

*Roles and
Responsibilities
of* **Federal Reserve
Directors**



FEDERAL RESERVE SYSTEM PUBLICATION



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Responsibilities
of* **Federal Reserve
Directors**

Images of the Reserve Bank and Board of Governors buildings appear on the covers of this publication as follows (from left): *front cover*, San Francisco, Board of Governors, and New York; *inside front cover*, St. Louis, Boston, and Kansas City; *inside back cover*, Richmond, Atlanta, Philadelphia, and Cleveland; *back cover*, Minneapolis, Chicago, and Dallas.

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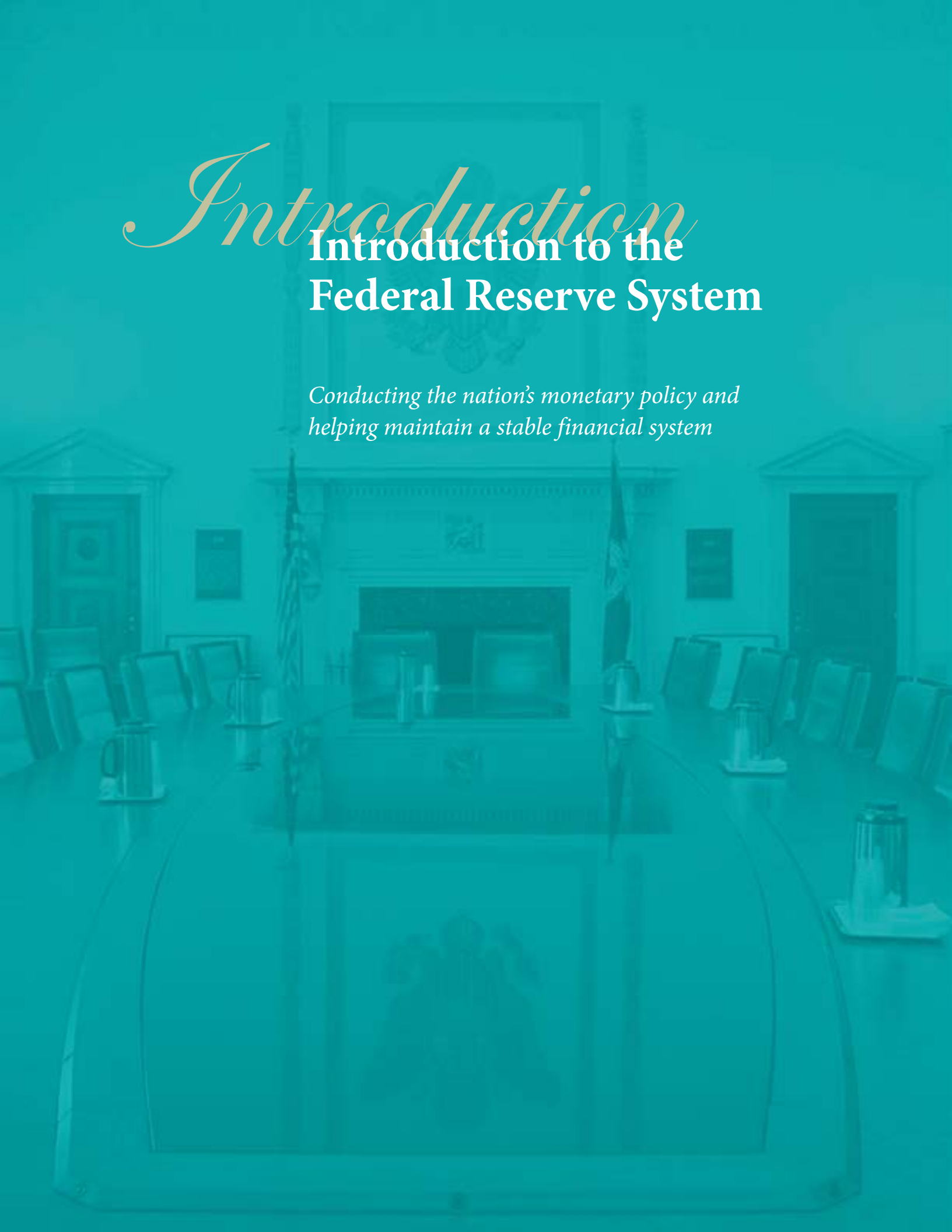
Board of Governors of the Federal Reserve System

Washington, D.C. 20551

Table of Contents



Introduction to the Federal Reserve System	1
Structure of the Federal Reserve System	5
A Decentralized System	5
A Blend of Private and Governmental Characteristics	7
Functions and Responsibilities of the Federal Reserve System	11
Monetary Policy	11
Financial System Stability	13
Supervision and Regulation	15
Financial Services	18
Consumer Affairs	18
Federal Reserve System Boards of Directors	21
Selection Criteria	22
Affiliation and Stockholding Provisions	23
Reporting Requirements and Divestiture	27
Term Limits and Rotation Policy	27
Board Leadership	29
Roles and Responsibilities of Directors	31
Formulation of Monetary and Credit Policy	31
Connecting the Federal Reserve and the Private Sector	33
Corporate Governance Responsibilities of Head-Office Directors	35
Director Conferences and Programs	38
Director Conduct	41
Ethical Standards	42
Policy on Political Activity	43

The background of the slide is a faded, teal-tinted photograph of the Federal Reserve Board of Governors meeting room. The room features a large, U-shaped conference table with several chairs around it. In the center of the room, there is a large window with a decorative pediment above it. Two American flags are positioned on either side of the window. The overall atmosphere is formal and professional.

Introduction

Introduction to the Federal Reserve System

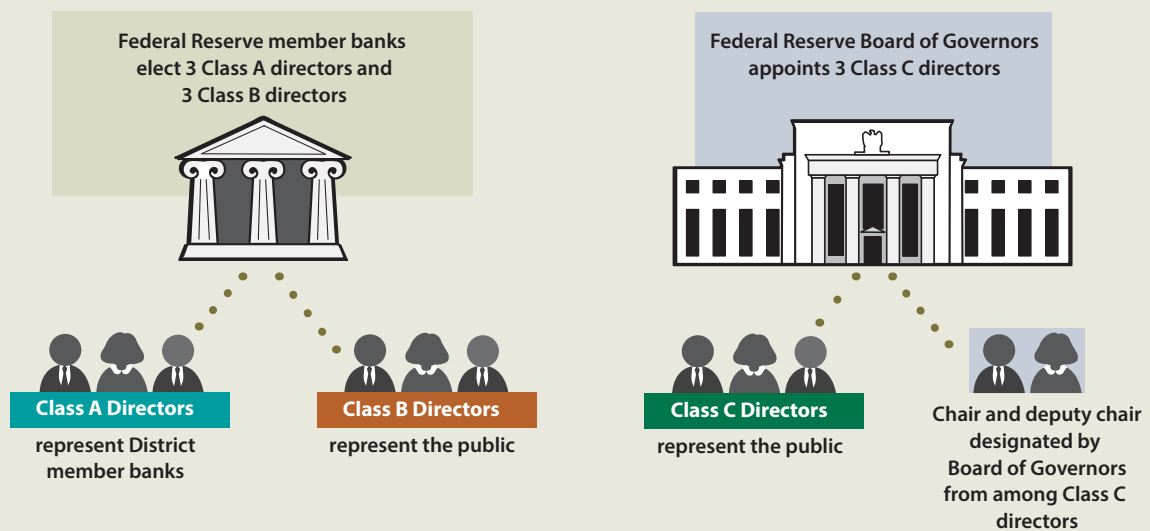
*Conducting the nation's monetary policy and
helping maintain a stable financial system*

