

The Federal Reserve Act: History and Perspectives



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May 29, 2014

Goals

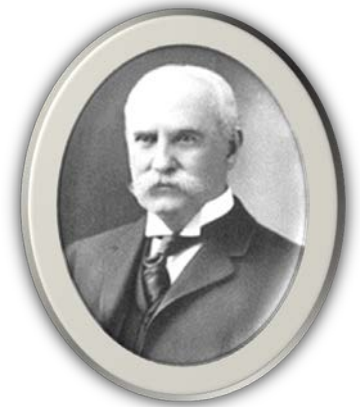
- Understand why the Fed was formed and how it is organized
- Understand key roles of the Fed and how these roles have changed
- Answer commonly-asked questions

Disclaimer

The views expressed here are the presenter's
and not necessarily those of the
Federal Reserve Bank of Minneapolis
or the Federal Reserve System

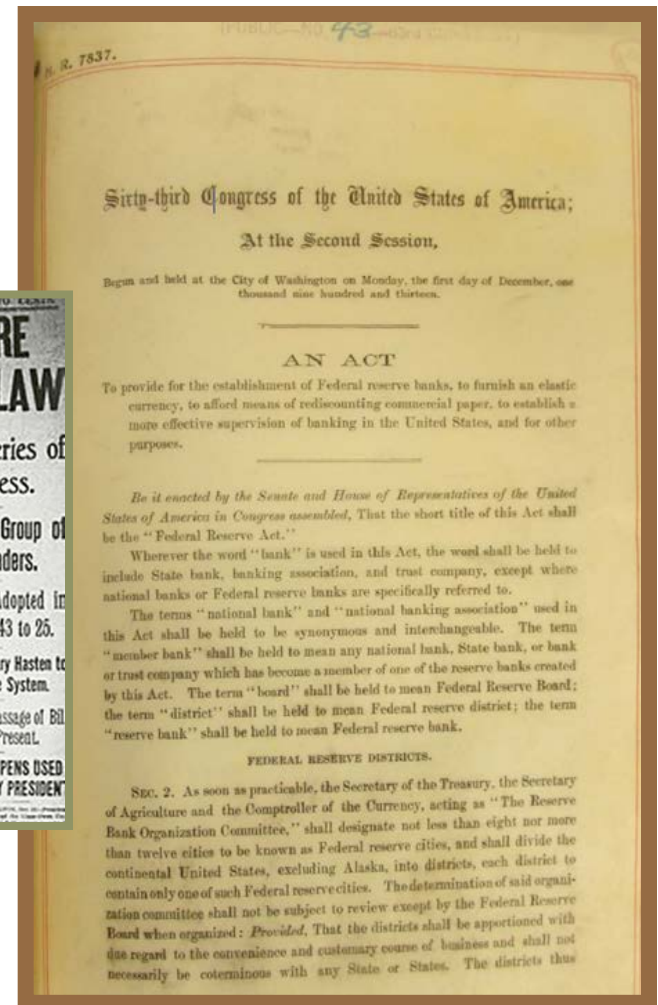
Before the Federal Reserve Act

- Instability and financial panics
 - Crisis of 1907
 - J.P. Morgan
 - National Monetary Commission
 - Nelson Aldrich and Jekyll Island



The Federal Reserve Act

- Enacted December 23, 1913
- Covers major Federal Reserve functions
- Provided for the Board of Governors and Reserve Banks



Purpose of the Federal Reserve Act



“An Act to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.”

— *FRA Official Title*

Functions of the Federal Reserve System

- Conduct monetary policy
- Maintain the stability of the financial system
- Regulate and supervise banking institutions
- Provide financial services to depository institutions and the U.S. Government

Federal Reserve Structure is Designed to Strike a Balance



- *Politically Independent**
- *Accountable and Transparent**

Board of Governors

Appointment of Members

- Seven members
- Appointed by the President with consent of the Senate
- Staggered terms of 14 years !

An independent, governmental body to formulate central monetary policy for a national economy

Members of the Board of Governors



Janet Yellen • Chair

Jerome H. Powell

Daniel Tarullo

Stanley Fischer



Federal Reserve Districts

The Federal Reserve Act calls for the Reserve Bank Organization Committee to designate “not less than eight nor more than twelve cities to be known as Federal reserve cities...”

