Bankers on Fed Boards:
Is Good News for the Banks Bad News for the Fed?

Abstract:

Bankers and non-bankers sit on Federal Reserve Bank Boards. In the case of banks, this may create a perception problem since the Fed supervises banks. I examine who sits on Reserve Bank boards and the market reaction to director appointments during the period 1990-2009. I document that Fed directors from the banking industry typically work for large banks. Furthermore, the average market reaction to the appointment of a firm's officer to a Reserve Bank board is positive only for banks. My results are consistent with the idea that the Fed's governance structure may continue to expose it to reputation risk.

Keywords: Federal Reserve, Director, Banks, Conflicts of Interest, Reputation, Perception

JEL Classifications: E58, G28, G30

"*Although the Federal Reserve considers the principal business affiliation and experience of directors in the selection process, directors are not supposed to be champions of any special interest or constituency. Once becoming a director, an individual is expected, like members of the Board of Governors, to act objectively and in the public's best interest.*" (Board of Governors of the Federal Reserve System 2001, p. 5)

"*Jamie Dimon risked depositors' money and all of our futures. Despite this, Jamie Dimon still sits on the board of directors of the Federal Reserve Bank of New York – an institution charged with supervising JP Morgan Chase and other Wall Street banks. The fox is guarding the henhouse.*" (Johnson 2012a)

I. **Introduction**

The Federal Reserve played an important role in responding to the recent financial crisis (see e.g. Allen and Carletti 2010). It may play an even more important role in future crises because the Dodd-Frank Act of 2010 expands the supervisory powers of the Fed. However, some argued that the Fed's response to the crisis was tainted by conflicts of interest that arose because bankers sat on boards of Federal Reserve Banks. Kelly and Hilsenrath (2009) and Hilsenrath and Fitzpatrick (2010) singled out the Federal Reserve Bank of New York and its board connection with Goldman Sachs in particular. In 2012, ties between the Fed and the banking industry came under renewed scrutiny following JPMorgan's multi-billion dollar trading loss, because JPMorgan's CEO, Jamie Dimon, sat on the board of the Federal Reserve Bank of New York at the time (see e.g. Lipshutz 2012).

In this paper, I provide the first in-depth study of Federal Reserve Bank directorships. While the Federal Reserve Banks perform important functions for the government, they are not owned by the government. Instead, each of the Federal Reserve Banks is a separately incorporated not-for-profit that is privately owned by the member banks in its district.[3] Thus, as is the case with any other corporation, the activities of each Federal Reserve Bank are supervised by a board of directors.

The structure of the board of directors is determined by the Federal Reserve Act of 1913. Each board consists of nine directors. The Board of Governors appoints three of the directors, the class C directors, to represent the public "with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor and consumers" (Federal Reserve Act, Section 4.12). Member banks in each district elect the

[3] The stock of the Federal Reserve Banks does not carry with it the usual control and financial interests associated with stock in for-profit corporations. This stock is merely a legal obligation that goes along with membership. Thus, although the Reserve Banks are owned by the member banks, the Reserve Bank boards are not responsible for acting only in their interests.

remaining six directors. They elect three directors, the class B directors, to represent the public and three directors, the class A directors, to represent member banks.[4]

In allowing for the explicit representation of private interests through Reserve Bank directorships, the Federal Reserve System is not unique among central banks, but it may be the most extreme.[5] As the first quote before the introduction describes, Federal Reserve directors are supposed to act in the interest of the public "like members of the Board of Governors" (Board of Governors, 2001, p. 5). However, in contrast to members of the Board of Governors, directors of Reserve Banks are not full-time employees of the Federal Reserve System. They continue to work for their private sector employers while serving as directors. Thus, as with any link between business and political or regulatory bodies, a key question is whether businesses benefit from these links and how.

Ex ante, it is not clear that it is in a firm's interest to have one of its officers serving on a Federal Reserve Bank board. Reserve Bank directors are expected to provide input into all activities of the Federal Reserve System and such directorships are considered to be a form of public service. By accepting a Reserve Bank directorship, directors commit a portion of time they are normally supposed to devote to maximizing the value of their primary employers to the affairs of the Fed. On the other hand, there are also reasons why such directorships could be valuable to directors' employers. The appointment of an officer to the board of a Reserve Bank could enhance the reputation of the firm. It could also act as a constraint on the firm in the sense that the firm may be held to higher standards and be less likely to engage in activities that destroy value. The firm may also benefit if its officer establishes valuable networks and learns from the directorship experience. Finally, the firm could benefit if a director is able to use his position to obtain preferential treatment or information other firms cannot obtain.

These benefits and costs may be particularly high for banks. As the second quote before the introduction illustrates, it would strike any governance scholar as startling that the governance of the Reserve Banks is heavily influenced by the very institutions, the member banks, which the Reserve Banks are involved in supervising. Clearly there are benefits to such an arrangement, for example, the Reserve Banks gain valuable information from bank officers. However, this situation could also give rise to either actual or perceived conflicts of interest. Although Reserve Bank boards are generally not directly involved in any supervisory decisions, the media coverage suggesting that class A directors used their

[4] The boards of the branches are appointed by the Head Offices and the Board of Governors.
[5] See Adams, Roszbach and Spagnolo, 2010.

positions to their employers' advantage during the financial crisis was sufficiently damaging to the Fed's reputation to trigger a Government Accountability Office (GAO) audit of Fed governance (e.g. Ariosto 2011).

To better understand what the net benefit of these directorships to directors' employers is, I first examine how representative Fed directorships appear. To do this, I relate a firm's characteristics to the likelihood that one of its employees is elected to the board of a Fed. While I cannot determine the universe of potential candidates for Fed directorships for non-financial firms, with few exceptions class A directors are executives of banks. Thus, I can compare the characteristics of banks represented on Fed boards to the characteristics of other banks in the industry.

Next, I ask whether banks appear to benefit more than non-financial firms when their officers obtain Reserve Bank directorships. Because member banks have to elect both bankers and non-bankers, the fixed board structure of the Fed provides a nice setting in which to identify differential valuation effects of directorships for bankers and non-bankers. To reduce endogeneity concerns, my identification strategy focuses on an event study around election dates for the subset of directors' employers that are publicly-traded. But I also examine which elections are more contested and whether there is any evidence that banks represented on Fed boards appear to gain from these directorships.

Using data on directors and director elections for the 12 Federal Reserve Banks from 1990 to 2009, I find that the number of banks nominating and electing directors is decreasing over time, but this trend is particularly striking for the largest banks. For example, in 1996 a group of 91 small banks could name nominees for a class A director of the Federal Reserve Bank of New York. By 2002, this group contained only 80 members. In 1994, a group of 8 large banks could name nominees for a class A director of the Federal Reserve Bank of New York. In 2000 the same group contained only 7 banks. This means that individual large banks are gaining more influence over the selection process over time. Large banks are also more likely to be represented on Reserve Bank boards, but past performance is not always related to the likelihood of election.

Perhaps surprisingly, there are few contested elections for Reserve Bank directorships. However, this appears to have been a feature of Fed director elections since the inception of the Federal Reserve System (Bopp, 1937). Consistent with the findings in Bopp (1937), elections for class A directorships are relatively more contested (31.54% of elections) than class B elections (8% of elections), particularly in small bank elections. This suggests that directorships are more valuable for banks.

The event study evidence suggests that Federal Reserve Bank directorships add value, but primarily for banks. The abnormal market reaction to the election of a banker to a Fed board varies between 0.99% and 2.86%. The magnitudes of these effects are comparable to those in Faccio (2006), who estimates a market reaction of 2.12% when directors or business owners enter politics in a cross-country study of political connections. For non-bankers, the market reaction to the election to a Fed board varies between 0.53% and -1.47%. Thus, for this set of employers, the costs of Fed directorships appear to outweigh the benefits. Evidence from a small sample of contested elections, as well as cross-sectional evidence relating the market reaction to district and financial characteristics of employers supports this interpretation. For example, the market reaction for class A directors is higher when they are elected to the board of the Federal Reserve Bank of New York and when the election took place during the financial crisis. In contrast, the market reaction to class B directorships is negative during the crisis.

Finally, I find some evidence that banks with Fed directorships are less likely to cease operating than other banks in the industry. This is consistent with Faccio, Masulis and McConnell (2006) who find that politically connected firms are more likely to be bailed out by governments in times of financial distress. However, it is difficult to infer causality from this evidence, thus I view it as suggestive only.

My results are consistent with the idea that private interest representation on Federal Reserve Bank boards may lead to private benefits for banks. Other explanations are also possible, for example, that a Fed directorship serves as a better signal of quality for banks than non-banks even for the large publicly-traded banks in the event study sample. Regardless of the exact mechanism driving the results, the existence of differential benefits of directorships for banks and non-banks may expose the Fed to reputation risk. This is a problem that Timothy Geithner also acknowledged in the context of questions about Jamie Dimon's presence on the New York Fed's board (News Desk, 2012).

The question whether the Federal Reserve Bank boards are dominated by special interests has been debated at least since the 1960s. Several studies have examined the background of Federal Reserve Bank directors. Miller (1961), (Havrilesky, Yohe et al. 1973), (U.S. House 1976) and U.S. House (1990) all argue that big business and banking interests dominate Reserve Bank boards. Havrilesky, Yohe et al. (1973) found that class A directors represented large member banks disproportionately during the period 1950-1970. The 1976 U.S. House study helped convince Congress to pass the Federal Reserve Reform Act of 1977, which, among other things, directed the Reserve Banks to consider the interests of

agriculture, labor and consumers on their boards. Nevertheless, U.S. House (1990) found that 48% of class B directors in 1990 were former bank officers, directors or employees and that women and minorities were underrepresented on Reserve Bank boards. These studies conclude that the Federal Reserve Bank boards cannot possibly represent the public interest. My paper complements this literature by providing an in-depth analysis of director elections and the market reaction to elections.

My paper also contributes to the literature on political and regulatory connections of businesses. This literature has examined connections established through electoral campaign contributions (e.g. Kroszner and Stratmann, 1998), former political positions of board members (Agrawal and Knoeber 2001; Goldman, Rocholl et al. 2009), previous and subsequent industry employment by regulators (Dal Bo 2006), friendships with politicians (Fisman 2001) and positions in government (Faccio 2006; Faccio, Masulis et al. 2006). My paper highlights another channel through which businesses may exert political or regulatory influence: links to central banks.

This study is particularly timely, not only because of the Fed's role in the financial crisis, but also because of increasing consolidation in the banking industry. As the banking industry becomes more concentrated, member banks are becoming more powerful in the director selection process. And, as the banking industry becomes more consolidated, the largest banks gain more influence. Thus, it is more important than ever to examine whether such power has any detrimental effects for the Fed.

The results of this study may help inform the debate about potential reform to the governance of the Federal Reserve. Senator Dodd's reform bill of November 10, 2009 proposed to strip banks of their power to select Federal Reserve Bank directors. Although the Dodd-Frank Act of 2010 does not contain such a provision, it does restrict class A directors from having a say in the selection of Fed presidents. In May, 2013 Senators Sanders, Bozer and Begich introduced legislation to remove banking executives from Fed boards. Representative DeFazio introduced a companion measure in the House. However, many oppose changing the structure of the Fed's boards, as they argue that it would deny the Fed an important source of information about the economy and credit conditions (e.g. Ito, 2012).

The rest of this paper is structured as follows. In Section II, I describe Federal Reserve Bank board structure and responsibilities in more detail. In Section III, I discuss potential private benefits directors' employers may gain from Fed directorships. In Section IV, I describe the data. In Section V, I provide details about class A and B director elections. In

Section VI, I examine which banks obtain Fed directorships. In Section VII, I present the results of the event study around the election or appointment to a Fed board for all classes of directors. In Section VIII, I examine potential consequences of Federal Reserve directorships for banks. Section IX concludes.

II. Federal Reserve Bank Boards-Structure and Responsibilities

Federal Reserve Bank boards consist of three classes of three directors each. Directors cannot be members of Congress and class B and C directors cannot be officers, directors or employees of a bank. In addition, class C directors are prohibited from holding shares in a bank and must have resided in the Reserve Bank District for at least two years prior to their appointment. The directors serve staggered terms of three years each and generally serve at most two terms. Each year the Board of Governors designates two of the class C directors chairman (and Federal Reserve Agent) and vice chairman of the board. The chairman is supposed to be a person of tested banking experience and acts as the liaison between the Federal Reserve Bank board and the Board of Governors. The terms of the chairman and vice chairman are renewable.

For the purposes of election, the member banks in the district are grouped by capital into three groups: small (group three), medium (group two) and large (group one). Each group elects one class A and one class B director on a rotating basis. Each member bank in the group is allowed to nominate a candidate for each position, who, following the Federal Reserve Reform Act of 1977, must be chosen without discrimination on the basis of race, creed, color, sex or national origin. In some districts, groups appoint a nominating committee which recommends candidates for election. Each member bank has exactly one vote in the election, except when it is a subsidiary of a bank holding company. In this case, only one member bank in the holding company is allowed to nominate and vote.

The responsibilities of the Reserve Bank directors are extensive. They range from supervising the Reserve Banks to making recommendations on monetary policy. Because Reserve Bank directorship is considered a form of public service, directors are expected to avoid participation in partisan political activities.

In the supervision of the Reserve Banks, directors have the same duties as directors of any banking association and are charged with administering the affairs of the Bank fairly and impartially and “without discrimination in favor of or against any member bank or banks” (Federal Reserve Act Section 4.8). They appoint the Reserve Bank President and Vice-

President and determine their salaries (subject to the Board's approval) and appoint all officers of the Bank.[6] They review the Reserve Bank's budget and are responsible for internal audits.

