STATEMENT BY SEN. BERNARD SANDERS ON THE FEDERAL RESERVE INDEPENDENCE ACT

Let me begin by reminding everyone that we are in the midst of this terrible recession - high unemployment, a massive amount of home foreclosures, millions of older Americans losing their life savings – because of the greed, irresponsibility and illegal behavior on Wall Street. The American people do not want to bail out Wall Street again. They do not want to see the financial system, once again, move toward collapse because of the reckless billion-dollar bets that giant financial institutions are making.

In my view, the American people want financial institutions to be properly regulated, they want an end to the gambling casino that Wall Street has become, and they want our banks to be investing in the productive economy – creating jobs, goods and services.

As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, I was able to include an amendment requiring the Government Accountability Office (GAO) to audit the Federal Reserve during the financial crisis period and to investigate potential conflicts of interest within the Federal Reserve System.

As a result of these GAO reports (which came out in July and October of last year), we learned that the Federal Reserve provided a jaw-dropping $16 trillion in total financial assistance to every major financial institution in this country as well as a number of corporations, wealthy individuals and central banks throughout the world.

The trillions of dollars in near-zero interest loans that the Fed provided to Wall Street has been well documented. What has not been as well-known, up until recently, are the enormous conflicts of interest that currently exist at the Fed.

For example, last October, the GAO revealed that many of the people who serve as directors of the Federal Reserve Banks (including Jamie Dimon, the CEO of JP Morgan Chase, the largest financial institution in the country) come from the exact same financial institutions that the Fed is in charge of regulating.

In other words, the people "regulating" the banks are the exact same people who are being "regulated." If this is not a clear example of the fox guarding the henhouse, I don’t know what is.

The GAO has detailed instance after instance of top executives of financial institutions and corporations who could have used their influence as Federal Reserve directors to financially benefit their firms. Specifically, the GAO found that at least 18 current and former Fed board members were affiliated with banks and companies that received emergency loans from the Federal Reserve during the financial crisis.

The GAO found that allowing members of the banking industry to both elect and serve on the Federal Reserve's board of directors creates "an appearance of a conflict of interest" and continues to pose “reputational risks" to the Federal Reserve System.

The Federal Reserve is responsible for both supervising the financial services sector and deciding whether to provide bank holding companies low-interest loans through the discount window.

I think the American people would be shocked to learn that the CEOs of some of the largest banks in America are allowed to serve on the boards of the main agency in this country in charge of regulating these financial institutions – the Federal Reserve.

Allowing banking industry executives to serve on the Fed’s boards and hand-pick its members and staff is a clear conflict of interest that must be eliminated.

The recent multi-billion trading loss at J.P. Morgan Chase underscores the need to structurally reform the Federal Reserve System. The Fed has got to become a more democratic institution responsive to the needs of the American middle class, not just Wall Street CEOs.

In my view, it is a blatant conflict of interest for Jamie Dimon, the CEO and Chairman of JP Morgan Chase, to serve on the New York Fed's board of directors. It is also a conflict of interest when any other bank CEO sits on a Federal Reserve Bank board.

Interestingly enough, when Treasury Secretary Tim Geithner was asked last week if Jamie Dimon should step down from the board of the New York Fed this is what Secretary Geithner said: "it is very important, particularly given the damage caused by the crisis, that our system of oversight and safeguards and the enforcement authorities have not just the resources they need, but they are perceived to be above any political influence and have the independence and the ability to make sure these reforms are tough and effective so we protect the American people, again, from a crisis like this. And we're going to, we're going to do that."

I agree with the Treasury Secretary, but let's be clear: this is not just a perception problem. This conflict is real.

According to the GAO, Jamie Dimon served on the New York Fed's board at the same time that his bank received more than $390 billion in virtually zero interest loans from the Fed. Moreover, the GAO revealed that JP Morgan Chase served as one of the clearing banks for the Fed's emergency lending programs and received an 18-month exemption from the Fed's risk-based capital requirements. If this is not a real conflict of interest, I don't know what is.

But, again, it's not just about Jamie Dimon.

The GAO found that Jeffrey Immelt, the CEO of General Electric also served on the board of the Federal Reserve Bank of New York at the same time that the Fed authorized an emergency loan of $16 billion to GE.

And, in 2008 while the Fed approved an application by Goldman Sachs to become a bank holding company allowing Goldman to receive billions in Federal Reserve loans, Stephen Friedman -- then the chairman of the New York Fed -- sat on Goldman's board of directors and owned stock in the company.

It is exactly these types of conflicts of interest that we are seeking to end.

The American people deserve a Federal Reserve that is truly independent from the financial institutions it supervises and oversees.

That is why we are introducing the Federal Reserve Independence Act. This legislation would:

- Prohibit banking industry executives or other employees in companies regulated by the Fed from serving on any of the Federal Reserve's boards of directors;
- Prohibit the banking industry from selecting any of the Fed's board of directors.
- Prohibit Federal Reserve employees or board members from owning stock or investing in companies that the Fed oversees, regulates, and supervises without any exceptions or waivers.

Under this legislation, no one who works for or invests in a firm eligible to receive direct financial assistance from the Fed would be allowed to sit on the Fed's board of directors or be employed by the Fed.

It is time for change at the Fed -- real change. One thing is clear: Americans deserve a Federal Reserve that works for them, not just the CEOs on Wall Street.