The Federal Reserve’s Role in the Financial System

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The views expressed in the presentation are mine and not the views of the Federal Reserve Bank of St. Louis or the Federal Reserve System.
Goals For Today

1. Brief history of U.S. Central Banking
2. Structure of the FRS
3. Key functions of FRS
4. Answer your questions
Why was the Fed created?

- Panics and crises
- An “inelastic” currency
- No lender of last resort
- An inefficient payments system
How is the “FED” different?
What does the Fed do?

5 Key Functions

- Conducting the nation’s monetary policy
- Helping maintain the stability of the financial system
- Supervising and regulating financial institutions
- Fostering payment and settlement system safety and efficiency
- Promoting consumer protection and community development
CONGRESS
oversees the Federal Reserve System and its entities.

FEDERAL OPEN MARKET COMMITTEE
consists of the members of the Board of Governors and Reserve Bank presidents.
The Chair of the Board is the FOMC Chair.

BOARD OF GOVERNORS
is an independent agency of the federal government.

FEDERAL RESERVE BANKS
are the operating arms of the Federal Reserve System and are supervised by the Board of Governors.
THE FEDERAL RESERVE ACT creates the Federal Reserve System and specifies how Board members and Reserve Bank presidents are chosen.

PRESIDENT
nominates members of the Board of Governors, the chief governing body of the Federal Reserve System, and nominates one Board member to be Chair and one to be Vice Chair.

SENATE
confirms Board members appointed by the President to staggered 14-year terms, and confirms the nominations of Board members to be either Chair or Vice Chair.

BOARD OF GOVERNORS
Seven Board members guide all aspects of the operation of the Federal Reserve System and its five key functions.

FEDERAL RESERVE BANKS
12 Reserve Banks examine and supervise financial institutions, act as lenders of last resort, and provide U.S. payment system services, among other things.

FEDERAL OPEN MARKET COMMITTEE
Seven Board members and five Reserve Bank presidents direct open market operations that set U.S. monetary policy to promote maximum employment, stable prices, and moderate long-term interest rates in the U.S. economy.
Figure 2.3. Composition of Federal Reserve Bank boards of directors and selection of Reserve Bank presidents

The boards of directors of the Reserve Banks represent a cross-section of banking, commercial, agricultural, and industrial interests. Six of the nine members of each board of directors are chosen to represent the public interest; those six board directors nominate their Bank’s president.
The Dual Mandate

The Federal Reserve's mission is to promote the two coequal objectives: 1) maximum employment and 2) price stability.
The Board of Governors

- Board of Governors
  - Regulates financial institutions
  - Monetary policy input
  - Oversight of Reserve banks
- Independent agency of U. S. government
  - 7 members
  - Appointed by President and confirmed by Senate
  - 14 year terms
The Board of Governors Today

- Chair Jerome Powell
- Vice chair Richard Clarida
The Eighth Federal Reserve District

The Federal Reserve Bank of St. Louis was established in 1914, after the creation of the Federal Reserve System in 1913.

President James Bullard
Roles of the Federal Reserve Banks

• Conduct research on the economy
• Supervise banks in their regions
• Provide financial services to banks and the U.S. government.
• Present regional interests at FOMC meetings
  • Not government entities
System Roles and Responsibilities

The Fed structure and its responsibilities reflect the public-private nature of the U.S. central bank. These responsibilities include:

1. Providing financial services
2. Regulating and supervising financial institutions
3. Conducting monetary policy
Financial Services--The Bank for Bankers

• Reserve banks circulate currency, clear checks and provide several forms of electronic payment such as wire transfer and Automated Clearing House (ACH) transactions.
• The Fed is the bank for the federal government; processing government checks, savings bonds and a significant portion of federal tax payments.
Regulation and Supervision

• Board of Governors writes rules that regulate financial institutions.

• Reserve banks supervise the enforcement of these rules by conducting bank and bank holding company examinations.

• Helps ensure that the nation’s banking system is safe, sound and able to respond to financial crises.

• The Fed has historically acted as the lender of last resort.
More on Bank Supervision

• Safety and Soundness
  ▪ Onsite exams
  ▪ Offsite Surveillance

• Consumer Affairs
  ▪ Fair Lending
  ▪ Community Reinvestment Act

• Competitive Analysis
  ▪ Bank Mergers
  ▪ Competitive Analysis and Structure Source Instrument for Depository Institutions (CASSIDI®)
Monetary Policy & the FOMC

- **Monetary policy** refers to Federal Reserve actions to stabilize the economy by influencing the amount of money and credit in the U.S. economy.
  - Tools of monetary policy
- Money and credit affect interest rates and the performance of the U.S. economy.
Monetary Policy & the FOMC

The FOMC meets 8 times a year, with 7 members from the Board of Governors and 5 regional presidents. Each member has 1 vote, making a total of 12 votes. Votes are taken every year and in alternating years.
Monetary Policy & the FOMC

FOMC meets 8 times a year.

2018 FOMC Meetings
• January 30-31
• March 20-21*
• May 1-2
• June 12-13*
• July 31-Aug. 1
• September 25-26*
• November 7-8
• December 18-19

* Meeting includes economic projections and press conference.
ACCOUNTABILITY

- Monetary policy is vigorously debated everyday, both inside and outside the Fed.
- The Fed is extensively audited—our rough estimate is about 425,000 hours annually:
  - Internal audit function.
  - Board of Governors oversight.
  - External auditor (KPMG).
- Each hour of audit time requires staff time for compliance.
- In addition, the Fed is subject to auditing by the GAO, the investigative arm of Congress.
- Additional audits are welcome, so long as they do not constitute political meddling.
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Questions?