



Strategic Framework 2012–15

February 2013

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM



Strategic Framework 2012–15

February 2013

This and other Federal Reserve Board reports and publications are available online at
www.federalreserve.gov/publications/default.htm.

To order copies of Federal Reserve Board publications offered in print,
see the Board's Publication Order Form (www.federalreserve.gov/pubs/orderform.pdf)
or contact:

Publications Fulfillment
Mail Stop N-127
Board of Governors of the Federal Reserve System
Washington, DC 20551
(ph) 202-452-3245
(fax) 202-728-5886
(e-mail) Publications-BOG@frb.gov

Contents

Preface	1
Executive Summary	3
Introduction	5
Overview of the Federal Reserve System	5
Background: The Dodd-Frank Act and Its Impact on the U.S. Regulatory Framework	5
Structure of the System	6
Board of Governors	6
The Impact of the 2007–09 Financial Crisis and the Dodd-Frank Act on the Board	9
Meeting the Strategic Challenges	11
Strategic Themes	13
Strategic Theme 1: Supervision, Regulation, and Financial Stability	13
Strategic Theme 2: Data Governance	14
Strategic Theme 3: Facilities Infrastructure	15
Strategic Theme 4: Maximizing the Value of Human Capital	16
Strategic Theme 5: Management Processes	17
Strategic Theme 6: Cost Reduction and Budgetary Growth	18

Preface

In anticipation of the expiration of its 2008–12 Strategic Plan, the Federal Reserve Board launched an enhanced strategic review process that involved the leadership and senior staff in the Board’s divisions and offices.

More than 40 directed meetings were conducted at multiple levels of the organization, and 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 focused on what it would take to meet the mandates of the Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), address the challenge of financial stability more generally, attempt to close cross-disciplinary knowledge gaps, develop appropriate policy, and continue effectively addressing the recovery of a fragile global economy.

The ECB identified and framed the most critical organizational challenges, developed potential options for addressing them, and clarified the trade-offs. This strategic framework is the result.

The Board releases this strategic framework—which was approved on June 26, 2012—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.

This strategic framework is one of the reports published by the Board in the spirit of GPRA. Others include the

- *Annual Performance Plan*. This document includes specific targets for some of the Board’s performance measures identified in the strategic plan and describes the operational processes and resources needed to meet those targets. It also discusses validation of data and verification of results.
- *Annual Performance Report*. This document discusses the Board’s performance in relation to strategic themes and objectives.

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.

Executive Summary

The 2007–09 financial crisis and the resulting statutory changes called for fundamental changes in the way the Board conducts its operations.

To meet its responsibilities, the Board must make strategic investments in its people, data, and facilities, and enhance its management processes to boost productivity and make coordination more effective across the organization. At the same time, the Board must also continue to manage its resources effectively by capturing cost savings and operational efficiencies.

The Board has defined its priorities for the next four years within the scope of its strategic plan:

- continue building a robust interdisciplinary infrastructure for regulation, supervision, and 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 academic and personal achievement that attracts and retains top talent, while maintaining a highly collegial atmosphere
- 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

Achieving these strategic goals will improve the way the Board functions and will require more active collaboration across the divisions at the Board and the System. Such an effort will, furthermore, serve to ensure employees are able to focus on the policy work and research required to anticipate and address emerging risks to U.S. financial stability; it will also support the Federal Reserve’s congressionally mandated goals of achieving price stability and maximum sustainable employment in the U.S. economy.

The Board will use this framework to align resources and to implement changes through 2015. Throughout the implementation, priorities will be reassessed to take into account changing circumstances, environmental factors, and trends. Likewise, funding for these initiatives will be reviewed and offset, to the extent possible, by savings initiatives and efficiency gains.

As the Board implements this framework and makes the necessary investments in people, data, and facilities, the Board recognizes the importance of its long-standing efforts to promote equal employment opportunity and diversity and to foster diversity in procurement.

