Evaluation Report
2026-FMIC-B-013
September 1, 2026

Board of Governors of the Federal Reserve System

The Board Can Strengthen Its Processes for Selecting Certain Federal Reserve Bank Leaders

Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Executive Summary, 2026-FMIC-B-013, September 1, 2026

The Board Can Strengthen Its Processes for Selecting Certain Federal Reserve Bank Leaders

Findings

The Board of Governors of the Federal Reserve System can strengthen its processes for appointing, approving, and consulting on certain Federal Reserve Bank leadership selections.

For Class C directors, who sit on Reserve Bank boards of directors,

- The Board does not prescreen candidates for possible conflicts or inform them of specific prohibited stockholdings before appointment. The Board also does not have Class C directors personally review and account for their financial interests and transactions to ensure there are no potential conflicts, policy violations, or eligibility issues; attest that they understand that stockholdings of spouses and minor children may affect their eligibility; or certify they understand they are subject to federal conflict of interest laws.
- The Board has not documented its expected candidate selection process to Reserve Banks in detail, including identifying the Reserve Bank personnel to be involved and their roles and responsibilities. This omission has resulted in the Board's Office of the Secretary not being fully aware of certain practices that vary among Reserve Banks. In addition, many Reserve Banks allow Class A directors to participate in selecting Class C directors, which may give member banks undue influence over the composition of the board of directors.
- The Board has not clearly defined the roles of members of its Committee on Federal Reserve Bank Affairs (BAC) in overseeing the appointment of Class C directors. Clarifying and documenting these roles will strengthen organizational governance.

For Reserve Bank presidents and first vice presidents, the Board's approval process has key controls, but its written guidance does not require Reserve Banks to identify or report potential conflicts of interest between candidates and external search firms. Addressing this risk will limit the possibility of potential conflicts of interest.

For certain executive leadership positions at Reserve Banks, the Board has not provided detailed written guidance about the expected roles and responsibilities for Board and Reserve Bank personnel during consultations preceding those selections. Providing guidance will help ensure consistency and clarity in these processes and help preserve institutional knowledge.

Recommendations

We have 10 recommendations to strengthen the Board's processes for appointing, approving, and consulting on certain Reserve Bank leaders. In its response to our draft report, the Board concurred with our recommendations and outlined planned actions to address the recommendations. We will follow up to ensure that the recommendations are fully addressed.

Purpose

Our evaluation assesses the design and implementation of the Board's processes for appointing, approving, and consulting on the selection of certain Reserve Bank leaders.

Background

The Board of Governors appoints three Class C directors to each Reserve Bank's board of directors, and the Board's Office of the Secretary facilitates this annual process under the BAC chair's guidance. The Board of Governors also approves Reserve Bank president and first vice president appointments made by the Reserve Banks' boards of directors, while the BAC chair and the Board Division of Reserve Bank Operations and Payment Systems oversee this process. The Board also consults with Reserve Banks on the selection of certain executive leadership positions, including general auditors, senior supervisory officers, and chief financial officers.

Recommendations, 2026-FMIC-B-013, September 1, 2026

The Board Can Strengthen Its Processes for Selecting Certain Federal Reserve Bank Leaders

Finding 1: The Board Should Enhance Processes for Assessing Class C Directors' Financial Interests and Eligibility Related to Investments

Number	Recommendations	Responsible office
1	Review the FRAM policy for Class C director eligibility and update the FRAM, as necessary.	Office of the Secretary
2	Update the current certification or implement a new certification to have Class C directors and candidates personally certify that they are eligible, based on the Board's policy and any updated FRAM requirements made based on recommendation 1, to serve as a director before their appointment and annually. This certification process should include providing candidates with the Board's list of financial institutions supervised by the System and include attestations that they a. have reviewed and accounted for their stockholdings, investment transactions, and financial interests (including those of their spouse and minor children). b. have informed the appropriate official about any financial interests that may affect their eligibility. c. have advised their spouse and investment advisers for themselves, their spouse, and minor children of stockholdings that could affect the candidate's eligibility to serve as a director.	Office of the Secretary
3	Include in the updated certification from recommendation 1, or in a new certification, a provision certifying that the Class C directors understand they are subject to the federal conflicts of interest statute and related criminal penalties.	Office of the Secretary

Finding 2: The Board Should Provide Reserve Banks with Written Guidance Detailing the Process and Defining the Roles and Responsibilities for Selecting Class C Directors

Number	Recommendation	Responsible office
4	Provide written guidance to Reserve Banks that details the process and outlines the roles and responsibilities for personnel who recruit and approve Reserve Bank presidents' nominations of Class C directors.	Office of the Secretary, in consultation with the chair of the Committee on Federal Reserve Bank Affairs
5	Evaluate and determine whether Class A directors should have any role in selecting Class C directors.	Office of the Secretary, in consultation with the chair of the Committee on Federal Reserve Bank Affairs

Finding 3: The Board Should Update BAC Governance Documents to Define the Roles and Responsibilities for Selecting Class C Directors

Number	Recommendation	Responsible office
6	Coordinate, as necessary, with the BAC secretariat to review and document the roles and responsibilities and the expected involvement of BAC members for appointing Class C directors.	Office of the Secretary, in consultation with the chair of the Committee on Federal Reserve Bank Affairs

Finding 4: The Board Can Enhance Controls to Mitigate Conflicts of Interest When Reserve Banks Use External Search Firms

Number	Recommendations	Responsible office
7	Update written guidance issued to Reserve Banks to incorporate measures for identifying and reporting to the Board potential conflicts of interest between the external search firm and candidates.	Division of Reserve Bank Operations and Payment Systems
8	Oversee updates to Reserve Bank contracts to require that all search firm vendors have a duty to monitor, disclose, and timely report any potential conflicts of interest between firms and candidates.	Division of Reserve Bank Operations and Payment Systems

Finding 5: The Board Should Document Expected Roles and Responsibilities for Reserve Bank Executive Consultations

Number	Recommendations	Responsible office
9	Issue guidance to Reserve Banks describing the Board's expected roles and responsibilities in the consultation process for appointing general auditors and CFOs.	Division of Reserve Bank Operations and Payment Systems Division, in consultation with the chair of the Committee on Federal Reserve Bank Affairs
10	Issue guidance to Reserve Banks describing the Board's expected roles and responsibilities in the consultation process for appointing senior supervisory officers.	Division of Supervision and Regulation, in consultation with the chair of the Committee on Supervision and Regulation

Contents

Introduction

Objective

We assessed the design and implementation of the Board of Governors of the Federal Reserve System's processes for appointing, approving, and consulting on the selection of Federal Reserve Bank Class C directors, presidents, first vice presidents, general auditors, senior supervisory officers, and chief financial officers (CFOs) from 2021 through 2024. Our evaluation included the Board's processes for identifying and resolving potential conflicts of interest for candidates for these positions.

