

## Understanding the Federal Reserve's Role

The US Federal Reserve (the Fed) serves an important role in the United States monetary system. Reviewing the structure and responsibilities of the Federal Reserve System can help us understand its influence on the investment landscape; navigate the impacts of its interest rate policy decisions; and explain potential implications of the current environment on the shape of the yield curve.

### History and Mandate

In 1913, Congress passed the Federal Reserve Act (the Act), which established a central bank for the United States comprised of the Board of Governors of the Federal Reserve System (the Board) and 12 district Federal Reserve Banks. The initial focus of the Act was banking stability; but in 1977, Congress amended the Act to broaden responsibility to include developing monetary policy; promoting financial stability; supervising and regulating the banking system; and managing payment systems.

The Fed is independent from the standpoint that its decisions do not require presidential or congressional approval, and it funds itself primarily from interest earned on bond investments. However, its existence depends on congressional authority, and it is connected to the political process. It is required to report to Congress, and Fed Governors are appointed by the President and approved by Congress. The direct mandate of the Fed from Congress is:

“The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.”<sup>1</sup>

The Fed's often-referenced dual mandate of “maximum employment” and “stable prices” stems from this language, as “moderate long-term interest rates” are generally seen as the result of achieving the first two goals. The Fed has recently been under increased political scrutiny, and while this type of political pressure is not unprecedented, the publicity with which it is occurring is notable. Ultimately, much of the credibility of the Fed as an institution rests on the perception that its actions remain true to fulfilling its stated mandates rather than responding to political pressure.

### Structure and Responsibilities

The Board of Governors supervises and regulates operations of the Fed, including the 12 Federal Reserve Banks, and is one of multiple regulators of the US banking system. Members of the Board are appointed by the President and confirmed by the Senate for 14-year terms, each staggered by two-year intervals to further

<sup>1</sup>Federal Reserve. <https://www.federalreserve.gov/aboutthefed/section2a.htm>

promote the Fed’s independence. Once confirmed by the Senate, members of the Board can only be removed “for cause” by the President. Upon the expiration to their terms of office, members of the Board shall continue to serve until their successors are “appointed and have qualified.”<sup>2</sup>

The Federal Open Market Committee (FOMC) is responsible for setting US monetary policy through open market operations, which include trading in US government securities. The FOMC is comprised of 12 voting members: eight permanent members and four rotating members. The permanent members consist of the seven members of the Board of Governors and the President of the Federal Reserve Bank of New York. Of the remaining 11 reserve bank presidents, four serve rotating one-year terms. All reserve bank presidents attend FOMC meetings and participate in deliberations, even when they are not voting members.

The Chair is the FOMC’s primary spokesperson and holds press conferences to explain Committee decisions. Traditionally, the Chair of the Board of Governors is elected by the FOMC to chair the Committee, but it is not mandated. While the Chair certainly has influence on its members, the Chair ultimately represents one vote out of the 12 FOMC members.

**Upcoming Leadership Transition and Governance Dynamics**

Several Board of Governor changes are approaching within the current administration’s tenure. Stephen Miran’s term ended in January 2026, though he continues to serve until a successor is confirmed. Jerome Powell’s term as Chair of the Board of Governors expires in May 2026, while his term as a Governor runs through January 2028. Chairs have traditionally—though not always—stepped down from the Board when their term as Chair ends. Kevin Warsh has been nominated to succeed Powell as Chair, but his confirmation was initially delayed by the Senate amid an ongoing Justice Department investigation. Separately, Fed Governor Lisa Cook was removed “for cause,” though she legally remains an active Governor while litigation is under review by the US Supreme Court.

The delayed confirmation of Warsh has become the focal point of a broader political standoff. Public criticism of monetary policy under Chair Powell, combined with the pending Justice Department investigation, has

**Figure 1: The Federal Reserve Board of Governors**

Current Fed Governors	Chair Term Ends	Governor Term Ends
<b>Stephen Miran</b>	--	Jan-26
<b>Jerome Powell, Chair</b>	May-26	Jan-28
<b>Christopher Waller</b>	--	Jan-30
<b>Michael Barr</b>	--	Jan-32
<b>Michelle Bowman, Vice Chair for Supervision</b>	--	Jan-34
<b>Philip Jefferson, Fed Vice Chair</b>	--	Jan-36
<b>Lisa Cook</b>	--	Jan-38

Source: Federal Reserve. <https://www.federalreserve.gov/aboutthefed/bios/board/default.htm>

<sup>2</sup>Federal Reserve. <https://www.federalreserve.gov/aboutthefed/section10.htm>

intensified political pressure and raised concerns about the Federal Reserve’s independence. With Powell’s term as Chair expiring in May 2026, the stalled process created uncertainty around interim leadership, including whether Powell could remain temporarily or be replaced. Powell has indicated he intends to remain on the Board after stepping down as Chair, meaning he could still influence policy decisions. Overall, the situation reflects both a delayed leadership transition and a broader dispute over political influence on central banking.

### The Link Between Fed Monetary Policy and Capital Markets

The FOMC conducts monetary policy primarily by setting a target range and then using policy tools to keep market rates within that range. The most important tool used by the Fed is “interest on reserve balances,” which sets a floor by paying banks interest on the reserves they hold at the Fed, discouraging them from lending below that rate. It also uses an overnight reverse repo facility to help establish a floor for money market rates by offering a safe place for institutions to park cash. “Open market operations” (buying or selling government securities) are also used to adjust the supply of reserves and guide rates toward its target. Prior to the monetary stimulus applied during the Great Financial Crisis and 2020 Pandemic, the Fed typically relied on controlling rates through open market operations and adjusting the scarcity of reserves. However, its policy toolkit has adjusted given the higher level of reserves it has maintained.

While the Fed most directly influences overnight interest rates through the Federal Funds Rate, all capital markets are influenced. Changes in the Federal Funds Rate and the expected path of future federal funds rates affect supply and demand for Treasuries all along the yield curve. Monetary policy also influences the foreign exchange market and the relative value of the US dollar.

**Figure 2: The Economic Impact of Monetary Policy Decisions**



Source: Federal Reserve. <https://www.federalreserve.gov/aboutthefed/files/the-fed-explained.pdf>

### Conclusion

These dynamics provide useful context for understanding how the Federal Reserve is governed and how monetary policy decisions are made. The structure of the Fed, the role of the FOMC, and the responsibilities of the Fed Chair are designed to balance continuity, accountability, and independence. Recent developments—including an unusually complex leadership transition, active litigation, and heightened political scrutiny—have introduced uncertainty around near-term Fed leadership and perceptions of independence. Because Federal Reserve policy decisions significantly influence market behavior and investor returns, understanding the Fed’s governance and leadership framework is essential to understanding how monetary policy is formulated and executed.

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