

Financial Research Fund

FY 2013

President's Budget Submission

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Section 1 – Purpose

1A – Mission Statement

Office of Financial Research

The *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* (the Act) established the Office of Financial Research (OFR) within the Treasury Department to serve the Financial Stability Oversight Council (Council), its member agencies, and the public by improving the quality, transparency, and accessibility of financial data and information, conducting and sponsoring research related to financial stability, and promoting best practices in risk management. OFR supports the Treasury strategic goal to *Repair and Reform the Financial System and Accelerate the Recovery of the Housing Market*. Consistent with the guidance provided by the Act, the OFR will:

- Support Council coordination through the provision of financial data and analysis needed to monitor threats to financial stability: This includes collecting data on behalf of the Council and providing it to the Council and its member agencies where such data are essential to monitoring threats to financial stability and are not otherwise collected, and enhancing the quality and consistency of financial data available to Council member agencies. In this context, the OFR is expected to support efficiency in data acquisition by Council members.
- Develop and promote data-related standards and best practices: This includes facilitating the establishment of global data-related standards to improve data quality and scope, while also reducing the cost to financial market participants of reporting, and assisting Council members in defining standards and best practices for data collection and management that will increase efficiencies.
- Establish a center of excellence for research and analysis on financial stability and promote best practices in risk management: The OFR will conduct and sponsor research to identify, monitor, and evaluate threats to financial stability, and to analyze disruptions both when and after they occur. The OFR will also promote best practices in financial risk management, through evaluation of existing methods and governance, as well as development and promulgation of new methods.
- Provide the public with key data and analysis: Increase the transparency and distribution of research on the financial system, while safeguarding sensitive information, by publishing financial analysis, data and information.
- Establish the OFR as an efficient organization and world-class workplace: The OFR will manage human, information, and financial capital to support achievement of the OFR’s mission in a cost-effective manner.

Financial Stability Oversight Council

Prior to the 2008 financial crisis, the existing regulatory framework focused narrowly on individual institutions and markets, which allowed supervisory gaps to grow and regulatory inconsistencies to emerge – in turn, allowing arbitrage and weakened standards. The Act established the Financial Stability Oversight Council (Council) with a clear statutory mandate that created for the first time collective accountability for identifying and responding to emerging threats to financial stability. The Council is a collaborative body chaired by the Secretary of the Treasury that brings together the expertise of the federal financial regulators, an insurance expert appointed by the President, and state regulators.

The Council has important new authorities under the Act to:

- Collect information across the financial system: The Council has a duty to collect information across the financial system, drawing first from its member agencies, and to direct the OFR to collect additional information to assess risks to the financial system. The collection and analysis of that information will aid the Council and OFR in their shared goal of filling gaps in our knowledge so that regulators will be better equipped to identify risks and emerging threats across the financial system.
- Designate nonbank financial companies for consolidated supervision: In the run up to the financial crisis, some of the firms which posed the greatest risk to the financial system were not subject to adequate consolidated supervision. The Act gives the Council the authority to require consolidated supervision of nonbank financial companies, regardless of their corporate form.
- Designate financial market utilities and payment, clearing, or settlement activities as systemically important: The Act authorizes the Council to designate certain financial market utilities and payment, clearing, or settlement activities as systemically important, requiring them to meet prescribed risk management standards and submit to heightened oversight by the Federal Reserve, the Securities and Exchange Commission, or the Commodities Futures Trading Commission.
- Recommend stricter standards: The Council has the authority to recommend stricter standards for the large, interconnected bank holding companies and nonbank financial companies designated for enhanced supervision. Moreover, where the Council determines that certain practices or activities pose a threat to financial stability, the Council may make recommendations to the primary financial regulatory agencies for new or heightened standards.
- Limit the activities of firms that pose a “grave threat” to financial stability: The Council has a significant role in determining whether action should be taken to break up those firms that pose a “grave threat” to the financial stability of the United States.
- Facilitate regulatory coordination: The Council has a statutory duty to facilitate information sharing and coordination among the member agencies regarding domestic financial services policy development, rulemaking, examinations, reporting requirements, and enforcement

actions. Through this role, the Council will help eliminate gaps and weaknesses within the regulatory structure, to promote a safer and more stable system.

