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United States Senate
COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS
WASHINGTON, DC 20510-6075

October 4, 2021

The Honorable Gary Gensler
Chair
U.S. Securities and Exchange Commission (SEC)
100 F Street NE
Washington, DC 20549

Dear Chair Gensler:

I am writing to ask that the SEC investigate trading in securities by high-level Federal Reserve officials and determine if any of these ethically questionable transactions may have violated insider trading rules. Last week, reports revealed that Federal Reserve Vice Chair Richard Clarida “traded between \$1 million and \$5 million out of a bond fund into stock funds [in February 2020,] one day before Chair Jerome Powell issued a statement flagging possible policy action as the pandemic worsened.”¹ This new report comes within weeks of disclosures revealing that Robert Kaplan, President of the Federal Reserve Bank of Dallas, “made multiple million-dollar-plus stock trades in 2020,”² and that Eric Rosengren, President of the Federal Reserve Bank of Boston, “listed stakes in four separate real estate investment trusts and disclosed multiple purchases and sales in those and other securities.”³

The reports of this financial activity by Fed officials raise serious questions about possible conflicts of interest and a reveal a disregard for the public trust. They also reflect atrocious judgement by these officials, and an attitude that personal profiteering is more important than the American people’s confidence in the Fed. Mr. Clarida’s financial disclosures, for example, reveal that he is a multi-millionaire. There is no justifiable ethics or financial rationale for him or any other government official to be involved in these questionable market machinations while having access to non-public information and authority over decisions that have extraordinary impacts on markets and the economy. Finally, and most importantly from the perspective of the SEC, if these trades were based on Fed officials’ knowledge of non-public, market moving information, they may have represented potentially illegal activity.

¹ Bloomberg News, “Clarida Traded Into Stocks of Eve of Powell Pandemic Statement,” October 1, 2021, <https://www.bloomberg.com/news/articles/2021-10-01/clarida-traded-into-stocks-on-eve-of-powell-pandemic-statement>.

² Wall Street Journal, Michael S. Derby, “Dallas Fed’s Robert Kaplan Was Active Buyer and Seller of Stocks Last Year,” September 7, 2021, <https://www.wsj.com/articles/dallas-feds-robert-kaplan-was-active-buyer-and-seller-of-stocks-last-year-11631044094>.

³ Bloomberg, “Fed Official Who Warned on Real Estate Was Active REIT Trader,” Craig Torres, Catarina Saraiva, and Steven Matthews, September 8, 2021, <https://www.bloomberg.com/news/articles/2021-09-08/fed-official-who-warned-on-real-estate-was-active-reit-trader?sref=oZtxD6sa>.

It is not clear why Chair Powell did not stop these activities, which corrode the trust and effectiveness of the Fed. The Fed officials' trades clearly run afoul of Fed guidelines stating that officials should "avoid any dealings or other conduct that might convey even an appearance of conflict between their personal interests, the interests of the System, and the public interest."⁴ And, if they involved "purchasing or selling a security while in possession of material nonpublic information"⁵ – which could have been the case given that Fed officials routinely are in possession of such information⁶ – they may have violated SEC's insider trading rules. Such violations may subject individuals to civil penalties of "three times the amount of the profit gained or loss avoided" and criminal penalties up to \$5,000,000 and 20 years imprisonment.⁷

Our nation needs stronger ethics laws, and leaders that are willing to enforce them. That is why I have introduced sweeping ethics legislation, the *Anti-Corruption and Public Integrity Act*.⁸ This legislation would ban individual stock ownership by Members of Congress, Cabinet Secretaries, senior congressional staff, federal judges, White House staff and other senior agency officials while in office. It would prohibit all government officials from holding or trading stock if its value might be influenced by their agency, department, or actions. And it would require senior government officials and White House staff to divest from privately owned assets that could present conflicts. This far-reaching legislation would also tighten conflict of interest and recusal requirements and shut the revolving door between industry and government.

I will continue to work in Congress to pass this legislation into law. In the interim, all federal officials have a responsibility under existing law to address corrupt and illegal behavior within their jurisdiction. The SEC can do its part by undertaking a sweeping review of all securities trades by Federal Reserve officials to determine if they may have violated insider trading laws.

Specifically, I ask that you investigate:

- (1) The extent of trading activity by high-level Federal Reserve officials;
- (2) The timing and rationale for these individuals' trades;
- (3) The extent to which these trades may have been influenced by non-public information in possession of the individuals making the trades;
- (4) Whether these trades may have represented violations of provisions that bar individuals from "purchasing or selling a security while in possession of material nonpublic information."⁹

⁴ Federal Reserve, Voluntary Guide to Conduct for Senior Officials," amended November 2017, <https://www.federalreserve.gov/monetarypolicy/files/fram2-026-1.pdf>.

⁵ Insider Trading Sanctions Act of 1984, Public Law 98-376.

⁶ New York Times, "Fed Officials' Trading Draws Outcry, and Fuels Calls for Accountability," Jeanna Smialek, September 9, 2021, <https://www.nytimes.com/2021/09/09/business/economy/fed-stock-trading.html>.

⁷ 15 U.S.C. 78u-1(aX2); 15 U.S.C. 78ff.

⁸ Senator Elizabeth Warren, *Anti-Corruption and Public Integrity Act of 2020* summary, <https://www.warren.senate.gov/imo/media/doc/Master%20Summary%20of%20Anti%20Corruption%20Act%20of%202020%20-%202012.1.pdf>.

⁹ Insider Trading Sanctions Act of 1984, Public Law 98-376.

Thank you for your attention to these important matters of ethics, public trust, and potentially illegal trading activity.

Sincerely,

A handwritten signature in black ink, appearing to read "Elizabeth Warren", with a long horizontal flourish extending to the right.

Elizabeth Warren
Chair, Senate Banking, Housing, and
Urban Affairs Committee, Subcommittee
on Economic Policy