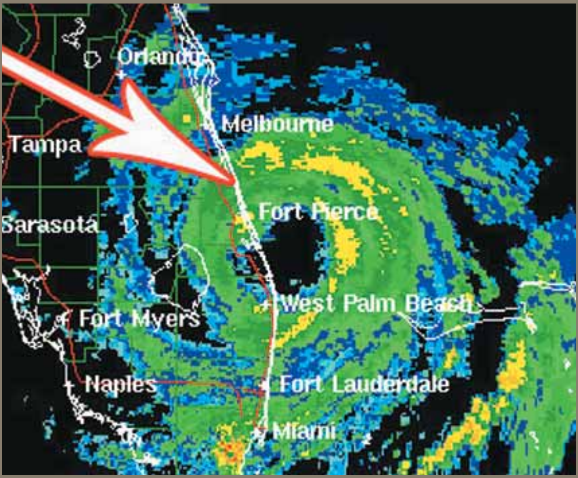
"When the hurricanes came, we knew we were going to have some long days and have heavy volume. We knew we would have to come in early and leave late and do our best to get the payouts in a timely manner. We are committed to each other as a team and motivated by pride."

Vernell Daise, cash handling specialist, Jacksonville Branch

07:55:12 a.m.



“Hurricane Charley carves path of destruction across Florida . . . more than 20 dead, ¼ million without power.”

CNN Special Report
August 21, 2004

Dedication during the storm

Handling millions of dollars in cash. Reconciling banks' currency deposit statements—down to the dollar—against the amount said to have been shipped. Following strict procedures to ensure all of these valuables are properly accounted for. Supplementing high-tech processing with manual procedures to spot even the most sophisticated counterfeits. These tasks and others make up an ordinary day for employees working in Federal Reserve cash departments across the country.

The "other" tasks include being prepared for contingencies like severe weather, power outages, and even terrorist attacks. When the power goes out and technology shuts down, the public knows that essentials such as food, water, and batteries will likely have to be paid for in cash, vastly increasing the amount of cash needed in the local economy. During such emergencies the work of Fed cash employees moves beyond the ordinary.

Planning for the unexpected

Early last summer the Atlanta Fed finished a new plan for hurricane preparedness. Within a few months the new guidelines were put to the ultimate test: Four hurricanes hit the Sixth Federal Reserve District in August and September, destroying homes, businesses, roads, and other public infrastructure. Nationwide, the storms of 2004 cost some $40 billion to repair, and much of the damage occurred in Florida and other parts of the region served by the Atlanta Fed.

Every day during the week prior to the landfall of Hurricane Frances, the bank's Miami Branch paid out two-and-a-half times more cash than it does on an ordinary day. During August and September, when four storms hit Florida one after the other, the Jacksonville Branch paid out 50 percent more cash than in the same two months in 2003. And when the meteorologists predicted that New Orleans would take a hit from Hurricane Ivan, the Crescent City Fed branch maintained its essential operations even as many of its employees were kept away by major evacuations and highway closings in advance of the anticipated violent storm.

Distributing so much extra cash meant that in most branches of the Atlanta Fed those staff identified as essential personnel had to make their way to work despite the weather, and in some cases employees put in fourteen-hour days to respond to customer needs outside of normal business hours.

The power of teamwork

The Atlanta Fed's response to the extraordinary barrage of hurricanes emphasizes more than ever the importance of clearly defined roles and procedures for almost any event, from natural disasters to civil disturbances. But a contingency plan like the one in place at every Federal Reserve Bank is just pieces of paper. Its success depends on the dedication of staff to carry it out when the time comes.

No one knows when the next disaster will strike, but the Atlanta Fed's six offices will be ready to keep the cash flowing.

"We collect the data, and it's our job to process and analyze the numbers as soon as they are available. We provide an updated report for the economists and give our take on what it means. It's all part of the process that goes into briefing the bank president before he goes into the FOMC meetings."

Nicholas Haltom, senior economic analyst

08:29:06 a.m.

