

**Supporting Statement for the
Payment Systems Surveys
(FR 3054; OMB No. 7100-0332)**

Summary

The Board of Governors of the Federal Reserve System (Board), under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, without revision, the voluntary Payments Systems Surveys (FR 3054; OMB No. 7100-0332).

This family of reports is comprised of the following four surveys:

- Ad Hoc Payments Systems Survey (FR 3054a)¹
- Currency Quality Sampling Survey (FR 3054b)
- Currency Quality Survey (FR 3054c)
- Currency Functionality and Perception Survey (FR 3054d)

The FR 3054a is an annual 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 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 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 Reserve Bank's cash department. The FR 3054c is a semiannual 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 a survey used to assess the functionality of Federal Reserve notes in bank-note 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 Board may use the 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 Reserve Bank sorting

¹ Certain criteria apply to information collections conducted via the Board's ad hoc clearance process. Such information collections shall (1) be vetted by the Board's clearance officer as well as the Division director responsible for the information collection, (2) display the OMB control number and respondents shall be informed that the information collection has been approved, (3) be used only in such cases where response is voluntary, (4) not be used to substantially inform regulatory actions or policy decisions, (5) be conducted only and exactly as described in the OMB submission, (6) involve only noncontroversial subject matter that will not raise concerns for other Federal agencies, (7) include information collection instruments that are each conducted only one time, (8) include a detailed justification of the effective and efficient statistical survey methodology (if applicable), and (9) collect personally identifiable information (PII) only to the extent necessary (if collecting PII, the form must display current privacy act notice). In addition, for each information collection instrument, respondent burden will be tracked and submitted to OMB.

algorithms are necessary to ensure that currency in circulation remains fit for commerce. The current annual burden for the FR 3054 is estimated to be 19,150 hours.

Background and Justification

The 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. payment system; works with other central banks and international organizations to improve the payment 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 Board periodically gathers data from various groups (including financial and nonfinancial institutions, BEMs, or global wholesale bank-note 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 System 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 Board 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 Board 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.² 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 Board's currency recirculation policy, the CPO and CTO monitor the quality of currency by analyzing data on bank notes processed at Federal 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 Federal Reserve Bank and ask them to voluntarily submit, as part of their normal deposits, currency that is unsorted from their commercial customers.

² Currency Recirculation Policy, Federal Reserve Bank Services
www.frbervices.org/operations/currency/currency_recirculation_policy.html.

The Board 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. 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 Systems Survey (FR 3054a)

The Board may conduct the Ad Hoc Payments Systems Survey once per year to collect information on specific issues that affect its decisionmaking. 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 Board 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 Board, in consultation with any partners, would then determine the relevant target group to contact.

The FR 3054a may cover the following topics:

- 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 bank-note designs and security features
- currency usage patterns and behaviors
- effectiveness and demand for educational information about bank notes

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 Board 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.³ The research instruments may be developed by the Federal Reserve alone or jointly with the firm selected by the Federal Reserve. If a private firm is selected, the firm would be responsible for developing and testing proposed survey procedures, following a sampling protocol which would be established by the Federal Reserve before the survey is administered, conducting the survey as specified by the Federal Reserve, preparing data files containing the responses, computing analysis weights, and documenting all survey procedures.⁴ 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 Board 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.

The FR 3054b covers the following topics:

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

Currency Quality Survey (FR 3054c)

The Board 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 Federal Reserve Bank (once per year) and BEMs (once per year). The information collected is used to determine their opinions of currency quality and assess the needs for currency quality in the marketplace.

The FR 3054c covers the following topics:

- opinions on currency quality
- cash handling practices
- uses of currency sorting equipment

³ Firms used by the Federal Reserve to conduct past surveys include the University of Michigan's Survey Research Center (SRC); NORC (a social science and survey research organization at the University of Chicago); ICF International Inc. in Calverton, MD; Rockbridge and Associates in Great Falls, VA; Research Triangle Institute in Research Triangle Park, NC; and Ogilvy in Washington, DC.

⁴ As necessary, all documents and procedures would be reviewed by the Board.

Currency Functionality and Perception Survey (FR 3054d)

The Board may work jointly with the BEP and CTO to conduct the FR 3054d up to four times 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 future 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.

The FR 3054d covers the following topics:

- opinions on currency quality
- uses of sensor technology
- the effectiveness of machine-readable features of bank notes

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. Before data collection begins, staff from the Federal Reserve System will explain to respondents the purpose of the survey and how the data would be used. The Federal Reserve System may choose to keep survey data confidential, depending upon the nature of the data collection. The Federal Reserve System decides whether to publish survey data that it obtained from respondents and informs them, before publication, if the data would be confidential or published on an individual or aggregate basis. Aggregate survey information may be cited in published material such as staff studies or working papers, professional journals, the *Federal Reserve Bulletin*, testimony and reports to the Congress, or other vehicles.

