

United States Senate

WASHINGTON, DC 20510

February 14, 2025

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

Dear Chair Powell:

We write regarding what appears to be your ongoing refusal to hold Federal Reserve (Fed) officials accountable for violations of the Fed's Investment and Trading Policy and the Financial Disclosure Rules. On September 4, 2024, Federal Reserve Inspector General (IG) Mark Bialek forwarded you a report revealing hundreds of improper trade violations over a five-year period by Dr. Raphael Bostic, president of the Federal Reserve Bank of Atlanta (FRB Atlanta). Dr. Bostic is just the latest in a series of Fed officials that have been involved in what is now a four-year old Fed trading scandal. The IG referred the matter to you and the other members of the Board five months ago, but there has been no public indication that you have held Dr. Bostic accountable for his illicit trades. Given our concerns about the culture of corruption that has arisen at the Fed while you have been Chair, we again urge you to adopt a stronger ethics policy and take all appropriate measures to hold Fed officials accountable for violations of key Fed ethics rules and the public trust.

The Fed IG's New Report Reveals Hundreds of Prohibited Trades by FRB Atlanta President Dr. Raphael Bostic

This past September, the Fed IG released an investigation detailing egregious violations of Fed rules and policies by Dr Bostic. These policies prohibit trading activities under certain circumstances in which a Fed official may be acting or appear to be acting on a conflict of interest. The Fed IG revealed that, over a five-year period, Dr. Bostic repeatedly violated Federal Open Market Committee (FOMC) blackout rules, Reserve Bank disclosure statement policies, Reserve Bank prohibited holdings policies, and the FOMC trading preclearance rule.¹

- 1. Dr. Bostic violated the FOMC blackout rule 154 times during multiple blackout periods.*

At the Fed, it is prohibited for employees with knowledge of Class I FOMC information to engage in financial transactions the timing of which "could create the appearance of acting on

¹ Office of Inspector General, "REPORT OF INVESTIGATION," September 4, 2024, P. 2, <https://oig.federalreserve.gov/releases/investigation-closing-frb-atlanta-trading.pdf>.

inside information.”² This may include trading during an FOMC blackout period, or holding any security for less than 30 days.³

According to the IG, between 2017-2022, Dr. Bostic violated the FOMC blackout rule 154 times by allowing trades to be executed on his behalf during blackout periods. Alarming, nearly half of these transactions occurred between March 24, 2020-April 29, 2020, during a time when the Fed was helping set key policies in response to the beginning of the COVID-19 pandemic in the U.S.⁴ During this period, FRB employees were urged to observe a voluntary blackout period, in order to avoid an appearance of a conflict of interest—a directive that Dr. Bostic entirely ignored.⁵ Indeed, on March 23, 2020, the FRB Atlanta Legal Department sent a message to FRB Atlanta senior staff, including Dr. Bostic, urging employees to consider observing a trading blackout and avoid making unnecessary securities transactions for at least the next several months. Yet, in just the ensuing month, 60 transactions were executed on behalf of Dr. Bostic and in violation of the FOMC blackout rule.⁶

Dr. Bostic tried to obfuscate his role in these violations of FOMC rules by claiming that his assets were managed by a third party—and thus were not subject to Fed rules and policies.⁷ But the IG found that Dr. Bostic intentionally destroyed evidence of and avoided knowledge of these trades, “shredd[ing] his monthly hard-copy statements that contained information about trades made on his behalf and only access[ing] his online statements for year-end reporting purposes.”⁸ The IG reported that Dr. Bostic actively “avoided...opportunities to prevent trades being executed on his behalf during FOMC blackout periods”⁹ and, because he had access to monthly trading statements (both in hard copy and online), “he could have identified trading violations continuously throughout his tenure.”¹⁰

2. *Dr. Bostic violated Reserve Bank disclosure statement policies, omitting hundreds of transactions from his disclosures between June 28, 2018 and October 14, 2022.*

Reserve Bank disclosure statement policies require Reserve Bank presidents to file a financial disclosure statement, or “Form A,” in order to keep tabs on whether FRB employees have engaged in any activity that might constitute a conflict of interest or a violation of Reserve Bank policy.¹¹ Since joining FRB Atlanta in 2017, Dr. Bostic filed a Form A for each calendar year he

² *Id.*, p. 3.

