

The background of the cover is a photograph of the Federal Reserve Building in Washington, D.C., viewed from a low angle looking up at the entrance. The building is a grand neoclassical structure with a portico supported by tall columns. A flagpole with the American flag stands in front of the building. The entire image is overlaid with a semi-transparent purple filter.

# Government Performance and Results Act Annual Performance Report

2011

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM





Government Performance  
and Results Act  
Annual Performance Report

2011

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# Introduction

## About This Annual Performance Report

The Government Performance and Results Act (GPRRA) 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. The GPRRA Modernization Act of 2010 refines those requirements to include quarterly performance reporting. Although the Board of Governors of the Federal Reserve System (the Board) is not covered by GPRRA, the Board voluntarily complies with the spirit of GPRRA and, like federal agencies, prepares strategic and performance plans and performance reports.

Consistent with the requirements of GPRRA, this *Performance Report* is based on earlier Board planning documents: the *Government Performance and Results Act Strategic Planning Document, 2008–2011* and the *Government Performance and Results Act Annual Performance Plan 2011*.<sup>1</sup>

This report focuses on four areas: the Board’s monetary policy function, its bank supervision and regulation function, its operations in overseeing Federal Reserve System (the System) activities, and its management activities. Although a discussion of the System and its structure is provided below to help explain the performance measures used by the Board, this performance report focuses solely on Board operations.

As required by GPRRA, this report is issued independently of other Board documents submitted to the Congress. However, considering the report in conjunction with other Board documents gives a more detailed understanding of Board planning, budget-

ing, operations, and performance. As required by the Federal Reserve Act, the Board annually submits a report to the Congress describing in detail the operations of the System for the previous year. Since 1985, the Board has also provided the Congress with a supplement, the *Annual Report: Budget Review*, which describes in detail the plans and resources discussed in the approved budgets of the Board and the Reserve Banks. The most recent versions of these two documents were provided to the Congress in 2012.<sup>2</sup>

## Overview of the Federal Reserve System

The System is the central bank of the United States, established by the Congress to provide the nation with safer, more flexible, and more stable monetary and financial systems.

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 financial 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

<sup>1</sup> These documents are available on the Board’s website, respectively, at [www.federalreserve.gov/boarddocs/RptCongress/gpra/gpra2008-2011.pdf](http://www.federalreserve.gov/boarddocs/RptCongress/gpra/gpra2008-2011.pdf) and [www.federalreserve.gov/publications/gpra/files/2011-gpra-performance-report.pdf](http://www.federalreserve.gov/publications/gpra/files/2011-gpra-performance-report.pdf).

<sup>2</sup> Refer to the Board’s *98th Annual Report, 2011* at [www.federalreserve.gov/publications/annual-report/default.htm](http://www.federalreserve.gov/publications/annual-report/default.htm) and the *Annual Report: Budget Review* for 2012 at [www.federalreserve.gov/publications/budget-review/default.htm](http://www.federalreserve.gov/publications/budget-review/default.htm).



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 and to maintain a high level of employment; stable prices (that is, stability in the purchasing power of the dollar); and moderate long-term interest rates. Major financial services reform legislation, incorporated in the GLBA, reflects changes in the nature of the industry and in the economy generally. GLBA and the changes it ushered in for the U.S. financial services industry continue to affect significantly the operations and workload of the Federal Reserve.

Since the late 1960s, several federal laws were created that were designed to protect consumers when securing credit. 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 rulemaking, compliance, and consumer education responsibilities.

As a result of the recent financial crisis, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), Pub. L. No. 111–203, H.R. 4173, was signed into law on July 21, 2010. The legislation

- creates a council to identify and respond to emerging systemic risks before they threaten the stability of the economy;
- gives the Federal Reserve important new authorities to safeguard financial stability, including the responsibility to provide consolidated supervision of systemically important financial institutions, as well as new authorities to help ensure the safety and soundness of financial market utilities;
- increases the transparency of the Federal Reserve while maintaining its essential political independence;
- provides for the orderly resolution of failing, systemically significant, nonbank financial firms;
- brings greater transparency and accountability to the over-the-counter derivatives market; and
- creates the independent Consumer Financial Protection Bureau (CFPB) within the Federal Reserve, charged with writing all consumer financial protection rules, as well as examining and enforcing such rules for banks and credit unions with assets in excess of \$10 billion.<sup>3</sup>