Formation

Headlines: Minneapolis vs. St. Paul

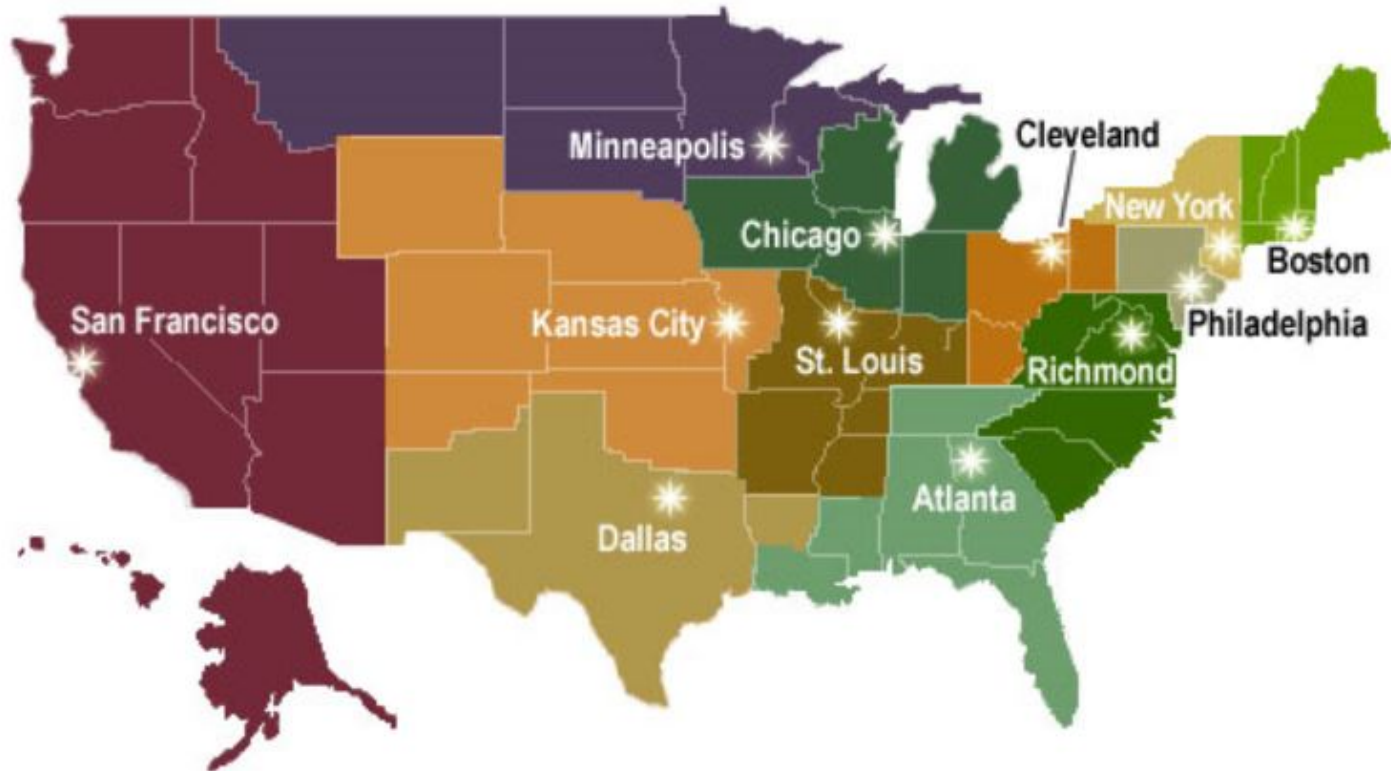
**MINNEAPOLIS SURE . . .
TO GET RESERVE BANK**
*Business Men's Delegation
Completes Argument Before
Federal Bank Organization
Committee*

*Minneapolis Journal
January 20, 1914*

**RIVAL'S KNOCKS SEEM TO
INSURE ST. PAUL A BANK**
*Mill City Witnesses, in Belittling
Neighbor, Incur Disfavor at
Chicago Hearing*

*St. Paul Pioneer Press
January 21, 1914*

Federal Reserve Districts...




... capture diversity of **regional** conditions and perspectives

Federal Reserve Banks

12 RBs opened on November 21, 1914

- Incorporated with traditional corporate powers
- Stockholders are member banks
- Member banks elect six of nine directors