Introduction

Overview of the Federal Reserve System

The Federal Reserve System is the central bank of the United States, established by the Congress to provide the nation with a safer, more flexible, and more stable monetary and financial system. Over the years, Congress has expanded the System's role in banking and the economy, and today the Federal Reserve System has numerous, varied responsibilities, including

- conducting the nation's monetary policy by influencing the money and credit conditions in the economy in pursuit of maximum employment, stable prices, and moderate long-term interest rates;
- helping maintain the stability of the financial system and containing systemic risks that may arise in financial institutions and markets;
- supervising and regulating a variety of financial institutions and activities to ensure the safety and soundness of the nation's banking and financial systems and to protect certain rights of consumers;
- providing certain financial services to depository institutions, the U.S. government, and foreign official institutions; and
- promoting consumer protection, fair lending, and community development.

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

In a 1977 amendment to the Federal Reserve Act, the Congress defined the primary objectives of national economic policy by directing the Board and the Fed-

eral Open Market Committee to "maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."

As time has passed, further legislation has clarified and supplemented the System's original purposes. Key laws affecting the Federal Reserve include the Bank Holding Company Act of 1956 and its amendments; the Financial Institutions Reform, Recovery, and Enforcement Act of 1989; the Federal Deposit Insurance Corporation Improvement Act of 1991; the Gramm-Leach-Bliley Act of 1999; the Check Clearing for the 21st Century Act of 2004; and the Dodd-Frank Act.

Background: The Dodd-Frank Act and Its Impact on the U.S. Regulatory Framework

The passage of the Dodd-Frank Act was a significant event for the Federal Reserve and other U.S. regulators of financial institutions and entities.

The act was designed to address critical gaps and weaknesses in the U.S. regulatory framework that were revealed during the course of the financial crisis. For example, the act created an interagency council to monitor and coordinate responses to emerging threats to the financial system, required that large bank holding companies and systemically important financial firms be subject to enhanced prudential standards to reduce the risks they may present to the financial system, and provided for the consolidated supervision of all systemically important financial institutions.

It also provided a mechanism for resolving financial firms whose failure could pose a threat to U.S. financial stability, and provided for the strengthened

supervision of systemically important financial market utilities that provide payment, settlement, and clearing services. Moreover, the act enhanced the transparency of the Federal Reserve while preserving its independence, a feature crucial to its ability to implement monetary policy effectively.

In January 2011, pursuant to section 342 of the Dodd-Frank Act, the Board established an Office of Diversity and Inclusion (ODI). The Board has welcomed the new requirements under section 342 of Dodd-Frank as a complement to, and strengthening of, its existing efforts. ODI is working with Human Resources and Procurement staff at the Board to (1) ensure a commitment to recruit and retain a staff that is diverse and inclusive and (2) develop standards and procedures to ensure, to the extent possible, the fair inclusion and utilization of minority- and women-owned businesses in the Board's procurements.

Structure of the System

The Federal Reserve System is considered to be an independent central bank because its decisions are not ratified by other branches of government. The System is, however, subject to oversight by the Congress, and must work within the framework of the overall objectives of economic and financial policy established by its enabling statutes.

Congress designed the structure of the Federal Reserve System to ensure it maintained a broad perspective on the economy and on economic activity in all parts of the nation. It is a federated system, composed of a central, governmental agency—the Board of Governors—in Washington, D.C., and 12 regional Federal Reserve Banks.

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

Board of Governors

The Board of Governors of the Federal Reserve System (the Board) is a federal government agency. The Board is composed of seven members, each of whom is appointed by the President and confirmed by the Senate. The full term of a Board member is 14 years, and the appointments are staggered so that one term expires on January 31 of each even-numbered year.

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

Mission and Values of the Board of Governors

The Board's longstanding mission is to foster the stability, integrity, and efficiency of the nation's monetary, financial, and payment systems in pursuit of optimal macroeconomic performance. This mission is rooted in the Federal Reserve System's statutory mandates, and on a set of core institutional values.

- **Public interest.** In its actions and policies, the Board seeks to promote the public interest; it is accountable and responsive to the general public, the U.S. government, and the financial community.
- **Integrity.** The Board adheres to the highest standards of integrity in its dealings with the public, the financial community, and its employees.
- **Excellence.** The conduct of monetary policy, responsibility for bank supervision, and maintenance of the payment system demand high-quality analysis, high performance standards, and a secure, robust infrastructure. The pursuit of excellence drives the Board's policies concerning recruitment, selection, and retention of Board employees.
- **Efficiency and effectiveness.** In carrying out its functions, the Board is continually aware that its operations are supported primarily by public funds, and it recognizes its obligation to manage resources efficiently and effectively.

