

add \$2.0 million in 1992. Boston, Cleveland, and San Francisco have budgeted large office automation projects to enhance end-user computing. Philadelphia and Richmond plan to acquire software development tools to improve computer programming productivity. Atlanta has budgeted for equipment to improve contingency and reliability.

Expenses for fiscal services are projected to increase \$2.4 million. Of the overall increase, \$2.1 million will be incurred as the System moves into the final phase of implementation of the Regional Delivery System (RDS), which involves centralized issuance of over-the-counter savings bonds. The 1992 increase is primarily for expenses associated with the addition of 67 ANP. (A total staff increase of 350 ANP is projected by the time the RDS project is fully implemented.) In addition, Minneapolis anticipates increased expenses and ANP for the Savings Bond Masterfile project, as volume is projected to double in 1992. RDS and Masterfile staff increases are partially offset by staff decreases in other fiscal activities. Expenses related to Treasury initiatives are fully reimbursable.

The increase in the Reserve Banks' matching contributions to the employee thrift plan will add an estimated \$4.6 million to Bank expenses in 1992.

Partially offsetting these increases are initiatives that will result in savings of \$3.4 million. Savings have been identified at Boston, Cleveland, Kansas City, and San Francisco. The savings are being achieved by increased productivity and Districtwide consolidation of certain operations. San Francisco's check initiatives and the consolidation of its fiscal operations are expected to save \$1.1 and 25 ANP. Productivity gains in Cleveland's check, fiscal, and currency operations will produce savings of \$0.8 million and 34 ANP.

## 1992 Budget Objective

In 1991, the Board approved a two-tiered approach to establishing the 1992 budget objective. First the increase in general operating expenses was targeted at 4.5 percent of projected 1991 expenses. Then expenses for budget objective factors were estimated. The Board anticipated that these expenses, which include the costs of several Systemwide efforts and District-specific building projects, would add between 1.5 and 2.4 percentage points. Staff believed the figure would be at the lower end of the range and recommended an overall budget objective of 6.5 percent. This guideline excluded the expenses of special projects. Table 3.4 shows a comparison of the 1992 budget objective and the 1992 budget.

The 1992 budget increase for general operating expenses of 4.2 percent is \$4.9 million, or 0.3 percent, less than the budget objective. The Banks are under the 4.5 percent general operating expense target primarily because of lower-than-

*Table 3.3*  
Operating Expenses Budgeted for  
Major Initiatives of the  
Federal Reserve Banks, 1992

Initiative	Millions of dollars	Percent of 1992 operating budget
Facility improvements .....	18.7	1.2
Supervision and regulation ....	8.5	.6
Enhanced check operations ...	2.8	.2
Currency initiatives .....	1.0	.1
Automation and contingency projects .....	2.0	.1
Fiscal initiatives .....	2.4	.2
Thrift plan .....	4.6	.3
Productivity and operational improvements .....	-3.4	-.2
<b>Total .....</b>	<b>36.6</b>	<b>2.5</b>
<b>MEMO</b>		
Increase in total operating expenses, 1991 estimate to 1992 budget .....	94.8	6.3

26 *Annual Report: Budget Review, 1991-92***Table 3.4**

Comparison of 1992 Budget Objective and Budget of the Reserve Banks over Estimated 1991 Expenses<sup>1</sup>

Percent change

Item	1992 budget objective	1992 budget
Operating expenses .....	4.5	4.2
Budget objective factors .....	1.9	2.1
Special projects .....	.8	.8
<b>Total .....</b>	<b>7.2</b>	<b>7.2</b>

1. See data on expenses in table 3.1.

anticipated spending for daylight overdraft processing and a smaller-than-expected increase in postage expenses.

The increase of \$32.2 million, or 2.1 percent, for budget objective factors is within the range approved by the Board. The budgeted expenses for most of the factors vary only slightly from the budget objective, but the 1992 increase for supervision and regulation is expected to be \$8.5 million, or \$6.3 million more than anticipated. The increase in the budget objective for supervision and regulation, \$2.2 million, was based on an anticipated increase in staff of 55. The 1992 budget reflects a staff increase of 99 ANP. The deteriorating condition of banks on the east coast and the plan to expand examination programs throughout the System will require additional examiners.

