

FEDERAL RESERVE SYSTEM

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Plan:

- History of the Federal Reserve System
- Function of the FED
- Structure of the FED

History of the Federal Reserve System

The Federal Reserve System is the central bank of the United States. It was founded by Congress in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system. Over the years, its role in banking and the economy has expanded.

Function of the FED

The Federal Reserve has **three primary functions**:

- Monetary Policy,
- Banking Supervision,
- Financial Services.

Function of the FED

It performs **five key functions** to promote the effective operation of the U.S. economy and, more generally, the public interest.

The Federal Reserve

- conducts the nation's monetary policy;
- Maintains the stability of the financial system;
- Supervises and regulates financial institutions;
- fosters payment and settlement system safety and efficiency;
- promotes consumer protection and community development.

Structure of the FED





The Federal Reserve Board of Governors (Federal Reserve Board)



The Board of Governors--located in Washington, D.C.--is the governing body of the Federal Reserve System. It is run by **seven members**, or "governors," who are nominated by the President of the United States and confirmed in their positions by the **U.S. Senate**. The Board of Governors guides the operation of the Federal Reserve System to promote the goals and fulfill the responsibilities given to the Federal Reserve by the Federal Reserve Act.

All of the members of the Board serve on the FOMC, which is the body within the Federal Reserve that sets monetary policy.

Board Appointment

Each member of the Board of Governors is appointed for a **14-year term**; the terms are staggered so that one term expires on January 31 of each even-numbered year. After serving a full 14-year term, a Board member **may not be reappointed**. If a Board member leaves the Board before his or her term expires, however, the person nominated and confirmed to serve the remainder of the term may later be appointed to a full 14-year term.

The Chair and Vice Chair of the Board are also appointed by the President and confirmed by the Senate, but serve **only four-year terms**. They may be **reappointed** to additional four-year terms. The nominees to these posts must already be members of the Board or **must be simultaneously appointed to the Board**.



The Decentralized System Structure

In establishing the Federal Reserve System, the United States was divided geographically into 12 Districts, each with a separately incorporated Reserve Bank. District boundaries were based on prevailing trade regions that existed in 1913 and related economic considerations, so they do not necessarily coincide with state lines.

Twelve Federal Reserve Districts **operate independently** but under the supervision of the Federal Reserve Board of Governors.

Pursuant to the Federal Reserve Act, each of the 12 Reserve Banks is separately incorporated and has a **nine-member** board of directors. Commercial banks that are members of the Federal Reserve System hold stock in their District's Reserve Bank and **elect six of the Reserve Bank's directors, three remaining directors are appointed** by the Board of Governors

