

Board of Governors of the Federal Reserve System

The Board Can Further Enhance the Design and Effectiveness of the FOMC's Investment and Trading Rules



Office of Inspector General

Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau



Executive Summary, 2023-SR-B-006, April 26, 2023

The Board Can Further Enhance the Design and Effectiveness of the FOMC’s Investment and Trading Rules

Findings

The Board of Governors of the Federal Reserve System can further enhance the design and effectiveness of the Federal Open Market Committee’s (FOMC) investment and trading rules. Specifically, the Board should implement additional controls for individuals with access to confidential Class I FOMC information. We found that while the list of individuals covered under the *Investment and Trading Policy for FOMC Officials* includes senior FOMC officials, it does not include all individuals with access to confidential Class I FOMC information. Hundreds of individuals throughout the Federal Reserve System who have access to Class I FOMC information are not subject to any of the additional controls implemented in the policy.

In addition, although the Board has taken steps to adopt a more centralized approach to overseeing personal investment and trading activities across the System, the Board can take additional steps to further strengthen aspects of its and the Federal Reserve Banks’ ethics programs. Specifically, we found that (1) while the Board must review the Reserve Bank presidents’ financial disclosure reports, it is not required to review the financial disclosure reports of other Reserve Bank individuals covered by the *Investment and Trading Policy*; (2) the System does not have standard operating procedures that outline roles and responsibilities for reviewers to promote consistent financial disclosure report review across Reserve Banks; and (3) the Board does not have a formal process or roles and responsibilities for determining and enforcing consequences for ethics violations for Reserve Bank covered individuals.

Finally, the Board can better ensure the effectiveness of the *Investment and Trading Policy* by improving its monitoring and verification efforts. We found that while Board and Reserve Bank ethics officers review the financial disclosure reports of covered individuals, they use a trust-based approach and do not take steps to verify that complete and accurate information has been submitted.

Recommendations

This report contains six recommendations intended to enhance the design and effectiveness of the *Investment and Trading Policy* and strengthen the Board’s and the Reserve Banks’ approach to monitoring personal investment and trading activities for possible conflicts of interest. In response to our draft report, the Board concurs with our recommendations and outlines actions that will be taken to address them. We will follow up to ensure that the recommendations are fully addressed.

Purpose

We conducted this evaluation to assess the design and effectiveness of the FOMC’s personal investment and trading rules, as well as the Board’s and the Reserve Banks’ approach to monitoring personal investment and trading activities for possible conflicts of interest.

Background

As the central bank of the United States, the System must maintain impartiality and avoid even the appearance of conflicts of interest to foster public trust in the nation’s financial system. FOMC participants routinely have access to and review confidential economic and financial information and data to determine how best to proceed in implementing the FOMC’s monetary policy priorities.

Following personal investment and trading incidents involving System officials, and subsequent media coverage of those incidents in 2021, the FOMC adopted the *Investment and Trading Policy* in February 2022 to support public confidence in the impartiality and integrity of the FOMC’s work. The *Investment and Trading Policy* prohibits covered individuals from purchasing individual securities, restricts active trading, and revises certain public reporting and disclosure requirements, among other things.



Recommendations, 2023-SR-B-006, April 26, 2023

The Board Can Further Enhance the Design and Effectiveness of the FOMC’s Investment and Trading Rules

Finding 1: The Board Should Implement Additional Controls for Individuals With Access to Confidential Class I FOMC Information

Number	Recommendation	Responsible office
1	Reassess the risks of conflicts of interest, both real and perceived, posed by individuals with access to confidential Class I FOMC information, and determine whether additional individuals should become subject to all or parts of the <i>Investment and Trading Policy</i> .	Division of Board Members or a designated division
2	For individuals who have access to confidential Class I FOMC information but are not covered by the <i>Investment and Trading Policy</i> , develop a plan to implement additional controls, which may include preclearance of trades and extension of the minimum holding period requirement, to help mitigate the risk of conflicts of interest.	Division of Board Members or a designated division

Finding 2: The Board Can Continue to Strengthen the System Ethics Programs’ Governance of Personal Investment and Trading Activities

Number	Recommendation	Responsible office
3	Develop a plan for how to further enhance uniformity across the System’s financial disclosure report review process, including considering additional controls and guidance.	Division of Board Members or a designated division
4	Formalize a process for determining and enforcing consequences for Reserve Bank covered individuals who violate the <i>Investment and Trading Policy</i> that includes clear roles and responsibilities.	Division of Board Members or a designated division

Finding 3: The Board Can Better Monitor Compliance With the *Investment and Trading Policy*

Number	Recommendation	Responsible office
5	Develop a process to verify the accuracy of the information on financial disclosure reports for individuals subject to the <i>Investment and Trading Policy</i> . As part of this effort, <ol style="list-style-type: none">require covered individuals to provide brokerage statements to their respective ethics officer for all accounts with holdings and transactions reported on their annual financial disclosure report.update financial disclosure review guidance to include the use of employee-provided brokerage statements to check annual financial disclosure reports for accuracy and completeness.	Division of Board Members or a designated division

Number	Recommendation	Responsible office
6	<p>Develop an approach to verify the accuracy of the information on financial disclosure reports for individuals who have access to confidential Class I FOMC information and are not covered by the <i>Investment and Trading Policy</i>. As part of this effort,</p> <ol style="list-style-type: none"> <li data-bbox="407 380 1114 495">a. determine the method and frequency for checking the accuracy and completeness of financial disclosure reports against brokerage statements, for example, by conducting periodic random sampling or full reviews. <li data-bbox="407 499 1114 615">b. update financial disclosure review guidance to include the use of employee-provided brokerage statements to check annual financial disclosure reports for accuracy and completeness and describe the method and frequency of this review. <li data-bbox="407 619 1114 726">c. assess the costs and benefits of establishing a system to automatically detect prohibited assets or failure to preclear trades using employee-provided brokerage statements and determine whether to implement such an automated approach. 	Division of Board Members or a designated division



Office of Inspector General

Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM

DATE: April 26, 2023

TO: Jerome H. Powell
Chair
Board of Governors of the Federal Reserve System

FROM: Mark Bialek 
Inspector General

SUBJECT: OIG Report 2023-SR-B-006: *The Board Can Further Enhance the Design and Effectiveness of the FOMC’s Investment and Trading Rules*

We have completed our report on the subject evaluation. We conducted this evaluation to assess the design and effectiveness of the Federal Open Market Committee’s personal investment and trading rules, as well as the Board of Governors of the Federal Reserve System’s and the Federal Reserve Banks’ approach to monitoring personal investment and trading activities for possible conflicts of interest.

We provided you with a draft of our report for review and comment. In your response, you concur with our recommendations and outline actions that will be taken to address our recommendations. We have included your response as appendix B to our report.

