II

111TH CONGRESS
2D SESSION

S. 3005

To create an independent research institute, to be known as the "National Institute of Finance", that will oversee the collection and standardization of data on financial entities and activities, and conduct monitoring and other research and analytical activities to support the work of the Federal financial regulatory agencies and the Congress.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 4, 2010

Mr. REED introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To create an independent research institute, to be known as the "National Institute of Finance", that will oversee the collection and standardization of data on financial entities and activities, and conduct monitoring and other research and analytical activities to support the work of the Federal financial regulatory agencies and the Congress.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "National Institute of Finance Act of 2010".

(b) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

SEC. 2. FINDINGS AND PURPOSES.

(a) FINDINGS.—Congress finds the following:

(1) The United States is experiencing the worst economic and financial crisis since the Great Depression. The nature of the current crisis is systemic. It was set in motion not by the actions of any single entity, but by a loss of confidence throughout the financial system as a whole.

(2) Such catastrophic events revealed significant shortcomings in the legal tools available to financial policymakers. The scale and systemic nature of the crisis calls for a thorough review of the United States' system of financial regulation, to assess its capacity to understand, monitor, and respond to systemic threats. It is critical that financial regulators have the legal tools they need to act quickly, decisively, effectively, and when appropriate, preemptively, to prevent systemic financial crises in the future and to mitigate their negative impact, should they recur.

(3) The recent catastrophic events in financial markets also revealed significant gaps in the information and analytic tools available to regulators and

policymakers charged with ensuring the health of the financial system.

(4) Systemic risk involves interactions among financial entities in addition to features of individual firms. Therefore, to understand and monitor the buildup of systemic risk in the financial system requires information about such interactions among institutions.

(5) Operational methods do not exist by which to measure systemic risks in the United States financial system. Nor do proven operational techniques exist by which regulators can identify the buildup of systemic risks in the United States financial system.

(6) Regulators do not have effective methodologies for assessing the effects of particular regulatory actions or approaches on the overall health of the financial system.

(7) Financial regulators do not have the data needed to map the networks of counterparty relationships through which systemic contagion could spread. Nor do they have the analytic tools required to translate such data into useful, actionable information.

(8) Notwithstanding noteworthy efforts from the research community, sustained, large-scale programs of applied research and development necessary to create operational systems for understanding, measuring, and monitoring systemic risk in financial systems have not emerged.

(9) There is a substantial amount of high-quality research in academia in relevant disciplines, including financial economics, statistics, and operations research, but such research tends to focus on theoretical or conceptual innovations that are not immediately reducible to operational practice.

(10) The incentives confronting academic researchers work against the production of research that does not yield novel theoretical insights or computational techniques.

(11) The challenges of gaining access to data and obtaining funding from government and industry for academic research severely restrict the number of academics working on understanding and monitoring systemic risk in the financial markets.

(12) Some of the largest commercial firms make substantial investments in research and development in the area of quantitative finance, but such commercial research programs are targeted almost

exclusively at applications that create commercial value for the firms undertaking the substantial investments necessary to support the programs, and focus primarily on techniques for pricing particular financial instruments and managing firm-specific risks.

(13) Financial institutions that sponsor research programs usually protect the results of investigations as commercial trade secrets. Even those results that might be useful in application to the analysis of systemic risk are generally not available to the public.

(14) No organization anywhere has access to the comprehensive transaction-level data that are necessary to map the network of counterparty relationships in the financial system. Absent such data, it is not possible to evaluate the primary counterparty risks, the extent to which any given firm is vulnerable to the failure of one of its counterparties, or broader counterparty network risks.

(15) It is not possible to understand, assess, or predict how the collapse of one or more institutions might set off a cascade of failure that destabilizes the entire financial system.

(16) Without intelligence about the network of counterparty relationships and the liquidity provided by the members of the counterparty network, it is difficult even to identify reliably the set of institutions that regulators should deem to be systemically important.

