

## ECONOMIC NEWS

# The Federal Reserve is on course for a major change of guard

### COMMENTS

Last Friday's resignation of Federal Reserve (Fed) Governor Daniel Tarullo only marks the beginning of a change of the guard that will occur at the Fed during President Trump's first mandate. To summarize, the Federal Open Market Committee is composed of 12 members. Seven of them are members of the Board of Governors of the Fed, including the Chair and Vice-Chair. The remaining five consist of regional Fed presidents. Whereas the latter are appointed by the Reserve Banks' respective board of directors, members of the Board of Governors are nominated by the President and confirmed by the Senate.

When Donald Trump took office on January 20<sup>th</sup>, two Governor spots were vacant. These vacancies arose in 2014, with the departure of Governors Sarah Bloom Raskin and Jeremy Stein. Resistance from some Republican senators to former President Obama's nominations prevented him from filling the roles. Now that the president is a Republican and that the GOP controls both chambers of Congress, Donald Trump might have less difficulty staffing the Board.

With Daniel Tarullo's departure, Donald Trump will have the opportunity to select three new Governors. But that's not the end of the story. The Fed's Chair (Janet Yellen) and Vice-Chair (Stanley Fischer) have Governor terms expiring in 2024 and 2020 respectively. However, the Chair and Vice-Chair have distinct terms for these roles, lasting four years. Janet Yellen's term as Chair expires a year from now, in February 2018, while Stanley Fischer's term expires in June 2018. If President Trump elects not to renew their mandates in these roles, they can remain on the Board for the remainder of their Governor mandates. However, common practice is for the individuals in these roles to rescind their Governor positions after the fact. In such scenario, one can envision within the next two years a Board of Governors composed of five new members, all picked by Donald Trump, possibly more if Lael Brainard or Jerome Powell choose to leave.

### GRAPH

**Composition of the Federal Reserve's Board of Governors**

	CURRENT HOLDER	GOVERNOR MANDAT		CHAIR OR VICE-CHAIR MANDAT	
		Beginning	End	Beginning	End
<b>Chair</b>	<b>Janet Yellen</b>	<b>Oct. 2010</b>	<b>Jan. 2024</b>		
<b>Vice-Chair</b>	<b>Stanley Fischer</b>	<b>June 2014</b>	<b>Jan. 2020</b>	<b>June 2014</b>	<b>June 2018</b>
Governor	Daniel Tarullo*	July 2009	Jan. 2022	---	---
Governor	Lael Brainard	June 2014	Jan. 2026	---	---
Governor	Jerome Powell	May 2012	Jan. 2028	---	---
Governor	Vacant	---	Jan. 2018	---	---
Governor	Vacant	---	Jan. 2030	---	---

\* Vacant starting April 5, 2017.

Sources: Federal Reserve and Desjardins, Economic Studies

### IMPLICATIONS

Comprehensive changes to the Fed's Board of Governors appear to be in the offing. Donald Trump's views on the Fed and monetary policy have been fluid but what has been clear thus far is his disdain for the policy prescriptions of conventional economics, as well as a firm deregulatory agenda. How this translates into his choices for the stewards of the most powerful central bank in the world, is not readily predictable. Each of these nominations will constitute an opportunity for market participants to form a judgment on the reshaping of the monetary and regulatory paradigms. Make no mistake about the potential for non-negligible market volatility along that journey.

**Jimmy Jean, CFA**, Senior Economist

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Senior Economist

Benoit P. Durocher, Senior Economist • Francis Généreux, Senior Economist • Jimmy Jean, Senior Economist • Hendrix Vachon, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com) • [desjardins.com/economics](http://desjardins.com/economics)

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