
2010



Government Performance and Results Act Annual Performance Plan

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FEDERAL RESERVE: THE NATION'S CENTRAL BANK

Overview of the Federal Reserve System

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 System was created by passage of the Federal Reserve Act (the act), which President Woodrow Wilson signed into law on December 23, 1913. The act stated that the System was created "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 System's original purposes.

Key laws affecting the Federal Reserve include the Bank Holding Company Act of 1956 and its amendments; the Financial Institutions Reform, Recovery, and Enforcement Act of 1989; the Federal Deposit Insurance Corporation Improvement Act of 1991; the Gramm-Leach-Bliley Act (GLBA) of 1999; and the Check Clearing for the 21st Century Act of 2004. In a 1977 amendment to the Federal Reserve Act, the Congress defined the primary objectives of national economic policy. 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 GLBA, reflects changes in the nature of the industry and in the economy generally. GLBA and the changes it ushered in for the United States financial services industry continue to affect significantly the operations and workload of the Federal Reserve.

Since the late 1960s, several federal laws designed to protect consumers when securing credit or in making other financial transactions have been created. The Congress has assigned to the Federal Reserve the duty of implementing the provisions of these laws to ensure that consumers receive comprehensive information and fair treatment from financial institutions when they engage in these transactions. Consumer protection laws such as the 1968 Truth in Lending Act, the Community Reinvestment Act of 1977 (CRA), the Expedited Funds Availability Act of 1987, the Truth in Savings Act of 1991, and the Fair and Accurate Credit Transactions Act of 2003 have given the Federal Reserve rule-writing, compliance, and consumer education responsibilities. As a result of the recent financial crisis, the federal government is considering additional legislation designed to update the financial regulatory system and increase consumer protection. Although the outcome of current legislative efforts is still uncertain, several of the proposals could significantly impact the Board's organization, operations, and resource requirements.

System Role in the Government

The Federal Reserve System is considered to be an independent central bank because its decisions do not have to be ratified by the President or anyone else in the executive branch of government. The System is, however, subject to oversight by the U.S. Congress. 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.

Structure of the System

Congress designed the structure of the Federal Reserve System to ensure it maintained 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 12 regional Federal Reserve Banks. The Board and the Reserve Banks 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 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 oversees open market operations, which is the main tool used by the Federal Reserve to influence overall monetary and credit conditions.

Board of Governors

The Board of Governors of the Federal Reserve System is a federal government agency. The Board is composed of seven members, who are appointed by the President of the United States and confirmed by the U.S. Senate. The full term of a Board member is 14 years, and the appointments are staggered so that one term expires on January 31 of each even-numbered year. After serving a full term, a Board member may not be reappointed. If a member leaves the Board before his or her term expires, however, the person appointed and confirmed to serve the remainder of the term may later be reappointed to a full term.

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.

Performance Plan

The Government Performance and Results Act (GPRA) of 1993 requires that federal agencies, in consultation with Congress and outside stakeholders, prepare a strategic plan covering a multiyear period and submit an annual performance plan and performance report. Although the Board is not covered by GPRA, the Board of Governors voluntarily complies with the spirit of the act and, like federal agencies, prepares these regular plans and reports.

Consistent with the requirements of GPRA, this Performance Plan is based on the Strategic Plan provided to the public (www.federalreserve.gov/boarddocs/rptcongress/). The plan centers on the monetary policy function, the operations of the Board in overseeing the activities of the Federal Reserve System, and management actions to improve effectiveness and efficiency. The discussion of the Federal Reserve System’s structure helps explain the performance measures used by the Board; however, the document focuses solely on Board operations.

As required by GPRA, this plan is issued independently of other, related plans. However, considering this plan in conjunction with several other documents gives a more detailed understanding of the planning, budgeting, 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.¹

Mission

The mission of the Board is to foster the stability, integrity, and efficiency of the nation’s monetary, financial,

1. Refer to the Board’s *96th Annual Report, 2009* at www.federalreserve.gov/boarddocs/rptcongress/annual09/pdf/AR09.pdf and the *Annual Report: Budget Review* for 2010 at www.federalreserve.gov/boarddocs/rptcongress/budgetrev10/ar_br10.pdf.

and payment systems so as to promote optimal macroeconomic performance.

Strategic Goals

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

1. conducting monetary policy that promotes the achievement of the Federal Reserve's statutory objectives of maximum employment and stable prices
2. promoting a safe, sound, competitive, and accessible banking system and financial stability
3. developing 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. fostering the integrity, efficiency, and accessibility of U.S. payment and settlement systems
5. providing oversight of the Reserve Banks
6. fostering 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 own 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, 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. By establishing objectives to attain its goals and by identifying the resources needed to accomplish them, the Board develops a 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 its costs. Effectiveness is improved through timely identification and reduction of threats and

through efforts to improve operational efficiency. Efficiency is increased by early identification of issues and timely responses.

