The Federal Reserve Banks as Fiscal Agents and Depositories of the United States

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The Federal Reserve Act of 1913 provides that the Federal Reserve Banks will act as fiscal agents and depositories of the United States when required to do so by the Secretary of the Treasury. As fiscal agents, the Reserve Banks support the Department of the Treasury with services related to the federal debt. For example, they receive bids for auctions of Treasury securities to finance the debt and issue the securities in book-entry form. As depositories, the Reserve Banks maintain the Treasury's account, accept deposits of federal taxes and other federal agency receipts, and process checks and electronic payments drawn on the Treasury's account. The General Acounting Office certifies the Treasury's financial statements, including the effect of Reserve Bank operations (see box "Audits by the General Accounting Office").

Although the Federal Reserve Banks also provide services on behalf of many domestic and international government agencies, the majority of the fiscal agency and depository services the Banks provide are performed for the U.S. Treasury. In 1999, the Reserve

Audits by the General Accounting Office

The General Accounting Office (GAO) is required by statute to certify the annual consolidated financial statements of the United States. As a result, the GAO conducts an annual audit of the Treasury's key financial reporting and accounting systems so that it can certify the statements. Because many of the Treasury's systems are either operated by, or receive data from, Federal Reserve systems, these Federal Reserve operations also fall within the scope of GAO audit attention. In addition to the usual review of balances, the GAO conducts reviews of the physical and logical controls over access to Federal Reserve networks and systems that handle or process Treasury transactions. The GAO has concluded that Federal Reserve controls provide adequate safeguards. Banks originated about 13 million book-entry transfers with a value of \$179 trillion, collected \$2.1 trillion in business taxes, processed 823 million government payments by direct deposit, and processed 288 million government checks.

The Reserve Banks' fiscal agency and depository services are related to their involvement in the broader payments system. The Reserve Banks provide payment services to depository institutions that include check processing, funds transfers, and automated clearinghouse (ACH) payments. Providing these services to the private sector gives the Federal Reserve a base for delivering similar services to the Treasury, for affording economies of scale, and for assisting the Treasury with improvements and innovations in its services.

Advances in technology have spurred changes to many services provided by the Federal Reserve. Paper-based systems have been automated or are approaching an all-electronic state. Reserve Bank software systems have been modified or replaced to meet the government's changing needs. Recent improvements have focused on making both the collection and the disbursement of government funds more effective and efficient. The Treasury and the Reserve Banks routinely modify, automate, or consolidate operations to achieve efficiencies and to reduce expenses over time.

Since the early 1990s, the technological environment has changed significantly.¹ Electronic services, such as direct deposit of government payments, are rapidly replacing government checks. Governments, businesses, and individuals rely increasingly on the Internet as a source of information and as a means of conducting business. Consumers have significantly increased their use of computers; many of them expect financial service providers, including the government, to use web-based technologies and voice response to process transactions. Over the years, the

^{1.} This article is an update to an earlier one. See Gerald D. Manypenny and Michael L. Bermudez, "The Federal Reserve Banks as Fiscal Agents and Depositories of the United States," *Federal Reserve Bulletin*, vol. 78 (October 1992), pp. 727–37.

Federal Reserve Banks have worked closely with the Treasury to improve these services in a variety of ways, and they will continue to take advantage of new technologies.

COLLECTION OF FEDERAL TAX DEPOSITS

As depositories of the United States, the Federal Reserve Banks operate the systems that collect funds for the Treasury and reinvest any funds collected that are not needed to meet current obligations. The tax collection process is the foundation of this effort. The Treasury first established the Reserve Banks as its depositories in 1915 when it transferred its U.S. government funds from national banks to Treasury accounts at each Federal Reserve Bank.

Collection of business taxes by the Reserve Banks—the single largest collection process within the federal government—was once a paper-based, labor-intensive process. Employers made tax payments on a predetermined schedule based on the size of the employer's payroll: Larger businesses were generally required to make tax payments more frequently than smaller organizations. Tax payments were made to a Treasury-designated depository institution, which, in turn, summarized the payments and passed this information daily to the Reserve Banks (see box "The Treasury's Balance at the Federal Reserve"). For Treasury balances invested with

The Treasury's Balance at the Federal Reserve

The Treasury maintains an account at each of the twelve Federal Reserve Banks. At the end of the day, these accounts are consolidated at the Federal Reserve Bank of New York. The Treasury's current cash management objective is to hold an end-of-day balance of \$5 billion at the Federal Reserve. On major business tax payment dates, this target balance is raised to \$7 billion.