To accomplish our objective, we reviewed applicable laws, Board policies and procedures, publicly available information, and leading practices for selecting bank governing boards and defining their roles and responsibilities.[1] We interviewed relevant officials from the Board's Office of the Secretary (OSEC), Division of Reserve Bank Operations and Payment Systems (RBOPS), Division of Supervision and Regulation (S&R), and Legal Division. We also interviewed seven governors and conducted outreach with officials from each of the 12 Reserve Banks. Details on our scope and methodology are in appendix A.

Background

The Federal Reserve System

The Federal Reserve System is the nation's central bank. Pursuant to the Federal Reserve Act, the System consists of the Board; 12 Reserve Banks; and the Federal Open Market Committee (FOMC). Among its purposes and functions, the System promotes the effective operation of the nation's economy and serves the public interest.

The Board has seven governors, who are nominated by the president and confirmed by the Senate. The Board's responsibilities include conducting general oversight of the 12 Reserve Banks, formulating monetary policy, promoting financial stability, ensuring the safety and soundness of certain financial institutions, and overseeing the nation's payment system. Much of the Board of Governors' decisionmaking occurs in regular board meetings; through notation voting; or through delegations of its authority, including to Reserve Banks. The Board has established a committee structure of seven standing committees and one standing subcommittee. Each standing committee consists of up to three governors, one of whom serves as committee chair. The committees are advisory bodies and do not have decisionmaking authority.

The 12 Reserve Banks operate in distinct geographic regions. Those Reserve Banks execute certain core functions for the System, including supervising and examining financial institutions, lending to depository institutions, enforcing consumer protection and fair lending laws within the System's jurisdiction, promoting local community development, and fostering safe and efficient payment systems.

[1] We reviewed leading practices from Basel Committee on Banking Supervision, *Corporate Governance Principles for Banks*, July 2015.

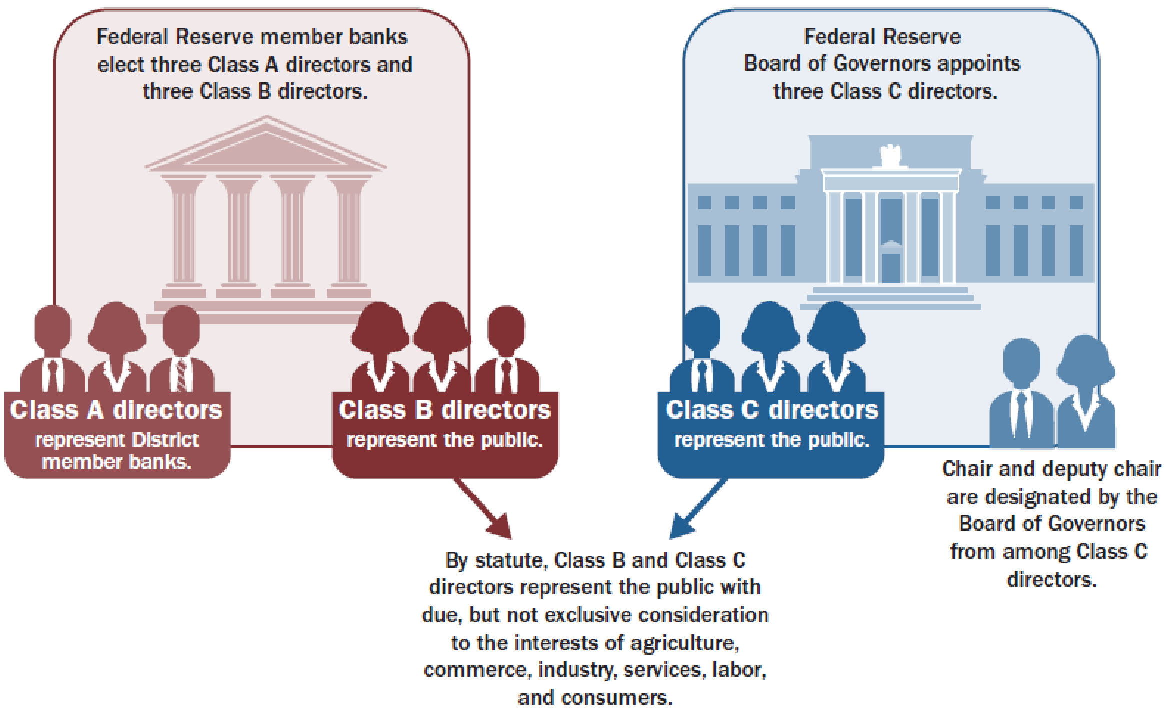
The FOMC establishes U.S. monetary policy at meetings held at least eight times each year. The FOMC is a 12-person group of System officials—the 7 governors; the president of the Federal Reserve Bank of New York; and 4 of the remaining 11 Reserve Bank presidents, who serve 1-year rotating terms.

Reserve Bank Leaders

Pursuant to the Federal Reserve Act, each Reserve Bank has a president and first vice president who serve as chief executive officer and chief operating officer, respectively. Reserve Banks also have an executive team that oversees the various departments executing aspects of day-to-day operations. The executive team includes a general auditor, a senior supervisory officer, and a CFO.

The Federal Reserve Act also provides that each Reserve Bank has a nine-member board of directors, consisting of three Class A directors, three Class B directors, and three Class C directors, that oversees that Reserve Bank's activities (figure 1).

Figure 1. Reserve Bank Board of Directors



Source: Board of Governors of the Federal Reserve System, "Overview: Federal Reserve System Boards of Directors," January 5, 2024.

Note: In this report, we refer to *Federal Reserve member banks* as *state member banks.*

While the nine directors serve similar functions, they have separate selection processes according to director class type.

- State member banks elect the Class A directors who represent those banks.[2]
- State member banks also elect the Class B directors who represent the public with due consideration for the interests of agriculture, commerce, industry, services, labor, and consumers.
- The Board appoints the Class C directors who represent the public with due consideration for the same interests. The Board designates two Class C directors of each Reserve Bank as chair and deputy chair of the Reserve Banks' boards of directors for 1-year terms.

THE ROLES OF RESERVE BANK LEADERS

Directors oversee a Reserve Bank's operations and its corporate governance functions. Although directors do not have direct access to confidential FOMC or supervisory information, they act as a link between the System and the public and may also help formulate monetary policy by supporting a Reserve Bank president's FOMC activities.

Presidents function as chief executive officers and may also contribute directly to monetary policy decisions as part of the FOMC.

First vice presidents function as chief operating officers and are key advisors to presidents. They assume the role of the chief executive officer in the absence of a president.

General auditors act independently of management and oversee a Reserve Bank's Internal Audit function. General auditors report directly to the Reserve Bank's board of directors.