The directors play a role in monetary policy because they are responsible for setting the discount rate (also subject to Board approval). They also select the District's representative to the Federal Advisory Council, which confers with the Board four times a year on business conditions. Finally they advise Reserve Bank Presidents on regional business conditions prior to each FOMC meeting, as well as interact extensively with policy makers on a less formal basis (U.S. House, 1990).

III. Potential Private Benefits of Reserve Bank Directorships

To fulfill their duties, as the first quote prior to the Introduction describes, Fed directors are supposed to act objectively and without favoring their employers. In order to understand whether the governance of the Federal Reserve Banks is effective, it is therefore important to understand whether there are any private benefits that accrue only to Fed directors' employers, particularly in the case of banks. Some private benefits need not be against the public interest. For example, because of the importance of the position, it seems clear that directors' reputations as individuals will increase once they accept a Reserve Bank directorship. This may also enhance the reputation and value of directors' employers because it may serve as a signal that the employer will now be held to a higher standard of conduct. In the literature on corporate boards, Perry and Peyer (2005) document such value increases for employers when managers obtain corporate directorships. If nominees are proposed on the basis of their merit, then even if their employers' values increase because of the directorship the public may also benefit because of a commitment to better governance at directors' employers.

It is debatable whether other potential private benefits are in the public interest or not. In a series of papers, Havrilesky (1990, 1994) suggests one important benefit all private interests can gain from connections to the Fed is the ability to influence monetary policy. He highlights that this is particularly valuable to banks because they bear the initial impact of open market policy. While the ability to influence monetary policy need not necessarily be a *private* benefit that would accrue only to a directors' employer, knowledge of the future

[6] Since the passage of the Dodd-Frank Act in June, 2010, class A directors are no longer allowed to help select Reserve Bank presidents. During the time period of my sample they were still involved in the selection.

direction policy is likely to take could give directors' employers an advantage over other firms in their industries.

Some argue that although the law gives Fed directors important responsibilities they have little power in practice. For example, Miller (1961) argued that Reserve Bank directors' power was waning because the Federal Reserve Banks themselves were becoming less important relative to the Board of Governors. This would suggest that Fed directors have little power to influence the policy making process in favor of their employers. However, both Havrilesky (1990) and Gildea (1992) provide evidence that suggests that Fed directors can and do influence monetary policy. Havrilesky (1990) shows that monetary policy appears sensitive to the directives of the Federal Advisory Council, which is a committee of 12 bankers who are elected by the Federal Reserve Bank boards. Gildea (1992) shows that the FOMC votes of Fed presidents reflect local conditions in the district and attributes this at least in part to the fact that the class A and B directors of the Reserve Bank boards are local.

Several papers argue that the Fed has an informational advantage over the private sector (e.g. Romer and Romer, 2000 and Peek, Rosengren et al., 1999 and 2003) which is useful for forecasting variables that influence monetary policy. Thus, even if directors have limited power to directly influence monetary policy, their employers may benefit if directors have access to valuable information that enables them to better understand the state of the economy. In addition, Peek, Rosengren et al. (2003) argue that the informational advantage of the Fed consists in knowledge of bank health for banks that are not publicly-traded. It seems likely that such information would be particularly valuable to banks.

It is difficult to find systematic evidence that Fed directors obtain valuable information. However, in 1989, a New York Fed director, Robert A. Rough was convicted of leaking secret interest rate data to a brokerage firm (The New York Times, 1989). This case suggests that directors may have access to sensitive data that is potentially valuable.

In the case of banks, a final potential private benefit to directors' employers is the ability to influence the supervisory process in general and obtain preferential treatment in supervision in particular. As I describe below, many questions arose during the financial crisis about the Fed's treatment of banks that were connected to it through Reserve Bank directorships, most notably Goldman Sachs.

In September, 2008, Goldman Sachs converted from an investment bank to a commercial bank holding company whereupon it was one of only nine banks that received direct capital injections from the U.S. Treasury in October of 2008. Goldman also received full repayment of American International Group's debt of $8.1 billion once the government

bailed AIG out. Prior to the intervention by the U.S Government, American International Group was negotiating with banks to reduce its debt burden. The New York Fed opened an $85 billion credit line for AIG when it became clear AIG was running out of cash. Less than a week after the New York Fed took over the negotiations with the banks, it instructed AIG to repay its counterparties in full (Teitelbaum and Son 2009). Although Goldman was not the only institution to receive full repayment, Goldman looked like it was getting preferential treatment because the chairman of the New York Fed, Stephen Friedman, was a former chairman of Goldman Sachs and a Goldman Sachs director at the time. This impression was heightened when Stephen Friedman led the board's search for a successor to the president of the New York Fed at the time, Timothy Geithner, which resulted in the appointment of a former Goldman Sachs chief economist, William Dudley, in January of 2009.[7,8]

Although Federal Reserve Bank boards are generally not directly involved in any supervisory decisions, the media argued that this may have occurred in the case of Stephen Friedman (see, e.g. Kelly and Hilsenrath, 2009). Kelly and Hilsenrath argued that as a director of Goldman Sachs, Friedman was motivated to influence the bailout of Goldman, which also led to a personal gain since he held shares in Goldman. They also argued that Goldman Sachs indirectly influenced the selection of the New York Fed president through Friedman, with the implication that this could provide benefits to Goldman.[9]

Another issue that received some attention during the crisis was the way in which the U.S Government's Troubled Asset Relief Program (TARP) funds were allocated to financial institutions. Duchin and Sosyura (2012) provide evidence that suggests that banks with political connections were more likely to receive TARP funding. One measure of political connections they use is an indicator for whether a bank's employee holds a Federal Reserve Bank or branch directorship. Although holding a Fed directorship is not an exogenous event, their evidence suggests that banks with Fed directorships may have obtained preferential treatment in the TARP program.

[7] Although class C Fed directors are prohibited from holding directorships or stock in bank holding companies, Friedman continued to buy Goldman stock during the course of these events, which also gave the appearance that he may have been able to influence Fed actions in favor of Goldman. When questions about his stock purchases were raised in the Wall Street Journal (Kelly and Hilsenrath, 2009), Friedman resigned from his position as New York Fed chairman in May, 2009.

[8] William Dudley worked for Goldman Sachs until 2007 (Pittman, Sterngold, Son, 2009).

[9] The media attention surrounding these events led Friedman to resign from his directorship in May 2009. Following the attention the Federal Reserve received as a result of these incidents, Treasury Secretary Geithner requested a review of the Federal Reserve' structure and governance. This request was initially rejected by the Federal Reserve Board out of concerns that a government-led review could compromise the Federal Reserve System's independence (Torres and Schmidt, 2009). However, Section 1109 of the Dodd-Frank Act specified that the Government Accountability Office must conduct a review of the Fed's governance. The GAO completed it in 2011.

The Fed's ties to the banking industry came under renewed scrutiny after JPMorgan Chase & Co.'s multi-billion dollar trading loss in 2012. JPMorgan's CEO, Jamie Dimon, sat on the board of the Federal Reserve Bank of New York at the time (see e.g. Lipshutz 2012) which was also its supervisor. This raised questions about how the risky positions JPMorgan Chase was taking on could have gone undetected by the Fed. The perception that there was a conflict of interest was exacerbated by the fact that Dimon sat on the Management and Budget committee of the New York Fed, which is responsible for reviewing and endorsing the framework for compensating the New York Fed's senior executives (Johnson 2012b). Despite calls for Dimon to resign (Johnson 2012c), Dimon stayed on the New York Fed board until the end of his term.[10]

IV. Data on Fed Directors

My sample consists of data on elections of directors for the 12 Federal Reserve Banks from 1990 to 2009. I collected the names of all directors, their employers, the employers' locations, the directors' classes and the expiration dates for their terms from Federal Reserve Bulletins for the years 1990-2009. The total number of directorship (director-year) observations for this 20-year period is 2160.[11] I ensured that directors' names were spelled consistently. To the extent possible I also ensured that company names were spelled consistently. However I am unable to fully account for name changes because of mergers.

To characterize directors' employers, I match them manually by name, city and state to CRSP, Compustat, the Reports of Condition and Income (Call Reports) for banks and FR Y-9C data for bank holding companies (BHCs). I verified uncertain matches using the internet and the director's name. I classify an employer as a bank if it appears in the Call reports and a BHC if it appears in the Y-9C data. For each bank and BHC I also collect information on its parent holding company (the high holder). I classify banks without a parent as standalone. I identify unique banks based on their regulatory id (rssd9001).

In the 20-year period of my sample, only 539 unique individuals held Fed directorships, ranging from 43 individuals in San Francisco to 54 in New York. Together

[10] However, the JPMorgan case triggered the filing of legislation by Senators Sanders, Boxer and Begich to eliminate Class A directorships.

[11] Of the 2160 directorships, 715 are class A, 705 are class B and 715 are class C directorships. The remaining 25 are vacancies.

these individuals fill 207 class A, 175 class B and 170 class C director positions.[12] To provide some information on the types of individuals holding FRB directorships, I classify directors according to their titles. I classify directors as top managers if their title suggests they are the primary decision-maker in their companies, e.g. if their title suggests they are the CEO, chairman, owner or managing partner. High-level executives are presidents, vice-presidents, chief financial or chief operating officers, partners or co-chairs, etc.. I classify directors as academics if they are professors. Retired directors are directors whose titles contain the words "past", "former" or "retired". All other directors fall into the category of "other".

-Insert Table 1 about here-

Panel A of Table 1 shows summary statistics at the directorship level for director types and their tenure for the 3 different classes of directors. I show tenure only for those directors whose terms do not overlap with the beginning or end of the sample period.[13] Panel A shows that the highest proportion of top managers occurs for class A directorships. The highest proportion of academics, retired and "other" directors occurs for class C directors. Class A directors also have the shortest average tenure of all classes of directors (2.73 as opposed to 3.18 for class B and 3.44 for class C). This suggests that class A directorships may be more contested than the other directorships.[14]

Panel B of Table 1 shows summary statistics for the 325 unique individuals whose terms do not overlap with the beginning or end of the sample period. On average, individuals are elected (for class A and B) or appointed (for class C positions) more than once.[15] Thirteen percent of directors in districts with branches were branch directors in the year prior to their appointment to an FRB board.[16] On average an individual will serve for 4.51 years and chair and vice-chair tenure is on average roughly 1.5 years.

-Insert Table 2 about here-

Because some directors switched employers, a total of 595 employers, ranging from 42 in Dallas to 57 in Richmond had employees represented on FRB boards from 1990-2009. There are 216 unique banks and BHCs with employees on FRB boards during this period, of

[12] The total number of classes they fill is greater than the number of individuals because 14 individuals switched classes.
[13] Federal Reserve Bulletins do not contain election dates which would enable me to determine tenure for directors appointed prior to 1991.
[14] All differences between classes in Panel A of Table 1 are statistically significant at greater than the 10% level.
[15] For the 3 individuals who were elected/appointed 4 times at least one election/appointment was to fill an unexpired term of a previous director.
[16] Boston, Philadelphia and New York from 2009 on have no branches.

which 145 are banks and 71 are BHCs. Panel A of Table 2 shows that employers are publicly-traded in 34% of firm-years and are either a bank or BHC in 33% of firm-years.

Between 1991 and 2008, companies are represented by an employee for 3.67 years on average. However, this average increases to 3.9 for BHCs if I consider representation of a subsidiary bank to count as representation for the parent BHC.[17] The maximum number of years a BHC is represented is 13. This occurs for Northern Trust Corporation which was represented on the FRB of Chicago's board by 3 different executives with tenures from 1991-1996, 2001-2006 and 2009 until expiration of term in 2014. Panel C of Table 2 shows characteristics of banks for all years in which employers are banks. In only 8% of bank-years are banks standalone. In most bank-years banks are national banks (63%) and members of the Federal Reserve (98%).

V. Elections of Federal Reserve Bank Directors

Prior to each election, each Federal Reserve Bank communicates with the banks in its district by mailing them several circulars at different points in time. These may include some or all of a call for nominations, the recommendations of nominating committees, a nomination circular containing the names of nominees and a ballot and a circular announcing the results of the election. These were my primary sources for election information.

I obtained these circulars in several stages. In 2002, I contacted each of the Federal Reserve Banks and asked them to provide me with all circulars concerning elections between 1990 and 2001 they sent to their member banks. Some Federal Reserve Banks provided me with such information, but in some cases I was unable to obtain sufficient material. To complete the data, I filed a Freedom of Information Act Request with the Board of Governors asking for additional election information. While some Federal Reserve Banks responded to this FOIA request, others did not.[18] In 2006, I contacted the heads of research departments at each of the Reserve Banks describing my project to obtain additional information. Some banks provided me with additional information following this request. Because my FOIA request covered only the years 1990 to 2001, I updated the data until 2009 using circulars and press releases posted on Federal Reserve Bank websites.

[17] This method also accounts for the fact that BHC executives are often also executives of subsidiary banks, so both employers can be considered to be represented.

[18] Since Federal Reserve Banks are technically non-governmental organizations, they are not required to comply with an FOIA request.

A total of 522 class A and B directors were elected to FRB boards between 1989 and 2008 for terms between 1990 and 2009. For these elections, I have at least one type of circular for 280 elections (138 class A and 142 class B).[19] In addition, I have circulars for elections of 16 class A and 17 class B directors that took place prior to the sample period for directors who were on an FRB board in 1990.

