

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM



GOVERNMENT PERFORMANCE AND RESULTS ACT
BIENNIAL PERFORMANCE PLAN
2002-2003

Table of Contents

FEDERAL RESERVE: THE NATION’S CENTRAL BANK.....	5
OVERVIEW	5
<i>Structure of the System</i>	5
<i>Board of Governors</i>	6
<i>Federal Reserve Banks</i>	6
<i>Biennial Performance Plan</i>	6
MISSION.....	7
GOALS.....	7
ROLE OF STRATEGIC PLANNING.....	7
INTERAGENCY COORDINATION OF CROSS-CUTTING ISSUES.....	8
VALUES.....	9
MONETARY POLICY FUNCTION.....	11
ANNUAL GOALS, OBJECTIVES, AND PERFORMANCE MEASURES.....	11
<i>Goal</i>	11
<i>Objective 1</i>	11
<i>Actions</i>	11
<i>Objective 2</i>	11
<i>Actions</i>	11
<i>Objective 3</i>	12
<i>Action</i>	12
<i>Objective 4</i>	12
<i>Actions</i>	12
<i>Objective 5</i>	12
<i>Actions</i>	12
<i>Performance Measures</i>	13
OPERATIONAL PROCESS AND RESOURCES REQUIRED TO MEET PERFORMANCE GOALS.....	13
<i>Operational Process, Skills, and Technology</i>	13
<i>Summary of Required Human, Capital, and Information Resources</i>	13
Research and Statistics	13
Monetary Affairs	14
International Finance.....	14
FOMC Secretariat	14
VALIDATION AND VERIFICATION OF MEASURED VALUES	15
BANKING SUPERVISION AND REGULATION FUNCTION	16
ANNUAL GOALS, OBJECTIVES, AND PERFORMANCE MEASURES.....	16
<i>Goal</i>	16
<i>Objective 1</i>	16
<i>Actions</i>	16
<i>Objective 2</i>	16
<i>Action</i>	16
<i>Objective 3</i>	16
<i>Actions</i>	16
<i>Objective 4</i>	17
<i>Action</i>	17
<i>Objective 5</i>	17
<i>Actions</i>	17
<i>Performance Measures</i>	17

OPERATIONAL PROCESS AND RESOURCES REQUIRED TO MEET PERFORMANCE GOALS.....	18
<i>Operational Process, Skills, and Technology</i>	18
<i>Summary of Required Human, Capital, and Information Resources</i>	21
VALIDATION AND VERIFICATION OF MEASURED VALUES	23
PAYMENT SYSTEM POLICY AND OVERSIGHT FUNCTION.....	27
ANNUAL GOALS, OBJECTIVES AND PERFORMANCE MEASURES.....	27
<i>Goal</i>	27
<i>Objective 1</i>	27
<i>Actions</i>	27
<i>Objective 2</i>	28
<i>Actions</i>	28
<i>Objective 3</i>	28
<i>Actions</i>	28
<i>Performance Measures</i>	29
OPERATIONAL PROCESS AND RESOURCES REQUIRED TO MEET PERFORMANCE GOALS.....	29
<i>Operational Process, Skills, and Technology</i>	29
<i>Required Human, Capital, and Information Resources</i>	29
VALIDATION AND VERIFICATION OF MEASURED VALUES	30
INTERNAL BOARD SUPPORT	33
ANNUAL GOALS, OBJECTIVES AND PERFORMANCE MEASURES.....	33
<i>Goal</i>	33
<i>Objectives</i>	33
<i>Performance Measures</i>	33
OPERATIONAL PROCESS AND RESOURCES REQUIRED TO MEET PERFORMANCE GOALS.....	34
VALIDATION AND VERIFICATION OF MEASURED VALUES	36
SUMMARY OF GOALS, OBJECTIVES, AND RESOURCES	39
MONETARY POLICY FUNCTION	39
BANKING SUPERVISION AND REGULATION FUNCTION	40
PAYMENT SYSTEMS AND FINANCIAL SERVICES FUNCTION	41
INTERNAL BOARD SUPPORT	42

FEDERAL RESERVE: THE NATION'S CENTRAL BANK

Overview

The Federal Reserve System is the central bank of the United States, established by 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

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 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 bank 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.

Biennial Performance Plan

Consistent with the requirements of the Government Performance and Results Act (GPRA), this Biennial Performance Plan is based on the Strategic Planning document provided to the public in 2001 (<http://www.federalreserve.gov/boarddocs/rptcongress/>). The plan is biennial rather than annual because the Board uses a biennial budget. Also, the plan 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's structure helps to explain the performance measures used by the Board; however, the document focuses solely on the operations of the Board.

As required by GPRA, this plan stands alone. However, numerous documents, when used in conjunction with this plan, 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. The recently

revised Supervision and Regulation Strategic Plan and the Automation and Telecommunications Strategic Plans are also critical to the proper implementation of this biennial plan.

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

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 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 the current strategic plan include 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
- Consolidation, deregulation, and globalization trends affecting the financial industry and the impact of those trends on safety and soundness, consumer protection, and payment and financial system stability
- Financial services modernization legislation (Gramm-Leach-Bliley Act), including the privacy provisions of the act
- 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 and preparing for management succession
- The need to enhance the safety and security of Board staff and to prepare for continuity of operations and business recovery

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 is to determine the appropriate measures of performance. The Board'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 it serves.

Interagency Coordination of Cross-Cutting Issues

As required by GPRA, and in conformance with past practice, the Board has been working closely with the other federal agencies to address programs that transcend the jurisdiction of each agency. Coordination of activities with Treasury and other agencies will be evident throughout the document. 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. The FFIEC 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 council 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 HMDA and CRA, have significantly lowered compliance costs while enhancing public access to the data.

In connection with 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.

In addition, the Federal Reserve Banks provide a wide array of financial services for the U.S. government pursuant to the Federal Reserve Act, which provides that, when required by the Secretary of the Treasury, Federal Reserve Banks shall act as fiscal agents and depositories of the United States. The Reserve Banks provide these services, primarily for the Department of the Treasury, at the direction of the agency principals and at service levels specified by them. Generally, the Reserve Banks' expenses associated with fiscal agency and depository services are reimbursed by the Treasury and other agencies.

