Legal Division's budget of \$26.1 million is for support of the supervision and regulation function.

## Supervision and Regulation Function

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While it is primarily responsible for issues associated with monetary policy, the Division of Research and Statistics provides significant support to the supervision and regulation function. In the safety-and-soundness area, it provides data and analyses associated with (1) trading and positioning of securities, commodities, and derivatives instruments; (2) quantifying credit risk within the examination process and the risk-based capital framework; (3) enhancing the Board's understanding of key determinants of the performance of financial institutions, including profitability and efficiency and their relationship to banking consolidation; and (4) establishing current and emerging developments affecting U.S. banking structure and performance, especially the Board's responsibilities for assessing the antitrust and concentration implications of mergers and acquisitions. In the consumer compliance area, the division provides technical assistance for implementing fair lending and other consumer compliance related issues.

### **Federal Reserve Board Expenses and Operations Budget Supervision and Regulation Function**

Millions of dollars

2002–03 Actual	2004–05 Estimated	2006–07 Budgeted
\$189.8	\$217.7	\$247.0

**Note:** Data for the operations budget includes an allocation of support and overhead costs. The Board uses the calendar year for budgeting and reporting purposes.

### **Federal Reserve Board Staffing Supervision and Regulation Function**

2002–03 Actual	2004–05 Estimated	2006–07 Budgeted
357	400	406

**Note:** Data shows authorized positions as of year-end. Support and overhead positions are not allocated to the functional areas.

## **Validation and Verification of Measured Values**

The financial accounting system and the budget system are fully integrated to ensure that actual costs for the function are measured and tracked against budgeted resources. Budget and expense data are provided to the Congress and the public in the *Annual Report: Budget Review*. The financial statements of the Board are prepared in accordance with generally accepted accounting principles and are subject to external audit. The results are included in the *Annual Report* provided to the Congress and the public.

Data on the number of applications processed, the associated time frames, and related statistical measures are gathered, provided to the Board, and posted on the Board's external web site. Aggregate data on CAMELS ratings, the number and causes of failures, and the effect of the failures on the Bank Insurance Fund (BIF) are also gathered and provided to the public.

Surveillance data gathered from routine reports are used to implement risk-based examinations, and the data are made available to the public through Uniform Bank Performance Reports and Bank Holding Company Performance Reports. Certain data submitted pursuant to the Home Mortgage Disclosure and Community Reinvestment Acts are also made available to the public and to financial institutions on diskette and CD-ROM.

Data associated with the financial exposure of each financial institution supervised by the Federal Reserve are used to develop risk profiles that, in conjunction with CAMELS ratings from earlier examinations, are used to determine the frequency and timing of safety and soundness examinations. Similarly, financial data, risk profiles, and consumer compliance and CRA ratings data are used to determine the frequency and timing of consumer compliance and CRA examinations. Automated tools allow examiners to gather data required for the examinations from off-site locations speeding the process, reducing on-site examination time and the associated burden and costs to the institution and the System, and format microdata of importance for monetary policy purposes.

## Performance Measures and Targets Supervision and Regulation Function

Performance Measure	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Goal	2007 Goal
1. Identify and resolve supervisory and financial problems in a timely manner, working alone or in cooperation with other authorities, to minimize disruptions to the financial and payment systems and the economy more generally. <i>2006–07 target:</i> No specific target.	No major systemic disruption resulted from inadequate supervision	No major systemic disruption resulted from inadequate supervision	No major disruption resulted from inadequate supervision	No major disruption resulted from inadequate supervision	No major disruption resulted from inadequate supervision	No major disruption resulted from inadequate supervision
2. Minimize net losses to the BIF associated with state member banks consistent with trend data associated with prevailing economic conditions. <i>2006–07 target:</i> BIF losses from state member banks not to exceed premiums paid into the BIF by state member banks. (The FDIC assesses a premium against only those banks with a less-than-satisfactory rating or banks that are not well capitalized.)	Three bank failures occurred with losses exceeding premiums paid into the BIF by SMBs for that year.	No net loss to the BIF	No net loss to the BIF	No net loss to the BIF	No net loss to the BIF	No net loss to the BIF
3. Complete financial institution examinations as required by statute and as dictated by review of supervisory data and CAMELS ratings, experience, and an assessment of current risks to the financial industry. <i>2006–07 target:</i> 98 percent of examinations conducted in accordance with 12- or 18-month statutory requirements; subsequent supervisory follow-up performed on CAMELS 3, 4, or 5 as required by Federal Reserve guidelines.	98%	99%	98%	98%	98%	98%
4. Complete reports of examinations within established time frames. <i>2006–07 target:</i> Issue at least 90 percent of reports within 60 days of examination-closeout meeting.	96%	95%	At least 90%	At least 90%	At least 90%	At least 90%

