

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM



GOVERNMENT PERFORMANCE AND RESULTS ACT
STRATEGIC PLANNING DOCUMENT
2006-2009

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INTRODUCTION

The Board of Governors of the Federal Reserve System (the Board) is one component of the nation's central bank. See appendix 1 for a complete description of the Federal Reserve System.

MISSION

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

VALUES

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

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

GOALS

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

1. Conduct monetary policy that promotes the achievement of maximum sustainable long-term growth and the price stability that fosters that goal
2. Promote a safe, sound, competitive, and accessible banking system and stable financial markets
3. Effectively implement federal laws designed to inform and protect the consumer,

- to encourage community development, and to promote access to banking services in historically underserved markets
4. Provide high-quality professional oversight of Reserve Banks
 5. Foster the integrity, efficiency, and accessibility of U.S. payment and settlement systems
 6. Foster the integrity, efficiency, and effectiveness of Board programs

ACHIEVEMENT OF GOALS AND OBJECTIVES

The Board employs a comprehensive planning, budget formulation, and budget execution process to ensure the identification, prioritization, and accomplishment of goals and objectives. Planning is coordinated throughout the System by the *Strategic Framework* (discussed below). Monetary policy work is coordinated through the structure of the Federal Open Market Committee. Supervision and regulation planning is coordinated by the Board's Division of Banking Supervision and Regulation and Division of Consumer and Community Affairs in collaboration with the Strategic Plan Steering Committee, which is composed of senior Board officials and the officer-in-charge of supervision at each Reserve Bank. The Board's budget and accounting systems are closely linked to ensure that expenses can be compared with plans. This process integrates strategic planning, allocation of resources among competing priorities, performance measurement, and ongoing review of the need for existing programs.

Background

In the face of accelerating change in the economy and banking system brought about by numerous factors—including globalization, technology, bank consolidation, and the evolution of payment systems—the Federal Reserve recognized the need for a more comprehensive planning framework. In 1995, a System Strategic Planning Coordinating Group, consisting of Board members, Reserve Bank presidents, and senior managers representing the full range of the Federal Reserve's activities was appointed. This group developed an "umbrella" strategic framework under which the Board, the Reserve Banks, and the product offices develop their own more detailed plans and decision documents. This framework was the basis for the Board's first Government Performance and Results Act (GPRA) Planning Document, setting forth the mission, values, and goals of the System. The framework was updated in 2003 and is incorporated in this strategic planning document. Key assumptions and external and internal factors that could affect the achievement of those goals, and associated objectives, were reviewed and updated in 2005 as part of the biennial planning process and are discussed in the following section.

The Board's strategic planning effort recognizes key differences between government and private-sector strategic planning and measurement of results. Measures of costs and revenue derived from prices determined in competitive markets can be used in private planning; 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 (monetary policy, for example), and establishing a proxy for

costs and prices is extraordinarily difficult. Moreover, the results are judged relative to public policy objectives embodied in law, which often are not readily measurable. Nonetheless, the government should try to effectively accomplish its mission while creating the efficiencies that come from strategic planning. Thus, the Board's central planning objective is oriented toward achieving effectiveness and efficiency specific to the functions it serves.

In monetary policy, for example, the Federal Reserve exerts only partial and indirect influence on the economy. Because the Federal Reserve's performance therefore cannot be measured solely in terms of economic outcomes, the appropriate judgment must be whether our research technology is successful in anticipating problems and changes in the economy. In the area of bank supervision, the mission of contributing to a viable, competitive, efficient banking system demands a sharing of risks between the central bank and private banks, which serve the crucial function of managing the risk of investing in illiquid loans. As a regulator, the Federal Reserve's job is to ensure that banks are allowed to take on appropriate degrees of risk in fulfilling their function in the economy, but not to the point that they impose risks on the financial system in general. Measures of our success would include whether the banking system is performing its functions and whether systemic risk is appropriately contained during periods of challenge to individual institutions or groups of institutions.

PLANNING CONSIDERATIONS

Strategic Planning and the Budgeting Process

To sharpen the focus on strategic priorities, the Board's budget and planning process was restructured in 1997 to lengthen the planning and budgeting horizons and to increase Board member involvement in the setting of priorities. A four-year planning horizon and a two-year budget were adopted.

In developing plans and budgets under the strategic framework, the director of each Board division updates divisionwide plans, coordinating efforts with other division directors and Reserve Banks as necessary. These plans and resulting resource requests are reviewed by the Committee on Board Affairs (composed of two or three Board members), which then makes recommendations to the full Board. A Staff Planning Group (SPG) and the Board's Planning and Budget Section provide support to the committee during the planning process by identifying issues and providing analysis of the budget options.

Planning Background

For this 2006-09 strategic plan, the SPG reviewed the planning materials submitted by the Board's divisions and offices and identified the following common themes having Boardwide impact over the planning period:

- The full two-year cost of current initiatives, such as the reorganization of the Management Division, the creation of the Quantitative Risk Management Unit in the Division of Banking Supervision and Regulation or the Monetary and Financial Stability Section in the Division of Monetary Affairs
- Legislative and executive mandates for a number of activities, including the provision of physical and information security and the support of electronic government initiatives
- The need to attract and retain highly productive and qualified staff
- The difficulty of providing sufficient adequate office space

MONETARY POLICY FUNCTION

GOAL

Conduct monetary policy that promotes the achievement of maximum sustainable long-term growth and the price stability that fosters that goal

This goal will be attained through the following five objectives:

1. Stay abreast of recent developments and prospects in the U.S. economy and financial markets, and in those abroad, so that monetary policy decisions will be well informed.
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.
3. Implement monetary policy effectively in rapidly changing economic circumstances and in an evolving financial market structure.
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.
5. Promote understanding of Federal Reserve policy among other government policy officials and the general public.

Objective 1

Stay abreast of recent developments and prospects in the U.S. economy and financial markets, and in those abroad, so that monetary policy decisions will be well informed.

This objective will be pursued in part through the following actions:

- Staff will provide to policymakers periodic briefings and written reports, analyzing incoming economic data. Staff will also prepare ad hoc analyses, as needed, to address special questions.
- Staff will regularly prepare formal, quantitative forecasts for use by policymakers.
- Policymakers and staff will draw on extensive contacts in the private sector to obtain timely information about tendencies in the economy and in financial markets. The *Beige Book*, summaries prepared by Reserve Bank staff, will be one source of such information.
- Policymakers and staff will maintain close contacts with officials in international organizations and at foreign official institutions to remain current on economic developments and policies abroad.

Objective 2

Enhance our knowledge of the structural and behavioral relationships in the macroeconomic and financial markets, and improve the quality of the data used to gauge economic performance, through developmental research activities.

This objective will be pursued in part through the following 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 consequences for the behavior of the economy of low rates of inflation, advancing technology, financial market innovation and deregulation, and globalization.

Objective 3

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

This objective will be pursued in part through the following action:

- The Federal Open Market Committee will seek, through the operations of the Trading Desk at the Federal Reserve Bank of New York, to effect changes in money market conditions consistent with the longer-term objectives of policy.

Objective 4

Contribute to the development of U.S. international policies and procedures, in cooperation with the U.S. Department of the Treasury and other agencies.

