



UNITED STATES
DEPARTMENT OF
THE TREASURY



Federal Economic Statistics Advisory Committee

Statistical Response to the
Financial Crisis:
Office of Financial Research

Adam LaVier
U.S. Department of the Treasury

June 17, 2011

What is the Office of Financial Research?

The Office of Financial Research (OFR) is a new entity established by the Dodd-Frank Act.

Mission: to support the Financial Stability Oversight Council (FSOC) in promoting financial stability by:

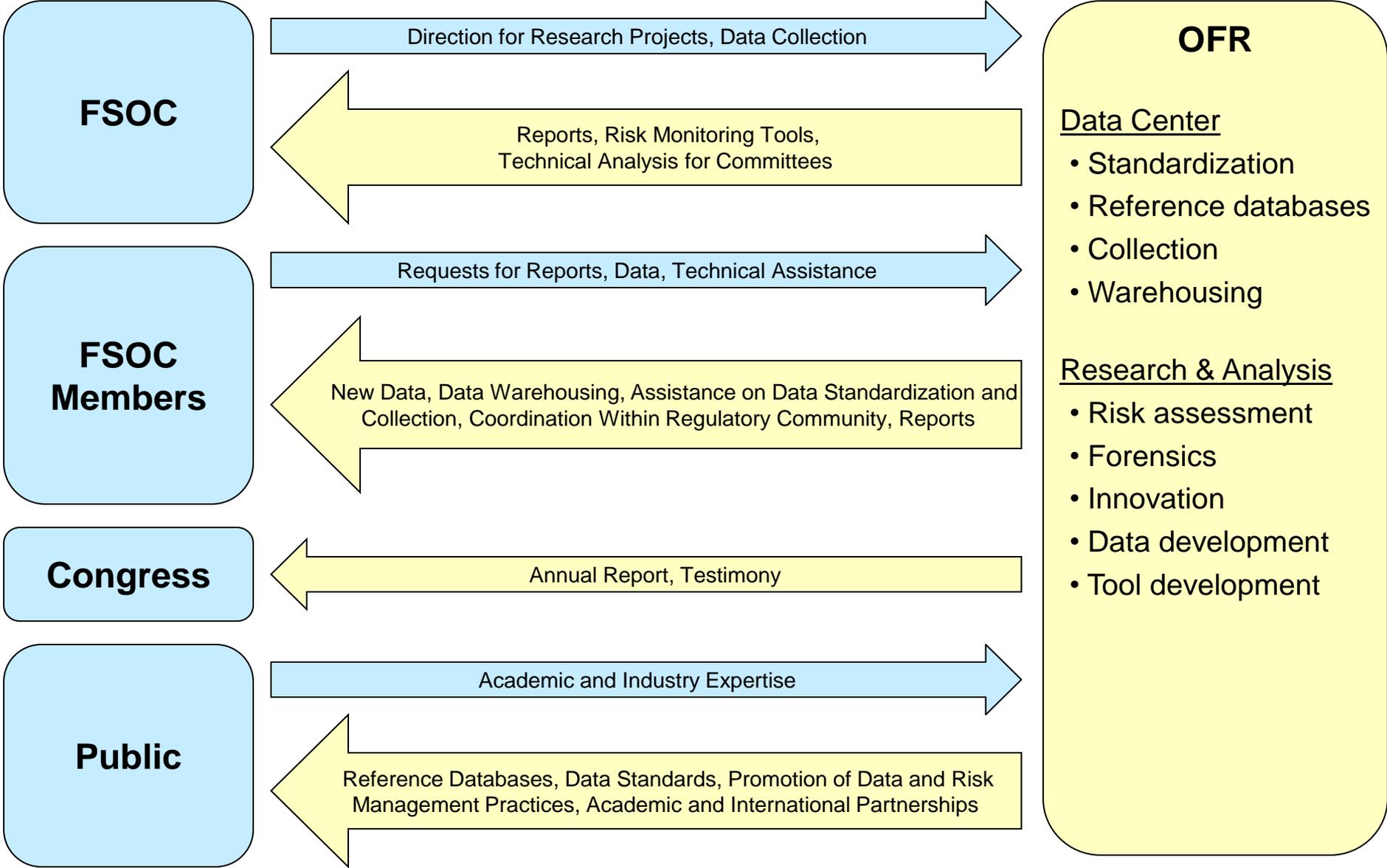
- Measuring and analyzing factors affecting financial stability and helping to develop policies to promote it;
- Increasing the integrity, accuracy and transparency of information shared by financial market participants, reported to regulators, and used by research communities;
- Reporting to the Congress and the public on the OFR's analysis of significant financial market developments, potential threats to financial stability, and policy responses;
- Collaborating with foreign policymakers and regulators, as well as multilateral organizations, to establish global standards and policies that promote financial stability, efficiencies, and a level playing field.

