



# Annual Performance Report 2014

May 2015

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM





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# Preface

The *Strategic Framework 2012–15* (strategic framework), available at [www.federalreserve.gov/publications/gpra](http://www.federalreserve.gov/publications/gpra), identified and framed the most critical organizational challenges faced by the Board of Governors (Board), developed potential options for addressing them, identified resource requirements, and set budgetary growth targets. The *Annual Performance Report 2014* summarizes the Board's accomplishments in 2014 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 the Congress and outside stakeholders, prepare a strategic plan covering a multiyear period and submit an annual performance plan and annual performance report. Although the Board is not covered by GPRA, the Board voluntarily complies with the

spirit of the act and, like other federal agencies, prepares a strategic plan as well as annual plans and performance reports.

As required by the Federal Reserve Act, the Board annually submits to the Congress a separate report describing in detail operations of the Federal Reserve System (FRS) for the previous year. The FRS has also provided the Congress with a supplemental report, *Annual Report: Budget Review (ARBR)*, which provided a detailed explanation of the plans and resources discussed in the approved budgets of the Board and the 12 Federal Reserve Banks. Commencing with the 2013 reporting year, the Board included the ARBR in its *Annual Report*.

These reports are available on the Board's website, at [www.federalreserve.gov/publications](http://www.federalreserve.gov/publications).





# Introduction

In 2012, the Board established a strategic framework that sought to identify key areas where the Board would need to make significant investments over the 2012 to 2015 four-year period in order to best advance its mission. The *Annual Performance Plan 2014*, available at [www.federalreserve.gov/publications/gpra/files/2014-gpra-performance-plan.pdf](http://www.federalreserve.gov/publications/gpra/files/2014-gpra-performance-plan.pdf), described the specific actions that the Board planned to take during 2014 in furtherance of its longer-term effort to accomplish the objectives laid out in the strategic framework. This report summarizes the progress that was made during 2014 in that regard.

The Board identified the following six themes in the strategic framework and uses these themes to guide investment and action during the four-year planning period:

1. Continue building a robust interdisciplinary infrastructure for **supervision, regulation, and monitoring risks to financial stability**.
2. **Redesign data governance** and management processes to enhance the Board's data environment.
3. **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.
4. **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 re-enforcing collegiality.
5. **Strengthen management processes** to enable effective implementation of strategic themes, increase operating efficiencies, and reduce administrative burden.
6. **Establish a cost-reduction approach and a budgetary growth target** that maintains an effective and efficient use of financial resources.

Throughout the strategic planning period, senior leadership reassess priorities to take into account changing circumstances, environmental factors, and trends and aligns resources and implements changes based on these changing priorities. The Board also reviews initiatives and offsets funding, to the extent possible, through cost-saving strategies and efficiency gains identified as part of the ongoing strategic review. Strategic investments also accompany an agenda of management process changes that keeps major investments on track, identifies additional opportunities for cost savings, and improves overall operations.

Throughout 2014, the Board continued to make progress toward implementing provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), including finalizing amendments to Regulation HH risk-management standards for designated financial market utilities; issued the final U.S. liquidity coverage ratio rule effective January 1, 2015; and completed the quarterly *Quantitative Surveillance Assessment of Financial Stability* reports.

The Board also made progress in the area of data governance through the development of the enterprise data governance framework and beginning data governance policy development efforts. The Board's large capital projects—the relocation of the Data Center and the William McChesney Martin, Jr. Building (Martin Building) renovation—are on schedule for completion in 2015 and 2018, respectively.

During the year, the Board made progress toward achieving its human capital objectives, including continuing to roll out a new performance management program, holding succession planning discussions, and reviewing the compensation structure. Progress was made, and work continues, in the administrative functions to revise business processes, increase operating efficiencies, and reduce administrative burden,

while continuing to focus on cost-management strategies and resource allocation.

In addition to identifying key accomplishments, this report also provides information regarding the progress made toward filling the positions outlined in the strategic framework. As part of the strategic framework, the Board approved staff increases for divisions supporting strategic theme 1 (Supervision, Regulation, and Financial Stability) and theme 2 (Data Governance). Through year-end 2014, the Board approved 164 new positions in the divisions of Research and Statistics, Monetary Affairs, Office of Financial Stability, International Finance, Banking Supervision and Regulation, Reserve Bank Operations, Legal, and the Office of the Chief Operating Officer. The table below shows the number of strategic positions approved and the progress made toward the hiring of these approved positions.

Including offers accepted, the Board filled 82 percent of the approved strategic framework positions through December 31, 2014. For 2015, the Board authorized an additional 28 strategic framework positions. As the Board implements this strategic 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.

The remainder of this report lists the six strategic themes, the underlying objectives for each theme, the planned activities for 2014, and the corresponding accomplishments.

