

GOVERNMENT PERFORMANCE AND RESULTS ACT  
ANNUAL PERFORMANCE PLAN  
2011



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

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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, 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." 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.

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 of 1999; the Check Clearing for the 21<sup>st</sup> Century Act of 2004; and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act).

In the years leading up to the financial crisis that began in 2008, the global regulatory framework did not effectively keep pace with the profound changes in the financial system. The Dodd-Frank Act was designed to address the critical gaps and weaknesses of the U.S. regulatory framework revealed by the financial crisis. For example, the law created an interagency council to monitor and coordinate responses to emerging threats to the financial system, required that large bank holding companies and systemically important financial firms be subject to enhanced prudential standards to reduce the risks they may present to the financial system, and provided for the

consolidated supervision of all systemically important financial institutions. It also gave the government an important additional tool to safely wind down financial firms whose failure could pose a threat to U.S. financial stability and provided for the strengthened supervision of systemically important payment, settlement, and clearing utilities. Moreover, the act enhanced the transparency of the Federal Reserve while preserving its independence, which is crucial to the Federal Reserve's ability to implement monetary policy effectively.

In addition, the Dodd-Frank Act created within the Federal Reserve an independent Consumer Financial Protection Bureau (CFPB) to ensure that consumers have access to financial markets and that such markets are fair, transparent, and competitive. The CFPB is led by a director selected by the President and confirmed by the Senate and has rulemaking authority for most federal consumer-protection statutes.

### **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 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 and for providing banking services to depository institutions and the federal government.

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 and confirmed by the 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, Vice Chairman, and the Vice Chairman for Supervision 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 the Congress and outside stakeholders, prepare a strategic plan covering a multiyear period and submit an annual performance plan and performance report. Although the Board of Governors is not covered by GPRA, the Board 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 planning document provided to the public ([www.federalreserve.gov/boarddocs/rptcongress/gpra/gpra2008-2011.htm](http://www.federalreserve.gov/boarddocs/rptcongress/gpra/gpra2008-2011.htm)). The performance plan centers on the monetary policy function, the operations of the Board in overseeing the activities of the Federal Reserve System and U.S. payment and settlement systems, supervising and regulating banking institutions, 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, this 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.<sup>1</sup>

## 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.

## 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

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<sup>1</sup> Refer to the Board's 97<sup>th</sup> *Annual Report, 2010* at [www.federalreserve.gov/publications/annual-report](http://www.federalreserve.gov/publications/annual-report) and the *Annual Report: Budget Review* for 2011 at [www.federalreserve.gov/publications/budget-review](http://www.federalreserve.gov/publications/budget-review).

3. administering federal consumer financial protection laws that fall within the Board's statutory authority, including those designed to encourage regulated financial institutions to help meet the credit needs of their local communities
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 approval by the Administration through the Office of Management and Budget. Rather, the Board establishes its own budget formulation procedures; conducts strategic planning to articulate its mission, identify goals to accomplish that mission, and identify risks that may impact achievement of those goals; 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. 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**

The Federal Reserve works closely with other regulators, the Congress, and the Administration to ensure that its responsibilities are carried out in a manner that best protects the stability of the nation's financial system and strengthens the U.S. economy. Following are some highlights of the Board's interagency coordination efforts.

### **Federal Financial Institutions Examination Council (FFIEC)**

To promote uniformity in the supervision of financial institutions by the federal regulatory agencies, the Federal Reserve Board participates in the FFIEC, a formal interagency body empowered to prescribe uniform principles, standards, and reporting forms for the federal examination of financial institutions and to make recommendations to the federal supervisory agencies. The FFIEC is composed of a Board governor, the Comptroller of the Currency, the director of the CFPB, the chairman of the Federal Deposit Insurance Corporation (FDIC), the chairman of the National Credit Union Administration (NCUA), and the chairman of the State Liaison Committee, representing state banking supervisors.

### **Financial Stability Oversight Council (FSOC)**

The FSOC, which was established by the Dodd-Frank Act, is charged with a number of important duties, including monitoring and identifying emerging risks to financial stability across the entire financial system; identifying potential regulatory gaps; and coordinating financial regulatory agencies' responses to potential systemic risks. The FSOC is composed of the Treasury Secretary (who is the chairperson of the FSOC); the Chairman of the Federal Reserve Board; the heads of the Commodity Futures Trading Commission, CFPB, FDIC, Federal Housing Finance Agency, NCUA, Office of the Comptroller of the Currency (OCC), and Securities and Exchange Commission (SEC), and an independent member with insurance expertise appointed by the President and confirmed by the Senate.

