
Letter of Transmittal



Board of Governors of the Federal Reserve System
Washington, D.C.

June 2006

The Speaker of the House of Representatives:

Pursuant to the requirements of section 10 of the Federal Reserve Act, I am pleased to submit the ninety-second annual report of the Board of Governors of the Federal Reserve System.

This report covers operations of the Board during calendar year 2005.

Sincerely,

A handwritten signature in black ink, appearing to read "Ben Bernanke". The signature is fluid and cursive, with a large initial "B" and "B".

Ben Bernanke
Chairman

Overview of the Federal Reserve

As the nation's central bank, the Federal Reserve System has numerous, varied responsibilities:

- conducting the nation's monetary policy by influencing monetary and credit conditions in the economy
- supervising and regulating banking institutions, to ensure the safety and soundness of the nation's banking and financial system and to protect the credit rights of consumers
- maintaining the stability of the financial system and containing systemic risk that may arise in financial markets
- providing financial services to depository institutions, the U.S. government, and foreign official institutions

The Federal Reserve is a federal system composed of a central, governmental agency—the Board of Governors—and twelve regional Federal Reserve Banks. The Board of Governors, located in Washington, D.C., is made up of seven members appointed by the President of the United States and supported by a staff of about 1,800. In addition to conducting research, analysis, and policymaking related to domestic and international financial and economic matters, the Board plays a major role in the supervision and regulation of the U.S. banking system and administers most of the nation's laws regarding consumer credit protection. It also has broad oversight responsibility for the nation's payments system and the operations and activities of the Federal Reserve Banks.

The Federal Reserve Banks, which combine public and private elements, are the operating arms of the central banking system. They carry out a variety of System functions, including operating a nationwide payments system; distributing the nation's currency and coin; under authority delegated by the Board of Governors, supervising and regulating bank holding companies and state-chartered banks that are members of the System; serving as fiscal agents of the U.S. Treasury; and providing a variety of financial services for the Treasury, other government agencies, and other fiscal principals.

A major component of the Federal Reserve System is the Federal Open Market Committee (FOMC), which is made up of the members of the Board of Governors, the president of the Federal Reserve Bank of New York, and presidents of four other Federal Reserve Banks, who serve on a rotating basis. The FOMC establishes monetary policy and oversees open market operations, the main tool used by the Federal Reserve to influence overall monetary and credit conditions. The FOMC sets the federal funds rate, but the Board has sole authority over changes in reserve requirements and must approve any change in the discount rate initiated by a Reserve Bank.

Two other groups play roles in the functioning of the Federal Reserve System: depository institutions, through which monetary policy operates, and advisory councils, which make recommendations to the Board of Governors and the Reserve Banks regarding the System's responsibilities. ■

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