

A large, faded purple-tinted photograph of the Federal Reserve Board Building in Washington, D.C. The building is a grand neoclassical structure with a prominent portico supported by tall columns. An American flag flies on a tall pole in front of the building. The sky is overcast with soft clouds.

# Government Performance and Results Act Annual Performance Report 2010

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM





Government Performance  
and Results Act  
Annual Performance Report

2010

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# Contents

<b>Introduction</b> .....	1
About This Annual Performance Report .....	1
Overview of the Federal Reserve System .....	1
<b>Mission, Values, and Goals of the Board of Governors</b> .....	3
Mission .....	3
Values .....	3
Strategic Goals .....	3
Role of Strategic Planning .....	4
Interagency Coordination of Cross-Cutting Issues .....	4
<b>Monetary Policy Function</b> .....	5
Strategic Goal .....	5
Annual Performance Objectives .....	5
Performance Metrics .....	5
Operational Processes and Resources Required to Meet Goals .....	5
Validation and Verification of Measured Values .....	6
<b>Supervisory and Regulatory Function</b> .....	7
Strategic Goals .....	7
Annual Performance Objectives .....	7
Performance Metrics .....	7
Operational Processes and Resources Required to Meet Goals .....	9
Validation and Verification of Measured Values .....	10
<b>Payment System Policy and Oversight Function</b> .....	10
Strategic Goals .....	10
Annual Performance Objectives .....	11
Performance Metrics .....	11
Operational Processes and Resources Required to Meet Goals .....	11
Validation and Verification of Measured Values .....	11
<b>Internal Board Support Function</b> .....	12
Strategic Goal .....	12
Annual Performance Objectives .....	12
Performance Metrics .....	12
Operational Process and Resources Required to Meet Goals .....	12
Validation and Verification of Measured Values .....	12



# Government Performance and Results Act Annual Performance Report 2010

## Introduction

### About This Annual Performance Report

The Government Performance and Results Act (GPRA) of 1993 requires that federal agencies, in consultation with the Congress and outside stakeholders, prepare a strategic plan covering a multiyear period and submit an annual performance plan and performance report. Although the Board of Governors of the Federal Reserve System (the Board) is not covered by GPRA, the Board voluntarily complies with the spirit of GPRA and, like federal agencies, prepares strategic and performance plans and performance reports.

Consistent with the requirements of GPRA, this performance report is based on earlier Board planning documents covering the *Government Performance and Results Act Strategic Planning Document, 2008–2011* and the *Government Performance and Results Act Annual Performance Plan 2010*.<sup>1</sup>

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

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

ing, operations, and performance. As required by the Federal Reserve Act, the Board annually submits a report to the Congress describing in detail the operations of the System for the previous year. Since 1985, the Board has also provided the Congress with a supplement, the *Annual Report: Budget Review*, which describes in detail the plans and resources discussed in the approved budgets of the Board and the Reserve Banks. The most recent versions of these two documents were provided to the Congress in 2011.<sup>2</sup>

### Overview of the Federal Reserve System

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

Over the years, its role in banking and the economy has expanded, and today the Federal Reserve's duties fall into five general areas:

1. conducting the nation's monetary policy by influencing money and credit conditions in the economy in pursuit of maximum employment and stable prices
2. supervising and regulating 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

<sup>1</sup> These documents are available on the Board's website, respectively, at [www.federalreserve.gov/boarddocs/RptCongress/gpra/gpra2008-2011.pdf](http://www.federalreserve.gov/boarddocs/RptCongress/gpra/gpra2008-2011.pdf) and [www.federalreserve.gov/boarddocs/rptcongress/gpra/GPRApplan2010\\_frb.pdf](http://www.federalreserve.gov/boarddocs/rptcongress/gpra/GPRApplan2010_frb.pdf).

<sup>2</sup> Refer to the Board's *97th Annual Report, 2010* at [www.federalreserve.gov/publications/annual-report](http://www.federalreserve.gov/publications/annual-report) and the *Annual Report: Budget Review* for 2011 at [www.federalreserve.gov/publications/budget-review](http://www.federalreserve.gov/publications/budget-review).

5. providing certain financial services to the U.S. government, the public, financial institutions, and foreign official institutions

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

Soon after the creation of the Federal Reserve, it became clear that the act had broader implications for national economic and financial policy. As time has passed, further legislation has clarified and supplemented the System’s original purposes. Key laws affecting the Federal Reserve include the Bank Holding Company Act of 1956 and its amendments; the Financial Institutions Reform, Recovery, and Enforcement Act of 1989; the Federal Deposit Insurance Corporation Improvement Act of 1991; the Gramm-Leach-Bliley Act (GLBA) of 1999; and the Check Clearing for the 21st Century Act of 2004. In a 1977 amendment to the Federal Reserve Act, the Congress defined the primary objectives of national economic policy. These objectives include economic growth in line with the economy’s potential to expand; a high level of employment; stable prices (that is, stability in the purchasing power of the dollar); and moderate long-term interest rates. Major financial services reform legislation, incorporated in the GLBA, reflects changes in the nature of the industry and in the economy generally. GLBA and the changes it ushered in for the U.S. financial services industry continues to affect significantly the operations and workload of the Federal Reserve.

