

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM



GOVERNMENT PERFORMANCE AND RESULTS ACT
BIENNIAL PERFORMANCE PLAN
2008–2009

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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. Congress has used legislation to define the primary objectives of national economic policy to 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. Recent laws reflect changes in the nature of the industry and the economy in general. Both the legislation and the underlying changes that occur in the economy 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, giving 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 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 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 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 (<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 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 2007.

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 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 the statutory objectives 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. Develop regulations, policies, and programs designed to inform and protect consumers, to enforce federal consumer protection laws, to strengthen market competition, 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 desire to
 - 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. 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. 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 and financial information. Staff will also prepare ad hoc analyses, as needed, to address special questions.
- Staff will regularly prepare formal, quantitative economic and financial 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 interaction of financial developments and economic activity, the behavior of inflation, ongoing changes in the structure of financial markets, and the implications of continued globalization.

Objective 3

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

Actions

- 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.
- The Board and the Federal Open Market Committee will carefully consider how best to utilize the Federal Reserve's new statutory authority, effective October 2011, to pay interest on reserve balances and to reduce required reserve ratios, potentially to zero.

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.
- Four times a year, the Federal Reserve will publish enhanced economic projections, with an accompanying explanation of those projections and the associated risks to those projections.

Monetary Policy Function

- 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. 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

The majority of the resources expended to achieve this goal are reported in the three research divisions and the Offices of Board Members, the Secretary, and the Staff Director for Management, whose combined budget for the 2008-09 biennium is approximately \$237 million. The amount includes direct costs for 660 employees.

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 Affairs

The primary responsibility of the Division of Monetary Affairs is to support the Board and the Federal Open Market Committee (FOMC) in the formulation of U.S. monetary policy as well as its implementation 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. It serves as liaison with the Trading Desk at the Federal Reserve Bank of New York in the daily conduct of open market operations. In addition, staff in the division, working with colleagues in other divisions, conducts analysis of topics related to financial stability.

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 Office of the Secretary

The Office of the Secretary provides records management, minutes, and correspondence control services; administers the freedom of information program; and provides other support.

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

Monetary Policy Function

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. Develop regulations, policies, and programs designed to inform and protect consumers, to enforce federal consumer protection laws, to strengthen market competition, 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

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

- 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

Be a leader in, and help shape the national dialogue on, consumer protection in financial services.

Actions

- Review select consumer regulations in light of financial industry changes and emerging issues. Modify regulations as necessary to ensure effective consumer protection, delete obsolete provisions, improve consumer disclosures, and respond to technological advances

and market developments while remaining sensitive to responsibilities to balance consumer protection with industry burden.

- As required by the Bankruptcy Act amendments, establish and maintain, for two years, a toll-free telephone number for small depository institutions offering credit cards that provides their customers a means to calculate the actual number of months to repay their outstanding balance if the consumer pays only the required minimum monthly payments and if no other advances are made.
- Review the Board's policy regarding consumer compliance supervision of nonbank subsidiaries of bank and financial holding companies for compliance with consumer protection laws with particular attention to fair lending; make appropriate recommendation for change; and implement any changes agreed to by the Board.

Objective 6

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

Actions

- Build partnerships and sustain and strengthen relationships within the financial services industry: among Board members, 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 opportunities.
- Address emerging consumer financial services issues with high quality research and analysis, responsive examination policies, revised or new regulations, timely industry guidance, and well-reasoned consumer education campaigns.
- To highlight leadership on critical consumer protection and community development issues, devise communication strategies that respond to emerging financial services issues such as regulatory changes proposed for Regulation Z, new consumer protection guidance, and other policy proposals. Engage media relations and/or public relations experts to advise staff on effective communication mechanisms developed to meet the needs of key stakeholders.

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, experience, and an assessment of current risks to the financial industry.
4. Complete reports of examinations within established timeframes.
5. To the extent to which they are received by the Board, process applications within established timeframes.
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 timeframes.
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

Supervision and Regulation Function

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 a vital input to the monetary policy decision making process . 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, various foreign supervisory authorities. 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

The majority of the resources expended to achieve this goal are reported in the Banking Supervision and Regulation and Consumer and Community Affairs divisions, whose combined budget for the 2008-09 biennium are approximately \$144 million. The amount includes direct costs for 358 employees.

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 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, which includes the new Federal Reserve Consumer Help Center, 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.

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.

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 should assist the Board in the effective discharge of its oversight responsibilities.