Because few Reserve Banks post circulars on their websites my coverage of elections post 2002 is less complete than prior to 2002 (84.98 % of the sample). However, there was an increase in information available in 2008 and 2009, so the observations from 2009 make up 4.15% (13 observations) of my election sample. Because the amount of information I obtained varies by bank, my coverage of elections also varies across districts. I was unable to obtain any information for Boston from any source, thus Boston is excluded from the analysis of elections. Otherwise I have at least 25 observations per district except for St. Louis and Kansas City (18 and 23 observations, respectively). I have the most information for Dallas (41 elections), New York (32 elections) and Atlanta (31 elections).

Banks elect class A and B directors on a rotating basis. Thus, banks in a group vote only once every three years for a director of each class. Each Federal Reserve district uses its own rotation and group classification scheme. In some districts a group will elect both a class A and a class B director in the same year. In others, the elections of the class A and B directors may be staggered, as in Dallas from 2000-2008. While any bank in a group is allowed to nominate a bank, except when they are affiliated with the same BHC, some districts rely on the recommendations of nominating committees for nominees. This occurred in 52 or 16.6% of elections, primarily in Atlanta (35 times) and Richmond (12 times) but also on occasion in New York (2 times), Philadelphia (2 times) and Minneapolis (1 time).

Elections without nominating committees typically proceed as follows. First the Reserve Bank sends a call for nominations to member banks. This call indicates the A and B directors whose terms are expiring (unless only one director is being elected), whether they are eligible and willing to stand for reelection or not, the division of banks into groups for the purpose of the elections, the group that is eligible to elect a director of a given class, the procedures for nominating candidates and the timeline for the election. Nominations are generally due back within a month from the date of the call for nominations. Several days after the nomination period closes the Reserve Bank sends an election circular to banks indicating the nominees for each director position, along with a brief bio on the candidates

[19] Most elections involve electing one class A and one class B director so a circular will usually provide information for both classes of directors.

and information on who nominated the candidate. By law, ballots close 15 days after the date of the election circular. At this point the Reserve Bank sends a circular announcing election results to member banks. In general, Reserve Banks send the election material to all member banks even if they are not entitled to vote in the election.

From the circulars I obtain information about the number of directors up for election, whether directors are filling an unexpired term of a previous director, the number of nominees for each position, the group electing the director (group one (large), two (medium) or three (small)), the size cutoffs for the groups and the number of banks nominating and voting on a candidate.[20] For BHCs only one member bank is allowed to participate in the election, thus the number of voting banks may be different than the number of banks in a group. By law, officers or directors of member banks in a group can only be nominated by other banks in the same group, thus I also collect information about whether the class A directors are nominated by their employers or other banks.

-Insert Table 3 about here-

Panels A and B of Table 3 shows summary statistics for class A and B elections, respectively. Although generally two directors are elected on a given date, in 20 (25) elections only one class A (class B) director is elected which will be useful for the event study in Section VII. Class A directors are less likely to fill an unexpired term of a previous director (5% as opposed to 16% for class B directors) which suggests that class A directors are more likely to complete their terms.

If FRB directorships add value to employers because it enhances the reputation of the firm or provides valuable networks, one might expect director elections for all classes of directors to be hotly contested. The number of nominees is constrained only by the number of banks allowed to participate in an election, which may be quite large. Perhaps surprisingly, but consistent with Bopp (1937), I find that elections are not often contested. Of 299 director positions with data on the number of nominees, 240 (80.27%) are uncontested. However, class A positions are more often contested than class B positions. Class A positions are contested in 47 out of 149 (31.54%) cases with up to 4 candidates nominated (4 instances). Class B positions are contested in only 12 out of 150 cases (8%) with at most 3 nominees (in 2 instances).

[20] I am able to infer information about the groups electing directors for more than 313 elections because this information is often provided in the call for nominations which will not contain other information about elections.

These numbers are similar to those in Bopp (1937) who finds that in 240 elections from 1925 to 1934, 73.33% of elections are uncontested with 75 (62.5%) of class A elections uncontested and 101 (84.17%) of class B elections uncontested. Bopp argues that the reason so few elections are contested is because banks with power are effectively able to control the nomination process. This would be interesting to examine in future research although data on the nomination process would be difficult to obtain.

In Panel C of Table 3, I provide summary statistics for the number of banks (voting and non-voting) in each group and the thresholds of capital and surplus used to divide banks into groups. What is clear from Panel C is that the group of large banks contains on average far fewer banks than the other groups. Although the division of banks into groups is designed to ensure that the big banks do not dominate directorship positions, the fact that there are fewer banks in group 1 means that large banks may be more likely to obtain an FRB directorship than small banks. I examine this in more detail in Table 4 where I examine factors related to the number of other nominees using OLS regressions.

-Insert Table 4 about here-

In columns I-II of Table 4, I examine the relationship between the number of other nominees for a director position and dummy variables indicating the class of the director position, if it is a director's first term, if a nominating committee exists and if the position is for an unexpired term. I regress the number of other nominees (the number of nominees-1) on these variables and correct standard errors for heteroskedasticity and clustering at the district level. Consistent with expectations, the number of other nominees is higher for first term elections and lower when a nominating committee exists. In column III, I control for the group electing the director. The coefficient is positive and highly significant which indicates that the number of other nominees is highest for group 3 (small banks). In column IV, I replace the group with the number of banks in the group. The coefficient is positive but not significant which suggests that size of the banks may matter more than the number of banks in the group. In column V, I add district fixed effects to the specification in column III with St. Louis the omitted category. I omit the nominating committee dummy, since it is almost exactly collinear with the district fixed effects. Regardless of specification, the coefficient on the "Class A dummy" is positive and statistically significant at the 1% level.

Taken together, Tables 3 and 4 suggest that FRB directorships may be more valuable to banks than to other types of companies. They also suggest that although mechanisms are in place to limit the power of the big banks, the unequal size of the groups electing directors may diminish the chances of small banks to have Fed representation.

Because my sample period coincides with a period of intense M&A activity in banking, it is possible that the distribution of banks across groups is a result of consolidation. For example, if large banks undertake more M&A activity of similar size banks, the number of large banks will be smaller than the number of small banks if size cutoffs are not revised frequently. I examine this issue in Appendix Table A1 using simple OLS regressions.[21] In column I, I regress the number of banks in the group on a year dummy and the group electing. The coefficient on the group electing is positive and significant which suggests that unequal group size is not driven primarily by a reduction in group sizes over time due to consolidation. In columns II-IV, I perform separate regressions of the number of banks in the group on a time trend and district effects by group. The coefficient on year indicates that, if anything, the reduction in group size is largest for the smallest banks over time.

In columns V-VIII, I examine whether group size cutoffs have changed over time after controlling for district effects. The results suggest that all size cutoffs have increased over time. An increase in the upper bound for group 2 and 3 banks makes it harder for them to be classified as group 1 or 2 banks as they grow in size. Thus, it is not clear that banks can easily switch categories. However, because the number of banks is decreasing in each group over time, the chance each bank has to obtain an FRB directorship appears to be growing.

VI. Which Bankers Get Elected to the Board of a Federal Reserve Bank?

In Section V, I provide some evidence suggesting that large banks may have more power in FRB elections than small banks. I examine this issue in more detail here by examining the characteristics of banks elected to FRB directorships. Previous studies of Federal Reserve Bank boards (e.g. Havrilesky, Yohe and Schirm, 1973) used simple comparisons of means to argue that large banks were disproportionately represented. There are reasons why this argument warrants a closer look. First, the distribution of bank assets is exceedingly skewed. Thus, it may be difficult to properly account for this skewness using summary statistics. Second, even if large banks are disproportionately represented, the bankers who are elected may be in the best position to represent the banking community. It is plausible that officers of large banks have more experience, ability and vision and so are better able to represent the banking community than officers from small banks. Since it is impossible to collect personal characteristics of all bank officers who could be potential

[21] Results are robust to correcting for clustering at the district level.

candidates for class A directorships, I use the performance of the bank as a proxy for the quality of its officers, even if these officers are not CEOs.

To examine the characteristics of banks whose officers are elected to the board of a Reserve Bank, I construct an "industry" data set of banks and match it to my sample of FRB directors to see which banks in the industry have FRB representation. My analysis is complicated by the fact that the industry consists of banks and BHCs and it is not clear what the appropriate comparison group is for a subsidiary of a BHC with an FRB directorship. For simplicity, I split the analysis. I compare banks with FRB directorships to other banks, regardless of whether they are subsidiaries of BHCs or not and I compare BHCs with employees of the parent holding company on the board of a Reserve Bank to other BHCs.

VI.1 **Comparison of Directorship Banks to the Industry of Banks**

I construct my bank industry data set using year-end (December) Call Report data from 1987-2009. I restrict the sample to headquarter establishments and domestic banks with nonnegative assets, employees, salaries and capital ratios. I define the capital ratio to be the ratio of Tier 1 capital to assets. I also restrict the sample to banks whose return on assets (ROA) and return on equity (ROE) are between -1 and 1. Appendix Table A2 provides definitions of all variables I use in terms of Call Report item numbers and the approximation for capital ratios when Tier 1 capital is unavailable (1990-1995).[22] Finally, I match the Call Report data to the Chicago Fed's Bank Merger Data by merging on survivor id (idrssd) and year. I define the number of acquisitions to be the number of times a bank occurs as a surviving entity in the merger data in a given year. If a bank does not appear as a surviving entity in a given year, I define the number of acquisitions that year to be 0. I end with a sample of 231,937 bank-year observations, but the number of observations varies in my regressions due to incomplete data for some variables.

A total of 275 class A elections resulting in the election of a bank employee (181) or a BHC employee (94) took place during my sample period. I am able to match all but one bank to the bank industry data on bank idrssd and election year.[23] Table A2 compares summary statistics of size variables (assets and employees), capital structure variables (loans/assets and capital ratio), performance measures (ROA, ROE, fraction of nonperforming loans) and organizational variables (Federal Reserve membership, national bank indicator, standalone

[22] Capital ratios are missing for almost all banks in 1994 and 1995 because the data items necessary to approximate Tier 1 capital are almost always missing.
[23] One bank did not appear in either the call data or the National Information data set in the election year.

bank indicator, salary per employee) and the number of acquisitions for banks with employees elected to FRB boards (Panel A) and those without FRB directorships (Panel B).

The univariate statistics suggests that banks with FRB directorships (henceforth directorship banks) are significantly different from the typical bank in the industry along several dimensions. Directorship banks are larger, both in terms of assets and employees and they make more acquisitions. They are more likely to be members of the Federal Reserve and national banks. This is not surprising given that the Federal Reserve supervises member banks and national banks, along with the OCC. Directorship banks are also less likely to be standalone banks. On average, directorship banks do not outperform other banks. The latter finding is somewhat surprising since one might expect directorship bankers to be more skilled than other bankers. However, large banks may have different performances than small banks, thus it is important to control for assets and other bank characteristics when analyzing the relationship between elections and performance, as I do in the industry data set in Table 5.

-Insert Table 5 about here-

I restrict my industry data set to bank-years in which a bank does not already have an employee sitting on the board of an FRB and define my dependent variable to be one in a given year if an employee of the bank was elected to an FRB board in that year and otherwise zero. If class A elections are democratic, one might expect banks to elect the "best" candidate. Since it is not possible to collect individual employee characteristics for the industry of banks, I use bank characteristics such as bank size and performance to proxy for the quality of the bank's employees. To the extent that these are measures of quality I would expect them to be positively related to the likelihood of election.

Since the Federal Reserve approves bank merger applications, I also examine the relation between being elected and the number of acquisitions a bank makes in a given year. If Fed directors have any influence over the supervisory process, one might expect banks that make more acquisitions to try to obtain a FRB directorship. I also control for capital structure using the ratio of loans to assets.[24] Finally, I control for national bank status and subsidiary status. Columns I-V report results from OLS regressions with year and district fixed effects. I correct all standard errors for heteroskedasticity and group correlation at the bank level.

In Column I, I use the full sample. In columns, II-V, I use only bank characteristics from the end of the fiscal year prior to the election instead of contemporaneous data. In

[24] I do not control for the capital ratio in these regressions since missing data on capital ratios during decreases the number of observations substantially. Results are robust to including capital ratios but the coefficients on capital ratios are not statistically significant.

columns I and II bank size and Federal Reserve membership status are positively associated with election to an FRB board. Loans/Assets and a standalone dummy (no parent) are negatively associated with election status. The coefficient on ROA is positive and significant at the 10% level in column I but not in column II.

In columns III, IV and V, I divide the banks into three groups in an attempt to mimic elections for group one, two and three banks. In columns III, the dependent variable is 1 if an employee was elected by group one banks and 0 otherwise. Because I am not always able to identify the size cutoffs for banks in each group for each year, I take the minimum lower bound of available group one size cutoffs across all districts in a year and subtract the standard deviation of log assets from it. I then restrict the universe of banks in column III to those whose log assets are greater than this benchmark in that year. If I am not able to identify a group one cutoff, the year drops from my sample. In columns IV and V, I do an analogous procedure to mimic elections among group two and three banks, respectively.

The results from columns I-IV suggest that larger banks are significantly more likely to have employees elected to an FRB board. Even though banks are divided into size groups, it appears as if the larger banks in groups one and two banks are more likely to get elected. Although the coefficient on firm size is not significant in column V, the coefficient on "no parent" is negative and highly significant. Since standalone banks are on average significantly smaller than subsidiary banks,[25] this suggests that large banks are also more likely to get elected in group three.