As the central bank of the United States, the Federal Reserve System (Federal Reserve or System) conducts the nation’s monetary policy and helps to maintain a stable financial system. Three key components of the Federal Reserve System—the Federal Reserve Board of Governors (Board of Governors), the Federal Reserve Banks (Reserve Banks), and the Federal Open Market Committee (FOMC)—interact to accomplish these goals.

Each of the 12 Reserve Banks is subject to the supervision of a nine-member board of directors (board) (see “Figure 1. The Federal Reserve Bank director selection process”). Six of the directors are elected by the member banks of the respective Federal Reserve District (District), and three of the directors are appointed by the Board of Governors. Most Reserve Banks have at least one Branch (Branch), and each Branch has its own board of directors. A majority of the directors on a Branch

Figure 1. The Federal Reserve Bank director selection process

The process for choosing Federal Reserve Bank directors helps ensure broad representation from a wide variety of occupational sectors, demographic groups, and geographic areas in the discussions that inform policymaking decisions by the Federal Open Market Committee.



board are appointed by the Reserve Bank, and the remaining Branch directors are appointed by the Board of Governors. Systemwide, there are 274 director positions: 108 Reserve Bank (head-office) directors and 166 Branch directors.

Directors play an important role in the effective functioning of the Federal Reserve. All directors are expected to participate in the formulation of monetary policy and to act as a link between the System and the public. In addition, head-office directors are responsible for supervising the administration of their Reserve Bank's operations, overseeing the Reserve Bank's corporate governance function, and maintaining an effective system of internal auditing procedures and controls. Directors are not involved, however, in any matters related to banking supervision, including specific supervisory decisions.

The Federal Reserve Act of 1913 (Federal Reserve Act) includes several

Directors Promote Effective Functioning of the Federal Reserve System

Reserve Bank boards of directors help maintain effective oversight of Reserve Banks and ensure that Reserve Banks operate smoothly. Directors also assist the Federal Reserve's monetary policy responsibilities by advising their Reserve Bank presidents on monetary policy and discount rate recommendations, providing economic information to help inform the Board of Governors in Washington, and acting as a link between the Federal Reserve and the private sector.



Richmond Reserve Bank board of directors

provisions related to the structure and composition of head-office and Branch boards, as well as the election or appointment and service of directors. In addition to the statutory requirements, all directors are subject to eligibility and conduct rules established by the Board of Governors. These statutory and policy provisions serve important purposes, such as encouraging diversity of perspective. Representation from a wide variety of occupational sectors, demographic groups, and geographic areas contributes to the formulation of sound monetary policy. The provisions also help protect against actual and perceived conflicts of interest, which is critical to maintaining the public's confidence in the integrity of the Federal Reserve.

This guide is intended as an overview of the roles and responsibilities of directors. For more detailed information, including the full text of the Board's policies relating to Reserve Bank directors, visit the Board's website at www.federalreserve.gov/aboutthefed/directors/about.htm.

Richard E. Holbrook, William D. Nordhaus, Kirk A. Sykes, and Roger S. Berkowitz at a Boston Reserve Bank board of directors meeting



Patricia E. Yarrington, Douglas W. Shorenstein, President John C. Williams, and First Vice President John F. Moore at a San Francisco board of directors meeting



Howard A. Dahl and Lawrence R. Simkins at a Minneapolis board of directors meeting





Structure **Structure of the Federal Reserve System**

*A unique, decentralized system with a blend of
private and public characteristics*

The Federal Reserve System is unique. The framers of the Federal Reserve Act purposely rejected the concept of a single central bank. Instead, they provided for a central banking “system” with two salient features: a decentralized structure and a combination of public and private characteristics.

A Decentralized System

The country is divided geographically into 12 Districts, each with a separately incorporated Reserve Bank (see “Figure 2. The 12 Federal Reserve Districts”). District boundaries were based on prevailing trade regions in 1913 and related economic considerations, so they do not always coincide with state lines.

Figure 2. The 12 Federal Reserve Districts

The country is divided geographically into 12 Districts, each with a separately incorporated Reserve Bank.



As originally envisioned, each of the 12 Reserve Banks was intended to operate independently from the other Reserve Banks. Variation was expected in discount rates—the interest rate that commercial banks and other depository institutions pay when they borrow reserves from a Reserve Bank—across Districts, and the setting of a separately determined discount rate appropriate to each commercial region was considered the most important tool of monetary policy. The concept of national economic policymaking was not well developed, and the importance of open market operations—purchases and sales of U.S. government and federal agency securities—was not well understood.

As the nation's economy became more integrated and more complex, driven by advances in technology, communications, transportation, and financial services, the Federal Reserve realized that effective monetary policymaking required increased collaboration and coordination throughout the System. This was accomplished in part through revisions to the Federal Reserve Act in 1933 and 1935 that together created the modern-day FOMC.

The FOMC consists of 12 members—the seven members of the Board of Governors; the president of the Federal Reserve Bank of New York; and four of the remaining 11 Reserve Bank presidents, who serve one-year terms on a rotating basis. Nonvoting Reserve Bank presidents attend FOMC meetings and participate in discussions. The FOMC makes key decisions regarding the conduct of open market operations, which affect the stock of reserve balances held by depository institutions and the size and composition of the Federal Reserve's asset holdings. (See box, "The FOMC and Reserve Bank Directors.")

The Depository Institutions Deregulation and Monetary Control Act of 1980 (Monetary Control Act) introduced an even greater degree of interdependence among Reserve Banks with respect to the pricing and level of financial services offered to depository institutions. There has also been a trend among Reserve Banks to centralize or consolidate many of their key financial services and support functions and to standardize others. Reserve Banks have increased efficiencies by entering

The FOMC and Reserve Bank Directors

The boards of directors of the Reserve Banks and Branches provide the Federal Reserve System with a wealth of information on economic conditions in virtually every corner of the nation. This information is used by the Federal Open Market Committee (FOMC) and the Board of Governors in reaching decisions about monetary policy. For more information about the FOMC, visit www.federalreserve.gov/monetarypolicy/fomc.htm.

into intra-System service agreements that allocate responsibilities for services and functions that are national in scope among Reserve Banks.