**Strategic positions authorized for 2012–14 and filled through December 31, 2014**

Position alignment	Approved for 2012–14	Total hired in 2012–14	Offers accepted/start date post-12/31/14	Unfilled strategic positions as of 12/31/14
Theme 1	144	116	6	22
Theme 2	20	12	1	7
<b>Total</b>	<b>164</b>	<b>128</b>	<b>7</b>	<b>29</b>

# Strategic Theme 1: Supervision, Regulation, and Financial Stability

*Continue building a robust interdisciplinary infrastructure for regulation, supervision, and monitoring risks to financial stability.*

## Objective 1.1: Strengthen the stability of the financial sector through the development of policies, tools, and standards.

Under the direction of the Board, Board staff will continue contributing to regulatory reform activities that enhance the resilience of the financial sector and coordinate with other federal supervisory agencies regarding related regulatory efforts. Staff will also develop and implement a wide array of policies and guidance to supervisory programs that address legislative mandates and changes in economic environments.

In addition, staff will collaborate with financial stability groups to incorporate a multidisciplinary approach to emerging financial stability risks. These efforts will include steps to develop and implement macroprudential policies that will limit the probability of, and adverse consequences from, financial crisis.

Finally, under the direction of the Board and the Federal Open Market Committee (FOMC), staff will engage in designing potential crisis-management tools to respond as appropriate to various contingencies that could threaten financial stability. As part of ongoing activities, staff will monitor and analyze the effect of such regulations, policies, and tools on financial institutions, financial markets, and more generally on the macroeconomy.

### Accomplishments

- Develop additional policies and tools to strengthen financial stability and develop work programs that support these initiatives.

- Issued Supervision and Regulation Letter (SR) 14-1, which clarifies supervisory expectations for recovery and resolution preparedness for the eight domestic bank holding companies that may pose elevated risk to U.S. financial stability, and SR 14-8, which provides additional guidance regarding recovery planning for domestic Large Institution Supervision Coordinating Committee (LISCC) firms.
- Issued SR 14-3, which provides supervisory guidance on company-run stress testing for banking organizations with total consolidated assets of more than \$10 billion but less than \$50 billion.
- Requested public comment on a proposal to repeal Regulation AA (Unfair or Deceptive Acts or Practices).
- Acted under section 619 of the Dodd-Frank Act, commonly known as the Volcker rule, to give banking entities until July 21, 2016, to conform investments in and relationships with covered funds and foreign funds that were in place prior to December 31, 2013, (“legacy covered funds”), [www.federalreserve.gov/newsevents/press/bcreg/20141218a.htm](http://www.federalreserve.gov/newsevents/press/bcreg/20141218a.htm).
- Proposed a rule to further strengthen the capital positions of the largest, most systemically important U.S. bank holding companies, including a proposal that establishes a methodology to identify whether a U.S. bank holding company is a global systemically important banking organization, [www.federalreserve.gov/newsevents/press/bcreg/20141209a.htm](http://www.federalreserve.gov/newsevents/press/bcreg/20141209a.htm).
- Support the Chair, as a member of the Financial Stability Oversight Council (FSOC), in identifying and monitoring threats to financial stability and to propose actions to mitigate them.
- Staff supported the Chair’s participation in a wide range of FSOC activities, including regular

periodic reviews of financial market developments and review of the FSOC's annual report.

- Develop and implement new policy proposals and amend supervisory programs as needed to address legislative mandates and changes in the economic and international environments.
  - Approved a final rule strengthening supervision and regulation of large U.S. bank holding companies and foreign banking organizations, [www.federalreserve.gov/newsevents/press/bcreg/20140218a.htm](http://www.federalreserve.gov/newsevents/press/bcreg/20140218a.htm).
  - Established a council to provide a forum for risk experts to analyze System risk information and develop recommendations for policy or supervision, where applicable.
  - Completed Reserve Bank training and outreach initiatives for implementation of the Community Bank Risk-Focused Consumer Compliance Supervision Program.
  - Issued a final rule that amends the Regulation HH risk-management standards for financial market utilities (FMUs) that have been designated as systemically important by the FSOC and for which the Board has standard-setting authority pursuant to Title VIII of the Dodd-Frank Act, [www.federalreserve.gov/newsevents/press/other/20141028a.htm](http://www.federalreserve.gov/newsevents/press/other/20141028a.htm).
  - Issued a final rule to implement section 622 of the Dodd-Frank Act, which generally prohibits a financial company from combining with another company if the ratio of the resulting company's liabilities exceeds 10 percent of the aggregate consolidated liabilities of all financial companies, [www.federalreserve.gov/newsevents/press/bcreg/20141105a.htm](http://www.federalreserve.gov/newsevents/press/bcreg/20141105a.htm).
  - The Board and the Office of the Comptroller of the Currency (OCC) issued an interim final rule to ensure that the treatment of over-the-counter derivatives, eligible margin loans, and repo-style transactions under the two agencies' regulatory capital and liquidity coverage ratio rules would be unaffected by the implementation of certain foreign special resolution regimes for financial companies or by a banking organization's adherence to the International Swaps and Derivatives Association's Resolution Stay Protocol, [www.federalreserve.gov/newsevents/press/bcreg/20141216a.htm](http://www.federalreserve.gov/newsevents/press/bcreg/20141216a.htm).
- Collaborate with groups inside and outside the System that are engaged in financial stability

assessments to identify macroprudential and emerging risks and to determine actions to be taken in response; communicate the identified risks and the associated responses to key stakeholders.