(17) Notwithstanding statutory mandates that call for sharing of information among regulatory agencies, United States financial regulators do not require that firms report data in a uniform standard format. The lack of compatibility in the data formats used by different agencies implies in practice that agencies find it difficult and expensive to integrate data from multiple sources.

(18) In periods of financial crisis such as that experienced in the 2 years preceding the date of enactment of this Act, absence of data comparability becomes a critical handicap, in that dispersed information cannot quickly be integrated into a comprehensive framework that could help reveal the condition of the financial system as a whole. Without a capacity quickly to compare and integrate financial data of diverse types from multiple sources, regulators are unable to analyze the state of the financial system accurately and comprehensively. Nor are they

able to foresee, and potentially head off, the onset of a financial crisis.

(19) The events of September 2008 offer a sobering example of the consequences that can flow from an inability quickly to integrate financial data from diverse sources. During several critical days in that month, senior Government officials contemplated the possible consequences of allowing the failure of Lehman Brothers Holdings, Inc. Insofar as the content of their deliberations is accessible in the public record, there is little evidence that such officials had at their disposal an intelligence system that could illuminate the potential consequences of alternative choices. Notwithstanding that the United States Government, through its several agencies, collects a broad range of information from financial firms, the events of September 2008 revealed that, at this most critical juncture, these data and accompanying analytics could not provide financial officials with the information they needed.

(20) The creation of a system for collecting and organizing a comprehensive financial transaction database that employs standardized formats is feasible.

(21) The Enterprise Data Management Council, an industry consortium, is on record as advocating both the feasibility and desirability of bringing uniform standards to the collection, reporting, and management of financial transaction data.

(22) A leading financial firm has developed for its internal use a system that incorporates comprehensive reference databases of all legal entities in its counterparty network and of all of the many types of financial instruments in which it transacts. Using the system, the firm can compute its exposure to many of their counterparties within an hour.

(23) A leading information technology firm has developed a prototype of an operational system that would support a comprehensive database of financial instruments and transactions across the entire economy, and in collaboration with other private sector firms and public sector entities, is in the process of developing a prototype system for maintaining the needed system-wide reference databases.

(24) The community of financial regulators can realize substantial benefits by consolidating into one entity the highly technical tasks of establishing and maintaining uniform standards for reporting financial data, organizing and managing high-volume

flows of financial data, providing analytic and high performance computational services, performing applied research and development activities, and conducting, coordinating, and sponsoring essential long term, fundamental research in the field of financial analysis and regulatory intelligence.

(25) Such technical tasks benefit from increasing economies of scale, the total cost of providing such services to the regulatory community promises to be lower if one agency is tasked to provide all of such data, instead of creating redundant and less effective units in each of the several financial regulatory agencies.

(26) An entity that provides access to data and analytic tools to all regulatory agencies on a common basis would help to ensure that all agencies are receiving accurate, consistent, comparable data and analytic tools that can be modified for agency-specific needs.

(27) The creation of an entity that creates shared data and analytic services will provide a natural and regular vehicle for the exchange of research and collaboration between regulatory agencies.

(28) The emergence of uniform standards for referencing and reporting financial transactions

would generate substantial benefits for the financial services industry. There is, at present, no consistent, comprehensive, and universal system for coding, transmitting, and storing financial transaction data. Data reside typically in unconnected databases and spreadsheets, using multiple formats and inconsistent definitions. The routine conduct of business obliges firms to incur substantial costs to translate and transfer data among otherwise incompatible systems. In addition, this data incomparability impedes the ability of companies to assess their risks accurately. The adoption of a common language for data coding and handling would dramatically reduce costs for processing transactions and carrying out other administrative tasks. Standardized reporting would also enable firms to map their counterparty relationships more clearly and more easily understand their credit exposures to other firms, a development that promises improvements in risk management practices across the industry.

(29) In August 2008, the Counterparty Risk Management Policy Group called for the financial industry to move rapidly toward real-time reconciliation and confirmation of financial transactions. Industry experts believe that this change would yield

substantial benefits to firms individually, to the financial services industry, and to the economy as a whole. Achieving this goal would not be possible, however, without industry-wide adoption of common standards for coding and handling financial transaction data. Despite the clear benefits of data standardization and despite years of effort by the industry, through consortia such as the Enterprise Data Management Council, the financial services industry has not been able to make meaningful progress towards the goal of universal adoption of uniform, consistent standards for data handling.