**Table 3.5**

Operating Expenses of the Federal Reserve Banks, by Operational Area, 1990-92

Thousands of dollars, except as noted

Operational area	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Monetary and economic policy .....	98,973	107,530	113,021	8.6	5.1
Services to the U.S. Treasury and other government agencies .....	156,934	169,355	180,060	7.9	6.3
Services to financial institutions and the public .....	938,862	985,340	1,042,078	5.0	5.8
Supervision and regulation .....	211,884	239,356	261,246	13.0	9.1
<b>Total .....</b>	<b>1,406,652</b>	<b>1,501,581</b>	<b>1,596,405</b>	<b>6.7</b>	<b>6.3</b>

Excluded from the 1992 spending target was the projected increase of \$5.2 million, or 0.3 percent, associated with the Check Image Processing and Currency Authentication Systems special projects. The 1992 budget for these projects represents an increase of \$6.7 million over the 1991 estimate, \$1.8 million for the Check Image project and \$4.8 million for the Development of Currency Authentication Systems. In addition, a new special project has been established to capture the costs associated with Automation Consolidation. The 1992 budget for this special project is \$6.5 million.

### Operational Areas

Tables 3.5 and 3.6 summarize Reserve Bank expenses and employment in each of the four operational areas. Tables 3.7 through 3.10 show expense details for each area.

### Monetary and Economic Policy

The 1992 budget increase of \$5.5 million, or 5.1 percent above 1991 estimated expenses, reflects a staff increase of 3 ANP, salary administration actions, increased equipment and data-processing costs associated with automation initia-

tives, costs associated with new building projects in two Districts, and increased costs of the research libraries in some Districts. Staffing increases are due primarily to the full-year effect of economists hired during 1991.

At the District level, New York has budgeted for automation initiatives that include replacement of an information display system (IDS) in the Open Market and Foreign Exchange areas and installation of an office information system in the statistics area. New York's budget also reflects higher costs for data-processing support due to increased volume on the Securities Trading and Clearing System (STACS).

### Services to the U.S. Treasury and Other Government Agencies

The 1992 budget for this operational area is projected to be \$180.1 million, or 6.3 percent greater than estimated 1991 expenses. Staffing levels are expected to decline by 8 ANP. The continued conversion of over-the-counter savings bonds to the Savings Bond Regional Delivery System will add 71 ANP to the consolidated operations—savings bonds area, but staff in other savings bonds activities will decrease by 55 ANP. Savings bond volume is expected to increase by 9.0 percent, while unit costs are budgeted to decrease by 0.4 percent.

Table 3.6

### Employment at the Federal Reserve Banks, by Activity, 1990-92

Average number of personnel, except as noted<sup>1</sup>

Activity	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
<i>Operational areas</i>					
Monetary and economic policy.....	772	791	794	2.4	.4
Services to the U.S. Treasury and other government agencies.....	1,816	1,909	1,902	5.1	-.4
Services to financial institutions and the public.....	9,214	9,121	8,974	-1.0	-1.6
Supervision and regulation.....	2,217	2,378	2,477	7.3	4.2
<i>Support and overhead<sup>2</sup></i>					
Support.....	4,533	4,658	4,730	2.8	1.5
Overhead.....	4,940	4,974	4,995	.7	.4
<b>Total.....</b>	<b>23,492</b>	<b>23,831</b>	<b>23,872</b>	<b>1.4</b>	<b>.2</b>

1. See text note 1 for definition of average number of personnel.

2. See appendix F, table F.3, note 1, for definitions.

Table 3.7

### Expenses of the Federal Reserve Banks for Monetary and Economic Policy, 1990-92

Thousands of dollars, except as noted

Service	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Economic policy determination.....	80,157	86,186	90,543	7.5	5.1
Open market trading.....	18,816	21,344	22,477	13.4	5.3
<b>Total.....</b>	<b>98,973</b>	<b>107,530</b>	<b>113,021</b>	<b>8.6</b>	<b>5.1</b>

28 *Annual Report: Budget Review, 1991-92***Services to Financial Institutions and the Public**

The 1992 budget for this operational area, which includes both priced and nonpriced operations, is expected to increase by \$56.7 million, or 5.8 percent above estimated 1991 expenses. Staff is to be reduced by 147 ANP, primarily in the commercial checks (-118 ANP), definitive securities safekeeping and noncash collection (-13 ANP), and automated clearinghouse (-10 ANP)

operations. These decreases are partially offset by staff increases in currency and coin operations (19 ANP).

