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Vitter, Warren Introduce Bill Aimed at Fed Accountability

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Senators Elizabeth Warren and David Vitter introduced legislation to require the Federal Reserve Board of Governors to publicly record votes on enforcement actions that include $1 million or more in payments.

The proposal would also give each governor his or her own staff, like those working for commissioners at the Securities and Exchange Commission and Federal Deposit Insurance Corp. Fed governors currently share a staff of researchers. The goal is to make governors more independent, according to a release the lawmakers issued on Thursday in Washington announcing their proposal.

Warren, a Massachusetts Democrat, and Vitter, a Louisiana Republican, both sit on the Senate Banking Committee. Though they're members of opposing parties, both have been outspoken proponents of greater Fed accountability.

"By bringing greater transparency and accountability to the Fed, the bill will improve the Fed's oversight of our biggest financial institutions," Warren said in the release about the measure introduced today.

The senators are working on separate legislation to "further halt megabank bailouts during a crisis," according to their statement.

Fed spokesman Eric Kollig declined to comment on today's bill. The Fed is facing congressional pressure to be more transparent about how it conducts monetary policy and how it supervises the nation's biggest banks.

Mark Calabria, a former staffer for Senate Banking Committee Chairman Richard Shelby, who heads financial regulation studies at the Cato Institute in Washington, has given feedback on drafts of both of the Warren-Vitter bills, versions of which he's seen this week.

Meatier Bill

The second piece of legislation is the "meatier one," he said, forcing the Fed to use an accounting definition of insolvency that is tied to financial statements and requiring that borrowers pay a penalty rate.

"The Fed is going to be much more worked up about that one," Calabria said. If the introduced bill reflects what he's seen, he said, "it will make one-off rescues more difficult. It won't make them impossible, it will make them more difficult."

The central bank has been pushing back against new threats to its independence after Republicans took control of both chambers this year, and members of both parties have voiced unhappiness with the Fed's financial supervision. That criticism dates to its role in taxpayer-funded bailouts of firms including American International Group Inc. during the financial crisis of 2008-2009.

Held Accountable

"If Board members can think for themselves and are held accountable, taxpayers are less likely to be asked to bail out the megabanks," Vitter said in today's statement.

The central bank's Washington-based governors are nominated by the U.S. president and confirmed by the Senate. Elected officials have no role in choosing regional Fed bank presidents, who are selected by their boards of directors, subject to Fed board approval.

Congress reined in the Fed's emergency lending powers when it passed the Dodd-Frank Act of 2010. The central bank still hasn't completed rules explaining how it will implement the changes, and officials have made clear they'd like to retain as much flexibility as possible to contain future crises.

That's put them in conflict with lawmakers who want clear rules that minimize the Fed's discretion and eliminate its ability to rescue individual banks.

Lindsay Bembenek, a spokeswoman for Vitter, declined to comment beyond what was in the statement. Lacey Rose, a spokeswoman for Warren, didn't immediately return messages seeking comment.

The new Vitter-Warren proposal is one of several bills that aim to make the U.S. central bank more accountable to Congress. Shelby, a Republican from Alabama, is drafting legislation to overhaul financial regulations that could include changes to the Fed.