

MESSAGE FROM MANAGEMENT



Sarah G. Green
First Vice President and
Chief Operating Officer

CERTAINLY ONE OF THE SIGNATURE EVENTS OF 2010 WAS PASSAGE OF THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT.

This Act changed the responsibilities of the Federal Reserve System in some important ways. To name a few, the Act gave us more explicit responsibilities related to financial stability, added supervision of thrift holding companies to our plate, and shifted some of our consumer compliance responsibilities to the new Consumer Financial Protection Bureau. The Federal Reserve System has 256 work streams underway to address the Act's requirements for rule writing, research, and implementation of new responsibilities. In this year's management message, I would like to explore just one of these new responsibilities—implementation of the Offices of Minority and Women Inclusion.

The Act requires each of the 12 Reserve Banks and the Board of Governors, along with other financial regulatory agencies, to establish an Office of Minority and Women Inclusion. These Offices are expected to address workforce and supplier diversity issues within the Federal Reserve System and in financial institutions more broadly. Since the Dodd-Frank Act was promulgated specifically in response to the recent financial crisis, one might wonder why the Act would include this particular provision. I would argue, however, that diversity and inclusion are critical to the ability of the Federal Reserve System to perform its core responsibilities for America's economy.

The business case for diversity and inclusion rests, of course, on the fact that we need the most highly qualified people to accomplish our mission. To attract the best talent, we have to draw from broad and diverse talent pools. In addition, every individual in the Reserve Bank needs to feel comfortable and encouraged to bring forward their unique perspectives and ideas. These are some of the reasons why we began our diversity and inclusion journey a number of years ago. Along the way, we have learned that having a diverse and inclusive culture is not a "nice to have," it is a necessity, because optimal performance in each of our three core areas of responsibility requires us to value and embrace differences, seen and unseen.

During the financial crisis and ensuing deep recession, the Federal Reserve System took a number of bold actions. We reduced the federal funds rate to zero to one-quarter percent in 2008 and have maintained it there since. Our balance sheet has expanded from almost \$900 billion in September 2008 to \$2.4 trillion at the end of 2010, and since then we have implemented a program to buy another \$600 billion in U.S. Treasury securities, the so-called second program of quantitative easing, or “QE2.” These actions are controversial, and the media have often commented on the different views among the Reserve Bank Presidents and the Governors. We have been asked why we do not attempt to present a more united front.

In fact, it is the diversity of views that is one of the most important strengths underlying the Federal Reserve System’s policymaking. There is never one obvious right answer. We need views from different geographic regions, from different economic schools of thought and areas of expertise, and from consumers and businesses in different circumstances to inform our judgments about the best course of action for the economy and the financial system. In the Fifth District, we regularly seek this type of information from our directors, local surveys, advisory councils, industry roundtables, and in-depth visits to various geographic areas in the region.

The other core services we provide are supervision of state member banks, bank holding companies, and now thrift holding companies, and the delivery of efficient, reliable, and accessible payments services. In 2010, the Federal Reserve System transferred an average of \$3.9 trillion each day between financial institutions. The financial institutions we serve in our supervisory and payments roles in turn provide services to consumers and businesses in their communities. To ensure the safety and soundness of financial institutions and to provide effective payments and collections services, we have to understand the needs of the diverse end users of these services.

The demographics of these end users have changed dramatically in recent years, and more change is coming. We now have four generations in the workforce, with a large group of “baby boomers” poised to retire and the new generation of “millennials” entering the

workforce. Minority populations are growing and may represent half of the total U.S. population in 30 years. The most significant growth is in the Hispanic community. The role of women is also changing, with more entering the workforce and pursuing careers that were traditionally occupied by men. Since 2008, 70 percent of new entrants into the workforce have been women and minorities. These are the end users of our services, and their behaviors and preferences will drive the services we deliver.

As we have pursued our diversity and inclusion journey in the Fifth District, the diversity of our workforce has broadened and the depth of our own talent pools has deepened, more closely reflecting the diversity of the pools from which we draw needed expertise. We have improved our ability to measure the diversity of our suppliers and to reach out to a broader group of businesses, including those that are minority- and women-owned, to ensure we have the best products, services, and talent possible to assist us with our business needs. We have six active Employee Resource Networks, organized by employees, which are helping us understand the unique histories and perspectives of different groups. And this year we won an award in Richmond for our diversity and inclusion program.

Our journey to embrace diversity and inclusion has gained speed and impetus but is far from complete. We have now formally established the Office of Diversity and Inclusion and look forward to reinforcing and strengthening our commitment to diversity and inclusion. Our success in fulfilling our mission depends on meeting this commitment.



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