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House Financial Services Subcommittee on Oversight and Investigations

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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 Wagner, Ranking Member Green, and members of the subcommittee, thank you for the opportunity to testify this morning on behalf of the Office of Financial Research.

This hearing will be my final opportunity to testify before Congress as OFR Director because, as you probably know, I am preparing to leave the OFR at year's end. I have had the privilege of serving as the OFR's first Director since January 2013 and before that, beginning April 2011, as Counselor to the Treasury Secretary with the assignment of standing up the OFR.

Back then, we had only four staff members and no separate office or infrastructure — just a broad mandate to support U.S. financial stability after the worst financial crisis since the Great Depression.

Today, the OFR has the resources to meet that mandate: an expert staff of men and women with the tools needed to do their jobs, an office in Washington, a small office in New York, and an analytic environment where OFR staff members in data and research securely maintain large datasets and conduct computing-intensive analysis.

I am proud of the accomplishments that the dedication of the OFR workforce has made possible toward fulfilling our mandate and delivering value to our stakeholders, primarily the Financial Stability Oversight Council (FSOC, Council). Our staff attained these consequential achievements despite headwinds from working for a start-up amid persistent uncertainties about existential threats to the OFR.

In the remainder of my testimony, I will discuss each of the topics requested in the subcommittee's invitation letter.

OFR Progress in Fulfilling Its Statutory Mandate

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) gave the OFR a dual data-and-research mandate. In support of the Council and member agencies in fulfilling their purposes and duties, the Office is tasked with improving the scope, quality, and accessibility of financial data; assessing and monitoring threats to financial stability; and evaluating financial stability policies.

All of the Office's activities are undertaken to fulfill that mandate. Usefulness in helping to fulfill the mandate is our yardstick for measuring the importance and priority of every proposed OFR project and activity.

FSOC Support

In support of the Council, its committees, and its members, I and members of the OFR staff work routinely with them on a wide variety of FSOC activities and initiatives.

As Director, I am a nonvoting member of the Council. I and other members of the OFR staff maintain many points of contact with members of the FSOC staff and the staffs of FSOC members to determine their needs from the OFR for support, and collaborate on how to provide that support.

The OFR supports the FSOC and its members by:

- collecting, maintaining, and securely sharing supervisory and commercial datasets;
- purchasing and securely maintaining more than 65 other datasets used by the FSOC staff and used for the FSOC Annual Report and other analytical needs, including:
    - credit default swap data,
    - data on trends in the primary syndicated loan market and on principal market participants,
    - granular information on credit trends in lender portfolios and in newly originated loans,
    - a global insurance database,
    - information about residential mortgage and mortgage-backed securities activity,
    - a fixed-income securities database,
    - anonymized, loan-level mortgage information,
    - data on measures of credit risk in publicly and privately held firms, banks, and insurance companies, and in broad classes of equity and debt-related assets, and
    - data and accompanying tools to combine comprehensive banking financial statements with a wide range of other bank information.

- leading the FSOC Data Committee — a Council forum for sharing information and coordinating action on data-related topics that affect member agencies;

- producing the Interagency Data Inventory — a catalog of data collected by member agencies — and co-leading the Data Committee's working group that updates it. Maintenance of the inventory, now on the OFR website, is increasingly important as we strive to identify opportunities to reduce the financial regulatory reporting burden;

- engaging with the FSOC staff in weekly calls and in other ways to coordinate on current projects and issues;

- supplying data and analysis related to financial system vulnerabilities;

- helping the Council identify and prioritize threats to financial stability, in part by regularly producing and presenting threat assessments to the FSOC Systemic Risk Committee. These assessments include results of our analysis of confidential data available to the OFR on credit default swaps, repo and securities lending markets, and private funds;

- conducting, coordinating, and sponsoring objective research to evaluate and improve regulatory and financial stability policies;

- developing new monitoring and risk-assessment tools and presenting them to the FSOC Systemic Risk Committee;

- presenting the results of our work to the Council members and to FSOC deputies committee to inform their discussions of financial-system vulnerabilities and potential policy steps;

- presenting at, and contributing to discussions in, other FSOC working committees and groups, including the Regulation and Resolution Committee and Financial Market Utilities Committee;

- assisting the FSOC in developing its annual report by providing data, analysis, and writing;

- providing data and analysis to support the FSOC's nonbank designation process; and

- developing procedures and protocols for securely sharing data among the FSOC, its members, and the OFR.

