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Board of Governors of the Federal Reserve System
20th & Constitution Avenue, NW
Washington, DC 20551
Fax: (202) 872-7565, (to: Information Disclosure Section)
[Electronic Request Form](#)

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 23, 2017

Re: *Freedom of Information Act Request F-2017-086*

This is in response to your e-mail message dated January 23, 2017, and received by the Board's Freedom of Information Office on January 24. Pursuant to the Freedom of Information Act ("FOIA"), 5 U.S.C. § 552 you seek copies of the following:

- [1] A digital/electronic copy of the Federal Reserve Administrative Manual.¹
- [2] The Table of Contents only of the Internal Administrative Procedures Manual.
- [3] A digital/electronic copy of the Records Policy and Procedures Manual.

Staff searched Board records and located documents that are responsive to Items 1 and 3 of your request. The Board's Freedom of Information Office will provide you with a copy of the documents being made available to you under separate cover.

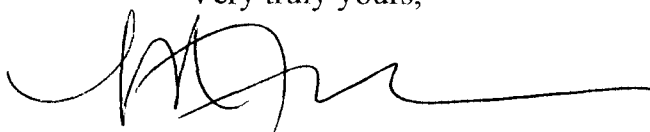
With respect to Item 2, staff searched Board records and made suitable inquiries but was unable to locate an "Internal Administrative Procedures Manual." You may be interested to know that records show there was a manual with that name, but it was eliminated in November 2006. Although some of the policies that were formerly contained in the manual are now located on an internal Board website, there is no table of

¹ The scope of this item of your FOIA request was clarified in an e-mail message with Ms. Del Quisumbing of the Board's Legal Division on May 3, 2017, in which you confirmed that previously released public portions of the Federal Reserve Administrative Manual would satisfy Item 1 of this request.

contents. Therefore, I am unable to provide you with any responsive information for Item 2 of your request.

Your request for information is granted in part and denied in part for the reasons described above. If you believe the determination that no responsive records exist for Item 2 is incorrect, you may administratively appeal by writing to Freedom of Information Office, Board of Governors of the Federal Reserve System, 20th Street & Constitution Avenue NW, Washington, D.C. 20551; by facsimile to 202-872-7565; or electronically to FOIA-Appeals@frb.gov. Your appeal must be postmarked or electronically transmitted within 90 days of the date of the response to your request.²

Very truly yours,

A handwritten signature in black ink, appearing to read 'Michele Taylor Fennell', with a long horizontal flourish extending to the right.

Michele Taylor Fennell
Assistant Secretary of the Board

² Please note that you may also contact our FOIA Public Liaison at 202-452-3684 for further assistance. Additionally, you may contact the Office of Government Information Services (OGIS) at the National Archives and Records Administration to inquire about the FOIA mediation services they offer. The contact information for OGIS is as follows: Office of Government Information Services, National Archives and Records Administration, 8601 Adelphi Road-OGIS, College Park, MD 20740-6001; e-mail at ogis@nara.gov; telephone at 202-741-5770 or toll free at 1-877-684-6448; or facsimile at 202-741-5769.

Federal Reserve Administrative Manual

Transmittal 93

September 2010

Nature of Changes

The Board has issued five Federal Reserve System letters (or S-Letters) that either revise or rescind several System policies.

Personnel

The Board has issued **S-2644**, which revises the System policy on total compensation ([2-006](#)) primarily by expanding the definition of total compensation and establishing compensation limits in a partial year of employment; revising variable pay limits and documentation requirements; establishing retention pay limits and eligibility, and revising retention pay frequency and duration, and providing other revisions that ease administrative burden, streamline the policy, and update the policy to reflect current practices.

The Board has issued **S-2645**, which revises the System policy on relocation for new hires and existing Reserve Bank employees ([2-050](#)) to require that the administration of relocation benefits be consistent with Section 409A of the Internal Revenue Code; to clarify the timing of agreements to repayment terms, and to confer responsibility and authority to the Subcommittee on Human Resources for the model relocation program (which will be reflected as a standard operating procedure).

Administration and Support

The Board has issued **S-2646**, which revises the System policy on discretionary expenditures by Federal Reserve Banks ([1-017](#)) to update certain provisions related to off-site events and foreign travel and to ensure consistency with other System policies.

Non Responsive



Non Responsive



Financial Services

Non Responsive



Federal Reserve Administrative Manual

Transmittal 92

March 2010

Nature of Changes

Administration and Support

The Board has issued S-2643, which revises its policy on director conduct ([1-065](#)) by adding a provision requiring each Reserve Bank to adopt a policy governing director involvement in Reserve Bank procurement matters. The Board expects each Reserve Bank to have its policy in place no later than June 30, 2010.

DIRECTORS—Guide to Conduct for Directors of Federal Reserve Banks and Branches

Although Reserve Bank director involvement in procurements is rare, it has the potential to raise conflicts of interest or the appearance of conflicts of interest. Accordingly, each Reserve Bank shall develop, adopt, and maintain a policy that reflects the Board's commitment to procurement practices that are untainted by any potential for conflicts of interest from directors.

Federal Reserve Administrative Manual

Transmittal 91

January 2010

Nature of Changes

The Board has issued S-2642 that revises its policy on Directors' Eligibility, Qualifications, and Rotation. These policy revisions are described below.

Administration and Support

DIRECTORS—Eligibility, Qualifications, and Rotation

The Board has approved revisions to its Directors' Eligibility, Qualifications, and Rotation Policy (i.e., Eligibility Policy), at [1-061](#). Under these revisions, a class B or class C director who has an affiliation (i.e., serves as an officer, director, or employee) with a company that becomes a bank holding company or other impermissible affiliation during the director's term must either resign from the affiliation or resign from the Reserve Bank's board within 60 days of the earlier of the date the director becomes aware of the impermissible affiliation or the date that the Board informs the Reserve Bank of the change in character of the company. A class C director who owns stock in a company that becomes a bank holding company or other impermissible holding during the director's term must either divest the stock or resign from the Reserve Bank board within 60 days of the earlier of the date the director becomes aware of the impermissible stockholding or the date that the Board informs the Reserve Bank of the change in character of the company. In both cases, the director should advise the Reserve Bank of his or her intentions within 30 days of notification, and must recuse himself or herself until the affiliation is severed or the stock is divested. The Board may approve a request from a Reserve Bank for a waiver to the Eligibility Policy in rare and exigent circumstances only and upon a vote of the Reserve Bank board on whether to submit a request to the Board. The revisions also clarify the rules regarding a class C director's indirect stock ownership.

In order to ensure compliance with the affiliation and stockholding rules, Board staff in the Office of the Secretary will be responsible for providing each Reserve Bank corporate secretary, on a monthly basis, with a list of all companies that have changed their status as a result of Board action such that affiliations or stockholdings by directors would be impermissible. Each Reserve Bank corporate secretary will be responsible for immediately disseminating the list to the Reserve Bank's sitting and proposed class B and class C directors and advising the directors to inform the Reserve Bank of an impermissible affiliation or stockholding, as

appropriate. Each Reserve Bank corporate secretary will also be responsible for requesting that the class B and class C directors certify, on an annual basis, that they do not have any impermissible affiliations or stockholdings.

Non Responsive



Federal Reserve Administrative Manual

Transmittal 90

October 2009

Non Responsive



Non Responsive

Banking Supervision and Regulation

The director of the Division of Banking Supervision and Regulation, acting under authority delegated by the Board, has revised the FRAM section Examination Personnel—Obtaining Credentials and Commissions; Policies and Procedures, V. Issuance of Credentials (at [5-040](#)), to allow the Director of the Division of Community Affairs to sign the examiner certificates for newly appointed consumer compliance examiners.

Federal Reserve Administrative Manual

Transmittal 89

April 2009

Nature of Changes

Reports--By General Auditors

The Board has revised its policy on reports by general auditors (S-2638, at [1-100](#)) to make a number of changes to the organization and wording of the policy to ensure that information that Board staff receives from the System audit departments is complete and consistent and that reporting intervals are uniform. Under the revised policy, general auditors are asked to submit their department's annual audit plan and to submit audit activity reports quarterly. The content of these reports and the information requested about audit follow-up activities has been revised and expanded. In addition, certain other information in the policy has been updated or clarified.

Personnel

As mentioned in S-2637 (dated December 19, 2008), the Board revised its policy and guidelines on Reserve Bank compensation (at [2-006](#)), specifically its policy related to total cash compensation limits. The new policy included the following changes:

- the single total cash compensation cap for all Reserve Banks has been replaced with a total cash compensation cap for each tier group based on the maximum of the presidents' salary range for that tier, and
- in rare and unusual circumstances, a Reserve Bank may request an exception to the cash compensation limit from the chair of the Committee on Federal Reserve Bank Affairs.

The revised policy also applies to compensation for first vice presidents (S-2639, at [2-012.2](#)).

Federal Reserve Administrative Manual

Transmittal 88

January 2009

Nature of Changes

Personnel

The Board has revised its policy and guidelines on Reserve Bank compensation, specifically its policy related to total cash compensation limits, at [2-006](#). The revisions, issued by S-2637, supersede portions of S-2636 and affect section I.D.3 and V.A, Compensation--Total; Reserve Bank Policy and Guidelines. The revised policy includes the following changes:

- the single total cash compensation cap for all Reserve Banks has been replaced with a total cash compensation cap for each tier group based on the maximum of the presidents' salary range for that tier, and
- a provision has been added to note that a Reserve Bank may seek approval from the chair of the Committee on Federal Reserve Bank Affairs for an exception to the cash compensation limit in special and unusual circumstances, but the Board expects such requests to be extremely rare.

Federal Reserve Administrative Manual

Transmittal 87

January 2008

Nature of Changes

Personnel

The Board revised its policy on compensation of Reserve Bank first vice presidents. This revision, issued by S-2636, affects section II.C. of the total compensation policy at [2-006](#).

The Board also revised the policy on first vice president (FVP) compensation at [2-012.2](#) to delegate to the Reserve Banks decisions concerning FVP variable pay and to incorporate other technical and clarifying changes. The revised policy, issued by S-2635, includes the following changes:

- the elimination of the requirement that Banks notify the chair of the Committee on Federal Reserve Bank Affairs (BAC) prior to implementing FVP incentive plans and effecting payouts under those plans
- a statement that each Reserve Bank should provide Board staff with its FVP's incentive plan and payout information consistent with the guidelines provided by the director of the Division of Reserve Bank Operations and Payment Systems
- a clarification of the roles of the Richmond board of directors, Richmond president, and chair of the Information Technology Oversight Committee in evaluation and compensation decisions for the System chief information officer/director of Federal Reserve Information Technology to conform to the current System governance structure
- a statement that a Reserve Bank may, under extraordinary circumstances, seek approval from the BAC chair for an exception to the FVP salary-range maximum (subject to the constraint of the Reserve Bank compensation cap)

Federal Reserve Administrative Manual

Transmittal 86

October 2007

Nature of Changes

Administration and Support

The Board revised its policies and guidelines concerning Federal Reserve Bank operations (at [1-049](#)). The revisions codify the authority of the director of the Division of Reserve Bank Operations and Payment Systems (RBOPS) to approve changes to the *Federal Reserve System Law Enforcement Training Manual* and the *Federal Reserve Bank Facilities and Security Guidelines*, in consultation with the Subcommittee on Administrative Services. The revisions also codify the authority of the director of RBOPS to approve routine changes to the *Handbook for the Administration of Federal Reserve Policy on Payments System Risk*, the *Overview of the Federal Reserve's Payments System Risk Policy*, and the *Guide to the Federal Reserve's Payments System Risk Policy* (significant substantive changes, however, are subject to Board approval). The revised policy clarifies the Reserve Banks' authority to sell real estate and raises the threshold for consultation with the director of RBOPS for the sale of real estate from \$1 million to \$5 million. In addition, the policy reflects the authority of the Retail Payments Office to approve certain minor national price and service changes. Other minor clarifications and updates have also been made. The revised policies and guidelines are effective immediately.

The Board approved a revision to the policy pertaining to eligibility, qualifications, and rotation of directors (at [1-061](#)), to allow the Board to select an officer, director, or employee of a primary dealer or a company that controls a primary dealer as a class C director. In light of this revision, if a conflict of interest arises for a Reserve Bank director who is affiliated with a primary dealer (affiliated director), the conflict should be addressed by requiring the affiliated director to recuse himself or herself from consideration of the matter. For example, recusal of an affiliated director would be appropriate if the board of directors of a Reserve Bank was considering a request from a primary dealer to extend an auction past the bid deadline or reviewing the criteria for selecting and de-selecting primary dealers. If, in light of the specific facts, recusal is not sufficient, the matter should be referred to the Board of Governors, the Department of the Treasury, or the FOMC for action, as appropriate. For example, matters involving unlawful or inappropriate conduct by a primary dealer affiliated with a director should be referred to the Board of Governors, the Treasury, or the FOMC for consideration. The policy has been revised by deleting the following sentence from the second paragraph under the heading ``Class C'': ``In addition, because securities firms that are designated as primary dealers engage in frequent transactions with the Reserve Banks in the implementation of monetary policy, the Board will not select an officer, director, or employee of a primary dealer as a class C director."

Federal Reserve Administrative Manual

Transmittal 85

January 2007

Non Responsive

Banking Supervision and Regulation

The director of the Division of Banking Supervision and Regulation and the Board's general counsel, acting under authority delegated by the Board, approved an addition to the System's policies to reflect the new post-employment restriction on certain examination personnel imposed by the Intelligence Reform and Terrorism Prevention Act of 2004 and the Board's implementing rule. The act and the rule restrict an examiner who served as the ``senior examiner" for a depository institution or depository institution holding company for two or more months during the examiner's final 12 months of employment with a Reserve Bank from knowingly accepting compensation as an employee, officer, director, or consultant from that depository institution or holding company, or from certain related entities, for one year after terminating his or her employment with the Reserve Bank. The new policy is at [5-043](#); a similar addition will be made to the Reserve Banks' Code of Conduct.

Federal Reserve Administrative Manual

Transmittal 84

April 2006

Nature of Changes

Administration and Support

The Board approved revisions to a number of policy statements related to the election, qualifications, investments, political activities, and ethical conduct of Reserve Bank directors. The revisions, issued by S-2629, streamline numerous policy statements in these areas and consolidate them in four separate policy statements:

- Directors--Eligibility, Qualifications, and Rotation (at [1-061](#))
- Directors--Procedure for Elections of Class A and Class B Directors (at [1-064](#))
- Directors--Guide to Conduct for Directors of Federal Reserve Banks and Branches (at [1-065](#))
- Directors--Political Activity (at [1-066](#))

Personnel

The Board revised its policy on mandatory retirement for Reserve Bank presidents and first vice presidents. The revised policy consolidates the two previous policies on mandatory retirement for Reserve Bank officials (S-2508 and S-2605) and liberalizes an exception to the policy to permit a Bank's board of directors to extend the mandatory retirement age for a president or first vice president who was appointed after age 55 to the earlier of 10 years of service or age 75 (the current limit is age 70). The revisions also narrow the exception to the policy for special and unusual circumstances. The revised policy, issued by S-2630, is at [2-070](#).

Federal Reserve Administrative Manual

Transmittal 83

January 2006

Nature of Changes

Personnel

The Board approved a revision to the policy for administering Reserve Bank presidents' salaries (at [2-012.3](#)), effective November 7, 2005. Under the revised policy, the salary of the president of the Federal Reserve Bank of New York will be administered at a compa-ratio ten points higher than the ratios established for other Reserve Bank presidents. The revision reflects the unique responsibilities of the president of the New York Reserve Bank involving monetary policy, international banking, and the financial markets.

The Board revised its policy on implementing those provisions of the USA Patriot Act that provide federal law enforcement authority to Federal Reserve protection officers and Board security officers and special agents (at [2-038](#)). The revisions clarify Board expectations related to Federal Reserve law enforcement officer training programs and the cross-designation of protection officers with local law enforcement authority. Following are the material revisions:

- Federal Reserve law enforcement officer training curriculums should adhere to the lesson plans contained in the *Federal Reserve System Law Enforcement Training Manual*.
- Federal Reserve law enforcement officer training courses should be taught by certified instructors in a classroom environment with supporting practical exercises.
- The knowledge retention and skill competency of Federal Reserve law enforcement officers and officer candidates should be tested for each basic and in-service training course.
- To ensure continued proficiency, all Federal Reserve law enforcement officers are expected to successfully complete the required in-service training courses in accordance with guidelines in the *Federal Reserve Law Enforcement Training Manual*.
- Federal Reserve law enforcement officer training records should be maintained in accordance with guidelines in the *Federal Reserve System Law Enforcement Training Manual*.
- Banks should cross-designate officers only when it is beneficial to the performance of Federal Reserve functions and responsibilities, and only after officers have been trained and designated with Federal Reserve law

enforcement authority as provided by the USA Patriot Act.

- Reserve Banks may select the curriculum and instructors for supplemental curriculums, including, but not limited to, ethics, sexual harassment and workplace violence. This flexibility will be incorporated in a revision of the *Federal Reserve System Law Enforcement Training Manual*.

Federal Reserve Administrative Manual

Transmittal 82

October 2005

Nature of Changes

Personnel

The Board has approved amendments to its policy on compensation of Reserve Bank officers and employees (at [2-006](#)). The amendments address a broad array of Reserve Bank compensation programs and reflect recent changes in other Board policies and Reserve Bank practices:

- The range maximum applies to part-time employees using their annualized full-time-equivalent base salaries.
- Reserve Banks must notify the director of the Board's Division of Reserve Bank Operations and Payment Systems before they hire an individual at a salary above the designated range, band, or market zone, or increase the salary for a current employee to an amount above the designated range, band, or market zone. The director has 10 days to object, and if no objection is raised during the 10-day period, the Reserve Bank may implement the proposed salary action.
- An individual's base salary and variable pay should not exceed the maximum of the highest salary range established for Reserve Bank presidents, which changes the current limit based on his or her president's salary range maximum.
- Variable pay for senior professionals and officers is administered in the same manner.
- The limit on signing bonuses is now 25 percent of starting salary.
- Updates to the policy reflect current Reserve Bank compensation practices, such as market pricing, the current governance of System benefits and non-System consolidated benefits, and current policies on compensating Reserve Bank presidents (at [2-012.3](#)) and first vice presidents (at [2-012.2](#)).

Federal Reserve Administrative Manual

Transmittal 81

July 2005

Non Responsive



Personnel

The Board approved a new policy for administering Reserve Bank presidents' salaries (at [2-012.3](#)). Effective May 1, 2005, salaries move in predetermined steps, beginning the third year from the date of appointment. The Board will continue to approve the salaries of new Bank presidents as part of the appointment process; thereafter, however, presidents' salary increases will not require Board approval if the salaries are consistent with the new salary-administration policy. Beginning in 2006, presidents' salary ranges will be adjusted annually on January 1, with appropriate adjustments to individual presidents' salaries, to maintain their positions in the ranges.

Non Responsive



Non Responsive



Non Responsive



Federal Reserve Administrative Manual

Transmittal 80

April 2005

Nature of Changes

The System examiners' borrowing rules (at [5-041](#)) have been revised as a result of the Preserving Independence of Financial Institution Examinations Act of 2003, which liberalized examiner-borrowing restrictions by providing narrow exceptions that enable bank examiners to obtain credit cards and certain home mortgage loans from a broader range of lenders. A Reserve Bank examiner may now accept a credit card or a loan secured by a mortgage on the examiner's principal residence from an institution supervised by the Federal Reserve, as long as the examiner meets the financial requirements to obtain such credit or loan and the terms of the credit or loan are not more favorable than terms generally offered to other borrowers. Even though an examiner can now obtain such a mortgage, however, Federal Reserve policy will continue to restrict examiners from examining entities from which they have home mortgage loans. Similar changes will be made to the Reserve Banks' Code of Conduct. Reserve Banks should continue to periodically monitor borrowing relationships to provide adequate oversight of potential conflicts of interest as well as the perception of any conflict of interest.

Federal Reserve Administrative Manual

Transmittal 79

January 2005

Nature of Changes

Administration and Support

The Board revised its policy on audit committee duties and responsibilities (at [1-007](#)) to incorporate requirements consistent with those in the Sarbanes-Oxley Act of 2002 and the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 99, "Consideration of Fraud in a Financial Statement Audit." The revised policy is effective January 1, 2005.

Personnel

The Board revised its policy on Reserve Bank variable-pay programs (at [2-006](#)). The revisions provide additional flexibility to the Reserve Banks in managing officer variable pay, while preserving the Board's philosophy that variable-pay programs should be meaningful but not comparable to those in the private sector. The revisions also address self-funded incentive plans, such as production incentive programs and gainsharing programs. The policy includes the following changes:

- an increase in the maximum annual variable pay for officers (from 20 percent to 40 percent of base salary) and for senior professionals (from 15 percent to 40 percent of base salary), provided that total compensation does not exceed the maximum of the salary range for the Reserve Bank's president
- an increase in the maximum annual variable pay for employees in one of the Reserve Bank's top three exempt grades (from 15 percent to 20 percent of base salary)
- a statement that incentive awards should be the predominant form of variable pay for officers
- a clarification of how to treat multiyear incentives when considering maximum individual annual variable-pay limits
- a change to the basis used to calculate variable-pay pools from the annualized employee and officer salary liability for December 31 of the preceding year to the budgeted annual officer and employee salary expense for the year the variable-pay pools are effective
- a statement that variable-pay awards are conditioned on the individual's performing his or her overall job responsibilities in at least a satisfactory manner
- the codification of two forms of self-funded incentive programs (gainsharing

programs and production incentive programs) together with standards that apply to those programs

- an expansion of the authority of the chairman of the Committee on Federal Reserve Bank Affairs to approve exceptions to the policy (current policy permits the committee's chairman to approve exceptions only to officer variable-pay maximums)
- additional minor changes that clarify other provisions of the policy

The revisions, which affect section V. of the policy, are not intended to expand the System's policy on additional forms of variable pay (for example, self-funded incentives) that are considered salary for purposes of computing retirement benefits. Changes to this policy, which are effective January 1, 2005, are effected through modifications to the retirement plan.

Federal Reserve Administrative Manual

Transmittal 78

April 2004

Nature of Changes

Personnel

The Board has revised its policy on the evaluation and compensation of first vice presidents (at [2-012.2](#)). The new policy should be used to develop variable-pay programs and requests for salary increases for first vice presidents and the director of Federal Reserve Information Technology. The new policy revises current procedures by--

- delegating to the Reserve Bank's board of directors authority to decide merit pay increases, within Board-established salary ranges and merit pay guidelines;
- articulating a philosophy regarding placement of a first vice president's base pay within the salary range;
- providing for the possibility of a special equity adjustment, where appropriate, subject to the approval of the chairman of the Committee on Federal Reserve Bank Affairs (BAC); and
- increasing the maximum amount of a variable-pay award from 10 percent of salary to 20 percent of salary, and expanding the types of initiatives eligible for variable pay to include "special challenges of strategic importance to the Reserve Bank and/or the System." (The incentive plans and final payouts can be awarded, as proposed by the Reserve Bank, unless the BAC chairman notifies the Bank otherwise within 10 business days of receipt of the submission.)

In addition, the new policy sets forth the key dimensions of first vice presidents' performance evaluation that should be the basis for making compensation decisions. The policy also includes an expectation that each president, as part of the performance assessment, will consult with relevant System oversight groups and the BAC chairman.

Federal Reserve Administrative Manual

Transmittal 77

October 2003

Non Responsive



Federal Reserve Administrative Manual

Transmittal 76

July 2003

Nature of Changes

Administration and Support

The Board issued S-2616 setting out the revised schedules for retention and disposition of Board records (at [1-094](#)).

Miscellaneous

The Board approved a policy on Reserve Banks' treatment of payment system oversight information to ensure that the Banks avoid any actual or apparent conflict between their roles as providers of payment services and as supervisors and lenders (S-2617 at [6-008](#)).

Federal Reserve Administrative Manual

Transmittal 75

April 2003

Non Responsive



Miscellaneous

A correction has been made to the notice at [6-002.2](#) authorizing payments toward the expenses of the secretary's office of the Federal Advisory Council. Reserve Banks should notify the Board's Office of the Secretary of any action taken under that authorization.

Federal Reserve Administrative Manual

Transmittal 74

January 2003

Non Responsive



Miscellaneous

The Board increased the amount that each Reserve Bank is authorized to pay toward the expenses of the secretary's office of the Federal Advisory Council, from \$7,500 to \$10,000 annually (at [6-002.2](#)).

Federal Reserve Administrative Manual

Transmittal 72

July 2002

Non Responsive



The Board revised its policies and guidelines regarding Federal Reserve Bank discretionary expenditures (S-2606 at [1-017](#)). Substantive changes to the policy include the following:

- *Board of directors' responsibilities.* The policy permits a Bank's board of directors to delegate to senior management responsibility for maintaining and administering discretionary-expenditures policies, including the approval of periodic procedural changes. In addition, the policy allows senior management to review and approve memberships, a responsibility previously assigned to directors.
- *Employee relations.* The policy provides clearer guidance concerning activities funded through a Bank's employees' club versus those funded directly by the Bank. The policy includes examples of activities that generally should be funded by an employees' club. In addition, for Banks

that choose to directly fund such activities, the policy explicitly requires employees to fund at least 50 percent of the cost of each activity (consistent with funding arrangements required for employees' clubs).

- *Employee and director relations.* The policy specifically addresses requirements for handling memorial tributes upon the death of an employee or retiree. The new policy states that such tributes are acceptable for employees and retirees and requires the Bank to establish guidelines that include dollar limitations for these expenses. Consistent with the policy on direct financial donations, Bank-funded donations to charitable causes in lieu of other memorial tributes are unacceptable.
- *Financial and nonfinancial donations.* The policy includes provisions addressing the propriety of donating Bank property, such as office equipment or furniture, to not-for-profit organizations. Such donations are acceptable, provided the item to be donated is fully depreciated with minimal salvage value or is considered obsolete.
- *Travel policies.* The revised policy is somewhat less restrictive concerning travel reimbursements from a sponsoring organization. The policy now states that reimbursement should be made to the Reserve Bank "whenever possible" and that Banks should document senior management's or the financial control officer's review of permissible exceptions.

In addition to incorporating these changes in each Bank's policies, the Board's new policy requires Reserve Banks to develop guidelines for handling several issues, primarily related to meals, meetings, and travel. The Banks should carefully review this policy to ensure that their policies and guidelines appropriately address the Board's requirements.

Personnel

The Board has approved amendments to its policy governing the administration of Reserve Bank officers' salaries (S-2608 at [2-006](#)). The amendments authorize the chair of the Board's Committee on Federal Reserve Bank Affairs to approve, in certain limited situations, an adjustment to an officer's salary that exceeds the maximum for the officer's relevant grade or that exceeds that of the Reserve Bank's president.

Federal Reserve Administrative Manual

Transmittal 71

January 2002

Non Responsive

Administration and Support

The annotations at [1-081](#) Non Responsive were corrected to reflect the current ceiling on authorized fees to outside counsel.

Federal Reserve Administrative Manual

Transmittal 70

October 2001

Nature of Changes

Personnel

The Board revised its policy on Reserve Bank relocation benefits and approved a model program that will be administered by a national relocation-service provider for Reserve Banks that choose to use it (S-2604 at [2-050](#)).

Non Responsive



Federal Reserve Administrative Manual

Transmittal 69

July 2001

Nature of Changes

The Board revised its policy on audit committee duties and responsibilities (S-2601 at [1-007](#)).

The Board revised its policy on building leasing to recognize the effect of the Gramm-Leach-Bliley Act on Reserve Bank tenant leasing programs and to address issues regarding building security, subleasing of Bank-owned space, and leasing of non-Bank-owned space by Reserve Banks (S-2602 at [1-049](#)). The revisions also provide guidelines for Reserve Banks entering into multiyear prepaid agreements. Paragraph 15 has been replaced by paragraphs 15a and 15b, and ``Equipment, Software, and Multiyear Prepaid Agreements," following paragraph 16, has been amended.

Federal Reserve Administrative Manual

Transmittal 68

April 2001

Nature of Changes

The Board approved guidelines for variable pay for first vice presidents and the director of Federal Reserve Information Technology (FRIT) (at [2-012.2](#)). Variable-pay programs may be established for individuals who have major System assignments of the kind described in the guidelines.

1-005

AUDITS--Appointment, Termination, and Reassignment of General Auditors

The Board has amended its policy on the appointment of general auditors to apply also to the termination and reassignment of general auditors.

The audit functions of the Federal Reserve Banks provide an important service to both the Banks' boards of directors and the Board of Governors. The general auditors and their staffs are a necessary and essential source of independent information on overall conditions within the Banks and on any defalcations or misrepresentations of financial condition that may arise. To carry out these responsibilities effectively, the general auditor must not be dependent on any executive or operating officer at the Reserve Bank for the security of his or her position.

Recognizing the mutual interests served by an independent general auditor and internal audit function, the Board requests that the chairman of the board of directors consult with the Committee on Federal Reserve Bank Activities, through its chairman, at least two weeks in advance of any action by the directors on the appointment, termination, or reassignment of the general auditor. The intent of this provision is to ensure that an ample opportunity exists for an open exchange of views before the Bank's board becomes committed to a particular course of action. For an appointment to the position of general auditor, a brief biographical summary of the preferred candidate, as well as of other qualified candidates considered in the selection process, should be furnished.

The policy on appointment, termination, and reassignment of general auditors serves as a reminder of the direct reporting relationship of the Reserve Bank general auditors to their boards of directors. The Board has previously requested each Bank's audit committee, acting on behalf of the board of directors, to implement the policies and practices discussed under Audit Committee Duties and Responsibilities (at [1-007](#)) to ensure the independence of the general auditor and the internal audit function. S-2478, May 24, 1984; as amended by S-2571, Feb. 28, 1995.

This letter supersedes S-2332 of July 22, 1976.

1-006

AUDITS--Audit Department Involvement in Staff Functions

The Board has concluded that Reserve Bank functions such as research and bank supervision and regulation have the same potential for audit attention as other operations.

The Board of Governors has recently completed a review of the issues relating to the involvement of Reserve Bank audit departments in their Districts' staff functions, including such functions as research and bank supervision and regulation. The Board has concluded that these areas should be subject to the same potential for audit attention as are other Reserve Bank operations. The scope of this audit attention should include review of the management of resources in compliance with established policies and procedures. However, the scope of such attention should exclude any evaluation of professional efficiency and effectiveness as well as the end product of professional staff work. Consequently, this focus should result in audit evaluations of the level of compliance with prescribed policy and procedures and evaluations of administrative efficiency and effectiveness of staff functions.

This conclusion acknowledges that, traditionally, audit resources have been dedicated almost exclusively to those operating areas characterized by vulnerability to financial loss or embarrassment to the Federal Reserve. The Board believes that regular independent audit attention to staff function areas that involve different types of risks would be similarly useful to System management.

While Reserve Bank authority in the bank supervisory area is delegated directly by the Board through its Division of Banking Supervision and Regulation, Reserve Bank boards of directors have an interest in ensuring that their Banks' practices and procedures are sound and in conformity with prescribed regulations. However, in recognition of the potential for conflict of interest and the resulting need to limit the extent of involvement by Reserve Bank directors and others in the sensitive supervision and regulation area, the Board is of the opinion that reports of such audit reviews should communicate the substantive results of the audits, while avoiding reference to specific financial institutions.

The Board's position was discussed with the Conference of General Auditors, which then passed a resolution charging a task force with responsibility for developing a core program for use by all general auditors in conducting reviews of research and bank supervision and regulation functions. S-2424; May 12, 1980.

1-007

AUDITS--Audit Committee Duties and Responsibilities

The Board has revised its policy on audit committee duties and responsibilities to incorporate requirements consistent with those in the Sarbanes-Oxley Act of 2002 and the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 99, "Consideration of Fraud in a Financial Statement Audit." Under the revised policy, at least one member of a Reserve Bank's audit committee should have banking, accounting, or other relevant financial proficiency. The Board believes that, as a general matter, most class A directors and many class B and C directors meet this requirement. The boards of directors need not explicitly designate and publicly disclose which audit committee members meet the financial proficiency requirement.

In addition, the revised policy requires that the audit committee establish procedures for the confidential, anonymous submission of accounting and auditing complaints and concerns (whistle-blower procedures), and that audit committee members be prepared to answer inquiries from the external auditors, especially concerning fraud and fraud mitigation. The revised policy also acknowledges the audit committee's authority to engage counsel and other advisors it determines necessary to carry out its duties.

Policy

The audit committee of each Reserve Bank's board of directors, acting on behalf of the board of directors, is responsible for assessing the effectiveness and independence of the Reserve Bank's internal audit function. This function, directed by a general auditor, is responsible for assessing the adequacy and effectiveness of the controls over (1) financial reporting, (2) efficiency and effectiveness of operations, and (3) compliance with laws and regulations.¹

1. The internal audit function should consult legal counsel in all matters involving legal issues and should not render legal advice or substitute its legal judgment on legal matters for those of the general counsel.

To promote independent and objective assessments, the general auditor reports directly to the board of directors through its audit committee. The general auditor must not be dependent on any Reserve Bank executive or operating officer for the security of his or her position. The audit committee must take care to ensure that the general auditor has access to the board of directors, on a confidential basis, and that the audit function is independent of Reserve Bank management, both by intent and in actual practice.

The Board expects the chairman of the board of directors to appoint a minimum of three directors to the audit committee; these individuals should be independent²

2. Members of the audit committee are considered to be independent if they have no

relationship with the Reserve Bank that might interfere with the exercise of their independence from management and the Bank. Examples of relationships include (i) a director being employed by that Reserve Bank within the past five years; (ii) a director accepting compensation from that Reserve Bank other than compensation for board services; (iii) a director being a member of the immediate family of an individual who has been employed by that Reserve Bank as an officer within the past five years; and (iv) a director being a partner in, or controlling shareholder or an executive officer of, any for-profit business to which that Reserve Bank made, or from which that Reserve Bank received, payments that have been significant to the Reserve Bank within the past five years. For purposes of this policy, a director who is an officer or director of a depository institution or its holding company is not considered to have a relationship that interferes with his or her independence solely because the depository institution makes payments to the Reserve Bank for financial services or an extension of credit.

and financially literate (i. e., able to understand financial statements and general finance concepts) and at least one member should have banking, accounting, or other relevant financial proficiency.³

3. Banking, accounting, or other relevant financial proficiency means significant employment experience in finance, accounting, auditing, or banking functions, professional certification in accounting, or other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer or other senior officer with financial oversight responsibilities.

The members should be particularly suited to fulfill the following responsibilities.

1. To the extent the audit committee's responsibilities are not set forth in the Bank's bylaws, to adopt a formal written charter that is approved by the full board of directors and that specifies the scope of the audit committee's responsibilities and how it should carry out those responsibilities, and to review annually the performance by the audit committee of its responsibilities, as set forth in the bylaws or charter.
2. To hold regular meetings to permit adequate and timely discussions of audit results, losses, and irregular occurrences, and other matters of concern to the auditors and directors, and to hold an executive session with the general auditor whenever other officers of the Bank attend audit committee meetings.
3. To obtain from the general auditor an independent and objective assessment of the adequacy and effectiveness of the controls over (1) financial reporting, (2) effectiveness and efficiency of operations, and (3) compliance with laws and regulations, at such regular meetings and at other times as necessary.
4. To recommend to the board of directors the appointment and termination (including separation payments) of the general auditor, and to concur with any reassignment of the general auditor to another position in the Reserve Bank. The policy at [1-005](#) ("Appointment, Termination, and Reassignment of General Auditors") provides guidance on communications that should occur between the chair of a Reserve Bank's board of directors and the chair of the Board's Committee on Federal Reserve Bank Affairs about changes in the general auditor position.
5. To formally evaluate the performance of the general auditor, following

guidelines set forth by the Reserve Bank for evaluating the performance of other officers.

6. To recommend to the board of directors, or a designated subset of the board, a review of all actions affecting the salary or classification of the general auditor.
7. To review and approve an annual internal audit program that provides for audits for which the scope and frequency are reasonably expected to ensure an appropriate level of audit attention, and to coordinate with any external audit conducted at the direction of the Board of Governors.
8. To review and approve an annual internal audit budget that is sufficient to carry out an effective audit program, to review performance against budget, and to determine whether any significant variances from existing System and Reserve Bank guidelines are justified.
9. To meet with the external auditors to discuss the Reserve Bank's financial statements and issues arising from the annual external audit. Audit committee members should be prepared to answer inquiries from the external auditors, especially concerning fraud and the mitigation of fraud risk.⁴

4. SAS 99, "Consideration of Fraud in a Financial Statement Audit," requires the external auditors to obtain information to identify the risks of material misstatement due to fraud, including making specific inquiries of management, the general auditor, and the audit committee. Members of the audit committee should be prepared to answer the auditors' questions about the risks of fraud in the Bank and whether the committee members have knowledge of fraud or suspected fraud affecting the Bank. Audit committee members should also be prepared to discuss how the audit committee exercises oversight of the assessment of the risk of fraud, and activities that mitigate those risks.

10. To bring before the board of directors any matters reported by the Board of Governors, general auditor, or external auditors that warrant the board's attention, and to ensure that audit recommendations and concerns receive proper attention by Bank management.
11. To establish procedures for (1) the confidential, anonymous submission by employees of complaints and concerns regarding questionable accounting, internal accounting control, or auditing matters and (2) the receipt, retention, and treatment of such complaints and concerns.
12. To engage independent counsel and other advisors as it determines necessary to carry out its duties. (In the case of an external auditor engaged by the Board, S-2612, at [1-008](#), sets out additional conditions that must be observed by the Reserve Bank and requires Board approval before engaging the external auditor to perform services. The letter at [1-083](#) provides procedures for Banks to follow when engaging outside legal counsel for fees of more than a specified threshold).

S-2622, Dec. 20, 2004.

This letter supersedes S-2601 of May 16, 2001.

1-015

**BUDGETS AND EXPENSES--
Payment of State and Local Taxes and License Fees**

This statement summarizes Reserve Bank replies to the Board on this subject.

Section 7 of the Federal Reserve Act imposes upon the Reserve Banks a responsibility to refrain from paying taxes that are within the exemption of section 7 in so far as it is practicable to do so. The Board notes that there may be variances among the Reserve Banks in the payment of state and local taxes because of differences in the local tax laws, including such matters as whether the incidence of sales taxes is upon the seller or the purchaser and whether or not the purchase of automobile tags is regarded as payment for a license or a payment of tax. The exemption of the law should be claimed and the tax not paid in cases when, in the opinion of the Reserve Bank's counsel, the Bank is not legally subject to the tax and it is feasible to obtain and enjoy the exemption without incurring administrative burdens disproportionate to the amount of tax saving involved. The Board recognizes that in some instances the benefits of the exemption may be obtained only by resorting to litigation, and the question whether litigation would be justified in any case would, of course, have to be considered in light of the probabilities of success, the amount of possible savings to the Bank over the years, and related factors. S-1466; Aug. 19, 1952.

See FRRS 1-050 for the exemption from taxation provision of the Federal Reserve Act.

1-017

BUDGETS AND EXPENSES--Discretionary Expenditures

Policy Statement

The Federal Reserve Banks (including Federal Reserve Information Technology and the Office of Employee Benefits) are responsible for carrying out their responsibilities in an effective and economical manner, recognizing the federal government's (and, therefore, taxpayers') residual interest in the earnings of the System. In addition, public standards and expectations for efficiency and effectiveness are high. Accordingly, the Reserve Banks' discretionary spending should be appropriate in practice and appearance.

The regional and decentralized character of the Federal Reserve System allows the Reserve Banks to carry out responsibilities in a manner that addresses regional conditions, needs, and practices. Policies and controls governing discretionary expenditures are important aspects of a Reserve Bank's overall system of internal controls, aimed at mitigating the reputational risk that arises from these kinds of expenditures. As such, Reserve Bank directors and management have the primary responsibility for ensuring that policies related to the types of discretionary expenditures described below are developed, maintained, and enforced in a manner consistent with the System's public nature, with due regard to the particular needs of the Reserve Bank. The Board has adopted this policy to guide the Reserve Banks in carrying out this responsibility.

Criteria

In evaluating expenditures, the Federal Reserve Banks should carefully weigh the suitability and propriety of all circumstances surrounding the expense, but in particular the identity, business, or occupation of the payee; any appearances that reasonably could be criticized as extravagant or lavish; any connotations or appearances of sponsorship or endorsement by a Reserve Bank that payment may carry or imply; and actual or potential conflict of interest. In addition to these considerations, the following criteria should be used by the Reserve Banks in determining the appropriateness of an expense.

Cost vs. benefits. Does the expenditure yield benefits in terms of employee productivity, morale, and relations? Does the expenditure promote the objectives of the System or the Reserve Bank in dealing with depository institutions and the business or financial community? Does the expenditure serve or reflect social or national goals that the Federal Reserve System supports or endorses as a matter of policy? Are the benefits expected from the expenditure equitably distributed?

Community practice. Is the expenditure in line with common business practices (including those of public and private organizations) of the community in which the Bank is located?

Consistency among Reserve Banks. Are expenditures at a given Reserve Bank reasonably in line with general practices at other Reserve Banks?

Recordkeeping and Reporting

Each Reserve Bank should control expenditures through policies that its board of directors has formally approved. Reserve Banks should use the criteria provided here to develop policies that will help employees avoid inappropriate discretionary expenditures and strengthen the process for reviewing expenditures. A Reserve Bank's board of directors may delegate to senior management the responsibility for maintaining and administering these policies, including the approval of periodic changes. The directors should be informed of substantive changes to discretionary policies (for example, wholesale changes to existing programs or procedures or the introduction of programs or procedures that deviate significantly from previous policies). These policies should observe the broad principles included below and be reviewed periodically.

Reserve Banks should maintain records on discretionary expenditures in a manner suitable for review and for responding to inquiries from Congress. Board staff will assess whether a Bank's internal policies are consistent with announced principles, whether appropriate expense review and clearance procedures are in effect, and whether documentation adequately and clearly records the business-related purpose and nature of the expenditures as outlined in this policy and Reserve Bank guidelines.

Each Reserve Bank should notify the director of the Division of Reserve Bank Operations and Payment Systems when any substantive changes in discretionary expense policies and procedures occur.

