The Federal Reserve: An independent institution

Wealth Management

The currently heightened political backdrop and onset of an interest rate cut cycle have some bystanders questioning the independence of the Federal Reserve as well as politicians' ability to influence the Fed, but we find reason to largely dismiss these concerns.

The Federal Reserve System was established by the U.S. Congress in 1913 to serve as the central bank of the United States and consists of three crucial entities: the Federal Reserve Board of Governors, 12 Federal Reserve Banks, and the Federal Open Market Committee (FOMC).

The Federal Reserve, or the Fed as it is typically known, is an agency of the federal government that reports to and is directly accountable to Congress. The Fed serves five key functions—optimize monetary policy, promote financial system stability, supervise and regulate financial institutions, foster payment and settlement system safety, and support consumer protections and community development. The overarching goal of these five functions is to encourage the health and stability of the U.S. economy and financial system.

As detailed in the Federal Reserve Act, the agency's monetary policy goal is to achieve full employment, stable prices, and moderate long-term interest rates. However, the interest rate mandate is practically addressed as a byproduct of the more commonly known "dual mandate" of full employment and stable prices. And while the mandates are complementary, there is frequently friction trying to realize the two mandates simultaneously.

Appointment of Fed Reserve Board of Governors

The seven Fed governors are nominated by the U.S. president with confirmation by the U.S. Senate by simple majority. Board members serve 14-year terms that are staggered every two years. As such, under normal circumstances a U.S. president can at most nominate two board members, or just over a quarter of the board, during a four-year presidential term. Furthermore, there have been several instances in the recent past where nominees for the Board of Governors were not confirmed by the Senate, highlighting the checks and balances of our government. The U.S. president may remove a Fed governor "for cause," but courts have historically interpreted "for cause" as inefficiency, neglect of duty, or malfeasance in office. A disagreement on monetary policy is not likely to qualify as cause.

The chair and the vice chair of the Board of Governors, as well as the vice chair for supervision, are nominated for four-year terms by the U.S. president with confirmation by the Senate.

Federal Reserve Board of Governors

Name	Position	Term expires
Jerome Powell	Chair	May 2026 (as chair) January 2028 (as governor)
Philip Jefferson	Vice chair	September 2027 (as vice chair) January 2036 (as governor)
Michael Barr	Vice chair for supervision	July 2026 (as vice chair for supervision) January 2032 (as governor)
Adriana Kugler	Governor	January 2026
Christopher Waller	Governor	January 2030
Michelle Bowman	Governor	January 2034
Lisa Cook	Governor	January 2038

Source - Federal Reserve.gov

For important disclosures see page 3.

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Federal Reserve Banks and selection of bank presidents

The 12 banks are operating arms of the Fed that are geographically dispersed throughout the U.S. to better ensure that all regions of the country receive fair representation.

Governance of these banks is divided among three classes of directors. Bank presidents, who participate on the policymaking FOMC on a rotating basis, are chosen by the respective bank's Class C and eligible Class B directors and approved by the Fed governors. To better ensure effective representation and independence, the directors that select a bank president are either appointed by the Fed governors or elected by the member banks in their respective districts. Most Federal Reserve Bank presidents since the 1980s have been economists with a Ph.D.

The Federal Open Market Committee (FOMC)

The FOMC serves as the primary conduit to execute monetary policy through changes in key interest rates, forward guidance (signaling future Fed actions), and large-scale asset purchases or sales (quantitative easing or tightening, respectively). The FOMC is responsible for setting a target range for the federal funds rate, which is an overnight lending rate that banks charge each other. The federal funds rate, in turn, influences many other interest rates as well as the overall direction of the U.S. economy, employment, and inflation.

The FOMC has eight regularly scheduled meetings each year, but it can meet more often if the need should arise.

FOMC membership structure

The FOMC consists of the seven Fed governors, the president of the Federal Reserve Bank of New York, and four presidents from the remaining 11 Federal Reserve Banks, who serve one-year voting terms on a rotating basis. Bank presidents become voting members every three years, except for the presidents of the Chicago and Cleveland Federal Reserve Banks, who become voting members every two years. Nonvoting Federal Reserve Bank presidents also participate in FOMC meetings and contribute to the committee's assessment of the economy and policy options. Although the FOMC runs by majority voting, there is a long-standing tradition of deference to the chair of the Fed's Board of Governors.

The seven Fed governors serve on the FOMC for staggered 14-year terms, while the Federal Reserve Bank presidents serve 5-year terms.

Institutional independence

The Federal Reserve Act of 1913 helps shape the institutional independence of the Fed by staggering Fed governors' long-tenured terms and requiring concurrent confirmation by the Senate. The composition of the various Federal Reserve Bank boards and the selection of their presidents, who account for 42% of the FOMC, also ensure that monetary policy decisions are focused on longer-run outcomes and based on objective analysis. At the same time, the Fed is still accountable to Congress and the public through transparent policy deliberations and communications, and periodic testimony before congressional committees.

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