(30) Efforts to see a common set of standards for financial data adopted universally are impeded by so-called ''network effects''. The benefits of adoption for any one firm depend on the extent to which other firms adopt the same common language. For any one institution, the full benefits are distinctly limited until a critical number of participants in the industry adopt the same standards. In light of these network effects, the adoption of a single data handling standard by all industry participants presents a daunting coordination challenge. Each individual firm is discouraged from making the substantial investments required to upgrade its own systems, un-

less and until they receive assurance that others in the industry will follow suit. Many firms are deferring significant upgrades to their systems until well-defined industry-wide standards are accepted.

(31) The financial services industry's historical experience strongly suggests that the industry is unlikely to achieve universal adoption of a single data-handling standard on its own initiative, through either the decentralized actions of industry participants or through voluntary coordination at the urging of industry consortia or trade associations. Standardization of financial data will require an external mandate.

(32) The new data standards promulgated for reporting by firms will emerge as the de facto standard for data management in the finance industry, a standard on which firms could converge. Firms could then be confident of realizing a significant return on the investment needed to update their internal systems, knowing that other industry participants were doing likewise.

(33) The establishment of Federal requirements for the maintenance and provision of reference databases and reporting of transactions and position data to a central repository would assure individual

institutions of a significant return on the investment needed to update their internal systems. Firms would benefit from not having to maintain their own unique reference databases, standardized reporting would greatly reduce the cost of reconciling trades and other back office activities, and it would give firms a clear map of their counterparty relationships, which would facilitate better risk management across the industry.

(34) Once achieved, the universal adoption of standard protocols for handling financial transaction data promises to generate significant and sustained improvements in the efficiency and productivity of the financial services industry in the United States. Such improvements will help to secure and maintain the international leadership position of United States capital markets.

(35) United States regulators must never again find themselves confronting a financial crisis without the full set of legal, data, and analytic tools they need to understand, measure, monitor, and respond intelligently to systemic risks that threaten the stability of the United States financial system.

(b) PURPOSES.—The purposes of this Act are—

(1) to ensure that the financial regulatory community is equipped fully with the data and analytic tools it needs to fulfill its responsibility to safeguard the United States financial system;

(2) to reduce the likelihood of another systemic financial crisis occurring;

(3) to restore integrity and confidence to the financial markets of the United States;

(4) to provide for the security of the United States economy from potential external threats to the United States financial system;

(5) to improve the efficiency of the financial markets in the United States;

(6) to reduce the cost and increase the effectiveness of coordinated financial regulation in the United States;

(7) to help maintain the leadership position of the United States as home to the most efficient, competitive, and productive capital markets in the world; and

(8) to help restore and maintain conditions in the United States financial system that will support the creation of wealth and prosperity in the United States.

SEC. 3. DEFINITIONS.

In this Act, the following definitions shall apply:

(1) FINANCIAL REGULATORY AGENCY.—The term ''financial regulatory agency'' means any Federal regulatory agency or body charged with regulating, examining, or supervising a financial entity or activity, including any financial systemic risk council or agency established by Congress.

(2) INSTITUTE; DIRECTOR; BOARD OF DIRECTORS.—The terms ''Institute'', ''Director'', and ''Board of Directors'' mean the National Institute of Finance, the Director thereof, and the Board of Directors thereof, respectively.

(3) FINANCIAL ENTITY.—

(A) IN GENERAL.—The term ''financial entity'' means any corporation, partnership, individual, or other organizational form, whether public or private, used to engage in any type of financial activity that may contribute to systemic risk, including any bank, savings association, credit union, industrial loan company, trust, pension fund, holding company, lender, finance company, mortgage broker, broker-dealer, mutual fund or other investment company, investment adviser, hedge fund, insurance company, clearinghouse or other central counterparty, exchange, and any other entity or institution that the Director determines, at the formation of the Institute, are necessary for the Institute to complete its duties under this Act.