“Mr. Greenspan emphasized the Fed’s readiness to respond if inflation heats up. Although the Fed doesn’t ‘perceive’ a need to raise rates rapidly, he said, it will ‘if the economy shows signs of exhibiting significant inflationary pressures.’ ”

Wall Street Journal
July 21, 2004

Every day a new piece of the economic puzzle

At 8:30 a.m. on the third Wednesday of every month, the U.S. Labor Department publishes the latest consumer price index (the CPI), a composite of prices from a hypothetical basket of goods and services that consumers purchase. Changes in the index reflect broad-based price changes across the economy. These movements in the CPI, along with other inflation measures, are of special interest to the Federal Reserve because of its congressional mandate to keep inflation low and prices stable.

Keeping track of the economy

On those Wednesdays, Federal Reserve Bank of Atlanta economic analysts await the CPI release so that they can comb through the components of the data series, interpret the numbers in light of past performance and other economic developments, and quickly provide analysis in support of the bank's monetary policymaking role through the Atlanta Fed's president and its directors. The twelve Federal Reserve Bank presidents, along with the seven governors of the Federal Reserve Board, take part in the deliberations of the Federal Open Market Committee, which sets a target for the federal funds rate—the rate at which banks borrow from each other short-term. Reserve Bank directors recommend changes in the discount rate, the interest rate banks are charged when they borrow from the Fed.

Despite their importance, the CPI and other inflation measures are only part of a vast array of data that Federal Reserve economic analysts track daily. Keeping abreast of statistical indicators of the economy's health is part of the daily routine at the Fed. That intense attention to the economy's performance flows primarily from the fact that monetary policy takes many months to play out. It must thus be modified long in advance on the basis of current business activity and expected changes in the direction of the economy. Keeping up with the economy on a real-time basis is also important because Fed presidents and staff economists make frequent speeches on the economy to help the public understand the Fed's current monetary policy stance.

Making the hard calls

Clearly, the daily work of Fed economic analysts and economists is complex and dynamic. The statistical series themselves do not provide a foolproof way to gauge the economy's future direction. Market economies change over the business cycle and from one cycle to the next. What is the U.S. economy's potential growth rate over time? How low should we hope for the unemployment rate to fall? What inflation rate is consistent with price stability, given the economy's current performance? Issues like these prompt Fed economists to refine existing economic models and develop entirely new ones to help better answer such questions.

In 2004 the Fed's economists faced new challenges as the economy gained momentum across many fronts, including labor markets, raising concerns about the Fed's accommodative monetary policy stance. The challenge for Fed researchers and policymakers was to monitor the constant changes in the U.S. economy to help the Fed act appropriately to avoid the risks of tipping the economic scales too far either way. As the year ended, with its extraordinary challenges, Fed policymakers had made considerable progress in removing the monetary policy stimulus that was no longer necessary or appropriate for an economic expansion that has developed good momentum.

Atlanta Fed analysts and economists never stop collecting and analyzing new data that may help policymakers better understand the overall economic picture. For the Fed's research staff, the complex puzzle of the U.S. economy makes even the most ordinary day unique.

"When you show up here for work, you never know if this is the day. We make it our business to always be prepared."

Corporal Anthony Preston, Atlanta Fed law enforcement, recalling the terrorist attacks of September 11, 2001

01:15:40 p.m.

"For the time being . . . [the] financial sector seems to be the primary focus [of terrorist plots]. . . . Let's raise [the threat level] to Orange . . . and assess protective measures, even at other financial institutions that may not be on the list."

Secretary Tom Ridge
U.S. Department of Homeland Security
Press Release and Q&A
August 1, 2004

Law enforcement prepares for new types of threats

Every visitor to the Atlanta Fed has interacted with one of the facility's law enforcement officers. These uniformed and armed security personnel are the first people visitors encounter on arriving and the last they see when leaving. This role is fitting because these men and women are tangible symbols of the Federal Reserve's responsibility to safeguard the nation's financial system.

In addition to monitoring security posts and serving as ambassadors for the bank, however, a law enforcement officer, on a typical day, might receive firearms recertification, take part in scenario-based training exercises, or administer first-aid to an injured employee as a first responder.

Because of their unique responsibilities, the Fed's law enforcement staff are trained to expect the unexpected. Many have previous military or police experience that has helped prepare them to respond to high-stress situations. Protecting the Federal Reserve is a 24/7 job.

An arm of the law

The Federal Reserve's Law Enforcement units assumed significant new responsibilities following the September 11, 2001, terrorist attacks. In that year Congress enacted the USA Patriot Act, part of which authorized Federal Reserve protection staff to become law enforcement officers with new powers to arrest suspects and to work more closely with their counterparts in federal, state, and local law enforcement.