³ *Id.*, p. 4.

⁴ Yale Medicine, “Our Pandemic Year—A COVID-19 Timeline,” Kathy Katella, March 9, 2021, <https://www.yalemedicine.org/news/covid-timeline>.

⁵ New York Times, “A Fed Official’s 2020 Trade Drew Outcry. It Went Further Than First Disclosed,” Jeanna Smialek, January 6, 2022, <https://www.nytimes.com/2022/01/06/business/economy/richard-clarida-fed-stock-fund.html>.

⁶ Office of Inspector General, “REPORT OF INVESTIGATION,” September 4, 2024, p. 8, <https://oig.federalreserve.gov/releases/investigation-closing-frb-atlanta-trading.pdf>.

⁷ *Id.*, p. 7.

⁸ *Id.*, p. 12.

⁹ *Id.*, p. 13.

¹⁰ *Id.*, p. 8.

¹¹ *Id.*, p. 5.

has been in office—yet each of those forms omitted dozens of trades.¹² Indeed, the IG found that Dr. Bostic’s original 2017–2020 Form A, Schedule Bs, contained “only real estate transactions” and omitted securities transactions.¹³ These include 52 undisclosed transactions in 2017, 46 in 2018, 76 in 2019, and a record high—114—in 2020. Dr. Bostic’s 2021 Form A was missing another 17 transactions, and his 2022 Form A contained errors.¹⁴

Dr. Bostic’s disclosure policy violations further undermine his claims to have been unaware of violating FOMC blackout periods: if Dr. Bostic had accurately reported his transactions on his annual Form As, he would have been able to identify prohibited trades made during FOMC blackout trades, as discussed in the previous section.¹⁵ Furthermore, despite being given the opportunity to correct his annual disclosure forms for 2017-2020 in 2022, Dr. Bostic still failed to report three transactions—further highlighting his negligence regarding important Reserve Bank rules and policies put in place to hold FRB officials accountable to the public and prevent conflicts of interest.¹⁶

3. *Dr. Bostic violated Reserve Bank prohibited holdings policies for nearly one year straight by holding U.S. Treasury bonds in excess of the \$50,000 threshold.*

Until 2022, Reserve Bank presidents were prohibited from holding more than \$50,000 in U.S. Treasury bonds or notes, including shares of mutual funds whose investments are concentrated in such bonds or notes.¹⁷ The Investment and Trading Policy, adopted in February 2022, superseded that threshold by prohibiting FOMC officials from holding US Treasury bonds entirely.¹⁸

But the IG found that, for nearly one year straight—from June 11, 2021, to June 9, 2022—Dr. Bostic’s and his spouse’s aggregate holdings exceeded the \$50,000 limit described in the Federal Reserve Administrative Manual.¹⁹ The Board designated agency ethics official (DAEO) even notified Dr. Bostic that he and his spouse had exceeded the \$50,000 limit and advised him to divest these holdings pursuant to the Investment and Trading Policy prohibition on owning any amount of U.S. Treasury bonds or notes or funds concentrated in such bonds or notes.²⁰ But Dr. Bostic did not divest these holdings until June 9, 2022.²¹

4. *Dr. Bostic violated the FOMC trading preclearance rule by executing trades that he did not receive pre-approval for on multiple occasions.*²²

¹² *Id.*

¹³ *Id.*, p. 13.

¹⁴ *Id.*, pp. 14-15.

¹⁵ *Id.*, p. 13.

¹⁶ *Id.*, p. 14.

¹⁷ *Id.*, p. 6.

¹⁸ *Id.*, p. 6.

¹⁹ *Id.*, p. 15.

²⁰ *Id.*, p. 15.

²¹ *Id.* p. 15.

²² *Id.*, p. 16.