(B) DIRECTOR AUTHORITY.—The Director may, by rule, add new types of entities or institutions to be treated as financial entities for purposes of this Act.

(4) SYSTEMIC RISK.—The term ‘‘systemic risk’’ means the risk that a failure or default by a financial entity or entities, or exposures to a financial product or products or activity will produce—

(A) significant disruptions to the operations of financial markets;

(B) the spreading of financial losses and failures through the financial system; or

(C) significant disruption to the broader economy.

(5) FINANCIAL CONTRACT.—The term ‘‘financial contract’’ mean a legally binding agreement between 2 or more counterparties, describing rights, and obligations relating to the future delivery of items of intrinsic or extrinsic value among the counterparties.

(6) FINANCIAL INSTRUMENT.—The term ‘‘financial instrument’’ means a financial contract in which the terms and conditions are publicly available, and the roles of 1 or more of the counterparties are assignable without the consent of any of the other counterparties, including common stock of a publicly traded company, government bonds, and exchange traded futures and options contracts.

(7) FINANCIAL ENTITY REFERENCE DATABASE.—The term ‘‘financial entity reference database’’ means a comprehensive list of financial entities that may be counterparties to financial transactions or referenced in the contractual structure of a financial instrument. For each financial entity, the database shall include, but not be limited to a unique identifier, and sufficient information to differentiate the entity from every other entity, including an exact legal name and an address for each company, and an exact legal name and a social security number for each American citizen. For financial entities that are legally owned by or otherwise contained within other financial entities, the database shall include such information.

(8) FINANCIAL INSTRUMENT REFERENCE DATABASE.—The term ‘‘financial instrument ref-

erence database'' means a comprehensive list of unique financial instruments. For each financial instrument, the database shall include a unique identifier and a comprehensive description of the contractual structure of the instrument as well as all express terms governing the interpretation and implementation of the contract, including jurisdiction, force majeure, and dispute resolution. The contractual structure shall include the financial and economic obligations and rights, both express and implied, and including through legal agreements such as netting agreements, established among all of the counterparties having identified roles in the contract, including advisors, principals, trustees, custodians, guarantors, prime brokers, executing brokers, clearing brokers, and issuers of securities. An electronic copy of the prospectus for each financial instrument for which a prospectus was created or distributed shall also be contained in the database.

(9) FINANCIAL TRANSACTION DATA.—The term ''financial transaction'' means the explicit or implicit creation of a financial contract where at least one of the counterparties is required to report to the Institute. The data describing the transaction shall include the structure of the contract created in the

transaction, as well as all express terms governing the interpretation and implementation of the contract, including jurisdiction, force majeure, and dispute resolution. The contractual structure shall include clearly identified counterparties, clearly identified financial instruments (when used as part of the structure of the contract), and the financial and economic obligations and rights, both express and implied, established among all of the counterparties with identified roles in the contract.

(10) POSITION DATA.—The term ''position'' means a financial asset or liability held on the balance sheet of a financial entity. A new position is created, or the quantity of an existing position is changed, by the execution of a financial transaction involving the financial entity as a counterparty. Position data include—

(A) the counterparty identifier;

(B) a contract identifier;

(C) the role of the counterparty on the transaction;

(D) a quantity, if applicable;

(E) a location, if applicable; and

(F) the valuation of the position for the purposes of the books and records of the financial entity.

SEC. 4. ESTABLISHMENT OF NATIONAL INSTITUTE OF FINANCE; ADMINISTRATIVE MATTERS.

(a) IN GENERAL.—

(1) ESTABLISHMENT.—There is established the National Institute of Finance, which shall be an independent establishment, as that term is defined in section 104 of title 5, United States Code.

(2) MISSION.—The mission of the Institute is to support the Federal financial regulatory agencies, including any systemic risk council or agency established by Congress, by—

(A) collecting and providing data;

(B) standardizing the types and formats of data reported and collected;

(C) performing applied research and essential long-term research;

(D) developing tools for risk measurement and monitoring;

(E) performing other related services; and

(F) making the results of its activities available to financial regulatory agencies.

