Overview of the Federal Reserve

FEDERAL RESERVE BANK OF RICHMOND®

Richmond ▪ Baltimore ▪ Charlotte

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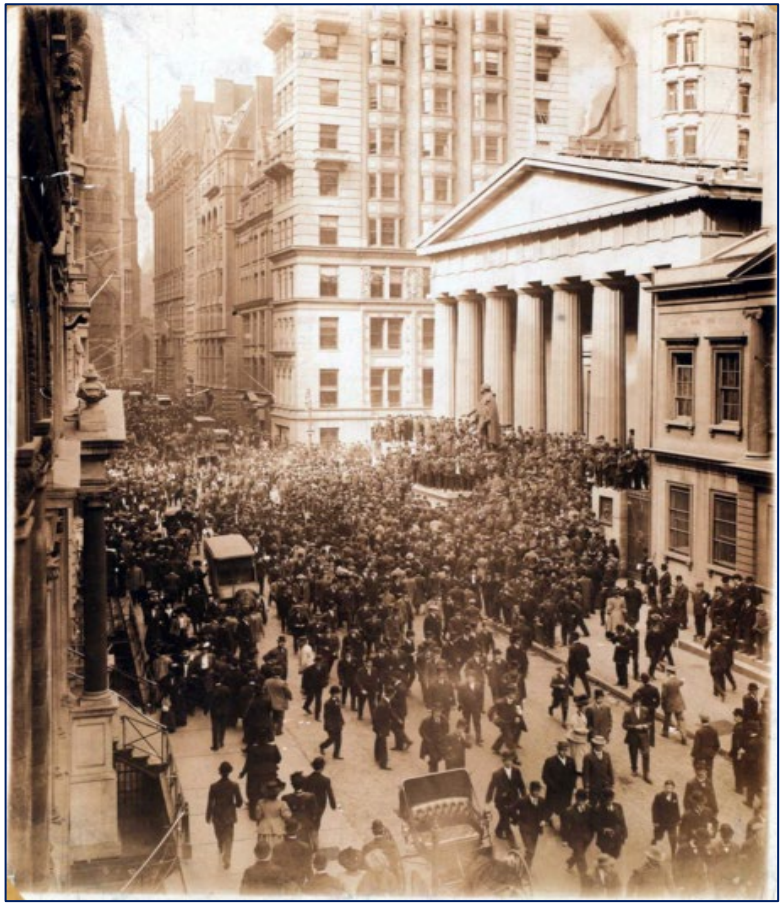
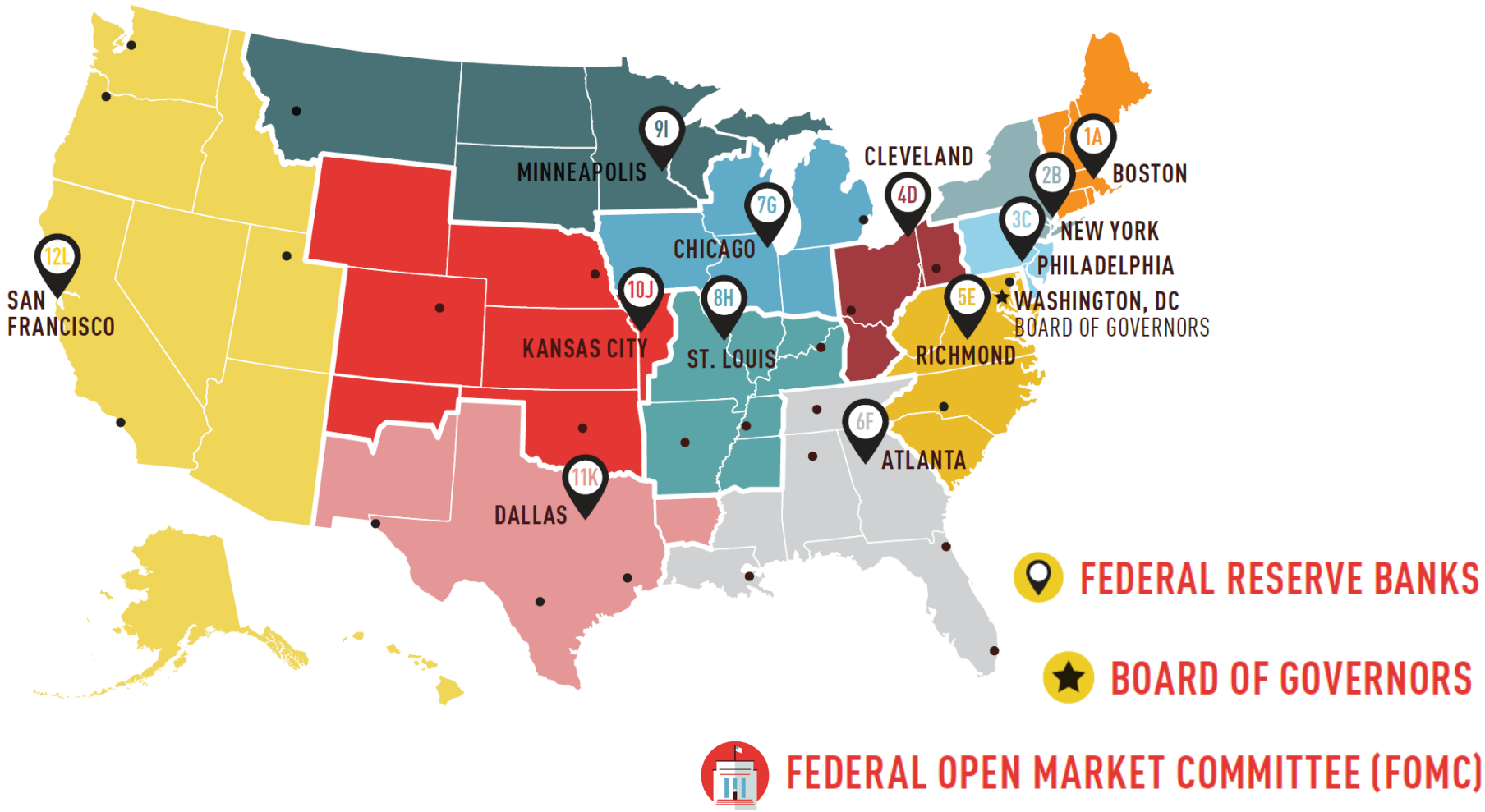
Why Do We Have a Central Bank?