We appreciate the cooperation that we received from the Board and the Reserve Banks during our evaluation. Please contact me if you would like to discuss this report or any related issues.

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Introduction

Objective

Our objective for this evaluation was to assess the design and effectiveness of the Federal Open Market Committee’s (FOMC) personal investment and trading rules, as well as the Board of Governors of the Federal Reserve System’s and the Federal Reserve Banks’ approach to monitoring personal investment and trading activities for possible conflicts of interest.

Background

As the central bank of the United States, the Federal Reserve System must maintain impartiality and avoid even the appearance of conflicts of interest to foster public trust in the nation’s financial system. The Federal Reserve Act of 1913 established the System’s responsibility for setting monetary policy. *Monetary policy* refers to the actions undertaken to influence the availability and cost of money and credit to help promote national economic goals. The System includes three key entities: the 12 Reserve Banks, the FOMC, and the Board. The System controls the three tools of monetary policy—the discount rate, reserve requirements, and open market operations. The Board is responsible for the discount rate and reserve requirements, and the FOMC is responsible for open market operations.

FOMC Structure and Operations

The FOMC consists of 12 members: the 7 governors; the president of the Federal Reserve Bank of New York (FRB New York); and 4 of the remaining 11 Reserve Bank presidents, who serve 1-year terms on a rotating basis. Individual committee members vote on each FOMC policy action. Nonvoting Reserve Bank presidents attend the meetings of the FOMC, participate in the discussions, and contribute to the FOMC’s assessment of the economy and policy options.

The FOMC holds eight regularly scheduled meetings per year. At these meetings, the FOMC reviews economic and financial conditions; considers and assesses the risks to its goals of price stability, maximum employment, and sustainable economic growth; and determines how best to implement its monetary policy priorities. The FOMC meeting participants and the employees in the economic research divisions who generate the research and materials for the meetings routinely have access to confidential economic and financial information and data.¹ These materials and FOMC deliberations have the significant potential to move the financial markets when they become public.

Management of FOMC Information

The FOMC Secretariat is responsible for preparing and managing FOMC information; providing access to FOMC information to policymakers, relevant staff members, and the public as appropriate and in

¹ The Board’s economic divisions include the Divisions of Financial Stability, International Finance, Monetary Affairs, and Research and Statistics.

accordance with the Freedom of Information Act and the Federal Records Act; and assisting with the conduct of FOMC meetings.

Access to confidential FOMC information requires an individual to meet eligibility requirements, have a need to know the information, and agree to information handling rules. The individual must also satisfy certain conditions, including adhering to ethics policies and completing annual information security training, to maintain access to FOMC information. The Board and the Reserve Banks are each responsible for ensuring that their respective employees comply with these requirements.

FOMC Rules

The FOMC maintains rules that govern the functioning of the committee, the management of confidential FOMC information, and certain activities of those with access to confidential FOMC information. The *Program for Security of FOMC Information* bars any System employee with knowledge of confidential Class I FOMC information² for the prior or upcoming FOMC meeting from purchasing or selling any security during financial trading blackout periods, which begin the second Saturday before the start of a regularly scheduled FOMC meeting until midnight the day after the meeting. The *Program for Security of FOMC Information* also subjects those employees to 30-day minimum holding requirements for securities. Committee participants with access to Class I FOMC information must also refrain from discussing macroeconomic developments or monetary policy with the public during this blackout period in accordance with the *FOMC Policy on External Communications of Committee Participants*. FOMC rules advise employees with access to Class I FOMC information to avoid engaging in any financial transaction the timing of which would create the appearance of acting on inside information concerning System deliberations and actions.

Investment and Trading Prohibitions and Restrictions

In addition to the FOMC-specific rules described above, FOMC participants are subject to other applicable Board and Reserve Bank ethics rules. According to the Federal Reserve Act of 1913, as amended, members of the Board of Governors cannot own stock in any bank, banking institution, or trust company. All Board and Reserve Bank employees, their spouses, and their minor children are prohibited from owning debt or equity interest in any depository institution or its affiliates, and if they have regular, ongoing access to Class I FOMC information, they are prohibited from owning debt or equity in a primary government securities dealer and their affiliates under the *Supplemental Standards of Ethical Conduct for Employees of the Board of Governors of the Federal Reserve System*, the *Federal Reserve Administrative Manual* (FRAM),³ and the *Reserve Banks' Code of Conduct*.

In addition, section 2-026.1 of the FRAM, "Guide to Conduct for Senior Officials," states that the personal financial dealings of Board governors and the presidents and first vice presidents of the Reserve Banks should be above reproach, and any information obtained during their official duties should never be used for personal gain. The guidance also states that senior officials should avoid engaging in any financial transactions the timing of which would create the appearance of acting on inside information. Although

² Class I FOMC information includes, but is not limited to, documentation of monetary policy options, FOMC minutes and transcripts, and special memorandums or reports deemed particularly sensitive.

³ The FRAM is a compilation of policies and procedures the Board has issued to the System.

subject to similar investment and trading prohibitions and restrictions, Board employees and Reserve Bank employees have different reporting requirements and review processes.

Financial Disclosure Reporting Requirements for Board Officers—OGE Forms 278e and 278-T

The Ethics in Government Act imposes detailed requirements for public financial disclosure by senior U.S. government officials. To facilitate compliance with these requirements, the U.S. Office of Government Ethics (OGE) created uniform financial disclosure forms, procedures, and requirements for the executive branch. As senior employees of the executive branch, Board officers must file OGE Form 278e—which is a report for nominees, new entrants, annual filers, and termination filers (upon leaving an officer position)—and OGE Form 278-T—which is a periodic transaction report filed within 30 days of receiving notification of a reportable securities transaction but not later than 45 days after the transaction.⁴ Board employees self-report their financial disclosure reports, and OGE rules state that financial disclosure reports should be taken at face value as correct, unless there is a patent omission or ambiguity or the reviewer has independent knowledge of matters outside the financial disclosure report. A Board ethics official reviews senior Board officials' financial disclosure reports to ensure compliance with ethics rules, and the reports are subsequently reviewed and certified by the Board's ethics officials, including the designated agency ethics official (DAEO) or alternate DAEO.⁵ OGE reviews the certified reports of the agency's DAEO and individuals in presidentially appointed and United States Senate–confirmed positions. From there, the reports are made available on OGE's website. All other OGE 278 filers' reports are made available upon request from the public.

Financial Disclosure Reporting Requirements for Reserve Bank Employees—Form A and Form B

In accordance with the FRAM, Reserve Bank officers, managers, employees with supervisory responsibilities, and employees with access to Class I FOMC information annually file different types of financial disclosure reports based on their position and duties. Reserve Bank presidents and the first vice president of FRB New York file a Form A financial disclosure report, which is similar to the OGE Form 278e filed by senior Board officials. Reserve Bank research directors, most first vice presidents, and any Reserve Bank employee with access to Class I FOMC information file a Form B financial disclosure report.⁶ Reserve Bank ethics officers review the Form A and Form B financial disclosure reports, and Board ethics officials review the presidents' Form A reports.

