

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

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

A. Classification and Participation of Member Banks

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

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

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

B. Nominations

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

2. *Announcement of election and request for nominations.* Within a reasonable time in advance of an election, the chairman or delegee shall inform each eligible member bank of the election of directors and request nominations. The announcement should advise each member bank that nominations must be made and ballots cast by a duly authorized officer of the bank. Approximately

one month should be allowed for the submission of nominations, which may be made by any reasonable means. The announcement should include a deadline for submitting nominations.

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

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

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

C. Voting

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

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

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

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

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

6. ***Preferential ballots.*** By statute, the election of directors must be conducted by preferential ballot. The purpose of a preferential ballot is to minimize the need for additional balloting in contests where there is no majority choice among the candidates. Preferential ballots must allow the voter to indicate its first choice and, to the extent there are multiple candidates, its second choice and other

choices as relevant. In situations in which only one candidate stands for election, the preferential ballot requirement is fulfilled by allowing voters a space to vote for that candidate, without providing a space to vote against the candidate or providing for write-in candidates.

7. *Determination of elected candidate.*

a. A candidate is elected if that candidate has received a sufficient number of valid first-choice votes to constitute a majority of all valid ballots cast.

b. If no candidate receives a majority of the first-choice votes, the second-choice votes shall be counted. The number of valid first-choice ballots shall be added to the number of valid second-choice ballots. The candidate who receives both the highest number of combined votes and a majority of the total votes counted shall be elected.

c. If no candidate receives a majority of the first- and second-choice votes, the third-choice votes shall be counted. The number of valid first- and second-choice ballots shall be added to the number of valid third-choice ballots. The candidate who receives the highest number of combined votes shall be elected. If no candidate receives a plurality, a similar procedure will be followed until a plurality of votes is reached.

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

9. *Validation of ballots.* Because director elections involve the use of preferential ballots, each voter is expected to indicate its order of preference where multiple candidates stand for election. For purposes of authentication of ballots and determining the election of a candidate, the ballot is valid if the ballot indicates a choice for a candidate in the round of preferences being counted. (E.g., a ballot is valid in the second round if both first-choice and second-choice candidates are clearly indicated.) A ballot is not invalidated by reason of failure to mark a preference until the point in the vote-counting process where the absence of a clear mark by the voter is material to the outcome of the election. When a ballot is invalidated, it is invalidated totally. Thus, all votes on a ballot that is declared invalid are eliminated from the final results of an election. The following rules govern the determination of the validity of preferential ballots:

a. Any ballot that marks multiple preferences for a single candidate shall be valid when counting the first choices, even if the second choice is marked for the same candidate. Such a ballot shall become invalid only if second choices are counted.

b. Any ballot that has no clear mark for first choice shall be invalidated.

c. Where there are only two candidates, a ballot is not invalid if it fails to indicate a second choice, because that choice will be inferred. Similarly, a choice will be inferred for the third-choice among three candidates where a first and second choice is properly marked, and for higher numbers where all but the last choice are properly marked.

d. In an election with more than two candidates, any ballot that has no clear mark for second choice is invalidated totally at the point where second-choice votes must be counted, and all votes on that ballot (including the first-choice vote) are eliminated from the results of the election. Similarly, when third-choice (or any lower choice) votes must be counted, any ballot that has no clear mark for third-choice (or the corresponding lower choice) (except as provided in c. above) is invalidated totally at that point and all votes on that ballot (including all higher-choice votes) are eliminated from the results of the election.

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

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

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

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

FEDERAL RESERVE BANK OF _____

City State

September ____, 20 ____

The Member Banks of the ____ Federal Reserve District:

An election will be held under the provisions of section 4 of the Federal Reserve Act to choose successors to the following directors of this Bank, whose terms expire December 31, 20 ____ :

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

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

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

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

Each bank in group 2 is permitted to nominate one candidate for class A director and each bank in group 3 is permitted to nominate one candidate for class B director. The nominations must be made

by a duly authorized officer of the nominating bank on or before ____ . Such nomination may be sent by mail, fax, or any reasonable means including electronic mail to: ____ .

Very truly yours,

Chairman of the Board

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

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

FEDERAL RESERVE BANK OF _____

City State

October ____, 20 ____

The Member Banks of the ____ Federal Reserve District:

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

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

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

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

The preferential ballot should be marked.

It should then be placed in the envelope marked "Ballot" and the envelope sealed.

After the certificate on the certificate envelope is executed, the sealed envelope should be placed within the certificate envelope.

The sealed certificate envelope containing the sealed ballot envelope should then be returned to me in the enclosed self-addressed envelope.

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

present or represented on that occasion.

Very truly yours,

Chairman of the Board

Exhibit C--Preferential Ballot

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

FEDERAL RESERVE BANK OF _____

Group No. _____

October ____, 20 ____

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

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

Failure to observe instructions will invalidate this ballot.

Chairman of the Board

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

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

Exhibit D--Certificate Envelope

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

Group No. _____

November ____, 20 ____

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

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

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

For

Name of Bank Signature of officer designated to vote

Location of Bank Title of voting officer

Exhibit E--Certificate of Election (Optional)

December _____, 20 _____

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

We certify that the total number of first choice votes cast for the candidates for class A director was forty-eight (48), and that of this number William O. Brown received thirty (30), and John L. Doe received eighteen (18). Mr. Brown having received the majority of all votes cast in the column of first choice, we find that he has been elected a class A director. Ballots invalidated in class A election on account of being cast by an unauthorized officer or improperly executed, and for that reason not counted, numbered _____.

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

Dated _____

Name, Title

Name, Title

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

FEDERAL RESERVE BANK OF _____

City State

November ____, 20 ____

To Member Banks of the _____ Federal Reserve District:

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

The results of the election are as follows:

_____, President, _____

National Bank of _____

City State

was elected by banks in group 2 as a class A director, _____, President,

The _____ Manufacturing Company

City State

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

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

Very truly yours,

Chairman of the Board