



BAN CONFLICTED TRADING AT THE FED ACT

OVERVIEW

The Federal Reserve is responsible for ensuring a safe, stable, and fair economy – one that works for all Americans. Public trust in the Federal Reserve is essential to fulfilling its mission. That means Federal Reserve officials should be held to the highest ethical and conflicts of interest standards.

Throughout the economic crisis caused by the ongoing pandemic, the Federal Reserve took extraordinary steps to stabilize the economy and financial markets. Yet at the same time of these unprecedented actions, several top Federal Reserve System officials made multiple stock trades and securities transactions.¹ The American public needs to be confident that the Federal Reserve is acting in the best interest of the workers, families, small businesses, and communities that make up our economy, not in their own personal financial interest.

The Ban Conflicted Trading at the Fed Act would strengthen and clarify the ethics requirements at the highest levels of the Federal Reserve System. It would make sure that Fed officials never have a leg up on investing over hard-working Americans. And it would ensure that Federal Reserve leaders are held to the same standards as members of Congress under the STOCK Act.

- The bill would prohibit Federal Reserve Board Governors and Reserve Bank Presidents and Vice Presidents from trading individual stocks. They could invest in diversified mutual funds, investment trusts, and U.S. treasuries.
- Federal Reserve Governors and Reserve Bank Presidents and Vice Presidents would have six months to divest individual holdings after enactment of the bill, or if received by gift or inheritance. They could also hold existing investments while in office, or transfer them to a blind trust.
- These Federal Reserve officials would be subject to substantial fines if they fail to comply with the ban or other requirements.
- Reserve Bank Presidents, Vice Presidents, and Directors would be required to make the same public annual and periodic financial disclosures as Federal Reserve Governors, and would also be subject to the same penalties for violation of these requirements.
- The Board of Governors would administer the bill's requirements, including with respect to the Reserve Banks. In addition, the bill would ensure that the Federal Reserve quickly implements the rules for Federal Reserve policymakers and senior staff, announced on October 21, 2021, to help guard against conflicts of interest. These include advance notice and prior approval of investment transactions and a one-year holding period.²



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SECTION-BY-SECTION

Section 1 – Short Title:

- The “Ban Conflicted Trading at the Fed Act”

Section 2 – STOCK Act:

- **Requirements for Federal Reserve Bank presidents, vice presidents, and directors:** Federal Reserve Bank presidents, vice presidents, and members of the boards of directors are subject to Title I of the Ethics in Government Act of 1978 and sections 6, 9, 11, 12, 13, and 14 of the STOCK Act, which includes public annual and periodic transaction disclosure requirements, mortgage disclosure requirements, limitations on IPOs, and penalties for violation of these requirements.

Section 3 – Ban Conflicted Trades:

(a) Definitions (in alphabetical order):

- **Commodity:** “Commodity” includes wheat, cotton, rice, corn, etc., as defined by the Commodity Exchange Act.
- **Covered investment:** A “covered investment” is a security, commodity, or future such as a derivative.
 - o It does NOT include a diversified mutual fund, like an indexed mutual fund, or U.S. Treasuries.
- **Covered person:** A “covered person” means Federal Reserve Board Governors and Presidents and Vice Presidents of the Federal Reserve Banks.
- **Future:** A “future” is a contract that obligates the buyer/seller to buy/sell an asset at a certain date and price.
- **Security:** “Security” includes stocks and corporate bonds.
- **Virtual Currency:** “Virtual currency” means any cryptocurrency, such as coins or tokens received in connection with initial coin offerings or issued or distributed using distributed ledger or blockchain technology.

(b) Prohibition:

- **Ban on buying or selling covered investments:** A covered Federal Reserve official cannot buy or sell covered investments (individual securities, commodities, futures, or virtual currencies).



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(c) Exceptions:

- **Exceptions to buying or selling:** A covered Federal Reserve official may sell investments during the 6-month period, which begins on the date the covered person first takes office, or the date of enactment of this bill. It also allows a covered person to sell investments within 6-months if inherited or received as a gift.
- **Approval:** Transactions must be approved in accordance with the notice, approval, and holding period rules under subsection (f).

(d) Trusts:

- **Blind Trusts:** On a case-by-case basis, the Federal Reserve Board's designated agency ethics official can allow a covered person to put their securities holdings in a blind trust that meets the criteria in section 102(f) of the Ethics in Government Act of 1978.

(e) Administration and Enforcement:

- **Administration:** The Board of Governors will administer and provide guidance on this Act.
- **Enforcement:** Anyone that does not comply will be fined no less than 10% value of the investment for every year one is out of compliance.

(f) Other Requirements:

- **Federal Reserve rules:** The Board of Governors is required to issue within 90 days of enactment rules that require Federal Reserve officials and senior staff to provide 45 days advance notice and prior approval for investment transactions, and hold investments for 1 year.

1. [Dallas Fed's Robert Kaplan Was Active Buyer and Seller of Stocks Last Year; Fed Official Who Warned on Real Estate Traded REITs Actively; A timeline of the Federal Reserve's trading scandal; Jerome Powell Sold More Than a Million Dollars of Stock as the Market Was Tanking; Fed Ethics Office Warned Officials to Curb Unnecessary Trading During Rescue](#)
2. <https://www.federalreserve.gov/newsevents/pressreleases/other20211021b.htm>.