

4. A SERIES ON THE STRUCTURE OF THE FEDERAL RESERVE SYSTEM

Federal Reserve Bank Board of Directors



Board of Governors
of the Federal Reserve System
Washington, D.C. 20551

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Board of Governors
of the Federal Reserve System



First Class

For the purpose of carrying out the day-to-day operations of the Federal Reserve System — the nation's central bank — the United States has been divided into 12 Federal Reserve Districts, each with a Reserve Bank. Reserve Banks provide many services to depository institutions and to the general public, such as processing coins, currency, and checks. They exercise many of the bank supervisory responsibilities of the System. They also help in framing monetary policy, in part by reporting on economic developments in their regions.

Regional representation is provided for through the selection of Reserve Bank Directors. The Federal Reserve Act of 1913 calls for each of the 12 Reserve Banks to be managed by a board of nine directors who know the interests of the district. Similarly, each of the 25 branches of the Reserve Banks is managed by five to seven directors who represent the interests of the branch territory.

Selection and Representation

For purposes of selection and representation, Reserve Bank directors are divided into three classes of three persons each. Class A directors are representative of the member commercial banks in the district and are usually bankers. Class B directors and Class C directors are selected with due consideration to the interests of agriculture, commerce, industry, services, labor, and consumers. Thus both the providers and the users of banking services in the district are represented on the Bank's board. Class A and Class B directors are elected by member banks in a district, while Class C directors are appointed by the System's Board of Governors in Washington.

The chairman and deputy chairman of each nine-member board are selected by the Board of Governors from the C directors to serve one-year terms. These directors, who must be district residents for at least two years, are often educators, community leaders, lawyers, and retired business people.

Directors can't be members of Congress. Further, Class B and Class C directors can't be officers, directors or employees of any bank. Nor can Class C directors own stock in any bank. Additionally, since a Reserve Bank directorship is a form of public service, directors are also expected to avoid participation in partisan political activities.

In electing Class A and B directors, district member banks are grouped by the amount of capital into three categories — small, medium, and large. Each group of banks elects one Class A and one Class B director.

Reserve Bank branch directors are not elected. The majority are appointed by the Reserve Bank's head office directors; the remainder, by the Board of Governors. The chairman is selected from those appointed by the Board of Governors.

Directorships of Reserve Banks and branches generally are limited to one or two full three-year terms to assure that a greater number of people will serve on the boards, representing a wide range of interests.

Responsibilities

Although directorships are not "full-time" jobs, the responsibilities of directors are broad, ranging from the general management of the Reserve Bank — assigned by the Federal Reserve Act — to making recommendations on monetary policy.

Directors appoint the Reserve Bank president (the chief executive officer) and the first vice president (the chief administrative officer) to five-year terms, subject to approval by the Board of Governors. The Reserve Bank directors also appoint all officers of the bank.

Annually, they appoint the district's representative to the Federal Advisory Council, which confers four times a year with the Board of Governors on business conditions and makes recommendations on issues affecting the System.

Directors are responsible for each Reserve Bank's budget and expenditures. They also review the annual internal audit program of the Reserve Bank. The Reserve Banks also are audited by the Board of Governors.

Directors provide advice to the Bank's president for meetings of the Federal Open Market Committee—the top monetary policy-making unit of the Federal Reserve System. They also play a direct role in the formulation of monetary policy. Specifically, the Federal Reserve Act requires directors to set the bank's discount rate every two weeks, subject to determination and review of the Board of Governors. The discount rate is the interest rate depository institutions pay when borrowing from the Federal Reserve for temporary, emergency or seasonal needs. By raising or lowering the rate, the System can influence the cost and availability of money and credit.

Overall, directors bring to the Federal Reserve a broad range of experience in management, community goals, and developments in the financial system and in local economies. That experience provides the Federal Reserve with a wider range of expertise and with greater information about community needs than normally would be available to a public institution.