Commercial check processing is by far the largest service (\$504.9 million), accounting for almost half the budgeted expenses for this operational area and requiring 5,480 ANP; the anticipated increase in expenses is \$21.4 million, or 4.4 percent above estimated 1991 expenses. Staffing levels for 1992 include a reduction of 118 ANP resulting from improved operations, continued

*Table 3.8***Expenses of the Federal Reserve Banks for Services to the U.S. Treasury and Other Government Agencies, 1990-92**

Thousands of dollars, except as noted

Service	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Savings bonds.....	40,069	37,143	35,576	-7.3	-4.2
Consolidated operations, savings bonds.....	13,566	23,724	28,593	74.9	20.5
Other Treasury issues.....	15,872	15,316	16,339	-3.5	6.7
Consolidated operations, other Treasury issues.....	1,495	1,275	1,396	-14.7	9.5
Central Treasury and agency services.....	21,950	22,338	23,636	1.8	5.8
Government accounts.....	23,926	24,778	26,467	3.6	6.8
Food coupons.....	15,546	18,499	19,702	19.0	6.5
Other.....	24,508	26,282	28,351	7.2	7.9
<b>Total.....</b>	<b>156,933</b>	<b>169,355</b>	<b>180,060</b>	<b>7.9</b>	<b>6.3</b>

*Table 3.9***Expenses of the Federal Reserve Banks for Services to Financial Institutions and the Public, 1990-92**

Thousands of dollars, except as noted

Service	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Currency and coin.....	156,240	168,215	183,279	7.7	9.0
Special cash.....	13,652	14,208	14,695	4.1	3.4
Commercial checks.....	473,099	483,528	504,892	2.2	4.4
Other checks.....	24,650	27,965	29,816	13.5	6.6
Funds transfer.....	63,731	71,562	75,742	12.3	5.8
Automated clearinghouse.....	78,880	82,598	89,527	4.7	8.4
Book-entry securities transfers.....	31,027	33,318	35,274	7.4	5.9
Definitive securities safekeeping and noncash collection.....	14,710	14,542	14,288	-1.1	-1.7
Loans to members and others.....	15,073	15,987	16,826	6.1	5.2
Public programs.....	43,762	48,710	51,977	11.3	6.7
Other.....	24,038	24,708	25,764	2.8	4.3
<b>Total.....</b>	<b>938,862</b>	<b>985,340</b>	<b>1,042,079</b>	<b>5.0</b>	<b>5.8</b>

automation in the area of check adjustments, reductions in adjustment backlogs, conversion to optical disk storage systems in several Districts, and continued improvements in processing return items. Commercial check volume is budgeted to decrease 0.2 percent, while unit costs are budgeted to increase 4.2 percent.

Expenses for the currency service are expected to increase \$13.3 million, or 9.3 percent, over 1991. Staff will increase by 19 ANP. Currency volume is projected to grow by 6.1 percent in 1992. The major initiatives affecting this service are managing increased volumes and the Second Generation Currency Processing project.

The automated clearinghouse (ACH) service is budgeted to increase by \$6.9 million, or 8.4 percent. Growth in expenses will shift from government to commercial ACH services, as commercial ACH volumes continue to grow at faster rates. Total ACH volume is projected to increase 15.9 percent in 1992, resulting in a 6.4 percent decrease in unit cost. Major initiatives affecting this service are conversion to All-Electronic ACH service and the Future ACH System project.

Expenses for the funds transfer service are expected to increase by \$4.2 million, or 5.8 percent. Staff will

decrease by 7 ANP. The increase in costs is primarily the result of increased data-processing, data-communications, and data-systems support costs associated with volume growth. Some accounting costs allocated to this service will decrease as a result of funds summarization initiatives.

### Supervision and Regulation

The increase of \$21.9 million, or 9.1 percent, for this operational area is due mainly to the addition of 99 ANP and increases in compensation, equipment (primarily laptop computers), travel, training, and automation. Staff increases are necessitated by increased demands on the Federal Reserve's examination staffs, including more examinations of broader scope, increased emphasis on Bank Secrecy Act issues, the need to monitor compliance with and pursue enhancements to international risk-based capital standards, the increasing number of organizations that are likely to require special attention in the form of extended examinations in several Districts, and continued strengthening of consumer affairs operations. Expenses are also affected by initiatives in the areas of payment system risk and daylight overdraft pricing.

Table 3.10

Expenses of the Federal Reserve Banks for Supervision and Regulation, 1990-92

Thousands of dollars, except as noted

Service	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Supervision of District financial institutions .....	131,328	151,430	168,666	15.3	11.4
Administration of laws and regulations related to banking .....	69,257	76,929	80,559	11.1	4.7
Studies of banking and financial market structures .....	11,298	10,997	12,021	-2.7	9.3
<b>Total .....</b>	<b>211,884</b>	<b>239,356</b>	<b>261,246</b>	<b>13.0</b>	<b>9.1</b>

30 *Annual Report: Budget Review, 1991-92***Objects of Expense**

Personnel expenses comprise officer and employee salaries, other compensation to personnel, and retirement and other benefits. Total personnel costs are expected to increase by 6.8 percent in 1992, accounting for 65.0 percent of Reserve Bank expenses (table 3.11).

