Banking and Finance Law Daily Wrap Up, FEDERAL RESERVE SYSTEM —Democratic senators introduce bill to ban Fed officials from trading individual stocks, (Oct. 28, 2021)

Banking and Finance Law Daily Wrap Up

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By Nora Macaluso

The bill expands on proposed legislation aimed at members of Congress.

Federal Reserve officials would be prohibited from trading individual stocks under legislation introduced by a group of Democratic senators including Senate Banking Committee Chairman Sherrod Brown (D-Ohio). “It’s common sense,” said Sen. Kirsten Gillibrand (D-NY), who proposed the legislation along with Brown and Sens. Jeff Merkley (D-Ore) and Raphael Warnock (D-Ga). “Federal Reserve officials should not be trading stocks while setting U.S. economic policy.”

The “Ban Conflicted Trading at the Fed Act” builds on legislation the same senators proposed in the Ban Conflicted Trading Act, which would prohibit members of Congress from trading individual stocks or serving on public boards. The senators said their bill would amend the Federal Reserve Act to “strengthen and clarify the ethics requirements at the highest levels of the Federal Reserve System.”

Fed officials would still be able to invest in diversified mutual funds, investment trusts, and U.S. treasuries under the law. Officials would have six months to divest individual holdings after enactment of the bill or if the holdings were received by gift or inheritance. Existing investments could be held during an official’s time in office, or they could be transferred to a blind trust.

The bill would also require Fed bank presidents, vice presidents, and directors to make the same public financial disclosures as Fed governors, and subject them to the same penalties for violation.

The Fed’s Board of Governors would administer the law and would issue rules for affected staffers within 90 days. The fine for holding stocks would be “no less than 10 percent value of the investment” for each year of non-compliance, according to a Banking Committee summary of the bill.

The Fed earlier this month announced new restrictions on investment and trading for Fed policymakers and senior staff. The rules, which came after two regional Fed bank presidents retired following allegations of questionable trading activity, require 45 days’ advance notice and prior approval for sales or purchases of securities, and those investments must be held for at least a year. The Fed said it would also require Federal Reserve Bank presidents to disclose financial transactions within 30 days, a requirement already in place for board members and senior staff (see *Banking and Finance Law Daily*, Oct. 22, 2021).

The bill would ensure that the Fed “quickly implements” those rules, the Senate Banking Committee said.

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