Senior supervisory officers oversee the execution of a Reserve Bank's financial institution oversight activities. Those activities seek to ensure and promote the safe and sound operation of supervised financial institutions.

CFOs oversee corporate accounting, financial management, procurement, payment services, the budget, and all significant financial considerations including financial statements and internal controls.

Selection of Reserve Bank Leaders

The Board's Committee on Federal Reserve Bank Affairs (BAC) oversees the appointment of Class C directors and the selection of certain Reserve Bank executives, including presidents, first vice presidents, and general auditors. The chair of the Board's Committee on Supervision and Regulation (CSR) consults

[2] *State member banks* are state-chartered banks that have chosen to join, and be supervised by, the System.

on the selection of new senior supervisory officers, and RBOPS consults with Reserve Banks when selecting new CFOs.

Class C Director Appointments

The Board appoints Class C directors to serve staggered, 3-year terms. Class C directors can generally serve two full terms or up to 7 consecutive years if initially selected to fill the remainder of a former Class C director's unexpired term. From 2021 to 2024, the Board appointed 31 Class C directors.

Class C directors are appointed by the Board through an annual process overseen by the BAC (figure 2).[3] OSEC, as part of the Board's corporate governance oversight function, facilitates the appointment process under the BAC's guidance. The Board relies on Reserve Bank personnel to recruit and nominate Class C directors, with the BAC chair providing guidance on candidate qualifications. OSEC and the BAC chair provide Reserve Banks with verbal guidance throughout the process, a written overview with a time frame for completing the process, and attestations for the appointed Class C directors to sign. The Board formally appoints Class C directors by conducting a notation vote for the candidates, who have been identified by the Reserve Banks and recommended for nomination by the Reserve Bank president. The Board's *Federal Reserve Administrative Manual* (FRAM) provides that a Class C director candidate must divest any financial interests prohibited by Board policy or federal law before taking office.

[3] The BAC charter sets the committee's oversight areas, including Class C director appointments and Reserve Bank president approvals.

Figure 2. The Board's Annual Process for Appointing Class C Directors

Source: OIG analysis of Board documents.

The attestations for the Class C directors include an acceptance letter, an oath of office, and an annual certification evidencing directors' compliance with stockholding restrictions. The acceptance letter signed by the Class C directors, after their appointment but before starting their term, acknowledges that they will observe all System policies, including those related to affiliation and stockholding restrictions, impermissible political activities, and standards of ethical conduct. The oath of office includes a statement that they will not be an officer, employee, director, or stockholder of any commercial bank or bank holding company. The annual certification attests that the Class C directors do not have any prohibited affiliations or stockholdings, will consult with their Reserve Bank if they acquire any potentially impermissible stockholdings, and will advise their investment managers (if applicable) of the stockholding restrictions and direct the investment manager to comply with the restrictions.

President and First Vice President Approvals

Under the Federal Reserve Act, the Reserve Bank presidents and first vice presidents are appointed to 5-year terms by the Class B and Class C directors with the Board's approval.[4] To identify its recommended candidate for president and first vice president, the board of directors forms a search committee of Class B and Class C directors who are unaffiliated with supervised institutions.[5] The Board generally expects search committees to engage an external firm to assist in the search process.[6] During the scope period for our evaluation, the Board of Governors approved six Reserve Bank presidents and nine first vice presidents.

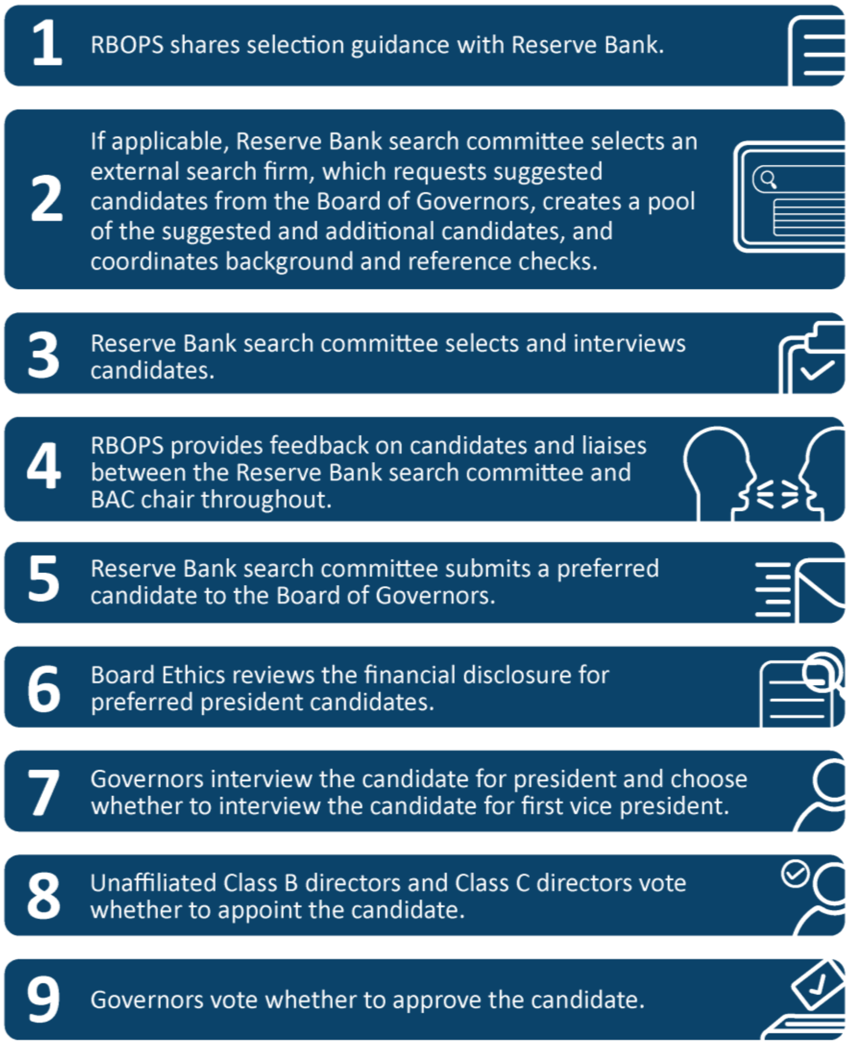
The BAC charter states that the BAC chair consults with Reserve Bank boards of directors and their designated search committees regarding the appointment process for Reserve Bank presidents and first vice presidents. RBOPS facilitates this process on behalf of the Board and provides guidance to Reserve Banks (figure 3).

