



## *Executive Committee*

**Clockwise from left:**

<b>John F. Moore</b>	<i>First Vice President (seated)</i>
<b>Susan A. Sutherland</b>	<i>Senior Vice President</i>
<b>Mark Mullinix</b>	<i>Executive Vice President (seated)</i>
<b>Kerry Webb</b>	<i>Senior Vice President</i>
<b>Jack H. Beebe</b>	<i>Senior Vice President and Director of Research</i>
<b>Terry S. Schwakopf</b>	<i>Executive Vice President (seated)</i>
<b>Robert T. Parry</b>	<i>President (seated)</i>

## FINANCIAL SERVICES

The Bank made significant progress toward its goals of improving customer service, streamlining operations, and increasing revenue in 2001. Complex efforts continued during the year to upgrade and standardize check and cash operations platforms.

- The Phoenix Processing Center opened on September 4, 2001, improving the quality of cash services available to the Arizona market, and serving as a new currency warehouse for the Los Angeles office.
- The Bank made significant progress toward its goal of establishing two comprehensive customer support centers in San Francisco and Portland. When completed, the new Customer Support function will provide support to customers for questions relating to: checks, cash, accounting, billing, funds transfer, book-entry securities, ACH, electronic connections, business development follow-up, and certain Treasury services.
- The Bank developed a new Check to ACH Conversion (CTAC) service in collaboration with a major credit card bank in the Northwest. CTAC will capture payment data from checks received by lockbox payment processors and convert the items into ACH payments for collection. This process will significantly speed up the check collection process, as well as minimize the number of times that paper checks are handled.
- The Bank established a new direction for the System's cash services business, assuming leadership of the national Cash Product Office (CPO) in March. The CPO developed the "Long-Term Cash" initiative, an effort to reduce overuse of Federal Reserve currency processing services by inducing banks to weigh the societal cost of their decisions to deposit currency with the Federal Reserve.
- The Bank piloted and received approval to move forward with Federal Reserve Systemwide implementation of the bar code-based Automated Depositor Identification (ADI) system, which associates a bundle of currency with the depositing institution, allowing the Bank to monitor customer deposit quality better.
- The Bank piloted and deployed the Reserves Web Interface (RWI), a product that provides Web-based access to reserve requirement data to internal Federal Reserve System users.
- Standard Cash Automation (SCA), a Federal Reserve System-standard automated currency and coin inventory tracking application, was implemented in four District offices.
- The Bank completed hardware, software, and network changes in preparation for conversion to Check Modernization, a project designed to create a more efficient check processing environment that includes standard, centrally managed platforms for item processing, check adjustments, and image services, as well as Web-based delivery of check services.
- To reduce costs and streamline the provision of services, ACH, Funds Transfer, and Book-Entry Transfer services activities were consolidated to a limited number of sites in the Federal Reserve System. The multi-phased consolidations, which eliminated those services in the Twelfth District, were completed successfully around year-end.

### ECONOMIC RESEARCH

The research of staff economists continued at a high level in 2001, resulting in 13 articles accepted for publication in peer-reviewed professional economics journals. This research underpins the staff's support of the Bank's and the System's policy missions. This support includes briefings to the Bank President and the Boards of Directors, participation on System committees, and the Department's public speaking and publications programs. For a full description of the year's work, see the *Economic Review* (available on [frbsf.org](http://frbsf.org)).

- Macroeconomic and policy research focused on such topics as how much weight Fed policymakers put on smoothing interest rates, the effects of policy and other macro factors on the term structure of interest rates, and estimates of the Fed's emphasis on inflation under different Chairmen.
- Banking and regulation research topics included incorporating equity market variables into supervisory monitoring models for bank holding companies and a theoretical comparison of two mechanisms for disposing of failed bank assets.
- Research in the international area focused mainly on Pacific Basin issues and included such topics as the impact of Japan's regulatory reforms on bank equity values, the trade effect of currency crises, an analysis of the justification for international lending of last resort, and pegging and stabilization policies in developing countries.
- Energy problems in California and the West were special topics throughout the year in the regional and financial discussions. Aspects addressed included analysis of electricity and natural gas markets, the effects of energy problems on bond rates, stock values, and corporate profits, and the impact of the energy market developments on energy firms and state and local financing in California.
- The Bank cohosted and organized two professional conferences with the Stanford Institute for Economic Policy Research at Stanford University. One conference, "Asset Prices, Exchange Rates, and Monetary Policy," featured papers by Federal Reserve staff, researchers from the Central Bank of Norway, the Central Bank of Sweden, and the Bank of England, as well as noted academics.
- For the third consecutive year, the Pacific Basin Center and the World Bank Institute cosponsored a four-day seminar in Bangkok, Thailand, for some 50 senior policymakers from Africa, Asia, and North America. The topic in 2001 was "Managing Capital Flows and Monetary Policy in Developing and Transitioning Economies."
- Economic Research hosted a joint System conference with Supervision and Regulation which included papers on early detection of inadequate capitalization of U.S. commercial banks, forecasting bank health, forecasting supervisory resources, market information for supervisory surveillance, and issues on banking and the business cycle.

## BANKING SUPERVISION AND REGULATION

The Banking Supervision and Regulation (BS&R) division continued to promote safety and soundness in the banking system and to ensure compliance with applicable laws and regulations. In addition, BS&R continued to encourage banking institutions to responsibly meet the financial needs of their communities. Some examples of the division's activities are as follows:

- BS&R developed a Risk Assessment Council which identified the most significant risks facing District financial institutions and developed action plans to address those risks.
- In light of the economic downturn, BS&R revisited the scope of future supervisory activities and, for example, in many cases, expanded loan coverage because of increased credit risk.
- BS&R developed the Commercial Real Estate Web site, a comprehensive nationwide real estate database with analyses and monitoring reports, which is available to staff throughout the Federal Reserve System.
- A new publication, the *Japan Bank Monitor*, was created to share information throughout the Federal Reserve System on new developments and trends in the Asia-Pacific region.
- In Compliance, BS&R responded to change by initiating a number of new supervisory programs, refined procedures, and trained bankers and examiners on privacy regulations.

- The Community Affairs unit coordinated and hosted workshops to discuss solutions to credit issues in Native American land; cohosted the National Community Development Lending School in conjunction with the Cleveland Reserve Bank and Case Western University in Cleveland; and coordinated several community outreach seminars for leaders of affordable housing lending organizations.

## OUTREACH

The Bank continued its educational outreach programs on the purposes and functions of the Federal Reserve System.

- The Bank expanded its congressional calling program to better inform government representatives on the role the Federal Reserve plays in the local and national economy and the informational resources available from our Bank.
- The Bank published the inaugural edition of *Econ Ed and the Fed*. This biannual newsletter provides teaching materials and resources, including Web sites, classroom ideas, programs, and other information to high school educators in the Twelfth District.
- The Bank led the Federal Reserve System effort to market the new Federal Reserve education Web site, [FederalReserveEducation.org](http://FederalReserveEducation.org).
- The Bank launched its redesigned public Web site, [frbsf.org](http://frbsf.org).