The actual balance held by the Treasury at the Federal Reserve is generally close to its target level except on those occasions when the Treasury's cash position exceeds the capacity of the banking system to accept the Treasury's funds. (This capacity may be influenced by numerous factors, including available collateral.) On these occasions, the Treasury's balance at the Federal Reserve can significantly exceed the target. The largest balance held by the Treasury at the Federal Reserve occurred on April 30, 1997, when strong tax receipts pushed the balance to \$52.2 billion.

a depository institution, the Treasury required the institution to pledge collateral sufficient to protect the funds. Although the process worked, it was inefficient for the Internal Revenue Service, the depository institutions, and the Reserve Banks. As new technologies developed, the Reserve Banks improved the flow of tax payments and information from depository institutions; however, the changes resulted only in automating existing processes, and the funds collected were not available to the Treasury until the day after the taxes were due. Thus, the entire process remained cumbersome.

In 1986, the Treasury, in partnership with the Federal Reserve, led an initiative to convert from the paper-based tax collection system to an electronic one. Over the next several years, the Reserve Banks operated two pilot systems for tax collection. In 1993, the Congress passed the North American Free Trade Agreement Implementation Act (NAFTA), which granted the Secretary of the Treasury authority to mandate the use of electronic payment of business taxes. It also contained specific financial goals for the acceleration of federal tax collections from 1994 forward.

As a key part of its implementation strategy, the Treasury, through a competitive process, selected two depository institutions in 1994 to serve as its financial agents for electronic tax collections. In 1999, these financial agents processed more than \$1.7 trillion in tax payments electronically via the ACH from businesses and quarterly filers and provided the Treasury and the Federal Reserve with the information needed to manage the Treasury's cash flows. Taxpayers with annual tax liabilities of less than \$200,000 are not required to submit tax payments electronically, although the Treasury expects that most businesses will continue submitting their tax payments electronically because of the convenience. Electronic tax payments expedite tax collection and give the Treasury access to the collected funds on the tax due date rather than one day later as the paper-based system did.

Now that electronic tax collection has accelerated the availability of collections, the Treasury—not the depository institution—has overnight use of the funds collected. In 1999, the Reserve Banks collected approximately \$2.1 trillion in business taxes and reinvested approximately \$944 billion. Later this year, the Reserve Banks will convert to a centralized tax collection system that will permit more active management of the Treasury's invested funds. The system will permit the Federal Reserve to place more tax proceeds into the banking system on a flow basis throughout the day.

Collateral for Holding Public Monies

Institutions holding public monies pledge to the Treasury sufficient collateral to protect the uninsured portion of Treasury investments they hold. Through the use of restricted accounts, the Federal Reserve controls the collateral pledged to secure these investments, along with the collateral pledged to secure credit it extends to depository institutions. The Reserve Banks monitor the collateral pledged by depository institutions for both purposes.

The method for determining the value of pledged collateral is important in protecting the funds collected. If reliable and active markets exist for the assets, collateral valuation is generally based on market values; if market information is insufficient, valuation takes into account risk factors such as credit quality, payment streams, interest rate risk, and unanticipated credit or liquidity events. When this valuation method was adopted in 1998, the Federal Reserve was using a risk-based matrix to determine the value of nonpriced collateral. Market pricing was applied to definitive instruments in 1995.

As in the past, each depository institution will pledge collateral sufficient to cover the Treasury balances that it holds. The Reserve Banks will compare the market value of the pledged collateral hourly with the amount of the investment that the depository institution is holding. If investments are not sufficiently protected by the collateral's calculated market value, then the Reserve Bank will adjust the investment accordingly (see box "Collateral for Holding Public Monies").