The *Investment and Trading Policy* requires Reserve Bank presidents to provide 45-days’ notice to the DAEO before they purchase or sell any security.²³ This notice must identify the specific security, the amount or value of the security that will be traded, and the trade date window.²⁴ Yet, on December 30, 2022, the OIG received a referral from the Board Ethics Program regarding violations of the trading preclearance system by Dr. Bostic. The referral alleged that 3 out of 24 of the trades that Dr. Bostic had submitted to the preclearance system “were not executed as originally submitted.”²⁵ Likewise, in January 2024—while the OIG’s investigation was well underway and Dr. Bostic was surely aware of the scrutiny surrounding his trading activities, Dr. Bostic submitted a trade in the preclearance system to purchase \$2,370 in shares of a mutual fund.²⁶ Instead, his brokerage firm executed a purchase of \$39,792.30 in shares of the mutual fund—a much larger trade than the one he originally submitted for approval.²⁷

The Fed IG Failed to Hold Dr. Bostic Fully Accountable, Referring the Matter to the Board

Although the Fed IG found a staggering quantity of evidence indicating that Dr. Bostic violated Fed rules and policies dozens of times, including the FOMC blackout rules, Reserve Bank disclosure statement policies, Reserve Bank prohibited holdings policies, and the FOMC trading preclearance rule,²⁸ the IG failed to hold him accountable. The IG swept the findings of his own investigation under the rug, concluding that he “did not find any evidence that Dr. Bostic’s trades were based on confidential FOMC information,” and inexplicably concluded that Dr. Bostic “did not have financial conflicts of interests.”²⁹ This has become a disturbing pattern by the Fed IG reports, who in several previous reports identified improper trading activities by other high-ranking Fed officials—including accounts held by you—but repeatedly did nothing to hold them accountable.³⁰

The OIG’s investigation revealed undeniable, egregious, and repeated violations of Fed ethics rules, and concluded that “Dr. Bostic created an “appearance of acting on confidential FOMC information” under the FOMC blackout rule and an “appearance of a conflict of interest” that could cause a reasonable person to question Dr. Bostic’s impartiality under FRB Atlanta’s code of conduct.” The IG closed the investigation without providing any recommendations for holding Dr. Bostic accountable, instead “referring the matter to the Board for any further action as they deem appropriate.”³¹

The failure by the IG to fully hold Dr. Bostic accountable is another clear example of why the Fed needs an independent IG. This is why we introduced S. 915, a bill that would require the Fed

²³ *Id.*, p. 6.

²⁴ *Id.*

²⁵ *Id.*, p. 16.

²⁶ *Id.*, p. 17.

²⁷ *Id.*

²⁸ *Id.*, p. 2.

²⁹ *Id.*, p. 3.

³⁰ Letter from Senators Warren and Scott to Fed IG Mark Bialek, March 6, 2024, <https://www.warren.senate.gov/imo/media/doc/2024.03.05%20Letter%20to%20Fed%20IG%20Mark%20Bialek%20re.%202024%20report.pdf>.

³¹ Office of Inspector General, “REPORT OF INVESTIGATION,” September 4, 2024, p. 18, <https://oig.federalreserve.gov/releases/investigation-closing-frb-atlanta-trading.pdf>.

IG to be appointed by the President and confirmed by the Senate,³² ensuring that the IG is a truly independent watchdog.

There Is No Indication That the Board Has Held Dr Bostic Accountable

This is far from the first time Fed officials have been caught breaking Fed ethics rules. In January 2024, the Fed IG produced a report finding suspicious trades made in 2020 by Fed Presidents Robert Kaplan and Eric Rosengren.³³ That report followed a 2022 IG report investigating trades by yourself and your then-Vice Chair Richard Clarida during the same time period.³⁴ As these scandals emerged, the Fed in February 2022 adopted new rules for investments and trading activity of senior officials, but these changes did little to uproot the culture of corruption at the Fed, and the Fed IG's April 2023 evaluation of the rules indicated they did not cover enough senior staff, were not strong enough, and were not being effectively enforced—a trifecta of failure.³⁵

In its April 2023 report, the IG identified six recommendations for the Board to enhance FOMC investment and trading rules and internal Board disclosure review processes to better determine and enforce consequences for ethics violations by Fed officials.³⁶ In a letter to the IG on April 19, 2023, you agreed to implement all six of these recommendations.³⁷ But over a year later, the OIG listed three of these recommendations as “open”—meaning they had still not been fully reviewed or implemented.³⁸ And several of those that the Board did address appeared to be insufficient.³⁹

In what appeared to be an effort to address the IG concerns, the Board approved the new *Policy for Addressing Covered Reserve Bank Employee Material Violations of the Investment &*

³² Senator Warren, Press Release, “Warren, Scott Lead Bipartisan Legislation to Establish Independent IG Oversight at the Federal Reserve,” press release, March 22, 2023, <https://www.warren.senate.gov/newsroom/pressreleases/warren-scott-lead-bipartisan-legislation-to-establish-independent-ig-oversight-at-the-federal-reserve>; 5 U.S.C. App. § 12(2).