- **Independence of views.** The Board values the diversity of its employees, input from a variety of sources, and the independent professional judgment that is fostered by the System's regional structure. It relies on strong teamwork and consensus-building to mold independent viewpoints into coherent, effective policies.

Board Division Responsibilities

The Board is organized along divisional lines, with each division having specific functions.

Office of Board Members

The Office of Board Members—including the seven Governors—provides overview, direction, and supervision for System goals, objectives, and projects involving monetary policy, supervision and regulation policy, and managerial policy.

Within the office, the public affairs unit provides the public with information concerning Federal Reserve actions and works to increase the public's understanding of the System's functions, responsibilities, and policy goals. The congressional liaison program facilitates effective communication between the Board and the Congress and other government agencies.

Office of the Secretary

The Office of the Secretary provides corporate secretary and governmental services to Board members, Board staff, and the public.

The division maintains electronic information systems (Board records management and distribution/voting applications), oversees Board meetings and agendas, prepares minutes of Board meetings and notation voting summaries, and administers the Freedom of Information Act program. Specialty services include managing the Reserve Bank directors program (providing guidance on selection of directors and applicable regulations and conducting orientation programs and conferences for Reserve Bank directors and chairs), securing official passports for Board and System staff, planning official conferences and events, and providing temporary executive assistants for Board members.

The division also serves as liaison to the Federal Advisory Council and the Community Depository

Institutions Advisory Council and acts as the Board's Ombudsman.

Research and Statistics

The Division of Research and Statistics (R&S) focuses on the domestic economy, and provides the Board, FOMC, and other System officials with analysis and research pertaining to current and prospective economic conditions, and supplies data and analyses for public use. The division also provides analysis and research pertaining to supervision and regulation, payment system policy and oversight, and consumer affairs.

International Finance

The Division of International Finance (IF) focuses on the global economy and provides the Board, the FOMC, and other System officials with assessments of current and prospective international, economic, and financial developments. The division evaluates and forecasts major economic and financial developments abroad, developments in foreign exchange and other international asset markets, and U.S. international transactions.

The division maintains close contacts with international organizations and foreign official institutions and supports the Board's participation in international meetings. The division also provides support for the Board's financial supervision and regulation activities and supplies data on international financial positions for public use.

Monetary Affairs

The Division of Monetary Affairs (MA) supports the Board and the FOMC in the formulation of U.S. monetary policy and on matters pertaining to financial stability.

The division serves as secretariat of the FOMC and contributes to the communication of policy through vehicles such as the FOMC statement and the minutes of FOMC meetings. The division also oversees the implementation of monetary policy through open market operations, discount rates and the operations and administration of the discount window, and reserve requirements.

It coordinates with the Open Market Desk at the Federal Reserve Bank of New York in the conduct of open market operations. The division produces data

series on related financial elements of the economy and analyses developments in money, reserves, bank credit and profits, and interest rates, and forecasts movements in money, reserves, and bank credit. Staff in the division, working with colleagues in other divisions, conducts analysis of topics related to financial stability, assists in the implementation of the Dodd-Frank Act, and provides support for the Board's financial supervision and regulation activities (including "stress-testing" of financial institutions and helping in the development of regulations related to liquidity issues). The division also oversees the Term Deposit Facility and the Statistics and Reserves business function for the System.

Office of Financial Stability Policy and Research

The Office of Financial Stability Policy and Research (OFS) coordinates staff support to the Board and FOMC on financial stability policy. Together with staff in other divisions and the Reserve Banks, it analyzes risks to the financial system by monitoring key financial institutions, markets, and infrastructures, and conducts research on the causes and consequences of financial disruptions.

The office also develops and evaluates alternative macroprudential supervisory and regulatory policy responses, and presents them for consideration to policymakers in order to mitigate emerging and structural vulnerabilities. In addition, the office coordinates the Federal Reserve's involvement in inter-agency and international financial stability policy-making groups, including the Financial Stability Oversight Council (FSOC) and the Financial Stability Board (FSB).

Banking Supervision and Regulation

The Division of Banking Supervision and Regulation (BS&R) is responsible for informing the Board on current and anticipated developments in bank supervision and banking structure. The division also coordinates and directs the System's bank supervision and examination activities; in this role, the division develops and ensures implementation of policy for these activities, and it develops requirements for data collection, supervisory automated systems and related technology, and training. The division has a leading role in the implementation of the Dodd-Frank Act provisions across the Federal Reserve System. In addition to these responsibilities, the division also processes applications for prior consent to

form or expand bank holding companies or make other changes in banking structure.

