OFFICE OF FINANCIAL RESEARCH

Financial Research Advisory Committee Meeting
February 23, 2017

Discussion Topic: Research Agenda for Risks in Financial Institutions Program

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 mandates the OFR to conduct, coordinate, and sponsor research to support and improve regulation of financial entities (Sec. 154(c)(1)(C)). The OFR's risks in financial institutions program is designed to satisfy this mandate. It looks at banks, nonbanks, and their interrelationships within the U.S. financial system as a whole. The OFR's website details research completed to date that relates to this program.

The risks in financial institutions program has four components:

1. **Assess the risks financial institutions' activities pose that current regulations do not address.**
2. **Identify and fill gaps in data needed to assess financial stability.**
3. **Evaluate regulatory policies designed to promote financial stability, including their interactions and unintended consequences.**
4. **Monitor and assess risks related to financial innovations.**

Research under the program encompasses asset management firms, banks, broker-dealers, government-sponsored enterprises, insurance companies, hedge funds, mutual funds, private equity funds, and other finance and investment companies. A description of some program activities and goals within each component is shown below.

Assess the Risks Financial Institutions' Activities Pose that Current Regulations Do Not Address

For large banks, the OFR assesses credit, liquidity, and operational risks under complex new regulations.

For insurance companies, the OFR assesses the adequacy of consolidated capital standards and risks associated with variable annuity products and derivatives use. Investigations into historical company failures will be used to develop a framework for assessing the health of the industry.

For hedge funds, the OFR assesses the adequacy of risk management practices and liquidity and leverage requirements. The OFR also assesses the effectiveness of Form PF reporting.

For the financial system as a whole, the OFR conducts research to identify financial institutions and their activities within counterparty networks and assess contagion risks. The OFR's financial network research efforts aim to:

- Develop topological measures and representative network structures;
- Assess the dynamics of flows within networks;

- Assess network complexity;
- Develop an understanding of the financial system as a multilayer network;
- Develop structural network models and intervention strategies; and
- Understand network evolution.

Identify and Fill Gaps in Data Needed to Assess Financial Stability

The OFR identifies data gaps concurrently with the program's other three components. Data gap identification efforts focus on nonbanks, particularly gaps affecting risk analysis of mutual funds, hedge funds, and more broadly, the asset management and insurance industries.

The program's data gap filling efforts focus on acquiring confidential regulatory data collected by federal agencies. Access to confidential regulatory data provides more granularity to the OFR's risk analysis than publicly available data.

Evaluate Regulatory Policies Designed to Promote Financial Stability, Including their Interactions and Unintended Consequences

The OFR studies differences in systemic importance indicators and designation processes across banks, insurance companies, and other types of financial institutions. Researchers assess progress in ending too big to fail, and the adequacy and completeness of living wills for resolving banks and insurance companies.

The OFR studies interactions and unintended consequences of multiple constraints imposed on banks by complex capital and liquidity requirements. Researchers assess the effect of regulations on institutions' size and complexity. Researchers also investigate regulatory arbitrage activities.

Monitor and Assess Risks Related to Financial Innovations

The OFR monitors and assesses changes in accounting practices, new types of financial contracts and instruments, new types of firm organizational forms, and new financial technologies.

The research agenda for this program component will evolve based on future developments in the industry in response to complex new regulations or the availability of new technologies.

Questions for Discussion

1. What important research areas are missing?
2. What additional data do you perceive as important to this program?