The Council is an executive agency of government and is not an office or bureau of the Department of the Treasury. However, under the Act the Council's administrative expenses are considered expenses of the Office of Financial Research, an office within the Department of the Treasury.

Federal Deposit Insurance Corporation Payments

Section 210(n)(10) of the Act provides that certain reasonable implementation expenses of the FDIC incurred after the date of enactment of the Act shall be treated as expenses of the Council. The FDIC must periodically submit requests for reimbursement for implementation expenses to the Chairperson of the Council, who shall arrange for prompt reimbursement to the FDIC of reasonable implementation expenses. The expenses estimated are for rulewriting and resolution planning consistent with the FDIC's implementation of its responsibilities under Title II of the Act.

1.1 Program Account Summary

	FY 2011		FY 2012		FY 2013		% Change	
	Actual		Estimated		Estimated		FY 2012 to FY 2013	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:								
Revenue/Offsetting Collections								
Assessments		\$0		\$119,000		\$168,000		41.18%
Transfers-in		\$20,516		\$91,742		\$0		-100.00%
Total Revenue/Offsetting Collections		\$20,516		\$210,742		\$168,000		-20.28%
Unobligated balances, Start of year**				\$6,258		\$94,374		
Total Budgetary Resources Available*		\$20,516		\$217,000		\$262,374		20.91%
Expenses/Obligations								
Office of Financial Research	13	\$11,338	154	\$109,660	284	\$138,220	84.42%	26.04%
<i>Direct FTE</i>	6		128		254		98.44%	
<i>Reimbursable FTE</i>	7		26		30		15.38%	
Financial Stability Oversight Council	6	\$2,921	25	\$8,250	28	\$8,800	12.00%	6.67%
FDIC Payments	0	\$0	0	\$4,716	0	\$10,725	0.00%	127.42%
Total Expenses/Obligations	19	\$14,259	179	\$122,626	312	\$157,745	74.30%	28.64%

*The budgetary resources available are greater than the estimated obligations/expenses as a result of funds collected in advanced of the next fiscal year.

**Due to a data entry error related to the carrying forward of prior-year unobligated balances, estimates of total budgetary resources available for 2012 and 2013 do not match those presented in the President's Budget. The budgetary resource totals for those years have been corrected in this table.

1B – Mission, Priorities and Context

Office of Financial Research

Under the Act, the Director for OFR is appointed by the President and confirmed by the Senate. Prior to confirmation, Treasury, under the Secretary's authority, is managing OFR with all of the Director's statutory authority.

Over the next year, the OFR will expand its services to the Council and broader stakeholders while continuing to build its institutional infrastructure. Priorities include:

- **Support for the Council:** The OFR will expand services to the Council and its member agencies, including: data services that support the Council's analysis on, for example, designation of systemically important nonbank financial companies for FRB supervision and enhanced prudential standards; an initial set of metrics and indicators related to financial stability from previous academic research; support for the FSOC Data Committee as a forum to discuss data-related issues among the Council's member agencies; and an ongoing inventory of Council data—which will support better coordination of Council data sharing and acquisition, reducing redundancies and costs.
- **Data-related standards:** A key initiative of the OFR will be its continued work with policymakers, regulators, and the private sector on data-related standards, including the adoption of a Legal Entity Identifier—a global standard to uniquely identify parties to financial transactions—that will support better understanding of true exposures and interconnections among and across financial institution.
- **Research and Analysis Center:** The OFR will expand its core analytic outputs, including through cooperation with a virtual community of researchers, academics, and practitioners on financial stability and risk management. In addition, the OFR will establish an advisory committee of leading researchers, academics, data managers, and IT experts to help the OFR identify issues, evaluate work product, and recruit talent.
- **Publications:** The OFR will publish its second annual report in FY 2013 (the first report is to be provided by July 2012), as well as other research and data related to threats to financial stability. This will include continued publication of an OFR Working Paper Series launched in FY 2012.