Federal Reserve Bank of Minneapolis,
located in the City of Minneapolis,



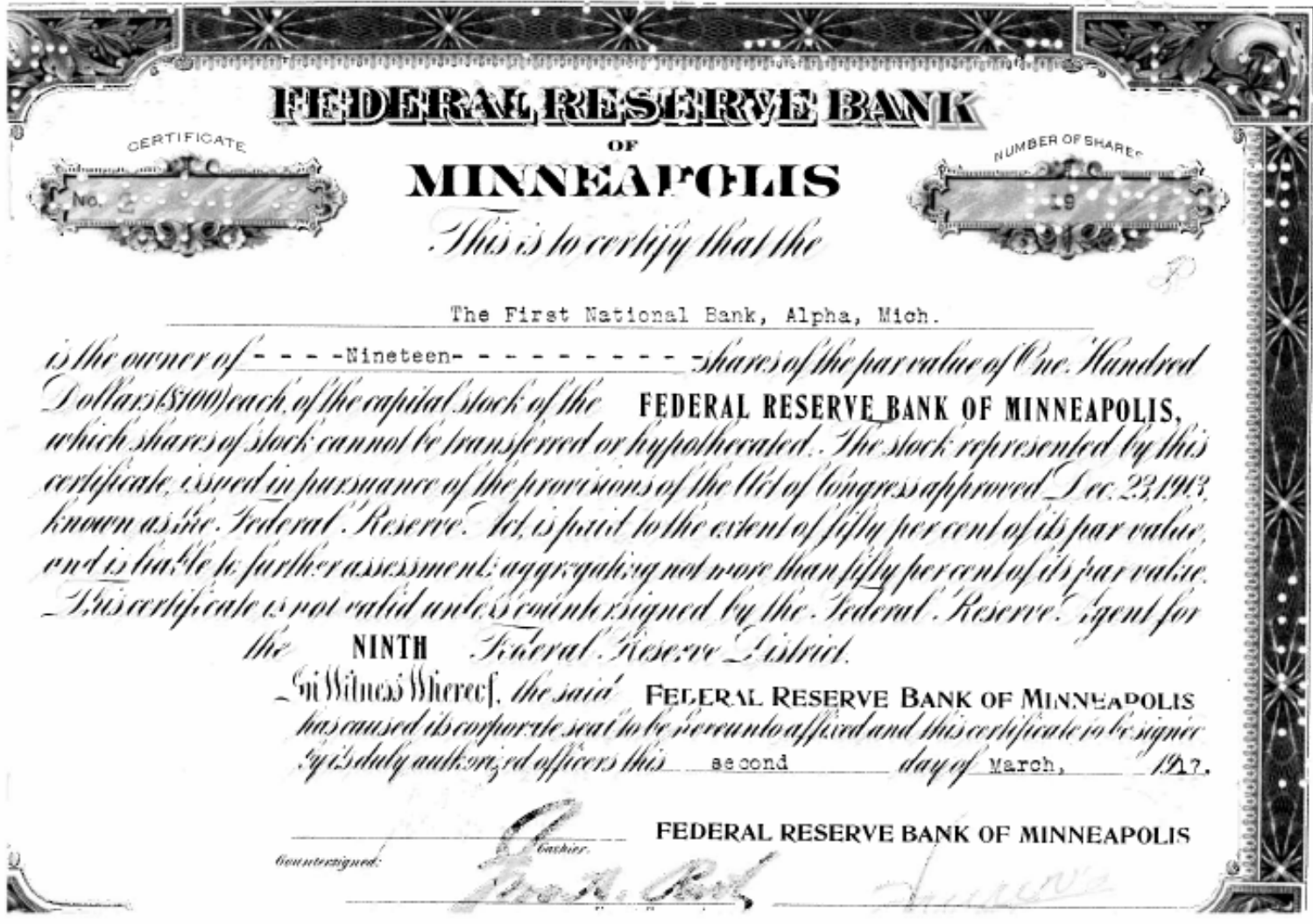
Treasury Department
Office of Comptroller of the Currency
Washington, D.C.

By virtue of the power vested in me by Section 4 of the Act of Congress approved December 25, 1913 and known as the Federal Reserve Act,
I, John Skelton Williams, Comptroller of the Currency,
do certify that the
necessary provisions of law having been complied with, the
Federal Reserve Bank of Minneapolis,
located in the City of Minneapolis,
State of Minnesota, and in District No. 9,
as defined by the
Reserve Bank Organization Committee,
is authorized to commence business
and to exercise all powers granted to it by law.

In testimony whereof, witness my hand
and seal of office this fourteenth day of
November, 1914.



John Skelton Williams
Comptroller of the Currency



FEDERAL RESERVE BANK

CERTIFICATE

No. 2

**OF
MINNEAPOLIS**

NUMBER OF SHARES

19

This is to certify that the

The First National Bank, Alpha, Mich.

is the owner of - - - Nineteen - - - - - shares of the par value of One Hundred Dollars (\$100) each, of the capital stock of the FEDERAL RESERVE BANK OF MINNEAPOLIS, which shares of stock cannot be transferred or hypothecated. The stock represented by this certificate, issued in pursuance of the provisions of the Act of Congress approved Dec. 23, 1913, known as the Federal Reserve Act, is paid to the extent of fifty per cent of its par value, and is liable to further assessment aggregating not more than fifty per cent of its par value. This certificate is not valid unless countersigned by the Federal Reserve Agent for the NINTH Federal Reserve District.

