

Sept. 17, 2021

The Honorable Jerome Powell
Chair
Board of Governors of the Federal Reserve System
Marriner S. Eccles Federal Reserve Board Building
2051 Constitution Avenue, N.W.
Washington, DC 20551

Dear Chair Powell,

In their most recent financial disclosures, the presidents of the Federal Reserve Banks of Boston and Dallas (Eric Rosengren and Robert Kaplan, respectively) revealed that they personally purchased stocks directly affected by the Fed's unprecedented financial interventions in 2020.¹ These revelations raise severe doubts about the ethical integrity of the Federal Reserve System's policymakers during the COVID-19 crisis last year.

According to your spokespeople, yesterday you "directed Board staff to take a fresh and comprehensive look at the ethics rules around permissible financial holdings and activities by senior Fed officials."² We are alarmed, however, that such a proposed high-level review would appear to neither directly redress Rosengren and Kaplan's improprieties, nor would necessarily result in the most obvious, overdue policy response to this incident — banning Federal Reserve policymakers from trading individual financial securities. As government ethics watchdogs, we are concerned that an inadequate response to this incident poses serious threats to public trust in the institution you lead. Indeed, the website of the Federal Reserve's Board of Governors specifically states: "The Board oversees the operations of the twelve Reserve Banks."³

Therefore, we urge you to demonstrate your commitment to ethical leadership within the Federal Reserve System by immediately leading the Board of Governors to take the following steps:

¹ Craig Torres, Catarina Saraiva, and Steve Matthews; Bloomberg; "Fed Official Who Warned On Real Estate Traded REITs Actively," Sept. 8, 2021; <https://www.bloomberg.com/news/articles/2021-09-08/fed-official-who-warned-on-real-estate-was-active-reit-trader>

Michael S Derby; Wall Street Journal; "Dallas Fed's Robert Kaplan Was Active Buyer And Seller Of Stocks Last Year," Sept. 7, 2021; <https://www.wsj.com/articles/dallas-feds-robert-kaplan-was-active-buyer-and-seller-of-stocks-last-year-11631044094>

²Howard Schneider; Reuters; "Fed's Powell Orders Sweeping Ethics Review After Officials' Trading Prompts Outcry," Sept. 16, 2021 <https://www.reuters.com/business/finance/feds-powell-orders-sweeping-ethics-review-after-officials-trading-prompts-outcry-2021-09-16/>

³Federal Reserve website; "Structure of the Federal Reserve System," <https://www.federalreserve.gov/aboutthefed/structure-federal-reserve-board.htm>

1. Place the presidents of the Federal Reserve Banks of Boston and Dallas (Eric Rosengren and Robert Kaplan, respectively) on administrative leave, pending the results of detailed investigations into their trading activities.
2. Direct the Federal Reserve Board's Inspector General to cooperate with other federal government agencies in investigating whether these trading activities violated criminal statutes on insider trading or improper use of confidential information, e.g., 18 USC 641 (*"Whoever...knowingly converts to his use or the use of another, or without authority sells, conveys, or disposes of any record...of the United States or of any department or agency thereof...shall be fined under this title, or imprisoned not more than ten years, or both."*).
3. If such investigations should uncover a high probability that Fed policies influenced either Rosengren or Kaplan's trading decisions, lead the Board of Governors to remove either or both of them from office, under 12 U.S.C. § 248(f).⁴
4. Prohibit all Federal Reserve officials and staff who have access to confidential FOMC information from trading of any individual financial securities.
5. Expand your proposed staff review into a Federal Reserve task force, which will promptly formulate new regulations to ensure that no Federal Reserve official or employee can benefit financially from having privileged access to non-public information.⁵

Presidents Kaplan and Rosengren's disclosures revealed that they personally purchased stocks directly affected by the Fed's unprecedented financial interventions in 2020.⁶ Kaplan and Rosengren would have had advanced and detailed knowledge about the Fed's policies, Kaplan as a member of the 2020 Open Market Committee and Rosengren as an attendee at its meetings. Kaplan traded stocks in sectors including air travel (Boeing, TransDigm, and Delta Airlines) and fossil fuel (Chevron, Occidental Petroleum and Valero Energy) which greatly benefited from the Fed's bond-purchasing and corporate lending activities.⁷ Rosengren, meanwhile, purchased stock in several Real Estate Investment Trusts, including in Annaly Capital Management, a firm which primarily buys and sells mortgage-backed securities. The