⁴ OGE Form 278e: Public Financial Disclosure Report requires senior officials to disclose, among other items, any outside employment as well as their income, assets, stock transactions, and gifts. OGE Form 278-T: Public Periodic Transaction Report is filed by senior officials within 30 days of receiving notification of a securities transaction but not later than 45 days after the transaction. Executive branch employees who are not OGE Form 278 filers but whose duties involve the exercise of significant discretion in certain areas may be required to file an OGE Form 450: Confidential Financial Disclosure Report, which requires disclosure of assets, income, liabilities, outside employment, and gifts. Filed OGE Form 450s are not made available to the public.

⁵ The DAEO is the employee with primary responsibility for directing the daily activities of an agency's ethics program and coordinating with OGE. The alternate DAEO serves as the primary deputy to the DAEO in the administration of an agency's ethics program.

⁶ Form B financial disclosure reports require the reporting of assets, securities transactions, gifts, liabilities owed to certain types of financial institutions, and agreements or arrangements related to former or future employers.

FOMC Ethics Program Governance

Given the dispersion of FOMC members and participants across the Board and the Reserve Banks, governance over the FOMC ethics program involves both the Board's Ethics Program within its Legal Division as well as ethics officers at the Reserve Banks. The Board's Ethics Program is responsible for all ethics matters at the agency, including reviewing all financial disclosure reports filed by Board employees, issuing guidance, and conducting ethics training. Before 2022, the Board's Ethics Program was staffed by two attorneys and one senior paralegal. As of March 2023, the Board's Ethics Program has six employees: the DAEO, two senior attorneys, two junior attorneys, and one senior paralegal. The two senior attorneys will each serve a 1-year rotation as the alternate DAEO. The Board's Ethics Program also plans to hire one additional attorney.

Each Reserve Bank has an ethics officer that is responsible for Reserve Bank ethics matters, including reviewing the financial disclosure reports of Reserve Bank individuals covered by the *Investment and Trading Policy for FOMC Officials*. For most of the Reserve Banks, the general counsel or the deputy general counsel serves as the Reserve Bank's ethics officer. In addition, FRB New York has a dedicated ethics office within its Legal Group. According to Board and Reserve Bank ethics officers, the System Ethics Officers Group, which comprises Board and Reserve Bank ethics officers, discusses ethics issues and serves as a forum to answer questions from ethics officials, including questions regarding the *Investment and Trading Policy*.

Before the issuance of the *Investment and Trading Policy* and related updates to the FRAM, the Board's and the Reserve Banks' ethics programs were decentralized, with each Reserve Bank operating its own ethics program and the Board serving in a consultative role for the Reserve Banks, rather than acting as a governing oversight body. A Board official indicated that before the issuance of the policy, the Board's DAEO did not formally review Reserve Bank presidents' Form A financial disclosure reports, and another Board official stated the Board did not provide ethics training to the Reserve Banks.

The FOMC's Investment and Trading Policy

Following personal investment and trading incidents involving System officials, and subsequent media news coverage of those incidents in 2021, the Board announced in October 2021 rules governing investment and trading activity for senior Board and Reserve Bank officials with the goal of supporting public confidence in the impartiality and integrity of the FOMC's work. In February 2022, the FOMC officially adopted the rules in the *Investment and Trading Policy*.

The *Investment and Trading Policy* prohibits the purchase of individual securities, restricts active trading, and revises certain public reporting and disclosure requirements, among other things. Individuals covered under the *Investment and Trading Policy* include

- Board members
- Reserve Bank presidents
- Reserve Bank first vice presidents
- Reserve Bank research directors
- FOMC staff officers

- the manager and the deputy manager of the System Open Market Account⁷
- Board division directors who regularly attend FOMC meetings⁸
- any other individual designated by the chair of the FOMC
- spouses and minor children of the above

The policy's requirements and restrictions include, but are not limited to, the following:

Prohibitions on certain investments. Covered individuals may not own certain individual stocks, sector funds, cryptocurrencies, commodities, or foreign currencies acquired for investment purposes. Permitted investments include diversified mutual funds, certain types of exchange-traded funds (ETFs),⁹ and assets held in certain retirement plans.¹⁰ In addition, covered individuals may not engage in short sales or purchase a security using margin.¹¹

Divestiture. Current Board and Reserve Bank officials covered under the *Investment and Trading Policy* have 12 months from the policy's effective date of May 1, 2022, to sell any prohibited holdings. An employee who becomes a covered individual under the policy after May 1, 2022, will have 6 months to sell any prohibited assets.

Minimum holding period. Subject to narrow exceptions to ensure compliance with other ethics rules,¹² covered individuals may not sell any security for 1 year after purchasing it.

Advance notice. Subject to narrow exceptions,¹³ covered individuals employed by the Board must notify the Board's DAEO, and covered individuals employed by Reserve Banks must notify the applicable

⁷ FRB New York has been authorized and directed by the FOMC to execute open-market transactions on behalf of the Reserve Banks. FRB New York holds the resulting securities in the System Open Market Account.

⁸ As of September 23, 2022, the division directors who regularly attend FOMC meetings lead the following Board divisions: the Office of the Secretary, the Legal Division, and the Divisions of Board Members, Financial Stability, International Finance, Monetary Affairs, Research and Statistics, Reserve Bank Operations and Payment Systems, and Supervision and Regulation.

⁹ ETFs combine aspects of mutual funds and conventional stocks. Like a mutual fund, an *ETF* is a pooled investment fund that offers an investor an interest in a professionally managed, diversified portfolio of investments. ETF shares trade like stocks on stock exchanges and can be bought or sold throughout the trading day at fluctuating prices. The *Investment and Trading Policy's* prohibition on the purchase of interests in sector funds applies to sector ETFs. A *sector fund* is defined as having a stated policy of concentrating its investments in an industry, a business, a single country other than the United States, or in the bonds of a single state within the United States.

¹⁰ The *Investment and Trading Policy's* investment restrictions do not apply to assets held in a defined benefit retirement plan or a defined contribution retirement plan established by the federal government.

¹¹ *Margin* is buying securities on credit while using those same securities as collateral for the loan. Any residual loan balance is the responsibility of the borrower.

¹² The *Investment and Trading Policy* states that the holding period requirement does not apply to sales of securities that are impermissible investments under the *Investment and Trading Policy* or other applicable ethics laws, rules, or policies.

¹³ The *Investment and Trading Policy* states that the advance notice requirement applies to sales of securities that are necessary to bring a covered individual, a covered individual's spouse, or a covered individual's minor children into compliance with the *Investment and Trading Policy* but does not apply to sales of securities that are necessary for compliance with other ethics laws, rules, or policies.

