



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 21, 2009

Mr. John R. Greenewald
[REDACTED]

Dear Mr. Greenewald:

This is in response to your e-mail message dated June 22, 2009, and received by the Board's Freedom of Information office on June 23. Pursuant to the Freedom of Information Act (the "Act"), 5 U.S.C. § 552, you request "a copy of the most recent minutes of the CONFERENCE OF FIRST VICE PRESIDENTS [(“CFVP”)." By e-mail dated July 1, 2009, to Ms. Alison Thro of the Board's Legal Division, you clarified that are seeking the minutes of the most recent CFVP meeting for which final minutes have been prepared and approved.

Staff searched Board records and located one document that is responsive to your request. I have determined, however, that the document contains the following kinds of exempt information: "information related solely to the internal personnel rules and practices of an agency" (security program related information); "trade secrets and commercial or financial information obtained from a person and privileged or confidential" (business plans and financial projections); and "inter-agency or intra-agency memorandums or letters which would not be available by law to a party other than an agency in litigation with the agency" (predeliberative analyses). Such information will be withheld from you under authority of exemptions 2, 4, and 5 of the Act, respectively, 5 U.S.C. §§ 552(b)(2), (b)(4), and (b)(5). The document has been reviewed under the requirements of subsection (b) of the Act, 5 U.S.C. § 552(b), and all reasonably segregable nonexempt information will be provided to you. The amount of information being withheld will be apparent to you from the face of the document.

Your request for information, therefore, is granted in part and denied in part for the reasons stated above. If you believe you have a legal right to any information that is being withheld, you may appeal this determination in accordance with section 261.13(i) of the Board's Rules Regarding Availability of Information, a copy of which is enclosed for your information.

Very truly yours,

A handwritten signature in black ink that reads "Margaret McCloskey Shanks".

Margaret McCloskey Shanks
Associate Secretary of the Board

Enclosure

INTERNAL F.R.

**CONFERENCE OF FIRST VICE PRESIDENTS
OF THE
FEDERAL RESERVE BANKS**

June 19, 2009
Minneapolis, Minnesota

TO: Conference of First Vice Presidents
Louise L. Roseman
Lon J. Zanetta

FROM: Sheryl L. Britsch, CFVP Secretary

SUBJECT: **Final Minutes from the May 27-28, 2009,
Meeting of the Conference of First Vice Presidents**

Attached are the Final Minutes from the May 27-28, 2009, Conference of First Vice Presidents meeting held via at the Federal Reserve Bank of Atlanta.

Attachment

c: Conference of Presidents
Diana C. Starks, CFVP Assistant Secretary
Anne C. Gossweiler, CFVP Assistant Secretary
Gregory Stefani
Robert Wiley
Karl Ashman
Ellen Bromagen
Michael Garrett
Lauren Hargraves
Christine Holzem
Carl Madsen
Stephen Malphrus
Ron Mitchell
Ken Montgomery
Rich Oliver
Julie Severson
William Spaniel

INTERNAL F.R.

FINAL MINUTES

**Meeting of the Conference of First Vice Presidents
of the Federal Reserve Banks**

Held at the Federal Reserve Bank of Atlanta

May 27-28, 2009

FINAL MINUTES

**Meeting of the Conference of First Vice Presidents
of the Federal Reserve Banks**

Held at the Federal Reserve Bank of Atlanta

May 27-28, 2009

TABLE OF CONTENTS

	<u>Page Number</u>
Administrative Matters	2
High Priority Initiative #5, Security Guidelines	2
2010 Reserve Bank Budgets	3
CIO Report	5
Information Security Program Transition and Modernization	6
Enterprise IT Strategies	8
Cash Product Office Update	8
Retail Payments Office Update	9
Tax Considerations with Cafeteria Subsidies.....	9
Update on CFVP High Priority Initiatives	10

FINAL MINUTES

**Meeting of the Conference of First Vice Presidents
of the Federal Reserve Banks**

Held at the Federal Reserve Bank of Atlanta

May 27-28, 2009

A meeting of the Conference of First Vice Presidents of the Federal Reserve Banks convened at 1:00 p.m. ET on Wednesday, May 27, 2009.