How is the OFR different from other Federal financial agencies?

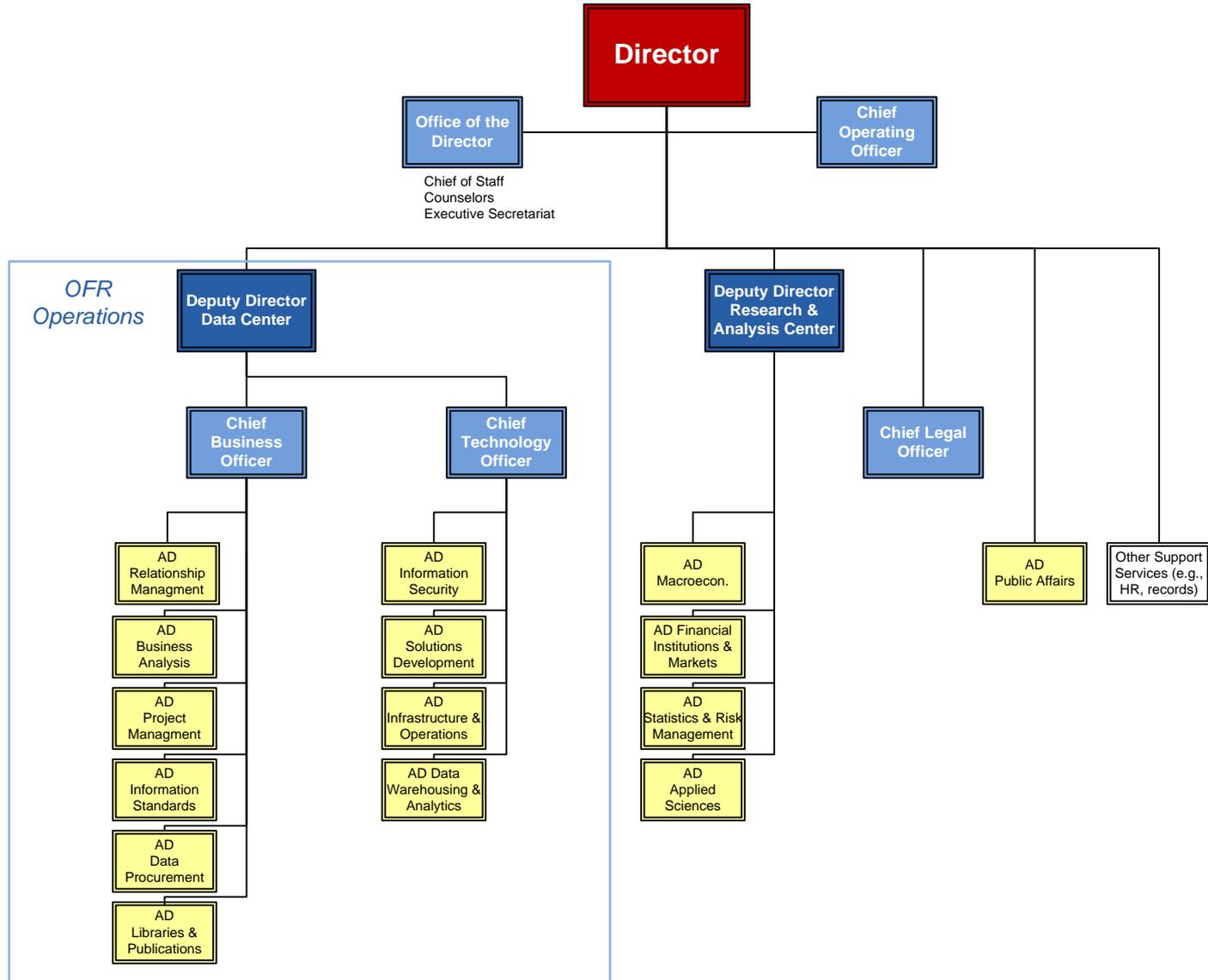
The OFR has a number of unique characteristics among Federal financial agencies.

