

**Testimony of Richard Berner, Director of the Office of Financial Research,
U.S. Department of the Treasury
House Financial Services Subcommittee on Oversight and Investigations
Hearing on “Who is Too Big to Fail? GAO’s Assessment of the Financial
Stability Oversight Council and the Office of Financial Research”
March 14, 2013**

The views expressed in this testimony are those of Richard Berner, Director of the Office of Financial Research, and do not necessarily represent the views of the President.

Introduction

Chairman McHenry, Ranking Member Green, and other members of the subcommittee, thank you for the opportunity to discuss the role of the Office of Financial Research (OFR) in supporting the Financial Stability Oversight Council (Council) and its member organizations. As we work to fulfill the mission of the OFR, we are fully committed to being transparent and accountable to the Congress and the public.

As we discussed when I last testified before this subcommittee, Congress created the OFR through the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) to improve the quality of financial data available to policymakers, and to develop better tools and analysis to understand the risks in the financial system.

The OFR’s independent data-and-research work supports the activities of the Council, which is responsible for identifying risks to the financial stability of the United States, promoting market discipline, and responding to emerging threats. The complementary mandates of the OFR, the Council, and its member organizations enable us comprehensively to assess and monitor the stability of the financial system. The OFR’s regular collaboration and coordination with them enables us to work toward achieving our shared mission, while avoiding duplication.

The OFR is committed to the highest level of transparency and accountability in pursuing our agenda. We publish the results of our work on our website, in our Annual Report, in six published working papers, and in press releases and blogs documenting important developments. We have hosted two conferences jointly with the Council, and numerous workshops and seminars to exchange ideas with other researchers and data scientists. We have created the Financial Research Advisory Committee to advise the OFR and, as required under the Federal Advisory Committee Act, the Committee holds open meetings and makes public its recommendations. With speeches and participation in panels, OFR officials regularly engage in public events and meetings with stakeholders in industry, and the research, data, and global regulatory communities.

The Office reports regularly to Congress and others charged with oversight. In December, as required under the Dodd-Frank Act, the Office issued its 2012 Annual Report to Congress on

Human Capital Planning, the second in the series. The Office routinely communicates with Congressional offices and committees, and OFR officials have testified before this and other committees. The Office also engages regularly in audits with inspectors general and the Government Accountability Office (GAO).

In my testimony today, I will describe the OFR's major accomplishments and key priorities. As you requested, I will also describe actions the OFR has taken in response to a report by the GAO in September 2012 entitled, "New Council and Research Office Should Strengthen the Accountability and Transparency of Their Decisions."

OFR Accomplishments

The OFR has made significant progress in fulfilling its primary data-and-research responsibilities.

Data and Analysis to Support the Council: The OFR has been active in providing key data and analysis that have informed the Council's work. These activities have included and will continue to include:

- Supplying data and analysis for the work of the Council's nonbank designation committee, including analysis of the asset management industry;
- Providing data and staff support for producing the Council's 2013 Annual Report;
- Acquiring, managing, protecting, and securely making available to the Council and to its own researchers the data needed for assessing and monitoring threats to financial stability;
- Supporting the Council's Systemic Risk Committee by reporting regularly on developments in financial markets and activities, in financial stability measures, and in macroeconomic indicators; and
- Conducting research and analysis, and monitoring risks related to short-term funding markets, money market funds, hedge funds, credit default swaps, and other areas.

Legal Entity Identifier: To improve the quality of financial data, the OFR is working to establish standards for data collection and usage. Standards enable us to aggregate and compare data on an apples-to-apples basis. Standards also facilitate our analysis of interconnections among financial firms and their counterparties, and help us to understand the transmission and amplification of stress across the financial system.

For industry, these standards also have benefits, enabling firms to report the same data to regulators as they use to manage risks and to run their management information systems, thereby reducing reporting burdens. Standards also reduce industry costs for collecting, cleaning, and aggregating data.

The OFR has played a central role in the international data-standards initiative to establish a global Legal Entity Identifier (LEI), a code that uniquely identifies parties to financial transactions and links to their basic "business card" information. The OFR's Chief Counsel was recently selected as the first Chair of the Regulatory Oversight Committee, which was formed to

lead and direct the LEI implementation under a mandate from the Group of 20 leading global economies.

We plan to extend our collaborative work on data standards by developing best practices for the hierarchies that map the relationships among entities or products. For example, legal entity hierarchies define the relationships, such as ownership and control, among legal entities engaged in financial transactions.

Organizational Build-Out: To accomplish its mission, the OFR needs a talented workforce and a world-class and secure technology infrastructure.

Workforce – The OFR employs 140 staff—an increase of 27 percent since the GAO report was issued. That number is expected to roughly double to 275-300 by FY2014-2015, when we plan to reach a steady-state staffing level. The OFR has also filled seven of its nine senior management positions at the Director, Deputy Director, and Chief levels, and in December issued its 2012 Annual Report to Congress on Human Capital Planning.