Since the late 1960s, several federal laws were created that were designed to protect consumers when securing credit. The Congress has assigned to the Federal Reserve the duty of implementing the provisions of these laws to ensure that consumers receive comprehensive information and fair treatment from financial institutions when they engage in these transactions. Consumer protection laws such as the 1968 Truth in Lending Act, the Community Reinvestment Act of 1977 (CRA), the Expedited Funds Availability Act of 1987, the Truth in Savings Act of 1991, and the Fair and Accurate Credit Transactions Act of 2003 have given the Federal Reserve rulemaking, compliance, and consumer education responsibilities.

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

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

### **System Role in the Government**

The System is considered to be an independent central bank because its decisions do not have to be ratified by the President or anyone else in the executive branch of government. The System is, however, subject to oversight by the U.S. Congress. The Federal Reserve must work within the framework of the overall objectives of economic and financial policy established by the government; therefore, the description of the System as “independent within the government” is more accurate.

### **Structure of the System**

Congress designed the structure of the System to give it a broad perspective on the economy and on economic activity in all parts of the nation. It is a federal

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

system, composed of a central, governmental agency—the Board of Governors—in Washington, D.C., and 12 regional Federal Reserve Banks. The Board and the Reserve Banks share responsibility for supervising and regulating certain financial institutions and activities, for providing banking services to depository institutions and the federal government, and for ensuring that consumers receive adequate information and fair treatment in their business with the banking system.

A major component of the System is the Federal Open Market Committee (FOMC), which is made up of the members of the Board of Governors, the president of the Federal Reserve Bank of New York, and presidents of four other Federal Reserve Banks, who serve on a rotating basis. The FOMC oversees open market operations, which is the main tool used by the Federal Reserve to influence overall monetary and credit conditions.

### Board of Governors

The Board is a federal government agency, composed of seven members, who are appointed by the President of the United States and confirmed by the U.S. Senate. The full term of a Board member is 14 years, and the appointments are staggered so that one term expires on January 31 of each even-numbered year. After serving a full term, a Board member may not be reappointed. If a member leaves the Board before his or her term expires, however, the person appointed and confirmed to serve the remainder of the term may later be reappointed to a full term.

The Chairman and the Vice Chair of the Board are also appointed by the President and confirmed by the Senate. The nominees to these posts must already be members of the Board or must be simultaneously appointed to the Board. The terms for these positions are four years.

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

### Mission

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

### Values

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

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

### Strategic Goals

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

1. conducting monetary policy that promotes the achievement of the Federal Reserve's statutory objectives of maximum employment and stable prices
2. promoting a safe, sound, competitive, and accessible banking system and financial stability
3. developing regulations, policies, and programs designed to inform and protect consumers, to enforce federal consumer protection laws, to strengthen market competition, and to promote access to banking services in historically underserved markets

4. fostering the integrity, efficiency, and accessibility of U.S. payment and settlement systems
5. providing oversight of the Reserve Banks
6. fostering the integrity, efficiency, and effectiveness of Board programs

### Role of Strategic Planning

Unlike most other government agencies, the Board's budget is not subject to the congressional appropriations process or to review by the Administration through the Office of Management and Budget. Rather, the Board establishes its own budget formulation procedures, conducts strategic planning to identify changes to its critical activities and the proper amount and allocation of resources to support its mission, and provides various reports to the Congress.

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

Strategic planning is a critical factor in ensuring the long-term effectiveness of Board operations and in minimizing its costs. Effectiveness is improved through timely identification of threats and through efforts to improve operational efficiency. Efficiency is increased by early identification of issues and timely responses.

As technological and other changes evolve and accelerate, planning is essential to the effective and efficient conduct of Board operations. A continuing challenge to government agencies in this regard is identifying the appropriate measures of performance. The Board's strategic planning effort recognizes the key distinctions between government and private-sector strategic planning efforts and measurement of those efforts.

Private-sector planning often relies on measures of cost and revenue derived from prices determined in competitive markets; the results of that planning are

reflected in the ability of the private entity to prosper over time. The government does not have direct competition in certain areas, and has a monopoly in others (conducting monetary policy, for example); establishing a comparable metric to costs and prices is therefore extraordinarily difficult. Moreover, the results are judged relative to public policy objectives embodied in law, which often are not readily measurable. The Board seeks to accomplish its mission effectively while creating the efficiencies that come from strategic planning, recognizing that analogies to the private sector are just that. The Board's central planning objective is oriented toward achieving efficiency and effectiveness specific to the functions it serves.

### Interagency Coordination 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 variety of organizations and individuals on a daily basis. Regular meetings with senior officials of 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 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 Federal Reserve's most formal coordination 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, which was established in 1979 pursuant to title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978, promotes uniformity in the supervision of financial institutions by the five federal regulatory agencies. 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 those 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 CRA. These actions have eliminated redundancy and lowered agency costs and, in the case of HMDA and CRA, have significantly lowered industry compliance costs while increasing public access to the data.