- Sole focus on risks to the financial system
- Authority to collect data from anywhere in that system
- Mandate to improve the quality of financial reporting by
 - Establishing standards for types and formats of data, including transactions and positions
 - Preparing and publishing reference data on financial companies and instruments
- Commitment to bring science to bear
- Independence
 - Funding
 - Reporting
 - Regulatory authority
 - Director's term of appointment

Who does the OFR serve?



How is the OFR organized?



What should research communities expect from the OFR?

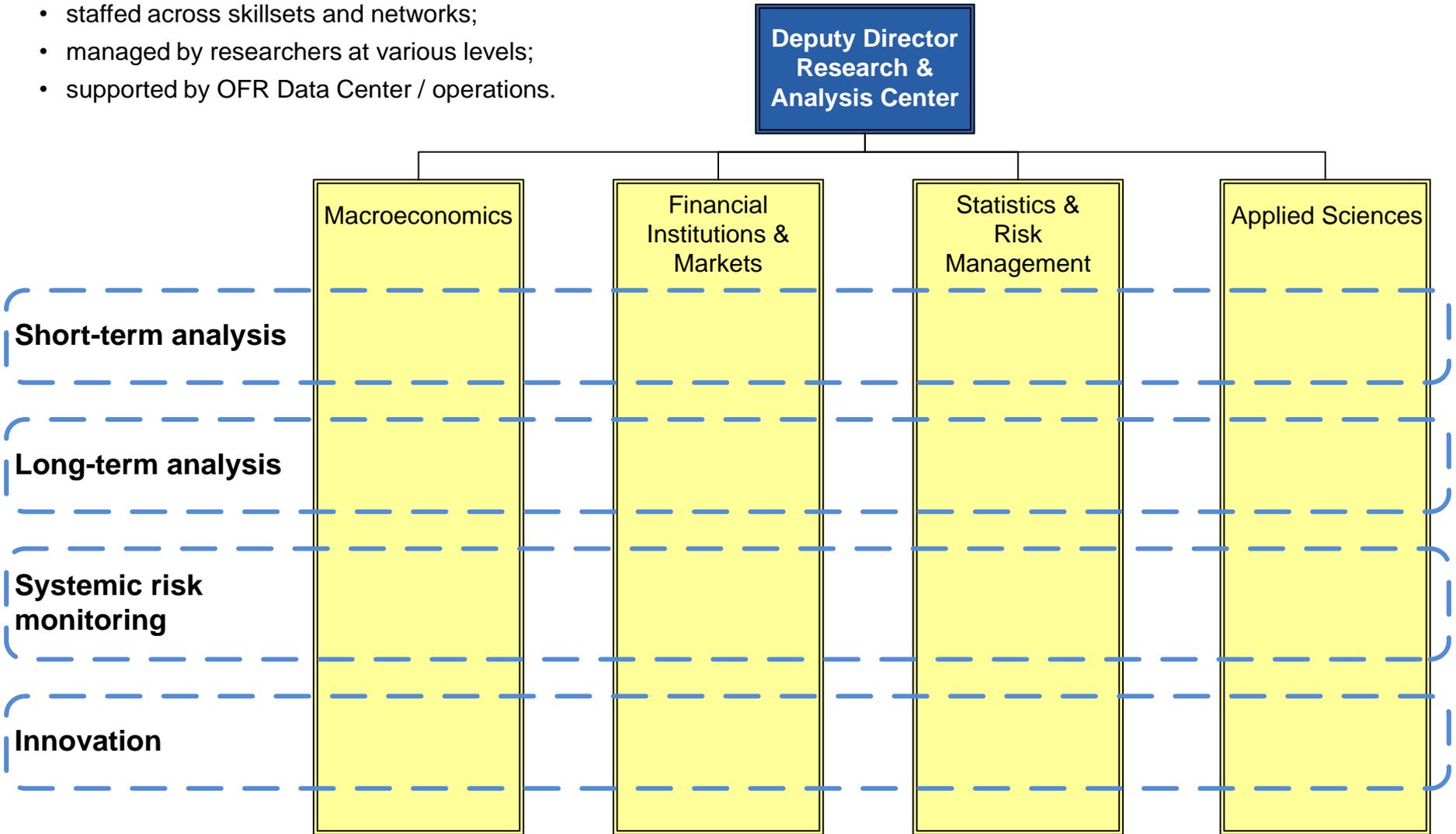
The OFR will:

- Produce, promote and sponsor financial research;
- Publish non-confidential financial data, reference data, and analytical tools;
- Establish fellowship and visiting scholar programs;
- Collaborate with and provide data services for Federal financial regulators and statistical agencies;
- Promote best practices in risk management.