Principles to Be Followed for Certain Discretionary Expenses

Employee Relations and Recognition

Reserve Banks may expend funds for employee relations and recognition activities. Banks should establish policies that observe the following guidelines:

1. Reserve Banks may establish and partially fund employees' clubs. Reserve Banks typically use these clubs to fund various social and recreational activities, as well as to support community service initiatives. Generally, it is desirable for clubs (instead of the Banks) to fund activities such as athletic events, recreational leagues, amusement park outings, and so on. Overall, club activities should receive at least 50 percent of financial support from direct employee contributions or employee fund-raising activities. If a Reserve Bank chooses not to maintain an employees' club, the Bank should require employees to fund at least 50 percent of the cost of activities such as those mentioned above.
2. A Reserve Bank may fund annual dinners, holiday parties, and similar affairs

for its own employees and can include spouses or guests of the Bank's employees, as well as retirees and their guests, at Bank expense. Reserve Banks should have a written policy governing these expenditures. It is improper to expend Bank funds for an activity or program obviously designed to impart favoritism on a discriminatory basis to a select group of officers or employees. Annual functions for long-service employees are not considered discriminatory if all employees with such length of service are eligible to participate.

3. A Reserve Bank may make memorial tributes upon the death of an employee or retiree. A Reserve Bank's discretionary expenditure policy must establish a reasonable dollar limit for such tributes. A Bank should not expend funds to contribute to a charitable cause in lieu of other memorial tributes (see "Financial and Nonfinancial Donations," below).
4. The Board will rely on senior management to ensure that a Bank does not make unnecessary or extravagant expenditures in support of other employee-relations activities sponsored solely by the Reserve Bank. For example, senior management should determine the appropriateness of retiree and spouse attendance, holiday decorations, and so on.
5. When establishing an employee recognition program, a Bank should provide guidelines for purchasing gifts or other tangible marks of recognition. These policies also should set forth guidelines to govern Bank expenditures for employee receptions, luncheons, and other occasions designed to give recognition to an individual employee, or group of employees.
6. For additional guidance on meals associated with such activities, see "Meals and Meetings," below.

Director Recognition and Relations

Reserve Bank discretionary expense policies should provide guidelines for director recognition and relations programs. Banks should review such expenditures to ensure reasonableness and appropriateness.

A Bank may expend funds for mementos to retiring directors within dollar limitations established for individual items to convey the Bank's appreciation for the directors' public service. A Reserve Bank may make memorial tributes upon the death of a current or retired director. A Bank's discretionary-expenditure policy must establish a reasonable dollar limit for such tributes. A Bank should not expend funds to contribute to a charitable cause in lieu of other memorial tributes (see "Financial and Nonfinancial Donations," below).

Meals and Meetings

Reserve Bank policies should provide guidelines for expenses that may be incurred for Bank and System meetings and functions, including those at which meals are provided. These policies also should provide guidelines for business meetings and functions sponsored by the Bank involving external audiences. If not readily

apparent, Reserve Banks should document the business reason for such activities and for the individuals' attending. Reserve Banks also should avoid circumstances that tend to diminish the appearance of appropriateness, such as excessive numbers of attendees, frequency of attendance, and high per capita costs.

Reserve Banks should establish guidelines for expenditures and for per capita costs which observe the following principles.

1. Expenditures and per capita costs should be within reasonable limits for the locale and type of event. When calculating per capita costs, the Bank should ensure that expenses for room and equipment rental and other incidentals, as well as food and beverage expenses, are included.
2. Expenditures for meals, meetings, and conferences should be limited to official functions reasonably related to, or in furtherance of, the business affairs of the Bank or the System. Reserve Banks should include in their guidelines reasonable dollar thresholds above which documentation will be required for such functions. Documentation should include the business purpose of the event, a list of the groups represented at the function, and the total number of event attendees.
3. Generally, such events should not be held at Bank expense outside a Reserve Bank's office if expenses are higher than they would have been if the event were held on Bank premises. Banks may hold functions off-site if Bank facilities cannot reasonably accommodate the function. When functions are held off-site, documentation justifying the action is required. Bank policies should include a threshold at which cost comparisons are required for off-site events. In accordance with the Reserve Banks' Model Acquisition Guidelines, this threshold should not exceed \$10,000 for total event cost. Banks may obtain a cost comparison annually for a facility that is used more than once a year.
4. In selecting a meeting or conference site outside a Reserve Bank office, Banks should consider cost (reasonable but not extravagant), location (accessibility, convenience, and so on), size (fitting the needs of the group), and atmosphere (conducive to business discussion but not lavish).
5. Bank policies should address circumstances under which officers and employees are not charged for meals in the Bank.
6. Bank policies should address circumstances under which the Bank will reimburse off-site meal costs for its officers and employees and for officers and employees from other Reserve Banks.
7. Unless business-related, Reserve Banks generally should not provide meals for spouses or guests of employees and officers. For this category of expense, Bank policies should address circumstances when such provisions are considered appropriate, for example, certain board of directors' functions.
8. If a Bank hosts an event in the facility of another Reserve Bank, the governing administrative policies will be those of the Bank at which the event is held. The sponsoring Bank is responsible for maintaining all appropriate expense documentation.

9. Expenditures for outside catering services in connection with the entertainment of official Bank guests in the homes of Reserve Bank officials may be proper when a special occasion demands it. Such expenditures should be carefully scrutinized, however, and bear a reasonable relationship to the costs that would be incurred if the official guests were entertained on Bank premises.

Training and Education

If the Reserve Banks are to attract, retain, and develop skilled staff, they must focus on management development, training, and education programs. Reserve Banks should develop guidelines for administering such programs. Training should reflect the specific needs of different divisions and job families and the changing responsibilities and skills involved in the Banks' work. Reserve Banks should support internal and external training programs that are cost-effective. Reserve Banks should periodically evaluate these programs to ensure a framework exists that fosters skills development and job enrichment. Bank reimbursement guidelines for college degree (undergraduate and graduate) or professional certification programs should be in line with community practices.

Membership Dues

A member of senior management of each Reserve Bank should review a list of the Bank's memberships annually, and should review related policies periodically. The number and variety of memberships held--especially individual and multiple memberships and memberships in organizations not essential to Bank business--are matters of concern. Senior management should consider both expected attendance and dues costs when assessing appropriateness. Banks should report memberships annually to the director of the Division Reserve Bank Operations and Payment Systems in accordance with reporting requirements set forth in the annual budget instructions.

Expenditures for membership dues should be limited to memberships in two types of organizations:

1. organizations whose purpose and activities directly relate to the business affairs of the Bank, either by assisting personnel in the performance of their duties or by assisting the Bank in carrying out official programs or policies
2. organizations that, as a part of membership benefits, issue publications directly related to the business affairs of the Bank, or are of informational benefit to Bank personnel in the performance of their duties.

The Board considers Bank-paid personal memberships in professional or technical associations improper except when Bank memberships are not available or are more expensive than personal memberships, or when a membership fee is a necessary cost directly related to the training of an employee. Expenditures for a membership in a social, college, luncheon, or service group are improper unless the

Bank can clearly demonstrate that it should be represented in such an organization because participation in its activities is important to the conduct of the Bank's affairs.¹

Financial and Nonfinancial Donations

Reserve Banks should not authorize expenditures for direct financial donations to national and community, civic, welfare, and charitable projects or causes. Generally, these types of expenditures are not directly related to the business affairs of the Banks. If, in a special circumstance, Bank management believes that it can clearly demonstrate that the Bank will receive a direct benefit by virtue of financial participation in a civic or community project, it may request approval of the contribution, outlining the reasons for the contribution, from the director of the Division of Reserve Bank Operations and Payment Systems.

A Bank may donate property, such as office equipment or furniture, if the item to be donated is fully depreciated with minimal salvage value or is considered obsolete. Such donations may be made only to not-for-profit organizations approved by senior Bank management as part of efforts to provide educational or community services. A Bank officer or employee, who is also an officer, employee, director, trustee, or general partner of a not-for-profit organization, must not participate in any decision regarding a donation of Bank property to that organization. The Bank's ethics officer should be consulted if there is any question regarding such donations.

Honoraria

In reviewing expenditures for speaker honoraria, Banks should consider the importance of the subject matter in relation to the Bank's performance of its responsibilities, the professional level and responsibility of the speaker, the appropriateness for the occasion, and the size of the audience.

Fees and Contract Services

Expenditures for fees and contract services are a large component of Reserve Bank costs. Although such expenditures may be entirely proper, necessary, and cost-effective, each Reserve Bank's management should be especially vigilant in reviewing the propriety of these expenditures.

As part of its oversight responsibilities, Board staff will review both proposed and actual expenditures in this category for indications of appropriateness and will take into account factors such as--

1. arrangements of direct and important value to the Bank or the System;
2. consideration of reasonable alternatives;
3. reassessment of pricing and services to ensure market competitiveness;
4. the presence or absence of factors that might give the appearance of conflict

of interest, discrimination, sponsorship, endorsement, or extravagance.

Travel

Reserve Bank travel policies should allow employees traveling on official business to enjoy reasonable comfort and receive reimbursement for necessary expenses incurred during such travel. Each Reserve Bank should have procedures in its travel policy to control travel costs. Reserve Bank travel policies should address permissible expenditures for all travel, including guidance on lodging, transportation, and other areas of allowable expenses. Reserve Banks should authorize expenses for travel only in connection with the conduct of Bank or System business and should reimburse only for expenditures that are in line with community standards. Banks should not reimburse expenses for spousal travel. Travel policies should require explanation of any unusual or extenuating circumstances. Reserve Bank travel policies may permit senior management to authorize exceptions.

Banks should consider the propriety of accepting reimbursement for travel expenses from other organizations, and senior Reserve Bank management must approve any reimbursement of travel expenses by other organizations. In general, Reserve Banks should avoid seeking reimbursement by other organizations. An organization, such as a sponsor of a conference or a government agency, that wishes to reimburse all or part of the expenses of a Federal Reserve employee on business-related travel should reimburse the Reserve Bank directly, whenever possible. Banks should document senior management's or the financial control officer's review of any exceptions to this policy.

Travel policies and expenditures at a given Reserve Bank should be reasonably in line with such policies and expenditures at the other Reserve Banks. The following guidelines should promote alignment among Reserve Bank travel policies.

1. ***Lodging.*** Reserve Banks should reimburse travelers fully for reasonable lodging expenses incurred in accordance with the Bank's travel policy. Generally, Banks should permit travelers attending conferences and conventions to arrange accommodations at the hotel where the meetings are being held.

2. ***Meals and incidental personal expenses.*** Reserve Banks should reimburse travelers for the cost of meals and incidental personal expenses through a daily allowance. This per diem allowance should be based on the rates that are acceptable under Internal Revenue Service guidelines or, for foreign travel, U.S. State Department guidelines. Reserve Banks may authorize reimbursement of actual and necessary expenses when warranted by unusual circumstances. Reserve Banks may separately reimburse travelers for personal phone calls of a reasonable amount.

Bank policy should include guidelines for trips that are initiated and completed on the same calendar day. If a Bank reimburses travelers for the cost of meals on trips completed within the same calendar day, the Bank's policy should note that such reimbursement is treated as taxable income under IRS guidelines.

3. ***Class of service.*** Generally, Reserve Banks should reimburse travelers for coach class accommodations only. To help minimize inconveniences caused by lengthy trips (particularly in those cases when the traveler has insufficient time to rest between travel and business commitments), Banks may establish guidelines to allow one-class upgrades for flights that exceed a specified duration. That duration should not be less than five hours. With documented justification approved by an officer in advance of travel, Banks also may authorize upgraded accommodations for any flights if the traveler has a disability, if there are security concerns, if exceptional circumstances warrant, or for flights on which coach-class accommodations are not available.

4. ***Lowest convenient fares, extended stays, and combination travel.*** Reserve Bank travel procedures should encourage reduced transportation costs, especially by minimizing airfare expenses. Banks should consider advance-purchase, nonrefundable, and extended-stay fares, when appropriate. A Bank may authorize reimbursement for the cost of extended travel if arrangements result in net cost savings to the Bank. When a traveler desires to combine personal travel with Bank business travel, Bank policy should include procedures to ensure that the Bank incurs no additional net cost as a result of the personal travel. Bank travel procedures also should address situations when personal travel involves a location that is different from the business destination. Where travel includes an extended stay or a combination of personal travel with Bank business, the Bank should require cost comparisons to be included with other travel-expense documentation.

5. ***Use of non-Bank vehicles.*** Reserve Bank travel policies should address the propriety of using personal and rental vehicles for business-related travel and reimbursement of related expenses.

6. ***Foreign travel.*** The Board recognizes that foreign travel presents unique circumstances. The Board defines foreign travel as travel to and from destinations outside the United States.² The duty station(s) at which business is conducted while in travel status is the deciding factor in classifying a trip as domestic or foreign travel. For example, examiners staying in Windsor, Ontario, while examining Detroit banks are in domestic travel status. Each Federal Reserve Bank should have in place an approval process for foreign travel and report on foreign travel annually in its budget submission.

Reserve Banks may authorize expenses for foreign travel only when the anticipated benefit to the business affairs of the Bank is proportionate to the expense involved. Banks should require justification for attendance by several employees at foreign functions, trips in support of regional or local organizations, and trips related only peripherally to Bank business.

Summary of Actions Related to Discretionary Expenditures Requiring Approval by or Reporting to the Board of Governors

- A Reserve Bank should notify the director of the Division of Reserve Bank

Operations and Payment Systems of substantive changes in discretionary expense policies and procedures as they occur ("Recordkeeping and Reporting").

- A Reserve Bank should report memberships annually to the director of the Division of Reserve Bank Operations and Payment Systems in accordance with the requirements set forth in the annual budget instructions to Reserve Banks ("Membership Dues").
- If, in a special circumstance, Bank management believes that it can clearly demonstrate that the Bank will receive a direct benefit by virtue of financial participation in a civic or community project, it may request approval of the contribution, outlining the reasons for the contribution, from the director of the Division of Reserve Bank Operations and Payment Systems ("Financial and Nonfinancial Donations").

1. These provisions do not apply to fitness center memberships that a Reserve Bank may fund because of inadequate facilities within the Bank's office. Bank policy should establish guidelines for these memberships.

[Return to text](#)

2. Travel to Alaska and Hawaii is considered to be domestic travel.

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S-2646 (September 14, 2010)

This letter supersedes S-2606 (May 13, 2002), S-2586 (Sept. 22, 1997), S-2555 (Oct. 1, 1993), S-2534 (Dec. 19, 1990), S-2348 (Feb. 25, 1977), S-2316 (March 11, 1976), and S-2224 (Dec. 29, 1972).

1-025

CONSULTANTS--To System Research Committees

Costs of consultants who appear at System committee meetings should be borne by the Bank at which the meeting is held. Costs of consultants performing other functions for particular groups but who do not attend meetings should be borne by the Bank of the chairman of the group for whom the consultant is working. If meetings are held at the Board, the costs of consultants would be borne by the Board.

The costs of consultants who appear at System committee meetings held at a Reserve Bank should be borne by the Bank at which the meeting is held. The costs of consultants who advise or perform functions for committees, subcommittees, or working groups but who do not attend a meeting of such body should be borne by the Bank of the chairman of the group. If meetings are held at the Board, or if a member of the Board's staff serves as chairman of a working group, the costs of consultants would be borne by the Board.

The Board assumes that a decision to use a consultant for a committee activity would be made only after discussion with the chairman of the committee and through the appropriate person familiar with the general area of the consultant's work. For example, in the case of research committees and working groups, the arrangement would be made through the chairman of the System Research Advisory Committee.

In order that fees for such consultants may bear some reasonable relationship to each other, the Board's Division of Personnel Administration will maintain a record of the fees paid, which record will be available to any Reserve Bank in setting an appropriate rate for a consultant used by a committee. So that this record may be maintained on a current basis, it will be appreciated if you will advise the Board of the rate paid whenever a consultant is engaged for a committee use. S-1963; July 23, 1965.

1-031

CONTRACT SERVICES--Small Businesses

The Board believes that each Reserve Bank should maintain a program for the acquisition of goods and services, including construction services, from small businesses ("small-business program") in order to assist the interests of small businesses.

The small-business program should contain provisions for set-asides for small businesses, which set-aside may be discretionary. Further, the program should also include a small-business preference for competitive acquisitions that exceed a threshold amount set at a specified reasonable dollar limit. In addition, the program should provide for making the use of small businesses as subcontractors an evaluation criterion where subcontracting possibilities exist and the total cost of the contract is expected to exceed a specified reasonable dollar amount. The small-business program should also provide that Reserve Bank staff responsible for the small-business program should keep senior Reserve Bank management apprised of activities taken pursuant to the Reserve Bank's small-business policy. Each Reserve Bank should maintain reasonable records documenting its practices, procedures, and acquisitions made in furtherance of its small-business program. These records should be maintained in a manner acceptable to the Board.

Changes to a Reserve Bank's small-business program, including changes to the threshold amount for the preference and the threshold amount for the subcontracting evaluation criterion, should be reasonable. Reasonableness is to be determined by evaluating the administrative burden associated with the small-business program in light of the goals and purposes of the program.

A Reserve Bank also may, in appropriate circumstances, institute a disadvantaged-business program that would give assistance to businesses on the basis of their disadvantaged status, so long as that program does not include provisions that would be unlawful if included in a disadvantaged-business program of a federal agency. The nature, extent, and results of any such program should be documented in a manner acceptable to the Board. S-2593; May 6, 1999.

This letter supersedes S-2492 of Aug. 1, 1985.

1-049

DELEGATION OF AUTHORITY--Policies and Guidelines Concerning Reserve Bank Operations

Under its general supervisory authority in section 11(j) of the Federal Reserve Act, the Board requires Reserve Banks, Federal Reserve Information Technology (FRIT), and the Office of Employee Benefits (OEB) to submit budgets annually and has adopted the policies and guidelines on Reserve Bank operations that are set forth below. These policies and guidelines cover Federal Reserve note issuance and destruction, Reserve Bank capital acquisitions, certain multiyear commitments, Reserve Bank price- and service-change proposals, and other matters.¹

1. These policies and guidelines apply to the Reserve Banks, FRIT, and OEB. Overall supervision of FRIT, including approval of its budget and its equipment and services acquisitions, is the responsibility of the ITOC and the board of directors of the Federal Reserve Bank of Richmond. FRIT submits budgets separately from the Richmond Bank and, for the purposes of these policies and guidelines, FRIT's acquisitions are considered separately from those of the Richmond Bank. Overall supervision of OEB is the responsibility of the Committee on Plan Administration and the Committee on Employee Benefits.

The Board has also delegated oversight responsibility to the director of the Division of Reserve Bank Operations and Payment Systems (RBOPS) (or the director's designee), the Information Technology Oversight Committee (ITOC), or the Financial Services Policy Committee (FSPC) (or their designees) in certain circumstances.²

2. Some provisions of these policies and guidelines allow Reserve Bank management to approve actions and/or commit funds unless the director of RBOPS, within 10 business days of notification, determines that the matter requires approval by the director or the Board. The director of RBOPS (or the director's designee) may extend the 10-day period in extraordinary circumstances.

Federal Reserve Notes

Section 16 of the Federal Reserve Act contemplates that the Board will exercise close supervision over the Federal Reserve note function, including the printing and issuance of new notes to the Reserve Banks and the apportionment of redemption credit when unfit notes are destroyed. The Board has authorized the director of RBOPS to approve the following functions related to Federal Reserve notes:

- A. note-printing orders and modifications to orders
- B. contracts for shipments of new notes to the Reserve Banks
- C. the apportionment of redemption credit

Federal Reserve Capital Commitments

The Board has adopted policies and guidelines for capital commitments that

describe the approval authority and reporting processes for capital commitments related to new construction or renovation of Federal Reserve Bank buildings (and any related consultant services); the purchase or sale of real estate; the leasing of space; and non-building-related projects, acquisitions, and leases, including equipment and software acquisitions or leases.

1. *In General*

Project costs and approval requests refer to the amount of a proposed commitment.³

3. Although expense-related items associated with a project typically are not included in capital-project descriptions provided in a Reserve Bank's budget or in total project costs when determining the appropriate approval level for an unbudgeted project, these costs should be discussed in proposals submitted to the director of RBOPS or the Board for approval.

Acquisitions include capital commitments for both multicomponent projects and single-item purchases or leases. The *Financial Accounting Manual for Federal Reserve Banks* (FAM) provides capitalization guidelines for projects, single-component acquisitions, and leases, and a Reserve Bank must budget for these capital acquisitions as outlined in the Board's budget instructions to the Reserve Banks. The following additional guidance is provided:

- For budget and approval purposes, a request for a capital project must include all capital components of the project as outlined in FAM.
- When a sponsoring organization (such as a product office) has made arrangements for project work to be accomplished, in whole or in part, by another Reserve Bank or FRIT, the sponsoring organization also is responsible for meeting all reporting and notification approval requirements for the project. When funds for such acquisitions are divided among several approved Reserve Bank budgets, the acquiring Reserve Bank may view the acquisition as budgeted, unless there is a significant difference between the total amount budgeted among the Reserve Banks and the actual commitment. See also discussion of "significant" in footnote 8.⁴

4. FRIT is responsible for requesting approval of capital acquisitions associated with its National Information Technology Operator (NITO) projects.

2. *Budgeted Commitments*

- A. Reserve Bank management may approve commitments for purchases or leases (single-item acquisitions and multicomponent projects) that were included in the Reserve Bank's capital budget approved by the Board, unless the acquisition is designated as strategic or sensitive by the Committee on Federal Reserve Bank Affairs (BAC).⁵

5. Generally, strategic capital initiatives are initiatives that substantially affect or influence future System direction, significant research and development efforts or building projects, and certain large-dollar initiatives. Sensitive acquisitions may

include capital commitments that are inconsistent with System direction or vary from previously negotiated purchasing agreements, or local initiatives that may duplicate national efforts. Commodity purchases, such as check-processing or computer equipment purchased through existing Reserve Bank or National Procurement Office agreements, generally are not viewed as strategic or sensitive.

- B. After the annual budget discussion with senior Reserve Bank management, the chair of the BAC (or the chair's designee) will notify Reserve Bank management if any budgeted commitments and agreements have been designated as strategic or sensitive and, therefore, require the approval of the director of RBOPS or the Board. See footnote 5.
- C. Real estate purchases, new building programs, and most major renovation projects require Board approval.^{6 7}

6. Endorsement by the FSPC is required for all new building programs and lease contracts for regional check-processing centers or other operations facilities, including contracts to extend the lease term or exercise a lease option. Major building projects generally require Board approval of the various phases of the project, which typically include program approval, site purchase, schematic design/budget, and final design/construction budget.

7. Separate approval requests for consultant commitments are not necessary if the cost is part of an overall approved project. Request for consultants must include the aggregate cost associated with all consultants with which the Reserve Bank contracts for services related to building projects (e.g., design consultants, real estate consultants, materials-handling consultants, testing and balancing consultants, security consultants, and outside auditors), with the exception of the following consultant services: (1) legal services (see [1-081](#) and [1-082](#)); (2) consultant services that are designated as costs to be refunded by other parties (e.g., cities, counties, states, or neighboring businesses); and (3) real estate tax consultants.

3. *Cost Overruns*

- A. *Projects approved by Reserve Bank.* The director of RBOPS must be notified of significant cost overruns to budgeted capital projects and acquisitions approved by Reserve Bank management.⁸

8. As a general guideline, "significant" is defined as the greater of \$250,000 or 5 percent of budgeted costs. The Board also considers unplanned expenditures resulting from a substantial change in project scope or direction to be significant.

- B. *Projects approved by director of RBOPS or Board.* The director of RBOPS must be notified, in advance, of anticipated commitments that would cause a significant cost overrun for projects approved by the director or the Board, unless the original approval by the director or Board included a not-to-exceed amount.⁹

9. Projects approved with a not-to-exceed amount typically include contingency allowances.

In that case, all anticipated cost overruns must be approved by the director of

RBOPS or the Board. Notification must include a summary of the circumstances causing the overrun. Reserve Bank management may approve and commit funding unless the director of RBOPS, after consulting with the chair of the BAC (or the chair's designee), notifies Reserve Bank management otherwise within 10 business days of receipt of notice of the proposed commitment.

4. Unbudgeted Commitments

- A. Reserve Bank management may approve commitments up to the following thresholds for initiatives not included in the Bank's capital budget approved by the Board:
 - I. Building- and non-building-related capital commitments (building renovations, equipment or software acquisitions/projects or leases)--\$1 million
 - II. Consultant services for building projects--\$200,000 (see footnote 7)
 - III. Leasing of space for Reserve Bank functions--\$500,000 net present cost of lease contract and a cumulative annual limit of 20,000 rentable square feet of leased space¹⁰

10. FAM provides guidance on calculating net present cost.

- B. The director of RBOPS must be notified in advance of all unbudgeted capital commitments in excess of the per-acquisition or per-project thresholds listed in paragraph 4.A. Reserve Bank management may approve and commit funding unless the director of RBOPS, after consulting with the chair of the BAC (or the chair's designee), notifies Reserve Bank management within 10 business days of receipt of the proposal that it has been designated as strategic or sensitive. See footnote 5. The director's notification will also indicate the appropriate approval level for the strategic or sensitive proposal.

5. Budget Substitutions

Budget substitutions are allowed for acquisitions within the same asset class and of like nature (similar function or purpose). For example, check-imaging equipment may be substituted for a check-processing sorter, but not for currency-processor sensors. For building-related projects, Reserve Banks generally may shift funds among different asset classes. For example, a Reserve Bank may reallocate funds from the building asset class to the building, machinery, and equipment asset class as project details are further defined. Reserve Banks should consult with the manager of the Federal Reserve Bank Planning and Control Section on questions involving "like nature." Substitutions other than those outlined above must be approved by the manager of RBOPS's Federal Reserve Bank Planning and Control Section.

6. Required Reports

- A. Reserve Banks must submit quarterly reports for commitments approved by Reserve Bank management to the director of RBOPS and the manager of the Federal Reserve Bank Planning and Control Section.
- B. Reserve Banks must submit quarterly project status reports for all non-building-related commitments approved by the director of RBOPS or the Board to the director and the manager of Federal Reserve Bank Planning and Control Section.
- C. Reserve Banks must submit monthly reports to the manager of RBOPS's Federal Reserve Bank Building Planning Section for all building and renovation approved by the Board or the director of RBOPS.¹¹

11. Guidelines for building project reports are found in the *Federal Reserve System Facility and Security Guidelines*.

7. Contingency Allowances, Changes, and Change Orders

A Reserve Bank has the authority to administer a project contingency allowance, except for changes or change orders that exceed approved spending levels. These project overruns must be managed in accordance with paragraphs 3 and 4.

8. Real Estate Sales and Purchases

- A. Reserve Bank management has the authority to approve the sale of property but must consult with the director of RBOPS before selling property appraised at more than \$5 million.
- B. The Board must approve all real estate purchases.

9. Real Estate Leases

- A. The cost of lease contract commitments must be calculated at net present cost, which includes the discounted cost of the lease payments and leasehold improvements over the contract term. The contract term includes the entire length of the financial obligation. The Reserve Banks' approval authority applies to all lease contracts, including contracts to extend the lease term or exercise a lease option.¹²

12. This provision excludes space used for storage of equipment or materials, parking spaces, and mobile or modular units (e.g., a mobile unit used to screen mail).

References in this paragraph to lease and lessee also include sublease and sublessee, respectively.

- B. The following guidelines apply to the leasing of Reserve Bank space to a non-Federal Reserve entity:
 - I. *General rule.* A Reserve Bank should not as a general matter lease space to a depository institution or other organization supervised by the Federal Reserve or by another agency of the Federal Financial Institutions

Examination Council (together, FFIEC-supervised entity). In addition,

Reserve Banks should avoid leasing space if it might result in the appearance of an inappropriate professional or commercial benefit to the lessee. These restrictions do not prohibit leasing space to a banking facility (e.g., a credit union or ATM) that will primarily serve Reserve Bank staff or to a check clearinghouse arrangement.

Reserve Banks should review the selection of potential lessees to minimize the risk that they would compromise building security or adversely affect the Reserve Bank's operational needs.

Reserve Banks should refer to the *Federal Reserve System Facility and Security Guidelines* for the criteria on leasing space. When there is reasonable doubt about the suitability of a potential lessee, the Reserve Bank should consult with the director of RBOPS before entering into a lease arrangement.

- II. *Separation of responsibilities.* To avoid an actual or apparent conflict between the Federal Reserve's role as lessor and its role as regulator, supervisor, and lender, Reserve Bank staff with responsibilities for lease programs should adhere to the same standards applicable to staff with responsibilities for priced services, as set forth in Standards Related to Priced-Service Activities of the Federal Reserve Banks (see FRRS 9-1569).¹³

13. These standards may be applied to leasing activities by ensuring that responsibilities for such activities and for supervision and regulation are separated in the same manner and to the same extent as responsibilities for priced services are separated from responsibilities for supervision, monetary policy, and lending.

- III. *Due diligence.* Before finalizing the lease arrangement, a Reserve Bank should also perform the necessary due diligence, including an analysis of the financial viability of the potential lessee, and review with its legal department the lessee's suitability.

- IV. *Contract terms.* All new lease arrangements should--

- a. prohibit the lessee from assigning or subleasing the space without prior approval by the Reserve Bank;
- b. specify the permissible uses for the premises and prohibit activities inconsistent with these policies and guidelines;
- c. give the Reserve Bank the discretion and flexibility to modify its protection program to address any changing or heightened security needs; and
- d. require the lessee to notify the Reserve Bank immediately if it becomes an FFIEC-supervised entity or changes the nature of its business in a manner that increases the security risk to the Reserve Bank.

- V. *Change in lessee's status.* When a Reserve Bank ascertains that a lessee has become an FFIEC-supervised entity, it should immediately notify the director of the Division of Banking Supervision and Regulation (BS&R)

for a determination on whether any potential conflict of interest exists that should be addressed through a special supervisory program.

VI. *Exceptions to policy.* The director of RBOPS, in consultation with the chair of the BAC and the director of BS&R, may approve exceptions to this policy when there is no indication that the lease arrangement presents an actual or apparent conflict of interest or confers an inappropriate benefit to the lessee. For example, a Reserve Bank might lease excess operations space to a financial institution to optimize capacity usage and to reduce costs. A request for an exemption will be reviewed in light of all relevant factors, including the size of the potential lessee, the nature of its activities, and whether it is directly supervised by the Federal Reserve.

C. When leasing space for Reserve Bank functions, Reserve Banks should not lease space from an FFIEC-supervised entity. In addition, Reserve Banks should avoid leasing space from an entity if the Reserve Bank's presence on the premises might result in the appearance of an inappropriate professional or commercial benefit to the lessor. The leasing guidelines above (except the required contract terms in paragraph 9.B.IV) also apply when a Reserve Bank is the lessee.

Multiyear Commitments

Multiyear prepayments and noncancellable multiyear obligations are subject to the approval authority and reporting processes discussed below. Multiyear prepayments include prepaid agreements (e.g., equipment or software maintenance agreements) for which each payment is for services that exceed 12 months and is amortized in accordance with the FAM. Multiyear noncancellable obligations include those agreements for which the payment terms exceed 12 months (e.g., service and maintenance agreements and any leases of equipment or property not meeting capitalized-lease requirements). An agreement is considered noncancellable if it can be cancelled only (1) on the occurrence of a remote contingency or with the permission of the other party; (2) if a replacement agreement is signed between the same parties; or (3) on payment of a penalty in an amount sufficient to reasonably ensure continuation of the agreement. A Reserve Bank must budget for these commitments as outlined in the Board's budget instructions.

10. Budgeted

- A. Reserve Bank management may approve multiyear prepaid agreements and multiyear noncancellable obligations included in the Reserve Bank's budget approved by the Board, unless a planned agreement is designated as strategic or sensitive by the BAC. See footnote 5.
- B. The chair of the BAC (or the chair's designee) will notify Reserve Bank management if any budgeted agreements and obligations have been designated as strategic or sensitive and, therefore, require the approval of the

director of RBOPS or the Board.

11. Unbudgeted

- A. Reserve Bank management may approve multiyear prepaid agreements and multiyear noncancellable obligations up to \$1 million for those agreements not included in the Bank's budget approved by the Board.
- B. The director of RBOPS must be notified in advance of plans to enter into any unbudgeted multiyear prepaid agreement or multiyear noncancellable obligation in excess of the \$1 million threshold in paragraph 11.A. Reserve Bank management may approve and commit funds unless the director of RBOPS, after consulting with the chair of the BAC (or the chair's designee), notifies Reserve Bank management within 10 business days of receipt of the proposal that it has been designated as strategic or sensitive. See footnote 5. The director's notification will also indicate the appropriate approval level for the strategic or sensitive proposal.

12. Guidelines for Multiyear Prepaid Agreements

- A. *Consistency with industry practice.* A Reserve Bank should consider a prepaid option only if the vendor offers it as a standard business practice and the prepayment option is commonly used by private-sector organizations. Terms, including the amount of the capital commitment, should be generally consistent with those used by private-sector organizations. Multiyear prepaid agreements should generally be limited to three years, which is consistent with current industry practice. Longer-term prepaid agreements should be well justified; for example, in some cases it may be advantageous to enter into a prepaid maintenance agreement for the useful life of the equipment being maintained, but the Reserve Bank should also evaluate any additional risk.
- B. *Cost savings.* The financial benefit to the Reserve Banks from a multiyear prepaid agreement should be justified by projected savings evaluated through a net-present-value (NPV) analysis over the useful life of the acquisition. As a proxy for the market cost of borrowed funds, the NPV analysis should use the weighted average cost of capital from the private-sector adjustment factor computation and the rate for Treasury bonds with maturities corresponding to the end of the useful life of the asset, weighted on the proportion of the acquisition benefiting priced services and other functions, respectively.
- C. *Low risk of default.* Reserve Banks should not enter into a multiyear prepaid agreement that poses a material risk that the vendor would default during the term of the agreement. A default risk might be material because of the likelihood of the vendor's default or the amount of the capital commitment. If there are concerns about the financial stability of the vendor, the Reserve Bank should consider potential methods to reduce risk, such as shorter prepayment periods or requiring a performance bond.

Other Reserve Bank Operations

13. Miscellaneous

- A. For acquisitions otherwise within the Reserve Bank's approval authority, the director of RBOPS must be notified in advance of plans to enter an agreement with a non-Federal Reserve entity for any goods, services, or construction (capital or operating expense) without using a competitive bidding process (as outlined in the Reserve Banks' Model Acquisition Guidelines) when the commitments are expected to exceed \$500,000. Reserve Bank management may approve and commit funds, unless the director of RBOPS notifies the management within 10 business days of receipt of the proposal that the Reserve Bank may not commit funds until its acquisition strategy has been reviewed and approved by the director or the Board.
- B. If the Treasury does not do so directly, the Reserve Bank or the TRSO must provide the director of RBOPS a copy of the request to perform fiscal agency functions and a copy of the response to the Treasury.
- C. A Reserve Bank must provide to the director of RBOPS (or, in the case of the lending circular, the director of the Division of Monetary Affairs) any proposed operating circular or amendment to an operating circular. The Reserve Bank shall not issue or amend the circular if the appropriate director (or director's designee), in consultation with the Board's general counsel (or counsel's designee), raises an objection within 10 business days of receipt of the proposal.
- D. The division directors, in consultation with the secretary of the Board, may approve modifications to S-letters affecting Federal Reserve activities that reflect changes in established Board policy.
- E. A Reserve Bank may waive penalties on deficiencies in required balances of depository institutions.
- F. Section 7(a)(2) of the Federal Reserve Act requires that each Reserve Bank transfer to a surplus account all its earnings after expenses and pay the statutory dividend to member banks. Under section 16(4) of the Federal Reserve Act, the Board controls the amount in surplus by raising or lowering the rate of interest (an expense) that it establishes on Federal Reserve notes outstanding. The interest payments are made to the Treasury weekly.
- G. A Reserve Bank may make changes in territories served by offices within its District for specific functions. The FSPC may approve changes to Federal Reserve check-processing regions and may delegate this authority to the director of the Retail Payments Office. However, only the Board may make official changes to a District's boundaries.¹⁴

14. The FSPC, which is made up of Reserve Bank presidents and first vice presidents, was established in 1994.

- H. The director of RBOPS may approve modifications in the FAM in accordance with generally accepted accounting principles for ordinary business and

banking activities and in accordance with Board-approved accounting principles for activities deemed to be unique for the Reserve Bank's central bank characteristics (see [1-001](#)).

- I. The FSPC may approve changes to the *Federal Reserve System Custody Control Principles and Standards* for handling valuables in the Reserve Banks, subject to concurrence by the director of RBOPS. The FSPC may delegate this authority to the director of the Reserve Bank Cash Product Office.
- J. The Conference of First Vice Presidents may approve changes to the *Planning and Control System Manual*, which outlines cost accounting principles for the Reserve Banks, subject to concurrence by the director of RBOPS.
- K. The ITOC may approve changes to the Information Security Manual (ISM), which governs information risk assessment and safeguards from unauthorized access, modification, or disclosure, subject to concurrence by the director of RBOPS.¹⁵

15. The ITOC, which is made up of Reserve Bank presidents and first vice presidents, was established in 1998.

The ITOC may also approve changes to the security support manuals, which provide technical guidance on standard practices to implement ISM policies or assess security risks in various information technology environments.

ITOC may delegate authority to the director of FRIT to approve administrative and operating changes for administering ISM policies, implementation standards in the security support manuals, and procedures for conducting information risk analysis, if the changes do not significantly alter the intent of ISM policies.

- L. The director of RBOPS may approve routine changes to the *Handbook for the Administration of Federal Reserve Policy on Payments System Risk*, which is used by Reserve Bank and Board staff for administering the Federal Reserve's payments system risk policy. The director of RBOPS also may approve routine changes to the *Overview of the Federal Reserve's Payments Systems Risk Policy* and the *Guide to the Federal Reserve's Payments System Risk Policy*. Significant substantive changes to these documents are subject to Board approval.
- M. The director of RBOPS may approve changes to the *Federal Reserve System Law Enforcement Training Manual* in consultation with the Subcommittee on Administrative Services (SAS).
- N. The director of RBOPS may approve changes to the *Federal Reserve Facilities and Security Guidelines* in consultation with SAS.

Price- and Service-Change Proposals

The Board establishes prices for Reserve Bank services pursuant to section 11A of the Federal Reserve Act. In certain circumstances, the Board has delegated its authority in this area to the director of RBOPS or the FSPC. The FSPC may further

delegate its authority to the appropriate product director for financial services.

Price- and service-change proposals are divided into the following four categories: nonroutine, routine, accelerated, and preapproved.

14. Nonroutine Proposals, Including Annual Repricing

- A. A nonroutine proposal is a proposal that introduces a new service line, a new product within an existing service line (if the service line is significantly modified), or a new fee structure for an existing service line. In addition, pilot proposals to test a new product or service before it is implemented more broadly generally would be considered nonroutine. Proposals expected to generate significant comment from service users or other service providers and proposals with policy or significant competitive implications, also should be considered nonroutine. The annual repricing of products is categorized as nonroutine.
- B. Depending on the significance of the proposed change, the Board or the director of RBOPS (acting under delegated authority) is responsible for approving nonroutine proposals. Nonroutine proposals should be submitted by the appropriate Reserve Bank product director to the director of RBOPS within a sufficient period of time to permit a thorough review. To expedite the review and approval process, Reserve Banks are encouraged to provide Board staff and the product office with draft proposals. The product director will submit nonroutine proposals to the Board for approval after obtaining the endorsement of the FSPC.
- C. On receipt of complete documentation for a nonroutine proposal from the appropriate product office, Board staff will provide that product office with an estimated time frame for review and final action. For proposals requiring Board approval, Board staff will present the staff's recommendation to the BAC and the Board, with input from product office staff as appropriate, in written materials that include memoranda to the BAC and the Board, summaries of comments, and Board press releases. Staff memoranda to the BAC and the Board will indicate whether the product director concurs with the staff's recommendation and, if not, will present the product director's views. A copy of the Board's action on the proposal and accompanying Board staff analysis will be provided to the chair of the FSPC and the appropriate product director.

15. Routine Proposals

- A. A routine proposal is either a new product or a proposed change to a nationally or locally priced service that is not subject to paragraphs 14.A, 16, or 17. A routine proposal only moderately affects existing product offerings, is expected to result in minimal reaction from users and other service providers, pertains to a change that does not have policy or significant competitive implications, enables the changed product to recover incremental

costs, and does not substantially change budgeted service revenues in the first year of its introduction.

- B. The FSPC may approve routine proposals and is responsible for ensuring that the requested changes are consistent with the Board's pricing principles and the Federal Reserve's overall strategic direction, and that they are supported by defensible rationales justifying the change. The FSPC may delegate this authority to the appropriate Reserve Bank product director. Routine proposals should be submitted to the product director, with a copy to the director of RBOPS, at least six weeks before the estimated implementation date. To expedite the review and approval process, Reserve Banks are encouraged to give the product office draft proposals. If Board staff concludes that the proposal should be classified as nonroutine, the director of RBOPS must notify the product director no later than five business days of receiving the final proposal. If the product office staff concludes that the proposal should be classified as nonroutine, the product director must notify the director of RBOPS and the submitting Reserve Bank.
- C. The product director will generally complete the review and approval process within 10 business days of receipt of the proposal, unless additional information is required to complete the review. The product director will periodically provide to the director of RBOPS a list of product approvals and will ensure that the proposal and the staff's analysis are available on request for up to two years.

16. Accelerated Proposals

- A. The FSPC may designate certain routine proposals for accelerated review and approval. Accelerated proposals generally are expected to result in no adverse reaction from the private sector. Accelerated proposals must comply with the most recent pricing guidelines issued for the service.
- B. The FSPC may approve accelerated proposals and is responsible for ensuring that the requested changes are consistent with the Board's pricing principles and the Federal Reserve's overall strategic direction, and that they are supported by defensible rationales justifying the change. The FSPC may delegate this authority to the appropriate Reserve Bank product director. Accelerated proposals should be submitted to the product director, with a copy to the director of RBOPS, at least five weeks before their estimated implementation date. If the product office staff concludes that the proposal does not qualify for accelerated review and approval, the submitting Reserve Bank will be notified promptly.
- C. The product director generally will complete the review and approval process as expeditiously as possible and will request additional information if needed. The product director will periodically provide to the director of RBOPS a list of product approvals and will ensure that the proposal and the staff's analysis are available on request for up to two years.

17. *Preapproved Proposals*

The Board has authorized the Retail Payments Office to make certain minor price and service changes within specified parameters without prior Board review for national check products and Reserve Banks to make certain minor price and service changes within specified parameters without prior Board review for local check products. These changes include certain minor modifications to the check collection service that are included in the Retail Payments Office's *Check Price and Service Level Guidelines*.

Reporting and Notification

The table below provides the reporting and notification procedures for items handled by the Reserve Banks, FRIT, and the OEB under these policies and guidelines. It also provides the reporting procedures for strategic or sensitive projects, total capital outlays, artwork purchases and sales, and the appointment of assistant Federal Reserve agents. Specified reports should be sent to the director of RBOPS and other Board staff if indicated. Many of these items must also be reported in the Reserve Bank's annual budget in accordance with the Board's budget instructions. The director of RBOPS may amend reporting requirements as necessary to achieve the Board's oversight objectives effectively.¹⁶

16. Each Bank involved as part of an acquisition involving multiple Banks should reference the approved funding for the project in entirety.