A Blend of Private and Governmental Characteristics

Pursuant to the Federal Reserve Act, each of the 12 Reserve Banks is separately incorporated and subject to the supervision of a nine-member board of directors.

Commercial banks that are members of the Federal Reserve hold stock in their District's Reserve Bank and elect six of the Reserve Bank's directors; the remaining directors are appointed by the Board of Governors. Most Reserve Banks have at least one Branch, and each Branch has its own board of directors. Branch directors are appointed by either the Reserve Bank or the Board of Governors.

As a group, directors possess a wide variety of experiences in the private sector, which gives them invaluable insight into the economic conditions of their respective Federal Reserve Districts and the nation as a whole. Reserve Bank head-office and Branch directors contribute to the System's overall understanding of the economy by bringing their perspectives to monetary policy discussions. Directors also serve as a link between the Federal Reserve and the private sector.

Nevertheless, although the Federal Reserve shares some characteristics with private sector entities, it was established to serve the public interest. The Reserve Banks are supervised by the Board of Governors, an agency of the federal government, which reports to and is directly accountable to the Congress. Within the System, certain responsibilities are shared between the Board of Governors in Washington, D.C., whose members are appointed by the President with the advice and consent of the Senate, and the Federal Reserve Banks and Branches, which constitute the System's operating presence around the country.

Although the Federal Reserve benefits from frequent communication with executive branch and congressional officials, its decisions are independent and do not require outside approval.

The Federal Reserve is not subject to congressional budgets or appropriations. Its operations are financed primarily from the interest earned on the U.S. government securities it owns—securities acquired in the course of the Federal Reserve’s monetary policy actions. The fees received for services provided to depository institutions, such as check clearing, funds transfers, and automated clearinghouse operations, are another source of income. After payment of expenses, all the net earnings of the Federal Reserve Banks are aggregated and transferred to the U.S. Treasury.

Despite the need for greater coordination and consistency throughout the Federal Reserve, geographic distinctions remain important. Effective monetary policymaking requires knowledge and input about regional differences. For example, two directors from the same industry may have different opinions regarding the strengths and weakness of that sector depending on their regional perspectives. Thus, the benefits of decentralization, and the blend of private and public characteristics, envisioned by the System’s creators remain important today.

Directors Bring Diverse Experience to Federal Reserve Service

Directors possess a wide variety of experiences in the private sector, which gives them invaluable insight into the economic conditions of their respective Federal Reserve Districts and the nation as a whole. In addition, Reserve Bank head-office and Branch directors contribute to the System's overall understanding of the economy by sharing their perspectives with their Reserve Bank presidents.

Herbert D. Kelleher
*Founder and Chairman Emeritus
Southwest Airlines
Federal Reserve Bank of Dallas*



Martha Choe
*Chief Administrative Officer
Bill & Melinda Gates Foundation
Federal Reserve Bank of San Francisco*



George Paz
*Chairman and Chief Executive Officer
Express Scripts
Federal Reserve Bank of St. Louis*



Clarence Otis, Jr.
*Chairman and Chief Executive Officer
Darden Restaurants, Inc.
Federal Reserve Bank of Atlanta*





Functions Functions and Responsibilities of the Federal Reserve System

The Federal Reserve performs five functions in support of its objectives



The Federal Reserve performs five general functions:

- conducting the nation's monetary policy by influencing the money and credit conditions in the economy in pursuit of maximum employment, stable prices, and moderate long-term interest rates
- helping maintain the stability of the financial system and containing systemic risks that may arise in financial markets
- supervising and regulating a variety of financial institutions and activities to ensure the safety and soundness of the nation's banking and financial systems and to protect certain rights of consumers
- providing certain financial services to depository institutions, the U.S. government, and foreign official institutions
- promoting consumer protection, fair lending, and community development

Monetary Policy

In the conduct of monetary policy, the Federal Reserve is guided by three statutory policy objectives: maximum employment, price stability, and moderate long-term interest rates. The Federal Reserve contributes to the attainment of these national economic goals principally through its ability to influence the availability and cost of money and credit in the economy and overall financial conditions.

Its three principal instruments of monetary policy are the following:

- **Open market operations**—temporary or permanent purchases or sales of U.S. government and agency securities in the open market. Each purchase or sale of securities directly affects the volume of reserves in the banking system and thus the level of the federal funds rate—the rate at which depository institutions borrow from each other, usually overnight. Open market operations are directed by the FOMC and are conducted by the Federal Reserve Bank of New York in competitive operations with primary dealers.

- **The discount rate**—the interest rate that commercial banks and other depository institutions pay when they borrow from a Reserve Bank. The discount rate is established by each Reserve Bank, subject to review and determination by the Board of Governors. Credit provided by the discount window can help to address pressures in the federal funds market and can also be used to meet other short-term funding needs of individual depositories.
- **Reserve requirements**—the percentage of deposits that commercial banks and other depository institutions must hold as reserves instead of using such funds for loans or investments. These requirements are determined by the Board of Governors within ranges specified by the Federal Reserve Act. For many years, reserve requirements have been employed primarily to create a stable demand for reserves; the Federal Reserve then adjusts to the supply of reserves through open market operations to keep the level of the federal funds rate close to the target rate established by the FOMC.

In the conduct of monetary policy, the Federal Reserve is guided by the objectives of maximum employment, price stability, and moderate long-term interest rates.

The Federal Reserve uses these tools of monetary policy to influence the level of interest rates and financial conditions more broadly, thereby affecting the spending decisions of businesses and households. In normal times, the Federal Reserve uses the tools to adjust the supply of reserves in relation to the demand for reserves. In so doing, it influences the amount of pressure on bank reserve positions and, hence, the federal funds rate. Changes in the federal funds rate are then transmitted to other short-term market interest rates.

At times when short-term interest rates near their effective lower bound, the Federal Reserve must rely on “nontraditional tools” such as communications regarding the expected future level of the federal funds rate and purchases of longer-term securities—including Treasury, agency, and agency mortgage-backed securities—to influence longer-term yields and broader financial conditions. Importantly, such nontraditional policies are directed toward fostering the same statutory objectives, namely maximum employment, price stability, and moderate long-term interest rates.

Financial System Stability

Promoting financial stability has long been identified as one of the objectives of central banks. The Federal Reserve was established, in part, as a reaction to a succession of banking panics in the late 19th and early 20th centuries, which culminated in the Panic of 1907.

As the U.S. and global financial systems have evolved, the Federal Reserve's role in helping maintain financial system stability has also evolved. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) explicitly gave the Federal Reserve new powers and responsibilities for financial stability.