Consumer and Community Affairs

The Division of Consumer and Community Affairs (C&CA) informs the Board on the concerns of consumers and communities and coordinates the System's consumer compliance supervision and examination activities, including policy development and examiner training. The division also conducts consumer focused research and policy analysis, implements requirements for consumer protection statutes, and promotes community development in traditionally underserved neighborhoods.

Legal Division

The Legal Division provides legal advice and services to the Board to meet its responsibilities in all aspects of its duties, including the Board's bank supervisory and regulatory responsibilities. The division also provides legal support for the Board's role in developing and implementing monetary policy, employing its financial stability tools, and all aspects of the Board's operations, including the Board's procurement and personnel functions, ethics, and information disclosure.

The Legal Division represents the Board in litigation in federal and state court, and pursues enforcement actions against individuals and companies over which the Board has supervisory authority. The Legal Division also drafts regulations and proposes statutory changes to advance the Board's mission.

Reserve Bank Operations and Payment Systems

The Division of Reserve Bank Operations and Payment Systems (RBOPS) oversees the Federal Reserve Banks' provision of financial services to depository institutions, fiscal agency services to the Treasury and other entities, and emergency liquidity facilities.

The division also has oversight responsibility for Reserve Bank support functions, such as information technology, human resources, financial and cost accounting, operating and capital budgets, facilities management, and internal audit. In addition, it develops and recommends to the Board policies and regulations governing payment, clearing, and settlement systems; works collaboratively with other central banks and market regulators to set standards to

promote the safety and efficiency of payment, clearing, and settlement systems globally; and conducts research regarding payment and settlement matters.

Office of the Chief Operating Officer

The Office of the Chief Operating Officer works with all division directors to establish, implement, and measure performance against the Board's strategic direction, and provides analysis and counsel to the administrative governor regarding the overall operation of the Board's administrative functions, technology services, and short- and long-term strategic planning goals.

The chief operating officer provides oversight to the Division of Information Technology, the Management Division, the Division of Financial Management, the Office of Diversity and Inclusion, and the chief data officer function.

Division of Financial Management

The Division of Financial Management (DFM) is responsible for providing effective financial and risk management activities across the organization, including (1) overseeing implementation of the recommendations resulting from the ongoing strategic planning effort and (2) ensuring that the investment requirements outlined in the strategic plan are aligned with the Board's budget process.

Information Technology

The Division of Information Technology (IT) provides infrastructure support to all Board divisions, including mainframe operations and distributed processing, applications development, central automation and telecommunication support, data and communications security, local area network administration, and technology reviews of all Board functions.

Management Division

The Management Division (MGT) provides the full spectrum of personnel management, facility, and logistical support for the Board's day-to-day operations, including managing office space and property and providing food services and physical security. The division also provides continuity-of-operations services and business-resumption services.

Office of the Inspector General

The Office of the Inspector General (OIG) conducts independent and objective audits, inspections, evaluations, investigations, and other reviews related to the program and operations of the Board and the Consumer Financial Protection Bureau. Through this work, OIG promotes integrity, economy, efficiency, and effectiveness; helps prevent and detect fraud, waste, and abuse; and strengthens the agencies' accountability to Congress and the public.

The Impact of the 2007–09 Financial Crisis and the Dodd-Frank Act on the Board

While the Federal Reserve's broad mission and functions remain essentially unchanged, the 2007–09 financial crisis fundamentally changed how 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 Act. This operational evolution will prove central to the Board's effort to continue to build its capabilities in key areas over the next four years covered under this strategic plan:

- **Elevating financial stability.** First and foremost, the review of the financial crisis of 2007–09 elevated the importance of designing the operational capabilities in the Federal Reserve System to help identify threats to the stability of the U.S. financial system. Today, financial stability issues are prominent in discussions of monetary policy, and the Board is providing a robust policy infrastructure to support financial stability. When completed, this new infrastructure will include new capital and liquidity requirements to strengthen the financial sector, a more robust monitoring system for markets and institutions, an ambitious research agenda to establish context for policymakers, and more effective tools for addressing future financial crises.
- **Enhancing supervision.** The crisis highlighted gaps in the regulatory structure imposed by statute to supervise financial institutions. In particular, it

became clear that various entities exerting potential impact on the nation's monetary, financial, and payment systems were inadequately supervised at the federal level. In addition, the crisis revealed that existing supervisory policies did not fully address issues raised by complex and interrelated financial structure.