VI.2 **Comparison of Directorship BHCs to the Industry of BHCs**

I construct my BHC industry data set using year-end (December) FR Y-9C data from 1987-2009.[26] I restrict the sample to domestic BHCs and to top tier BHCs from 1990 on.[27] I also restrict the sample to BHCs with nonnegative assets, employees, salaries and Tier 1 capital ratios and with ROA and ROE between -1 and 1. I define the Tier 1 capital ratio to be the percentage of Tier 1 capital in risk-weighted assets. The definition is slightly different from my definition of capital ratios for banks because I obtain data on capital ratios for the period prior to 1997 from Benjamin Mandel at the New York Fed. During this period Tier 1

[25] In the sample in column V, mean assets for subsidiary and standalone banks are 2.15e08 and 9.4e07, respectively.
[26] I do not consider small BHCs with consolidated assets under $500 million that file FRY9S-P separately, as these BHCs are likely to have identical management structures as their primary bank. This means the analysis from Section VI.1 is also relevant for them.
[27] The variable that identifies top tier BHCs (bhck9802) does not exist prior to 1990.

capital data is missing for BHCs. Furthermore the approximations of capital ratios for banks are not directly applicable to BHCs. Table A4 provides definitions of all variables I use in terms of FR Y-9C item numbers. I also match the FR Y-9C data to the Chicago Fed's BHC Merger Data by merging on survivor id (idrssd) and year. I define the number of acquisitions to be the number of times a BHC occurs as a surviving entity in the merger data in a given year. If a BHC does not appear as a surviving entity in a given year, I define the number of acquisitions that year to be 0. I end with a sample of 49,508 BHC-year observations, but the number of observations varies in my regressions due to incomplete data for some variables.

I am able to match only 81 of the 94 directorship BHCs to the BHC industry data on BHC idrssd and election year because of complications due to acquisitions. Table A4 compares summary statistics of size variables (assets and employees), capital structure variables (loans/assets, Tier 1 capital ratio), performance measures (ROA, ROE, fraction of nonperforming loans) and the number of acquisitions for banks with employees elected to FRB boards (Panel A) and those without FRB directorships (Panel B).

As is the case for banks, directorship BHCs are larger, both in terms of assets and employees and they make more acquisitions. Although ROA and the fraction of nonperforming loans are not significantly different from the typical BHC, they do seem to outperform the industry in terms of ROE.

In columns VI-X of Table 5, I mirror the analysis in columns I-V for BHCs. Across groups, size is again positively and significantly related to the likelihood of election, except for the analysis mimicking group three BHCs. However, there are only 2 observations for which the dependent variable is equal to 1 in the sample in column X, so this analysis is not that informative. Overall, Table 5 suggests that class A FRB directorships are dominated by large banks. Although there is some evidence consistent with the idea that banking institutions with FRB directorships are better performers, it is not very robust. Of course, the performance of the bank may be a poor proxy for the ability of the elected banker. However, 152 (=84.44%) of class A directors in the bank sample and 70 (= 86.42%) of class A directors in the BHC sample are top managers of the bank. Thus, one might expect there to be some correlation between ability and bank performance. It is also possible that performance is not a good indicator of someone who is best able to represent the banking community. What *is* clear from the results is that not all types of banks are equally represented on FRB boards.

VII. **Do FRB Directorships Add Value?**

In this Section, I examine whether FBR directorships add value to directors' employers. As the literature on board memberships suggests, a directorship may be beneficial to the individual but detrimental to his employer, because it diverts the individual's attention away from the employer. On the other hand, the link between organizations established by the board membership can be valuable to the employer because it may enhance its reputation, it may be a source of information, networks and resources. The literature on political connections and regulatory capture suggests that such links are particularly valuable when one party to the link is a governmental or regulatory body. Since banks have the most to gain from the Fed, I examine whether Fed directorships appear to be particularly valuable for banks.

It is difficult to examine valuation effects of Fed directorships using standard panel data analysis since, as the results from Section VI suggest, performance may be a factor contributing to the election to a Fed board. This means that the election to a Fed board will be endogenous in performance regressions. Moreover, non-bank Fed directors may work for firms for which performance data is not readily available, such as private companies, law firms, universities or non-profit organizations. Thus, I examine the performance impact of obtaining a Fed directorship for the subset of publicly-traded employers using an event study methodology around election dates for A and B directors and appointment dates for C directors. In the case of subsidiaries of publicly-traded BHCs, I consider the stock price reaction for the parent BHC. In Section VII.1, I examine the average market reaction to a Fed directorship. In Section VII.2, I examine contested elections and in Section VII.3, I examine variation in the stock market reaction.

VII.1 **The Market's Reaction to FRB directorships**

The most important part of any event study is determining the date on which the market learns about the event. If there are no other nominees for a directorship, then it is natural to assume that the date the market learns that an officer of a firm has been elected a Federal Reserve director is the date of the nomination circular. However, this is not necessarily clear for several reasons. First, the date of the nomination circular is the mailing date, not the receipt date. Second, all official documents concerning director elections from the Federal Reserve Banks are sent only to banks in their district, i.e. they are not made publicly available. Thus, it is not clear exactly how quickly the market as a whole learns that

an officer has been nominated. If the market is only semi-strong efficient, then it may be difficult to detect a stock price reaction on the nomination date. Since elections may also be contested, I also examine the stock price reaction around the election date at which point all uncertainty regarding the outcome of the election is resolved. An additional advantage of the election date is that it is announced in advance so there is no uncertainty regarding receipt dates.

In addition to my sample of circulars, I conduct a Factiva search to obtain press releases by FRBs and newspaper articles concerning director elections. I define the nomination date to be the date of the nomination circular listing the name of the elected director as a nominee. If this information was missing, I use the date of the call for nominations because it indicates whether directors are eligible for reelection. In districts with nomination committees I define the nomination date to be the date of the nominating committee circular.

I define the election date to be the date of the election indicated in the nomination circular. If I did not have the nomination circular, I define the election date to be the date of the circular announcing election results if available or the date of news releases from FRBs or newspaper articles announcing election results. Because I am also interested in seeing whether the market reacts to the appointment of class C directors, I augment the election dates by the appointment dates for class C directors from press releases by the Board of Governors which I obtained from my 2002 FOIA request and the Board's website. In my sample, the total number of election/appointments for directors working for publicly-traded companies is 275 of which 171 are for class A and B directors. Because of missing circulars, I end with a sample of 116 nomination dates (76 class A and 40 class B) and 237 election/appointment dates (104 class A, 58 class B and 75 class C).[28] Since directors can be reelected, the number of stocks with nomination dates is 64 for class A and 27 for class B. The number of stocks with election dates is 86 for class A, 40 for class B and 53 for class C. Thirty-eight of the 104 class A stocks belong to the parent holding company.

I obtain stock returns from CRSP and conduct the event study using Eventus. I use both a market model and a constant mean return model with a 255 day estimation period ending 46 days prior to the announcement date. Because of the nature of director elections there are several concerns that may arise. First, in most districts one class A and one class B director are elected on the same day. Although it is unclear whether the news that an

[28] Of the 168 election dates for class A and B directors, 117 are the actual election dates from circulars. The rest are other types of election dates.

additional director is elected or appointed will have a systematic effect on the stock price reaction, as a robustness check I also examine the stock price reaction in the sample of election dates on which only one director, i.e. only a class A or a class B director, was elected in a district (sole elections). For this sample, the assumption that abnormal returns are independently distributed seems reasonable. Another potential concern is that there may be correlation in abnormal returns across districts. However, I do not believe this is a problem because each Reserve Bank has its own election schedule. As a result, 94% of nomination dates and 91.04% of election dates in the event study sample are unique to a district. Two districts shared a common nomination date in 6 instances, but this was unsystematic, i.e. it was not always the same two districts. Similarly, two (three) districts shared a common election date 15 (2) times, but again this was unsystematic.

-Insert Table 6 about here-

Panel A of Table 6 shows the results of the event study for 3 different event dates, the nomination date, the election date and the election date for sole elections. I examine the cumulative abnormal returns (CARs) starting 30 days prior to the election date because information about directorships may be revealed to the market at the time that nominations are being made, typically a month prior to the election. It is less clear what the pre-event window should be for the nomination date. I choose 30 days prior simply for consistency's sake and show results for four different event windows: (-30, -2), (-1,0), (-1,1), (2, 30).

Although there are some differences in the results across types of dates for the period prior to the event date, the results for the window (-1,1) are consistent. The stock price reaction is always positive and significant at greater than the 10% level in this window, regardless of how I model normal returns. The results for sole elections are stronger than for the other date types both in terms of significance and magnitudes. Using the market model, I estimate the average CAR for sole elections to be 0.98% in the (-1,1) window. In comparison, the average CAR for all elections is 0.42%.

These results suggest that companies appear to benefit from Fed directorships on average. To see whether there is a differential effect across classes, I restrict the sample to banks or BHCs, i.e. class A directorships, in Panel B and class B directors in Panel C. The results in Panel B are similar to those in Panel A. The stock price reaction is positive and significant at greater than the 10% level across all date types. However, the magnitudes of the (-1, 1) CARs are always larger than their counterparts in Panel A. For example, the election date CAR for all companies is 0.42%, whereas the election date CAR for banks and BHCs is 0.99%. The results for sole elections are even more striking. The sole election date CAR for

banks and BHCs is 2.86% as compared to the CAR of 0.98% for all companies. Thus, Panel B suggests not only that Fed directorships add value to banks and BHCs, but also that the positive effects in Panel A are driven entirely by the banks and BHCs. Consistent with this idea, Panel C shows that the average reaction for class B directors on election dates and in sole elections is negative using the market model.[29] I examine variation in market reaction in more detail in the next Sections.

VII.2 **Contested Elections**

If Fed directorships add value, there should be differential market reactions for winning and losing companies in contested elections. I identify 20 contested elections involving listed banks or BHCs and 5 contested elections involving listed non-financial companies. The class A elections involved between 2 and 4 candidates. The class B elections always involved 2 candidates. The number of observations is clearly too small to provide definite answers; however, it may still be informative to examine these elections. Thus, I conduct an event study as before. In Panel A of Table 7, I show the stock market reaction around nomination dates in contested elections for both class A and B directors. In Panel B, I show the market reactions around election dates for winners (left panel) and losers (right panel).

The market reaction to nomination dates for class A directors is generally not significant, although the signs are consistent with those in Table 6. The results for class B directors suggest quite strongly that the market reacts negatively to nominations for class B directorships in contested elections. The mean CARs are economically large and statistically significant.

-Insert Table 7 about here-

In Panel B, I find some evidence that the market reacts positively when a company wins a class A directorship election. Mean market model CARs in the (-1,1) window are 1.39% and statistically significant at the 10% level. Although the mean CARs are negative for losers, the results are not significant. On the other hand, the market appears to react positively when a company loses a class B election. The mean market model CAR in the (-1,1) window is 2.85% and statistically significant at the 5% level. Table 7 provides suggestive evidence that the market reacts differently to winning and losing a contested

[29] In unreported results, I find the average reaction for Class C directors is not statistically different from zero.

election. Moreover, it suggests that the reactions are different for class A and B elections. In contested elections for class A directorships, winning seems better than losing. The opposite appears to be true for contested elections for class B directorships.

VII.3 **Variation in the Stock Price Reaction**

The evidence from Tables 6 and 7 shows that employers of class A directors benefit more than employers of class B and C directors from FRB directorships. In this Section, I try to gain some insight into potential channels that may explain this differential effect by regressing the (-1, 1) election date CARs on financial and district characteristics for each class of directors. I obtain financial characteristics for class B and C directorships from Compustat. If a BHC subsidiary holds a class A directorship, I use the financial characteristics of the parent.

There are at least two reasons why one might expect the stock price reaction to be different for banks than for non-banks. First, bankers may be the most qualified to evaluate other bankers. Thus, the signal that a banker has been elected by other bankers to represent the banking community may be a better reputational signal than the signal that a non-banker has been elected by bankers. Second, the directorship may be a source of valuable information to the banks that is less relevant for non-financial firms.

Because the banks and BHCs in the event study are listed and hence much larger than unlisted banks, it is not clear why the election to an FRB board should provide an economically significant reputational signal for them. Nevertheless, I examine the reputation argument further by including firm size in my regressions. If the reputation argument is true, I would expect smaller banks and BHCs to benefit more from the election signal than larger ones. I also include measures of performance (ROA and fraction nonperforming loans) although I believe it is less clear how performance relates to reputation. The reputational signal should be stronger for worse performing firms, but worse performing firms may also have more to gain from their directorship in terms of information and other potential benefits.

To examine if directors' employers may benefit from obtaining privileged information or potentially having an influence on policy, I examine how the stock price reaction varies when the director is elected to the board of the Federal Reserve Bank of New York or during the financial crisis. Since the Federal Reserve Bank of New York is the most important Reserve Bank, directors may obtain more information when they sit on its board. Since directors may also gain more information when the president of the Reserve Bank has a

longer tenure, I also control for president tenure between 1990 and 2009. Finally, for class A directors, I include the number of acquisitions in the year because the Reserve Banks are involved in approving mergers.

One could also argue that these variables proxy for reputational benefits. However, I believe the arguments why that may be the case are less strong than for firm size and performance. For example, in order for a New York effect to proxy for reputation one would have to either argue that the market is less able to assess bank/BHC quality in the district of New York or that banks/BHCs are systematically worse in New York. Otherwise, there would be no reason why the election signal should be systematically more valuable in New York. These arguments seem difficult to make.