The OFR has also partnered with FSOC member agencies on a number of research and data projects, some at the specific direction of the FSOC or its member agencies, and others in a less formal response to concerns discussed. Examples related to data scope and data quality are provided in the next section.

Progress on Improving Financial Data

More broadly, good data are essential for good policymaking. Data needed to inform financial stability analysis and policymaking must often be granular. Such data must also be standardized to assure their quality; to make them easier to compare, aggregate, and analyze; and to make them shed light on who owns what risks.

Our data-and-research agenda requires advanced and secure information technology tools. We bring large quantities of data into our analytical environment, which we designed and built specifically to securely support computing-intensive work with large datasets. The need to keep these data secure and safeguard against breaches drives much of our security work.

The OFR has made strides in building and strengthening all three legs of what I call the three-legged stool of improving the scope, quality and accessibility of financial data.

Data Scope

Regulators and the industry both need financial data that are comprehensive in scope. Those data must also be detailed enough for assessing and monitoring risks and vulnerabilities in the financial system, and for policymakers to make informed decisions. Fulfillment of the OFR mandate to fill gaps in the data needed involves collecting key data from the financial industry, often collaborating with fellow regulators.

How we collect data determines how heavy or light the regulatory reporting burden will be. The OFR and many fellow regulators are committed to identifying, using, and promoting best practices in collecting data to reduce or eliminate duplication and minimize any collection burdens. The OFR has been able to accomplish much of its work relying on data already collected by other regulators, or voluntarily provided by industry, rather than undertaking compulsory measures.

For example, we have collaborated with two FSOC member agencies — the Federal Reserve and the Securities and Exchange Commission (SEC) — on an initiative to collect data describing activity in bilateral repurchase agreements, or repos, which are a critical source of secured short-term funding across the financial system.

A repo is essentially a collateralized loan, when one party sells a security to another party with an agreement to repurchase it later at an agreed price. Securities lending is the same thing but involves a loan rather than a sale, and is a much smaller market. The U.S. repo market provides more than $3 trillion in funding every day. However, the repo market can also contribute to risks to financial stability, so obtaining more information about these transactions will fill an important data gap. Bilateral repo transactions involve specific securities as collateral and may be transacted bilaterally between two parties.

To ensure we employed best practices in data collection, we launched a voluntary pilot project in 2015 in partnership with the Federal Reserve and the SEC to collect data on bilateral repo transactions from a representative handful of firms engaged in repo markets. The pilot provided valuable insights into the overall repo market and the data that market participants used to describe repo transactions.

Having learned from the pilot, and shared the results of that initiative with the Council and the public, we recently reported to the Council and the public our plan with the Federal Reserve to undertake a rulemaking later in the current fiscal year for an ongoing data collection covering cleared bilateral repo transactions.

These data are critical for and will be used immediately in publishing the Secured Overnight Financing Rate, which has been selected as an alternative to the LIBOR interest rate benchmark. U.S. dollar LIBOR has been used to set interest rates on trillions of dollars of retail mortgages, corporate loans, derivatives, and other financial products, but LIBOR's past reliance on survey submissions rather than transactions undermined the integrity of the benchmark and permitted manipulation.

Data Quality

Providing more and better data is important. Standardizing them and sharing them now, in financial calm times, across borders is equally so. There is no point for regulators to ask firms for data that are not useful or in formats that cannot be used. In addition, firms bear costs for providing data in a different format if the data is already being provided to regulators in a format that we could use.

Data quality is the second leg of the three-legged stool of better financial data. High-quality data that conform to common standards facilitate aggregation, sharing, risk management, and good decision making. High-quality data prevent overlap and duplication among data collections, and facilitate the collection of data once for a variety of purposes by many regulators.

The global Legal Entity Identifier, or LEI, is a foundational data standard that the OFR played a lead role in developing and promoting.