### System Role in the Government

The 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 estab-

<sup>3</sup> Several provisions of the law took effect one year after its enactment: Specifically, on July 21, 2011, the Board assumed all supervisory and rulemaking authority for savings and loan holding companies. In addition, the Office of the Comptroller of the Currency assumed oversight of federal and state savings associations, the Federal Deposit Insurance Corporation (FDIC) assumed supervisory authority of state-chartered associations, and the CFPB replaced the Office of Thrift Supervision on the FDIC board of directors.



lished 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 System to give it a broad perspective on the economy and on economic activity in all parts of the nation. It is a federal system, composed of a central, governmental agency—the Board of Governors—in Washington, D.C., and 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 transactions 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 is a federal government agency, 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 Chair 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.



# Mission, Values, and Goals of the Board of Governors

## Mission

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

## Values

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

- **Public interest.** In its actions and policies, the Board seeks to promote the public interest. It is accountable and responsive to the general public, the U.S. government, and the financial community.
- **Integrity.** The Board adheres to the highest standards of integrity in its dealings with the public, the financial community, and its employees.
- **Excellence.** The conduct of monetary policy, responsibility for bank supervision, and maintenance of the payment system demand high-quality analysis; high performance standards; and a secure, robust infrastructure. The pursuit of excellence drives the Board's policies concerning recruitment, selection, and retention of Board employees.
- **Efficiency and effectiveness.** In carrying out its functions, the Board is continually aware that its operations are supported primarily by public funds, and it recognizes its obligation to manage resources efficiently and effectively.
- **Independence of views.** The Board values the diversity of its employees, input from a variety of sources, and the independent professional judgment that is fostered by the System's highly valued regional structure. It relies on strong teamwork to mold independent viewpoints into coherent, effective policies.

## Strategic Goals

The Board has six primary strategic goals with inter-related and mutually reinforcing elements:

1. conduct monetary policy that promotes the achievement of the Federal Reserve's statutory objectives of maximum employment and stable prices
2. promote a safe, sound, competitive, and accessible banking system and stable financial markets
3. 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
4. foster the integrity, efficiency, and accessibility of U.S. payment and settlement systems
5. provide oversight of the Reserve Banks
6. foster the integrity, efficiency, and effectiveness of Board programs and operations

## 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 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 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 are just that. The Board's central planning objective is oriented toward achieving efficiency and effectiveness 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 Board participates in the FFIEC, 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 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 Secretary of the U.S. Department of the Treasury (Treasury) (serves as 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), 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 the FFIEC and FSOC, 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 the Dodd-Frank Act 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>4</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 associa-

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<sup>4</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.

tions and their parent holding companies.<sup>5</sup> The Board will continue to work closely and cooperatively with other federal agencies to develop several joint rules required under the Dodd-Frank Act.

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<sup>5</sup> The Dodd-Frank Act transferred the OTS's responsibilities with respect to the supervision and regulation of savings and loan holding companies to the Board. The transfer of this authority occurred on July 21, 2011.



# Monetary Policy Function

## Strategic Goal

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

## Annual Performance Objectives

1. **Informed monetary policy:** Stay abreast of recent developments and prospects for the U.S. and global economies and financial markets so that monetary policy decisions are well informed
2. **Understanding of macroeconomics and markets:** Enhance our knowledge of the structural and behavioral relationships in the macroeconomic and financial markets, and improve the quality of data used to gauge economic performance, through developmental research activities
3. **Effective implementation of monetary policy:** Analyze and implement monetary policy effectively in highly unusual economic, financial, and monetary circumstances
4. **Contribution to international efforts:** Contribute to the development of U.S. international policies and procedures, in cooperation with the Treasury and other agencies, with respect to global financial markets, international organizations, and participation in international groups
5. **Expanded public awareness of monetary policy:** Promote understanding of Federal Reserve policy among other government policy officials and the general public

## Performance Metrics

By statute, the Federal Reserve conducts monetary policy to foster the dual objectives of maximum employment and stable prices. The performance of monetary policy in making progress toward achieving these objectives continues to be reviewed by the

Congress in the context of the Board's semiannual monetary policy report and the Chairman's accompanying testimony.<sup>6</sup> It is recognized that monetary policy has only an indirect influence on economic performance and that fiscal policy, along with other policy actions of the Congress and federal government, plays an important role in influencing overall economic activity.