Present were:

Paul M. Connolly	Boston
Christine M. Cumming	New York
William H. Stone	Philadelphia
Gregory L. Stefani	Cleveland
(representing the Federal Reserve Bank of Cleveland)	
Sally Green, Vice Chair	Richmond
Patrick K. Barron	Atlanta
Robert Wiley	Chicago
(sitting in for Gordon Werkema)	
David Sapenaro	St. Louis
James M. Lyon, Chair	Minneapolis
Richard K. Rasdall, Jr.	Kansas City
Helen E. Holcomb	Dallas
John F. Moore	San Francisco

Also present:

Louise L. Roseman	Board of Governors
Lon J. Zanetta	FRIT
Sheryl L. Britsch, Secretary	Minneapolis
Diana C. Starks, Assistant Secretary	Cleveland
Anne C. Gossweiler, Assistant Secretary	Richmond

Also present for part of the meeting:

Carl Madsen	Boston
Ron Mitchell	Boston
Lauren Hargraves	New York
Rich Oliver	Atlanta
Ellen Bromagen	Chicago
Karl Ashman	St. Louis
Michael Garrett	Minneapolis
Stephen Malphrus	Board of Governors
William Spaniel	Board of Governors
Christine Holzem	FRIT
Ken Montgomery	FRIT
Julie Severson	FRIT

FINAL MINUTES

**Meeting of the Conference of First Vice Presidents
of the Federal Reserve Banks**

Held at the Federal Reserve Bank of Atlanta

May 27-28, 2009

Administrative Matters

The Conference unanimously approved the Secretary's letter dated May 15, 2009.

High Priority Initiative #5, Security Guidelines

The Conference commissioned the Subcommittee on Administrative Services Work Group (SAS Work Group) to review the eight Federal Reserve System Minimum Security Standards. The purpose of the review was to ensure the continued appropriateness of the minimum security standards and recommend revisions where necessary.

The SAS Work Group affirmed that the existing eight minimum security standards remain viable and are effective at ensuring employee safety and protecting System assets. While no major changes were identified, the SAS Work Group noted several improvement opportunities exist to clarify the use and understanding of the standards.

Mr. Moore reviewed the proposed "Minimum Security Guidelines for Federal Reserve System Facilities" (Minimum Security Guidelines) as described in the documentation distributed on May 4, 2009. Mr. Garrett noted that the proposed Minimum Security Guidelines were vetted and endorsed by SAS and its Security Task Force (STF). The Minimum Security Guidelines include four specific improvement opportunities noted below.



2. Establishing consistent formatting for the Minimum Security Guidelines. Going forward, each guideline will be formatted to include a description of the threat posed along with the applicable protective measure(s). Each District is responsible for determining the threat level.



(b) (2), (b) (4), & (b) (5)

(b) (2), (b) (4), & (b) (5)

(b) (2), (b) (4), & (b) (5)

(b) (2), (b) (4), & (b) (5)

The Conference unanimously approved the Minimum Security Guidelines (b) (2), (b) (4), & (b) (5).
The Conference approval was made with the understanding that edits would be made to the Minimum Security Guidelines final paper to provide additional clarification based on suggestions from the Conference.

2010 Reserve Bank Budgets

Mr. Connolly noted that actuarial data will be available in July or August 2009, public comments on the PSAF calculation close the end of May 2009, and Reserve Banks' initial budget "checkpoint" data is due on June 25, 2009. The Conference Secretary will reschedule the Conference meeting on July 17, 2009, to allow ample time to review the Reserve Banks' checkpoint data submitted on June 25, 2009.