Legal Status

The Board's Legal Division has determined that section 11(d) of the Federal Reserve Act (12 U.S.C. 248(d)) authorizes the Board to "supervise and regulate through the Secretary of the Treasury the issue and retirement of Federal reserve notes, except for the cancellation and destruction, and accounting with respect to such cancellation and destruction, of notes unfit for circulation, and to prescribe rules and regulations under which such notes may be delivered by the Secretary of the Treasury to the Federal Reserve agents applying therefor." 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 in advance 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.

Consultation Outside the Agency

At this time there has been no other 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 agencies' staff, to the extent practicable, to create a consistent set of questions or a substantively similar information collection.

On February 13, 2017, the Board published a notice in the *Federal Register* (82 FR 10480) requesting public comment for 60 days on the proposal to extend, without revision, the FR 3054. The comment period for this notice expired on April 14, 2017. The Board did not receive any comments. On May 15, 2017, the Board published a final notice in the *Federal Register* (82 FR 22332) and the information collection will be extended as proposed.

Estimate of Respondent Burden

The current annual burden for the Payments System Surveys is estimated to be 19,150 hours. These reporting requirements represent less than 1 percent of total Federal Reserve System paperwork burden.

The Board estimates that the FR 3054a would be conducted once per year with up to 20,000 individuals, law enforcement agencies, financial institutions, or businesses. Respondents will be selected based either on their business relationship with the Federal Reserve, or as identified by a market research firm. It is also estimated that each respondent would spend approximately 0.75 hours preparing for and participating in each survey. The Federal Reserve anticipates a 60 percent response rate.

The FR 3054b would be conducted on an annual basis. The Federal Reserve estimates that each respondent would spend approximately 0.5 hours completing the bank-note collection associated with this survey. The Board analyzes the quality of currency processed at all Federal Reserve Banks and it randomly selects 300 respondents whose deposits reflect the average quality of processed currency. The Federal Reserve anticipates a 60 percent response rate.

The FR 3054c would be conducted twice per year, once with approximately 25 depository institutions and once with approximately 25 BEMs. Depository institutions may be selected from the Federal Reserve's cash customer advisory council and BEMs may be selected from the Federal Reserve's central bank cash machine group. It is estimated that respondents would spend approximately 30 hours preparing for and completing the FR 3054c and participating in either face-to-face guided discussions or telephone interviews. Because their businesses are directly affected by currency designs and currency quality, the Federal Reserve anticipates a 100 percent response rate.

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 Board, the BEP, the CTO, or the USSS. BEMs may be selected from the Federal Reserve’s central bank cash machine group. Because their businesses are directly affected by currency designs, the Federal Reserve anticipates a 100 percent response rate.

	<i>Number of respondents⁵</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR 3054a	20,000	1	0.75	15,000
FR 3054b	300	1	0.5	150
FR 3054c	25	2	30	1,500
FR 3054d	250	4	2.5	<u>2,500</u>
<i>Total</i>				19,150

The total annual cost to the public for these surveys is estimated to be \$747,885.⁶

Sensitive Questions

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

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 staff. The Board anticipates that in most cases, staff from the Board, the CPO, and the 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 Board. The Board estimates that there would be

⁵ Of these respondents, it is anticipated that for each survey conducted, approximately 10 percent would be small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets).

⁶ For FR 3054a, the total cost to the public was estimated based on an assumption of 10,500 hours for individuals and 4,500 hours for all others. For FR 3054b, FR 3054c, and FR 3054d, the total proposed cost to the public was estimated based on the assumption that all respondents were businesses or government. The estimates use the following formulas: (1) for individuals, the average consumer cost of \$26 is estimated using data from the Bureau of Labor Statistics (BLS) Economic News Release (USD-14-0433) www.bls.gov/news.release/cewqtr.nr0.htm and (2) for businesses and government, percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at \$18, 45% Financial Managers at \$67, 15% Lawyers at \$67, and 10% Chief Executives at \$93). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages May 2016*, published March 31, 2017, www.bls.gov/news.release/ocwage.t01.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.

no additional staffing costs, but that staff may spend up to 1,200 hours per year working on these collections, and may spend between \$1.0 and \$2.0 million for the private firm to develop, administer, and analyze the results of these surveys.