The OFR has created a Fellowship Program, through which experts from academia, state regulatory agencies, non-profit organizations, and other federal agencies may spend up to two years at the OFR performing research and conducting advanced training of OFR employees. The Fellowship Program facilitates the sharing of new methods and approaches to identifying and analyzing threats to financial stability. The OFR's first Executive Fellow is a Professor of Economics at Johns Hopkins University.

Technology Infrastructure – The Office has put in place a short-term analytical environment for its researchers, as well as agreed-on processes and a collaboration environment for the secure exchange of data with other Council member organizations. To log, track, and follow-up on responses to requests to the OFR for data and services, the OFR is establishing an online service desk. The Office is currently building upon its foundational infrastructure to create a long-term secure analytical environment, leveraging advances in current technologies related to data management.

No OFR goals are more important than safely and securely collecting data and safeguarding the data we hold. The Office is governed by Treasury information security standards, and our Chief Information Security Officer works closely with his Treasury counterpart to assure that our policies and procedures meet or exceed the standards of the Treasury Department, as well as the standards of Council member organizations. As required by the Federal Information Security Management Act, the Office has established an information security program policy and data handling procedures for proper safekeeping of information at the highest level of the Federal Information Processing Standards.

First Annual Report: The OFR's first Annual Report, released on July 20, 2012, included a framework for evaluating threats to financial stability, a comprehensive exploration and identification of current risks, and thorough discussions of OFR's activities. The report also described the OFR's agenda related to data and research, and the types and sources of data that the OFR will need to fill data gaps and fulfill its mission. In addition, the report contained a

selection of OFR research and a primer on data standards. The report is on the OFR's website at <http://www.treasury.gov/ofr>.

Working Paper Series: The OFR has released six working papers, including four new papers published this year, focusing on topics such as systemic risk analytics, best practices in risk management, agent-based modeling, and hedge fund contagion. The Working Paper Series makes accessible the OFR's in-depth work to analyze and measure threats to financial stability. These papers, some developed in partnership with national experts, are intended to promote discussion among researchers and subsequent feedback that helps the OFR fine-tune its research. The papers are all available on the OFR's website at <http://www.treasury.gov/ofr>. The OFR plans to continue to increase its output of important, timely, and innovative research on financial stability topics as its research staff continues to grow and its network of partnerships with outside researchers and academics continues to mature and expand.

Seminars and Conferences: The OFR has hosted a number of conferences, workshops, and seminars to engage with experts from academia, industry, and elsewhere in government on questions related to financial stability. Specifically:

- Since 2011, the OFR has hosted more than 60 seminars as part of its Research Seminar Series, a forum in which OFR staff can exchange ideas with thought leaders in economics, finance, and other fields.
- The OFR and the Council have co-sponsored two conferences: "The Macroprudential Toolkit: Measurement and Analysis" in early December 2011 and "Assessing Financial Intermediation: Measurement and Analysis" in early December 2012.
- The OFR convened a workshop in August 2012 for academic researchers, financial market participants, and financial policymakers to evaluate stress-testing approaches and future research.
- Last month, the OFR co-hosted with other Council member organizations the third annual Regulatory Data Workshop. Experts from federal regulatory agencies discussed advances and challenges in financial data management and technologies, and identified areas for collaboration. It is notable that the first Regulatory Data Workshop helped launch initial U.S. work on the LEI.

Financial Research Advisory Committee: In November 2012, the OFR announced the membership of the Financial Research Advisory Committee, a group of 30 distinguished professionals in economics, finance, financial services, data management, risk management, and information technology. These experts provide advice to the OFR on best practices for data management, data standards, and research methodologies. The Committee first met in December 2012; minutes of that meeting are posted on the OFR website. At their next meeting, members will review the work of the panel's subcommittees, which are focused on research, data and technology, and financial services and risk management.

OFR Actions in Response to the GAO Report

The subcommittee's invitation letter asked me to address a September 2012 GAO report that reviewed the progress of the Council and the OFR in achieving their missions. The report

concluded that the Council and the OFR have made progress in establishing their operations and approaches for monitoring threats to financial stability, developing mechanisms for accountability and transparency, and enhancing collaboration among Council member organizations. The report also recommended steps to improve communication with the public, to develop the OFR's strategic planning and performance management system, and to clarify responsibilities between the Council and the OFR.

The Office strongly supports GAO's important oversight function and appreciates its constructive work in conducting its review. We have been pleased to work with Nicole Clowers and her team. Their willingness to engage with us and their valuable suggestions are helping us improve our effectiveness, transparency, and accountability.

In the following three sections, I will describe the progress the OFR has made in responding to GAO's recommendations.

