

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date August 20, 1984

To Chairman Volcker

Subject: Possible FOMC luncheon topics --

From James McAfee *JM*

Tuesday, August 21, 1984

Possible topics for the FOMC luncheon:

1. Establishment of Reserve Bank Advisory Councils -- Steve Roberts
2. Update on Continental Illinois and Congressional hearings -- Bill Taylor
3. Legislative Update -- Tony Cole

August 21, 1984

TO: Federal Open Market Committee  
FROM: Chairman Volcker  
RE: Advisory Councils at Reserve Banks

During the past several months the Board has had several inquiries regarding proposals to increase Board and/or System contact with various sectors of the economy. President Horn has suggested the establishment of a Federal Advisory Council for small banks. The IBAA has expressed similar interest in increasing representation of community bankers. Congressman Fauntroy has expressed interest in increasing formal contacts with small business and agricultural representatives. Other Congressmen have periodically, both formally and informally, suggested that special interest groups have greater input into FED policy by representation on the Board.

These and other groups would probably prefer to have special councils that would meet periodically with the Board in a manner similar to the Federal Advisory Council (FAC), the Consumer Advisory Council (CAC), and the Thrift Advisory Council (TIAC). The FAC and CAC are established by statute, whereas TIAC was set up by the Board following enactment of the Monetary Control Act which made thrift deposit subject to reserve requirements and permitted thrifts to have access to the discount window and priced services.

- 2 -

Creation of any new special councils to advise the Board would set a precedent that other special interest groups would seek to emulate, with or without specific statutory requirements or Congressional direction. Over a period of time such arrangements could become a problem both in terms of Board time and staff time. At the same time, such proposals should they be generated through the political process could, at least potentially, be difficult to refuse.

In terms of the Federal Reserve System, broader contact with various sectors may have long-run benefits. Closer ties to the System need not come through the Board and in many cases broader benefits could be derived if such contacts were with the regional Reserve Banks. Eight of the Reserve Banks have already established formal advisory groups or Committees: six include panels of bankers with sizable representation of community banks and two are comprised only of thrift institutions. Also, the Bush Task Group will recommend the establishment of "State Advisory Councils" in each Reserve District to meet with the Reserve Bank President and through him or her to advise the Board on issues involving supervision and regulation of state banks and related issues.

Considering the needs of the System and the desires of the various interest groups it seems appropriate that consideration be given to establishing formal advisory

- 3 -

councils in each Federal Reserve District composed of both community bankers and representatives of small business and agriculture. These councils could meet several times a year with the President and senior officers of the Reserve Bank. The Reserve Bank Presidents could then report to the Board either informally after FOMC meetings or more formally through written reports. Another option that may be worth exploring is having the Chairman and Vice Chairman of each Advisory Council meet with the Board in Washington once a year. Also, Board members could occasionally attend meetings of the Councils if appropriate and schedules permitting.