## Monetary Policy Function

### Strategic Goal

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

### Annual Performance Objectives

1. **Informed monetary policy:** Staying 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. **Understanding of macroeconomics and markets:** Enhancing our knowledge of the structural and behavioral relationships in the macroeconomic and financial markets, and improving the quality of data used to gauge economic performance through developmental research activities
3. **Effective implementation of monetary policy:** Implementing monetary policy effectively in highly unusual economic, financial, and monetary circumstances
4. **Contribution to international efforts:** Contributing to the development of U.S. international policies and procedures in cooperation with the U.S. Department of the Treasury and other agencies, with respect to global financial markets, international organizations, and participation in international groups
5. **Expanded public awareness of monetary policy:** Promoting understanding of Federal Reserve policy among other government policy officials and the general public

## Performance Metrics

The performance of monetary policy in relation to evolving economic and financial circumstances continues to be reviewed by the Congress in the context of the Board's semiannual monetary policy report and the accompanying testimony.<sup>4</sup> It is recognized that monetary policy has only a partial and indirect influence on economic performance.

## Operational Processes and Resources Required to Meet Goals

### Operational Processes, Skills, and Technology

The divisions of Research and Statistics, Monetary Affairs, and International Finance conduct activities in support of the Federal Reserve's monetary policy responsibilities. These divisions develop and present economic and financial data and analysis for use by the Board, the Federal Open Market Committee, and the Reserve Banks. Staff in the three divisions also provide economic and quantitative analyses and services to other functional areas of the Board. The staff of these divisions are mainly economists, statisticians, financial analysts, research assistants, and information systems professionals. They rely on sophisticated automation support, including both a mainframe computer and a complex distributed-processing network, to provide the computing power and analytical tools needed to manage, process, and analyze the large volumes of data necessary to support the monetary policy function.

Quality of staff is a major issue in meeting the analytical needs of the Board. To attract and retain the high-quality staff necessary to meet its objectives, the Board offers a compensation package designed to provide some degree of comparability with the market; nevertheless, competition for talented professionals in critical fields is intense.

### Human, Capital, and Information Resources

The majority of the resources used to achieve this goal are reported in the three research divisions, the Office of Board Members, and the Office of the Secretary. The combined expenses for 2010 for these divisions and offices totaled \$116 million. The amount includes direct costs for 662 positions.

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

### *Research and Statistics*

Information, data, and analyses prepared by staff in the Division of Research and Statistics serve as a background for the formulation and conduct of monetary policy. The division fosters a broader understanding of issues relating to economic policy by providing leadership in economic and statistical research and by supplying data and analyses for public use. The division also provides economic and quantitative analyses and services to other functional areas, including supervision and regulation, payments system policy and oversight, and consumer affairs. In addition, the division provides distributed processing automation support unique to the monetary policy function.

### *Monetary Affairs*

The primary responsibility of the Division of Monetary Affairs is to support the Board and the FOMC in the formulation of U.S. monetary policy; its communication through vehicles such as minutes of FOMC meetings; and its implementation through open market operations, discount rates and the administration of the discount window, and reserve requirements. The division produces data series on, and analyzes developments in, money, reserves, bank credit and profits, and interest rates. The division also forecasts movements in money, reserves, and bank credit. It serves as liaison with the Trading Desk at the Federal Reserve Bank of New York in the conduct of open market operations. In addition, staff in the division, working with colleagues in other divisions, conducts analysis of topics related to financial stability. The division also provides support for the Board's financial supervision and regulation activities.

### *International Finance*

The Division of International Finance provides the Board, the FOMC, and other System officials with assessments of current and prospective international economic and financial developments. The division evaluates and forecasts major economic and financial developments abroad, developments in foreign exchange and other international asset markets, and U.S. international transactions. The division maintains close contacts with international organizations and foreign official institutions and supports the Board's participation in international meetings. The division also provides support for the Board's financial supervision and regulation activities.

### *Office of Board Members*

The Office of Board Members provides administrative support to the Board of Governors of the Federal Reserve System. The office also fosters effective communication between the Board and the Congress; disseminates public information concerning Federal Reserve actions, decisions, and functions; produces publications, brochures, and other materials and media; and provides timely responses to correspondence from the public.

### *Office of the Secretary*

The Office of the Secretary provides records management, minutes, and correspondence control services; administers the freedom of information program; and provides other support, as required.

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

Macroeconomic performance is monitored through a broad range of indicators, including both quantitative and qualitative information. The staff updates analyses of macroeconomic and financial conditions in part through extensive data collection and analysis. In addition, the financial markets provide a daily barometer on the state of the nation's economy. The FOMC holds eight regularly scheduled meetings each year to review the latest data and staff analyses and makes any necessary adjustments in policy. The Board formally reviews the state of the economy with the Congress semiannually, in its monetary policy report. The Chairman and other members of the Board testify on particular aspects of the economy and financial developments and issues on an ongoing basis.