Because the Fed plays a crucial role in the U.S. financial system, Reserve Banks must do more to protect our operations in the fight against terrorism. This new role in homeland defense is underscored by the stream of information collected from multiple law enforcement sources and analyzed by the District's law enforcement officers.

"Now we get as much intelligence information in a day as we used to get in a year," says Atlanta Captain Chuck Williams.

Tougher training requirements

The bank is not only better informed about threats but also has put tougher procedures and practices in place. Today's law enforcement officers are expected to continually acquire new knowledge and skills. Gone are the days when officers were known as "guards" who focused primarily on protecting cash. In 2004, the Atlanta Fed launched a full-time center to administer an intensive training program that mirrors much of the curriculum taught at the Federal Law Enforcement Training Center (FLETC). The 200-hour Basic Law Enforcement Training program is given to all new law enforcement officers in the Sixth District. The program is the first of its kind in the Federal Reserve System, and many other Reserve Banks have sent officers to the Atlanta Fed's program.

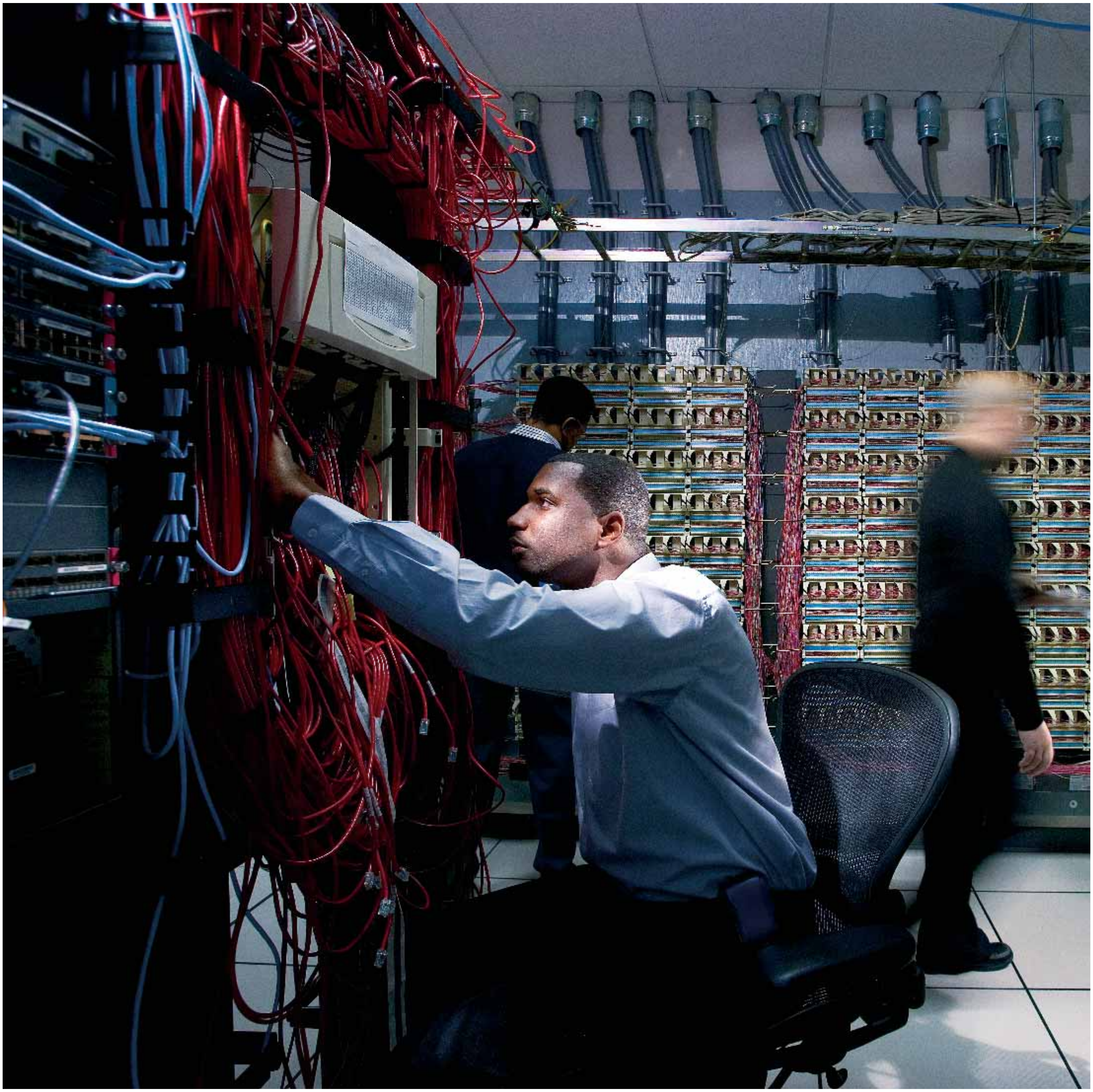
Today's officers must complete training on topics such as arrest procedures, basic constitutional law, physical control techniques, nonlethal weapons, communication, and interviewing techniques. All officers receive recurring training on a monthly basis to ensure the law enforcement team is capable of responding to emergencies and other contingencies at a moment's notice. The benchmark for officer training keeps rising. Law enforcement units in the Sixth Federal Reserve District recently launched a program to send officers to advanced courses at the FLETC facility.