[4] The FRAM notes that, as a result of Congress's decision to exclude Class A directors from the appointment of Reserve Bank presidents and first vice presidents because of concerns about potential conflicts of interest, "Class A directors may not participate in most aspects of the appointment process of Reserve Bank presidents and first vice presidents. This prohibition . . . means that Class A directors may not (a) be on the search committee for a president or first vice president or take part in its deliberations or the deliberations of the board of directors regarding candidates; or (b) vote for a president or first vice president, including voting on the periodic reappointment of president or first vice president. Class A directors may provide input to members of the search committee regarding particular candidates in the same manner and to the same extent that other bankers outside the System provide such input."

[5] Affiliated Class B directors are individuals who serve as an officer, director, or employee of a thrift holding company or any company that owns a bank or thrift institution but may not serve in those roles for any bank or thrift institution or a subsidiary of either. These directors are selected because of their connection with the nondepository activities of the company. FRAM 1-067 prohibits affiliated Class B directors from voting to appoint Reserve Bank presidents and first vice presidents. Class C directors are not allowed to have these affiliations.

[6] The Reserve Banks used three external search firms for all the president searches in our scope. For first vice president searches, two of these firms were used, along with one additional firm, except in two instances where the Reserve Banks selected an internal candidate.

Figure 3. The Board's Process for Approving Reserve Bank Presidents and First Vice Presidents



Source: OIG analysis of Board documents.

General Auditor, Senior Supervisory Officer, and CFO Consultations

The Federal Reserve Act authorizes the Reserve Bank directors to appoint and dismiss Reserve Bank officers, who report to the Reserve Bank president. The Board consults with Reserve Bank leadership on some, but not all, executive selections before appointment: specifically, general auditors, supervisory officers, and CFOs. During the scope period for our evaluation, the Board completed all the consultations for these positions, consisting of five general auditors, eight senior supervisory officers, and seven CFOs.

The FRAM provides that, "recognizing the mutual interests served by an independent general auditor and internal audit function," the Board "requests" that the chair of a Reserve Bank board of directors consult the BAC chair at least 2 weeks before appointing a new general auditor. It also states that, "in recognition of the importance of having a well-qualified senior supervisory officer in each Bank who works collaboratively with the Board in carrying out the Bank's delegated supervisory responsibilities," a Reserve

Bank president “should consult” the CSR chair before appointing a new senior supervisory officer.[7] The FRAM is silent on whether the Reserve Banks should consult with the Board before appointing new CFOs. However, an RBOPS officer told us that about 3 years ago, the RBOPS director began requesting that Reserve Bank first vice presidents consult with RBOPS on new CFO appointments because of high turnover and the position’s key duties, which include accurate financial reporting and effective stewardship of resources.

[7] The CSR, through its chair, advises the Board on supervisory and regulatory matters for financial institutions by providing guidance on regulations and policies, offering guidance to staff, and exercising Board-delegated approval authorities.

Finding 1: The Board Should Enhance Processes for Assessing Class C Directors' Financial Interests and Eligibility Related to Investments

The Federal Reserve Act prohibits Class C directors from holding stock in any bank,[8] and the FRAM prohibits Class C directors from holding stock in any financial stock issuer.[9] The Board maintains and updates monthly a list of financial institutions supervised by the Federal Reserve, but the list is not exhaustive of holdings prohibited by law or policy. As of June 2025, the list included over 3,900 institutions. Additionally, as stated in the FRAM, Reserve Bank directors, including Class C directors, are subject to the federal criminal conflict of interest law, 18 U.S.C. § 208. This statute prohibits directors from participating personally and substantially in a particular matter that will affect their financial interests or the financial interests of other individuals or organizations they have a relationship with, including their spouse and minor children. Although the U.S. Office of Government Ethics (OGE) has narrowed the applicability of section 208 to Reserve Bank directors,[10] the FRAM states that directors should avoid any action that might result in or create the appearance of (1) adversely affecting public confidence in the integrity of the System or (2) using their position as directors for private gain.

While the Board has assigned Reserve Banks the responsibility for advising director candidates about prohibited stockholdings and requires that candidates divest any prohibited stockholdings before taking office, the Board does not provide such candidates with its list of prohibited stockholdings before appointment.[11] During the search process, only one Reserve Bank proactively provides candidates with this list. While Reserve Banks explain statutory and supplementary FRAM stockholding restrictions to candidates, candidates do not complete investment-related attestations until after appointment. The

[8] 12 U.S.C. § 303.

[9] The FRAM defines *financial stock issuers* as bank holding companies, foreign banks, Edge Act or agreement corporations, subsidiaries of bank holding companies, operating subsidiaries of a bank, Designated Financial Market Utilities, or Systemically Important Financial Institutions.

[10] The OGE has established a regulatory exemption from the application of 18 U.S.C. § 208 for Reserve Bank directors on particular matters, which states that directors of Reserve Banks (or a Reserve Bank branch) may participate in the following matters in which they, or those whose interests are imputed to them, have a disqualifying financial interest: (1) establishment of rates for advances and discounts by Reserve Banks; (2) consideration of monetary policy matters, regulations, statutes and proposed or pending legislation, and other matters of broad applicability intended to have uniform application to banks within the Reserve Bank District; (3) approval or ratification of extensions of credit, advances, or discounts to a depository institution that has not been determined to be in a hazardous financial condition by the president of the Reserve Bank; or (4) approval or ratification of extensions of credit, advances, or discounts to a depository institution that has been determined to be in a hazardous financial condition by the president of the Reserve Bank, provided that the disqualifying financial interest arises from the ownership of stock in, or service as an officer, director, trustee, general partner or employee, of an entity other than the depository institution, or its parent holding company or subsidiary of such holding company. 5 C.F.R. § 2640.203(h).

[11] All Reserve Banks provide the list to current Class C directors after they begin service.

OGE has recognized preemployment screening as a model practice because such screening informs candidates of potential ethics issues before they begin service.

Further, the Board's postappointment attestations do not fully address eligibility factors, and the Board does not require Class C directors to evaluate and disclose potential conflicts unrelated to procurements on an ongoing basis. Specifically, the Board does not require that Class C directors:

- **Personally account for their stockholdings**. The OGE has highlighted potential increased conflicts of interest risks for individuals that invest in managed accounts because these accounts frequently invest in a large number of stocks and the investment decisions are often made without consulting with the accountholder.[12] However, the Board's annual certification allows Class C directors who have investment advisers to certify compliance regarding their stockholdings based on their "inquiries of or instructions to [their] investment adviser." Therefore, the Board does not require Class C directors with investment advisers to take steps to personally account for their own stockholdings.[13]
- **Personally account for their investment transactions.** The FRAM prohibits Class C directors from deliberately acquiring prohibited stockholdings. It further states that 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. However, the Board's annual certification does not require Class C directors to review and personally account for their trading activity during the preceding year.
- **Understand the stockholdings of their spouse and minor children and advise them on stockholdings that may affect the director's eligibility to serve**. While Class C director's spouses and minor children are not prohibited from owning certain financial stocks, the FRAM states that the Board will consider ownership of such stocks when assessing Class C director eligibility for appointment. Also, the FRAM states that directors whose spouse or minor child own such stock may be prohibited by federal statute from acting on certain matters. However, the annual certifications do not cover this topic, nor do they establish any expectations for Class C directors' diligence in identifying and disclosing holdings of their spouses and minor children that may be relevant to eligibility.
- **Assess financial interests for potential conflicts or violations of System policies, report any such potential conflicts or violations, and understand that they are subject to the federal criminal conflict of interest law**. The FRAM refers to Class C directors being subject to federal ethics laws and states that directors should avoid any action that might result in or create the appearance of a potential conflict or use of their position for private gain. However, the Board does not have directors certify that they are aware they are subject to the law or continuously assess their financial interests for potential conflicts or violations of System policies and report any issues to

[12] The OGE defines a *managed account* as an account that is owned by the investor but managed for a fee by a financial advisor. The advisor has the discretion to buy, sell, and trade investments on behalf of the investor.

[13] In such circumstances, directors are required to obtain a certification from their investment adviser stating that the director's investments "comply, to the best of the investment adviser's knowledge based on reasonable inquiry, with the stockholding rules in the [FRAM]."

the appropriate party, other than when considering individual procurements.[14] It also does not have them certify that they are potentially subject to criminal penalties if a director participates in a matter in which the director, their spouse, minor children, or business have a financial interest. As a result, the director and the Board may be unaware of actual or apparent conflicts of interest or policy violations.

OSEC staff told us that its long-standing process involved Reserve Bank personnel explaining to candidates applicable rules and policies and confirming candidates' willingness to comply with them.

A more thorough preappointment attestation process will help the Board identify potential eligibility and conflicts of interest issues so the Board can either (1) address them before service begins or (2) determine they cannot be resolved, thereby avoiding having to rescind an appointment. Further, a more thorough postappointment annual certification can help the Board avoid actual or perceived conflicts of interest or violations of System policy for Class C directors. Although directors are exempt from certain provisions of federal conflict of interest laws, their potential involvement in (1) advising Reserve Bank presidents on monetary policy before FOMC meetings and (2) participating in post-FOMC debriefs could give directors the opportunity to use—or create the appearance that they used—sensitive nonpublic information for personal gain and damage public confidence in the System's integrity.

Management's Clarifications to Draft Report

After reviewing a draft of our report, OSEC officials informed us that they believe the FRAM language that links Class C director eligibility and the federal conflict of interest statute may not apply because directors are prohibited by policy from directly accessing FOMC and confidential supervisory information.[15] We confirmed that Class C directors did not have direct access to the FOMC portal during our scope period. However, we found that directors have received briefings in advance of FOMC meetings and participated in FOMC debrief calls. These activities create potential opportunities for directors to obtain and use nonpublic FOMC information for their personal benefit. We believe that incoming directors need to be made aware of their duties and the federal conflicts of interest statute and related criminal penalties.

[14] Though the OGE has narrowed the applicability of section 208 to Class C Directors, FRAM 1-065 requires directors to evaluate and consider potential conflicting financial interests when considering individual procurements. It also requires directors to consult with the Reserve Bank ethics officer if they have a potential conflict regarding those procurements.

FRAM 1-061 also states that ". . . 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 financial stock issuer 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."

[15] Under 12 C.F.R. § 261.2(b)(1), "Rules Regarding the Availability of Information," confidential supervisory information is nonpublic information that is exempt from disclosure pursuant to 5 U.S.C. § 552(b)(8) and includes information created or obtained in furtherance of the Board's supervisory, investigatory, or enforcement activities, including activities conducted by a Reserve Bank under delegated authority.

Recommendations

We recommend that the secretary of the Board

1. Review the FRAM policy for Class C director eligibility and update the FRAM, as necessary.
2. Update the current certification or implement a new certification to have Class C directors and candidates personally certify that they are eligible, based on the Board's policy and any updated FRAM requirements made based on recommendation 1, to serve as a director before their appointment and annually. This certification process should include providing candidates with the Board's list of financial institutions supervised by the System and include attestations that they
    a. have reviewed and accounted for their stockholdings, investment transactions, and financial interests (including those of their spouse and minor children).
    b. have informed the appropriate official about any financial interests that may affect their eligibility.
    c. have advised their spouse and investment advisers for themselves, their spouse, and any minor children of stockholdings that could affect the candidate's eligibility to serve as a director.
3. Include in the updated certification from recommendation 1, or in a new certification, a provision certifying that the Class C directors understand they are subject to the federal conflicts of interest statute and related criminal penalties.

Management Response

In response to our draft report, the secretary of the Board stated that OSEC partially concurs with our finding. Specifically, OSEC stated that Class C directors do not have direct or indirect access to the FOMC portal; System staff and policymakers are prohibited from providing any confidential FOMC information to directors; and briefings before and after FOMC meetings do not disclose confidential FOMC or supervisory information. OSEC further added that, even if directors were improperly exposed to confidential information, the application of the financial conflict of interest law is unrelated to an individual's access to or knowledge of information.

The secretary of the Board concurred with our recommendations and expects to submit proposed policy and certification revisions for the Board of Governors' approval by the second quarter of 2027; OSEC estimates that receiving approval could take an additional 6 months.

OIG Comment

OSEC believes that prohibitions on staff and policymakers providing Class C directors FOMC and confidential supervisory information help ensure that briefings attended by directors before and after FOMC meetings only cover nonconfidential information topics. While that is likely true in most instances, we have reviewed meeting minutes for those briefings and identified instances in which sensitive FOMC information could have been shared with directors despite existing policy restrictions. For example, minutes from a Reserve Bank meeting that was held 1 day after an FOMC meeting stated that the Reserve Bank president provided updates from the recent FOMC meeting to directors and held a broadranging discussion about various topics, including projected inflation trends and emerging global economic uncertainty. Such a forward-looking discussion of economic conditions days after an FOMC meeting could cover nonpublic confidential information.

The actions described by the secretary of the Board appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.

Finding 2: The Board Should Provide Reserve Banks with Written Guidance Detailing the Process and Defining the Roles and Responsibilities for Selecting Class C Directors

The Board has not provided detailed written guidance to Reserve Banks outlining the process for selecting Class C directors, including what practices should be followed, the personnel involved in the selection process, and their respective roles and responsibilities. Specifically, OSEC provides Reserve Banks with verbal guidance throughout the selection process as well as a written overview with a time frame and key steps for completing the process. However, the overview does not include preferred or best practices or specific roles and responsibilities for personnel who recruit and approve the Reserve Bank president's nomination of Class C directors, including whether Class A directors should be involved in Class C director selection and whether their involvement gives state member banks undue influence over the composition of the entire board of directors. The Board and Reserve Banks then select Class C directors through discussions among the BAC chair, OSEC, and Reserve Bank personnel to determine the best candidate.