One set of data watched closely by the Board is the set of statistics describing prices. The Board pays careful attention to the consumer price index, the producer price index, the price index for gross domestic product, the price index for personal consumption expenditures, and other measures and indicators of inflation to gauge its success in promoting price stability, one of the key objectives of monetary policy.

Because the policy actions taken to support price stability take some time to have an effect, data that help to forecast changes in prices are used to help guide policy. These data include measures of industrial output, wage changes, hours worked, employment and unemployment, and a host of others. Such data are

also monitored as key indicators of progress in achieving the Federal Reserve’s objective of maximum employment. As part of the strategy for fostering its economic objectives, the Board works with other government agencies and private institutions to improve the quality of the economic data used in making decisions.

## Supervisory and Regulatory Function

### Strategic Goals

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

**Consumer protection:** Developing regulations, policies, and programs designed to inform and protect consumers, to enforce federal consumer protection laws, to strengthen market competition, and to promote access to banking services in historically underserved markets

### Annual Performance Objectives

- Financial stability and risk containment:** Promoting overall financial stability by identifying emerging financial problems early so that crises can be averted
- Accessibility of the banking system:** Providing 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, remaining sensitive to the burden on supervised institutions)

- Financial system efficiency:** Enhancing efficiency and effectiveness by addressing the supervisory function’s procedures, technology, and resource allocation
- Effective oversight of financial institutions:** Promoting the compliance of 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
- Consumer protection:** Serving as a leader, and a facilitator, in helping shape the national dialogue on consumer protection in financial services
- Relationship building:** Promoting, developing, and strengthening effective communications and collaborations within the Board, the Federal Reserve Banks, and other agencies and organizations

### Performance Metrics

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

Metric	Target	Results
Identify and resolve supervisory and financial problems in a timely manner, working alone or in cooperation with other authorities.	No specific target.	During the recent crisis, central banks were creative and innovative in developing programs that played a significant role in easing financial stress and supporting economic activity. As the global financial system and national economies became increasingly complex and interdependent, innovative policy responses were needed. In addition, the Federal Reserve has restructured its financial supervisory functions so that staff members with expertise in a range of areas work closely together in evaluating potential risks.
Minimize net losses to the Deposit Insurance Fund (DIF) associated with state member banks, consistent with trend data associated with prevailing economic conditions.	DIF losses from state member banks not to exceed premiums paid into the DIF by state member banks. (The FDIC assesses a premium against only those banks with a less-than-satisfactory rating or banks that are not well capitalized.)	During the current performance period, estimated losses of \$2.0 billion exceeded state member bank premiums of \$1.8 billion, resulting in a net loss to the DIF of \$212.5 million.
Complete financial institution examinations as required by statute and consistent with the efficient allocation of resources based on review of supervisory data, experience, and an assessment of current risks to the financial industry.	98 percent of examinations conducted in accordance with 12- or 18-month statutory requirements; subsequent supervisory follow-up performed on institutions rated CAMELS <sup>1</sup> 3, 4, or 5 as required by Federal Reserve guidelines.	99 percent of examinations were conducted in accordance with the requirements.
Complete reports of examinations within established time frames.	Issue at least 90 percent of reports within 60 days of the examination-closeout meeting.	<ul style="list-style-type: none"> <li><b>BS&amp;R:</b> 99 percent of examinations were conducted in accordance with the established time frames.</li> <li><b>C&amp;CA:</b> 97 percent of consumer protection examination reports (Consumer Compliance and Community Reinvestment Act) were issued within the established time frames.</li> </ul>

(continued on next page)