How is the OFR Research and Analysis Center organized?

Projects are

- defined by policy *and* by individual researchers;
- staffed across skillsets and networks;
- managed by researchers at various levels;
- supported by OFR Data Center / operations.



Examples of near and long-term OFR research projects

- Systemic risk measurement and monitoring
 - Survey paper
 - Analytical tools
 - Metadata for inputs
 - Dashboard for FSOC
- Developing measures of leverage in asset markets
 - Will require aggregating transaction level data from market utilities
- Evaluating stress tests, including translation of scenarios and aggregation of results for macroprudential supervision
- Analyzing the benefits and costs of various macroprudential tools
- Assessing the impact of changes in financial regulation on the supply of credit and economic activity
 - Will require both macro and micro analysis and data

} Will be published

Measuring Risk in the Financial System

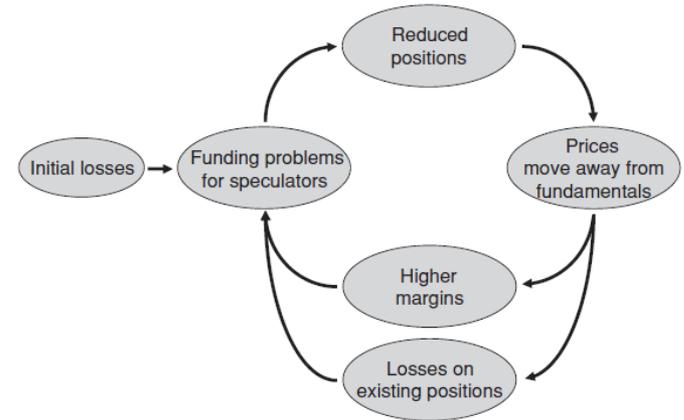
- Many models and approaches
 - Leverage models
 - Macroeconomic indicators
 - Probability distributions
 - Contingent claims analysis
 - Network models
 - Stress testing
 - Risk accounting
 - Illiquidity and crowded trades
 - Principal components
 - ...
- Each approach attempts to answer a particular set of questions
- No one approach can answer all questions
- Vital to approach the problem from multiple perspectives
- Improving the quality of information in the system and identifying new developments are critical

Measuring Risk in the Financial System – Market Liquidity

- Portfolio reaction function
 - Funding sources
 - Exposure to “runnable” funding
 - Access to lifelines
 - Marketable assets
 - Fire-sale pricing
 - Collateral pledges and margin requirements
- Herd behavior