## Operational Processes and Resources Required to Meet Goals

### Operational Processes, Skills, and Technology

The divisions of Research and Statistics, Monetary Affairs, and International Finance, as well as the 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. Staffs in these divisions also provide economic and quantitative analyses and services to other functional areas of the Board. The staffs 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

<sup>6</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/mpf\\_default.htm](http://www.federalreserve.gov/monetarypolicy/mpf_default.htm).



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.

### **Funding and Resources**

The majority of the resources used to achieve the strategic 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. The combined expenses for 2011 for these divisions and offices totaled \$125 million. The amount includes direct costs for 716 positions.

### **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 Division of Monetary Affairs supports the Board and the FOMC in the formulation and implementation of U.S. monetary policy and on matters pertaining to financial stability. 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 monetary 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 the conduct of open market operations. The division produces data series on, and analyzes developments in, money, reserves, bank credit and profits, and interest rates; and it also forecasts movements in money, reserves, and bank credit. Regarding financial stability analysis, 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 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 infrastructures 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 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 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.<sup>7</sup>

<sup>7</sup> See the *Monetary Policy Report to the Congress* and the Chairman's testimony at [www.federalreserve.gov/monetarypolicy/mpr\\_default.htm](http://www.federalreserve.gov/monetarypolicy/mpr_default.htm).

One set of data watched closely by the Board is the set of statistics describing prices. The Board pays careful attention to various measures of inflation, including the consumer price index, the producer price index, the price index for gross domestic product, and the price index for personal consumption expenditures, 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

## Strategic Goals

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

**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 Objectives

1. **Financial stability and risk containment:** 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
2. **Accessibility of the banking system:** 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

3. **Financial system efficiency:** Enhance efficiency and effectiveness by addressing the supervisory function's procedures, technology, and resource allocation
4. **Effective oversight of financial institutions:** 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
5. **Consumer protection:** Participate in, and shape the national dialogue on, consumer protection in the financial services arena
6. **Relationship building:** Promote, develop, and strengthen effective communications and collaborations between the Board, the Federal Reserve Banks, and other agencies and organizations

## Performance Metrics

See [table 1](#) for the seven metrics, targets, and results for the one-year period.

**Table 1. Performance metrics: Supervisory and regulatory function**

Metric	Target	Results
Identify and resolve supervisory and financial problems in a timely manner, working alone or in cooperation with other authorities.	No specific target.	<ul style="list-style-type: none"> <li>A central element of the Dodd-Frank Act is the requirement that the Federal Reserve and other financial regulatory agencies adopt a so-called macroprudential approach to supervision and regulation—that is, an approach that supplements traditional supervision and regulation of individual firms or markets with explicit consideration of threats to the stability of the financial system as a whole. The act also created a new Financial Stability Oversight Council, where membership comprises a diverse group of federal and state financial regulators to coordinate the government's efforts to identify and respond to systemic risks. In addition, the Federal Reserve assumed new responsibilities for the supervision of thrift holding companies as well as oversight of nonbank financial firms, and certain payment, clearing, and settlement utilities that the council designates as systemically important.</li> </ul>

(continued on next page)