Table 1.—continued

Metric	Target	Results
Conduct consumer compliance and CRA examinations in accordance with Board and statutory requirements.	Complete 99 percent of compliance and CRA examinations of state member banks within Board-established time frames.	100 percent of compliance and CRA examinations were completed within Board-established time frames.
Review and update various consumer regulations for which the Board has rulemaking authority.	Develop effective proposals and final rules to provide for more effective disclosures and substantive protections for consumer financial products and services, such as credit cards, gift cards, overdraft protection, home equity loans, reverse mortgages, and other mortgage products.	<p><i>Regulation Z (Truth in Lending)</i></p> <ul style="list-style-type: none"> <li>• Issued a final rule to protect credit cards users from a number of costly practices, by limiting the high fees associated with subprime credit cards and prohibiting creditors from allocating payments in ways that maximize interest charges.</li> <li>• Issued a proposed and final rule to protect credit card users from unreasonable late payment and other penalty fees and to require credit card issuers to reconsider interest rate increases imposed since the beginning of last year.</li> <li>• Issued a proposed rule to revise the escrow account requirements for higher-priced, first-lien “jumbo” mortgage loans. The rule would increase the annual percentage rate threshold used to determine whether a mortgage lender is required to establish an escrow account for property taxes and insurance for first-lien jumbo mortgage loans.</li> <li>• Issued an interim rule that revises the disclosure requirements for closed-end mortgage loans. The interim rule implements provisions of the Mortgage Disclosure Improvement Act that require lenders to disclose how borrowers’ regular mortgage payments can change over time. Issued an interim rule to clarify certain aspects of the first interim rule, in response to public comments.</li> <li>• Issued a final rule to implement a statutory amendment to the Truth in Lending Act requiring that consumers receive notice when their mortgage loan has been sold or transferred.</li> <li>• Issued a final rule to protect mortgage borrowers from unfair, abusive, or deceptive lending practices that can arise from loan originator compensation practices. The rule applies to mortgage brokers and the companies that employ them, as well as mortgage loan officers employed by depository institutions and other lenders.</li> <li>• Issued a proposed rule for home mortgage transactions that would improve the disclosures consumers receive for reverse mortgages; impose rules for reverse-mortgage advertising to ensure advertisements contain accurate and balanced information; prohibit certain unfair practices in the sale of financial products with reverse mortgages; improve the disclosures that explain a consumer’s right to rescind certain mortgage transactions and clarify the responsibilities of the creditor if a consumer exercises the right; and ensure that consumers receive new disclosures when the parties agree to modify the key terms of an existing closed-end mortgage loan.</li> <li>• Issued a proposed rule to clarify aspects of the rules protecting consumers who use credit cards. The proposed rule enhances protections for consumers and resolves areas of uncertainty so that card issuers fully understand their compliance obligations.</li> </ul> <p><i>Regulations Z (Truth in Lending) and M (Consumer Leasing)</i></p> <ul style="list-style-type: none"> <li>• Issued proposed rules that would apply the protections of the Truth in Lending Act (TILA) and the Consumer Leasing Act (CLA) to consumer credit transactions and consumer leases up to \$50,000, compared with \$25,000 currently. This amount will be adjusted annually to reflect any increase in the Consumer Price Index. <i>Community Reinvestment Act (CRA)</i></li> <li>• Along with the other federal bank regulatory agencies, issued final rules to implement a provision of the Higher Education Opportunity Act. The provision requires the agencies to consider low-cost higher education loans to low-income borrowers as a positive factor when assessing a financial institution’s record of meeting community credit needs under the CRA.</li> <li>• Along with the other federal bank regulatory agencies, issued proposed and final rules to support stabilization of communities affected by high foreclosure levels. The rules encourage depository institutions to support eligible development activities in areas designated under the Neighborhood Stabilization Program administered by the U.S. Department of Housing and Urban Development.</li> </ul> <p><i>Regulations E (Electronic Fund Transfers) and DD (Truth in Savings)</i></p> <ul style="list-style-type: none"> <li>• Issued proposed and final clarifications to the 2009 final rule under Regulation E and the 2008 final rule under Regulation DD pertaining to compliance with certain aspects of the final overdraft rules.</li> </ul> <p><i>Regulation E (Electronic Fund Transfers)</i></p> <ul style="list-style-type: none"> <li>• Issued a final rule to restrict the fees and expiration dates that may apply to gift cards. The rule protects consumers from certain unexpected costs and requires that gift card terms and conditions be clearly stated.</li> <li>• Issued rule implementing legislation modifying the effective date of disclosure requirements applicable to gift cards. For gift certificates, store gift cards, and general-use prepaid cards produced prior to April 1, 2010, the effective date of these disclosures was delayed until January 31, 2011, provided that several conditions are met.</li> </ul>

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Table 1.—continued

Metric	Target	Results
Improve the accessibility of consumer information on banking products and services available in the market in order to ensure that consumers are better able to make informed choices.	Establish ability to use new delivery channels to effectively communicate consumer protection information to the public, community advocates, and the industry.	<ul style="list-style-type: none"> <li>Launched the consumer education series “What You Need to Know,” which featured plain-language explanations of new regulations involving credit cards, debit cards, credit reports and scores, and gift cards.</li> <li>Launched an interactive, robust credit card website that helps consumers understand every aspect of credit cards, from the advertisement to the statement.</li> </ul>
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.	Leverage the System’s Community Affairs resources and contacts to provide key economic policymakers with a periodic report of current economic conditions, barriers to credit, and community development trends in low-to-moderate income and underserved communities.	<ul style="list-style-type: none"> <li>Led System small business initiative, including participating in 43 regional meetings and hosting the July 12 capstone summit at the Board.</li> <li>Executed a System Summit at the Board on neighborhood stabilization and real-estate-owned-property disposition.</li> <li>Supported community development research initiatives, including participation in the Community Data Initiative, development of the NeighborWorks emerging issues survey, and development of the 2011 Community Affairs Research Conference.</li> </ul>
Improve understanding of effective practices in financial and consumer education through research and development of consumer education materials.	<ul style="list-style-type: none"> <li>Develop and implement a Consumer Research and Testing Center designed to expand and distribute data that contributes to effective consumer protection policies and the implementation of regulations.</li> <li>Conduct research related to credit tightening by lenders to determine whether there are viable strategies to maximize access to, and minimize cost of, credit for consumers.</li> </ul>	Convened Fall 2010 interdisciplinary Forum on Research and Consumer Testing; prepared forthcoming <i>Federal Reserve Bulletin</i> article, “Designing Disclosures to Inform Consumer Decisionmaking: Lessons Learned from Consumer Testing.”