Salaries and other compensation for personnel account for 52.0 percent of 1992 budgeted expenses, and anticipated growth is \$45.1 million, or 5.7 percent. The increase for salaries, \$46.6 million, or 6.0 percent, will be partially offset by a decline of \$1.5 million in other personnel expenses. Merit pay increases of \$37.1 million, or 4.8 percent, are the

primary reason for salary expense growth. Also contributing to additional salary expenses are promotions, reclassifications, structure adjustments, and staffing level increases. These increases are partially offset by short-term position vacancies (lag) and reduced overtime expenses.

Retirement and other benefits expenses, which account for 13.0 percent of the 1992 Reserve Bank budgets, are anticipated to increase by \$21.3 million, or 11.5 percent, over 1991. The increase is the result of continued escalation of hospital and medical costs, a rise in social security, workers compensation, and unemployment compensation payments, and the higher employer con-

*Table 3.11***Operating Expenses of the Federal Reserve Banks, by Object, 1990-92**

Thousands of dollars, except as noted

Object	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
<b>PERSONNEL</b>					
Officers' salaries .....	73,979	80,598	85,005	8.9	5.5
Employees' salaries .....	646,980	693,656	735,867	7.2	6.1
Other personnel <sup>1</sup> .....	12,872	11,329	9,784	-12.0	-13.6
Retirement and other benefits .....	163,784	185,666	206,954	13.4	11.5
<b>Total personnel</b> .....	<b>897,615</b>	<b>971,249</b>	<b>1,037,610</b>	<b>8.2</b>	<b>6.8</b>
<b>NONPERSONNEL</b>					
Forms and supplies .....	53,418	54,942	55,997	2.9	1.9
Equipment .....	162,773	167,862	179,611	3.1	7.0
Software .....	32,221	32,931	34,433	2.2	4.6
Shipping .....	83,461	89,661	91,295	7.4	1.8
Travel .....	28,883	32,383	33,970	12.1	4.9
<b>Buildings</b>					
Insurance .....	802	912	1,132	13.7	24.1
Real estate taxes .....	22,430	27,104	30,811	20.8	13.7
Property depreciation .....	33,545	35,666	40,228	6.3	12.8
Utilities .....	25,486	26,776	29,465	5.1	10.0
Rent .....	22,029	23,364	24,771	6.1	6.0
Other .....	19,194	19,178	20,259	-1	5.6
<b>Total buildings</b> .....	<b>123,486</b>	<b>133,000</b>	<b>146,666</b>	<b>7.7</b>	<b>10.3</b>
Recoveries .....	-35,204	-35,690	-38,033	1.4	6.6
All other <sup>2</sup> .....	60,000	55,244	54,860	-7.9	-7
<b>Total nonpersonnel</b> .....	<b>509,037</b>	<b>530,333</b>	<b>558,796</b>	<b>4.2</b>	<b>5.4</b>
<b>Total</b> .....	<b>1,406,652</b>	<b>1,501,582</b>	<b>1,596,406</b>	<b>6.7</b>	<b>6.3</b>

1. Expenses for certain contractual arrangements, and miscellaneous personnel expenses.

2. Communications, fees, contra-expenses, shared costs distributed, shared costs received, support cost distributed, support cost received, and other.

tribution to the employee thrift plan in 1992.

Nonpersonnel expenses account for 35.0 percent of the 1992 Reserve Bank budgets, reflecting a projected increase of 5.4 percent over 1991.

Equipment expenses are expected to increase by 7.0 percent, accounting for 11.3 percent of total expenses in 1992. An equipment depreciation increase of \$8.4 million, or 9.5 percent, is attributable to continuing upgrades of data-processing equipment in some Districts, the full-year impact of equipment purchased in 1991, and the New York EROC and Dallas facilities programs.

Shipping expenses are projected to increase by 1.8 percent, accounting for 5.7 percent of Reserve Bank expenses in 1992. This small increase is due primarily to an increase in Interdistrict Transportation System costs offset by savings in postage costs as a result of RDS implementation.

Building expenses, which account for 9.2 percent of total 1992 expenses, are expected to increase by 10.3 percent over 1991 because of higher real estate taxes and the full-year effect of recently completed capital projects in a number of Districts. The New York EROC and

Dallas building projects contribute heavily to the large increases.