The Reserve Banks also support a number of more specialized collection processes for the Treasury, such as collection of delinquent debt, reporting of governmentwide collections, and forecasting of government cash requirements. The Debt Collection Improvement Act of 1996 gave the Treasury responsibility for collecting delinquent debt owed to the government. As fiscal agents, the Reserve Banks developed software that compares information about delinquent debts with government payments. When a match occurs, the payment is intercepted and offset by the Treasury to collect the debt. For example, an individual who is due a tax refund but is delinquent in student loan payments will have the debt taken from the tax refund through this system.

DISBURSEMENT OF GOVERNMENT PAYMENTS

As depositories for the U.S. government, the Federal Reserve Banks process paper and electronic pay-

The Automated Clearinghouse System

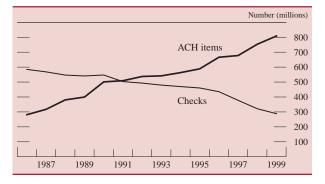
The ACH system is an electronic funds transfer network that is predominantly used to make and settle recurring, future-dated payments. As an example, the payment of social security benefits via the ACH occurs as follows. An ACH payments file is created that includes the payment amount, settlement date, and bank routing information. The file is sent electronically to the Federal Reserve three to four days before the payment date. The Federal Reserve edits the data for accuracy, sorts the payment information by receiving bank, sends a payment file to each receiving bank, and initiates accounting entries that will debit the Treasury's account and credit each receiving bank's accounts. The receiving bank credits each customer's account on the scheduled payment date.

ments for the government, including federal salaries and benefits, interest, vendor payments, and various other government agency obligations (see the appendix).

The federal government disburses most of its payments electronically from funds on deposit with the Federal Reserve Banks. For recurring payments, such as social security benefits or salaries, the government uses the ACH, an electronic network that allows the Federal Reserve account of a depository institution to be credited for payments from the Treasury's account on a specified settlement day (see box "The Automated Clearinghouse System").

In the government sector, a fundamental benefit of the introduction of the ACH system was the reduction of problems with lost, stolen, or forged Treasury checks. The number of government ACH payments has increased steadily over the years and by 1991 exceeded for the first time the number of government payments made by check (chart 1). The Debt Collection Improvement Act of 1996 mandated that, subject

1. Government payments processed by the Federal Reserve Banks, 1986–99



to the Secretary of the Treasury's waivers, most federal payments be made electronically starting in 1999. By the end of that year, roughly three-fourths of all government payments were made by ACH.

The Federal Reserve has increased the use of technology in processing government payments that are made by check. It operates six check-scanning sites around the country and stores the resultant check images in a centralized archive. By capturing the check image, the costs of processing and storing checks and the payment information on them are reduced, thus saving taxpayer dollars. In 1999, the Reserve Banks provided images of almost 231 million government check payments and processed 226 million postal money orders. In mid-2000, the Reserve Banks will start providing imaging services for postal money orders.

The Reserve Banks also perform more specialized disbursement-related functions for the government. Generally, these functions involve specific applications to address unique program requirements. For example, the Reserve Banks have developed applications to facilitate the disbursement of federal funds for grants and food coupons. The Reserve Banks also support the Treasury's effort to provide electronic transfer accounts (ETAs), which are designed to facilitate direct deposit of electronic payments to people who have no transaction account at a financial institution.

A less-visible role of the Reserve Banks is the work done to support intragovernmental financial management. For example, the Reserve Banks developed software that combines billing and collection information about intragovernmental transactions, permits federal agencies to transfer balances to each other, and provides Treasury with information to aid in its cash forecasting.

SECURITIES SERVICES

Treasury Auctions

The federal government issues debt to cover the shortfall between receipts and expenditures and to refinance its maturing debt. Most of this debt is represented by Treasury securities, with securities issued by other federal agencies accounting for the rest.²

The Reserve Banks play an integral role in carrying out the Treasury's financing operations. Treasury auctions, conducted through the Federal Reserve, determine the yields and prices of securities being sold. The Federal Reserve operates a robust system to process the auctions, and those submitting tenders are linked electronically to the system by a proprietary Federal Reserve network or the Internet. To initiate borrowing, the Treasury announces the terms and conditions of securities being offered in an auction and invites investors to submit tenders (offers to purchase securities) to selected Reserve Banks and the Treasury.

