



Annual Performance Report 2012

May 2013

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM



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Preface

On June 26, 2012, the Executive Committee of the Board approved the *2012–15 Strategic Framework*, which identifies and frames the most critical organizational challenges faced by the Board, develops potential options for addressing them, and clarifies the tradeoffs. The *Annual Performance Report, 2012* summarizes the Board’s accomplishments in 2012 toward achieving the objectives identified in the *Strategic Framework*.

Both reports are issued in the spirit of the Government Performance and Results Act (GPRA) of 1993, which requires that federal agencies, in consultation with Congress and outside stakeholders, prepare a strategic plan covering a multiyear period and submit an annual performance plan and performance report. The GPRA Modernization Act of 2010 refines those requirements to include quarterly performance reporting. Although the Board is not covered by

GPRA, the Board follows the spirit of the act and prepares and publicizes these regular plans and performance reports.

Several other documents provide further information about the planning, budgeting, operations, and performance of the Federal Reserve System. As required by the Federal Reserve Act, the Board annually submits to the Congress a report describing 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*, which provides a detailed explanation of the plans and resources discussed in the approved budgets of the Board and Reserve Banks.

All these reports are available on the Board’s website, at www.federalreserve.gov/publications.

Introduction

While the Federal Reserve's broad mission and functions remain essentially unchanged, the recent financial crisis fundamentally changed how the Federal Reserve Board (the Board) operates within its functional disciplines. Changes in the Board's approach to monetary policy, supervision, and financial stability are expected to prove particularly critical, and will drive an evolution in Board capabilities begun after the crisis and in response to the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act). This operational evolution will prove central to the Board in the following key areas over the next four years:

- elevating financial stability
- enhancing supervision
- developing and refining new tools for monetary policy
- integrating the way monetary policy and financial stability decisions are made

Since 2010, the Board has undertaken a series of actions to implement provisions of the Dodd-Frank Act and to meet its broader financial stability responsibilities in a timely manner. It has also made important organizational changes to support a macroprudential approach to supervision and regulation, including instituting processes for identifying and responding to sources of systemic risk. For example, the Board created the Large Institution Supervision Coordinating Committee (LISCC) and the Financial Market Utilities Supervision Committee (FMU-SC) and established the Office of Financial Stability and Policy Research (OFS). To fully meet these challenges, the Board must make the appropriate investments in people, data, and facilities, as well as efficient and effective management and administrative processes. These additional resources will allow the Board to design and build an infrastructure for enhanced monitoring of markets and institutions, as well as develop tools and standards for strengthening the financial sector.

With the expiration of the *2008–11 Strategic Plan*,¹ the Board launched an enhanced strategic review and planning process involving Board divisions and offices. The Executive Committee of the Board (ECB)—a body that includes all division and office directors, the chief operating officer, and the Administrative Governor—held working sessions over the course of several months. These sessions, along with 40 cross-organizational interviews, focused on the actions necessary to meet Dodd-Frank Act mandates, address the challenge of ensuring financial stability, close cross-disciplinary knowledge gaps, develop appropriate policy, and continue addressing the recovery of a fragile global economy. The ECB identified and framed the most critical organizational challenges, developed potential options, and clarified trade-offs, resulting in the strategic framework approved by the Board on June 26, 2012.²

The following six themes identified in the strategic framework will guide investment and action over the 2012–15 planning period:

- Continue building a robust inter-disciplinary infrastructure for regulation, supervision, and monitoring risks to financial stability.
- Redesign data governance and management processes to enhance the Board's data environment.
- Establish a modern, safe work environment that emphasizes the need to maintain data quality and integrity and the importance of enhanced collaboration within the organization and with the public.
- Create a work environment built on market-oriented compensation and support for professional and personal achievement that allows the

¹ Board of Governors of the Federal Reserve System (2008), *Government Performance and Results Act Strategic Planning Document 2008-2011*, www.federalreserve.gov/boarddocs/rptcongress/gpra/gpra2008-2011.pdf.

² Board of Governors of the Federal Reserve System (2013), *Strategic Framework 2012–15*, www.federalreserve.gov/publications/gpra/files/2012-2015-strategic-framework.pdf.

Board to attract and retain top talent, while reinforcing collegiality.

- Strengthen management processes to enable effective implementation of strategic themes, increase operating efficiencies, and reduce administrative burden.
- Establish a cost-reduction approach and a budgetary-growth target that maintains an effective and efficient use of financial resources.