Like a bar code for precisely identifying parties to financial transactions, the LEI helps make the flood of data flowing in the financial system easier to compare and share. The LEI can also generate efficiencies for financial companies in internal reporting and in collecting, cleaning, and aggregating data.

If the LEI system had been in place during the financial crisis, the breadth and depth of exposures to the failing Lehman Brothers would have been easier to identify, assess, and manage.

By reducing overlap and duplication, the LEI can also ease regulatory reporting burdens. Estimates of industry savings in managing their data by using common standards run into the billions of dollars. Because of these savings, industry groups have called on regulators to broadly adopt the LEI.

Globally, more than 800,000 companies now have LEIs. Ironically, however, given that the LEI was an American brainchild, U.S. regulators have been slow to abandon their individual data identification systems or to map the LEI to those systems. U.S. regulators are unfortunately lagging behind their counterparts overseas, most notably in the European Union.

For years, I have been calling for regulators at home and abroad to step up and require the LEI in regulatory reporting. The time has come to move from suggesting change to requiring it. U.S. federal financial regulators should mandate the LEI in regulatory reporting. I am also calling for industry to amplify its support.

The OFR has the authority to require the use of data standards when we collect data, so we will propose requiring the LEI in our upcoming data collection on repo transactions.

To promote data quality, we have also collaborated with U.S. regulators and FSOC members, including the Commodity Futures Trading Commission (CFTC) and the SEC, and with those abroad, specifically the Bank of England and the European Central Bank, to create frameworks for setting global standards for granular data, such as in swaps and other over-the-counter derivatives.

To help implement those standards, the OFR and the CFTC conducted a joint project to promote the use of data standards in swap data reporting to assure swap data quality and usefulness. An initial memorandum of understanding initiated the project to enhance the quality, types, and formats of data collected from registered swap data repositories. Under a second agreement, members of the OFR staff worked at the CFTC on the project.

In addition, we advised the SEC on swap data, and on ways to improve Form PF for measuring the risk exposures of hedge funds and other private funds. We have also advised the Consumer Financial Protection Bureau and the Federal Housing Finance Agency on mortgage data standards.

Data Accessibility

Data accessibility is the third leg of the three-legged stool of better financial data. Lack of data sharing among regulators is a major cause of duplicative and overlapping reporting requirements, so the OFR is fostering data sharing through efforts to overcome obstacles to it.

A key — perhaps the key — challenge lies in balancing the need to share data more broadly with the imperative to protect data security. Tools for keeping data secure include security protocols, encryption, and authentication. Using these tools and aligning data security requirements among regulators helps to persuade data owners that their shared data will be secure.

The Federal Financial Institutions Examination Council — the interagency group of banking regulators — has identified some best practices for secure data sharing, including technology solutions and the use of standards to assure that shared data are consistent and accurate.

A related challenge is to reach agreement on the details and protocols of data sharing. Specific memorandums of understanding, or MOUs, are needed to spell out those details. The OFR has signed more than 50 such MOUs with federal, state, and overseas regulators and others to facilitate data sharing.

Negotiating MOU details can take months. To streamline and accelerate the process, we are working with other FSOC members to develop a set of common MOU provisions.

So-called “metadata repositories” can also facilitate sharing and avoid duplicative data collections. The repositories, which contain metadata — data about data — rather than the datasets themselves, give regulators insight into the data collections of other regulators. A regulator contemplating a new data collection can consult the repository to see if another regulator is already collecting the needed data.

We plan to build on the Interagency Data Inventory, a metadata repository described above. We will also help other organizations to link their existing metadata catalogs or create new ones. We envision the OFR maintaining a central library of financial metadata for multiple stakeholders, giving authorized users a single, secure place to find sources of data.

Reducing Regulatory Reporting Burden

As the previous discussion implies, our data-related work facilitates reducing the regulatory reporting burden, and the OFR has launched a pilot project to explore how we can collaborate with the Council to do that.

Regulation and oversight of financial institutions and markets is divided among federal and state agencies. Banks, brokers, and other U.S. financial institutions and markets are overseen on the federal level by nine independent regulators and three self-regulatory organizations. (Insurance companies and some banks are also regulated at the state level). Firms engaged in multiple financial activities are governed by more than one regulator. Sometimes a single activity is overseen by multiple regulators.