Reserve Bank ethics officer in addition to the Board's DAEO, 45 days in advance of the covered individual purchasing or selling a security.

Preclearance. Beginning July 1, 2022, covered individuals must receive preclearance approval before purchasing and selling securities. To facilitate this preclearance requirement, the Board created a preclearance system for covered individuals at both the Board and the Reserve Banks. Covered individuals submit requests for their proposed securities purchases and sales through the Board's preclearance system and provide details of the transaction, such as the security name and number of shares. A Board ethics officer or a Reserve Bank ethics officer reviews those requests. Reviewers may approve the request, request additional information from the submitter, deny the request, or deem that approval is not required under the *Investment and Trading Policy*.¹⁴ The reviewer may provide an accompanying reason for each action, and covered individuals receive automatic email notifications of actions taken regarding their request. Approved preclearance requests from a Reserve Bank are sent to the Board for a second level of review and approval. Once the precleared trading window closes, covered individuals are prompted to confirm whether the precleared transaction occurred.

Trading blackout during financial market stress periods. Covered individuals may not purchase or sell securities during a financial market stress period unless the trade had been precleared before the beginning of that period. The Board's general counsel, in consultation with the Board chair, will determine the beginning and end dates of any financial market stress period.

Reporting and disclosure. Reserve Bank presidents must notify both the Reserve Bank ethics officer and the Board's DAEO of any securities transactions within 30 days of receiving notification of the transaction but no later than 45 days after the transaction. According to a Board official, the Board's Ethics Program is responsible for conducting second-level reviews of Reserve Bank presidents' Form A financial disclosure reports. Reserve Bank presidents' periodic transaction reports and annual financial disclosure reports must be promptly posted on their Reserve Bank's public website.

¹⁴ Certain automatic trade requests, money market fund transactions, or untaxed distributions from 529 plans, health savings accounts, or other similar accounts do not require approval under the *Investment and Trading Policy*.



Finding 1: The Board Should Implement Additional Controls for Individuals With Access to Confidential Class I FOMC Information

The list of individuals covered under the *Investment and Trading Policy* includes senior FOMC officials, but it does not include all individuals with access to Class I FOMC information. As of June 30, 2022, hundreds of individuals throughout the System who have access to Class I FOMC information were not subject to any of the additional controls implemented in the policy. According to Board officials, the Board prioritized policymakers when determining the list of covered individuals and considered the challenges associated with administering the policy, including associated resources and costs. We learned through benchmarking that another federal financial regulatory agency oversees the investment and trading practices of all employees, and FRB New York oversees the investment and trading practices of all individuals with ongoing access to any type of FOMC information, those privy to confidential supervisory information, and certain other employees to mitigate the risk of conflicts of interest and insider trading. We believe the Board should reassess whether additional individuals should be covered by all or parts of the *Investment and Trading Policy*. Further, we believe that individuals with access to Class I FOMC information who are not covered individuals under the policy should be subject to additional controls commensurate with the risk presented by their access. Doing so will help to reassure the public that the FOMC's investment and trading rules are among the most stringent in the federal government and could help mitigate the risk of conflicts of interest, both real and perceived, and reputational risk.

The List of Individuals Covered by the *Investment and Trading Policy* Does Not Include All Individuals With Access to Confidential Class I FOMC Information

As of September 23, 2022, 61 individuals across the System were covered by the *Investment and Trading Policy*. However, many FOMC meeting attendees were not covered by the policy. For example, at the September 2022 FOMC meeting, only 44 of the 89 attendees were covered by the *Investment and Trading Policy*. Further, hundreds of individuals throughout the System who had access to Class I FOMC information via three document repositories were not covered by the policy. Specifically, as of June 30, 2022, 161 individuals had access to the FOMC Portal, 390 individuals had access to a repository where Reserve Banks provide access to subsets of FOMC Portal documents, and 70 individuals had access to a repository housing archived FOMC information.¹⁵ We also found that 17 of 43 individuals with access to confidential FOMC meeting transcripts on the FOMC Portal were not covered by the *Investment and*

¹⁵ We have referred this matter to our Office of Information Technology, which will assess the effectiveness of access controls surrounding the FOMC Portal and whether access to the information is appropriate.

Trading Policy. In addition, a Board official noted that across these three repositories, 291 individuals had access to the Tealbook B, which is a highly confidential document released to the FOMC 5 days before FOMC meetings and which presents three monetary policy alternatives for the FOMC to consider.

According to a Board official, the FOMC Portal includes, but is not limited to, information related to the economy and System policy, memorandums about topics being addressed in FOMC meetings, and agendas for FOMC meetings. The Board official stated that individuals with access to the FOMC Portal may access all documents in the repository except FOMC meeting transcripts, which, because of their sensitivity, are limited to a subset of 43 individuals. FOMC members, including senior FOMC officials, use documents in the FOMC Portal to assess economic conditions as part of evaluating potential options for future monetary policy activities. FOMC Portal access at each Reserve Bank is limited to those individuals designated to view Class I FOMC information, including the Reserve Bank president, the first vice president, and seven other individuals. These seven need not be the same individuals for each meeting, and the Reserve Banks may approve access to subsets of FOMC Portal information via another repository for a wider group of eligible individuals who have a need to know the information.

Individuals with regular, ongoing access to the Class I FOMC information in the three repositories who are not covered under the *Investment and Trading Policy* are subject to prohibitions related to financial interests in primary government securities dealers and their affiliates and to the trading blackout policy outlined in the *Program for Security of FOMC Information*. Otherwise, with the exception of FRB New York employees, these individuals are not subject to any additional controls applicable to the covered individuals other than the existing ethics rules applicable to all System employees. Existing ethics rules prohibit owning bank stocks; require annual financial disclosure reports from certain employees; and, for Board members, officers, and Reserve Bank presidents, require periodic transaction reports within 30 days of a security transaction. The existing rules do not require individuals not covered under the *Investment and Trading Policy* to preclear transactions or hold certain securities for a minimum of 1 year.

A Board official stated that, of the individuals who have access to Class I FOMC information, agency officials are most concerned with those who have control over monetary policy. This official also stated, however, that the Board's ethics officers are not insider trading police, and it is difficult to police and target insider trading because Board ethics officers do not know when employees access Class I FOMC information. Another Board official noted that the list of covered individuals reflects a tradeoff between benefits and potential costs to the System, namely that strict ethics rules may dissuade individuals from wanting to become involved in the FOMC process and may negatively affect employee retention. The Board official also stated that the amount of work for Board Ethics Program staff to manage the preclearance requirement of the *Investment and Trading Policy* was a factor when creating the list of covered individuals because an expanded list of covered individuals would require more resources. Another Board official stated that the implementation of the *Investment and Trading Policy* was not the final phase in updating the Board's ethics program pertaining to personal investment and trading and that the Board is willing to revisit the list of covered individuals.