Recoveries are expected to increase by \$2.3 million, or 6.6 percent, in 1992, primarily because of increased income from tenants and expanded electronic ACH services.

Foreign travel expenses total \$2.6 million, up 8.5 percent over 1991 but accounting for only 0.2 percent of total expenses. Examiner travel, budgeted at \$1.6 million, is up 11.2 percent. Foreign travel expenses for Bank Presidents and First Vice Presidents, at \$186,000, are up 19.0 percent over estimated 1991 expenses. Of this amount, \$112,000 is budgeted for New York, primarily for that District's participation in the work of the Bank for International Settlements.

### Capital Outlays

Capital outlays are budgeted at \$259.1 million, a decrease of \$24.0 million, or 8.5 percent, from estimated 1991 expenses (table 3.12). The decrease is a result of the near completion of two major building projects, the Dallas building and New York's East Rutherford Operations Center. The Reserve

Table 3.12

Capital Outlays of the Federal Reserve Banks, by Class of Outlay, 1990-92

Thousands of dollars, except as noted

Class of outlay	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Data-processing and data-communications equipment .....	94,715	72,221	112,452	-23.7	55.7
Buildings .....	76,313	138,753	51,257	81.8	-63.1
Furniture, furnishings, and fixtures .....	12,279	22,874	28,512	86.3	24.6
Other equipment .....	14,613	20,550	34,311	40.6	67.0
Land and other real estate .....	35,055	3,294	8,632	-90.6	162.0
Building machinery and equipment .....	8,906	23,571	18,665	164.7	-20.8
Leasehold improvements .....	1,012	1,813	2,830	79.1	56.1
Software .....	...	...	2,454	...	...
<b>Total .....</b>	<b>242,893</b>	<b>283,076</b>	<b>259,112</b>	<b>16.5</b>	<b>-8.5</b>

32 *Annual Report: Budget Review, 1991-92*

Banks' capital budgets continue to be dominated by outlays for data-processing and data-communications equipment.

Outlays for data-processing and data-communications equipment for 1992 amount to \$112.5 million, approximately 43.4 percent of total capital outlays. The largest portion of these outlays is for central processing units and check equipment (\$25.5 million), primarily for data- and check-processing systems at EROC (\$9.2 million) and Dallas (\$4.5 million). Purchases and upgrades of storage devices are planned by all Districts. In addition, Chicago has budgeted \$6.3 million for equipment related to a system communication center.

Purchases of furniture and other equipment are budgeted at \$62.8 million, about 24.2 percent of total capital outlays. New York's planned purchase of equipment for installation at EROC accounts for approximately one-fourth of these outlays (\$15.4 million). The Districts plan to spend approximately \$16.7 million on cash-related equipment, including currency processing machines at EROC and Baltimore (\$8.7 million), cash materials handling systems at several offices (\$3.9 million), and currency briquetters at EROC, Atlanta, and Chicago (\$1.0 million).

Building outlays account for \$51.3 million in the 1992 budget, about 19.8 percent of total capital outlays. The amount includes renovation and remodeling projects in several Districts (\$15.3 million), consulting fees associated with the planned new facility at Minneapolis (\$8.3 million), and construction of New York's EROC (\$6.3 million).

Land and other real estate purchases are budgeted at \$8.6 million. The largest item is land for the new Minneapolis building (\$4.2 million); another \$2.0 million is budgeted for a new parking lot at San Francisco's Portland office.

Building machinery and equipment outlays are budgeted at \$18.7 million. A large portion of these outlays is related to the Dallas building project (\$6.3 million); the remainder will enable several Districts to upgrade or replace existing machinery and equipment.

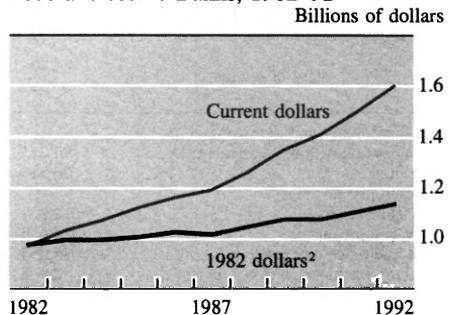
Outlays for leasehold improvements are budgeted at \$2.8 million.

### Trends in Expenses and Employment

For the ten years ending in 1992, expenses of the Reserve Banks will have increased an average of 5.1 percent per year (chart 3.1). From 1987 through 1992, the annual growth in Bank expenses has been 5.9 percent. Increases in expenses were slightly higher after 1987 because of implementation of EFA (Expedited Funds Availability Act) and increased bank supervision.