This objective will be pursued in part through the following actions:

- The Board will seek to reduce risks to the U.S. economy and financial system from external shocks and to improve stability in domestic and international financial markets.
- The Board will provide leadership in the evolution of international institutions and arrangements in response to the changing shape of the world economy.
- Staff research will contribute to international efforts to understand the origins and consequences of, and develop effective responses to, international economic and financial disruptions.

Objective 5

Promote understanding of Federal Reserve policy among other government policy officials and the general public.

This objective will be pursued in part through the following 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.
- The Board will publish, in downloadable form, data on monetary and financial market developments and on industrial production and capacity utilization to inform the public about the environment in which the Federal Reserve is operating.

ENVIRONMENTAL FACTORS

- *Independence.* The Federal Reserve's independence within the government, a key element of which is its lack of dependence on the appropriations process, is critical in terms of its ability to formulate and implement monetary policy. Preserving this independence will be crucial to the proper discharge of its central banking responsibilities in the future. Important to this independence is responsible management of the resources used. Along these lines, the Board will continue to operate under both internal and external pressures for budget restraint and solid internal controls over financial reporting even as it performs its current and any expanded future responsibilities.
- *Data access.* The nation's financial system is growing more complex at an accelerating pace. The quantity of data, much of which is available over the Internet, is also growing. Investments in automation and security to enhance timely access to data will be critical during the planning period. Continued investment in efforts to maintain the quality of data will be required, given innovations in financial markets and the growth of activity outside of regulated sectors, which provide data on a consistent basis. Experiments using data purchased from credit bureaus to analyze issues related to consumer and mortgage debt growth, debt service, delinquency, and bankruptcy will continue. Finally, more of the Board's data will be provided to the public electronically in a downloadable format.
- *Economic and financial globalization.* Individual economies are becoming more open, and links among the world's financial markets are becoming closer. These forces heighten the potential for economic shocks and systemic problems to move across national borders, in some circumstances with great speed. As a result, there will be pressure for greater international consistency of policies, regulations,

guidelines, and supervisory procedures.

Legislative Changes

Authorization by the Congress to pay interest on reserve balances and explicit interest on contractual clearing balances would help ensure that the level of such balances remains adequate, thereby promoting the continued smooth implementation of monetary policy. Also, coupled with legislation to permit increased flexibility in setting required reserve ratios, the payment of interest on reserves and clearing balances might permit reductions in reserve requirements and, possibly, their eventual elimination. These measures would help increase efficiency in the financial system by largely removing the incentives for depository institutions to expend resources to avoid reserve requirements.

PERFORMANCE MEASURES

The performance of monetary policy in relation to evolving economic and financial circumstances will continue to be reviewed by the Congress in the context of the Board's semiannual monetary policy report and the accompanying testimony. The Congress has not chosen to establish quantitative objectives for monetary policy in statute. Moreover, it is recognized that monetary policy has only a partial and indirect influence on economic performance.

SUPERVISION AND REGULATION FUNCTION

GOALS

Safety and Soundness. Promote a safe, sound, competitive, and accessible banking system and stable financial markets

Consumer Protection. Effectively implement federal laws designed to inform and protect consumers, to encourage community development, and to promote access to banking services in historically underserved markets

The safety and soundness goal will be attained through the following four objectives:

1. Promote overall financial stability, manage and contain systemic risk, and identify emerging financial problems early so that crises can be averted.
2. Provide a safe, sound, competitive, and accessible banking system through comprehensive and effective supervision of U.S. banks, bank and financial holding companies, foreign banking organizations, and related entities. At the same time, remain sensitive to the burden on supervised institutions.
3. Provide a dynamic work environment that is challenging and rewarding. Enhance efficiency and effectiveness, while remaining sensitive to the burden on supervised institutions, by addressing the supervision function's procedures, technology, resource allocation, and staffing issues.
4. Promote compliance by domestic and foreign banking organizations supervised by the Federal Reserve with applicable laws, rules, regulations, policies, and guidelines through a comprehensive and effective supervision program.

The consumer protection goal will be attained through the following five objectives:

5. Take a leadership role in shaping the national dialogue on consumer protection in financial services, addressing the rapidly emerging issues that affect today's consumers, strengthening consumer compliance supervision programs when required, and remaining sensitive to the burden on supervised institutions.
6. Promote, develop, and strengthen effective communications and collaborations within the Board, the Federal Reserve Banks, and other agencies and organizations.
7. Develop a staff that is highly skilled, professional, innovative, and diverse, providing career development opportunities, to ensure the retention of highly productive and qualified staff and recruiting highly qualified and skilled employees.
8. Promote an efficient and effective work environment by aligning business functions with appropriate work processes and implementing solutions for work products and processes that can be handled more efficiently through automation.
9. Increase public understanding of consumer protection and community development and the Board's role in these areas through increased outreach and by developing programs that address the information needs of consumers and the

financial services industry.

Objective 1

Promote overall financial stability, manage and contain systemic risk, and identify emerging financial problems early so that crises can be averted.

This objective will be pursued in part through the following actions:

- Continue to develop a regulatory framework that promotes a comprehensive and systematic approach to risk taking in banking.
- Conduct and encourage effective contingency planning by financial institutions to respond to crises and shocks that could occur in the banking industry.
- Maximize the cooperation, coordination, and flow of information with domestic and foreign supervisory authorities and among different functions within the Federal Reserve (macroeconomic, bank supervision, payment systems, and discount window functions) to address systemic risk posed by supervised organizations.

Discussion

Within its regulatory framework, the Federal Reserve must heighten the positive effect of market discipline on the stability and soundness of the banking system and financial markets by promoting sound domestic and international risk-management, accounting, disclosure, and auditing standards and overall market transparency.

The supervision function has taken a leadership role in the proposed revision of the Basel Capital Accord. Basel II aims to improve risk management in banking, extending and building upon the efforts that most large banks have already begun and the market increasingly demands. Sound risk management requires that banking organizations measure risk accurately; communicate those measurements to management, to supervisors, and to the public; and relate risk both to capital requirements and to other supervisory standards.

As the consolidated supervisor, the Federal Reserve works closely with other bank supervisors and the functional regulators of supervised bank and nonbank subsidiaries. The supervision function's direct, hands-on involvement in examinations and enforcement has provided the Federal Reserve with important knowledge, expertise, relationships, and authority that complement other core central bank responsibilities. At the same time, other Federal Reserve functions work in support of the mission of the supervision function. Maximizing the benefits of these important synergies will be crucial as the financial landscape evolves and becomes more challenging to manage and evaluate.

Moreover, events such as the terrorist attacks on September 11, 2001, have heightened the need for accurate information about the status of key industry participants during

times of crisis. Supervision staff coordinate with other bank supervisors and financial regulators on homeland security issues that pertain to the financial sector.

Further, given the increasingly global nature of financial services and the heightened complexity of business, greater coordination with overseas supervisors is required. The most sophisticated international operations take place in numerous locations, resulting in the need for multilateral coordination in relation to many large international organizations.

Objective 2

Provide a safe, sound, competitive, and accessible banking system through comprehensive and effective supervision of U.S. banks, bank and financial holding companies, foreign banking organizations, and related entities. At the same time, remain sensitive to the burden on supervised institutions.