(b) DIRECTOR.—

(1) APPOINTMENT.—The Institute shall be headed by a Director, who shall be appointed by the President, by and with the advice and consent of the Senate.

(2) TERM OF SERVICE.—The Director shall serve for a term of 15 years.

(3) EXECUTIVE LEVEL AND PENSION.—The position of the Director shall be at level II of the Executive Schedule, and a Director who serves a full term, or becomes disabled and unable to fulfill the responsibilities of the Director after serving at least 10 years, shall receive a pension at retirement equal to the salary of that person in the last year of the term, and that pension shall increase in subsequent years with the increase in the cost of living.

(4) VACANCY.—In the event that a successor is not nominated and confirmed by the end of the term of service of a Director, the Director may continue to serve until such time as the new Director is appointed and confirmed.

(5) PROHIBITION ON DUAL SERVICE.—The individual serving in the position of Director may not, during such service, also serve as the head of any financial regulatory agency.

(6) RESPONSIBILITIES, DUTIES AND AUTHORITY.—The Director shall have sole discretion to fulfill the responsibilities and duties and exercise the authorities described in this Act, except in cases where specific authorities have been given to the Board of Directors.

(c) BOARD OF DIRECTORS.—The Board of Directors of the Institute shall be comprised of the Director, the Secretary of the Treasury, and the head of each financial regulatory agency.

(d) MEMBERSHIP OF THE DIRECTOR ON THE BOARD OF DIRECTORS.—The Director shall serve as a voting member of the Board of Directors and as a member of any financial systemic risk regulatory council or agency established by Congress.

(e) FUNDING.—

(1) ANNUAL BUDGET.—The Director, in consultation with the Board of Directors shall establish the initial annual budget. For all other annual budgets, the Director shall submit an annual budget for the Institute to the Board of Directors not later than April 30 of each year. The Board of Directors may, without amendment, reject the budget with a two-thirds majority vote. Each time a budget is rejected, the Director shall submit a revised budget to

the Board of Directors within 60 days, and the Board of Directors may, without amendment, reject the budget with a two-thirds majority vote. If the Board of Directors fails to reject the budget within 60 days of submission by the Director, the budget shall be automatically approved. If a new budget is not approved before the existing budget expires, the most recent approved budget shall continue on a pro rata basis. Each submitted budget and all votes by the Board of Directors on each budget shall be part of the public record of the Board of Directors.

(2) ASSESSMENTS.—The Institute shall be funded through assessments on the financial entities required to report data to the Institute. The formula by which the budgetary costs are allocated among the reporting entities shall be determined by the Board of Directors. If the Board of Directors fails to establish the formula within 60 days of submission of a budget by the Director, the Director shall determine the formula by which the budgetary costs are allocated among the reporting entities for that year.

(3) INITIAL FUNDING AND START UP.—During the first 4 years of the operation of the Institute, the Institute shall have authority to borrow against

future assessment revenue from the Federal Financing Bank. Such borrowed funds shall be paid back to the Federal Financing Bank over a term not to exceed 20 years. The Secretary of the Treasury, and any financial regulatory agency, may second personnel to the Institute to assist the operations of the Institute.

(f) EXCEPTED SERVICE AGENCY.—The Institute shall be an excepted service agency.

(g) PERSONNEL.—The Board of Directors may fix the compensation of Institute personnel, without regard to the provisions of chapter 51 and subchapter III of chapter 53 of title 5, United States Code, relating to classification of positions and General Schedule pay rates. The rates of pay and benefits shall be competitive with and comparable to the rates of pay and benefits at Federal financial regulatory agencies that are not covered by title 5, United States Code.