Mr. Madsen reviewed the 2010 budget data distributed in May 2009. Preliminary projections show total Reserve Bank spending increasing 4.3 percent in 2010 when compared with the original 2009 budget. When excluding check costs, all other costs are projected to increase 11.3 percent driven by the projected growth in Monetary Policy and in Bank Supervision and Regulation (BS&R). The BAC set an expectation of 4.2 percent direct cost growth for Monetary Policy (excluding Open Market Operations in FRB New York) and Public Programs. Board staff guidance is 10.5 percent direct cost increases for BS&R. The Conference previously established guidance of 3.0 percent growth for most support and overhead services (adjusted to reflect increases expected for the FRB New York). Ms. Cumming noted that FRB New York is undergoing major change including hiring an additional 500 people on a base of 2,150; staff will be hired in the Markets, Supervision and Regulation, Risk and Control, and Compliance areas.

The FSO submitted business leaders responses to five key questions outlined in the documentation distributed to the Conference on May 15, 2009. Business leaders from BS&R, Wholesale Product Office (WPO), Customer Relations and Support Office (CRSO), Retail Payments Office (RPO), and Information Technology reviewed their areas' budget information with the Conference.

BS&R ____: The primary driver of cost growth for BS&R is personnel related to hiring field examination staff and specialty skills. [REDACTED]

WPO ____: The WPO's key strategic priorities for 2009 are Fedwire migration, Fedwire Funds message format initiatives, and Fedwire contingency and resiliency. The primary risks to the 2010 budget are volume declines, reduction in fixed fee revenue, loss of critical resources, and unanticipated costs.

RPO ____: The significant variance from the RPO's original 2009 budget is a \$27 million reduction in Check due to transportation reductions, volume declines, and efficiency initiatives. One risk to the 2010 budget is delays in technology decisions.

CRSO ____: The CRSO is targeting a reduction of 11.6 percent (\$5.5 million) in direct costs in 2010 and 6.7 percent (\$7.5 million) in total costs. Primary drivers are reductions in sales and marketing to align with the declining business forecast, electronic access channels, and customer support.

Ms. Roseman asked whether the three sales structures (CRSO, Region 19, and Tower Arch) are still supportable as sales and marketing is declining. Mr. Sapenaro said that Cleveland is dissolving its partnership with Tower Arch at year end and will move to the CRSO. He noted that FRB St. Louis plans to retain an independent sales function due to its board of directors' view that the function is an important customer touch point and should remain a locally-managed function. Mr. Sapenaro also noted that St. Louis will have four to five people in its sales function after Tower Arch dissolution or about one-half ANP more than would be needed if it was centralized with the CRSO. Ms. Green said the three groups are working well, are using the same customer service model, and there is not a lot of additional management. Mr. Sapenaro

noted that at some point, if the tiering model changes and less “touch” is done with each customer segment, it may not be viable to continue with the three structures. He said that Messrs. Barron and Werkema should determine the level of sales resources that will be needed in the future to retain customers and attract new customers from the competition because that will affect the tiering model. Ms. Green noted that revenue strategies, not just cost reductions, need to be considered.

Mr. [redacted]: National IT (FRIT/NITOs) is targeting total expenses in 2010 to be flat with the 2009 budget, excluding the Enterprise IT Strategies (EITS) initiatives and certain direct cost transfers from Reserve Banks. Mr. Zanetta confirmed that local Reserve Bank IT budget targets should be generally in line with the 3.0 percent guidance, though there will be some exceptions, and said more information will be available in 45 to 60 days. Conference members asked whether cost savings will be realized from the EITS efforts in 2010. Mr. Zanetta said 2010 will be primarily an investment year, but some savings may occur later in the year.