This objective will be pursued in part through the following actions:

- Refine System processes designed to identify and assess risks within financial institutions and across portfolios of supervised institutions to respond to changes in the planning environment.
- In the face of increasingly complex risks, enhance the supervision function's ability to adapt supervision programs to respond to shifting priorities and issues in the most timely, consistent, and effective manner.

Discussion

A sound process for managing risk on an ongoing basis is critical to an institution's safety and stability. It is particularly important for institutions that are actively introducing new products and engaging in new activities. The supervision function must promote sound practices for managing risk that provide for strong internal controls, active boards of directors, and senior management oversight and accountability.

Over the past decade, the supervision function has shifted to a risk-focused approach. Under this approach, we develop individualized supervisory programs that expend our resources in a manner reflective of the structure, business mix, and risks inherent in each institution. During this planning period, the supervision function will seek to enhance the risk-focused approach by ensuring that banks focus on maintaining sound risk management practices and internal controls that encompass changes in risk profiles as institutions expand into nontraditional business lines.

The supervision function will continue its efforts to work as a national, seamless, consistent operation while taking full advantage of the varying perspectives and opportunities for innovation presented by the Federal Reserve's structure. The

supervision function will also continue to cooperate closely with state banking departments, foreign supervisors, and other federal bank and nonbank regulatory authorities to avoid duplication and inconsistency.

Objective 3

Provide a dynamic work environment that is challenging and rewarding. Enhance efficiency and effectiveness, while remaining sensitive to the burden on supervised institutions, by addressing the supervision function's procedures, technology, resource allocation, and staffing issues.

This objective will be pursued in part through the following actions:

- Ensure that the Federal Reserve hires and maintains a qualified staff with the right mix of experience, education, and specialized skills to meet the challenges of a rapidly evolving banking system.
- 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.

Discussion

The industry's continued expansion into new activities calls for supervisory tools and staff that are capable of analyzing individual institutions and various types of risks. Examination staff must have the necessary authority, skills, and expertise to manage information and reach informed judgments.

Greater consistency and coordination in banking supervision ultimately rely on the ability to access, analyze, and share information in a timely and effective manner. Technological advances in processing information have brought continued improvements to the effectiveness and efficiency of bank supervision. These efforts will need to continue, in light of recent laws and regulations that have new information-sharing requirements.

Objective 4

Promote compliance by domestic and foreign banking organizations supervised by the Federal Reserve with applicable laws, rules, regulations, policies, and guidelines through a comprehensive and effective supervision program.

This objective will be pursued in part through the following actions:

- Enhance supervised institutions' understanding of relevant rules and regulations and provide education and other resources to help them better manage their legal and reputational risk.
- Promote System efforts to develop and implement a risk-focused framework for assessing the overall compliance risk in supervised institutions.

Discussion

The evolution of the banking industry, the recent accounting-related scandals, the passage of the Sarbanes-Oxley Act and the USA Patriot Act, and recent anti-money laundering cases have further raised concerns about compliance, governance, conflicts of interest, and reputation risks. Promoting greater understanding and awareness by financial institutions of compliance risk—the risk that a financial institution will be harmed by its failure to comply with laws and regulations, prudent ethical standards, or contractual obligations—while also conducting more-intensive monitoring for adherence is an integral component of the supervision function's risk-focused framework.

Objective 5

Take a leadership role in shaping the national dialogue on consumer protection in financial services, addressing the rapidly emerging issues that affect today's consumers, strengthening consumer compliance supervision programs when required, and remaining sensitive to the burden on supervised institutions.

This objective will be pursued in part through the following actions:

- Inform the policy development, applications analysis, and decision-making processes with timely information obtained from consumer compliance examination processes and analyses of trends in complaint activity.
- Maintain a constructive presence within the financial services industry and among 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 venues.

- Address emerging consumer financial services issues with high-quality research and analysis, responsive examination policies, revised or new regulations, timely industry guidance, and effective consumer education campaigns.

Discussion

The Federal Reserve has the responsibility for enforcing a wide range of consumer protection laws and regulations that govern financial transactions. Enforcement of these laws is handled primarily through regularly scheduled risk-focused consumer compliance examinations. When evaluating a state member bank's or bank holding company's expansionary proposals, the Board takes into account the applicant's record of compliance with consumer protection laws and regulations, including the Community Reinvestment Act, before making its decision on such applications. The Board also enforces consumer laws and regulations through the System's investigation and resolution of consumer complaints related to state member banks. To improve the complaint resolution process, the Board is currently enhancing its systems for handling consumer complaints to increase their effectiveness and efficiency.

Outreach efforts focus on promoting state member bank compliance with, and informing consumers of their rights and protections under, consumer protection laws and regulations. These efforts also include the development of consumer information products to assist individuals in developing a better understanding of complex financial services products.

Objective 6

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

This objective will be pursued in part through the following actions:

- Maintain ongoing and consistent contact with Board members, especially with the Division of Consumer and Community Affairs' oversight committee, to keep them apprised of emerging issues, high-priority initiatives, pending policy matters, and the implications and consequences of the Board's options and actions.
- Maintain effective relationships with senior management and staff at the Reserve Banks, and seek their participation in policy development and implementation.
- Collaborate with other Board divisions on matters of overlapping or mutual interest.
- Work effectively with other government agencies and interested parties to receive input on issues and strengthen policies and to assist in the identification and development of best practices.

- Provide thoughtful, sound legal analysis, counsel, and policy recommendations in support of the Board’s statutory and regulatory responsibilities.

Discussion

The Board has rule-writing authority for implementing consumer financial services laws that apply to financial institutions, retailers, finance companies, and mortgage bankers, as well as other nonbank businesses. It is important to ensure that the regulations governing the provision of consumer financial products and services keep pace with the increasing complexity of the products and their pricing structures. Board regulations that are targeted for review will focus on simplifying and improving the information that consumers receive, consistent with the legislative purpose, without imposing unnecessary burden on the financial services industry.

The Board also works in collaboration with System banks to identify and explore issues of availability of credit and capital to individuals and businesses and to better understand current challenges and impediments to expanding credit access.

Objective 7

Develop a staff that is highly skilled, professional, innovative, and diverse, providing career development opportunities to ensure the retention of highly productive and qualified staff and recruiting highly qualified and skilled employees.

This objective will be pursued in part through the following actions:

- Implement a performance evaluation process that ensures high standards of performance and focuses on staff competencies, skills, and behaviors.
- Establish a multidimensional leadership-training program that includes tailored classroom training, developmental work assignments, mentoring, and job rotations.
- Use data on emerging issues and information on the changing financial services marketplace to structure training that will assist staff in refining technical skills, increasing productivity levels, and achieving excellence.
- Collaborate with the Board’s Management Division to develop responsive recruiting mechanisms to ensure qualified and diverse candidate pools for vacant positions.

Discussion

The rapid changes taking place in the financial service industry require the maintenance of a well-trained, highly qualified and productive staff at all levels of expertise. Training is a high priority for staff at all levels and in addition to classroom training, specialized training opportunities and developmental assignments tailored to the needs of individual

employees are provided.

Objective 8

Promote an effective and efficient work environment by aligning business functions with appropriate work processes and implementing solutions for work products and processes that can be handled more efficiently through automation.