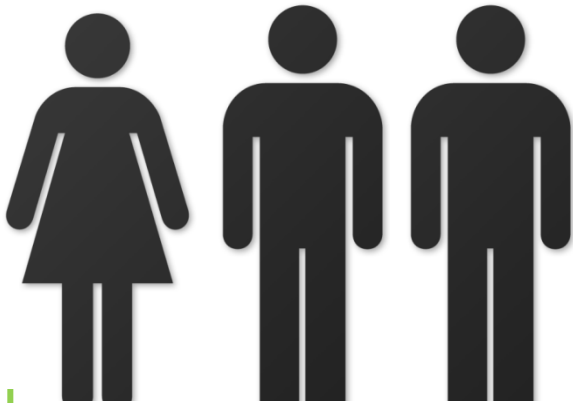
In Witness Whereof, the said FEDERAL RESERVE BANK OF MINNEAPOLIS has caused its corporate seal to be hereunto affixed and this certificate to be signed by its duly authorized officers this second day of March, 1917.

[Signature]
COUNTERSIGNED: *[Signature]* Cashier
FEDERAL RESERVE BANK OF MINNEAPOLIS

Directors Represent Banks and Public

Represent Member Banks

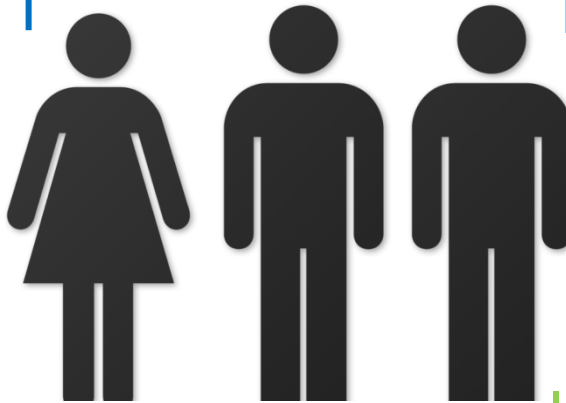
A



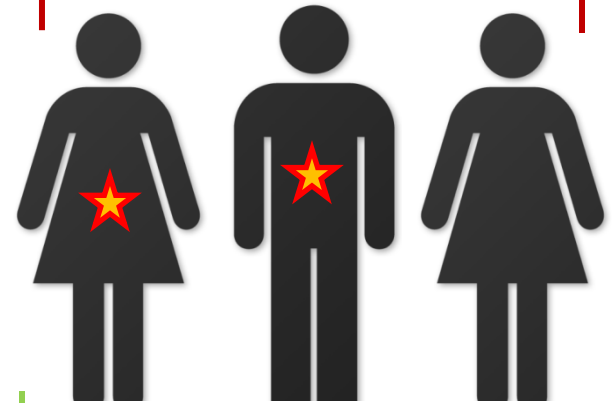
6 Elected by District Member Banks

Represent the Public

B



C



3 Appointed by BoG

May not own stock in a bank

May not be an employee or officer of a bank

Board of Directors – Minneapolis Fed

A

Kenneth Palmer
Range Bank

B

Larry Simkins
The Washington
Companies

C

Chair
Randy Hogan
Pentair

A

Catherine Kelly
Minnesota Bank
and Trust



C

Deputy Chair
MayKao Hang
Amherst Wilder
Foundation

B

Christine Hamilton
Christiansen Land
and Cattle

B

Howard Dahl
Amity
Technology

C

Ken Powell
General Mills

A

Randy Newman
Alerus Financial

Purposes of Reserve Banks

- Operating arms of the central bank
 - Help formulate and implement monetary policy
 - Help maintain the stability of the financial system
 - Supervise member banks and bank holding companies in their districts
 - Provide services for the banking system

Helena Branch

- Helena Branch formed in 1921
- Smallest city to have a RB or branch
- Current operations include cash distribution and outreach, among others



Helena Branch Original Location, 1921



The Branch Today

Board of Directors – Helena Branch

Deputy Chair

David Solberg
Seven Blackfoot
Ranch Company

Duane Kurokawa
Western Bank of Wolf Point

Tom Swenson
Bank of Montana



Barbara Stiffarm
Opportunity Link, Inc.

Chair
Martha Goetting
Montana State
University

Functions of the Federal Reserve System

- **Conduct monetary policy**
- Maintain the stability of the financial system
- Regulate and supervise banking institutions
- Provide financial services to depository institutions and the U.S. Government

Conducting Monetary Policy Today

- Both the Board of Governors and the Reserve Banks participate
- Mandate is to promote maximum employment and price stability
- But both the **structure** and the **policy goals** have evolved over time

Federal Open Market Committee (FOMC)

Monetary policy in the United States is formed through the FOMC. Made up of:

- The seven members of the BoG
- The president of the FRB-New York
- Four other RB presidents – rotating

But it hasn't always been this way...



