

**Supporting Statement for the
Payment Systems Surveys
(FR 3054a, b, c, and d; OMB No. 7100-to-be-assigned)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to implement the following voluntary Payments Systems Surveys (OMB No. 7100-to-be-assigned), in March 2011:

- the Ad Hoc Payments Systems Survey (FR 3054a),
- the Currency Quality Sampling Survey (FR 3054b),
- the Currency Quality Survey (FR 3054c), and
- the Currency Functionality Survey (FR 3054d).

The FR 3054a would be an event-driven survey used to obtain information specifically tailored to the Federal Reserve's operational and fiscal agency responsibilities. The FR 3054a could be conducted independently by the Federal Reserve Board, jointly with another government agency, or a Federal Reserve Bank. The FR 3054b would be an annual survey to assess the quality of currency in circulation and would be conducted jointly with the Federal Reserve Bank of San Francisco's Cash Product Office (CPO), the Federal Reserve Bank of Richmond's Currency Technology Office (CTO), and each Reserve Bank's cash department. The FR 3054c would be a semi-annual survey to determine depository institutions' and Banknote Equipment Manufacturers' (BEMs) opinions of currency quality and would be conducted jointly with the CPO and CTO. The FR 3054d would be an annual survey to assess the functionality of Federal Reserve notes in banknote handling equipment. The FR 3054d data collected from BEMs would be used as input for future designs of Federal Reserve notes. The FR 3054d would be conducted jointly with the U.S. Treasury's Bureau of Engraving and Printing (BEP) and the CTO. The FR 3054a, FR 3054b, FR 3054c, and FR 3054d would be sent to financial and nonfinancial businesses.

The Federal Reserve would use the data collected from these surveys to determine: (1) demand for currency and coin, (2) market preferences regarding currency quality, (3) quality of currency in circulation, (4) features used by bank note authentication equipment to denominate and authenticate bank notes, and (5) whether changes to Federal Reserve Bank sorting algorithms are necessary to ensure that currency in circulation remains fit for commerce. The total annual burden for the Payment Systems Surveys is estimated to be 17,550 hours.

Background and Justification

The Federal Reserve Board oversees the Federal Reserve Banks' provision of financial services to depository institutions, develops policies and regulations to foster the efficiency and integrity of the U.S. payments system, works with other central banks and international organizations to improve the payments system more broadly, conducts research on payments issues, and works closely with the BEP and U.S. Secret Service on currency design and quality issues.

The Federal Reserve occasionally needs to gather data on a timely basis from various groups (including financial and nonfinancial institutions, BEMs, or global wholesale bank note dealers) on demand for currency and coin, and the quality and functionality of bank notes. These data may be particularly needed when: critical economic changes occur, the U.S. Treasury's BEP encounters production problems, new bank note designs are under consideration, Congressionally mandated introductory periods for the Presidential \$1 Coin Program occur, issues of immediate concern arise from Federal Reserve committee initiatives and working groups, or Congress enacts new legislation. The time needed to complete the information collection approval process poses a serious obstacle to collecting and processing data that are both accurate and timely. Therefore, the Federal Reserve proposes to implement the Payments Systems Surveys to allow for the collection of timely data without the delay of the approval process.

On March 17, 2006, the Federal Reserve revised the policy framework governing the provision of cash services. The policy revisions were intended to reduce overuse of Federal Reserve Bank services, motivate recirculation best practices, and reduce the societal cost of providing fit currency. The final currency recirculation policy¹ required Federal Reserve Banks to adopt and implement a currency quality policy before the recirculation fee took effect. Information gathered from the FR 3054b would help the Federal Reserve determine when a note is no longer fit for further circulation and when machine authentication is impaired because of note quality.

In support of the Federal Reserve's currency recirculation policy the CPO and CTO monitor the quality of currency by analyzing data on bank notes processed at Reserve Banks each month. To assess the validity of the monthly monitoring and the quality of currency in circulation, the CPO would, on an annual basis, randomly select depository institutions that have a deposit account with a Reserve Bank and ask them to voluntarily submit, as part of their normal deposits, currency that is unsorted from their commercial customers.

The Federal Reserve works closely with the BEP and U.S. Secret Service on bank note design to ensure that bank notes consistently meet the needs of the public, are usable in all types of transactions (including those involving automated equipment), and can be easily authenticated. In order to maintain a sound money supply, it is important that currency function properly in all types of transactions and can be easily authenticated and denominated by all users. In order to assess how BEMs determine the authenticity and denomination of a bank note, it is important to conduct meetings with these stakeholders and share information through bilateral discussions regarding security features and key bank note design elements.

