



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.