-Insert Table 8 about here-

Columns I-III of Table 8, show regressions for class A directors; columns IV-VI (VII-IX) show regressions for class B (C) directors. I correct all standard errors for clustering at the district level. For class A directors, the coefficient on ln(Assets) is negative, however it is not significant. The coefficient on the fraction of nonperforming loans is positive and significant at the 5% level, which suggests that the market reacts more positively to the election of relatively worse performing banks/BHCs. However, the coefficient on ROA is not significant. The coefficient on the New York dummy, the financial crisis dummy and the number of acquisitions are all positive and significant at greater than the 10% level. For class B directors, the most important factor seems to be the financial crisis dummy, whose coefficient is negative and significant at the 5% level across all three specifications. For class C directors, the New York dummy is significantly negative in column VII, although it loses significance in columns VIII and IX. The results are robust to dropping observations with confounding news announcements in the 5 day window (-4, 0) around the election date and restricting the samples to elections in which only one director of a listed firm is elected/appointed on a given date.

The results confirm that there is a differential reaction for class A employers and employers of class B and C directors. If anything, the market reacts negatively to class B director elections, most likely because a FRB directorship diverts the directors' attention away from his employer without compensating advantages. The strong negative reaction for class B directors during the financial crisis is consistent with this interpretation. Although the results for class C directors are less strong, it may be difficult to analyze the market reaction for class C directors because their appointment announcements may contain less information. The timing of class A and B election announcements follow a schedule and there is little

likelihood that they are strategically timed. The timing of class C appointment announcements are less constrained. The results also suggest that banks/BHCs may obtain some private benefits from their directorships that are unrelated to reputation.

VIII. Consequences of FRB directorships

The event study evidence shows quite clearly that FRB directorships add value to directors' employers, but only in the case of banks. Because the stock price reaction for banks varies not only with individual characteristics of the banks but also with characteristics of the Reserve Banks, it is possible that one source of this value might be private benefits that banks can obtain from the Fed, for example in the form of better information or potential supervisory leniency. However, this evidence is indirect. In this Section, I try to provide direct evidence that Fed directorships may affect outcomes for banks. This is difficult to do because obtaining a Fed directorship will be endogenous in most outcome regressions because of reverse causality. It is also difficult to measure outcomes that are directly influenced by the Fed.

The outcome I choose to study is bank closures for Fed member banks. This is an event in which the Fed will always be involved either because the closure is the result of a merger or because it is the result of a failure. Furthermore, if a bank is closed, its employee cannot be elected a Fed director, so holding a Fed directorship may be less endogenous in a closure regression than in other outcome regressions. Of course, the expectation that a bank may close in the future may still influence the likelihood that a bank's employee obtains a Fed directorship. I try to account for this by looking at the period *after* directorship banks' Fed board service ends and also by looking at closures several years after Fed board service ends.

Even if banks close as the result of a merger, I argue that closure can be considered a failure from the point of view of bank management since the acquirer chooses not to continue operating the bank under its current charter. Thus, I expect bank managers to take actions to avoid closure including using their influence with their Fed if they have any. If Fed directorships increase banks' influence with the Fed, I expect that the likelihood a bank closes will be lower if one of its employees had a Fed directorship, ceteris paribus. One reason may be because they receive assistance from the Fed or the government which helps them avoid failure. This argument is consistent with Faccio, Masulis and McConnell (2006) who show that political connections are positively correlated with the likelihood of receiving

bailout funds from governments. It is also consistent with Duchin and Sosyura (2012) who show that banks with Fed directorships were more likely to receive TARP funds during the recent financial crisis.

I examine bank closures for the 84,842 bank-year observations on Federal Reserve member banks in my bank industry sample. I do not also report results for BHCs because there are fewer closure events in the smaller sample of BHCs and there is little variation in directorship status in each closure category. To measure closure I use the Chicago Fed merger data. This data describes the dates banks cease to exist either because of mergers or failure. I define a nonsurvivor dummy to be equal to 1 in a given year if a bank in my industry sample appears as a nonsurviving entity in the bank merger data in the following year. The number (percent) of banks that are classified as nonsurvivors is 4,734 (5.58%). In the full sample, the number of banks with Fed directorships that close after Fed board service ends is 32. Once I control for various financial characteristics of banks in my regressions, the number of directorship banks that close is reduced to 24.

-Insert Table 9 about here-

In Columns I-V of Table 9, I regress my measure of bank closure on bank financial characteristics, year and district dummies. All standard errors are clustered at the bank level. As explanatory variables, I include size (Ln(Assets)), two measures of performance (the fraction of nonperforming loans and ROA) and the capital ratio. I also include a dummy indicating whether the bank is standalone because subsidiary closures are more likely to be due to acquisitions than outright failure. The main explanatory variable is a post fed board indicator which I define to be one for directorship banks in all years after a bank completed its service on a Fed board. Because size is likely to be extremely important for survival, I restrict my sample to the first (second/third) tercile of assets in column II (III/IV).

The coefficient estimates on the control variables in columns I-IV are generally consistent with expectations. Better capitalized banks and better performing banks are less likely to be nonsurvivors. Standalone banks are also less likely to be nonsurvivors. Most notably, the coefficient on the post fed board indicator is negative and significant at greater than the 1% level in column I. The results from columns II-Iv suggest that this is primarily driven by the banks in the third tercile. To further account for the fact that expectations about survival may affect the election to a Fed board, in column V-VIII I delete all observations on

directorship banks prior to the 5th year after their Fed board service ends.[30] The coefficient on post fed board is still significant at greater than the 1% level in the full sample in column V. However, now this effect no longer appears to be completely driven by tercile three banks but also in part by tercile one banks. The results suggest that one potential private benefit of Fed directorships to banks may be assistance in avoiding failure. This benefit may be strongest for smaller banks.

IX. **Conclusion**

The governance of many organizations has come under increasing scrutiny in recent years. Central banks are no exception. Particularly following recent scandals in Italy and elsewhere, people are beginning to question the optimal design of central banks. Like corporations, many central banks around the world have one or more boards of directors. While these boards' responsibilities may vary, their members clearly have an important role. Thus, key governance questions are who these directors are and whether they may have any conflicts of interest. This paper examines one aspect of governance for the 12 Federal Reserve Banks of the Federal Reserve System of the United States, namely the representation of private interests on such boards.

The reason private interests are represented on Reserve Bank boards is to help ensure that the Federal Reserve System represents various stakeholders in a fair manner. Perhaps a sufficient, although not necessary, condition to ensure the consideration of all stakeholders is that directors are drawn from different industries, backgrounds and ethnicities. Accordingly, the Federal Reserve System emphasizes the importance of diversity in director selection in various ways. For example, its rules concerning the division of directors into three classes help ensure that there is a balance of representation of different commercial and non-commercial sectors on the board. In addition, its guidelines on director selection emphasize director diversity.

My results suggest that such guidelines may not be sufficient to ensure equal *formal* representation of all stakeholders. I show that large, but not necessarily better-performing banks are more likely to be represented on Federal Reserve Bank boards. Moreover, the stock price reaction to Federal Reserve directorships is positive for publicly-traded employers that are banks, but not for publicly-traded employers that are non-banks. There are several

[30] I chose 5 at random. The results are similar with numbers less than 5. If I increase the number results are also similar, but I lose more observations.

potential explanations for these findings, but I argue that they can be partially explained by the fact that the market believes that banks gain from these directorships. Although Federal Reserve Bank boards are not supposed to favor one bank over any other, the results suggest that some banks do gain through their directorships while those banks without directorships cannot. The evidence that directorships banks are less likely to fail is consistent with the idea that directorships banks have private benefits. Although clearly more research is needed to determine the costs and benefits of Federal Reserve Bank directorships, my results are consistent with the idea that the Fed's governance structure may continue to expose it to reputation risk.

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Appendix

Table A1: OLS Regressions of the Number of Banks in Group and Capital Limits on Time

This table shows OLS regressions of the number of banks in group and the capital limits for dividing banks into groups on a year trend. The data consists of the subsample of available data on elections of class A and B directors on the board of a Federal Reserve Bank during 1990-2009. Table 3 describes the data in more detail. Number of banks in group is the number of banks in the group electing the director. Group electing is either 1, 2 or 3 depending on whether the electing banks are the large banks (group 1), medium banks (group 2) or small banks (group 3). Upper bound is the amount of capital and surplus used to determine groups 2 and 3. Lower bound is the amount of capital and surplus used to determine groups 1 and 2. Banks must have capital and surplus greater than the lower bound of capital and surplus for groups 1 and 2. Banks must have capital and surplus smaller than the upper bound of capital and surplus for groups 2 and 3. The regressions in Columns II-VIII are at the group level indicated in the row at the bottom of the table. I have no election data for Boston. The FRB of St. Louis is the omitted district in columns II-VIII. Kansas City was dropped from the regression in column IV due to insufficient data. Standard errors are not corrected for heteroskedasticity as the purpose of this table is to document trends. Absolute values of t-statistics are in parentheses. ***, **, * indicate significance at the 1, 5 and 10% level, respectively.

	Dependent variable: Number in group				**Dependent variable: Upper bound**		**Dependent variable: Lower bound**	
	I	II	III	IV	V	VI	VII	VIII
Year	-5.18***	-0.91***	-3.93***	-7.07***	2.13e+5***	2.78e+06***	2.0e+5***	6.82e+06***
	[8.33]	[4.49]	[9.80]	[12.34]	[9.47]	[7.50]	[9.93]	[5.53]
Group electing	75.42***							
	[17.53]							
Atlanta		7.17	25.98**	55.19***	2.88e+06***	2.78e+07**	2.84e+06***	3.2e+07
		[1.39]	[2.26]	[3.49]	[4.40]	[2.33]	[4.39]	[0.91]
Boston		-	-	-	-	-	-	-
Chicago		20.07***	112.99***	172.02***	1.17e+06*	3.8e+07***	9.14e+05	3.04e+07
		[3.97]	[9.84]	[10.68]	[1.79]	[3.29]	[1.46]	[0.91]
Cleveland		-9.31*	-23.26**	-40.74**	1.52e+06**	5.26e+07***	1.48e+06**	6.01e+07*
		[1.81]	[2.06]	[2.53]	[2.28]	[4.48]	[2.32]	[1.70]
Dallas		41.03***	71.09***	110.91***	-9.96e+05	-2.04e+07*	-9.94e+05	-3.17e+07
		[8.60]	[6.37]	[7.26]	[1.58]	[1.77]	[1.59]	[0.97]
Kansas City		94.82***	170.47***	-	-2.06e+06***	-2.32e+07*	-1.44e+06**	-4.08e+07
		[11.20]	[9.69]		[2.77]	[1.91]	[2.18]	[1.17]
Minneapolis		18.36***	16.32	1.91	-5.17e+05	-1.24e+07	-4.0e+05	-7.54e+06
		[3.56]	[1.43]	[0.12]	[0.78]	[1.05]	[0.62]	[0.21]
New York		-12.25**	-53.87***	-60.70***	2.6e+07***	9.59e+08***	2.56e+07***	8.62e+08***
		[2.49]	[4.53]	[3.90]	[40.41]	[78.55]	[38.52]	[25.66]
Philadelphia		6.43	-49.95***	-88.73***	1.56e+06**	-8.17e+06	1.46e+06**	-1.64e+07
		[1.24]	[4.42]	[5.67]	[2.45]	[0.71]	[2.33]	[0.48]
Richmond		0.8	18.36	-40.65**	9.92e+05	9.49e+06	9.9e+05	2.41e+07
		[0.15]	[1.57]	[2.47]	[1.46]	[0.78]	[1.50]	[0.65]
San Francisco		-2.35	-17.08	-25.58	5.5e+06***	8.81e+07***	5.0e+06***	1.02e+08***
		[0.46]	[1.48]	[1.62]	[8.40]	[7.37]	[7.70]	[2.88]
Constant	10,305.65***	1,842.95***	7,954.86***	14,297.31***	-4.22e+08***	-5.52e+09***	-3.96e+08***	-1.36e+10***
(St. Louis omitted district)	[8.30]	[4.55]	[9.94]	[12.50]	[9.40]	[7.48]	[9.87]	[5.52]
Group electing	All	Group 1	Group 2	Group 3	Group 3	Group 2	Group 2	Group 1
Observations	319	108	105	106	115	117	117	121
R-squared	0.54	0.827	0.913	0.907	0.979	0.995	0.98	0.946

Table A2: Summary Statistics of Employers of Class A Directors Prior to Election-The Case of Banks

Panel A of Table A shows summary statistics of financial characteristics of banks whose employees were elected as class A directors in the year of election. Panel B shows summary statistics for all other banks. The data consists of Call Report data from the FRB of Chicago for the years 1987-2009. I merge this data to the Chicago Fed bank merger data by merging on survivor idrssd and year. I restrict the set of banks to domestic banks (rssd9170 is not equal to 0) and headquarter establishments (rssd9241 equal to 1). Capital ratio is the ratio of tier 1 capital to assets. Tier 1 capital data (rcfd8274) is missing prior to 1996. I use Ken Kuttner's approximation (see http://www.chicagofed.org/digital_assets/others/banking/financial_institution_reports/regulatory_capital.pdf) to define Tier 1 capital for 1990-1993, i.e. Tier 1 capital = rcfd3230 + rcfd3839 + rcfd3632 + rcfd3000 + rcfd3778 + rcfd0297 - rcfd3163 if rcon9804 is not equal to 51, otherwise it is Tier 1 capital (as above) + rcfd3284. Rcfd0297 is missing in 1994 and 1995, so Capital ratio is missing for those years. I define assets, employees, salaries and capital ratio to be missing if they are non-positive. I define ROA and ROE to be missing if they are smaller than or equal to -1 or greater than or equal to 1. Number of acquisitions is the number of times the bank appears as a surviving entity in a given year in the bank merger data. Federal Reserve member is a dummy equal to 1 if rssd9422 is equal to 1. National bank is a dummy equal to 1 if the bank has an OCC registration number (rssd9055). No parent is a dummy equal to 1 if the bank has no high holder (rssd9348 is missing). For all other data items, I provide the Call report data items I use to construct the variable in parentheses after each variable in panel A. Assets and salaries per employee are denominated in thousands. ***, **, * indicate differences in means between Panel A and Panel B are statistically significant at the 1, 5, and 10% respectively.

