

## [Banking and Finance Law Daily Wrap Up, OVERSIGHT AND INVESTIGATION—Senator Warren asks SEC to investigate securities trades by Federal Reserve officials, \(Oct. 5, 2021\)](#)

Banking and Finance Law Daily Wrap Up

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By Nicole D. Prysby, J.D.

Senator Warren asked the SEC to investigate securities trades, including transactions by a Federal Reserve Vice Chair, who reportedly traded \$1–\$5 million one day before the Fed issued a statement flagging possible policy action as the pandemic worsened.

Senator Elizabeth Warren (D-Mass), Chair of the Senate Banking, Housing, and Urban Affairs Subcommittee on Economic Policy, [announced](#) that she has called on the U.S. Securities and Exchange Commission (SEC) to investigate transactions made by Federal Reserve officials to determine whether they may have violated insider trading rules. On Oct. 4, 2021, Sen. Warren sent a letter to Gary Gensler, the Chair of the SEC, [asking](#) him to investigate the extent of trading activity by high-level Federal Reserve officials; the timing and rationale for these individuals' trades; the extent to which these trades may have been influenced by non-public information in possession of the individuals making the trades; and 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.

Warren explained that her letter was prompted by a report that revealed 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 the Federal Reserve Board of Governors Chair Jerome Powell issued a statement flagging possible policy action as the pandemic worsened.

Senator Warren's letter to Gensler asks the SEC to investigate trading in securities by high-level Federal Reserve officials and to determine whether any of the transactions violated insider trading rules. "The reports of this financial activity by Fed officials raise serious questions about possible conflicts of interest and reveal a disregard for the public trust. They also reflect atrocious judgment 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," wrote Senator Warren.

Warren stated that if the trades are confirmed, they "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." In addition, if the transactions involved purchasing or selling a security while in possession of material nonpublic information, they may have violated the SEC's insider trading rules, she wrote.

The letter reiterates Senator Warren's commitment to more stringent ethics rules. She introduced ethics legislation, the Anti-Corruption and Public Integrity Act, which 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.

As previously reported (see [Banking and Finance Law Daily](#), Sept. 28, 2021), Warren recently called on the 12 regional Federal Reserve Bank presidents to adopt stricter ethics rules that prohibit individual stock trading by them and their staff, following reports that Dallas Fed President Robert Kaplan made multiple million-dollar-plus stock trades in 2020 involving 22 individual company shares or investment funds, and that Boston Fed President Eric Rosengren listed stakes in real estate investment trusts and disclosed multiple purchases and sales in those and other securities. Less than two weeks after Warren's call for stricter ethics rules, Kaplan and Rosengren announced their early retirements.

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