The Board is using this framework to align resources and implement changes through 2015. Throughout the implementation, senior leadership will reassess priorities to take into account changing circumstances, environmental factors, and trends. The Board will also review and offset funding for these

initiatives, to the extent possible, through cost-saving strategies and efficiency gains. Strategic investments in the six framework themes, above those required for day-to-day operations, are necessary for the Board to meet supervisory expectations of the Dodd-Frank Act while continuing to enhance its ability to promote stable prices, full employment, and financial stability. Strategic investments will also accompany an agenda of management process changes that will keep major investments on track, identify additional opportunities for cost savings, and improve overall operations.

This report summarizes the Board's accomplishments in 2012 that contributed to achieving the strategic themes and objectives identified in the *2012–15 Strategic Framework*.

Strategic Theme 1: Supervision, Regulation, and Financial Stability

Continue building a robust inter-disciplinary infrastructure for regulation, supervision, and monitoring risks to financial stability.

Objectives

- 1.1** Strengthen the stability of the financial sector through the development of policies, tools, and standards.
- 1.2** Monitor financial markets and industry practices and structures.
- 1.3** Monitor and supervise individual institutions and infrastructures.
- 1.4** Ensure that sufficient crisis-management tools are in place.
- 1.5** Analyze for the Board and Federal Open Market Committee (FOMC) the role that financial stability policy should play in the setting of monetary policy.
- 1.6** Pursue research on stress tests, macroprudential regulation and tools, and other financial stability topics.

Since the onset of the financial crisis and passage of the Dodd-Frank Act, the Board has developed a new policy infrastructure to execute its expanded mandate on regulation, supervision, and financial stability. The intent of this infrastructure is to focus on broader institutional stability and the Board's ability to identify and address systemic risks to the financial system, while ensuring sufficient crisis-management tools are in place.

Accomplishments

- Support of Financial Stability Oversight Council (FSOC) initiatives
 - Made substantial contributions supporting the designation of eight Financial Market Utilities (FMUs) as systemically important, including the establishment of rules and procedures and conducting relevant analyses.
- Supported the work of the FSOC Systemic Risk Committee and Data Committee.
- Made substantial contributions to the FSOC 2012 Annual Report.
- Development of Dodd-Frank Act regulatory framework
 - Issued final rules on stress-testing requirements for certain bank holding companies, state member banks, and savings and loan holding companies for which the Federal Reserve is the primary federal financial regulator.
 - Issued final rule (Regulation HH) on risk-management standards for Title VIII designated FMUs for which the Federal Reserve is the supervisory agency.
 - Issued proposed rules for public comment on enhanced prudential standards and early remediation requirements under sections 165 and 166 of the Dodd-Frank Act.
- Microprudential policies, tools, standards, and supervision
 - Participated in supervisory oversight of systemically important institutions through LISCC.
 - Conducted supervisory oversight of systemically important FMUs, including by establishing the FMU Supervision Committee (FMU-SC) as well as a FMU supervisory program; commenced examinations of FMUs subject to Board supervision.
 - Worked closely with the U.S. Securities and Exchange Commission (SEC) and the U.S. Commodity Futures Trading Commission (CFTC) to establish policies and procedures for Federal Reserve participation on SEC and CFTC examinations of designated FMUs and for consulta-

tion on FMU changes that may have a material effect on risks.

- Macroprudential regulation and tools
 - Performed annual capital adequacy stress tests on multiple institutions.
- Crisis-management tools
 - Enumerated and refined the Federal Reserve’s options for responding to strains in financial markets.
 - Conducted regular operations reviews of discount window operations at the Reserve Banks.
- Systemic risk and financial stability analysis
 - Created a new Short-Term Funding Markets section to conduct research and provide policy-relevant analysis of short-term funding markets.
 - Developed quantitative surveillance methods for identifying and evaluating changes in the use of leverage in the financial system and performed a variety of analysis on banking issues.
 - Participated in internal, domestic, and international working groups on a variety of topics.
 - Prepared memorandums and briefs for the FOMC on issues related to monetary policy strategy, frameworks, and developments abroad, particularly in the euro area.
 - Conducted research in support of theme 1.

—Filled eight of the approved 26 strategic positions: six internal and two external.