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
Panel A: Banks with Employees Elected to Federal Reserve Bank Boards					
Assets (rcfd2170)	180	3.8e+6 ***	1.26e+07	10371.00	9.03e+07
Employees (riad4140)	180	1099.36***	3489.43	7.00	27300.00
Salary per employee (riad4135/riad4150)	180	0.03	0.01	0.01	0.06
Loans/Assets (rcfd2122/rcfd2170)	180	0.59	0.15	0.05	0.89
ROA (income/average assets=riad4340/rcfd3368)	180	0.01	0.01	-0.03	0.04
ROE (income/equity=riad4340/rcfd3210)	180	0.12	0.07	-0.21	0.37
Fraction nonperforming loans ((rcfd1403+rcfd1407)/rcfd2122)	180	0.01	0.02	0.00	0.11
Capital ratio	132	0.10	0.03	0.05	0.30
Number of acquisitions	180	0.16***	0.97	0.00	12.00
Federal Reserve member	180	0.98***	0.13	0.00	1.00
National bank	180	0.64***	0.48	0.00	1.00
No parent	180	0.11***	0.31	0.00	1.00
Panel B: Bank Universe (excluding Panel A data)					
Assets	231178	674890.70	1.33e+07	1.00	1.75e+09
Employees	229505	172.16	2236.32	1.00	213967.00
Salary per employee	229387	0.03	0.28	0.00	128.00
Loans/Assets	231141	0.58	0.17	0.00	1.35
ROA (income/average assets)	229933	0.01	0.02	-1.00	1.00
ROE (income/equity)	228537	0.09	0.11	-1.00	0.99
Fraction nonperforming loans	229076	0.02	0.03	0.00	1.00
Capital ratio	166667	0.11	0.08	0.00	1.03
Number of acquisitions	231757	0.06	0.48	0.00	51.00
Federal Reserve member	231757	0.37	0.48	0.00	1.00
National bank	231757	0.27	0.44	0.00	1.00
No parent	231757	0.27	0.44	0.00	1.00

Table A3: Summary Statistics of Employers of Class A Directors Prior to Election-The Case of BHCs

Panel A of Table A shows summary statistics of financial characteristics of BHCs whose employees were elected as class A directors in the year of election. Panel B shows summary statistics for all other BHCs. The data consists of FR Y-9C from the FRB of Chicago for the years 1987-2009. I merge this data to the Chicago Fed BHC merger data by merging on survivor idrssd and year. I restrict the set of BHCs to domestic BHCs (rssd9170 not equal to 0) and from 1990 on to top tier BHCs (bhck9802 is equal to 1 or 3). Tier 1 capital ratio is 100*Tier 1 capital / risk-weighted assets. Risk-weighted assets = bhcka223. Tier 1 capital data (bhck8274) is missing prior to 1996. Prior to 1996 I use data on the Tier 1 capital ratio from Benjamin Mandel at the Federal Reserve Bank of New York. I define assets, employees, salaries and capital ratio to be missing if they are non-positive. Number of acquisitions is the number of times the BHC appears as a surviving entity in a given year in the BHC merger data. For all other data items, I provide the FR Y-9C data items I use to construct the variable in parentheses after each variable in panel A. Assets and salaries per employee are denominated in thousands. ***, **, * indicate differences in means between Panel A and Panel B are statistically significant at the 1, 5, and 10% respectively.

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
Panel A: BHCs with Employees Elected to Federal Reserve Bank Boards					
Assets (bhck2170)	81	7.93E+07***	2.29E+08	1.51E+05	1.35E+09
Employees (bhck4140)	81	18900.47***	45599.52	73.00	267220.00
Salary per employee (bhck4135/bhck4150)	81	0.02*	0.01	0.01	0.04
Loans/Assets (bhck2122/bhck2170)	81	0.63	0.10	0.36	0.79
ROA (income/average assets=bhck4340/bhck3368)	81	0.01	0.00	-0.01	0.02
ROE (income/equity=bhck4340/bhck3210)	81	0.13**	0.07	-0.32	0.27
Fraction nonperforming loans ((bhck5525+bhck5526)/bhck2122)	73	0.01	0.01	0.00	0.04
Tier 1 capital ratio	70	10.59***	2.75	6.28	18.40
Number of acquisitions	81	2.40***	6.66	0.00	54
Panel B: BHC Universe (excluding Panel A data)					
Assets	34790	4.34E+06	4.71E+07	7.85E+03	2.22E+09
Employees	34790	1127.36	8537.75	1.00	409720.00
Salary per employee	34788	0.03	0.02	0.00	1.81
Loans/Assets	34790	0.62	0.14	0.00	1.18
ROA (income/average assets)	32087	0.01	0.01	-0.27	0.81
ROE (income/equity)	34450	0.10	0.10	-0.99	0.99
Fraction nonperforming loans	30478	0.01	0.02	0.00	0.84
Tier 1 capital ratio	27688	13.46	6.12	0.00	99.74
Number of acquisitions	49427	0.21	1.21	0.00	54

Table 1: Summary Statistics for Federal Reserve Bank Directorships

The data consists of data on Federal Reserve Bank directors from 1990-2009 from Federal Reserve Bulletins. There were 25 vacancies during this period which resulted in 2135 directorships (director-year observations). Accounting for 14 directors who switched classes, the directors filled a total of 207 class A, 175 class B and 170 class C positions. Information about directors' titles is missing for 13 observations. Top manager is a dummy which is equal to 1 if the director's title suggests that the director is the primary decision-maker (e.g. CEO, chairman, owner or managing partner). High level manager is a dummy which is equal to 1 if the director holds a position such as "president", "vice president", "cfo", "partner"or "co-chair". Academic is a dummy which is equal to 1 if the director is a professor. Retired is a dummy which is equal to 1 if the director's title contains the words "retired", "past" or "former". Other is a dummy which is equal 1 if the director is not retired and not otherwise classified. Tenure data is calculated only for directors whose name first appears in or after 1991 and last appears in 2008, i.e. their terms do not overlap with the beginning or end of the sample period. For class C directors, Chair (Vice Chair) tenure indicates the number of years a director holds the position as chairman (vice chairman) of the board of the Federal Reserve Bank. In panel B, the data is restricted to the individual director level and to directors whose terms did not overlap with the beginning or end of the sample period. The number of times an individual is elected/appointed is the number of times an individual was elected for class A and B directors and is equal to the number of times a director was appointed for class C directors. Branch director indicates directors who were directors of a Federal Reserve Branch in the year immediately prior to their election to a Federal Reserve Bank board. Since there are no branches in Boston, Philadelphia or New York after 2009, this variable is missing for those districts/district-years.

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
Panel A: directorship-level					
Class A directorships-Representatives of the banking industry elected by member banks					
Top manager	715	0.84	0.37	0	1
High level manager	715	0.14	0.35	0	1
Academic	715	0.00	0.00	0	0
Retired	715	0.01	0.08	0	1
Other	715	0.01	0.10	0	1
Tenure (years)	525	2.73	1.54	1	7
Class B directorships-Representatives of the public elected by member banks					
Top manager	695	0.57	0.50	0	1
High level manager	695	0.30	0.46	0	1
Academic	695	0.02	0.15	0	1
Retired	695	0.06	0.24	0	1
Other	695	0.05	0.22	0	1
Tenure (years)	466	3.18	1.75	1	8
Class C directorships-Representatives of the public appointed by the Board of Governors					
Top manager	712	0.51	0.50	0	1
High level manager	712	0.28	0.45	0	1
Academic	712	0.04	0.20	0	1
Retired	712	0.07	0.26	0	1
Other	712	0.09	0.29	0	1
Tenure (years)	474	3.44	1.80	1	8
Chairman tenure (years)	154	1.90	0.94	1	5
Vice-Chair tenure (years)	154	1.69	0.83	1	5
Panel B: individual director-level for directors who served their entire terms between 1991 and 2008					
Number of times elected/appointed	325	1.71	0.68	1	4
Branch director	264	0.13	0.34	0	1
Total tenure (years)	325	4.51	1.78	1	8
Total chair tenure	87	1.54	1.42	0	5
Total Vice-Chair tenure	87	1.56	1.15	0	5

Table 2: Summary Statistics for Companies Represented on Federal Reserve Bank Boards

The data consists of data on employers of Federal Reserve Bank directors from 1990-2009 from Federal Reserve Bulletins. There were 25 vacancies during this period which resulted in 2135 directorships (director-year observations). I determined if a company was publicly-traded by matching the name, city and state of the employer to CRSP. I determined if a company was a bank or bank holding company (BHC) by matching employer information to the Call report and Y-9C data available from the Federal Reserve Bank of Chicago and checking uncertain matches using institution searches in the National Information Center databases and the internet. I classify an institution as a bank if it appeared in the Call data and a BHC if it appeared in the Y9-C data. Bank or BHC is a dummy which is equal to 1 if a director's employer is a bank or a BHC. The number of times an employee is elected/represented is the number of times any employee is either elected or appointed by the Board of Governors to a Federal Reserve Bank director position. Data on elections at the company level may be missing if a director was not elected while employed for a company but moved to that company later. Number of years represented is the number of years a company has any employee sitting on the board of a Federal Reserve Bank. Number of times employee of high holder is elected is equal to the number of times any employee of a parent bank or BHC, including employees of subsidiaries, is elected to a Federal Reserve Bank director position. Data on banks is from the Call reports. I classify banks as stand alone if their high holder id indicated they were not held by another institution (their rssd9001=rssd9348). I classify banks as national banks if they have an OCC registration number.

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
Panel A: All non-vacant directorships					
Publicly-traded	2135	0.34	0.47	0	1
Bank or BHC	2135	0.33	0.47	0	1
Panel B: Unique companies appearing between 1991 and 2008					
Bank or BHC	389	0.37	0.48	0	1
Number of times employee elected/appointed	350	1.56	0.67	1	4
Number of years represented	389	3.67	1.97	1	9
Panel C: Data for unique banks or BHCs appearing between 1991 and 2008					
Number of times employee elected	133	1.32	0.52	1	3
Number of times employee of high holder is elected	142	1.46	0.71	1	6
Number of years represented	147	3.33	1.66	1	7
Number of years high holder is represented	147	3.90	2.11	1	13
Panel D: Data for all bank-years					
Stand alone bank	461	0.08	0.28	0	1
National bank	461	0.63	0.48	0	1
Federal Reserve member	461	0.98	0.15	0	1

Table 3: Summary Statistics for Class A and B Director Elections

The data consists of the subsample of available data on elections of class A and B directors on the board of a Federal Reserve Bank during 1990-2009. The sources of the data are circulars the FRB sent to banks in their district concerning director elections and consist of a combination of calls for nominations, the recommendations of nominating committees, a nomination circular containing the names of nominees and a ballot and circulars announcing the results of the elections. I obtained the circulars from Federal Reserve Banks directly, through a 2002 FOIA request and from the websites of Federal Reserve Banks. Due to the lack of information available on websites, my coverage of elections prior to 2002 (84.98% of sample of 313 elections) is better than after 2002. Panel A of Table 3 shows summary statistics for elections of class A directors and panel B shows summary statistics for elections of class B directors. Panel C shows summary statistics for the groups electing directors. Sole election is dummy variable which is equal to 1 if only one director is elected in the election. This is equal to 1 if only 1 director is nominated or multiple directors are nominated but only one type of director is elected or any election news source mentions only the name of one director. Fill unexpired term is dummy variable which is equal to 1 if the director was elected to fill an unexpired term of a previous director. The number of other nominees is the number of other nominees for the same position, so the total number of candidates is 1 plus the number of other nominees. Ties to nominating bank is a dummy variable equal to 1 if the director's own bank is listed among the banks nominating the director. Banks are divided into 3 groups-large (group 1), medium (group 2) and small (group 3) for the purposes of election. Number of banks in group is the number of banks in the group entitled to nominate and elect director. Number of banks voting is the number of banks entitled to vote in the election. Only one bank in a BHC is entitled to vote, which means the number of voting banks will generally be smaller than the number of banks in the group. I set Number of banks voting equal to Number of banks in the group when the circulars did not identify voting banks separately (in 197 of 319 cases). Banks must have capital and surplus greater than the lower bound of capital and surplus for groups 1 and 2. Banks must have capital and surplus smaller than the upper bound of capital and surplus for groups 2 and 3.