As technological and other changes evolve and 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 the key distinctions between government and private-sector strategic planning efforts and measurement of those efforts.

Private-sector planning often relies on 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); establishing a comparable metric to costs and prices is therefore extraordinarily difficult. Moreover, the results are judged relative to public policy objectives embodied in law, which often are not readily measurable. The Board seeks to accomplish its mission effectively while creating the efficiencies that come from strategic planning, recognizing that analogies to the private sector must remain approximate. 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 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 Federal Reserve's 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 HMDA and CRA, have significantly lowered industry compliance costs while increasing public access to the data.

In connection with 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 among 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

Strategic Goal

Conducting monetary policy that promotes the achievement of the Federal Reserve's statutory objectives of maximum employment and stable prices

Annual Performance Goal 1

Informed monetary policy: Staying abreast of recent developments in and prospects for the U.S. and global

economies and financial markets so that monetary policy decisions are 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*, which contains summaries of information collected 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.

Annual Performance Goal 2

Understanding of macroeconomics and markets:

Enhancing our knowledge of the structural and behavioral relationships in the macroeconomic and financial markets, and improving 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, including the possible effects of systemic shocks; the behavior of inflation; ongoing changes in the structure of financial markets; and the implications of global economic and financial integration.

Annual Performance Goal 3

Effective implementation of monetary policy: Implementing monetary policy effectively in highly unusual economic, financial, and monetary circumstances

Action

- The Federal Open Market Committee and the Board of Governors will use the range of tools at their disposal to effect changes in money market conditions consistent with the longer-term objectives of policy.

Annual Performance Goal 4

Contribution to international efforts: Contributing to the development of U.S. international policies and procedures, in cooperation with the U.S. Department of the Treasury and other agencies, with respect to global financial markets, international organizations, and participation in international groups

Actions

- The Board will seek to reduce the vulnerability of the U.S. economy and financial system to external shocks and to foster stability in domestic and international financial markets.
- The Board will provide leadership in guiding the work programs of international organizations and groups in response to the changing shape of the world economy.
- Staff research will contribute to international efforts to understand the underpinnings of the recent crisis and to identify the set of policy measures that will best facilitate global financial stability and growth over the medium term.

Annual Performance Goal 5

Expanded public awareness of monetary policy: Promoting understanding of Federal Reserve policy among other government 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 a summary of Federal Reserve officials' economic projections, with an accompanying explanation of those projections and the associated risks to those projections.
- The Board will maintain a comprehensive public website describing the full scope of the Federal Reserve's mission and work program. The website

will include explanations of policy initiatives; an archive of testimonies, speeches, and research papers; and downloadable data on a range of economic, monetary, and financial market developments.

- In general, the Federal Reserve will strive to provide maximum transparency regarding its activities, consistent with the effective performance of its responsibilities.

Performance Metrics

The performance of monetary policy in relation to evolving economic and financial circumstances continues 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 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. Staff in the three divisions also provide economic and quantitative analyses and services to other functional areas of the Board. The staff of the divisions are mainly economists, statisticians, financial analysts, research assistants, and information systems 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. To attract and retain the high-quality staff necessary to meet its objectives, the Board offers a compensation package designed to provide some degree of comparability with the market; nevertheless, competition for talented professionals in critical fields is intense.

Human, Capital, and Information Resources

The majority of the resources used to achieve this goal are reported in the three research divisions, the Office of

Board Members, the Office of the Secretary, and the Office of Staff Director, whose combined budget for the 2010 is approximately \$133 million. The amount includes direct costs for 693 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 supervision and regulation, payments system policy and oversight, 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 FOMC in the formulation of U.S. monetary policy, its communication through vehicles such as minutes of FOMC meetings, and 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 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. The division also provides support for the Board's financial supervision and regulation activities.

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 maintains close contacts with international organizations and for-

eign official institutions and supports the Board's participation in international meetings. The division also provides support for the Board's financial supervision and regulation activities.

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 state of the nation's economy. The FOMC holds eight regularly scheduled meetings each 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 and financial developments and issues on an ongoing basis.

One set of data watched closely by the Board is the set of statistics describing prices. The Board pays careful attention to the consumer price index, the producer price index, the price index for gross domestic product, the price index for personal consumption expenditures, and other measures and indicators of inflation to gauge its success in promoting price stability, one of the key objectives of monetary policy.