Conference members discussed other challenges the System faces in the current environment including achieving full cost recovery and appropriate merit budgets. The FSO provided two scenarios for the priced services pro forma income statements, based upon current and proposed methodologies for computation of the Private Sector Adjustment Factor [redacted]

[redacted]

The System’s merit projections for 2010 are lower and the range is narrower than for 2009. Reserve Banks’ preliminary merit increases for 2010 range between 2.0 and 3.5 percent compared to the System’s 2009 weighted average of 4.0 percent for staff and 4.2 percent for officers. Many First Vice Presidents noted that their respective Reserve Bank preliminary merit numbers may be reduced as additional market data and analysis become available later this year. Given the current environment, Conference members agreed that consistent with past practices, Reserve Bank merit budgets should not exceed the level supported by relevant market data.

CIO Report

Mr. Zanetta reviewed the national IT performance summary for the first quarter 2009. Year-to-date availability for virtually all national applications and infrastructure services has been very good, most major projects are on schedule, [redacted]

[redacted] Desktop start-up performance remains a challenging issue and demand continues to evolve for “continuous availability” of end-user mobility and communication services. A new System IT Performance Report is being developed that will expand the scope and value of the report Reserve Banks and business unit IT; the System and national IT reports will eventually merge into one report. Progress is being made on the seven “most wanted improvements” reported in the 2008 satisfaction survey. Mr. Zanetta asked if Conference members had perspectives to offer on the most wanted improvements. [redacted]

[redacted]

Mr. Zanetta asked for Conference input on the budget treatment of Server Management Transition Planning (SMTP). Costs for phase I are included in the 2009 national IT budget and costs for phase II (yet to be approved) are in the national IT working budget for 2010; however, no saving offsets have been incorporated in either budget due to the difficulty in determining the amount and timing of the cost savings. Conference members suggested that the savings be included in the national IT budgets to provide more accurate pro forma financials and outlook for IT. Mr. Zanetta will analyze whether material savings are likely in 2010 and, if so, will work with the FSO to determine if savings can be easily reflected in the national IT budget.

The annual budget guidance has been distributed, which supports the Conference guidance of 3.0 percent aggregate growth for Reserve Bank support and overhead costs, strives for more consistency in how national and Reserve Bank IT manage customer demand, and initiates financial planning for enterprise IT transformation initiatives early.

Mr. Zanetta raised the question of a new IT operating model as a topic for consideration and future discussion with the Conference.

[REDACTED]

Mr. Zanetta asked the Conference to give thought to these options and advised the members that he would be seeking their insights and recommendations in the near future.

Information Security Program Transition and Modernization

Ms. Holzem reviewed the documentation distributed to the Conference on May 15, 2009, covering three related topics: (1) request for Conference endorsement of the enterprise implementation of the NIST-based Federal Reserve Information Security Program, (2) update on Personal Identity Verification (PIV), and (3) request for Conference input on the direction for moving forward with a personnel screening process.

NIST-based Information Security Program

In June 2008, the Conference discussed and supported the action for the Federal Reserve to adopt NIST as the strategic direction for the Federal Reserve Information Security Program and for the System CIO, under delegated authority from ITOC, to approve the enterprise implementation of the program based on results from a pilot. The Conference requested that the System CIO assess the transitional and ongoing operational costs, impact and timeframes associated with the transition, and request concurrence from the Conference once the pilot results were known. Ms. Holzem reviewed the business drivers of the NIST-based program, results of the pilot, enterprise program description, and management of the transitional and ongoing costs.

Conference members discussed concerns with increases in cost and work load for business areas to implement the NIST-based approach. Ms. Holzem said the bubble costs would not exceed \$10 million and may be closer to \$7 to \$8 million. Mr. Zanetta added that perhaps 25 percent of this bubble cost may be consulting or contracting expense incurred by Reserve Banks and

product offices that choose to supplement existing staff in performing first-time work such as preparing security plans and other documentation. Mr. Sapanero noted that the use of consulting or contracting services for ongoing activities, such as testing security controls (i.e., security assessment/certification and accreditations) can be quite high. Ms. Green asked about the possibility of developing expertise or a competency center in-house. Ms. Holzem indicated that over time the effort will be cost neutral, with steady-state run rates equal to or less than current information security program administration run rates.