The Reserve Banks and the Treasury work collaboratively to develop strategic plans, resource needs, and service levels. The Reserve Banks provide effective and efficient fiscal agency and depository services, often in connection with the provision of other financial services. The Treasury, however, has responsibility for determining the levels of service and setting the standards under which the Reserve Banks provide these services.

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.

MONETARY POLICY FUNCTION

Annual Goals, Objectives, and Performance Measures

Goal

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

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

Actions

- Staff will provide periodic briefings and written reports to policy makers, analyzing incoming economic data. Staff also will prepare ad hoc analyses, as needed, to address special questions.
- Staff will regularly provide formal, quantitative forecasts for use by policy makers.
- Policy makers and staff will utilize extensive contacts in the private sector to obtain timely information about tendencies in the economy and financial markets. The *Beige Book*, summaries prepared by Reserve Bank staff, will be one source of such information.
- Policy makers 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

Actions

- Staff will undertake research into the broad range of topics relevant to the conduct of monetary policy. In the planning period ahead, this research will focus especially on the effects of low rates of inflation, advancing technology, financial market innovation and deregulation, and globalization on the behavior of the economy.
- Staff will work to improve the quality of statistics relating to output, inflation, and finance. Efforts will focus on, among other things, the measurement of output, especially in the high-technology sector, and a more complete accounting of flows of funds in financial markets.

Objective 3

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

Action

- The FOMC will seek, through the operations of the Trading Desk at the New York Bank, 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 Department of the Treasury and other agencies

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 to 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

Actions

- Twice a year, the Board will formally report 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 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.

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.

Operational Process and Resources Required to Meet Performance Goals

Operational Process, Skills, and Technology

The Divisions of Research and Statistics, Monetary Affairs, International Finance, and the FOMC Secretariat, which was placed in the Office of Board Members, conduct activities in support of the Federal Reserve's monetary policy responsibilities. These organizations develop and present economic and financial data and analysis for the use of the Board, the Federal Open Market Committee, and the Reserve Banks. The staff consists primarily of economists, statisticians, research assistants, and data processing professionals. Staff relies on sophisticated automation support, including both a mainframe computer and a complex distributed processing network, to provide 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. Almost all economists and statisticians have advanced degrees. Highly qualified research assistants support the economists and statisticians. To attract and retain the quality staff necessary to meet the Board's objectives, the Board offers a compensation package designed to offer some degree of comparability with the market. The budget for 2002-03 funds a variable-pay program for senior economists to improve retention, and signing bonuses and other incentives to improve recruiting. (Retention and recruiting issues, which apply to the entire Board, are discussed more thoroughly in the section entitled "Internal Board Support," at the end of this plan.)

Summary of Required Human, Capital, and Information Resources

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 the payment system, supervision and regulation, and consumer affairs. In addition, the division provides distributed processing automation support unique to the monetary policy function.

The monetary policy portion of the division budget for 2002-03 is approximately \$67.4 million. The largest component of the budget is \$53.5 million for salaries, retirement, and insurance for staff in the 278 budgeted positions.

The division is responsible for managing two major data surveys. (The cost of the surveys, \$1.5 million, is included in the Extraordinary Items Budget.) The Survey of Consumer Finances will provide an update of a data series exploring household assets and liabilities, consumer spending, credit use, and other factors. The Survey of Small Business Finance will update a data series exploring small-business balance sheets, income statements, and access to credit and other financial services.

Monetary Affairs

The primary responsibility of the Division of Monetary Affairs is to support the Board and Federal Open Market Committee in the conduct of domestic monetary policy through open market operations, discount rates and the administration of the discount window, and reserve requirements. Division staff produces data series on, and analyzes developments in, money, reserves, bank credit and profits, and interest rates. The staff also forecasts movements in money, reserves, and bank credit and serves as liaison with the trading desk at the Federal Reserve Bank of New York in the daily conduct of open market operations.

The division budget for the two-year period is \$19.7 million, \$12.3 million of which is for salaries, retirement, and insurance for a budgeted staff of 59. Of the three monetary policy divisions, the proportion of the budget used for automation resources in this division is equivalent to those in the Division of Research and Statistics, with \$5.0 million budgeted for this purpose.

International Finance

The Division of International Finance provides the Board, FOMC, and other System officials with assessments of current and prospective international economic and financial developments. Staff members evaluate and forecast major economic and financial developments abroad, developments in foreign exchange and other international asset markets, and U.S. international transactions. They also analyze international banking activities and their implications. The monetary policy portion of the two-year budget for the division is \$24.9 million, again largely for salary, retirement, and insurance costs for 119 budgeted positions.

FOMC Secretariat

Prepares position papers and analyses relating to open market, discount, and reserve requirement policies and performs the secretariat functions of the FOMC, including administration and record preparation and maintenance.

Federal Reserve Board Expenses and Budget

Monetary Policy

Millions of dollars

1998-99 Actuals	2000-01 Estimates	2002-03 Budget
\$145.6	\$163.5	\$182.5

Note: Data for the operating budget programs include an allocation of support and overhead costs. The Board uses calendar year for budgeting and reporting.

Federal Reserve Board Staffing

Monetary Policy

1998-99 Actuals	2000-01 Estimates	2002-03 Budget
449	445	456

Note: Data show authorized positions as of year-end.

Validation and Verification of Measured Values

Macroeconomic performance is monitored on the basis of a broad range of indicators, including both quantitative and qualitative information. Based on extensive data collection and analysis, the staff updates its analyses of necessary courses of action appropriate to meeting the monetary policy mission. The financial markets provide a daily barometer on the nation's economic status, which includes a component for the actions of the Board. Eight times a year, the FOMC formally meets to review the latest data and staff analyses and makes any necessary adjustments in policy. Semiannually, in its monetary policy report, the Board formally reviews the state of the economy with the Congress. The Chairman and other members of the Board testify on particular aspects of the economy on an ongoing basis.