This fragmented approach enables tailored regulation and enforcement, but can also result in inconsistent and inefficient oversight and reporting. The current regulatory structure has led to inconsistencies in agencies' data collection activities. U.S. financial institutions report that they are often required to submit the same data to more than one U.S. regulator using different calculations, classifications, and formats.

Duplicative, conflicting, or inconsistent reporting requirements have the potential to increase costs, undermine the efficiency and quality of data collections, and impede data comparison and integration. Duplicative, conflicting, or inconsistent reporting requirements can also misalign regulatory reports from the data that firms use for their risk management. Likewise, these requirements could impair the ability of government officials to assess and monitor threats to financial stability and assure the functionality and integrity of financial markets. Finally, duplicative and inconsistent requirements can erode public confidence in government.

To better understand this issue, we asked a handful of financial institutions and industry groups for examples of such burdens. During initial discussions, firms focused on reports to FSOC member agencies. Information came from asset managers, banks, and financial services trade associations.

We analyzed a selection of the examples identified by industry to determine the general validity of industry concerns and identify ways the OFR might help address the issues. For each example, we compared multiple data fields to identify duplicative, conflicting, or inconsistent data requirements and found that the industry's concerns warrant further analysis. That follow-up work is underway at the OFR.

Progress on Financial Stability Research

A large part of the OFR's dual mandate involves financial data, while another major part involves conducting research and developing new tools to better assess and monitor financial-system vulnerabilities.

Much of this work is done in support of or in collaboration with Council member agencies. Based on OFR research, for example, we advised and collaborate with the Federal Reserve on ways to improve the stress testing of banks, including analysis of the data used in stress tests. We also conducted and maintain analysis to determine the best methods for identifying the systemic footprint of banking firms. In this effort, we built on our earlier research to show how a multifactor approach for assessing systemic importance and risk is superior to making determinations based solely on bank size.

Topics related to financial stability are explored in the more than 100 OFR research papers and reports posted on our website. These publications cover areas central to the OFR mission, such as potential improvements in stress testing banks and nonbanks, assessing the systemic importance of banks, and the risks and benefits of central counterparties.

We have submitted the required Annual Report to Congress every year since 2012 and have published a separate Financial Stability Report every year since 2015. All of this work is posted on the OFR website the benefit of the Council and the public.

Monitoring Tools

The website contains several OFR interactive monitoring tools; developing such tools was noted above as a statutory mandate. Two new tools are:

- Financial System Vulnerabilities Monitor – This monitor is a heat map of 58 indicators of potential vulnerabilities in the U.S. financial system, designed to provide early warning signals of potential U.S. financial system vulnerabilities that merit investigation. The monitor is organized in six categories: (1) macroeconomic, (2) market, (3) credit, (4) solvency and leverage, (5) funding and liquidity, and (6) contagion.

  We base our overall assessment of U.S. financial stability on an evaluation of the categories of risk in this monitor and on our research, analysis, and surveillance of the financial system. When the monitor shows high or rising vulnerabilities, it indicates a high or rising risk of disruptions in the future. Vulnerabilities typically lead to additional stress when shocks hit, such as when widespread losses or loan defaults strike the financial system. The additional stress can feed a downward cycle.

  The monitor currently shows that market risks from a potential sharp change in the prices of assets in financial markets are high and rising. Rising prices and falling risk premiums may leave some markets vulnerable to such changes. (Risk premiums are returns in excess of returns on risk-free investments.) Such market corrections can trigger financial instability when the assets are held by entities that have excessive leverage and rely on short-term debt and other liabilities.

- Financial Stress Index – The index is a daily market-based snapshot of stress in global financial markets, constructed from 33 financial market variables. The index is positive when stress levels are above average, and negative when stress levels are below average.

  Financial stress refers to a breakdown in the normal functioning of financial markets, sometimes with adverse consequences for the economy. Just as body temperature is used to monitor physical health, stress is one of several metrics that we use to monitor financial health. Episodes of stress can be severe, as in the financial crisis.