This objective will be pursued in part through the following actions:

- Develop a process to validate and measure the effectiveness and efficiency of the Division of Consumer and Community Affairs' business functions.
- Strengthen collaboration between the division's Information System staff and individual business functions to improve the quality and effectiveness of work products.
- Implement automated solutions to increase the effectiveness and efficiency of work products and processes.
- Maintain a secure, but readily accessible, automation environment.

Discussion

Increasing emphasis on accountability, efficiency, effectiveness, and outcome measurement requires ongoing and disciplined research, assessment, and adjustment to traditional activities. Quality assurance activities have become more prominent as programs are developed to ensure that these efforts are effective. Additionally, the growth in the delivery of services via the internet necessitates increased use of web-based technology to facilitate communications within the System and with the public as well as modification of current business practices to take advantage of advances in web-based technologies.

Objective 9

Increase public understanding of consumer protection and community development and the Board's role in these areas through increased outreach and by developing programs that address the information needs of consumers and the financial services industry.

This objective will be pursued in part through the following actions:

- Expand outreach activities to consumers, the financial services industry, local governments, and other interested parties.

- Raise awareness of Board activities in consumer protection and community development among relevant constituencies.
- Develop programs and activities that address constituencies' information needs.
- Provide clear, concise, and complete disclosures for consumers.

Discussion

The Board's efforts to promote public awareness of consumer protection and to expand economic opportunity through access to capital and credit are implemented through a broad consumer and community affairs program. The program supports research on and promotes public awareness of current issues. This is accomplished by partnering in research efforts on the effectiveness of personal financial and economics education and by developing and sponsoring research programs on consumer education issues and effective community development strategies. The work is furthered by partnering with Reserve Banks and through consultation with the Board's Consumer Advisory Council.

ENVIRONMENTAL FACTORS

- *Economic performance.* As always, the Board must be prepared for periodic economic downturns during which systemic risk and the number of financial institutions requiring more-frequent and more-intensive supervision increase.
- *Industry consolidation.* The U.S. banking system will likely continue to evolve into a smaller number of large, complex banking organizations operating across wide geographic regions and numerous smaller institutions focusing on local communities or larger regions. Financial institutions are increasingly involved in the gamut of financial services, including banking, securities, and, to some extent, insurance, a development that will continue to present new challenges to the Federal Reserve.
- *Legislative, statutory, and regulatory initiatives.* As the industry evolves, important regulatory and legislative developments will continue to emerge in response to industry trends or specific events. Today's largest and most complex banking organizations must implement sophisticated risk-management practices, strong internal controls, and sound corporate governance policies. The nature of banking risks has become more complex, creating the need for more-effective and more-robust systems for identifying, measuring, monitoring, and controlling risk-taking. The New Basel Capital Accord, popularly known as Basel II, seeks to build on and advance emerging risk management techniques at large banking organizations and to provide incentives to improve risk management through greater reliance on internal risk-measurement systems and on market discipline. Moreover, the USA Patriot Act of 2001, the Sarbanes-Oxley Act of 2002, and the recent changes in the Home Mortgage Disclosure Act impose new requirements

- on the banking industry and highlight the importance of managing operational, legal and other risks.
- *Crisis preparedness.* Since September 11, 2001, it has become critically clear that financial institutions must maintain a capacity to resume business after a crisis. Ensuring preparedness for a crisis will continue to be a priority for the supervision function, including the integration of homeland security policies into the function's own policies and procedures. In addition, the function will work with other agencies to set high standards for the business-resumption capabilities of regulated entities.
 - *Technology.* The rapid pace of technological innovation, especially in telecommunications and electronic data processing, continues to have a profound effect on the economy and on U.S. financial services. The harnessing of technology will be central in the development of new financial services and channels of distribution in the private sector. Technology will likely pose challenges in all of the Federal Reserve's policy areas, including supervision and regulation. Technological innovation will also create opportunities by providing tools to improve the Board's efficiency across organizational units and functions.
 - *Economic and financial globalization.* Individual economies are becoming more open, and links among the world's financial markets are becoming closer. These forces heighten the potential for economic shocks and systemic problems to move across national borders, in some circumstances with great speed. As a result, there will be pressure for greater international consistency of policies, regulations, guidelines, and supervisory procedures.
 - *Innovation in the financial industry.* The ongoing development by financial institutions of innovative and fee-based products, such as stored-value cards and bounced-check protection services, will continue to present challenges for rule-writing, compliance supervision, and other consumer protection-related efforts. Many of these products and their associated costs and fees, while not unlawful or otherwise regulated by federal law, may be subject to significant public complaint and criticism, placing increased pressure on the Board to take supervisory or regulatory action.
 - *Unfair and Deceptive Practices.* The increase in the number of cases brought by state attorneys general against financial institutions alleging unfair or deceptive acts or practices by financial institutions and their subsidiaries, as well as high-profile enforcement actions brought by other federal regulatory agencies, may put additional pressure on the Board to exercise its Unfair and Deceptive Acts and Practices rule-writing authority under the Federal Trade Commission Act or compel more rigorous exercise of those enforcement powers granted by the act.
 - *Regulatory burden.* There will be continuing pressure on the Board from markets, banking and other financial institutions, the general public, and the Congress to

reduce regulatory burden and improve efficiency. This has and will continue to require the streamlining of regulations and the automation and standardization of examination processes.

PERFORMANCE MEASURES

1. Identify and resolve supervisory and financial problems in a timely manner, working alone or in cooperation with other authorities, to minimize disruptions to the financial and payment systems and the economy more generally.
2. Minimize net losses to the Bank Insurance Fund associated with state member banks consistent with trend data associated with prevailing economic conditions.
3. Complete financial institution examinations as required by statute and as dictated by review of supervisory data and CAMELS ratings, experience, and an assessment of current risks to the financial industry.
4. Complete reports of examinations within established timeframes.
5. To the extent to which they are received by the Board, process applications within established timeframes.
6. Conduct consumer compliance and CRA examinations in accordance with Board and statutory requirements.
7. To the extent to which they are received by the Board, process consumer complaints in accordance with established timeframes.
8. Review and update various consumer regulations for which the Board has rule-writing authority.
9. Improve the accessibility of consumer information on banking products and services available in the market, such that consumers are better able to make informed choices.
10. Provide advisory services, conduct outreach, sponsor conferences to promote community development in underserved areas, and provide technical assistance that supports an ongoing dialogue with financial institutions, government agencies, and communities to address barriers and challenges to credit and capital access.
11. Improve understanding of effective practices in financial and consumer education through research and development of consumer education materials.

PAYMENT SYSTEM POLICY AND OVERSIGHT FUNCTION

GOALS

Oversight. Provide high-quality professional oversight of Reserve Banks

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

The oversight goal will be attained through the following objective:

1. Produce high-quality assessments and oversight of Federal Reserve System strategies, projects, and operations, including adoption of technology to the business and operational needs of the Federal Reserve. The oversight process and outputs should help Federal Reserve management foster and strengthen sound internal control systems, efficient and reliable operations, effective performance, and sound project management, and also should assist the Board in the effective discharge of its oversight responsibilities.

The policy goal will be attained through the following objectives.