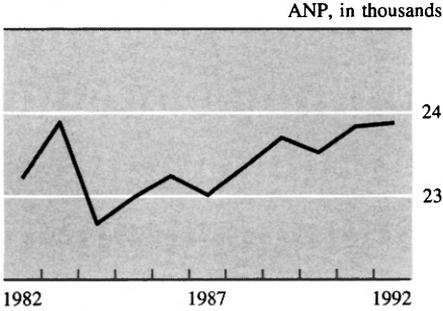
The number of employees at the Reserve Banks has increased from 23,230 in 1982 to 23,871 in 1992, an increase of 641 ANP (chart 3.2). Since 1982, staffing has increased in supervision and regulation (681 ANP) and services to financial institutions and the public (408 ANP) because additional

Chart 3.1  
Operating Expenses of the  
Federal Reserve Banks, 1982-92<sup>1</sup>



1. For 1991, estimate; for 1992, budget.
2. Calculated with the GNP price deflator.

**Chart 3.2**  
Employment at the Federal Reserve  
Banks, 1982-92<sup>1</sup>



1. For 1991, estimate; for 1992, budget. See text note 1 for definition of ANP.

resources were needed to meet expanded responsibilities in the two areas. Partially offsetting these increases were decreased staff in overhead services (681 ANP) resulting from Systemwide efforts to control costs.

### Volume and Unit Costs

Volume for all measured operations is expected to increase by 2.8 percent over 1991, and unit cost is expected to rise by 2.9 percent (table 3.13). Over the years 1987 through 1992 budget, volume is expected to increase at an average annual rate of 3.1 percent and unit cost at an average annual rate of 1.8 percent. The increase in unit cost expected for 1992 reflects a rise in unit cost in all areas except ACH services and savings bonds. In the area of commercial checks, the largest component of the index, unit cost is expected to increase by 4.2 percent and volume to decrease by 0.2 percent; the decrease in volume is due primarily to bank mergers.

### 1991 Budget Performance

The 1991 Reserve Bank budgets were approved in December 1990 at a total of

**Table 3.13**  
Changes from 1991 to 1992 in  
Volume and Unit Costs of  
Federal Reserve Bank Services

Service	Percent	
	Volume	Unit cost
Payments .....	2.4	2.4
Commercial checks .....	-2	4.2
Automated clearinghouse .....	15.9	-6.4
Funds transfers .....	4.5	1.3
Other checks .....	-1.1	7.0
Cash .....	4.8	3.6
Fiscal .....	3.8	3.5
Securities and noncash .....	-1.5	5.1
<b>All services .....</b>	<b>2.8</b>	<b>2.9</b>

\$1,501.0 million, an expected increase of \$86.4 million, or 6.1 percent, over estimated 1990 expenses. The Reserve Banks now estimate that 1991 expenses will have been \$1,501.6 million, or \$0.6 million over the approved budget.

Five Reserve Banks expect to be within 0.1 percent of their approved 1991 budgets. As a result of a building accident that caused water damage to its computer, Minneapolis anticipates a budget overrun of \$2.9 million, or 4.1 percent. Richmond anticipates a budget overrun of \$492,000, or 0.4 percent, primarily because additional staff are needed in the area of supervision and regulation. Seven Districts expect to be under budget by less than 1 percent. ■

*Part II*

*Special Analysis*

## Chapter 4

# *Treasury Direct: A Book-Entry Safekeeping System for Individual Investors*

Treasury Direct is a book-entry system for safekeeping Treasury securities that is operated by the Federal Reserve Banks, on behalf of the U.S. Department of the Treasury. The system is most suited to serving the needs of individual investors who tend to hold Treasury securities until maturity and prefer to safekeep the securities with the Treasury Department.

Treasury Direct was designed by the Federal Reserve System and the Treasury Department as part of the department's ongoing efforts to eliminate the handling of engraved Treasury securities; it is maintained on a central computer operated by the Federal Reserve Bank of Philadelphia. Introduction of the system in mid-1986 permitted the Treasury Department to begin issuing its securities in book-entry-only form (that is, no certificate is issued). Treasury officials estimate that in its first seven years of operation, Treasury Direct will have saved the department and U.S. taxpayers \$46 million through increased efficiency in securities issuance, servicing, redemption, and payment of interest.

### **Features of Treasury Direct**

In addition to saving money, Treasury Direct has improved services to investors. For many investors, it offers a number of important advantages.