Supervision and Regulation Function

<b>Performance Measure</b>	<b>2002 Actual</b>	<b>2003 Actual</b>	<b>2004 Actual</b>	<b>2005 Actual</b>	<b>2006 Goal</b>	<b>2007 Goal</b>
5. To the extent to which they are received by the Board, process applications within established time frames. <i>2006–07 target:</i> Process at least 90 percent of applications within statutory or Board guidelines.	93%	92%	90%	90%	90%	90%
6. Conduct consumer compliance and CRA examinations in accordance with Board and statutory requirements. <i>2006–07 target:</i> Complete 99 percent of compliance examinations within Board-established time frames.	99%	99%	99%	99%	99%	99%
7. To the extent to which they are received by the Board, process consumer complaints in accordance with established time frames. <i>2006–07 target:</i> Process 80 percent of consumer complaints within Board guidelines.	N.A.	N.A.	80%	80%	80%	80%
8. Review and update various consumer regulations for which the Board has rule-writing authority. <i>2006–07 targets:</i> Continue to complete additional FACT Act rule makings. Publish proposed rule for Regulation Z by the end of 2007.	N.A.	N.A.	Implemented some FACT Act rule-makings by December 2004. Publish an ANPR for Regulation Z by December 2004		Complete some additional FACT Act rulemakings.	Complete some additional FACT Act rulemakings. Publish proposed rule for Regulation Z.

Supervision and Regulation Function

<b>Performance Measure</b>	<b>2002 Actual</b>	<b>2003 Actual</b>	<b>2004 Actual</b>	<b>2005 Actual</b>	<b>2006 Goal</b>	<b>2007 Goal</b>
<p>9. Improve the accessibility of consumer information on banking products and services available in the market. <i>2006–07 target: No target</i></p>	No target	No target	No target	No target	Serve as member of Financial Literacy and Education Commission; maintain/update Mymoney.gov web site; update Board's distribution channels to include new consumer publications.	Serve as member of Financial Literacy and Education Commission; maintain/update Mymoney.gov web site. Ensure that newly developed consumer education brochures are translated into Spanish; update Board's distribution channels to include new consumer publications.
<p>10. Provide advisory services, conduct outreach, sponsor conferences to promote community development in underserved areas, and provide technical assistance that supports an ongoing dialogue with financial institutions, government agencies, and communities to address barriers and challenges to credit and capital access. <i>2006–07 target: Conduct a research conference in April 2007.</i></p>	N.A.	N.A.	No target	Conduct a research conference in April 2005.	Prepare for the 2007 research conference.	Conduct a research conference in April 2007.
<p>11. Improve understanding of effective practices in financial and consumer education through research and development of consumer education materials. <i>2006–07 target: Collect data and conduct analysis for financial education research study.</i></p>	N.A.	N.A.	Identify contractor for financial education research study. Identify issues for consumer education publications.	Set up data collection practices for financial education research study. Identify issues for consumer education publications.	Collect data; conduct analysis for financial education research study. Publish consumer education brochure.	Collect data; conduct analysis for financial education research study. Review/update consumer education publications.

## **PAYMENT SYSTEM POLICY AND OVERSIGHT FUNCTION**

### **Annual Goals, Objectives, and Performance Measures**

#### **Goals**

*Oversight.* Provide high-quality professional oversight of Reserve Banks

*Policy.* Foster the integrity, efficiency, and accessibility of U.S. payment and settlement systems

#### **Objective 1**

Produce high-quality assessments and oversight of Federal Reserve System strategies, projects, and operations, including adoption of technology to the business and operational needs of the Federal Reserve. The oversight process and outputs should help Federal Reserve management foster and strengthen sound internal control systems, efficient and reliable operations, effective performance, and sound project management, and also should assist the Board in the effective discharge of its oversight responsibilities.

#### *Actions*

- Oversee strategic infrastructure projects, including Reserve Bank check restructuring, cash distribution, and major Reserve Bank information technology initiatives.