<i>Paragraph</i>	<i>Item to be reported</i>	<i>Requirement</i>	<i>Additional instructions</i>
2.A and 6.A	Renovation or addition projects and non-building-related capital approved by Reserve Bank management ¹⁷	Quarterly	Report only single projects or single-item acquisitions costing \$100,000 or more and the total of all projects (or single-item acquisitions if not part of a multicomponent project) costing less than \$100,000. For software, designate whether the software (or software project) is internally developed. ¹⁸
	Agreements with architects and other consultants approved by Reserve Bank management for building projects	Quarterly	Report all agreements over \$50,000 if not included in another monthly or quarterly report required by RBOPS for all project costs.
2.B, 6.C, and 7	Renovation or addition projects and new building programs approved by the director of RBOPS or the Board	Monthly	Submit monthly status reports in accordance with requirements outlined in the <i>Federal Reserve System Facility and Security Guidelines</i> . A final report must be submitted on project closeout for all projects.
	Building project changes or change orders (within project budget and approved scope)	Same as above	Same as above
3.A	Cost overruns to acquisitions approved by	As necessary	Report to the director of RBOPS and the manager of FRB Planning and Control the

	Reserve Bank management		amount of the approved capital commitment, the amount included in the Bank's capital budget, and the overrun amount for any acquisition that exceeds the approved commitment by the greater of \$250,000 or 5 percent.
3.B	Cost overruns to budgeted acquisitions approved by the director of RBOPS or the Board	As necessary	If Reserve Bank costs related to a capital acquisition are expected to exceed the not-to-exceed amount approved by the director of RBOPS or the Board, all anticipated cost overruns must be approved by the director of RBOPS or the Board. For all other overruns, the Reserve Bank must notify the director of RBOPS in writing in advance of committing funds if the overrun is significant. Notification must include a description of the factors causing the overrun. ¹⁹
4.B	Unbudgeted capital acquisitions/projects in excess of amounts listed in paragraph 4.A	As necessary	Notify the director of RBOPS in writing in advance of all unbudgeted capital acquisitions/projects in excess of the thresholds detailed in paragraph 4.A. Notification must include a description of the factors causing the unbudgeted acquisition. See footnote 19.
5	Substitutions	Quarterly	Report any unbudgeted capital acquisition in excess of \$100,000 that has been substituted for a budgeted capital acquisition of like nature and in the same capital classification or otherwise approved by the manager of RBOPS's FRB Planning and Control Section.
6.B	Capital acquisition status reports for non-building-related projects approved by the director of RBOPS or the Board	Quarterly	Report the cost status of current or completed capital acquisitions. Reports should adhere to a Board-provided format and include a brief project description, status, and key cost information. Specify the total amount included in the Bank's budget, budgeted allocation by year (if a multiyear project), approved funding, and actual project costs by quarter. A final report must be submitted on project closeout. See footnote 19.
8.A	Sales of real estate	As necessary	Report all real estate sales.
9.C	Lease of space for Reserve Bank functions	Annually	Report all new lease arrangements for Reserve Bank functions, specifying the contract term, monthly payment, and any related project costs and up-front leasehold improvement costs paid by the Bank.
10.A and 11.A	Multiyear commitments approved by Reserve Bank management	Quarterly	Report any multiyear prepaid agreement and any multiyear noncancellable obligation approved by Reserve Bank management in

			the quarter in which the agreement was entered.
11.B	Unbudgeted multiyear commitments exceeding \$1 million	As necessary	Notify the director of RBOPS in writing in advance of plans to enter into any multiyear prepaid agreement or multiyear noncancellable obligation exceeding \$1 million. Notification must include a description of the factors determining the Reserve Bank's acquisition strategy.
13.A	Agreements to acquire goods, services, or construction without a competitive bidding process for acquisitions otherwise within the Bank's approval authority	As necessary	Notify in writing the director of RBOPS in advance of plans to enter into an agreement with a non-Federal Reserve entity to acquire goods, services, or construction without a competitive bidding process when commitments are expected to exceed \$500,000. Notification must include a description of the factors determining the Reserve Bank's acquisition strategy.
13.E	Waived penalties on reserve deficiencies	Quarterly	See <i>Financial Accounting Manual for Federal Reserve Banks</i> .
13.G	Changes in territories	As redrawn ²⁰	
15.C and 16.C	Routine and accelerated price and service-level changes	Periodically	Provide a list of product approvals to the director of RBOPS.
17	Preapproved price and service-level changes	Quarterly	Report all changes to price and service levels that the Reserve Bank has adopted without prior Board review.
	Total capital outlays	Annually	Report total actual capital outlays by asset class for the preceding calendar year by the fifth business day of February.
	Capital commitments subject to RBOPS for technical review	As necessary	The Bank should consult with the relevant Board staff regarding project development and management decisions.
	Purchase and sale of artwork	Annually	Report the artist, title, and amount of any individual transaction that exceeds \$10,000, including the initial purchase price for artwork that is sold.
	Appointment of assistant Federal Reserve agents	As appointed	

17. The dollar amounts reported should represent funds committed to capital acquisitions (for example, as evidenced by a purchase order) rather than dollars actually paid during the quarter. In some cases, there may be variances between the cost of an item shown in a quarterly report and the actual expenditure because of changes in prices, shipping costs, or other costs. Minor changes need not be noted in the next quarterly report, but significant changes must be clearly noted in the next quarterly report. [Return to table](#)

18. When Reserve Bank management has approved commitments made or arranged by one Reserve Bank on behalf of several Reserve Banks, the Reserve Bank making or arranging the commitment generally is responsible for including the commitment in its quarterly report. If the arranging Bank requests settlement for actual outlays from other Reserve Banks, those Reserve Banks should footnote the outlay in their annual total capital outlays report but not include them as part of their quarterly report for Bank-approved capital

acquisitions. When a Reserve Bank is purchasing capital assets from another Reserve Bank, the purchasing Reserve Bank should report the acquisition as a footnote in the quarter that the transaction is made. [Return to table](#)

19. If a Reserve Bank or FRIT is accomplishing a project at the request of a sponsoring organization, the sponsoring organization is responsible for coordinating and submitting all reports and notifications. When an acquisition is made or arranged by one Reserve Bank on behalf of several Reserve Banks, the Reserve Bank making or arranging the acquisition generally is responsible for coordinating and submitting all reports and notifications. [Return to table](#)

20. Changes to territories involving a check-processing region must be reported sufficiently in advance for the Board to adopt conforming changes to Regulation CC. [Return to table](#)

Unless otherwise provided, all reports should be submitted to the director of RBOPS. Items that require reports when actions are taken should be submitted within five business days of the action. Quarterly reports should be submitted within ten business days of the end of each calendar quarter. Items that must be reported annually should be included in the fourth quarter report, annual budget, or as instructed in light of the requirements in the table above. At a minimum, the report should indicate the action taken, the date of action, and dollar amount, when applicable. S-2634; Oct. 3, 2007.

This letter supersedes S-2619 of Aug. 12, 2003.

1-060

DIRECTORS--Oaths of Office

At the beginning of each term of office, each director of a Federal Reserve Bank and branch, and each Federal Reserve agent and his or her assistant, shall take their oaths on the following appropriate forms:

- Form FR 253--class A directors
- Form FR 254--class B directors
- Form FR 255--class C directors
- Form FR 256--directors of branches
- Form FR 257--Federal Reserve agents, assistant agents, alternate assistant agents, and acting assistant agents, including those at branches.

Other than the oath for class C director, no form of oath is required for the deputy chairman of the board of directors.

The president of each Federal Reserve Bank, or his or her designee, shall be responsible for familiarizing each director of a Federal Reserve Bank or branch with the rules and policies of the Board of Governors regarding the conduct of directors and shall certify, as to each director at the beginning of each term of office, that he or she is satisfied that the director has been provided a thorough explanation of, and understands, those rules and policies. S-2553; June 14, 1993.

This letter supersedes X-9727 of October 28, 1936.

1-061

DIRECTORS--Eligibility, Qualifications, and Rotation

The Board expects the directors of the Federal Reserve Banks and their branches to be individuals who can contribute to the System's understanding of the economic conditions of their district and the effect of these conditions on the economy as a whole. Accordingly, directors should be familiar with the economic and business community of the territory for which they are selected. In addition, directors should be respected in their community and able to meet their financial obligations. Candidates should be selected who will represent the interests statutorily designated for their class. No member of Congress or of the Board's Federal Advisory Council or Thrift Institutions Advisory Council or the Consumer Advisory Council may simultaneously be a director of a Reserve Bank.

Directors will be selected without discrimination on the basis of race, creed, color, sex, or national origin. In light of the powers and responsibilities of the System's directors, the Board will only consider candidates for its appointments who are citizens of the United States, including naturalized citizens. The Board recommends that each Reserve Bank adopt a similar policy for Class A and Class B directors. The branch regulation requires that branch directors be United States citizens.

In nominating or selecting candidates for directors, each Reserve Bank and the Board should be mindful that a minimum of three directors on each Reserve Bank board will serve on the Reserve Bank's audit committee. Accordingly, each board must have at least three directors who are suited to fulfill the responsibilities of the audit committee.¹

1. The qualifications for members of the audit committee are described in FRAM [1-007](#) (S-2622).

These directors should be independent²

2. Members of the audit committee are considered to be independent if they have no relationship with the Reserve Bank that might interfere with the exercise of their independence from management of the Bank.

and financially literate (i.e., able to understand financial statements and general financial concepts). At least one member should have banking, accounting, or other relevant financial proficiency.

Class A

By statute, Class A directors are nominated and elected by the member banks in each Federal Reserve district to represent the stockholding banks. There are few statutory or policy restrictions on eligibility for nomination to Class A beyond the general requirements discussed above. Class A directors may, for example, be officers or directors of a member or non-member commercial bank. If the nominee

is an officer or director of a bank, he or she may serve as a Class A director only if nominated and elected by member banks in the same classification group as such person's bank (as discussed in FRAM [1-064](#), Procedure for Elections of Class A and Class B Directors). An officer or director of more than one bank is considered to be affiliated with the largest bank of these banks for purposes of this provision.

Class B

Class B directors also are nominated and elected by the member banks in each Federal Reserve district. Class B directors represent the public and "shall be elected . . . with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor, and consumers."³

3. See Federal Reserve Act, section 4, 12 U.S.C. section 302.

By statute, no Class B director may be an officer, director, or employee of any bank.

In order to give full effect to this requirement as well as the requirement that Class B directors be elected with consideration for sectors of the economy beyond banking, under the Board's policy a Class B director may not be an officer, director (including advisory director) or employee ⁴

4. The term "employee" covers an individual who serves, at a minimum, as a common law employee of the relevant company. This would include any contractor for whom the employing entity should withhold federal income taxes. It would not include, however, an individual who works as a professional consultant and who has a bank or bank holding company, or an affiliate of such, as a client, unless the relationship is so close as to give rise to common law employee status.

of a financial affiliation company. A financial affiliation company is any bank,⁵

5. For purposes of this policy, a "bank" includes any entity eligible for membership in the Federal Reserve System, including a national bank, a savings bank, a Morris Plan bank, and an industrial loan company.

bank holding company, branch or agency of a foreign bank, thrift institution, credit union, or subsidiary of any such company or entity. A financial affiliation company also includes any company that owns a bank or thrift institution, even if the company is not a registered bank holding company, if, at the time of election, the value of all banks and thrifts controlled by the company constitutes 15% or more of the assets, revenues, or net income of the consolidated holding company. A Class B director who is affiliated with a company that owns a bank or thrift institution (but that is not a financial affiliation company as defined above) should be selected because of the individual's connection with the nondepository activities of the company.

If a Class B director has an affiliation with a company that is not a financial affiliation company at the start of his or her service as a director of the Reserve Bank but that becomes a financial affiliation company during the Class B director's term, the Class B director must either resign from the impermissible affiliation or resign from the Reserve Bank's board within 60 days of the earlier of the date the

director becomes aware of the impermissible affiliation or the date that the Board informs the Reserve Bank that the company has become a financial affiliation company. During this 60-day period (or until the affiliation is severed, if sooner), the Class B director shall recuse himself or herself from all duties related to service as a Reserve Bank director. Although the Class B director has 60 days to resign from the impermissible affiliation or from the Reserve Bank board, the Class B director should advise the Reserve Bank of his or her intentions within 30 days of notification of the company's status as a financial affiliation company.

If a company becomes a financial affiliation company after the Class B director's election to a term that has not yet commenced, the Class B director may not begin service until he or she has resigned from the impermissible affiliation.

Class C

By statute, Class C directors are appointed by the Board of Governors to represent the public, and, like Class B directors, are selected with "due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor and consumers." By statute, candidates for Class C directors must have been residents of their district for at least two years. Because the Board selects the chairman and deputy chairman of the board of directors from among the Class C directors, each Class C director should have proven leadership credentials. The Federal Reserve Act provides that the chairman be a person of "tested banking experience." Over the years, this requirement has come to be interpreted as requiring familiarity with banking or financial services.

Affiliations

The eligibility limitations applicable to Class B directors also apply to Class C directors. Accordingly, no Class C director may be an officer, director, advisory director, or employee of a financial affiliation company.

If a Class C director has an affiliation with a company that is not a financial affiliation company at the start of his or her service as a director of the Reserve Bank but that becomes a financial affiliation company during the Class C director's term, the Class C director must either resign from the impermissible affiliation or resign from the Reserve Bank's board within 60 days of the earlier of the date the director becomes aware of the impermissible affiliation or the date that the Board informs the Reserve Bank that the company has become a financial affiliation company. During this 60-day period (or until the affiliation is severed, if sooner), the Class C director shall recuse himself or herself from all duties related to service as a Reserve Bank director. Although the Class C director has 60 days to resign from the impermissible affiliation or from the Reserve Bank board, the Class C director should advise the Reserve Bank of his or her intentions within 30 days of notification of the company's status as a financial affiliation company.

If a company becomes a financial affiliation company after the Class C director's

election to a term that has not yet commenced, the Class C director may not begin service until he or she has resigned from the impermissible affiliation.

Stockholdings

By statute, no Class C director may be a stockholder of any bank. In addition, to give effect to this prohibition, it is the Board's policy that no Class C director may own stock in a bank holding company, foreign bank, subsidiary of a bank holding company, or operating subsidiary of a bank (collectively, together with banks, referred to as "financial stock issuers"). If a Class C director holds stock in a company that becomes a financial stock issuer during the course of the Class C director's term, the Class C director must divest the impermissible stock or resign from the Reserve Bank's board within 60 days of the earlier of the date the director becomes aware of the impermissible stockholding or the date that the Board informs the Reserve Bank of the company's status as a financial stock issuer. Until the time of complete divestiture or resignation, the Class C director shall recuse himself or herself from all regular duties related to service as a Reserve Bank director. In addition, the Class C director may not purchase any additional stock in the relevant company until he or she resigns from the Reserve Bank's board.

Although the Class C director has 60 days to divest the impermissible stock or resign from the Reserve Bank board, the Class C director should advise the Reserve Bank of his or her intentions regarding divestiture or resignation within 30 days of notification of the company's status as a financial stock issuer.

Indirect interests in financial stock issuers. Class C directors are not disqualified by virtue of indirect ownership interests in financial stock issuers through limited types of widely held, diversified investment vehicles. In particular, Class C directors may hold interests in financial stock issuers through ownership of shares of a mutual fund so long as the mutual fund is registered under the Investment Company Act of 1940 and does not have a stated policy of concentrating in the financial services sector. Class C directors also may own shares of financial stock issuers through other diversified investment funds. For these purposes, an "investment fund" means a mutual fund, common trust fund of a bank, pension or deferred compensation plan, or any other investment fund which is widely held (i.e., more than 100 participants) and where the director has no ability to exercise control over the fund's investment decisions. "Diversified" means that the fund holds no more than 5% of the value of its portfolio in the stock of any one financial stock issuer, and no more than 20% in the financial sector.

Class C directors may not hold other indirect interests in financial stock issuers, e.g., through a trust, limited partnership, or other investment vehicle, unless the Board has determined that the interests are not so direct or substantial as to be disqualifying. In making this determination, the Board will consider various relevant factors including: (1) the nature of the director's ownership interest in the financial stock issuer (e.g., as grantor, trustee, beneficiary, or partner); (2) the director's role, if any, in the fund's investment decisions; (3) the size of the

director's proportional interest in the financial stock issuer; and (4) the fund's investment strategy and the composition of its assets.

A candidate for Class C directorship must divest prohibited interests (including interests in companies that become financial stock issuers after the director's appointment to a term that has not yet commenced) before taking office. Divestiture should normally be accomplished by sale or transfer of the stock to a person other than the director's spouse or minor child. If after taking office, a Class C director acquires a prohibited interest by inheritance or other method not initiated by the director, that interest must be divested within 60 days.⁶

6. As noted above, a Class C director may not deliberately acquire prohibited interests after taking office.

Ownership of stock by a spouse or minor child that would be impermissible if owned by a Class C director, though not expressly attributed to the director or prohibited by the Federal Reserve Act, is one of many factors the Board weighs in assessing an individual's eligibility for Class C. In addressing this factor, the Board will consider the number of shares and percentage owned, the method of acquisition, the period of time the shares have been held, the prominence and location of the financial stock issuer, and any other factors that bear on the likelihood of public association of the director or director candidate with the financial stock issuer. In addition, the nature and extent of a candidate's involvement with such an investment (e.g., through management or investment advice) may affect an individual's eligibility for service. Finally, a Class C director should not encourage or participate in the purchase of stock by or for his or her spouse or minor child if ownership of that stock would be impermissible for the director.

A director whose spouse or minor child owns shares of a bank or bank holding company may be prohibited by federal statute from acting on certain matters affecting the bank or bank holding company, so he or she should seek guidance from the Reserve Bank's general counsel before participating in such matters.⁷

7. Certain provisions of the federal ethics laws apply to directors of Federal Reserve Banks and branches as well as to Board and Reserve Bank employees. In general, these provisions prohibit a covered person from participating in any particular matter in which the person or certain persons related by family or business have a financial interest. 18 U.S.C. 208.

Branch Directors

Branch directors appointed by the Board must satisfy the same eligibility requirements that pertain to Class C directors, except that the Board may appoint a shareholder or advisory director of a commercial bank or other financial affiliation company to serve as a branch director. The Board may, in extenuating circumstances and at the request of a Reserve Bank, waive this restriction and appoint one director of a commercial bank as a branch director. Branch directors appointed by Reserve Banks may satisfy the eligibility requirements of either Class A or Class B directors. Accordingly, directors of commercial banks are eligible to

serve as Reserve Bank-appointed branch directors. No director of a Federal Reserve Bank may serve simultaneously as a branch director.

Rotation Policy

Head-office directors. In appointing Class C directors of Federal Reserve Banks, the Board has a policy of rotation, under which the service of an individual as a director has been limited to two full terms. The Board believes that the advantages of rotation among Federal Reserve Bank directors outweigh any disadvantages and that any steps that banks might take toward making the rotation principle more generally applicable in the election of Class A and Class B directors should be encouraged as far as possible. In accordance with this policy, Class C directors will not be reappointed if they have served two full terms of three years each, or if, by the end of the new term, the individual would have served as a director (including all service as a Class A, B, or C director) for more than seven years of continuous service. The Board has the authority to grant exceptions where appropriate, but would expect to do so only in limited circumstances.

The chairman and deputy chairman of each Reserve Bank are designated annually by the Board of Governors for terms running from January 1 through December 31. Normally, a Class C director designated as chairman may serve in that capacity for a total of up to three years.

Branch directors. The Board will follow a similar rotation policy with Board-appointed branch directors and will generally limit such service to a maximum of seven years of continuous service at the branch. It should be noted, however, that service as a branch director does not count as service at a head office and branch directors may be appointed to directorships at head offices without regard to their tenure as branch directors. The Board encourages the Reserve Banks to apply a similar rotation policy for branch directors appointed by the Banks.

Waivers. In rare and exigent circumstances, the Board may approve a request from a Reserve Bank for a waiver to this policy to permit a director, director-elect, or candidate to continue to be eligible to serve as a director. The Reserve Bank may submit a written request to the Board describing the need for the waiver upon a vote of the board of directors on whether to recommend a waiver from the Board. The Board must approve the Reserve Bank's waiver request in order for it to become effective. S-2642; Nov. 20, 2009.

This letter supersedes X-9083 of Jan. 9, 1935; S-1913 of May 11, 1964; S-2261 of Aug. 22, 1974; S-2266 of Dec. 2, 1974; S-2521 of Feb. 10, 1989; S-2556 of Oct. 5, 1993; S-2590 of July 29, 1998; S-2614 of March 13, 2003; S-2629 of Jan. 31, 2006 (partially); and S-2633 of Sept. 25, 2007.

1-063**DIRECTORS--Scheduled Meeting Dates**

The Board should be promptly informed of any changes in the meeting dates of Reserve Bank directors. Notices should be sent to the staff director for Federal Reserve Bank activities. S-1583; Jan. 5, 1956.

1-064

DIRECTORS--Procedure for Elections of Class A and Class B Directors

Following are detailed instructions for nominating and electing class A and class B directors of Reserve Banks.

A. Classification and Participation of Member Banks

1. ***Classification.*** For purposes of nomination and election of class A and class B directors of a Federal Reserve Bank, member banks of each Federal Reserve District are classified, as required by section 4 of the Federal Reserve Act, into three groups designated by number, each group consisting as nearly as possible of banks of similar capitalization. The Board has delegated to the Reserve Banks the classification of member banks. (See 12 CFR 265.11.) The member banks in each group have the right to nominate and elect one class A director to represent that group's banks and one class B director to represent the public. Accordingly, each of the three class A directors and each of the three class B directors will be nominated and elected by a group of member banks of similar capitalization. The classification of a member bank for this purpose shall not be changed between the date on which requests for nominations are sent by the Federal Reserve Bank and the date of the election, even if the member bank's capital and surplus have changed during that period.

2. ***Member banks in holding company affiliate groups.*** Where two or more member banks are subsidiaries of the same bank holding company (as those terms are defined in the Bank Holding Company Act of 1956, as amended, 12 USC 1841, et seq.), participation in director nominations and elections shall be confined to one of such banks as designated by the holding company. Where the holding company is itself a member bank that controls other member banks, the holding company must designate one member bank (including itself) in the holding company structure to participate in the nomination and election of directors.

3. ***Liquidating member bank.*** A member bank in process of liquidation, either under voluntary or involuntary proceedings, may not participate in the nomination or election of directors.

B. Nominations

1. ***Delegation of functions.*** The chairman of the board of directors may delegate to one or more responsible officers or employees of a Federal Reserve Bank, subject to the chairman's general supervision and direction, authority to perform any or all functions required to be performed by the chairman in connection with the nomination and election of directors.

2. ***Announcement of election and request for nominations.*** Within a reasonable

time in advance of an election, the chairman or delegee shall inform each eligible member bank of the election of directors and request nominations. The announcement should advise each member bank that nominations must be made and ballots cast by a duly authorized officer of the bank. Approximately one month should be allowed for the submission of nominations, which may be made by any reasonable means. The announcement should include a deadline for submitting nominations.

3. ***Nominating committees.*** Use of advisory nominating committees can help a Reserve Bank obtain a diverse group of well-qualified director candidates. These nominating committees should be representative of the member banks and should not include Reserve Bank officers or employees. Reserve Banks may cooperate with the nominating committees by providing clerical and administrative assistance, and absorbing reasonable costs associated with meetings.

4. ***Directors affiliated with a member bank.*** An officer or director of a bank may serve as a class A director only if nominated and elected by banks in the same classification group as such person's bank. An officer or director of more than one bank may be nominated as a class A director by banks in the same classification group as the largest bank of those with which such person is affiliated.

5. ***List of candidates and instructions for voting.*** Promptly after the close of the nomination period, the chairman or delegee shall compile a list of candidates. The list and biographical sketches of each candidate shall be provided by any reasonable means to each voting member in the District within 15 days after their completion. The list shall contain instructions for voting.

C. Voting

1. ***Method of voting.*** Reserve Banks, in their discretion, may provide member banks the option to vote using paper, electronic or other recorded means, or any combination thereof, pursuant to procedures administered by the Reserve Banks that ensure the anonymity, security, and authenticity of the votes cast.

2. ***Timing.*** All voting procedures shall be initiated in sufficient time to permit completion of the election cycle no later than December 31 of each calendar year.

3. ***Authorization for casting votes.*** Each member bank, either by board resolution or through its bylaws, shall designate the bank official(s) authorized to cast votes on behalf of the bank in the annual elections.

4. ***Ballots.*** The chairman or delegee shall provide a preferential ballot by which the duly authorized officer of a member bank shall certify the first, second, and other choices among the candidates. Ballots shall be in a form that ensures the secrecy and authenticity of the votes cast. (For paper ballots, see exhibits C, D, and E for sample forms.)

5. ***Period for voting.*** The dates and times for commencement and closure of the

election process shall be determined by the Reserve Bank. Member banks shall be permitted a period of 15 calendar days to cast their votes. No ballot shall be counted as valid unless it is received by the Bank on or before the date fixed for the closing of the polls.

6. ***Preferential ballots.*** By statute, the election of directors must be conducted by preferential ballot. The purpose of a preferential ballot is to minimize the need for additional balloting in contests where there is no majority choice among the candidates. Preferential ballots must allow the voter to indicate its first choice and, to the extent there are multiple candidates, its second choice and other choices as relevant. In situations in which only one candidate stands for election, the preferential ballot requirement is fulfilled by allowing voters a space to vote for that candidate, without providing a space to vote against the candidate or providing for write-in candidates.

7. ***Determination of elected candidate.***

- a. A candidate is elected if that candidate has received a sufficient number of valid first-choice votes to constitute a majority of all valid ballots cast.
- b. If no candidate receives a majority of the first-choice votes, the second-choice votes shall be counted. The number of valid first-choice ballots shall be added to the number of valid second-choice ballots. The candidate who receives both the highest number of combined votes and a majority of the total votes counted shall be elected.
- c. If no candidate receives a majority of the first- and second-choice votes, the third-choice votes shall be counted. The number of valid first- and second-choice ballots shall be added to the number of valid third-choice ballots. The candidate who receives the highest number of combined votes shall be elected. If no candidate receives a plurality, a similar procedure will be followed until a plurality of votes is reached.

8. ***Authentication of ballots.*** The Reserve Bank shall establish methods that are appropriate to the method of voting adopted by the Reserve Bank to ensure that ballots are cast only by authorized banks and that each ballot is authentic (i.e., cast by authorized individuals, not a duplicate ballot, and a valid ballot, as described below).

9. ***Validation of ballots.*** Because director elections involve the use of preferential ballots, each voter is expected to indicate its order of preference where multiple candidates stand for election. For purposes of authentication of ballots and determining the election of a candidate, the ballot is valid if the ballot indicates a choice for a candidate in the round of preferences being counted. (E.g., a ballot is valid in the second round if both first-choice and second-choice candidates are clearly indicated.) A ballot is not invalidated by reason of failure to mark a preference until the point in the vote-counting process where the absence of a clear mark by the voter is material to the outcome of the election. When a ballot is

invalidated, it is invalidated totally. Thus, all votes on a ballot that is declared invalid are eliminated from the final results of an election. The following rules govern the determination of the validity of preferential ballots:

- a. Any ballot that marks multiple preferences for a single candidate shall be valid when counting the first choices, even if the second choice is marked for the same candidate. Such a ballot shall become invalid only if second choices are counted.
- b. Any ballot that has no clear mark for first choice shall be invalidated.
- c. Where there are only two candidates, a ballot is not invalid if it fails to indicate a second choice, because that choice will be inferred. Similarly, a choice will be inferred for the third-choice among three candidates where a first and second choice is properly marked, and for higher numbers where all but the last choice are properly marked.
- d. In an election with more than two candidates, any ballot that has no clear mark for second choice is invalidated totally at the point where second-choice votes must be counted, and all votes on that ballot (including the first-choice vote) are eliminated from the results of the election. Similarly, when third-choice (or any lower choice) votes must be counted, any ballot that has no clear mark for third-choice (or the corresponding lower choice) (except as provided in c. above) is invalidated totally at that point and all votes on that ballot (including all higher-choice votes) are eliminated from the results of the election.

10. ***Tie vote.*** In the event of a tie vote, a new election will be held unless a candidate withdraws and only one candidate is elected as a result.

11. ***Report of election.*** Following the election, the chairman or delegee shall advise all member banks in the District of the results of the election. The chairman or delegee may also indicate, in that message or in a general letter to all voting member banks, that some ballots were invalidated and the reasons for the invalidations if that is the case.

12. ***Retention of ballots.*** The Bank shall retain all ballots until the expiration of the three-year term of the director in whose election they were cast.

Exhibit A--Letter Announcing Election of Directors (Optional; Banks may use any reasonable form)

FEDERAL RESERVE BANK OF _____

City

State

September ____, 20 ____

The Member Banks of the ____ Federal Reserve District:

An election will be held under the provisions of section 4 of the Federal Reserve

Act to choose successors to the following directors of this Bank, whose terms expire December 31, 20 ____ :

Class A Director, Mr. John L. Doe, President, The Blank National Bank of Blankton, (City), (State).

Class B Director, Mr. Frank A. Smith, President, Blank Manufacturing Company, (City), (State).

Mr. Doe, the class A director, was elected by banks in group 2 and his successor will be chosen by the banks in this group. Group 2 consists of banks having capital and surplus of \$ ____ and not exceeding \$ ____ . Mr. Smith, the class B director, was elected by banks in group 3 and his successor will be chosen by the banks in this group. Group 3 consists of banks having capital and surplus of less than \$ ____ . The banks comprising groups 2 and 3 are listed on the following pages.

The group in which a member bank will be entitled to vote will be determined by its classification as of ____ .

Each bank in group 2 is permitted to nominate one candidate for class A director and each bank in group 3 is permitted to nominate one candidate for class B director. The nominations must be made by a duly authorized officer of the nominating bank on or before ____ . Such nomination may be sent by mail, fax, or any reasonable means including electronic mail to: ____ .

Very truly yours,

Chairman of the Board

Exhibit B--Letter of Voting Instructions* (Optional)

*. If there are only two or three candidates, an appropriate paragraph should be included regarding indication of choices as suggested in the instructions, paragraph 9.

FEDERAL RESERVE BANK OF _____

City

State

October ____, 20 ____

The Member Banks of the ____ Federal Reserve District:

In accordance with the provisions of section 4 of the Federal Reserve Act and the announcement dated September 16, 20 ____, in regard to the election of directors of this bank to succeed Ms. Jane L. Doe, class A director, and Mr. Frank A. Smith, class B director, whose terms expire December 31, 20 ____ please find enclosed the names of the candidates nominated for such directorships and the names of the banks that made the nominations.

I also enclose for each bank in group ____ a preferential ballot for use in voting for

a class A director and for each bank in group ____ a preferential ballot for use in voting for a class B director. An envelope bearing on its face the certificate in regard to the vote and an envelope marked ``Ballot," in which the ballot is to be sealed, are also provided.

The ballot and certificate on the envelope must be executed by an officer who has been authorized to cast the vote. To ensure the confidentiality of the balloting, please do not write the name of the bank or of the voting officer on the ballot but only on the certificate envelope.

The following procedure is required in the case of both the class A and class B ballots:

1. The preferential ballot should be marked.
2. It should then be placed in the envelope marked ``Ballot" and the envelope sealed.
3. After the certificate on the certificate envelope is executed, the sealed envelope should be placed within the certificate envelope.
4. The sealed certificate envelope containing the sealed ballot envelope should then be returned to me in the enclosed self-addressed envelope.

Under the law, all ballots must be returned to me within 15 days after their receipt. The polls will open on October 30 and close at 2 p.m. on November 14, 20 ____ . At that time the ballots will be opened, the votes counted, and the results of the election announced. The candidates are invited to be present or represented on that occasion.

Very truly yours,

Chairman of the Board

Exhibit C--Preferential Ballot*

*. Form should be modified depending upon number of candidates. See instructions, paragraph 9.

FEDERAL RESERVE BANK OF _____

Group No. _____

October ____, 20 ____

This ballot and the certificate on the envelope must be executed by an officer who has been authorized to cast the vote.

This ballot must be returned so as to reach me within 15 days after its receipt. The polls will open on October 30 and close at 2 p.m. on November 14, 20____.

Failure to observe instructions will invalidate this ballot.

Chairman of the Board

VOTE FOR CLASS A [CLASS B] DIRECTOR

<i>Candidate (Mark X)</i>	<i>1st Choice</i>	<i>2nd Choice</i>
[Name of candidate] President, _____, Bank, _____		
[Name of candidate] Vice President, _____, National Bank, _____		

NOTE: After execution, please place this ballot in the ballot envelope, then seal and place the sealed envelope in envelope bearing certificate, seal same, and return it in self-addressed envelope.

Exhibit D--Certificate Envelope

THIS ENVELOPE SHOULD CONTAIN ONLY BALLOT IN SEALED BALLOT ENVELOPE. IT WILL NOT BE OPENED UNTIL POLLS CLOSE.

Group No. _____

November ____, 20 ____

In accordance with section 4 of the Federal Reserve Act, I hereby certify that my first and second choices**

**See instructions, paragraph 9 concerning indication of choices.

for a class A director of the Federal Reserve Bank of _____ are as indicated in the columns of the ballot sealed herein.

For

Name of Bank Signature of officer designated to vote

Location of Bank Title of voting officer

Exhibit E--Certificate of Election (Optional)

December ____, 20 ____

We, the undersigned, having first removed the sealed envelopes containing the ballots from the envelopes containing the certificates and disposed of the certificate envelopes so that it was impossible to tell who executed the ballot, have then opened the sealed envelopes containing the ballots and counted the votes cast for the candidates for directors of the Federal Reserve Bank of ____.

We certify that the total number of first choice votes cast for the candidates for class A director was forty-eight (48), and that of this number William O. Brown received thirty (30), and John L. Doe received eighteen (18). Mr. Brown having received the majority of all votes cast in the column of first choice, we find that he has been elected a class A

director. Ballots invalidated in class A election on account of being cast by an unauthorized officer or improperly executed, and for that reason not counted, numbered ____ .

We further certify that the total number of first choice votes cast for the candidate for class B director was two hundred thirty-five (235), and that of this number Frank A. Smith received two hundred thirty-five (235) first choice votes. Mr. Smith having received all of the votes cast in the column of first choice, we find that he has been unanimously elected a class B director. Ballots invalidated in class B election on account of being cast by an unauthorized officer or improperly executed, and for that reason not counted, numbered ____ .

Dated _____

Name, Title

Name, Title

Exhibit F--Results of Election (May be distributed by any reasonable means)

FEDERAL RESERVE BANK OF _____

City

State

November ____, 20 ____

To Member Banks of the _____ Federal Reserve District:

The election of directors to succeed ____, class A director, and ____, class B director, whose terms expire December 31, 20 ____, has been duly held in accordance with the requirements of section 4 of the Federal Reserve Act and the provisions of the circular issued by this office under date of September 16, 20 ____ .

The results of the election are as follows:

_____, President, _____

National Bank of

City

State

was elected by banks in group 2 as a class A director. _____,
President, The _____ Manufacturing Company

City

State

was elected by banks in group 3, as a class B director to succeed himself.

Each director was chosen for a term of three years to begin January 1, 20 ____ .

Very truly yours,

Chairman of the Board

S-2629; Jan. 31, 2006.

This letter supersedes S-1707 of Sept. 3, 1959, and S-2494 of Dec. 19, 1985.

1-065

DIRECTORS--Guide to Conduct for Directors of Federal Reserve Banks and Branches

Directors of Federal Reserve Banks have a special obligation for maintaining the integrity, dignity, and reputation of the Federal Reserve System. In their capacity as directors, these individuals are charged by law with the responsibility of supervising and controlling the operations of the Reserve Banks, under the general supervision of the Board of Governors, and for ensuring that the affairs of the Banks are administered fairly and impartially. Chosen, as they are, from diverse segments of the community at large, directors are expected to bring to their deliberations the benefit of experienced judgment and advice on specific matters within their respective Districts and on other general issues confronting the System as a whole. To ensure the proper performance of System business and the maintenance of public confidence in the System, it is essential that directors, through adherence to high ethical standards of conduct, avoid actions that might impair the effectiveness of System operations or in any way tend to discredit the System. Therefore, Federal Reserve directors should be guided by the following principles.

1. Their personal financial dealings should be above reproach and information obtained by them as directors of the System should never be used for personal gain.
2. Directors of Federal Reserve Banks, 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 director for private gain,
 - c. giving unwarranted preferential treatment to any organization or person.
3. Directors should strictly preserve the confidentiality of Reserve Bank and System information. In public speeches and communications, directors should avoid statements that suggest the nature of any monetary policy action that has not been officially disclosed.
4. Directors are expected to adhere to high ethical standards of conduct. Directors are also expected to comply fully with all applicable laws and regulations governing their actions as directors and in their conduct outside of the Federal Reserve System. The Board reserves the right to suspend or remove any director at a Reserve Bank or Branch who fails to adhere to the high ethical and legal compliance standards of the System. Whenever a director is charged with the commission of or participation in a crime which is punishable by imprisonment for a term exceeding one year under state or federal law, the Board will immediately suspend or remove said director from continued service at the Federal Reserve Bank or Branch.

Director Involvement in Reserve Bank Procurements

Although Reserve Bank director involvement in procurements is rare, it has the potential to raise conflicts of interest or the appearance of conflicts of interest. Accordingly, each Reserve Bank shall develop, adopt, and maintain a policy that reflects the Board's commitment to procurement practices that are untainted by any potential for conflicts of interest from directors. Each policy should address, at a minimum, the following elements:

- the role of directors in procurements including the types of procurements involved
- the nature of procurement information that would be shared with the directors
- an education program for directors that at a minimum includes
 - an initial orientation for new directors on the need to avoid conflicts of interest, both actual and the appearance thereof, the associated criminal penalties, and their applicability to procurement matters
 - review of these matters prior to procurement actions involving the directors
 - proper treatment of pending procurement information and related non-public information to maintain confidentiality
- a written procedure for a director to follow for recusal from a matter to be discussed and a process for determining circumstances where recusal is not sufficient and another action, such as contractor exclusion or director resignation, may be warranted
- a written procurement certification process whereby each director certifies that he or she does not have any financial interest in a specific procurement presented to the board of directors at a stage where director involvement could have an influence on the ultimate selection
- recordkeeping of training materials and attendance, recusals, and procurement certifications

S-2643; March 19, 2010.

This letter partially supersedes S-2614 of March 13, 2003, and S-2629 of January 31, 2006.

1-066

DIRECTORS--Political Activity

Since 1915 the Board has taken the position, as a matter of policy, that directors of Federal Reserve Banks and their branches should not engage in certain types of political activity. This policy has demonstrated its usefulness throughout the history of the Federal Reserve System in preserving the political independence of the System, which is an essential element to the System's ability to conduct its monetary policy, crisis management, financial institution supervision, payments and other activities in a nonpartisan manner.

The Board's policy regarding the political activities of directors is based on the policy followed by Board members, Board officers and Reserve Bank officers. As explained more fully below, as a general principle, directors should not engage in any political activity or serve in any public office where such activity or service might be interpreted as associating the Reserve Bank or the Federal Reserve System with any political party or partisan political activity, might embarrass the Reserve Bank or the Federal Reserve System in the conduct of its operations, or might raise any question as to the independence of the individual's judgment or ability to perform his or her duties with the Reserve Bank or System.

Political Activities Consistent with Service as a Director

The Board's policy does not prohibit all political activity. The policy does not, for example, preclude directors from participating in activities as individual voters or as members of nonpartisan public service bodies when that would not be potentially embarrassing to the System.

In addition, the Board's policy does not restrict the right of any director to express his or her personal political views in an individual capacity or to indicate his or her preference for a political candidate for public office. Directors may also personally donate funds to candidates, campaigns, political parties, political action committees (PACs), and political groups. Directors may vote for the candidates who will receive a PAC's financial support as long as the PAC permits all persons who pay a nominal membership fee to vote on these matters. A director may also encourage employees or members of an employing entity, such as a company, union, or association, to donate funds or services to a PAC as long as the solicitation takes place at the director's place of business and the solicitation is made solely in the director's employment capacity, without reference to the director's position at a Federal Reserve Bank.

The policy does not preclude a director from permitting his or her name to be listed among a group of persons as part of an announcement supporting a specific candidate if such listing does not involve any activity on the director's part as a campaign speaker or fund raiser and if the announcement does not identify the director's affiliation with the Federal Reserve. Moreover, if a director's spouse is

hosting a political function at the director's home, the director may attend the function as long as the director does not also host the event, extend invitations to the function, or engage in soliciting contributions as part of the event.

In addition, directors are not restricted by the Board's policy from contacting and lobbying legislators and others regarding legislation or legislative policy. Thus, directors may express their views, whether personal or on behalf of their employer or others, regarding any legislative matter, including the need for legislation and proposals to revise existing laws or pending legislation.

Similarly, the policy does not prevent participation by directors in activities related to issues, referendum questions, local ordinances, constitutional amendments, levies and bonds, or similar matters. Thus, a director may personally donate funds to support or oppose a position on any issue. A director may also participate as a sponsor, speaker, fund raiser, or officer of a group or organization formed for the purpose of advocating for or against a proposed referendum or a particular issue so long as the advocacy does not involve endorsing a partisan campaign, political party, or partisan candidate. (For example, a director may be an officer of an organization that advocates building new highways, but may not be an officer of a group that is formed for the purpose of endorsing a candidate for partisan political office who advocates building new highways.)

All political activities must be conducted without reference to the director's affiliation with the Federal Reserve System. In addition, a director should ensure that participation in any such activity, including issues advocacy, does not associate the Federal Reserve System with a political party or issue, embarrass the Federal Reserve System, or create the appearance of a conflict of interest.

