Institutional Investor

Conspiracy Theorists Ask 'Who Owns the New York Fed?' Here's the Answer.

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The question comes from foil-hatted conspiracists, good government advocates, and sober academics: Who owns the New York Federal Reserve Bank?

Under the Federal Reserve Act of 1913, each of the 12 regional reserve banks of the Federal Reserve System is owned by its member banks, who originally ponied up the capital to keep them running.

The number of capital shares they subscribe to is based upon a percentage of each member bank's capital and surplus.

But the New York Fed – by far the most important of the regional banks – as a matter of policy has previously not disclosed the capital share holdings of its 70-plus member banks. A New York Fed spokeswoman in September declined to comment on the record about the matter.

"To the best of my knowledge, we haven't had a handle on who owns the capital stock of the New York Fed," says Connie Razza, chief of campaign and policy at the Center for Popular Democracy, an advocacy group that has pushed for greater transparency.

Now, thanks to a Freedom of Information Act request filed late last year by *Institutional Investor*, we know the truth.

II asked the New York Fed for the capital stock holdings of its members as of year-end 2018, as well as for each year going back to 2007. The bank responded with copies of what it calls its Capital Stock Master Report, a compendium of shareholdings of member banks, for each of those years.

The big reveal for year-end 2018: Citibank, the No. 1 institution on the roster, held 87.9 million New York Federal Reserve Bank shares – or 42.8 percent of the total.

The No. 2 holder stockholder was JPMorgan Chase Bank, with 60.6 million shares, equal to 29.5 percent of the total. In other words, the two banks together control nearly three-quarters of the regional bank's capital shares.

But does share ownership matter?

Each bank, after all, has only one vote when it comes to electing bank directors (their only shareholder responsibility) regardless of stock holdings. And New York Fed shares cannot be traded, shorted, or pledged as collateral.

Nobody is getting rich owning the New York Fed's stock. The shares long paid a dividend of 6 percent. But that payout was amended in 2016; now, members with more than $10.7 billion in assets, like Citibank and JPMorgan, receive the lesser of the 6 percent dividend or the high yield of the most recent 10-year Treasury auction rate – 1.62 percent as of earlier this year.

From Citibank and JPMorgan, there is a steep drop off in shareholdings. Bulge bracket rivals hold far fewer shares, with Morgan Stanley Bank owning 4.8 million and its affiliate Morgan Stanley Private Bank 2.8 million shares, for a combined 3.7 percent stake in the New York Fed.

Goldman Sachs Bank USA owned 8.3 million shares, equal to 4 percent of the total, and Bank of New York Mellon held 7.2 million shares, or 3.5 percent.

It may surprise observers that some big holders are affiliates of foreign banks: HSBC Bank USA, part of London-based HSBC Holdings PLC, owned 12.6 million shares, or 6.1 percent, of the New York Fed's total. Deutsche Bank Trust Co. Americas was the owner of 1.7 million shares, and Deutsche Bank Trust Company 60,678 shares, for a combined 0.87 percent stake.

Mizuho Bank (USA), an affiliate of Tokyo-based Mizuho Financial Group, owned 819,344 shares. Industrial & Commercial Bank of China held 221,278 shares.

There are scores of smaller owners, from Bank of Cattaraugus, which held 180 shares, to Cayuga Lake National Bank, with 375.

Still, it serves as yet another red flag for those concerned with the power of too-big-to-fail banks that the top two banks hold nearly three-quarters of the New York Fed's capital shares.

"It's surprising to see how concentrated it is," says Razza. That lopsided ownership hasn't changed much since the financial crisis: In 2007 JPMorgan owned 41.7 percent of the New York Fed's shares and Citibank 36.6 percent, a combined 78.3 percent.

The amount of share ownership plays no explicit role in the complex electoral system that determines the make-up of the New York Fed's board.

A refresher: The nine-person NYFRB board is divided into three classes of three members each.

Banks elect three class A directors to represent their own interests. The same banks also elect three class B directors to represent the interests of the public. The three class C directors, including the New York Fed's chairperson and deputy chairperson, are also designated to represent the public interest and are selected by the Federal Reserve Board of Governors in Washington.

One mystery is why the New York Fed would not freely disclose stock ownership to begin with, given that the information can be estimated with some accuracy using public data from the Federal Deposit Insurance Corp. and other sources.

The peculiarity of these board elections may endow New York Fed stock ownership with more importance than is initially apparent, says economics professor Andrew Levin of Dartmouth College.

The member banks are divided into three categories – group one for banks with more than $2 billion in capital and surplus (like Citibank and Goldman Sachs Bank), group two for those with between $40 million and $2 billion (like Safra National Bank of New York and Bessemer Trust Company) and group three for banks with less than $40 million (like Tioga State Bank, and Brown Brothers Harriman National Trust).

Group one banks vote for one particular designated class A director as well as one class B director. The group two and group three banks similarly vote for one class A and class B director each.

"Given that the ballot has invariably had only a single candidate for each director, there's room for doubt about whether some big banks might be playing a key role behind the scenes in selecting those candidates," says Levin, who has served as a special advisor to the Federal Reserve Board in Washington. "There needs to be greater transparency about how that candidate is selected."

Levin adds: "No one knows whether the selection process may be subject to pressures or influences behind the scenes." The process, he says, is "like a Soviet election."

Why is the New York Fed freely disclosing the shareholding figures now?

The bank, as a privately-owned institution, says on its website that it is not subject to FOIA requests like that made by *Institutional Investor* – although it says it will seek to comply with the spirit of the law, which it did in this case.

Following the blowback from the 2008/09 financial crisis, there has been a reassessment of the New York Fed's reflexive cloak of secretiveness, both internally and on the part of legislators. The opacity of the Wall Street bailout, via its takeover of American International Group, in particular elicited calls for more transparency.

The bank has moved toward greater openness. Minutes of New York Fed board meetings, for example, are now published – though often heavily redacted and long after the fact. The bank also releases the minutes of various advisory committee meetings that the New York Fed president oversees to keep apprised of market and economic developments. The daily schedules of the president are published too.

In the service of increased transparency, the New York Fed tracked on its website the process it was undertaking to select a new president in 2018, explaining with some detail the qualifications it was seeking, naming the search firms it had engaged, and detailing the winnowing of candidates. Critics applauded.

And the newly elected New York Fed president, former San Francisco Fed president John Williams, in one of his first statements pledged openness and transparency.

"The Fed is facing a difficult challenge," says George Selgin, director of the Center for Monetary and Financial Alternatives at the Cato Institute in Washington, D.C. "It's trying to become more transparent while its operations become more complex. That's difficult trick to pull off."

There may just be other forces at work.

Wall Street bashed Williams for an early communications misstep. Turmoil in the repo market hasn't helped his standing.

A tide of Twitter-based criticism from the White House may be having an impact. President Donald Trump criticized the Fed as “boneheads” for not reducing the Federal Funds target rate further than it has, and singled out Williams for ridicule.

In sum, the central bank’s independence is being challenged.

The New York Fed needs goodwill right now. Opening the books on who owns its stock is not a bad way of getting some.