While broader government-wide improvements and changes are needed to address these issues, the Board, for its part, has adopted an enhanced supervisory approach that takes a more systemic approach to understanding the risks posed by the combined actions of institutions rather than focusing on the health of individual firms; this includes business drivers, new industry practices, new products, and the potential risk implications of such developments in financial markets and the economy. The more proactive approach to supervision reflected in the Dodd-Frank Act has meant re-thinking the type of skills required at the Board, and improving coordination of new and existing skill sets across the System.

- **Developing and refining new tools for monetary policy.** The financial crisis tested the limits of traditional monetary policy tools, and triggered a re-examination of standard monetary policy assumptions.

Looking ahead, the Board will focus significant efforts on research regarding the evaluation of tools introduced during the crisis, such as large-scale asset purchases and emergency liquidity provision. The organizational challenge will include ensuring the right balance between, on one hand, resources devoted to designing monetary policy and, on the other hand, resources needed to support crisis prevention or containment.

- **Integrating the way monetary policy and financial stability decisions are made.** The Dodd-Frank Act gives the Federal Reserve an important role in areas of financial stability policy (such as macroprudential supervisory oversight), defining the conditions that can result in financial instability, identifying policy strategies that can prevent such outcomes, and providing oversight of systemically important financial institutions and financial market infrastructures. The Federal Reserve's role in financial stability also recognizes that the analysis and data required for supervision is useful in conducting monetary policy and vice versa. It will take time and effort to establish the processes and procedures that best exploit these synergies.

Meeting the Strategic Challenges

Meeting the challenges in the four areas described in the previous section requires appropriate levels of Board resources and investments in people, data, and facilities. Meeting these challenges also requires management processes for hiring, developing, and re-allocating expertise and coordination across the organization.

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

- continuing to build a robust infrastructure for regulation, supervision, and monitoring risks to financial stability
- redesigning data governance and management processes to enhance the Board's data environment
- ensuring 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
- creating a work environment built on market-oriented compensation and support for academic

and personal achievement that allows the Board to attract and retain top talent while reinforcing collegiality

- strengthening management processes to enable effective implementation of strategic themes, increasing operating efficiencies, and reducing administrative burden
- establishing a cost-reduction approach and a budgetary growth target that maintains an effective and efficient use of financial resources

Strategic investments in these areas above those required for day-to-day operations are necessary for the Board to meet the supervisory expectations of it under the Dodd-Frank Act while continuing to enhance its ability to promote stable prices, full employment, and financial stability. The strategic investments are also accompanied by an agenda of management process changes that will keep major investments on track, identify additional opportunities for cost savings, and improve overall operations.

Strategic Themes

Strategic Theme 1

Continue Building a Robust Infrastructure for Regulation, Supervision, and Monitoring Risks to Financial Stability

The financial crisis of 2007–2009 has resulted in an enhanced approach to supervision and regulation, which places a heightened emphasis on the health of both individual institutions and the financial system as a whole. As a result, the Board has emphasized its interdisciplinary approach to regulation and supervision, regularly involving economists, legal experts, and regulatory experts in supervisory exercises and in rulewriting.

In addition, the Board has increased its base of knowledge and experience concerning fundamental business drivers, related risks, the interconnectedness of the modern financial landscape, and potential outcomes in a complex and dynamic market environment.

Finally, the Board's role in the supervisory oversight of systemically important firms has expanded. The Dodd-Frank Act gives the Federal Reserve responsibilities and powers to oversee additional financial institutions that the interagency council (FSOC) designates as systemically important. The act also formalized several of the macroprudential tools that supervisors and regulators use, including stress tests, resolution and recovery planning, source-of-strength guarantees, and early remediation requirements.

With the new legal authority in place, the Board has begun to design and build a new policy infrastructure to support its financial stability and prudential supervisory strategies. The Board is coordinating supervision across systemically important firms and leading the development and execution of supervisory efforts. As a coordinator directly participating in supervisory exercises, the Board is uniquely positioned to bring a horizontal perspective concerning

systemically important institutions—particularly how changing market conditions are affecting individual firms and financial stability as a whole.