Because the policy actions taken 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 changes, hours worked, employment and unemployment, and a host of others. Such data are also monitored as key indicators of progress in achieving the Federal Reserve's objective of maximum employment. As part of the strategy for fostering its economic objectives, the Board works with other government agencies and private institutions to improve the quality of the economic data used in making decisions.

SUPERVISORY AND REGULATORY FUNCTION

Annual Goals, Objectives, and Performance Measures

Strategic Goals

Safety and soundness: Promoting a safe, sound, competitive, and accessible banking system and financial stability

Consumer protection: Developing 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

Annual Performance Goal 1

Financial stability and risk containment: Promoting overall financial stability by identifying emerging financial problems so that significant crises can be averted

Actions

- Continue to improve consolidated supervision by expanding the multidisciplinary approach that makes use of the Federal Reserve's broad expertise in economics, financial markets, payments system, and banking supervision
- Continue to develop the off-site, enhanced quantitative surveillance program for large bank holding companies that uses data analysis and formal modeling to support the identification of vulnerabilities at both the firm level and in conjunction with the Board's research divisions for the financial sector as a whole
- Continue to develop enhanced capital, liquidity and other prudential standards to better protect the safety and soundness of individuals and the financial system better
- 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 (monetary policy, bank supervision, payment systems, and discount window functions) to address systemic risk posed by or facing supervised organizations

Annual Performance Goal 2

Accessibility of the banking system: Providing 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

Actions

- Improve accountability, oversight, and control of the supervisory function to facilitate swifter, more effective supervisory response to identified risks and to enhance prompt remediation
- 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

Annual Performance Goal 3

Financial system efficiency: Enhancing efficiency and effectiveness by addressing the supervision function's procedures, technology, and resource allocation

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

Annual Performance Goal 4

Effective oversight of financial institutions: Promoting the compliance of domestic and foreign banking organizations (those under Federal Reserve supervision) with relevant 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

Annual Performance Goal 5

Consumer protection: Being a leader in, and a facilitator in helping shape the national dialogue on, consumer protection in the financial services arena

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
- Contract for consumer review and testing that covers the content and the format of Regulation Z's (Truth in Lending) closed-end disclosures; based on comprehensive staff review and on the consumer research and information emerging from consumer focus groups and testing, revise the regulation in ways that are faithful to statutory purposes and result in disclosures that are useful to consumers
- Implement a consumer compliance supervision program for nonbank subsidiaries of bank and financial holding companies and foreign banking organizations; program will include routine consumer compliance examinations and the investigation of consumer complaints against these entities

Annual Performance Goal 6

Relationship building: Promoting, developing, and strengthening effective communications and collaborations between 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 Metrics

1. Identify and resolve supervisory problems in a timely manner, working alone or in cooperation with other authorities
2. Minimize net losses to the Deposit Insurance Fund (DIF) associated with state member banks consistent with trend data associated with prevailing economic conditions
3. Complete financial institution examinations as required by statute and consistent with the efficient allocation of resources based on review of supervisory data, experience, and an assessment of current risks to the financial industry
4. Complete reports of examinations within established time frames
5. Conduct consumer compliance and CRA examinations in accordance with Board and statutory requirements
6. Review and update consumer regulations for which the Board has rule-writing authority
7. 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
8. Conduct outreach and 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
9. 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 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, financial stability, 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 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.

Human, Capital, and Information Resources

The majority of the resources used to achieve this goal are reported in the divisions of Banking Supervision and Regulation and Consumer and Community Affairs, whose combined budget for 2010 is approximately \$88 million. The amount includes direct costs for 403 employees. In addition, these divisions draw significantly on resources from the Board's research divisions and Reserve Bank staff for economic and quantitative analyses related to the supervision of large financial firms and financial stability.

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 website. Aggregate data on CAMELS² ratings, the number and causes of failures, and the effect of the failures on the DIF 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 and reducing on-site examination time and the associated burden and costs to the institution and the System while also formatting microdata of importance for monetary policy purposes.

2. The acronym CAMELS refers to the six components of a bank's condition that are assessed: capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk.