PERMANENT VOTING MEMBERS						
New York Fed President		Board of Governors (Including Chair)				
Voting Rotation Schedule of Federal Reserve Bank Presidents						
YEAR 1 – VOTING MEMBERS						
Boston		Cleveland*		St. Louis		Kansas City
YEAR 2 – VOTING MEMBERS						
Philadelphia		Chicago*		Dallas		Minneapolis
YEAR 3 – VOTING MEMBERS						
Richmond		Cleveland*		Atlanta		San Francisco

**Cleveland and Chicago are on a two-year rotating schedule.*

Early Days
**Bank
Emphasis**

1930

BoG replaces OMIC with
Open-Market Policy Committee
All 12 banks represented

Timeline Changes in FOMC

1913

Federal Reserve Act

1933

**First Statutory
FOMC**

All 12 banks members

1910

1920

1930

1940

1950

2010

2020

Mid-1920s

Reserve Banks voluntarily form
**Open-Market Investment
Committee**

New York, Cleveland, Chicago,
Philadelphia, Boston

1935

FOMC composition changes

7 BoG members plus
5 FRB presidents in rotating schedule

1942 to present

New rotation groups

- 7 BoG
- FRB New York – **permanent member**
- BOS/PHL/Rich
- CLEV/CHI
- ATL/DAL/STLs
- MPLS/KC/SF

Since 1935
**Board of
Governors
Majority**

Monetary Policy Goals Also Evolved

- The original Act: “...provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper...”
- Backdrop was financial panic
- Focus was **financial stability**

1978 - Humphrey-Hawkins

Congress passed the Full Employment and Balanced Growth Act



The Dual Mandate

- The Board and FOMC...

“...shall maintain long run growth of the monetary and credit aggregates commensurate with the economy’s long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices and moderate long-term interest rates.”

- Dual mandate guides us today

Functions of the Federal Reserve System

- Conduct monetary policy
- **Maintain the stability of the financial system**
- Regulate and supervise banking institutions
- Provide financial services to depository institutions and the U.S. Government

Maintaining Stability Pre-2008

- The Federal Reserve Act empowered Reserve Banks to lend to depository institutions (done through the “Discount Window”)
- Supervision and Regulation
- Little-used Federal Reserve Act authority under Section 13(3) (1932)
(could lend to individuals, partnerships and corporations under **exigent** circumstances)

Discount Window

- Functions as a safety valve
- Helps relieve short-term, non-critical liquidity strains
- Routine function of Reserve Banks

Federal Reserve
DISCOUNT WINDOW | PAYMENT SYSTEM RISK

Search

General Information | Guidelines | Agreements | Discount Rates | Collateral | Payment System Risk | Select Your FRB

Current Interest Rates	
Primary Credit	0.75%
Secondary Credit	1.25%
Seasonal Credit	0.10%
Fed Funds Target	0 - 0.25%

Press Releases & Announcements | [Archive](#)

[Additional Options for Reporting Information about Pledged Demand Loans](#)
March 6, 2014
The Federal Reserve is introducing additional options for reporting information about demand loans that are pledged as collateral

[Acceptance of U.S. Treasury Floating](#)

[FOMC Statement](#) ↗
Source: The Federal Reserve Board
April 30, 2014
The Federal Open Market Committee decided today to keep its target range for the federal funds rate at 0 to 0.25 percent

[New Requirement for Submitting Information about Pledged Loans](#)

Getting Started
Pledging Collateral
Borrowing
Collateral Margins Table
Business Continuity
Federal Reserve Websites
Site Map
Frequently Asked Questions

Functions of the Federal Reserve System

- Conduct monetary policy
- Maintain the stability of the financial system
- **Regulate and supervise banking institutions**
- Provide financial services to depository institutions and the U.S. Government

Supervision and Regulation – Pre-2010

- **Fed supervises...**
 - Bank/financial holding companies
 - State member banks
 - Other entities
- **...in order to**
 - Monitor compliance with regulations
 - Identify risks and vulnerabilities
 - Provide guidance to financial institutions

Functions of the Federal Reserve System

- Conduct monetary policy
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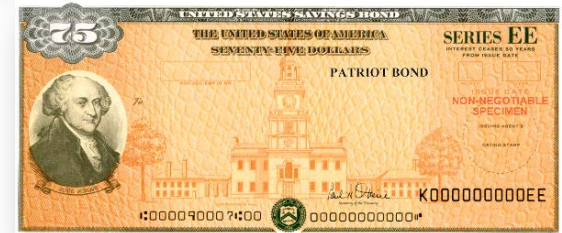
Providing Financial Services

Fed is a banker's bank

- Currency and coin ordering and depositing
- Automated Clearing House transactions
- Check clearing
- Wire payments



- **Fed is the government's bank**
 - Savings Bonds and Treasury Auctions



2008 – Financial Crisis

- Bubble, bust, financial firm failures, liquidity crisis
- Echoes of 1907 crisis and 1929 crash and Great Depression, but with key differences
 - Federal Reserve Act provided infrastructure and tools to respond
 - Lessons learned from the Great Depression led to aggressive monetary policy and innovative liquidity programs

2008 Financial Crisis and Beyond: Monetary Policy

Fed took strong monetary policy actions during the crisis...