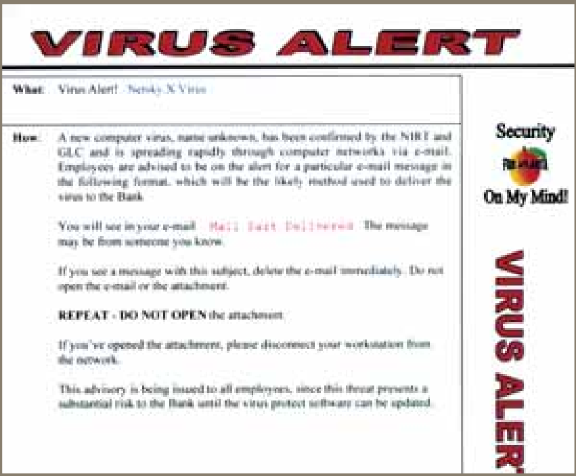
The role of Federal Reserve law enforcement officers has changed significantly over the last several years. As risks continue to evolve, the law enforcement professionals of the Atlanta Fed are more prepared than ever to counter whatever may come their way.

"I think a lot about the job we do making sure all of our applications and Web sites are up and running all of the time. We have to be responsive and keep our eyes on everything. We have to spend a lot of time keeping up with information security and revisiting vulnerabilities and testing new products. We take pride in getting the job done."

Durrell Lowery, senior systems analyst

07:56:17 p.m.





VIRUS ALERT

What: Virus Alert! Netsky X Virus

How: A new computer virus, name unknown, has been confirmed by the NIRT and GLC and is spreading rapidly through computer networks via e-mail. Employees are advised to be on the alert for a particular e-mail message in the following format, which will be the likely method used to deliver the virus to the Bank.

You will see in your e-mail: Mail [illegible] Delivered. The message may be from someone you know.

If you see a message with this subject, delete the e-mail immediately. Do not open the e-mail or the attachment.

REPEAT - DO NOT OPEN the attachment.

If you've opened the attachment, please disconnect your workstation from the network.

This advisory is being issued to all employees, since this threat presents a substantial risk to the Bank until the virus protect software can be updated.

Security On My Mind!

VIRUS ALERT

"A new computer virus, name unknown, has been confirmed . . . and is spreading rapidly through computer networks via e-mail. Employees are advised to be on the alert for a particular e-mail message."

Federal Reserve Security Alert
Netsky X Virus
April 20, 2004

Defending against threats to information

Today the Federal Reserve, like the rest of the world, spins on information technology (IT). As so many workers do nowadays, many Fed staff use computers and e-mail and access the Internet every workday. But the Fed's use of IT goes beyond so-called office automation and extends to the way it conducts its core businesses. On any given day, an economist might use a special high-capacity personal computer to run a huge data set through a complex econometric model. A bank examiner might scrutinize a large financial holding company's mathematical risk assessment model for a new derivative product it is offering. And certainly the bank's check processing and cash processing staff will be relying on IT to conduct their work.