Board staff will continue to oversee the Reserve Banks' strategies to return to and sustain full cost recovery, including efforts to reduce costs and improve efficiency by restructuring their physical check processing infrastructure. In addition, Board staff will oversee the Reserve Banks' assessment and implementation of cash distribution and processing changes. Board staff also will continue to oversee the development of new applications to support the delivery of Reserve Bank financial and fiscal agency services; the deployment of web-based technology; and the implementation of information security services and projects to improve operational risk management.

- Oversee implementation of enhanced COSO and evolving information security policy, controls, and risk-management processes.

Board staff will monitor and evaluate the results of the external audit of the Reserve Banks' control assertions consistent with the requirements of Sarbanes-Oxley. Board staff will continue to monitor the Reserve Banks' migration to the new information security manual (nISM), refinements to information systems governance, and compliance with the Federal Information Security Management Act, as applicable.

## **Objective 2**

Develop sound, effective policies and regulations that foster payment system integrity, efficiency, and accessibility. Support and assist the Board in overseeing U.S. dollar payment and securities settlement systems by assessing their risks and risk-management approaches against relevant policy objectives and standards.

### *Action*

- Evaluate further changes to the payments system risk policy related to daylight overdrafts.

Staff will evaluate opportunities to improve tradeoffs among the payment system risk policy objectives, including efforts that would influence the efficiency with which daylight overdrafts are used by the financial industry and changes affecting the terms of supply of daylight overdrafts by the Reserve Banks.

## **Objective 3**

Conduct research and analysis that contributes to policy development and increases the Board's and others' understanding of payment system dynamics and risk.

### *Actions*

- Analyze the effect of Check 21 on various aspects of check processing.

Board staff will conduct a survey in spring 2006 to gather information on funds availability, check fraud, and check collection and return methods and time frames. The Board will report the results of the survey to the Congress in 2007 and will make recommendations for legislative action as warranted.

- Conduct further research on the optimal infrastructure for Reserve Bank services.

Board staff will continue to develop models, in collaboration with Reserve Bank staff, to analyze changes in the Reserve Banks' cash and check processing infrastructure.

## **Performance Measures**

1. Extent to which the Board completes all Reserve Bank reviews as scheduled; completes annual Reserve Bank examinations; and oversees an external audit of Reserve Bank financial statements each year, as required by the Federal Reserve Act.
2. Extent to which issues raised by the Board regarding Reserve Bank operations, internal audit, or proposed or ongoing initiatives foster positive change within the Reserve Banks.



3. Submission of report to the Congress in 2007 on the results of our assessment of the effect of Check 21 on various aspects of check processing, including recommendations for legislative action as warranted.
4. Monitor and ensure the full collateralization of Federal Reserve notes as defined by the Federal Reserve Act.
5. Extent to which the Board (through its oversight committees) is informed of important developments and issues in a timely and effective manner.
6. Timely response to requests for policy interpretations, deviations, and exception requests from the Reserve Banks.

## **Operational Process and Resources Required to Meet Performance Goals**

### **Operational Process, Skills, and Technology**

Board staff oversee the policies and operations of the Federal Reserve Banks as providers of financial services to depository institutions, the U.S. Department of the Treasury, and other entities. Staff members conduct analyses concerning the structure, efficiency, and integrity of U.S. dollar payment and settlement systems and the effects of the Board's policies on those systems. They undertake original research into issues of interest to the Federal Reserve in the area of payment and settlement systems, including the interrelationships among systems, long-run technological trends and their economic and risk implications, systemic risk, and interbank relationships. In addition, they conduct studies relating to the cost and scale efficiency of the Reserve Banks in the provision of financial services as well as to the pricing of Federal Reserve services. Staff members depend on state-of-the-art office automation and sophisticated analytical tools and automation support to perform their work.

### **Summary of Required Human, Capital, and Information Resources**

The oversight, research, and policy development activities related to this function are conducted mainly by staff of the Board's Division of Reserve Bank Operations and Payment Systems, who represent a variety of disciplines. The workforce is largely composed of analysts with graduate degrees in public policy, business, finance, economics, or information technology; many have had experience working at a Reserve Bank or in the private sector.

**Federal Reserve Board Expenses and Budget  
Payment System Policy and Oversight Function**

Millions of dollars

2002–03 Actual	2004–05 Estimated	2006–07 Budgeted
\$85.7	\$95.9	\$118.9

**Note:** Data for the operations budget includes an allocation of support and overhead costs. The Board uses the calendar year for budgeting and reporting purposes.