### **Other Interagency Efforts**

In addition to participating in these formal bodies, the Board also works bilaterally with federal agencies to coordinate key initiatives such as the Board's implementation efforts under the Dodd-Frank Act. For example, shortly after Dodd-Frank was enacted in July 2010, the Board developed a transition team, headed by a Board governor, to provide technical assistance to Treasury in setting up the functions of the CFPB.<sup>2</sup> The Board also worked with the Office of Thrift Supervision (OTS) to develop comprehensive plans relating to the transfer of the supervisory authority of the OTS for savings associations and their parent holding companies.<sup>3</sup> The Board will continue to work closely and cooperatively with other federal agencies to develop many joint rules required under the Dodd-Frank Act.

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<sup>2</sup> On July 21, 2011, certain consumer protection functions designated by the Dodd-Frank Act were transferred from the Board and other banking agencies to the CFPB.

<sup>3</sup> The Dodd-Frank Act transferred the OTS's responsibilities with respect to the supervision and regulation of savings and loan holding companies (SLHCs) to the Board. The transfer of this authority occurred on July 21, 2011.



## **MONETARY POLICY FUNCTION**

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

#### **Strategic Goal**

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

#### **Annual Performance Goal 1**

Stay 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**

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, 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**

Analyze and implement monetary policy effectively in highly unusual economic, financial, and monetary circumstances

## Monetary Policy Function

### *Action*

- The FOMC 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**

Contribute 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**

Promote 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.

- In general, the Federal Reserve will strive to provide maximum transparency regarding its activities, consistent with the effective performance of its responsibilities.
- 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 website ([www.federalreserve.gov](http://www.federalreserve.gov)) 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. The Board also will provide on its website certain audit and related financial information, including audit reports, financial statements, and reports to the Congress on the Board's facilities under Section 13(3) of the Federal Reserve Act.

### **Performance Measures**

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

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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, International Finance, and Office of Financial Stability Policy and Research 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 FOMC, and the Reserve Banks. Staff in these divisions also provide economic and quantitative analyses and services to other functional areas of the Board. The staff of these 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 research divisions, the Office of Financial Stability Policy and Research, the Office of Board Members, and the Office of the Secretary, whose combined budget for the 2011 is approximately \$134.73 million. The amount includes direct costs for 712 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, payment 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 FOMC in the formulation of U.S. monetary policy. The division serves as secretariat of the FOMC and contributes to the communication of policy through vehicles such as the FOMC statement and the minutes of FOMC meetings. The division also oversees the implementation of policy through open market operations, discount rates and the operations and administration of the discount window, and reserve requirements. It coordinates with the Trading Desk at the Federal Reserve Bank of New York in conducting open market operations. The division produces data series on, and analyzes developments in, money, reserves, bank credit and profits,

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and interest rates, and it also forecasts movements in money, reserves, and bank credit. In addition, staff in the division, working with colleagues in other divisions, conducts analysis of topics related to financial stability, assists in the implementation of financial reform legislation, and provides support for the Board's financial supervision and regulation activities. The division also oversees the development and operation of the Term Deposit Facility and the Statistics and Reserves business function for the System.

### *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 foreign 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 Financial Stability Policy and Research*

The Office of Financial Stability Policy and Research coordinates staff efforts to identify and analyze risks to the financial system and the broader economy, including the monitoring of key financial institutions, markets, and infrastructure to assess emerging and structural vulnerabilities. The office also develops and evaluates alternative macroprudential policy responses to improve the resilience of the financial system.

### *Office of Board Members*

The Office of Board Members provides overview, direction, and supervision for System goals, objectives, and projects involving monetary policy, supervision and regulation policy, and managerial policy. Within the office, the Public Affairs unit provides the public with information concerning Federal Reserve actions and decisions and works to increase the public's understanding of the System's functions, responsibilities, and policy goals. The Congressional Liaison program facilitates effective communication between the Board and the Congress and other government agencies.