2. Develop sound, effective policies and regulations that foster payment system integrity, efficiency, and accessibility. Support and assist the Board in overseeing U.S. dollar payment and securities settlement systems by assessing their risks and risk management approaches against relevant policy objectives and standards.
3. Conduct research and analysis that contributes to policy development and increases the Board's and others' understanding of payment system dynamics and risk.

Objective 1

Produce high-quality assessments and oversight of Federal Reserve System strategies, projects, and operations, including adoption of technology to the business and operational needs of the Federal Reserve. The oversight process and outputs should help Federal Reserve management foster and strengthen sound internal control systems, efficient and reliable operations, effective performance, and sound project management, and also should assist the Board in the effective discharge of its oversight responsibilities.

The Board will continue efforts to integrate its approach to Reserve Bank oversight across individual programs, strengthen off-site monitoring capabilities, and focus attention primarily on strategic Federal Reserve District and System initiatives and key processes and controls.

This objective will be pursued in part through the following actions:

- Oversee strategic infrastructure projects, including Reserve Bank check restructuring, cash distribution, and web-based application development.

Board staff is overseeing the Reserve Banks' strategies to return to and sustain full cost recovery, including efforts to reduce costs and improve efficiency by restructuring their physical check processing infrastructure. In addition, Board staff is assessing ways to most efficiently distribute and process cash within the economy and to oversee the development of web-based applications to support the delivery of Reserve Bank financial services.

- Oversee implementation of enhanced COSO and evolving information security policy, controls, and risk management processes.

Board staff will monitor and evaluate the results of the external audit of the Reserve Banks' control assertions consistent with the requirements of Sarbanes-Oxley. Board staff will continue to monitor the Reserve Banks' migration to the new information security manual (nISM), refinements to information systems governance, and compliance with the Federal Information Security Management Act, as applicable.

Objective 2

Develop sound, effective policies and regulations that foster payment system integrity, efficiency, and accessibility. Support and assist the Board in overseeing U.S. dollar payment and securities settlement systems by assessing their risks and risk management approaches against relevant policy objectives and standards.

This objective will be pursued in part through the following actions:

- Evaluate further changes to the payments system risk policy related to daylight overdrafts.

Board staff will continue to analyze issues associated with the intraday timing of payments, related concerns about intraday liquidity, operational, and credit risks, and potential policy or operational changes.

Objective 3

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

This objective will be pursued in part through the following actions:

- Analyze the effect of Check 21 on various aspects of check processing.

Board staff will conduct a survey in spring 2006 to gather information on funds availability, check fraud, and check collection and return methods and timeframes. The Board will report the results of the survey to the Congress in 2007 and will make recommendations for legislative action as warranted.

- Conduct further research on the optimal infrastructure for Reserve Bank services.

Board staff will continue to develop models, in collaboration with Reserve Bank staff, to analyze changes in the Reserve Banks' cash and check processing infrastructure.

ENVIRONMENTAL FACTORS

- *Technology.* The cost of technology will continue to decrease, and the rate of technological change will continue to increase. In particular, the reliability and security of web-based applications and open architectures will continue to improve. System architectures and applications will comprise multiple hardware and software products, and the inter-operation of these products will become increasingly complex to manage and operate.
- *Electronic payment alternatives.* In addition to existing electronic payment alternatives, continued changes in market innovation and payment preferences will result in new electronic payment methods and continued shift from paper to electronic payments.
- *Evolving Reserve Bank infrastructure.* The Reserve Banks are continuing to restructure their operations to improve the quality and cost effectiveness of their financial services and support functions. These efforts will likely result in further consolidation of operations and reductions in staff.
- *Staffing.* The Board must attract and retain qualified professional staff who have complex analytical skills and leading-edge technological skills to accomplish its oversight, policy development, and research-related activities. The Board also must explore creative training and development opportunities to better position staff to perform the complex quantitative and qualitative analyses required of them.

PERFORMANCE MEASURES

1. Extent to which the Board completes all Reserve Bank reviews as scheduled; completes annual Reserve Bank examinations; and oversees an external audit of Reserve Bank financial statements each year, as required by the Federal Reserve Act.

2. Extent to which issues raised by the Board regarding Reserve Bank operations, internal audit, or proposed or ongoing initiatives effect positive change within the Reserve Banks.
3. Submission of report to the Congress in 2007 on the results of our assessment of the effect of Check 21 on various aspects of check processing, including recommendations for legislative action as warranted.
4. Monitor and ensure the full collateralization of Federal Reserve notes as defined by the Federal Reserve Act.
5. Extent to which the Board (through its oversight committees) is informed of important developments and issues in a timely and effective manner.
6. Timely response to requests for policy interpretations, deviations, and exception requests from the Reserve Banks.

INTERNAL BOARD SUPPORT

GOAL

Foster the integrity, efficiency, and effectiveness of Board programs

This goal will be attained through the following six objectives:

1. Oversee a planning and budget process that clearly identifies the Board's mission, results in concise plans for the effective accomplishment of operations, transmits to the staff the information needed to attain objectives efficiently, and allows the public to measure our accomplishments.
2. Develop appropriate policies, oversight mechanisms, and measurement criteria to ensure that the recruiting, training, and retention of staff meet Board needs.
3. Establish, encourage, and enforce a climate of fair and equitable treatment for all employees regardless of race, creed, color, national origin, age, or sex.
4. Provide financial management support needed for sound business decisions.
5. 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 central banks.
6. Efficiently provide safe, modern, secure facilities and necessary support for activities conducive to efficient and effective Board operations.

Objective 1

Oversee a planning and budget process that clearly identifies the Board's mission, results in concise plans for the effective accomplishment of operations, transmits to the staff the information needed to attain objectives efficiently, and allows the public to measure our accomplishments.

This objective will be pursued in part through the following actions:

- In cooperation with individual divisions, review, evaluate, and revise as needed the Board's objectives and goals developed during the 2006–07 planning process to prepare for the future.
- Ensure that our goals, objectives, and implementing actions are made known to the Congress, the public, and Board staff. Prepare portions of the *Annual Report* and the *Annual Report: Budget Review* to be published on the Board's public web site and forwarded to the Congress.
- Ensure that the Board's planning and budget process continues to incorporate voluntary compliance with the GPRA, with the expectation of achieving more-streamlined operations and reducing administrative costs while maintaining

service levels. This may be achieved by revising procedures to eliminate unnecessary steps and by better automating remaining steps.

- 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.
- Utilize enhanced internal communications practices to promote information sharing, encourage effective management communications, and broaden awareness of goals and objectives.

Discussion

Unlike the budgets of 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, approves its budget, and provides various reports and budget testimony to the Congress.

The Board, like the framers of the Federal Reserve Act, considers the continuance of its budgetary independence directly relevant to the Board's independence in managing monetary policy. To maintain budgetary independence, the Board believes that it must demonstrate effective and efficient use of its financial resources. Resource management begins with a clear mission statement, identification of goals, and a review of factors that might affect the long-term attainment of the goals and of possible responses to those factors. With the establishment of objectives to attain those goals and identification of the resources needed to accomplish them, the Board develops the budget necessary to implement its strategic plan.