The modern Federal Reserve has been a leader in information technology innovations. In the 1960s and '70s the Fed converted cash and check processing from manual, paper processes to high-speed, high-tech operations. During those decades the Fed played a pivotal role in the development of the automated clearinghouse arrangements that enable huge volumes of paychecks, for example, to be deposited directly and mortgage payments to be debited directly. The Fed also developed the computerized system for managing the Treasury Department's vast issuances of bills, notes, and bonds.

Open environment brings security challenges

These mainframe-based technological advances were centralized and essentially closed systems that intrinsically afforded high security. Today's rapidly changing information technology environment offers far more capabilities but in a much more open and decentralized context.

Some of this new technology also carries the potential for exposure to attacks by computer viruses, worms, and other malicious software codes that have been launched against other organizations. The Atlanta Fed has coped with the growing threats of this so-called malware by strengthening the defensive perimeter that protects the bank's IT environment and systematically plugging potential gaps and vulnerabilities.

Of course, these measures cannot prevent all problems. Information security begins with people. The Atlanta Fed is constantly providing staff with new procedures to protect information.

Working with the Fed System

But the Federal Reserve Bank of Atlanta cannot pursue IT security single-mindedly. It must address security issues in the context of increasing interconnectivity among the Reserve Banks, which is part of a multiyear effort to eliminate duplication in internal IT systems and, generally, become more cost-efficient in the use of IT resources. Security efforts must also continue to allow for innovations like wireless technology and the use of powerful open-source technology like Linux as opposed to purely proprietary systems.

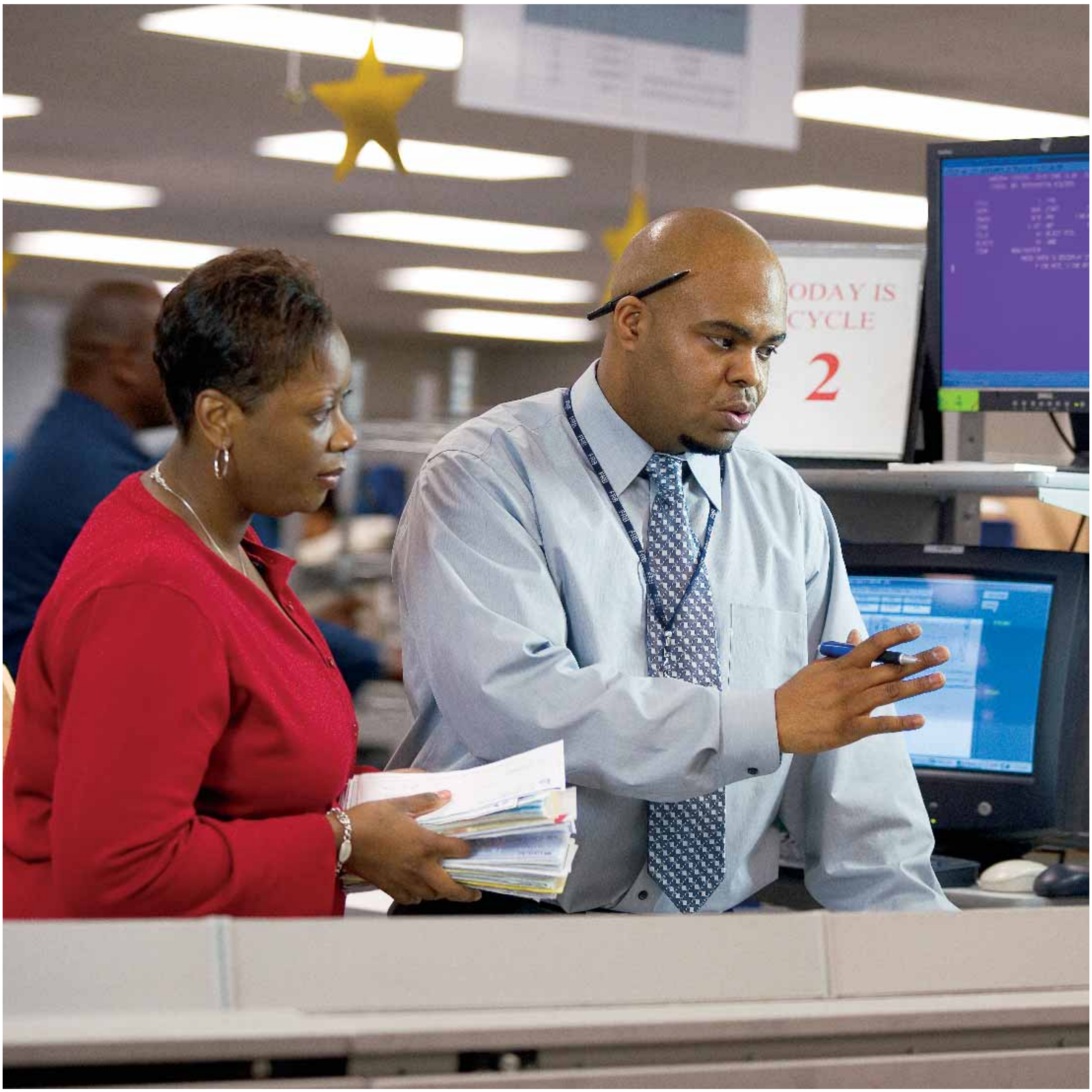
A 2004 example of this kind of balance between security and innovation was the Federal Reserve System's rollout of FedLine Advantage, Internet-based access to critical large-dollar payment transactions. The Atlanta Fed conducted its own experiment with secure silo communications via the Internet in the form of an independent network that research economists can use to exchange research with counterparts in academia without exposing other Federal Reserve networks.