¹ http://www.frb services.org/operations/currency/currency_recirculation_policy.html

Description of Information Collection

FR 3054a

The Federal Reserve proposes to conduct various versions of the Ad Hoc Payments Systems Survey during the year, up to 10 times a year, to collect information on specific issues that affect its decision making. The principal value of the FR 3054a would be the flexibility it provides the Federal Reserve to respond quickly to the need for data due to unanticipated economic, financial, or regulatory developments and unforeseen Congressional requests for information. The Federal Reserve cannot predict what specific information would be needed but, because such needs are generally very time sensitive, would conduct the Payments Systems Survey as needed.

The survey topics would be time sensitive and the questions of interest would vary with the focus of the survey. Because the relevant questions would change with each survey, there would be no fixed reporting form. For each survey, the Federal Reserve would prepare questions of specific topical interest. The Federal Reserve, in consultation with any partners, would then determine the relevant target group to contact.

Topics covered by the FR 3054a may include:

- Demand for currency
- Demand for Presidential \$1 coins
- Demand for transactional coin
- Market preferences regarding the quality of currency (new versus fit)

The FR 3054a could be conducted through:

- interviewer-mediated face-to-face interviews
- telephone interviews
- self-administered interviews
- Internet-based surveys
- controlled experiments
- focus group discussions
- cognitive interviews
- other formal or less formal formats

The size of the respondent panel and the duration of the data collection period would vary depending on the particular informational needs.

Written qualitative questions or questionnaires might include:

- categorical questions
- yes-no questions
- ordinal questions
- open-ended questions

Written quantitative surveys could include:

- dollar amounts
- percentages
- numbers of items

Adequate data of this sort are not available from any other source. Less formal information collection studies, such as focus groups or cognitive interviews, would use a set of structured qualitative and quantitative questions as a guide to more extended discussion of the questions and answers.

Written quantitative surveys would enable the Federal Reserve to collect a limited amount of data from a defined set of consumers, financial institutions, stakeholders, or related entities in the event of an immediate and critical need for specific information. These data would not be collected on any other reporting form or on the same frequency as other substantively similar data.

The FR 3054a could be conducted through a private firm, which would be chosen in a competitive bidding process or other acceptable negotiated process. The research instruments could be developed by the Federal Reserve alone or jointly with the firm selected by the Federal Reserve. As necessary, the firm would be responsible for testing the survey procedures, following the sampling protocol established by the Federal Reserve, conducting the survey as specified by the Federal Reserve, preparing data files containing the responses, computing analysis weights, and documenting all survey procedures. Data editing and analysis of the results would be conducted either solely by the Federal Reserve or jointly with the firm.

FR 3054b

The Federal Reserve proposes to work jointly with the CPO, the CTO, and each Reserve Bank's cash department to conduct the FR 3054b once per year to collect information on the quality of currency in circulation.² The respondents to the FR 3054b would be depository institutions that have deposit accounts with a Reserve Bank.

Topics covered by the FR 3054b may include:

- samples of currency
- quality of bank notes received from commercial customers of depository institutions
- comparison of quality of bank notes processed at Reserve Banks with bank notes received from commercial customers of depository institutions

FR 3054c

The Federal Reserve proposes to work jointly with the CPO and the CTO to conduct the FR 3054c twice per year to collect information on the quality of currency in circulation. The respondents to the FR 3054c would be depository institutions that have deposit accounts with a

² The FR 3054b would replace a survey currently being conducted by the CPO and each Reserve Banks cash department.

Reserve Bank (once per year) and BEMs (once per year) and whose business is directly affected by the quality of currency in circulation. The information collected would be used to determine their opinions of currency quality and assess the needs for currency quality in the marketplace.

Topics covered by the FR 3054c may include:

- opinions on currency quality
- cash handling practices
- uses of currency sorting equipment

FR 3054d

The Federal Reserve proposes to work jointly with the BEP and CTO to conduct the FR 3054d once per year to assess the functionality of bank notes currently in circulation and to gain information from BEMs that would be used as input to the next designs of Federal Reserve notes. The respondents to the FR 3054d would be BEMs, and the information would be used to determine how their equipment authenticates currency and how future bank note designs can incorporate more or better machine readable features.