In recent years there have been substantial increases in expenses for security, including the creation of an armed security force, enhancements to facilities to harden physical security, and investments in information security. While the bulk of these changes are now in our expense stream, they are causing significant investments of time by administrative staff, which was not increased to manage new functions.

Objective 2

Develop appropriate policies, oversight mechanisms, and measurement criteria to ensure that the recruiting, training, and retention of staff meet Board needs.

This objective will be pursued in part through the following actions:

- Ensure that the Board's compensation systems continue to attract qualified staff and reward and motivate employees as desired.

- Ensure that appropriate processes exist to facilitate development of a Boardwide succession plan that minimizes disruption and maximizes knowledge transfer.
- Use data, such as turnover data, exit interviews, and hiring data, and other relevant input to gauge the effectiveness of management actions.

Discussion

Effective management of human resources is one of the most critical tasks facing the Board through the planning period. Changing requirements associated with technology, communications, demographics, employee needs and expectations, performance measurement, and market rates of pay are among the factors that will cause the Board to focus more carefully on steps to attract, retain, and train staff to meet increasingly complex requirements.

Objective 3

Establish, encourage, and enforce a climate of fair and equitable treatment for all employees regardless of race, creed, color, national origin, age, or sex.

This objective will be pursued in part through the following actions:

- Develop, implement, and ensure compliance with policies, practices, and procedures that foster fair and equitable treatment of all staff.
- Monitor Board EEO training and awareness activities (including disability and sexual harassment awareness training and EEO training for officers, managers, and supervisors) and career development, recruitment, outreach, and intern programs.
- Design and implement a new EEO web-based training program.
- Support special interest groups, and sponsor ongoing programs and awareness activities.

Discussion

The Board of Governors is committed to the hiring, development, compensation, and promotion of staff based on an individual's qualifications, abilities, and job performance. The policy of the Board is to promote equal opportunity in every aspect of employment.

The Board's policies and practices address the issue of equal treatment of all employees in employment practices and hiring initiatives and include targeted initiatives for women, people of color, and those with disabilities. The Board emphasizes that equal employment opportunity is part of effective management, as well as a legal requirement,

because it focuses on using the talents of all human capital. The Board's Equal Employment Opportunity (EEO) Program Director continually reviews the criteria for measuring success in accomplishing the Board's EEO objectives; validates Board practices, programs, and procedures against those objectives; and continuously monitors results and discusses issues with division directors and their oversight committees, and with employees, in order to establish and maintain an equitable and fair environment in which all employees have the opportunity to attain their full potential.

Objective 4

Provide financial management support needed for sound business decisions.

This objective will be pursued in part through the following actions:

- Manage the Board's financial resources in accordance with generally accepted accounting principles.
- Implement the COSO framework for internal controls over financial reporting.
- Contract for an outside audit of the Board's financial statements and for a future attestation of internal controls over financial reporting.
- Reduce risk consistent with the prudent use of resources by participating in the Board's enterprise risk management program.

Discussion

The Board's financial management system must continue to provide high-quality, timely data that managers need in order to make decisions between competing priorities, operational procedures, and investments. The current budget and accounting systems are closely linked to one another and to payroll and benefits, information technology, and procurement systems that generate critical data. These data must be timely and easily available to all managers. Further, these data must provide information about the costs of major Board programs, such as monetary policy, for decision-making by the Board as well as for performance measurement. The Management Division provides regular analyses of the information to the Board and its managers.

Objective 5

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

This objective will be pursued in part through the following actions:

- *Customer Projects.* Staff will provide timely, quality support for customer projects.
- *Infrastructure Projects.* The Board will make investments in the automation infrastructure to include projects such as information security, disaster recovery, technical training programs, and e-mail and Internet services.

Discussion

Changes in technology have significantly altered the issues facing the Board in the monetary policy and supervision and regulation areas. Fortunately, the very advances in technology that have caused these adjustments have also enhanced our ability to conduct real-time surveillance. Nevertheless, obtaining the benefits from technology requires ongoing investment in a mix of mainframe and distributed-processing equipment; communications capability, including appropriate bandwidth; and a well-trained and motivated staff. Investments in human capital and technology must be made carefully to ensure that the results are timely and effective. The infrastructure for maintaining these investments must be efficient and effective in meeting the diverse needs of the organization. The infrastructure must provide security for data, software, and communications and the redundancy needed for rapid recovery of operations at other facilities. Finally, the work at the Board must be carefully synchronized and coordinated with that at the Reserve Banks and frequently with other agencies, particularly in support of large databases and software required for the supervision and regulation function.

Objective 6

Efficiently provide safe, modern, secure facilities and necessary support for activities conducive to efficient and effective Board operations.

This objective will be pursued in part through the following actions:

- Continue to provide a work environment that is safe and conducive to the high level of productivity that is necessary for Board staff to accomplish assigned tasks.
- Provide and protect a safe and secure environment for staff and others on Board property.
- Train staff to recognize security problems and be able to evacuate or move to safe havens as necessary.
- Establish and provision relocation sites.

Discussion

The Board will upgrade the infrastructure (including electrical, plumbing, and safety infrastructure) of its current facilities. The plan to replace and upgrade capital equipment in the physical plant will be updated, and current projects will be completed. Emergency planning will continue. Employee safety, continuity of operations, and enhancement of facilities security are key priorities.

ENVIRONMENTAL FACTORS

- *Staffing.* At a time when a significant portion of the Board staff is, or will soon be, eligible to retire, the labor markets for key job families are become much more competitive, challenging our compensation and benefits programs and our ability to attract qualified candidates for our positions. Technology continues to change, and with it the requirements and job content of many positions, resulting in increasing needs for staff training. Increased costs for salaries and benefits are only partially offset by improved productivity resulting from automation. These changes are resulting in continued pressure to find more-efficient ways to perform operations and to eliminate lower-priority work. At the Board, nearly 75 percent of expense is associated with staffing; thus, the requirement to be more efficient is generally translated into staff reductions in lower-priority work areas.
- *Security.* The safety and security of Board staff and facilities is of paramount concern. Actions necessary to mitigate security threats, particularly to harden facilities and provision multiple relocation sites to support continuity-of-operations plans, will continue to require significant resources and will have a noticeable effect on day-to-day productivity.
- *Leadership.* With significant changes in the scope and complexity of the Board's mission, developing and maintaining leaders of the organization is critical. The Board is spending significant time and resources to ensure that current and future leadership is capable of meeting challenges.

PERFORMANCE MEASURES

1. Maintain budgetary independence.
2. Complete a comprehensive review of the Board's compensation program, and implement any desired changes.
3. Develop qualified and diverse pools of internal and external candidates for all position postings.
4. Provide appropriate feedback to division directors and oversight committees via periodic management reports.

5. Report measurable participation in EEO-sponsored training and awareness, career development, recruitment, outreach, and intern programs.
6. Establish a high-quality and useful web-based EEO training program.
7. Receive an unqualified opinion for the Board's annual financial audit, and the accompanying reviews of internal controls and compliance with laws and regulations.
8. Enhance Boardwide physical security to protect Board resources and reduce the threat of disruption to operations, and improve our capacity for disaster recovery to reduce the time needed to resume normal operations.

