INTRODUCTION

BIENNIAL PERFORMANCE REPORT

Consistent with the requirements of the Government Performance and Results Act (GPRA), this Biennial Performance Report is based on the Strategic Planning Document submitted to the Congress in 1997 (http://www.federalreserve.gov/boarddocs/rptcongress/98frgpra.pdf). The performance report is biennial rather than annual because the Board uses a biennial budget. Also, the report is centered on the monetary policy function, the operations of the Board in overseeing the activities of the System, and management actions to improve effectiveness and efficiency. The following discussion of the System structure helps to explain why many of the performance measures are based on work done in whole or large part by the Reserve Banks. For this reason, a brief discussion of the Banks’ operations and data covering their expenses and staffing are also provided to give a better perspective. Still, the report focuses primarily on the operations of the Board.

As required by GPRA, this report stands alone. However, numerous documents, when used in conjunction with this report, give a more detailed picture of the planning, budget, operations, and performance of the System. As required by the Federal Reserve Act, the Board submits to the Congress an annual report that describes in detail the operations of the System for the previous year. Since 1985, the System has also provided the Congress with a supplement, the Annual Report: Budget Review (ARBR). This document provides a detailed explanation of the plans and resources contained in the approved budgets of the Board and Reserve Banks. The most recent versions of these two documents were provided to the Congress in April 2002.

OVERVIEW

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 its duties fall into three general categories:

1. Conducting the nation’s monetary policy by influencing money and credit conditions in the economy in pursuit of maximum sustainable 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; protecting the credit rights of consumers; and encouraging banks to meet the credit needs of consumers, including those in low- and moderate-income neighborhoods

3. Playing a major role in operating the nation’s payment system by providing certain financial services to the U.S. government, to financial institutions, and to foreign official institutions

MISSION
The mission of the Federal Reserve System is to foster the stability, integrity, and efficiency of the nation’s monetary, financial, and payment systems so as to promote optimal macroeconomic performance.

GOALS
The Federal Reserve has three primary goals with interrelated and mutually reinforcing elements:

1. To conduct monetary policy that promotes the achievement of maximum sustainable long-term growth and the price stability that fosters that goal
2. To promote a safe, sound, competitive, and accessible banking system and stable financial markets
3. To provide high-quality professional oversight of Reserve Bank operations and to foster the integrity, efficiency, and accessibility of U.S. payment and settlement systems

VALUES
The following values of the Federal Reserve guide its organizational decisions and its employees’ actions:

Commitment to the public interest. The Federal Reserve endeavors to provide to the public, the U.S. government, and the financial community service that is consistent with its mandate. It expects to be held accountable to the public it serves.

Integrity. The Federal Reserve seeks to adhere to the highest standards of honesty, fairness, and discretion in its dealings with the public, the financial community, and its employees.

Quality and excellence. The Federal Reserve strives for excellence, embracing prudent change and innovation.

Independence of views and careful analysis. The Federal Reserve values the regional nature of the System and the diversity of its employees, and it encourages input from a variety of sources, independent professional judgment, thorough and careful analysis, and the integration of these components through teamwork into coherent and effective policies.

STRUCTURE OF THE SYSTEM
The System was structured by Congress to give the Federal Reserve 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 in major cities throughout the nation. These components share responsibility for supervising and regulating certain financial institutions and activities, for providing banking services to depository institutions and to 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.

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—a power that was delegated to the Federal Reserve by the Federal Reserve Act. The Federal Reserve works 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. It is made up 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.

FEDERAL RESERVE BANKS
Congress chartered the twelve Federal Reserve Banks as operating arms of the central banking system. Each Reserve Bank is a separate legal entity whose makeup and organization incorporate both public and private elements. As part of the Federal Reserve System, the Banks are subject to oversight by the Congress. Each Reserve Bank has its own board of nine directors chosen from outside the Bank, as provided by law. The Board of Governors exercises broad authority over the operations and activities of the Federal Reserve Banks. This authority includes oversight of the Banks’ priced financial services; fiscal agency and depository services; and examination and supervision of state member banks, bank holding companies, and foreign banking organizations operating in the United States. Each Reserve Bank must submit its annual budget to the Board of Governors for approval, and the appointment and salary of its President are subject to Board approval.

