



FROM LEFT TO RIGHT

**J. Alfred Broaddus, Jr., *President***

**Claudine B. Malone, *Chairman of the Board***

**Robert L. Strickland, *Deputy Chairman***

**Walter A. Varvel, *First Vice President***

We are pleased to present the Bank's *Annual Report* for 1997. We believe that 1997 was a year of substantial accomplishment for our organization. These accomplishments are highlighted in the "Year in Review" section of this *Report*.

The past year was one of unprecedented change in the banking and payment industries with the continued growth of interstate banking, product expansion, and rapid technological innovation. The Federal Reserve System and the Bank worked to facilitate these transitions while, at the same time, promoting the stability, integrity, and efficiency of the nation's financial and payment systems.

Fifth District banking organizations were at the center of several of the large bank consolidations that were a hallmark of 1997. To prepare for these changes the Bank modified internal systems and procedures, expanded training programs for banks, and sought to enhance coordination among various federal and state banking agencies to minimize overlapping supervisory burdens. We also made substantial contributions to Federal Reserve System programs that orient examiners to new risk-based examination procedures aimed at increasing the effectiveness of supervision in the rapidly changing financial and banking environment.

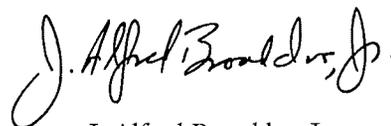
In 1997 a senior Federal Reserve committee led by Board Vice Chair Alice Rivlin sought to determine the Fed's optimal future role in the markets for check clearing, automated clearing house (ACH), and new emerging electronic payment instruments. Following extensive internal analysis and substantial public input from payment market participants and experts, the Committee reached two general conclusions:

- The Federal Reserve should remain a provider of both check collection and ACH services with the explicit goal of enhancing the efficiency, effectiveness, and convenience of both systems, while ensuring access for all depository institutions.
- The Federal Reserve should play a more active role, working closely and collaboratively with providers and users of the payment system, both to enhance the efficiency of check and ACH services and to help evolve strategies for moving to the next generation of payment instruments.

The Rivlin Committee also made numerous specific recommendations to guide Federal Reserve involvement in these markets. Among these recommendations were that the Federal Reserve should

- use its operational presence (including pricing and service innovations) as a major check collection intermediary to facilitate the growth of electronic check presentment and truncation where demand exists; and
- evaluate the feasibility and implications of removing the difference in check collection presentment deadlines between itself and commercial providers and examine how this action would affect the competitiveness and efficiency of the check market and its participants.

This subject is addressed by Jeff Lacker and John Weinberg in the feature article of this *Report*, "Can the Fed be a Payment System Innovator?" Drawing on the experience of the telecommunications and postal services industries, the authors define the market conditions under which the Fed's provision of check services will most likely lead to service innovations that enhance the public welfare. The authors conclude that the efficiency goal set by the Rivlin Committee can best be achieved by removing remaining barriers to competition in the check services market. They point out, however, that such action might have negative consequences for the universal access goal.



J. Alfred Broaddus, Jr.  
PRESIDENT



Walter A. Varvel  
FIRST VICE PRESIDENT