



# Executive Summary:

## Opportunities Exist to Enhance the Onsite Reviews of the Reserve Banks' Wholesale Financial Services

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### Purpose

The Federal Reserve System comprises the Board of Governors of the Federal Reserve System (Board) and the 12 Federal Reserve Banks (Reserve Banks). The Reserve Banks provide wholesale financial services to depository institutions, the U.S. government, and foreign institutions. The Board's Division of Reserve Bank Operations and Payment Systems (RBOPS) oversees the policies and operations of the Reserve Banks. As such, our objective for this audit was to assess the extent and effectiveness of RBOPS's oversight of the Reserve Banks' wholesale financial services.

### Background

The Federal Reserve System plays a vital role in the nation's payment and settlement systems, providing a variety of wholesale financial services, including the Fedwire Funds Service, the Fedwire Securities Service, and the National Settlement Service. Reserve Banks' wholesale financial services include payment and settlement systems that facilitate the exchange of payments and the settlement of transfers of funds or financial instruments totaling approximately \$4 trillion daily. The Dodd-Frank Wall Street Reform and Consumer Protection Act broadened the Board's supervisory authority over private payment, clearing, and settlement systems designated as systemically important financial market utilities. Since the enactment of the act, RBOPS's Financial Market Infrastructure Oversight (FMI Oversight) group has worked to closely align its Reserve Banks' wholesale financial services oversight processes with those applied in the supervision of designated financial market utilities.

### Finding

We did not note any deficiencies regarding the efficiency and effectiveness of the FMI Oversight group's onsite review activities for wholesale financial services. We found that RBOPS uses offsite monitoring, ongoing communication, onsite reviews, and assistance from the General Auditors at the Reserve Banks to provide oversight of the Reserve Banks' wholesale financial services. The FMI Oversight group also recently changed its onsite review from a triennial geographical approach to an annual functional approach across the entire wholesale financial services system.

The FMI Oversight group uses a risk-based planning process and the *Federal Reserve Policy on Payment System Risk* for guidance when assessing wholesale financial services. We found, however, that the group does not have comprehensive formal policies and procedures that guide the execution and documentation of its onsite review of wholesale financial services. In addition, we noted that a small percentage of onsite review documentation was incomplete, and we noted a few instances in which the reviewer indicated a lack of understanding of a review step. We generally did not see indications of a second-level review of this documentation. FMI Oversight group management, however, explained that the team meets during and after the onsite review to ensure that needed work was performed during the review and to examine and verify any observations in bullet point summaries and final reports.

### Recommendation

We are making one recommendation to enhance RBOPS's oversight of the Reserve Banks' wholesale financial services. We recommend that RBOPS develop and document comprehensive formal policies and procedures to guide the execution and documentation of the onsite review of wholesale financial services, which should include a second-level review of onsite review documentation when necessary. In its response to a draft of our report, RBOPS generally concurred with our recommendation and noted it has initiated efforts to augment existing procedures and, if necessary, develop new procedures that guide its onsite reviews of wholesale financial services.

Access the full report: <http://oig.federalreserve.gov/reports/board-wholesale-financial-services-onsite-reviews-sep2014.htm>

For more information, contact the OIG at 202-973-5000 or visit <http://oig.federalreserve.gov>.