**Federal Reserve Board Staffing  
Payment System Policy and Oversight Function**

2002–03 Actual	2004–05 Estimated	2006–07 Budgeted
185	195	194

**Note:** Data shows authorized positions as of year-end. Support and overhead positions are not allocated to the functional areas.

**Validation and Verification of Measured Values**

The performance of the payment system policy and oversight function is monitored on the basis of numerous qualitative factors, including the thoroughness of staff research and the quality and timeliness of staff analysis and related recommendations. For example, performance in the oversight area is measured by qualitative feedback from the Reserve Banks about the extent to which staff work improves the quality of Reserve Bank decisions and helps Reserve Bank management strengthen sound internal control systems and efficient and effective performance.

**Performance Measures and Targets**  
**Payment System Policy and Oversight Function**

<b>Performance Measure</b>	<b>2002 Actual</b>	<b>2003 Actual</b>	<b>2004 Actual</b>	<b>2005 Actual</b>	<b>2006 Goal</b>	<b>2007 Goal</b>
1. Extent to which the Board completes all Reserve Bank reviews as scheduled; completes annual Reserve Bank examinations; and oversees an external audit of Reserve Bank financial statements each year, as required by the Federal Reserve Act. <i>2006–07 target: Complete all reviews as scheduled.</i>	100%	100%	100%	100%	100%	100%
2. Extent to which issues raised by the Board regarding Reserve Bank operations, internal audit, or proposed or ongoing initiatives foster positive change within the Reserve Banks. <i>2006–07 target: No specific target.</i>	N.A.	N.A.	No target	No target	No target	No target
3. Submission of report to the Congress in 2007 on the results of our assessment of the effect of Check 21 on various aspects of check processing, including recommendations for legislative action as warranted. <i>2006–07 target: Report forwarded by April 2007.</i>	N.A.	N.A.	N.A.	N.A.	N.A.	Report forwarded by April 2007
4. Monitor and ensure the full collateralization of Federal Reserve notes as defined by the Federal Reserve Act. <i>2006–07 target: Ensure 100% collateralization.</i>	100%	100%	100%	100%	100%	100%
5. Extent to which the Board (through its oversight committees) is informed of important developments and issues in a timely and effective manner. <i>2006–07 target: No specific target.</i>	No target	No target	No target	No target	No target	No target
6. Timely response to requests for policy interpretations, deviations, and exception requests from the Reserve Banks. <i>2006–07 target: No specific target.</i>	N.A.	N.A.	N.A.	N.A.	No target	No target



## **INTERNAL BOARD SUPPORT**

### **Annual Goals, Objectives, and Performance Measures**

#### **Goal**

Foster the integrity, efficiency, and effectiveness of Board programs

#### **Objective 1**

Oversee a planning and budget process that clearly identifies the Board's mission, results in concise plans for the effective accomplishment of operations, transmits to the staff the information needed to attain objectives efficiently, and allows the public to measure our accomplishments.

#### *Actions*

- In cooperation with individual divisions, review, evaluate, and revise as needed the Board's objectives and goals developed during the 2006–07 planning process to prepare for the future.
- Ensure that our goals, objectives, and implementing actions are made known to the Congress, the public, and Board staff. Prepare portions of the *Annual Report* and the *Annual Report: Budget Review* to be published on the Board's public web site and forwarded to the Congress.
- Ensure that the Board's planning and budget process continues to incorporate voluntary compliance with the GPRA, with the expectation of achieving more-streamlined operations and reducing administrative costs while maintaining service levels. This may be achieved by revising procedures to eliminate unnecessary steps and by better automating remaining steps.
- Provide management with information, data, and procedures to facilitate planning, budgeting, financial decision making, and procurement of goods and services, resulting in effective and efficient Board operations.
- Utilize enhanced internal communications practices to promote information sharing, encourage effective management communications, and broaden awareness of goals and objectives.

## **Objective 2**

Develop appropriate policies, oversight mechanisms, and measurement criteria to ensure that the recruiting, training, and retention of staff meet Board needs.

### *Actions*

- Ensure that the Board's compensation systems continue to attract qualified staff and reward and motivate employees as desired.
- Ensure that appropriate processes exist to facilitate development of a Boardwide succession plan that minimizes disruption and maximizes knowledge transfer.
- Use data, such as turnover data, exit interviews, and hiring data, and other relevant input to gauge the effectiveness of management actions.

## **Objective 3**

Establish, encourage, and enforce a climate of fair and equitable treatment for all employees regardless of race, creed, color, national origin, age, or sex.