Actions

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

Board staff will continue to oversee the Reserve Banks' strategies to meet cost recovery challenges and sustain full cost recovery, including efforts to reduce costs and improve efficiency by restructuring their physical check processing infrastructure. Board staff also will continue to oversee the development of new applications to support the delivery of Reserve Bank financial and fiscal agency services, cash operations, and the implementation of information security services and projects to improve operational risk management.

- Oversee and continue to evaluate opportunities for improvement in the enhanced COSO and 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. Additionally, Board staff will monitor the System's enterprise risk management activities. Staff will also continue to monitor the Reserve Banks' information security program, refinements to information systems governance, and compliance with the Federal Information Security Management Act, as applicable.

- Board staff will assess the implications for the financial services, accounting, and related programs of specific monetary policy options and develop proposals for these programs that help to address issues raised by potential changes in policy.

Board staff will assess the implications for the financial services, accounting, and related programs of specific monetary policy options and develop proposals for these programs that help to address issues raised by potential changes in policy.

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.

Actions

- Evaluate proposed revisions to the payments system risk policy related to daylight overdrafts. Issue a final revised policy, if appropriate.

Board staff issued for public comment in the first quarter of 2008 proposed revisions to the payments system risk policy and will analyze comments received. Board staff will recommend that the Board approve a final revised policy, if appropriate, and will collaborate with the Reserve Banks on related implementation matters.

- Finalize regulations to implement the Unlawful Internet Gambling Enforcement Act.

Board staff will collaborate with the Legal Division to consider comments received and finalize regulations, jointly with U.S. Department of the Treasury, to implement the Unlawful Internet Gambling Enforcement Act.

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.

Action

- Study the use of retail payments and publish the results in a Federal Reserve Bulletin article.

Board staff will conduct further analysis of data collected on the use of retail payments and publish the results in a Federal Reserve Bulletin article.

Performance Measures

1. Complete all scheduled Reserve Bank on-site reviews and annual Reserve Bank examinations and oversee the external audit of Reserve Bank financial statements each year, as required by the Federal Reserve Act.

2. Effect positive change within the Reserve Banks by raising issues regarding Reserve Bank operations, internal audit, or proposed or ongoing initiatives
3. Monitor and ensure the full collateralization of Federal Reserve notes as defined by the Federal Reserve Act.
4. Inform the Board (through its oversight committees) of important developments and issues in a timely and effectively manner.
5. Review thoroughly the proposed Reserve Bank budgets.
6. Assess the implications for the financial services, accounting, and related programs of specific monetary policy options and develop proposals for these programs that help to address issues raised by potential changes in policy.
7. Analyze comments received on proposed payments system risk policy changes.
8. Finalize regulations, jointly with U.S. Department of the Treasury, on the implementation of the Unlawful Internet Gambling Enforcement Act submitted to the Congress.
9. Publish the analyses on the use of retail payments in a Federal Reserve Bulletin article.
10. Respond timely 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 oversees 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. The division's budget for 2008–09 is \$58.5 million, which includes funding for a budgeted staff of 138.

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.

INTERNAL BOARD SUPPORT

Annual Goals, Objectives, and Performance Measures

Goal

Foster the integrity, efficiency, and effectiveness of Board programs

Objective 1

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 2

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.
- Support special interest groups, and sponsor ongoing programs and awareness activities.

Objective 3

Provide strategic planning and financial management support needed for sound business decisions.

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 and to prepare for the future.
- 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.
- Manage the Board's financial resources in accordance with generally accepted accounting principles.
- Implement the COSO framework for internal controls over financial reporting.
- Contract for an outside audit of the Board's financial statements and for a future attestation of internal controls over financial reporting.
- Ensure compliance with laws and regulations, minimizing potential for waste, fraud, and mismanagement.

Objective 4

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

- *Customer Projects.* Staff will provide timely, quality support for customer projects.
- *Infrastructure 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 5

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. Continually review the Board's compensation program and implement any desired changes.
2. Develop qualified and diverse pools of internal and external candidates for all position postings.
3. Provide appropriate feedback to division directors and oversight committees via periodic management reports.
4. Enhance management accountability for EEO, diversity, and inclusion strategy execution.
5. Maintain budgetary independence.
6. Receive an unqualified opinion for the Board's annual financial audit, and the accompanying reviews of internal controls and compliance with laws and regulations.
7. Enhance Boardwide physical security to protect Board resources
8. Reduce the threat of disruption to operations, and improve our 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 of 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 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 resources expended to achieve this goal are reported in the Information Technology, Legal, and Management divisions and in the Office of the Inspector General, whose combined budget for the 2008-09 biennium are approximately \$279 million. The amount includes costs for 922 employees.

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.