³³ Letter from Senators Warren and Scott to Fed IG Mark Bialek, March 6, 2024, <https://www.warren.senate.gov/imo/media/doc/2024.03.05%20Letter%20to%20Fed%20IG%20Mark%20Bialek%20re.%202024%20report.pdf>.

³⁴ Memorandum from Inspector General Mark Bialek to The Honorable Jerome Powell, July 11, 2022, <https://oig.federalreserve.gov/releases/board-closing-trading-activity-jul2022.pdf>.

³⁵ Letter from Senator Warren to Fed IG Mark Bialek, May 16, 2023, pp. 1-2, <https://www.warren.senate.gov/imo/media/doc/2023.05.16%20Letter%20to%20FED%20IG%20re%20April%202023%20review%20of%20Fed%20ethics%20rules1.pdf>.

³⁶ Office of Inspector General, “The Board Can Further Enhance the Design and Effectiveness of the FOMC’s Investment and Trading Rules, April 26, 2023, <https://oig.federalreserve.gov/reports/board-FOMC-investment-trading-rules-apr2023.pdf>.

³⁷ Office of Inspector General, “The Board Can Further Enhance the Design and Effectiveness of the FOMC’s Investment and Trading Rules, OIG Report 2023-SR-B-006, April 26, 2023, pp. 28-30, <https://oig.federalreserve.gov/reports/board-FOMC-investment-trading-rules-apr2023.pdf>.

³⁸ Electronic mail from the Office of the Federal Reserve Inspector General to the Office of Senator Elizabeth Warren, May 7, 2024, [Document is on file with the Office of Senator Elizabeth Warren].

³⁹ Letter from Senators Warren and Scott to Chair Powell, June 10, 2024, https://www.warren.senate.gov/imo/media/doc/re-updated_final_-_warren_scott_letter_to_powell_repolicyforaddressingcoveredreservebankemployeematerialviolationsoftheinvestmენტtradingpolicyandfinancialdisclosure.pdf.

Trading Policy and Financial Disclosure Rules in April 2024.⁴⁰ We were critical of this policy: it lacks the safeguards needed to prevent trading scandals, or provide accountability for Fed officials that engage in prohibited trading activity. It fails to establish—or even recommend—any specific penalties for ethics violations. It leaves the decision of whether to punish a violator up to the Chair and the Board itself—a self-policing approach that makes a mockery of independent review. And it does not apply to you or your fellow Board members—meaning there is still no mechanism in place to ensure Board members are held accountable for violations of Fed rules and abuse of the public trust.

In June 2024, we wrote to you asking that you repeal this failed approach and replace it with an effective, enforceable policy that prevents illicit trading by reserve bank officials.⁴¹ But you refused to adopt stronger measures, writing in response that your new enforcement policy “provides the Board with a strong framework for imposing appropriate penalties as needed in response to the specific facts presented by future ethics violations.”⁴²

The Fed Chair and Board Must Hold Ethics Violators Accountable and Enact Policy Reforms to Prevent Future Violations

The IG left it in the Board’s hands to hold Dr. Bostic accountable for his multiple, egregious violations of Fed trading rules. But there has been no public indication that the Board has taken any action whatsoever. This is deeply troubling—suggesting that you appear to be doing nothing to address the culture of corruption that has arisen under your watch.

Your own policy describes the tools available to the Board:

The Board has broad authority to redress violations of these policies by Covered Reserve Bank employees. For example, Covered Reserve Bank employees are officers of Reserve Banks, and under section 11 of the Federal Reserve Act (FRA), the Board is authorized to suspend or remove any officer of a Reserve Bank. 12 U.S.C. § 248(f). In addition, under section 4 of the FRA, the Board must approve the pay of Reserve Bank employees (12 U.S.C. § 307), and under section 11 of the FRA, may exercise general supervision over Reserve Banks (12 U.S.C. § 248(j)). These authorities provide the Board with the ability to take a wide range of actions to respond to material violations of the Investment & Trading Policy and Financial Disclosure Rules by Covered Reserve Bank employees.⁴³

⁴⁰ Federal Reserve, “Policy for Addressing Covered Reserve Bank Employee Material Violations of the Investment & Trading Policy and Financial Disclosure Rules,” <https://www.federalreserve.gov/aboutthefed/files/ethics-enforcement-policy-for-board.pdf>.