### *Actions*

- Develop, implement, and ensure compliance with policies, practices, and procedures that foster fair and equitable treatment of all staff.
- Monitor Board EEO training and awareness activities (including disability and sexual harassment awareness training and EEO training for officers, managers, and supervisors) and career development, recruitment, outreach, and intern programs.
- Design and implement a new EEO web-based training program.
- Support special interest groups, and sponsor ongoing programs and awareness activities.

## **Objective 4**

Provide financial management support needed for sound business decisions.

### *Actions*

- Manage the Board's financial resources in accordance with generally accepted accounting principles.
- Implement the COSO framework for internal controls over financial reporting.

## Internal Board Support

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- Contract for an outside audit of the Board's financial statements and for a future attestation of internal controls over financial reporting.
- Reduce risk consistent with the prudent use of resources by participating in the Board's enterprise risk management program.

### **Objective 5**

Provide cost-effective and secure information resource management services to Board divisions, support divisional distributed-processing requirements, and provide analysis on information technology issues to the Board, the Reserve Banks, other financial regulatory institutions, and other central banks.

#### *Actions*

- Staff will provide timely, quality support for customer projects.
- The Board will make investments in the automation infrastructure to include projects such as information security, disaster recovery, technical training programs, and e-mail and Internet services.

### **Objective 6**

Efficiently provide safe, modern, secure facilities and necessary support for activities conducive to efficient and effective Board operations.

#### *Actions*

- Continue to provide a work environment that is safe and conducive to the high level of productivity that is necessary for Board staff to accomplish assigned tasks.
- Provide and protect a safe and secure environment for staff and others on Board property.
- Train staff to recognize security problems and be able to evacuate or move to safe havens as necessary.
- Establish and provision relocation sites.

### **Performance Measures**

1. Maintain budgetary independence.
2. Complete a comprehensive review of the Board's compensation program, and implement any desired changes.

3. Develop qualified and diverse pools of internal and external candidates for all position postings.
4. Provide appropriate feedback to division directors and oversight committees via periodic management reports.
5. Establish the COSO framework for internal control and prepare for an AS2 opinion regarding internal controls not later than the 2008 audit.
6. Report measurable participation in EEO-sponsored training and awareness, career development, recruitment, outreach, and intern programs.
7. Establish a high-quality and useful web-based EEO training program.
8. Receive an unqualified opinion for the Board's annual financial audit and the accompanying reviews of internal controls and compliance with laws and regulations.
9. Enhance Boardwide physical security to protect Board resources and reduce the threat of disruption to operations, and increase the Board's capacity for disaster recovery to reduce the time needed to resume normal operations.

## **Operational Process and Resources Required to Meet Performance Goals**

Although support and overhead activities are important to the successful accomplishment of the Board's mission, they do not represent the core operations of the Board. The Management Division bears major responsibilities for providing line operations with the tools they need to conduct their operations effectively and efficiently. It is responsible for Boardwide personnel and financial management activities; property management; and coordination strategic planning, budget formulation, execution and reporting; and procurement. The division also provides the full spectrum of facility and logistical support for the Board's day-to-day operations; including management of office space and property and provision of food services and physical security. The Office of the Secretary provides records management, minutes, and correspondence control services; administers the freedom of information program; and provides other support. The Legal Division provides support for the procurement and personnel functions, including the ethics program. Finally, a significant portion of the resources allocated to the Division of Information Technology as a direct expense goes to provide infrastructure support that is not charged to the functional areas; including mainframe operations, central automation and telecommunication support, data and communications security, local area network administration, and technology reviews that benefit all Board functions.

The support staff is committed to providing a high level of service to the line divisions to assist them in fulfilling the core missions of the Board. The human resources function strives to develop compensation policies that enable the Board to attract and retain a highly qualified staff in a highly competitive environment. To this end, annual surveys and studies are conducted to



ensure that salary and benefits are competitive with the market and that benefits are designed to offset some of the problems associated with government pay levels.

Much of the work performed at the Board is unique, and extensive training programs are required to help develop the requisite professional, technical, and automation skills. In recent years the importance of training has grown dramatically. Automation staff must stay abreast of significant changes in automation and communication technology while maintaining their current workloads. The professional staff has also taken advantage of the opportunities offered by technology upgrades, using automation to handle increasing workloads, and thereby limiting requirements for additional staff. The staff must also keep up with challenges to the national and international financial systems posed by new financial products made possible by technological advances. It is critical that staff understand the opportunities and risks associated with these new products. Finally, management training is necessary because many Board managers rose from technical positions and require new competencies to be successful. This training becomes increasingly critical as growth of the Board's workload, changes in technology, tightening of budgets, and the increased complexity of human relations issues make management more challenging.