The Basel Committee on Banking Supervision's *Corporate Governance Principles for Banks* states that boards should have a clear and rigorous process for identifying and selecting board candidates. Further, the U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* states that government organizations should establish structure and communicate the *who*, *what*, *when*, *where*, and *why* of processes. These standards also state that documentation helps to retain organizational knowledge.

OSEC officials explained that the appointment process has been long established and continued by successive BAC chairs.

The Board's lack of written guidance has led to Reserve Banks developing varied selection processes and OSEC not being fully aware of those processes. For example, OSEC was unaware of one Reserve Bank's preappointment due-diligence practices for prospective directors. Further, the lack of written guidance from the Board has resulted in 9 of the 12 Reserve Banks allowing Class A directors to be involved in recruiting or approving the Reserve Bank president's nomination of Class C directors to the Board of Governors for appointment. As stated above, the involvement of Class A directors in the selection of Class C directors may give member banks undue influence over the composition of the entire board of directors, rather than reinforcing the Federal Reserve Act's mandate that the Board of Governors appoint Class C directors.

Recommendations

We recommend that the secretary of the Board, in consultation with the BAC chair,

4. Provide written guidance to Reserve Banks that details the process and outlines the roles and responsibilities for personnel who recruit and approve Reserve Bank presidents' nominations of Class C directors.
5. Evaluate and determine whether Class A directors should have any role in selecting Class C directors.

Management Response

In response to our draft report, the secretary of the Board concurred with our finding and recommendations. OSEC plans to address recommendation 4 by the second quarter of 2027 and to submit policy revisions that address recommendation 5 for the Board of Governors' approval by the second quarter of 2027; OSEC estimates that receiving approval could take an additional 6 months.

OIG Comment

The actions described by the secretary of the Board appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.

Finding 3: The Board Should Update BAC Governance Documents to Define the Roles and Responsibilities for Selecting Class C Directors

While the BAC charter assigns clear oversight responsibility to the BAC chair alone for the Reserve Bank president and first vice president selection processes, it does not clearly define the roles and responsibilities for overseeing the process of appointing Class C directors. Specifically, the BAC charter states that the full BAC will review the appointments, but in practice the BAC chair is the only member who oversees the process and sets priorities for OSEC and the Reserve Banks. The remaining BAC members review draft appointment memorandums during a 3-day window before the notation vote by the full Board of Governors. BAC members stated that they do not discuss Class C director appointments before the notation vote. A BAC member also told us that they received no information about candidates before receiving the draft appointment memorandums.

The Basel Committee on Banking Supervision's *Corporate Governance Principles for Banks* states that each committee should have a charter or other instrument that sets out its mandate, scope, and working procedures. This charter should include how the committee will report to the full board and what is expected of committee members.

OSEC officials explained that the current Class C director appointment process has been long established and continued by successive BAC chairs. OSEC's perspective was that providing the BAC members with a 3-day feedback period prior to notation vote met the intent of the charter mandate that all members review appointments.

Although OSEC officials believed they were meeting the charter's intent, a BAC member told us they, as a committee member, should have greater involvement in overseeing the Class C director process. Clarifying and documenting the roles and responsibilities of all governors on the BAC for selecting Class C directors will strengthen organizational governance.

Recommendation

We recommend that the secretary of the Board, in consultation with the BAC chair,

6. Coordinate, as necessary, with the BAC secretariat to review and document the roles and responsibilities and the expected involvement of BAC members for appointing Class C directors.

Management Response

In response to our draft report, the secretary of the Board concurred with our finding and recommendation. OSEC plans to consult the Legal Division to determine the appropriate mechanism for proposing revisions to Board committee charters. OSEC anticipates completing its review and consultation by the second quarter of 2027 but stated that the formal revision process will take additional time and did not provide an estimated date of completion.

OIG Comment

The actions described by the secretary of the Board appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.

Finding 4: The Board Can Enhance Controls to Mitigate Conflicts of Interest When Reserve Banks Use External Search Firms

Overall, the Board has designed and implemented a documented process with key controls for approving Reserve Bank presidents and first vice presidents. The process includes search committees using an external search firm to identify qualified candidates, Board Ethics conducting preappointment reviews of candidates' financial disclosures, and RBOPS leadership providing guidance to Reserve Banks and overseeing the entire approval process. However, RBOPS guidance for selecting presidents and first vice presidents does not require Reserve Banks to identify or report potential conflicts of interest between search firms and candidates. In addition, the external search firm contracts we reviewed did not include clauses or disclosure expectations requiring notice of potential conflicts of interest between candidates and the firms' employees upon detecting such conflicts.

The Basel Committee on Banking Supervision's *Corporate Governance Principles for Banks* states that boards should oversee the implementation and operation of policies to identify potential conflicts of interest. In addition, GAO's *Standards for Internal Control in the Federal Government* requires program management to identify risks by considering significant interactions with external parties and to design specific responses that address those risks.

An RBOPS official stated that they do not require Reserve Banks to identify potential conflicts of interest between candidates and external search firms because doing so may dissuade qualified search firms and limit the number of qualified and interested candidates. However, both RBOPS and Board Ethics officials stated that they have started to encourage Reserve Banks to have candidates complete financial disclosures earlier in the selection process to identify spousal conflicts.[16]

Implementing controls for the Reserve Banks to identify and report to the Board perceived or actual conflicts of interest between external search firms and potential candidates will limit the risk that the following situation recurs. During our scope period, one appointed Reserve Bank president's spouse was a managing director at the external search firm leading the candidate selection process. The relevant Reserve Bank did not learn of this potential conflict until 4 months after the candidate applied, and it did not notify the Board when it became aware of the situation. Board Ethics separately identified the potential conflict a week after the Reserve Bank upon reviewing the candidate's draft financial disclosure. Board Ethics reviewed the situation with the Reserve Bank's general counsel and decided against further follow-up because the spouse had not been involved in the search.[17] The search committee ultimately submitted the candidate as the preferred selection to the Board of Governors, whose approval of the candidate resulted in negative media attention for the System. In addition, if Reserve Banks require external search firms to identify conflicts of interest with candidates, Reserve Banks will appropriately place the burden for identifying such instances on the firms. Enhancing controls will also help to limit the

[16] Reserve Bank presidents' financial disclosures require that they report the source of any salary earned by their spouse.

[17] We also independently verified that the spouse did not have any involvement in or influence over the selection process.

perception that decisions have been influenced by personal or financial interests rather than the System's best interests.