#### **Added Security**

Treasury Direct affords investors more safety than do engraved securities, because the securities are held on a

computer rather than in paper form. With engraved securities, loss or theft is always a concern. If an engraved security that was issued in registered form (that is, with the security owner's name inscribed on the security) is lost or stolen, replacement is possible, but the time and documentation required for replacement are considerable. If an engraved security issued in bearer form (that is, payable to the bearer) is lost or stolen, recovery is unlikely, and filing a claim entails considerable paperwork as well as cost and time. With Treasury Direct, there is no engraved security to be lost; instead, the security is held on a computer in the owner's name.

#### **More Registration Options**

Treasury Direct offers investors a broader choice of registration options than is available with engraved securities. The system also enables owners to establish clear ownership and survivorship rights to their securities. Among the popular registration options are designation of a beneficiary, joint ownership with or without right of survivorship, and registration of a natural guardian of a minor or custodian under an applicable "gifts to minors" statute. In addition, the registration on a Treasury Direct account can be changed faster than it can for engraved securities issued in registered form.

#### **Improved Payment Procedures**

Investors using Treasury Direct have greater assurance of prompt receipt of

securities-related payments. Payments are made automatically via direct deposit to a checking or savings account at a financial institution designated by the investor. Prior to Treasury Direct, all payments were made by check, and most were mailed to the investor; also, interest payments to investors holding bearer (coupon) securities were not automatic, but required investors to clip the maturing coupons and present them for collection. Treasury Direct provides payment automatically. In addition, the direct deposit feature precludes loss or theft of checks and gives investors immediate access to their funds on payment day.

### Easier Reinvestment and Redemption

When an engraved security matures, it must be presented, in person or by registered mail, to a Federal Reserve Bank or Branch for redemption or reinvestment. In the Treasury Direct system, investors merely inform a Federal Reserve Bank or the Treasury Department, by mail, about how a maturing security should be handled. If it is to be redeemed, the investor's account at his or her depository institution is automatically credited for the redemption proceeds on the day the security matures. If it is to be reinvested in a Treasury security being issued the day the original security matures, the new security is added to the investor's Treasury Direct account, and any difference between the value of the maturing security and the purchase price of the new security is automatically deposited in the investor's account at a designated depository institution. Also, under Treasury Direct the investor is notified by mail when a security is about to mature and is given

ample time to request reinvestment at maturity or to cancel an earlier instruction to reinvest.

### Simplified Recordkeeping

Treasury Direct account holders receive a single statement of account for all securities held under each registration option and with the same payment instructions. Such a consolidated statement can simplify bookkeeping for investors who hold a number of securities in the system.

### Nationwide Servicing Offices

Investors can obtain information about and conduct transactions involving Treasury Direct accounts at the Treasury Department or at thirty-six Federal Reserve Banks and Branches around the United States (see accompanying list). All locations can establish new Treasury Direct accounts, process purchases of Treasury securities, handle securities transfers from one Treasury Direct account to another or from Treasury Direct to the Federal Reserve's commercial book-entry system, and make a variety of requested changes to account information. All locations will also provide forms and written information and handle telephone inquiries.

Each account holder is assigned a Treasury Direct servicing office based on mailing address. However, an account holder who travels or spends extended periods of time in a different location may deal with the servicing office nearest the temporary location. Any servicing office can conduct a transaction or handle an inquiry for any Treasury Direct account holder regardless of the assigned office.

