Overview of the Federal Reserve

The views and opinions expressed herein are those of the author. They do not represent an official position of the Federal Reserve Bank of Richmond or the Federal Reserve System.
Why Do We Have a Central Bank?

Before the Fed was created a century ago...
How is the Fed Structured?

- Federal Reserve Banks
- Board of Governors
- Federal Open Market Committee (FOMC)
Each Reserve Bank has a Board of Directors that:

- Oversees Reserve Bank operations
- Provides “grassroots” information on economic conditions

Board members that represent the public appoint Reserve Bank presidents.
Fed’s Mission, Functions and You

**Mission:** To foster a stable banking system and a healthy, growing economy.

**Core Functions**
- Monetary Policy
- Bank Supervision and Regulation
- Payment Services

(The Fed and You diagram is not fully transcribed in the image. It illustrates the relationship between the Fed and its impacts on the economy through monetary policy, banking supervision, and payment services.)
Monetary Policy

Definition
Actions taken by the central bank to influence interest rates in the economy

Objectives (mandate from Congress)
1. Maximum employment
2. Stable prices
3. Moderate long-term interest rates
Goals of Monetary Policy

Explicit price stability goal

- Inflation is determined primarily by monetary policy
- Inflation goal (specified by FOMC): 2 percent on average

No explicit employment goal

- In long run, employment is determined by factors outside monetary policy
- So, not appropriate to set fixed employment goal
Process of Monetary Policy

The Federal Open Market Committee (FOMC)

- 7 governors + 5 Reserve Bank presidents (4 rotating)
- Meets 8 times per year
- Analyzes economic conditions
- Determines policy
Monetary Policy Independence

Fed’s operations are audited by Congress, but monetary policy isn’t.

Why?

- It is politically tempting to boost employment through monetary policy.
- But in the long run, employment is determined by factors outside monetary policy.
- Continual monetary stimulus would raise inflation, with no positive effect on employment.
- Independence allows the Fed to stay focused on longer-term goals, while being able to achieve short-run objectives.

*Independence insulates monetary policy from short-term political influences.*
Independence with Transparency

Fed’s independence is balanced by transparency and accountability.

How?

- Balance sheet made public, updated weekly
- Minutes of FOMC released within a month of meetings
- Verbatim transcripts of FOMC released with five-year lag
- Chair testifies to Congress twice a year
- FOMC statements, Chair press conferences, speeches
The Fed supervises financial institutions to help ensure safe and sound banking practices.

- Board of Governors: Writes regulations
- Reserve Banks: Enforce regulations through supervision
Fed is one of several U.S. regulators

- When jurisdictions overlap, the Fed works with other regulators

Richmond Fed supervises approximately:

- 58 state member banks
- 208 holding companies

Examiners look at:

- Sufficiency of capital, earnings, and liquidity
- Quality of management and assets
- Sensitivity to interest rate changes
- Compliance with consumer protection laws and regulations
The Fed helps move payments from point A to point B.

- Cash
- Checks
- Electronic payments
- Services to U.S. Treasury
## Financial Services Provided

### Through Q2 2019, Average Daily Volume and Value

<table>
<thead>
<tr>
<th>Payment Method</th>
<th>Volume (thousands)</th>
<th>Value (billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fedwire Funds</td>
<td>647</td>
<td>$2,762</td>
</tr>
<tr>
<td>Fedwire Securities</td>
<td>73</td>
<td>$1,265</td>
</tr>
<tr>
<td>Automated Clearinghouse</td>
<td>68,308</td>
<td>$132</td>
</tr>
<tr>
<td>Commercial Check Collection:</td>
<td>17,756</td>
<td>$31</td>
</tr>
<tr>
<td><strong>Total Payments</strong></td>
<td><strong>86,784</strong></td>
<td><strong>$4,190</strong></td>
</tr>
<tr>
<td>Cash (notes processed)</td>
<td>135,487</td>
<td>$3</td>
</tr>
<tr>
<td><strong>Total, Including Cash Processing</strong></td>
<td><strong>222,271</strong></td>
<td><strong>$4,193</strong></td>
</tr>
</tbody>
</table>
Check Processing Sites: 1 Today
Cash Processing in the Fifth District

Every day, on average, the Richmond Fed:

- Receives 11K bundles (average $197 million in value)
- Pays 12K bundles (average $220 million in value)
- Processes 12-14 million notes
- Detects 40-50 counterfeits across all three offices

Unique to the Fifth District

- Currency Technology Office
How does the Fed interact with the public?

The Fed engages with business and community leaders to better understand local economic conditions.

- Regional group collects data and information
- Advisory councils and Board of Directors provide anecdotal insight
- Bank President attends FOMC with this information
How does the Fed interact with the public?

**Outreach Activities**
- Community development
- Economic education

**Public Tours**
- The Fed Experience
- Limited Branch tours
Access publications and other information online at:

- richmondfed.org
- federalreserve.gov
- FederalReserveHistory.org

Follow the Richmond Fed on:

- twitter.com/richmondfed
- instagram.com/richmondfed
- facebook.com/federalreservebankofrichmond
- linkedin.com/company/federal-reserve-bank-of-richmond
- youtube.com/richmondfed