  The index currently shows that overall stress is near its lowest level since the financial crisis, primarily because of low volatility. However, this low volatility may be leading investors to take big risks, making the financial system more fragile and vulnerable to shocks.

  Policymakers need accurate, clear, and timely signals of market stress to effectively monitor potential effects on the financial system and the economy.

  The index incorporates five categories of indicators: (1) credit, (2) equity valuation, (3) funding, (4) safe assets, and (5) volatility. The index shows stress contributions by the United States, other advanced economies, and emerging markets.

- U.S. Money Market Fund Monitor – This monitor, displayed on the most visited page on the OFR website, is designed to track the investment portfolios of money market funds by funds' asset types, investments in different countries, counterparties, and other characteristics. Users can view trends and developments across the money market fund industry.

  Money market funds have been popular for decades among investors who want better returns than bank accounts offer, but still with little risk. Since the 1990s, institutional investors have used money market funds as a professional cash management option.

  The funds strive to maintain the value of the money invested in them. At the height of the financial crisis in 2008, investors in an established fund lost money when the price of each share fell slightly below $1 — called "breaking the buck." In the ensuing weeks, investors pulled hundreds of billions of dollars out of prime money market funds in favor of safer investments, such as government money market funds. The government stepped in to insure funds temporarily. That support ended in 2009. Reforms recommended by the Council and adopted by the SEC required prime funds as of October 2016 for institutional investors to use floating share values rather than a fixed share price.

  A lack of detailed data about fund holdings blocked regulators from seeing risks quickly in 2008. Since then, regulators have begun to require funds to report detailed data about their holdings more frequently. Funds are also required to hold more liquid assets.

To develop this monitor, the OFR analyzed more than 4 million records of monthly data on the holdings of about 500 funds over five years. Before the OFR released the monitor, the data were on the SEC website as separate individual filings and industry-level monthly reports. The OFR monitor displays the data in a graphical format that is easy to adjust to the needs of any user. Users can also download the data into spreadsheets.

- G-SIB Scores Interactive Chart – This online chart shows the set of 12 financial indicators that the Basel Committee on Banking Supervision, a group of bank supervisors from 28 jurisdictions, created in 2011 to identify global systemically important banks, or G-SIBs. A G-SIB is a bank whose failure is believed to pose a threat to the international financial system. The interactive chart displays the data for G-SIBs based in the United States, the eurozone, China, and several other countries. The chart graphically displays the data employed in our work to identify the systemic footprint of banking firms.

Annual Report

Our just-released *2017 Annual Report to Congress*, which I attached to this testimony, assesses the state of the U.S. financial system, including an analysis of threats to financial stability, key findings from our research and analysis, and status of the OFR's efforts in meeting its mission.

The report says overall risks to financial stability remain moderate. We reached this assessment by weighing the financial system's resilience against its vulnerabilities.

Although the system is far more resilient than it was when the financial crisis loomed a decade ago, new vulnerabilities have emerged, including in the last fiscal year. For example, vulnerabilities from excessive leverage (when resources are low relative to investment exposures) could be exposed by high and rising risks from a potential sudden drop in prices of assets in financial markets, particularly stock markets and bond markets.

The report highlights three specific, key threats to the U.S. financial system:

1. Vulnerabilities to Cybersecurity Incidents – The financial system is vulnerable to cybersecurity incidents because of its interconnectedness and heavy reliance on information technology.

   A large-scale cyberattack or other cybersecurity incident could disrupt the operations of one or more financial companies and markets, and spread through financial networks and operational connections to the entire system, threatening financial stability and the broader economy.

   The financial system is an attractive target for cyber thieves and other hackers because financial companies manage the nation's wealth and handle trillions of dollars in transactions every day that underlie the U.S. economy.

To assist in mitigating this threat, we are combining network analysis with maps of the financial system populated by real-world data to help identify potential systemic vulnerabilities to cybersecurity threats.

2. Obstacles to Resolving Failing Systemically Important Financial Institutions – Resolution is the process of restructuring or liquidating a failing financial company through bankruptcy or regulatory mechanism.

   The failure of a large, complex financial company could transmit distress to other firms and possibly trigger another financial crisis.