- Role of speculators as liquidity providers

Example: Liquidity Spiral*

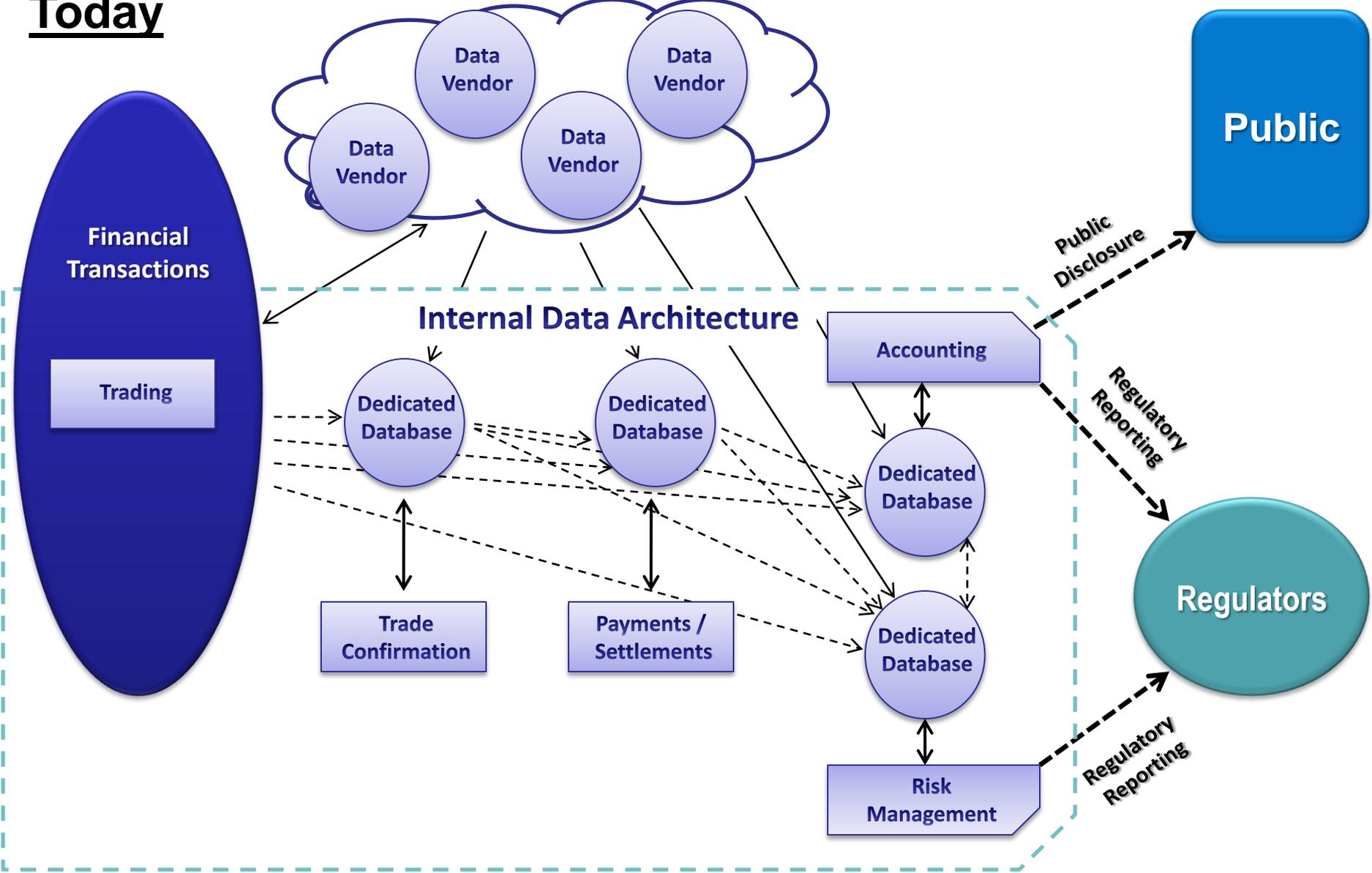


* See Brunnermeier and Pederson, Market Liquidity and Funding Liquidity, *The Review of Financial Studies*, 2009, Vol. 22, No. 66, pp. 2201-2238.

- Inputs for analysis
 - Balance sheet details
 - Trading volume
 - Volatility (e.g., VIX)
 - Bid-ask spreads
 - Collateral and margins

