

United States Senate

WASHINGTON, DC 20510

April 18, 2023

James D. Martin
Acting Director Office of Financial Research
U.S. Department of the Treasury
717 14th Street, NW
Washington, DC 20220

Dear Acting Director Martin:

We once again write to urge the Office of Financial Research (OFR) to fully utilize its statutory authorities to safeguard our financial system. As we noted in our last letter to your office in January 2022,¹ Congress gave OFR critical tools to collect data and develop research on financial stability risks. As OFR identifies ongoing and emerging sources of risk where regulators lack visibility, we urge the OFR to take additional steps to fill these data gaps. Recent turmoil in the banking system following the failures of Silicon Valley Bank and Signature Bank, which forced financial regulators to take extraordinary action to stem contagion,² underscores the need for OFR to use all its tools to live up to its mission and help keep our financial system safe.

OFR was created in the *Dodd Frank Wall Street Reform and Consumer Protection Act*³ to “identify risks and fill blind spots so regulators would have a broader view of ‘who owes what to whom’ across the financial system.”⁴ The key statutory purpose of OFR is to support the Financial Stability Oversight Council (FSOC) by “collecting data on behalf of the Council, and providing such data to the Council and new member agencies” and by “standardizing the types and formats of data reported and collected.”⁵ To carry out this duty, Congress granted the agency the power to subpoena data from financial companies.⁶ This data collection function was intended to serve as an “early warning system to identify risks before they snowball into another financial crisis.”⁷

¹ Letter from Senators Elizabeth Warren and Jack Reed to OFR Director Dino Falaschetti, January 14, 2022, <https://www.warren.senate.gov/oversight/letters/warren-reed-urge-ofr-director-falaschetti-to-step-up-and-use-tools-granted-by-congress-to-help-protect-consumers-and-the-economy>.

² Wall Street Journal, “SVB, Signature Bank Depositors to Get All Their Money as Fed Moves to Stem Crisis,” Nick Timiraos, Andrew Ackerman, and Andrew Duehren, March 13, 2023, <https://www.wsj.com/articles/federal-reserve-rolls-out-emergency-measures-to-prevent-banking-crisis-ba4d7f98>.

³ 12 U.S.C. 5342.

⁴ The Brookings Institution, “Fixing financial data to assess systemic risk,” Greg Feldberg, December 2, 2020, <https://www.brookings.edu/research/fixing-financial-data-to-assess-systemic-risk/>.

⁵ Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Public Law 111-203 Sec. 153(a)(1)-(2).

⁶ Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Public Law 111-203 Sec. 153(f)(1)(A).

⁷ Politico, “‘Early Warning System’ for Markets Muzzled under Trump,” Victoria Guida, October 24, 2018, <https://www.politico.com/story/2018/10/24/early-warning-system-for-markets-muzzled-under-trump-884053>.

As part of its responsibilities, OFR reports to Congress each year on its findings with respect to threats to financial stability of the United States.⁸ In our January 2022 letter, we raised concerns about data gaps OFR identified in its 2021 Annual Report, including with respect to risks posed by climate change, cryptocurrencies, and repurchase agreement (repo) markets.⁹ OFR’s 2022 Annual Report highlights steps the agency has taken over the last year to address some of these data gaps through two pilot programs: the Non-centrally Cleared Bilateral Repo pilot and the OFR-hosted Climate Data and Analytics Hub pilot.¹⁰ These are important steps to improve financial regulators’ visibility into risks in these areas, and we urge OFR to utilize the full extent of its data collection powers to address all of the data gaps it has identified.

Given the importance of comprehensive, high-quality data to informing financial regulators’ ability to monitor and evaluate risks to financial stability and our economy, we request answers to the questions below regarding specific risks identified in the 2022 Annual Report:

Digital Assets: OFR’s 2022 Annual Report stated that “asset-backed stablecoins could experience runs similar to those experienced by some money market mutual funds,” but “[i]t is difficult to judge the fragility of many popular stablecoin arrangements because there is insufficient transparency around the assets backing them, and the redemption rights of stablecoin holders are not guaranteed or clearly disclosed.”¹¹ The report additionally notes that financial stability risks “could increase further if traditional borrowers obtain funding through stablecoins or crypto asset lenders. Regulatory data on the assets held by such lenders would be an essential input to monitoring risk.”¹²

As we noted in our January 2022 letter,¹³ OFR also identified the potential financial stability risk of a money market fund-style run on stablecoins in its 2021 Annual Report, which warned that “[a] lack of transparency about the assets backing existing stablecoin arrangements is worrisome in this regard.”¹⁴

1. Since the publication of its 2021 Annual Report, has OFR used its statutory authorities to collect data on assets held by stablecoin issuers or crypto asset lenders? If so, please list the companies from which you (a) requested and (b) received data. If not, please explain what limitations the agency faces in using its statutory authorities to collect such data.

