

FROM THE DIRECTOR

I am pleased to present this *2017 Annual Report to Congress*. It fulfills our statutory requirement to assess the state of the United States financial system, including analyzing potential threats to financial stability, documenting our progress in meeting our mission, and describing our key findings.

We assess threats to financial stability by weighing vulnerabilities in the financial system against its resilience. Our overall risk assessment is unchanged from last year: Threats to financial stability are moderate. But underneath that assessment are changes in the balance between financial-system vulnerabilities and resilience.

We judge that three vulnerabilities are newly important: (1) those arising from cybersecurity incidents; (2) obstacles to resolving large, complex financial institutions; and (3) those arising from changes in financial market structure.

However, we also judge that the system's resilience has improved over the past year, as government officials and market participants continue to implement efforts to enhance resilience globally.

Our 2017 Financial Stability Report complements this annual report with a more deeply analytical assessment of threats to financial stability.

These reports and the ones we published previously reflect the views of the OFR, but we continue to benefit from input from and collaboration with the member organizations of the Financial Stability Oversight Council and their staffs.

Collaboration is a critical ingredient in fostering what we call a virtual research-and-data community — one that extends the reach and impact of what our staff can accomplish alone. Our collaboration includes interaction with our Financial Research Advisory Committee and our domestic and global counterparts.

Such input and collaboration have facilitated the progress we've made during the year toward meeting our mission. For example:

- In collaboration with the Federal Reserve, we advanced plans to begin collecting data on bilateral repurchase agreements and to publish new reference rates that are alternatives to LIBOR.
- We developed new tools to assess and monitor vulnerabilities and resilience in the financial system. Our Financial System Vulnerabilities Monitor and Financial Stress Index expand the risk-assessment toolkit for the benefit of officials and the public.

- We evaluated alternative methodologies to set regulatory thresholds for U.S. banks based on risk rather than size alone.
- We assessed resilience in central clearing counterparties.

Over the past six years, policymakers globally have increased financial-system resilience by improving capital and liquidity, and performing regular stress tests at banking firms; instituting new resolution regimes to restore market discipline; and strengthening derivatives markets.

Now is an appropriate time to take stock of whether such reforms effectively balance the vibrancy of the financial system with its resilience. The first three reports from the Treasury Department on the Executive Order on Core Principles for Regulating the United States Financial System are important steps in that stocktaking, and the OFR stands ready to deploy our data and analytical tools to evaluate that balance in support of the effort.

Likewise, over the past six years, the OFR has filled gaps in our understanding of the functioning of the financial system both in normal and stressful times. And we have filled gaps in financial data and taken steps to improve their quality and accessibility.

Now is an appropriate time to take stock of the OFR as an organization — one that started with a handful of people when I arrived in 2011, and must effectively balance achieving an extraordinarily broad mission with efficiency and agility. Over the past two years, we have embarked on that path through initiatives to reconfigure and streamline our functions. I am convinced we can do that while maintaining the objectivity, integrity, and quality that are hallmarks of our work.

During nearly five years as Director of the OFR, I have had the honor of leading an extraordinary group of public servants, united in their passion for our mission and their shared commitment to succeed. I am extraordinarily proud of the OFR team and grateful for the privilege of working with this diverse group of dedicated and talented professionals.

Although I will be leaving the OFR at year end, I am confident that the OFR staff will keep that passion burning and strive as “One OFR” to build on the progress we have achieved together toward a strong and vibrant organization. This year’s accomplishments demonstrate that teamwork brings success, and OFR team members will continue to work together and collaborate with our stakeholders to produce outstanding results.

A handwritten signature in black ink that reads "Richard Berner". The signature is written in a cursive, flowing style.

Richard Berner
Director, Office of Financial Research