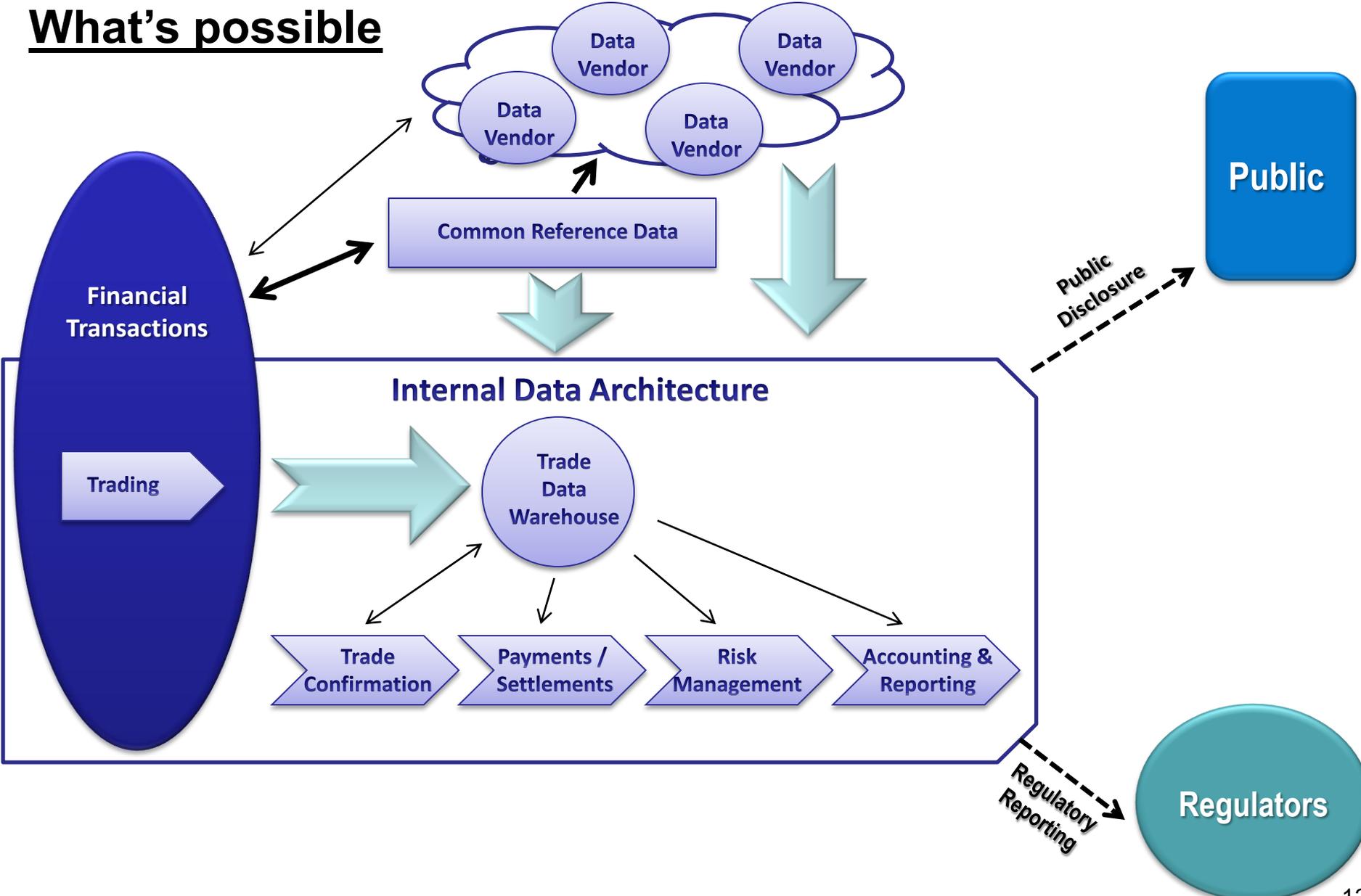
How can the OFR improve reporting, processing, and risk management?

Today



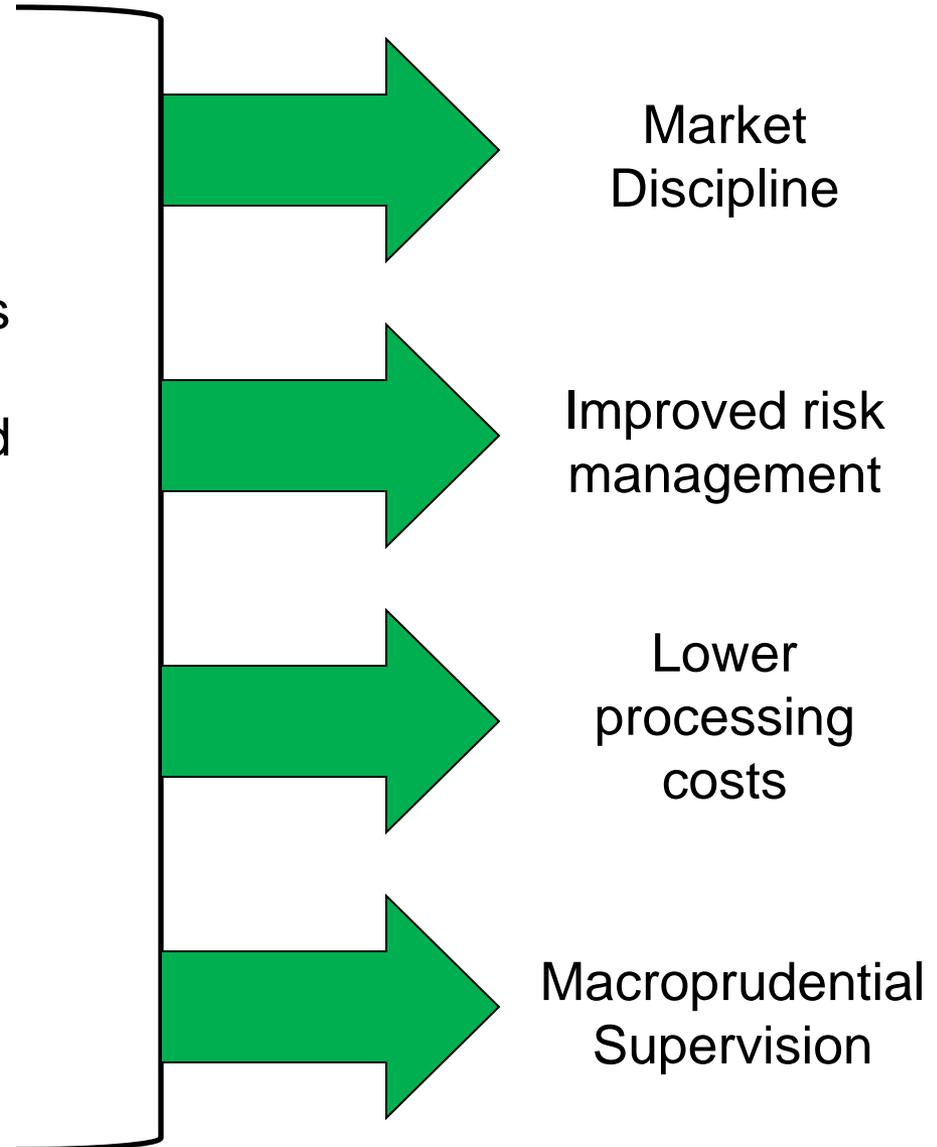
How can the OFR improve reporting, processing, and risk management?