The automation environment in place to support the Board's mission helps attract staff, who are able to use first-rate equipment and networks to access major economic databases and perform challenging assignments. The Board's automation capabilities also reduce staffing requirements, lower overall costs, and improve responsiveness in dealing with time-sensitive issues. Systems designed to provide secure remote access to networks and data allow staff to coordinate efforts and produce high-priority products while on travel or during nonwork hours. This capability is also important for continuity of operations. The mainframe communications system, which features secure-access capability, also allows staff to take advantage of off-peak hours to maximize use of the Board's mainframe investment.

A safe workplace that enhances productivity is a valuable asset to the Board. Maintaining safe and efficient facilities becomes increasingly expensive as the Eccles Building, built in 1933, and the Martin Building, completed in 1974, get older. Major infrastructure enhancements to maintain a safe and productive environment are in progress. Emergency planning and actions to evaluate and, when necessary, enhance the security of facilities, in order to provide for the safety of employees and continuity of operations, are ongoing.

Planning and budgeting are essential to the effective operations of the Board, particularly because of the complexity of its operations and its obligation to the public in its use and management of nonappropriated funds. Administrative and operational areas must engage in strategic and long-term planning to identify future challenges and to have trained and equipped staff in place to address these challenges. In addition to internally focusing on planning, the Board, with the Reserve Banks, developed a *Strategic Framework*, published in 2004, to coordinate the strategic planning of all entities within the System. This document was the basis for the *Strategic Planning Document* submitted to the Congress in response to the Government Performance and Results Act.

## Internal Board Support

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### **Federal Reserve Board Expenses and Budget**

#### **Internal Board Support**

Millions of dollars

2002–03 Actual	2004–05 Estimated	2006–07 Budgeted
\$188.1	\$225.0	\$249.1

**Note:** These costs are considered support and overhead and are provided for information only. The significant increase for 2006–07 reflects costs for enhanced security as well as two major surveys, the Survey of Consumer Finance and the Survey of Small Business Finance. The expenses shown in this table have already been allocated back to the Board’s core functions and are included in the amounts shown on pages 11, 20, and 27.

### **Federal Reserve Board Staffing**

#### **Internal Board Support**

2002–03 Actual	2004–05 Estimated	2006–07 Budgeted
813	901	914

**Note:** These positions are considered support and overhead positions and are not allocated back to the core functions; therefore the numbers in the tables on pages 11, 20, and 28 do not include these positions.

## **Validation and Verification of Measured Values**

Performance is measured using data from various Federal Reserve data systems. The financial management system, a relational database maintained on a distributed network, is tightly linked to the budget system. This link facilitates performance reporting and management control. The personnel management system, also a relational database maintained on a distributed network, is linked to the financial system through the payroll interface and the chart of accounts and to the budget system through the position, cost, and control reports. Costs for centrally provided information resources are controlled by the IT transfer pricing system, which ensures that information resources, a significant portion of the Board’s budget, are properly planned, reviewed, and supported and are charged to the requesting division. The transfer pricing system ensures accountability by providing managers with a tool for comparing the costs and benefits of projects and then deciding whether it is more efficient to directly budget the resources needed to perform the work or to pay the Division of Information Technology to perform the work.

The Board’s financial system, which follows generally accepted accounting principles, is audited by an independent outside auditor to ensure that financial statements provide a fair assessment of the Board’s financial situation. As part of that audit, which is managed by the Board’s Inspector General, internal controls are reviewed and a formal report is provided to the Board. To ensure efficiency, various components of the Board’s operations are subject to outside professional review.

## SUMMARY OF GOALS, OBJECTIVES, AND RESOURCES

### Monetary Policy Function

**Goal:** *Conduct monetary policy that promotes the achievement of maximum sustainable long-term growth and the price stability that fosters that goal*

#### Objectives

1. Stay abreast of recent developments and prospects in the U.S. economy and financial markets, and in those abroad, so that monetary policy decisions will be well informed.
2. Enhance our knowledge of the structural and behavioral relationships in the macroeconomic and financial markets, and improve the quality of the data used to gauge economic performance, through developmental research activities.
3. Implement monetary policy effectively in rapidly changing economic circumstances and in an evolving financial market structure.
4. Contribute to the development of U.S. international policies and procedures, in cooperation with the U.S. Department of the Treasury and other agencies.
5. Promote understanding of Federal Reserve policy among other government policy officials and the general public.