Improving Communication with the Public: The OFR has greatly improved its ability to provide information on its work to the public since the issuance of the GAO report. The OFR has redesigned its website (www.treasury.gov/ofr) to make it more user friendly, timely, and proactive. Launched in November 2012, the new website design and enhanced OFR capabilities offer several improvements:

- Easier navigation and better organization of Web content.
- Significantly expanded online content. For example, we routinely post on the OFR website our reports, research papers, assessment information, data standards updates, research papers, conference materials, news releases, Congressional testimony, and other information.
- Increased transparency including through a home page "slideshow" that highlights key new content and links to it.
- E-mail update alerts that flag new content; currently more than 2,000 subscribers receive the notifications.
- Analytical tools to monitor the number and timing of website visits and page views.
- Ability to update our own Web content through the site's content management system for more timely information.

To foster enhanced communication and outreach, the OFR will further enhance the website and has created a new position for a Chief of External Relations, who will lead a team responsible for communications, Congressional affairs, and outreach with industry and academia.

The OFR has also sought to demonstrate transparency and accountability in its communications by:

- Testifying at Congressional hearings and responding to Congressional inquiries;
- Providing briefings and attending meetings with members of Congress, their staffs, and the staffs of Congressional committees;
- Making routine notifications to key Congressional offices and committees about significant OFR activities and initiatives;

- Publishing the OFR Annual Report and Annual Report to Congress on Human Capital Planning; and
- Engaging in, and responding to, audits conducted by GAO, inspectors general, and others.

Further Developing Strategic Planning and Performance Management: The OFR's Strategic Framework, published in March 2012, described the OFR's long-term strategic goals, objectives, and implementation priorities for FY 2012-FY 2014. The framework also detailed the OFR's organization, workforce plan, governance, transparency, and oversight. The GAO report called the framework an important step but recommended that the Office further develop its strategic planning and performance management system by linking OFR activities to its goals, and using publicly-available performance measures to monitor its progress.

In response, the OFR has finalized a set of performance measures for each of its strategic goals (see Table 1). These measures will be included in the FY 2014 budget submission to Congress, along with specific targets for FY2013 and FY2014.

Table 1 - OFR Foundational Performance Measures	
Goal	Performance Measures
Council Support	<ul style="list-style-type: none"> • Percent of responses to Council data and research requests that meet delivery targets • Percent of project milestones met for establishment of an interagency data inventory program
Data Standards	<ul style="list-style-type: none"> • Percent of milestones met in information standards strategy
Center of Excellence for Research	<ul style="list-style-type: none"> • Number of research products published • Number of research products coauthored or pursued in collaboration with outside researchers, government agencies, or others
Public Information	<ul style="list-style-type: none"> • Percent increase in the number of OFR Web page visitors
Building the OFR	<ul style="list-style-type: none"> • Percent of OFR implementation priorities completed • Cost of the OFR relative to total assessed assets, per \$billion assessed • Total staff hired compared to targets

OFR goals and objectives continue to drive its budget and its strategies for planning, project management, and human capital. This work is reflected in documents that the OFR uses to manage its day-to-day work, as well as in congressionally-mandated reports. The forthcoming President's Budget will provide additional details on the budget projections of the OFR.

Clarifying Council-OFR Responsibilities: The GAO report acknowledged that there does not appear to be overlap in the work of the OFR and the Council, which have complementary mandates, or among the work of the Council member organizations. However, the report recommended that, to ensure comprehensive identification and analysis of threats to the financial system and to minimize duplication, the Council and the OFR clarify their respective responsibilities for monitoring threats to financial stability, as well as the roles of Council member organizations.

The OFR and the Council have strengthened steps to assure a coordinated approach to achieving their shared mission and to minimize duplication. By drawing on the collective expertise of its

member organizations and the OFR, the Council and its committees facilitate comprehensive monitoring and analysis of trends and emerging risks to the U.S. financial system. The Deputies Committee of the Council serves as a coordinating entity to monitor any overlap among Council member organizations. Additionally, senior leaders of the OFR meet weekly with the Council staff to coordinate ongoing activities and to prevent duplication of effort.

The OFR and the Council also take great care not to duplicate the work of federal financial regulators, which continue to collect the data they need to monitor the financial institutions they supervise. To provide the connective tissue between the efforts of other Council member organizations and to complement their work, the OFR collaborates with them to identify and fill gaps in data and knowledge about the financial system. To that end, the OFR has conducted an inventory of data held by those organizations. By statute, the OFR must consult closely with them before collecting data from any firm, and works to collaborate on any data gathering activities beyond simple procurements.

The OFR is also fostering Council-wide collaboration on data issues through the Council's Data Committee. The Committee coordinates among Council member organizations on matters pertaining to data standards and collection. The Committee has formed working groups to address topics, such as establishing protocols for sharing data among Council member organizations and identifying data hierarchies needed for analysis.

Conclusion

Chairman McHenry, Ranking Member Green, and other members of the subcommittee, thank you again for the opportunity to appear before you today. We welcome the oversight of this subcommittee in helping to ensure that, in carrying out its mission, the OFR is fully transparent and accountable to the Congress and the public. We look forward to working with you and your staff to continue the critical task of promoting the stability of this nation's financial system.

I would be happy to answer your questions.