One set of data watched closely by the Board is the set of statistics describing price increases. The Board pays careful attention to the Consumer Price Index, Producer Price Index, Gross Domestic Price Deflator, and other measures of inflation to gauge its success in maintaining the price stability seen as important to the long-term economic well-being of the country. Because the tools used 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 increases, hours worked, unemployment, and a host of other measures. Working with other government and private institutions, efforts to improve the quality of the economic data used for these policy decisions are part of the Board strategy to maintain price stability. Funding is included in the budget for economic surveys, studies of the methodologies of calculating price changes, and a review of the impact of changes in the price and quality of automation and telecommunications equipment.

BANKING SUPERVISION AND REGULATION FUNCTION

Annual Goals, Objectives, and Performance Measures

Goal

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

Objective 1

Provide comprehensive and effective supervision of U.S. banks, bank and financial holding companies, foreign banking organizations with U.S. operations, and related entities

Actions

- Focus supervisory efforts and resources on areas of highest risk to individual organizations and the financial system as a whole, and develop effective regulations to promote a safe and sound banking environment
- Encourage banking organizations to develop sound risk-management practices, including strong internal controls, active boards of directors, and senior management oversight and accountability
- 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

Objective 2

Promote overall financial stability, manage and contain systemic risk, and ensure that emerging financial crises are identified early and successfully resolved

Action

Maintain ability and capacity as a bank supervisor and central bank to ensure that emerging financial threats can be identified early and successfully resolved

Objective 3

Improve efficiency and effectiveness and reduce burden on supervised institutions

Actions

- Heighten the positive effect of market discipline on banking organizations by encouraging improved disclosures, accounting standards, risk measurement, and overall market transparency

- Harness technology in carrying out responsibilities to improve supervisory efficiency and to reduce burden on banking organizations
- 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
- 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

Objective 4

Promote equal access to banking services

Action

- Conduct Reserve Bank examinations in a timely manner to ensure compliance with consumer protection laws and regulations

Objective 5

Administer and ensure compliance with consumer protection statutes relating to consumer financial transactions

Actions

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

Performance Measures

1. All examinations of financial institutions completed as required by statute and current risk portfolios actively reviewed and updated; material loss reviews by OIG show prudent and careful oversight even when a financial institution failure occurs

2. Net losses to the Bank Insurance Fund (BIF) from state member banks consistent with economic conditions but, at a minimum, less than the amount charged to the Federal Deposit Insurance Corporation (FDIC) insurance fund (or the amount that would have been charged for premiums if the cap had not been reached on the FDIC fund)
3. Extent to which the Federal Reserve, working alone or in cooperation with other authorities, is successful in identifying supervisory and/or financial problems in a timely manner and resolving them in a way that minimizes disruptions to the financial and payment systems and the economy more generally
4. Consumer affairs examinations conducted to ensure compliance with consumer protection laws and regulations
5. Guidance needed to ensure compliance with consumer protection laws issued on a timely basis to reflect industry changes and legislation

Operational Process and Resources Required to Meet Performance Goals

Operational Process, Skills, and Technology

Although the terms *bank supervision* and *bank regulation* are often used interchangeably, they actually refer to distinct but complementary activities. Bank supervision involves monitoring, inspecting, and examining banking organizations to assess their condition and compliance with relevant laws and regulations. When an institution is found to be in noncompliance or to have other problems, 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.

To carry out all facets of its supervision and regulation responsibilities, the Board makes extensive use of all its complementary resources. The knowledge gained from bank examinations, reviews of loan portfolios, and oversight of lending terms and activity is a vital input to the decision-making process for the Board's monetary policy activities. Likewise, the microeconomic research capabilities of the Board provide valuable support to the supervision and regulation function (see page 23).

The Federal Reserve shares supervisory and regulatory responsibilities with the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision at the federal level, with the banking agencies of the various states, and with foreign banking authorities for the international operations of U.S. banks and the operations of foreign banking organizations in the United States. This structure has evolved partly out of the complexity of the U.S. financial system, with its many kinds of depository institutions and numerous chartering authorities. It has also resulted from 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 these agencies. In addition, Board staff members have worked with staff of all 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 Federal Financial Institutions Examination Council to assist in coordination on safety-and-soundness and consumer issues. Examples include plans for dealing with century date compliance, development of common software to reduce costs and industry burden, policy development, critical examiner training, and common regulatory forms.

For safety-and-soundness goals, the following operational processes will be used to achieve the objectives.

Promote overall financial stability, manage and contain systemic risk, and ensure that emerging threats to the health of the financial system are identified early and successfully resolved

- *Maintain adequate expertise and involvement.* Ensure that the Federal Reserve maintains adequate knowledge, skills, and hands-on experience consistent with the operations and risk profile of the banking and payment systems; maintain a consistent emphasis on the identification of System training needs and development of suitable courses
- *Improve preparedness.* Develop and implement policies and procedures that ensure that the System retains the flexibility necessary to respond to emerging problems and changes in banking structure or powers (Preparedness is especially critical given the current level of innovation, diversification, structural change in the financial industry, and security concerns.)
- *Promote market discipline.* Heighten the positive effect of market discipline on the stability and soundness of the banking system and financial markets by encouraging improved disclosures, accounting standards, risk measurement, and overall market transparency
- *Maximize value of central bank's multiple functions.* Maximize the cooperation, coordination, and flow of information among macroeconomic, bank supervision, payment system, and discount window functions of the Federal Reserve to more effectively manage systemic and payment systems risk

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

- *Focus on areas of highest risk.* Focus supervisory efforts on areas of highest risk to individual organizations and the financial system as a whole

- *Promote sound risk-management practices.* Promote sound risk-management practices, including strong internal controls, active boards of directors, and senior management oversight and accountability
- *Understand and accommodate effects of financial innovation and technology.* Maintain an understanding of the effect of financial innovation, technology, and structural change on the operations and risk profile of banking organizations and the payment system and ensure that supervisory programs accommodate prudent advances that benefit consumers and businesses or improve risk management (Further concentration in the financial industry as well as financial modernization must also be taken into account.)
- *Improve international banking and supervisory practices.* Promote sound banking and effective supervisory practices among developed and emerging countries; continue ongoing efforts through the Bank for International Settlements, Basle Supervisors Committee, and other international forums to improve supervisory standards, consistency, and reporting
- *Refine and strengthen the Foreign Banking Organizations (FBO) Supervision Program.* Continue to develop, refine, and strengthen consolidated, comprehensive supervision of the U.S. operations of FBOs operating in the U.S. and its possessions

