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FINANCIAL SERVICES COMMITTEE

SUBCOMMITTEE ON
INVESTOR PROTECTION, ENTREPRENEURSHIP,
AND CAPITAL MARKETS

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October 21, 2020

The Honorable Jerome Powell
Chairman of the Board of Governors
Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Chairman Powell:

I write regarding reports that the Federal Reserve System (Federal Reserve) is using billions of taxpayer dollars to purchase the debt of banks like JPMorgan Chase. These purchases are in direct contravention of the Federal Reserve's own statement that it would *not* be purchasing the debt of any "insured depository institution, depository institution holding company, or subsidiary of a depository institution holding company"—also known as: banks.[1]

The Federal Reserve's decisions to 1) for the second time in twelve years, use taxpayer dollars to backstop bank debt and 2) appoint the CEO of BlackRock to administer the largest corporate bailout in history has resulted in windfall profits for a few hand-selected corporations and eroded public faith in an institution that is foundational to our democracy. To begin to remedy these wrongs, I request that you immediately develop and implement stronger safeguards against conflicts of interest. The profits that BlackRock has made off the exchange-traded funds (ETF) market since your March 23 announcement that the Fed would begin to purchase ETFs that invest in bank debt[2] are clear evidence that any current precautions are wholly insufficient.

[1] Federal Reserve Bank of New York, "FAQs: Primary Market Corporate Credit Facility and Secondary Market Corporate Credit Facility" at: https://www.newyorkfed.org/markets/primary-and-secondary-market-faq/corporate-credit-facility-faq
[2] Nick Timiraos, "Fed Unveils Major Expansion of Market Intervention" *Wall Street Journal* (March 23, 2020) at: https://www.wsj.com/articles/federal-reserve-announces-major-expansion-of-market-supports-11584964844

According to a Yale School of Management report (the Report) issued on September 21 of this year and entitled: "Despite Stated Exclusion, the Fed Is Buying Bank Debt," the Federal Reserve is defying its own public commitments and buying bank debt with the money that Congress allocated to it in the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Congress allocated $500 billion to the Federal Reserve and the Department of the Treasury with the intent that the Federal Reserve and the Treasury use those funds to minimize the financial downturn sparked by the coronavirus pandemic.[3]

The Federal Reserve put a large portion of those taxpayer dollars into a lending facility called the Secondary Market Corporate Credit Facility (SMCCF), initially funded with $25 billion.[4] The bundles of securities that the Federal Reserve has been purchasing with the money in the SMCCF are called exchange-traded funds (ETFs). Steven Kelly writes in the Report: "a close review of its holdings reveals that by buying exchange traded funds, [the Federal Reserve] has indirectly bought $2 billion of bank bonds—over 15% of its total corporate bond holdings."[5] Per a report issued on September 8 by the Federal Reserve, the SMCCF holds over $12 billion in corporate bonds and corporate bond ETFs.[6]

Compounding your decision to allow the central bank of the United States to purchase these ETFs, your decision to give the CEO of the world's largest issuer of ETFs the ability to invest taxpayer money into his own company is indefensible. Allowing a private corporation and that corporation's wealthy executives and investors to enrich themselves with taxpayer dollars that Congress set aside for pandemic relief makes painfully clear that the priorities of the federal government are with Wall Street, not the American people. Rather than investing more in unemployment insurance or PPE for frontline workers, the government is juicing corporate profits, and it is doing so at the expense of helping the millions of Americans who are struggling to pay rent and buy food.

Your decision to buy corporate debt with taxpayer dollars directly benefited Wall Street and the world's richest corporate executives. However, it also indirectly benefited corporate America by attracting investors to the chosen ETFs. Knowing that the U.S. government would be pouring billions of taxpayer dollars into ETFs was a clear sign to investors that the ETFs tapped by the Federal Reserve would be lucrative, at least in the short term. The announcement in March by the Federal Reserve that it would begin purchasing corporate debt corresponded over the course of the next 7 trading days with investors pouring $8.2 billion into a BlackRock ETF.[7]

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[3] Steven Kelly, "Despite Stated Exclusion, the Fed Is Buying Bank Debt," *Yale School of Management: Program on Financial Stability* (Sept. 21, 2020) at: https://som.yale.edu/blog/despite-stated-exclusion-the-fed-is-buying-bank-debt

[4] Id.

[5] Id.

[6] Id.

[7] Cezary Podkul and Dawn Lim, "Fed Hires BlackRock to Help Calm Markets. Its ETF Business Wins Big," *Wall Street Journal* (Sept. 18, 2020) at: https://www.wsj.com/articles/fed-hires-blackrock-to-help-calm-markets-its-etf-business-wins-big-11600450267

As we have been made all too aware in recent years, public faith in our democracy is imperative to its healthy functioning. Public perception of institutions that comprise our democracy, like the nation's central banking system, forms the foundation of that faith. No matter the justification, using billions of taxpayer dollars to play kingmaker on Wall Street—effectively awarding billions of dollars to a handful of corporations—using a decision-making process that you have not made public, appears corrupt. This is illustrated by a cursory review of the public comments posted on the Wall Street Journal's website in response to the September 18 article entitled: "Fed Hires BlackRock to Help Calm Markets. Its ETF Business Wins Big." These comments range from "something about this just feels wrong" to "this is wrong on so many levels … the analogy you could use is, 'giving the fox the keys to the hen house" to "wow, a fed move benefits one crony outfit. Who could have possibly expected that?" to "no con-fink of interest here."[8]

The mere appearance of corruption may not be enough to justify altering monetary policy decisions. The Federal Reserve was constitutionally designed to resist external pressures, which is why you and the Board of Governors of the Federal Reserve are appointed and not elected. However, it is imperative to the health of our democracy that investments of public dollars are made within the bounds of carefully crafted precautions to prevent self-dealing.

I request that the Federal Reserve immediately develop and implement effective safeguards against conflicts of interest, as any precautions that you are currently employing are not sufficient to prevent and have not prevented unjust enrichment. I also ask that you create and provide a detailed plan to build within the career staff of the Federal Reserve the level of expertise necessary to guide the central bank through the next financial crisis without outsourcing corporate bailouts to Wall Street.

Responsibly wielding the Federal Reserve's significant influence on the markets while upholding the mission of the institution requires careful policymaking, a skill that you have repeatedly demonstrated. You are capable of restoring some measure of public faith in the nation's central bank. I ask that you do so and that you provide an update as to those efforts by October 30.

Very Truly Yours,

Katie Porter
Member of Congress

[8] Id.