Political Activities Inconsistent with Service as a Director

There are a number of political activities that the Board believes are not consistent with service as a director. In particular, except as described above with regard to PAC contributions solicited at a director's place of business, a director is expected not to engage in raising funds for a political candidate, campaign, or party, or for an entity whose purpose is to donate to one or more political candidates or campaigns in a partisan election. This includes refraining from serving as an officer, director, member of the governing committee or representative on a PAC or other similar entity that raises or assists in raising funds for political activities. Similarly, a director may not solicit votes or support for (or against) any candidate for any political office in any partisan political election or in any political election that is nominally nonpartisan but is viewed by the local public as partisan. The Board's policy also prevents a director from hosting, sponsoring, or speaking at any political fundraising or campaign event or any event that involves selection or endorsement of a political candidate in a partisan election, except that a director may introduce a candidate for partisan office or participate in a campaign event as long as the introduction or event takes place at the director's worksite, participation is a normal

part of the director's employment responsibilities, and no reference is made to the director's role with the Federal Reserve System. Similarly, the policy would not allow participation in the organization, governance or conduct of any political party or campaign, including in a political rally, political nominating convention, fund-raising committee, campaign-candidate recruitment committee, or platform-drafting committee. The policy also prevents a director from permitting his or her name to be included among a list of supporters of a specific candidate if such list involves any activity on the director's part as a campaign speaker or fund raiser or if the announcement identifies the director's affiliation with the Federal Reserve.

Over the course of the System's history, directors who engage in political activities in the course of their employment have been able to comply with the Board's political activities policy by refraining from engaging in optional political activities and by reassigning employer-mandated political responsibilities to others. For example, directors affiliated with corporations that sponsor a PAC have disengaged from participation in the organization, governance, fundraising activities (except employee solicitation to a PAC as noted above), funds dissemination, and political endorsement and other activities of the PAC while the individual served as a director of a Federal Reserve Bank or branch. Similarly, union representatives have delegated responsibility for union activities involving political campaigns, fundraising, funds dissemination, and political endorsements while serving with the Federal Reserve System.

It is also contrary to the Board's policy for a director to hold, or to be a candidate for, any partisan public office. For example, the Board has found in previous cases that it is contrary to the Board's policy for a person connected with a Reserve Bank to be a candidate for election as a governor of a state or as a state senator. The Federal Reserve Act prohibits a member of Congress from serving as a director. The policy also prevents membership on a state banking board or other body that might create either a direct conflict of interest or the appearance of a conflict of interest with the person's duties with the Federal Reserve. Similarly, a director may not hold public office in a position that is nominally nonpartisan if the office is viewed by the local public as partisan. Directors should consult with the appropriate Reserve Bank for guidance, as necessary. Ordinarily, the same restriction has been applied to local offices such as a mayor or councilman of a city, a county treasurer or member of the county board of supervisors, or a paid member of various local authorities if participation is in a partisan capacity. The Board has held that its policy is not violated, on the other hand, by service as a member of a school board, a state roads or bridge commission, a park-planning commission, or a local board of health as long as the participation was in a nonpartisan capacity.

The question whether a particular activity or service in a particular office violates the spirit and purpose of the Board's policy is a matter of judgment dependent on the particular facts. A director should contact the general counsel for the relevant Reserve Bank or the Board's general counsel for advice in advance of participating in any questionable political activity.

The following chart provides a general illustration of the political activities of Reserve Bank directors that are permitted and those that are prohibited.

Permitted and Prohibited Partisan Political Activities for Reserve Bank and Branch Directors*

May <ul style="list-style-type: none"> • express personal preferences for political candidate • express personal opinions about partisan political issues • campaign for or against referendum questions or constitutional amendments 	May not <ul style="list-style-type: none"> • campaign for or against a candidate or slate of candidates in a partisan election • hold any leadership position in a partisan political campaign or serve on a fundraising or campaign committee • attend a political nominating convention as a speaker or delegate
May join political clubs or parties	May not hold office in political clubs or parties
May donate money to a political candidate or party May attend, but not host or solicit funds at, a political function at the director's home that is hosted by the director's spouse	May not collect contributions or sell tickets to political fund-raising events
May sign nominating petition for a candidate	May not circulate nominating petitions
May attend political rallies, meetings, and fund-raising events May participate in campaign stops at the director's workplace when it is clear the director is acting in his or her employment capacity	May not organize, manage, host, or speak at political rallies, meetings, or fund-raising events
May <ul style="list-style-type: none"> • participate in nonpartisan voter registration drives • serve on nonpartisan public-service bodies 	May not <ul style="list-style-type: none"> • work to register voters for one party only • be a candidate for public office in a partisan election
May contribute to a PAC May be a member of a PAC so long as membership includes all persons who have contributed money May vote for the candidates who will receive the PAC's financial support as long as the PAC permits all persons who pay a nominal membership fee to vote on these matters May solicit contributions to their organization's PAC when it is clear the director is acting in his or her employment capacity	May not serve <ul style="list-style-type: none"> • as an officer of a PAC • on a PAC's governing committee or board of directors • on a selection committee of a PAC

* In all instances, directors should avoid any political activity that would publicly identify the director as being associated with the Federal Reserve System or would embarrass the System or raise questions about the independence of the director or the ability to perform Federal Reserve duties. [Return to table](#)

This letter supersedes S-2293-d of Oct. 28, 1975 (as revised May 2, 1994); S-2373 of June 2, 1978 (as revised May 2, 1994); and S-2512 of Sept. 17, 1987.

1-080

LEGAL COUNSEL--Suits of Systemwide Interest

Each Federal Reserve Bank is requested to instruct its counsel to forward to the Board's general counsel copies of all pages in suits brought by or against the Bank. In this way, litigation involving the various Reserve Banks can be coordinated without incurring the expense of a special counsel.

At an early conference of Governors of all Federal Reserve Banks, it was voted: ``To recommend to the Federal Reserve Board that the Federal Reserve System, acting through the Federal Reserve Board, retain a special counsel, to consider litigable matters only, and that all Federal Reserve Banks shall refer to the counsel of the Federal Reserve Board as soon as it arises every litigated question, together with all papers relating thereto, and that the counsel of the Federal Reserve Board should refer to such special counsel all such cases as he thinks concern the system as a whole and any other cases which counsel of the forwarding Federal Reserve Banks request be referred to the special counsel."

Upon consideration of this subject, the Federal Reserve Board voted to disapprove the recommendation of the Governors' Conference to the effect that the System retains special counsel to consider litigable matters only. The Board voted, however, that all Federal Reserve Banks be requested to forward to the general counsel of the Federal Reserve Board all papers in suits brought against Federal Reserve Banks and also all papers in suits brought by Federal Reserve Banks that are of Systemwide interest, in order that the question of employing special System counsel might be determined in each specific case.

The obvious purpose of the plan recommended by the Governors' Conference was to obtain better coordination of the litigation involving the various Federal Reserve Banks, to the end that the interests of the Federal Reserve System as a whole in the legal principles involved in such litigation might be more adequately safeguarded. The Board is in sympathy with this purpose, but believes that it is not necessary to obtain the services of a lawyer of national reputation on a regular retainer in order to accomplish the desired results. The Office of the Board's General Counsel has for some time been acting as a clearinghouse for information respecting recently decided cases of interest to the entire Federal Reserve System, and it is believed that this service might be extended in such a way as to accomplish the purpose of the recommendation of the Governors' Conference without incurring the expense involved in the employment of a lawyer of national reputation on a regular retainer basis.

The Board believes that, if information concerning all pending cases is promptly sent to the Board's general counsel, the necessary cooperation can be obtained through correspondence with counsel for the Federal Reserve Banks and through conferences participated in by counsel for all Federal Reserve Banks. Whenever it is considered advisable to obtain the services of a lawyer of national reputation to

assist in the trial of a case involving questions of Systemwide interest, such special system counsel can be retained in that particular case.

You are requested, therefore, to arrange with counsel for your bank to forward promptly to the general counsel of the Federal Reserve Board copies of all papers in suits brought against Federal Reserve Banks and copies of all papers in suits brought by Federal Reserve Banks which are of Systemwide interest. X-4681; Oct. 6, 1926.

1-081

LEGAL COUNSEL--Compensation Paid to Regular and Special Counsel

Annual salaries or retainers for regular and special counsel at Reserve Banks must be approved in advance by the Board. Special counsel may be retained for extraordinary matters without prior Board approval only in certain circumstances.

It appears that there has been some confusion and lack of uniformity with respect to the approval of compensation paid to regular and special counsel by Federal Reserve Banks, especially with reference to fees for extraordinary services paid to counsel regularly retained by the Federal Reserve Banks; and the purpose of this letter is to eliminate any misunderstanding by stating the practices which should be followed with respect to the compensation paid to attorneys employed by Federal Reserve Banks in all classes of cases.

The annual salaries or retainers paid by the Federal Reserve Banks to regular full-time counsel should be submitted to the Board for approval annually along with the salaries of the Banks' officers, in accordance with the practice which has been followed heretofore.

Where counsel for a Federal Reserve Bank is on an annual retainer basis and also receives additional fees for extraordinary services, the annual retainer should be submitted to the Board for approval annually along with the salaries paid to officers, in accordance with the practice which has been followed heretofore, and no additional fee should be paid to counsel without first obtaining the Board's approval.

Where a Federal Reserve Bank finds it advisable to employ special counsel to represent it in litigation or otherwise to assist the bank's regular counsel, it is not necessary to take the matter up with the Board if it is clear that the employment will not involve the payment of compensation in excess of \$25,000.

Where the initial fee to be paid to such special counsel does not exceed \$25,000 and there is reasonable expectation that the case will be disposed of without the necessity of paying fees exceeding \$25,000 in the aggregate, the Federal Reserve Bank may employ such special counsel without first submitting the matter to the Board, subject to the following conditions:

1. that an agreement be obtained from such special counsel that the fee will be subject to final review and approval by the Board and
2. that, before paying any fee which, together with fees already paid, will exceed \$25,000, the Federal Reserve Bank shall submit the same to, and obtain the approval of, the Board.

Where a Federal Reserve Bank finds it advisable to employ special counsel whose services appear likely to involve an expenditure by the Federal Reserve Bank in

excess of \$25,000, the matter should be submitted to the Board before that person is actually employed, with a request that the Board approve the payment of compensation to the attorney up to a stated amount. This may be done by telegraph and will receive prompt attention by the Board. No fee aggregating more than the amount so approved should be paid without first obtaining the Board's approval.

In requesting the Board's approval of the payment of fees to either regular or special counsel, the Federal Reserve Bank should furnish the Board with a clear statement of the nature and extent of the services rendered or to be rendered, including the amounts involved in any litigation, the difficulty or importance of the questions involved, and any other information which will aid the Board in estimating the value of such services. S-206, March 4, 1940; as amended by S-1092, Feb. 28, 1949.

The Board increased the authorized ceiling from \$25,000 to \$50,000 on July 26, 1993.

1-090

RECORDS--Changes in Names or Boundaries of Counties

So that the Board's records regarding Federal Reserve Districts may be correct at all times, please arrange to advise the Division of Federal Reserve Bank Operations of any changes in the names of counties in the states comprising your District, and also any changes in county lines that in any way affect the boundaries of your District. X-1867; March 19, 1920.

1-091

RECORDS--Microfilming Before Destruction

A microfilm record of midyear reports of all member banks shall be maintained.

The Comptroller of the Currency has agreed to make midyear reports of condition of national banks available for microfilming.

The Board and the Comptroller of the Currency made arrangements to microfilm year-end reports of condition of national banks submitted to the office of the Comptroller of the Currency beginning with the year 1933. Arrangements were made at the same time to microfilm both the June and December condition reports of state member banks.

It now seems desirable to maintain a microfilm record of the midyear reports of condition of all member banks, and further arrangements have been made with the Comptroller of the Currency whereby that office will make June condition reports of national banks, beginning with 1941, available to the Board for microfilming. S-1498; June 8, 1953.

1-092

RECORDS--Amendment of Bylaws

Each Federal Reserve Bank is expected to inform the Board of any action amending the bylaws of a Federal Reserve Bank or branch.

As soon as available, the Federal Reserve Bank should submit a copy of any amendment of its bylaws or, if reprinted, a copy of the complete bylaws. The letter of advice should contain an explanation of the changes and, unless obvious, the reasons for the changes.

As you know, it is not necessary for a Federal Reserve Bank to obtain the approval of the Board of Governors for bylaws issued pursuant to section 5 of the regulations covering branches of Federal Reserve Banks, nor is it necessary to obtain Board approval for amendments to such bylaws. However, the Board would like to be advised promptly of any changes. A copy of the amendment or a copy of reprinted branch bylaws also should be furnished to the Board as soon as available. S-1630; June 12, 1957.

1-094

RECORDS--Retention Schedule

The Board has reviewed and revised a number of its schedules for the retention and disposition of records of the Board, and the revised schedules for supervisory and regulatory records have been approved by the National Archives and Records Administration. The Records Management Forum, a work group of the Subcommittee on Administrative Services, has coordinated the update of the *Federal Reserve System Records Retention Manual* (manual) to make it consistent with the revised Board records-retention schedules.

The minimum and maximum records-retention periods in the manual apply to the record copy of supervisory and regulatory records held by Reserve Banks under delegated authority from the Board. If a Reserve Bank holds a duplicate copy of a supervisory or regulatory record, the Reserve Bank may destroy the duplicate before the end of the applicable minimum retention period. Reserve Banks must destroy all originals and copies of such records at the end of the applicable maximum retention period. Adherence to these requirements will enhance the accuracy and completeness of responses by the Board to congressional inquiries, Freedom of Information Act and Privacy Act requests, discovery requests in litigation, and similar requests for records of the Board.

The attached chart summarizes the new minimum and maximum retention periods for certain supervisory and regulatory records. Of particular note are changes in the retention periods for withdrawn applications, work papers supporting inspection and examination reports, and enforcement actions. The complete manual is available online at [fedweb.mpls.frb.org\[bsol\]srrm](http://fedweb.mpls.frb.org[bsol]srrm).

Retention Chart for Records Listed in the *Federal Reserve System Records Retention Manual*

Description	Minimum retention	Maximum retention	
Applications			
1.	<i>All applications, notifications, determination requests (including registration statements, correspondence, commitments) for institutions regulated by the Federal Reserve</i>	15 years after approval	15 years after approval
2.	<i>Withdrawn applications (including correspondence)</i>	15 years after withdrawal	15 years after withdrawal
3.	<i>All applications, notifications, determination requests submitted to other agencies for processing</i>	5 years	5 years

	(including competitive factors, change of control, management change notices)		
4.	<i>Public copies of applications</i>	Destroy when no longer needed	15 years
5.	<i>Public comment on regulatory proposals</i>	5 years	5 years
6.	<i>Documents filed with Securities Exchange Commission (e.g., registration statements, Form 10(K), prospectus)</i>	15 years	15 years
7.	<i>Internally generated reports (e.g., Aplog/AMPS reports, log books, status reports)</i>	3 years	Discretionary
Examination/Inspection Activities			
1.	<i>Reports of examination/inspection (including all specialty exams--e.g., trust, consumer, CRA, IT, municipal and government securities dealers, transfer agents) prepared solely or jointly by a Reserve Bank</i>	One record copy retained at the Board for 30 years. All other copies: destroy when no longer needed.	30 years
2.	<i>Reports of examination/inspection (including all specialty exams) prepared by state banking authorities, Comptroller of the Currency, and FDIC</i>	One record copy retained at the Board for 30 years. All other copies: destroy when no longer needed.	30 years
3.	<i>Work papers (supporting all examinations/inspections created by a Reserve Bank)</i>	5 years	5 years
4.	<i>Correspondence (supporting all institutions for which the Federal Reserve is the primary federal regulator)</i>	5 years	5 years

Description	Minimum retention	Maximum retention	
5.	<i>Enforcement action (includes all correspondence, recommendation memos, supporting documentation, attorney notes, press releases, final approval, final order, agreement and termination records needed to implement and monitor all enforcement actions such as director's resolution, memorandum of understanding,</i>	6 years after final action	10 years after final action

	written agreements, cease-and-desist orders, civil money penalties, prohibitions, orders of investigation, prompt correction action, Fair Lending discrimination and suspension)		
6.	<i>Consumer complaints</i> (includes all correspondence, referrals, inquiries)	5 years after final action	5 years after final action
7.	<i>Surveillance files</i> (includes analysis, correspondence, computerized reports)	5 years	5 years
8.	<i>UBPR/BHCPR, etc.</i>	10 years	10 years
9.	<i>Shared National Credits</i> (includes all correspondence, work papers)	5 years	5 years
10.	<i>Foreign banking organization</i> (includes SOSAs, Country/Accounting Studies, Consolidated Examinations Plan, U.S. Assessment, and other related documents)	One record copy retained 5 years by the office of primary responsibility. All other copies: destroy when no longer needed.	5 years
11.	<i>Institutions no longer subject to FRB supervision</i> (e.g., merger, closure, acquisition, charter change, failure) with No Legal Action subsequent to institution's change in status. Includes all files associated with the institution (reports, work papers, correspondence, statistical reports, etc.)	10 years from date no longer subject to FRB supervision	10 years from date no longer subject to FRB supervision
12.	<i>Institutions no longer subject to FRB supervision</i> (e.g., merger, closure, acquisition, charter change, failure) with legal action occurring and/or continuing after institution's change in status. Includes all files associated with the institution (reports, work papers, correspondence, statistical reports, etc.)	10 years after last known litigation	10 years after last known litigation
13.	<i>Examination appeals</i> (all documentation)	5 years after conclusion of appeals process	5 years after conclusion of appeals process
Miscellaneous			
1.	<i>Supervisory letters SR/CA/CP/AD/TR</i>	Destroy when superseded or rescinded.	Same

2.	<i>Training records</i>			
	a.	Course material	Update when superseded.	Retain superseded document 4 years.
	b.	Student training records	Delete 5 years after record becomes inactive.	Same
3.	<i>Personnel records</i>			
	a.	Examiner credential approvals	5 years after expiration	Same
	b.	Other personnel documents not identified under "Personnel" section of <i>FRS Records Retention Manual</i>	Reserve Bank discretion	Reserve Bank discretion

Description	Minimum retention	Maximum retention		
4.	<i>Community affairs</i>			
	a.	Sovereign lending documents (outreach memos and pamphlets)	5 years	When no longer needed for reference
	b.	Community development lending (outreach memos and pamphlets)	5 years	When no longer needed for reference
	c.	Conference planning	2 years after event	2 years after event
	d.	Publications, newsletters, et al.	Discretionary	Discretionary

S-2616; May 1, 2003.

This letter rescinds letters S-2352 and S-2353 of April 5, 1977.

1-100

REPORTS--By General Auditors

The Board requests that each general auditor submit the following to the Division of Reserve Bank Operations and Payment Systems' liaison to the Conference of General Auditors (RBOPS COGA liaison): a copy of the annual audit plan, a quarterly audit activity report, a quarterly report on actual or potential financial losses, and a report on significant, irregular occurrences.

A. Annual Audit Plan

Each general auditor should submit the department's annual audit plan to the RBOPS COGA liaison. The annual plan should be submitted no later than fifteen business days after audit committee approval, but no later than the fifteenth business day of the year to which the plan relates. If the audit committee has not approved the audit plan by the fifteenth business day of the year, the general auditor should forward a draft copy of the plan with an estimated date the plan will be approved and should forward the plan as soon as it has been approved.

B. Audit-Activity Report

Each general auditor should prepare a report of audit activities for each calendar quarter and submit the report to the RBOPS COGA liaison no later than fifteen business days after the end of each calendar quarter. The information provided should include the following

1. for each completed audit--
 - a. a brief description of the scope of the audit attention, identifying any scope modifications made due to the work of others
 - b. a summary of the results of the audit, including a detailed description of highly significant and significant findings¹

1. For items 1, 2, and 3, highly significant findings are those conditions that warrant immediate action, senior management attention, and audit committee awareness. Significant findings are those conditions that warrant prompt action, senior management attention, and audit committee awareness.

2. for findings identified during internal audit engagements, a summary of follow-up activities for each highly significant and significant finding and the date that a highly significant, significant, or less-significant finding was closed
3. the status of findings identified by the Board of Governors' staff and during external reviews,²

2. ``External review" includes a review by a group outside the Federal Reserve System, such as the Government Accountability Office (GAO), Treasury's Office of Compliance (OC), or the external auditor.

as follows:

- a. Board of Governors--a summary of follow-up activities for each highly significant and significant finding and the date that a highly significant, significant, or less-significant finding was closed³
3. Internal audit department follow-up on issues identified in reviews conducted by the Board's Division of Banking Supervision and Regulation and Division of Consumer and Community Affairs is governed by FRAM [1-006](#) , Audit Department Involvement in Staff Functions.
- b. GAO--a summary of follow-up activities for each finding and the date that a finding was closed
- c. External auditors--a summary of follow-up activities for each finding and the date that a finding was closed
- d. OC--a summary of follow-up activities and the date each issue that was reportable to executive management or reportable to senior management was closed
4. descriptions of any unusual occurrences and negative operational or financial trends that might indicate the potential for future problems of a significant nature
5. changes to the annual audit plan approved by the audit committee of the Bank's board of directors
6. other significant information related to the audit function, both positive and negative (examples might include innovative audit program developments, turnover problems, new training approaches or programs, and so forth).

If reports to the audit committee satisfy these requirements, they may be submitted in lieu of a separate report. General auditors may submit multiple reports that together contain the requested information. For example, if the general auditor prepares monthly reports for the audit committee and those reports contain all the required information, he or she may submit three individual reports to cover the quarterly reporting requirement.

C. Quarterly Loss Report

A report of actual or potential losses for each office should be submitted to the RBOPS COGA liaison no later than fifteen business days after the end of each calendar quarter. If there are no items to report for a specific office within a District, a statement to that effect should be provided.

The report should include all actual or potential losses of \$25,000 or more, including those that were previously identified and reported as irregular occurrences (as discussed in the following section). After the first quarter of each year, reports should include actual and potential losses previously identified in the year so that each successive report gives complete data for the calendar year through the end of the most recent quarter. Items not resolved during a calendar year should be carried through the end of the calendar year in which disposition is

determined.

Quarterly loss reports should include, but need not be strictly limited to, items such as mishandling of large return items, write off of software development costs, and fixed asset impairments. Quarterly loss reports should not include items such as routine check write-offs and routine cash differences (per local absorption policy). Items should not be excluded because they are covered by insurance or may be absorbed by a government agency. Any reimbursement for loss or recovery of items should be listed in the appropriate column, but not deducted from the actual and/or potential loss column. The accounting treatment of any actual losses should also be reported.

Previously reported items subsequently determined to be unfounded should be removed from the main body of the report. Such items should be reported, once only, as deleted items, with the reason for removal indicated.

D. Irregular-Occurrence Report

Each Federal Reserve Bank and the Office of Employee Benefits should have in place specific procedures to ensure that irregular occurrences are reported promptly to the general auditor. A general auditor should report irregular occurrences to the RBOPS COGA liaison, either by phone or e-mail, as soon as possible following an occurrence. A written report should be forwarded as soon as possible after the initial report.

The definition of irregular occurrence is deliberately broad, to encompass all events that the general auditor determines merit immediate notification. General auditors need not limit their reports to the specific items described below. They should, instead, consider the effect of the event on the District and System, including potential or actual coverage in news media, when determining if an event should be reported.

General auditors should be careful not to disclose information that could jeopardize attorney-client privilege. Active consultation between the general auditor and the Bank's general counsel is important to protect the interests of the Bank and the Federal Reserve System.⁴

4. Additional guidance may be found in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

The reports should include, but need not be strictly limited to, the following:

1. any unusual occurrence involving an actual or potential financial loss in excess of \$25,000
2. any occurrence resulting in major damage to or loss of Bank property or personnel, such as that caused by flood, fire, or explosion, or threats of harm to Bank property or personnel
3. any apparent or possible violation of criminal codes or other major unethical or dishonest act by Bank employees, such as a major violation of the Bank's

ethics code, a deliberate cover-up of control lapses, or a theft of currency or other financial instruments

4. any event or trend in which there exists a reasonable potential for significant financial loss or embarrassment to the System. These should be reported even though recovery prospects are favorable. Examples of specific items to be reported include
 - a. mysterious disappearances
 - b. destruction or apparent destruction of valuables
 - c. individual losses due to counterfeiting and forgery
 - d. irregular acts, such as instances of noncompliance with critical Federal Reserve System control requirements or valuables left out of the vault overnight

Reports of irregular occurrences should not include items such as

1. routine differences
2. instances when amounts are out of balance but it appears probable that no actual loss was incurred
3. acts of petty theft of Bank property or of employees' personal property unless they constitute a pattern of theft potentially involving larger amounts or they indicate a pattern of management or security weakness.

Each written report should include the following information:

1. a description of the event and how it occurred
2. immediate actions taken by both audit and Bank management to handle the situation
3. nature and extent of involvement of outside parties, such as the FBI or Secret Service in any investigation
4. awareness of the media and the effect of media coverage on the Bank or System
5. anticipated resolution, such as reimbursement from an outside party or separation from employment of responsible parties

Any reported items involving financial losses (actual or potential) should thereafter be reported on the quarterly loss report until disposition is determined. For other reported items, the RBOPS COGA liaison should be kept apprised of the situation until the matter has been resolved.

S-2638, Jan. 23, 2009.

This letter supersedes S-2572, Feb. 28, 1995; S-2465, Dec. 28, 1982.

1-101**REPORTS--Visits by Government Agents**

Routine reporting of visits by representatives of government agencies no longer seems necessary. However, the Board should continue to be informed of any out-of-the-ordinary visit by a representative of Congress or a government department or agency. S-2392; Nov. 30, 1978.

This letter supersedes S-947 of Dec. 19, 1946.

1-110

RESEARCH--System Research Committee

The Board has had occasion recently to review the procedure under which the study of important problems is undertaken within the System and believes that it would be helpful to clarify the procedure that it is desirable to follow in such cases.

Establishment of the System Research Advisory Committee early in 1944 provided a more effective medium through which the research work of the System could be integrated into a System program in the interest of more comprehensive and vigorous research work and unity of action in the discharge of the System's responsibilities as a national organization. In order that the Committee may be in a position to render the most effective service, it is necessary that it be kept informed of the principal research activities of the Board and the Federal Reserve Banks, and to that end it has been suggested that, whenever any Reserve Bank contemplates undertaking a project that is more than regional in its scope or a project that will utilize services outside of those of its regular staff, the matter be brought to the attention of the chairman of the System Research Advisory Committee before the work is undertaken or any commitments are made with respect to the employment for this purpose of additional research personnel.

This information will place the chairman of the committee in a position to bring the proposal to the attention of the Committee, which then can make such suggestions as may be desirable with respect to the most effective arrangements for the performance of the work to fit the study into the System program, and, in cases where such action appears to be necessary, to bring the matter to the attention of the Committee on Research of the Presidents' Conference and the Board of Governors for their consideration.

It will be appreciated if you will take the necessary steps to assure this procedure is being followed by your Bank as a means of effectively integrating the System's research work and avoiding unnecessary duplication.

S-873; Oct. 4, 1945.

TECHNICAL ASSISTANCE--In Foreign Areas; With Other Government Departments

The Board and the Federal Reserve Banks sometimes receive requests for a member of the System's staff to provide technical assistance in foreign areas. The Board has designated to the chairman or the chairman's designee the authority to so assign a member of the Board's staff and has assigned authority to the Committee on Federal Reserve Bank Activities to review the assignment of Reserve Bank staff to represent the System abroad. Similarly, other U.S. government departments or agencies have occasionally requested, for a temporary period, the services of a member of the staff of the System; in these cases, also, the Board would like to be advised before final action is taken. All requests for Federal Reserve technical assistance and questions of policy in connection therewith should be brought to the attention of the Division of International Finance, which will process the Board's response in consultation with designated staff members from the Foreign Relations function at the New York Reserve Bank.

1. The Board has assigned to the chairman or the chairman's designee the authority to designate a member of the Board's staff to provide technical assistance in foreign areas. It has assigned to the Committee on Federal Reserve Bank Activities authority to review the assignment of Reserve Bank staff to provide technical assistance in foreign areas. For the purpose of this statement, such assistance would include aid to foreign central banks or governments, other agencies of the United States having foreign responsibilities, and international organizations. Similarly, other government departments or agencies have occasionally requested, for a temporary period, the services of a member of the staff of a Federal Reserve Bank other than in the international field, and in these cases, also, the Board would like to be advised. All requests for Federal Reserve technical assistance and questions of policy in connection therewith should be brought to the attention of the Division of International Finance which will process the Board's response in consultation with designated staff members from the Foreign Relations function at the New York Reserve Bank.

2. It should be recognized that foreign missions or assignments are a means of strengthening the influence of the United States abroad (in addition to their role in strengthening the friendly relations of the Federal Reserve System with foreign central banks). They are, therefore, ancillary to the foreign policy of the United States. There may also properly be some preference for supplying technical assistance to countries with which the United States already has close ties or toward which the United States has special responsibilities. In passing upon a request for technical assistance, there may be factors best known to the State Department which should be taken into account. Consequently, although foreign central banks desiring technical assistance should be encouraged to negotiate directly with us (rather than through other government channels), the State Department should be consulted and

its views ascertained, including, if necessary, the views of the American ambassador in the country concerned. It should always be clear that the Federal Reserve in responding favorably to an invitation from responsible sources in a foreign country has acted with the concurrence of the State Department.

3. When it appears that some other country or some international institution is better equipped than we to render the desired assistance, that fact should be given full consideration. In cases where the applicant would be served best by a program of assistance to be given partly by us and partly by some other country, or where the applicant country has traditional or political ties with some other country which could give the needed assistance, that fact should also be given special attention. The fact that other sources are available would ordinarily be a reason for withholding Federal Reserve assistance unless the applicant country has a strong preference for Federal Reserve assistance and the State Department feels it would be desirable in connection with the general foreign policy of the United States, in which case personnel availability and other elements would be considered before any final decision is reached.

4. It is essential to the success of foreign missions or assignments that the System staff members participating be individuals of the highest competence and ability. The personnel requirements of each proposed mission or assignment should be analyzed carefully with a view to assuring appropriate personnel selection from the staffs of the Board and of the Federal Reserve Banks in accordance with special needs, regardless of the particular functions in which the personnel may be regularly engaged for the System. In selecting personnel for an assignment in the foreign area, the extent to which the various candidates would benefit from the experience is an important element to be taken into account, and the decision whether or not to undertake a mission may at times be influenced by the prospective value of the work in supplying useful experience to Federal Reserve personnel. In reaching conclusions on these matters, members of the Staff Group on Foreign Interests designated from Washington and New York for this purpose should be consulted.

5. It is important that adequate time be allowed in the first instance for the performance of the functions of any foreign mission or assignment. In some cases, however, it may be impossible to determine the full scope of an assignment until after its personnel have gone to the foreign country and completed some part of the work. In these cases the personnel may first be assigned to foreign service for enough time to do the minimum task that needs to be performed, with an understanding that if the assignment is materially changed the time will be changed accordingly. The likelihood of a need for extending the time of a mission should be ascertained in advance insofar as possible, so that it may be taken into account in the original assignment.

6. The arrangement followed in missions or assignments should ordinarily provide, among other things, that personnel sent abroad for extended periods may be accompanied by their families and that agreed-upon special allowances and travel

expenses (including those of the family) shall be reimbursed to the Federal Reserve by the foreign central bank or government concerned or by the United States government agency requesting the personnel. During the period of assignment, the System would continue to pay the salary of, and the premium or actuarial cost of retirement and insurance coverages on, the employee. The employee would continue to make the required contributions, if any, for these benefit coverages. The host organization or country would normally be expected to assume the cost of transportation, per diem, and equalization allowances if appropriate. However, there may be instances wherein the host organization or country would also pay the salary and benefit costs of the employee on assignment. In such cases, it would be preferable to conclude such an arrangement on a reimbursable basis, if for no other reason than to ensure the unquestionable continuity of the employee's service for retirement and insurance coverage purposes.

7. It should be made explicit to the party requesting Federal Reserve participation in any foreign mission or assignment that the work and recommendations of Federal Reserve representatives will be on a basis of intellectual independence in the light of their technical experience and training, and that their studies and recommendations do not carry the endorsement of the Board of Governors or of a Federal Reserve Bank. It should also be understood that the Federal Reserve representatives will give practical effect to the history, development, and current needs of the country or area concerned, and that their recommendations do not necessarily establish a pattern or model for any other country or area.

8. Adequate communication should be maintained so far as possible between the staff members on foreign duty and staff members in Washington or elsewhere in the Federal Reserve System who have the responsibility for keeping in touch with the mission's work and progress. The nature and degree of supervision that is desirable will vary according to the objective of the particular mission, the country to which it is sent, the relationship of the mission or assignment to other work and policy problems of the System, and the staff status of the personnel selected for the mission or assignment. Occasions may arise during the course of any particular mission or assignment when it is desirable for some senior representative of the System to visit the mission or for the mission to return to headquarters for the purpose of discussing its problems. Insofar as circumstances permit, the studies and recommendations of missions having major importance should have the benefit of senior staff advice and counsel under supervision of the Board member whose assignments include the subject matter.

9. Aside from the assignment of personnel to foreign missions, there will be occasions when it is desirable to assign System personnel on an informal basis to work with other government agencies, especially when such other agencies have urgent problems in fields in which System personnel have special competence. Such assignments should be considered in accordance with the procedures referred to in item 1 in order to ensure adequate coordination. S-1133, Aug. 2, 1950; S-2324, June 10, 1976.

2-005

COMPENSATION--Notary Fees Received by Employee on Items Protested

Each Reserve Bank should either employ notaries not connected with the Reserve Bank or permit notaries in the employ of the Reserve Bank in another capacity to retain notary fees received on protested items.

There appears to be some conflict of authority concerning the right of a bank or a notary to enter into an agreement whereby the notary, in consideration of his employment by the bank, shall assign to the bank his notary fees. The general and well-established principles of public policy, as well as statutory and common law, prohibit a public officer from assigning his unearned salary or fees, although it has been held that the principles which apply do the assignment of unearned salary or fees to not apply to the assignment of salary or fees earned prior to the assignment.

The Board believes that, because of the doubts about the propriety of a Reserve Bank's receiving notary fees for its own account, it would be well either to employ notaries not connected with the Bank or to permit a notary who is in the employ of the Reserve Bank in another capacity to retain the fees for his own use as part of his compensation for general services. If the fees amount to any considerable sum, the Reserve Bank may properly take that into account in determining the salary to be paid to that employee, or they may be divided among several employees doing notarial work. It does not seem proper in the circumstances, for the Reserve Bank to divert all or any portion of the notary fees to its own use. X-1563; June 4, 1919.

2-006

COMPENSATION--Total; Reserve Bank Policy and Guidelines

I. Total Compensation Philosophy for Employees and Officers of the Federal

Reserve Banks

A. Purpose

B. Objectives

C. Relevant labor markets

D. Relation to relevant labor markets

E. Benefits

II. Responsibility

A. General

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D. Salary structures, president and first vice president salaries, and first vice president incentives

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III. Administration of Base Salaries

A. General

B. Administration of employee base salaries

C. Administration of officer base salaries

IV. Variable-Pay Administration

A. General

B. Cash award and incentive programs

V. Recruitment Awards

A. Referral awards

B. Signing bonuses

VI. Retention Incentives

VII. Separation Allowances

I. Total Compensation Philosophy for Employees and Officers of the Federal Reserve Banks

A. **Purpose.** The Federal Reserve System recognizes the importance of its employees and officers in successfully carrying out its varied responsibilities as the central bank of the United States. Compensation programs support the mission and values of the System and are consistent with the public purpose and public trust of the Federal Reserve System. For most Federal Reserve Bank employees, total compensation—that is, base salary, variable pay, and benefits—will be comparable to compensation paid in relevant markets.¹ However, there is recognition that the important role of the System in the U.S. and international economies, and the related satisfaction of working for such an organization, have value in attracting and retaining high-quality staff. There also is recognition that compensation programs must align with Reserve Bank and System business objectives and are

subject to budget and other constraints that may require deviation from market compensation. Compensation programs designed under this philosophy are overseen by each Reserve Bank's board of directors and by the Board of Governors (Board).

B. **Objectives.** The objectives of the Federal Reserve System's total compensation philosophy are to:

- attract, retain, and motivate a qualified and diverse group of employees and officers;
- support the mission, values, and critical success factors to meet the strategic goals of the Federal Reserve System;
- be externally competitive with relevant labor markets while recognizing the public/private nature of the Federal Reserve;
- be internally fair and reward employees and officers on the basis of performance and contribution to the achievement of organizational goals
- be sufficiently flexible to compete with employers in the relevant labor markets and respond to unique pressures and changing market conditions; and
- offer high-quality, cost-effective compensation and benefit programs.

C. **Relevant labor markets.** Generally, the System's relevant markets include employers with which the System competes for labor. These markets include local private-sector companies and public-sector organizations. Market conditions will be determined using reputable compensation and benefit surveys. Reserve Banks must review their compensation programs periodically; these programs should evolve as market practices change. Generally, being externally competitive means recruiting and retaining employees with the skills and abilities needed to do quality work at the Federal Reserve. The inability of a Reserve Bank to attract quality candidates or retain high-performing staff could indicate failure of the Bank to compete in the relevant labor market and could signal the need to assess compensation strategies and the workplace environment.

D. **Relation to relevant labor markets.**

1. *Direct cash compensation.*

a. *Base salary.*

i. Bank employees and officers up through group B level. Salary range midpoints and market-priced zones will normally be set at market levels, be sufficient to allow for progression and meaningful performance distinctions, and allow flexibility to respond to jobs experiencing unique market or competitive pressures.²

ii. Bank group A officers, first vice presidents, and presidents. Reserve Bank salary ranges for group A officers, first vice presidents, and

presidents reflect a public-sector discount that increases as the level increases. The salary ranges are developed from group B ranges using reasonable salary differentials.

2. *Variable pay.* All Reserve Bank employees and officers, except presidents, are eligible for variable pay. Programs are performance-based and emphasize accomplishments of Bank and System objectives. In order to have the greatest effect, variable-pay programs should be structured to provide greater variable pay award opportunities for key individual contributors and positions most vulnerable to competitive markets.

a. *Bank officers and senior professionals.*³ Because of the public/private nature of the Federal Reserve, Bank officer and senior professional variable pay will be meaningful but generally not comparable to private-sector variable-pay programs.

b. *Bank employees.* Employee variable-pay programs will be more modest than officer programs, and more comparable in size to market variable pay. Employee variable-pay programs may include incentives based on pre-established objectives (individual or team) and retrospective cash awards.

3. *Total cash compensation.* Total cash compensation is defined as the combination of base salary, lump sum merit, premium pay, variable pay (as defined in section IV of this policy), retention incentives, and signing bonuses.⁴ Total cash compensation for any individual is restricted to the Board-approved salary range maximum of the president of the Federal Reserve Bank in which the individual is employed for the calendar year in which the compensation is paid.

If an individual is employed for less than a full calendar year, base salary and variable pay earned in the partial year should not exceed the annual maximum prorated to the portion of the year employed.⁵ For example, if the annual total cash compensation maximum is \$400,000 and an individual retires on June 30, base salary and variable pay for this individual is limited to \$200,000 for compensation earned in that year. Implications of a partial year of employment on signing bonus and retention agreements are outlined in sections V.B and VI of this policy, respectively.

Where relevant, individual incentive and retention agreements must include provisions indicating that payouts are subject to compensation limits as outlined in Board policy. A Reserve Bank may seek approval from the chair of the Committee on Federal Reserve Bank Affairs (BAC) for an exception to the total cash compensation limit in special and unusual circumstances. The Board expects such requests would be extremely rare.

E. **Benefits.** Federal Reserve System benefit programs emphasize quality, are cost-effective, and appeal to a diverse group of employees and officers who may have different lengths of service, personal circumstances, and career objectives. Benefit programs are designed to complement cash compensation and will be administered to meet the varying needs of active and retired employees and officers. Benefits provide some measure of financial security from catastrophic hardships due to health or disability, and provide reasonable financial security after retirement. For the majority of employees and officers, benefit programs are competitive with relevant markets. Benefits for the System's top-level officers will take into account the public nature of the Federal Reserve.

II. Responsibility

A. **General.** The Federal Reserve Act (Section 4(22)) vests approval of all Reserve Bank compensation actions with the Board. The Board has largely delegated these responsibilities to the Reserve Banks within specified limits.

B. **Administration.**

1. *Board policies and guidelines.* The Board's Division of Reserve Bank Operations and Payment Systems (RBOPS Division) is responsible for periodically reviewing the adequacy of this policy, as well as related Board policies and guidelines that are mentioned herein. These policies and guidelines may be revised by the Board, in consultation with the Reserve Banks, as deemed appropriate. Any questions regarding these policies and guidelines, or exceptions to them, should be referred to staff in the Human Resources Section of the RBOPS Division.

2. *Reserve Bank compensation programs.* Administration and development of compensation programs, such as job-evaluation plans, market-pricing systems, pay bands, recruitment bonuses, merit increases, promotions, variable pay, and retention incentives are the responsibility of each Reserve Bank. Reserve Banks should inform employees and officers about these compensation programs so they are aware of the basis for their compensation. Each Reserve Bank should monitor and analyze the effectiveness of its compensation programs to ensure that an appropriate relationship exists between performance and pay.

3. *Record keeping.* The Reserve Banks must keep current and accurate records of officer and employee personnel actions, such as those related to compensation, position, and functional area, within their human resources information systems.

C. **Review and compliance.** The RBOPS Division has oversight responsibility for Reserve Bank human resources programs, including compensation and benefits. Compliance with all applicable laws, as well as adherence to Board, Bank, and System policies and guidelines, is the responsibility of each Reserve Bank.

D. *Salary structures, president and first vice president salaries, and first vice president variable pay.* The Board is responsible for developing the Reserve Bank officer salary structure. Members of the Subcommittee on Human Resources and System economists assist in this development, and the proposed structure is provided annually to the Reserve Bank chairs, deputy chairs, presidents, and first vice presidents for review and comment before Board approval. These comments will be considered in the proposal forwarded to the Board for its consideration. Each Reserve Bank is responsible for developing employee salary structures, subject to appropriate review and approval as described in Section III.B. Policies related to the administration of presidents' salaries and first vice presidents' salaries and variable pay are included in FRAM 2-012.3 and 2-012.2, respectively.

E. *Benefits.* Administration of System benefits is the responsibility of the Office of Employee Benefits, under the direction of the Committee on Plan Administration, Committee on Employee Benefits, and the Committee on Investment Performance, with input from the Reserve Banks and the Board. The administration of other benefits managed by the Office of Employee Benefits is done so under the direction of the Committee on Plan Administration, the Committee on Human Resources, and the Conference of Presidents. The administration of local benefits is the responsibility of each Reserve Bank.

III. Administration of Base Salaries

A. *General.* As a general rule, salaries should be administered within the appropriate salary ranges, bands, or market-priced zones. The salaries of part-time employees/officers should be administered within the ranges, bands, or zones using their annualized full-time-equivalent base salaries. The Board recognizes, however, that under certain circumstances, such as demotions, transfers without salary increases, reductions to salary structures or market-priced zones, or when a Bank adopts a different compensation system (that is, ranges, bands, or market pricing), an employee's/officer's salary could fall outside the designated range, band, or zone. Under these circumstances, a Bank may pay above the range, band, or zone; however, the Reserve Bank should adjust these salaries so they fall inside the ranges, bands, or zones within a reasonable period (generally, three years). A Bank may pay an employee/officer below the minimum of the range, band, or market-priced zone at its discretion, but should document its rationale for doing so.