Improve efficiency, effectiveness, and consistency of the supervisory process while reducing burden on supervised institutions by enhancing the supervision function's procedures, technology, and resource allocation based on risk, skills, and staffing

- *Conduct seamless supervision of state-chartered banks.* Conduct seamless supervision of state-chartered banks through ongoing and improved coordination with state and federal bank supervisors
- *Remove unnecessary banking restrictions, consistent with safety and soundness.* Refine or eliminate unnecessary or ineffective policies, procedures, regulations, or restrictions, and ensure that reforms are effectively implemented, consistent with safety and soundness of banking organizations
- *Harness technology.* Harness technology in carrying out responsibilities to improve supervisory efficiency and reduce burden on banking organizations
- *Improve employment of resources.* Optimize employment of resources within the Federal Reserve System to maximize efficiency, avoid duplication of efforts, and achieve economies of scale
- *Maintain staff with adequate experience and skills.* Ensure that the Federal Reserve maintains a qualified staff with the right mix of hands-on experience, education, and specialized skills to meet the challenges of a rapidly evolving banking system

For consumer affairs goals, the following operational processes will be used to achieve the objectives.

Promote compliance with consumer protection statutes and ensure fair access to financial services for all Americans while reducing regulatory burden to the industry.

- *Conduct Reserve Bank examinations in a timely manner to ensure compliance with consumer protection laws and regulations.* Support and oversee the Reserve Banks' supervisory efforts to ensure that compliance is fully and fairly enforced. The objective is also supported by overseeing the Systemwide complaint program to ensure thorough, prompt, and equitable treatment of the public. Continue to strive to establish seamless supervision of state-chartered banks through improved coordination with state and federal banking supervisors. To maintain quality, establish factors to be evaluated in Reserve Bank evaluations.
- *Improve efficiency and effectiveness and reduce burden on supervised institutions.* Implement a risk-focused compliance examination component that will reduce regulatory burden on state-chartered banks without compromising the overall effectiveness of the consumer compliance supervision program. Prepare and interpret regulations that are faithful to congressional directives and properly balance consumer protections and industry costs. Develop proposals to improve these federal laws.
- *Ensure compliance with existing laws.* Review bank and bank holding company applications for adverse CRA, privacy, and compliance issues. Assist and monitor the community affairs activities of the Federal Reserve Banks to produce strong outreach programs.

Summary of Required Human, Capital, and Information Resources

Two entire divisions, the Division of Consumer and Community Affairs and the Division of Banking Supervision and Regulation, are associated with this function, as are significant parts of the Legal Division and the Division of Research and Statistics.

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 policy development, data gathering, preparation of hardware and software standards and requirements for software development, and training; (3) processing applications for prior consent to form or expand bank holding companies or make other changes in banking structure; and (4) administering certain regulations.

The division budget for the two-year period is \$73.9 million. The largest component of the budget is \$49.1 million for salaries, retirement, and insurance for staff in 226 positions. Software development and maintenance and mainframe usage are budgeted at \$14.3 million to maintain and enhance software that promotes sharing information for continuous risk-focused supervision activities for analysts, to maintain the bank surveillance systems, and to provide access to data and analytical tools needed for timely policy analysis and recommendations. The budget includes approximately \$1.0 million for microcomputers, appropriate software, and

network connections needed to efficiently analyze the large quantities of microdata associated with banking.

The Division of Consumer and Community Affairs (DCCA) is responsible for enabling the Board to effectively carry out its responsibilities in the federal consumer protection area. Those responsibilities include (1) preparing and interpreting regulations that are faithful to congressional directives and properly balance protecting consumers 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 these federal 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 to ensure thorough, prompt, and equitable treatment of the public; (5) assisting and monitoring the community affairs activity 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.

The DCCA budget for 2002-03 is \$20.7 million, of which \$16.8 million is for compensation expenses for 82 positions. The budget provides \$2.1 million for automation resources purchased from the Division of Information Technology. These resources are required to gather, store, and analyze data needed to analyze compliance issues associated with CRA, HMDA, and other legislation for which the division has enforcement responsibilities.

The Legal Division provides legal analysis and counsel in support of Board statutory and regulatory responsibilities. The focus of the effort is on the preparation, legal interpretation, and distribution of information concerning statutes, Board decisions, regulations, rules, interpretations, and proposed legislation. Approximately half of the Legal Division budget of \$20.8 million is in support of the supervision and regulation function.

While primarily responsible for issues associated with monetary policy, the Division of Research and Statistics provides significant support to the supervision and regulation function. In the safety-and-soundness area, it provides data and analyses associated with (1) trading and positioning of securities, commodities, and derivative instruments; (2) quantifying credit risk within the examination process and the risk-based capital framework; (3) enhancing the Board's understanding of key determinants of the performance of financial institutions, including profitability and efficiency, and their relationship to banking consolidation; and (4) current and emerging developments affecting U.S. banking structure and performance, especially the Board's responsibilities for assessing the antitrust and concentration implications of mergers and acquisitions. With regard to community affairs, the division provides technical assistance for implementing fair lending and other consumer regulations as well as competitive factors associated with applications for mergers and other activities.

Federal Reserve Board Expenses and Budget
Supervision and Regulation of Financial Institutions

Millions of dollars

1998-99 Actuals	2000-01 Estimates	2002-03 Budget
\$129.9	\$154.2	\$186.7

Note: Data for the operating budget include an allocation of support and overhead costs.

Federal Reserve Board Staffing
Supervision and Regulation of Financial Institutions

1998-99 Actuals	2000-01 Estimates	2002-03 Budget
422	436	439

Note: Data show authorized positions as of year-end.

Validation and Verification of Measured Values

The financial accounting system and budget system are fully integrated to ensure that actual costs are measured and tracked against budgeted resources for the function. Budget and expense data are provided to the Congress and the public in the *Annual Report: Budget Review*. The financial statements of the Board are prepared in accordance with generally accepted accounting principles and are subject to external audit. The results are included in the Annual Report provided to Congress and the public.