Before the Fed was created a century ago...



How is the Fed Structured?

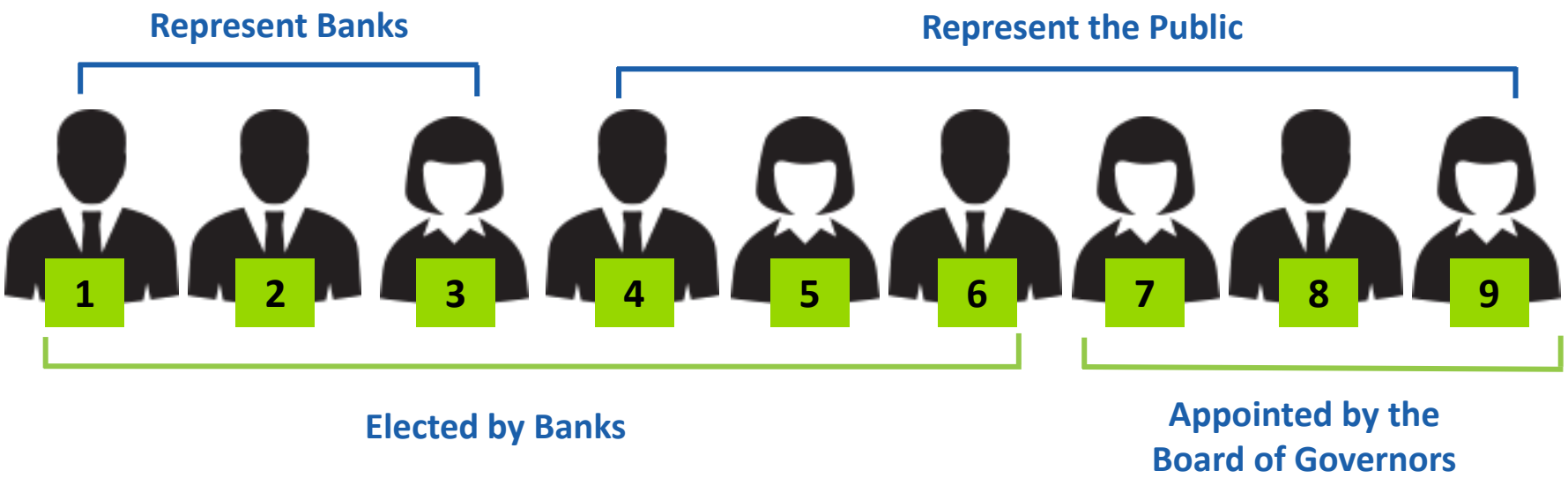


Reserve Bank Governance

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.