A Reserve Bank proposing to hire an employee with a salary above the maximum of the designated range, band, or zone should notify the director of the RBOPS Division prior to extending the job offer. Similarly, a Bank proposing to increase the salary of an existing employee to a salary above the designated maximum of the range, band, or zone also should provide prior notification to the RBOPS director. If the director does not raise objections within 10 business days of notification, the Bank may implement the proposed salary action. A Bank that pays an employee above the maximum of the range, band, or market-priced zone as a result of

premium pay that addresses temporary compensation pressures for high-demand jobs does not need to provide the advance notification. For officers, a Reserve Bank may, under special circumstances, seek approval from the BAC chair for an exception in hiring or increasing a salary above the salary-range maximum.

In addition, the following general guidelines should be applied in administering employee and officer base salaries:

- Reserve Banks should have performance management programs,
- Performance evaluations should reflect distinctions in performance, productivity, and contribution to the achievement of organizational goals. Performance evaluations should be a significant factor in determining annual merit salary adjustments.
- Although merit increases should be distributed primarily based upon performance, Reserve Banks may also take into account the individual's current position within the salary range, band, or market-priced zone.
- Other base-salary increases, such as market and internal equity adjustments, should be supported by market data or relevant internal compensation analysis.

B. *Administration of employee base salaries*

1. *Job analysis, documentation, evaluation, and market pricing.* Each Federal Reserve Bank is responsible for maintaining a job-evaluation plan(s) or market-pricing system(s). Such a plan or system may emphasize job content, competencies, and/or market data. Each job-evaluation plan or market-pricing system should ensure that

- job-related data are systematically gathered, summarized, and analyzed for accuracy (each job should be described in writing and assigned a salary grade, salary band, or market-priced zone);
- an orderly, systematic, and professionally-acceptable process exists to evaluate or market-price a job and, if appropriate, includes a written record of the judgments made in evaluating or market-pricing a job; and
- the duties and qualifications for jobs are periodically reviewed so that job descriptions reflect the current duties of each job.

2. *Employee salary structures, salary ranges, and market-pricing zones.* Each Reserve Bank has the responsibility for determining the number of salary structures, salary ranges, or market-pricing zones that will serve as an appropriate framework for employee base-salary administration. This determination should be based on internal policy considerations, relevant labor markets as determined by each Reserve Bank's total-compensation philosophy, and supporting data analysis. If a Reserve Bank plans to make substantial changes to its structure (for example, moving to a market-pricing approach), the

Bank should consult with management of the Board's Federal Reserve Bank Human Resources section in the RBOPS Division well in advance of implementation.

3. *Adjustment of employee salary structures and market-pricing systems.* The following are guidelines on the adjustment of Reserve Bank employee salary structures and market-pricing systems made under delegated authority.

a. *General.* Salary structure adjustments and adjustments to market-pricing zones must be supported by salary surveys or area wage differentials for the relevant labor market as well as (1) salary and structure market-movement estimates; (2) internal Bank/branch considerations such as compa-ratios, turnover rates, recruiting problem areas, and so forth; and (3) readily available employment data. The required supporting documentation, analyses, standard method of calculation, and exhibits, which must be available for review at RBOPS staff's request, are detailed in the RBOPS Division's Standards for Reserve Bank Structure Changes guidelines.

<http://fedweb.frb.gov/fedweb/board/rbops/solfiles/Standards.pdf>

b. *Thresholds for reporting salary-structure adjustments and adjustments to market-pricing zones.* Annually, the BAC chair will set an approval threshold for Reserve Bank employee structure adjustments and adjustments to market-pricing zones based on market conditions and any other relevant factors the BAC chair deems appropriate. The BAC chair will determine the appropriateness of any request to exceed the established threshold.

C. *Administration of officer base salaries*

1. *Salary ranges.* The Board approves salary ranges for Reserve Bank officers based on its assessment of the relative importance of various factors including, but not limited to

- the defined competitive market for such positions,
- actual salary data for officer benchmark jobs collected from published surveys,
- the average projected structure movement from trend surveys for officer-equivalent positions in the private sector,
- the public nature of the Federal Reserve System and, in particular, of the positions of president, first vice president, and group A officers,
- considerations of internal alignment across officer levels and salary compaction throughout non-officer levels,
- the cost to the System, and
- general economic conditions.

Salary-range adjustments for presidents are effective January 1. First vice

president salary range adjustments are effective July 1 to coincide with the effective date of any performance-based adjustment to their salaries. Salary-range adjustments for officers below the level of first vice president are effective January 1.

2. *Salary administration; presidents and first vice presidents.* The approval of appointment salaries for presidents and first vice presidents resides with the Board. Following appointment, Reserve Bank president salary increases are based on set compa ratios as described in 2-012.3. The approval of merit increases for first vice presidents, within guidelines provided annually by the BAC chair, resides with the Reserve Bank boards of directors as described in [2-012.2](#).

3. *Salary administration; officers below the level of first vice president.* Each Reserve Bank's board of directors is responsible for the approval of appointment and compensation actions for officers below the level of first vice president, and should review, at least annually, the Bank's officer compensation program. A Reserve Bank's board of directors may delegate the approval of officer appointments and compensation actions to the Reserve Bank's president or first vice president; such delegation must be documented. ⁶ Base salaries must not exceed the Board's approved salary range maximums, and compensation actions must comply with Board policies and be administered within compensation budget guidelines and limits.

In determining the levels of officer positions, each Reserve Bank should define job responsibilities and/or competencies that reflect the relative complexity and scope of duties of each job.

IV. Variable-Pay Administration

A. **General.** Reserve Banks are authorized to establish, at their discretion, variable-pay programs (cash awards and incentive awards). These programs should complement existing base salary administration programs and practices and provide timely recognition of exceptional accomplishments or achievement of preestablished goals. A Reserve Bank may, under special circumstances, seek approval from the BAC chair (for officers) or the director of the Board's RBOPS Division (for employees) for an exception to the individual variable-pay limits stipulated in this policy. The Board expects such requests to be rare. Reserve Bank variable-pay programs should

- describe eligibility for participation,
- be designed to reward an individual or a team,
- deliver awards that are commensurate with the results achieved,
- be designed to create meaningful differentiation in awards based on criticality of skills, complexity of projects, scope of responsibilities,

contributions to innovations, process improvements or policy/research initiatives, and so forth,

- specify that awards are provided in lump-sum cash payments,
- specify that to receive awards an individual must perform his or her overall job responsibilities in at least a satisfactory manner, and
- specify that objectives established under a variable-pay program should not duplicate objectives established under other variable-pay programs for a particular individual.

In administering individual variable pay, Reserve Banks must comply with the total cash compensation limits described in section I.D.3 of this policy. In addition, the maximum amount of variable pay that an employee or officer may earn in a calendar year is as follows:

Employees. Employees, excluding senior professionals, may earn variable pay--in any combination of cash and incentive awards--up to an annual limit of 20 percent of base salary.

*Officers and senior professionals.*² An officer or an employee in a position designated as senior professional may earn variable pay - in any combination of cash and incentive awards - up to an annual limit of 40 percent of base salary.

B. *Cash award and incentive award programs.*

1. *General.* Cash award and incentive award programs are funded from a Reserve Bank's variable-pay pool. Each year the BAC chair will approve the maximum level of variable pay that a Reserve Bank may include in its budget for the upcoming year. This limit will be expressed as a percentage of the budgeted annual employee and officer salary expenses for the year the variable-pay pools are effective. Awards made using the Reserve Bank's variable-pay pool may be in the form of cash awards or incentive awards.

2. *Cash award programs.* Cash award programs may be established to provide recognition for exceptional achievements or contributions that are not included in the objectives of a formal incentive agreement as described below.

3. *Incentive award programs.* Target objectives are provided in incentive award programs to motivate Reserve Bank officers and employees to achieve, within a specific period of time, established, measurable goals that are within the control of an individual or a team and that require significant effort. Incentives may span more than one year; however, individual incentives may not have a duration longer than three years. Payments under multiyear incentives may be made in one or more of the years covered by the multiyear incentive, based on pre-established criteria. Variable pay earned in any one calendar year is subject to the annual aggregate limits described above. Incentive programs should have the following features:

- They should establish and document measurable goals that should be within the individual's or team's control, that are challenging but achievable, and that are mutually agreed upon and clearly communicated by Reserve Bank management to participating officers and employees. Generally, the goals should result in outcomes such as
 - a major contribution to a policy initiative,
 - improved quality of services or a response to an identified customer need,
 - exceeding an established productivity threshold while maintaining acceptable quality and controls,
 - innovations or improvements that lead to cost savings or cost avoidance,
 - significant operations improvements, and
 - completion of significant assignments that are critical to the success of System or Reserve Bank endeavors or the accomplishment of Reserve Bank goals and objectives.
- Potential payouts should be meaningful and actual payouts must be commensurate with the results achieved.

V. Recruitment Awards

Recruitment awards often take two forms: referral awards and signing bonuses. Reserve Banks may, at their discretion, use any one or combination of these programs to enhance their recruitment efforts. These guidelines give Reserve Banks a framework within which to design recruitment awards when they are deemed necessary. It is important that each Reserve Bank analyze its own hiring needs in the context of its management policies and practices and in relation to factors such as

- the criticality of the positions to be filled,
- the current local market conditions and practices,
- the availability of replacements, and
- special skills and work experience of the candidate.

Recruitment awards may vary substantially within a Bank, as well as among Banks. The amount to be paid for recruitment awards must be within the dollar limits expressed below.

A. ***Referral awards.*** Reserve Banks may offer employees referral awards, up to a maximum of \$5,000, for identifying selected candidates for open positions. Referral awards should be paid only after the new hire has completed a minimum of six months of employment. Reserve Bank policies must address program guidelines, including eligible positions and eligibility requirements for employees to participate in the program. Officers are not eligible to receive referral awards.

B. ***Signing bonuses.*** A Reserve Bank may offer signing bonuses when special circumstances warrant. A signing bonus must not exceed the lesser of 25 percent of the starting base salary of the individual to be hired or the difference between the annual total cash compensation limit and the individual's annualized base salary (provided total cash compensation is within the limit as defined in I.D.3). A bonus must be subject to repayment to the Reserve Bank if the employee voluntarily severs employment with the Reserve Bank within a specified period of time (generally not less than one year) following the start of employment. A Bank's internal policy must address repayment terms and conditions, and the Bank must provide each employee receiving a signing bonus these terms and conditions in writing.

A Reserve Bank must obtain prior approval from the BAC chair if the Bank expects the signing bonus will result in an individual's cash compensation exceeding the total cash compensation limit (as defined in I.D.3). The Board expects such instances would be rare.

VI. Retention Incentives

When considering retention incentives, each Reserve Bank should analyze its staffing situation in the context of its management policies and practices and consider such factors as

- the criticality of the position,
- the unique nature of or special skills required for the position,
- the current local market conditions and practices,
- the availability of replacements, and
- the length of the project or assignment.

The need for critical individuals will vary greatly, depending upon their assigned projects and other relevant factors. Therefore, retention incentives may vary substantially within a Bank, as well as among Banks, and should be based on project benchmarks or established time periods. Reserve Bank presidents are not eligible for retention incentives. First vice president retention agreements are subject to the BAC chair's prior approval. Any such request, which should be made only in rare circumstances, must be approved by a Reserve Bank's board of directors.

Retention incentive agreements should be developed consistent with the following thresholds:

- Retention pay opportunity within a 12-month period must not exceed one-third of an individual's base salary at the time payment is made. Multi-year agreements must not exceed proportionate thresholds (for example, an 18-month agreement must not exceed 50 percent of base salary at the time

payment is made). In the event that a retention agreement is extended and the value of the agreement increased, the total value of the extended agreement must not exceed these thresholds.

- No more than 40 percent of the incentive opportunity should be paid before the conclusion of the specified project or retention period
- Multiyear retention agreements must not exceed three years.
- In a partial year of employment, maximum payout is limited to the lesser of the retention limits outlined above or the difference between the annual total cash compensation limit and the individual's annualized base salary (provided total cash compensation is within the limit as defined in I.D.3).
- Agreements for any individual should not be entered into if the beginning of a retention period is within one year of a previous retention payout. Implementing agreements after the one-year waiting period should not be an ongoing practice.

The BAC chair (for officer actions) or the director of the RBOPS Division (for employee actions) must approve retention agreement opportunities or payouts greater than the thresholds outlined above prior to a Bank executing the agreement or making such a payment. The RBOPS director must be notified of retention timeframes or frequency outside of the thresholds outlined above. If the RBOPS director does not raise objections within 10 business days of notification, the Bank may execute the agreement.

A Reserve Bank must obtain prior approval from the BAC chair if the Bank expects an agreement will result in an individual's compensation exceeding the total cash compensation limit (as defined in I.D.3). Although circumstances may warrant such retention agreements (within the thresholds outlined above), the Board expects these agreements would be rare.

In addition, retention incentive agreements must be set forth in a written document that

- states the incentive percentages or dollar amounts and the project benchmarks or the retention period.
- stipulates that the commitment to pay any retention incentive is based upon the continued satisfactory performance of the participant. Continued satisfactory performance means that the individual must continue to meet established standards of the job, maintain productivity requirements, and perform all assigned responsibilities. Reserve Bank policies and retention agreements must indicate that the Bank reserves the right to withhold all unpaid incentives if a participant's performance does not meet expectations.
- stipulates that any employee or officer who voluntarily leaves a position before the conclusion of the specified project or retention period shall not receive any of the unpaid portion of the retention incentive.
- stipulates whether or not full payment will be made in the event that the

Reserve Bank finds it no longer needs the employee or officer before the end of the agreed-upon project or retention period or if an employee or officer is placed in another position within the System.

- includes, where relevant, provisions stating that payouts are subject to limits outlined in Board policy.
- is signed by the Bank and the employee.

VII. Separation Allowances

Reserve Banks are authorized at their discretion to pay a separation allowance commensurate with prevailing industry trends and best practices, but not to exceed a maximum of one year's base salary. In determining the amount of separation allowance to be paid, a Bank may consider all System service of an employee. The need for a separation allowance may vary depending upon the reason for separation and other market factors. Therefore, separation allowances may vary within a Bank, as well as among Banks, and may be based on factors other than total System service.

Each Reserve Bank may determine in what circumstances the payment of a separation allowance under this policy is appropriate. Separation allowances are not appropriate and should not be paid, however, in cases of termination of employment for dishonesty, misconduct, or insubordination.

Separation payments to employees should conform to the guidelines specified above and should be monitored at the District level by the human resources department at each Reserve Bank. Separation payments made to general auditors must be approved by the chair of the Reserve Bank's board of directors, in consultation with the BAC chair (see FRAM [1-005](#)). Payment of separation allowances to presidents and first vice presidents is subject to prior approval by the Board.

1. References to "Federal Reserve Bank(s)," "Reserve Bank(s)," and "Bank(s)" include Federal Reserve Information Technology and the Office of Employee Benefits.

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2. For market-priced compensation systems, the market-priced zone is comprised of the salary range minimum, midpoint, and maximum for each individual job.

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3. Senior professional positions are used by Reserve Banks in lieu of officer positions to recognize individuals who have skills and responsibilities commensurate with those of officers and who are critical to the success of System or Reserve Bank strategic goals and objectives. These positions typically do not have direct responsibility for managing staff or programs.

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4. For purposes of calculating total cash compensation, base salary is defined as an individual's salary before any elections are made for favorable tax considerations (such as participation in the Thrift Plan or a deferred compensation plan). For this calculation, a part-time employee's base salary should be the annualized full-time equivalent.

5. For variable pay earned in the previous year but paid in the final year of employment, maximum payout is limited to the lesser of the individual variable pay limit or the difference between the annual cash compensation limit and the individual's annualized base salary.

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6. Approval authority for Reserve Bank general auditor appointments and compensation actions are detailed in FRAM [1-005](#) and [1-007](#). Appointments and compensations actions for audit officers below the level of general auditor may be delegated to the general auditor.

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7. Reserve Bank presidents are not eligible for variable pay. Policies and procedures for variable-pay programs for Reserve Bank first vice presidents are described in [2-012.2](#).

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S-2644 (September 14, 2010).

This letter supersedes S-2637 (Dec. 19, 2008), S-2636 (Dec. 20, 2007), S-2626 (July 27, 2005), S-2621 (November 9, 2004), S-2608 (June 12, 2002), S-2595 (May 18, 1999), and S-2589 (May 4, 1998).

2-009

COMPENSATION--Fees and Allowances for Directors and Advisory Council Members

Effective January 1, 1981, the Board of Governors approved the following uniform schedule of fees and allowances for directors of the Federal Reserve Banks and branches.

Fee Schedule

Daily fee for attendance at directors' meetings, committee meetings, or while otherwise engaged on official business for the Bank (one fee to be paid for each day regardless of number of meetings):

Chairman	\$300
Deputy chairman	\$250
Other head office directors and all branch directors	\$200
Participation in telephone conference calls	\$100

Retainer Schedule

Annual retainers for each director of a Federal Reserve Bank or branch, in addition to the daily fees paid for attendance at directors' meetings or while engaged on official business for the Bank:

Chairman	\$5,000
Deputy chairman	\$2,500
Other head office directors	\$2,000
Branch chairman	\$2,500
Other branch directors	\$1,500

Fund for Extraordinary Duties

A fund for recognizing extraordinary duties performed by directors is established at each Federal Reserve Bank. The head office chairman and the chairmen of branches may make awards from the fund to recognize annually extraordinary duties performed by members of their boards, e.g., the chairing of committees of the board, that are beyond the scope of regular responsibilities of every director at a Bank or branch, and are not otherwise compensated. Chairmen of Bank and branch boards are ineligible to receive awards from the fund. There is no requirement that any or all of this discretionary fund be spent each year, but in no event may the members of any board of directors receive in the aggregate more than the following amounts each year:

At head office boards	\$6,000
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At branch boards \$3,000

The awards from these funds will be reviewed annually by the Committee on Federal Reserve Bank Activities.

Travel Expenses

Actual necessary travel expenses for directors residing outside the city (or its residential environs) in which the meeting is held or for any individual traveling away from the designated home city on official business for the Bank.

Advisory Council Members

The Board decided not to raise at this time the fees paid to Federal Advisory Council members, in part because of its inability to raise the fees paid to members of the Consumer Advisory Council, which are set by law. The Board will initiate legislative action to raise the Consumer Advisory Council fees and will reconsider fees paid to Federal Advisory Council members upon resolution of the legislative request. In the interim, fees and allowances for Federal Advisory Council members will continue to be a \$100 fee and a subsistence allowance of \$40 for each day or portion of a day or actual necessary travel expenses. S-2430, Aug. 11, 1980; reinstated by S-2523 of March 3, 1989; amended by S-2565 of Dec. 5, 1994.

This letter supersedes S-2037 of Nov. 24, 1967, and S-2294 of Oct. 31, 1975. See also [6-002](#), pertaining to fees and allowances for alternates.

2-012.1

COMPENSATION--Fees and Allowances for Directors and Advisory Council Members

The Board of Governors has reviewed the schedule of fees and allowances for directors of the Federal Reserve Banks and branches and has decided to maintain the current fee schedule without change (S-2430 at [2-009](#)). Notwithstanding strong arguments in support of increasing the fees paid to directors, the Board decided not to do so at this time. The Board indicated it would review the fee schedule for directors again in a few years.

In addition, the Board reaffirmed its 1980 decision not to raise the fees and allowances paid to Federal Advisory Council members, in part because of its continuing inability to raise the fees paid to members of the Consumer Advisory Council, which are set by law. The Board will continue to support a legislative change that will permit an increase in Consumer Advisory Council fees and will reconsider Federal Advisory Council fees upon resolution of the legislative request.

The Board also considered a request for daily fees for members of the Small Business and Agricultural Advisory Councils to the Federal Reserve Banks. The Board indicated it would not object to payment by Reserve Banks of a daily fee of not more than \$100 to each council member, effective January 1, 1987, for attendance at Council meetings, committee meetings, or while otherwise engaged on official business for the Bank (one fee to be paid for each day regardless of number of meetings). The Board also instituted a similar daily fee of \$100, effective January 1, 1987, for members of the Board's Thrift Institutions Advisory Council, consistent with the fees paid to members of the Federal Advisory Council, and will continue to reimburse actual necessary travel expenses of TIAC members.

In its review, the Board decided there would be no change in the current reimbursement practices for travel expenses of directors or advisory council members. S-2497; March 28, 1986.

2-012.2

COMPENSATION--Evaluation and Compensation of First Vice Presidents

Performance Evaluation

The performance of each first vice president should be evaluated each year by the president and the board of directors of the first vice president's Reserve Bank.¹

1. References to first vice president in this policy also include the System chief information officer (CIO)/director of Federal Reserve Information Technology (FRIT). The performance of the System CIO/director of FRIT should be evaluated each year by the chair of the Information Technology Oversight Committee (ITOC) and the Richmond president, subject to final review by the Richmond board of directors.

The first vice president's performance should be assessed based on the key dimensions of the job, as described below. Appraisal of the first vice presidents' performance on these dimensions should serve as the primary basis for decisions regarding their compensation. In appraising the performance of a first vice president against these dimensions, the president and the board of directors may assign relative weights appropriate to the individual's particular responsibilities.

In evaluating the performance of the first vice president, each president and the designated board member or committee should consult with the members of their board of directors. The president should also consult with System oversight groups with whom the first vice president works regarding performance on System assignments. In addition, as part of the annual appraisal process, the president should solicit from the chair of the Committee on Federal Reserve Bank Affairs (BAC) the BAC's assessment of the first vice president's performance.

Key Dimensions of First Vice President Performance

Performance as Chief Operating Officer for the District

1. Strategic leadership within the Bank

- *Contribution to strategic planning.* In cooperation with the Bank's president, develops a well conceived strategic plan for the District that provides clear direction regarding strategic goals, priorities, and values in the context of System direction and the changing business environment.
- *Communication of strategies and plans.* Ensures a strong commitment to the Bank's strategic plans by effectively communicating strategic plans, priorities, and values to all levels of the staff and ensuring that performance management and compensation programs are well aligned with the Bank's strategic plans.
- *Strategic initiatives.* Successfully leads the accomplishment of the Bank's most significant strategic initiatives.

2. Operations management

- *Financial performance.* Effectively manages expenses and achieves financial targets.
- *Operational performance.* Ensures that operations areas meet or exceed their business objectives and performance targets and that all operations and support functions demonstrate efforts supporting continuous improvement in efficiency, productivity, quality, innovation, and customer satisfaction.
- *Risk management and controls.* Ensures an effective risk-management process for the Bank as evidenced by an effective risk-assessment program, high levels of compliance with well-designed and well-documented controls, regular employee training, and responsiveness to employee-identified issues. Ensures effective crisis management, business continuity plans, and strong physical security measures.

3. Organization development

- *Leadership strength.* Ensures a highly effective leadership team at all levels of the Bank as evidenced by strong business performance, teamwork, success in responding to challenging and changing requirements, positive employee morale, motivation, and commitment.
- *Succession planning.* In conjunction with the Bank's president, ensures that succession and leadership-development plans are current and identify and support the development of well-prepared successors for both planned and unforeseen leadership vacancies or opportunities. Develops a diverse talent pool that, in addition to meeting local needs, may also support System leadership needs.
- *Workforce quality and engagement.* Ensures that the Bank attracts, retains, and develops a diverse workforce of highly qualified and motivated staff who provide the skills and talent needed to meet current and emerging business challenges. Develops an organizational culture and environment that promotes integrity, respect, equal opportunity, and trust and that fosters strong employee commitment and satisfaction.

4. Additional responsibilities

Fulfills other responsibilities as assigned, including such activities as representing the president, working effectively with the board of directors, and maintaining external relationships with the public and other constituencies.

System Leadership

1. Initiative and contribution to System efforts

- *Initiative.* Makes significant intellectual contributions to the discussion and development of System direction and policy.

- *Personal commitment.* Demonstrates a willingness to lead specific System efforts or to collaborate actively with other System leaders to address shared issues. Assumes responsibility and ownership for shared System challenges.
- *Contribution to teamwork.* Works effectively with other System leaders to ensure achievement of System priorities and objectives. Commits local Reserve Bank resources to ensure the success of System efforts.

2. Performance in System leadership assignments

- *Strategic leadership.* Willingly assumes challenging System leadership assignments and demonstrates strategic vision on those assignments.
- *Performance on System assignments.* Effectively acquires and organizes the resources and support necessary to achieve the objectives of the assignment. Establishes clear reporting relationships with appropriate oversight groups and develops appropriate plans and measures for judging success. Ensures effective accomplishment of assignment objectives.
- *Communication.* Effectively communicates with colleagues and oversight groups, and maintains necessary support to ensure success. Effectively represents the System to internal and external groups.

Compensation

Overview

The authority to approve salaries for newly appointed first vice presidents rests with the Board of Governors. Salaries are to be administered within the Board of Governors' approved salary ranges. A Reserve Bank may, under extraordinary circumstances, seek approval from the BAC chair for an exception to the salary-range maximum. The Board has delegated to each Reserve Bank's board of directors authority to approve merit increases and variable pay for its first vice president, within Board-established limits and merit guidelines provided by the BAC chair. All equity adjustments are subject to approval by the BAC chair. The director of the Division of Reserve Bank Operations and Payment Systems will provide guidance on reporting requirements for these actions, and the BAC will review annually merit and variable pay actions taken by Reserve Banks.

The combination of base pay and variable pay for any individual is restricted to the Board-approved salary range tier maximum of the president of the Federal Reserve Bank in which the individual is employed for the year in which the compensation is paid. A Reserve Bank may seek approval from the chair of the Committee on Federal Reserve Bank Affairs for an exception to the cash compensation limit in special and unusual circumstances. The Board expects such requests would be extremely rare.

Base-Pay Philosophy

Base pay should reflect the first vice president's overall contribution to System and District initiatives over time. Taking into account the degree of challenge associated with the individual's responsibilities, his or her level of performance, and tenure in the position, the individual's base pay over time should be characterized as follows:

- Consistently exceptional contributors should generally be paid in the top third of the salary range.
- Consistently strong contributors should generally be paid in the middle third of the salary range.
- New first vice presidents or those whose contributions are not consistently strong should generally be paid in the lowest third of the salary range.

Salary Ranges

The Board establishes the salary ranges for first vice presidents based on annual market surveys of Reserve Bank officer positions. The BAC chair will request comments on proposed adjustments to those ranges from the Reserve Bank presidents and the chair and deputy chair of the Reserve Bank boards of directors. The Reserve Banks must administer salaries within the Board's approved salary ranges. A Reserve Bank may, under extraordinary circumstances, seek approval from the BAC chair for an exception to the salary-range maximum.

Merit Increases

The BAC chair annually will establish the maximum permissible merit adjustment and, as additional context to the merit pay decision, will inform the Reserve Banks of the average increase in senior executive salaries based on market surveys. The Board has delegated authority to approve merit increases for each first vice president to the respective Reserve Bank board of directors.²

2. The Board has delegated approval of merit increases for the System CIO/director of FRIT to the Richmond Reserve Bank's board of directors, in consultation with the chair of ITOC and the Richmond president.

Increases should be based on an assessment of the incumbent's overall contributions, taking into consideration the base-pay philosophy described above, and should be approved in accordance with the Board-established salary ranges and the merit pay guidelines provided by the BAC chair. In general, individual merit pay increases should be based on the previous year's performance as well as sustained contributions over time. A first vice president's base salary may exceed his or her president's base salary. Formal board of directors' approval should occur following the Reserve Bank evaluation meeting with the BAC, at which time the first vice president's performance may be discussed. Unless otherwise authorized by the BAC chair, merit increases for first vice presidents are effective July 1.

Equity Adjustments

Equity adjustments may be used from time to time to address misalignments in relative position in the salary range based on the above guidelines. The Reserve Bank president and board of directors may recommend an equity adjustment and should discuss their recommendation with the BAC during the annual Reserve Bank evaluation meeting. In some cases, a significant equity adjustment may be implemented in increments over several years. All equity adjustments are subject to approval by the BAC chair.

Variable Pay

The Board has delegated authority to approve variable pay for each first vice president to the respective Reserve Bank board of directors.³

3. The Board has delegated approval of variable pay plans and associated payouts for the System CIO/director of FRIT to the Richmond Reserve Bank's board of directors, in consultation with the chair of ITOC and the Richmond president.

This variable pay should be incentive-based and should focus on special challenges of strategic importance to the Reserve Bank and/or the System. Ongoing, routine leadership of Reserve Bank operations and initiatives does not qualify a first vice president for variable pay. A first vice president may be eligible for annual incentive opportunities of up to 20 percent of base salary.

Incentive objectives must have clearly defined measures of performance. The target amount of incentive opportunities should be in proportion to the challenge of the objectives, with opportunities above 15 percent generally representing exceptionally challenging outcomes with significant Systemwide impact. The more typical programs should normally be 5, 10, or 15 percent based on the strategic importance, stretch, and the extent of the first vice president's direct personal involvement in achieving the objectives. In determining the incentive objectives and size of the incentive opportunity for the first vice president, the president should consult with the chairs of the relevant System oversight groups, where applicable.

The president should also consult with the chairs of the relevant System oversight groups in determining the appropriate payout to recommend to the board of directors, in order to obtain their perspectives on the extent to which the first vice president successfully accomplished his or her incentive objectives. When determining the appropriate payout, the president should also consider the extent to which the first vice president successfully achieved his or her incentive objectives while effectively performing his or her other major responsibilities.

The combination of variable and base pay for any individual is restricted to the maximum of the Board-approved salary range tier maximum of the president of the Federal Reserve Bank in which the individual is employed for the year in which compensation is paid.

Each Reserve Bank should provide Board staff with its first vice president's

incentive plan and payout information consistent with the guidelines provided by the director of the Division of Reserve Bank Operations and Payment Systems.

S-2639, March 9, 2009.

This letter supersedes in part S-2635, Dec. 20, 2007; supersedes S-2620, Feb. 4, 2004.

2-012.3

COMPENSATION--Reserve Bank Presidents

The Board of Governors has approved the following policy for administering Reserve Bank presidents' salaries.

1. **Starting salary.** The appointment salary normally will be set at 85 compa-ratio with the exception of the president of the New York Reserve Bank, whose appointment salary normally will be set at 95 compa-ratio.^{1 2}

1. A compa-ratio is the actual salary divided by the range midpoint salary. The appointment salary and all other salaries of presidents should be rounded to the nearest \$100.

2. The higher compa-ratio for the president of the New York Reserve Bank reflects that position's additional responsibilities and broader scope than those of other Reserve Bank presidents.

The Board will have the discretion to approve a starting salary at a compa-ratio higher than 85 (or higher than 95, in the case of the president of the New York Reserve Bank) at the request of the Reserve Bank's board of directors, provided there is a strong business case supporting approval.

2. **Salary movement within the ranges.** All presidents will receive salary increases annually on January 1 that are equal to the amounts necessary to maintain their relative positions in the salary ranges (i.e., increases equal to the structure increase). Annual increases in salary ranges normally will occur on January 1.³

3. The Reserve Bank salary range normally is adjusted annually based on market surveys of salaries of Reserve Bank officer benchmark jobs. When president salary-range maximums are constrained, salaries should be determined using target compa-ratios and the unconstrained salary-range midpoints.

In addition to the annual salary-range increases, on every third-year anniversary of a president's initial appointment to that position (through year 9), the president's salary will increase within his or her salary range.⁴

4. These compa-ratio increases would occur at the beginning of the pay period either on, or immediately following, the appointment anniversary date.

Specifically, the salary will increase from 85 compa-ratio to 95 compa-ratio three years following appointment, will further increase to 105 compa-ratio six years following appointment, and to 115 compa-ratio nine years following appointment. The salary of the president of the New York Reserve Bank will increase from 95 to 105 compa-ratio three years following appointment, will further increase to 115 compa-ratio six years following appointment, and to 125 compa-ratio nine years following appointment.

3. **Salary ranges.** There will continue to be multiple salary ranges, reflecting differences in the costs of labor in the head office cities. The Board will continue to review, on an annual basis, the appropriateness of each Reserve Bank's placement

in the salary tiers.

4. ***Grandfathering.*** A president whose initial appointment salary or current salary exceeds the target compa-ratio will receive annual salary increases equal to the salary-range increase. The compa-ratio will increase when the president's tenure in the position triggers an increase to a higher level in the salary range.

5. ***Performance evaluation.*** Although there is no direct linkage between performance and compensation for presidents, each Reserve Bank's board of directors should continue to evaluate its president's performance annually, and that evaluation should be discussed during Reserve Bank evaluation meetings between the members of the Committee on Federal Reserve Bank Affairs and the Reserve Bank's chairman and deputy chairman. Reserve Banks' chairmen should inform their respective presidents of these annual assessments, and in the uncommon situation when a president's performance is found to be consistently unsatisfactory, that president should have been informed well in advance that his or her five-year appointment is at risk.

6. ***Transparency of process.*** The Board will inform the public (in its Annual Report and possibly elsewhere) of the presidents' salary administration system, to minimize any misinterpretation of the differences in annual salary increases.

S-2628, November 10, 2005.

This letter supersedes S-2624 of April 21, 2005.

2-026

ETHICS--Employee Conduct

Code of Conduct

The Board believes that the Reserve Banks should have rules on standards of conduct for employees, including officers, that emphasize the importance of maintaining high standards of honesty, integrity, and impartiality in order to ensure the proper performance of the Reserve Banks' business and the maintenance of confidence in the System. The rules should address the following topics:

- the obligation of each employee to avoid conflicts of interest through gifts, financial interests, or outside activities, such as other employment, that interfere with the performance of duty;
- the obligation of each employee to avoid action that might result in or create the appearance of using a position for private gain, giving preferential treatment, or losing independence or impartiality;
- the improper use of Bank property and the improper use or disclosure of information obtained through Bank employment;
- those matters addressed in the federal conflicts-of-interest statute (18 USC 208) and any other statute that addresses the conduct of Bank employees;
- the prohibition on the ownership of debt or equity interests of a depository institution, a primary government securities dealer, or their affiliates;
- the duty to report corruption, fraud, or violations of the code; and
- the duty to avoid conduct prejudicial to the System.

In the exercise of its oversight authority, the Board of Governors has reviewed the uniform code of conduct ("the code") developed by the Reserve Banks and finds that it addresses the topics set forth above. The Board believes that standards of conduct in these areas should be consistent throughout the Reserve Banks.

Accordingly, in order to ensure such consistency, each Reserve Bank should adopt the code. Any amendments to the code proposed by the Reserve Banks should be provided to the Board for its consideration.

Each Reserve Bank should distribute the code to each of its employees. The Reserve Bank should also provide each of its employees with an annual written ethics reminder which generally describes the code, indicates where the employee can obtain a complete copy of the code, and encourages an employee to consult the appropriate Bank ethics official should the employee have any questions concerning the code or its applicability. In addition, the Reserve Banks should provide employees with ethics training, including training on the principles set forth in the code, on an appropriate periodic basis.

The Reserve Banks should take steps to ensure that the code is administered consistently by the Reserve Banks. To that end, the Reserve Bank ethics officials

and the Board's designated ethics official should determine an appropriate procedure for consulting on significant ethics issues of Systemwide interest.

Reporting Forms

In order to monitor compliance with the conflict-of-interest laws and policies applicable to Reserve Bank personnel, the Board believes that financial disclosure reports should be filed by--

- a. officers;
- b. any employee--
 - 1. whose duties and responsibilities require that he or she participate personally and substantially in any supervisory matter, examination, application, investigation, etc., concerning a depository institution or any affiliate or subsidiary of a depository institution;
 - 2. whose duties and responsibilities require that he or she participate personally and substantially through decision making or the exercise of significant judgment in taking action regarding contracting or procurement;
 - 3. who is a professional and has access to class I FOMC information; or
 - 4. who has authority to make an exception to established operating or internal control procedures; and
- c. any manager or supervisor in a valuables-handling area.

The Bank's ethics official may require any other Bank employee to file a report if the ethics official deems it necessary. Absent a request from the Bank's ethics official, however, a Bank employee who does not meet the filing criteria set forth above is not required to file a report.

Reports should be submitted at the time of employment and annually thereafter. Each report should request certain information regarding a filer's (and where appropriate the filer's spouse's and dependent children's) financial interests, outside employment, creditors, and family employment relationships. The specific information that each filer should be required to disclose can vary among the filers depending on a filer's official position. The Bank's ethics official may require a filer to disclose additional information if such information is necessary to resolve questions concerning the application of the conflict-of-interest laws or the code or to monitor compliance with such laws and policies.

In the exercise of its oversight authority, the Board has reviewed the financial-disclosure reports developed by the Reserve Banks and finds that they satisfy the requirements set forth above and that the varying levels of disclosure based on official responsibilities and duties are appropriate. Any substantive amendments to the financial-disclosure reports proposed by the Reserve Banks should be provided to the Board for its consideration.

The ethics official of each Reserve Bank, or the ethics official's designee, should

review the reports of officers and employees and, after consultation with the Reserve Bank president, should report to the board of directors, or the chairman, or a committee thereof, any matters that in his or her opinion should be brought to their attention.

Internal Procedures

Each Reserve Bank should make certain that the following issues are addressed in internal operating procedures and/or guidelines:

- the obligation of an employee to avoid action that might result in or create the appearance of making decisions outside official channels; and
- the duty to handle subscriptions to notes, Treasury bills, certificates of indebtedness, and other government obligations filed directly with the Reserve Banks or through commercial banks, by directors, officers, or employees of the Reserve Bank in strict compliance with Treasury instructions and no more favorably than other subscriptions of the same class.

This policy statement was approved by the Board May 2, 1994.

2-026.1

ETHICS--Voluntary Guide to Conduct for Senior Officials

1. Members of the Board of Governors of the Federal Reserve System and presidents and first vice presidents of the Federal Reserve Banks have a special responsibility for maintaining the integrity, dignity, and reputation of the System. Accordingly, they should scrupulously avoid conduct that might in any way tend to embarrass the System or impair the effectiveness of its operations.

2. They should carefully adhere to the spirit, as well as the letter, of the rules of ethical conduct prescribed for employees of the Board of Governors or the Federal Reserve Banks and should exemplify in their own conduct the high standards set forth in those rules.

3. Their personal financial dealings should be above reproach, and information obtained by them as officials of the System should never be used for personal gain. In order to avoid even the appearance of acting on confidential information, they should not knowingly purchase or sell any security (including any interest in the Thrift Plan for Employees of the Federal Reserve System, but not including shares of a money market mutual fund) during the seven-calendar-day period prior to and the day(s) of a meeting of the Federal Open Market Committee. This restriction does not apply if the investment decision is made before the seven-day period (in the case of a rollover, for example). They also should not knowingly hold any security for less than 30 days, other than shares of a money market mutual fund. They should make every effort to ensure that their spouses' and dependent children's financial transactions comply with these guidelines. In unusual circumstances, after consultation with the ethics officer, these restrictions may be waived. Beyond these guidelines, they should carefully avoid engaging in any financial transaction the timing of which could create the appearance of acting on inside information concerning Federal Reserve deliberations and actions.

4. They should be careful to avoid any dealings or other conduct that might convey even an appearance of conflict between their personal interests, the interests of the System, and the public interest. They may invest in United States government securities only under the following circumstances: they may purchase (in a noncompetitive tender) or hold United States Treasury bills with maturities of one year or less, but must hold them to maturity, except in unusual circumstances after consultation with their respective ethics officer. They may purchase or hold United States Treasury bonds or notes (including shares of mutual funds whose investments are concentrated in such bonds or notes) having a total market value of no more than \$50,000. These longer-term government securities or mutual fund shares should be bought only with the intent to hold them as long-term investments and should not be sold while the individual is employed by the Federal Reserve System, except in unusual circumstances and after consultation with the ethics officer. They may own, without limitations, United States savings bonds. They may

own, without limitation, shares of a money market mutual fund concentrating in United States government securities if the net asset value of the fund remains constant.

5. They should strictly preserve the confidentiality of System information that, if revealed, could benefit any person or impair the effectiveness of System operations and policies.

6. In considering invitations to speak at meetings sponsored by profit-making organizations, such officials should carefully weigh the public benefits likely to be derived from addressing such meetings against the possibility that their participation might afford such organizations a prestige advantage over competitors.

7. In public speeches and relations with news media, senior officials should be particularly mindful of the consideration stated in paragraph 4 and, in addition, should avoid statements that might suggest the nature of any monetary policy action that has not yet been officially disclosed or that might confuse or mislead the public with respect to the monetary or other policies of the System.

8. They should feel free to express their personal views concerning questions of System or public interest, but they should carefully consider whether their remarks might create public misunderstanding of the System's actions, or impair the effective formulation and implementation of System policies or lessen the prestige of the System.

9. When speeches or other statements have been prepared for public release, they should consider whether it is feasible and useful to distribute copies to other senior officials for their information in advance of public release.

This statement was adopted November 18, 1970, and amended April 1979, May 1997, and July 1998.

See also Directors--Guide to Conduct, at [1-070](#).

2-038

LAW ENFORCEMENT OFFICERS

The Board's regulations implementing the provisions of the USA Patriot Act of 2001, which have been approved by the United States attorney general, provide federal law enforcement authority to Federal Reserve protection officers and Board security officers and special agents. On June 18, 2002 the Board delegated authority to each Reserve Bank to designate personnel to act as law enforcement officers under the regulations. This letter confirms that delegation.

The regulations authorize designated personnel, while on duty, (1) to carry firearms when engaged in protecting the premises, grounds, property, personnel, or operations of a Reserve Bank or the Board; (2) to make arrests for violations of certain federal laws; and (3) to access law enforcement information. The regulations also contain rules governing the use of force, the making of arrests, the execution of searches, and plain-clothes operations by law enforcement officers and establish internal and external oversight mechanisms. In order to exercise this authority, a Federal Reserve law enforcement officer must successfully complete specified training approved by the Federal Law Enforcement Training Center (FLETC) and meet the qualifications and standards established in the *Federal Reserve System Law Enforcement Training Manual*.

The Board believes that use of this federal authority results in increased effectiveness in the level of protection provided at the Reserve Banks and the Board. Qualified Federal Reserve law enforcement officers no longer have to comply with state and local licensing requirements in order to carry firearms while on duty. In addition, law enforcement officers from one Reserve Bank or the Board can be sent to another Reserve Bank or the Board to meet a temporary need for additional protection staff in unusual or emergency situations. Given the benefits of this federal authority, the Board expects that all Reserve Bank protection officers who carry firearms meet the training and other qualifications set out in the regulations.