What's possible



How can the OFR improve market discipline and lower costs?

- Standardized reporting
 - OFR reporting (LEI initiative)
 - Coordinating across agencies
 - Accounting-based, risk-based
- Reference data
 - Financial companies
 - Financial instruments
- Research
- Non-confidential data



Entity Identifiers are Needed for a Variety of Functions

Counterparty identification on Transactions

- Orders
- Trades
- Settlements
- Payments

Counterparty and Issuer Risk Management

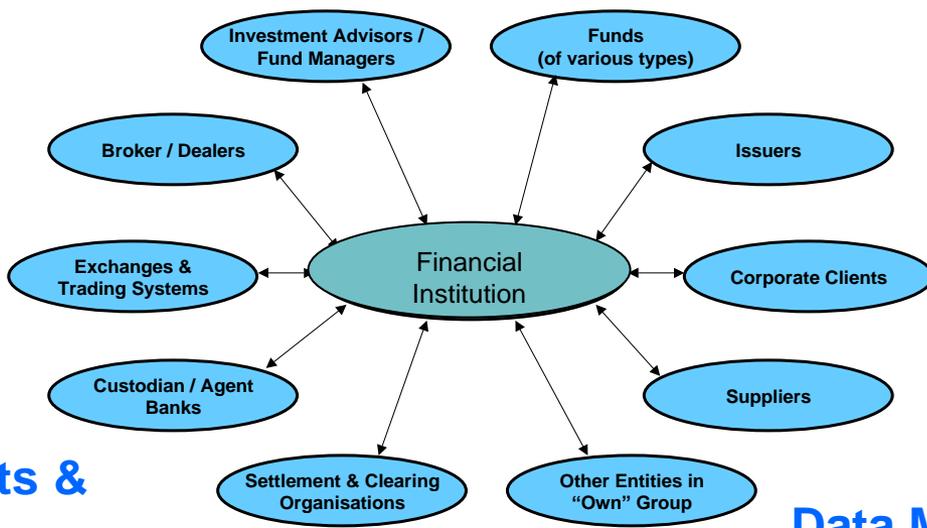
- Basel III
- Internal risk mgt.

Collateral Management

Liquidity and Capital Management

Regulatory Reporting

- KYC and AML
- Financial Services Act
- Patriot Act
- Dodd Frank



Legal Agreements & Documentation

- Account set-up
- Customer relationship

Corporate Research

- Analyst Reports

Data Management

- Capture / Sourcing
- Look-up & Cross-referencing
- Maintenance

Estimates of annual industry savings from LEI implementation range from hundreds of millions to billions of US dollars.