Recommendations

We recommend the director of RBOPS

7. Update written guidance issued to Reserve Banks to incorporate measures for identifying and reporting to the Board potential conflicts of interest between the external search firm and candidates.
8. Oversee updates to Reserve Bank contracts to require that all search firm vendors have a duty to monitor, disclose, and timely report any potential conflicts of interest between firms and candidates.

Management Response

In response to our draft report, the acting director of RBOPS concurred with our finding and recommendations. RBOPS plans to address the recommendations by the first quarter of 2027.

OIG Comment

The actions described by the acting director of RBOPS appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.

Finding 5: The Board Should Document Expected Roles and Responsibilities for Reserve Bank Executive Consultations

While the FRAM outlines some high-level expectations for Reserve Bank executive consultations, it does not address all Board and Reserve Bank personnel involved in the general auditor and senior supervisory officer selection processes, nor does it include expectations for the CFO consultation process. The Board has also not provided supplemental guidance to address these areas. Specifically, the Board's actual practices with Reserve Bank executive consultations go beyond the FRAM, but those practices have not been documented in written guidance, as follows:

- General auditors. The FRAM requires Reserve Banks to consult directly with the BAC chair on appointments. In practice, the RBOPS director and other RBOPS leadership consult with the Reserve Bank first vice president or audit committee before the BAC chair. In addition, the BAC chair delegated oversight of this process to an RBOPS associate director responsible for Reserve Bank internal audit oversight, despite the BAC charter assigning responsibility for this process to the entire committee.
- Senior supervisory officer. The FRAM states that a Reserve Bank president should consult with the CSR chair before the Reserve Bank appointments. In practice, the S&R director and deputy director play a significant role in the process. The former CSR chair requested that Reserve Banks have the S&R director and deputy director participate in the interview process, provide input on the finalists' qualifications, and advise on the candidate selection.
- CFO. Although the FRAM does not require consultation for appointments, the RBOPS director requests that Reserve Banks consult with an RBOPS officer on new CFO appointments. This practice was not established or communicated through the FRAM or other written guidance.

GAO's *Standards for Internal Control in the Federal Governmen*t requires program management to document the program's internal control system and establish and communicate the *who*, *what*, *when*, *where*, and *why* of internal control execution to personnel. Policies and procedures communicate management expectations to personnel so that personnel can implement the control activities for their assigned responsibilities. In addition, policies and procedures also retain organizational knowledge, mitigate the risk of having that knowledge limited to a few personnel, and communicate that knowledge to relevant stakeholders.

An RBOPS official stated that RBOPS did not issue guidance to the Reserve Banks documenting expected roles and responsibilities for the general auditor consultation or add FRAM guidance for the CFO consultation because updating the FRAM is a difficult process that requires all governors' approval. The official stated that RBOPS has prioritized presenting other, higher-impact actions for governors' approval rather than Reserve Bank leadership selection activities.

An S&R official stated that S&R did not document expected roles and responsibilities for the senior supervisory officer consultation because the process can change based on the preferences of each new CSR chair.

Implementing guidance to the Reserve Banks that outlines expected roles and responsibilities can help ensure consistency and clarity in the selection process. In addition, guidance will help preserve institutional knowledge, which will be beneficial given the recent turnover in Board officials involved in these consultations (for example, the CSR chair, S&R director, and S&R deputy director).[18]

Management Actions

During our evaluation, the new CSR chair implemented a consultation process for appointing Reserve Bank senior supervisory officers, which was communicated to two Reserve Banks with recent openings. Although not formalized in guidance issued to all Reserve Banks, this process includes

- S&R reviewing the job description and recruitment plan
- the Reserve Bank notifying S&R of the slate of potential candidates
- S&R participating in the interview panel
- a final consultation between the Reserve Bank and S&R before selection

Recommendations

We recommend that the director of RBOPS, in consultation with the BAC chair,

9. Issue guidance to Reserve Banks describing the Board's expected roles and responsibilities in the consultation process for appointing general auditors and CFOs.

We recommend that the director of S&R, in consultation with the CSR chair,

10. Issue guidance to Reserve Banks describing the Board's expected roles and responsibilities in the consultation process for appointing senior supervisory officers.

Management Response

In response to our draft report, the acting director of RBOPS and the director of S&R concurred with our finding and recommendations. RBOPS and S&R plan to issue guidance addressing the recommendations, and may include additional Reserve Bank senior leadership positions in the guidance, by the fourth quarter of 2026.

[18] We do not have an opinion on whether the written guidance is provided in the FRAM or as a supplemental document shared with Reserve Banks.

OIG Comment

The actions described by the acting director of RBOPS and the director of S&R appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.

Appendix A: Scope and Methodology

We initiated this evaluation in October 2024 to assess the design and implementation of the Board's processes for appointing, approving, and consulting on the selection of Reserve Bank Class C directors, presidents, first vice presidents, general auditors, senior supervisory officers, and CFOs from 2021 through 2024. Our evaluation included the Board's processes for identifying and resolving potential conflicts of interest for candidates for these positions.

To accomplish our objective, we reviewed applicable laws, Board policies and procedures, and publicly available information. We also identified applicable criteria and leading practices from GAO's *Standards for Internal Control in the Federal Government* and the Basel Committee on Banking Supervision's *Guidelines on Corporate Governance Principles for Banks*.

We interviewed relevant Board officials from RBOPS, OSEC, S&R, and Legal and officials from a Reserve Bank. Further, we conducted outreach with all 12 Reserve Banks to better understand processes for identifying and recruiting Class C directors and the Board's consultation for senior supervisory officers. We reviewed five Reserve Bank external search firm contracts within our scope, including the 2023 Reserve Bank president search firm contract and the remaining four president and first vice president search firm contracts executed through the end of 2024. We also met with seven governors to brief them on the evaluation and gather information about their roles and insights on the selection processes.

We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. We conducted this work from October 2024 to March 2026.

Appendix B: Management Response

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

Michael VanHuysen
Associate Inspector General for Audits & Evaluations
Office of Inspector General
Board of Governors of the Federal Reserve System
Washington, DC 20551

August 12, 2026

Dear Mr. VanHuysen:

Thank you for the draft report, *The Board Can Strengthen Its Processes for Selecting Certain Federal Reserve Bank Leaders*, prepared by the Office of Inspector General (OIG). We appreciate the OIG's insights regarding Board processes related to the appointment of Class C directors and certain Reserve Bank executives, including the processes for identifying and resolving eligibility issues and potential conflicts of interest. The report provides 5 findings and 10 recommendations that merit further attention. In this joint response from the Office of the Secretary (OSEC), Division of Reserve Bank Operations and Payment Systems (RBOPS), and Division of Supervision and Regulation (S&R), we respond to each finding and the related recommendation(s) below.

