BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-557

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 22, 1942.

Dear Sir:

Your attention is directed to the modification of the Board's policy with respect to the reappointment of Class C directors who have completed six years of continuous service, except in the case of the Chairmen of the Federal Reserve Banks, copy of which is enclosed for your ready reference. This statement was published in the Federal Reserve Bulletin for September 1942 on page 881.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosure

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS

TERMS OF DIRECTORS OF THE FEDERAL RESERVE BANKS AND BRANCHES

Directors of a Federal Reserve Bank are elected or appointed for terms of three years. The Board of Directors of each Federal Reserve Bank consists of nine directors, three of whom are designated as Class A directors, three as Class B directors, and three as Class C directors. The six Class A and Class B directors are elected by the member banks of the district, while the three Class C directors are appointed by the Board of Governors of the Federal Reserve System. The Class A directors are chosen as representatives of the member banks and, as a matter of practice, are active officers of member banks. The Class B directors may not, under the law, be officers, directors, or employees of banks. At the time of their election they must be actively engaged in their district in commerce, agriculture, or some other industrial pursuit. The Class C directors may not, under the law, be either officers, directors, employees, or stockholders of banks. They are appointed by the Board of Governors as representatives not of any particular group or interest, but of the public interest as a whole.

Since the Federal Reserve Banks are public institutions operated in the public interest and not for private profit, the Board has felt that a certain degree of rotation in the membership of the directorates of the Reserve Banks is desirable in order to gain the advantages of broader representation over a period of time and insure against a possible crystallization of the influence of individuals, groups, or interests which might not be in the public interest. Accordingly, in 1935 the Board announced that, as a matter of broad policy, it would not reappoint directors who had completed six years of continuous service, except Chairmen of the Federal Reserve Banks.

It was hoped that the same policy would be followed in the elections by member banks of Class A and Class B directors. This has been true only to a limited extent. Thus, in most instances the effect of the general rule laid down in 1935 has been to place a limitation upon the length of service of directors appointed by the Board without a corresponding limitation upon the terms of the elected directors. The Board has accordingly concluded to dispense at this time with any fixed rule as to the length of service of Class C directors and will be governed by the situation at the particular Reserve Bank. The Board, however, will adhere generally to the policy of rotation in the service of Class C directors.

The situation at the branches of the Federal Reserve Banks is somewhat different. Pursuant to statutory authority, the Board of Governors has issued regulations governing the operation of the branches, under which a branch director (except the managing director who is also the chief operating officer of the branch) is not eligible for reappointment immediately following six or more years of continuous service. This policy will be continued since it applies to all directors of a branch (other than the managing director), and not merely to one group.