(h) NON-COMPETE.—The Director and staff of the Institute, who have had access to the transaction or position data maintained by the Data Center or other business confidential information about financial entities required to report to the Institute, may not, for a period of 1 year after last having access to such transaction or position data or business confidential information, be employed by or provide advice or consulting services to a financial entity, regardless of whether it is required to report to the Institute. Individual staff members who notify the Director of their intention to terminate their employment with the Institute and to seek employment with a prohibited employer or in a prohibited activity, shall be transferred for a period of 12 months to a position that does not provide access to transaction or position data or other business confidential information. For staff whose access to business confidential information was limited, the Board of Directors may provide, on a case-by-case basis, for a shorter period of post-employment prohibition, provided that the shorter period does not compromise business confidential information.

(i) ADVISORY BOARDS.—The Institute shall maintain any advisory boards that the Director determines are needed to complete the mission of the Institute.

(j) FELLOWSHIP PROGRAM.—The Institute may establish and maintain an academic and professional fellowship program, under which qualified academics and professionals shall be invited to spend not longer than 2 years at the Institute, to perform research and to provide advanced training for Institute personnel.

(k) EXECUTIVE SCHEDULE MATTERS.—Section 5312 of title 5, United States Code, is amended by adding at the end the following new item:

"Director of the National Institute of Finance.".

SEC. 5. ORGANIZATIONAL STRUCTURE; RESPONSIBILITIES OF PRIMARY PROGRAMMATIC UNITS.

(a) IN GENERAL.—The Institute shall carry out its programmatic responsibilities through—

(1) the Federal Financial Data Center (in this Act referred to as the "Data Center"); and

(2) the Federal Financial Research and Analysis Center (in this Act referred to as the "Research Center").

(b) FEDERAL FINANCIAL DATA CENTER.—

(1) GENERAL DUTIES.—The Data Center shall collect, validate, and maintain all data necessary to carry out its duties, as described in this Act.

(2) RESPONSIBILITIES.—The Data Center shall prepare and publish, in a manner that is easily accessible to the public—

(A) a financial entity reference database;

(B) a financial instrument reference database; and

(C) formats and standards for reporting financial transaction and position data to the Institute.

(3) DATA TO BE COLLECTED.—Data referred to in paragraph (1)—

(A) shall include for each financial entity—

(i) comprehensive financial transaction data on a schedule determined by the Director;

(ii) comprehensive position data on a schedule determined by the Director;

(iii) for each financial instrument in the financial instrument reference database or for any other obligation of a financial entity that is contingent on the value of an observable event, where the observable event is not widely available to the public, the level and changes in the level of these observable events, on a schedule determined by the Director; and

(iv) any other data that are considered by the Director to be important for measuring and monitoring systemic risk, or for determining the soundness of individual financial entities; and

(B) may include data regarding policies and procedures, governance, incentives, compensation practices, contractual relationships, and any other information deemed by the Director to be necessary in order for the Institute to carry out its responsibilities under this Act; and

(C) the Board of Directors may, by a two-thirds vote, exclude financial entities, which, as a group, will not contribute to systemic risk for reasons such as size, nature of their assets and liabilities, volume of transactions, or other reasonable purposes, from reporting data. Notwithstanding such exclusions, financial entities shall comply with all reporting requirements or ensure that reporting requirements are met for any assets or part of their balance sheets that are sold to create a financial instrument or obligation, as described in subparagraph (A)(iii).

(4) INFORMATION SECURITY.—The Director and the Board of Directors shall ensure that data collected and maintained by the Data Center are kept secure and protected against unauthorized disclosure.

(5) CATALOGUE OF FINANCIAL ENTITIES AND INSTRUMENTS.—The Data Center shall maintain a

catalogue of the financial entities and instruments reported to the Institute.

(6) AVAILABILITY TO THE FINANCIAL REGULATORY AGENCIES.—The Data Center shall make data collected and maintained by the Data Center available to any financial regulatory agency represented on the Board of Directors, as needed to support the regulatory responsibilities of such agency.

(7) OTHER RESPONSIBILITIES.—The Data Center shall oversee the management of the data supply chain, from the point of issuance, in order to ensure the quality of all data required to be submitted to the Institute.