Tenders are submitted either competitively or noncompetitively. Most competitive bidders are large depository institutions, brokers, and dealers that are very familiar with the securities market. These bidders submit an offer to purchase Treasury securities at a stated discount rate or yield, and competitive offers may be accepted, accepted in part, or rejected. Most individual bidders submit noncompetitive tenders, which state the amount the submitter wants to purchase.

The bids accepted from competitive submitters determine the yield of the auction. Competitive tenders represent most of the total dollar amount bid in the auctions, although the number of competitive bidders is relatively small. A comparatively large number of individuals and corporations submit noncompetitive tenders. Successful competitive and all noncompetitive bidders are awarded securities at the highest discount rate or yield accepted in the auction. The Treasury's auction rules limit the amount of noncompetitive submissions and prohibit bidders from participating in both the noncompetitive and competitive auctions.

Once the Treasury determines which tenders are to be accepted, it announces the auction results publicly, and the Reserve Banks issue book-entry securities against payment. These payments are deposited to the Treasury's account at the Reserve Banks when the securities are issued.

Over the years, as the Treasury and the Federal Reserve have consolidated and streamlined Treasury auction operations, the time required to process each auction has been reduced significantly. By shortening the time between the auction close and the release of the results, the Treasury can decrease the risk to bidders and increase competition. When competition is enhanced, the Treasury can usually auction its securities on terms that are more favorable to the government.

The federal government's improved financial position, resulting in a decrease in borrowing needs, has

^{2.} For a comprehensive discussion of the Treasury securities market, see Dominique Dupont and Brian Sack, "The Treasury Securities Market: Overview and Recent Developments," *Federal Reserve Bulletin*, vol. 85 (December 1999), pp. 785–806.

caused the Treasury to reevaluate the government's borrowing program. Besides reducing the number of auctions held and the amounts sold in individual auctions, the Treasury has conducted debt buyback (redemption) operations. In these operations, the Treasury purchases securities, which will then be redeemed, from their current owners through a competitive bidding process. The initial redemptions occurred in March 2000.

The Federal Reserve Bank of New York conducts the buyback operations for the Treasury. Primary dealers may submit competitive offers to sell securities on behalf of themselves and their customers. An announcement of a buyback operation specifies the securities for which the Treasury will be accepting offers. The Treasury may buy back securities up to the total amount stated in its announcement but reserves the right to buy back less than that amount.

Marketable Book-Entry Securities

Securities have been sold by the Treasury to finance the public debt for more than 200 years. As tangible evidence of a loan to the government, the Treasury originally issued paper (printed or engraved) certificates that were serially numbered and carried stated values and a specific term. These definitive securities were issued as early as 1782—long before the Federal Reserve Act—and this practice continued virtually unchanged until the late 1960s. By then, the public debt had grown rapidly, paper certificates were increasingly vulnerable to theft and counterfeiting, and the cost of safekeeping and servicing them was rising.

In 1968, the Treasury first offered investors the option of holding their Treasury securities in bookentry form. In lieu of paper certificates, investors could have their securities entered in accounts on the books of the Reserve Banks. Originally offered in 1965 for securities that Federal Reserve member banks pledged as collateral, the book-entry option attracted greater support when unprecedented dollar amounts of Treasury securities were lost or stolen in 1969 and 1970. In 1971, insurance companies threatened to withdraw coverage for institutions handling definitive Treasury securities. Legal and regulatory concerns were addressed, and the book-entry system was expanded in 1973 to include Treasury securities owned by depository institutions' customers, dealers, nonmember banks, and, to a limited extent, individual investors. By early 1974, more than half of the marketable public debt was in book-entry form. By August 1986, all new Treasury securities were issued in book-entry form.

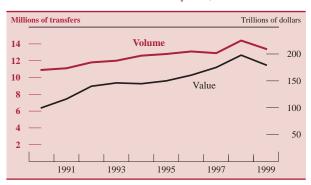
Today the Federal Reserve System maintains two book-entry systems for marketable Treasury securities: the National Book-Entry System and Treasury Direct. As the obligor of the securities, the Treasury maintains accountability for the total value of all marketable Treasury securities outstanding.