   After the last crisis, regulators developed important tools for resolving failing U.S. bank holding companies that are systemically important, but orderly resolution may be difficult in some scenarios. In addition, tools to enable an orderly resolution process for nonbanks are still works in progress.

3. Structural Changes in Markets and Industry – Three aspects of market structure pose threats: (1) lack of substitutability, which is the ability to replace essential services if a provider fails or drops that line of business; (2) fragmentation of trading activities across multiple channels and products; and (3) the chance of a difficult transition to a new reference rate to replace the London Interbank Offered Rate, or LIBOR.

We selected the key threats based on their potential impact, probability of occurring, probability of happening soon, and the preparedness of industry and government to manage them.

The annual report also discusses how we are serving our key stakeholders: the FSOC, FSOC members, the Treasury Department, Congress, the financial services industry, and the public. It describes our efforts to continue adjusting our focus to meet the needs of those stakeholders.

In addition, the report discusses our national and international collaboration over the past fiscal year, current staffing levels, our budget, and information technology projects. OFR employees participate in a wide variety of events related to financial stability research, data, and analysis. Collaboration with outside researchers, regulators, and industry experts domestically and abroad is crucial to our success.

OFR Financial Research Advisory Committee

We receive valuable suggestions and recommendations from our Financial Research Advisory Committee, a group of 29 professionals with experience in business, economics, finance, data science, risk management, and information technology. Committee members are drawn from industry, academia, and the policy community.

The committee, established in 2012, gives the OFR the benefit of industry experts who bring diverse perspectives to inform our work and help the OFR to fulfill its mission. Under the governance of the Federal Advisory Committee Act, the full committee meets semiannually. The OFR makes the minutes and webcasts of the meetings available to the public.

The three subcommittees — Research, Data and Technology, and Financial Services and Risk Management — meet at different times during the year to develop committee work.

The full committee met twice in FY 2017:

- February 23 – This meeting included discussions of financial stability risks identified by the OFR, the OFR initiative to develop a financial instrument reference database, adoption of the Legal Entity Identifier, and the research agendas of OFR programs on central counterparties and risks in financial institutions. The OFR also received updates from the committee's Financial Instrument Reference Database Viewpoint Working Group, Data Standards Working Group, and Financial Innovation Working Group.

- July 20 – This meeting included a presentation on improvements to the Financial Stability Monitor (redeveloped as the Financial System Vulnerabilities Monitor); a demonstration of the OFR's new monitoring tool, the Financial Stress Index; an update on the OFR's efforts to identify obstacles to broader adoption of the Legal Entity Identifier; and a discussion of the OFR's work to monitor and analyze operational risks and cybersecurity risks. The OFR also received updates from the committee's Financial Innovation Working Group.

Information Security

The OFR has no priority higher than information security. The OFR recognizes its responsibility to safeguard data collected and used in support of its mission. Appropriate management of all data ensures that the OFR remains an essential source of data and analysis for monitoring threats to financial stability.

We have built a strong security and privacy awareness program over the past several years dedicated to ensuring that our systems and our data are secure and will remain secure.

The OFR continues to cultivate a strong culture of security awareness and the Office follows applicable federal regulations, directives, and best practices for information security. For example, the OFR follows the National Institute of Standards and Technology guidance for the implementation and operation of a government information security program.

All OFR employees take annual security and privacy training, and employees who have access to nonpublic data are subject to heightened post-employment restrictions.

The OFR brings large quantities of data into its analytical environment, which was designed and built specifically for the OFR to securely support computing-intensive work with large datasets. The OFR's information security program works to ensure that the analytic environment has effective security controls and procedures that match the level of risk posed by the information systems, tools, and data the OFR holds.

In FY 2017, we renewed our commitment to maintaining the confidentiality, integrity, and availability of our systems and the information they hold. We conducted our annual internal and external “penetration tests,” which were completed by an independent third party, with no major findings identified. We also deployed several additional controls and tools that strengthened our security posture.

Workforce and Culture

To achieve its mission, the OFR has made a priority of building and maintaining a diverse and highly skilled workforce. The Office began in 2011 with only four employees, increased to 30 by the end of that year, and currently stands at 207.