<sup>1</sup> CAMELS refer to the supervisory financial institutions rating: Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk (bank rating system).  
BS&R is the Division of Banking Supervision and Regulation; C&CA is the Division of Consumer and Community Affairs.

## Operational Processes and Resources Required to Meet Goals

### Operational Processes, Skills, and Technology

The supervisory and regulatory function plays a key role in carrying out some of the Board’s core responsibilities. Through the supervision and regulation of banking institutions and holding companies, the staff in this function work to ensure the operation of safe and sound financial institutions, financial stability, and the fair and equitable treatment of consumers in their financial transactions.

Although the terms *bank supervision* and *bank regulation* are often used interchangeably, they actually refer to distinct, though complementary, activities. Bank supervision involves monitoring, inspecting, and examining banking organizations to assess their condition and their compliance with relevant laws and regulations. When an institution is found to be in noncompliance with laws and regulations, the Federal Reserve may use its supervisory authority to take formal or informal action to have the institution correct the problems. Bank regulation entails making and issuing specific regulations and guidelines governing the structure and conduct of banking, under authority of legislation.

Information gained from bank examinations, reviews of loan portfolios, and oversight of lending terms and activity is a vital input to the monetary policy decisionmaking process. Similarly, the microeconomic research conducted at the Board provides valuable support to the supervisory and regulatory function.

The Federal Reserve shares supervisory and regulatory responsibilities with the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, various state banking agencies, and, for the international operations of U.S. banks and the U.S. operations of foreign banking organizations in the United States, various foreign supervisory authorities. This structure has evolved partly as a result of the complexity of the U.S. financial system, with its many kinds of depository institutions and numerous chartering authorities, and partly as a result of federal and state laws and regulations designed to remedy problems that the U.S. commercial banking system has faced over its history.

At the most senior levels, the work and plans of the Federal Reserve have been closely coordinated with

the other agencies. In addition, Board staff members have worked with staff of the other financial regulatory agencies to review cross-cutting issues. Plans have been shared, and the discussions of issues are reflected in the submissions of the Board and other regulators. Finally, the Board has relied heavily on the FFIEC to assist with the coordination of safety-and-soundness and consumer issues. Examples include the development of common software to reduce costs and industry burden, policy development, critical examiner training, and common regulatory forms.

### Human, Capital, and Information Resources

The majority of the resources used to achieve this goal are reported in the divisions of Banking Supervision and Regulation and Consumer and Community Affairs, whose combined 2010 expenses totaled \$92 million. The amount includes direct costs for 403 positions. In addition, these divisions draw significantly on resources from the Board's research divisions and Reserve Bank staff for economic and quantitative analyses related to the supervision of large financial firms and financial stability.

The Division of Banking Supervision and Regulation is responsible for (1) keeping the Board informed about current and prospective developments in bank supervision and banking structure; (2) coordinating the System's bank supervision and examination activities, including development of policy, collection of data, preparation of hardware and software standards as well as requirements for software development, and training; (3) processing applications for prior consent to form or expand bank holding companies or to make other changes in banking structure; and (4) administering certain regulations.

The Division of Consumer and Community Affairs focuses on the Board's responsibilities in the area of consumer protection, including (1) preparing and interpreting regulations that are faithful to congressional directives and that properly balance consumer protections and industry costs (in general, the consumer laws apply to all types of institutions—retailers, finance companies, mortgage bankers, and other nonbank businesses, as well as depository institutions); (2) developing proposals to improve federal consumer protection laws; (3) supporting and overseeing the Reserve Banks' supervisory efforts to ensure that compliance is fully and fairly enforced; (4) overseeing the Systemwide consumer complaint program, which includes the new Federal Reserve Consumer Help Center, to ensure thorough, prompt,

and equitable treatment of the public; (5) assisting and monitoring the community affairs activities of the Federal Reserve System to produce a strong outreach program; and (6) reviewing bank and bank holding company applications for adverse CRA and compliance issues.

### Validation and Verification of Measured Values

Data on the number of applications processed, the associated time frames, and related statistical measures are gathered, provided to the Board, and posted on the Board's website. Aggregate data on CAMELS ratings, the number and causes of failures, and the effect of the failures on the DIF are also gathered and provided to the public. Surveillance data gathered from routine reports are used to implement risk-based examinations, and the data are made available to the public through Uniform Bank Performance Reports and Bank Holding Company Performance Reports.<sup>5</sup> Certain data submitted pursuant to the HMDA and CRA are also made available to the public and to financial institutions.