- The Board, the Federal Deposit Insurance Corporation (FDIC), the OCC, the Commodity Futures Trading Commission, and the Securities and Exchange Commission (SEC) approved an interim final rule to permit banking entities to retain interests in certain collateralized debt obligations backed primarily by trust preferred securities from the investment prohibitions of section 619 of the Dodd-Frank Act, [www.federalreserve.gov/newsevents/press/bcreg/20140114b.htm](http://www.federalreserve.gov/newsevents/press/bcreg/20140114b.htm).
- Developed a Systemic Risk Integration Forum to ensure discussions around the risks to financial stability and related policy action consistently reflect the insights coming from supervisory activities and analysis, and to promote integration of financial stability research and analysis into the supervisory planning process.
- The Board, the Department of Housing and Urban Development, the FDIC, the Federal Housing Finance Agency, the OCC, and the SEC jointly issued a final rule requiring sponsors of securitization transactions to retain risk in those transactions. The final rule implements the risk retention requirements in the Dodd-Frank Act, [www.federalreserve.gov/newsevents/press/bcreg/20141022a.htm](http://www.federalreserve.gov/newsevents/press/bcreg/20141022a.htm).

## Objective 1.2: Monitor financial markets and industry practices and structures.

Staff will develop analytical tools and conduct monitoring activities that enhance the Board's understanding of evolving market structures and practices, including changes in global financial intermediation and capital allocation, risks and risk-management practices, and regulatory and other incentives for financial institutions to appropriately manage risk exposures. Ongoing communications will inform the staff about financial market developments that bear on financial stability and U.S. monetary policy. Staff will engage in ongoing communications with the Board and the FOMC about financial market developments that bear on financial stability and U.S. monetary policy.

## Accomplishments

- Develop and implement a forward-looking and proactive approach to the identification and mitigation of risk with potential systemic implications within and across supervisory portfolios.
  - Published Consumer Affairs Letter (CA) 14-4 “Interagency Guidance on Home Equity Lines of Credit Nearing Their End-of-Draw Periods” and CA 14-5 “Interagency Guidance Regarding Unfair or Deceptive Credit Practices.”
  - Completed major enhancements to supervisory interest rate risk models.
  - Announced final revisions to part I of the Federal Reserve Policy on Payment System Risk, which is applicable to financial market infrastructures, [www.federalreserve.gov/newsevents/press/other/20141028a.htm](http://www.federalreserve.gov/newsevents/press/other/20141028a.htm).
- Develop analytical tools, conduct monitoring activities, and use horizontal reviews of multiple financial institutions to enhance the Board’s understanding of evolving market structures and practices and incorporate the results into the policy and supervisory process.
  - Performed detailed analysis of auto lending and its possible systemic importance, the unique liabilities used as sources of funding by insurance companies, and bond market liquidity.
  - Published *The 2013 Federal Reserve Payments Study Detailed Report*, which describes new information on the payments landscape, [www.frbservices.org/communications/payment\\_system\\_research.html](http://www.frbservices.org/communications/payment_system_research.html).
- Continue to provide analysis to the Board and the FOMC about financial market developments that bear on financial stability and U.S. monetary policy.
  - Completed four quarterly *Quantitative Surveillance Assessment of Financial Stability* reports highlighting various topics during the year.
  - Briefed Board members on the effects of monetary policy on other countries, including emerg-

ing market nations, with emphasis on implications for financial stability abroad.

## Objective 1.3: Monitor and supervise individual institutions and infrastructures.

Staff will continue to monitor, on an ongoing basis, individual institutions and infrastructures, particularly those that have broader consequences for the financial system and the macroeconomy. Board staff will continue implementing forward-looking risk-identification aspects to supervisory programs across all portfolios. Board staff will seek comment on a number of proposed rules and revisions covering various financial entities and sectors as outlined in the Dodd-Frank Act.