Strategic Objectives

Strategic objective 1: Strengthen the stability of the financial sector through the development of policies, tools, and standards.

Strategic objective 2: Monitor financial markets and industry practices and structures.

Strategic objective 3: Monitor and supervise individual financial institutions and infrastructures.

Strategic objective 4: Ensure that sufficient crisis management tools are in place.

Strategic objective 5: Analyze for the Board and FOMC the role that financial stability concerns should play in setting monetary policy.

Strategic objective 6: Pursue research on stress tests, macroprudential regulation and tools, and other financial stability topics.

Roles and Responsibilities

The policy infrastructure for financial stability will bring resources and expertise together from multiple Board divisions. Three economics divisions (IF, MA, and R&S) and the OFS will continue to drive the Board's research agenda, participate in market monitoring, and collaborate with BS&R and the Federal Reserve Banks on stress tests and cross-institutional reviews focused on particular practices in the financial industry as a whole (horizontal reviews).

These functional areas will also participate and support the Large Institution Supervision Coordinating Committee (LISCC) activities, as required, and develop crisis management tools. OFS will coordinate much of the Federal Reserve's involvement in

interagency and international financial stability policymaking groups, including FSOC and the FSB. The Legal Division will lead some Dodd-Frank Act implementation initiatives and review all new rules. Legal will also continue to provide advice to the banking supervision function.

Potential Risks and Challenges

The success of the Board's financial stability and supervisory strategy depends on retaining the right mix of skills and expertise, developing sufficient Federal Reserve System capacity, and ensuring high levels of coordination across divisions and across the System.

Without these additional resources, the Board risks delaying its expanded mandate for institutional regulation and financial stability. Failure to fully implement new supervisory rules, activities, and processes could jeopardize the soundness of individual institutions and the financial system at large.

The Board also faces risks to its operational capabilities through staff turnover, as some staff continue to labor under crisis-levels demands on their time and functional capacity. They may leave the Board due to the demanding pace of work, and the Board would have difficulty replacing their specialized skills.

Strategic Theme 2

Redesign Data Governance and Management Processes to Enhance the Board's Data Environment

Data and data management play a critical role in fulfilling the Board's mission. 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 data to meet the breadth and depth of analytical issues that staff are now addressing.

The Board's current process for managing data served the organization well when the Board managed relatively small and predictable data sets that required limited sharing across divisions and within the System. However, the Board and the System now require a data governance and management structure that supports a growing quantity of data and an increased need to share data more broadly while ensuring the operational flexibility required by the Board's data users.

The success of the Board's strategy concerning financial system stability and supervisory strategy depends on proper data management. Implementing a data governance framework will be an important complement to the Board's investment in enhanced research capability. Effective and efficient data management will enhance staff's ability to obtain, interpret, and analyze the large volume of data that new supervisory responsibilities will require. As supervision is a delegated function that is coordinated by the Board, data management for the supervision function will require a System perspective.

Strategic Objectives

Strategic objective 1: Improve data governance by establishing a new Office of the Chief Data Officer and ensuring that there are clear roles and responsibilities among the chief data officer, the Board Data Council, and data users.

Strategic objective 2: Ensure that all enterprise data are handled, processed, stored, and disseminated by professional data management groups.

Strategic objective 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.

Roles and Responsibilities

Economists and analysts across the Board's economics divisions, OFS, BS&R, RBOPS, and C&CA will provide input on the development of data policies, including the types of data needed, consistency of policies, and the degree of coordination across the System.

The Board's IT division will play a critical role in designing the overall data environment, including providing the supporting IT infrastructure in coordination with System and Reserve Bank IT partners (as required to support the data needs of Board functions delegated to Reserve Banks). The Board's Legal Division will work closely with the Board's Research Library to develop standards for license-usage agreements with vendors to ensure appropriate use.

Potential Risks and Challenges

The financial crisis and the Board's mandate under the Dodd-Frank Act have created five specific chal-

allenges related to data: quantity, sharing, awareness, access and controls, and quality.

Quantity. Since the financial crisis, the quantity of data required for economic research, policy analysis, and supervisory purposes—both its variety and volume—has increased dramatically, straining current arrangements.