ROLE OF STRATEGIC PLANNING
Unlike the budgets of most other government agencies, the Board 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 budget formulation procedures, conducts strategic planning to identify the proper amount and allocation of resources, 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 strategic plan is complete.

Strategic planning is a critical factor in ensuring the long-term effectiveness of Board operations and in minimizing costs. Effectiveness is enhanced through timely identification of threats and of opportunities to improve operations. Efficiency is enhanced by early identification of issues and timely responses. Major factors affecting performance in the 2000-01 period, which were included in Board planning, included the following:

- Continuing advances in automation and telecommunication technologies that reduce the time needed to deal with systemic issues; to change the nature of financial products; to enhance systems for identifying, measuring, and pricing risk; and to improve the capability to gather and analyze associated data
- The current state of the U.S. and foreign economies
- Fiscal policy
- New financial services modernization legislation
- Consolidation, deregulation, and globalization trends affecting the financial industry and the impact of those trends on safety and soundness, consumer protection, and the stability of the payment and financial system
- Coordination of plans, strategies, actions, and information sharing with other domestic and foreign financial regulators
- Issues associated with maintaining a highly motivated, properly trained, and fairly compensated professional workforce

Not anticipated were the tragic events of September 11, 2001, and the adjustments in operations necessary to enhance security. Based on a review of the System’s reaction to those events, adjustments in critical-infrastructure protection and preparations for continuity of operations were also undertaken.

As technological and other changes accelerate, planning is essential to the effective and efficient conduct of the Board’s operations. A particular challenge to government organizations in this regard has been to determine the appropriate measures of performance. The System’s strategic planning effort recognizes key differences between government and private-sector strategic planning and measurement of results. Private planning can use measures of cost and revenue derived from prices determined in competitive markets; the results of the planning are reflected in the private entity’s ability to prosper over time. Because the government does not have direct competition in certain areas and has a monopoly in others (monetary policy, for example), 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 Board tries to accomplish its mission effectively while creating the efficiencies that come from strategic planning, recognizing that analogies are just that. Thus, the Board’s planning is oriented toward achieving effectiveness and efficiency specific to the functions we serve.

**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*

**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 an evolving financial-market structure
4. Contribute to the development of U.S. international policies and procedures, in cooperation with the Department of the Treasury and other agencies
5. Promote understanding of Federal Reserve policy among other government policy officials and the general public

**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. These reports to the Congress are prepared semiannually. 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.

**RESOURCES**

For the 2000-01 biennium, approximately $163.5 million in direct costs for 445 positions and allocated costs for support, facilities, and overhead
BANKING SUPERVISION AND REGULATION FUNCTION

GOAL

- Promote overall financial stability and the management and containment of systemic risk, and ensure that emerging threats to the health of the financial system are identified early and successfully resolved
- Provide a safe, sound, competitive, and accessible banking system through comprehensive and effective supervision of U.S. banks, bank holding companies, foreign banking organizations with U.S. operations, and related entities

OBJECTIVES

1. Maintain ability and capacity, as a bank supervisor and central bank, to ensure that emerging financial threats can be identified early and successfully resolved
2. Provide comprehensive and effective supervision of U.S. banks, bank holding companies, foreign banking organizations with U.S. operations, and related entities by (a) focusing supervisory efforts and resources on areas of highest risk to individual organizations and the financial system as a whole and (b) developing effective regulations to promote a safe and sound banking environment
3. Encourage banking organizations to develop sound risk-management practices, including strong internal controls, active boards of directors, and senior management oversight and accountability
4. Promote sound banking and effective supervisory practices among developed and emerging countries through ongoing coordination with international supervisory bodies and through training programs for international supervisors and bankers

GOAL

Improve efficiency, effectiveness, and consistency of the supervisory process while reducing burden on supervised institutions

OBJECTIVES

1. Heighten the positive effect of market discipline on banking organizations by encouraging improved disclosures, accounting standards, risk measurement and overall market transparency
2. Harness technology in carrying out responsibilities to improve supervisory efficiency and reduce burden on banking organizations
3. Maintain an understanding of the effect of financial innovation and technology (for example, new powers and products, new risk-management and -measurement methodologies, and electronic banking) on the operations and risk profile of banking organizations and the payment system; ensure that supervisory programs accommodate prudent advances that benefit consumers and businesses or improve risk management
4. Remove unnecessary banking restrictions, consistent with safety and soundness; refine or eliminate unnecessary or ineffective policies, procedures, regulations, or restrictions to ensure reforms are effectively implemented, consistent with safety and soundness