Many of these new powers and responsibilities relate to the Financial Stability Oversight Council (FSOC), which was created by the Dodd-Frank Act and is charged with identifying risks to financial stability, promoting market discipline, and responding to emerging threats. The FSOC comprises 10 voting and five non-voting members and is chaired by the Secretary of the Treasury. The Chairman of the Board of Governors is a voting member of the FSOC.

The Federal Reserve's set of tools designed to promote financial stability is evolving. However, they can broadly be divided into three categories:

- **Providing liquidity**—in the face of a financial crisis, the Federal Reserve can cushion the impact on financial markets, and thus the effects on the real economy, by providing liquidity through open market operations or discount window lending.
- **Enhancing the resilience of key financial institutions**—to prevent financial crises, the Federal Reserve can promote the resilience of large banks, key nonbank financial institutions, and financial market utilities with a program of macroprudential supervision and regulation.
- **Addressing structural vulnerabilities**—parts of the financial system may be vulnerable to severe disruptions because of their inherent characteristics, such as the so-called “shadow banking” system.

Working with other members of the FSOC, the Federal Reserve can reduce the threat posed by these vulnerabilities.

In November 2010, the Board of Governors established an internal staff organization, the Office of Financial Stability Policy and Research (OFS), which is responsible for identifying and analyzing emerging and structural risks to financial stability and for developing and evaluating macroprudential policy responses to those risks. To fulfill this responsibility, the OFS monitors financial institutions, markets, and infrastructure to assess potential risks and structural vulnerabilities; and the OFS conducts broad-based, long-term research in banking, finance, and macroeconomics with the goal of better understanding financial stability and optimal macroprudential policy. It coordinates and works with the other Board divisions and the Reserve Banks to meet its responsibilities.

The Federal Reserve has long been authorized to extend credit to depository institutions on both a routine and emergency basis. These decisions are made by the Reserve Bank in consultation with and under authorization by the Board of Governors. Reserve Bank directors have no involvement in lending decisions.

Supervision and Regulation

The Federal Reserve also has important supervisory and regulatory responsibilities.

Supervision. The Federal Reserve is charged with monitoring, inspecting, and examining certain financial institutions to assess their overall condition, help them to remain safe and sound, and ensure compliance with relevant laws and regulations.

The Federal Reserve has responsibility for supervising and regulating the following segments of the financial industry to ensure safe and sound practices and compliance with applicable laws and regulations:

- **state-chartered banks** that have chosen to become members of the Federal Reserve System (or state member banks)
- **bank holding companies**—including all diversified financial holding companies formed under the Gramm-Leach-Bliley Act of 1999—and any nonbanking subsidiary of such companies that is not functionally regulated by another federal or state regulator
- **savings and loan holding companies** (also known as thrift holding companies)
- **foreign branches of state member banks**
- **Edge Act and agreement corporations**, which are entities through which U.S. banking organizations conduct international banking activities
- **U.S. operations of foreign banking organizations**
- **various operations of other foreign banking organizations**

In addition, the Federal Reserve supervises and regulates

- **systemically important financial institutions**—any nonbank financial company for which the FSOC has determined that the material financial distress at the company, or the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the company, could pose a threat to the financial stability of the United States; and
- **designated financial market utilities**—any financial market utility designated as “systemically important” by the FSOC that is not supervised by the Securities and Exchange Commission or the Commodity Futures Trading Commission.

Responsibility for the examination of institutions for safety and soundness and for compliance with law at the federal level is shared with the Office of the Comptroller of the Currency, which supervises national banks and federal savings associations (also known as thrifts), and the Federal Deposit Insurance Corporation, which supervises state-chartered banks that are not members of the Federal Reserve and state-chartered savings associations. The Federal Reserve also shares supervisory and regulatory responsibilities with the banking departments of the various states. In addition, the Consumer Financial Protection Bureau (CFPB), created by the Dodd-Frank Act, has responsibility for supervising certain aspects of large depository institutions (\$10 billion or more in assets).

The Board of Governors delegates certain day-to-day examination duties to Reserve Bank staff. Examination of state member banks is coordinated with state banking supervisors. Institutions are examined or inspected regularly, and their condition is monitored through analysis of regular financial reports.

Though certain supervisory and regulatory duties are delegated to Reserve Banks, directors are not involved in matters related to supervision and regulation.

The Federal Reserve's role as the supervisor of a bank holding company, savings and loan holding company, or the combined U.S. operations of a foreign banking organization includes review and assessment of the consolidated organization's operations, risk-management systems, and capital adequacy to ensure that the holding company and its nonbank subsidiaries do not threaten the viability of the company's insured depository institutions and also to ensure that the holding company serves as a "source of strength" to those institutions. In this role, the Federal Reserve serves as the "consolidated supervisor" of the entire organization. In fulfilling this role, the Federal Reserve relies to the fullest extent possible on information and analysis provided by the appropriate supervisory authority of the company's bank, insurance, or securities subsidiaries.

Reserve Bank directors have no involvement in matters related to banking supervision, including specific supervisory decisions.

Regulation. The Board of Governors has authority to establish the rules within which bank holding companies, state member banks, and savings and loan holding companies must operate (i.e., issuing specific regulations and guidelines governing the operations, activities, and acquisitions of financial institutions).

The Board of Governors also has authority to rule on applications received from state member banks, bank holding companies, and savings and loan holding companies for such purposes as proposed mergers, branches, acquisitions, and nonbanking activities. The Board of Governors has delegated to the Reserve Banks much of its authority for the approval of applications and the enforcement of regulations. Reserve Bank directors have no involvement in regulatory, applications, or enforcement matters.

Financial Services

The Reserve Banks maintain accounts for and provide a range of payment and settlement services to the banking industry and the federal government.

The Reserve Banks provide check clearing, automated clearinghouse, Fedwire funds, Fedwire securities, and national settlement services to depository institutions. These services are offered at fees designed to cover their full costs, as required by the Monetary Control Act. The Reserve Banks also ensure that sufficient cash (currency and coin) is in circulation to meet the public's demand.

Reserve Banks provide a range of services to the federal government, acting as the government's bank and fiscal agent. These services include financial, account management, and securities services, as well as application development and technology infrastructure support. The Federal Reserve Bank of New York also provides correspondent banking services to foreign central banks and monetary authorities.

Consumer Affairs

The Federal Reserve is committed to consumer financial protection and community economic development. To ensure that the voices and concerns of consumers and communities are represented, the Federal Reserve conducts consumer-focused supervision, research, and policy analysis, as well as implements statutory requirements and facilitates community development. These activities promote a fair and transparent consumer financial services market, including for traditionally underserved households and neighborhoods.