Additional Controls for Individuals With Access to Class I FOMC Information Could Help Mitigate the Risk of Conflicts of Interest

Our benchmarking efforts revealed that two organizations with similar access to confidential and potentially market-moving information require employees to preclear trades. Specifically, we found that one federal financial regulatory agency requires all of its approximately 4,400 employees to preclear the purchase and sale of securities. A senior official noted that the agency’s supplemental ethics regulation requires all employees to preclear trades because the public perceives its employees as having access to confidential information because of the agency’s role in overseeing financial markets. Another official at that agency mentioned that determining to whom investment and trading rules apply is essential to risk mitigation.

We also found that FRB New York requires 82 percent, or approximately 2,400, of its employees to preclear the purchase and sale of securities. An FRB New York official stated that the list of employees required to preclear trades includes all individuals with ongoing access to any type of FOMC information, those privy to confidential supervisory information, and certain other employees. The official also noted that FRB New York uses a preclearance and trade monitoring system to mitigate the risks of conflicts of interest and insider trading. Another FRB New York official stated that FRB New York determines the appropriate set of investment rules for an individual based on their level of information access and job responsibilities.

An October 2021 Board press release stated that the rules established by the *Investment and Trading Policy* were designed to place the System’s investment and trading rules “at the forefront among major federal agencies” and to guard against even the appearance of any conflicts of interest. Although the *Investment and Trading Policy* places stringent restrictions on the investment and trading activities of senior System policymakers, additional controls have not been adopted for other individuals with access to the same confidential information as these senior policymakers.

To mitigate even the appearance of a conflict of interest, we believe the Board should reassess whether additional individuals should become subject to all or parts of the *Investment and Trading Policy*, and for those not covered but with access to Class I FOMC information, develop a tailored approach to implement additional controls, such as trade preclearance and an extension of the 30-day minimum holding period requirement, in a manner consistent with the risks presented by those access rights. Such a tailored approach could help reassure the public that the FOMC’s investment and trading rules are “at the forefront among major federal agencies” and help mitigate the risk of conflicts of interest, both real and perceived, and reputational risk.

Recommendations

We recommend that the Board chair or a designee

1. Reassess the risks of conflicts of interest, both real and perceived, posed by individuals with access to confidential Class I FOMC information, and determine whether additional individuals should become subject to all or parts of the *Investment and Trading Policy*.

2. For individuals who have access to confidential Class I FOMC information but are not covered by the *Investment and Trading Policy*, develop a plan to implement additional controls, which may include preclearance of trades and extension of the minimum holding period requirement, to help mitigate the risk of conflicts of interest.

Management Response

In response to our draft report, the Board concurs with our recommendations. Regarding recommendation 1, the response states that the Board chair will consult with the full FOMC before determining whether or how many additional individuals should be subject to all or parts of the *Investment and Trading Policy*. Regarding recommendation 2, the response states that the Board chair will consult with the full FOMC before determining how to implement additional controls for individuals who have access to confidential Class I FOMC information but are not subject to the *Investment and Trading Policy*.

OIG Comment

The planned actions described by the Board appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



Finding 2: The Board Can Continue to Strengthen the System Ethics Programs' Governance of Personal Investment and Trading Activities

The Board has taken steps to adopt a more centralized approach to overseeing personal investment and trading activities across the System; however, we found that the Board can further strengthen aspects of that approach. Specifically, the Board's DAEO must review the Reserve Bank presidents' financial disclosure reports only, and the Board does not have a formal process or roles and responsibilities for determining and enforcing consequences for ethics violations for Reserve Bank covered individuals. In addition, we determined that the System does not have standard operating procedures (SOPs) that outline roles and responsibilities for reviewers to promote consistent financial disclosure report review across Reserve Banks. Other federal financial regulatory agencies have SOPs for their financial disclosure report reviews that include clear roles and responsibilities for reviewers, and one of those agencies has SOPs outlining the appropriate steps for ethics officers to take in particular situations. We learned that the Board's and the Reserve Banks' ethics programs pertaining to personal investment and trading activities were historically decentralized. We believe that developing a plan to increase uniformity in the System's financial disclosure report review process and formalizing a process for addressing ethics violations at the Reserve Banks could strengthen the System ethics programs' governance of personal investment and trading activities.

The Board Has Taken Steps to Centralize Oversight of Personal Investment and Trading Activities Across the System

The Board has taken steps toward transitioning to a more centralized approach to overseeing personal investment and trading activities across the System. For example, the Board amended FRAM § 2-026, "Employee Conduct," to revise standards for reviewing and transmitting Reserve Bank presidents' Form A financial disclosure reports and to formalize escalation protocols through the Board's DAEO. Specifically, the Board amended FRAM § 2-026 to require the Reserve Bank ethics officers or their designees to transmit the Reserve Bank presidents' Form A financial disclosure reports to the Board's DAEO and to consult with the Board's DAEO as necessary. In addition, amendments to FRAM § 2-026 include a requirement that Reserve Bank ethics officers promptly refer ethics concerns about Reserve Bank presidents to the Board's DAEO. Reserve Bank ethics officers may also raise concerns about a Reserve Bank president with a Reserve Bank's board of directors.

Further, the System has taken steps to align the standards for the Form A financial disclosure reports submitted by Reserve Bank presidents with the standards for financial disclosure reports submitted by Board members, which are dictated by OGE regulations.

The Board also plays a key role in the preclearance process. *The Investment and Trading Policy* requires a covered individual to provide a minimum of 45-days' nonretractable advance notice to the Board's DAEO before the covered individual purchases or sells a security. The Board's preclearance system reference guide states that the Board's ethics officers must review trade requests submitted by all covered individuals, including Reserve Bank officials. Reserve Bank covered individuals submit their preclearance request to their Reserve Bank ethics officers, and then the request is routed to the Board's ethics officers for review and decision.

The Board Can Further Enhance Uniformity in Its Approach to Overseeing Personal Investment and Trading Activities Across the System

The Board can further enhance uniformity across the System's financial disclosure report review process and develop a formalized process that includes clear roles and responsibilities for determining and enforcing consequences for ethics violations for Reserve Bank covered individuals.

The Board Can Enhance Uniformity in Its Approach to Reviewing Financial Disclosure Reports

Although updates to FRAM § 2-026 require the Board's DAEO to review and approve Reserve Bank presidents' Form A financial disclosure reports, the FRAM does not require the Board to review the reports of other Reserve Bank covered individuals. As of September 23, 2022, 25 of the 61 covered individuals were Reserve Bank officials whose financial disclosure reports did not require review by the Board. This limitation in FRAM § 2-026 hinders the Board from having centralized oversight of all covered individuals subject to the *Investment and Trading Policy*. In addition, the System does not have SOPs that outline roles and responsibilities for reviewers to promote consistent financial disclosure report review across Reserve Banks.