Planned Activities

- Develop and implement macroprudential monitoring tools, approaches, and standards that enhance financial stability through internal, domestic, and international working groups.
- Monitor and analyze conditions in the banking system; contribute to quantitative surveillance efforts through the LISCC.
- Continue implementation of the Dodd-Frank Act through the development of rules, policies, procedures, and tools; coordinate effectively with other U.S. financial regulators and international authorities.
- Review and clarify existing policies, procedures, and programs as appropriate.
- Continue working with the Reserve Banks on ongoing discount window issues and related liquidity policies.
- Research key issues related to the formulation and implementation of monetary and financial stability policy and develop appropriate tools.
- Develop and enhance existing analytical tools and data; pursue funding for the initial phase of a research data project on a variety of topics.

Strategic Theme 2: Data Governance

Redesign data governance and management processes to enhance the Board's data environment.

Objectives

2.1 Improve data governance by establishing a new office of the Chief Data Officer (CDO) and ensuring that there are clear roles and responsibilities among the CDO, the Board Data Council (BDC), and data users.

2.2 Ensure that all enterprise data are handled, processed, stored, and disseminated by professional data management groups.

2.3 Strengthen the Board's data environment by establishing an infrastructure to share data and improve opportunities for data integration that supports the Board's research and analytical capabilities.

As the Board's mandate has expanded in the wake of the financial crisis and the passage of the Dodd-Frank Act, so has the need for comprehensive data and data management to meet the broad analytical issues staff members face. The Board requires a data governance and management structure that supports

the growing quantity and availability of data, while ensuring the operational flexibility required by data users.

Accomplishments

- Established the Office of the Chief Data Officer, which reports to the Board's Chief Operating Officer (COO).
- Formed an internal panel in the fall 2012 to search for a CDO.

Planned Activities

- Plan is to select a CDO during the first quarter of 2013.
- Enhance data-governance policies.
- Commence discussions to facilitate coordination across data communities at the Board and between the Board, the Reserve Banks, and other regulatory agencies.
- Enhance the role of the BDC to support the development and implementation of data-management policies.

Strategic Theme 3: Facilities Infrastructure

Establish a modern, safe work environment that emphasizes the need to maintain data quality and integrity and the importance of enhanced collaboration within the organization and with the public.

Objectives: Data Center Relocation

3.1 Create the capacity for increased data demand.

3.2 Address critical Data Center subsystem requirements.

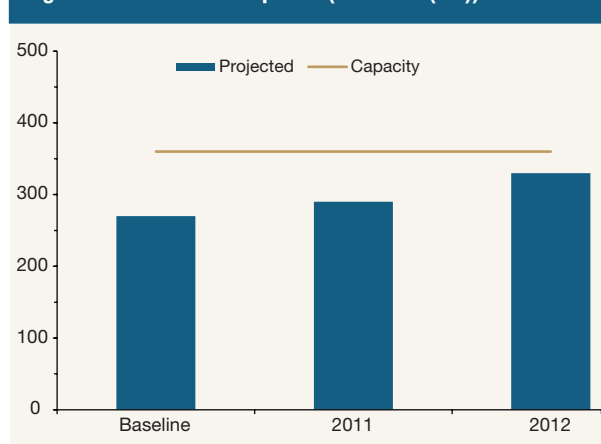
The relocation of the Data Center is a multi-year project due to conclude in 2015, with planning, design, and construction taking place in 2013 and 2014. This project is a key enabler of the other themes and requires significant investment to provide the infrastructure needed to meet the increased quantity of data demanded after the crisis, while also addressing space, cooling, and power requirements. The Board estimated \$201.5 million for the relocation effort and ongoing operating expenses over a ten-year period.

The Board established a task force to identify options to address space, cooling, and power concerns identified in the existing Data Center. The task force engaged an external consultant with expertise in data center operations. Relocating the Data Center from the Board's Martin Building to the Baltimore Branch of the Federal Reserve Bank of Richmond provided the most cost-effective option, while addressing the space, cooling, and power needs based on the expected demand. [Figure 1](#) illustrates how the growth in power usage is approaching the existing Data Center's capacity.

Accomplishments

- Began negotiating a Memorandum of Understanding (MOU) with the Federal Reserve Bank of Richmond to lease space within the Baltimore Branch.

Figure 1. Current critical power (kilowatts (kW))



- Hired a dedicated project manager in the Division of Information Technology.
- Utilizing industry standards for data center resource optimization, identified the following key measures for objective 3.1:
 - 80 percent of the servers virtualized
 - 9 kilowatts of rack space density
 - 50 percent of storage utilized
 - 19:1 virtualization ratio
- Utilized vendor baseline measures and identified corresponding targets in support of objective 3.2:
 - 35 percent increase in floor space
 - 50 percent more power (kW) than current
 - 10 percent more cooling capacity (BTU)

Planned Activities

- Establish Executive Oversight Group, write project charter, and draft a project plan.
- Complete MOU for leased space and draft service level agreement.