Topics covered by the FR 3054d may include:

- opinions on currency quality
- uses of sensor technology
- effectiveness of machine readable features of bank notes

The FR 3054d would take the form of discussions with the Federal Reserve, the BEP, the CTO, and BEMs. The first study would focus primarily on the functionality of currency, conducting face-to-face interviews and forums to gather information from BEMs about their opinions on currency quality, their uses of sensor technology, and the effectiveness of machine readable features of bank notes. The purpose of this survey would be to assess the functionality of bank notes currently in circulation and gain insight into machine readable features that could be included in future bank note designs.

Frequency

The frequency of the FR 3054a would depend on changing economic, regulatory, or legislative developments, changes in the financial services industry itself, or changes in currency designs. Various versions of the FR 3054a would be conducted up to 10 times per year. The Federal Reserve proposes to conduct the FR 3054b once per year, the FR 3054c twice per year, and the FR 3054d once per year.

Time Schedule for Information Collection and Publication

The time schedules for the distribution of, response to, and collection of data for each survey would be determined during the planning phase prior to the distribution of the survey instrument. The Federal Reserve would choose whether to publish the data that it obtains from respondents. Survey information may be cited in published material such as Federal Reserve

studies or working papers, professional journals, the *Federal Reserve Bulletin*, testimony and reports to the Congress, or other vehicles.

Legal Status

The Board's Legal Division has determined that these surveys are authorized pursuant to Section 11(d) of the Federal Reserve Act (12 U.S.C. §248(d)) and are voluntary. The ability of the Federal Reserve to maintain the confidentiality of information provided by respondents to the Payment Systems Surveys would be determined on a case-by-case basis depending on the type of information provided for a particular survey. Depending upon the survey questions, confidential treatment could be warranted under section (b)(4) of the Freedom of Information Act (5 U.S.C. § 552(b)(4)).

Consultation Outside of the Agency

At this time there has been no consultation outside the Federal Reserve System; however, surveys and studies could be conducted jointly with other agencies. If this were to occur, the Federal Reserve would consult with other agencies, to the extent practicable, to create a consistent set of questions or a substantively similar information collection.

On December 28, 2010 the Federal Reserve published a notice in the *Federal Register* (75 FR 81607) requesting public comment for 60 days on the implementation of this information collection. The comment period for this notice expires on February 28, 2011.

Sensitive Questions

These collections of information would contain no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Respondent Burden

The annual burden for the proposed Payment Systems Surveys is estimated to be 17,550 hours, as shown in the following table. Because the FR 3054a would be event-generated, it is not possible to predict exactly how many surveys would be conducted in a given year. However, the Federal Reserve estimates that the FR 3054a would be conducted up to ten times per year. It is also estimated that each respondent would spend approximately 15 hours preparing for and participating in each survey.

The FR 3054b would be conducted on an annual basis. The Federal Reserve estimates that each respondent would spend approximately 30 minutes completing the bank note collection associated with this survey. The Federal Reserve would send the survey to approximately 300 financial institutions and anticipates a 60 percent response rate.

The FR 3054c would be conducted twice per year, once with approximately 25 depository institutions and once with approximately 25 BEMs. It is estimated that respondents

would spend approximately 30 hours preparing for and completing the FR 3054c and participating in either face-to-face guided discussions or telephone interviews.

The Federal Reserve anticipates conducting the FR 3054d once a year with approximately 20 respondents. The Federal Reserve estimates that each respondent would spend approximately 48 hours preparing for and participating in discussions with the Federal Reserve, the BEP, the CTO, and BEMs. The total burden for the FR 3054 would represent less than 1 percent of total Federal Reserve System paperwork burden.

	<i>Estimated number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR 3054a	100	10	15.0	15,000
FR 3054b	180	1	0.5	90
FR 3054c	25	2	30.0	1,500
FR 3054d	20	1	48.0	<u>960</u>
<i>Total</i>				17,550

The annual cost to the public of these reports is estimated to be \$738,855.³

Estimate of Cost to the Federal Reserve System

The cost of the surveys would depend on the size of the sample, the number of questions asked, the type and complexity of the questions asked, the frequency of the surveys, and whether the survey is conducted by a private firm or the Federal Reserve System. The Federal Reserve anticipates that in most cases the Federal Reserve System would conduct the surveys and there would be no additional staffing costs.

³ Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rate (30% Office & Administrative Support @ \$16, 45% Financial Managers @ \$48, 15% Legal Counsel @ \$54, and 10% Chief Executives @ \$76). Hourly rate for each occupational group are the median hourly wages (rounded up) from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2008, www.bls.gov/news.release/ocwage.nr0.htm Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/