Data concerning the number of applications processed, the associated timeframes, and related statistical measures are gathered and provided to the Board and posted on the Board's external web site. Aggregate data concerning CAMELS ratings, numbers of failures, causes of failures, and impact on the BIF 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 the Uniform Bank Performance Reports (UBPR) and the Bank Holding Company Performance Reports (BHCPR). Certain data submitted pursuant to the Home Mortgage Disclosure and Community Reinvestment Acts are also made available to the public and to financial institutions on diskette and CD-ROM.

Data associated with the financial exposure of each institution are used to develop risk profiles that in conjunction with CAMELS ratings from earlier examinations are used to determine the frequency and timing of examinations. Automated tools allow examiners to gather data required for the examinations from off-site locations to speed the process, reduce on-site examination time and associated burden and costs to the institution and the System, and format microdata of importance for monetary policy purposes.

Performance Indicators and Goals Banking Supervision and Regulation Function

Indicator	CY 1999 Actual	CY 2000 Actual	CY 2001 Actual	CY 2002 Goal	CY 2003 Goal
1. Minimize net losses to the Bank Insurance Fund (BIF) from state member banks, consistent with trend data associated with prevailing economic conditions <i>2002-03 Target:</i> BIF losses from state member banks not to exceed premiums paid into the BIF by state member banks	No net loss to the fund	No net loss to the fund	No net loss to the fund	No net loss to the fund	No net loss to the fund
2. Working alone or in cooperation with other authorities, identify supervisory and/or financial problems in a timely manner and resolve them in a way that minimizes disruptions to the financial and payment systems and the economy more generally <i>2002-03 Target:</i> No target	No major systemic disruption resulted from inadequate supervision	No major systemic disruption resulted from inadequate supervision	No major systemic disruption resulted from inadequate supervision	No target	No target
3. Complete financial institution examinations as required by statute and dictated by review of supervisory data, CAMELS ratings, and experience. <i>2002-03 Target:</i> 98 percent of examinations conducted in accordance with 12- or 18- month statutory requirements; subsequent supervisory follow-up performed on CAMELS 3, 4, or 5, as required by Federal Reserve guidelines	99%	97%	98%	98%	98%
4. Complete reports of examinations within established Federal Reserve timeframes <i>2002-03 Target:</i> Issue at least 90 percent of reports within 60 days of examination-closeout meeting	96%	86%	91%	At least 90%	At least 90%
5. Process applications within Board-established timeframes <i>2002-03 Target:</i> Process at least 90 percent of applications within statutory or Board guidelines	93%	89%	92%	90%	90%

<p>6. Complete compliance examinations within Board-established timeframes <i>2002-03 Target: Complete 99 percent of compliance examinations within Board-established timeframes</i></p>	100%	97.1%	96.8%	99%	99%
<p>7. Issue guidance to ensure compliance with consumer protection laws <i>2002-03 Target: Maintain all guidance in a current status</i></p>	100%	100%	100%	100%	100%

PAYMENT SYSTEM POLICY AND OVERSIGHT FUNCTION

Annual Goals, Objectives and Performance Measures

Goal

Effectively oversee Reserve Bank operations and foster the integrity, efficiency, and accessibility of U.S. payment and settlement systems.

Objective 1

Develop sound, effective policies and regulations that foster payment system integrity, efficiency, and accessibility

Actions

- Board and Reserve Bank staff will continue to evaluate changes to the Board's payments system risk (PSR) policy that improve its effectiveness and incorporate modified international or domestic payment system standards or practices. Specifically, over the next two years Federal Reserve staff will evaluate implementing a two-tiered pricing regime for intraday credit such that institutions pay a lower fee on collateralized credit than on uncollateralized credit and will update the procedures used to determine the daylight credit limits of the largest users of daylight credit. In addition, Board staff is developing a proposal to revise the PSR policy to incorporate certain international central-bank standards related to payment and securities settlement systems.
- Board staff is working closely with congressional staff regarding a draft check truncation act, which the Board forwarded to Congress for its consideration in December 2001. The draft act reflects extensive Board staff collaboration with representatives of the banking industry, consumer representatives, payments law experts, the Treasury, the Reserve Banks, and others. The objective of this effort is to foster innovation and to enhance the overall efficiency of the nation's payment systems without mandating the receipt of checks in electronic form. Under the draft check truncation act, a bank could, if it chose, truncate some or all checks and collect or return them electronically by agreement, as they now can, or by substituting machine-readable copies of checks for the original checks.
- Staff is working closely with the Reserve Banks, other regulatory agencies, and industry representatives in conducting a post-September 11 assessment, with a focus on further improving the robustness and resiliency of critical Federal Reserve functions and of critical elements in the financial markets.

Objective 2

Produce high-quality assessments of Federal Reserve Bank operations, projects, and initiatives that help Federal Reserve management foster and strengthen sound internal control systems and efficient and effective performance

Actions

- Staff is implementing user-friendly automation tools to facilitate off-site surveillance and analysis of Reserve Bank payment, fiscal agency, and key support operations.
- Staff is monitoring the major technology overhaul of Reserve Bank check-processing operations, assessing how to most efficiently distribute and process cash within the economy and overseeing the development of web-based applications to support the delivery of Reserve Bank financial services. Staff is also overseeing the Reserve Banks' conversion of certain depository institution connections, and of connections between Reserve Banks, to a public network based on frame relay communications protocol.
- Staff is working with the Reserve Banks to enhance security at Reserve Bank facilities and to enhance the effectiveness of the Reserve Banks' protection force through the implementation of the federal law enforcement authority.

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

Actions

- Staff is conducting an in-depth analysis of survey data that provides estimates of the volume and value of checks written in the United States, the use of checks by broad categories of payment types, and estimates of the volume and value of various noncash retail electronic payments. These data will improve the financial industry's, the public's, and the Federal Reserve System's understanding of the U.S. retail payments system and help provide a basis for improving strategic planning, regulatory and policy analysis, and longer-term research by academics, the Federal Reserve, the financial industry, and other interested parties. Additional future retail-payments research about consumer- and business-payment behavior is planned in addition to replication of the study to estimate the volume and value of check payments in the U.S.
- To further the understanding of retail payment instruments and policy issues, staff is working collaboratively with representatives from other central banks under the auspices of the Bank for International Settlements Committee on Payment and Settlement Systems.