We learned that the Board has updated FRAM § 2-026 to include guidance for Reserve Bank ethics officers' reviews of Reserve Bank presidents' Form A financial disclosure reports and issued guidance answering frequently asked questions about the *Investment and Trading Policy*, but the Board has not provided guidance for reviewing the financial disclosure reports of other Reserve Bank covered individuals. A Board official noted that an ethics officer who only reviews certain financial disclosure reports annually would not know whether an official's financial disclosure report was substantially different from the rest.

Through benchmarking, we found that other federal financial regulatory agencies have SOPs for their financial disclosure report reviews, which include clear roles and responsibilities for reviewers. In addition, one agency's SOP outlines a first and second line of review and the steps that those first- and second-line reviewers must take. This agency also has a checklist for the first-line reviewers to use when reviewing financial disclosure reports.

A Board official stated that a goal of updating the System's ethics programs is to centralize and standardize the financial disclosure report review process. Continuing the evolution toward uniformity in

the System’s financial disclosure report review process could strengthen the System’s overall ethics programs.

The Board Should Develop a Formalized Process to Determine and Enforce Consequences for Reserve Bank Covered Individuals’ Ethics Violations

The Board has policies and procedures that include clear roles and responsibilities for handling ethics violations by Board employees. However, the Board does not have a formal process for determining and enforcing consequences for Reserve Bank covered individuals who violate ethics rules, laws, or regulations pertaining to personal investment and trading activities. In addition, several Board and Reserve Bank officials are unclear as to who is responsible for determining and enforcing such consequences.

A Board official noted that the agency may delay formalizing a process for determining and enforcing consequences of ethics violations because the Board wants to have a better sense of the potential compliance issues that may arise after the 2022 implementation of the *Investment and Trading Policy*. In addition, a Reserve Bank official explained that the Reserve Banks have discretion to determine consequences and the process is largely ad hoc because there is no formalized set of rules regarding consequences. This official added that ethics violation consequences could be more consistent across Reserve Banks.

We found that another federal financial regulatory agency has SOPs that ethics officers use to determine the appropriate steps to take in particular situations. According to an official from that agency, these documents outline follow-up procedures that apply when suspected violations of the agency’s supplemental ethics regulation or financial disclosure reporting requirements are detected. This official also explained that a compliance SOP outlines who is responsible for handling any follow-up actions associated with certain suspected violations, including escalating matters to the violator’s management through the ethics counsel or escalating matters to the Office of Inspector General.

Developing a formalized process that includes clear roles and responsibilities for determining and enforcing consequences for investment and trading violations at the Reserve Banks would promote consistency, transparency, and accountability across the System. Further, a formalized process would improve the Board’s ability to act swiftly and decisively, which could advance the effectiveness of the *Investment and Trading Policy*. In addition, consequences for violations could be determined more systematically, which would support a more even application of the policy, create greater certainty for covered individuals and System ethics officers, and promote trust that the System is accountable to the public.

Recommendations

We recommend that the Board chair or a designee

3. Develop a plan for how to further enhance uniformity across the System’s financial disclosure report review process, including considering additional controls and guidance.

4. Formalize a process for determining and enforcing consequences for Reserve Bank covered individuals who violate the *Investment and Trading Policy* that includes clear roles and responsibilities.

Management Response

In response to our draft report, the Board concurs with our recommendations. Regarding recommendation 3, the response states that by the end of 2023, the Board chair will implement a plan to further enhance uniformity across the System's financial disclosure report review process, including considering additional controls and guidance. Regarding recommendation 4, the response states that the Board chair will direct agency staff to draft a formal process for determining and enforcing consequences for Reserve Bank covered individuals who violate the *Investment and Trading Policy*, to be submitted for full Board consideration by the end of 2023.

OIG Comment

The planned actions described by the Board appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



Finding 3: The Board Can Better Monitor Compliance With the *Investment and Trading Policy*

Although the Board and the Reserve Banks review the financial disclosure reports of covered individuals to ensure compliance with the *Investment and Trading Policy*, the Board and most Reserve Banks do not verify the accuracy of the information reported on financial disclosure reports. Some Reserve Bank officials stated that according to Board internal guidance, Reserve Bank ethics officers need not audit financial disclosure reports to ascertain whether disclosures are correct. Board officials noted that OGE rules state the Board should take the financial disclosure reports at face value and is not required to verify them. However, we believe that this trust-based approach hinders the Board's and the Reserve Banks' ability to ensure that covered individuals reliably report their holdings and transactions. Another federal financial regulatory agency has adopted a vigilant monitoring and verification approach by using brokerage statements to confirm the accuracy of financial disclosure reports and compliance with preclearance requirements. FRB New York also uses brokerage statements as part of its preclearance and trading monitoring system to verify the permissibility of employee holdings and transactions and as part of its review of financial disclosure reports. Given the FOMC's unique role in setting monetary policy and access to potentially market-moving information, verifying the information in financial disclosure reports would help to mitigate reputational risk by ensuring that the System can identify and address potential violations, errors, or omissions in a timely manner.

The Board and Most Reserve Banks Do Not Verify the Accuracy of Financial Disclosure Reports

Board and Reserve Bank officials stated that the annual review of financial disclosure reports and the review of periodic transaction reports serve as a check to ensure that individuals covered by the *Investment and Trading Policy* comply with the policy. However, we learned that the Board's Ethics Program and most Reserve Banks do not verify the accuracy of the information reported on financial disclosure reports. Some Reserve Bank officials noted that they do not verify financial disclosure reports because Board guidance does not require Reserve Bank ethics officers to audit financial disclosure reports.¹⁶ Similarly, Board officials noted that ethics officers do not verify the accuracy of information reported on financial disclosure reports because OGE rules say reviewers should take financial disclosure reports at face value.¹⁷ An OGE official explained that the Ethics in Government Act and OGE's regulations

¹⁶ FRAM § 2-026 states, "The Reserve Bank ethics official need not audit a report to ascertain whether the [financial] disclosures are correct. Disclosures may be taken at face value as correct, unless there is a patent omission or ambiguity or the ethics official has independent knowledge of matters outside the report."