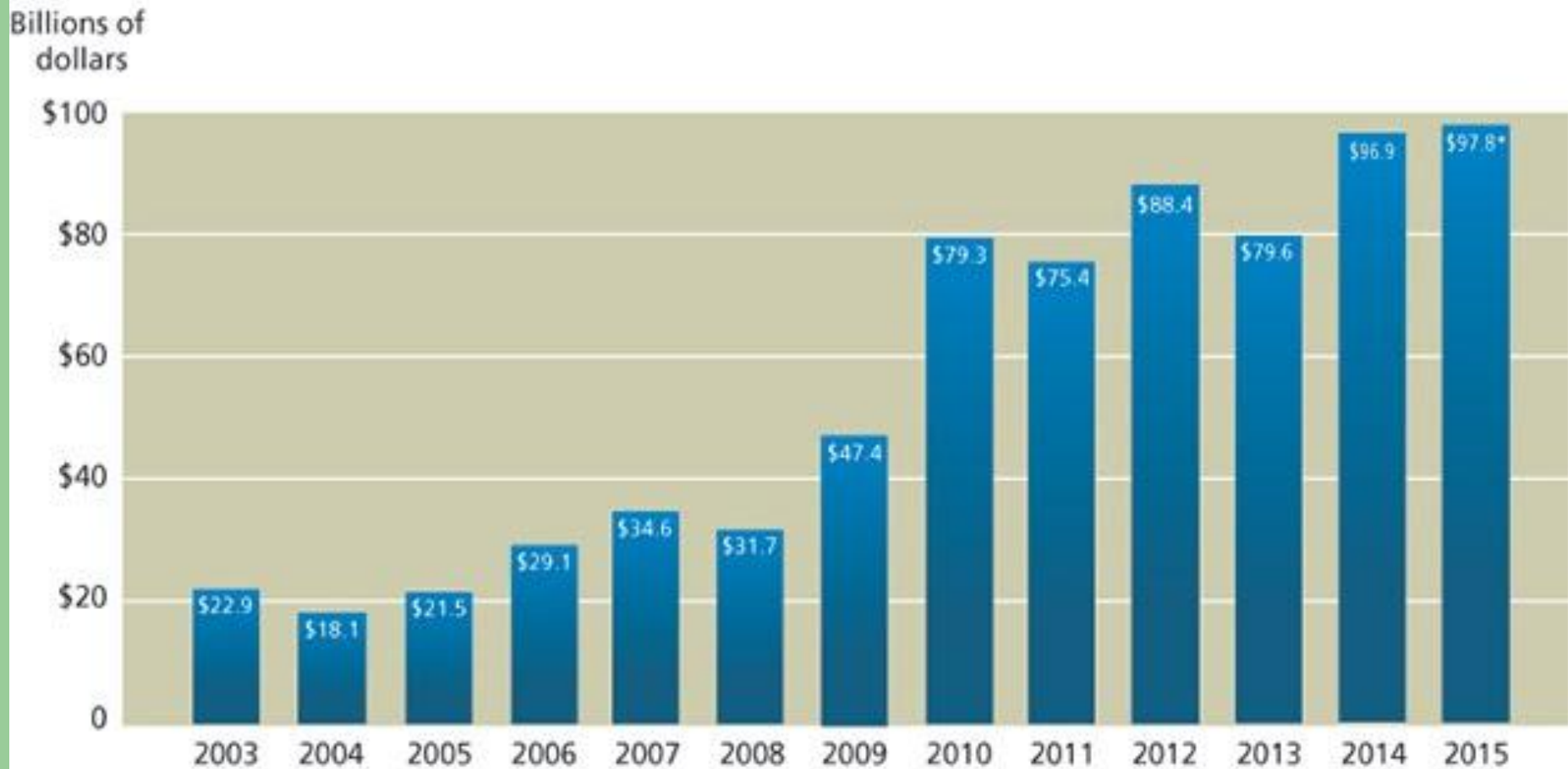
Federal Reserve Banks



12 Federal Reserve Banks

A network of 12 Federal Reserve Banks and 24 branches make up the Federal Reserve System. Reserve Banks are the operating arms of the central bank. The Reserve Banks serve banks, the U.S. Treasury, and, indirectly, the public. A Reserve Bank is often called a "banker's bank". Reserve Banks also supervise commercial banks in their regions. As the bank for the U.S. government, Reserve Banks handle the Treasury's payments, sell government securities and assist with the Treasury's cash management and investment activities. Reserve Banks conduct research on regional, national and international economic issues. Research plays a critical role in bringing broad economic perspectives to the national policymaking arena and supports Reserve Bank presidents who all attend meetings of the Federal Open Market Committee (FOMC)

Federal Reserve net earnings are paid to the U.S. Treasury



Member Banks

All member banks hold stock in Reserve Banks and receive **dividends**. Unlike stockholders in a public company, banks cannot **sell or trade** their Fed stock. Reserve Banks **interact** directly with banks in their Districts through examinations and financial services and bring important regional perspectives that help the entire Federal Reserve System do its job more effectively. Approximately **38 percent** of the 8,039 commercial banks in the United States are members of the Federal Reserve System. National banks must be members; state-chartered banks may join if they meet certain **requirements**. The member banks are stockholders of the Reserve Bank in their District and as such, are required to hold **3 percent of their capital** as stock in their Reserve Banks



The FOMC is the body of the Federal Reserve System that sets national **monetary policy**. The FOMC makes all decisions regarding the conduct of **open market operations**, which affect the federal **funds rate** (the rate at which depository institutions lend to each other), the size and composition of the Federal Reserve's asset holdings, and communications with the public about the likely future course of monetary policy. Congress **enacted** legislation that created the FOMC as part of the Federal Reserve System in 1933 and 1935. The FOMC typically meets **8 times** a year in Washington, D.C. At each meeting, the committee discusses the outlook for the U.S. economy and monetary policy options.