Federal Reserve law enforcement officer training curriculums should adhere to the *Federal Reserve System Law Enforcement Training Manual*. Courses should be taught by certified instructors in a classroom environment with supporting practical exercises.¹

1. Personnel selected as Law Enforcement Unit training instructors for the *basic* and *in-service* law enforcement training curriculums must attend and successfully complete a general instructor-certification course provided by an accredited local, state, or federal law enforcement training organization. Further, training instructors who teach *critical enforcement* curriculums such as firearms, intermediate weapons, first aid, aerosol irritants, and physical control techniques must complete and maintain current certifications for each specific topic they instruct. They must also attend an advanced or recertification course at least every three years. The legal block of instruction will continue to be taught by licensed attorneys using the curriculum established by Board

and Reserve Bank attorneys who worked in consultation with FLETC to develop the legal block of instruction. Reserve Banks may select the curriculum and instructors for *supplemental* curriculums, including but not limited to ethics, sexual harassment, and workplace violence.

Federal Reserve law enforcement officers and officer candidates should be tested for each training course to measure knowledge retention and skill competency. A reliable system of management controls should be documented and monitored to ensure that all Federal Reserve law enforcement officer candidates are fully trained and qualified before they are designated, and that all Federal Reserve law enforcement officers successfully complete the required in-service training courses to ensure continued proficiency. Records of law enforcement officer training should be maintained in accordance with guidelines in the *Federal Reserve System Law Enforcement Training Manual*. Each Bank must establish an internal oversight committee to inspect and evaluate its law enforcement program and management controls. The committee should provide biennial reports of its reviews to the Board's Division of Reserve Bank Operations and Payment Systems.

Reserve Banks may elect to cross-designate protection officers with local law enforcement authority or acquire "special police powers" through their local police or sheriff department. Banks should only cross-designate an officer when it is beneficial to the performance of Federal Reserve functions and responsibilities, and only after the officer has been trained and designated with federal law enforcement authority as provided by the USA Patriot Act S-2627; Oct. 25, 2005.

The text of the regulations is at FRRS 8-630. This letter supersedes S-2609 of June 18, 2002.

2-040

LOANS--Employee Emergency Loan Plans

Bank-funded employee loans should be limited to emergencies and granted only after the employee has exhausted all legitimate loan sources.

The initial authorization of employee emergency loan funds was granted in 1929 in light of the limited sources of consumer/personal loans available at that time. Since then, however, there have been significant changes in the availability of consumer credit. Therefore, Bank-funded employee loans should be limited only to those situations in which (1) the purpose of the loan is truly of an emergency nature and (2) the employee has exhausted all legitimate loan sources. Ordinarily, such loans should be limited to employees in the lower grades, should be written with a maximum maturity of one year, and should be made at a rate of interest at least equal to the Federal Reserve Thrift Plan loan rate at the time the loan was made. Individual loans should generally be limited to a maximum of one month's salary or \$3,000, whichever is larger. Loans beyond this maximum should be approved by District senior management. The authorized loan fund limit is \$15,000, except for the New York Bank where the limit is \$40,000. This policy does not apply to employee club loan funds or employee educational loans/reimbursements policies. S-2564; June 17, 1994.

This letter supersedes S-2300 of Dec. 4, 1975.

2-045

OUTSIDE ACTIVITIES--Publications, Speeches, and Other Public Statements

All Federal Reserve Bank personnel should observe the following guidelines regarding publications, speeches, other public statements, and outside activities.

1. The president of a Reserve Bank shall be responsible for public statements made by any department of the Reserve Bank or by any staff member. This principle applies to the monthly reviews, press releases, speeches, publications appearing over the signature of a member of the staff, and other public statements related to Reserve Bank business or System policy. Similarly, the Reserve Bank shall be responsible for a staff member's commitment to serve in outside organizations. However, the staff of the Board of Governors will review any Reserve Bank material prior to release if the Bank so desires, or give an opinion on the advisability of a staff member's participation in any particular outside activity.
2. Copies of all publications and of written speeches should be sent to the Board of Governors, whenever possible, prior to release in order to keep the Board informed. The Board should also be informed of staff members' commitments to serve in outside organizations.

The Board of Governors will supply the Reserve Banks with copies of material issued by the Board and will notify them of commitments made that involve the Reserve Banks. S-747; March 21, 1974.

2-048

OUTSIDE ACTIVITIES--Restrictions on Outside Activities

The following statement outlines the Board's views on System employees' teaching, publishing, and public-speaking activities.

The Board believes that the propriety of participation in specific outside activities can be determined effectively only after consideration by the management of a Federal Reserve Bank on the basis of the circumstances pertinent to the particular situation. It would, therefore, not be feasible for the Board to attempt to comment on all types of activities in which Reserve Bank officers and employees might be engaged. For the guidance of the Reserve Banks, however, the Board's views on certain kinds of outside activities follow.

1. The Board would ordinarily see no objection to an officer or employee of a Federal Reserve Bank maintaining a teaching connection with a recognized educational institution at the college or university level, particularly if such a connection would be helpful in enabling the officer or employee to keep abreast of developments in his or her field and if it would facilitate communication between the Federal Reserve System and the academic community. Similarly, the Board would ordinarily see no objection to teaching connections with other reputable institutions of learning, especially if the curriculum bears some relationship to the functions of a Federal Reserve Bank, as in the case of the American Institute of Banking and other schools of banking. Teaching engagements should be clearly secondary and should not interfere with the performance of Reserve Bank duties. It would, of course, be inappropriate for an individual to accept payment for teaching services rendered on Reserve Bank time or, if out of town, when traveling expenses are paid by the Bank.
2. Participation of an officer or an employee in the preparation of material for articles or other publications utilizing information accumulated in the conduct of the affairs of a Reserve Bank should be subject to approval of the Bank. If the publication is prepared on Bank time, it would be inappropriate for the individual concerned to accept additional compensation. Officers or employees would not be precluded from receiving compensation or an honorarium for a publication prepared on the individual's own time, provided the Bank is fully informed and approves.
3. If an officer or employee of a Federal Reserve Bank undertakes a public-speaking or similar assignment as a representative of the Bank, it is the Board's view that no additional compensation or honorarium should be accepted by the individual concerned.

In order to minimize the potential for conflicts arising under 18 USC 208, the Board believes that each Reserve Bank should caution presidents, first vice presidents, and the senior officer in charge of procurement against future

acquisition of any company whose primary business involves the production or sale of data processing, duplicating, and data transmission equipment or other significant products and services utilized by the Reserve Bank in its operations. It is the Board's position that existing stock holdings of such nature may be retained as long as they fall within general or ad hoc exemptions granted under 18 USC 208 or the officer or employee otherwise refrains from actions prohibited by that statute. However, in the case of presidents and first vice presidents, if their existing stock holdings exceed the level permitted by general exemptions, if their requests for ad hoc exemptions are denied, and if their abstention would impair the Reserve Bank procurement decisionmaking process, the board of directors or Board might find it necessary to require divestiture of the current stock holdings.

This revised statement was approved by the Board May 2, 1994.

See also [5-041](#).

2-050

RELOCATION--Reimbursement of Costs

I. Federal Reserve System Relocation Philosophy

This relocation policy is intended to provide a new hire and a Reserve Bank employee who is transferred within or across Districts with relocation benefits that are competitive with benefits provided by public- and private-sector employers and meet the needs, within reasonable cost parameters, of both the employee who relocates and the employer. These benefits are designed to facilitate timely transition to the new location and minimize disruption to the employee and his or her family.

In addition to this relocation policy, a model suggested relocation program is reflected in a Standard Operating Procedure of the Subcommittee on Human Resources for use by those who administer relocation benefits.

II. Program Management

The decision to offer relocation benefits to an employee as well as the level of benefit (or "tier," as described in this policy) rests with the employing Bank. The policy provides substantial flexibility to facilitate movement of critical talent within the System. The Board neither expects nor intends, however, that every appointment that requires an individual to move to a new location will incur the full measure of the flexibility provided in the policy.

The employing Bank may provide an employee with relocation benefits that are in excess of the limits or ceilings of the individual benefits described in the model, provided the estimated total cost of those additional benefits, including tax gross-up, does not exceed 30 percent of the employee's new base salary. The employing Bank also may provide an employee with relocation benefits that are less than those described in the model. The director of the Board's Division of Reserve Bank Operations and Payment Systems may approve relocation benefits beyond those described in the model when the estimated total cost for those additional benefits, including tax gross-up, exceeds 30 percent but is not more than 50 percent of the employee's new base salary. Additional relocation benefits, including tax gross-up, greater than 50 percent of the employee's new base salary require Board of Governors ("Board") approval. If an employing Bank uses the national relocation-service provider, the Bank should inform the service provider of an employee who is offered relocation benefits that are greater or less than those described in the model.

Relocation expenses under the policy are the financial responsibility of the employing Bank. The Board strongly encourages all Reserve Banks to contract with a national relocation-service provider for day-to-day administration and relocation

consulting service to employees. In those situations, the employing Bank and the employee should be surveyed by the relocation-service provider after his or her relocation to determine satisfaction with the policy and service levels provided. Periodically, the policy and model will be compared with the relocation benefits provided by public- and private-sector employers to determine competitiveness. If the policy does not satisfy the objectives stated in the above philosophy, the Board may consider appropriate revisions.

Each Bank's relocation benefits, payments, expense reimbursements, and repayment terms must be consistent with section 409A of the Internal Revenue Code.

III. Repayment Terms

Repayment terms must be included in, or with, Reserve Bank written employment and transfer offers and must meet the following minimum requirements: An employee who is terminated involuntarily within the first twelve months following relocation normally should reimburse the employing Bank for all relocation costs paid by the employing Bank. An employee who voluntarily resigns or unexpectedly retires during the first six months following relocation normally should reimburse the employing Bank for all relocation costs paid by the employing Bank. An employee who voluntarily resigns or unexpectedly retires after the first six months following relocation, but before completing twelve months of service, should reimburse the employing Bank for all relocation costs paid by the employing Bank at the rate of one-twelfth the total amount of reimbursement for each month (or fraction thereof) between the sixth and twelfth month that the employee is not in the employ of the employing Bank. For example, an employee who resigns after working five months should reimburse the employing Bank for all relocation costs paid by the employing Bank. An employee who resigns after working seven months should reimburse the employing Bank 42 percent (five months not employed divided by twelve months) of all relocation costs paid by the employing Bank. An employee who resigns after working eight months should reimburse the employing Bank 33 percent, and so on.

IV. Benefits Levels

The Banks may provide three tiers of benefits.

Tier 1--Available to an entry-level new hire

- a lump-sum allowance to cover expenses for temporary living, home finding, and travel to the new location (see section V)
- rental reimbursement of reasonable expenses associated with lease termination
- reimbursement of customary moving expenses for household goods

shipment and insurance

- automobile shipment
- brokers' fees for apartments rented in hard-to-rent locations
- tax gross-up for certain relocation-expense reimbursements

Tier 2--Available to an experienced new hire or an inter/intra-District transfer

Tier 2 benefits are all tier 1 benefits plus the following:

- a larger lump-sum allowance to cover an additional home-finding trip, temporary living at the new location, return trip(s) home while eligible for temporary living, and a miscellaneous expense allowance to cover incidental expenses associated with the move (see section V)
- household goods storage
- home-sale assistance
 - home-marketing assistance
 - home-sale matched offer from the relocation-service provider
 - equity assistance under the home-sale matched offer program.

Alternative property-management services may be considered if the employing Bank expects that the employee will return to the original location within thirty-six months.

- customary closing costs for sale of old home, excluding the following:
 - conventional, FHA, or VA discount points; loan origination fees; or any buy-down points paid on behalf of the buyer
 - home warranty or protection plan
 - closing costs that should be charged to the buyer but are paid by the seller because of the terms of the sales agreement (appraisal fees and credit reports)
 - capital improvements or repairs required to sell the home
 - items negotiated between the seller and buyer
 - necessary repairs discovered as a result of buyer's inspection
- new-location concierge services
- new-home purchase assistance (if the employee was a homeowner at the time of transfer)
 - normal and customary new-home closing costs
 - mortgage information assistance
 - duplicate-mortgage coverage
 - mortgage interest-rate differential allowance (MIRD) (limited and only under certain circumstances)
- spouse career assistance

Tier 3--Available to an officer, select senior-level professional/technical new hire, or inter/intra-District transfer whose skills and experience are deemed critical to System and Reserve Bank strategic business needs

Tier 3 benefits receive all other tier benefits plus the following:

- home-sale incentives
- guaranteed-offer sale
- amended-value sale
- equity assistance
- loss-on-sale assistance

V. Lump-Sum Allowance

A lump-sum allowance is an up-front, one-time payment to cover certain relocation expenses. A lump-sum allowance is calculated by the relocation-service provider (or if none, the employing Bank) and is based on normal and customary expenses for a specific location-to-location move. Normally, additional reimbursement will not be made for covered items in excess of the lump-sum payment. An employee may retain any portion of the total lump-sum payment that is not expended by himself or herself in the relocation. Generally, calculated allowances vary by benefits tier. The Assumptions for Calculating Lump-Sum Allowance (attachment A of the model relocation program) is used to calculate the amount of the lump-sum allowance. The lump-sum allowance is calculated to cover--

- temporary living
- return trips home (tiers 2 and 3 only)
- home-finding expenses
- travel to new location (initial and final trip)
- miscellaneous expenses (tiers 2 and 3 only).

VI. Taxes

Relocation benefits may be treated as taxable income under applicable law, and, if so, some of these taxable benefits may be grossed up to help compensate the employee for increased tax liability.

VII. Definition of Terms

Amended value sale. A sale where a relocation-service provider purchases the employee's home once the employee receives an offer from a bona fide buyer that exceeds the guaranteed offer of the relocation-service provider.

Closing costs. Real estate brokers' fees, transfer fees, survey costs, and other reasonable costs customarily incident to the sale of a home.

Direct reimbursement and closing costs. Costs reimbursed directly to the employee by a Bank when the employee chooses to sell outside the home-sale matched-offer program. Direct reimbursements constitute taxable income to the employee.

Duplicate mortgage coverage. An amount equal to the lower of the old residence or new residence mortgage payment for a specified number of days.

Equity under the home-sale matched-offer program. Financial assistance given by a relocation-service provider to an employee who needs equity to close on a new home. To be eligible, the employee must submit a bona fide offer from a buyer.

Guaranteed offer sale. An offer to purchase the employee's home, based on independent appraisals, when an eligible employee is not successful in selling his or her home through the home-marketing assistance program.

Home-finding expenses. Reasonable transportation, lodging, and meals for the employee and spouse, and, if circumstances justify, for dependent children for a reasonable number of trips to find a home in the new location.

Home-marketing assistance. Up-front marketing assistance provided by a relocation-service provider with the intent of achieving an expeditious sale of the employee's home at fair market value.

Home-sale incentive. An incentive paid under certain conditions to an employee who secures a sale to a buyer.

Home-sale matched offer from the relocation-service provider. An offer made by a relocation-service provider to an employee to match an offer from a bona fide buyer in lieu of reimbursing the employee for closing costs.

Household goods shipment and insurance. An allowance for movement of personally owned household goods and effects.

Loss-on-sale assistance. Loss-on-sale assistance provided to an employee, up to certain limits. Loss on sale is based on the difference between the original purchase price of the old residence and the relocation-service provider's home-buyout offer that is accepted by the employee.

Lump-sum allowance. A one-time payment to cover certain relocation expenses.

Miscellaneous expenses. An allowance to cover incidental moving expenses, such as new driver's license, transportation of pets, vehicle registrations, and utility hook-ups.

Model relocation program. Model program for administering and designing relocation packages under the Reserve Bank relocation policy located on the web at <http://fedweb.frb.gov/fedweb/board/rbops/FRS/hr/sysrelocate.htm>

Mortgage information assistance. Mortgage counseling and an opportunity to apply for a mortgage through a national mortgage provider.

Mortgage interest-rate differential assistance. A mortgage interest-rate differential allowance (MIRD) provided for a specified period when the difference in the interest rates on the new mortgage and the old mortgage meet certain criteria.

New-home closing costs. Reimbursement of closing costs customarily paid by the

buyer.

New-location concierge service. A service that provides a destination counselor to work with the employee to determine rental/buying and lifestyle needs and assist in targeting communities that meet desired needs.

Rental reimbursement. An allowance to offset the loss resulting from breaking a lease on a rental home at the old location.

Return trip home. A trip home when the employee must assume duties at the new location before the family can move from the old area, or before the old-location home is sold.

Spouse career assistance. Reasonable reimbursement for costs associated with the employee's spouse finding employment in the new location.

Tax gross-up. An allowance to help offset the income tax impact (federal, state, and local) created by the increase in income through some relocation-expense reimbursements.

Temporary living. Reimbursement of reasonable temporary living expenses (lodging and meals) at the new location for the employee and family.

S-2645 (September 14, 2010).

This letter supersedes S-2604 (Aug. 30, 2001) and S-2575 (June 1, 1995).

2-070

RETIREMENT--Mandatory; Presidents and First Vice Presidents

Under the Age Discrimination in Employment Act of 1967 (ADEA), as amended, most employees, including those who work at Federal Reserve Banks, cannot be required to retire. However, the ADEA allows mandatory retirement under certain circumstances if an individual works as a "bona fide executive" or in a "high policymaking" position, as those terms are defined by the ADEA. Details of the "bona fide executive" or "high policymaking" exemption are described below.

I. Bona Fide Executives and High Policymaking Positions

Individuals who are designated in "bona fide executive" or "high policymaking" positions as defined by the ADEA may be subject to mandatory retirement if they have attained 65 years of age, have been employed in a "bona fide executive" or "high policymaking" position for the two-year period immediately before retirement, and are eligible for a Bank-provided retirement income (e.g., retirement plan benefits, thrift plan benefits attributable to employer contributions) totaling at least \$44,000 annually (or a higher amount, if increased) as determined by the ADEA (29 USC 631). If all of these conditions are not met at age 65 but are later met, the individual may be required to retire as soon as they are met. Presidents and first vice presidents are deemed to be in "bona fide executive" or "high policymaking" positions and generally must retire at age 65 or the year in which all of these conditions are met, whichever comes later, irrespective of the expiration of the statutory term of office.¹

1. All references to the first vice president in this policy include the director of Federal Reserve Information Technology.

Reserve Banks should determine whether other positions should be designated as "bona fide executive" or "high policymaking," and inform the Board of the designation, and reasons for the designation.

I. Exceptions to Requirement that Presidents and First Vice Presidents Retire at Age 65

With respect to mandatory retirement for presidents and first vice presidents in particular, the retirement-at-age-65 rule has enabled successors to move into those positions at an earlier age than might have been the case without the rule. Moreover, in the many Reserve Banks where successors have come from within the organization, earlier turnover at the top has meant earlier advancement, as well as the possibility of increased advancement opportunities in the future, for other officers whom the System needs to retain. There are some circumstances, however, that warrant exceptions to this policy. These exceptions are described below.

A. Exception for Appointments After Age 55

For presidents and first vice presidents initially appointed after age 55, a Reserve Bank board of directors may permit an exception to the age requirement described in paragraph I to permit the individual to serve until attaining ten years of service or age 75, whichever comes first. When a president or first vice president is appointed after age 55, a mandatory-retirement-at-age-65 policy may, on balance, require a frequency of turnover that may be more disruptive than beneficial, and may require an individual to retire when he or she is becoming able to make the greatest contribution.

B. Exception for Special and Unusual Circumstances

The Board recognizes that special and unusual circumstances may also warrant exceptions to this mandatory-retirement policy. Therefore, subject to the approval of the Board of Governors, a Reserve Bank board of directors may authorize a president or first vice president to serve an additional period of time not to exceed three years, consistent with the Reserve Bank's needs, if there is a compelling reason to do so. If, at the end of the initial extension period, a board of directors wants that official to serve an additional period of time, the Reserve Bank should request Board approval of an additional extension, not to exceed three years, and justify the need for the second extension. The Board anticipates extensions under this exception would be rare.

III. Exceptions to Mandatory Retirement Rules for Other Individuals in Bona Fide Executive or High Policymaking Positions

Exceptions to the mandatory retirement rules described in section II apply to presidents and first vice presidents. A Reserve Bank board of directors could, however, at its discretion, adopt similar exceptions for other individuals designated in "bona fide executive" or "high policymaking" positions. S-2630; March 21, 2006.

This letter supersedes S-2508 of June 4, 1987, and S-2605 of Sept. 19, 2001.

2-090

SECURITY CLEARANCE--Classified Information Nondisclosure Agreement

On March 11, 1983, the National Security Council promulgated National Security Decision Directive 84 (NSDD 84) to deal with the problem of unauthorized disclosure of classified information. In order to ensure a continuing flow of classified information to the Federal Reserve System, the Board of Governors has agreed to comply voluntarily with that aspect of the directive that requires employees with access to classified information to sign a basic nondisclosure agreement. The Board is continuing to review other aspects of the directive.

After September 30, 1984, all Federal Reserve System employees who are to be granted a security clearance, whether an initial clearance or an update of a previous one, shall agree to the terms of Form FR 1406, Classified Information Nondisclosure Agreement, as a condition to being granted such clearance. It should be noted also that the final rule implementing NSDD 84 requires all employees of contractors, grantees, and licensees to sign the agreement as a condition precedent to access to classified information.

Before signing the agreement, the employee must be briefed by the Reserve Bank's information security office and be given the packet of materials describing the statutes prohibiting unauthorized disclosure of classified national security information. This briefing and the packet of materials should also be made available to contractors, grantees, and licensees as necessary. S-2479; July 16, 1984.

Form FR 1406 revised by S-2532 of Aug. 9, 1990.

The packet of materials referred to in the last paragraph contains a summary and text of sections 641, 793, 794, 798, and 952 of title 18 of the U.S. Code; section 783 (b) of title 50 of the U.S. Code; the Intelligence Identities Protection Act of 1982 (50 USC 421-426); and Executive Order 12356 of April 2, 1982.

FR 1406 ([43.6 KB PDF](#))

3-005

COLLECTION FUNCTIONS--Notes Providing for Payment of Attorneys' Fees

Board policy discourages a Federal Reserve Bank in the process of collecting an overdue note from retaining, in addition to principal and interest, an amount received under a provision in the note for the payment of attorneys' fees.

The Federal Reserve Board has considered the question whether or not a Federal Reserve Bank, in collecting an overdue note, is justified in retaining an amount received under a provision in the note for the payment of attorneys' fees, in addition to the principal and interest of the note. The question arose out of the practice of one of the Federal Reserve Banks in receiving and retaining such amounts; in the case of this Bank, the counsel is employed on an annual retainer basis and he, of course, handles the collection of notes and other items which the bank is unable to collect through the regular channels.

The law on this question is not definitely settled, but there are many cases which indicate very strongly that the courts would not permit the holder of a note containing such a provision to recover and retain any sum greater than that sufficient to cover principal and interest and to indemnify the holder of reasonable attorneys' fees expended. The provision is intended to save the holder from loss, but he is not entitled to make any profit by reason of the stipulation. Even if the practice can be considered legal, it seems to be an unwise policy for Federal Reserve Banks to exact attorneys' fees under such circumstances unless there has been an expenditure in the particular case for the employment of attorneys.

In view of the doubt about the legality of the practice and the considerations of policy involved, the Board recommends the following principles for the guidance of Federal Reserve Banks hereafter in such cases:

1. In a case where special counsel is employed in connection with the collection of a certain note, containing a stipulation for the payment of attorneys' fees by the maker in case of default, judgment should be obtained for the full amount due, including all attorneys' fees recoverable according to the terms of the note, but a refund should be made to the debtor for any amount not actually paid or contracted to be paid to the attorney for his services.
2. Where the collection is made through the regular Federal Reserve Bank counsel employed on an annual salary or retainer, judgment should be obtained for the full amount due, including the stipulated attorneys' fees (if possible), but the Federal Reserve Bank should refund to the debtor the entire amount of attorneys' fees recovered.

X-3983; March 3, 1924.

3-020

CURRENCY AND COIN--Issuance and Collateralization of Federal Reserve Notes

Federal Reserve notes are issued when there is a continuing application for the notes and when collateral is pledged to secure the notes fully. The pledge-of-collateral agreement covers the Bank's pledgeable interest in the System Open Market Account, the gold and SDR certificate accounts, and any other eligible assets that are necessary for collateral at any one time.

Procedure for Issuing and Securing Federal Reserve Notes

Section 16 of the Federal Reserve Act provides that a Federal Reserve agent may issue Federal Reserve notes to a Federal Reserve Bank after the Bank has filed an application and tendered collateral equal to the amount of issued notes that are outside the vaults of a Reserve Bank. The Board of Governors has authorized each Federal Reserve agent to appoint a member of the Board's staff as assistant agent in Washington and to appoint representatives at Culpeper. Each Federal Reserve agent also appoints one or more assistant agents at the Reserve Bank.

The assistant agent in Washington will act on behalf of the local agent in accepting applications for notes and tenders of collateral and will maintain reports and records required by law or by the Board. The agent's representative at Culpeper will maintain control of unissued notes that may be sent to that facility from time to time for emergency storage.

The Board will place a printing order with the Comptroller of the Currency each year based on the estimated need for new currency and inventory requirements. An application for the issue of notes will be submitted to the assistant agent in Washington, signed by an officer of the Reserve Bank authorized to sign such applications. Unless otherwise instructed, the Reserve Bank may make such application on a continuing basis. With the exception of notes destined for emergency storage at Culpeper, the assistant agent will issue the notes to the Bank on the day the notes are shipped from the Bureau of Engraving and Printing.

Each Bank will pledge to the Federal Reserve agents of the Federal Reserve Banks all of its assets eligible under section 16 for use as collateral to secure Federal Reserve notes. Each day, the assistant agent will determine the value of Federal Reserve notes issued to each Reserve Bank not held in the Reserve Bank's vaults.¹

1. Notes in transit from the Bureau of Engraving and Printing to a Reserve Bank will be deemed to be held in the Reserve Bank's vaults.

Collateral must be provided equal to that amount. The assistant agent shall draw from all the assets pledged to secure Federal Reserve notes an amount equal to the collateral required. The assistant agent shall draw on the pledged assets in the following order of preference:

1. gold certificates
2. special drawing right certificates
3. obligations that are direct obligations of, or fully guaranteed as to principal and interest by, the United States or any agency thereof
4. any other assets that may be eligible under law as collateral for Federal Reserve notes, except that use of assets denominated in foreign currencies or obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency thereof will be used as collateral in unusual and exigent circumstances as specifically authorized by the Board or used when other eligible assets are insufficient to collateralize fully Federal Reserve notes.

Plan for Securing Federal Reserve Notes with Securities in the System Open Market Account and Foreign Account

The Federal Reserve Bank of New York (a) shall, in the absence of special circumstances as determined by the Federal Reserve Bank of New York, deposit all obligations that are direct obligations of, or fully guaranteed as to principal and interest by, the United States or any agency thereof in the System Open Market Account into an account that shall be subject to the joint instructions of the Federal Reserve Bank of New York and the Federal Reserve agent at New York, or the agent's designated assistant (the Federal Reserve Note Collateral Account), (b) shall deliver into and hold in joint custody with the Federal Reserve agent at New York any other securities in the System Open Market Account, and (c) shall, in the absence of special circumstances as determined by the Federal Reserve Bank of New York, deposit all assets denominated in foreign currencies and all obligations that are direct obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency thereof that are acquired in the open market into the Federal Reserve Note Collateral Account.

Direct and agency obligations of the United States and foreign governments deposited in the Federal Reserve Note Collateral Account shall be held for the account of each of the 12 Federal Reserve Banks and of the Federal Reserve agent at each such Bank as their interests may appear. The other securities in joint custody shall be held for the account of each of the 12 Federal Reserve Banks as its interest may appear. Specific assets will not be allocated to individual Federal Reserve Banks, but securities in the System Open Market Account (hereinafter referred to as ``System Account") and assets denominated in foreign currencies in the Foreign Account will be owned by the Federal Reserve Banks subject to any pledge that may exist under the provision of this plan. The participations of the respective Federal Reserve Banks in the securities in the System Account shall be determined as provided, from time to time, by the Federal Open Market Committee.

Each Federal Reserve Bank shall pledge to the Federal Reserve agents all of the Bank's pledgeable interest in the System Account and the Foreign Account.

The Federal Reserve Bank of New York and the Federal Reserve agent at New York, or the agent's designated assistant, shall permit additional System Account and Foreign Account securities to be delivered into their joint custody or deposited in the Federal Reserve Note Collateral Account subject to their joint instructions, to be held pursuant to the provisions of this plan, and shall permit any System Account or Foreign Account securities to be withdrawn from their joint custody or from the Federal Reserve Note Collateral Account in order to effectuate authorized System Account or Foreign Account transactions.

Pledge of Collateral

In order to provide, as specified in section 16 of the Federal Reserve Act, collateral security for the Federal Reserve notes of the Federal Reserve Banks, the Federal Reserve Bank of _____ ("Bank") hereby pledges the following collateral to the Federal Reserve agents at Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco:

1. All gold certificates and special drawing right certificates owned from time to time by Bank
2. Bank's undivided interest in any obligations that are direct obligations of, or fully guaranteed as to principal and interest by, the United States or any agency thereof in the System Open Market Account as may from time to time be necessary to secure fully Federal Reserve notes issued through the Federal Reserve Banks
3. Any other assets of Bank that may be eligible under the law as collateral for Federal Reserve notes issued through the Federal Reserve Banks, to the extent that such assets may from time to time be necessary to secure fully Bank's Federal Reserve notes

In witness whereof, the Federal Reserve Bank of _____
has caused these presents to be signed by its president, and attested by its secretary
on this _____ day of _____, ____.

President

Attest:

Secretary

Agreement to Pledge Collateral

This agreement is made between the Federal Reserve Bank of _____ ("Bank") and the Federal Reserve Banks of [insert names of all other Reserve Banks] ("other Reserve Banks").

Bank recognizes that the value of its gold certificates and special drawing right

certificates and its undivided interest in the direct obligations of, or fully guaranteed as to principal and interest by, the United States or any agency thereof in the System Open Market Account and any other assets of Bank that may be eligible under the law as collateral for Federal Reserve notes will ordinarily exceed the amount needed to secure its Federal Reserve notes but that on occasion its interest in such certificates and obligations may not be sufficient to secure its Federal Reserve notes. Bank also recognizes that one or more of the other Reserve Banks may possess gold certificates, special drawing right certificates, and undivided interests in direct obligations of, or fully guaranteed as to principal and interest by, the United States or any agency thereof in the System Open Market Account and any other assets of the other Reserve Bank that may be eligible under the law as collateral for Federal Reserve notes in excess of the amount needed to secure such other Reserve Banks' Federal Reserve notes. On occasion such other Reserve Banks' interests in such certificates and obligations may not be sufficient to secure their Federal Reserve notes.

In order to ensure that the Federal Reserve notes of Bank and other Reserve Banks are fully secured as required by law, and in consideration of similar promises by each of the other Reserve Banks to Bank and to each other, Bank hereby agrees to pledge to the Federal Reserve agents at Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco:

1. All gold certificates and special drawing right certificates owned from time to time by Bank
2. Bank's undivided interest in any obligations that are direct obligations of, or fully guaranteed as to principal and interest by, the United States or any agency thereof in the System Open Market Account as may from time to time be necessary to secure fully Federal Reserve notes issued through the Federal Reserve Banks
3. Any other assets of Bank that may be eligible under the law as collateral for Federal Reserve notes, to the extent that such assets may from time to time be necessary to secure fully Federal Reserve notes issued through the Federal Reserve Banks

This agreement shall not affect the disposition of earnings on any assets so pledged which shall continue to inure to the benefit of Bank.

In witness whereof, the Federal Reserve Bank of _____
has caused these presents to be signed by its president, and attested by its secretary
on this _____ day of _____, ____.

President

Attest:

Secretary

S-2533; Dec. 19, 1990.

This letter supersedes S-2402 of Feb. 28, 1979; S-2429 of July 25, 1980; and S-2470 of Aug. 9, 1983. The original Pledge of Collateral issued as S-2402C was superseded by S-2429. The revision was made to conform to section 16 of the Federal Reserve Act, as amended effective Sept. 1, 1980 by the Monetary Control Act (see FRRS 1- 140 et seq.).

3-024

CURRENCY AND COIN--Payments for Expenses of Treasury in Retiring Currency

The Board assesses each Bank for the expenses of the Treasury in retiring Federal Reserve currency. The assessments are made quarterly, based on claims submitted by Treasury for expenses incurred in the processing of mutilated currency cases, the accounting for Federal Reserve notes, the review of operations in Reserve Banks, and management of the unfit currency program. Each Bank's share is based on its portion of the total number of Federal Reserve notes outstanding at all Banks at the beginning of the year. The wire to each Bank (code CULDO) requests credit to the Board's account at Richmond. The code word CORRZ is used by each Bank to advise Richmond of the credit. S-1502; July 9, 1953.

3-026

CURRENCY AND COIN--Remitting for Printing of Federal Reserve Notes

The Board assesses each Bank for the cost of printing Federal Reserve notes, based on semi-monthly billings by the Bureau of Engraving and Printing. The usual telegram to Reserve Banks requesting credit to the Board's account for the printing costs (code CUBWO) will ordinarily be dispatched on the 15th of the month, or on the last business day before the 15th, and on the last business day of the month. S-2105; Sept. 12, 1969.

4-007

COMMUNITY REINVESTMENT-- Responsibilities of Community Affairs Officer

Reserve Banks are asked to make the community-affairs function an integral part of their operations under the coordination of a community affairs officer.

In February 1981, the Board requested that each Federal Reserve Bank appoint a community affairs officer (CAO) to handle the community-liaison function in regard to Community Reinvestment Act (CRA) protest activity. Later that year, then Vice Chairman Schultz provided the Banks with a general outline of the community-affairs function and listed a number of activities the CAO could perform in carrying out this responsibility. The majority of the activities listed could be characterized as educational, involving an outreach program to lenders, local governments, and community groups in the community-development area.

The Board wishes to confirm its commitment to an active community-affairs program and to clarify Reserve Bank responsibilities in the area. The Consumer Advisory Council in its study of the System's implementation of CRA complimented the Board and the Reserve Banks on the appointment of CAOs and the encouragement provided to the community-affairs function. However, the study committee noted an unevenness in approach among Reserve Banks. The Council recommended that the Board more clearly define the priority that Reserve Banks should give to CAO activities to ensure more consistent CRA implementation nationwide.

Since passage of the Community Reinvestment Act, the Federal Reserve System has become much more involved in urban and neighborhood issues and problems. This involvement may increase in the future as community organizations and others seek to express their views to the Board and Reserve Banks on CRA issues (such as branch closings) and other matters relating to community development and revitalization. Moreover, it is in the System's interest to ensure that, to the extent practical, macroeconomic policy applies as equitably as possible to various sectors of the economy.

The Board has reconsidered the role of the community affairs officer and, after considering the comments provided by the Reserve Banks, has approved a listing of responsibilities, which is attached.

The community-affairs effort should be primarily an information-gathering and dissemination function. It should act as a conduit to further the CRA objectives by providing lenders and community organizations with information about the various programs and assistance available to them to improve community development. Although the Board does not expect Reserve Banks to have personal expertise in a wide range of reinvestment strategies, it does believe that the community affairs officer should be able to refer institutions to expert contacts in the area of strategies

and techniques developed through private-sector initiatives and under government programs. The Board also does not expect that CAOs will provide hands-on assistance in implementing a specific program. However, it does anticipate that Reserve Banks will assume responsibility for developing an ongoing educational process about opportunities for community development through workshops, seminars, personal contacts, and distribution of relevant material. It is especially helpful when this information leads to partnership self-help approaches to addressing local economic needs.

The Board hereby requests your assistance in seeing that sufficient priority is directed to accomplish the role outlined in the attached list. A number of Reserve Banks have active CAO programs in operation, and the Board does not expect those programs to need any major adjustment. Other Reserve Banks may need to enhance the CAO function somewhat to carry out the objectives. In keeping with past practice, each Reserve Bank is free to locate the CAO organizationally in whatever area the CAO can function best.

Since the needs of the Districts and communities within the Districts vary, Reserve Banks are expected to use a great deal of flexibility in achieving the educational objectives of the required duties. The Board's community affairs function in the Division of Consumer and Community Affairs is prepared to help in this endeavor.

The Consumer Advisory Council recommended that the Board initiate a program of review of the CAO functions. In addition to the annual conferences and quarterly reports of the CAO, the Board expects to perform operations reviews of CAO activities beginning in 1985.

In conclusion, it is the Board's desire that the community-affairs function be an integral part of the Reserve Bank's operations under the coordination of a community affairs officer, and that, while preserving some flexibility in District implementation, an active educational program be maintained.

Responsibilities of Federal Reserve Bank Community Affairs Officer

The community affairs officers at Federal Reserve Banks coordinate the Banks' educational efforts in the area of community reinvestment. They facilitate the provision of information to lenders, community groups, System examiners, and others about the Community Reinvestment Act and about successful programs for community investment, reinvestment, small-business lending, and economic development. Distribution of such information can promote the development of local partnerships and the use of such programs to address local needs, consistent with the objectives of the act. The following list of duties represents ways this function can be fulfilled.

1. The CAO should be aware of the primary community-development needs of communities served by state member banks and bank holding companies within the

District. This could be accomplished in one or more of the following ways:

- a. periodic meetings initiated by the CAO with community organizations, small businesses, Neighborhood Housing Services, government leaders, and lenders within the District
- b. use of information from outside contacts performed by consumer affairs examiners during regular examinations
- c. use of published data in the development of community economic profiles for major population centers

2. The CAO should offer to state member banks and bank holding companies information on appropriate programs to help meet community-development needs. The information could be provided in one or more of the following ways:

- a. sponsoring meetings and seminars for state member banks and bank holding companies on governmental and private-sector initiatives (Such meetings would use experts in the programs and be designed to share knowledge of federal and state programs and the availability of private assistance for the development of community reinvestment activities.)
- b. encouraging others (such as state banker associations, local groups of financial institutions, local governments, colleges, and universities) to conduct such seminars and meetings
- c. promoting one-on-one or group visits to local financial institutions to explain programs
- d. distributing case studies and other existing written material about federal, state, and local investment and economic-development programs, and private-sector initiatives

3. Where needed to promote the goals of the Community Reinvestment Act, the CAO should foster communications between borrower groups, local governments, development organizations, and the community financial institutions. This may be achieved through--

- a. maintaining an awareness of community concerns, and reinvestment and community-development strategies;
- b. reviewing the CRA performance of state member banks and CRA-related activities of bank holding companies as reflected in examination reports to identify institutions which could benefit from more knowledge about community-development programs;
- c. being a clearinghouse of information on the regulations covering financial institution involvement in community-development activities;
- d. maintaining a list of contacts who are expert in the area of federal, state, and local government and private-sector initiatives who will assist emerging and

existing partnerships; and

e. providing encouragement to the development of local cooperative efforts through personal or staff involvement in community organizations such as Neighborhood Housing Services.

4. To perform the duties described above, the CAO and staff should be knowledgeable about the various community-development strategies and programs available nationally, within the Districts, and locally. This may be accomplished by--

a. attending appropriate conferences, seminars, and workshops offered locally and nationally;

b. obtaining information from community-lending specialists and representatives of governmental and private-sector initiative programs; and

c. subscribing to various community-development publications which provide updates on new and current programs.

5. The CAO should provide community and neighborhood organizations, upon request, with general information regarding CRA and Board procedures on applications and protests. The CAO should assist in the applications process if a protest is involved by providing a communication link between the protestant and the applicant. When a protest is being considered, the CAO should provide information to the potential protestants on material that is relevant to protests, timing of comment, and other matters relating to protest procedures.

6. The CAO should provide information to bank holding companies interested in forming Community Development Corporation subsidiaries, such as information on the Board's requirements, information on successful Community Development Corporation programs, and information to assist the company in preparing its application.

Other duties have been previously assigned to Reserve Banks and could be performed by the CAO, such as serving as the contact for the local Neighborhood Reinvestment Corporation offices and Neighborhood Housing Services, distributing the Mini-H.2 weekly listing of applications, maintaining the file of letters from the public commenting on state member banks' CRA performance, and serving as the liaison for interagency activity in the community-development area. S-2473; Feb. 24, 1984.

4-011

CONSUMER COMPLAINTS--Board Review of Reserve Bank Procedures

Reserve Banks should follow certain procedures to provide for the periodic evaluation of each Reserve Bank's complaint-handling efforts.

Beginning in 1980, each Reserve Bank will be asked to submit to the Division of Consumer and Community Affairs for review all correspondence connected with oral and written consumer complaints resolved during two one-month periods each year. Correspondence should include any correspondence or documentation received from the complainant and the bank involved, a record of any oral communications, and the final resolution of the complaint. The periods of submission will be based upon the division's random request to each Reserve Bank; however, no Reserve Bank will be required to submit correspondence during two consecutive months. Reviews will continue to be made of complaint resolutions generated by a complaint referred to a Federal Reserve Bank by the Board.

Consumer-complaint resolutions will be reviewed and evaluated on the following bases:

- *Timeliness.* Were the time requirements of Regulation AA and System complaint-investigation procedures effectively met?
- *Thoroughness.* Was the scope of the complaint-resolution process, as indicated by the nature of the complaint, adequate to effect proper resolution of the complaint? Were all the pertinent issues addressed?
- *Responsiveness to consumer.* Was the consumer provided with a clear and meaningful response? Did the response include information about the consumer's rights if a violation of law existed? Did the response include possible alternative actions where no violation existed? Was the consumer kept adequately informed of the progress of the investigation?
- *Procedures followed.* Were System complaint-handling and -investigation procedures implemented effectively?

Upon completion of the review process, the division will furnish the officer in charge of consumer affairs at the Reserve Bank with an evaluation of the Bank's complaint-handling efforts.

The follow-up questionnaire, which is currently used by the Board to help assess Reserve Bank effectiveness in resolving complaints and is now sent to consumers whose complaints were referred by the Board to the Reserve Banks for handling, will also be sent to those consumers whose complaints are resolved by the Reserve Banks during these review periods. A copy of the returned questionnaires will be sent to the appropriate Reserve Bank and should then be shared with those responsible for handling the complaints, so that they may see the results of their efforts and assess their own effectiveness in responding to complaints. The follow-

up questionnaire will not be sent if the Reserve Bank has established its own follow-up procedure. However, the Reserve Bank should provide the Board with a copy of any response it receives in connection with the follow-up. CA-79-12; Aug. 27, 1979. Effective Jan. 2, 1980.

See also FRRS 6-1205 for a background and summary of Regulation AA.