The Board of Governors' Division of Consumer and Community Affairs directs specific consumer and community-related functions and policy, which include the following:

- **Consumer-focused supervision and examinations**—provides leadership for the Reserve Bank consumer compliance supervision and examination programs in state member banks and bank holding companies, including policy development, examiner training, fair lending enforcement, and bank and bank holding company application analyses in regard to consumer protection.
- **Policy, research, and emerging-issue analysis**—analyzes emerging issues in consumer financial services policies and practices and their implications for economic and supervisory policy that are core to the central bank's functions.
- **Consumer laws and regulations**—administers the Board's regulatory responsibilities with respect to certain entities under specific statutory provisions of the consumer financial services and fair lending laws; drafts regulations and official interpretations; and issues regulatory interpretations and compliance guidance for the industry, the Reserve Banks, other federal agencies, and congressional staff.
- **Community development activities**—promotes fair and informed access to financial markets for all consumers, recognizing the particular needs of underserved populations by engaging lenders, government officials, and community leaders, and convenes programs to share information and research on effective community development policies and strategies.



Boards

**Federal Reserve System
Boards of Directors**

*Reserve Banks are subject to the supervision
of nine-member boards*

*P*ursuant to the Federal Reserve Act, each Reserve Bank is subject to the supervision of a nine-member board of directors. A majority of the Reserve Banks have at least one Branch, and each Branch has its own board of directors. Systemwide, there are 274 director positions: 108 Reserve Bank (head-office) directors and 166 Branch directors.

The Federal Reserve Act includes several provisions related to the structure and composition of head-office and Branch boards, as well as the election or appointment and service of directors. In addition, the Board of Governors has adopted eligibility requirements to encourage diversity of perspective among directors and to manage actual and perceived conflicts of interest.

The following statutory and policy provisions apply to all Reserve Bank head-office and Branch directors:

- All directors must be selected without discrimination on the basis of race, creed, color, sex, or national origin.
- No senator or representative in the Congress may be a director.
- All directors must be independent—no director may serve as an officer or employee of the Federal Reserve System.

The Board of Governors expects directors to be individuals who can contribute to the System’s understanding of the economic conditions of their District and the effect of those conditions on the economy as a whole. Accordingly, directors should be familiar with the economic and business community of the region for which they are selected. Recently retired individuals may be eligible for selection as directors if they can demonstrate the necessary knowledge and insight regarding the economic conditions of their region. There is no age requirement or limitation for directors.

For more information and resources, see box, “Director Resources,” on page 23.

Selection Criteria

Head-office directors. Each nine-member board is divided into three classes of three directors each. Head-office directors are elected or appointed as follows:

- **Class A directors**—elected by member banks in the District to represent those banks
- **Class B directors**—elected by member banks in the District to represent the public with due, but not exclusive, consideration to the interests of agriculture, commerce, industry, services, labor, and consumers
- **Class C directors**—appointed by the Board of Governors to represent the public with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor, and consumers

Although a director's principal business affiliation is considered during the selection process for purposes of ensuring diversity of perspective as contemplated by the Federal Reserve Act, directors should not consider themselves to be champions of any special interest or constituency. Directors are expected to act objectively and in the public's best interest.

Branch directors. Each Branch has a board of directors. Pursuant to Board of Governors policy, Branch boards must have either five or seven members. All Branch directors are appointed. The majority of directors on a Branch board are appointed by the Reserve Bank, and the remaining directors on the Branch board are appointed by the Board of Governors. Unlike head-office directors, Branch directors are not divided into different classes, but there are different eligibility requirements for Branch directors, depending on whether they are appointed by the Reserve Bank or the Board of Governors.

Affiliation and Stockholding Provisions

The Federal Reserve Act includes several provisions that restrict director affiliations with and stockholdings in institutions supervised by the Federal Reserve (see “Table 1. Director affiliation and stockholding restrictions” on page 26).

As the System’s supervisory responsibilities have expanded over time, the Board of Governors has extended these restrictions by policy to fully comply with the spirit and intent of the law. The division of the Reserve Bank boards into three separate groups of directors, with varying degrees of permitted involvement in the banking sector, was intended to ensure that various viewpoints will be brought to bear on decisions relating to the administration of Reserve Banks, as well as upon advice with respect to monetary policy and other policies.

Director Resources

Additional information for and about Reserve Bank and Branch directors is available on the Federal Reserve Board’s website at www.federalreserve.gov/aboutthefed/directors. Resources include

- a list of current directors at the 12 Federal Reserve Banks and 24 Reserve Bank Branches, their principal business affiliations, and term expiration dates;
- a list of the different sectors represented by current directors; and
- links to Federal Reserve policies governing directors.

Class A directors. There are no statutory or policy restrictions on Class A director affiliations with or stockholdings in institutions supervised by the Federal Reserve. In practice, Class A directors often are affiliated with supervised institutions, but there is no requirement that Class A directors must be bankers.

Class B directors. By statute, a Class B director may not be an officer, director, or employee of any bank. The Board of Governors has extended this prohibition by policy to include other types of financial institutions that are supervised by the Federal Reserve. Therefore, pursuant to statute and Board of Governors policy, Class B directors are not permitted to be officers, directors (including advisory directors), or employees of any of the following:

- bank
- bank holding company
- branch or agency of a foreign bank
- savings association
- credit union

- designated financial market utility
- systemically important financial institution
- Edge Act or agreement corporation
- a subsidiary of any such company or entity

Class B directors may be affiliated with a savings and loan holding company, or any company that owns a bank or savings association (but is not a registered bank holding company or a savings and loan holding company), if the institution falls below certain de minimis thresholds based on the company’s total consolidated assets derived from banks or savings associations. Details are available in the Eligibility, Qualifications, and Rotation Policy on the Board’s website at www.federalreserve.gov/aboutthefed/directors/PDF/eligibility-qualifications-rotation.pdf.

There are no stockholding restrictions for Class B directors. Therefore, Class B directors may own stock in institutions that are supervised by the Federal Reserve.

Class C directors. By statute, a Class C director may not be an officer, director, or employee of any bank. As discussed above with respect to Class B directors, the Board of Governors has extended this prohibition by policy to include other types of institutions that are also supervised by the Federal Reserve. Unlike Class B directors, however, Class C directors may not affiliate with any savings and loan holding company, even if the company falls below the de minimis thresholds. Class C directors may be affiliated with other companies that own a bank or savings association if the company is not a registered bank holding company or savings and loan holding company and it falls below the de minimis thresholds.

In addition, by statute, a Class C director may not hold stock in any bank. The Board of Governors has extended this prohibition to include

“Although a director’s principal business affiliation is considered during [selection] ... directors should not consider themselves to be champions of any special interest or constituency.”

other types of financial institutions that are also supervised by the Federal Reserve. As a result, Class C directors are not permitted to own stock in any of the following:

- bank
- bank holding company
- subsidiary of a bank holding company
- operating subsidiary of a bank
- foreign bank
- designated financial market utility
- systemically important financial institution
- Edge Act or agreement corporations

In addition, Class C directors may not own stock in any savings and loan holding company unless the total of all banks and savings associations owned by the company falls below a de minimis threshold. Under no circumstances may a Class C director hold a controlling interest in a supervised savings and loan holding company.

