

**Supporting Statement for the
Payment Systems Surveys
(FR 3054a, b, c, and d; OMB No. 7100-0332)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with revision, the following voluntary Payments Systems Surveys (OMB No. 7100-0332):

- the Ad Hoc Payments Systems Survey (FR 3054a)
- the Currency Functionality and Perception Survey (FR 3054d)

This family of reports also contains the following surveys, which the Federal Reserve proposes to extend without revision:

- the Currency Quality Sampling Survey (FR 3054b)
- the Currency Quality Survey (FR 3054c)

The FR 3054a is an event-driven survey used to obtain information specifically tailored to the Federal Reserve's operational and fiscal agency responsibilities. The FR 3054a may be conducted independently by the Federal Reserve Board or jointly with another government agency, a Federal Reserve Bank, or a private firm. The FR 3054b is an annual survey used to assess the quality of currency in circulation and may be conducted by the Federal Reserve Board, 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 Federal Reserve Bank's cash department. The FR 3054c is a semi-annual survey used to determine depository institutions' and Banknote Equipment Manufacturers' (BEMs) opinions of currency quality and may be conducted jointly with the CPO and CTO. The FR 3054d is an annual survey used to assess the functionality of Federal Reserve notes in banknote handling equipment. The data collected from the FR 3054d are used as inputs for future designs of Federal Reserve notes. The FR 3054d may 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 are sent to financial and nonfinancial businesses.

The Federal Reserve uses 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 the public and 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 Federal Reserve proposes to revise the FR 3054a by (1) adding individuals and law enforcement agencies to its respondent panel, (2) reducing the annual frequency from 10 times to 1 time per year, (3) reducing the estimated time to complete a survey from 15 hours to 0.75 hours, and (4) increasing the number of respondents from 100 to 12,000. The Federal Reserve proposes to revise the FR 3054d by (1) renaming the survey as Currency Functionality and Perception Survey, (2) adding individuals to its respondent panel, (3) increasing the frequency of the survey from one time per year to four times per year, (4) reducing the estimated time to complete the survey from 48 hours to 2.5 hours, and (5) increasing the number of respondents

from 20 to 250. The total current annual burden for the Payment Systems Surveys is 17,550 hours and would decrease by 4,460 hours for a proposed annual burden of 13,090 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 (USSS) on currency design, quality issues, and to educate the global public on the security features of Federal Reserve notes.

The Federal Reserve periodically gathers data from various groups (including financial and nonfinancial institutions, BEMs, or global wholesale banknote dealers) regarding demand for currency and coin, the quality and functionality of bank notes, the public's perceptions of security features, and how individuals use currency. These data are considered particularly essential when (1) critical economic changes occur, (2) the U.S. Treasury's BEP encounters production problems and bank notes do not meet standards, (3) new bank note designs are under consideration, (4) issues of immediate concern arise from Federal Reserve committee initiatives and working groups, or (5) 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 retain 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 policy required Federal Reserve Banks to adopt and implement a currency-quality policy before the recirculation fee took effect.¹ Information gathered from these surveys helps 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 asks 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 USSS 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.

¹ Currency Recirculation Policy, Federal Reserve Bank Services
www.frb services.org/operations/currency/currency_recirculation_policy.html

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. To assess how BEMs determine the authenticity and denomination of a bank note, it is important to conduct meetings and interviews with these stakeholders regarding currency security features and key bank-note design elements.

Description of Information Collection

Ad Hoc Payments Survey (FR 3054a)

The Federal Reserve may conduct various versions of the Ad Hoc Payments Survey, 10 times a year, to collect information on specific issues that affect its decision-making. The principal value of the FR 3054a is 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, may conduct the FR 3054a as needed.

The survey topics may be time sensitive and the questions of interest may vary with the focus of the survey. Because the relevant questions can change with each survey, there is no fixed reporting form. For each survey, the Federal Reserve prepares 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 \$1 coins
- demand for transactional coin
- market preferences regarding the quality of currency (new versus fit)
- public awareness of and preferences for banknote designs and security features
- currency usage patterns and behaviors
- effectiveness and demand for educational information about banknotes

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 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 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 are not collected on any other reporting form or on the same frequency as other substantively similar data.

The FR 3054a may be conducted through a private firm, which would be chosen in a competitive bidding process or other acceptably negotiated process. The research instruments may 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.

Currency Quality Sampling Survey (FR 3054b)

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

Topics covered by the FR 3054b may include:

- samples of currency;
- quality of bank notes received from commercial customers of depository institutions; and
- a comparison of the quality of bank notes processed at Reserve Banks with bank notes received from commercial customers of depository institutions.

Currency Quality Survey (FR 3054c)

The Federal Reserve works 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 are depository institutions that have deposit accounts with a 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 is 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; and
- uses of currency sorting equipment.

Currency Functionality Survey (FR 3054d)

The Federal Reserve works 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 in the next designs of Federal Reserve notes. The respondents to the FR 3054d are BEMs, and the information collected is 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; and
- the effectiveness of machine-readable features of bank notes.

The FR 3054d may take the form of discussions with the Federal Reserve, the BEP, the CTO, and BEMs. The purpose of this survey is 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.

