



ANNUAL REPORT

FEDERAL RESERVE BANK *of* CLEVELAND

The Federal Reserve System is responsible for formulating and implementing U.S. monetary policy. It also supervises banks and bank holding companies and provides financial services to depository institutions and the federal government.

The Federal Reserve Bank of Cleveland is one of 12 regional Reserve Banks in the United States that, together with the Board of Governors in Washington DC, comprise the Federal Reserve System.

The Federal Reserve Bank of Cleveland, including its branch offices in Cincinnati and Pittsburgh, serves the Fourth Federal Reserve District (Ohio, western Pennsylvania, the northern panhandle of West Virginia, and eastern Kentucky).

It is the policy of the Federal Reserve Bank of Cleveland to provide equal employment opportunity for all employees and applicants without regard to race, color, religion, sex, national origin, age, or disability.

PRESIDENT'S FOREWORD

For central bankers, 2009 was a year of evaluating our progress in forestalling a financial meltdown and preparing for better economic and financial market conditions in the decade to come.

As a corollary to that process, the U.S. Congress is deliberating on a major financial reform package in 2010. Whatever reforms are enacted, we at the Federal Reserve Bank of Cleveland believe that they should reflect our best understanding of economic theory, the results of solid research, and the lessons we have learned firsthand by managing through the crisis of the past two years.

Leading up to the crisis, financial supervisors were concentrating on the risk profiles of the individual institutions they supervised. This entity-based approach to supervision led to gaps in regulatory oversight, and the exposure of the broader financial system was underestimated as well. The magnitude of the resulting crisis has chastened policymakers and provided ample reason to consider how we can help prevent such a situation from unfolding again.

Many thoughtful observers have proposed that greater attention be focused on identifying a mechanism for macroprudential supervision, or what some refer to as systemic risk supervision—that is, supervision with an eye toward minimizing risk to the entire financial system. I support that effort wholeheartedly.



Tanny B. Crane, chairwoman;
Sandra Pianalto, president and
chief executive officer; and
Alfred M. Rankin Jr., deputy chairman.

A necessary first step is to accurately *define systemic risk*, and then to *construct effective measures* to address it. This year's annual report essay provides a road map to begin that journey. We describe some of the factors that can render a financial organization systemically important, explain some of the practical considerations supervisors will need to take into account, and issue a call for greater transparency and ongoing public dialogue about the state of the financial system.

Regardless of how the regulatory reform agenda works its way through Congress, I think it is clear that the practice of banking supervision has to change. Banking supervisors have to learn more about the risks taking place across the entire set of individual entities within a banking organization. They have to become more alert to the connectedness among financial institutions, and they must better understand how the macroeconomic environment alters the context of a bank's situation. Indeed, at the Federal Reserve Bank of Cleveland, we are already adapting our thinking and practices to this new way of doing business.

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Our Bank's boards of directors in Cleveland, Pittsburgh, and Cincinnati, as well as our business and consumer advisory councils, have been instrumental in helping us remain solidly on course in 2009. I am indebted to them for their dedicated service.

A huge debt of gratitude goes to Tanny Crane, president and chief executive officer of Crane Group Company in Columbus, Ohio. Tanny retired from the Board of Directors of the Federal Reserve Bank of Cleveland after having served as our chair from 2007 to 2009 and as deputy chair in 2006. She began her board service in 2003. In the past seven years, she has participated in nearly all of the board's committees, has been a tireless advocate for our Bank, and has demonstrated a true passion for the work of the Federal Reserve System. We have benefited greatly from her energy, insights, and support.

In addition, we are grateful for the leadership of Henry L. Meyer III, chairman and CEO of KeyCorp in Cleveland, who served as our Bank's representative on the Federal Advisory Council in 2009 and will continue in that capacity in 2010.

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Resilience, dedication, and professionalism have defined the efforts of more than 1,300 employees at our Cleveland, Cincinnati, and Pittsburgh offices during the past year. Our officers and staff have been challenged to think as central bankers and to work collaboratively on complex policy issues across functional lines. Their innovation, learning, and agility continue to grow as we execute our strategic vision of leadership in thought and deed, external focus, and operational excellence. Their energy and commitment assure me of the ongoing success of the Federal Reserve Bank of Cleveland.



Sandra Pianalto

President and Chief Executive Officer