## Accomplishments

- Implement forward-looking aspects to supervisory programs focused on banks and bank holding companies to incorporate data analytics and a fully integrated process to respond to risks at the institution level and at the portfolio and industry level; clarify and communicate expectations for reliance on other supervisors.
  - Began publishing FR Y-15 data on the systemic footprint of the 33 largest bank holding companies.
  - Finalized the U.S. liquidity coverage ratio with the final rule effective on January 1, 2015.
  - Completed background memos and briefed Board members on the effects of the 2013 supervisory guidance regarding leveraged lending and the evolution of liquidity in corporate bond markets.
- Implement a supervisory data and technology strategy in collaboration and consistent with the framework established under strategic theme 2 of this document.
  - See theme 2, objective 2.3.

- Seek comment on rules and revisions covering various financial entities and sectors as outlined in the Dodd-Frank Act.

—Requested public comment on rules and revisions on various financial entities and sectors as outlined in the Dodd-Frank Act, [www.federalreserve.gov/newsevents/press/bcreg/2015bcreg.htm](http://www.federalreserve.gov/newsevents/press/bcreg/2015bcreg.htm).

- Execute effectively the Federal Reserve’s supervisory programs for FMUs.

—Conducted examinations, in conjunction with the Commodity Futures Trading Commission and the SEC as appropriate, and related oversight activities for FMUs that have been designated as systemically important by the FSOC and for which the Board has standard-setting authority pursuant to Title VIII of the Dodd-Frank Act, [www.federalreserve.gov/newsevents/press/other/20141028a.htm](http://www.federalreserve.gov/newsevents/press/other/20141028a.htm).

- Support the Chair as a member of the FSOC with respect to monitoring systemic risk, coordinating interagency dialogue, and issues related to systemically important financial institutions (SIFIs) and designated FMUs.

—The FSOC designated MetLife as a SIFI in December 2014. Under Section 113 of the Dodd-Frank Act, the FSOC is authorized to determine that a nonbank financial company’s material financial distress—or the nature, scope, size, scale, concentration, interconnectedness, or mix of its activities—could pose a threat to U.S. financial stability. Such companies are subject to consolidated supervision by the Federal Reserve and enhanced prudential standards.

### Objective 1.4: Ensure that sufficient crisis-management tools are in place.

Board staff will use a broad research agenda to assess the macroeconomic and financial market effectiveness of crisis-management tools, such as the discount window, and work to build the capacity to assess quickly the nature of financial stresses that might threaten financial stability in a crisis.

#### Accomplishments

- Continue to improve the effectiveness of the discount window as a crisis-management tool.

—Analyzed and refined options to use the discount window and other liquidity tools.

- Contribute to domestic and international efforts to improve the quality of financial data that can better inform crisis-management decisions.

—Began submitting to the Bank of International Settlements enhanced FR 009 data on exposures to foreign residents, with a more detailed breakdown of counterparty sectors.

### Objective 1.5: Analyze for the Board and the FOMC the role that financial stability policy should play in the setting of monetary policy.

Under the direction of the Board, staff will continue to assess the effectiveness of various macroprudential policies and their interactions with monetary policy. Staff will contribute to supervisory exercises to increase the resilience of financial institutions through financial stability assessments from the Quantitative Surveillance (QS) process. Staff will monitor risks to financial stability, analyze linkages between the financial and real sectors, and evaluate alternative policies to contain building systemic risks. Staff will continue briefing the Chair, other Board members, and the FOMC, as appropriate.

#### Accomplishments

- Assess the effectiveness of macroprudential policies and their interaction with monetary policy.

—Provided Board members with a comprehensive analysis and review of the macroprudential tools available to the Board and other regulatory authorities.

- Monitor risks to financial stability, analyze linkages between the financial and real sectors, and evaluate alternative policy options to potentially address building systemic risks.

—Evaluated potential policy responses to ongoing financial interdependencies and potential emerging systemic risks and assessed the economic effects of proposed macroprudential policies on financial institutions.

## Objective 1.6: Pursue research on stress tests, macroprudential regulation and tools, and other financial stability topics.

Staff will continue to undertake research to assess the economic effects of proposed macroprudential policies on financial institutions in the United States and abroad throughout the year, including in response to changes to the structure of internationally active institutions and changes in the regulatory environment.

### Accomplishments

- Contribute to basic research on financial stability and macroprudential tools through publication of working papers, academic journal articles, other publications, and participation in professional conferences.
  - Continued to disseminate research through the working paper series and presentations at conferences on financial stability issues, [www.federalreserve.gov/econresdata/workingpapers.htm](http://www.federalreserve.gov/econresdata/workingpapers.htm).
- Promote research on related topics through Federal Reserve System efforts, including long-term research projects integrated with the QS process.
  - Completed four quarterly *Quantitative Surveillance Assessment of Financial Stability* reports and briefed Board members.
- Integrate, as appropriate, research results into ongoing policy discussions at the Board through briefings and participation in associated work streams.
  - Conducted studies on the implications of regulatory changes for monetary policy implementation, asset-management, financial stability, and the monitoring of potential financial imbalances.
- Continue work identifying and analyzing crossborder linkages among financial institutions and financial sectors, particularly with respect to their implications for financial stability.
  - Evaluated potential policy responses to financial globalization and increased interdependencies and assessed the economic effects of proposed macroprudential policies on financial institutions in the United States and abroad.
  - Published working papers on financial stability topics via the Finance and Economics Discussion Series and the International Finance Discussion Papers series, [www.federalreserve.gov/econresdata/workingpapers.htm](http://www.federalreserve.gov/econresdata/workingpapers.htm).