FR 3054a Proposed Revision

Since the Payments Systems Surveys were originally approved, the Federal Reserve has assumed additional responsibilities for currency-related activities including, management of the currency education program, which was previously managed by the BEP, and increased responsibilities for security and tactile feature development. To ensure that the Federal Reserve has the flexibility to collect data from respondents that will inform the Federal Reserve's decision-making on the education program and new banknote designs, the Federal Reserve proposes to revise the FR 3054a to increase the number and type of respondents, from which it collects data. In addition, the Federal Reserve's approval of the Payments Research Survey (FR 3067; OMB No. 7100-0355) provides additional burden hours and flexibility to conduct surveys. The Federal Reserve proposes to add individuals and law enforcement agencies to its current respondent group, reduce the annual frequency from 10 times to 1 time per year, which reflects

its expectation that it will only survey respondents once, reduce the estimated time to complete a survey from 15 hours to 0.75 hours, and increase the number of respondents from 100 to 12,000. The Federal Reserve anticipates that the FR 3054a will primarily be used for the currency education program, which will result in asking respondents to answer a small number of very targeted questions that respondents can complete in about thirty minutes, but will require a larger respondent pool to ensure that the public is aware of banknote designs and security features. The FR 3054a may also be used to collect information from the Federal Reserve's stakeholders regarding the societal cost effect of a raised tactile feature on banknotes.

FR 3054d Proposed Revision

The Federal Reserve proposes to revise the FR 3054d to include a perception study. Since the Payments Systems Surveys were originally approved, the Federal Reserve has employed this survey to conduct numerous surveys with BEM's regarding the functionality of banknotes. The Federal Reserve plans to conduct follow-up interviews with BEM's and a perception study to determine how individuals use the features of banknotes currently in circulation and potential new features. The Federal Reserve proposes to revise the FR 3054d to increase the number and type of respondents from which it collects data. The Federal Reserve proposes to (1) rename the survey the Currency Functionality and Perception Survey, (2) include additional respondent groups (such as individuals), (3) increase the frequency of the survey from one time per year to four times per year, (4) reduce the estimated time to complete the survey from 48 hours to 2.5 hours, and (5) increase the number of respondents from 20 to 250. These changes reflect a greater need to gather targeted perception information from individuals rather than conduct face-to-face bilateral discussions with BEM's to obtain very technical information on how the equipment they manufacture determines what denomination a banknote is and if it is genuine or counterfeit.

Time Schedule for Information Collection

The time schedules for the distribution of, response to and collection of data for each survey are determined during the planning phase prior to the distribution of the survey instrument. The Federal Reserve may 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 Federal Reserve 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)). The obligation to respond to the FR 3054a, FR 3054b, FR 3054c, and FR 3054d is voluntary. Because survey questions may differ from survey to survey, it is difficult to determine whether the information collected will be considered confidential. However, information may be exempt from disclosure under exemption 4 of the Freedom of Information Act, 5 U.S.C. § 552(b)(4), if disclosure would likely have the effect of (1) impairing the government's ability to obtain the necessary information in the future, or (2) causing substantial harm to the competitive position of

the respondent. Additionally, should survey responses contain any information of a private nature the disclosure of which would constitute “a clearly unwarranted invasion of personal privacy,” such information may be exempt from disclosure under exemption 6, 5 U.S.C. § 552(b)(6). Confidentiality matters should be treated on a case-by-case basis to determine if any of the above exemptions apply.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Consultation Outside the Agency and Discussion of Public Comments

At this time there has been no consultation outside the Federal Reserve System; however, surveys and studies may be conducted jointly with other agencies. If this were to occur, the Federal Reserve would consult with other the agencies, to the extent practicable, to create a consistent set of questions or a substantively similar information collection. On January 28, 2014 the Federal Reserve published a notice in the *Federal Register* (79 FR 4468) requesting public comment for 60 days on the proposed revisions to this information collection. The comment period for this notice expired on March 31, 2014. The Federal Reserve did not receive any comments. On April 15, 2014, the Federal Reserve published a final notice in the *Federal Register* (79 FR 21243) implementing the revision as proposed.

Estimate of Respondent Burden

The total current annual burden for the Payment Systems Surveys is estimated to be 17,550 hours and would decrease to 13,090 hours, as shown in the following table. With the proposed revisions, the Federal Reserve estimates that the FR 3054a would only be conducted once per year, with up to 12,000 individuals, law enforcement agencies, or businesses. It is also estimated that each respondent would spend approximately 0.75 hours preparing for and participating in the survey. The Federal Reserve anticipates conducting the FR 3054d four times a year with approximately 250 respondents and estimates that each respondent would spend approximately 2.5 hours preparing for and participating in discussions with the Federal Reserve, the BEP, the CTO, or the USSS. The burden estimates for the FR 3054b and c would remain the same as there are no proposed revisions. 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>
<i>Current</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
<i>Proposed</i>				
FR 3054a	12,000	1	0.75	9,000
FR 3054b	180	1	0.5	90
FR 3054c	25	2	30.0	1,500
FR 3054d	250	4	2.5	<u>2,500</u>
<i>Total</i>				13,090
<i>Change</i>				-4,460

The total cost to the public for these surveys is estimated to decrease from the current level of \$893,295 to \$666,281 with the proposed revision.²

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 Federal Reserve System. The Federal Reserve anticipates that in most cases, the Federal Reserve, the CPO, and CTO would conduct the FR 3054b and FR 3054c, but that the majority of the work for the FR 3054a and FR 3054d would be conducted using a private firm, working on behalf of the Federal Reserve Board. The Federal Reserve Board estimates that there would be no additional staffing costs, but may spend between \$2.5 and \$3.0 million for the private firm to develop, administer, and analyze the results of these surveys.

² Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at \$18, 45% Financial Managers at \$61, 15% Lawyers at \$63, and 10% Chief Executives at \$86). Hourly rate for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2013, www.bls.gov/news.release/ocwage.nr0.htm Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/