Table 1.—*continued*

Metric	Target	Results
Minimize net losses to the Deposit Insurance Fund (DIF) associated with state member banks, consistent with trend data on prevailing economic conditions.	DIF losses from state member banks not to exceed premiums paid into the DIF by state member banks.	<ul style="list-style-type: none"> <li>• During the current performance period, estimated losses of \$7.2 billion exceeded state member bank premiums of \$1.7 billion, resulting in a net loss to the DIF of \$5.5 billion.</li> </ul>
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.	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 rating as required by Federal Reserve guidelines.	<ul style="list-style-type: none"> <li>• 99 percent of examinations were conducted in accordance with the requirements.</li> </ul>
Complete reports of examinations within established time frames.	Issue at least 90 percent of reports within 60 days of the examination-closeout meeting.	<ul style="list-style-type: none"> <li>• <b>BSR:</b> 94 percent of examinations were conducted in accordance with the established time frames.</li> <li>• <b>C&amp;CA:</b> 94 percent of consumer protection examination reports (Consumer Compliance and Community Reinvestment Act) were issued within the established time frames.</li> </ul>
Conduct consumer compliance and CRA examinations in accordance with Board and statutory requirements.	Complete 80 percent of compliance and CRA examinations of state member banks within Board-established time frames.	<ul style="list-style-type: none"> <li>• 100 percent of compliance and CRA examinations were completed within Board-established time frames.</li> </ul>
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.	Establish ability to use new delivery channels to effectively communicate consumer protection information to the public, community advocates, and industry.	<ul style="list-style-type: none"> <li>• Created a series of videos documenting successful neighborhood stabilization strategies in Cleveland, Detroit, and Phoenix. The videos debuted at the 2011 Community Affairs Research Conference during Governor Duke's keynote remarks.</li> <li>• Published <i>Putting Data to Work: Data-Driven Approaches to Strengthening Neighborhoods</i>, a user guide comprised of case studies that demonstrate how communities with limited capacity, as well as communities with very sophisticated data platforms, can make strategic investment decisions.</li> <li>• Launched "Connecting Communities," a communications platform for sharing promising practices related to various community development issues (in partnership with the Federal Reserve Bank of St. Louis). Sessions in 2011 focused on the impact of foreclosure on credit scores and microfinance as a catalyst to increasing economic opportunity in low- to moderate-income communities.</li> </ul>
Conduct outreach; sponsor conferences to promote community development in underserved areas; and provide technical assistance—all to support an ongoing dialogue with financial institutions, government agencies, and communities to address barriers and challenges to credit and capital access.	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.	<ul style="list-style-type: none"> <li>• Executed a national assembly hosted at the Board in partnership with the Federal Reserve Bank of Atlanta and the Ewing Marion Kauffman Foundation entitled, "Small Business and Entrepreneurship during an Economic Recovery." Research papers presented at the assembly noted the importance of new and small firms to the vitality of the economy, the unique challenges experienced by female and minority entrepreneurs, and the need for more timely and relevant small business data.</li> <li>• Coordinated an interagency initiative to identify barriers to, and opportunities for, economic growth in American Indian communities. Information gleaned from this series of regional meetings will serve as a framework for a national summit and as a springboard for integrated research, policy, and economic development strategies in 2012.</li> <li>• Executed a national conference in partnership with the Federal Reserve Bank of San Francisco that examined the role of social impact investing on community development.</li> <li>• Executed a Housing Policy Forum at the Board that brought together leading experts to examine key issues pertaining to the future of the housing market and lessons to be learned from the recent crisis.</li> <li>• Executed the "Strategic Data Use to Stabilize Neighborhoods" conference in partnership with the Federal Reserve Bank of Richmond. Participants at the conference explored creative uses of data and technology to promote public and private investment in transitional communities.</li> <li>• Coordinated the Community Data Initiative, a community affairs officers' collaborative research project. Eleven Reserve Banks regularly administer web-based surveys to gather systematic and relevant market intelligence on community conditions and emerging issues. The results of the Board's quarterly survey of NeighborWorks America's affiliates and grantees provide the Reserve Banks with a national perspective for their regional polls.</li> <li>• Executed the Community Development Research Conference in partnership with the Federal Reserve Bank of San Francisco. The biennial conference drew more than 350 participants and included a number of recognized experts across a range of disciplines. The conference was preceded by an internal System researchers' symposium where Federal Reserve staff discussed research efforts, shared results, and exchanged ideas on emerging research and policy issues.</li> </ul>

## Operational Processes and Resources Required to Meet Goals

### Operational Processes, 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 decisionmaking 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, 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.

## Funding and Resources

The majority of the resources used to achieve the strategic goals are reported in the divisions of Banking Supervision and Regulation and Consumer and Community Affairs, whose combined 2011 expenses totaled \$97.4 million. The amount includes direct costs for 446 positions. 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 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 System.

