

News Release

THE FEDERAL RESERVE BANK of KANSAS CITY

1 Memorial Drive • Kansas City, MO 64198 • Phone: 816.881.2683

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CONTACT: Bill Medley
816/881-2556
Bill.Medley@kc.frb.org

SHOULD BANKERS SERVE ON FEDERAL RESERVE BANK BOARDS OF DIRECTORS?

The following statement was issued today by Federal Reserve Bank of Kansas City President and Chief Executive Officer Esther George:

Periodically, the Federal Reserve's structure is debated by Congress, the public or the media. Recently, the question of whether it is appropriate for bankers to serve on the boards of the Federal Reserve's regional Reserve Banks has once again been raised.

In light of this, I want to take this opportunity to better explain the roles—and limitations—of Reserve Bank directors. These individuals, who are respected and engaged community leaders, provide oversight and guidance for Reserve Bank operations as well as grass-roots economic information for Reserve Bank presidents to consider in their congressionally mandated monetary policy responsibilities.

The Reserve Banks' structure, which includes a nine-member board of directors at each Bank, addresses the Federal Reserve founders' goal of ensuring that national policy decisions include input from across the entire country and encompasses both public and private interests. Three of the nine directors at each Reserve Bank are bankers in their respective districts. The six remaining directors represent the public and are not permitted to be bank employees or otherwise be affiliated with a financial company.

Along with the six other directors, the three bankers provide critical, in-depth information about economic conditions in their communities. The banker directors at the Kansas City Fed are closely attuned to the strengths and challenges of their local economies.

While all directors are involved in matters regarding Reserve Bank governance and oversight, they play no part in the Fed's role in supervising and regulating financial institutions. Decisions and information about supervisory actions are discussed directly between the staffs of the Board of Governors and the Reserve Banks. Directors do not receive this information and do not have any influence over these decisions.

Nonetheless, directors have a special obligation for maintaining the integrity, dignity and reputation of the Federal Reserve System. The Federal Reserve Board of Governors describes the standard for directors in its Guide to Conduct for Directors of Federal Reserve Banks, found on the Board's website¹, with the following unambiguous language:

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"Directors of Federal Reserve Banks and branches, in carrying out their System responsibilities, should avoid any action that might result in or create the appearance of--

a. affecting adversely the confidence of the public in the integrity of the Federal Reserve System

b. using their position as directors, including their access to Federal Reserve officials, for private gain,

c. using their position as a director to influence any supervisory matter (such as an application, formal or informal enforcement action, examination or inspection rating, or the like) involving the institution with which the director is affiliated (through stock ownership, employment, or otherwise)

Yes, bankers should serve. They provide valuable information about the economy, credit conditions and the payments system. There are high standards that apply to Reserve Bank directors, and when an individual no longer meets these standards, the director resigns voluntarily to allow someone who does meet the criteria to serve.

No individual is more important than the institution and the public's trust.

ⁱ <http://www.federalreserve.gov/generalinfo/listdirectors/PDF/guide-to-conduct.pdf>