Performance Measures

1. Publish summary and analysis of public comments relating to longer-term PSR policy direction and outline next steps
2. Publish request for comment on the PSR policy's incorporation of certain international central-bank standards related to payment and securities settlement systems
3. Publish a *Federal Reserve Bulletin* article and a working paper in banking and economic journals that connects the recent retail payment research with earlier work to improve the financial industry's, the public's, and the Federal Reserve System's understanding of check usage in the U.S. retail payments system

Operational Process and Resources Required to Meet Performance Goals

Operational Process, Skills, and Technology

Board staff oversees the policies and operations of the Federal Reserve Banks as providers of financial services to depository institutions, the Treasury, and other government agencies. The staff conducts analyses regarding the structure, efficiency, and integrity of U.S. dollar payment and settlement systems and the effects of the Board's policies on these systems. The staff undertakes original research into issues of interest to the Federal Reserve in the area of payment and settlement systems, including the interrelationships among systems, long-run technological trends and their economic and risk implications, systemic risk, and interbank and correspondent banking relationships. In addition, the staff conducts studies relating to the cost and scale efficiency of the Reserve Banks in the provision of financial services, as well as the pricing of Federal Reserve services. Staff depends on state-of-the-art office automation and sophisticated analytical tools and automation support to carry out its work.

Required Human, Capital, and Information Resources

The oversight, research, and policy development related to this function are carried out primarily 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 analytical staff with graduate degrees in public policy, business, finance, economics, or computer science, many of whom have experience at a Reserve Bank or within the private sector.

Board resources for this function are summarized in the following table.

Federal Reserve Board Expenses and Budget
Payment Systems and Financial Services Function
Millions of dollars

1998-99 Actuals	2000-01 Estimates	2002-03 Budget
\$69.6	\$70.0	\$85.8

Note: Data for the operating budget include an allocation of support and overhead costs.

Federal Reserve Board Staffing
Payment Systems and Financial Services Function

1998-99 Actuals	2000-01 Estimates	2002-03 Budget
158	120	129

Note: Data include expenses and positions allocated from support and overhead functions; staffing data reflect authorized positions as of year-end.

Validation and Verification of Measured Values

Payment system policy and oversight performance is monitored on the basis of numerous qualitative factors, including the thoroughness of staff research and the quality and timeliness of staff's analysis and related recommendations. In the payment system policy arena, performance is measured based on feedback received from representatives of the financial services industry and the public through the public-comment process and other venues and is reflected through improved understanding of payment system dynamics and risk. Performance in the oversight arena is measured based on qualitative feedback from the Reserve Banks about the extent to which staff's work improves the quality of Reserve Bank decisions and helps Reserve Bank management strengthen sound internal control systems and efficient and effective performance.

Performance Indicators and Goals
Payment System Policy and Oversight Function

Indicator	CY 1999 Actual	CY 2000 Actual	CY 2001 Actual	CY 2002 Goal	CY 2003 Goal
1. Modification of the Board's payment system risk policy <i>2002-03 Target: Publish longer-term policy direction third quarter 2002; request comment on incorporation of certain international central-bank standards first quarter 2003</i>	N/A	N/A	N/A	Share analysis and next steps third quarter	Request public comment first quarter
2. Publication of research and analysis relating to the U.S. retail payments system <i>2002-03 Target: Federal Reserve Bulletin article third quarter 2002 and separate staff study third quarter 2003</i>	N/A	N/A	N/A	Publish <i>Bulletin</i> article third quarter	Publish staff study third quarter
3. Working alone or in cooperation with other entities, identify operational or financial problems in a timely manner and resolve them in a way that minimizes disruptions to the payment system and the economy more generally <i>2002-03 Target: No target</i>	No target	No target	No target	No target	No target
4. Complete all Reserve Bank reviews, as scheduled; complete annual Reserve Bank examinations <i>2002-03 Target: Complete all reviews as scheduled</i>	100%	100%	100%	100%	100%
5. Monitor and ensure the	100%	100%	100%	100%	100%

full collateralization of Federal Reserve notes as defined by the Federal Reserve Act <i>2002-03 Target: Ensure 100% collateralization</i>					
6. Respond timely to requests for policy interpretations, deviations, and exception requests from the Reserve Banks <i>2002-03 Target: No specific performance target</i>	N/A	N/A	N/A	N/A	N/A

INTERNAL BOARD SUPPORT

Annual Goals, Objectives and Performance Measures

Goal

Foster the integrity, efficiency, and effectiveness of Board programs

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. Provide financial-management support needed for sound business decisions
4. Provide modern, safe facilities and necessary support activities conducive to efficient and effective Board operations

Performance Measures

1. Manage the Board's financial resources according to generally accepted accounting principals; contract for an outside audit of the financial statements of the Board
2002-03 Target: Clean opinion of the accuracy of the Board's annual financial statements and internal controls
2. Solicit feedback from division directors on the quality of support provided in attracting, retaining, and training staff capable of meeting the varied and highly technical requirements of the Board
2002-03 Target: Good or better rating from at least 90 percent of division directors on support areas such as financial management, compensation, recruiting, training, and employee relations
3. Revise the Board's planning and budget process to better incorporate voluntary compliance with GPRA, to achieve more streamlined operations, and to reduce administrative costs while maintaining service levels (The last objective may be achieved by revising procedures to eliminate unnecessary steps and by better automating remaining steps.)
2002-03 Targets:
 - Review options and implement a new budget-formulation software package for the 2004-05 budget process that will reduce administrative workload by January 2003

4. Enhance Boardwide physical security and capacity for disaster recovery to reduce the time for resuming normal operations

2002-03 Targets:

- Enhance capacity at remote sites and increase the amount of information and the number of systems supported at those sites
- Enhance physical security by adding security staff, using canines for greater perimeter security, and using contract support for mail handling

Operational Process and Resources Required to Meet Performance Goals

Although they are important to the successful accomplishment of the Board's mission, support and overhead activities do not represent the core operations of the Board. The Management Division, responsible for personnel and financial activities, planning, budget, equal employment opportunity, and procurement functions, bears major responsibilities for providing line operations with the tools to conduct their administrative operations effectively and efficiently. The division also provides the full spectrum of facility administration and logistical support for the Board's day-to-day operations. These services include developing strategic plans for major-capital-asset replacement and renovation; managing leased office space and property; and providing comprehensive food services, voice and video conferencing communications, and security services for the Board. The Office of the Secretary provides records management, minutes, and correspondence control services, administers the freedom of information program and provides other support to the Board. 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 provides infrastructure support that is not charged out as direct expenses to the functional areas. Infrastructure includes mainframe operations, central automation and telecommunication support, data and communications security, local area network administration, and technology reviews that benefit all Board functions.