## Strategic Theme 2: Data Governance

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

**Objective 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.**

The OCDO must strengthen and improve the building blocks of the Board's data governance and management operations to support the Board's scale and capacity needs. Because of the numerous programs that will be undertaken by the OCDO, the office must have deliberate and professional tracking and management of these programs to ensure maximum success. Being able to track and report on both new and existing projects, while also performing the day-to-day responsibilities of the OCDO function, is key in 2014.

### Accomplishments

- Improve the OCDO foundation to strengthen and improve the building blocks of the Board's data governance and management operations to support the Board's scale and capacity needs.
  - Including offers accepted, staffed the OCDO with 13 of the 20 positions approved in the strategic framework.
  - Developed an engagement model in support of clear articulation of roles and responsibilities between OCDO, Board divisions, and IT.
  - Initiated data stewardship activities to enhance data accountability.
- Operate the BDC.
  - Developed the enterprise data governance framework and implemented the associated roadmap.
  - Completed the 2015 BDC roadmap and established associated workgroups.
  - Initiated the development of an enterprise data strategy that will align with the Board's strategic plan for 2016–19.
- Execute a program management office that will develop and implement a program that allows the OCDO to track and manage programs within the OCDO.
  - Two project managers were hired to implement a project management program.

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

Data governance is a core part of the OCDO's mission. Data governance supplies the discipline to deal with both the predictable and the unpredictable nature of new data acquisition and data distribution across the organization. In 2014, the OCDO will work with the BDC to ensure data governance policies, processes, and standards are developed; a roadmap of high-priority activities is approved; and an engagement model with other System data governance activities is executed.

## Accomplishments

- Develop a data governance program that facilitates and coordinates the strategic enterprise data governance activities for the Board.
  - Continued work on the Information Collection Clearance Automation project. The goal of this project is to mitigate the risk of failing to comply with Office of Management and Budget and Paperwork Reduction Act mandates, allow for more efficient use of Board resources, and improve business performance by supporting modernization and innovation in technology and processes.
  - Completed the discovery and analysis phases of the Information Management Services re-architecture project. The purpose of this project is to automate and modernize the OCDO's environment for the intake, management, and dissemination of data to permit future growth and scalability. The Board continues to increase the data required to perform its mission, which necessitates a robust data management environment.
  - Began a number of data policy efforts through the BDC.

### Objective 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.

The data maintained within the Board and across the System are critical to the Board's vision for improved

data optimization. Knowledge around the existence of data and an understanding of the relationship of that data to the mission functions, services, and processes are key to that vision. Policies and processes need to be developed and implemented to capture and provide a comprehensive catalog of Board data assets. The development of an information architecture program is necessary to provide stakeholders the ability to integrate and optimize data across the organization around the integration control and access of data assets.

## Accomplishments

- Discover data assets and architecture to ensure data assets are captured and a comprehensive catalog of Board data assets is compiled. The OCDO team will develop the processes and policies for a clearly defined program that allows for the leveraging of architecture content across business and technology groups invested in Board-owned enterprise data.
  - Began work on the Enterprise Data Inventory project, which is focused on improving discoverability of data assets of two major types of Board data: economic data and financial institution data.
  - Completed the first phase of cataloging key data assets for two Board divisions and will continue to work with other divisions to document key data assets.
  - Initiated an enhancement to a Boardwide taxonomy in support of search and discoverability efforts in collaboration with the Board's Research Library.

# 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.*

## Data Center Relocation

### Objective 3.1: Create capacity for increased data demand.

The projects associated with this objective are related to the installation of the equipment necessary to run the Data Center and the migration of existing data held in the current Data Center. These projects cannot begin until the design and construction of the new facility is completed.

#### Accomplishments

- Manage design and construction activities associated with the new facility.
  - Completed construction and commissioning of the Board's new Data Center.
- Acquire and install equipment necessary to run the relocated Data Center.
  - Successfully installed core information technology infrastructure systems in the new Data Center in support of the Research and Statistics and Information Technology (IT) Divisions.
- Coordinate the migration of existing data residing in the current Data Center.
  - Executed the migration of the Board's Internet service provider routing to go through the new Data Center.
  - Initiated scheduling of application and system migration to the new Data Center, with expected completion by year-end 2015.

### Objective 3.2: Address critical Data Center subsystem requirements.

Information Technology and Management Division staff will work to identify, obtain, and put in place critical Data Center subsystems.