## Validation and Verification of Measured Values

Data on the number of applications processed (filed by financial institutions), 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.<sup>8</sup> Certain data submitted pursuant to the Home Mortgage Dis-

<sup>8</sup> These reports are available on the FFIEC website at [www.ffiec.gov/reports.htm](http://www.ffiec.gov/reports.htm).

closure 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-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

## Strategic Goals

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

**Oversight:** Provide oversight of Reserve Banks

## Strategic Objectives

1. **Effective System strategies, projects, and operations:** Produce assessments and oversight of Federal Reserve System strategies, projects, and operations
2. **Efficient, accessible payment systems:** 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

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

## Performance Metrics

See [table 2](#) for the five metrics, targets, and results for the one-year period.

**Table 2. Performance metrics: Payment system policy and oversight function**

Metrics	Target	Results
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.	Complete all scheduled reviews.	<ul style="list-style-type: none"> <li>All scheduled reviews were completed.</li> </ul>
Monitor and ensure the full collateralization of Federal Reserve notes, as defined by the Federal Reserve Act.	Ensure 100 percent collateralization.	<ul style="list-style-type: none"> <li>100 percent collateralization was achieved.</li> </ul>
Inform the Board (through its oversight committees) of important developments and issues in a timely and effective manner.	No specific target.	<ul style="list-style-type: none"> <li>All issues and important developments were reported in a timely and effective manner.</li> </ul>
Plan for the payments workshop, distribute a call for papers, invite keynote speakers, and select papers for presentation at the workshop.	Have a call for papers out and papers submitted for a conference in 2011.	<ul style="list-style-type: none"> <li>The Economics of Payments conference (co-sponsored with the Bank of Canada) was held on June 23–24, 2011.</li> </ul>
Respond to requests for policy interpretations, deviations, and exception requests from the Reserve Banks.	Respond in a timely manner to requests from the Reserve Banks.	<ul style="list-style-type: none"> <li>All requests were responded to in a timely manner.</li> </ul>

## Operational Processes and Resources Required to Meet Goals

### Operational Processes, Skills, and Technology

Board staff oversees the policies and operations of the Federal Reserve Banks as providers of financial services to depository institutions, 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.

## Funding and 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 2011 expenses were \$30 million, which included funding for 154 authorized positions.

## 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's 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 Function

## Strategic Goal

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

## Annual Performance Objectives

1. **High-caliber staff:** Develop appropriate policies, oversight mechanisms, and measurement criteria to ensure that the recruiting, training, and retention of staff meet Board needs
2. **Fair, equal treatment of employees:** Establish, encourage, and enforce a climate of fair and equitable treatment for all employees regardless of race, creed, color, national origin, age, or sex
3. **Effective planning and management:** Provide strategic planning and financial management support needed for sound business decisions
4. **Security of information:** Provide cost-effective and secure information resource-management services to Board divisions by supporting divisional distributed processing requirements and provide analysis on information technology issues to the Board, the Reserve Banks, other financial regulatory institutions, and other central banks
5. **Safe, secure work environment:** Provide safe, modern, secure facilities and necessary support for activities conducive to efficient and effective Board operations

## Performance Metrics

See [table 3](#) for the five metrics, targets, and results for the one-year period.

**Table 3. Performance metrics: Internal Board support function**

Metric	Target	Results
Develop qualified and diverse pools of internal and external candidates for all position postings.	Increase the number of qualified and diverse candidates at the Board.	<ul style="list-style-type: none"> <li>The Board continues to enhance and expand its outreach recruitment efforts toward the objective of increasing diversity in the applicant pool. The Board uses a variety of recruitment methods, which include attending college and university career fairs; posting positions on job boards; placing advertisements in targeted minority and female publications; and announcing job opportunities internally and externally with industry, trade, and minority and female professional organizations. To assess the effectiveness of the different recruitment channels and strategies in achieving a diverse applicant pool, the Board performs applicant tracking reviews to determine the diversity of applicant pools, recruitment source, and hire results. Information derived from program assessments is used to improve diversity outreach and recruitment efforts. The increased outreach efforts have resulted in diverse hires for job categories with low minority representation and an increase in diverse applicant pools for a number of positions.</li> </ul>