⁴¹ Letter from Senators Warren and Scott to Chair Powell, June 10, 2024, https://www.warren.senate.gov/imo/media/doc/re-updated_final_warren_scott_letter_to_powell_repolicyforaddressingcoveredreservebankemployeematerialviolationsoftheinvestmetnttradingpolicyandfinancialdisclosure.pdf.

⁴² Letter from Federal Reserve Chair Powell to Senators Warren and Scott, December 20, 2024, https://www.warren.senate.gov/imo/media/doc/powell_response_letter_policy_for_addressing_covered_reserve_bank_employee_material_violations_of_the_investment_trading_policy_and_financial_disclosure_rules.pdf.

⁴³ 12 U.S.C. § 248(f).

And according to the policy, you are responsible for making the decision about how to hold officials accountable: according to the Ethics policy, “[f]or violations involving a President or First Vice President, the Chair will inform the Chair of the Board of Directors of the relevant Reserve Bank regarding any proposed recommended actions. The Chair will recommend to the Board the appropriate action to take.”⁴⁴

But these rules are only useful if they are enforced—and you appear to be refusing to enforce them. To date – nearly four years after the illicit trading by Dr. Bostic, and five months after you received the IGs report on these trades—there is no public indication that you have either recommended accountability measures for Dr. Bostic or that the Board has approved them.

On multiple occasions, we have raised concerns about the culture of corruption that has arisen under your watch at the Federal Reserve.⁴⁵ The 2020 trading scandals raised public skepticism about the integrity of the Fed decision-making process and its highest-ranking officials. You allowed this culture of corruption to flourish, and were far too slow to put rules in place to address it. When you did establish these rules, they were inadequate. And now it appears that you are refusing to enforce them. These failures represent a stain on your record as Fed Chair, and have damaged the integrity and effectiveness of the Federal Reserve.

We urge you to act quickly to correct these past failures and prevent future scandals. And we also ask that you provide answers to the following questions:

1. Has the Board updated its ethics and trading policies to address the open recommendations identified by the Fed IG in May 2024? If so, what specific policy changes were made and when were they approved?
2. Does the Board now have in place an ethics policy that covers you and other Board members? If so, please provide a copy of this policy.
3. Is Dr. Bostic covered by the April 2024 *Policy for Addressing Covered Reserve Bank Employee Material Violations of the Investment & Trading Policy and Financial Disclosure Rules*?⁴⁶
4. Per that policy, have you provided any recommendations to the Board to hold Dr. Bostic accountable for his illicit trades?

⁴⁴ Federal Reserve, “Policy for Addressing Covered Reserve Bank Employee Material Violations of the Investment & Trading Policy and Financial Disclosure Rules,” p. 3, <https://www.federalreserve.gov/aboutthefed/files/ethics-enforcement-policy-for-board.pdf>.

⁴⁵ Letter from Senator Elizabeth Warren to Federal Reserve Chair Jerome Powell, November 7, 2020, <https://www.warren.senate.gov/download/20221104-letter-to-chair-powell-re-fed-trading-scandal-and-fomc>; <https://www.warren.senate.gov/imo/media/doc/2024.03.05%20Letter%20to%20Fed%20IG%20Mark%20Bialek%20re.%202024%20report.pdf>

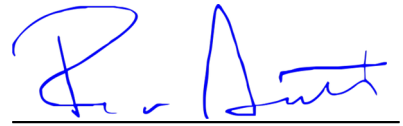
⁴⁶ Federal Reserve, “Policy for Addressing Covered Reserve Bank Employee Material Violations of the Investment & Trading Policy and Financial Disclosure Rules,” <https://www.federalreserve.gov/aboutthefed/files/ethics-enforcement-policy-for-board.pdf>.

5. If so, what were these recommendations?
6. Did the Board approve these recommendations?
7. Has the Board identified any other violations of the April 2024 policy by any covered employee since it was put in place? If so, what actions were taken in response?

Sincerely,



Elizabeth Warren
United States Senator



Rick Scott
United States Senator