Data associated with the financial exposure of each financial institution supervised by the Federal Reserve are used to develop risk profiles that, in conjunction with CAMELS ratings from earlier examinations, are used to determine the frequency and timing of safety and soundness examinations. Similarly, financial data, risk profiles, and consumer compliance and CRA ratings data are used to determine the frequency and timing of consumer compliance and CRA examinations. Automated tools allow examiners to gather data required for the examinations from off-site locations, speeding the process and reducing on-site examination time and the associated burden and costs to the institution and the System while also formatting microdata of importance for monetary policy purposes.

### Payment System Policy and Oversight Function

#### Strategic Goals

**Oversight:** Providing oversight of Reserve Banks

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

<sup>5</sup> These reports are available on the FFIEC website at [www.ffiec.gov/reports.htm](http://www.ffiec.gov/reports.htm).

## Annual Performance Objectives

1. **Effective System strategies, projects, and operations:** Producing high-quality assessments and oversight of Federal Reserve System strategies, projects, and operations
2. **Efficient, accessible payment systems:** Developing sound, effective policies and regulations that foster payment system integrity, efficiency, and accessibility; supporting and assisting the Board in overseeing U.S. dollar payment and securities settlement systems by assessing risks and risk-management approaches against relevant policy objectives and standards
3. **Analysis of payment system dynamics and risks:** Conducting research and analysis that contributes to policy development and increases understanding of payment system dynamics and risk

## Performance Metrics

See [table 2](#) for the six metrics, targets, and results for the 1-year period.

## Operational Processes and Resources Required to Meet Goals

### Operational Processes, Skills, and Technology

Board staff oversees the policies and operations of the Federal Reserve Banks as providers of financial services to depository institutions, the U.S. Department of the Treasury, and other entities, along with the implementation of the various liquidity facilities approved by the Board in response to the recent financial crisis. The scope of this oversight extends to the functions of the Reserve Banks that support the

Federal Reserve's overall mission (e.g., human capital, financial, and information technology management).

Staff members conduct analyses concerning the structure, efficiency, and integrity of U.S. dollar payment, clearing, and settlement systems and the effects of the Board's policies on those systems. They undertake original research into issues of interest to the Federal Reserve in the areas of payment, clearing, and settlement systems, including the interrelationships among systems, long-run technological trends and their economic implications, and interbank relationships. In addition, they analyze the cost and scale efficiency of the Reserve Banks in the provision of financial services. Staff members depend on state-of-the-art office automation and sophisticated analytical tools and automation support to perform their work.

### Human, Capital, and Information Resources

The oversight, research, and policy development activities related to this function are conducted mainly by staff of the Board's Division of Reserve Bank Operations and Payment Systems, who represent a variety of disciplines. The workforce is largely composed of analysts with graduate degrees in public policy, business, finance, economics, or information technology; many have had experience working at a Reserve Bank or in the private sector. The division's 2010 expenses were \$32 million, which included funding for 138 authorized positions.

### Validation and Verification of Measured Values

The performance of the payment system policy and oversight function is monitored on the basis of

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

Metrics	Target	Results
Complete all scheduled Reserve Bank on-site reviews and annual Reserve Bank examinations and oversee the external audit of Reserve Bank financial statements each year.	Complete all scheduled reviews.	All scheduled reviews were completed.
Monitor and ensure the full collateralization of Federal Reserve notes, as defined by the Federal Reserve Act.	Ensure 100 percent collateralization.	100 percent collateralization was achieved.
Update related Payment System Risk (PSR) policy documentation, including the <i>Guide to the Federal Reserve's PSR Policy</i> and <i>Overview to the Federal Reserve's PSR Policy</i> .	Publish the revised guide and overview on the Board's website in late 2010.	Revised guide and overview were published to the Board's website on December 17, 2010.
Provide support to the retail payments study, such as statistical sampling and survey design analysis, monitoring the work of contractors, editing data, producing preliminary estimates, and completing various ad-hoc activities associated with the survey effort.	Provide sufficient support to publish the retail payments study by early December.	The retail payments study was published on the Board's website on December 8, 2010.
Plan for the payments workshop, distribute a call for papers, invite keynote speakers, and select papers for presentation at the workshop.	Have a call for papers out and papers submitted by end of 2010 for a conference in April 2011.	A call for papers was issued and a conference was held on payments in June 2011.
Respond in a timely manner to requests for policy interpretations, deviations, and exception requests from the Reserve Banks.	Respond in a timely manner to requests from the Reserve Banks.	All requests were responded to in a timely manner.

numerous qualitative factors, including the thoroughness of staff research and the quality and timeliness of staff analysis and related recommendations. For example, performance in the oversight area is measured by the extent to which staff work improves the quality of Reserve Bank decisions and helps Reserve Bank management strengthen sound internal control systems and efficient and effective performance.

## Internal Board Support Function

### Strategic Goal

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

### Annual Performance Objectives

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

### Performance Metrics

See [table 3](#) for the five metrics, targets, and results for the 1-year period.