4-014

CONSUMER COMPLAINTS--Board Review of Reserve Bank Procedures

Reserve Banks should adopt certain revisions to the procedures used by Board staff in reviewing the Reserve Banks' handling of consumer complaints.

Board staff will continue to evaluate the complaint-handling activities of each Reserve Bank periodically but believes that certain modifications of the program are necessary to give Board staff the flexibility needed to examine each Reserve Bank's efforts accurately. Since the number of complaints received per month varies considerably among Reserve Banks, staff believes that requesting correspondence on complaints resolved during a one-month period from each District may in some instances not provide enough information with which to make an accurate evaluation. Consequently, the following modifications of the procedures for reviewing complaint handling efforts at the Reserve Bank level are being instituted.

Under the modified procedures, correspondence will normally be requested prior to a scheduled operations review. The request will usually cover a period of time longer than one month. The purpose of this revision will be to review the more substantive complaints handled regarding member banks, to equalize the number of complaints from each District that are analyzed, and to provide a more comprehensive analysis of the Reserve Bank's operations. Enough information will be requested to evaluate whether any past concerns have been addressed and to assess a representative sample of referrals to other agencies to see that the process is being handled accurately. In addition, the analysis of the complaints submitted will be integrated into the analysis done for the operations review rather than being set out in a separate letter. CA-81-2; March 5, 1981.

See also [4-010](#).

4-027.9

CONSUMER COMPLIANCE PROGRAM--Distribution of Information to Independent Auditors

CA-93-4 confirmed that SR-93-9 applies to the consumer affairs examination report.

Section 112 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) and section 931 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) addressed the distribution of examination reports to independent auditors. A new section 36 was added to the Federal Deposit Insurance Act (12 USC 1831m) (the FDI Act) by FDICIA and section 7(a) of the FDI Act (12 USC 1817(a)) was amended by FIRREA; and they require that an insured depository institution that engages an independent auditor to conduct an audit must transmit to the auditor a copy of the bank's most recent report of condition and report of examination. For the purposes of these requirements, the terms ``insured depository institution" means any bank or savings institution the deposits of which are insured by the Federal Deposit Insurance Corporation, ``report of condition" means a call report, and ``report of examination" means formal reports of examination. Additionally, an insured depository institution is required to (1) send its independent auditors any supervisory memorandum of understanding or any written agreement with federal or state regulators and (2) report to the auditor any enforcement action initiated or taken against the institution or one of its institution-affiliated parties under the various subsections of section 8 of the FDI Act (12 USC 1818) or any assessment of a civil money penalty against the institution or an institution-affiliated party under any other provision of law.

Bank holding companies are not required by sections 36 or 7(a) of the FDI Act to distribute their reports of inspection to their auditors. However, a bank holding company may distribute its report of inspection, a supervisory memorandum of understanding, a written agreement and report of any enforcement action to its independent auditor as if it were an insured depository institution. The Board's rules on information availability (12 CFR 261.11) will be amended in the near future to reflect the aforementioned statutory changes related to banks, as well as to make the rules comparable for banks' reports of examination and bank holding companies' reports of inspection and other related information. Until they are amended, however, the Board's current rules relating to information availability must defer to the statutory changes explained in this letter.

During on-site examinations of state member banks, examiners should make appropriate inquiries of bank management to determine that they are aware of the requirements of sections 7(a) and 36 of the FDI Act and to ensure that the distributions of their reports of examinations are being made. Examiners should also determine, in the course of their holding company inspections, if holding companies are distributing to their auditors their reports of inspection and other

materials permitted to be released by them.

Requests from independent auditors for individual bank or bank holding company reports of examination or inspection, reports of condition, or information on enforcement actions should be referred to the state member bank or bank holding company in question. Requests from auditors for such information in connection with litigation or Freedom of Information Act requests should be referred to the appropriate Reserve Bank personnel. Under the law and the Board's regulations, independent auditors are expected to maintain the confidentiality of information that is provided to them.

The revised confidentiality statement for examinations reflects the requirement that state member banks distribute their reports and that the unauthorized disclosure of the reports or their information is subject to criminal penalties. This statement, with the noted revision, is for use on all state member bank examination reports and may also be used for bank holding company inspection reports. It should appear at the bottom of the cover on all Federal Reserve reports of examination and inspection.

This report has been prepared by an examiner selected or approved by the Board of Governors of the Federal Reserve System. The report is the property of the Board of Governors and is furnished to directors and management for their confidential use. The report is strictly privileged and confidential under applicable law, and the Board of Governors has forbidden its disclosure in any manner without its permission, except in limited circumstances specified in the law (12 USC 1817(a) and 1831m) and in the regulations of the Board of Governors (12 CFR 261.11). [Management is required by law to send a copy of this report to independent auditors engaged to conduct audits of the institution.]*

* When this statement is used on bank holding company inspection reports, the language in brackets should be deleted.

Under no circumstances should the directors, officers, employees, trustees or independent auditors disclose or make public this report or any portion thereof except in accordance with applicable law and the regulations of the Board of Governors. Any unauthorized disclosure of the report may subject the person or persons disclosing or receiving such information to the penalties of section 641 of the U.S. Criminal Code (18 USC 641). Each director or trustee, in keeping with his or her responsibilities, should become fully informed regarding the contents of this report. In making this review, it should be noted that this report is not an audit, and should not be considered as such.

SR-93-9, March 2, 1993; transmitted by CA-93-4, March 15, 1993.

See also [4-028](#).

4-028

CONSUMER COMPLIANCE PROGRAM--Distribution of Information to Independent Auditors

SR-93-9, at [4-027.9](#), does not typically apply to the foreign banking organizations that the Board examines.

SR letter 93-9 does not apply to the foreign banking organizations that the Board typically examines. SR-93-9 deals with the distribution of reports of examination and other information to outside auditors as required under section 112 of the Federal Deposit Insurance Corporation Improvement Act of 1991 and section 931 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

The Legal Division and the Division of Banking Supervision and Regulation confirmed that the applicable statute applies only to "insured depository institutions" (12 USC 1831m(h)(1)). While insured branches of foreign banks (typically examined by the FDIC) fall within this definition, uninsured branches and agencies of foreign banks, commercial lending companies, and Edge and agreement corporations do not. Thus, consumer affairs reports of examination are not required by statute to be transmitted to the independent auditors of these uninsured institutions, and, therefore, Reserve Banks should not transmit copies of examination reports to these auditors. CA-93-9; Nov. 8, 1993.

5-035

ETHICS--Recusal from Supervisory Matters Other Than Examinations and Inspections

- I. Coverage
 - A. General guidance
 - B. Definition of covered employee
 - C. Application to Federal Reserve examiners
- II. General Procedures
 - A. Reporting
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 - A. General guidance
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 - A. General guidance
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 - 1. General rule
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- V. Employment Relationships and Recusal Requirements
 - A. Former employer
 - 1. General rule
 - 2. Exception
 - 3. Pension plans
 - B. Employer of a family member
 - 1. General rule
 - 2. Exception

I. Coverage

A. **General Guidance.** The conflict-of-interest rules contained in this policy statement apply to Reserve Bank staff who participate in supervision and regulation matters other than examinations or inspections. There are additional conflict-of-interest rules that apply to all Federal Reserve Bank personnel. These rules are contained in each Reserve Bank's code of conduct and are uniform throughout the System. To the extent that the rules contained in this policy statement set more stringent standards than those contained in the Reserve Bank's code of conduct, the rules in this policy statement are to be followed.

B. **Definition of covered employee.** Covered employees include Reserve Bank presidents and other senior officials with supervisory responsibilities, all

professional staff (except examiners)¹

1. Examiners are not deemed to be covered employees under this policy. However, portions of this policy are applicable to examiners, as discussed in the next section, C., ``Application to Federal Reserve Examiners."`

in the Reserve Bank's supervision and regulation department, including officers and managers, as well as other professional Reserve Bank staff outside of the Reserve Bank's supervision and regulation department with substantive participation in supervisory matters involving institutions supervised by the Federal Reserve (e.g. attorneys and certain economists). In addition, all professional staff, including officers and managers, in the discount-window function are defined as covered employees for purposes of applying this policy. Reserve Banks are individually responsible for identifying the employees covered under this policy.

C. *Application to Federal Reserve examiners.* In general, Federal Reserve examiners participating in supervisory matters other than examinations and inspections are subject to the same recusal standards set forth here for covered employees participating in such matters. The specific sections that are applicable to examiners are section IV.B., ``Recusal from Matters Other Than Examinations and Inspections," section IV.C., ``Seeking Credit from Institutions Involved in Assignments," and section V., ``Employment Relationships and Recusal Requirements." (An examiner holding a valid standard or special credential is also subject to the borrowing prohibitions outlined in [5-041](#) , section IV., ``Examiner Borrowing Prohibitions.")

II. General Procedures

A. *Reporting.* Each Reserve Bank will require a covered employee to submit periodic reports, at least annually, disclosing (1) debt and equity interests of the employee and the employee's spouse and dependent children in a depository institution or a depository institution affiliate, including such interests held through a prior employer's pension or retirement plan; (2) borrowing relationships of the employee, the employee's spouse and dependent children, and any related entity (as defined below) at a financial institution²

2. The term ``financial institution" is defined here to include any lending institution. This would of course include any entity regulated by the Federal Reserve or any entity that could legally be acquired by an entity regulated by the Federal Reserve, for example, a mortgage company, a consumer finance company, a broker-dealer, or an insurance company.

or its affiliates; (3) outside employment positions held by the employee; (4) employment at a financial institution or its affiliate by an immediate family member (spouse, child, parent, sibling); and (5) any other relationship posing a potential conflict of interest with a financial institution or its affiliate. ``Related entity" is defined to mean a company or business where the employee or the employee's spouse or dependent child owns or controls more than 10 percent of its equity, or a

partnership where the employee or the employee's spouse is a general partner.

An employee should report debt of a spouse, dependent child, and any related entity to the best of his or her knowledge. In addition, an employee should be reminded of his or her responsibility to notify a supervisor or the ethics official of changes occurring between reporting periods that may affect restrictions.

B. *Review and restrictions list.* After review of investment, debt, outside employment, and other information submitted by a covered employee, a Reserve Bank should determine whether divestiture, recusal, or some other action is necessary. Using information contained on each employee disclosure form, a Reserve Bank should regularly prepare a list(s) of restrictions to be imposed on the supervisory activities of the covered employee to prevent actual or apparent conflicts of interest. Alternatively, Reserve Banks may use other methods deemed appropriate and sufficient, between reporting periods, to ensure that assignments are appropriate within a department or section (e.g., before participating in a specific matter, an employee affirms in writing that no change has occurred in debt, family members employed at banks, or other circumstances which would require the employee to be restricted from the proposed assignment).

C. *Documentation.* Each Reserve Bank should appropriately document the review and resolution of conflict-of-interest issues for covered employees. This documentation must be made available for subsequent review when requested by Board staff.

III. Investments

A. *General guidance.* A covered employee is generally subject to the same investment prohibitions as other System employees. These prohibitions, which are uniform throughout the System, are set forth in each Reserve Bank's code of conduct. The additional investment guidance applicable to examiners, which is discussed at [5-041](#), also should be applied to covered employees (see section III., ``Investment Policy").

B. *Insurance products.* If an employee is asked to participate in a particular matter concerning an insurance company through which the employee, his or her spouse, or a minor child has an insurance policy or annuity, the employee should not be permitted to participate in the particular matter without advance written approval by the Reserve Bank's ethics official. This will allow for consideration of the type of insurance policy (or annuity), a determination of the possible impact of the employee's participation on the value of the policy (or annuity), and the consideration of other possible circumstances that may have a bearing on the employee's financial interest.

An insurance policy, annuity, or a loan against a policy will not typically require an employee to be restricted from participating in a particular matter concerning an affiliate of an insurance company where the employee, his or her spouse, or a minor

child has a policy or annuity. A Reserve Bank may determine, however, that it is necessary to restrict the employee from participating in a particular matter concerning an affiliate of the insurance company, when the employee, his or her spouse, or a minor child is in the process of filing or negotiating a claim, or if the insurance company is encountering financial difficulty, as the policy (or annuity) may represent a financial interest of the employee or raise an appearance issue. Such situations should be reviewed by the Reserve Bank's ethics official and advance written approval provided before the employee is permitted to participate in the particular matter.

IV. Borrowing Relationships

A. **General guidance.** A covered employee is generally not restricted from borrowing from financial institutions (including those institutions for which the Federal Reserve is the primary supervisor), unless the employee is assigned to a matter specifically involving the institution (see section IV.C. below).³

3. Note that an individual holding a standard or special credential is already subject to borrowing prohibitions (regardless of the type of assignments given to the individual). These are outlined at [5-041](#) in section IV., "Examiner Borrowing Prohibitions."

However, in order to prevent a conflict of interest or appearance thereof, a covered employee must recuse himself or herself from supervisory matters specifically involving an institution from which the employee or related entities (as defined below) have certain kinds of debt. As discussed below, this restriction does not apply to most kinds of consumer debt. Identical rules apply to Board supervisory staff.

B. **Recusal from matters other than examinations and inspections.**

(1) **General rule.** A covered employee may not participate in any particular matter⁴

4. Section IV.B.1. applies to matters other than examinations or inspections. The rules governing recusal from participation in examinations and inspections are addressed at [5-041](#).

to which a financial institution or a financial institution affiliate is a party if the employee, the employee's spouse or dependent child, or a related entity⁵

5. As previously defined, "related entity" means a company or business where the employee or the employee's spouse or dependent child owns or controls more than 10 percent of its equity, or a partnership where the employee or the employee's spouse is a general partner.

is indebted to that financial institution or affiliate, other than the kinds of indebtedness excepted below. A particular matter includes an application, audit, review (including report review), investigation, institution-specific analysis or surveillance, and enforcement action, but does not include rulemaking or financial analysis broadly affecting financial institutions. A particular matter

also includes credit review, collateral analysis, and lending decisions pertaining to the discount-window function.

(2) ***Exceptions.***

(i) ***Consumer debt.*** Recusal from particular matters other than examinations and inspections will not be required as a result of the following types of consumer indebtedness, if the indebtedness is on terms and conditions offered to the public, and payment on the indebtedness is current: (a) a line of credit extended through a credit card or offered by a broker-dealer; (b) an amortizing consumer loan (including a first or second mortgage on a personal residence) or a home-equity line of credit; (c) an overdraft protection line; (d) a student loan; (e) a car lease; or (f) a loan against the cash value of an insurance company.

(ii) ***Debt of spouse, dependent child and related entities.*** In addition, disqualification is not required with respect to any indebtedness of the employee's spouse or dependent child, or a company, business, or partnership in which the employee's spouse or dependent child has an interest otherwise requiring disqualification if (a) the indebtedness represents the sole financial interest or responsibility of the spouse, child, company, business, or partnership, and is not derived from the employee's income, assets, or activities; and (b) the employee has no knowledge of the identity of the lender.

(3) ***Other situations warranting recusal.*** Reserve Banks should be especially cautious in assigning employees to work on matters involving troubled institutions to which they are indebted, even if the employee's debt relationship would not otherwise require recusal. This is because the employee's participation in the matter could, in certain circumstances, affect his or her financial interest and thus raise an issue under the conflicts-of-interest statute (18 USC 208).

For example, a Reserve Bank may determine that it should restrict an employee from reviewing an application involving a troubled institution from which the employee has a home-equity line of credit that could be closed or otherwise affected by the System's decision in the matter. Similarly, the Reserve Bank might restrict the employee from evaluating collateral securing a discount-window loan to the troubled organization.

C. *Seeking credit from institutions involved in assignments.* A covered employee may not, on his or her own behalf, or on behalf of his or her spouse or child or anyone else (including any business or nonprofit organization), seek or accept credit from, or renew or renegotiate credit with, a depository institution or any of its affiliates if the institution or affiliate is a party to an application, enforcement action, investigation, or other particular matter pending before the Reserve Bank or Board and (i) the employee is assigned to the matter; or (ii) the employee is aware of the pendency of the matter and knows that he or she will participate in the matter

by action, advice, or recommendation. This prohibition also applies for three months after the employee's participation in the matter has ended.

In addition, a covered employee must disqualify himself or herself from participating (by action, advice, or recommendation) in any application, enforcement action, investigation, or other particular matter to which a depository institution or any of its affiliates is a party in the event that the employee learns that any of the following related persons are seeking or have sought or accepted credit from, or have renewed or renegotiated credit with, the depository institution or any of its affiliates while the matter is pending before the Reserve Bank or the Board: (i) the employee's spouse or dependent child; (ii) a company or business where the employee or the employee's spouse or dependent child owns or controls more than 10 percent of its equity; or (iii) a partnership where the employee, or the employee's spouse or dependent child is a general partner.

The prohibition and the disqualification requirements set forth above do not apply with respect to credit obtained through the use of a credit card, overdraft protection, or borrowing against the cash value of an insurance policy obtained on terms and conditions available to the public.

D. *Waivers.* The Reserve Bank's ethics official may grant a waiver to a covered employee from the recusal requirement or from the temporary prohibition on seeking new credit. However, waivers should be granted only on a limited basis when extenuating circumstances exist. For example, a waiver from recusal requirements potentially could be justified by an inability to find another employee with appropriate qualifications to review an application. A waiver of the temporary prohibition on seeking new credit could be justified, for example, if the employee demonstrates that the credit is not available from another source on comparable terms, and that absent a waiver a financial hardship will ensue. Prior to granting a waiver, the ethics official must determine that granting the waiver would not be prohibited by law and would not result in a conflict of interest or an appearance thereof. Each waiver granted must be appropriately documented and available for subsequent review by the Board's staff.

V. Employment Relationships and Recusal Requirements

A. *Former employer.*

(1) ***General rule.*** A covered employee may not participate in a particular matter involving a financial institution or its affiliate if the employee was employed by that institution or its affiliate within the past 12 months. After the one-year period has elapsed, the Reserve Bank shall determine whether the employee's former position and current responsibilities at the Reserve Bank indicate a need to continue the restriction in order to avoid the appearance of a conflict of interest. This determination should be appropriately documented and made available for subsequent review when requested by Board staff.

(2) **Exception.** The one-year recusal requirement may be waived if, after consultation with the Reserve Bank's ethics official and consideration of the relevant facts, the employee's supervising officer determines that no violation of law or appearance of a conflict of interest would occur as a result of the assignment. Factors to consider in making this determination include (a) the employee's former position and years of employment at the institution; (b) the closeness in affiliation between the employee's former employer and the institution involved in the particular matter (for example, it may not be appropriate for the employee to review an application involving a holding company's acquisition of a brokerage firm where the employee was previously employed as an investment advisor, but it may be appropriate if the employee had worked for a different affiliate of the holding company; (c) the employee's level of responsibility in the matter; and (d) the need for the employee on the assignment. Any such determination must be appropriately documented and made available for subsequent review when requested by Board staff.

(3) **Pension plans.** If a covered employee continues to participate in a pension or retirement plan obtained through prior employment at a financial institution or its affiliates, the employee must be disqualified from participating in a particular matter involving that institution or its affiliates, unless the employee receives a written opinion from the Bank's legal department that such disqualification is not necessary because the pension does not represent a disqualifying financial interest under the criminal laws. Any debt or equity investment in a depository institution or a depository institution affiliate held through such plans must be fully disclosed (see section II.A., "Reporting") and an appropriate waiver obtained, should the employee seek to retain such investment.

B. **Employer of a family member.**

(1) **General rule.** A covered employee may not participate in any particular matter to which a financial institution or its affiliate is a party, if such financial institution or its affiliate employs a member of the employee's immediate family (i.e., spouse, child, parent, or sibling). A Reserve Bank may also require recusal in other situations where a covered employee has a relationship that could create an actual or apparent conflict of interest with a financial institution. For example, if a state member bank employs a covered employee's sister-in-law, or if a covered employee's parent is a principal shareholder of a bank holding company, the Reserve Bank may conclude that recusal is appropriate.

(2) **Exception.** Recusal will not be required if, after a review of the relevant facts of each case and after consultation with the Reserve Bank's ethics official, the employee's supervising officer determines that no violation of law or conflict of interest would occur as a result of the assignment. Factors to consider in making this determination include (a) the family member's position with the institution; (b) the employee's level of responsibility in the matter; and (c) the need for the employee on the assignment. Any such determination must be

appropriately documented and made available for subsequent review when requested by Board staff. S-2611; July 15, 2002.

This letter supersedes S-2568 of Jan. 20, 1995.

5-040

EXAMINATION PERSONNEL--Obtaining Credentials and Commissions; Policies and Procedures

- I. Examination Authority
- II. Designations and Credentials for Examiners and Other Supervisory Personnel
 - A. Standard credentials
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- III. Initial Appointment of an Employee to an Examining Position
- IV. Appointment of an Assistant Examiner to Commissioned Examiner
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- VI. Cancellation of Credentials
- VII. Transfer of Examiners Within the Federal Reserve System
- VIII. Status of Examiners Returning from Military Service and Leaves of Absence
- IX. Assistant Examiners Performing Duties of an Examiner

I. Examination Authority

Only an employee holding a credential may examine or inspect an institution. A credential, approved and issued by the Board, will enable an employee to participate as an examiner or assistant examiner in an examination or inspection of an institution in accordance with the credential and subject to any restrictions on that credential. An examiner or assistant examiner is not, however, authorized to examine or inspect any institution until he or she is specifically assigned to that institution by the appropriate supervisor at the relevant Reserve Bank or at the Board.

II. Designations and Credentials for Examiners and Other Supervisory Personnel

Each person employed by a Federal Reserve Bank or the Board of Governors who is approved or appointed by the Board to examine or inspect supervised institutions shall be designated as an "examiner" or "assistant examiner." In its discretion, a Reserve Bank may use an additional title, such as "supervising examiner," "senior examiner," or "senior assistant examiner." An employee's specific title and employment classification shall be determined in accordance with the plan in effect at the Bank of employment.

An employee appointed as an examiner or assistant examiner shall be issued a credential appropriate to the employee's level of responsibility (i.e., examiner or assistant examiner) and to the nature of the employee's supervisory assignments (i.e., standard, special, temporary, or ad hoc). The different types of credentials and the circumstances under which each type of credential should be issued are described

below.

A. ***Standard credentials.*** A Federal Reserve System employee who is assigned to the supervision and regulation function and whose primary responsibility is to participate regularly in examinations or inspections of institutions for which the Federal Reserve serves as the primary supervisor¹

1. The Federal Reserve is the primary supervisor for state member banks, bank holding companies, nonbank subsidiaries of bank holding companies that are not thrifts or functionally regulated subsidiaries ("functionally regulated subsidiary" means a registered broker or dealer, registered investment advisor, investment company, insurance company, or entity engaged in commodities activities as these entities are defined by section 5(c)(5) of the Bank Holding Company Act), Edge Act and agreement corporations, and U.S. branches and agencies, representative offices and nonbank subsidiaries of foreign banks that are not functionally regulated. The Federal Reserve is not the primary supervisor for national banks, nonmember banks, limited-special-purpose banks or nonbank banks authorized under section 4 of the Bank Holding Company Act (provided they are not state member banks), thrift institutions, and functionally regulated subsidiaries of bank holding companies (for example, a broker-dealer or an insurance subsidiary).

shall be issued a standard credential upon appointment by the Board as an examiner or assistant examiner. A standard credential typically will not have a stated expiration date and is subject to revocation by the Board with any change in the employee's employment status or job responsibilities. A standard credential will be issued with restricted language in cases where a person appointed an examiner or assistant examiner has debt outstanding from an institution for which the Federal Reserve is the primary supervisor, so as to prevent a person from examining or inspecting the institution until the indebtedness is repaid.

At the discretion of each Reserve Bank, a supervisory employee whose primary responsibilities include oversight of or involvement in supervisory activities but do not include regular participation in examinations or inspections may also be designated as an examiner or assistant examiner. Such an employee will be issued a standard credential subject to the conditions stated above and consistent with the qualifications required for obtaining such credentials, including U.S. citizenship requirements.²

2. To be appointed as an assistant examiner or examiner, the candidate must be either a U.S. citizen or an immigrant alien lawfully admitted to the United States with a permanent resident visa (valid Green Card) who has signed a Declaration of Intent to Become a United States Citizen (see SR-94-40).

B. ***Special credentials.*** A Federal Reserve System employee who assists occasionally in examinations or inspections of institutions for which the Federal Reserve serves as the primary supervisor shall be designated upon appointment by the Board a "special examiner" or "special assistant examiner," as deemed appropriate by the Reserve Bank and consistent with the employee's grade level. Such an individual will be issued a special credential. In addition, an individual hired by a Reserve Bank as a subject matter expert, whose job responsibilities require him or her to participate on a regular basis in examinations and inspections, will also be

designated upon appointment by the Board a "special examiner" or "special assistant examiner," as deemed appropriate by the Reserve Bank and consistent with the employee's grade level. The special credential typically will not have a stated expiration date and is subject to revocation by the Board with any change in the employee's employment status or job responsibilities. However, a temporary employee, such as a summer intern assigned to the supervision and regulation department who will be participating in on-site examinations or inspections, may be issued a special credential with a stated expiration date.

Just as with the standard credential, a special credential will be issued with restricted language in cases where a person appointed a special examiner or special assistant examiner has debt outstanding from an institution for which the Federal Reserve is the primary supervisor, so as to prevent a person from examining or inspecting the institution until the indebtedness is repaid. The request must also comply with the U.S. citizenship requirements for Federal Reserve examiners, as described in section II.A.

C. *Temporary credentials.* A Federal Reserve System employee who does not have a standard or special credential and who is assigned to assist in an examination or inspection of a particular institution (or group of institutions) for which the Federal Reserve serves as the primary supervisor, shall be issued a temporary credential upon appointment by the Board. A temporary credential is issued for a designated period of time and identifies the specific institution(s) the employee has the authority to examine or inspect. An employee holding a temporary credential has the authority and status of an examiner only during the stated duration of the temporary credential.

Prior to the Board's issuance of a temporary credential, the appropriate supervisor at the Reserve Bank must review the employee's actual and potential conflicts of interest with respect to the institution(s) to be examined. A request to the Board for a temporary credential must indicate that the employee receiving the credential is not indebted to the institution being examined, and that the proposed assignment is consistent with conflicts-of-interest policy and recusal requirements. The request must also comply with the U.S. citizenship requirements for Federal Reserve examiners, as described in section II.A. The Board will not issue a temporary credential in the absence of such determinations.

D. *Ad hoc credentials.* An ad hoc credential may be granted by the Board to permit the examination or inspection of an institution (or group of institutions) for which the Federal Reserve has statutory examination authority but does not serve as the primary supervisor. For example, authority to examine a national bank, state nonmember bank, or thrift affiliate of a holding company (or of a state member bank) must be specifically granted on an ad hoc basis by the Board of Governors, even if the employee already has a standard or special credential. Similarly, an ad hoc credential must be granted to authorize a Federal Reserve examiner to participate in an examination of a functionally regulated subsidiary,³

3. "Functionally regulated subsidiary" means a registered broker or dealer, registered investment advisor, investment company, insurance company, or entity engaged in commodities activities as these entities are defined by section 5(c)(5) of the Bank Holding Company Act.

for example, an insurance or securities subsidiary owned by a financial holding company. However, an ad hoc credential is not required to conduct certain specialty examinations, such as Regulation G inspections, and reviews of EDP servicers and software vendors. An ad hoc credential is issued for a designated period of time and specifies the institution(s) that the employee is authorized to examine or inspect.

Prior to the Board's issuance of an ad hoc credential, the appropriate supervisor at the Reserve Bank must review the employee's actual and potential conflicts of interest with respect to the institution(s) to be examined. A request to the Board for an ad hoc credential must indicate that the employee receiving the credential is not indebted to the institution being examined, and that the proposed assignment is consistent with recusal requirements defined under conflict-of-interest policies. The Board will not issue an ad hoc credential in the absence of such a determination.

III. Initial Appointment of an Employee to an Examining Position

In the selection of personnel for the examining staff of a Reserve Bank, it is expected that the field of possible appointees will be carefully reviewed by the Reserve Bank in order to obtain the services of those best fitted for the positions. In considering persons for such positions, it is desirable to select individuals who, judged by their education, experience, and personality, give reasonable promise of developing into competent senior examiners. Because of their exposure to the financial and other affairs of entities supervised by the Federal Reserve, as well as their broad range of responsibilities, particular care should be exercised in selecting examining personnel. Any information in an application that raises questions as to the fitness of the applicant should be investigated thoroughly before the final decision is made. For example, an indication of excessive debt levels or inability to manage one's financial affairs would be cause for further investigation and evaluation.

When a proposed new appointee to the position of examiner or assistant examiner is indebted to an institution for which the Federal Reserve serves as the primary supervisor, the Board's approval will be granted subject to the condition that such person is not permitted to participate in any examination or inspection of that institution until the indebtedness has been liquidated. For further guidance, see [5-041](#), section IV.B.2.(a), "Pre-existing debt."

Whenever a person is under consideration for a new appointment as an examiner or assistant examiner at a Federal Reserve Bank, an application for appointment should be forwarded to the Board with the following information about the proposed appointee:

A. ***Personal and employment data.*** Include name, place of birth, U.S. citizenship,⁴

4. To be appointed as an assistant examiner or examiner, the candidate must be either a U.S. citizen or an immigrant alien lawfully admitted to the United States with a permanent resident visa (valid Green Card) and who has signed a Declaration of Intent to Become a United States Citizen (see SR-94-40).

proposed date of employment, salary, title, and grade.

B. ***Education and other specialized training.*** Include names of schools, colleges or universities attended, periods of attendance, and degrees, diplomas or certificates received.

C. ***Employment.*** Names and addresses of previous employers, periods of employment, positions held and nature of work, salary, reasons for leaving, and, to the extent possible, information obtained from previous employers as to quality of applicant's work.

D. ***Other relevant experience.*** Other experience pertinent to the applicant's qualifications as an examiner or assistant examiner, including information about commissioned status at another federal regulatory agency or state banking agency.

E. ***Indebtedness.*** Information about the indebtedness of the applicant and of the applicant's spouse and dependent children, as reported on the employee's confidential financial disclosure form. Include a statement about any indebtedness to institutions for which the Federal Reserve serves as the primary supervisor, so that a restricted credential may be issued, if necessary.

F. ***Outside employment and activities.*** Information describing business relationships and other activities of the applicant and action proposed to be taken to eliminate any such activities that might interfere with the individual's service as an employee of the Federal Reserve Bank.

G. ***Other relationships.*** Information about family members employed by financial institutions, and other relationships or circumstances that could present a conflict of interest with the applicant's examination responsibilities.

H. ***Investments.*** Information about any debt or equity interests in depository institutions or depository institution affiliates owned or controlled by the applicant or the applicant's spouse or dependent children (including such interests held through a prior employer's pension or retirement plan) and proposed plans for disposition of any such debt or equity interests.

I. ***Other relevant information.*** Any other information, whether adverse or favorable, that will be of assistance in the consideration of the application.

A copy of the application for employment (unless the proposed appointee has been in the employ of the Reserve Bank for some time), a copy of the applicant's confidential disclosure form for supervision and regulation personnel at the Federal Reserve Banks, and a recent photograph should be submitted. Information requested above that is supplied in the person's application for employment at the Reserve

Bank and the confidential disclosure form need not be duplicated.

IV. Appointment of an Assistant Examiner to Commissioned Examiner

When a Reserve Bank determines that an "assistant examiner" is qualified to be commissioned as an "examiner," in accordance with Board and Reserve Bank policies, an application requesting that the assistant examiner be commissioned as an examiner should be forwarded to the Board. The application should include the following information about the proposed appointee:

A. **Employment data.** Name, grade, date of employment in the supervision and regulation function, and current area of specialization. Include dates of employment in other areas of the Reserve Bank, or other Reserve Banks, if applicable.

B. **Initial appointment date.** The date on which the Board approved the candidate's appointment as an assistant examiner.

C. **Training.** A list of System schools and other training completed while employed at the Federal Reserve Bank, including the completion of core schools which satisfy policy requirements for commissioning. List other board and FFIEC training completed during employment in the supervision and regulation function. If applicable, list relevant training completed during employment at other regulatory agencies.

D. **Proficiency test.** The date on which the employee passed the qualifying proficiency test for commissioned examiner status. If testing is not applicable, explain. (For example, the candidate was commissioned as an examiner at another federal regulatory agency.)

E. **Reserve Bank experience.** A brief statement about field examination experience or special expertise supporting the promotion to commissioned examiner. Such information typically would include the types of examinations or inspections performed as an assistant examiner, and the specific details regarding examiner-in-charge (EIC) experience (including the number, type, and complexity of institutions reviewed as EIC).

F. **Other relevant information.** When applicable, a statement about prior relevant experience, such as examination experience at another regulatory agency, or any additional information deemed relevant to the approval of the application.

V. Issuance of Credentials

Upon approving an examiner's or assistant examiner's appointment, the Board will issue a credential to the individual. Standard and special credentials for examiners or assistant examiners consist of two items: (a) a letter issued by the Office of the Secretary of the Board appointing the individual to his or her position as approved by the Board; and (b) a photo identification card issued by the Reserve Bank and

signed by the Reserve Bank president. (Temporary and ad hoc credentials for examiners and assistant examiners generally consist of only the first item above.) An individual appointed to the position of examiner and issued a standard credential also receives a certificate signed by the chairman of the Board of Governors and either the director of the Division of Banking Supervision and Regulation or the director of the Division of Consumer and Community Affairs.

In the interest of uniformity, the following form should be used for the photo identification card issued to examiners and assistant examiners:

Federal Reserve Bank of _____
No. _____ 19 _____

[photo]

This is to certify that _____
has been appointed, with the approval of the
Board of Governors of the Federal Reserve
System, an _____ for the Federal
Reserve Bank of _____

President

Signature of Examiner (or Assistant Examiner)

The suggested form provides space for adding the examiner or assistant examiner designation, but there is no objection to a Reserve Bank printing one set of identification cards for examiners and another for assistant examiners. The photograph of the appointee should be unalterably affixed to the identification card.

VI. Cancellation of Credentials

As no expiration date is typically specified on standard and special credentials, an examiner or assistant examiner should be informed that his or her credential is subject to surrender and cancellation upon termination of employment or change of employment responsibilities. Because the status of "examiner" or "assistant examiner" subjects an individual to coverage by the criminal statutes governing borrowing by examiners, Reserve Banks should consider cancelling the credential of an employee who no longer performs examinations or inspections. Reserve Banks should inform the Board, in writing, whenever an employee's credential is cancelled as a result of termination of employment, transfer to another Reserve Bank or the Board, or change of employee responsibilities. The certificate issued to a commissioned examiner may be retained by the employee as a memento of service to the System.

VII. Transfer of Examiners Within the Federal Reserve System

A credential issued to a Reserve Bank employee appoints that individual to the position of examiner or assistant examiner at his or her respective Reserve Bank.

Therefore, when an examiner or assistant examiner terminates his or her employment at a Reserve Bank by transferring to another Reserve Bank or to the Board, the Reserve Bank should cancel the departing employee's credential and notify the Board in writing of such cancellation (as described under section VI., above). The Reserve Bank hiring the transferring employee must request a new appointment to examiner or assistant examiner consistent with the requirements previously outlined. To expedite a request for a new credential, the application to the Board should clearly indicate that the individual is transferring from another Federal Reserve Bank and contain a description of the employee's prior System experience.

VIII. Status of Examiners Returning from Military Service and Leaves of Absence

The following section, which outlines those circumstances under which a Reserve Bank must obtain a new appointment for an employee returning from military service should also be used as guidance with respect to an employee returning from a leave of absence.

Whether an examiner or assistant examiner returning from military service requires reappointment by the Board depends on the circumstances of the employee's leaving the Reserve Bank and the employee's status as carried on the Bank's records during the absence. If the employee resigned prior to entering military service and is subsequently re-employed, reappointment as an examiner or assistant examiner by the Reserve Bank would require the Board's approval. If, however, the employee did not resign but was carried on military leave and is reinstated to active duty after returning from military service, there would be no break in the appointment and, therefore, no action by the Board is required. In the former case, the Reserve Bank should submit an application for appointment of the employee to examiner or assistant examiner, as appropriate. In the latter case, the Board's Division of Banking Supervision and Regulation should be informed of the date the employee returned to active duty, and the employee's current title and grade. Reserve Banks should ensure that current conflict-of-interest information has been obtained and reviewed (including information concerning indebtedness, outside employment, investments, employment of family members at financial institutions and other relationships posing potential conflicts of interest with supervised institutions).

IX. Assistant Examiner Performing Duties of an Examiner

As a general policy, a commissioned examiner acting as the examiner-in-charge (EIC) should conduct all examinations and inspections. Only in exceptional circumstances should an assistant examiner serve as the EIC of an examination or inspection and then only when the assistant examiner has the appropriate qualifications and the Reserve Bank ensures proper oversight of the assistant examiner's work. In addition, an assistant examiner or an employee with a special credential (i.e., a "special examiner" or "special assistant examiner") may serve as an EIC under the supervision of experienced examiners (or management) when he or

she is (1) being considered for promotion and appointment to commissioned examiner (and hence, acting as an EIC nominee); (2) inspecting a bank holding company that is neither complex nor of substantial size; (3) conducting a specialty examination or inspection of activities that are neither complex nor of substantial size; or (4) a subject matter expert conducting a targeted examination in his or her area of expertise. S-2611; July 15, 2002.

This letter supersedes S-2568 of Jan. 20, 1995.

5-041

EXAMINATION PERSONNEL--Investment Policy, Borrowing Prohibitions, Recusal from Examinations and Inspections

- I. Coverage
- II. General Procedures
 - A. Reporting
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 - C. Documentation
 - D. Sharing examination personnel
- III. Investment Policy
 - A. General rule
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 - E. Other guidance
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 - 2. Exceptions to the borrowing prohibition
 - a. Pre-existing debt
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 - 4. Borrowing by spouses and dependent children
 - 5. In-District borrowing restriction
- V. Recusal from Examinations and Inspections
 - A. Borrowing relationships
 - 1. General rule
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 - 1. General rule

- 2. Exception
- 3. Pension plans
- C. Employer of a family member
 - 1. General rule
 - 2. Exception
- VI. Acceptance of Meals and Gratuities
 - A. General rule
 - B. Exceptions

I. Coverage

The conflict-of-interest rules contained in this policy statement apply to all Federal Reserve examiners.¹

1. The term *examiner* is defined in this policy statement to include all individuals holding a valid credential approved and issued by the Board. However, section IV, "Examiner Borrowing Prohibitions," does not generally apply to individuals holding temporary or ad hoc credentials.

In addition, Federal Reserve examiners, as well as other Reserve Bank staff, participating in supervisory matters other than examinations and inspections are subject to the conflict-of-interest rules outlined at [5-035](#) (see section I.C., "Application to Federal Reserve Examiners"). Other conflict-of-interest rules that apply to all Reserve Bank personnel are contained in each Reserve Bank's code of conduct and are uniform throughout the System.

To the extent that the rules contained in this policy statement set more stringent standards than those contained in the Reserve Bank's code of conduct, the rules in this policy statement are to be followed. For example, an examiner may not accept a \$15 sweatshirt from a bank that he or she examines even though the Reserve Bank code of conduct would permit other Bank personnel to accept such a gift given its de minimis value.

A Reserve Bank examiner may not participate in the examination or inspection of an institution if the examiner has a relationship that might result in a conflict of interest or the appearance of a conflict of interest. It is the responsibility of each Reserve Bank to arrange examination and inspection assignments to ensure that this general principle and the specific principles covered in this policy statement are scrupulously adhered to. Thus, a Reserve Bank should maintain careful records concerning the nature of an examiner's authority and establish a system of assigning examiners to jobs that ensures compliance with System policies.

II. General Procedures

A. **Reporting.** Each Reserve Bank will require examining personnel to submit periodic reports, at least annually, disclosing (1) debt and equity interests of the examiner and the examiner's spouse and dependent children in a depository institution or a depository institution affiliate, including such interests held through

a prior employer's pension or retirement plan; (2) borrowing relationships (other than credit card debt, unless a Reserve Bank chooses for operational reasons to require credit card debt reporting) of the examiner, the examiner's spouse and dependent children, and any related entity (as defined below) at a financial institution²

2. The term *financial institution* is defined here to include any lending institution. This would of course include any entity regulated by the Federal Reserve or any entity that could legally be acquired by an entity regulated by the Federal Reserve, for example, a mortgage company, a consumer finance company, a broker-dealer, or an insurance company.

or its affiliates; (3) outside employment positions held by the examiner; (4) employment at a financial institution or its affiliate by an immediate family member (spouse, child, parent, sibling); and (5) any other relationship posing a potential conflict of interest with a financial institution or its affiliate.

Related entity is defined to mean a company or business where the employee or the employee's spouse or dependent child owns or controls more than 10 percent of its equity, or a partnership where the employee or the employee's spouse is a general partner.

An examiner should report debt of a spouse, dependent child, and any related entity to the best of his or her knowledge. In addition, any change occurring between reporting periods that may affect an examiner's restrictions must be reported by an examiner to the examiner's supervisor or the Bank's ethics official as soon as possible after the change has occurred. In circumstances where an examiner does not have control over such a change (e.g., where a loan is transferred or sold by the originator, or a loan is originated by a spouse or related entity), the examiner must report the change, to the best of his or her knowledge. The examiner should make a reasonable effort to obtain such current information.

B. *Review and restrictions list.* Each Reserve Bank shall regularly review investment, debt, employment, and other information submitted by an examiner and determine whether divestiture, recusal, or some other action is necessary. Using information contained on each disclosure form, a Reserve Bank should routinely prepare a list(s) of restrictions to be imposed on examination personnel to prevent actual or apparent conflicts of interest and to restrict assignments in accordance with System policy requirements.

C. *Documentation.* Each Reserve Bank should appropriately document the review and resolution of conflict-of-interest issues, with such documentation made available upon request for review by Board staff.

D. *Sharing examination personnel.* Prior to lending a member of its examining staff to assist in an examination or inspection conducted by another Federal Reserve Bank, a Reserve Bank should determine that for any proposed assignment there exists no relationship between that individual and the supervised institution in the other District that might result in a violation of Federal Reserve policy. In instances

where the assignment is not known in advance, the host Reserve Bank is responsible for ensuring that all assignments made to borrowed staff are consistent with System conflict-of-interest policy governing recusal requirements.

III. Investment Policy

A. **General rule.** A Federal Reserve examiner is subject to the same investment prohibitions as other System employees. These prohibitions, which are uniform throughout the System, are set forth in each Reserve Bank's code of conduct. In general, an examiner, and his or her spouse, and minor child may not own or control a debt or equity interest in a depository institution or its affiliate, with certain limited exceptions, as described in the uniform code of conduct.

