X-9099

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release January 18, 1935.

The Federal Reserve Board recently reviewed the general policy to be pursued in the selection of directors of Federal Reserve banks and their branches, and determined certain principles that should be observed in making those appointments.

Under the law the Board appoints 3 of the 9 directors of each Federal Reserve bank and either two or three of the directors of each branch, depending on whether the branch has five or seven directors. While the majority of branch directors are in all cases appointed by the Federal Reserve banks, the method of their selection is subject to rules and regulations prescribed by the Board.

In view of the fact that operations of the Federal Reserve banks are vested with a public interest, the Board deemed it desirable that there should be a certain degree of rotation in the membership of the directorates of these banks and their branches. Gradual changes in the personnel of these directorates would insure against possible crystallization at the banks of the influence of individuals or groups, which might not be in the public interest, as the Reserve banks must render uniform service to all the elements in their communities. Continuity of policy and the benefits of acquired experience will be retained by permitting directors to serve as long as 6 years, and at the same time rigidity will be avoided by not reappointing persons who have completed 6 years of service. The Board proposes to follow this practice in the selection of directors that are subject to appointment by the Board. This rule will not apply, however, to chairmen of the boards of directors, who are full time officials of the reserve banks.

The Board also believes that the reserve banks and branches will be best adapted to serving their local communities if their directors are selected from persons whose business and financial interests are primarily within the bank or branch territory, and not representatives of interests owned or controlled outside the territory. The value of the regional organization of the Federal Reserve System rests on the closeness of its managements to the local problems of their communities, and the selection as directors of persons connected with local enterprises will contribute to the maintenance of this relationship.

In making its own appointments of branch directors the Federal Reserve Board will henceforth select persons who are engaged in agriculture, industry, or commerce, rather than persons who are officers of banks, and in its revised regulation the Board provides that Federal Reserve banks need not confine their own appointments to branch directorates to bankers, but may also in their discretion appoint persons engaged in other business in the community. The Board's views on this matter are based on recognition of the fact that sympathetic understanding of local trade and industrial conditions is as important as banking experience for the most effective management of a Federal Reserve branch.

A copy of the Board's letter of January 9, 1935, to the Federal Reserve banks on this subject is attached.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9083

January 9, 1935.

Dear Sir:

The Board has been reviewing the questions of general policy involved in the selection of directors of Federal reserve banks and of their branches. In view of the special character of the functions of these institutions and the public interest in them the Board believes that the composition of the boards and the tenure of service of their members are matters of great importance. The Board recognizes that experience gained from participation in the direction of the management of the Federal reserve banks and their branches has its distinct value but it believes that this can be overstressed and that there are special advantages that would come to these institutions from bringing to bear on their management from time to time new points of view and differing backgrounds of experience. In consequence, the Board believes that neither great length of service nor too frequent changes are desirable and has endeavored to find a solution which on the whole and in the long run will be conducive to the best development of the policies of the banks and at the same time protect them against criticisms based either upon the fact or the possibility of crystallization of control of their managements by particular individuals or groups through long continuance in power.

Therefore the Board has reached the conclusion that six years of service represents the maximum period during which a director should remain continuously in office. It will be guided by this view in future and will not continue in office as directors men appointed by it who have served six or more consecutive years (except in the cases of chairmen of the Federal reserve banks).

It is also the view of the Board that the welfare of the Federal reserve banks will be served best by directors whose business and financial interests are primarily within and representative of the bank or branch territory for which they are selected rather than of interests controlled or owned outside of such territory. The Board also feels that it is essential that the directors be men of established reputation and ability to meet their financial obligations.

While the Board is aware of the fact that its present regulations provide that directors of branches appointed by the Federal reserve banks shall be men well qualified and experienced in banking, the Board believes that the Federal reserve banks should be at liberty to select other men of high character and standing who are engaged in agriculture, industry or commerce, and it is the intention of the Board to follow uniformly in all districts the policy of selecting as its appointees individuals who are not officers of banks or primarily engaged in banking, although they may be stockholders or directors of banks.

The Board expects to apply these principles in the selection of directors appointed by it in the future, and is also amending its rules and regulations regarding the appointment of directors of branches of Federal reserve banks which were set forth in its letter of January 29, 1926, X-4516, so as to conform to these principles. A copy of the regulations as revised is attached hereto.

It may be added in this connection that the reappointments made by the Board to take effect January 1, 1935, of branch directors who have already served six or more consecutive years were for the year 1935 only.

It will be appreciated if you will bring this letter to the attention of all the directors of your bank and its branches, if any.

Very truly yours,

M. S. Eccles,
Governor.

TO ALL CHAIRMEN OF FEDERAL RESERVE BANKS.

1. The board of directors of each branch of a Federal reserve bank shall consist either of seven members or of five members, as may be determined by the Federal reserve bank, subject to the approval of the Federal Reserve Board. Where the board of directors of the branch consists of seven members, four shall be appointed by the Federal reserve bank and three by the Federal Reserve Board, and, where the board consists of five members, three shall be appointed by the Federal reserve bank and two by the Federal Reserve Board.

2. All directors shall be persons of high character and standing who have established reputations and ability to meet their financial obligations. They shall be persons whose business and financial interests are primarily within and representative of the branch territory rather than of interests controlled or owned outside the territory. The directors appointed by the Federal reserve banks shall be persons who are either well qualified and experienced in banking or actively engaged in agriculture, industry or commerce. The directors appointed by the Federal Reserve Board shall be persons who are actively engaged in agriculture, industry or commerce and who are not primarily engaged in banking (although they may be stockholders or directors of banks).

3. All directors shall be citizens of the district and shall reside within the territory served by the branch, but at least one of the directors appointed by the bank and one appointed by the Board shall reside outside of the city in which the branch is located.

4. One of the directors appointed by the reserve bank shall be the active manager of the branch and shall have the title "Managing Director".

5. The term of office for the director chosen by the reserve bank to act as Managing Director of the branch shall be one year, subject to reappointment from year to year, if such action be desirable.

6. The full term for other directors shall be three years where the branch board consists of seven members and two years where the branch board consists of five members. In order to make practicable an orderly rotation of branch

directorships, the terms of directors, other than the Managing Director, shall be so arranged that the term of a director appointed by the Federal Reserve Board and the term of a director appointed by the Federal reserve bank shall expire at the end of each year. No director, other than the Managing Director, shall be reappointed for a term immediately following six or more years of continuous service as a director.

7. The board of directors of each branch shall annually elect as chairman of the board the member appointed by the Federal Reserve Board whose term of office expires with the current year.

8. In the event of a vacancy occurring in the board of directors of a branch of a Federal reserve bank, the appointment to fill such vacancy shall be made by the body making the original appointment and such appointment shall be for the unexpired term.

9. As provided in Section 3 of the Federal Reserve Act, directors of branches of Federal reserve banks hold office at the pleasure of the Federal Reserve Board.