National Book-Entry System

In 1998, the Federal Reserve Banks completed the conversion of the twelve commercial book-entry applications to a single system, called the National Book-Entry System (NBES).³ It facilitates the safe-keeping and transfer of U.S. Treasury bills, notes, and bonds; U.S. agency securities; mortgage-backed securities issued by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association; and securities of certain international organizations such as the World Bank. This system has proved to be safe and reliable, and because it provides broad, easy access to participants' bookentry securities holdings, it contributes to the efficiency and liquidity of the government securities market.

The NBES has two distinct components—a safekeeping function and a transfer and settlement function. The safekeeping function involves the maintenance of securities custody accounts. Private owners or custodians of government securities maintain these securities in the form of electronic records and balances in custody accounts at depository institutions, which, in turn, maintain similar records in Reserve Bank book-entry securities accounts. As fiscal agents, the Reserve Banks maintain the book-entry securities accounts for Treasury securities, reconcile activity in them, issue transaction advices and account statements, and credit interest and principal to the accounts of depository institutions. The safekeeping function includes collateral safekeeping, in which the pledge of government securities is used to secure obligations with local, state, and federal government agencies, as well as to secure Reserve Bank extensions of intraday and overnight credit. At the end of 1999, the safekeeping component of the NBES held

^{3.} In its current form, the NBES is designed to standardize services to depository institutions regardless of the Federal Reserve District in which they are located and to facilitate centralized computer processing at a single site. All twelve Reserve Banks are linked to the same application, and there is one electronic vault for records of Treasury and agency book-entry securities. In general, the NBES operating hours are from 8:30 a.m. to 3:30 p.m., with securities repositioning available until 7:00 p.m. ET.



2. Government securities transferred through the Fedwire securities transfer system, 1990–99

in custody approximately \$4.2 trillion (par value) of securities.

The second component of the NBES is the transfer of securities between parties. Securities transfers through the NBES are processed individually in real time: Each individual transfer is cleared and settled almost immediately upon being entered into the system. The transfer of securities ownership and related funds (if any) is final at the time of transfer. The transfer and settlement components of the NBES, also known as the Fedwire securities transfer system, processed more than 13 million book-entry securities transfers during 1999 (chart 2).

Most securities transfers involve the delivery of securities and simultaneous exchange of payment for those securities. This process is called deliveryversus-payment, or DVP.⁴ DVP transfers in the NBES move funds from the depository institution receiving the securities to the institution that originated the transaction. The institution originating the transaction delivers securities from its securities account and receives a corresponding credit to its funds account at the Federal Reserve. The institution receiving the deposit of securities has the payment amount automatically debited from its funds account at the Federal Reserve. Receivers of securities can return the securities to the sender (transactions known as reversals) if the securities are received in error (that is, the security description or payment amount is wrong, or the receiver has no receipt instructions from its customer). The reversal process returns securities to the sender and reverses the cash accounting entries.

At year-end 1999, there were approximately 8,700 depository institution participants in the NBES. About 90 percent of book-entry activity is concentrated among the large money center and regional banks located in the Boston, New York, and Richmond Federal Reserve Districts. Since 1990, the value of securities transfers originated over the NBES has increased significantly. In 1999, the average daily securities volume originated was 53,165 transfers, with an average daily value of \$712 billion. The average value per securities transfer was \$13.4 million (table 1).

Treasury Direct

In the mid-1980s, the increasing availability of electronic services, coupled with the early book-entry system's success, led the way for more change. Depository institutions already relied on the commercial book-entry system for secondary market transactions. Individuals and organizations that were not eligible to use the commercial system participated indirectly through accounts held at depository institutions.

Many individuals and organizations valued a direct relationship with the Treasury, so they held paper

Year	Volume of transfers originated (number)	Annual growth of volume (percent)	Value of transfers originated (millions of dollars)	Annual growth of value (percent)	Average value per transfer (millions of dollars)	Average daily volume of transfers ¹ (number)	Average daily value of transfers ¹ (millions of dollars)
1990 1991 1992 1993 1994	11,061,621 11,753,217 11,957,053	1 1.7 6.3 1.7 5.3	99,861,205 116,315,973 139,675,710 146,220,304 144,702,226	4.4 16.5 20.1 4.7 -1.0	9.18 10.52 11.88 12.23 11.49	43,336 44,070 46,455 47,449 50,160	397,853 463,410 552,078 580,239 576,503
1995 1996 1997 1997 1998 1999	13,098,856 12,944,447	1.8 2.2 -1.2 11.0 -6.7	149,764,431 160,637,460 174,949,330 197,781,609 179,486,282	3.5 7.3 8.9 13.1 -9.3	11.69 12.26 13.52 13.77 13.40	51,039 51,980 51,572 57,006 53,165	596,671 637,450 697,009 784,848 712,247