The support staff is committed to a providing high level of service to the line divisions to assist them in fulfilling the core missions of the Board. The human resources function makes a major effort to develop compensation policies that enable the Board to attract and retain a highly qualified staff. To this end, annual surveys and studies are conducted to ensure that salary and benefits are competitive with the market.

Much of the work performed at the Board is unique and requires extensive training programs for staff to develop requisite professional, technical, and automation skills. In recent years the importance of training has grown dramatically. Automation staff must strive to stay abreast of significant changes in automation and communication technology while maintaining their current workloads. However, the professional staff has also taken advantage of the opportunities offered by technology upgrades, using automation to handle increasing workloads, thereby limiting requirements for additional staff. The staff must also keep up with the challenges to the national and international financial systems posed by the new financial products made possible by the technological advances. It is critical that the staff understand the opportunities and risks

associated with these new products. Finally, management training is necessary because many Board managers rose from technical positions. This training becomes increasingly critical as the Board's workload, technology changes, tight budgets, and more complex human relations issues make management more complex.

The automation environment needed to support the Board's mission helps attract staff who are able to use first-rate equipment and networks to access major economic databases to perform challenging assignments. The Board's automation capabilities also reduce staffing requirements, lower overall costs, and improve responsiveness in dealing with time-sensitive issues. Outside access to networks and data also allows staff to coordinate efforts and produce priority products when on travel or during nonwork hours. The mainframe communications system, which features secure-access capability, also allows staff to take advantage of off-peak hours to maximize use of the Board's investment.

A safe workplace that enhances productivity is a valuable asset of the Board. Maintaining safe and efficient facilities becomes increasingly expensive as the Eccles Building, built in 1933, and the Martin Building, completed in 1974, get older. Major infrastructure enhancements are needed to maintain a safe and productive environment.

Planning and budgeting are essential to the effective operations of the Board, particularly because of the complexity of its operations and its obligation to the public in the use and management of nonappropriated funds. Administrative and operational areas must engage in strategic and long-term planning to identify future challenges and have a trained and equipped staff in place to deal with them. In addition to internally focusing on planning, the Board, with the Reserve Banks, developed the *Strategic Framework*, published in late 1996, to coordinate the strategic planning of all entities within the System. This document was the basis for the Strategic Planning Document submitted to the Congress in response to the Government Performance and Results Act. Exemplifying the way in which planning has benefited the Board is the Century Date Change Project, begun in 1995 to coordinate Systemwide renovation of numerous large automated systems.

Federal Reserve Board Expenses and Budget

Internal Board Support

Millions of dollars

1998-99 Actuals	2000-01 Estimates	2002-03 Budget
\$159.3	\$167.8	\$193.2

Note: The costs shown above are considered support and overhead. They are provided for information only. The significant increase for the two-year period reflects the costs for enhanced security, as well as two major surveys, the Survey of Consumer Finance and the Survey of Small Business Finance. The expenses shown in this table have already been allocated back to the Board's core functions and are included in the data shown on pages 15, 23, and 30.

**Federal Reserve Board Staffing
Internal Board Support**

1998-99 Actuals	2000-01 Estimates	2002-03 Budget
636	643	660

Note: These positions are considered support and overhead positions and are not allocated back to the core functions; therefore the numbers in earlier tables do not include the positions shown above.

Validation and Verification of Measured Values

Performance is measured using data from various Federal Reserve data systems. The financial management system, a relational database maintained on a distributed network, is tightly linked to the budget system. This facilitates performance reporting and management control. The personnel management system, also a relational database maintained on a distributed network, is linked to the financial system through the payroll interface and the chart of accounts and to the budget system through the position, cost, and control reports. Costs for centrally provided information resources are controlled by the IT Services System, which ensures that information resources, a significant portion of the Board's budget, are charged to the requesting division. This ensures accountability by providing managers with a tool to decide whether it is more efficient to directly budget the resources needed to perform the work or to pay the Division of Information Technology.

The Board's financial system, which follows generally accepted accounting principals, is audited by an independent outside auditor to ensure that financial statements provide a fair assessment of our financial situation. As part of that audit, managed by the Board's 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. For example, in the last three years, a nationally renowned automation consulting firm has reviewed the Board's information resources management functions and found our costs to be 30 percent below industry standards.

Performance Indicators and Goals Internal Board Support

Indicator	CY 1999 Actual	CY 2000 Actual	CY 2001 Actual	CY 2002 Goal	CY 2003 Goal
1. Unqualified opinion on outside audit of the financial statements of the Board	Unqualified opinion	Unqualified opinion	Unqualified opinion	Unqualified opinion	Unqualified opinion
2. Biennially, solicit from division directors opinions on the quality of support provided in attracting, retaining, and training quality staff able to meet the varied and highly technical requirements of the Board	N/A	N/A	N/A	N/A	Good or higher rating from 90 % of directors
3. Revise the Board's planning and budget process to better incorporate voluntary compliance with GPRA, more streamlined operations, and reduced administrative costs		Automate budget system		Review and update the automated budget system	
4. Develop and implement a plan for restoration of the Board's infrastructure to ensure continued safe and economical support of the Board's office, communication, and support needs. (It is not anticipated that the work will be completed by the end of the planning period.)	Eccles Building Infrastructure Program	Eccles Building Infrastructure Program Work on legislation for new building	Eccles Building Infrastructure Program Legislation for new building approved Acquire new building	Complete new cable design and begin installation	Continue multiphased construction effort Install fiber-optic cable

SUMMARY OF GOALS, OBJECTIVES, AND RESOURCES

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 in 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 in accordance with the Full Employment and Balanced Growth Act of 1978 (frequently called the Humphrey-Hawkins Act). 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: Resources approved for this function are shown below. A more detailed discussion is included in the body of this plan, and a thorough discussion can be found in the *Annual Report: Budget Review*, provided to the Congress earlier this year.