Sharing. The need to share data among Board divisions, the System, and other federal agencies has also increased. There are many more instances where data are already shared, either in an organized manner or informally. However, data sharing has been difficult due to large file sizes and constraints in the existing data environment. The increased need to share data places a burden on the owners of the data since they must serve not only as data managers but also as service providers.

Awareness. Board staff members are not aware either of what data are available or of the full characteristics of such data due to the limitations of available catalogs. In addition, it is important to know the full range of data that the Board collects from the public and regulated parties in order to ensure the Board's continued compliance with the requirements of the Paperwork Reduction Act of 1980.

Controls and access. The Board does not have a uniform set of policies for data security and controls beyond the Federal Information Security Management Act of 2002. This constrains the process of both granting and gaining access to data.

For acquired data, users need to be aware that the data may be subject to a unique set of licensing restrictions. The Board has developed a set of standards for license and usage agreements with vendors to ensure appropriate use; as new license agreements are negotiated, these standards will be implemented for additional data sets.

Quality. Since the onset of the financial crisis, ad hoc data collections have increased; thus, uniformity and guidance are necessary to ensure appropriate data quality.

Strategic Theme 3

Ensure 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

Data Center Relocation

The Board's Data Center provides the infrastructure that makes data and servers available to the Board and System for monetary policy, financial supervision, consumer protection, and economic research. Data Center and operational staff are critical in maintaining the Board's computer systems and associated components. Board staff, primarily from its IT and economics divisions, are responsible for determining the infrastructure needs and maintenance requirements of the Data Center.

To be able to meet the increased quantity of data demanded by the economic and supervision function after the financial crisis, the Data Center has had to increase its capacity significantly. In the past two years alone, the Data Center's storage capacity has nearly quadrupled as the number of physical and virtual servers has increased and has also driven the growth of supporting infrastructure. The resulting increased density of storage and computer systems has exceeded the cooling and power capacity of the Data Center.

Strategic Objectives

Strategic Objective 1: Create the capacity for increased data demand.

Strategic Objective 2: Address critical Data Center subsystem requirements.

Roles and Responsibilities

IT, R&S, and MGT will be the primary divisions involved in the Data Center relocation. These divisions will work together to coordinate an agreement,

plan the Data Center relocation, and ensure the continuity of operations during the transition.

Potential Risks and Challenges

The Data Center relocation includes a significant initial investment because of the requirement to build out the associated space. Unintended issues or challenges could result in cost overruns or late delivery, which would impact accomplishment of the Board's mission.

Martin Building Renovation

Ensuring a safe and adequate work environment for individuals and groups to work and meet is a key component of the Board's overall strategy. There have been no significant renovations completed on the Martin Building facility since its construction in 1974.

Short-term upgrades have been made as issues have arisen, but the drive to reduce upfront capital costs has made it more difficult to reduce long-term operating costs. This trade-off has led to an outdated, inefficient building that does not meet the current needs of the Board in fulfilling its missions. Efforts associated with the renovation will focus on security, energy efficiency, meeting and conference space, and physical plant capacity.

Strategic objective 3: Create a safe and secure work environment.

Strategic objective 4: Upgrade physical infrastructure.

Strategic objective 5: Reduce utility consumption and expenses.

Roles and Responsibilities

MGT is responsible for securing sufficient leasing space to accommodate staff during the construction period, overseeing the renovation, and ensuring that the project is completed according to plan while meeting the Board's needs.

Potential Risks and Challenges

A renovation of this scope is a complex undertaking and there are significant implementation risks and transition-oriented challenges that must be managed,

particularly as it relates to costs. Risks include disruption to staff during the renovation and ensuring that planning efforts address future space requirements.

Strategic Theme 4

Create a Work Environment Built on Market-oriented Compensation and Support for Academic and Personal Achievement that Attracts and Retains Top Talent While Reinforcing Collegiality

The Board has added almost 400 positions in response to the financial crisis, the implementation of the Dodd-Frank Act, and the general functional support necessary to manage an organization of the Board's complexity and importance to the U.S. financial system and economy.

Over the next four years, the Board will add more full-time employees consistent with the themes described in this strategic framework. Maximizing the value of the Board's human capital will depend on enhancing processes for effective recruitment, development, and retention of qualified staff.