PAYMENT SYSTEM POLICY AND OVERSIGHT FUNCTION

Annual Goals, Objectives, and Performance Measures

Strategic Goals

Policy: Fostering the integrity, efficiency, and accessibility of U.S. payment and settlement systems

Oversight: Providing oversight of Reserve Banks

Annual Performance Goal 1

Effective System strategies, projects, and operations:

Producing assessments and oversight of Federal Reserve System strategies, projects, and operations

Actions

- Continue to refine an oversight framework that promotes efficient and reliable operations, effective performance, and sound project management of strategic initiatives
- Continue to oversee and evaluate opportunities for improvement in internal controls, risk-management processes, and cost effectiveness

Annual Performance Goal 2

Efficient, accessible payment systems: Developing sound, effective policies and regulations that foster the integrity, efficiency, and accessibility of payment, clearing, and settlement systems and overseeing U.S. dollar payment, clearing, and securities settlement systems by assessing their risks and risk-management approaches against relevant policy objectives and standards

Actions

- Work with Reserve Bank credit risk management staff to oversee and coordinate implementation of systems changes, communication plans, and process changes for the Board's revised payments system risk (PSR) policy
- Analyze the risks and risk-management implications of initiatives proposed or being undertaken by CLS Bank International, Depository Trust & Clearing Corporation, Fixed Income Clearing Corporation, and ICE US Trust LLC
- Provide relevant briefings, analyses, and testimony related to legislation to enhance the supervision of

systemically important payment, clearing, and settlement systems

- Collaborate with Treasury, the U.S. Secret Service, and the Currency Technology Office on more-secure Federal Reserve note designs
- Analyze potential changes to the legal and regulatory framework governing check payments

Annual Performance Goal 3

Analysis of system dynamics and risks: Conducting research and analysis that contributes to policy development and increases the Board's and others' understanding of payment system dynamics and risk

Actions

- Conduct the next iteration of a triennial survey of volumes and trends in retail payments and analyze data collected
- Make preparations for an academic-style workshop on the economics of payments to be held at the Board and cosponsored with the Bank of Canada in April 2011

Performance Metrics

1. Complete all scheduled Reserve Bank on-site reviews and annual Reserve Bank examinations, review proposed Reserve Bank budgets, and oversee the external audit of Reserve Bank financial statements each year
2. Monitor and ensure the full collateralization of Federal Reserve notes as defined by the Federal Reserve Act
3. Update related PSR policy documentation, including the *Guide to the Federal Reserve's PSR Policy* and *Overview to the Federal Reserve's PSR Policy*
4. Provide support to the retail payments study, such as statistical sampling and survey design analysis, monitoring the work of contractors, editing data, producing preliminary estimates, and completing various ad-hoc activities associated with the survey effort
5. Plan for the payments workshop; distribute a call for papers, invite keynote speakers, and select papers for presentation at the workshop
6. Respond to requests for policy interpretations, deviations, and exception requests from the Reserve Banks within established time frames

Operational Process and Resources Required to Meet 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, along with the implementation of the various liquidity facilities approved by the Board in response to the recent financial crisis. The scope of this oversight extends to the functions of the Reserve Banks that support the Federal Reserve's overall mission (e.g., human capital, financial, and information technology management).

Staff members conduct analyses concerning the structure, efficiency, and integrity of U.S. dollar payment, clearing, 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 areas of payment, clearing, and settlement systems, including the interrelationships among systems, long-run technological trends and their economic implications, and interbank relationships. In addition, they analyze the cost and scale efficiency of the Reserve Banks in the provision of financial services. Staff members depend on state-of-the-art office automation and sophisticated analytical tools and automation support to perform their work.

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 2010 is approximately \$33 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 functions 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 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

Strategic Goal

Fostering the integrity, efficiency, and effectiveness of Board programs and operations

Annual Performance Goal 1

High-caliber staff: Developing 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

Annual Performance Goal 2

Fair, equal treatment of employees: Establishing, encouraging, and enforcing 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

Annual Performance Goal 3

Effective planning and management: Providing 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 2010 planning process and to prepare for the future
- Provide management with information, data, and procedures to facilitate planning, budgeting, financial decisionmaking, 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
- Contract for an outside audit of the Board's financial statements
- Ensure compliance with laws and regulations, minimizing potential for waste, fraud, and mismanagement

Annual Performance Goal 4

Security of information: Providing cost-effective and secure information resource management services to Board divisions, support divisional distributed-processing requirements, and providing analysis on information technology issues to the Board, Reserve Banks, other financial regulatory institutions, and 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.

Annual Performance Goal 5

Safe, secure work environment: Providing 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 Metrics

1. Develop qualified and diverse pools of internal and external candidates for all position postings
2. Enhance management accountability for EEO, diversity, and inclusion strategy execution
3. Receive an unqualified opinion for the Board's annual financial audit, and the accompanying reviews of internal controls and compliance with laws and regulations
4. Enhance Boardwide physical security to protect Board resources
5. 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 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 managing office space and property and providing 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 com-

munications security, local area network administration, and technology reviews that benefit all Board functions.

The resources used to achieve this goal are reported in the Information Technology, Legal, and Management divisions and in the Office of Inspector General, whose combined budget for 2010 is approximately \$190 million. The amount includes costs for 1,017 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.

Board of Governors of the
Federal Reserve System
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