- Cut and maintained short-term interest rates near zero

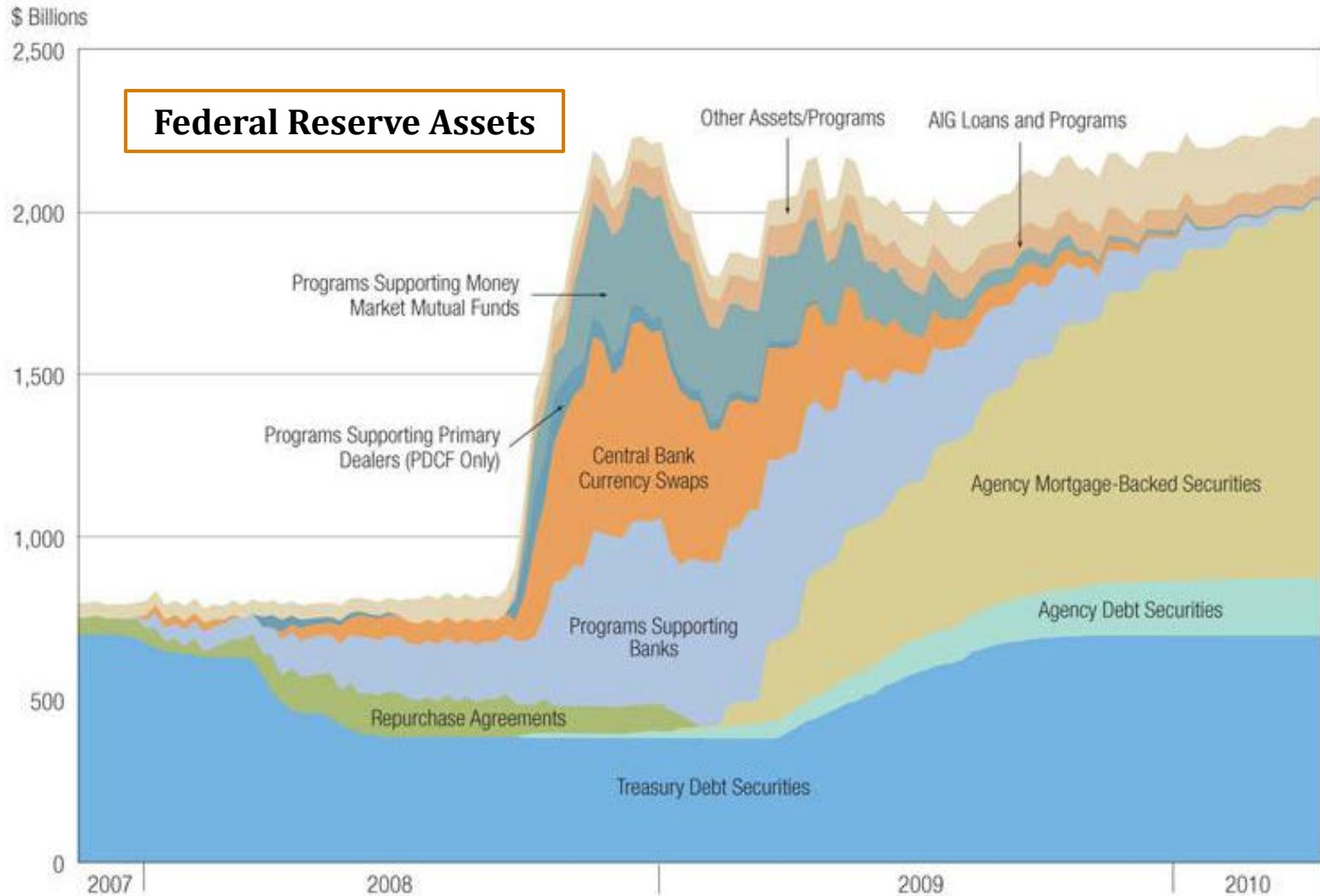
...and in its aftermath

- Unconventional asset purchases to drive down long-term interest rates
 - Increase in Fed balance sheet
 - Quantitative Easing