¹⁷ According to 5 C.F.R. 2634, § 605(b)(3), "[Financial] [d]isclosures will be taken at 'face value' as correct, unless there is a patent omission or ambiguity or the official has independent knowledge of matters outside the report." According to 5 C.F.R. 2634, § 605(b)(4), "If the reviewing official believes that additional information is required, the reviewing official will request that any additional information be submitted within 30 days from the date of the request, unless the reviewing official grants an extension in writing."

require ethics officers to review reports for conflicts of interest as well as completeness, and to request additional information if there is a patent omission or ambiguity or if the ethics officer has independent information indicating that something is incomplete or incorrect. The OGE official also noted that agency ethics officers seeking additional information can request brokerage statements to verify the accuracy of the information reported on an individual's financial disclosure report.¹⁸

We learned that another federal financial regulatory agency requires its employees to annually provide brokerage statements from the prior calendar year showing all personal transactions and holdings for themselves, their spouse, and their minor children. The agency uses these brokerage statements when reviewing OGE Form 278e financial disclosure reports to confirm that all assets and transactions have been listed accurately in the financial disclosure report. The agency also conducts periodic compliance reviews on a sample of employees, including OGE Form 278e and OGE Form 450 financial disclosure report filers, and uses brokerage statements for comparison during these reviews.

We also learned that FRB New York requires employees covered by its preclearance and trade monitoring system to provide electronic daily updates from brokerage firms or periodic uploads of brokerage statements. FRB New York uses the data from the preclearance and trade monitoring system to actively monitor employee holdings and transactions and as part of its review of annual financial disclosure reports. Another Reserve Bank reported that its president and first vice president voluntarily provided brokerage statements to assist in the review of their most recent financial disclosure reports.

The Board's Preclearance System Cannot Verify Preclearance Compliance and Accuracy

The Board's preclearance system has several prompts requiring covered individuals to attest that their preclearance request complies with the *Investment and Trading Policy* before the system will allow an individual to continue populating a request form. The Board's preclearance system also requires covered individuals to certify that the information in their preclearance request form is complete and accurate before submitting the request and to subsequently confirm whether the precleared trade was in fact executed. We found there are no other controls to independently verify that an approved preclearance request was executed.

A Board official stated that during the annual financial disclosure review process, ethics officers compare financial disclosure reports against preclearance requests to assess compliance with the *Investment and Trading Policy*. However, because Board and most Reserve Bank ethics officers do not use brokerage statements to review financial disclosure reports for accuracy, the Board and certain Reserve Banks are relying on a trust-based approach. As a result, the Board and those Reserve Banks cannot be certain that a covered individual's preclearance requests were accurate and cannot detect instances in which a covered individual failed to preclear a transaction.

We learned that another federal financial regulatory agency uses employee-provided brokerage statements during its annual financial disclosure review to detect possible violations of the agency's

¹⁸ The OGE official stated that if an agency wants to establish additional ethics or financial disclosure requirements, such as requiring brokerage statements in the usual course, the agency must codify these additional requirements in a supplemental regulation.

supplemental ethics rules. Throughout the year, that agency also conducts periodic reviews of brokerage statements and runs character recognition searches of its preclearance database to detect prohibited holdings.

At FRB New York, employees subject to the preclearance and trade monitoring system must either authorize the Reserve Bank to receive daily electronic account information and trade confirmations directly from their brokerage firm or manually upload brokerage statements on a periodic basis. FRB New York's preclearance and trade monitoring system automatically processes information from the brokerage statements to detect violations of ethics rules or a failure to preclear a transaction.

Additional Controls for Monitoring Covered Individuals' Investment and Trading Activities Can Further Mitigate Risks

A Board official stated that requiring brokerage statements from covered individuals would be a significant resource requirement and may not be worth the burden or cost. Another Board official stated the Board does not have a problem that necessitates reviewing brokerage statements and that requiring them would be excessive.

In December 2021, a former Board governor amended a 2020 financial disclosure report to add several transactions that had not previously been reported. The Board's ethics officers would not have known of these omissions had they not been self-reported. Similarly, in October 2022, a Reserve Bank president amended financial disclosure reports for the previous 5 years to include previously undisclosed trades made during FOMC trading blackout periods. Board and Reserve Bank ethics officers could have identified and resolved these omissions earlier if brokerage statements had been used to verify the accuracy of the financial disclosure reports.

Using brokerage statements to monitor covered individuals' actual investment and trading activities will assist in enforcing the *Investment and Trading Policy* and support the System's goal of mitigating the risk of conflicts of interest. Another federal financial regulatory agency has adopted a vigilant monitoring and verification approach, and two Reserve Banks also voluntarily use brokerage statements to review certain individuals' investment and trading activities. Several other Reserve Banks stated that they would use brokerage statements in the review of financial disclosure reports if an individual provided the statements.

The Board seeks to guard against even the appearance of any conflicts of interest and be "at the forefront among federal agencies" with respect to investment and trading policies, especially given the FOMC's unique role in setting monetary policy and access to potentially market-moving information. Verifying the accuracy of submitted information could help to mitigate reputational risk by ensuring that (1) the Board's approach is among the most stringent in the federal government and (2) the System can identify and address potential violations, errors, or omissions in a timely manner.

Recommendations

We recommend that the Board chair or a designee

5. Develop a process to verify the accuracy of the information on financial disclosure reports for individuals subject to the *Investment and Trading Policy*. As part of this effort,
 - a. require covered individuals to provide brokerage statements to their respective ethics officer for all accounts with holdings and transactions reported on their annual financial disclosure report.
 - b. update financial disclosure review guidance to include the use of employee-provided brokerage statements to check annual financial disclosure reports for accuracy and completeness.
6. Develop an approach to verify the accuracy of the information on financial disclosure reports for individuals who have access to confidential Class I FOMC information and are not covered by the *Investment and Trading Policy*. As part of this effort,
 - a. determine the method and frequency for checking the accuracy and completeness of financial disclosure reports against brokerage statements, for example, by conducting periodic random sampling or full reviews.
 - b. update financial disclosure review guidance to include the use of employee-provided brokerage statements to check annual financial disclosure reports for accuracy and completeness and describe the method and frequency of this review.
 - c. assess the costs and benefits of establishing a system to automatically detect prohibited assets or failure to preclear trades using employee-provided brokerage statements and determine whether to implement such an automated approach.

Management Response

In response to our draft report, the Board concurs with our recommendations. Regarding recommendation 5, the response states that the Board will develop a process to verify the accuracy of the information on financial disclosures submitted by individuals subject to the *Investment and Trading Policy* by the end of the second quarter of 2024. Regarding recommendation 6, the response states that the Board will develop an approach to verify the accuracy of the information on financial disclosure reports submitted by individuals who have access to confidential Class I FOMC information but are not covered by the *Investment and Trading Policy* by the end of the second quarter of 2024. The Board will also assess the costs and benefits of establishing an automated system to verify the accuracy of information on financial disclosure reports submitted by individuals with access to Class I FOMC information.

OIG Comment

The planned actions described by the Board appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



Appendix A: Scope and Methodology

We initiated this evaluation to assess the design and effectiveness of the FOMC’s personal investment and trading rules, as well as the Board’s and the Reserve Banks’ approach to monitoring personal investment and trading activities for possible conflicts of interest. Our scope did not include specific individuals’ financial disclosure reports and personal investment and trading transactions.