- Select an architecture/engineering firm and award contract.
- Complete design and construction documents.
- Issue contract award for construction general contractor and initiate construction.
- Develop communications plan and publish a project risk assessment.

Objectives: Martin Building Renovation

3.3 Create a safe and secure work environment.

3.4 Upgrade physical infrastructure.

3.5 Reduce utility consumption and expenses.

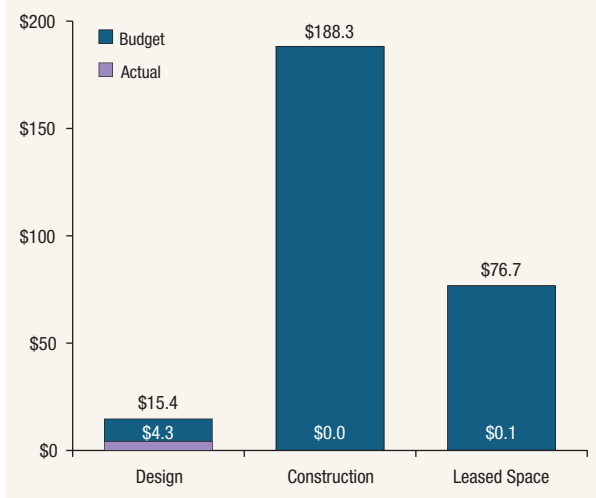
The renovation of the Board's Martin Building (Martin) is a multi-year project due to conclude in 2017, with design work continuing through 2013, relocation of staff occurring in 2014, and construction beginning in 2015. This project is a key enabler of the other themes and requires significant investment to address security and energy efficiency concerns, provide much-needed meeting and conference facilities, and address physical plant maintenance requirements. The Board budgeted \$280.4 million for the renovation and relocation of staff from Martin to leased space.

Since 1974, the Board has experienced major staff growth as well as expansion of information technology and communication requirements. These factors placed a tremendous strain on an aged facility for which many infrastructure components are no longer manufactured (walls, lights, electrical, elevator, and mechanical components) or are difficult to maintain, thus requiring the Board to overhaul these systems.

Accomplishments

- Obtained concept design approval from the U.S. Commission on Fine Arts.
- Completed environmental study under the National Environmental Policy Act (NEPA).
- Received project approval from National Capital Planning Commission (NCPC).
- Completed a no-impact study on the historic mall – State Historic Preservation Office (SHPO).

Figure 2. Martin renovation estimated spending (millions of dollars; \$280.4 million estimated budget)



- Received funding approval for swing space, Data Center, and visitors and conference centers.
- Addressed critical recommendations of external security studies.
- Identified target measures of success for objective 3.3:
 - Building meets all applicable codes, standards, regulations, and requirements
 - 50 percent of staff aware of green features
- Identified target measures that support objective 3.4:
 - Final cost within budget (see Figure 2)
 - 100 percent of engineering staff trained on new systems
 - Higher percentage of employee satisfaction with facilities
- Identified benchmarks that support objective 3.5:
 - British Thermal Units (BTU) per square foot
 - Energy consumption and energy star scores

Planned Activities

- Finalize lease and begin build-out of swing space.
- Continue Martin design work with architect (2014 completion).
- Continue energy audit and commissioning process begun in 2012 to identify targets.
- Continue gathering initial data to serve as the starting point for mechanical, electrical, and plumbing maintenance operation once building systems are commissioned.

Strategic Theme 4: Maximizing the Value of Human Capital

Create a work environment built on market-oriented compensation and support for professional and personal achievement that allows the Board to attract and retain top talent, while reinforcing collegiality.

Objectives

- 4.1** Increase efficiency and effectiveness of the existing performance management process.
- 4.2** Reduce administrative burden associated with the adverse-action process while respecting employees' due process rights.
- 4.3** Enhance the talent management processes (succession planning, development programs, training, etc.).
- 4.4** Increase equitability in compensation and benefits in closer alignment with the Federal Reserve System and the market.

Over the past four years, the Board has added almost 400 positions in response to the financial crisis, as well as to implement the requirements of the Dodd-Frank Act and to provide the support and infrastructure necessary to manage the organization. The Board will continue to add staff over the next few years, as described in themes 1 and 2. Maximizing the value of the Board's human capital will depend on enhancing the Board's talent management processes.