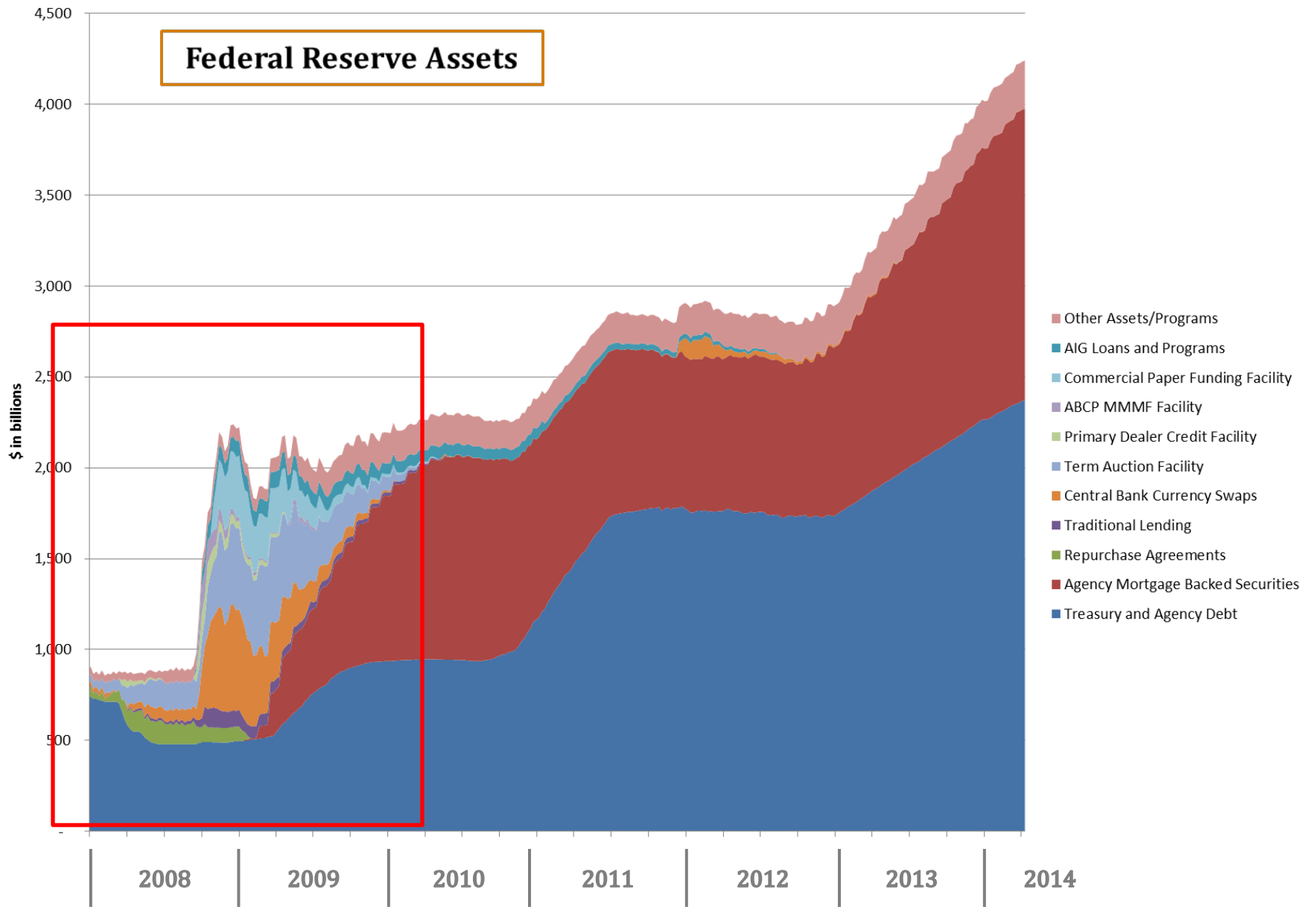
2008 Financial Crisis: Innovative Fed Programs Eased Liquidity

- **Programs supporting banks**
 - Term Auction Facility
- **Programs supporting primary dealers**
 - Primary Dealer Credit Facility
 - Term Securities Lending Facility
- **Programs supporting commercial paper/money markets**
 - Asset Backed Commercial Paper Money Market Mutual Fund Liquidity Facility
 - Commercial Paper Funding Facility
 - Money Market Investor Funding Facility
- **Programs supporting broader market participants**
 - Term Asset-Backed Securities Loan Facility

Lending Programs: Effect on the Balance Sheet



Federal Reserve Assets



Legislative Response – Post-Crisis 2010 Dodd-Frank Act



Co-sponsors wait for the signing of the Dodd Frank
Wall Street Reform and Consumer Protection Act in
Washington
© Larry Downing/Reuters/Corbis

- Strengthened financial industry oversight overall
- Fed Role changes:
 - Thrift holding companies
 - “Systemically important” firms
 - Changed Federal Reserve Act to limit and codify emergency powers

Federal Reserve Structure is Designed to Strike a Balance



***Politically Independent**

***Accountable and Transparent**

Accountability

Federal Reserve Act provides necessary checks:

- Congressional oversight
- Annual independent audit of the financial statements of each Reserve Bank and the Board of Governors

Accountability and Transparency



- Government Accountability Office conducts reviews
- Office of Inspector General conducts audits and investigations – including delegated functions



Board of Governors of the Federal Reserve System

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Audit

The information below is provided as required by the Wall Street Reform and Consumer Protection Act. The page will be updated as reports and other information become available.