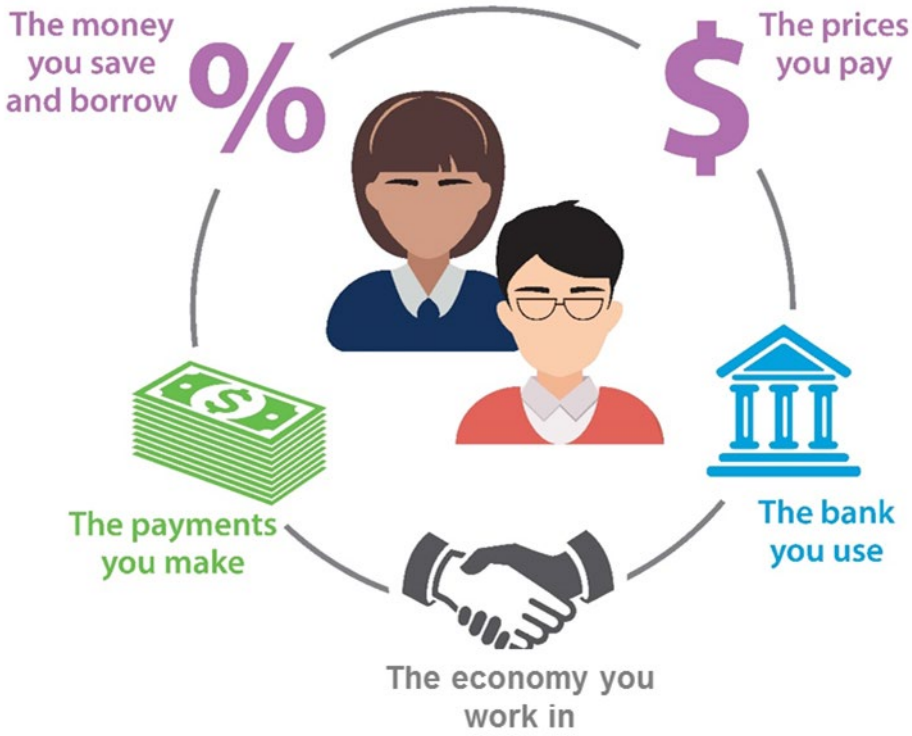
Fed's Mission, Functions and You

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



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

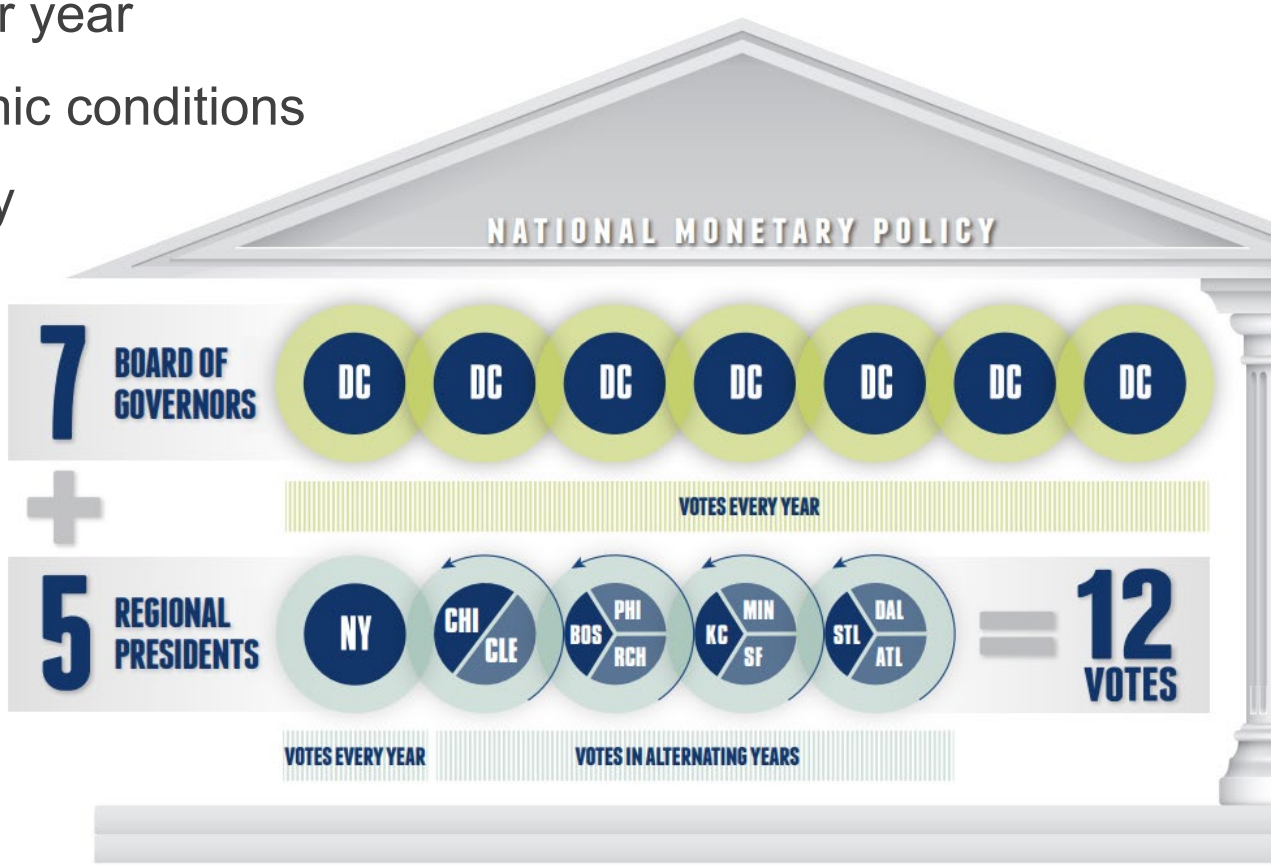
No explicit employment goal

- 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

Bank Supervision and Regulation

The Fed supervises financial institutions to help ensure safe and sound banking practices.

- Board of Governors: Writes regulations
- Reserve Banks: Enforce regulations through supervision

Bank Supervision and Regulation

Fed is one of several U.S. regulators

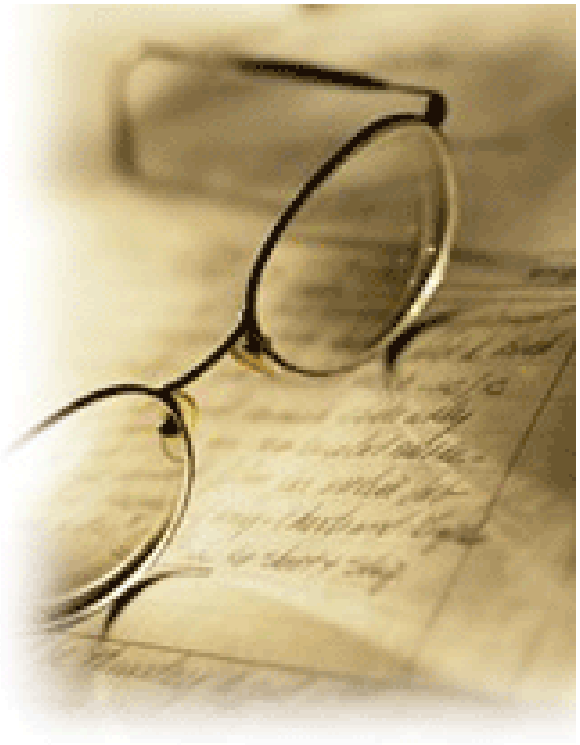
- When jurisdictions overlap, the Fed works with other regulators

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



Payment Services

The Fed helps move payments from point A to point B.

- Cash
- Checks
- Electronic payments
- Services to U.S. Treasury

Payment Services

Financial Services Provided Through Q3 2020, Average Daily Volume and Value		
Payment Method	**Volume (thousands)**	**Value (billions)**
Fedwire Funds	701	$3,377
Fedwire Securities	84	$1,463
Automated Clearinghouse	71,337	$147
Commercial Check Collection:	14,827	$28
Total Payments	**86,949**	**$5,015**
Cash (notes processed)	104,405	$2
Total, Including Cash Processing	**191,354**	**$5,017**

Cash Processing in the Fifth District

Every day, on average, the Richmond Fed:

- Receives 12.8K bundles (average $233 million in value)
- Pays 13.5K bundles (average $258 million in value)
- Processes 13.7 million notes (average $232 million in value)
- Detects about 30 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

Learn More

Access publications and other information online at:

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

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