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
Panel A: Class A elections-Representatives of the banking industry elected by member banks					
Sole election	154	0.13	0.34	0	1
Fill unexpired term	154	0.05	0.22	0	1
Number of other nominees	149	0.47	0.76	0	3
Number of banks nominating elected director	154	9.34	8.08	1	42
Ties to nominating bank	154	0.85	0.36	0	1
Panel B: Class B elections-Representatives of the public elected by member banks					
Sole election	159	0.16	0.37	0	1
Fill unexpired term	159	0.11	0.31	0	1
Number of other nominees	153	0.12	0.40	0	2
Number of banks nominating elected director	159	7.01	6.64	1	46
Panel C: Summary statistics for groups of banks electing directors					
Group 1: Large banks					
Number of banks in group	108	34.19	23.80	7	126
Number of banks voting	108	32.07	23.02	6	126
Lower bound of capital and surplus	121	1.43E+08	2.93E+08	4000000	1.00E+09
Group 2: Medium size banks					
Number of banks in group	105	113.86	67.09	17	299
Number of banks voting	105	108.94	65.24	14	299
Lower bound of capital and surplus	117	6.66E+06	7.86E+06	1500000	3.00E+07
Upper bound of capital and surplus	117	1.30E+08	2.84E+08	4000000	1.00E+09
Group 3: Small banks					
Number of banks in group	106	183.63	97.41	38	520
Number of banks voting	106	177.46	97.33	38	509
Upper bound of capital and surplus	115	7.31E+06	8.49E+06	1500000	3.00E+07

Table 4: OLS Regressions of the Number of Other Nominees on Director Type and Election Characteristics

This table shows OLS regressions of the number of other nominees for class A and B director elections on director type and election characteristics. The data consists of available data on elections of class A and B directors on the board of a Federal Reserve Bank during 1990-2009. The sources of the data are circulars the FRB sent to banks in their district concerning director elections and consist of a combination of calls for nominations, the recommendations of nominating committees, a nomination circular containing the names of nominees and a ballot and circulars announcing the results of the elections. Class A is a dummy variable equal to 1 if the director being elected is a class A director. First term is a dummy indicating a first-time election. Nominating Committee is a dummy variable equal to 1 if the nominees for the election were proposed by a nomination committee. Fill unexpired term is dummy variable which is equal to 1 if the director was elected to fill an unexpired term of a previous director. The number of other nominees is the number of other nominees for the same position, so the total number of candidates is 1 plus the number of other nominees. Banks are divided into 3 groups-large (group 1), medium (group 2) and small (group 3) for the purposes of election. Accordingly, Group electing is either 1, 2 or 3. Number of banks in group is the number of banks in the group entitled to nominate and elect director. The FRB of Atlanta usually used a nominating committee, so I omit the nominating committee dummy when I include district effects in column V. I have no election data for Boston. Standard errors are corrected for heteroskedasticity and group correlation at the district level. T-statistics are in parentheses. ***, **, * indicate significance at the 1, 5 and 10% level, respectively.

	Dependent variable: Number of other nominees				
	I	II	III	IV	V
Class A	0.34***	0.32***	0.32***	0.31***	0.32***
	[4.09]	[3.70]	[3.54]	[3.44]	[3.46]
First term		0.23*	0.25*	0.21*	0.28**
		[2.09]	[2.23]	[1.97]	[2.47]
Nominating committee		-0.29**	-0.31**	-0.24**	
		[-2.94]	[-3.09]	[-2.67]	
Fill unexpired term		-0.02	-0.01	0.01	-3.03e-03
		[-0.16]	[-0.09]	[0.09]	[-0.02]
Group electing			0.14**		0.14**
			[2.94]		[3.06]
Number of banks in group				1.05e-03	
				[1.51]	
Atlanta					-0.68***
					[-26.99]
Chicago					-0.56***
					[-9.73]
Cleveland					-0.36***
					[-17.70]
Dallas					-0.20***
					[-6.72]
Kansas City					0.20***
					[5.69]
Minneapolis					-0.66***
					[-21.45]
New York					-0.56***
					[-12.42]
Philadelphia					-0.74***
					[-20.18]
Richmond					-0.73***
					[-33.16]
San Francisco					-0.19***
					[-3.82]
Constant (St. Louis omitted district)	0.12	0.01	-0.27**	-0.14	0.13
	[0.94]	[0.12]	[-2.68]	[-0.98]	[0.73]
Observations	307	307	307	283	307
Adj. R-squared	0.0720	0.117	0.145	0.130	0.315

Table 5: Factors Related to the Likelihood of Election

This table shows OLS regressions of a dummy indicating an employee of the bank (in columns I-V) or BHC (in columns VI-X) was elected to an FRB board on financial characteristics in the universe of banks and BHCs from 1987-2009. Banks or BHCs that already have an employee sitting on an FRB board are excluded from the analysis. The dependent variable in columns I and II (VI and VII) is set equal to 1 if an employee is elected to the board in that year; otherwise it is 0. In column III (VIII), the dependent variable is 1 if an employee was elected by group 1 banks and 0 otherwise. The dependent variables in columns IV and V (IX and X) are defined similarly for group 2 and group 3 elected employees, respectively. The maximum number of observations for which the dependent variable is equal to 1 is 180 in columns I and II and 81 in columns VI and VII. The sample and variables are defined in Tables A2 and A3. All characteristics except Federal Reserve Member, National bank and No parent are lagged one period except in columns I and VI. In lagged specifications the data is from 1988-2009. In columns III (VIII), the universe of banks is restricted to banks who whose log assets are greater than the minimum log asset size of identified group 1 banks (BHCs) in a given year minus the standard deviation of log assets (this mimics the universe of group 1 banks electing). In columns IV (IX), the universe of banks is restricted to banks who whose log assets are greater than the minimum log asset size of identified group 2 banks (BHCs) in a given year minus the standard deviation of log assets and whose log assets are smaller than the maximum log asset size of identified group 2 banks (BHCs) in a given year plus the standard deviation of log assets. In columns V (X), the universe of banks is restricted to banks whose log assets are smaller than the maximum log asset size of identified group 3 banks (BHCs) in a given year plus the standard deviation of log assets. If the size cutoffs for a given group could not be identified in a given year, then that year is omitted from the analysis in the corresponding column in columns III-V and VIII-X. All specifications include year and district dummies. All coefficients are multiplied by 1000. All standard errors are corrected for heteroskedasticity and group correlation at the bank level. T-statistics are in parentheses. ***, **, * indicate significance at the 1, 5 and 10% level, respectively.

	Dependent variable: Bank or BHC employee elected to FRB board									
	I	II	III	IV	V	VI	VII	VIII	IX	X
Ln(Assets)	0.270***	0.289***	0.593**	0.243***	-0.010	3.011***	3.869***	5.223***	1.649***	0.013
	[3.34]	[3.44]	[2.41]	[3.39]	[-0.31]	[4.34]	[6.02]	[4.14]	[2.81]	[0.96]
Loans/Assets	-0.690*	-0.930**	-0.305	-0.157	-0.260	-0.094	0.071	-1.431	3.540	-0.436
	[-1.65]	[-2.04]	[-0.39]	[-0.54]	[-0.99]	[-0.05]	[0.04]	[-0.20]	[1.45]	[-1.00]
ROA	3.148*	-0.421	-23.654**	-0.384	0.673	8.565	9.373	36.585	-1.820	-0.752
	[1.81]	[-0.68]	[-2.13]	[-0.70]	[1.63]	[0.95]	[0.78]	[0.64]	[-0.18]	[-0.92]
Fraction nonperforming loans	0.690	-0.846	-3.254	-0.361	-0.138	-12.679**	-19.745**	-66.466*	-18.399	-1.313
	[0.41]	[-0.40]	[-0.54]	[-0.20]	[-0.09]	[-2.29]	[-2.02]	[-1.83]	[-0.55]	[-0.99]
Number of acquisitions	0.082	0.103	0.077	0.193	-0.194***	1.124	-0.649***	-1.168***	-0.561	-0.009
	[0.34]	[0.47]	[0.25]	[1.21]	[-5.36]	[1.03]	[-3.02]	[-3.70]	[-1.43]	[-0.97]
Salary per employee	-0.058**	0.057	0.148	-0.002	0.028	-4.592	-0.005	-0.005	-0.038	3.8e-04
	[-2.10]	[1.63]	[1.25]	[-0.09]	[1.31]	[-0.97]	[-0.25]	[-0.11]	[-1.46]	[0.83]
Federal Reserve member	0.002***	0.002***	0.001*	0.001***	0.001***					
	[6.26]	[6.09]	[1.77]	[3.77]	[3.56]					
National bank	-0.599*	-0.591	-0.643	-0.402	-0.088					
	[-1.69]	[-1.59]	[-0.73]	[-1.32]	[-0.37]					
No parent	-0.317***	-0.361***	-0.157	0.027	-0.267***					
	[-2.89]	[-3.07]	[-1.21]	[0.25]	[-3.46]					
Constant	-0.001	-0.001	-0.000	-0.003***	0.000	-0.039***	-0.050***	0.062	-0.007	7.61e-05
	[-1.23]	[-1.12]	[-0.04]	[-3.21]	[0.98]	[-4.03]	[-5.60]	[0.62]	[-0.33]	[0.86]
Type of firm			Bank					BHC		
Sample Type	Full-not lagged	Full	Mimic group 1	Mimic group 2	Mimic Group 3	Full-not lagged	Full	Mimic group 1	Mimic group 2	Mimic Group 3
Observations	228,150	210,567	31,344	146,422	199,324	28,843	25,065	5,790	5,108	24,224
Adj. R-squared	0.002	0.002	0.003	0.001	0.001	0.011	0.010	0.017	0.003	-0.000

Table 6: Event Study of Election or Appointment to Federal Reserve Bank Boards

This table shows the market reaction of companies' stock to news that an employee has been elected, in the case of class A and B directors, or appointed, in the case of class C directors, to the board of a FRB. I examine the reactions for parent company stock if the parent of the class A employer is publicly-traded. The event studies are conducted around 3 different types of dates. The first is the nominating date. This date concerns elections of class A and B directors only. In district-years with nominating committees, this date is the date of the nominating committee circular. In other district-years, this date consists of the date of the nomination circular listing candidates for election. If this information was missing, then the date of the call for nominations was used as it indicates whether directors are eligible for reelection. The election date is the date of the election or appointment. This date is from circulars or, in the case of class C directors, the board of governors (BOG). If this information was unavailable, the date is the date of the circular announcing election results or the date of news releases from FRBs or the date of newspaper articles announcing election results. Sole election dates consist of a subset of election or nomination dates for which only one director was elected, appointed or nominated. Table 3 indicates sources for circulars. Newspaper articles and news releases were obtained from a Factiva search. Information from the BOG was obtained from a 2002 FOIA request and the BOG website. Cumulative abnormal returns are calculated using Eventus over 4 windows (-30, -2), (-1,0), (-1,1), (2, 30). Abnormal returns are calculated using both a value-weighted market model and a constant mean return model. In both cases the estimation period is 255 days ending 46 days prior to the first day in the event window. BMP Z denotes the standardized cross-sectional test statistic from Boehmer, Musumeci, and Poulsen (1991). Panel A shows the combined results for nomination dates for class A and B directors and election/appointment dates for class A, B and C directors. Sole election/appointment dates are dates on which only one director was elected/appointed. Panel B shows the market reactions for the sample of class A directors only and panel C shows the market reactions for class B directors only. *, ** and *** indicate significance at the 10%, 5% and 1 % level using a one-tailed test respectively. *, ** and *** on the ratio of positive to negative events indicates generic one-tail significance of the generalized sign test.

	Value-Weighted Market Model					*Constant Mean Return Model*	
Event Window	*Mean CAR*	*Positive: Negative*	*Patell Z*	*BMP Z*	*Portfolio Time-Series (CDA) t*	*Mean CAR*	*Patell Z*
Panel A: All Directors' Employers							
Event date=Nomination Date for Class A and B Directors (113 Observations)							
(-30,-2)	-2.34%	50:63	-2.217**	-2.537***	-2.196**	-4.64%	-4.473***
(-1,0)	0.32%	55:58	1.695**	1.442*	1.132	0.27%	1.514*
(-1,+1)	0.53%	63:50**	2.056**	1.705**	1.540*	0.27%	1.395*
(+2,+30)	-0.06%	56:57	-0.127	-0.165	-0.058	0.92%	0.398
Event date=Election/Appointment Date for Class A, B and C Directors (237 Observations)							
(-30,-2)	-0.10%	113:124	0.411	0.431	-0.137	-0.35%	-0.462
(-1,0)	0.12%	114:123	0.347	0.327	0.609	0.21%	0.793
(-1,+1)	0.42%	124:113*	1.529*	1.543*	1.813**	0.58%	2.355***
(+2,+30)	0.33%	117:120	0.011	0.012	0.463	0.30%	0.006
Event date=Sole Election/Appointment Date for Class A, B and C Directors (34 Observations)							
(-30,-2)	0.37%	18:16	-0.021	-0.019	0.22	0.16%	-0.549
(-1,0)	0.81%	14:20	1.873**	1.447*	1.822**	0.90%	2.451***
(-1,+1)	0.98%	16:18	2.147**	1.649**	1.787**	1.17%	2.584***
(+2,+30)	-1.37%	17:17	-0.497	-0.473	-0.807	-2.40%	-1.467*

