

112TH CONGRESS
2D SESSION

S. 3219

To restrict conflicts of interest on the boards of directors of Federal reserve banks, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MAY 22, 2012

Mr. SANDERS (for himself, Mrs. BOXER, and Mr. BEGICH) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To restrict conflicts of interest on the boards of directors of Federal reserve banks, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Federal Reserve Inde-
5 pendence Act”.

6 **SEC. 2. FINDINGS.**

7 Congress finds the following:

8 (1) In October 2011, the Government Account-
9 ability Office found the following:

1 (A) Allowing members of the banking in-
2 dustry to both elect and serve on the boards of
3 directors of Federal reserve banks poses
4 reputational risks to the Federal Reserve Sys-
5 tem.

6 (B) Eighteen former and current members
7 of the boards of directors of Federal reserve
8 banks were affiliated with banks and companies
9 that received emergency loans from the Federal
10 Reserve System during the financial crisis.

11 (C) Many of the members of the boards of
12 directors of Federal reserve banks own stock or
13 work directly for banks that are supervised and
14 regulated by the Federal Reserve System.
15 These board members oversee the operations of
16 the Federal reserve banks, including salary and
17 personnel decisions.

18 (D) Under current regulations, members of
19 a board of directors of a Federal reserve bank
20 who are employed by the banking industry or
21 own stock in financial institutions can partici-
22 pate in decisions involving how much interest to
23 charge to financial institutions receiving loans
24 from the Federal Reserve System, and the ap-
25 proval or disapproval of Federal Reserve credit

1 to healthy banks and banks in “hazardous”
2 condition.

3 (E) Twenty-one members of the boards of
4 directors of Federal reserve banks were involved
5 in making personnel decisions in the division of
6 supervision and regulation under the Federal
7 Reserve System.

8 (F) The Federal Reserve System does not
9 publicly disclose when it grants a waiver to its
10 conflict of interest regulations.

11 (2) Allowing currently employed banking indus-
12 try executives to serve as directors on the boards of
13 directors of Federal reserve banks is a clear conflict
14 of interest that must be eliminated.

15 (3) No one who works for or invests in a firm
16 receiving direct financial assistance from the Federal
17 Reserve System should be allowed to sit on any
18 board of directors of a Federal reserve bank or be
19 employed by the Federal Reserve System.

20 **SEC. 3. END CONFLICTS OF INTEREST.**

21 (a) CLASS A MEMBERS.—The tenth undesignated
22 paragraph of section 4 of the Federal Reserve Act (12
23 U.S.C. 302) (relating to Class A) is amended by striking
24 “chosen by and be representative of the stockholding
25 banks” and inserting “designated by the Board of Gov-

1 ernors of the Federal Reserve System, from among per-
 2 sons who are not employed in any capacity by a stock-
 3 holding bank”.

4 (b) CLASS B.—The eleventh undesignated paragraph
 5 of section 4 of the Federal Reserve Act (12 U.S.C. 302)
 6 (relating to Class B) is amended by striking “be elected”
 7 and inserting “be designated by the Board of Governors
 8 of the Federal Reserve System”.

9 (c) LIMITATIONS ON BOARDS OF DIRECTORS.—The
 10 fourteenth and fifteenth undesignated paragraphs of sec-
 11 tion 4 of the Federal Reserve Act (12 U.S.C. 303) (relat-
 12 ing to Class B and Class C, respectively) are amended to
 13 read as follows:

14 “No employee of a bank holding company or other
 15 entity regulated by the Board of Governors of the Federal
 16 Reserve System may serve on the board of directors of
 17 any Federal reserve bank.

18 “No employee of the Federal Reserve System or
 19 board member of a Federal reserve bank may own any
 20 stock or invest in any company that is regulated by the
 21 Board of Governors of the Federal Reserve System, with-
 22 out exception.”.

23 **SEC. 4. REPORTS TO CONGRESS.**

24 The Comptroller General of the United States shall
 25 report annually to Congress beginning 1 year after the

- 1 date of enactment of this Act to make sure that the provi-
- 2 sions in this Act are followed.