- Work with Board and Federal Reserve Bank of Richmond staff to identify critical subsystems.
  - Implemented critical subsystems for mechanical, electrical, and plumbing, which are supported by the Federal Reserve Bank of Richmond.
- Monitor design and implementation of critical subsystems.
  - Updated the space, power, and cooling analysis as part of an overall Total Cost of Ownership review.

## Martin Building Renovation

### Objective 3.3: Create a safe and secure work environment.

Law enforcement staff continues to ensure that employees and visitors are adequately screened and safe while occupying a Board building. A threat assessment of the Board is being conducted and will be complete by mid-2014. Protective measures and continuity of operations plans will be updated, where appropriate. Staff will also allocate time and resources to selecting an appropriate security system for new lease space.

#### Accomplishments

- Conduct a current threat assessment for the Board.
  - Completed a threat assessment with the assistance of an outside consultant. The results will

be incorporated into the design process of the Martin Building renovation.

- Analyze and update the Board and division continuity of operation plans.
  - Began a full review of the Board and division continuity plans by the Intelligence and Resiliency Program. The review is scheduled to be completed in 2015.
- Select a security system for the new leased space.
  - Selected a new digital security system after reviewing several options. The process included reviewing the Board’s security requirements and identifying and evaluating the top systems in the industry in consultation with security consultants.

### Objective 3.4: Upgrade physical infrastructure.

Staff identified swing space, and negotiations for office space were completed in 2013. Negotiations for lower-level and below-grade space should be completed in 2014. Design work for office area space should also be completed in 2014, with construction starting late spring 2014. Design work for the Martin Building renovation will commence once requirements documentation is completed.

#### Accomplishments

- Manage the Martin Building renovation design and initiate construction procurement process.
  - Initiated the construction document phase for the Martin Building renovation. Progress continued on the design and technical engineering documents, as well as space planning for typical office floors.
  - Received two professional, independently prepared Martin Building renovation cost estimates at the end of the design development phase. Both cost estimates were below the stated cost limitation.
- Manage 1801 K Street leasehold improvement construction.
  - Substantially completed the construction at 1801 K Street on the above-grade office floors. Awarded a construction contract for the B-1 level, with construction activities well under way by the end of the fourth quarter.

- Engaged in negotiations with the proprietor for additional leased space at International Square. A letter of intent is expected to be completed in the first quarter of 2015.

- Complete New York Avenue renovation.
  - Completed construction efforts as planned on the majority of the office space, which included upgrading critical infrastructure and reconfiguring space for more efficient use. The remaining work will be completed by the third quarter of 2015.
- Manage Eccles infrastructure enhancements and upgrades.
  - Performed ongoing infrastructure enhancements and upgrades, such as a redundant demarcation for telecommunications and data services, which will ensure continual service delivery during the Martin Building renovation. Significant improvements to overhaul the building’s mechanical system, including the expansion of the uninterruptible power supply system and the addition of a 24/7 cooling loop for more reliable data services, will begin in 2015.

### Objective 3.5: Reduce utility consumption and expenses.

Comprehensive energy audits of Board-owned buildings commenced in 2012. Ongoing audits will ensure that existing Board facilities are operating in the same efficient manner as the Martin Building once renovations are completed.

#### Accomplishments

- Review and report on energy consumption at Board-owned buildings.
  - Completed a facilities condition assessment and retro commissioning effort of the Eccles Building.
  - Completed an energy audit of the New York Avenue Building.
  - Evaluated the Eccles and New York Avenue Buildings for the use of gas service instead of electricity for heating to reduce future energy consumption.
- Implement enhancements to save energy based on utility consumption versus benchmark data.

—Initiated future energy-saving measures in both the Eccles and New York Avenue Buildings as a result of the facilities condition assessment and energy audit. In 2015, mechanical air handlers

will be retrofitted in the Eccles Building, and a more efficient chiller will be installed in the New York Avenue Building.



# Strategic Theme 4: Maximizing the Value of Human Capital

*Create a work environment built on market-oriented compensation, a performance- and talent-focused culture, as well as support for academic and personal achievement that allows the Board to attract and retain top diverse talent, while fostering a culture of inclusion and maximizing performance.*

## Objective 4.1: Increase efficiency and effectiveness of the existing performance management process (PMP).

Human Resources (HR) staff, working with the HR Task Force, will reengineer the existing PMP to make the process more performance and accountability focused and explore automated tools to assist with writing performance evaluations.

