October 2010

Office of Financial Research Created Under the Dodd-Frank Wall Street Reform and Consumer Protection Act: Frequently Asked Questions

Q: What is the Office of Financial Research (OFR)?

A: In the years leading up to the crisis, financial reporting did not adapt to the innovations in the financial system. This meant that policymakers and investors were blind to emerging vulnerabilities, and they had inadequate information about the interconnectedness of firms and associated risks once the crisis broke.

Congress created the OFR to help facilitate improved financial market data gathering and analyses for financial regulators, including the new Financial Stability Oversight Council (FSOC), which is responsible for monitoring the financial system as a whole in order to promote financial stability.

The OFR is housed within the Treasury Department with and will support the FSOC and its member agencies by providing them with better financial data, information, and analysis so that policymakers and market participants have a more complete understanding of risk in the financial system. The OFR will have a Data Center that is focused on setting standards for financial reporting and improving the quality of data so that it can be organized in ways that are more meaningful for indentifying vulnerabilities in the system as a whole. It will also have a Research and Analysis Center that helps provide the analysis and tools needed to monitor the financial system for concentrations of risk.

The data and analysis provided by the OFR will enhance the ability to identify emerging threats in financial markets, and will help ensure that the government has the information and analytical tools it needs to respond appropriately to future crises.

Q: What will the OFR do?

A: The OFR will seek to improve the quality and utility of financial data that financial firms report, provide analytic support to the FSOC and its members, and supply important data and analysis to the FSOC, its members, the financial system, and the public by:

- <u>Standardizing financial reporting requirements</u> to make it easier for regulators to spot emerging threats. Data standards will also make it easier for individual firms to assess their own risks and will improve market discipline by making it easier for external investors to assess the prospects of individual firms.
- <u>Ensuring that government has the data it needs to identify risks to financial stability</u>. The OFR's Data Center will coordinate with regulators and seek input from the financial industry to ensure that it relies on existing data whenever possible and avoids duplicative requests for information.
- <u>Conducting financial analysis in support of the FSOC and its member agencies</u> will help identify concentrations of risk in the financial system. This activity, carried out by the OFR's Research and Analysis Center, will provide the government with the critical information and analytical tools it needs to respond appropriately to future emerging crises.
- <u>Maximizing data efficiency</u> by cataloguing existing regulatory data to ensure that the OFR relies on data that is already collected, as the Act requires. The OFR will also help government get the most out of existing data by facilitating sharing among agencies.
- <u>Disseminating financial market information to FSOC members and the public</u> in a prudent manner, with all necessary safeguards to address relevant confidentiality and privacy concerns. The OFR's Data Center will develop and publish key reference databases for regulators, supervisors, private firms, and investors to rely on when analyzing risk. In doing so, the OFR will seek to close gaps and inconsistencies in existing reference sources, which will improve risk analysis and strengthen market discipline.
- <u>Producing regular reports to Congress</u> on significant market developments and potential emerging threats to financial stability.

Q: How will the OFR work with the FSOC and financial regulators?

A: The primary function of the OFR is to support the FSOC in its monitoring and containment of systemic risk. To do so, the Director of the OFR will work closely with Chairperson of the FSOC (the Secretary of the Treasury). The OFR will also be a resource for the FSOC and all of its member agencies. In particular, the OFR will support the agencies in their efforts to supervise financial institutions and the financial system as well as in their work to implement the Act.

In addition, regulatory agencies will have access to new data collected by the OFR, which will improve regulators' ability to monitor risks within their respective focus areas. And, by standardizing reporting of financial information, the OFR will make the data collected by regulators more meaningful for their work.

Q: What are the benefits of the standardization of financial data?

A: The problem of monitoring systemic risk is closely related to the risk management challenge that individual firms face. To monitor systemic risk, positions in thousands of diverse financial products, involving thousands of individual financial firms have to be aggregated across the entire financial system in ways that are meaningful. Standardizing the way financial transactions are reported, and the consistent use of robust reference data on the key characteristics of individual financial instruments and counterparties, can greatly facilitate this process for regulators and individual firms alike.

The OFR will, in consultation with relevant stakeholders, develop standards for financial data and publish reference databases of financial entities and instruments that will be made available to the public. As mandated by the Act, data security and confidentiality will be a top priority for all of the OFR's data activities, including the publication of the reference databases. These reference databases will also likely be used by market participants.

The industry-wide standards for financial data and reference data bases will help the FSOC to monitor systemic risk and improve the efficiency and efficacy of risk management, reporting and other business functions at individual financial institutions. These actions will enhance both supervision and market discipline by giving both supervisors and market participants better visibility into the risks that individual financial firms take.

###