DISSEMINATING GOALS AND OBJECTIVES AND HOLDING MANAGERS ACCOUNTABLE FOR RESULTS

Five standing committees, each made up of up to three Board members, administer the activities of the Federal Reserve Board. These committees include the Committee on Consumer and Community Affairs; the Committee on Economic Affairs; the Committee on Federal Reserve Bank Affairs; the Committee on Supervisory and Regulatory Affairs; and the Committee on Board Affairs. These standing committees, in cooperation with the division directors, determine any adjustments to strategic goals and review and adjust priorities to help establish resource levels. The Committee on Board Affairs oversees the planning and budget process, which includes preparation of the Board's Government Performance Results Act (GPRA) materials.

The Board's goals and objectives are communicated to the staff by division directors and by the strategic plan. Managers and the staff are held accountable for meeting the objectives that support these goals through the Board's performance management program, which ties base compensation and a modest amount of variable pay to achievement of specific objectives. The Board's goals and objectives are also posted on the Board's public and internal web sites where the strategic plan is posted for employees.

The Board maintains vigorous public affairs and publications programs to assist the public in understanding the actions, regulations, and rules of the Board. It also disseminates a large number of educational materials, many dealing with consumer affairs issues, to assist the public. Increased emphasis on e-government and the electronic availability of data and reports has led to changes in the Board's distribution of information. Electronic distribution of Board materials, via the Board's public web site, helps ensure the efficient dissemination of this information to the public on a timely basis.

The Board voluntarily complies with the GPRA and distributes the resulting reports, including its Strategic Plan, Performance Plan, and Performance Report, via its public web site under "Annual Reports to the Congress".

PROGRAM EVALUATIONS

The activities of the Board are critical to the economic well-being of the country. The Federal Reserve affects the lives of American citizens through its monetary policy actions, supervision and regulation activities, consumer affairs regulation, and payment systems policies and oversight activities. These effects are significant, ongoing, and highly visible. It is essential that the analyses performed by the staff to influence policy decisions be reviewed at later dates to determine whether the desired effect was achieved and if the benefits of the activity outweighed its costs. The effectiveness of Board programs is subject to review by the Office of Inspector General, which provides copies of its reports to the Congress. Many functions of the Board are also subject to review by the General Accounting Office.

MONETARY POLICY FUNCTION

The Federal Reserve's conduct of monetary policy is evaluated frequently through a number of means. First, the Federal Reserve Act, as amended, requires the Board of Governors to report to the Congress semiannually on the conduct of monetary policy. The Chairman of the Board of Governors presents testimony to Senate and House committees on these reports. More generally, Federal Reserve policymakers testify frequently before congressional committees on monetary policy and other Federal Reserve responsibilities, and from time to time congressional hearings include evaluations of monetary policy by academic and other experts from outside the Federal Reserve. As a matter of critical national importance, national and business newspapers and magazines report on and analyze monetary policy decisions and their effects on a daily basis.

SUPERVISION AND REGULATION FUNCTION

As part of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), the Inspector General of the Federal Reserve is required to review any failure of a state member bank that results in a material loss to the Bank Insurance Fund. The purposes of this review are to identify the cause of the failure, to determine whether supervision was in accordance with policy standards, and, if so, to determine whether policies and standards are in need of revision.

The effectiveness of the consumer protection function is also subject to review by the Office of Inspector General. In addition, a system of metrics is being developed to assess the effectiveness and efficiency of the consumer compliance and complaint processes.

PAYMENT SYSTEM POLICY AND OVERSIGHT FUNCTION

The effectiveness of the Payment System Policy and Oversight function is subject to review by the Office of Inspector General and the General Accounting Office. In addition, the effectiveness of this function is evaluated on the basis of feedback received from the Reserve Banks, the financial industry, the Congress, and others and the extent to

which staff's research is accepted and cited by others. Another factor in evaluating the effectiveness of this function is the extent to which the staff brings to the attention of the Board members issues that may hamper the Reserve Banks' ability to comply with the Monetary Control Act.

INTERNAL BOARD SUPPORT

The effectiveness of Board support programs is subject to review by various management sources. Financial operations are reviewed annually by an outside independent auditor. Information technology activities are subject to competitive pressures because operating divisions may use allocated resources to purchase support from the Division of Information Technology or outside vendors, or may provide the support themselves. Human resource operations are evaluated by management on the basis of the ability of the operating divisions to attract and retain the high-quality staff required for Board operations. All of these activities are subject to review by the Office of Inspector General.

INTERAGENCY COORDINATION OF CROSS-CUTTING ISSUES

While many aspects of the Board's mission are unique to the organization, the Board does not operate in a vacuum. To coordinate its activities, the staff works closely with a wide variety of organizations and individuals on a daily basis. Regular meetings with senior officials from the U.S. Department of the Treasury, regulatory agencies such as the Securities and Exchange Commission, and other executive branch agencies help ensure consistency of purpose and coordination of actions. One area of the Board's mission, supervision and regulation of financial institutions, is shared with other regulatory agencies. As required by the Government Performance and Results Act (GPRA), and in conformance with past practice, the Board has worked closely with other federal agencies to consider plans and strategies for programs, such as bank supervision, that transcend the jurisdiction of any one agency. Coordination of activities with the U.S. Department of the Treasury and other agencies is evident throughout both the strategic and performance plans.

Given the degree of similarity in missions and the existence of the Federal Financial Institutions Examination Council (FFIEC), the most formal effort has occurred with the other depository institution regulatory agencies (Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision). The FFIEC promotes uniformity in the supervision of financial institutions by the five federal regulatory agencies. It was established in 1979 pursuant to title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. It is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of financial institutions. In addition, the FFIEC provides uniform examiner training and has taken a lead in developing standardized software needed for major data collection programs to support the requirements of the Home Mortgage Disclosure Act (HMDA) and the Community Reinvestment Act (CRA). These actions have eliminated redundancy and lowered costs and, in the case of the HMDA and the CRA, have significantly lowered compliance costs while enhancing public access to the data.

In connection with the GPRA, a coordinating committee of the depository institution regulatory agencies was created to address and report on issues of mutual concern. The interagency working group has been meeting since June 1997 to work on issues related to those general goals and objectives that cross agency functions, programs, and activities. The results of the interagency coordination, whether effected through the FFIEC, the coordinating group, or interaction between staff, have been positive and have yielded better plans, creating substantial benefits to the public.

STAKEHOLDER CONSULTATIONS

The goals and objectives of the Board have been developed keeping in mind feedback

regularly received from the public, the Congress, industry groups, federal and state regulators, academics, and others. The Board relies heavily on advisory and working committees to provide input on a wide variety of issues. These committees include the Federal Advisory Council, which provides input on economic and banking matters; the Consumer Advisory Council, which provides input on consumer protection matters; the Thrift Institutions Advisory Council, which provides input on the needs and problems of thrift institutions; and Federal Reserve Bank advisory committees, which provide advice to Reserve Banks on agriculture and small business matters. The Board also consults regularly with a variety of banking and financial services industry groups. Strategic initiatives are developed and implemented in close coordination with other federal and state banking regulatory agencies through participation in the FFIEC and with state banking regulators through regular consultations.