1. Number, value, and growth of government securities transferred through the Fedwire securities transfer system, 1990–99

1. Based on the number of business days per year.

^{4.} Alternatively, securities may be delivered free of payment over the NBES. Such deliveries, which are primarily associated with intrabank transfers (or repositioning within a participant's account), account for only a small percentage of total book-entry transfer volume.

securities. To continue serving such investors directly, the Treasury needed to create a special bookentry system suited to the needs of its smaller investors. The proportion of marketable Treasury debt held by nondepository institutions and individuals is small, but much of it is held to maturity, so it is better suited to a custodial type of accounting system than to the transfer-oriented service that the NBES provides to depository institutions.

In 1986, the Treasury stopped issuing marketable paper securities for new offerings and replaced them with book-entry securities. The resulting Treasury Direct system, which primarily maintains accounts for individuals and nonfinancial organizations, has been quite successful and popular with investors. Not only does it eliminate the need to issue physical, marketable securities to individuals and organizations, but it also makes all payments, including interest due and redemption proceeds, through ACH transfers to a depository institution account designated by the investor. Treasury Direct is an attractive investment service for the public and an economical alternative to physical Treasury securities. At year-end 1999, the Treasury Direct system had about 700,000 active accounts holding slightly more than \$85 billion of Treasury bills, notes, and bonds.

Savings Bonds

U.S. savings bonds are low-denomination, nonmarketable Treasury securities that are easily purchased, liquid, and safe—principal and interest are guaranteed by the U.S. government. Savings bonds provide the Treasury with an effective means of financing and also promote saving.

Savings bonds have an important place in the history of fiscal agency services. Federal Reserve Banks first served as fiscal agents in May 1917 when they began the distribution, safekeeping, and redemption of the First Liberty Loan bonds, which the government sold to finance World War I. The success of this effort, the Reserve Banks' effectiveness in handling the Treasury's accounts, and the government's growing need to borrow led the Treasury in 1921 to close its field offices (subtreasuries) and transfer many of its operations for financing the public debt to the Federal Reserve. After World War I ended, all Liberty Loan bonds were discontinued.

The Reserve Banks have serviced numerous series of savings bonds. For most series, the Banks sold, distributed, accounted for, and redeemed the bonds for the Treasury. By 1941, the massive financing required to wage World War II led to the introduction of the popular Series E savings bonds, some of which are outstanding today. Current savings bond offerings include the following: Series HH, Series EE, and Series I. Series HH bonds are current income bonds obtained in exchange for eligible Series E or Series EE bonds or savings notes and pay interest twice a year through ACH transfers to the owner's designated account at a depository institution. Both Series EE and I bonds are accrual securities; interest earnings on these bonds accrue until the bond matures or is redeemed. The Series I bond is similar to the Series EE except that its rate of return is adjusted for inflation. (Similar inflation-indexed Treasury securities are also available.)

The savings bond services that the Reserve Banks provide as fiscal agents include sale and delivery; automated issuance of payroll and promotional bonds; exchanges of accrual bonds for current income bonds; and processing of reissues, replacements, and redemptions. In fiscal year 1999, the Federal Reserve issued 49 million savings bonds with a total value of \$4.6 billion. Almost all savings bonds to date have been issued in paper, rather than electronic, form.

To improve the efficiency and reduce the cost of issuing savings bonds, the Treasury has worked with the Federal Reserve to consolidate operations and has introduced new technology to the operating environment. For example, a savings bond can now be purchased on a recurring basis through an ACH debit to the purchaser's bank account, or through the Treasury's Internet web site using a credit card (see box "Web Sites of Interest").

