



2018 Annual Report

President's Letter

Greetings and my gratitude to all for your ongoing commitment to the Federal Reserve Bank of Chicago. Here's a snapshot of economic activity and a summary of what's transpired at the Chicago Fed during the past year.

The Economy

Congress has tasked the Federal Reserve System with the goals of maximum employment and stable prices. In 2018, we made good progress towards these dual mandate objectives. Growth was strong, the unemployment rate declined further, and inflation picked up and was near our two percent objective.

The economic performance in the Federal Reserve's Seventh District was comparable with that of the nation. In all five of the Seventh District states, the unemployment rate was at the lowest level observed over the past 15 years. Overall, activity in the manufacturing sector was solid and auto production leveled off following a slowdown in 2017. The agriculture sector experienced stellar yields, especially for corn and soybeans, while facing uncertainty due to trade tensions.

At the Federal Reserve Bank of Chicago (FRBC)

Here at the Chicago Fed's LaSalle Street headquarters, Detroit branch and Des Moines office, employees do an exceptional job of supporting the Federal Reserve's mission to foster the stability, integrity and efficiency of the nation's monetary, financial and payment systems to promote optimal macroeconomic performance. To this end, we participate in the formulation and implementation of national monetary policy, supervise and regulate designated financial institutions and provide financial services to depository institutions and the U.S. government.

Given the current business environment, we have identified three strategic priorities:

- Reinvent how we do business to anticipate developments in the economy, financial markets and payment systems.
- Evolve our skills and expertise to position us for future success.
- Advance an inclusive culture to build a great place to work.

We'll assess our priorities regularly to ensure they continue to support our drive for continuous improvement.

In this report, we summarize some of our achievements. These are just a few of many examples that show how the FRBC continues to evolve to achieve breakthrough business results and to create excellence in thought leadership.

Charles L. Evans, President and Chief Executive Officer



Economic Research: Fostering a Healthy Economy

The Federal Reserve Bank of Chicago began quarterly releases of our Detroit Economic Activity Index. This index measures economic performance of the City of Detroit and highlights how its economy has performed since the bankruptcy in 2013. Throughout 2018 the new index shows that Detroit’s economic performance averaged above trend. That’s very encouraging news.

Additionally, the Chicago Fed Economic Research team produced 22 articles for peer-reviewed academic journals and published articles in eight books, conference volumes and special journal issues. One of those articles, co-authored by Luoja Hu, Robert Kaestner, Bhashkar Mazumder, Sarah Miller, and Ashley Wong, “The Effect of the Patient Protection and Affordable Care Act Medicaid Expansions on Financial Wellbeing,” was published in the *Journal of Public Economics*. This article attracted interest in the policy and medical communities, given the important roles of medical spending and debt in the financial condition of households.



Community Development and Policy Studies: Engagement Across Our District

CDPS staff joined Bank leaders on listening tours held in Fort Wayne, Indiana, and Flint, Michigan, and gave speeches at the Opportunity Finance Network and the Regional Alliance community development conferences in Chicago. Staff delivered presentations on community and economic development topics, provided technical assistance, and met with stakeholders.

CDPS sponsored or supported more than 50 events, including the Tools Toward Market Restoration Conference in Detroit; Workforce Development listening sessions conducted around the District; an economic development forum on fair lending; and three Chicago Small and Medium-sized Business Ecosystem meetings. The latter focused on opportunities and challenges of business owners of color and in low- and moderate-income communities. In addition, CDPS published several research papers.



Supervision and Regulation: Identifying Risks

The Bank's Supervision and Regulation department (S&R) continued to identify, analyze and address risks through efficient and effective supervision. S&R staff were actively engaged in supporting critical Federal Reserve System groups and projects, including co-chairing the development of the System's supervision function strategic plan. The District's S&R leadership led the execution of System high-priority initiatives, including updating supervisory programs for community banks. In addition, S&R staff led an effort to identify opportunities to improve interagency regulatory cooperation and the coordination of cybersecurity supervisory programs on a national level.



Payments: Working to Provide Faster Service

The Customer Relations and Support Office (CRSO) advanced key initiatives in three areas: enhancing the safety and security of the FedLine Network; engaging customers and industry stakeholders to advance payments improvement; and achieving financial services cost recovery and meeting marketplace needs.

In addition, Chicago hosted the inaugural FedPayments Improvement Community Forum in October, which provided an opportunity for payments industry stakeholders to collaborate and provide feedback on the latest payment system improvement initiatives through keynote speeches and workshop-style sessions.



Fintech Forum: Building Ideas for a Better Future

More than 200 Bank employees participated in the FinTech Forum which focused on the use of artificial intelligence (AI) across the Bank and in the financial services industry. Over the course of three separate events and through a dedicated website site, employees increased their knowledge, shared ideas, and proposed solutions that could be implemented at the Bank..



Diversity and Inclusion: Signs of Progress

The Federal Reserve Bank of Chicago earned a spot on the Working Mother magazine 2018 100 Best Companies list. This list recognizes employers for their support of working families, and the FRBC ranked highly for providing generous parental leave and superior healthcare benefits.

As a top 100 employer, the Bank was invited to honor a Working Mother of the Year. We're proud that Kandice Alter, Assistant Vice President in the Payments Policy Group, represented the Bank. You can read her story and more about the Bank's ranking among other top employers [here](#).

In 2018, the FRBC reached an important milestone: for the first time, half of our officer population was comprised of women. This is one example of our commitment to creating a diverse and inclusive culture.

New Leadership: Chicago Board of Directors



Helene D. Gayle
Class B Director,
Term: 2019-2021



Christopher J. Murphy III
Class A Director,
Term: 2019-2021

New Leadership: Detroit Board of Directors



James M. Nicholson
Director,
Term: 2018, 2019-2021

New Leadership: Executive Committee



Michael Hoppe
Senior Vice President,
Executive Committee
Member and Detroit
Branch Manager



Pamela Rieger
Senior Vice President,
Enterprise Strategy
and Risk Management,
Business Continuity,
Business Transformation
and Information
Security



Julie Williams
Executive Vice President,
Supervision and
Regulation

Financial Statements

Auditor Independence

The Federal Reserve Board engaged KPMG to audit the 2018 combined and individual financial statements of the Reserve Banks.¹

In 2018, KPMG also conducted audits of internal controls over financial reporting for each of the Reserve Banks. Fees for KPMG services totaled \$7.0 million. To ensure auditor independence, the Board of Governors requires that KPMG be independent in all matters relating to the audits. Specifically, KPMG may not perform services for the Reserve Banks or others that would place it in a position of auditing its own work, making management decisions on behalf of the Reserve Banks, or in any other way impairing its audit independence. In 2018, the Bank did not engage KPMG for any non-audit services.

The Federal Reserve Bank of Chicago — Financial Statements as of and for the Years Ended December 31, 2018 and 2017, Management’s Report on Internal Control Over Financial Reporting, and Independent Auditors’ Report

¹ In addition, KPMG audited the Office of Employee Benefits of the Federal Reserve System (OEB), the Retirement Plan for Employees of the Federal Reserve System (System Plan), and the Thrift Plan for Employees of the Federal Reserve System (Thrift Plan). The System Plan and the Thrift Plan provide retirement benefits to employees of the Board, the Federal Reserve Banks, the OEB, and the Consumer Financial Protection Bureau.

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