#### Performance Measures

The performance of monetary policy in relation to evolving economic and financial circumstances will continue to be reviewed by the Congress in the context of the Board's semiannual monetary policy report and the accompanying testimony. The Congress has not chosen to establish quantitative objectives for monetary policy in statute. Moreover, it is recognized that monetary policy has only a partial and indirect influence on economic performance.

**Resources:** For the 2006–07 biennium, approximately \$210.2 million in costs for 426 positions and allocated costs for support, facilities, and overhead. Support and overhead positions are not allocated to the core functional areas. A more detailed discussion is included in the body of this plan, and a thorough discussion can be found in the *Annual Report: Budget Review*, provided to the Congress earlier this year.

## Supervision and Regulation Function

### Goals:

Safety and Soundness. *Promote a safe, sound, competitive, and accessible banking system and stable financial markets*

Consumer Protection. *Effectively implement federal laws designed to inform and protect consumers, to encourage community development, and to promote access to banking services in historically underserved markets*

### Objectives

### Performance Measures

The safety and soundness goal will be attained through the following four objectives:

1. Promote overall financial stability, manage and contain systemic risk, and identify emerging financial problems early so that crises can be averted.
2. Provide a safe, sound, competitive, and accessible banking system through comprehensive and effective supervision of U.S. banks, bank and financial holding companies, foreign banking organizations, and related entities. At the same time, remain sensitive to the burden on supervised institutions.
3. Provide a dynamic work environment that is challenging and rewarding. Enhance efficiency and effectiveness, while remaining sensitive to the burden on supervised institutions, by addressing the supervision function's procedures, technology, resource allocation, and staffing issues.
4. Promote compliance by domestic and foreign banking organizations supervised by the Federal Reserve with applicable laws, rules, regulations, policies, and guidelines through a comprehensive and effective supervision program.

1. Identify and resolve supervisory and financial problems in a timely manner, working alone or in cooperation with other authorities, to minimize disruptions to the financial and payment systems and the economy more generally.
2. Minimize net losses to the Bank Insurance Fund associated with state member banks consistent with trend data associated with prevailing economic conditions.
3. Complete financial institution examinations as required by statute and as dictated by review of supervisory data and CAMELS ratings, experience, and an assessment of current risks to the financial industry.
4. Complete reports of examinations within established time frames.
5. To the extent to which they are received by the Board, process applications within established time frames.
6. Conduct consumer compliance and CRA examinations in accordance with Board and statutory requirements.
7. To the extent to which they are received by the Board, process consumer complaints in accordance with established time frames.
8. Review and update various consumer regulations for which the Board has rule-writing authority.

## Summary of Goals, Objectives, and Resources

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The consumer protection goal will be attained through the following five objectives:

5. Take a leadership role in shaping the national dialogue on consumer protection in financial services, addressing the rapidly emerging issues that affect today's consumers, strengthening consumer compliance supervision programs when required, and remaining sensitive to the burden on supervised institutions.
  6. Promote, develop, and strengthen effective communications and collaborations within the Board, the Federal Reserve Banks, and other agencies and organizations.
  7. Develop staff that are highly skilled, professional, innovative, and diverse, providing career development opportunities to ensure the retention of highly productive and qualified staff and recruiting highly qualified and skilled employees.
  8. Promote an efficient and effective work environment by aligning business functions with appropriate work processes and implementing solutions for work products and processes that can be handled more efficiently through automation.
  9. Increase public understanding of consumer protection and community development and the Board's role in these areas through increased outreach and by developing programs that address the information needs of consumers and the financial services industry.
9. Improve the accessibility of consumer information on banking products and services available in the market, such that consumers are better able to make informed choices.
  10. Provide advisory services, conduct outreach, sponsor conferences to promote community development in underserved areas, and provide technical assistance that supports an ongoing dialogue with financial institutions, government agencies, and communities to address barriers and challenges to credit and capital access.
  11. Improve understanding of effective practices in financial and consumer education through research and development of consumer education materials.

**Resources:** For the 2006–07 biennium, approximately \$221.1 million in costs for 385 positions and allocated costs for support, facilities, and overhead. Support and overhead positions are not allocated to the core functional areas. A more detailed discussion is included in the body of this plan, and a thorough discussion can be found in the *Annual Report: Budget Review*, provided to the Congress earlier this year.

