



OFFICE OF THE DIRECTOR LETTER

It is my pleasure to deliver the Office of Financial Research's 2023 Annual Report to Congress.

Approaching my second year as Acting Director of the OFR, I continue to lead the talented and dedicated OFR staff with a principal focus on supporting the Financial Stability Oversight Council (Council) and its member agencies.

As noted in this year's report, the information we cover describes our research and analysis as of September 30, 2023, the end of the fiscal year (FY). In an ever-changing environment, however, we recognize that much has evolved since that time. The OFR will continue to monitor and analyze risks to financial stability, remaining agile to identify and examine emerging threats as they arise now and in the future.

This year brought certain challenges in the financial sector—as global unrest continued and a regional banking crisis put us all on heightened alert. Our report this year shows that risk overall remains elevated, and multiple indicators suggest an economic slowdown as ongoing inflation and geopolitical unrest persist. Labor markets are strong, but financial conditions continue to tighten.

Fiscal Year 2023 has been marked by significant progress and transformation at OFR, showcasing our unwavering commitment to enhancing financial research, fostering collaboration, and increasing awareness of financial stability risks. The workforce of the OFR delivered on its mission in a few critical ways, and I would like to reflect on those accomplishments.

Throughout this year, the OFR contributed to financial stability by increasing transparency within a vital component of the U.S. financial system, building a data collection utility to securely accept and store confidential data, advancing a platform for interagency collaborative financial stability

research and data sharing, and fostering partnerships to develop greater depth and breadth of research.

Non-centrally Cleared Bilateral Repo

The OFR maintained a sharp focus on the U.S. repurchase agreement (repo) market, in recognition that a stable, well-functioning repo market is critical to U.S. financial stability. In early January, following last year’s non-centrally cleared bilateral repo (NCCBR) pilot collection, the OFR sought public comment on a proposed rule to establish an ongoing, daily data collection of NCCBR transactions in the U.S. repo market. The NCCBR segment of the market makes up the majority of repo activity by several key categories of institutions, such as primary dealers and hedge funds, and has been of particular interest to the Council. The proposed collection is designed to close the remaining critical gap in regulators’ information on the repo market.

We received public comments on our proposed rule in March 2023, with many acknowledging the importance of bringing greater transparency to this segment of the multi-trillion-dollar repo market. As this report goes to press, we anticipate the publication of a Final Rule in early 2024.

At the same time, OFR researchers were able to use the NCCBR pilot data to provide early insights in advance of an ongoing collection. We examined why volumes are particularly high in this market segment in a May 12, 2023 brief, which provided regulators and policymakers with the most comprehensive, granular view of the repo market to date.

Data Collection Utility

With our increasing focus on providing the Council and its member agencies with data, we began development of a data collection utility. The utility leverages efficient, cloud-based technology to securely receive, authenticate, and store submissions from external entities. It will allow for greater flexibility for financial industry participants reporting data, enabling manual and automated submissions. This year, we completed the initial build and testing, with production planned for early 2024. Once fully operational, the OFR will be even more well-positioned to support the Council as needed with data collections, surveys, and pilots.

Financial Stress Index

Internationally, 2023 was the year of transition from the London Interbank Offered Rate (LIBOR) to the Secured Overnight Financing Rate (SOFR), marking a fundamental shift in global financial markets. One of OFR’s online monitoring tools is the Financial Stress Index (FSI), which represents a daily, market-based snapshot of stress in global financial markets using 33 economic indicators—including seven that were based on LIBOR. In anticipation of this year’s transition, we replaced these indicators with new ones based on SOFR and other recommended rates, seamlessly transitioning the monitor to allow for meaningful comparisons of financial stress levels across time, including both before and after the LIBOR transition.

JADE

Last year, we delivered a cutting-edge pilot – a data and analytics hub to support the integration of multidisciplinary data with financial data in a collaborative research environment. This year, we moved into full-scale production and launched the Joint Analysis Data Environment (JADE). JADE is an innovative platform that combines high-performance computing, analytical software, and analysis-ready data to support collaborative financial stability research among Council member agencies. The OFR designed JADE to support research on all manner of financial stability topics, although the first initiative identified for JADE is climate-related financial risk.

Recent stress events in the financial system demonstrate the need for regulators to be able to collaborate at a moment's notice because threats can arise from multiple sources and across jurisdictional boundaries. JADE will help to transform the way regulators collaborate, streamlining regulators' access and providing the platform for more comprehensive risk measurement and monitoring.

The initial phase of JADE was officially launched in July of 2023 and represents a milestone in the OFR's mandate to support the Council and its member agencies. The OFR made JADE available to users from two Council member agencies in FY 2023 and expects to expand access to other member agencies over the subsequent months. As technology and the financial system evolve, the creation and delivery of JADE reflects the OFR's commitment to keeping pace and providing the platform to execute its mandate to support the Council and its member agencies' priorities.

Partnerships

Throughout the years, the OFR has also had the incredible privilege to partner with many great organizations. This year, as emerging risks continue to evolve, we have created a few more strategic partnerships, including with the National Science Foundation (NSF), the National Bureau of Economic Research (NBER), and the Defense Advanced Research Projects Agency (DARPA).

By partnering with NBER in 2023 through the catalyzed partnership with the NSF, the OFR is expected to gain important insights from the uniquely specialized research community to inform cutting-edge topics related to financial stability and expand the reach of frontier research. The funding provided by the OFR allows the NBER to convene a conference and fund research projects related to areas identified by the OFR as critical areas of need.

Cyber threats continue to be a serious and evolving threat to financial stability. To increase visibility in this area, the OFR partnered with the Defense Advanced Research Projects Agency (DARPA) to develop research on risks to the U.S. financial system from a cyberattack.

In conclusion, this year was marked with significant accomplishments, a number of which have transformed the OFR's ability to more fully execute its statutory mandates. The OFR and its staff remain steadfast in our efforts to advance the understanding of financial stability and contribute to the financial well-being of our nation. These accomplishments underscored our dedication to providing the financial community with tools, resources, and insights.

As we move into the new fiscal year, our commitment to advancing financial research, fostering collaboration, and enhancing transparency remains unwavering. We look forward to building on these achievements and continuing to support the evolving needs of the Council and its member agencies.

A handwritten signature in black ink, reading "James D. Martin". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

James D. Martin
Acting Director