⁴ "To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Board of Governors of the Federal Reserve System to the removed officer or director and to said bank." See Federal Reserve Act, 12 U.S.C. § 248(f)

⁵ In addition to FOMC information, the Federal Reserve's critical work in supervising financial institutions, managing "payment and settlement system safety," and "consumer protection and community development through consumer-focused supervision and examination, research and analysis" could all lead to insider information. See, e.g., Federal Reserve Website; "About the Fed," <https://www.federalreserve.gov/aboutthefed.htm>

⁶ Craig Torres, Catarina Saraiva, and Steve Matthews; [Bloomberg](#); "Fed Official Who Warned On Real Estate Traded REITs Actively," Sept. 8, 2021; <https://www.bloomberg.com/news/articles/2021-09-08/fed-official-who-warned-on-real-estate-was-active-reit-trader>

Michael S Derby; [Wall Street Journal](#); "Dallas Fed's Robert Kaplan Was Active Buyer And Seller Of Stocks Last Year," Sept. 7, 2021; <https://www.wsj.com/articles/dallas-feds-robert-kaplan-was-active-buyer-and-seller-of-stocks-last-year-11631044094>

⁷ Schedule A Report for Federal Reserve Bank of Dallas President Robert Kaplan, 2020, accessed via [Wall Street Journal](#) <https://s.wsj.net/public/resources/documents/dallasfedform.pdf>

Fed has purchased billions of dollars worth of mortgage-backed securities during the COVID-19 crisis, including \$580 billion in the two-month span between March and April 2020 alone.⁸

It is quite possible, in other words, that Kaplan and Rosengren's access to FOMC policy deliberations may have directly influenced their personal trading activities. Moreover, even if all of their trades were executed after the relevant FOMC policies became public knowledge, it would still be unacceptable for either bank president to personally profit from Fed policies which they either helped to establish or the details to which they had early access. As a central bank and independent government body, the Fed's monetary and regulatory policies are meant to be in the best interest of the United States public, not for the benefit of its governors.

If it ever was acceptable for FOMC members to buy and sell individual securities, these incidents should make clear that that time has long since passed. In the 21st century, as the Fed's mandate and policy tools in times of crisis have rightly and justly expanded, new ethical codes and behavioral restrictions are needed to ensure the integrity of Fed governance. Moreover, the *appearance* of impropriety can be just as negative as actual lawbreaking, especially because compared to other federal agencies, the Fed is unusually unaccountable to Congress, the executive branch, and the public.

The most basic response to Kaplan and Rosengren's transgressions requires the Board of Governors, under your leadership and agenda-setting power as Chair, to immediately and publicly prohibit FOMC members and senior Fed staff from trading individual securities. Fed policymakers should instead be mandated to keep their assets in passive index funds, blind trusts, or cash.

However, it is not enough to merely correct this enormous hole in existing Fed ethics procedures. We call on you to immediately place Kaplan and Rosengren on indefinite administrative leave from their duties as Fed Presidents, and to begin formal investigations into their trading activity and other personal conduct throughout the period of the Fed's COVID-19 policy actions. Particularly as these improprieties have garnered interest from the financial press and general public, maintaining the perceived integrity of the Fed requires deeper exploration and fact-finding. If such fact-finding should uncover evidence indicating a high probability that either Kaplan or Rosengren made trading decisions based wholly or in part on the Fed's policy interventions, they should be fired from the Federal Reserve, using the Board of Governors' powers under 12 U.S.C. § 248(f) to "suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Board of Governors of the Federal Reserve System to the removed officer or director and to said bank." The federal government should not tolerate insider profiteering at any level, but especially not at the highest levels of the central bank.

⁸ W. Scott Frame, Brian Greene, Cindy Hull and Joshua Zorsky; Federal Reserve Bank of Dallas; "Fed's Mortgage-Backed Securities Purchases Sought Calm, Accommodation During Pandemic," Aug. 26, 2021; <https://www.dallasfed.org/research/economics/2021/0826>

We ask, moreover, that you use these incidents as an impetus to assess ethics procedures across the Federal Reserve system and consider the forces which may influence policymakers across the institution. Incentives for personal profit and status — whether while policymakers are employed by the federal government, or immediately after leaving the federal government for high-level executive positions or work as political and strategic consultants to financial corporations — should not distort monetary, regulatory, and emergency crisis-response policies.

Signed,

Jeff Hauser, Executive Director, Revolving Door Project