### *Office of the Secretary*

The Office of the Secretary is responsible for all aspects of the conduct of the meetings of the Board and provides records management, minutes, and correspondence-control services. It also administers the freedom of Information program and provides other support services.

## **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

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members of the Board testify on particular aspects of the economy and financial developments and issues on an ongoing basis.<sup>4</sup>

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.

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<sup>4</sup> Current and historical copies of the *Monetary Policy Report to the Congress* and the Chairman's testimony are available on the Board's website at [www.federalreserve.gov/monetarypolicy/mpr\\_default.htm](http://www.federalreserve.gov/monetarypolicy/mpr_default.htm).

## **SUPERVISORY AND REGULATORY FUNCTION**

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

#### **Strategic Goals**

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

**Consumer protection:** Administer federal consumer financial protection laws that fall within the Board's statutory authority, including those designed to encourage regulated financial institutions to help meet the credit needs of their local communities

#### **Annual Performance Goal 1**

Promote overall financial stability by identifying emerging financial problems and consumer protection issues so that significant crises can be averted or addressed in a timely and meaningful manner

##### *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, payment systems, and banking supervision
- In conjunction with the Office of Financial Stability and the Board's research divisions, 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 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 individual institutions and the financial system
- 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**

Provide a safe, sound, competitive, and accessible banking system through comprehensive and effective supervision of U.S. banks, bank and financial holding companies, savings and loan 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

## Supervisory and Regulatory Function

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- 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**

Enhance 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**

Promote 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*

- Work closely and cooperatively with interested parties to promulgate rules that are economically sensible, appropriately weigh costs and benefits, protect smaller community institutions, and, most important, promote the sound extension of credit in the service of economic growth and development
- 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**

Participate in, and shape the national dialogue on, consumer protection in the financial services arena

#### *Actions*

- Examine relevant financial institutions for compliance with consumer regulations and to enforce those regulations in light of financial industry changes and emerging issues and to ensure fair access and treatment for consumers in their financial transactions; modify

## Supervisory and Regulatory Function

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supervisory policies and procedures as necessary to ensure effective consumer protection; and respond to technological advances and market developments while remaining sensitive to responsibilities to balance consumer protection with industry burden

- Engage in research and analysis of emerging issues and trends in the consumer financial services market to enhance understanding of the financial risk and consumer protection issues associated with new products, services, and industry practices

### **Annual Performance Goal 6**

Promote, develop, and strengthen 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, timely industry guidance, and effective programs to support community economic development
- Provide leadership on critical consumer protection and community development issues, including consumer-focused research and policy analysis, and devise communication strategies that respond to emerging financial services issues such as new consumer protection supervisory guidance and other policy proposals

### **Performance Measures**

1. Identify and resolve supervisory problems in a timely manner, working alone or in cooperation with other authorities

Target: No specific target

2. Minimize net losses to the Deposit Insurance Fund (DIF) associated with state member banks, consistent with trend data associated with prevailing economic conditions

Target: DIF losses from state member banks not to exceed premiums paid into the DIF by state member banks

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

Target: 98 percent of examinations conducted in accordance with 12- or 18-month statutory requirements; subsequent supervisory follow-up performed on those institutions with a less than satisfactory supervisory rating as required by Federal Reserve guidelines

4. Complete reports of examinations within established time frames

Target: Issue at least 90 percent of reports within 60 days of the examination closeout



meeting

5. Conduct consumer compliance and Community Reinvestment Act (CRA) examinations in accordance with Board and statutory requirements

Target: Complete 80 percent of compliance and CRA examinations of state member banks within Board-established time frames

6. Improve the accessibility of information about community economic development so that community leaders are better able to make informed choices about strategies and resources to promote neighborhood stabilization and revitalization

Target: Establish ability to use new delivery channels to effectively communicate consumer protection information to the public, community advocates, and industry

7. 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

Target: Leverage System community affairs resources and contacts to provide key economic policymakers with a periodic report of current economic conditions, barriers to credit, and community development trends in low- and moderate-income communities as well as underserved communities

## Operational Process and Resources Required to Meet Goals

### Operational Process, Skills, and Technology

The supervisory and regulatory 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. 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 micro- and macro-economic research conducted at the Board provides valuable support to the supervisory and regulatory function.

