

BY CHRIS MURPHY

## The Reserve Bank Presidential Search

The public-private governance structure of the Fed was designed to keep it apolitical and independent, yet accountable to Congress, to ensure it could operate most effectively as the nation's central bank. For the past several decades, Congress and the Fed have instituted policies seeking to make the Fed more transparent to the public without eroding its independence.

An example of increasing transparency is how the Fed selects Reserve Bank presidents. Each of the 12 Reserve Bank presidents oversee their Banks' monetary policy, bank supervision, and payment services. In addition, they gather economic intelligence through their respective boards of directors, advisory councils, and business and community leaders to inform their policy perspectives on the Federal Open Market Committee (FOMC), the body that conducts U.S. monetary policy. Based on the critical role that presidents play in formulating monetary policy, members of Congress called for more transparency in the selection of presidents to ensure the monetary policy process includes diverse views and experiences. This led the Fed to take steps to ensure its presidential selection process was transparent, fair, and inclusive.

One such response has been an effort to increase the diversity of the people who serve on each Reserve Bank's board of directors. By statute, the selection of a Reserve Bank president is the responsibility of its board. Across the Federal Reserve System, there are 274 slots for directors on head office and branch boards. As of Jan. 1, 2022, Reserve Bank boards comprised 43 percent women, compared to 36 percent five years ago, and 38 percent minorities, compared to 30 percent 5 years ago. In addition, industry diversity includes representatives from commerce/industry (25 percent), banking (24 percent),

consumer/community (9 percent), and labor (2 percent), to highlight a few. Board diversity directly influences the presidential search process by ensuring a broad and diverse candidate pool.

Directors are comprised of three classes – Class A directors are elected by and represent member banks in the Reserve Bank's district, Class B directors are elected by member banks but represent the public, and Class C directors are appointed by the Fed's Board of Governors to represent the public. When a presidential search begins, the directors form a search committee, composed of Class B and C directors, that may hire an executive search firm capable of sourcing a broad pool of highly qualified and diverse candidates. Class A directors are prohibited from taking part in the search process because of their connection to financial institutions. Among other qualities, Reserve Banks seek candidates who can interpret and communicate on a broad range of economic and banking policy topics, direct the focus of the Bank's economic research, provide input to FOMC deliberations, and possess the ability to serve as a chief executive officer for Reserve Bank operations.

"The vetting and interview process is a collaborative effort that includes representatives from the search firm, the search committee, additional Bank directors who represent the public, and members of the Board of Governors," Margaret Lewis, former board chair of the Richmond Fed, told Congress. "The diversity of perspectives offered from these reviews contribute significantly to ensuring candidates are qualified in accordance with the job profile and evaluated on their professional experience, competencies and characteristics, and adherence to the highest ethical standards."

Reserve Banks have implemented various practices, such as establishing a

dedicated public webpage that includes a job profile, a process for allowing the public to submit candidate referrals, and public updates throughout the selection process. Reserve Banks reach out to the public through town halls and meetings to share information, encourage individuals and organizations to provide input, and answer questions. Engagement includes stakeholders from labor, business, nonprofits, academia, and organizations whose missions include a focus on diversity and inclusion, among others.

The chair of the Board of Governors' Committee on Federal Reserve Bank Affairs meets regularly with the search committee chair throughout the process regarding the candidate pool, with a particular focus on ensuring it is broad and diverse. During the Richmond Fed's 2017 presidential search, the search committee provided Congress with updates on the process.

After the search committee interviews a range of potential candidates, final candidates are interviewed by the Board of Governors. The Bank's Class B and C directors then formally appoint a candidate, subject to the approval of the Board of Governors.

Former Richmond Fed economist Marvin Goodfriend described in a 2000 essay, "The Role of a Regional Bank in a System of Central Banks," what he viewed as the many advantages of the Fed's decentralized structure. His reflections included the importance of Reserve Bank presidents in helping to bring information about local economies and business decisions to FOMC meetings and using that information to contribute to policymaking. In turn, presidents help get the Fed's policy message out to the public. Many policymakers inside and outside of Congress believe that a transparent and inclusive search process will aid both of these functions. **EF**