Financial Stability Oversight Council

The Council's three primary purposes under the Act are:

1. To identify risks to the financial stability of the United States that could arise from the material financial distress or failure, or ongoing activities, of large, interconnected bank holding companies or nonbank financial companies, or that could arise outside the financial services marketplace.
2. To promote market discipline, by eliminating expectations on the part of shareholders, creditors, and counterparties of such companies that the U.S. government will shield them from losses in the event of failure.
3. To respond to emerging threats to the stability of the U.S. financial system.

Over the next year, the Council will be: working to establish processes for the designation of nonbank financial companies; considering whether to designate financial market utilities as systemically important; developing and implementing tools for monitoring the financial system for emerging risks. In the near term, the staffs of Council member agencies will continue to facilitate coordination and information sharing with respect to various regulatory initiatives. Transparency on Council decisions will be provided through an annual report to Congress and the public and testimony by the Chairperson on Council activities and emerging threats to financial stability.

Section 2 – Budget Adjustments and Appropriation Language

2.1 Operating Levels

Financial Research Fund	FY 2011	FY 2012	FY 2013
	Actual	Estimated	Estimated
Direct FTE	12	153	282
Reimbursable FTE	7	26	30
Object Classification			
11.1 Full-Time Permanent Positions.....	\$1,390	\$21,161	\$33,868
12.0 Personnel Benefits.....	\$363	\$7,149	\$11,567
21.0 Travel.....	\$151	\$1,015	\$1,048
23.1 Rental Payments to GSA.....	\$579	\$5,835	\$6,316
23.3 Communications, Utilities, & Mi.....	\$36	\$85	\$88
25.0 Contractual Services.....	\$9,453	\$60,658	\$72,270
26.0 Supplies and Materials.....	\$244	\$5,153	\$10,196
31.0 Equipment.....	\$2,043	\$21,570	\$22,392
Total Operating.....	\$14,259	\$122,626	\$157,745
Budget Activities:			
Office of Financial Research.....	\$11,338	\$109,660	\$138,220
Financial Stability Oversight Council.....	\$2,921	\$8,250	\$8,800
FDIC Payments.....	\$0	\$4,716	\$10,725
Total Budget Authority.....	\$14,259	\$122,626	\$157,745

*Due to a data entry error related to the carrying forward of prior-year unobligated balances, estimates of total budgetary resources available for 2012 and 2013 do not match those presented in the President's Budget. The budgetary resource totals for those years have been corrected in this table.

2B – Appropriations Language and Explanation of Changes

The Financial Research Fund programs do not receive any discretionary appropriation authority from the Congress. Therefore, no appropriations language is proposed.

2C – Legislative Proposals

There are no current proposals for amending the authorizing legislation.

Section 3 – Budget and Performance Plan

3A – Office of Financial Research

(\$138,220,000 from mandatory programs):

The Act established the OFR within the Treasury Department to serve the Council, its member agencies, and the public by improving the quality, transparency, and accessibility of financial data and information, conducting and sponsoring research related to financial stability, and promoting best practices in risk management.

There are currently no performance measures in place for the Office of Financial Research. OFR will develop measures in FY 2012.

3B – Financial Stability Oversight Council

(\$8,800,000 from mandatory programs):

The Council has a clear statutory mandate to facilitate coordination among financial regulators and identify risks and respond to emerging threats to financial stability. FSOC has ten voting members, the Secretary of the Treasury as Chair, the heads of eight federal financial regulatory agencies, an independent member with insurance expertise, and five non-voting members. The Council is an executive agency of the Federal Government and is not a bureau or office of the Department of the Treasury.

There are no measures specified for managing Council performance at this time. Information on the Council is provided on www.treasury.gov, www.fsoc.gov, and member agency websites to provide transparency and accountability.

3C – Federal Deposit Insurance Corporation Payments

(\$10,725,000 from mandatory programs):

The Council has a clear statutory mandate to pay certain FDIC expenses related to FDIC's orderly liquidation of non-bank financial institutions as provided in Section 210(n)10 of the Act.