The Conference unanimously endorsed the enterprise implementation of the NIST-based Federal Reserve Information Security Program containing the transition costs to a \$10 million bubble over four years, resulting in a cost-neutral steady state by year-end 2013.

Personal Identity Verification (PIV)

In March 2006, the Conference endorsed the recommendation to adopt FIPS 201 as the strategic direction for identity credentials and supporting processes. PIV, also known as FIPS 201, will provide current and relevant information on the importance of having personal credentials (e.g., employee ID cards) and the context in which these credentials will need to operate in the future, both within the System and with other federal agency partners such as the Treasury. Ms. Holzem provided an update on the status of activities, the relationship of this effort with the NIST-based information security program, efforts within the law enforcement and facilities groups, and the System IT objectives to streamline how individuals gain access to information systems.

Personnel Screening

Mr. Ashman provided an update on the current status of the effort to implement consistent personnel screening requirements across all Reserve Banks and noted how this effort relates with the NIST-based information security program and the PIV project. Conference input was sought on which direction to move forward with for a personnel screening process that is consistent with current practice and NIST guidance as well as addresses GAO findings on personnel screening.

Ms. Holzem and Mr. Ashman reviewed the need for review of adverse personnel screening findings (i.e., an adjudication process) and asked for input from the Conference on how to proceed with implementation of that process. Conference members discussed options for the adjudication process

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

The Conference unanimously endorsed option #2 for personnel screening, as revised by the Conference, to develop the detail [REDACTED]

It may not be possible to get unanimous agreement on the specifics of personnel screening and re-screening. Mr. Lyon instructed the presenters to identify the issues, frame the discussion, and bring forward to the Conference for their decision. This information would need to be presented at the October 2009 Conference meeting in order to implement the program on January 1, 2010.

Enterprise IT Strategies

Mr. Montgomery gave an update regarding EITS initiatives, implications, and next steps. The EITS program is intended to ensure that FRIT can effectively meet the business areas' future technology needs while maximizing financial performance and managing operational risk. Preliminary numbers show total cost for the EITS initiatives of \$8.6 million in the national IT budget for 2009 and \$27.4 million in the national IT forecast for 2010; a majority of the costs are for the SMTP. Three EITS initiatives have been approved including help desk solution, collaboration, and SMTP. Five EITS initiatives are in development including network strategy, service management, application development, enterprise content management, and enterprise information architecture. Mr. Montgomery reviewed the status of each initiative outlined in the documentation distributed on May 18, 2009.

Conference members discussed the status of exempting certain businesses from the central server management approach and noted the importance of documenting the business case for any exemptions. Mr. Montgomery noted there are a few cases where a central server is not optimal. He will provide an update to the Conference in August or September 2009.

Cash Product Office Update

Mr. Moore provided an update on the BPS upgrade, coin issues, and the Cash Infrastructure Review.

BFS Upgrade

Mr. Moore noted there has been improvement with G&D as evidenced by delivery of software version 10.5 a little early and with fewer problems than experienced with prior releases. Though May 2009, 49 upgrade installations have been done; all installations are expected to be

complete by August 2010. While throughput is meeting or somewhat exceeding expectations, availability is only at 94 percent, and performance by machine is inconsistent.

Coin Issues

Mr. Moore said several actions have been taken to address coin inventories including dramatically lowering coin orders in 2009, which might result in complaints from Congress or the public. He noted that coin inventories appear to have peaked and should be manageable as long as the System does not have to increase orders for commemorative coins. The one exception is the Presidential \$1 Coin Act, which requires the Federal Reserve and Treasury to meet depository institutions' demand for each issue during the introductory period.