Finding 1: The Board Should Enhance Processes for Assessing Class C Directors' Financial Interests and Eligibility Related to Investments

The draft report states that "[a]lthough directors are exempt from certain provisions of federal conflict of interest laws, their potential involvement in 1) advising Reserve Bank presidents on monetary policy before FOMC meetings and 2) post-FOMC debriefs could give directors the opportunity to use—or create the appearance that they used—sensitive nonpublic information for personal gain and damage public confidence in the System's integrity." We believe this statement requires clarification of the underlying facts and requirements related to confidential FOMC information and confidential supervisory information. Specifically, Federal Reserve System staff and policymakers are *prohibited* from providing any confidential FOMC information to directors, as described in Sections IV and V of the Program for the Security of FOMC Information. Similarly, FRAM 1-068 states, "Reserve Banks may not provide confidential supervisory information to any director."

The draft report's analysis of Finding 1 explains that the OIG "confirmed that Class C directors did not have direct access to the FOMC portal during [the] scope period." In fact, they do not have any access to the FOMC portal, direct or indirect. Furthermore, although directors have indeed "received briefings in advance of FOMC meetings and participated in FOMC debrief

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calls," these activities do not "create potential opportunities for directors to obtain and use nonpublic FOMC information for their personal benefit" because Federal Reserve System staff and policymakers are prohibited from providing any confidential FOMC information to directors.

Briefings of directors before and after FOMC meetings by staff and policymakers, even those with Class I FOMC access, can and do provide useful background information for the directors without disclosing confidential FOMC information. These kinds of briefings are crucial conduits of *non*confidential information that help directors meet their responsibilities. For example, receiving nonconfidential economic information helps directors more effectively carry out their responsibility to establish discount rates. Similarly, FRAM 1-068 explains that "Reserve Bank boards may … receive periodic briefings on the overall health of the banking industry nationally or in the Reserve Bank's district." These periodic briefings also do not include confidential supervisory information.

Finally, even if directors were somehow improperly exposed to confidential information (which we have seen no evidence of), the application of the financial conflict of interest law is unrelated to an individual's access to or knowledge of information. The law simply prohibits Federal Reserve staff (and directors) from participating in an official capacity in matters that directly affect their financial interests. It does not regulate access to information, and therefore, we do not see a basis for tying recommendations about financial conflicts to concerns about exposure to information.

For the reasons stated above, we concur in part with the finding, and we concur with recommendations 1, 2.a., 2.b., 2.c., and 3. OSEC agrees that a more robust process, both prior to a Class C director's appointment and during their service, would enhance the Board's ability to identify and resolve eligibility issues; however, OSEC's role is limited to drafting and proposing possible revisions to relevant Board policies and certifications. The recommendations to "update the FRAM" (recommendation 1); to "[u]pdate the current certification or implement a new certification" (recommendation 2 including subparts a, b, and c); and to "include" certain language related to the federal conflicts of interest statute in the certification (recommendation 3) each will require action by the Board.

OSEC anticipates completing our review and drafting proposed policy and certification revisions by Q2 2027. Any proposal made by OSEC must go through the process for requesting official Board action, which OSEC estimates could take up to an additional six months.

Finding 2: The Board Should Provide Reserve Banks with Written Guidance Detailing the Process and Defining the Roles and Responsibilities for Selecting Class C Directors

We concur with the finding and concur with recommendations 4 and 5. With respect to recommendation 4, OSEC will issue guidance describing our expectations regarding roles and responsibilities of Reserve Bank employees involved in recruiting Class C directors. OSEC expects to complete this by Q2 2027.

OSEC will also coordinate work on recommendation 5 to clarify whether and to what extent Class A directors should be involved in recruiting potential Class C director candidates; however, recommendation 5 will require official Board action to implement. OSEC anticipates drafting proposed policy revisions by Q2 2027. We will then begin the process for requesting official Board approval, which we anticipate could take up to an additional six months to complete.

Finding 3: The Board Should Update BAC Governance Documents to Define the Roles and Responsibilities for Selecting Class C Directors

We concur with the finding and concur with recommendation 6. OSEC will collaborate with the Committee on Reserve Bank Affairs ("BAC") Secretariat on recommendation 6 to review provisions of the BAC Charter that define roles and responsibilities of committee members. OSEC will also consult the Legal Division to determine the appropriate mechanism for proposing revisions to Board committee charters. OSEC anticipates completing our review and consultation by Q2 2027, however the formal revision process will take additional time.

Finding 4: The Board Can Enhance Controls to Mitigate Conflicts of Interest When Reserve Banks Use External Search Firms

We concur with the finding and recommendations 7 and 8. RBOPS will update its guidance to Reserve Banks to incorporate measures for identifying and reporting to the Board potential conflicts of interest between the external search firm and candidates. RBOPS will also coordinate with the System's National Procurement Office to review and update Reserve Bank contracts with search firm vendors. RBOPS expects to complete this by Q1 2027.

Finding 5: The Board Should Document Expected Roles and Responsibilities for Reserve Bank Executive Consultations

We concur with the finding and recommendations 9 and 10. While the approach of the Board's engagement on a particular Reserve Bank senior leadership selection resides with the Board member(s) assigned with such responsibilities, RBOPS and S&R will issue guidance to Reserve Banks describing the Board's expected roles and responsibilities in the consultation process for any Reserve Bank senior leadership positions the Board has deemed necessary for additional attention from the Board, including but not limited to general auditors, CFOs, and senior supervisory officers. RBOPS and S&R expect to complete this by Q4 2026.

In conclusion, we appreciate the effort that went into this report and understanding the Board's processes for selecting Class C directors and certain Reserve Bank executives. Please note that the below signatories are each responding only to those recommendations for which their respective division is responsible. Please contact us if you have any questions about our response.

Sincerely,

BENJAMIN MCDONOUGH Digitally signed by BENJAMIN MCDONOUGH Date: 2026.08.17 14:02:11 -04'00'

Benjamin W. McDonough
Secretary of the Board and
Director, Office of the Secretary

RANDALL GUYNN Digitally signed by RANDALL GUYNN Date: 2026.08.13 06:58:32 -04'00'

Randall Guynn
Director, Division of Supervision and
Regulation

SUSAN FOLEY Digitally signed by SUSAN FOLEY Date: 2026.08.17 16:09:07 -04'00'

Susan Foley
Acting Director, Division of Reserve Bank
Operations and Payment Systems

Abbreviations

BAC	Committee on Federal Reserve Bank Affairs
CFO	chief financial officer
CSR	Committee on Supervision and Regulation
FOMC	Federal Open Market Committee
FRAM	*Federal Reserve Administrative Manual*
GAO	U.S. Government Accountability Office
OGE	U.S. Office of Government Ethics
OSEC	Office of the Secretary
RBOPS	Division of Reserve Bank Operations and Payment Systems
S&R	Division of Supervision and Regulation

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