

The Federal Reserve Bank of Boston, like all Reserve Banks, is responsible for conducting economic research, supervising and regulating financial institutions, offering payments services to the public through financial institutions, and providing community outreach and educational programs in the region. How we carry out these responsibilities is shaped by the four strategic objectives we have set for ourselves.

- 1 Develop our people
- 2 Lead in core competencies
- 3 Bring value to New England and the nation
- 4 Transform the Bank and strengthen performance

The following pages review performance against objectives in 2004.



# Bank Highlights

## 1 Develop our people

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### **Developing Leadership**

The Bank is changing from a large transaction focused organization to a smaller, more professional one that is tightly aligned to meet its policy goals. Effective leadership is critical in managing this change. In 2004, the Bank intensified its commitment to leadership development through rotations, stretch assignments, 360-degree reviews, mentoring, and an expanded management training curriculum. The Bank instituted a more robust succession planning process and reorganized its focus on diversity, giving particular attention to diversity recruitment and development.

### **Communications**

As part of its program to manage change, Bank leadership made itself more visible and accessible to all staff. Management strengthened its commitment to tell staff what we know when we know it and to engage staff earlier in decisions that affect them. This strategy of staff engagement helped us assess and redesign our medical plans. Further, a new communications group strengthened internal communications through development of a comprehensive communication strategy, redesign of the Bank's intranet, and the use of other new media. An online discussion forum is now providing a vehicle to share information and ideas and foster creativity and innovation.



## Lead in core competencies

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### **Basel II Leadership**

The Bank continued its leadership role in the development of new international capital standards for large banks, standards commonly referred to as Basel II. Bank staff led the quantification teams for all operational-risk benchmarking reviews, participated in a number of economic-capital reviews, and contributed to efforts related to the credit-risk component of Basel II. Banking economists issued a white paper and two working papers on Basel II concerns.

### **National Competency Centers**

The Bank's national competency centers – the Financial Support Office, Image Services Group, Internet and Directory Services Group, and Wholesale Payments Group – spearheaded numerous improvements in their Federal Reserve System responsibilities. The wholesale payments group converted customers to FedLine Advantage, the System's newest and most comprehensive solution for access to Federal Reserve financial services, including ACH, funds, and securities services. The Bank began work to develop a new competency in the area of consumer payment preferences through the establishment of a cross-functional emerging payments work group.

### **Internet Payments Leadership**

In work on behalf of the U.S. Treasury, the Bank completed an 18-month pilot of an Internet payments platform that streamlines the exchange of information and payments between the government and its vendors. In 2005, the Bank will develop a permanent automation platform and establish a business support group for this function. Also on behalf of the Treasury, the Bank expanded the reach of the stored value card program that provides electronic payment services to the military and piloted technology enhancements.

# 3 Transform the Bank and strengthen performance

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## **Changes in Check Processing**

In recognition of the declining volume of paper checks, Boston and the other Reserve Banks implemented a second round of check restructuring in 2004. By early 2006, the Boston Fed's check processing operations will be consolidated at a single check processing center in Windsor Locks, Connecticut. Besides working to achieve this consolidation, Bank staff prepared the Reserve System and its customers for Check 21, a new law that took effect in the fall of 2004. Check 21 facilitates innovation and efficiency in payments processing by legalizing the use of check reproductions, known as substitute checks. The Boston Fed led Check 21-related product and pricing development for the System and headed the System's marketing and communications initiatives. The Bank also modified its own check processing operations, incorporating new technology and procedures related to Check 21.

## **Greater Efficiency in Cash Services**

Change characterized the Bank's cash services as well. New equipment was installed, and the Bank field-tested a new currency processing model developed by our staff. The Bank helped other Reserve Banks to implement the model, which resulted in improved productivity and cost savings.

## **Enterprise Risk Management**

The Bank formed a formal enterprise risk management function in January 2004. Staff analyzed the Bank's statement of strategic direction and vision, department budgets, and business plans to assess the Bank's risks. "Bottom up" business-line self-assessments were supplemented by "top-down" strategic assessments by cross-functional groups of officers, leading to identification of specific risks and measures to mitigate them.

## **Plaza Construction**

With the Big Dig nearing completion, the Bank began construction on an extensive project to renovate the plaza surrounding our building. The project extends around the building's perimeter and is designed to improve security and to create an attractive outdoor environment in an area of the city that has for some years served as a construction site for the depression of the Central Artery/Interstate 93.

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## Bring value to New England and the nation

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### Economic Research

The Bank made greater use of the web in 2004 to disseminate the work of its economists. Two new web-only papers series were introduced, along with *Update New England*, a quarterly web-only publication analyzing current economic conditions in the region. A new print publication was also introduced. *Research Review* offers busy readers executive summaries of economists' work and Bank-sponsored research conferences. Altogether, Boston Fed economists issued 20 papers and briefs to share their work with colleagues and the public.

### New Initiatives in Research

At year-end, the Bank was working to establish two new research and policy centers for 2005:

- A center for behavioral economics and decision-making will conduct and publish research on behavioral-economics topics and explore the implications for macroeconomic policy.
- The New England Public Policy Center will collect data, conduct and publish research, and host conferences and events, all from a regional perspective, to meet the needs of policymakers, policy analysts, and the public.

### Conferences

The Bank hosted several conferences in 2004:

- "Reaching the Top," a women's leadership conference held in March, brought together academics, business executives, and Bank staff to discuss the significant progress women have made in recent decades, as well as factors still holding them back.
- In early June, the Bank was pleased to host the first "IDEAS Boston" conference, sponsored by the *Boston Globe*. Some 400 intellectual innovators from a variety of fields came together for two days to discuss emerging issues and celebrate the creativity of the Boston area.
- The Bank's 49th economic conference, "The Macroeconomics of Fiscal Policy," held in mid June, provided a forum for discussion of fiscal policy. Considerable attention was given to the twin deficits facing our country – the fiscal budget deficit and the current account deficit.
- Two regional bankers conferences were held, the first, a forum on Check 21 security issues and audit, and the second, an accounting roundtable for chief financial officers and accountants that highlighted key issues affecting the banking industry.

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### **Educational Center and Web Site**

2004 marked the first full year of operation of the New England Economic Adventure, an economic education program designed to acquaint students with the concepts of economic growth and improving living standards. The Adventure features both an interactive learning center at the Boston Fed and a lively web site. About 5,000 visitors came to the Bank in 2004 to experience this program.

### **Classroom Programs**

The Bank expanded its financial literacy program in 2004, reaching middle school students in Providence as well as Boston. To date, more than 5,000 students have experienced this program, which is taught by bankers in the Boston area and by students and teachers at Johnson and Wales College in Rhode Island. Another of the Bank's educational initiatives, "Classroom at the Workplace," provided literacy and math tutorials and internships for some 30 students.

### **Research on Immigration**

New England has a growing immigrant population for whom access to financial services and community economic development are pressing concerns. Recognizing this, the Bank began a series of research projects on New England's immigrants. The first of these, "Who Are New England's Immigrants?" appears as a research report in the fall 2004 issue of the Bank publication *Communities & Banking*. The report describes how immigration patterns have differed in New England from other parts of the country.