*(continued on next page)*

Table 3.—continued

Metric	Target	Results
Enhance management accountability for EEO, diversity, and inclusion strategy execution.	No specific target.	<ul style="list-style-type: none"> <li>The Office of Minority, Women and Inclusion (OMWI) was established January, 2011, pursuant to section 342 of the Dodd-Frank Act. The OMWI office is included in the Office of Diversity and Inclusion (ODI). The ODI builds on the Board's longstanding efforts to promote equal employment opportunity and diversity and to foster inclusion in all aspects of its mission and scope. An ODI strategic plan is being developed to establish and communicate the Board's goals and objectives for fostering an inclusive work environment where diversity is respected and leveraged to better serve the agency's mission.</li> <li>The inclusion of three performance objectives for officers and managers focus on EEO, diversity, and inclusion: (1) engage in effective communications; (2) encourage staff development; (3) demonstrate and promote EEO, diversity, and inclusion. The performance review process measures results that are visible, specific, persistent, and intentional. Each operational division has an EEO liaison who works with ODI to address recruitment and retention issues specific to the liaison's division. The ODI, in conjunction with each EEO liaison, monitors progress on increasing the workforce diversity and addressing barriers to EEO, diversity, and inclusion.</li> </ul>
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.	Receive an unqualified opinion on the Board's financial statements.	<ul style="list-style-type: none"> <li>The Board achieved a clean opinion on the financial statements, as well as a clean internal control opinion. No deficiencies noted, and no management letter comments provided by the auditors.</li> </ul>
Enhance Boardwide physical security to protect Board resources.	Continue updating perimeter security to better control pedestrian/vehicle traffic on or around the facilities.	<ul style="list-style-type: none"> <li>As a result of the Law Enforcement Unit's (LEU) comprehensive vulnerability assessment, the Board commenced an upgrade to perimeter security in 2011, including the New York Avenue perimeter security upgrade project as well as security enhancements to the C Street vehicle barrier project. Additional alarms and security cameras have been installed at the International Square location and the Board's warehouse; LEU response plans are in place for both locations. These projects will improve the LEU's ability to protect the Board's infrastructure and personnel.</li> </ul>
Reduce the threat of disruption to operations and improve our capacity for disaster recovery to reduce the time needed to resume normal operations.	No specific target.	<ul style="list-style-type: none"> <li>The Board has made considerable progress in enhancing the ability to continuously perform the Federal Reserve's essential functions during a natural disaster, influenza pandemic, or man-made disaster. The Board's continuity of operations plans (COOP) are reviewed and updated annually. Steps taken to address a possible influenza pandemic greatly enhanced the ability of Board divisions to work via remote access to Board information technology (IT) networks. This COOP plan was tested during severe snowstorms in 2009 and 2010, when a large number of employees worked from home and were able to log on, as well as to participate in audio conference calls that substituted for on-site meetings.</li> <li>In addition, the IT infrastructure at the Board's relocation site has been upgraded and can be quickly made operational in response to a crisis. The Board also operates multiple secure communications systems in accordance with the requirements of Directive 3-10 from the National Communications System. The Board exercises its ability to perform its essential functions from the relocation site three times a year—during an annual Department of Homeland Security and Federal Emergency Management Agency exercise and two Board contingency tests. In 2011, the Board adopted a flexible COOP implementation strategy focused on readiness and tied to threat reporting. As a result, the Board works closely with members of the intelligence and law enforcement communities to ensure the latest national intelligence estimates are incorporated into physical protection plans and IT security.</li> </ul>

## Operational Processes and Resources Required to Meet Goals

### Operational Processes, Skills, and Technology

Although support and overhead activities do not represent the core operations of the Board, they are important to the successful accomplishment of the Board's mission. The Management Division bears major responsibilities for providing line operations staff with the tools they need to conduct their operations effectively and efficiently. The division is responsible for Boardwide personnel and financial

management activities; property management; coordination of strategic planning, budget formulation, execution and reporting; and procurement. It 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 the EEO programs, the Office of Diversity and Inclusion program, and 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.

### Funding and Resources

The resources used to achieve this goal are reported in the Information Technology, Legal, Management, and Office of Staff Director divisions; IT Income, Residual Retirement, and Special Projects; and in the Office of the Inspector General, whose combined 2011 expenses were \$199.8 million. The amount includes costs for 1,132 authorized positions.

### Validation and Verification of Measured Values

Performance is measured using data from various Board 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 Office of 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 external professional review.