Board of Governors policy includes additional provisions regarding a Class C director's indirect interest in supervised institutions and stock ownership by a director's spouse and minor children. Details are available in the Eligibility, Qualifications, and Rotation Policy on the Board's website at www.federalreserve.gov/aboutthefed/directors/PDF/eligibility-qualifications-rotation.pdf.

Branch directors. In general, Branch directors appointed by the Reserve Bank must satisfy the same eligibility requirements as either Class A or Class B directors. Branch directors appointed by the Board of Governors must meet the same eligibility requirements as Class B directors.

Table 1.
Director affiliation and stockholding restrictions

Directors are subject to restrictions on affiliations with and stockholdings in institutions that the Federal Reserve supervises.

Type of institution	Class A		Class B		Class C		Board-appointed Branch directors ¹	
	Affiliation	Stockholding	Affiliation ²	Stockholding	Affiliation	Stockholding	Affiliation	Stockholding
Bank, bank holding company, DFMU, SIFI, and Edge Act and agreement corporations	Permissible	Permissible	Not permissible	Permissible	Not permissible	Not permissible	Not permissible	Permissible
Savings association	Permissible	Permissible	Not permissible	Permissible	Not permissible	Permissible	Not permissible	Permissible
Savings and loan holding company	Permissible	Permissible	15% test ³ \$10B limit ⁴	Permissible	Not permissible	15% test ⁵	15% test \$10B limit	Permissible
Other company that owns a bank or savings association ⁶	Permissible	Permissible	15% test \$10B limit	Permissible	15% test \$10B limit	Permissible	15% test \$10B limit	Permissible

.....

- 1 Bank-appointed Branch directors must meet the same eligibility requirements as either Class A or Class B directors.
- 2 Reserve Banks are encouraged to have no more than one Class B director who is affiliated with a supervised institution at any given time. A Class B director who is affiliated with a supervised institution should be selected based on the individual's connection with the non-depository activities of the company.
- 3 The total of all banks and savings associations controlled by the company must constitute less than 15 percent of the total assets of the consolidated holding company.
- 4 The total assets of the banks and savings associations owned by the company may not exceed \$10 billion.
- 5 Class C directors may not hold a controlling interest in a supervised savings and loan holding company.
- 6 This category includes any company that owns a bank or savings association but is not a registered bank holding company or savings and loan holding company.

DFMU Designated financial market utility.

SIFI Systemically important financial institution.

Reporting Requirements and Divestiture

Class B and Class C directors are required to certify annually that they do not have prohibited affiliations and, in the case of Class C directors, prohibited stockholdings. Each Reserve Bank provides its directors with information and assistance necessary to complete this certification.

In addition, directors have an ongoing obligation to be aware of and report impermissible affiliations and stockholdings. An affiliation or stockholding that was permissible at the beginning of a director's term may become impermissible during the director's term for a variety of reasons, including corporate mergers, acquisitions, or changes in legal status. For example, a large corporation might acquire an interest in a bank so that the parent becomes a bank holding company pursuant to the relevant statutory and regulatory provisions. Each Reserve Bank periodically provides its directors with a list of all companies that have changed status such that affiliations with or stockholdings in those companies might be impermissible. Directors are expected to review these lists and immediately report the impermissible affiliation or stockholding to their Reserve Bank. The director then has 60 days within which to terminate the affiliation or sell the stock. Otherwise, the director must resign from the Reserve Bank board.

Term Limits and Rotation Policy

Head-office and Branch directors are elected or appointed for staggered three-year terms. When a director does not serve a full term, his or her successor is elected or appointed to serve the unexpired portion of that term.

The Federal Reserve Act does not specifically address the reelection or reappointment of directors, but the Board of Governors has adopted

a rotation policy for Class C directors, which it encourages the Reserve Banks to apply to the reelection of Class A and B directors.

The rotation policy adopted by the Board of Governors generally limits Class C directors to two full terms of three years each or a maximum of seven years of continuous service as a head-office director. This includes all service as a Class A, B, or C director but not service as a Branch director. The Board of Governors has authority to grant exceptions where appropriate but would expect to do so only in limited circumstances.

The rotation policy applies to all directors who are appointed to a Branch board by the Board of Governors. The Board of Governors encourages application of the policy to directors who are appointed to a Branch board by the Reserve Bank.



New York Reserve Bank President William C. Dudley (center) with directors Alphonso O'Neil-White (left) and Richard L. Carrion (right)

Board Leadership

Head-office boards. Each year, the Board of Governors designates one chair and one deputy chair from among the Class C directors for each Reserve Bank head-office board. The Federal Reserve Act requires that the chair of the Reserve Bank board be a person of “tested banking experience,” which has been interpreted as requiring familiarity with banking or financial services. A Class C director may serve as chair for a total of three years.

Branch boards. The chair of each Branch board is selected from among those directors appointed by the Board of Governors. The selection is made at the Branch level in a manner prescribed by the Reserve Bank. The Board of Governors is not involved in the process. Procedures for selecting the Branch chair, while uniform across the Branches in each District, vary among Districts.



Roles

**Roles and
Responsibilities of
Directors**

*Contributing to the System's understanding of the
economy, serving as a link to the private sector*

This discussion of the roles of Reserve Bank head-office and Branch directors focuses on the responsibilities that directors have in common and thus does not capture the differences among Districts with respect to operational functions or relative emphasis on various activities.

In general, all directors are expected to contribute to the System's understanding of the economy by bringing their perspectives to monetary policy discussions. Directors also play an important role by serving as a link between the Federal Reserve and the private sector. In addition, head-office directors carry out various corporate governance responsibilities.

Formulation of Monetary and Credit Policy

Reserve Bank head-office and Branch directors play a special role with respect to the formulation of monetary policy.

Directors—with their diverse backgrounds, knowledge, and experience—report on economic developments in their respective regions and occupational sectors, as well as about other industries with which they



Chairman Bernanke with the Cleveland Reserve Bank directors and Reserve Bank President Sandra Pianalto

might be familiar or possess insight. Directors also have an opportunity to express their views on appropriate monetary policy, including their assessment of the effectiveness of actual or prospective policy actions. In particular, every two weeks each Reserve Bank board provides the Board of Governors with a recommendation regarding the discount rates.

One distinct advantage of having 12 separate regional Reserve Banks, each with its own board of directors, is that the Federal Reserve has access to a wealth of information on economic conditions in virtually every corner of the nation.