## Payment System Policy and Oversight Function

### Goals:

*Provide high-quality professional oversight of Reserve Banks*

*Foster the integrity, efficiency, and accessibility of U.S. payment and settlement systems*

### Objectives

### Performance Measures

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| <ol style="list-style-type: none"><li>1. Produce high-quality assessments and oversight of Federal Reserve System strategies, projects, and operations, including adoption of technology to the business and operational needs of the Federal Reserve. The oversight process and outputs should help Federal Reserve management foster and strengthen sound internal control systems, efficient and reliable operations, effective performance, and sound project management, and also should assist the Board in the effective discharge of its oversight responsibilities.</li><li>2. Develop sound, effective policies and regulations that foster payment system integrity, efficiency, and accessibility. Support and assist the Board in overseeing U.S. dollar payment and securities settlement systems by assessing their risks and risk management approaches against relevant policy objectives and standards.</li><li>3. Conduct research and analysis that contributes to policy development and increases the Board's and others' understanding of payment system dynamics and risk.</li></ol> | <ol style="list-style-type: none"><li>1. Extent to which the Board completes all Reserve Bank reviews as scheduled; completes annual Reserve Bank examinations; and oversees an external audit of Reserve Bank financial statements each year, as required by the Federal Reserve Act.</li><li>2. Extent to which issues raised by the Board regarding Reserve Bank operations, internal audit, or proposed or ongoing initiatives foster positive change within the Reserve Banks.</li><li>3. Submission of report to the Congress in 2007 on the results of our assessment of the effect of Check 21 on various aspects of check processing, including recommendations for legislative action as warranted.</li><li>4. Monitor and ensure the full collateralization of Federal Reserve notes as defined by the Federal Reserve Act.</li><li>5. Extent to which the Board (through its oversight committees) is informed of important developments and issues in a timely and effective manner.</li><li>6. Timely response to requests for policy interpretations, deviations, and exception requests from the Reserve Banks.</li></ol> |
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**Resources:** For the 2006–07 biennium, approximately \$97.3 million in costs for 197 positions and allocated costs for support, facilities, and overhead. Support and overhead positions are not allocated to the core functional areas. A more detailed discussion is included in the body of this plan, and a thorough discussion can be found in the *Annual Report: Budget Review*, provided to the Congress earlier this year.

## Internal Board Support

**Goal:** *Foster the integrity, efficiency, and effectiveness of Board programs*

### Objectives

1. Oversee a planning and budget process that clearly identifies the Board's mission, results in concise plans for the effective accomplishment of operations, transmits to the staff the information needed to attain objectives efficiently, and allows the public to measure our accomplishments.
2. Develop appropriate policies, oversight mechanisms, and measurement criteria to ensure that the recruiting, training, and retention of staff meet Board needs.
3. Establish, encourage, and enforce a climate of fair and equitable treatment for all employees regardless of race, creed, color, national origin, age, or sex.
4. Provide financial management support needed for sound business decisions.
5. Provide cost-effective and secure information resource management services to Board divisions, support divisional distributed-processing requirements, and provide analysis on information technology issues to the Board, Reserve Banks, other financial regulatory institutions, and other central banks.
6. Efficiently provide safe, modern, secure facilities and necessary support for activities conducive to efficient and effective Board operations.

### Performance Measures

1. Maintain budgetary independence.
2. Complete a comprehensive review of the Board's compensation program, and implement any desired changes.
3. Develop qualified and diverse pools of internal and external candidates for all position postings.
4. Provide appropriate feedback to division directors and oversight committees via periodic management reports.
5. Establish the COSO framework for internal control and prepare for an AS2 opinion over internal controls not later than the 2008 audit.
6. Report measurable participation in EEO-sponsored training and awareness, career development, recruitment, outreach, and intern programs.
7. Establish a high-quality and useful web-based EEO training program.
8. Receive an unqualified opinion for the Board's annual financial audit, and the accompanying reviews of internal controls and compliance with laws and regulations.
9. Enhance Boardwide physical security to protect Board resources and reduce the threat of disruption to operations, and improve our capacity for disaster recovery to reduce the time needed to resume normal operations.

**Resources:** For the 2006–07 biennium, approximately \$228.0 million in costs for 887 positions, facilities, and other costs. The expenses have been allocated to the Board's core functions and are included in the costs shown for those functions. The positions are not included in the position figures for the core functions.