Cash Infrastructure Review

In 2006, the Federal Reserve's Cash community completed a two-year study of the System's cash infrastructure as part of a broader effort to update currency processing efficiency and included a recommendation to revisit this topic in 2010. In late 2008, Vice Chairman Kohn requested that the infrastructure be reviewed now, rather than waiting until 2010. The Cash Product Office (CPO) is conducting a risk assessment to ensure it is comfortable with the risks, security, and controls at cash depots. Compared to the 2006 review, the current review will cover a limited number of offices and the CPO will provide recommendations for District consideration. In late July, the CPO will share results from the risk consultant and discuss potential expansion of the depot model with the Conference.

Retail Payments Office Update

Mr. Barron noted that plans are moving forward with the strategic plan and the FSFC would be asked to review a new business vision during its meeting on May 29, 2009; all Conference members were invited to join the call. The platform proposal and options that achieve full cost recovery will be shared with the FSFC on June 16, 2009.

Mr. Barron reviewed the current environment regarding paper check items and capture, plans through year-end 2009, and transportation migration.



Mr. Oliver provided updates on Viewpointe and image archive, same day ACH, value added products, and FedACH global services.

(Secretary's Note: The following topic was not on the Final Agenda.)

Tax Considerations with Cafeteria Subsidies

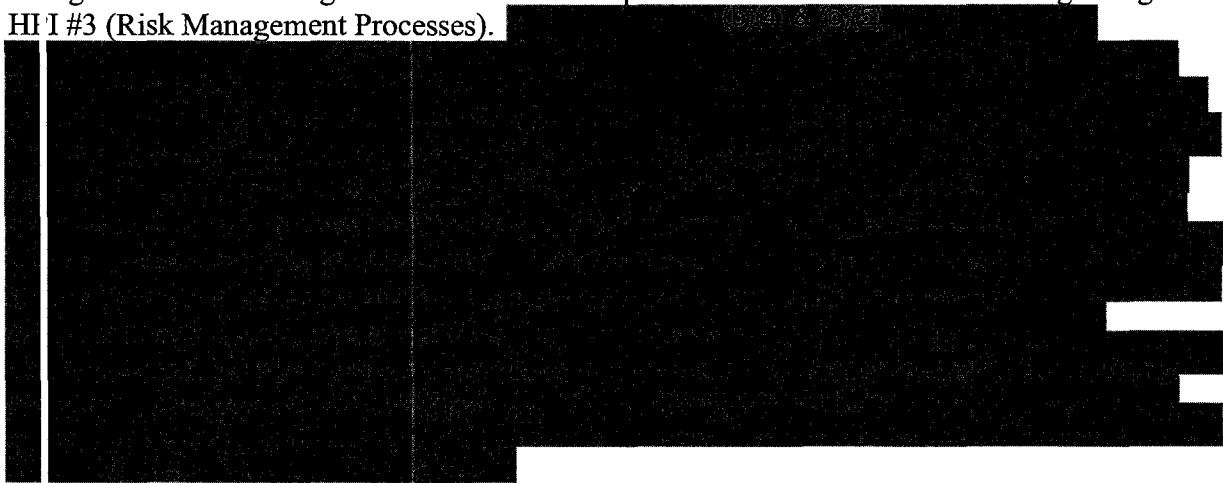




(Secretary's Note: The one page summary of the "Tax Issue – Cafeteria Subsidy; Outline of Applicable Law" was sent to Conference members at the conclusion of the meeting.)

Update on CFVP High Priority Initiatives

Mr. Lyon noted that the HPIs for first quarter 2009 are all reported to be on schedule with no significant outstanding issues. Ms. Holcomb provided additional information regarding HPI #3 (Risk Management Processes).



Mr. Moore noted that he believes HPI #5 (Security Standards) are complete, but asked Conference members to contact him if they have additional items they want reviewed. Ms. Green reminded the Conference that the System's Diversity conference would be held the week of June 1, 2009, in Richmond.

The meeting adjourned at 2:00 p.m. ET.

Sheryl

L. Britsch, Secretary