B. **Divestiture.** An examiner is generally provided a maximum of 90 days to divest a prohibited debt or equity interest. Therefore, a new employee holding a prohibited debt or equity interest and applying for an examiner credential will typically be issued a standard credential by the Board that expires after 90 days. A permanent standard credential will be reissued to the individual upon notification by the Reserve Bank to the Board that the prohibited debt or equity interest has been divested as agreed. With this notification, a Reserve Bank should also provide supporting documentation relevant to the transaction.

C. **Waivers.** In accordance with section 5.3(E) of the Uniform Code of Conduct, an examiner may request a waiver from investment prohibitions when extenuating circumstances exist. When considering a waiver for a supervision and regulation employee, Reserve Banks should consult with the Board's Division of Banking Supervision and Regulation to determine whether a waiver would be appropriate. Any waiver granted to an examiner under this section should be in writing, consider whether or not the investment would unduly interfere with the examiner's duties, assess the examiner's potential access to confidential supervisory information related to the institution and its affiliates, and take into account the potential appearance of a conflict of interest. A copy of the waiver should be sent to the Board's Division of Banking Supervision and Regulation. The waiver itself should state that the examiner should give prior notice to officer in charge of supervision before selling the financial interest subject to the waiver.

D. **Recusal requirement.** When an examiner, or his or her spouse or minor child is permitted to retain an investment otherwise prohibited under System policy, the examiner generally must be disqualified from participating in any particular matter affecting the organization or its affiliates, and must refrain from discussing or accessing confidential information pertaining to that organization. Any exception to this recusal requirement must be approved in writing by the Reserve Bank's legal department.

E. **Other guidance.**

(1) **Mutual funds.** The Board believes that an investment in a mutual fund, even

a proprietary mutual fund, serviced or advised by a bank or bank holding company, does not require an examiner to refrain from participating in matters involving that bank or bank holding company. An investor in a mutual fund has an interest in the fund and not in the bank or bank holding company that services or advises the fund. While the Board recognizes that banks and bank holding companies benefit financially from their mutual fund activities, this fact alone does not create a conflict of interest or an appearance of a conflict of interest. However, Reserve Bank employees, including examiners, are prohibited from investing in a mutual fund that has a stated policy of concentrating in the financial services industry. The prospectus of each mutual fund is required to state whether the fund has a policy of concentrating its assets in any particular industry. Reserve Bank employees may rely on the prospectus in applying this rule.

Finally, an examiner may not engage in a financial transaction as a result of relying on confidential information obtained in the course of an examination or inspection, including confidential information about a mutual fund.

(2) ***Credit reviews.*** Section 208 of the Criminal Code prohibits a Bank employee from participating in a matter that directly and predictably affects the employee's financial interests or the financial interests of the employee's spouse, minor child, or general partners, or the financial interests of an organization of which the employee serves as officer, director, trustee, general partner, or employee (18 USC 208). Because of the possible application of this criminal law, an examiner should not participate in the review of a credit file during a Federal Reserve examination, inspection, or a Shared National Credit examination if the examiner (or a related person or entity as described above) has a financial interest in the borrower whose credits are being reviewed, or is negotiating for or has an agreement concerning future employment with the borrower. To participate in the assignment, the examiner must first seek the written approval of his or her supervising officer after consultation with the Bank's ethics official and, where necessary, receive a section 208 waiver. For example, if an examiner owns stock in ABC Hardware, the examiner should not evaluate a loan or credit facility of ABC Hardware during an examination or inspection without receiving the prior written approval of the examiner's supervising officer, after consultation with the Bank's ethics official and, where necessary, obtaining a section 208 waiver. If the examiner is in the process, for example, of arranging a job interview for his son at ABC Hardware, the examiner should also confer with the Bank's ethics official to determine if his participation is appropriate.

It is the responsibility of each Reserve Bank to advise its examiners that their review of a borrower's credit files during an examination or inspection may result in a violation of criminal conflict-of-interest laws if they, their spouses or minor children, or related entities or persons (as described above) have a financial interest in the borrower whose loans and credit facilities are being

reviewed.

(3) **Insurance products.** In the unusual situation that an examiner is asked to participate in an examination or inspection of an insurance company through which the examiner, his or her spouse, or a minor child, has an insurance policy or annuity, the examiner should not be permitted to participate in the examination or inspection without advance written approval by the Reserve Bank's ethics official.³

3. Of course, in such circumstances the Reserve Bank would also be required to obtain an ad hoc credential to authorize the examiner's participation in the examination or inspection (see [5-040](#), section II.D., "Ad Hoc Credentials").

This will allow for consideration of the type of policy (or annuity), a determination of the possible impact of the examiner's participation on the value of the policy (or annuity), and the consideration of other possible circumstances that may have a bearing on the examiner's financial interest.

An insurance policy, annuity, or a loan against a policy will not typically require an examiner to be restricted from participating in an examination or inspection of an affiliate of an insurance company where the examiner, his or her spouse, or a minor child has a policy or annuity. A Reserve Bank may determine, however, that it is necessary to restrict an examiner from participating in an examination or an inspection of an affiliate of the insurance company when the examiner, his or her spouse, or a minor child is in the process of filing or negotiating a claim, or if the insurance company is encountering financial difficulty, as the policy (or annuity) may represent a financial interest of the employee or raise an appearance issue. Such situations should be reviewed by the Reserve Bank's ethics official and advance written approval provided before the examiner is permitted to participate in the examination or inspection.

IV. Examiner Borrowing Prohibitions

A. *Criminal code.*

(1) **General guidance.** Section 213 of the U.S. Criminal Code prohibits a bank examiner from accepting a loan or gratuity from any bank examined by the individual (18 USC 213). Section 212 of the U.S. Criminal Code prohibits an officer, director, or employee of a bank from making or granting any loan or gratuity to any examiner who examines or has authority to examine the bank (18 USC 212). Under these provisions, the term *loan* does not include credit card accounts and home mortgage loans meeting certain conditions (see below). These provisions of the Criminal Code also could be held applicable to a loan obtained by an employee who is issued a special, temporary, or ad hoc credential.

(2) **Examination or inspection authority.** An individual is not authorized to

examine an institution until that individual (a) has a credential issued and approved by the Board and (b) has been assigned to an examination or inspection of the institution by the appropriate supervisor at the relevant Reserve Bank or at the Board.

B. *Borrowing prohibition.*

(1) *General rule.* Federal Reserve examiners⁴

4. The general borrowing prohibitions outlined in this section IV.B. apply to examiners holding standard or special credentials. An employee holding a temporary credential has the authority and status of an examiner only during the stated duration of the temporary credential. As such, an individual holding a temporary or ad hoc credential may not borrow from the institution or affiliate of an institution he or she is assigned to examine but is not generally subject to the borrowing prohibitions outlined in this section.

are prohibited from directly or indirectly borrowing from (including having a line of credit or a credit card issued by) an institution for which the Federal Reserve is the primary supervisor other than through certain credit cards or home mortgage loans (see section B(2) below). The Federal Reserve is the primary supervisor for state member banks; bank holding companies; nonbank subsidiaries of bank holding companies that are not thrifts or functionally regulated subsidiaries;⁵

5. *Functionally regulated subsidiary* means a registered broker or dealer, registered investment advisor, investment company, insurance company, or entity engaged in commodities activities as these entities are defined by section 5(c)(5) of the Bank Holding Company Act.

Edge Act and agreement corporations; and U.S. branches and agencies, representative offices, and nonbank subsidiaries of foreign banks that are not functionally regulated subsidiaries. The Federal Reserve is not the primary supervisor for national banks, nonmember banks, limited special-purpose banks or nonbank banks authorized under section 4 of the Bank Holding Company Act (provided they are not state member banks), thrift institutions, and functionally regulated subsidiaries of bank holding companies. While the Federal Reserve may have umbrella supervisory authority over such organizations (i.e., when they are owned by bank holding companies), their primary supervisors are other federal or state regulatory agencies.

A Federal Reserve examiner may borrow from any institution for which the Federal Reserve is not the primary supervisor. Therefore, an examiner may borrow from a national bank or a thrift institution. An examiner may also have a margin account with a securities broker-dealer or borrow against the cash value of an insurance policy from an insurance company, even if the institution is owned by a bank holding company or is affiliated with a state member bank, an Edge Act or agreement corporation, or a foreign banking organization. However, when such a borrowing exists (except in the case of a credit card, certain primary-residence mortgages, an overdraft-protection line, and a loan

against the cash value of an insurance policy), the examiner will need to be restricted from examining any affiliate of the lender (see section V., ``Recusal from Examinations and Inspections").

(2) *Exceptions to the borrowing prohibition.*

(a) *Credit cards and residential mortgage loans.* The prohibition in paragraph B(1) shall not apply to any credit card account established under an open-end consumer credit plan or a loan (including a home-equity line of credit) secured by residential real property that is the principal residence of the examiner, if (i) the applicant satisfies any financial requirements for the credit card account or residential real property loan that are generally applicable to all applicants for the same type of credit card account or residential real property loan and (ii) the terms and conditions applicable with respect to such account or residential real property loan, and any credit extended to the examiner under such account or residential real property loan, are no more favorable generally to the examiner than the terms and conditions that are generally applicable to credit card accounts or residential real property loans offered by the same financial institution to other cardholders or borrowers in comparable circumstances under open-end consumer credit plans or residential real property loans.⁶

6.A Reserve Bank may prohibit certain otherwise permissible in-District borrowings if it is deemed necessary for carrying out its operations.

(b) *Pre-existing debt.* An examiner may retain any debt incurred prior to appointment as an examiner by the Board so long as (i) the debt is amortizing (i.e., a loan with regular payments of principal and interest); (ii) the debt is not renewed, renegotiated, or increased; (iii) payments are current; (iv) the credential issued by the Board authorizing the appointment of the examiner specifically excludes the creditor institution and its affiliates until such time that the debt is satisfied; (v) the examiner does not participate in any examination or inspection of the institution or its affiliates; and (vi) the examiner indicates, in writing, that he or she understands and will comply with these conditions while the debt remains outstanding.

An individual with other types of pre-existing debt that are prohibited under paragraph B(1), such as credit extended under a revolving line of credit or nonamortizing debt, must retire the debt or convert it to an amortizing facility within six months after appointment as an examiner. Until then, (i) the debt may not be increased, (ii) the examiner's credential must specifically exclude authority to examine the creditor institution and any affiliate, and (iii) the examiner may not examine the institution or any affiliate. A permanent credential will be issued to the individual upon notification by the Reserve Bank to the Board that the indebtedness has been terminated or converted in compliance with this policy. The Reserve Bank should obtain appropriate documentation to ensure that the actions required by this policy have been taken, and forward such documentation with the

request to the Board. So that an individual's examination authority does not lapse, a permanent standard credential should be requested prior to the expiration of a restricted credential.

(c) *Loans sold, transferred, or acquired.* As the sections of the Criminal Code are designed to prevent examiners from obtaining loans from banks examined by them or which they have authority to examine, the statutes would not appear to apply to obligations of examiners obtained from permissible sources that later are acquired by institutions for which the Federal Reserve is the primary supervisor. Thus, if a debt that was permissible when it was originated becomes impermissible under section B (1) above as a result of having been acquired by an institution for which the System is the primary supervisor, the debt may be retained if the debt is amortizing; the debt is not renewed, renegotiated or increased; payments are current; and the examiner is restricted from examining the institution which currently holds the debt.

(d) *Charter conversions of change in membership.* A loan originated at a lending institution that undergoes a charter conversion or change in membership, and as a result becomes an institution for which the Federal Reserve serves as the primary supervisor, is to be treated in the same manner as a loan sold or transferred among such institutions. Thus, if an examiner obtains an automobile loan from a national bank that later converts to a state charter and becomes a member of the Federal Reserve System, the examiner may retain the loan provided that the examiner does not participate in an examination of the state member bank and the debt is not renewed, renegotiated, or increased, and payments are current. When an institution undergoes such a charter conversion or change in membership between the time that a loan is approved and funded, the loan may be advanced.

(3) *Waiver authority.* The director of the Division of Banking Supervision and Regulation is authorized to waive the borrowing prohibitions for an examiner or an examiner's spouse or dependent child under the following conditions: (a) the examiner can demonstrate that the credit is not available from a permissible source on comparable terms and that absent a waiver financial hardship will ensue; (b) the examiner has never examined the lending institution; (c) it is feasible to restrict the examiner from examining the lender and its affiliates; and (d) the examiner is reissued a credential explicitly stating that the examiner is not authorized to examine the lender until such time as the debt is satisfied. It is anticipated that this waiver authority will be exercised rarely. A request for a waiver must be made by the Reserve Bank to the Board's Division of Banking Supervision and Regulation, in writing, and must outline the relevant circumstances.

(4) *Borrowing by spouses and dependent children.* The Department of Justice has attributed the debt of an examiner's spouse to the examiner in the context of the criminal laws. As a result, the borrowing prohibitions outlined above for

examiners should be applied to borrowings by an examiner's spouse or dependent child unless such borrowing (1) is supported only by the income or independent means of the spouse or dependent child; (2) was obtained on terms and conditions no more favorable than those offered to the public; and (3) was not negotiated, endorsed, guaranteed, or co-signed by the examiner. Even if the borrowing by a spouse or dependent child meets these requirements, the examiner is required to disclose all such relationships, to the best of his or her knowledge, and must not be permitted to participate in an examination or inspection of the organization or its affiliates unless the examiner would be permitted to participate under these rules if the borrowing were his or her own debt.

(5) ***In-District borrowing restriction.*** In its discretion, a Reserve Bank may prohibit examiners from borrowing from *any* subsidiary of an in-District bank holding company if such borrowing would hinder the Reserve Bank's ability to carry out its supervisory responsibilities by limiting staffing resources.

V. Recusal from Examinations and Inspections

A. ***Borrowing relationships.***

(1) ***General rule.*** An examiner may not examine any bank (including foreign subsidiaries or branches), Edge Act or agreement corporation, or a U.S. branch or agency of a foreign banking office, or inspect any holding company or nonbank subsidiary that is affiliated with or owned by any company or bank from which the examiner, the examiner's spouse or dependent child, or a related entity⁷

7. As previously defined, *related entity* means a company or business where the examiner or the examiner's spouse or dependent child owns or controls more than 10 percent of its equity, or a partnership where the examiner or the examiner's spouse is a general partner.

is presently borrowing or seeking credit.

(2) ***Exceptions.***

(i) An examiner may examine any entity, including any affiliate of such entity, from which the examiner, the examiner's spouse or dependent child has obtained a credit card in accordance with part IV, paragraph B(2)(a) above.

(ii) An examiner may examine the affiliate of any entity from which the examiner, the examiner's spouse or dependent child has a loan secured by residential real property in accordance with part IV, paragraph B(2)(a) above; has an overdraft protection line; is borrowing against the cash value of a life insurance policy on the same terms and conditions offered to the public.

Thus, for example, an examiner with a student loan from a national bank subsidiary of a bank holding company would not be permitted to inspect the national bank or any of its affiliates, including the parent holding company. If, on the other hand, the examiner had an overdraft-protection line on his or her checking account at the national bank, the examiner would be permitted to examine or inspect any affiliate of the national bank, including the parent holding company.

(3) **Waivers.** In certain limited circumstances, a Reserve Bank may provide a waiver for an examiner to participate in the examination or inspection of an institution or an affiliate of an institution from which the examiner (spouse, dependent child, or related entity) is borrowing⁸

8. Borrowing from an affiliate through a credit card, certain residential mortgages, an overdraft-protection line, or against the cash value of a life insurance policy by an examiner, an examiner's spouse, or dependent child is already excepted from recusal requirements and, therefore, does not require a waiver.

under the following circumstances and conditions: (a) the borrowing relationship was not originated at the institution or its affiliates and transfer of the debt resulted from a merger, consolidation, loan sale, or other event outside of the examiner's control; (b) the borrowing relationship was originated more than six months prior to the proposed assignment; (c) the borrowing is either an amortizing consumer loan (including a first or second mortgage on a personal residence, a student loan, or a car lease) or a home-equity line of credit; (d) if the waiver will permit an examiner to examine the institution itself (not an affiliate) from which the examiner is borrowing, the loan must be either a credit card account or a mortgage on a primary residence meeting the conditions set forth in part IV B(2)(a) above; (e) the examiner's participation in the examination or inspection of an affiliate of the organization where the examiner is borrowing is deemed of critical importance, either because of the examiner's particular expertise, or due to resource constraints; and (f) the Reserve Bank's ethics official provides an opinion that the employee's participation in the proposed assignment is legal and will not present a conflict of interest. Such waivers must be in writing, satisfying criteria (a) through (f) above, and must be made available for review by Board staff upon request.

For example, Federal Reserve examiner John Sharp recently received a notice that the mortgage on his second home,⁹

9. An examiner may examine affiliates of an institution from which the examiner has a mortgage on his primary residence under certain circumstances. See part V, A(2) above.

which was originated seven months ago at Independent Savings and Loan, has been sold to a national bank subsidiary of MultiBank, Inc., the largest bank holding company in the District. John Sharp and two other Reserve Bank examiners are highly skilled in evaluating commercial real estate loans. Their participation in the upcoming inspection of MultiBank, Inc., and examination of

its lead bank, Grand State Member Bank, is deemed of critical importance to the Reserve Bank, as the Bank has a large and complex real estate loan portfolio, and the three examiners are needed to complete the evaluation of the portfolio within the time frame required. The Reserve Bank deems a waiver appropriate for Mr. Sharp, having satisfied conditions (a) through (d), and will seek an opinion from the Reserve Bank's ethics official to satisfy condition(e). In no case, however, would John Sharp be permitted to participate directly in an examination of the national bank subsidiary from which he is borrowing, as this could be a violation of criminal examiner-borrowing statutes.

(4) ***Servicing relationships.*** An examiner may participate in an examination, inspection, investigation, or other review of an organization servicing the examiner's loan, provided that the servicer does not retain a financial interest in the underlying value of the credit. A financial interest may exist if, for example, the servicing organization has a residual credit interest in the loans it services, or is obligated to share in credit losses caused by a borrower.

B. *Former employer.*

(1) ***General rule.*** An examiner may not participate in an examination or inspection of a financial institution or its affiliates if the examiner was employed by the financial institution or any affiliate within the past 12 months. After the one-year period has elapsed, the Reserve Bank shall determine whether the examiner's former position and current responsibilities at the Reserve Bank indicate a need to continue the restriction in order to avoid the appearance of a conflict of interest. This determination should be appropriately documented and made available for subsequent review when requested by Board staff.

(2) ***Exception.*** The one-year recusal requirement may be waived if, after consultation with the Reserve Bank's ethics official and consideration of the relevant facts, the examiner's supervising officer determines that no violation of law or appearance of conflict of interest would occur as a result of the assignment. Factors to consider in making this determination include (a) the examiner's former position and years of employment at the institution; (b) the examiner's level of responsibility in the matter; and (c) the need for the examiner on the assignment. Any such determination must be appropriately documented and made available for subsequent review when requested by Board staff.

(3) ***Pension plans.*** If an examiner continues to participate in a pension or retirement plan obtained through prior employment at a financial institution or its affiliates, the examiner must be disqualified from participating in an examination or inspection of that institution or its affiliates, unless the examiner receives a written opinion from the Bank's legal department that such disqualification is not necessary because the pension does not represent a disqualifying financial interest under the criminal laws. Any debt or equity investment in a depository institution or a depository institution affiliate held

through such plans must be fully disclosed (see section II.A., "Reporting"), and an appropriate waiver obtained (see section III.C., "Waivers"), should the employee seek to retain such investment.

C. *Employer of a family member.*

(1) **General rule.** An examiner may not participate in an examination or inspection of a financial institution or its affiliate if such financial institution or affiliate employs a member of the examiner's immediate family (i.e., spouse, child, parent, or sibling). A Reserve Bank may require recusal in other situations where an examiner has a relationship that could create an actual or apparent conflict of interest with a financial institution. For example, if a state member bank employs an examiner's sister-in-law, or if an examiner's parent is a principal shareholder of a bank holding company, the Reserve Bank may conclude that recusal is appropriate.

(2) **Exception.** In certain circumstances, recusal will not be required if, after a review of the relevant facts of each case and after consultation with the Reserve Bank's ethics official, the examiner's supervising officer determines that no violation of law or appearance of conflict of interest would occur as a result of the assignment. Factors to consider in making this determination include (a) the family member's position with the institution; (b) the employee's level of responsibility in the matter; and (c) the need for the employee on the assignment. Any determination must be appropriately documented and made available for subsequent review when requested by Board staff.

VI. Acceptance of Meals and Gratuities

A. **General rule.** Consistent with the criminal laws and the need to avoid even the appearance of a conflict of interest, a Federal Reserve examiner may not accept a gratuity or a meal from an entity that the examiner has examined, examines, or is authorized to examine. An examiner may eat in the cafeteria of a regulated entity, even if the cafeteria is subsidized, provided that the examiner pays for the meal at the rate charged the general public (i.e., guests other than regulators visiting the premises). In no event should an examiner accept an invitation to eat, free of charge, in a private dining room or at a restaurant.

B. **Exceptions.** An examiner may accept modest items of food and refreshments such as soft drinks, coffee, and donuts offered other than as part of a meal. An examiner may also accept items with little intrinsic value, such as a pen or pencil or calendar, provided that such items are also offered to the general public. However, in all cases, an examiner should avoid situations which appear to call into question the objectivity and integrity of the supervisory process. S-2611, July 15, 2002; revised by S-2623, Feb. 22, 2005.

This letter supersedes S-2568 of Jan. 20, 1995, and S-2596 of June 1, 1999.

5-042

EXAMINATION PERSONNEL--Political Communications Prohibited

The Federal Reserve System has a long-standing informal policy of carefully avoiding any form of political communications by examiners with insured depository institutions or their affiliates and has encountered no problems with this policy for more than 75 years. The Board has decided to formalize this policy.

The integrity and effectiveness of the examination process depends upon its being kept completely free from any appearance of being influenced by political considerations. Contacts that occur with insured institutions or their affiliates through the examination process concerning legislative or political issues run the risk of being misperceived as implying that the institution should take a particular position on such issues. Thus, Federal Reserve examiners should have no communications with insured institutions or their affiliates that indicate that the examination process is in any way influenced by political issues or considerations. Any contravention of this policy should be brought to the attention of the employee's managers or of the ethics counselor. S-2594; May 6, 1999.

5-043

EXAMINATION PERSONNEL--Special Post-Employment Restriction and Work Paper Review

I. Coverage

The special post-employment restriction set forth in the Intelligence Reform and Terrorism Prevention Act of 2004 prohibits an examiner who served as the "senior examiner" for a depository institution or depository institution holding company for two or more months during the examiner's final twelve months of employment with a Reserve Bank from knowingly accepting compensation as an employee, officer, director, or consultant from that depository institution or holding company, or from certain related entities.

For purposes of this rule, an officer or employee of the Federal Reserve is considered to be the "senior examiner" for a particular state member bank, bank holding company, or foreign bank if the individual meets all of the following criteria:

- The officer or employee has been authorized by the Board to conduct examinations or inspections on behalf of the Board.
- The officer or employee has been assigned continuing, broad, and lead responsibility for examining or inspecting that state member bank, bank holding company, or foreign bank.
- The officer's or employee's responsibilities for examining, inspecting, and supervising the state member bank, bank holding company, or foreign bank--
 - represent a substantial portion of the officer's or employee's assigned responsibilities and
 - require the officer or employee to interact routinely with officers or employees of the state member bank, bank holding company, or foreign bank or their respective affiliates.

The rule does not cover an examiner who performs only periodic, short-term examinations of a depository institution or holding company and who does not have ongoing, continuing responsibility for the institution or holding company. The rule also does not cover an examiner who spends a substantial portion of his or her time conducting or leading a targeted examination (such as a review of an institution's credit-risk management, information systems, or internal audit functions) and who does not have broad and lead responsibility for the overall examination program for the institution or holding company. The rule primarily applies to central points of contact or examiners in functionally equivalent positions for our largest and most complex institutions. Table 1 summarizes how the restriction applies to "senior examiners" of the different types of organizations within the Federal Reserve's jurisdiction.

Table 1--Summary of Prohibited Employment Based on Examination Responsibility

<i>Examiner responsibility</i> If, during two or more months of the last twelve months of service, the examiner serves as the "senior examiner" for a--	<i>Restriction</i> Then, for one year after leaving the Reserve Bank, the "senior examiner" may not knowingly accept compensation as an employee, officer, director, or consultant from--
State member bank	<ul style="list-style-type: none"> • the state member bank (including any subsidiary of the state member bank) or • any company (including a bank holding company) that controls the state member bank.
Bank holding company	<ul style="list-style-type: none"> • the bank holding company or • any depository institution controlled by the bank holding company (including any subsidiary of the depository institution).
Foreign bank	<ul style="list-style-type: none"> • the foreign bank, • any U.S. branch or agency of the foreign bank, or • any U.S. depository institution controlled by the foreign bank (including any subsidiary of the depository institution).

II. Penalty

The restriction applies to a covered individual for one year after the individual terminates his or her employment with the Reserve Bank. If an examiner violates the one-year restriction, the statute requires the appropriate federal bank regulatory agency to seek an order of removal and industry-wide employment prohibition for up to five years, a civil money penalty of up to \$250,000, or both. In special circumstances, the Chairman of the Board of Governors may waive the restriction for a "senior examiner" of the Federal Reserve by certifying in writing that granting the individual a waiver of the restriction would not affect the integrity of the Federal Reserve's supervisory program.

III. Administrative Procedures for Implementing the Rule and Additional Guidelines

At a minimum, Reserve Banks shall adopt the following procedures to ensure that the rule is properly implemented.

A. *Notification to senior examiners.* To help examiners comply with the statute, Reserve Banks shall establish procedures to routinely review examiners' duties and promptly notify examiners in writing when a change in duties would cause an examiner to be considered the "senior examiner" or cease to be considered the "senior examiner" with respect to an institution or holding company for purposes of

the rule. Reserve Banks should consult with Board staff if questions arise as to whether an examiner would be considered a "senior examiner." A suggested format for the notification letter is attached.

B. *Examiners' responsibility.* Examiners are responsible for becoming familiar with the rule and ensuring that they comply with the rule. Examiners should direct any questions they may have regarding the rule to the designated ethics officers in the Reserve Banks' supervision departments.

C. *Monitoring of senior examiner assignments.* Reserve Banks shall maintain electronic records of examiners covered by the rule. These records at a minimum shall include--

1. the name of the "senior examiner";
2. the name of the state member bank, bank holding company, or foreign bank for which the examiner is considered a "senior examiner";
3. the duration of the examiner's service as the "senior examiner" for the state member bank, bank holding company, or foreign bank; and
4. if the "senior examiner" terminates employment, the termination date, the reason for termination, and the name of the organization with which the examiner has accepted employment, if available.

D. *Work paper review.* If *any* examiner, regardless of designation as a "senior examiner," accepts employment with a state member bank, bank holding company, foreign bank, or any affiliate that he or she examined in the past twelve months, the Reserve Bank shall review the workpapers related to his or her assignment supervising that institution. The work paper review should consider whether the examiner compromised examination findings or supervisory proceedings because of pending employment with the relevant state member bank, bank holding company, foreign bank, or their affiliates (e.g., failed to bring significant findings or concerns forward to examination management; omitted important examination processes or elements of the examination scope).

E. *Disciplinary procedures.* If a Reserve Bank becomes aware that a former examiner has violated the rule, the Reserve Bank shall promptly notify the Board's ethics officer.

Attachment--Suggested Format for Notification Letter

Federal Reserve Bank of _____

NOTICE OF POST-EMPLOYMENT RESTRICTION

To: [Senior Examiner Name, Division/Department] [Date]

You have been identified by this Reserve Bank as a "senior examiner" as described by section 10(k) of the Federal Deposit Insurance Act, effective December 17, 2005, for the financial organization listed below.

Under the statute and the Board's implementing rule (12 CFR 264a), an examiner who served as the "senior examiner" for a depository institution or depository institution holding company for two or more months during the examiner's final twelve months of employment with a Reserve Bank is prohibited from knowingly accepting compensation as an employee, officer, director, or consultant from that institution or holding company, or from certain related entities.

For covered examiners, the restriction applies for one year after terminating employment with the Reserve Bank. If an examiner violates the one-year restriction, the statute requires the appropriate federal bank regulatory agency to seek an order of removal and industry-wide employment prohibition for up to five years, a civil money penalty of up to \$250,000, or both.

_____, *Full corporate name, city, state*, being a (check one below):

- ☐ state member bank
- ☐ bank holding company
- ☐ foreign bank

Use the following table to determine the applicable prohibition.

<i>Senior examiner assignment</i> If, during two or more months of your last twelve months of service, you served as the "senior examiner" for a--	<i>Corresponding prohibition</i> Then, for one year after leaving, you may not knowingly accept compensation as an officer, director, employee, or consultant from--
State member bank	<ul style="list-style-type: none"> • the state member bank (including any subsidiary of the state member bank) or • any company (including a bank holding company) that controls the state member bank.
Bank holding company	<ul style="list-style-type: none"> • the bank holding company or • any depository institution controlled by the bank holding company (including any subsidiary of the depository institution).
Foreign bank	<ul style="list-style-type: none"> • the foreign bank, • any U.S. branch or agency of the foreign bank, or • any U.S. depository institution controlled by the foreign bank (including any subsidiary of the depository institution).

Your signature below will acknowledge the receipt of this letter and understanding of your responsibilities under the rule. Please retain a copy for your records.

Name: _____ Date: _____

Return completed form to [designate appropriate Reserve Bank contact and phone]. Questions about this rule should be directed to [designate appropriate Reserve Bank contact and phone].

S-2632; Dec. 7, 2006.

6-002

ADVISORY COUNCILS--Fees and Expenses for Federal Advisory Council Alternates

Recently one of the Federal Reserve Banks raised a question as to the payment of a fee to a person designated by it to attend a meeting of the Federal Advisory Council where the duly appointed member for the particular Federal Reserve District was unable to attend the meeting. In that instance, the Board stated that it would interpose no objection to the payment to the person designated to attend the meeting of a fee for such attendance, as well as reimbursement for expenses incurred by him, on the same basis as such fees and expenses were paid by the Reserve Bank involved to its regularly appointed member of the council.

In a letter dated March 21, 1925, the Board expressed the view that a person invited by a Federal Reserve Bank to attend a meeting of the Federal Advisory Council in the absence of the duly appointed member would not be a legally constituted member of the council and would not have power to vote on recommendations or other matters coming before the council for consideration; but the Board stated that it would not question the payment of such person's actual expenses in any such case. While there has been no change in the Board's view as to the legal status of any such persons, the Board, in view of the recent inquiry, has considered the question of the payment of fees, as well as allowances for expenses, in cases of this kind; and, in any case in which the duly appointed member of the council for any Federal Reserve District is unable to attend a particular meeting and the Federal Reserve Bank appoints a person to attend in his place, the Board will interpose no objection to the payment to such person by the Reserve Bank of a fee, as well as an allowance for expenses, for attendance at such meeting. Such fees and expenses may be paid on the same basis as fees and expenses would have been paid to the duly appointed member of the Council if he had attended such meeting. S-1122; Sept. 13, 1949.

See also [2-009](#) and [2-012.1](#), pertaining to the payment of fees and allowances to council members.

6-002.2

ADVISORY COUNCILS--Expenses of Secretary's Office of Federal Advisory Council

Subject to such action as may be taken by the directors of each Reserve Bank, the Board authorizes each Bank, until further notice, to pay not to exceed \$10,000 annually toward the expenses of the Secretary's Office of the Federal Advisory Council. It will be appreciated if the Banks will inform the Board's Office of the Secretary of any action taken under this authorization. NOTICE of Dec. 31, 2002, to Reserve Bank presidents.

This authorization supersedes S-2125 of Feb. 27, 1970, and the Board's telegrams of March 7, 1980; March 18, 1982; April 9, 1992; Sept. 5, 1996; and June 18, 1998.

6-005

EXCHANGE OF INFORMATION--Credit Information

Federal Reserve Banks may furnish credit information regarding individual banks, corporations, associations, partnerships, and individuals only in specified types of situations.

Credit information with respect to individual banks, corporations, associations, partnerships, and individuals will not be furnished by Federal Reserve Banks to any member bank or other bank or party except as stated below:

1. A Federal Reserve Bank may furnish credit information with respect to banks, corporations, associations, partnerships, and individuals as follows:
 - a. to the Board of Governors of the Federal Reserve System and to other Federal Reserve Banks and
 - b. to others when the furnishing of such information is expressly authorized by any applicable statute.
2. A Federal Reserve Bank may furnish credit information with respect to corporations (other than banks), associations, partnerships, and individuals as follows:
 - a. where the furnishing of such information is authorized by the source from which the information was obtained;
 - b. to appropriate officers and agents of agencies of the United States government authorized pursuant to section 301 of the Defense Production Act of 1950, as amended, to guarantee defense production loans;
 - c. to departments, agencies, or instrumentalities of the United States government when the information requested is to be used in connection with the letting or proposed letting of government contracts; and
 - d. to appropriate parties where the information relates to borrowers in cases in which a Federal Reserve Bank is the sole lending institution involved in the extension of credit.
3. A Federal Reserve Bank may furnish credit information with respect to banks and business concerns, including information about the financial condition and reputation of the management, to foreign central banks which maintain accounts with the Federal Reserve Bank, with the understanding that the Federal Reserve Bank shall not supply information obtained from bank examination reports or any information concerning banks which would be inconsistent with its position as a supervisory authority. The furnishing of such information shall be deemed to be in accordance with the provisions of the Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks, dated January 1, 1944, and enclosed with the Board's letter of December 14, 1943 (see FRRS 7-084). S-1547; Sept. 9, 1954.

6-006

EXCHANGE OF INFORMATION--On Title I Loans

Federal Reserve examiners will criticize and mention in examination reports improprieties, possible violations of law, and unsafe and unsound practices observed in connection with FHA title I loans. Reserve Banks will welcome suggestions by FHA representatives aiding cooperation.

The Federal Housing Administration at one point suggested to the Board the desirability of closer cooperation between the Federal Reserve Banks and the FHA in the exchange of information on title I loans. It was understood that similar suggestions had been made to other federal supervisory agencies.

In its reply to the FHA, the Board stated that the Reserve Banks would welcome any suggestions made by FHA representatives contributing to helpful cooperation. The FHA was advised that Federal Reserve examiners have given close attention to the propriety and performance of FHA title I loans in member state banks, and that possible violations of law or unsafe and unsound practices observed in connection with such loans would be criticized and mentioned in reports of examinations for corrective action by member banks. If such irregularities were of a nature requiring the attention of the United States attorney, the FHA has been informed that they would be reported to that officer and the Department of Justice.

It was also thought desirable to point out to the FHA that information obtained during examinations of member state banks and reports of such examinations are required by law and regulation to be treated as confidential, and only such information could be given to FHA representatives as would be consistent with the preservation of confidentiality. The FHA was assured, however, that the Reserve Banks would assist FHA representatives in whatever manner they properly could.

S-1650; March 17, 1958.

6-007

EXCHANGE OF INFORMATION-- Interagency Exchange of Supervisory Information

This statement is issued jointly by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board, hereinafter referred to, collectively, as ``the agencies."

The agencies recognize that greater communication and coordination on situations of mutual supervisory concern is necessary to more effectively assess such situations and implement appropriate actions. At the same time, the agencies are aware of the need to preserve the confidentiality of information exchanged in this context and to make certain that the information is used only for legitimate supervisory purposes.

Accordingly, the agencies hereby agree on a policy to exchange necessary information for supervisory purposes on (1) shifting of subquality assets, (2) change of control ownership, (3) initiation of formal and informal enforcement actions, and (4) criminal referrals.

Shifting of Subquality Assets

The agencies agree to implement procedures whereby, when the shifting of subquality assets between financial institutions is detected by one agency, the necessary information for supervisory purposes is transmitted to the other appropriate agencies. This information would include, but not necessarily be limited to--

- identification of institutions involved;
- number and dollar amount of assets transferred;
- number and dollar amount of assets transferred which were criticized in an examination, along with other appropriate information;
- actual or approximate dates of transfers; and
- supervisory action undertaken or planned.

Changes of Control Ownership

The agencies agree to implement procedures whereby, when a notification of change of control ownership of a financial institution is accepted by one agency, a copy of the notice is transmitted to the other agencies with comments invited but not required.

Initiation of Formal and Informal Enforcement Actions

The agencies agree to implement procedures whereby, when one agency initiates a formal enforcement action against a financial institution, notification would be made to the other agencies and coordinative efforts undertaken as deemed appropriate. Further, when one agency initiates an informal enforcement action against a financial institution, notification would be made to the other appropriate agencies when affiliation or other inter-institutional relationships are known or suspected.

Criminal Referrals

The agencies agree to implement procedures whereby, when one agency, or financial institution regulated by that agency, initiates a criminal referral pertaining to an officer or employee of the institution, involving a dollar amount of \$100,000 or more, or pertaining to a director, principal shareholder, or officer acting in a management or policy-making capacity, regardless of dollar amount involved, the necessary information be transmitted to the other agencies.

The agencies agree that the information described in this statement is to be exchanged with the prior understanding that each agency recognize the privileged nature of the information received from the other agencies, maintain the confidentiality of the information, ensure that the information will be used only for legitimate supervisory purposes, and refrain from unilaterally initiating any supervisory action against an institution based solely upon the information.

In addition, the agencies agree that information exchanged pursuant to this statement that is pertinent and appropriate to the supervision of particular state-chartered or -licensed financial institutions and their holding companies is to be made available to the relevant state supervisory authorities that agree to be bound by the same standards of confidentiality and other limitations and conditions respecting the use of such information as specified in this statement. Following is a suggested form of written agreement to this effect.

The _____ and the _____
state agency federal agency

hereby agree to exchange information relating to shifting of subquality assets, formal and informal enforcement actions, changes of control, and criminal referrals pertinent and appropriate to the supervision of financial institutions and their holding companies subject to their respective joint jurisdictions.

The _____ specifically agrees to be bound by the same
state agency

standards of confidentiality and other limitations and conditions respecting the use of any such data received from a federal supervisory agency as specified in the agreement entitled Joint Statement of Policy on Interagency Exchange of Supervisory Information and dated August 23, 1984, between the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board.

[Federal Agency]

[State Agency]

name

name

title

title

signature

signature

date

date

This interagency policy statement was issued on Aug. 23, 1984.

6-008

EXCHANGE OF INFORMATION--Treatment of Payment System Oversight Information

The Board has approved the following policy to safeguard information related to payment system oversight and to ensure that the Federal Reserve Banks, in their use of that information, avoid any actual or apparent conflict between their roles as providers of payment services and as supervisors and lenders. This policy complements the Board's Standards Related to Priced-Service Activities of the Federal Reserve Banks (FRRS 9-1569).

The Federal Reserve may receive information from external payment and securities settlement systems for the purposes outlined in the Board's Policy Statement on Payments System Risk (FRRS 9-1000). Any information collected specifically for these purposes and not releasable to the public under the Freedom of Information Act or comparable Reserve Bank policies is considered to be confidential payment system oversight information. In general, information fully or partially derived from such collections is also confidential payment system oversight information. Payment system oversight information may lose its status as confidential payment system oversight information, however, if it is sufficiently aggregated. It also may cease to be treated as confidential if the relevant external systems agree to such treatment. Confidential payment system oversight information often includes gross and net settlement data, settlement-position data for individual participants, transaction-level data, or other information specific to the external system. The handling of all payment system oversight information is subject to this policy and other applicable Board or Reserve Bank rules and policies, including applicable rules and policies on supervisory information. This policy is intended to be consistent with such other rules and policies.

For the purposes of the Standards Related to the Priced-Service Activities of the Federal Reserve Banks (the standards), confidential payment system oversight information should be treated in the same manner as confidential information collected for monetary policy, bank supervision, or the lending functions of the Federal Reserve Banks. Confidential payment system oversight information should be provided to Federal Reserve Bank priced-services personnel only as described in the standards.

Except as permitted by the standards or with the express permission of the relevant external system, confidential payment system oversight information should be used by the Federal Reserve Banks only to further monetary policy, bank supervision, payment system oversight, or lending and risk management objectives. S-2617; July 3, 2003.

6-015**INQUIRIES--System Policy**

When a Reserve Bank receives an inquiry involving a policy matter of concern to the System as a whole, the reply to which would not be governed by any existing instructions or agreement, the Reserve Bank should submit the inquiry to the Board along with the Federal Reserve agent's suggestions concerning the nature of the reply. X-7030; Nov. 23, 1931.

6-016

INQUIRIES--Involving a Government Department or Agency

A Federal Reserve Bank confronted with an issue that requires dealing with a department or agency of the federal government should advise the Board of the circumstances and preferred disposition.

From time to time, matters have arisen at the Federal Reserve Banks, the effective disposition of which made it advisable that they be taken up with a department or agency of the government.

It has been the experience of the Board that more satisfactory results, from the standpoint of the System as a whole, have been obtained in such cases when the matter was first brought to the attention of the Board by the Federal Reserve Bank and in turn taken up by the Board, either separately or in conjunction with the Federal Reserve Bank, with the department or agency involved. Accordingly, it is suggested that when such a question arises in the future your bank communicate with the Board by letter or telegram advising in such detail as the circumstances may require regarding the matter and, if possible, the disposition which your bank would prefer to have made of it.

This suggestion, of course, does not apply to routine matters which relate to the performance of work by a Federal Reserve Bank as fiscal agent, custodian or depository for a particular department or agency of the government, but rather to other questions which the Federal Reserve Bank feels should be taken up with a government department or agency or to questions which involve System policy or procedure. Also, it is not intended to change in any way the procedure with respect to foreign relationships of Federal Reserve Banks * * *. S-69; Jan. 24, 1938.

For procedure regarding foreign relationships of Reserve Banks, see FRRS 7-084.

6-017**INQUIRIES--Addressed to Chairman, Received by Reserve Banks**

All original correspondence received at the Banks that is addressed to the chairman of the Board should be forwarded immediately to the chairman's office for response. This procedure applies regardless of the subject matter. If the letter involves individuals or practices at a Reserve Bank, we would also appreciate having the name of a contact person at the Bank who could help in drafting a response. S-2495; Dec. 27, 1985.

6-035

STATE LAW--Unclaimed or Abandoned Property Statute

Reserve Banks should refrain from complying with a state's unclaimed- or abandoned-property statute.

As early as July 18, 1963, the Board maintained the position that the Reserve Banks should refrain from complying with a state's unclaimed- or abandoned-property statute. The Board has consistently affirmed this position and indicated that, in accordance therewith, Reserve Banks should respond to communications from a state regarding compliance with such laws by asserting that it is exempt therefrom. S-2005; Oct. 4, 1966.