Accomplishments

- Enhanced the performance management program (PMP) to allow more flexibility for ratings.
- Formed a Board-wide task force (TASK) to drive the PMP restructuring effort and surveyed Board

staff to obtain feedback on the existing performance management process.

- Established staff project team and engaged TASK to review the adverse action policy and associated processes.
- Began the process of developing succession plans for division directors, deputy directors, and critical officers.

Planned Activities

- Work with TASK to further improve the PMP process and pursue automated solutions to reduce the administrative burden.
- Assess PMP survey data to set a baseline for future measures.
- Finalize and release a revised adverse action policy and associated processes.
- Finalize succession plans for division directors, deputy directors, and critical officers, and begin the succession-planning process for critical managers.
- Complete a review of the Board's compensation structure and program, make recommendations, and implement approved actions.
- Review "employee life" programs to identify enhancement opportunities.
- Participate in more in-depth external salary surveys for critical business areas, including technology, economists, and attorneys.
- Partner with division directors and/or their designees to review existing incentive award programs.
- Conduct a market pay analysis for each division.

Strategic Theme 5: Management Processes

Strengthen management processes to enable effective implementation of strategic themes, increase operating efficiencies, and reduce administrative burden.

Objectives

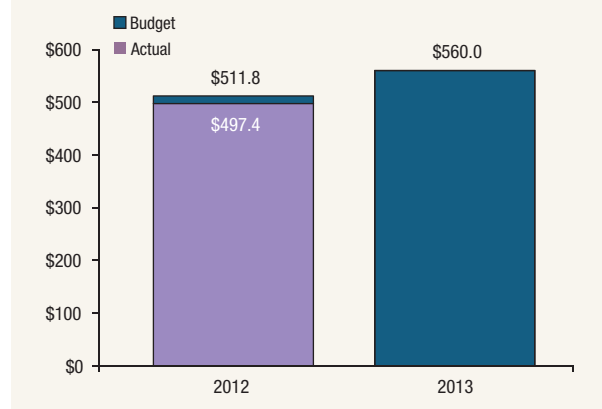
- 5.1 Focus on enterprise issues.
- 5.2 Strengthen financial planning accountability.
- 5.3 Reduce financial management administrative burden.

Success in implementing the first four strategic themes depends on redesigning management processes that improve operations, keep resources focused on the highest priorities, and reduce administrative burden. Accordingly, the Board is striving to better align the strategic framework to budgeting and financial performance management.

Accomplishments

- The Board was \$14.4 million under budget for 2012, primarily due to expenses for goods and services which were \$14.1 million lower than estimated in the operating plan. (See Figure 3.)
- Engaged stakeholders responsible for implementing key elements of the strategic framework to discuss strategic objectives and related initiatives.
- Developed the 2013 budget in accordance with the guidance in the framework.
- Developed a charter, policies, and processes to establish a Strategic Performance Office (SPO) with responsibility for monitoring and reporting on the Board's progress in achieving the strategic objectives.
- Designed and developed an automated system to track strategic projects associated with the Board's strategic objectives.

Figure 3. Board's 2012 and 2013 budgets: forecast vs. actual



Planned Activities

- Implement a more robust budget process to develop, monitor, and evaluate the annual budget.
- Complete delegation of authority policy revisions to clarify decision rights and roles across the organization.
- Establish a governance structure for evaluating significant initiatives and their impact on the overall Board budget.
- Establish quarterly collaborative meetings with key stakeholders to assess progress towards achieving strategic goals, identify risks, and monitor financial performance.
- Complete the rollout of software for tracking strategic projects.
- Implement a communications plan regarding cost initiatives.

Strategic Theme 6: Cost Reduction and Budgetary Growth

Establish a cost-reduction approach and a budgetary-growth target that maintains an effective and efficient use of financial resources.

Objectives

- 6.1** Use financial resources efficiently and effectively.
- 6.2** Achieve budgetary savings and expense growth in line with Board approved targets.

The Board recognizes the importance of continuing to identify opportunities to enhance its operational efficiency and control growth in its operational costs. Implementing these changes will help ensure that the strategic investments remain within a sustainable budgetary range and provide the appropriate level of

support so that the Board continues to meet its mandates and builds the capabilities to improve the way it fulfills its mission.

Accomplishments

- Aligned the 2013 budget with strategic objectives.
- Identified areas for evaluation and instituted a cost-evaluation process.

Planned Activities

- Continue evaluating opportunities for cost containment and implement approved changes.
- Review and mitigate administrative redundancies.