Strategic Objectives

Strategic objective 1: Increase efficiency and effectiveness of the existing performance management process.

Strategic objective 2: Reduce administrative burden associated with the adverse-action process while respecting employees' due-process rights.

Strategic objective 3: Enhance the talent management process (succession planning, development programs, training, etc.).

Strategic objective 4: Increase equitability in compensation and benefits, in closer alignment with the Federal Reserve System and market.

Roles and Responsibilities

MGT, working closely with all Board divisions and offices, will develop and implement the strategic objectives.

Potential Risks and Challenges

Performance Management

The Board will need to ensure that any change it makes to its performance management process does not prevent meaningful distinctions between high and low performers. The Board must also ensure that changes do not make the process more complicated.

Adverse Action

Changes that affect the rights of Board employees must be carefully considered and implemented to ensure compliance with law and to minimize negative effects on morale.

Succession Planning

Lack of a systematic approach to succession planning may lead to concerns that qualified staff are being lost. Moving toward a Board-wide succession-planning process will require significant staff support for governors and division directors as they prepare for talent-assessment sessions. Legal concerns must also be addressed in any succession-planning approach.

Compensation

There are three primary challenges that the Board needs to address in order to increase the effectiveness of its compensation administration system:

- The Board has a fragmented system for administering compensation. Divisions have different standards for writing job descriptions, and because the salary of a position is linked to the job description, the variance in job descriptions allows different salaries for comparable work.
- The current system does not link market rates to Board salaries and benefits for comparable positions. Failing to link market rates to salaries and benefits will limit the Board's ability to attract and retain top talent.
- Variable pay (e.g., cash awards, targeted awards) for staff is limited and too fragmented, making it difficult to adequately distinguish and reward high performers with additional compensation.

Strategic Theme 5

Strengthen Management Processes to Enable Effective Implementation of Strategic Themes, Increase Operating Efficiencies, and Reduce Administrative Burden

The Board defines “management processes” to mean the internal support processes necessary for long-term planning and short-term execution of the Board's priorities. Management processes can include strategic planning, budgeting, identification of cost savings, performance management, risk management, talent management, and knowledge sharing.

Enhancements to the Board's management processes will allow for increased ownership and accountability of leadership decisions, an enhanced ability to prioritize strategic needs, and a potentially reduced administrative burden.

Strategic Objectives

Strategic objective 1: Focus on enterprise issues.

Strategic objective 2: Strengthen financial planning accountability.

Strategic objective 3: Reduce financial management administrative burden.

Roles and Responsibilities

DFM will have primary responsibility for developing the framework to implement the strategic objectives.

Potential Risks and Challenges

Well-designed management processes are essential to driving enterprise-wide decisions, ensuring better coordination, and reducing administrative burden. However, organizational structure and role changes may be equally important, and these changes are difficult to raise and resolve. It is essential to have a single point of accountability for executing and ensuring compliance with these processes.

Another challenge with implementation is the difficulty with defining performance metrics and markers of progress related to strategic outcomes. For example, it is difficult to measure the delivery of high-quality policy insight. As such, it will be important to identify indirect indicators that will show that the Board is on the right track toward achieving desired outcomes.

Finally, the planned changes will require broad commitment from the workforce. To earn that commitment, leaders will need to invest sufficient time to explaining the need for change and what will be different. Appropriate communication of the Board's strategy to both internal and external audiences will be particularly important.

Strategic Theme 6

Establish a Cost-reduction Approach and a Budgetary Growth Target that Maintains an Effective and Efficient Use of Financial Resources

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.

Strategic Objectives

Strategic objective 1: Use financial resources efficiently and effectively.

Strategic objective 2: Achieve budgetary savings and expense growth in line with Board-approved targets.

Roles and Responsibilities

The chief operating officer and the chief financial officer, working with the ECB and other senior staff across the organization, will have primary responsibility for developing the approach, quantifying expected savings, and overseeing implementation.

Potential Risks and Challenges

As part of this strategy, the Board expects to capture sufficient savings in its operating budget to offset some of the costs of the strategic priorities. There is inherent risk in trying to establish the proper balance between implementing cost-reduction initiatives and ensuring the appropriate level of resource investment to achieve the goals and objectives outlined in the strategic framework. The Board must ensure that reductions in its administrative and overhead functions do not impede day-to-day operations.