The challenges for the Fed's IT program are extraordinary. It comes down to keeping the dragon at the gate in order to maintain security in today's rapidly changing and open IT environment. So, on any ordinary day, the Fed's goal is simply to maintain leading-edge security while guiding the way to the most efficient payment system, the highest-quality bank supervision, and the most sophisticated monetary policy analysis possible.

"In checks twenty years ago everything was balanced on paper. Now everything is on computer, and the new image systems are so much faster and better. I understand our business is changing almost daily, and, whatever comes up, I want to be a part of it."

Raphael Johnson, management associate, Payment Services/Processing

11:47:02 p.m.



“A new era in banking begins. . . . [Check 21] cleared the way for the simplified process by allowing digital images of checks to be deemed legal representation of payment.”

MSNBC
Online Banking Special Report
October 28, 2004

The future of payments is now

On any given night the Federal Reserve Banks and their branches around the United States process approximately 50 million checks. The Fed's Atlanta office is one of the largest check processors in the nation, and the Sixth Federal Reserve District processes more checks by far than any other Fed district.

While most of us are asleep, an army of Fed employees is working every night to help ensure that most checks in the United States clear overnight. Checks start coming in from commercial banks around 11:00 p.m., delivered by check couriers from a nearby airport. In just a few hours they're run through high-speed processors, sorted, and sent throughout the country to the Federal Reserve office servicing the commercial bank on which they're drawn. By dawn this vast flow of paper is at its destinations, ready for presentment to the paying banks.

A complex and demanding job

The work of processing checks is intense. Accuracy is a must. Deadline pressures are extraordinary, and check employees must also adhere to strict productivity metrics. What's more, both summer and winter weather can play havoc with delivery schedules.

Not your routine job, even compared with a highly sophisticated manufacturing environment. Adding to the challenge in recent years, the U.S. payment system has seen a seismic shift as check usage has declined and electronic payments have grown significantly. This change has implications for the U.S. payment system but also for the Federal Reserve System, the nation's largest provider of check and automated clearinghouse (ACH) processing services.

Leading the way in managing change is the Federal Reserve's Retail Payments Office (RPO), based at the Atlanta Fed. In 2004 a Fed study found that the number of electronic transactions (credit cards, debit cards, and ACH transactions) eclipsed the number of check payments for the first time in U.S. history.

With the shift in payments, the sharper-than-expected drop in check volumes meant the Fed would have difficulty in meeting the provisions of the Monetary Control Act, which requires the Fed to cover all of its costs in providing check-processing services, including imputed profits it would have earned if it were a private-sector service provider. Maintaining the status quo in a declining check volume environment was not an option, and aggressive cost cutting was necessary.

Reengineering milestones

The RPO had to address this situation quickly because of its Systemwide responsibilities for check payments. During 2004 the Atlanta Fed moved check processing from Miami to Jacksonville as part of a reengineering initiative to eliminate check processing in thirteen Fed offices across the United States. The RPO staff determined that nine additional Fed facilities, including the Atlanta Fed's Nashville and Birmingham facilities, would need to combine processing services with other Fed sites.