This information, which can be more current than the statistics collected by System research staff, helps the Federal Reserve anticipate changing economic trends. The FOMC and the Board of Governors use this information in reaching decisions about, and assessing the effectiveness of, monetary policy actions. Information gathered from directors and other

Directors Link the Federal Reserve and the Private Sector

Directors provide a link between the Federal Reserve and the private sector. In addition to gathering economic information from their Districts, directors help communicate System policies and decisions to their communities.



Detroit Branch Director and Neighborhood Service Organization (NSO) President and Chief Executive Officer Sheilah P. Clay, with Chicago Reserve Bank President Charles L. Evans at NSO in Detroit



Atlanta Reserve Bank Director and Home Depot Chief Financial Officer Carol B. Tome inspects store inventory

sources regarding the economic conditions in each District is also shared with the public in a special report—informally called the Beige Book—which is issued about two weeks before each meeting of the FOMC.

Connecting the Federal Reserve and the Private Sector

Directors act as a link between the Federal Reserve and the private sector, with information flowing in both directions.

As noted earlier, directors provide their informed perspectives on national and local economic conditions. Equally important, however, directors are also asked to communicate with their local communities about System actions and policies. Directors are not permitted, however, to share with members of the public confidential information



Richmond Reserve Bank Director Lemuel E. Lewis on a regional visit to the Virginia Institute of Marine Science



Philadelphia Reserve Bank Director Jeremy Nowak speaks at the Bank's Reinventing Older Communities Conference



Directors of the Denver Branch of the Kansas City Reserve Bank visit the Moots Bicycle Factory in Steamboat Springs, CO

they receive in the course of performing their duties. Similarly, directors should avoid statements in speeches or other public communications that suggest the nature of any monetary policy action that has not been officially disclosed.

Through their direct participation in, and firsthand knowledge of, System activities, Reserve Bank directors gain particular insight into national economic and financial policy. It is important that these policies, and their underlying rationale, be understood by business, banking, and other industry and community leaders. The greater this understanding, the more likely that the System's policies and actions will be accepted and supported, and, conversely, that any defects in such policies will be identified. Directors play a key role in helping communicate this information to the public.



The Oklahoma City Branch board of the Kansas City Reserve Bank visits the Chickasaw Nation Cultural Center in Sulphur, OK.

Corporate Governance Responsibilities of Head-Office Directors

The Federal Reserve Act states that each Reserve Bank is subject to “the supervision and control of a board of directors” that should “perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.” Thus, the administrative functions and corporate governance responsibilities of head-office directors are, in many respects, similar to those of directors of any commercial bank or private sector firm.

Reserve Bank boards, like other corporate boards, conduct their activities via consultation with management. Although boards delegate responsibility for day-to-day operations to the Reserve Bank president and his or her staff, certain decisions cannot be delegated, including those that affect the broad strategy of the Reserve Bank or that have a material impact on the Bank.

Head-office directors have significant management oversight responsibilities. Some of the specific tasks performed by directors include reviewing the Reserve Bank’s annual goals and objectives; reviewing the Reserve Bank’s budget; evaluating the Reserve Bank’s overall performance; and reviewing the performance of the Reserve Bank’s president and first vice president. Directors may also provide guidance and input for major capital projects undertaken by the Reserve Bank or its Branches, such as building plans and major automation proposals.

Class C and most Class B directors are also responsible for appointing the Reserve Bank’s president and first vice president. This responsibility is especially significant because, in addition to acting as the Reserve Bank’s chief executive officer, the president also serves, in rotation, as a voting member of the FOMC. All directors are responsible for the equally important task of considering succession planning—the selection of capable officers who will be able to assume future leadership of the Reserve Bank—and for ensuring that each division of the Reserve Bank is adequately staffed and well managed.

Another important role of head-office directors involves oversight of the Reserve Bank’s audit process. Directors, who are responsible for maintaining an effective system of internal auditing procedures and controls, appoint the Reserve Bank’s general auditor. They also evaluate the general auditor’s performance and set his or her compensation. The general auditor, in turn, reports directly to the Reserve Bank’s board of directors. Each head-office board must have at least three members who are suitable to serve on the Reserve Bank’s audit committee.

In several important respects, the administrative powers and duties of head-office directors differ from those of their private sector counterparts. Under the Federal Reserve Act, Reserve Bank operations are subject to the “general supervision” of the Board of Governors. Appointment of Reserve Bank presidents and first vice presidents is subject to Board of Governors approval. The Board of Governors is specifically authorized to suspend or remove any officer or director of any Reserve Bank and to examine the accounts, books, and affairs of each Reserve Bank. The Federal Reserve Act also requires that the Board of Governors contract with an external auditor each year to audit the Reserve Bank’s financial statements. The Act further provides that any compensation provided by Reserve Banks for directors, officers, and employees is subject to approval by the Board of Governors.



Alfred M. Rankin, Jr. (Cleveland), Herbert D. Kelleher (Dallas), Mary K. Brainerd (Minneapolis), and Kirk A. Sykes (Boston) at the meeting of the Conference of Chairs

In practice, this means that many decisions or actions of the Reserve Bank board are subject to review or approval by the Board of Governors. The Board of Governors, for example, reviews and approves the Reserve Bank's budget, sets parameters for compensation of Reserve Bank staff and officers, including the president and first vice president, and adopts policies regarding the administration, operations, and corporate governance of Reserve Banks. In doing so, the Board of Governors exercises necessary leadership to provide a Systemwide perspective and promote coordination among Reserve Banks.

Chairman Bernanke attends the meeting of the Conference of Chairs



One of the most important characteristics that distinguishes Reserve Bank boards from corporate boards is that Reserve Banks are operated in the public interest, rather than in the interest of shareholders. The Federal Reserve Act also charges directors with administering the affairs of the Reserve Bank "fairly and impartially and without discrimination in favor of or against any member bank or banks."



Meeting of the Conference of Chairs of the Reserve Banks with the Board of Governors in Washington, D.C.

Director Conferences and Programs

The Board of Governors hosts several conferences for directors each year at its offices in Washington, D.C. Every director, including both head-office and Branch directors, will be invited to attend at least two conferences during his or her service: the Orientation Program for New Directors and the Mid-Service Program for Experienced Directors. All conferences offer directors the opportunity to engage directly with members of the Board of Governors and senior Board staff.

Orientation program for new directors. Each year, approximately 50 to 60 individuals begin service as Reserve Bank head-office and Branch directors. The Board of Governors hosts an orientation program for new directors each spring.

Mid-service program for experienced directors. The Board of Governors also hosts a conference for directors in their third or fourth year of service. The program is similar to the orientation for new directors, but meeting sessions are geared towards more experienced directors.