APPENDIX 1

THE FEDERAL RESERVE SYSTEM: THE NATION'S CENTRAL BANK

The Federal Reserve System is the central bank of the United States, established by the Congress to provide the nation with a safer, more flexible, and more stable monetary and financial system. Over the years, its role in banking and the economy has expanded, and today the Federal Reserve's duties fall into five general areas.

1. Conducting the nation's monetary policy by influencing money and credit conditions in the economy in pursuit of maximum employment and stable prices
2. Supervising and regulating banking institutions to ensure the safety and soundness of the nation's banking system, maintaining the stability of the financial system, and containing systemic risk that may arise in financial markets
3. Protecting the credit rights of consumers, and encouraging banks to meet the credit needs of consumers, including those in low- and moderate-income neighborhoods
4. Playing a major role in operating the nation's payment systems
5. Providing certain financial services to the U.S. government, the public, financial institutions, and foreign official institutions

The Federal Reserve System was created by passage of the Federal Reserve Act, which President Woodrow Wilson signed into law on December 23, 1913. The act stated that its purposes were "to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

Soon after the creation of the Federal Reserve, it became clear that the act had broader implications for national economic and financial policy. As time has passed, further legislation has clarified and supplemented the original purposes. Key laws affecting the Federal Reserve have been the Banking Act of 1935; the Employment Act of 1946; the Bank Holding Company Act of 1956 and the amendments of 1970; the International Banking Act of 1978; the Full Employment and Balanced Growth Act of 1978; the Depository Institutions Deregulation and Monetary Control Act of 1980; 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; and the Check Clearing for the 21st Century Act of 2003. The Congress defined the primary objectives of national economic policy in the Employment Act of 1946, in an amendment to the Federal Reserve Act in 1977, and in the Full Employment and Balanced Growth Act of 1978, which is sometimes called the Humphrey-Hawkins Act after its original sponsors. These objectives include economic growth in line with the economy's potential to expand; a high level of employment; stable prices (that is, stability

in the purchasing power of the dollar); and moderate long-term interest rates. Major financial services reform legislation, incorporated in the Gramm-Leach-Bliley Act, reflects changes in the nature of the industry and the economy in general. Both the legislation and the underlying changes that had been occurring will continue to have a significant effect on the operations and workload of the Federal Reserve.

Since the late 1960s, the number of federal laws intended to protect consumers in credit and other financial transactions has been growing. The Congress has assigned to the Federal Reserve the duty of implementing these laws to ensure that consumers receive comprehensive information and fair treatment. Thus, consumer protection laws such as the 1968 Truth in Lending Act, the Community Reinvestment Act of 1977, the Expedited Funds Availability Act of 1987, the Truth in Savings Act of 1991, the Fair and Accurate Credit Transactions Act of 2003, and others have given the Federal Reserve rule-writing, compliance, and consumer education responsibilities.

The Federal Reserve System is an independent central bank, but only in the sense that its decisions do not have to be ratified by the President or anyone else in the executive branch of government. The entire System is subject to oversight by the Congress because the Constitution gives to the Congress the power to coin money and set its value—and that power was delegated to the Federal Reserve by the Federal Reserve Act. The Federal Reserve must work within the framework of the overall objectives of economic and financial policy established by the government; therefore, the description of the System as “independent within the government” is more accurate than “independent.”

Board of Governors

The Board of Governors of the Federal Reserve System was established as a federal government agency. The Board is composed of seven members appointed by the President of the United States and confirmed by the U.S. Senate. The full term of a Board member is fourteen years; the appointments are staggered so that one term expires on January 31 of each even-numbered year. The Chairman and the Vice Chairman of the Board are also appointed by the President and confirmed by the Senate. The nominees to these posts must already be members of the Board or must be simultaneously appointed to the Board. The terms for these positions are four years.

Structure of the System

The Federal Reserve System was structured by the Congress to give it a broad perspective on the economy and on economic activity in all parts of the nation. It is a federal system, composed of a central governmental agency—the Board of Governors in Washington, D.C.—and twelve regional Federal Reserve Banks located throughout the nation. These components share responsibility for supervising and regulating certain financial institutions and activities, for providing banking services to depository institutions and the federal government, and for ensuring that consumers receive adequate

information and fair treatment in their business with the banking system.

A major component of the System is the Federal Open Market Committee (FOMC), which is made up of the seven members of the Board of Governors, the president of the Federal Reserve Bank of New York, and presidents of four other Federal Reserve Banks, who serve on a rotating basis. The FOMC is charged under law with overseeing open market operations, the principal tool of monetary policy. The FOMC also directs operations undertaken by the Federal Reserve in foreign exchange markets.

APPENDIX 2

MANAGEMENT ISSUES

The latest strategic planning exercise did not identify material changes in the mission or goals of the Board. There was a strengthening of programs for managing and developing human capital, and emphasis on information and physical security was increased.

Because of the complexity, scope, and volume of the Board's responsibilities, a highly qualified and trained staff is necessary to accomplish its mission. The Board has developed programs to provide the salary and benefits needed to compete in the market for a diverse, highly skilled workforce as well as training programs to maintain skills necessary in a dynamic, financial, and regulatory environment. The Board also requires the ability to gather, store, retrieve, and analyze large quantities of complex economic and financial data. Doing these things requires modern automation and telecommunications capabilities and a supporting infrastructure. The Board emphasizes the need to ensure that appropriate resources are devoted to maintain this infrastructure.

The Board is organized along division lines; each division with specific functions. The divisions conducting the basic programs and activities of the Board are described below:

Monetary Policy Function

The Division of Research and Statistics

- develops and presents economic and financial data to the Board, the Federal Open Market Committee (FOMC), and other System officials as background for the formulation and conduct of monetary, regulatory, and supervisory policies; and
- 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 release.

Note: Those portions of this division, that focus on microeconomic policy support the Supervision and Regulation function.

The Division of Monetary Affairs

- supports the Board and the FOMC in the formulation of monetary policy and its implementation through open market operations, the discount window, and reserve requirements.

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;
- evaluates and forecasts major economic and financial developments abroad, developments in foreign exchange and other international asset markets, and U.S. international transactions; and

- prepares economic data and analyses for public release.

Supervision and Regulation Function

The Division of Banking Supervision and Regulation

- informs the Board of current and prospective developments in bank supervision and banking structure,
- coordinates the System's bank supervision and examination activities,
- processes applications required to form or expand bank holding companies or make other changes in banking structure, and
- administers certain regulations.

The Division of Consumer and Community Affairs

- provides support needed for the Board to accomplish its federal consumer protection responsibilities.

The Legal Division

- provides legal advice and services to the Board to meet its responsibilities under bank supervisory statutes and regulations.

Note: This division supports Supervision and Regulation, Monetary Policy, and overhead.

Payment System Policy and Oversight Function

The Division of Reserve Bank Operations and Payment Systems

- oversees the efficiency and effectiveness of, and the adequacy of controls over, Reserve Bank financial services; Reserve Bank fiscal agency services; and certain significant Reserve Bank support functions, such as information technology, human resources, financial and cost accounting, operating and capital budgets, facilities management, and internal audit; and
- develops and recommends to the Board policies and regulations that foster the efficiency and integrity of the U.S. payment system, and works collaboratively with other central banks and international organizations to improve the payment system more broadly.