FOMC Membership

The FOMC consists of 12 voting members--the **seven members** of the Board of Governors; the president of the Federal Reserve Bank of **New York**; and 4 of the remaining 11 Reserve Bank presidents, who serve **one-year terms** on a rotating basis.

All 12 of the Reserve Bank presidents attend FOMC meetings and participate in FOMC discussions, but only the presidents who are Committee members at the time may vote on policy decisions.

Does the Federal Reserve ever get audited?

Yes, the Board of Governors, the 12 Federal Reserve Banks, and the Federal Reserve System as a whole **are all subject to** several levels of audit and review:

- The Government Accountability Office (GAO) conducts numerous reviews of Federal Reserve activities **every year**
- The Board's financial statements, and its compliance with laws and regulations affecting those statements, are audited annually by an **outside auditor** retained by the independent Office of Inspector General (OIG).
- The financial statements of the Reserve Banks are also audited annually by an independent outside auditor.

US FED FUNDS RATE

US FED FUNDS RATE



US MONEY SUPPLY M0

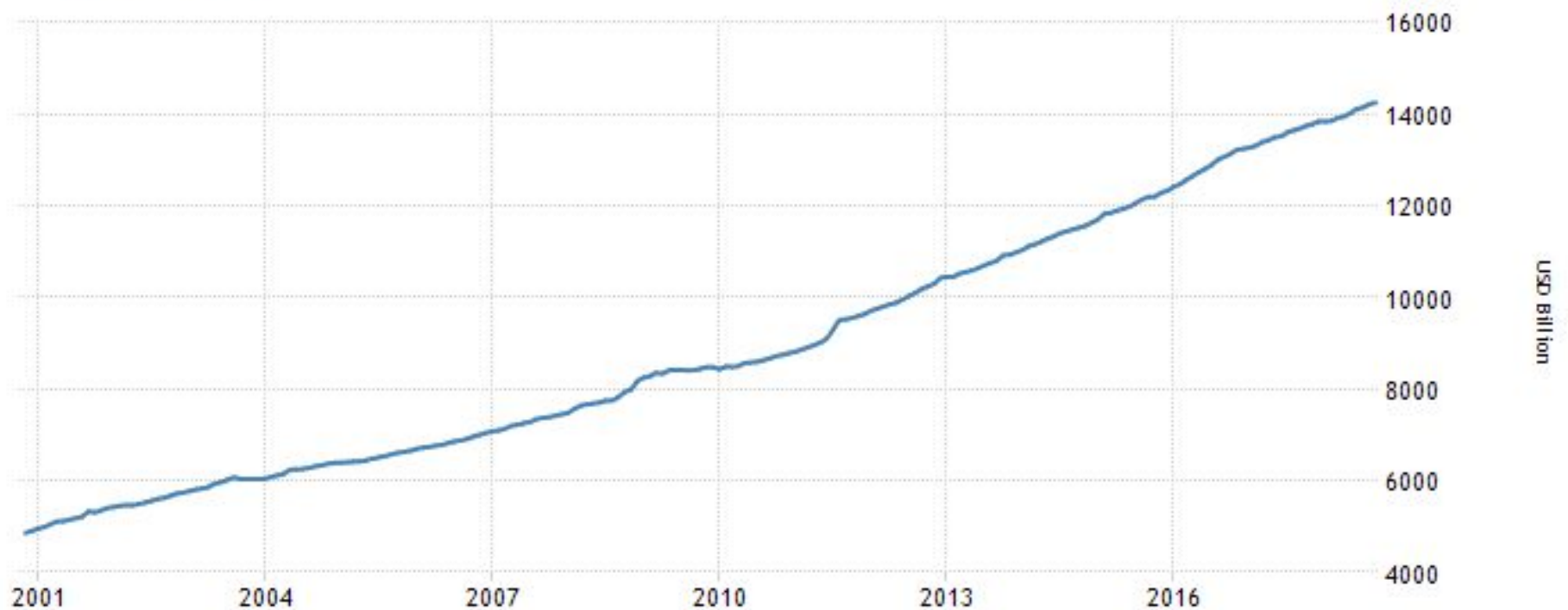
US MONEY SUPPLY M0



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US MONEY SUPPLY M2

US MONEY SUPPLY M2



INFLATION RATE IN THE USA

US INFLATION RATE



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Thanks for attention