To accomplish our objective, we reviewed the *Investment and Trading Policy* as well as revisions to the *Reserve Banks’ Code of Conduct*, FRAM § 2-026.1, “Guide to Conduct for Senior Officials,” and FRAM § 2-026, “Employee Conduct.” We also reviewed *Investment and Trading Policy for FOMC Officials: Frequently Asked Questions*, which clarifies the *Investment and Trading Policy*.

We reviewed the *Program for Security of FOMC Information*, documentation associated with the monetary policymaking process, and data associated with individuals who have access to Class I FOMC information. We also reviewed all 12 Reserve Banks’ ethics program staffing structures, Form A financial disclosure review procedures, and instructions provided to Form A filers. We conducted a walk-through of the Board’s preclearance system and reviewed the Board’s preclearance system reference guide to assess controls.

We interviewed Board and Reserve Bank officials and staff involved in the implementation of the *Investment and Trading Policy* and related processes. We analyzed additional information obtained from the Reserve Banks regarding their financial disclosure review processes to assess controls and practices across the System.

In addition, we conducted benchmarking interviews with other federal agencies, including reviewing those agencies’ supplemental ethics rules and relevant guidance and documentation. In addition, we reviewed FRB New York’s internal policies and guidance for its preclearance system and conducted a walk-through of FRB New York’s preclearance system. Further, we interviewed officials from OGE and reviewed OGE guidance relating to mitigating financial conflicts of interest and the review of financial disclosures.

We conducted our evaluation from January 2022 to February 2023. We conducted this evaluation in accordance with the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency in December 2020.

Appendix B: Management Response



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

April 19, 2023

Mr. Mark Bialek
Inspector General
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Mr. Bialek:

Thank you for the opportunity to comment on your draft evaluation report, *The Board Can Further Enhance the Design and Effectiveness of the FOMC's Investment and Trading Rules*. We appreciate the time and effort that the Office of the Inspector General (OIG) put into this report, and appreciate the professionalism of OIG staff during the preparation of this report. We look forward to working with your office on these and other issues in the future.

Finding 1: The Board Should Implement Additional Controls for Individuals With Access to Confidential Class I FOMC Information

Recommendation 1: Reassess the risks of conflicts of interest, both real and perceived, posed by individuals with access to confidential Class I FOMC information, and determine whether additional individuals should become subject to all or parts of the Investment and Trading Policy.

Management Response: I concur with this recommendation. I agree that it is most appropriate to focus our efforts on addressing risks of conflicts of interest, and support periodic reassessments to determine whether it is necessary or appropriate to recalibrate the scope of individuals subject to the Investment and Trading Policy for FOMC Officials (Investment and Trading Policy). Because this recommendation focuses on risks associated with access to FOMC information, which is controlled by the FOMC, and because the FOMC adopted both the Investment and Trading Policy and the related Financial Trading Blackout Policy, I will consult the full FOMC regarding this matter before a

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determination is made as to whether or how many additional individuals should become subject to all or parts of the Investment and Trading Policy.

Recommendation 2: For individuals who have access to confidential Class I FOMC information but are not covered by the Investment and Trading Policy, develop a plan to implement additional controls, which may include preclearance of trades and extension of the minimum holding period requirement, to help mitigate the risk of conflicts of interest.

Management Response: I concur with this recommendation. Because the FOMC controls access to confidential FOMC information and the FOMC adopted both the Investment and Trading Policy and the related Trading Blackout Policy, I will consult with the full FOMC to obtain their input before a determination is made on how to implement additional controls for individuals with access to confidential Class I FOMC information who are not subject to the Investment and Trading Policy.

Finding 2: The Board Can Continue to Strengthen the System Ethics Programs' Governance of Personal Investment and Trading Activities

Recommendation 3: Develop a plan for how to further enhance uniformity across the System's financial disclosure report review process, including considering additional controls and guidance.

Management Response: I concur with this recommendation and plan to implement it by the end of 2023.

Recommendation 4: Formalize a process for determining and enforcing consequences for Reserve Bank covered individuals who violate the Investment and Trading Policy that includes clear roles and responsibilities.

Management Response: I concur with this recommendation. Because any formal process would need to be approved by the full Board, I will direct Board staff to draft a formal process for Board consideration by the end of 2023.

Finding 3: The Board Can Better Monitor Compliance With the Investment and Trading Policy

Recommendation 5: Develop a process to verify the accuracy of the information on financial disclosure reports for individuals subject to the Investment and Trading Policy. As part of this effort,

- a. require covered individuals to provide brokerage statements to their respective ethics officer for all accounts with holdings and transactions reported on their annual financial disclosure report.*
- b. update financial disclosure review guidance to include the use of employee-provided brokerage statements to check annual financial disclosure reports for accuracy and completeness.*

Management Response: I concur with this recommendation. We will develop a process to verify the accuracy of the information on financial disclosures

submitted by individuals subject to the Investment and Trading Policy by the end of 2Q 2024.

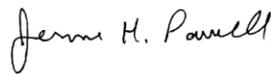
Recommendation 6: Develop an approach to verify the accuracy of the information on financial disclosure reports for individuals who have access to confidential Class I FOMC information and are not covered by the Investment and Trading Policy. As part of this effort,

- a. determine the method and frequency for checking the accuracy and completeness of financial disclosure reports against brokerage statements, for example, by conducting periodic random sampling or full reviews.*
- b. update financial disclosure review guidance to include the use of employee-provided brokerage statements to check annual financial disclosure reports for accuracy and completeness and describe the method and frequency of this review.*
- c. assess the costs and benefits of establishing a system to automatically detect prohibited assets or failure to preclear trades using employee-provided brokerage statements and determine whether to implement such an automated approach.*

Management Response: I concur with this recommendation. By the end of 2Q 2024 we will develop an approach to verify the accuracy of the information on financial disclosure reports submitted by individuals with access to confidential Class I FOMC information who are not covered by the Investment and Trading Policy. We also will assess the costs and benefits of establishing an automated system to verify the accuracy of information on financial disclosure reports submitted by individuals with access to Class I FOMC information.

We are developing action plans to address the findings and recommendations as described above, and will work diligently to meet the commitments contained within this response. We take seriously the need to ensure the effectiveness of the FOMC's Investment and Trading Policy, and we look forward to addressing the OIG's recommendations.

Sincerely,





Abbreviations

DAEO	designated agency ethics official
ETF	exchange-traded fund
FOMC	Federal Open Market Committee
FRAM	<i>Federal Reserve Administrative Manual</i>
FRB New York	Federal Reserve Bank of New York
OGE	U.S. Office of Government Ethics
SOP	standard operating procedure

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