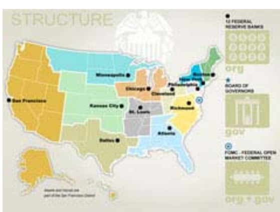
FEDERAL RESERVE BANK OF SAN FRANCISCO

EDUCATION

TEACHER RESOURCES

What is the Fed: Structure

INTRODUCTION



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Take the Quiz

The Federal Reserve System has a two-part structure: a central authority called the Board of Governors in Washington, D.C., and a decentralized network of 12 Federal Reserve Banks located throughout the country. Monetary policy is set by the FOMC, which includes members of the Board of Governors and presidents of the Reserve Banks.

The Fed has been set up to ensure that monetary policy is insulated from political pressure. It is shielded from interference from other arms of the federal government. Policy and operational decisions do not require congressional or Presidential approval. The Fed's operations are financed through its own resources rather than through congressional appropriations. Still, Congress has the power to change the laws governing the Fed. In addition, the Fed regularly reports to Congress on monetary policy and other matters. As such, the Fed is commonly described as "independent within the government."

BOARD OF GOVERNORS

The Board is an independent governmental agency that oversees the Federal Reserve System.

At the center of the Federal Reserve structure is the Board of Governors in Washington, D.C. The seven-member Board and its staff constitute an independent government agency charged with overseeing the Federal Reserve System. Board members are appointed by the President and confirmed by the Senate, serving staggered 14-year terms that expire in every even-numbered year. Board members are appointed for long terms in order to shield them from political pressures. The President designates a chairman and vice chairman of the Board, each of whom serve four-year terms. These appointments are subject to Senate approval and may be renewed.

FEDERAL RESERVE BANKS

Twelve regional Federal Reserve Banks conduct much of the Federal Reserve System's day-to-day operations.

The Fed includes 12 regional Federal Reserve Banks which carry out much of the System's day-to-day operations. The Reserve Banks, also known as district banks, are nongovernmental organizations, set up similarly to private corporations, but operated in the public interest. The districts are headquartered in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. Reserve Bank branches are located in 24 other cities.

The Reserve Banks and each of their branches have a board of directors composed of representatives of commercial banks that are members of the Federal Reserve System, as well as individuals representing business interests of each District. Boards sometimes also include members from the labor, consumer, and nonprofit sectors. Each Bank president is appointed by its board of directors and approved by the Board of Governors, which safeguards against political influence.

FEDERAL OPEN MARKET COMMITTEE

The FOMC is the Fed's monetary policymaking body.

The Federal Open Market Committee is the Fed's monetary policymaking body. The FOMC has 12 voting members, including the seven members of the Board of Governors and a rotating group of five Reserve Bank presidents. The Board of Governors chairman serves also as chairman of the FOMC. The Federal Reserve Bank of New York is directly involved in carrying out monetary policy operations, so its president serves as a permanent voting member and vice chairman of the FOMC. The 11 other Reserve Bank presidents serve one-year terms as voting members on a rotating basis. All 12 presidents participate in FOMC meetings, whether or not they are current voting members.

The FOMC holds eight regularly scheduled meetings a year in Washington, D.C. For each session, economists at the Board of Governors and the Reserve Banks analyze regional, national, and international economic and financial conditions. On the final day of each meeting, monetary policy is put to a vote. Following the meeting, the FOMC issues a written statement describing its assessment of economic conditions, risks to the outlook, and policy actions.

FINANCIAL REGULATORY REFORM

The Dodd-Frank Act of 2010 has implications for the structure of the Fed.

The recently passed Dodd-Frank Act contains a number of provisions that affect the Fed's structure. The legislation adds a second vice chairman position within the Board of Governors to oversee the Fed's supervision and regulation responsibilities. In addition, Dodd-Frank modifies the procedure for appointing presidents of the 12 Reserve Banks by excluding directors representing commercial banks from the selection process. The Government Accountability Office will also audit Reserve Bank governance within the next year (2011). These measures are designed to increase the Fed's transparency and accountability without jeopardizing its independence.

The Dodd-Frank Act also establishes new entities within the Fed. A Consumer Financial Protection Bureau will operate autonomously within the Fed to write and enforce rules that protect consumers in financial matters. In addition, the Reserve Banks and Board of Governors will establish an Office of Minority and Women Inclusion charged with increasing workforce diversity, enhancing involvement with minority- and women-owned businesses, and assessing the diversity policies of the financial institutions the Fed oversees.

Sources:

Current FAQs: What is the purpose of the Federal Reserve System?, Federal Reserve Board of Governors, February 4, 2014.

Current FAQs: What is the FOMC and when does it meet?, Federal Reserve Board of Governors, March 18, 2014.

Current FAQs: How is the Federal Reserve System structured?, Federal Reserve Board of Governors, August 7, 2013.

WHAT IS THE FED?

History

Monetary Policy

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Any questions? Contact us.