Board: For the 2002-03 biennium, approximately \$182.5 million in direct costs for 456 positions and allocated costs for support, facilities, and overhead.

Banking Supervision and Regulation Function

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

Objectives

Performance Measures

- | | |
|---|---|
| <p>1. Provide comprehensive and effective supervision of U.S. banks, bank and financial holding companies, foreign banking organizations with U.S. operations, and related entities</p> <p>2. Promote overall financial stability, manage and contain systemic risk, and ensure that emerging financial crises are identified early and successfully resolved</p> <p>3. Improve efficiency and effectiveness and reduce burden on supervised institutions</p> <p>4. Promote equal access to banking services</p> <p>5. Administer and ensure compliance with consumer protection statutes relating to consumer financial transactions</p> | <p>1. <i>2002-2003 Target:</i> Net losses to the Bank Insurance Fund (BIF) from state member banks consistent with economic conditions but, at a minimum, less than the amount charged to the FDIC insurance fund (or the amount that would have been charged for premiums if the cap had not been reached on the FDIC fund)</p> <p>2. Extent to which the Federal Reserve, working alone or in cooperation with other authorities, is successful in identifying supervisory and/or financial problems in a timely manner and resolving them in a way that minimizes disruptions to the financial and payment systems and the economy more generally
<i>2002-2003 Target:</i> No target</p> <p>3. <i>2002-2003 Target:</i> All financial institution examinations completed as required by statute and current risk portfolios actively reviewed and updated</p> <p>4. <i>2002-2003 Target:</i> Consumer affairs examinations conducted to ensure compliance with consumer protection laws and regulations</p> <p>5. <i>2002-2003 Target:</i> Guidance needed to ensure compliance with consumer protection laws issued on a timely basis to reflect industry changes and legislation</p> |
|---|---|

Resources: Resources approved for this function are shown below. A more detailed discussion is included in the body of this plan, and a thorough discussion can be found in the *Annual Report: Budget Review*, provided to the Congress earlier this year.

Board: For the supervision and regulation function, the Board will spend approximately \$186.7 million in the 2002-03 biennium. These are direct costs and allocated for 439 positions, support facilities, and overhead.

Payment Systems and Financial Services Function

Goal: *Effectively oversee Reserve Bank operations and foster the integrity, efficiency, and accessibility of U.S. payment and settlement systems*

Objectives

Performance Measures

- | | |
|--|---|
| 1. Develop sound, effective policies and regulations that foster payment system integrity, efficiency, and accessibility | 1 a. Modification of the Board's payment system risk policy
<i>2002-03 Target:</i> Publish longer-term policy direction third quarter 2002; request comment on incorporation of certain international central-bank standards first quarter 2003 |
| | 1 b. Working alone or in cooperation with other entities, identify operational or financial problems in a timely manner and resolve them in a way that minimizes disruptions to the payment system and the economy more generally
<i>2002-03 Target:</i> No target |
| 2. Produce high-quality assessments of Federal Reserve Bank operations, projects and initiatives that help Federal Reserve management foster and strengthen sound internal control systems and efficient and effective performance | 2 a. Complete all Reserve Bank reviews, as scheduled; complete annual Reserve Bank examinations
<i>2002-03 Target:</i> Complete all reviews as scheduled |
| | 2 b. Monitor and ensure the full collateralization of Federal Reserve notes as defined by the Federal Reserve Act
<i>2002-03 Target:</i> Ensure 100 percent collateralization |
| | 2 c. Respond timely to requests for policy interpretations, deviations, and exception requests from the Reserve Banks
<i>2002-03 Target:</i> No target |
| 3. Conduct research and analysis that contributes to policy development and increases the Board's and others' understanding of payment system dynamics and risk | 3. Publication of research and analysis relating to the U.S. retail payments system
<i>2002-03 Target:</i> <i>Federal Reserve Bulletin</i> article third quarter 2002 and separate staff study third quarter 2003 |

Resources: Resources approved for this function are summarized below. A more detailed discussion is included in the body of this plan, and a thorough discussion can be found in the *Annual Report: Budget Review*, provided to Congress earlier this year.

Board: For the 2002-03 biennium, approximately \$85.8 million in direct costs for 129 positions and allocated costs for support, facilities, and overhead.

Internal Board Support

Goal: *Foster the integrity, efficiency, and effectiveness of Board programs*

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. Provide financial-management support needed for sound business decisions

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

Performance Measures

1. Contract for an outside audit of the financial statements of the Board
2002/03 Target: Clean opinion of the accuracy of the Board's annual financial statements and internal controls

2. Solicit feedback from division directors on the quality of support provided in attracting, retaining, and training staff capable of meeting the varied and highly technical requirements of the Board
2002/03 Target: Good or better rating from at least 90 percent of division directors on support areas such as financial management, compensation, recruiting, training, and employee relations

3. Revise the Board's planning and budget process to better incorporate voluntary compliance with GPRA, to achieve more streamlined operations, and to reduce administrative costs while maintaining service levels (The last objective may be achieved by revising procedures to eliminate unnecessary steps and by better automating remaining steps.)

2002/03 Targets:

- Review options and implement a new budget-formulation software package for the 2004-05 budget process that will reduce administrative workload by January 2003

4. Enhance Boardwide physical security and capacity for disaster recovery to reduce the time for resuming normal operations

2002/03 Targets:

- Enhance capacity at remote sites and increase the amount of information and the number of systems supported at those sites
- Enhance physical security by adding security staff, using canines for greater perimeter security, using contract support for mail handling

Resources: For the 2002-03 biennium, approximately \$193.2 million in direct costs for 660 positions, facilities, and other costs. The expenses have already been allocated back to the Board's core functions and are included in the costs shown for those functions. The positions have not been included in the position tables for the other functions.