Table 6 continued

Panel B: Class A Directors' Employers (Banks or BHCs) Only							
Event date=Nomination Date Class A Directors (Banks or BHCs) Only (73 Observations)							
(-30,-2)	-2.96%	27:46**	-2.391***	-2.902***	-2.231**	-4.55%	-3.671***
(-1,0)	0.38%	34:39	1.548*	1.303*	1.1	0.42%	1.574*
(-1,+1)	0.53%	39:34	1.489*	1.23	1.242	0.72%	1.982**
(+2,+30)	0.20%	35:38	0.278	0.381	0.147	0.27%	0.377
Event date= Election Date Class A Directors (Banks or BHCs) Only (104 Observations)							
(-30,-2)	-0.76%	44:60	-0.391	-0.431	-0.729	-1.07%	-0.778
(-1,0)	0.74%	57:47*	2.010**	1.677**	2.687***	0.65%	1.553*
(-1,+1)	0.99%	63:41***	2.300**	2.122**	2.951***	0.99%	2.306**
(+2,+30)	0.65%	47:57	0.581	0.698	0.626	0.74%	0.811
Event date= Sole Election Date Class A Directors (Banks or BHCs) Only (14 Observations)							
(-30,-2)	-0.85%	7:7	-0.844	-0.591	-0.336	-3.38%	-1.641*
(-1,0)	2.54%	8:6	3.110***	1.973**	3.815***	2.81%	3.451***
(-1,+1)	2.86%	8:6	2.871***	1.682**	3.503***	3.38%	3.370***
(+2,+30)	2.08%	7:7	0.8	0.645	0.821	-1.87%	-0.361
Panel C: Class B Directors' Employers Only							
Event date=Nomination Date Class B Directors Only (40 Observations)							
(-30,-2)	-1.22%	23:17	-0.495	-0.518	-0.698	-4.81%	-2.558***
(-1,0)	0.20%	21:19	0.758	0.651	0.429	-0.01%	0.418
(-1,+1)	0.53%	24:16*	1.444*	1.192	0.935	-0.55%	-0.332
(+2,+30)	-0.53%	21:19	-0.588	-0.699	-0.303	2.09%	0.160
Event date=Election Date Class B Directors Only (58 Observations)							
(-30,-2)	-1.22%	25:33	-0.142	-0.138	-0.850	-2.09%	-1.063
(-1,0)	-0.71%	21:37**	-1.626*	-1.680**	-1.898**	-0.29%	-0.404
(-1,+1)	-0.53%	22:36*	-0.955	-1.062	-1.146	0.05%	0.502
(+2,+30)	0.29%	30:28	-0.368	-0.412	0.205	1.24%	0.097
Event date= Sole Election Date Class B Directors Only (10 Observations)							
(-30,-2)	2.82%	6:4	0.941	1.220	0.745	5.70%	0.991
(-1,0)	-0.97%	1:9***	-0.723	-1.987**	-0.974	-0.84%	-0.019
(-1,+1)	-1.47%	2:8**	-0.674	-1.407*	-1.205	-1.02%	0.177
(+2,+30)	-5.85%	4:6	-1.001	-1.264	-1.545*	-2.60%	-0.805

Table 7: Event Study of Contested Elections to Federal Reserve Bank Boards

This table shows the market reaction of companies' stock to news that an employee has been elected as a class A or B director to the board of a FRB in contested elections. There were 20 contested elections for class A directorships involving publicly-traded banks or BHCs. The number of contenders varied between 2 and 4 in these elections. There were 5 contested elections for class B directorships involving publicly-traded non-financial companies. The number of contenders was always 2 in these elections. I examine the reactions for parent company stock if the parent of the class A employer is publicly-traded. The event studies are conducted around 2 different types of dates. The first is the nominating date. In district-years with nominating committees, this date is the date of the nominating committee circular. In other district-years, this date consists of the date of the nomination circular listing candidates for election. If this information was missing, then the date of the call for nominations was used as it indicates whether directors are eligible for reelection. The election date is the date of the election. This date is from circulars. If this information was unavailable, the date is the date of the circular announcing election results or the date of news releases from FRBs or the date of newspaper articles announcing election results. Table 3 indicates sources for circulars. Cumulative abnormal returns are calculated using Eventus over 4 windows (-30, -2), (-1,0), (-1,1), (2, 30). Abnormal returns are calculated using both a value-weighted market model and a constant mean return model. In both cases the estimation period is 255 days ending 46 days prior to the first day in the event window. BMP Z denotes the standardized cross-sectional test statistic from Boehmer, Musumeci, and Poulsen (1991). Panel A shows the results for nomination dates for class A and B directors in contested elections. Panel B shows the results for winners and losers of contested elections. *, ** and *** indicate significance at the 10%, 5% and 1 % level using a one-tailed test respectively. *, ** and *** on the ratio of positive to negative events indicates generic one-tail significance of the generalized sign test.

Panel A: Nominations in Contested Elections

	Value-Weighted Market Model					*Constant Mean Return Model*	
Event Window	*Mean CAR*	*Positive: Negative*	*Patell Z*	*BMP Z*	*Portfolio Time-Series (CDA) t*	*Mean CAR*	*Patell Z*
Event date=Nomination Date for Class A Directors Only (25 Observations)							
(-30,-2)	-2.72%	9:16	-1.103	-1.413*	-1.152	-1.97%	-0.809
(-1,0)	0.17%	11:14	0.330	0.302	0.269	-0.02%	-0.146
(-1,+1)	0.34%	12:13	0.692	0.544	0.450	0.11%	0.140
(+2,+30)	1.47%	15:10*	0.605	0.789	0.622	1.63%	0.637
Event date=Nomination Date for Class B Directors Only (6 Observations)							
(-30,-2)	-6.90%	2:4	-1.484*	-0.848	-1.920**	-22.97%	-4.876***
(-1,0)	-1.83%	2:4	-2.288**	-0.633	-1.938**	-2.45%	-2.638***
(-1,+1)	-2.64%	2:4	-2.615***	-0.777	-2.288**	-4.06%	-3.160***
(+2,+30)	-3.48%	2:4	-0.731	-1.488*	-0.970	-5.36%	-1.123

Table 7 continued

Panel B: Outcomes of Contested Elections								
	Winners				***Losers***			
	Value-Weighted Market Model		*Constant Mean Return Model*		*Value-Weighted Market Model*		*Constant Mean Return Model*	
	Mean CAR	*BMP Z*	*Mean CAR*	*BMP Z*	*Mean CAR*	*BMP Z*	*Mean CAR*	*BMP Z*
Event date=Election Date for Class A Directors Only								
(-30,-2)	-3.63%	-2.173**	-2.67%	-1.858**	-1.20%	-0.552	-0.66%	-0.472
(-1,0)	-0.41%	-0.316	-0.32%	-0.298	0.43%	0.376	0.05%	-0.125
(-1,+1)	1.39%	1.352*	1.15%	1.341*	-0.43%	-0.743	-0.78%	-1.007
(+2,+30)	-1.28%	-0.388	-1.14%	-0.416	0.69%	0.274	0.87%	0.234
Number of observations	11	11	11	11	14	14	14	14
Event date=Election Date for Class B Directors Only								
(-30,-2)	0.85%	0.297	-25.37%	-1.043	-16.18%	-1.821**	-25.20%	-1.658**
(-1,0)	2.74%	0.529	-0.13%	-0.132	1.54%	2.196**	1.35%	2.068**
(-1,+1)	1.53%	0.242	-0.44%	-0.270	2.85%	2.167**	2.43%	1.921**
(+2,+30)	-9.85%	-4.437***	-9.39%	-6.425***	-0.23%	-0.042	4.11%	1.533*
Number of observations	3	3	3	3	3	3	3	3

Table 8: Cross-sectional Analysis of CAR (-1,+1) Around Election Dates For Class A, B Directors and Appointment Dates for Class C Directors

This table shows OLS regressions of cumulative abnormal returns (CARs) from days -1 to +1 around election dates for class A and B directors and appointment dates for class C directors on firm characteristics. Table 6 describes the dates in more detail. CARs are calculated using the market model in Eventus. The estimation period is 255 days ending 46 days prior to the first day in the event window. New York is a dummy variable equal to 1 if the director is nominated to the board of the New York Fed. Financial crisis is a dummy variable equal to 1 if the director was nominated in 2008 or 2009. President's tenure is the tenure of the Federal Reserve Bank president between 1990 and 2009. Columns I-III are regressions for class A directors. Columns IV-VI are regressions for class B directors. Columns VII-IX are regressions for class C directors. For class A directors financial data is from call or FR Y-9C data. The data is from the parent company if the parent is public. See Table 5 for descriptions of financial data items for class A directors. For class B and C directors financial data is from Compustat. ROA=Compustat item NI divided by AT for class B and C directors. Assets are denominated in thousands in all cases. All standard errors are corrected for heteroskedasticity and group correlation at the district level. T-statistics are in parentheses. *, ** and *** indicate significance at the 10%, 5% and 1 % level.

	Dependent variable: CAR (-1,1) Market model								
	I	II	III	IV	V	VI	VII	VIII	IX
New York	0.012**	0.021**	0.010*	0.009	-0.005	-0.003	-0.015***	-0.008	-0.004
	[2.65]	[2.71]	[2.00]	[1.78]	[-0.41]	[-0.20]	[-5.94]	[-1.22]	[-0.57]
Financial crisis	0.031*	0.037*	0.040*	-0.024**	-0.030**	-0.031**	-0.009	-0.007	-0.007
	[1.97]	[1.94]	[2.13]	[-3.13]	[-3.03]	[-3.21]	[-0.72]	[-0.60]	[-0.55]
President's tenure		0.001	0.002		-0.001	-0.000		-0.002	-0.002
		[0.45]	[1.78]		[-0.52]	[-0.23]		[-1.53]	[-1.41]
Ln(Assets)		-0.004	-0.005		0.004	0.004		-0.003	-0.003
		[-1.35]	[-1.79]		[1.41]	[1.82]		[-1.45]	[-1.51]
Number of acquisitions		0.002**	0.002***						
		[3.01]	[3.47]						
ROA			1.190			-0.056			0.023
			[1.74]			[-1.22]			[0.89]
Fraction nonperforming loans			1.208**						
			[2.40]						
Constant	0.006	0.067	0.050	-0.005	-0.088	-0.092*	0.006**	0.076	0.078
	[1.65]	[1.22]	[1.18]	[-1.03]	[-1.49]	[-1.95]	[2.38]	[1.72]	[1.73]
Class		A			B			C	
Observations	104	104	104	58	49	49	75	73	73
R-squared	0.046	0.092	0.215	0.051	0.067	0.097	0.022	0.100	0.106
Adjusted R-squared	0.0272	0.0459	0.158	0.0169	-0.0180	-0.00784	-0.00561	0.0468	0.0390

Table 9: The Likelihood of Going Out of Business After Fed Board Service -The Case of Federal Reserve Member Banks

This table shows estimates of linear probability models for the likelihood of nonsurvival as a function of financial characteristics in the universe of Federal Reserve member banks from 1987-2009. Nonsurvivor next year is a dummy variable equal to 1 in a given year if the bank is listed as a nonsurviving entity in the Chicago Fed bank merger data in the following year. Post fed board is a dummy variable equal to one for all years after Fed board service for directorship banks. The sample and variables are defined in Table 5. Columns I-V report regressions for the full sample. Columns VI-X reports regressions in which observations on banks that were ever represented on a FRB board are retained only if it is 5 years or more after the last year in which a bank employee served as a FRB director. The sample is further restricted to log asset terciles 1, 2 and 3 in columns II and VI, III and VII and IV and VIII, respectively. All specifications include year and district dummies. The constant term is included in all regressions but not reported. All standard errors are corrected for heteroskedasticity and group correlation at the bank level. ***, **, * indicate significance at the 1, 5 and 10% level, respectively.

	Dependent variable: Nonsurvivor next year							
	I	II	III	IV	V	VI	VII	VIII
Post fed board	-0.024***	-0.010	-0.012	-0.028***	-0.028***	-0.040***	-0.026	-0.027***
	[-3.603]	[-0.419]	[-0.696]	[-3.598]	[-3.325]	[-7.698]	[-1.386]	[-2.595]
Ln(Assets)	0.006***	-0.037***	0.001	0.008***	0.006***	-0.037***	0.002	0.009***
	[6.373]	[-6.678]	[0.231]	[5.398]	[6.623]	[-6.626]	[0.363]	[5.395]
ROA	-0.796***	-0.482***	-0.703***	-1.080***	-0.803***	-0.485***	-0.708***	-1.100***
	[-7.750]	[-4.199]	[-3.624]	[-4.575]	[-7.788]	[-4.242]	[-3.614]	[-4.609]
Fraction nonperforming loans	0.492***	0.426***	0.467***	0.551***	0.490***	0.425***	0.466***	0.547***
	[6.650]	[4.001]	[3.768]	[3.624]	[6.568]	[3.976]	[3.722]	[3.561]
Capital ratio	-0.136***	-0.155***	-0.284***	-0.162**	-0.135***	-0.155***	-0.284***	-0.157**
	[-5.764]	[-5.713]	[-6.971]	[-2.276]	[-5.675]	[-5.676]	[-6.901]	[-2.179]
No parent	-0.024***	-0.035***	-0.018***	-0.023***	-0.025***	-0.036***	-0.018***	-0.025***
	[-10.862]	[-8.882]	[-5.176]	[-4.712]	[-10.926]	[-8.895]	[-5.115]	[-4.930]
Constant	-0.043***	0.469***	0.064	-0.005	-0.038**	0.502***	0.039	-0.043*
	[-2.848]	[6.239]	[1.100]	[-0.190]	[-2.368]	[6.257]	[0.662]	[-1.717]
Sample type	Full	Full-tercile 1	Full-tercile 2	Full-tercile 3	5 years after	5 years after - tercile 1	5 years after - tercile 2	5 years after – tercile 3
Observations	59,268	13,092	20,178	25,998	57,830	12,945	19,814	25,071
Adjusted R-squared	0.0165	0.0184	0.0143	0.0229	0.0170	0.0186	0.0145	0.0238