Our workforce has great expertise and experience in fields central to our mission and related support functions. As noted, I am proud of the accomplishments that the dedicated OFR workforce has made possible.

However, morale among OFR employees is low. Federal Employee Viewpoint Survey results for the OFR began to decline in 2014. In response, we took steps that included launching an employee engagement project that produced recommendations resulting in changes, such as an employee suggestion box, an employee Lunch and Learn program, a newsletter and electronic message boards to keep employees informed, a redesigned and upgraded employee intranet site, an online employee directory, and an employee recognition program.

These changes did not produce the desired results to improve morale, echoed in survey scores. After the 2015 and 2016 results confirmed that we had more work to do to achieve the goal of the OFR becoming a world-class workplace, we brought in outside experts from main Treasury to collaborate with us on additional steps to improve workplace quality. They recommended that OFR managers and employees engage in training to improve management, communication, and workplace engagement, for example:

- The OFR leadership team (Director, senior managers, and associate directors) enrolled in a “Leadership Deep Dive Program,” a multiple-session course conducted by the Weatherhead School of Management at Case Western Reserve University.

- This program was complemented by a series of new and existing training courses in which managers enrolled, and offered by Treasury’s Office of Human Resources and the Office of Civil Rights and Diversity, on a range of topics, including diversity and inclusion, combatting unconscious bias, performance management, merit system principles, and employee development.

- The OFR leadership team took additional diversity and conflict resolution training.

- The team took hands-on training on “The Speed of Trust,” and later made the training available to the entire staff. The Speed of Trust program is aimed at changing the culture and performance of individuals teams by practicing behavior that build trust and communication and avoiding counterfeit behavior that undermines it.

In addition, Treasury's Office of Human Resources, Treasury's Office of Civil Rights and Diversity, Treasury's Office of Minority and Women Inclusion, and Treasury's Office of the General Counsel recommended that we hire an independent consultant to conduct a cultural assessment of the OFR workforce and provide recommendations to a panel of officials including me, and the heads the offices named above.

The contractor, Charles River Associates, issued its report just a couple of weeks ago (Nov. 21) and we shared the full report with Congress, the Secretary of the Treasury and his staff, Treasury's Inspector General, and the OFR staff. We posted the report on the OFR website and issued a statement on it to the public. The full report is attached to this testimony.

One of the reasons we launched the cultural assessment initiative was the appearance of several anonymous videos on the Internet making allegations including employee discrimination at the OFR. We took these allegations seriously and responded.

Charles River independently assessed whether statistical evidence indicates patterns of discriminatory practices at the OFR. The employment outcomes studied included applicant selections for hire, starting base salary, performance ratings, merit pay increases, current base salary, award selections, promotions, and separations.

The report concluded, "There is no evidence of a pattern and practice of adverse decisions with respect to gender or race/ethnicity in any employment practices analyzed. Instead, the analyses of the different employment outcomes are overwhelmingly neutral with respect to gender and race/ethnicity and are among the most neutral or favorable that CRA [Charles River Associates] has observed for an employer."

Charles River also elicited employee feedback about workplace culture, with a focus on diversity, inclusion, fairness, employee engagement, empowerment, and trust.

The report included recommendations for improving OFR culture, while noting that, "the study focused only on identified concerns raised by employees and did not ask what is working well at OFR, so the results do not represent a balanced view of both positives and negatives."

The full report is attached to this testimony.

Morale among OFR employees has also been affected in recent years and employee stress levels rose as proposals repeatedly surfaced in Congress to eliminate the Office, and as the President's Budget proposed steep cuts in the OFR budget and workforce. Late last month, employees were told that that the staff would be cut consistent with the budget.

Employees during OFR "all hands" staff meetings express concern about what the future holds; when decisions will be made about job cuts and budget cuts; and how OFR functions, work groups, and individuals will be targeted for elimination.

We are committed to making the OFR a world-class workplace, and believe that our efforts, especially recently, are having an impact. We have received only preliminary results from the 2017 Federal Employee Viewpoint Survey, but those suggest that we may see progress when the full results are available. We will provide them to the subcommittee when they are available.

