The Strengthening Federal Reserve System Accountability Act of 2023

Senators Elizabeth Warren and Rick Scott

The collapse of Silicon Valley Bank (SVB) in March 2023 and the revelation that SVB's CEO, Greg Becker, was serving on the Federal Reserve Bank of San Francisco's board of director up until the day of SVB's failure, has renewed concerns about potential conflicts of interest and a general lack of accountability and transparency at the Federal Reserve. As a member of the board of directors, Becker was one of nine private citizens – six elected by banks regulated by the Fed (and three of whom are bankers themselves) and three chosen by the Fed Board of Governors in Washington D.C. – responsible for overseeing the management of the San Francisco Fed. While directors are generally barred from involvement in bank supervision matters, research shows that bankers' presence on the Reserve Bank boards may allow them to secure preferential regulatory treatment, financially exploit privileged information, and exert undue influence on Fed decisionmaking.

Indeed, a 2011 Government Accountability Office (GAO) report found that at least 18 sitting and former Reserve Bank directors during the 2008 financial crisis were affiliated with banks and other companies that accessed the Fed's emergency lending programs, including JPMorgan Chase CEO Jamie Dimon, former Lehman Brothers CEO Dick Fuld, and former Goldman Sachs chairman Steve Friedman. The GAO report concluded that "directors' affiliations with financial firms and former directors' business relationships with Reserve Banks continue to pose reputational risks to the Federal Reserve System."

The *Strengthening Federal Reserve System Accountability Act* would help mitigate these reputational risks by reforming the governance of the regional Reserve Banks and strengthening transparency and accountability across the Federal Reserve System. It would do so by prohibiting large banks from serving on the Reserve Bank boards of directors, requiring the Board of Governors and Reserve Banks to disclose more information about the Reserve Bank director and president selection processes, codifying and standardizing existing Fed rules on directors' responsibilities, and implementing other provisions that aim to make the Fed more accountable to the public. Specifically, the *Strengthening Federal Reserve System Accountability Act* would:

Limit Big Bank Representation on the Reserve Bank Boards of Directors

- Limit Class A director eligibility (bankers elected by banks) to banks with less than $50 billion in assets.

- Prohibit bankers representing banks that have a 3 or higher CAMEL rating, or an above-average number of outstanding Matters Requiring Attention or Matters Requiring Immediate Attention, from serving as Class A directors.

- Change selection of Class B directors – which are currently elected by banks – to selection by the Fed Board of Governors in Washington. With this change, six of the nine directors on the Reserve Bank boards of directors will be appointed by the Fed Board of Governors.

- Prohibit current and former executives, directors, and employees of banks and other financial institutions regulated by the Fed from serving as Class B directors.

Clarify Reserve Bank Directors' Responsibilities

- Codify in statute that all Reserve Bank directors are prohibited from participating in bank supervision activities, including supervisor hiring, compensation determinations, and all other deliberations and decisions pertaining to supervisory matters.

- Limit Reserve Banks directors to two three-year terms.

Strengthen Federal Reserve Transparency and Independence

- Ensure greater transparency around the selection of Reserve Bank directors and presidents, including by: requiring Reserve Banks to publish the results of Class A director elections and the Board of Governors to publish the shortlist of candidates considered for open director seats, with a time lag; requiring the establishment of a public comment and hearing process for filling director and president seats; requiring the Board of Governors to disclose individual governor votes for president and director appointments; and requiring the Board of Governors to disclose its involvement in the president selection process following the selection of a new president.

- Limit Reserve Bank presidents to serving no more than 10 years.

- Require the Board of Governors, in consultation with the relevant Reserve Bank board of directors, to initiate a review of the Reserve Bank president and first vice president and the appropriateness of their removal in the event of a bank failure in the Reserve district.

- Require publicly recorded votes by individual Board of Governors members on the resolution of any enforcement action that includes $5 million or more in payments, to ensure that members of the Board carefully review enforcement matters before making agreements on behalf of taxpayers.

- Allow each member of the Board of Governors to hire its own independent staff, which would put members of the Board on equal standing with commissioners of the FDIC, SEC, and CFTC.

Strengthen Federal Reserve Ethics

- Require Reserve Bank directors to follow the same stock and investment trading rules as Fed governors and Reserve Bank presidents and to disclose financial conflicts of interests.

- Require Reserve Banks to publicly disclose and explain rationale for waivers granted to directors from conflict of interest rules.

- Require GAO to conduct an annual review assessing Reserve Banks' compliance with conflict of interest rules, building up the 2011 GAO review mandated in the *Dodd-Frank Act.*