### Accomplishments

- Continue reengineering effort of the existing PMP.
  - Solicited feedback from all participants in the pilot groups, and formed three subcommittees to identify improvements and changes.
  - Implemented changes to the training materials, the rating systems, and the online form based on participant and subcommittee feedback.
- Explore automated tools to assist with the new PMP.
  - Reviewed leading automated talent management systems, attended demos of possible solutions, and met with Federal Reserve Banks, private companies, and the Department of Treasury. In addition, worked closely with industry experts to acquire industry insights into talent management solutions, resulting in the procurement of a new automated performance management solution.
- Complete the pilot program currently ongoing in six divisions and roll out the new PMP to the remainder of the Board.

—Completed the pilot of a new performance management process called the 3Cs Conversations model. For the 2015 performance period, all divisions will participate in the new process.

- Review and revise administrative policies to align with and support the new PMP.
  - Updated and posted policies related to academic assistance, leave for professional development, provisional employment, and vacant-position posting.
- Train people managers in better techniques for performance management.
  - Offered 25 sessions of “Conversations at the Core” and “Partnering for Success.”

## Objective 4.2: Reduce administrative burden associated with the adverse action process while respecting employees’ due process rights.

HR will work with Legal Division staff to update the Board’s adverse action policy. A work group will identify inefficiencies and make policy revisions to reduce the administrative burden and ensure fairness in the adverse action process.

### Accomplishments

- Finalize and seek approval for revisions to the Board’s Adverse Action policy.
  - Finalized the updates to the Board’s Adverse Action policy that aligned to the new PMP.
- Finalize communication and posting of policy.
  - Posted the updated policy on the Board’s internal website.

### Objective 4.3: Enhance the talent management processes.

HR staff, working with leaders across the Board, will establish a systematic process to identify critical officer and manager positions and develop an effective succession planning process. Work will include assessing the readiness of each division to engage in the process and meeting with appropriate stakeholders. In addition to succession planning, HR staff will also work on personnel development programs and enhancements to current training offerings.

#### Accomplishments

- Develop a long-term succession plan to address the impact of the upcoming retirement wave and implement portions of the plan as appropriate Boardwide.
  - Continued work on succession planning for division directors, deputy directors, and critical officers.
- Continue implementation of the strategic HR recommendations to ensure the competencies identified and used during the recruitment process are in direct alignment with the Board's strategic needs, thereby creating a more flexible workforce.
  - Employed the Lominger Architect Competency Library to help identify appropriate competencies and formulate questions for the interview process, which aligned to the needs of the division sourcing the position.
- Develop enhanced cross-training and career development opportunities and strengthen management and leadership development programs Boardwide.
  - Continued developing a comprehensive core curriculum for staff that will complement staff development and performance goals.
  - Conducted data collection and analysis to understand the current state of officer leadership skills and provide initial recommendations for proposed Officer Development Program.

### Objective 4.4: Increase equitability in compensation and benefits in closer alignment with the Federal Reserve System and market.

HR staff will review the Board's compensation program and work-life offerings and recommend changes to enhance the attractiveness of the Board as an employer.

#### Accomplishments

- Continue to review compensation and benefits offerings and implement changes to enhance attraction, retention, and development of Board talent.
  - Conducted an analysis of market pay and reviewed the Board's compensation structure against available market data. Recommended a compensation redesign for the Board's compensation structure and overall program.
  - Received approval to implement a Boardwide compensation redesign in 2015.
- Continue to review, enhance, and develop employee life programs to help employees achieve balance in their professional and personal lives.
  - Completed a work-life balance and flexible work arrangement survey. Reviewed and analyzed telework policies of other federal agencies compared with the Board's policies.
  - Implemented Employee Life TV, developed a series on financial education, and expanded the employee Bright Horizons program.
  - Completed the Boardwide engagement survey in 2014. The results were compiled, and a report of the findings was prepared for review and discussion. In December, division directors began sharing high-level results with their individual divisions. Leaders of each division will work with their engagement champion to develop an action plan to address the findings.



# Strategic Theme 5: Management Processes

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

## Objective 5.1: Focus on enterprise issues.

Staff will focus on enhancing operational processes that support effective implementation of the Board's objectives, increase operating efficiencies, and reduce administrative burden.

### Accomplishments

- Begin planning for the 2016–19 period by conducting facilitated discussions with governors and division directors to identify broad strategic goals.
  - Began the planning process for the 2016–19 Strategic Plan. Selected a vendor to assist with developing and implementing the process.
  - Completed the foundational plan document using input and feedback from senior leadership on challenges and opportunities.
- Engage stakeholder groups to refine objectives and initiatives for inclusion in the revised strategic plan.
  - Established six workgroups made up of over 80 senior leaders representing all division and offices to develop objectives and performance indicators for the 2016–19 Strategic Plan.
- Revise existing strategic performance and financial management reports to provide a more uniform and integrated reporting structure.
  - Merged the quarterly *Chief Financial Officer Report* and the quarterly *Strategic Performance*

*Report* into a single quarterly internal performance report that describes accomplishments against strategic goals and objectives as well as financial performance.

