

MESSAGE FROM THE PRESIDENT

THIS IS MY FIRST ANNUAL REPORT as the president and chief executive officer of the Federal Reserve Bank of San Francisco. I am honored to have been chosen for this role and to follow in the footsteps of my predecessor, Robert T. Parry, who left an exceptional foundation to build upon through his contributions to monetary policy, to the San Francisco Reserve Bank, and to the Federal Reserve System.

Representing a District that comprises nearly 20 percent of the national economy is a privilege. Since coming here in June 2004, I have spent a lot of time listening and learning—getting to know the people and seeing the operations. I have met some remarkable people who are dedicated to serving the broad public interest. This dedication reflects an essential mission of the Federal Reserve, which is to promote the well-being of American households.

Although I am in a new role, I am not new to the Federal Reserve, since I previously served as a Governor. This is a very interesting time to be returning. It is a time of change. Some of the most dramatic changes impacting what we do involve the move toward electronic payments in the financial services industry. Soon after I stepped into my new role, the Federal Reserve announced additional consolidations of check operations nationwide to address the accelerating shift away from the use of paper checks to electronic payments. Looking ahead, this shift, together with consolidations in the banking industry, are serving as a catalyst for the Federal Reserve to rethink how it will continue to perform its essential roles and maintain the benefits of its regional structure within a more centralized business environment.

The Federal Reserve is a complex organization, and many Americans understand very little about how it carries out its duties and impacts their lives, let alone how it is evolving in the changing environment. Yet, this understanding can contribute significantly to public well-being and to the Federal Reserve's policy goals as well. The Federal Reserve has been long committed to enhancing public understanding of its activities, the economy, and the financial system through a variety of outreach programs and educational materials.

As part of our outreach strategy, we opened new educational exhibits at our San Francisco headquarters and at our Los Angeles Branch during 2004. These comprehensive exhibits provide the backdrop for this year's essay, "The Fed at Work." The essay describes the Federal Reserve's fundamental roles: conducting monetary policy, supervising and regulating banks, maintaining the stability of the financial system, and providing services for financial institutions. At their core, all of these roles are carried out to enhance public well-being.

The report also looks at some milestones that took place during the year in our business areas that underscore the fact that, while the institution's roles have not changed—how we do our work has. Accomplishing our goals, especially within this changing environment, attests to the talent and commitment of the people who work at the Federal Reserve Bank of San Francisco. I would like to thank employees for their hard work and dedication.

I also would like to extend my thanks and appreciation to our Twelfth District directors for their invaluable counsel during 2004. The directors' independent assessment of economic and financial conditions throughout our nine western states is critical to the formulation of monetary policy.

In particular, I acknowledge the many contributions of Sheila D. Harris, director, Arizona Department of Housing, Phoenix, Arizona, who completed six years of service to this Reserve Bank, the last one and one-half years as deputy chairman of the board.

In addition, I would like to express my sincere thanks and appreciation to the other directors and Advisory Council members who concluded their terms of service during 2004:

- on the San Francisco Board: Jay Harris, Wallis Annenberg Chair in Journalism and Communications, Annenberg School for Communication, University of Southern California, Los Angeles, California;
- on the Los Angeles Branch Board: William Jones, chairman, president, and chief executive officer, CityLink Investment Corporation, San Diego, California, who served as chairman of the Los Angeles Branch Board the last four years; and Russell Goldsmith, chairman and chief executive officer, City National Bank, Beverly Hills, California;
- on the Salt Lake City Branch Board: Curtis Harris, chairman, president, and chief executive officer, Barnes Banking Company, Kaysville, Utah;
- on the Seattle Branch Board: Peter van Oppen, chairman and chief executive officer, Advanced Digital Information Corporation, Redmond, Washington;
- as Twelfth District member of the Federal Advisory Council: Michael O'Neill, chairman, president, and chief executive officer (retired), Bank of Hawaii Corporation, Honolulu, Hawaii; and
- on the Twelfth District Advisory Council: Paula Collins, chief executive officer, WDG Ventures, Inc., San Francisco, California; and Ed Mayne, president, Utah AFL-CIO, West Valley, Utah.



Janet L. Yellen