REPORT FROM THE PRESIDENT

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COMMITMENT

At the Federal Reserve Bank of New York we are committed to maintaining the highest standards of integrity and excellence. We are also committed to pursuing our central banking missions to further the public interest through a supportive relationship with our employees. These missions include implementing monetary and foreign exchange policies and providing basic research and analysis to support policy formulation and implementation, promoting the safety and soundness of the domestic and international financial system, providing high-quality, cost-effective payment and other banking services and participating, with our constituencies, in issues related to the Second District's economic vibrancy.

During 1995, we made significant contributions to key policy initiatives, met a number of demanding management challenges, and made several major organizational changes in the Bank's internal structure to position the Bank for even stronger performance. It is our intention to place the Bank more firmly in the forefront of developing and carrying out the public policy agenda associated with the central bank's missions and to continue our commitment to innovative leadership.

FOCUS

In recent years, we have focused on strengthening the Bank's automation, information-gathering and analytical capabilities. This has advanced the Bank's leadership role in shaping the Federal Reserve's monetary and supervisory policies and in meeting the banking service needs of the Treasury, depository institutions, and foreign central banks. We have undertaken parallel efforts to increase the productivity of staff, reduce support and overhead costs, and strengthen operating efficiency throughout the Bank by flattening supervisory and management structures and by reengineering a broad range of work processes and reporting relationships.

The results of this focus can be seen in the Bank's considerable accomplishments in 1995, which included:

- playing a key role in the United States' provision of liquidity support to Mexico by assisting in the negotiations between the United States and Mexico, implementing the swap agreement between the two countries and providing market intelligence to policymakers;

- developing and implementing public policy on the management of payments system risk and sponsoring best practice standards for participants in the over-the-counter market;

- introducing more efficient trading techniques in our management of the Federal Reserve System's domestic portfolio;

- developing a central bank strategy for dealing with foreign exchange settlement risk under the auspices of the G-10 Central Bank Governors' Committee on Payment and Settlement Systems;

- developing new market-risk standards for banks under the auspices of the G-10 Committee on Banking Supervision;

- establishing the Federal Reserve's guidelines for the analysis and valuation of complex financial instruments pledged by banks as discount-window collateral;

- facilitating agreement among the bank supervisory agencies to replace regulatory accounting principles with generally accepted accounting principles (GAAP) for financial statements;

- shaping public policy on regional economic and urban issues by holding a major regional conference on technology and economic development in the tri-state area and advancing community development initiatives aimed at improving export financing opportunities for small businesses and mortgage credit availability for low- and moderate-income households; and

- advancing strategic automation initiatives that strengthened the Bank's operating efficiency while furthering the Federal Reserve System's automation consolidation goals.

The Bank's success—whether measured in terms of the economy's performance or the attainment of Federal Reserve System or Bank objectives—depends on a team-oriented culture dedicated to public policy goals. A key focus of the Bank is on developing and retaining a broad base of professional, technical and managerial staff by instituting progressive programs that position the Bank as an employer of choice in the New York financial community.

In 1995, the Bank made a number of changes in its overall compensation and career development programs to advance this position. We introduced flexible work arrangements in selected areas, thoroughly revamped our career development program and established an in-house career resource center at our Head Office.

BUILDING INTERNAL STRENGTHS

We continued to adapt and reengineer our own work processes and organizational structures in 1995 to better position the Bank to advance our missions in today's rapidly changing financial environment.

In our Bank Supervision area, a reorganization begun in 1994 was completed, with this area of the Bank moving to a flatter organizational structure with greater responsibility and accountability for each member of Bank Supervision's management team. The reorganization was aimed at improving overall efficiency and maximizing career development opportunities and job enrichment for our staff. In the Markets area of the Bank, efficiency gains and synergies are being realized through a major reorganization that integrated the responsibilities and activities of Open Market, Foreign Exchange and Market Surveillance staffs.

The need to focus the Bank's efforts in a systematic way on financial developments in newly industrial and emerging economies led the Bank to establish a new Emerging Markets and International Affairs Group in December 1995.

The prior year's reorganization of the Research and Market Analysis Group bore fruit in 1995 in the form of a more effective management structure. Working within that structure, the Bank was able to significantly enhance the quality and quantity of its research work, expand its external publications and enhance the Bank's research reputation.

ENVIRONMENTAL OUTLOOK

Continuing changes in the domestic and international financial system will present the Bank with formidable challenges. We need to gain a broader understanding of the workings of the newly emerging markets in Asia and Latin America and the effects that developments in these markets have on U.S. monetary and bank supervisory policies. It is clear to us that the susceptibility of these markets, as well as our own domestic markets, to periodic disruptions will require the Bank to continue its supervisory vigilance and to maintain a strong crisis management capability. The Bank's experience with Daiwa Bank also is being assessed with a view toward enhancing the way we, and other bank supervisory agencies, supervise the branches and agencies of foreign banks operating in the United States.

The merger of Chemical and Chase in 1996, which will form the largest banking organization in the United States, and the implementation of the revised Community Reinvestment Act regulation, initially will necessitate some increase in our examiner resources. However, interstate branch banking, which will go into full effect under Federal law in 1997, may have some offsetting effects on our bank supervision resources. At the same time, consolidations and strong competition from bank and non-bank service providers could well generate volume declines across the Bank's entire range of financial services.

Within the Bank, the composition of our staff will continue to shift toward policy-oriented professional positions and analytical-technical senior staff positions. At the same time, a variety of automation technologies and automated capabilities will become increasingly integrated into our internal operating environment. To address these staff composition and environmental changes, we intend to continue our investments in state-of-the-art computers and software and our multi-year modernization of the Bank's physical infrastructure.

MANAGEMENT CHALLENGES FOR 1996

Operational improvement strategies will be particularly important in the provision of financial services by the Bank. The past year was marked by a major effort on the part of financial services management to develop and begin implementing aggressive, comprehensive, multi-year strategies aimed at substantially improving unit cost performance in all of the Bank's financial services during the 1996-1998 period. Implementing a three-year plan for the Check Function will be especially challenging. An initial aspect of that plan, closing the Jericho Office by October 1996 and consolidating Jericho processing at EROC and check adjustments at Utica, was announced earlier in 1996.

FINANCIAL HIGHLIGHTS

The Federal Reserve Bank of New York's financial performance in 1995 demonstrates another aspect of our commitment—to fiscal responsibility and to maintaining the highest standards of integrity in our operations.

- The Bank's total operating expense was $628 million, an increase of 2.1 percent over 1994.
- Our financial services achieved full-cost recovery in 1995. Book-entry securities service exceeded target, while funds transfer and ACH services fell slightly short of their cost recovery targets. Check processing significantly improved its year-over-year cost recovery but did not meet its target primarily due to larger-than-anticipated volume declines.
- Our net earnings available for distribution during the year were $9.5 billion. Of this amount, $61 million was paid to member banks as statutory dividends on their Reserve Bank stock, $69 million was transferred to the Bank's surplus account and $9.4 billion was paid to the U.S. Treasury.
- At year-end 1995, our total assets stood at $183.9 billion, up from $169.0 billion at year-end 1994.