Audited Annual Federal Reserve System financial statements

Annual audited financial statements of the Federal Reserve System and independent auditors' reports.

- [Federal Reserve System audited annual financial statements](#)

INDEPENDENT AUDITORS' REPORT
To the Board of Governors of the Federal Reserve System:
We have audited the accompanying balance sheet as of December 31, 2010 and 2009, and the results of operations...

Reports prepared by the Comptroller General
Under section 714 of title 31, United States Code.

Transparency

- Policy statement immediately after each FOMC meeting
- Meeting minutes after three weeks
- Press conferences
- “Green Books” and “Blue Books” on BOG Website

Video [All Video](#)



JANET YELLEN
Chair, Federal Reserve Board

PLAY 00:00

email get link get code CC ..

Press Conference with Chair of the FOMC, Janet L. Yellen
March 19, 2014 [Transcript \(PDF\)](#)

FEDERAL RESERVE press release



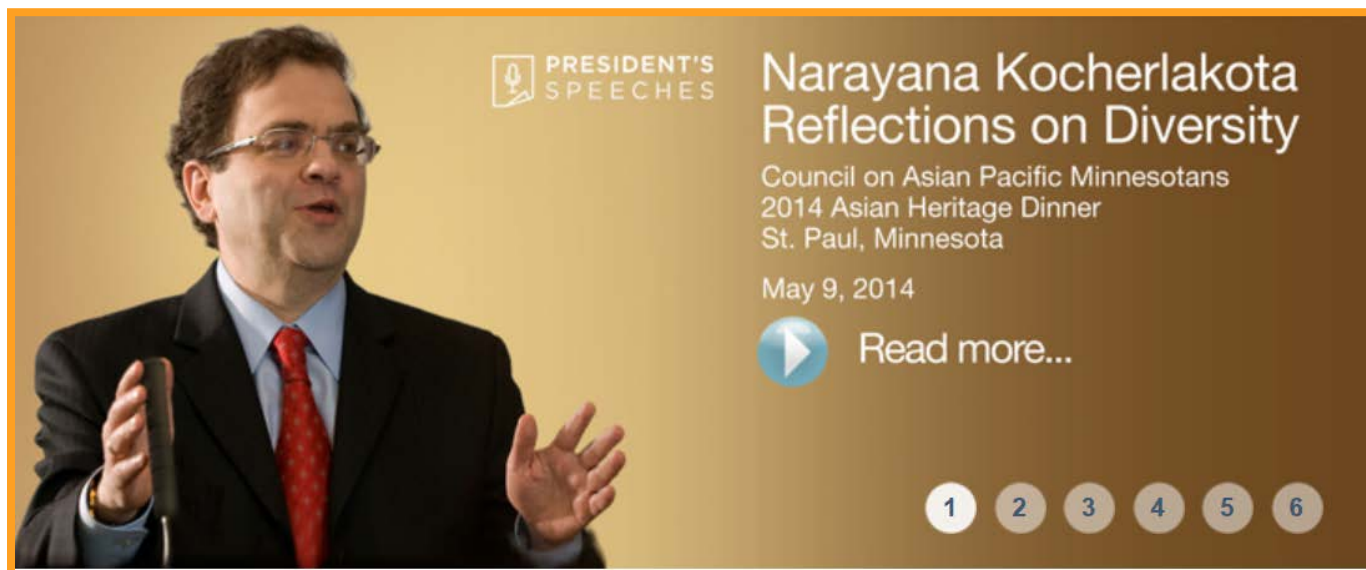
Release Date: April 9, 2014

For release at 2:00 p.m. ET

→ The Federal Reserve Board and the Federal Open Market Committee on Wednesday released the attached minutes of the committee meeting held on March 18-19, 2014 and of the conference call held on March 4, 2014. A summary of economic projections made by Federal Reserve Board members and Reserve Bank presidents for the meeting is also included as an addendum to these minutes.

Transparency

- Congressional testimony and reports
- Reports on BoG and FRB public websites – see http://www.newyorkfed.org/markets/opolicy/operating_policy_140319.html
- Speeches by Fed chair, governors and FRB presidents





Central Bank – Public Servant



References

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- Steelman, Aaron. *The Federal Reserve's Dual Mandate: The Evolution of an Idea*. Economic Brief EB11-12, December 2011.
https://www.richmondfed.org/publications/research/economic_brief/2011/eb_11-12.cfm
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