**PERFORMANCE MEASURES**

1. Minimize net losses to the Bank Insurance Fund (BIF) from state member banks, consistent with trend data associated with prevailing economic conditions

   **2000-01 Target:** BIF losses from state member banks not to exceed premiums paid into the BIF by state member banks

   **Results:** No state member bank failures occurred in 2000 and 2001, thus no net loss to the fund in 2000-2001.

2. Working alone or in cooperation with other authorities, identify supervisory and financial problems in a timely manner and resolve them in a way that minimizes disruptions to the financial and payment systems and to the economy more generally

   **2000-01 Target:** No specific performance target has been identified.

   **Results:** No major systemic failures occurred.

3. Complete financial institution examinations as required by statute and dictated by review of supervisory data and CAMELS ratings, experience, and an assessment of current risks to the financial industry

   **2000-01 Target:** 100 percent of examinations conducted in accordance with 12- or 18-month statutory requirements, as appropriate; subsequent supervisory follow-up performed on CAMELS 3, 4, or 5, as required by Federal Reserve guidelines

   **Results:**

   **2000:** Twenty-six (approximately 3 percent) SMB exams were not conducted in the required timeframe. It appears that all CAMEL 3-, 4-, or 5-rated institutions received the appropriate supervisory follow-up, as required by Federal Reserve guidelines.

   **2001:** Seventeen (approximately 2 percent) SMB exams were not conducted in the required timeframe. It appears that all CAMEL 3-, 4-, or 5-rated institutions received the appropriate supervisory follow-up, as required by Federal Reserve guidelines.

   The delay in conducting some examinations resulted from scheduling issues with state bank regulatory agencies. A new scheduling system is being implemented, which will partially resolve this delay.

4. Complete reports of examinations within established Federal Reserve timeframes

   **2000-01 Target:** At least 90 percent of reports issued within 60 days of the examination closeout meeting
Results:
2000: Eighty-six percent of reports were issued within 60 days of the examination closeout meeting.
2001: Ninety-one percent of reports were issued within 60 days of the examination closeout meeting.

Although the overall 2000-01 target was not met, the 2001 performance improvement did meet the target.

5. Process applications within Board-established timeframes

2000-01 Target: At least 90 percent of applications processed within statutory or Board guidelines

Results: Overall target was met.

2000: Eighty-nine percent of applications were processed within the established time period.
2001: Ninety-two percent of applications were processed within the established time period.

GOAL

Promote compliance with consumer protection statutes and ensure fair access to financial services for all Americans

OBJECTIVES

1. Ensure fair access to financial services for all Americans through vigorous enforcement of the Equal Credit Opportunity, Fair Housing, Community Reinvestment, and Home Mortgage Disclosure Acts and by encouraging state member bank involvement in community development activities

2. Administer and ensure compliance with consumer protection statutes relating to consumer financial transactions (Truth in Lending, Truth in Savings, Consumer Leasing, and Electronic Funds Transfer Acts) to carry out congressional intent, striking the proper balance between protection of consumers and burden to the industry

PERFORMANCE MEASURES:

1. Complete compliance examinations within Board-established timeframes

2000-01 Target: Complete 100 percent of compliance examinations within Board-established timeframes

Results: Turnover and other staffing issues, coupled with the influx of new state member banks, precluded the System from meeting 100 percent of its examination mandates.
2000: Ninety-seven percent of examinations were completed.
2001: Ninety-six percent of examinations were completed.

2. Issue guidance designed to ensure compliance with consumer protection laws
   
   **2000-01 Target:** Keep all guidance up-to-date and in a current status

   **Results:** All guidance was kept up-to-date and current.

**RESOURCES**

For the 2000-01 biennium, approximately $154.2 million in direct costs for 436 positions and allocated costs for support, facilities, and overhead

**PAYMENT SYSTEMS AND FINANCIAL SERVICES FUNCTION**

**GOAL**

*Foster the integrity, efficiency, and accessibility of U.S. dollar payment and settlement systems, issue currency, and act as the fiscal agent and depository of the U.S. government*