- Eliminated the separate *Annual Review: Budget Review (ARBR)* and included the information in the Board's *Annual Report* as a new chapter.
- Implement fully the Investment Review Board (IRB) to support effective project management for significant projects.
  - Integrated the IRB into the budget and oversight process so that all significant projects are reviewed prior to budget approval. Reviewed 17 ongoing projects and four new projects that will start in 2015.

## Objective 5.2: Strengthen financial planning accountability.

Staff will work with key stakeholders to develop and implement changes to the planning and budget process. Staff will also propose enhancements to financial performance reporting to focus on the Board's fiduciary responsibility as a trusted steward of public funds.

### Accomplishments

- Implement a reporting framework that maps budgets and actual expenses to the Board's primary mission areas to provide greater comparability for reporting across the Federal Reserve System.
  - Developed a mapping of accounts and operating units that align the Board's budgets and actual expenses to operating areas that are similar to

those of the Federal Reserve Banks. Also created new detailed data accounts to improve the tracking and monitoring of data costs.

- Implement a multiyear forecasting tool and associated processes to inform guidance for developing the 2015 budget.
  - Began evaluating a multiyear forecasting application, SMARTCast, which will help inform budget development, provide forecast information, and more closely align the Board to Federal Reserve Banks information, which will allow for greater comparability in reporting.
  - Established budget guidance that included growth targets in the Board’s base budget and objectives for growth in specific cost categories based on historical spending. The guidance helped ensure consistency across all divisions.
- Evaluate the current approach for budgeting staffing requirements and tracking personnel expenses.
  - Increased the level of account analysis and support for salary components.
  - Provided summary tables, charts, and analysis of salary components and new initiatives for briefings and discussions with the Committee on Board Affairs (CBA) and the Executive Committee.

### Objective 5.3: Reduce financial management administrative burden.

Staff will engage a variety of stakeholders to identify opportunities to reduce administrative burden.

### Accomplishments

- Identify and implement additional automated reporting tools to assist divisions in monitoring expenses.
  - Enhanced the salary component tracking tool to help with year-end salary projections and variance explanations for specific salary components.
  - Began evaluating the budget system used by Federal Reserve Banks, BudgetWeb, to determine the feasibility of using it for developing the Board’s budget and to determine if the system would allow the Board to leverage common processes, reduce administrative functions, and establish repeatable, automated processes.
- Continue procurement reengineering efforts. Implement automated processes to assist divisions in developing statements of work.
  - The procurement reengineering effort was initiated in 2014 and will be phased in during 2015 with an operational review, competency development and training, and a strategic acquisition development review.

# 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.*

## Objective 6.1: Use financial resources efficiently and effectively.

Greater scrutiny of how financial resources are used will contribute to achieving budgetary-growth targets. Process changes that make the budget process more efficient will help ensure strategic investments remain within a sustainable budgetary range and provide the appropriate level of support for the Board to continue meeting its legislated mandates. The Board also needs the flexibility to provide an appropriate level of financial support to deliver new regulatory obligations and build capabilities to improve the way it delivers its mission for monetary policy, financial stability, and supervision.

### Accomplishments

- Review current processes for allocating certain costs to division cost centers and explore allocation of other costs to central accounts. Identify changes for the 2015 budget process.
  - Reviewed key administrative processes to identify opportunities for reducing redundancy and enhance operational efficiency. Work will continue in 2015 to further assess system limitations and potential enhancements to provide for allocation of costs.
- Enhance capital expense management through additional automated controls.
  - Centralized and streamlined tracking and reporting for Boardwide capital and strategic projects, including initiating collaborative meetings among divisions to build consensus and achieve common goals.

—Used new automation tools to develop the 2015 capital budget and cost-estimation expenses for new initiatives.

## Objective 6.2: Achieve budgetary savings and expense growth in line with Board-approved targets.

Budgetary discipline is necessary to manage the unavoidable expense growth required by the strategic framework. Enhanced cost-management strategies that help offset the strategic initiatives will contribute toward maintaining expense growth in line with approved targets.

### Accomplishments

- Continue implementation of cost-savings initiatives identified during development of the strategic framework.
  - Implemented additional controls over promotions and reclassifications budgets for all divisions through central management within the HR function.
  - Awarded a new five-year contract for off-site mail services, which resulted in \$1 million in savings over the previous annual contracted price.
  - Implemented cost savings identified by Print Shop staff in 2013 through the cancellation of leases for several pieces of equipment.
  - Outsourced travel expense reimbursement processing, saving over \$200,000 per year.
- Re-baseline division budgets and provide recommendations to the CBA for midyear adjustments in line with approved initiatives.
  - Analyzed spending on 2014 approved initiatives at midyear and provided the CBA with annual

projected spending, inclusive of the approved initiatives.

—Identified major variances for goods and services and re-baselined 2015 operating budgets to

reflect prior years' spending trends.



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