PAYMENT FOR SERVICES

In 1917, the Secretary of the Treasury initiated the practice of reimbursing the Reserve Banks for the

cost of services they were providing on behalf of the government. The Secretary reasoned that compensation for performance of fiscal agency and depository services was appropriate. A few years later, the Congress enacted legislation that permitted the use of public monies to reimburse Reserve Banks for the costs associated with their governmental services.

Today the Federal Reserve expects to be reimbursed for the costs of the Reserve Banks' fiscal agency and depository services on behalf of the Treasury and other agencies. Until 1992, the Treasury had not been able to obtain congressional funding sufficient to fully reimburse the Reserve Banks. Beginning in fiscal 1992, the Congress enacted "permanent, indefinite" appropriation legislation to provide money to reimburse the Reserve Banks for the publicdebt-related operating expenses they incurred on behalf of the Bureau of the Public Debt. A similar appropriation bill was passed in 1998 to permit the Financial Management Service and other federal agencies to reimburse the Reserve Banks for expenses incurred on their behalf.

Full reimbursement of expenses incurred by the Reserve Banks as fiscal agents and depositories is an important public policy concept for two reasons. First, congressional oversight of agency program budgets provides discipline that is lost with respect to fiscal agency and depository services unless the entities receiving the services include the cost in their appropriations requests. Second, when services are provided at no cost or are subsidized, they tend to be overused and less efficient than if they were obtained in a more market-oriented manner governed by cost and quality. By fully reimbursing the Reserve Banks, the Treasury and other agencies have a basis to evaluate the cost effectiveness of Federal Reserve services. In calendar year 1999, the Federal Reserve sought reimbursement from the Treasury and other government entities of about \$295 million (table 2). In 1998, the Federal Reserve received payments of \$290 million.

Expenses of the Federal Reserve Banks for fiscal agency and depository services, 1999 Thousands of dollars

nds of dollars

Agency and service	Expense
U.S. Treasury	
Bureau of the Public Debt	
Savings bonds	70,285.8
Treasury Direct	40,446.2
Commercial book-entry	15,744.2
Marketable Treasury issues	13,715.1
Definitive securities and Treasury coupons	4,886.7
Other services	100.4
Total	145,178.4
Financial Management Service	
Treasury tax and loan and Treasury general account	34,971.0
Government check processing	33,365.4
Automated clearinghouse	11,263.4
Government agency deposits	2,422.7
Fedwire funds transfers	187.7
Other services	20,423.5
Total	102,633.7
Other Treasury	7,786.8
Total	7,786.8
m + 1 m	055 500 0
Total, Treasury	255,598.9
Other accuries	
Other agencies Food coupons (Department of Agriculture)	18,643.9
Postal money orders (U.S. Postal Service)	6,623.3
Other services (miscellaneous agencies)	13.983.0
Outer services (miscenaneous agencies)	15,965.0
Total, other agencies	39,250.2
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Total reimbursable expenses	294,849.1

CONCLUSION

The fiscal agency and depository relationships between the Federal Reserve System and the Treasury are complex and have evolved over time. In these roles, the Federal Reserve System has been and will continue to be an important resource to the U.S. government. Technology will continue to play a central role in the provision of services to the government, and the Reserve Banks will position themselves to use technological advances for the benefit of the government.

APPENDIX: GOVERNMENT ENTITIES RECEIVING FISCAL AGENCY AND DEPOSITORY SERVICES FROM THE FEDERAL RESERVE SYSTEM

African Development Bank Asian Development Bank Commodity Credit Corporation Department of Agriculture Department of Defense Department of Education Department of Energy Department of Health and Human Services Department of Housing and Urban Development Department of State Department of Transportation Department of the Treasury Department of Veterans Affairs Farm Credit Administration Federal Agricultural Mortgage Corporation Federal Deposit Insurance Corporation Federal Home Loan Banks

Federal Home Loan Mortgage Corporation Federal National Mortgage Association Financing Corporation **Government Printing Office** Inter-American Development Bank International Bank for Reconstruction and Development International Finance Corporation Library of Congress Small Business Administration Social Security Administration Student Loan Marketing Association Tennessee Valley Authority U.S. House of Representatives U.S. Postal Service U.S. Senate U.S. Supreme Court