**OBJECTIVES**

1. Provide Federal Reserve Bank priced payment services that maintain and improve the efficiency and integrity of the U.S. dollar payment mechanism
2. Meet public demand for U.S. currency in the U.S. and abroad, work with Treasury to implement effective counterfeit-deterrence and -detection features in U.S. currency, and provide for the smooth introduction of newly designed currency
3. Provide efficient and effective fiscal agency and depository services on behalf of Treasury and other government agencies
4. Study and monitor U.S. dollar payment, clearing, and settlement systems and the risk issues pertaining to these systems to facilitate sound policy decisions that foster the integrity of the nation's payment systems

**PERFORMANCE MEASURES**

1. Long-term recovery of the costs of providing priced services to depository institutions as required by the Monetary Control Act (including recovery of imputed costs and targeted return on equity) through the fees charged for priced services
   
   **2000-01 Target:** Ten-year average priced-services cost recovery should be 100 percent.
   
   **Results:** See 2001 Annual Report, pages 173 and 174; 10-year average is 100 percent.
2. Degree to which the Federal Reserve meets the demand for currency of an acceptable level of quality
   
   **2000-01 Targets:** Meet 100 percent of the demand for currency from depository institutions served by the Reserve Banks by shipping currency on a pre-established schedule or no later than two business days after receipt of the currency order
   
   **Results:** The Reserve Banks meet the target.

3. Degree to which the Federal Reserve provides efficient and effective fiscal agency and depository services
   
   **2000-01 Target:** The Federal Reserve Banks provide significant services to the Treasury Department as its fiscal agent. Treasury is responsible for setting the standards under which the Federal Reserve Banks perform fiscal agent functions. These functions are provided primarily for Treasury’s Fiscal Service, which established, publishes, and reports measures that include the Federal Reserve Banks’ performance as fiscal agents.
   
   **Results:** The Federal Reserve provided efficient and effective service to the Treasury as a fiscal agent for the United States. The Federal Reserve works closely with the Treasury to ensure that the Reserve Banks meet the Treasury’s goals and objectives within budgets developed in conjunction with Treasury. Treasury sets, modifies, and tracks progress toward these goals and objectives and communicates regularly with the Reserve Banks on progress.

**RESOURCES**

For the 2000-01 biennium, approximately $70.0 million in direct costs for 120 positions and allocated costs for support, facilities, and overhead

**INTERNAL BOARD SUPPORT**

**GOAL**

Foster the integrity, efficiency, and effectiveness of Board programs

**OBJECTIVES**

1. Provide financial management support needed to support sound business decisions

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

3. 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 ensure efficient attainment of the objectives, and provides the public the capability to measure our accomplishments

4. Provide modern, safe facilities and necessary support activities conducive to efficient and effective Board operations
**Performance Measures**

1. *Ensure proper internal controls, proper financial recordkeeping, and sound management of financial resources*

   **2000-01 Target:** Unqualified opinion of the accuracy of the Board’s annual financial statements and internal controls

   **Results:** The audit of the financial statements of the Board resulted in an unqualified opinion each year.

2. Solicit opinions from division directors on the quality of support provided in attracting, retaining, and training a quality staff able to meet the Board’s varied and highly technical requirements

   **2000-01 Target:** Good or better rating from all directors in financial management, compensation, recruiting, training, and employee relations

   **Results:** A complete survey was delayed; however, formal follow-up with appropriate directors indicates approval of steps to improve recruiting and retention in key job families. An overall survey will be conducted biennially beginning in the first quarter of 2003.

3. Revise the Board’s planning and budget process to better incorporate voluntary compliance with GPRA, more streamlined operations, and reduced administrative costs

   **2000-01 Targets:**
   - Prepare and coordinate biennial plan with Board, Bank, and other financial regulatory staff by December 2001
     **Results:** Plan was completed and posted on the Board’s public web site.
   - Revise budget process to incorporate fundamentals of GPRA
     **Results:** Process was completed.

4. Develop and implement a plan to restore the infrastructure of the Board’s facilities to ensure that the Board’s office, communication, and support needs are economically met

   **2000-01 Target:** Continue the Eccles Building Infrastructure Enhancement Project (EBIEP) and reduce the costs of leasing additional office space

   **Results:** EBIEP is on-target in terms of schedule and budget. Purchased office space is reducing operating costs by an estimated $3 million per year.