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 enforcement action. Bank regulation entails making and issuing specific regulations and guidelines governing the structure and conduct of banking, under authority of legislation. The Federal Reserve shares supervisory and regulatory responsibilities with the CFPB, FDIC, FSOC, NCUA, OCC, SEC, and 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.

### **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 2011 is approximately \$101.60 million. The amount includes direct costs for 423 employees. In addition, these divisions draw significantly on resources from the Board's research divisions, its Office of Financial Stability Policy and Research, 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 and savings and loan holding companies, or to make other changes in banking structure; and (4) administering certain regulations.

The Division of Consumer and Community Affairs focuses on the Board's responsibilities in the area of consumer protection, including (1) preparing and interpreting certain consumer regulations within the Board's statutory authority, and (2) assisting and monitoring the community affairs activities of the Federal Reserve System.

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

The Board's 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 financial institution applications processed, the associated time frames, and related statistical measures are gathered, provided to the Board, and posted on the Board's website. 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.

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 supervisory ratings from earlier examinations, are used to determine the frequency and timing of safety and

## Supervisory and Regulatory Function

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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 compiling data for monetary policy purposes.

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

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

#### **Strategic Goals**

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

**Oversight:** Provide oversight of Reserve Banks

#### **Annual Performance Goal 1**

Produce 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**

Develop sound, effective policies and regulations that foster the integrity, efficiency, and accessibility of payment, clearing, and settlement systems and oversee 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 Payment 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 Intercontinental Exchange, Inc. (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**

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

*Action*

- 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 Measures**

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  
Target: Complete all scheduled reviews
2. Monitor and ensure the full collateralization of Federal Reserve notes as defined by the Federal Reserve Act  
Target: Ensure 100 percent collateralization
3. Inform the Board (through its oversight committees) of important developments and issues in a timely and effective manner  
Target: No specific target
4. Plan for the payments workshop; distribute a call for papers, invite keynote speakers, and select papers for presentation at the workshop  
Target: Have a call for papers out and papers submitted for a conference in 2011
5. Respond to requests for policy interpretations, deviations, and exceptions from the Reserve Banks  
Target: Respond in a timely manner to requests from the Reserve Banks

**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 2011 is approximately \$35.32 million, which includes funding for a budgeted staff of 151.

### **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 the extent to which staff work improves the quality of Reserve Bank decisions and helps Reserve Bank management strengthen internal control systems and achieve efficient and effective performance.

## **INTERNAL BOARD SUPPORT FUNCTION**

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

#### **Strategic Goal**

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

#### **Annual Performance Goal 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, as well as other relevant input, to gauge the effectiveness of management actions

#### **Annual Performance Goal 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 Equal Employment Opportunity (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
- Develop standards for increased participation of minority-owned and women-owned businesses in the Board's programs and contracts, including standards for coordinating technical assistance to such businesses

#### **Annual Performance Goal 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 2011 planning process to prepare for the future

## Internal Board Support Function

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- 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, and ensure that internal controls over financial reporting are properly implemented and operating effectively
- 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**

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

#### *Actions*

- *Customer projects:* Provide timely, quality support for customer projects
- *Infrastructure projects:* Invest 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**

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 necessary for Board staff to accomplish assigned tasks
- Provide and maintain 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. Develop qualified and diverse pools of internal and external candidates for all position postings  
Target: Increase the number of qualified and diverse candidates at the Board
2. Enhance management accountability for EEO, diversity, and inclusion strategy execution  
Target: No specific target



3. Receive an unqualified opinion for the Board's annual financial audit as well as for the accompanying reviews of internal controls and compliance with laws and regulations

Target: Receive an unqualified opinion each year on the Board's financial statements

4. Enhance Boardwide physical security to protect Board resources

Target: Continue updating perimeter security to better control pedestrian/vehicle traffic on or around the facilities

5. Reduce the threat of disruption to operations, and improve our capacity for disaster recovery to reduce the time needed to resume normal operations

Target: No specific target

## **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; 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. The Office of Staff Director has oversight responsibilities for EEO programs as well as continuity of operations and business resumption activities. Finally, a 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 used to achieve this goal are reported in the divisions of Information Technology, Legal, Management, Office of Staff Director, IT Income, Residual Retirement, and Special Projects, and in the Office of Inspector General, whose combined budget for 2011 is approximately \$221.92 million. The amount includes costs for 1,130 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

## Internal Board Support Function

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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.