⁸ Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Public Law 111-203 Sec. 154(d).

⁹ Letter from Senators Elizabeth Warren and Jack Reed to OFR Secretary Dino Falaschetti, January 14, 2022, <https://www.warren.senate.gov/oversight/letters/warren-reed-urge-ofr-director-falaschetti-to-step-up-and-use-tools-granted-by-congress-to-help-protect-consumers-and-the-economy>.

¹⁰ U.S. Department of the Treasury, Office of Financial Research, “Annual Report to Congress 2022,” 2022, p. ii, <https://www.financialresearch.gov/annual-reports/files/OFR-Annual-Report-2022.pdf>.

¹¹ *Id.*, p. 80

¹² *Id.*, p. 83.

¹³ Letter from Senators Elizabeth Warren and Jack Reed to OFR Secretary Dino Falaschetti, January 14, 2022, <https://www.warren.senate.gov/oversight/letters/warren-reed-urge-ofr-director-falaschetti-to-step-up-and-use-tools-granted-by-congress-to-help-protect-consumers-and-the-economy>.

¹⁴ U.S. Department of the Treasury, Office of Financial Research, “Annual Report to Congress 2021,” 2021, p. 52, <https://www.financialresearch.gov/annual-reports/files/OFR-Annual-Report-2021.pdf>.

2. Since the publication of its 2021 Annual Report, has OFR used its statutory authorities to require stablecoin issuers or crypto asset lenders to provide comprehensive and consistent reporting on their assets? If so, please list the companies on which it imposed these requirements. If not, please explain what limitations the agency faces in using its statutory authorities to impose such requirements.
3. Since January 2021, how many times has OFR subpoenaed stablecoin issuers or crypto asset lenders to collect data needed to increase transparency around their assets?
4. Please describe how OFR plans to use its statutory authorities going forward to address the insufficient transparency around the assets backing stablecoins and the relevant timeline for implementing this data collection.

The 2022 Annual Report also notes, “if traditional financial market participants and institutions accumulate significant exposure to digital assets, future price declines or disruptions in the digital-asset market could have spillover effects on traditional financial markets and the real economy.”¹⁵ However, “[r]egulatory data on the exposures of traditional institutions to crypto assets are currently scarce, making it difficult to monitor the interconnectedness of crypto assets and traditional financial markets.”¹⁶

5. How does OFR plan to use its statutory authority to collect data on the exposures of traditional financial market participants and institutions to crypto assets? Please include data collection strategies, the market participants and institutions from which you plan on collecting such data, and the timeline for implementing this data collection.

Lastly, the report mentions that “decentralized finance could create financial stability risks through its direct integration with the real economy.”¹⁷ It continues: “developments in decentralized finance should continue to be monitored to identify emerging risks. However, significant data gaps currently hinder such monitoring.”¹⁸

6. How does OFR plan to use its statutory authority to collect data on decentralized finance? Please include data collection strategies, the institutions from which you plan on collecting such data, and the timeline for implementing this data collection.

Hedge Funds: The annual report identifies an increase in “hedge fund leveraging and interconnectedness” as an area causing financial stress, particularly amidst elevated

¹⁵ U.S. Department of the Treasury, Office of Financial Research, “Annual Report to Congress 2022,” 2022, p. 83, <https://www.financialresearch.gov/annual-reports/files/OFR-Annual-Report-2022.pdf>.

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Id.*, p. 82.

inflation.¹⁹ Because “inflation poses a significant risk to fund valuations,” hedge funds may have difficulty hedging against macroeconomic risks.²⁰

7. Does OFR have plans for additional data collection on hedge fund leverage, interconnectedness, and vulnerability to elevated inflation to help inform FSOC’s Hedge Fund Working Group²¹ and other efforts to better understand hedge-fund related risks to financial stability?

Climate-Related Financial Risk: In the report, OFR mentions that “[m]ore research is needed to explore how climate-related financial risk and financial stress can be amplified and could result in greater aggregate impacts to the financial system.”²² OFR’s 2021 Annual Report similarly identified “data gaps between climate and economic models [that] impede a full understanding of how climate change is expected to translate into deeper levels of financial risks.”²³

8. Since the publication of its 2021 Annual Report, how has OFR used its statutory authorities to address data gaps and conduct research into how climate-related financial risk may be amplified?