### Operational Process and Resources Required to Meet Goals

Although support and overhead activities are important to the successful accomplishment of the Board's

mission, they do not represent the core operations of the Board. The Management Division bears major responsibilities for providing line operations staff with the tools they need to conduct their operations effectively and efficiently. The division is responsible for Boardwide personnel and financial management activities; property management; coordination of strategic planning, budget formulation, execution and reporting; and procurement. It also provides the full spectrum of facility and logistical support for the Board's day-to-day operations, including managing office space and property and providing food services and physical security. The Legal Division provides support for the procurement and personnel functions, including the ethics program. Finally, a significant portion of the resources allocated to the Division of Information Technology as a direct expense goes to provide infrastructure support that is not charged to the functional areas, including mainframe operations, central automation and telecommunication support, data and communications security, local area network administration, and technology reviews that benefit all Board functions. The Office of the Staff Director is responsible for overseeing the areas of strategic planning and budgeting, the Office of Diversity and Inclusion, the Protective Services Unit, and Intelligence Coordination and Continuity Programs as well as ensuring the implementation of information-privacy protections.

The resources used to achieve this goal are reported in the Information Technology, Legal, Management, and Office of Staff Director divisions and in the Office of the Inspector General, whose combined 2010 expenses were \$177 million.<sup>6</sup> The amount includes costs for 1,072 authorized positions.

### Validation and Verification of Measured Values

Performance is measured using data from various Board data systems. The financial management system, a relational database maintained on a distributed network, is tightly linked to the budget system. This link facilitates performance reporting and management control. The personnel management system, also a relational database maintained on a distributed network, is linked to the financial system through the payroll interface and the chart of accounts and to the budget system through the position, cost, and control reports.

<sup>6</sup> Resources also include Information Technology Income, Residual Retirement, and Special Projects.

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

Metric	Target	Results
Develop qualified and diverse pools of internal and external candidates for all position postings.	Increase the number of qualified and diverse candidates at the Board.	The Board continues to expand relationships with Hispanic and historically black colleges and universities. The Board has also been participating in disability recruitment fairs and female and minority professional career fairs to increase the number of qualified and diverse candidates. The Board also hosts a number of sessions with university students, including women and minorities who are studying economics. The Board has expanded its summer intern program to include more women and minority students.
Enhance management accountability for EEO, diversity, and inclusion strategy execution.	No specific target.	The Dodd-Frank Act requires the Board and each of the Reserve Banks to create an Office of Minority and Women Inclusion (OMWI). A Federal Reserve System Committee of the OMWI Directors has been formed. The committee will address inclusion and diversity.
Receive an unqualified opinion for the Board's annual financial audit and the accompanying reviews of internal controls and compliance with laws and regulations.	Receive an unqualified opinion on the Board's financial statements.	The Board achieved a clean opinion on the financial statements as well as a clean internal control opinion. No deficiencies noted, and no management letter comments provided by the auditors.
Enhance Boardwide physical security to protect Board resources.	Continue updating perimeter security to better control pedestrian/vehicle traffic on or around the facilities.	The Law Enforcement Unit (LEU) conducted a comprehensive vulnerability assessment, leading to additional upgrades to Board security measures. The LEU initiated a redesign of the physical security measures used to protect Board infrastructure and personnel.
Reduce the threat of disruption to operations and improve our capacity for disaster recovery to reduce the time needed to resume normal operations.	No specific target.	The Board has made considerable progress in enhancing the ability to continuously perform the Federal Reserve's primary mission essential functions during a natural disaster, influenza pandemic, or man-made disaster. The Board's continuity of operations plans (COOP) are reviewed and updated annually. Steps taken to address a possible influenza pandemic greatly enhanced the ability of Board divisions to work via remote access to Board information technology (IT) networks. This COOP plan was tested during severe snow storms in 2009 and 2010, when a large number of employees worked from home and were able to log on as well as to participate in audio conference calls that substituted for on-site meetings. In addition, the IT infrastructure at the Board's relocation site has been upgraded and can be quickly made operational in response to a crisis. The Board also operates multiple secure communications systems in accordance with the requirements of Directive 3-10 from the National Communications System. Several times a year, the Board exercises its ability to perform its essential functions from the relocation site. Notably, the Board's ability to perform all aspects of its COOP plan received high marks from external evaluators during the national-level continuity exercise Eagle Horizon 2010. The Board also works closely with members of the Intelligence and Law Enforcement communities to ensure the latest national intelligence estimates are incorporated into physical protection plans and IT security.

Costs for centrally provided information resources are controlled by the IT transfer pricing system, which ensures that information resources—a significant portion of the Board's budget—are properly planned, reviewed, and supported and are charged to the requesting division. The transfer pricing system ensures accountability by providing managers with a tool for comparing the costs and benefits of projects utilizing internal Board resources versus contracting for the services externally.

The Board's financial system, which follows generally accepted accounting principles, is audited by an independent outside auditor to ensure that financial statements provide a fair assessment of the Board's financial situation. As part of that audit, which is managed by the Board's Office of Inspector General, internal controls are reviewed and a formal report is provided to the Board. To ensure efficiency, various components of the Board's operations are subject to outside professional review.

