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Frank Proposes Altering Plan on New York Fed Chief (Update3)

June 15, 2010, 6:54 PM EDT

(Updates with quote from analyst in third paragraph.)

By Scott Lanman and Craig Torres

June 15 (Bloomberg) -- Barney Frank, the U.S. House's chief negotiator on an overhaul of financial regulation, proposed dropping a provision making the president of the Federal Reserve Bank of New York a White House appointee, while also requiring more disclosure from the central bank.

Frank, chairman of the House Financial Services Committee, would instead reduce the role of commercial banks in choosing all 12 regional Fed chiefs. His measure counters a proposal by Senate Banking Committee Chairman Christopher Dodd, who wants to make the New York Fed chief a political appointee as part of efforts to avoid what he said are "conflicts of interest."

"There is going to be a debate," said Karen Shaw Petrou, managing partner at Federal Financial Analytics, a Washington- based research firm whose clients include America's biggest banks. "For Senator Dodd to just roll and say 'sure' on the Frank offer would put him in a difficult position."

Frank aims to increase transparency at the Fed as part of financial-regulatory overhaul legislation that would also grant the central bank a bigger role in overseeing Wall Street. His proposal, made as House and Senate lawmakers meet to reconcile different versions of legislation, would mandate an unprecedented level of disclosure by the Fed.

The joint conference committee of legislators from the two chambers is scheduled to discuss the Fed provisions tomorrow.

The aim is "complete transparency" from the Fed, Frank told reporters during a break in talks today. "The Fed will not be interacting with any private party without that ultimately becoming public, although not right away because you don't want it to affect markets."

Support of Senators

Treasury Secretary Timothy F. Geithner doesn't favor making the New York Fed president, a position he once held, a presidential appointee. Dodd, a Connecticut Democrat, has the support of some senators such as Vermont independent Bernard Sanders, who called the proposal "a great thing."

The proposal by Frank, a Massachusetts Democrat, may satisfy some of the concerns raised by Dodd, said analysts including Mark Calabria, a former member of the Republican staff on the Senate Banking Committee who is now director of financial regulation studies at the Cato Institute in Washington.

"Barney has been clever about this," Calabria said. "By saying you are taking the bankers out of the voting, you can say with a straight face that we have resolved the conflict of having the bankers picking their regulator."

More Disclosure

Frank also wants to require the central bank, after a two- year delay, to name firms that borrow through its discount window and participate in the Fed's purchases or sales of assets such as mortgage-backed securities.

Central bank Chairman Ben S. Bernanke and several regional Fed presidents opposed the measure making the New York Fed chief a presidential appointee subject to Senate approval. St. Louis Fed President James Bullard has said the legislation represented an effort by politicians to exert more control over monetary policy.

The 12 regional Fed presidents are each selected by a nine- member board of directors and approved by the Fed's Board of Governors in Washington. Currently, three directors are bankers appointed by banks, three are non-bankers selected by banks, and three are non-bankers chosen by the Board of Governors.

On the New York Fed chief, Frank said he heard concerns from "people who thought it was going to elevate the New York Fed above everybody else" and from "people in the New York Fed who thought it was going to interfere."

Higher Rates

Frank repeated his concern that regional Fed presidents tend to favor higher interest rates and said he would explore the "whole question of how the regional bank presidents are selected" and their powers. "That's a subject for next year," Frank said. The House didn't include provisions on Fed governance in its legislation, passed in December.

Under Frank's proposal today, only the six non-bankers would select each regional Fed president, subject to governors' approval. The plan would also replace a Senate provision that prevents bank employees from serving as Fed directors.

Frank's plan for Fed disclosure falls short of the House- passed provision, backed by Texas Representative Ron Paul, the author of the book "End the Fed," that would strip the central bank of a 1978 shield from congressional audits of interest-rate decisions and discount-window borrowing.

At the same time, the Frank measure goes beyond the Senate bill, which would open the Fed to a one-time audit of its emergency loans and other actions to combat the financial crisis starting in December 2007.

Bernanke, while advocating increased transparency for Fed policies and decisions, has held firm against identifying banks that borrow from the Fed's discount window.

Bloomberg LP has sued the central bank to release records of discount-window loans following a request under the Freedom of Information Act. The U.S. Court of Appeals in New York ruled March 19 that the Fed must release the records. The Federal Reserve Board asked the appeals court in May to reconsider its ruling.

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