(8) OTHER AUTHORITY.—The Institute shall, after consultation with the Board of Directors provide certain data to financial industry participants and the general public to increase market transparency and facilitate research on the financial system, so long as intellectual property rights are not violated, business confidential information is properly protected, and the sharing of such information poses no significant threats to the financial system.

(c) FEDERAL FINANCIAL RESEARCH AND ANALYSIS CENTER.—

(1) GENERAL DUTIES.—The Research Center shall develop and maintain the independent analytical capabilities and computing resources—

(A) to measure and monitor systemic risk;

(B) to perform independent risk assessments of individual financial entities and markets;

(C) to analyze and investigate relationships between the soundness of individual financial entities and markets and the soundness of the financial system together as a whole; and

(D) to provide advice on the financial system.

(2) RESPONSIBILITIES.—The Research Center shall—

(A) develop and maintain metrics and risk reporting systems for system-wide risk;

(B) develop and maintain metrics and risk reporting systems for determining the soundness of financial entities;

(C) monitor, investigate, and report changes in system-wide risk levels and patterns to the Board of Directors and Congress, including through the collection of additional information that the Director deems necessary to understand such changes;

(D) conduct, coordinate, and sponsor research to support and improve regulation of financial entities and markets;

(E) benchmark financial risk management practices and promote best practices for financial risk management;

(F) at the direction of the Board of Directors, or any member of the Board of Directors, for firms under that member's purview, develop, oversee, and report on stress tests or other tests of the valuation and risk management systems of any of the financial entities required to report to the Institute;

(G) maintain expertise in such areas as may be necessary to support specific requests for advice and assistance from financial regulators;

(H) at the direction of the Board of Directors or at the request of Congress, conduct studies and provide advice on financial markets and products, including advice regarding risks to consumers posed by financial products and practices;

(I) at the direction of the Director, at the discretion of the Board of Directors, or at the request of Congress, investigate disruptions and failures in the financial markets, report findings, and make recommendations to the Board of Directors and Congress; and

(J) at the direction of the Board of Directors or at the request of Congress, conduct studies and provide advice on the impact of policies related to systemic risk.

(d) REPORTING RESPONSIBILITIES.—

(1) REQUIRED REPORT.—Commencing 2 years after the date of the establishment of the Institute, the Institute shall prepare and submit an annual report to Congress, not later than 120 days after the end of each fiscal year.

(2) CONTENT.—The report required by this subsection shall assess the state of the financial system, including an analysis of any threats to the financial system, the status of the Institute's efforts in meeting its mission, and key findings from its research and analysis of the financial system.

(3) ADDITIONAL REPORTS.—At the sole discretion of the Director, the Director may initiate and provide additional reports to Congress regarding the

state of the financial system. The Director shall notify the Board of Directors of any additional reports provided to Congress.

SEC. 6. ADMINISTRATIVE AUTHORITIES OF THE INSTITUTE.

The Institute may—

(1) require financial entities to report all data and information in conformance with reporting standards, as determined by the Institute, that are necessary to fulfill the responsibilities of the Institute under this Act;

(2) require reporting on a worldwide basis from the financial entities and affiliates thereof that are organized in the United States;

(3) require reporting of United States-based activities by financial entities that are not organized in the United States;

(4) enforce and apply sanctions on all financial entities required to report to the Institute that fail to report data requested by and in standards, frequency, and time frames, as determined by rule or regulation by the Institute;

(5) share data and information, as well as software developed by the Institute, with other financial regulatory agencies, as determined appropriate by the Board of Directors, where the shared data and

software shall be maintained with at least the same level of security as is used by the Institute, and may not be shared with any individuals or entities without the permission of the Board of Directors;

(6) purchase and lease software;

(7) sponsor and conduct research projects; and

(8) assist, on a reimbursable basis, with financial analyses undertaken at the request of governmental agencies, other than financial regulatory agencies.

SEC. 7. CIVIL PENALTIES.

Any person or entity that violates this Act or fails to comply with a rule, regulation, or order of the Institute issued under this Act shall be subject to a civil penalty in an amount established by the Institute and published in the Code of Federal Regulations. Each such violation or failure shall constitute a separate civil offense.

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