Conference of Chairs. Collectively, the chairs of the 12 Reserve Bank boards comprise the Conference of Chairs (COC), which meets two times each year in Washington, D.C. By tradition, Reserve Bank deputy chairs are included in COC meetings and are actively involved in COC business. As part of COC meetings, chairs and deputy chairs are invited to share valuable insights regarding national and regional economic conditions, including, among other things, compensation and hiring trends, capital expenditure levels, and consumer spending patterns. COC meetings also provide an opportunity for the Board of Governors to communicate directly with Reserve Bank chairs and deputy chairs about a wide range of System issues.

Audit committee chairs. The Board of Governors hosts a meeting each spring for audit committee chairs and general auditors of the 12 Reserve Banks to discuss issues of interest to the Reserve Banks' audit committees. In addition, the audit committee chairs meet more informally at the Board of Governors each fall to discuss audit committee issues and best practices.



2012 new director orientation



Conduct

Director Conduct

*High ethical standards to ensure against actions
impairing System effectiveness*

The framework for the selection of Reserve Bank directors and composition of Reserve Bank boards was established by Congress in 1913 in the Federal Reserve Act. To address any potential for the appearance of conflicts of interest, the Board of Governors has adopted bright-line restrictions on the roles of directors.

Appointment of Reserve Bank officers. Pursuant to the Dodd-Frank Act, which revised the Federal Reserve Act, Class A directors are prohibited from participating in the appointment of Reserve Bank presidents and first vice presidents. To comply with both the spirit and letter of the law, the Board of Governors adopted a policy that also excludes Class A directors from other aspects of the appointment process; those directors may not be on the search committee for a new president or first vice president and may not take part in any related deliberations, except to the extent that other bankers outside the System might provide such input. Class A directors are also prohibited from voting for a president or first vice president, including voting on the periodic reappointment of those officers.

In addition, Board of Governors policy also excludes Class A directors from the selection, appointment, and compensation of all Reserve Bank officers whose primary duties involve supervisory matters.

The Board of Governors has further extended each of these restrictions to Class B directors who are affiliated with any institution that is supervised by the Federal Reserve.

Access to confidential supervisory information. To further protect against actual or perceived conflicts of interest, Board of Governors policy prohibits Reserve Banks from providing confidential supervisory information to any director and excludes all directors from participating in any bank supervisory matters. Directors may not be consulted regarding bank examination ratings, potential enforcement actions, application/approval matters, and other such supervisory matters.

Reserve Bank procurements. Federal Reserve directors are subject to the same federal conflicts of interest statute that applies to Federal Reserve employees. This criminal statute prohibits directors from participating in any Federal Reserve matter that could affect their own financial interests or the financial interests of their spouse or minor children. For example, it could be illegal for a director to approve a major expenditure by the Reserve Bank involving a company in which the director’s spouse owns stock. A director’s participation in recommending the Reserve Bank’s discount rate, which must be kept confidential, is exempt from this provision.

Each Reserve Bank has adopted a policy for managing conflicts of interest that might arise from director involvement in procurement decisions.

Ethical Standards

It is essential that directors, through adherence to high ethical standards of conduct, avoid any actions that might impair the effectiveness of System operations or in any way tend to discredit the System. Therefore, Federal Reserve directors should be guided by the following principles:

- Directors’ personal financial dealings should be above reproach and information obtained by them as directors should never be used for personal gain.
- In carrying out their Federal Reserve responsibilities, directors should avoid any action that would affect adversely the public’s confidence in the integrity of the Federal Reserve or that might result in or create the appearance of
 - using their positions as directors, including their access to Federal Reserve officials, for private gain; or
 - using their positions as directors to influence any supervisory matters involving an institution with which the director is affiliated.
- Directors should strictly preserve the confidentiality of Reserve Bank and System information.

“It is essential that directors, through adherence to high ethical standards of conduct, avoid any actions that might impair the effectiveness of System operations or in any way tend to discredit the System.”

- Directors are expected to comply fully with all applicable laws and regulations.

The Board of Governors reserves the right to suspend or remove any director who fails to adhere to the high ethical standards of the Federal Reserve. The Board of Governors will immediately suspend or remove from service any director who is charged with the commission of, or participation in, a crime that is punishable by imprisonment for a term exceeding one year under applicable state or federal law.

Policy on Political Activity

Since its inception, the Board of Governors has sought to preserve the political independence of the Federal Reserve, which is essential to the System's ability to conduct its activities, including the formulation of monetary policy, in a nonpartisan manner. The Board of Governors has adopted a policy, which is very similar to the one followed by members of the Board of Governors and senior System staff, that prohibits directors from engaging in certain types of political activity (see "Table 2. Permitted and prohibited partisan political activities for Reserve Bank and Branch directors").

As a general principle, directors should not engage in any political activity or serve in any public office where such activity or service might be interpreted as associating the Federal Reserve with any political party or partisan political activity. In addition, directors should not engage in any political activities that might embarrass the Federal Reserve, create an actual or apparent conflict of interest, or raise questions as to the director's independence or the director's ability to perform his or her Federal Reserve duties. More information on specific prohibitions is contained in table 2 and in the Political Activity Policy, available on the Board's website at www.federalreserve.gov/aboutthefed/directors/PDF/political-activity.pdf.

Table 2.
Permitted and prohibited partisan political activities for Reserve Bank and Branch directors

In all instances, directors should avoid any political activity that would publicly identify the director as being associated with the Federal Reserve System or would embarrass the System or raise questions about the independence of the director or the ability to perform Federal Reserve duties.

 Directors may	 Directors may not
<ul style="list-style-type: none"> • express personal preferences for political candidates • express personal opinions about partisan political issues • campaign for or against referendum questions or constitutional amendments • join political clubs or parties • donate money to a political candidate or party • attend, but not host or solicit funds at, a political function at the director's home that is hosted by the director's spouse • sign nominating petition for a candidate • attend political rallies, meetings, and fundraising events • participate in campaign stops at the director's workplace when it is clear the director is acting in his or her employment capacity • participate in nonpartisan voter registration drives • serve on nonpartisan public-service bodies • contribute to a PAC • be a member of a PAC so long as membership includes all persons who have contributed money • vote for the candidates who will receive the PAC's financial support as long as the PAC permits all persons who pay a nominal membership fee to vote on these matters • solicit contributions to their organization's PAC when it is clear the director is acting in his or her employment capacity 	<ul style="list-style-type: none"> • campaign for or against a candidate or slate of candidates in a partisan election • hold any leadership position in a partisan political campaign or serve on a fundraising or campaign committee • attend a political nominating convention as a speaker or delegate • hold office in political clubs or parties • host a political function or solicit campaign contributions • collect contributions or sell tickets to political rallies, meetings, or fundraising events • circulate nominating petitions • organize, manage, host, or speak at political rallies, meetings, or fundraising events • work to register voters for one party only • be a candidate for public office in a partisan election • serve as an officer of a PAC • serve on a PAC's governing committee or board of directors • serve on a selection committee of a PAC





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0113