Financial Stability Oversight Council and Office of Financial Research

Program Summary by Budget Activity

(Dollars in thousands)

Budget Activity	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated	Change FY10-FY12 $ Change	Change FY10-FY12 % Change
Financial Stability Oversight Council	$0	$7,435	$7,885	$450	6.1%
Office of Financial Research	$0	$33,890	$74,468	$40,578	119.7%
Total Cost of Operations	**$0**	**$41,325**	**$82,353**	**$41,028**	**99.3%**

Explanation of Budget Estimate

The Financial Stability Oversight Council (FSOC), established under the *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* (Dodd-Frank Act), held its first meeting on October 1, 2010, and successive meetings on November 23, 2010 and January 18, 2011. Future meetings will be held on at least a quarterly basis. An integrated roadmap was released following the first meeting combining member agencies internal implementation plans, including timeframes for key deliverables. Over the next year, the FSOC is working to establish processes for designating nonbank financial companies and financial market utilities, developing recommendations for stricter standards for monitoring and reporting on systemic risk, and developing tools for monitoring the financial system for emerging risks.

Under the Dodd-Frank Act, the Director of the Office of Financial Research (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.

OFR has two primary divisions: a Data Center and a Research and Analysis Center. The Data Center will in part set standards for financial reporting and work to improve the quality of financial data that is collected so it can be organized in ways that are more meaningful for identifying vulnerabilities in the system as a whole. The Research and Analysis Center will analyze market activities to identify potential risks to the financial system and report findings to FSOC members and Congress.

OFR's first priority is improving data standards to help FSOC monitor systemic risk and improve risk management, reporting and other business functions at individual financial firms. The problem of monitoring systemic risk is closely related to the risk management challenge that individual firms face. To monitor systemic risk, positions in thousands of diverse financial products, involving thousands of individual financial firms, have to be aggregated across the entire financial system. Standardizing the way financial transactions are reported can greatly facilitate this process for regulators and individual firms. The OFR will, in consultation with relevant stakeholders, develop standards for financial data.

Purpose of Program

Prior to the financial crisis of 2008-2009, the existing regulatory framework focused regulators 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 Dodd-Frank Act established the FSOC with a clear statutory mandate that created for the first time collective accountability for identifying and responding to emerging threats to financial stability. FSOC 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 FSOC is an executive agency of government and is not an office or bureau of the Department of the Treasury. However, under the Dodd-Frank Act, FSOC administrative expenses are considered expenses of OFR and are paid for by OFR.

OFR was established by the Dodd-Frank Act to support the FSOC and its members in its identification and analysis of risks in the financial system. To accomplish this, OFR will collect and standardize financial data, develop and publish key reference databases, and conduct research to identify potential sources of systemic risk. OFR is an office of the Department of the Treasury.

Explanation of Budget Activities

Under the terms of the Dodd-Frank Act, the OFR and the FSOC will be funded through mandatory transfers from the Federal Reserve until July 21, 2012. Thereafter, the two entities will be funded through assessments on bank holding companies with total consolidated assets of $50 billion or more, as well as non-bank financial institutions subject to supervision by the Federal Reserve Board.

Financial Stability Oversight Council ($7,885,000) FSOC has a clear statutory mandate to improve coordination among financial regulators and identify risks and respond to emerging threats to financial stability. FSOC has ten voting members, including nine federal financial regulatory agencies and an independent member with insurance expertise, and five non-voting members. As a coordinative body, FSOC is an executive agency of the Federal Government and is not a bureau or office of the Department of the Treasury.

Office of Financial Research ($74,468,000) The Dodd-Frank Act established OFR within the Treasury Department to support the FSOC and its members by improving the quality of financial data available to policymakers and by facilitating more robust and sophisticated analysis of the financial system. The data and analysis provided by OFR will enhance the FSOC's ability to identify and analyze risks in the financial system.

Description of Performance

There are no measures specified for managing FSOC or OFR performance at this time. Information on FSOC is provided on www.treasury.gov, www.financialstability.gov and member agency websites. Transparency on FSOC decisions will be provided through annual reports to Congress and the public and testimony by the Chairperson on FSOC activities and emerging threats to financial stability. Information on OFR is available at www.treasury.gov/ofr.

OFR, as an office of the Department of the Treasury, is currently working on developing a performance plan for office operations.