OFR Cooperation with Oversight Bodies

The OFR always cooperates fully with oversight bodies, including Congress, the Government Accountability Office (GAO), and the Treasury Department's Office of Inspector General. We have provided documents as requested and made OFR employees available for interviews as requested.

Congressional Oversight

As noted, we have submitted an Annual Report to Congress as required by the Dodd-Frank Act every year since 2012 and made those reports broadly available on the OFR website. We submitted reports on Human Capital Planning as required from 2012 through 2015.

As required by the law (the Consolidated Appropriations Act of 2016, PL 114-113), we file quarterly reports to Congress on the OFR's use of funds, staffing levels, and actions to achieve Office goals and objectives.

We interact routinely with key members of Congress, their staffs, and committee staffs to respond to questions, address concerns, and share insights on issues related to financial stability.

In addition, we are working with other agencies to respond to Congressional inquiries about assessing the benefits of cross-market surveillance for market oversight and financial stability monitoring, and the potential impact for financial firms of a new Chapter 14 of the Bankruptcy Code.

I testify before Congress whenever invited. This is my fourth time testifying as OFR Director.

Auditors' Oversight

Since its establishment, the OFR has been the subject of four GAO audits (and interviewed for another five); six audits by the Treasury Inspector General; and participated in one audit by the Council of Inspectors General on Financial Oversight.

After a GAO report in 2012 called for the OFR to strengthen its transparency and accountability, we made significant strides to improve our communication with our stakeholders, including the public:

- We made major upgrades to our website, which began as only a few pages on the website of the Treasury Department, became a stand-alone OFR website in early 2015, and was recently redesigned to showcase our interactive online monitors and data standards work.

- More than 31,000 subscribers have signed up to receive alerts about our website updates.

- We created a senior management position of Chief of External Affairs to foster enhanced communication and outreach by leading the team responsible for communications, Congressional affairs, and outreach with FSOC, its members, and industry.

- We further developed our strategic planning and performance management. We published the OFR Strategic Framework in early 2012 for fiscal years 2012-14, which described the OFR’s long-term strategic goals, objectives, and implementation priorities.

- In early 2015, we released our Strategic Plan for fiscal years 2015-19. The plan provides OFR leaders with a roadmap for achieving the Office's mission, vision, goals, and objectives. It also demonstrates the OFR's commitment to being transparent and accountable, and to linking activities to strategic goals and performance metrics.

The 2012 GAO report acknowledged that no material overlap is apparent in the work of the OFR and the FSOC, which have complementary mandates, or among the work of FSOC member organizations. However, the report recommended that, to ensure comprehensive identification and analysis of threats to the financial system and to minimize duplication, the FSOC and the OFR clarify their respective responsibilities for monitoring threats to financial stability, as well as the roles of FSOC member organizations. In response, the OFR and the FSOC have strengthened steps to assure a coordinated approach to achieving their shared mission and minimize duplication.

During a GAO audit that began in February 2015, eight OFR senior managers and several other OFR employees were interviewed and the Office provided more than 700 pages of requested documentation. The OFR complied fully with all GAO requests related to the audit. The GAO reportedly terminated the audit in 2016 but never informed the OFR of the termination. The GAO has declined to inform the OFR about the reasons for termination and has not requested additional information from the OFR that might be needed to resume the audit.

In a separate audit by the Treasury Inspector General related to procurement, we have provided all requested documents and made available witnesses for 34 interviews. That audit was started in August 2014 before stopping, starting, and stopping again until October 2016, when the IG returned to the audit. In all the OFR has responded to at least 1,400 inquiries related to this audit; as I understand it, as of today, only one document request (containing 10 discreet inquiries) is outstanding.

Conclusion

When I first testified before this subcommittee in 2011, I said the OFR is mandated to shed light into the dark corners of the financial system.

The OFR has made enormous progress since its inception on fulfilling its mission. Today, we and the Council can see into those corners more clearly than ever before.

But our work is far from complete. The evolving nature of the financial system and the vulnerabilities that could threaten it make financial stability a moving target and the dark corners move with it. Because this work requires ongoing vigilance, that light must continue to shine.

Thank you again for inviting me here. I am happy to respond to your questions.