## Treasury Direct Servicing Offices

Federal Reserve Bank or Branch	Telephone Number	Address
FRB Atlanta	404-521-8657* 404-521-8653	Securities Service Department 104 Marietta Street, NW Atlanta, GA 30303
FRB Baltimore	301-576-3500* 301-576-3300	P.O. Box 1378 Baltimore, MD 21203
FRB Birmingham	205-731-8702* 205-731-8708	P.O. Box 10447 Birmingham, AL 35283
FRB Boston	617-973-3805* 617-973-3810	P.O. Box 2076 Boston, MA 02106
FRB Buffalo	716-849-5158* 716-849-5000	P.O. Box 961 Buffalo, NY 14240-0961
FRB Charlotte	704-358-2424* 704-358-2100	P.O. Box 30248 Charlotte, NC 28230
FRB Chicago	312-786-1110* 312-322-5369	P.O. Box 834 Chicago, IL 60690
FRB Cincinnati	513-721-4787 Ext. 334	P.O. Box 999 Cincinnati, OH 45201
FRB Cleveland	216-579-2490	P.O. Box 6387 Cleveland, OH 44101
FRB Dallas	214-651-6362	Security Dept. Station K 400 South Akard Street Dallas, TX 75222
FRB Denver	303-572-2475* 303-572-2470 or -2473	P.O. Box 5228 Denver, CO 80217-5228
FRB Detroit	313-963-4936* 313-964-6157	P.O. Box 1059 Detroit, MI 48231
FRB El Paso	915-544-4730	P.O. Box 100 El Paso, TX 79901
FRB Houston	713-659-4433	P.O. Box 2578 Houston, TX 77252
FRB Jacksonville	904-632-1178* 904-632-1179 or -1190	P.O. Box 2499 Jacksonville, FL 32231-2499
FRB Kansas City	816-881-2767* 816-881-2409	P.O. Box 440 Kansas City, MO 64198
FRB Little Rock	501-324-8272	P.O. Box 1261 Little Rock, AR 72203
FRB Los Angeles	213-624-7398	P.O. Box 2077 Terminal Annex Los Angeles, CA 90051
FRB Louisville	502-568-9240* 502-568-9236 or -9238	P.O. Box 32710 Louisville, KY 40232
FRB Memphis	901-523-7171 Ext. 641* Ext. 622	P.O. Box 407 Memphis, TN 38101
FRB Miami	305-471-6257* 305-471-6497	P.O. Box 520847 Miami, FL 33152
FRB Minneapolis	612-340-2051* 612-340-2075	250 Marquette Ave. Minneapolis, MN 55480

40 *Annual Report: Budget Review, 1991-92*

## Treasury Direct Servicing Offices—Continued

Federal Reserve Bank or Branch	Telephone Number	Address
FRB Nashville	615-251-7236* 615-251-7100	301 Eighth Ave., N. Nashville, TN 37203-4407
FRB New Orleans	504-593-3290* 504-593-3200	P.O. Box 61630 New Orleans, LA 70161
FRB New York	212-720-5823* 212-720-6619	Federal Reserve P.O. Station New York, NY 10045
FRB Oklahoma City	405-270-8660* 405-270-8652	P.O. Box 25129 Oklahoma City, OK 73125
FRB Omaha	402-221-5638* 402-221-5636	2201 Farnam Street Omaha, NE 68102
FRB Philadelphia	215-574-6580* 215-574-6680	P.O. Box 90 Philadelphia, PA 19105
FRB Pittsburgh	412-261-7988* 412-261-7863	P.O. Box 867 Pittsburgh, PA 15230-0867
FRB Portland	503-221-5931* 503-221-5932	P.O. Box 3436 Portland, OR 97208-3436
FRB Richmond	804-697-8355* 804-697-8372	P.O. Box 27622 Richmond, VA 23261
FRB Salt Lake City	801-322-7844* 801-322-7900	P.O. Box 30780 Salt Lake City, UT 84130
FRB San Antonio	512-978-1330* 512-978-1303 or -1305	P.O. Box 1471 San Antonio, TX 78295
FRB San Francisco	415-974-3491* 415-974-2330	P.O. Box 7702 San Francisco, CA 94120
FRB Seattle	206-343-3615* 206-343-3605	Securities Services Dept. P.O. Box 3567 Terminal Annex Seattle, WA 98124
FRB St. Louis	314-444-8602* 314-444-8665	P.O. Box 14915 St. Louis, MO 63178
U.S. Treasury Department	202-874-4000 202-874-4026**	Bureau of the Public Debt Division of Customer Services Washington, DC 20239-0001

\*For recorded information.

\*\*Device for hearing impaired.

## Free Services

Investors are not charged for the services provided by Treasury Direct. Also, at this time there is no limit on the number of Treasury Direct accounts an individual can have.

## Growth of Treasury Direct

Treasury Direct has grown in popularity since it began to accept all Treasury

issues in 1986. By the end of 1986, 77,942 Treasury Direct accounts with a par value of \$731 million had been established; twelve months later, the totals had grown to 391,779 accounts with a par value of \$22.6 billion; as of December 31, 1991, the numbers were 1,094,915 accounts with a par value of \$64.4 billion. In 1991 alone, Treasury Direct servicing offices in Federal Reserve Banks and Branches handled approximately 600,000 new security

purchases, 1.8 million account-servicing transactions, and 1.6 million telephone, written, and walk-in inquiries and sent out more than 11.7 million notices and account statements to Treasury Direct account holders.

By offering convenience and a range of services, Treasury Direct has become an attractive alternative for investors who wish to hold their Treasury securities on the books of the Treasury Department.