As noted above, OFR collaborated with the Federal Reserve and the Federal Reserve Bank of New York to develop the Climate Data and Analytics Hub pilot to help regulators assess risks to financial stability stemming from climate-related financial risk. While we recognize the development of this tool as an important step, we are concerned by its limitations. Namely, OFR mentions that the tool was “limited to publicly available climate data” but notes that “future versions of the platform will include public, academic, and commercial data.”²⁴ On April 6, 2023, OFR announced an “expanded and enhanced version of its interagency data-and-analytics platform, following a successful pilot,” which will be named the Joint Analysis Data Environment (JADE).²⁵

9. Why did OFR decide not to include academic, commercial, and other private data for the pilot?
10. How does OFR plan to utilize its statutory authority to obtain this additional data for future versions of this tool, including JADE?

¹⁹ *Id.*, p. 1.

²⁰ *Id.*, p. 75.

²¹ Financial Stability Oversight Council, “2022 Annual Report,” December 2022, p. 9, <https://home.treasury.gov/system/files/261/FSOC2022AnnualReport.pdf>.

²² U.S. Department of the Treasury, Office of Financial Research, “Annual Report to Congress 2022,” 2022, p. 98, <https://www.financialresearch.gov/annual-reports/files/OFR-Annual-Report-2022.pdf>.

²³ U.S. Department of the Treasury, Office of Financial Research, “Annual Report to Congress 2021,” 2021, p. 15, <https://www.financialresearch.gov/annual-reports/files/OFR-Annual-Report-2021.pdf>.

²⁴ U.S. Department of the Treasury, Office of Financial Research, “Annual Report to Congress 2022,” 2022, p. 106, <https://www.financialresearch.gov/annual-reports/files/OFR-Annual-Report-2022.pdf>.

²⁵ Office of Financial Research, “OFR Advances Data-and-Analytics Platform Following Successful Pilot,” press release, April 6, 2023, <https://www.financialresearch.gov/press-releases/2023/04/06/ofr-advances-data-and-analytics-platform-following-successful-pilot/>.

11. What is the timeline for developing JADE and other versions of this tool?

As part of the pilot, OFR “identified key data gaps to further evaluate the relationship between financial stability and climate-related financial risk. These included information on the properties of residential and commercial mortgage holders, as well as distribution, supply-chain, central resource, and transportation-related data for properties and infrastructure.”²⁶

12. Please describe OFR’s plan to address these specific data gaps, including research strategies and tools, potential data sources, research partners, and a timeline for research plans.

Cybersecurity: OFR’s report notes that “increasing frequency of cyberattacks and the growing cost to guard against them pose risks to the financial system.”²⁷ In particular, it identifies for-profit attackers deploying “sophisticated attacks against private and public organizations, causing millions of dollars of damage on an increasingly regular basis. The increasing payout of ransomware attacks makes this type of attacker one of the fastest-growing threats.”²⁸

13. Does OFR have data sufficient to understand the extent of ransomware attacks on U.S. public- and private-sector entities, both in terms of the number of attacks and the estimated financial losses associated with them?

14. Does OFR have plans for additional data collection on ransomware attacks to inform the federal government’s monitoring of this growing risk?

Data Standards: The report notes that OFR continued to promote the “adoption and expanded use” of the Legal Entity Identifier (LEI), which is supposed to enable identification of legal entities participating in financial transactions.²⁹ The LEI tool is intended to support the agency’s core mission to help figure out “who owes what to whom.” The report states that OFR is “committed to ensuring the quality of LEI data is sufficiently high to make it useful.”³⁰

15. Do the unique counterparty identifiers issued by the global LEI system allow regulators to aggregate individual LEIs associated with different subsidiaries of a single institution, in order to easily see all exposures of an institution on a consolidated basis?

16. Do the OFR’s databases include granular information about financial positions and was this data used by regulators to support forward-looking

²⁶ *Id.*

²⁷ *Id.*, p. 8.

²⁸ *Id.*, p. 88.

²⁹ *Id.*, p. 107.

³⁰ *Id.*

analysis of financial risks in the run-up to the collapses of Silicon Valley Bank and Signature Bank?

To learn how OFR plans to collect the data necessary to address these ongoing sources of risk, we ask that you respond to this letter by no later than May 2, 2023.

Sincerely,



Elizabeth Warren
United States Senator



Jack Reed
United States Senator