While such consolidations are certainly difficult for all involved, the Federal Reserve has long championed greater efficiency in the payment system. Reinforcing that trend, in October 2004 the Reserve Banks successfully implemented a series of electronic check image processing services to satisfy the requirements of the Check Clearing for the 21st Century Act, or "Check 21." The act improves the efficiency of the processing system by creating a "substitute check," a paper printout of an electronic image that is the legal equivalent of the paper original.

As check payments continue to change, the Fed must meet the challenge of maintaining a large, efficient check operation while positioning its operations and the U.S. economy for the retail payment methods of the future.

"The landscape of financial services is changing dramatically. Every day is different, and that's what I like about my job. It's a matter of constantly staying ahead of the knowledge curve."

Debra Klimkiewicz, bank examiner

06:05:37 a.m.

“Corporate Governance Gets Top Priority: Lucy Griffin, editor of *Compliance Action*, notes the increased attention bank regulators are paying to corporate governance in the wake of Enron et al.”

BankersOnLine.com
Executive Briefing
July 2004

Higher expectations for financial compliance

With banking deregulation in the 1980s and '90s, the U.S. financial system became much more flexible, dynamic, and geographically far reaching. Financial markets have gained vast new sources of capital, and, as banks have become more competitive, consumers often enjoy a wider selection of products and lower fees for services.

For the bank examiners and regulators responsible for helping to keep our financial system safe and sound, daily work has become more complex. With the spread of securitization, increased reliance on information technologies, and other innovations, bank supervision today involves worrying about not only credit risk in lending activities but also operational, market, and liquidity risk.

Boardrooms under scrutiny

As they confront these challenges, Federal Reserve Supervision and Regulation staff must bring an increasingly broad set of skills and analytical expertise to their jobs. Some follow the traditional routine of traveling to small towns where they spend days examining community banks. More and more, though, they supplement on-site exams with off-site surveillance, especially for large banking organizations. Examiners also travel outside the region, working with teams of specialists from other Reserve Banks, and a growing number of examiners concentrate on niches such as private wealth management, real estate financing, or economic capital.

Whatever their focus, examiners must understand and recognize a wide range of potential problems, such as those brought to light following a wave of accounting and governance scandals that began to erupt beginning in 2001. The Sarbanes-Oxley Act of 2002 was written to address certain regulatory gaps and conflicts of interest, focusing supervisory attention on the top of the corporate hierarchy. Certainly, the ordinary role for commercial bank boards of directors has changed. Under Sarbanes-Oxley, corporate directors are expected to actively support regulatory compliance and are subject to criminal penalties designed to ensure that oversight responsibilities prevail.

All corporate directors have a legal and fiduciary obligation to protect shareholder interests. But banks' crucial role in the U.S. economy, backed by federal deposit insurance, gives bank directors the added responsibility of ensuring that banks operate safely and soundly and with adequate capital and internal controls for the risks they assume.

A growing concern is whether a financial institution is at risk because of a legal or noncompliance issue that could damage its reputation, so Federal Reserve examiners have had to add reputational risk to the array of risks it considers.

Getting the new rules right

In particular, the USA Patriot Act extended banks' regulatory compliance by amending the Bank Secrecy Act of 1970. The Patriot Act, passed in 2001 in the wake of terrorist attacks on U.S. soil, expands money-laundering coverage to overseas and nonbank financial institutions in an effort to shut down terrorist financing and sever the potential link between drug money and terrorism.

Under the Patriot Act, financial institutions are required to know certain information about their customers and to report any suspicious activity. The penalties for noncompliance can be severe, and the ensuing negative publicity could further damage the bank. Given the high stakes involved, it's clear that bank managers and directors, along with Atlanta Fed examiners, face a heightened challenge.

This broader interpretation of risk and increasing expectations for enterprisewide risk management are parts of the Federal Reserve's current approach to corporate governance. The challenge for financial institutions and Fed examiners is to sustain the innovative spirit that has made the financial services sector so successful while ensuring that organizations stay accountable to the public interest.

"Around the clock. Twenty-four hours a day. The Atlanta Fed is in motion, meeting its goals, on ordinary days and during extraordinary times."

Pat Barron, first vice president

06:24:11 a.m.