

Fed Watchdog to Investigate

WASHINGTON (AP) — An independent investigator will look into whether Federal Reserve officials broke the law with financial trades last year that have come under congressional scrutiny and sharp criticism from outside the central bank.

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The Federal Reserve's Office of the Inspector General will investigate "whether trading activity by certain senior officials was in compliance with both the relevant ethics rules and the law," the Fed said Monday. The inspector general is an independent agency.

"We welcome this review," the central bank said, "and will accept and take appropriate actions based on its findings."

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Last week, regional Federal Reserve bank presidents Robert Kaplan and Eric Rosengren stepped down in the wake of revelations that they engaged in extensive trading in 2020. The trading took place as the Fed was cutting its short-term interest rate to nearly zero and buying trillions of dollars of bonds to stabilize financial markets and boost the economy in the early weeks of the pandemic. Both bank presidents stood to potentially benefit financially from the actions.

Political Cartoons

Kaplan, the former president of the Dallas Federal Reserve Bank and a former partner at Goldman Sachs, traded millions of dollars of stock in 22 companies last year, including Apple, Facebook, and Chevron. Rosengren, formerly the president of the Boston Fed, invested in real estate funds that owned mortgage-backed bonds of the same type the Fed itself started buying last year.

On Friday, Bloomberg News reported that Fed Vice Chair Richard Clarida sold between \$1 million and \$5 million of shares in a bond fund and purchased shares in two stock funds on Feb. 27, 2020, according to financial disclosure forms that only give dollar amounts in ranges. The trades occurred a day before the Fed issued a statement saying it was "closely monitoring" the emerging pandemic and its economic impact. The Fed cut its benchmark interest rate just a few days later.

Earlier Monday, Democratic Sen. Elizabeth Warren urged the Securities and Exchange Commission to investigate the investments by all three officials and whether they 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,” the Massachusetts senator wrote. “They also reflect atrocious judgement by these officials.”

Both Rosengren and Kaplan said their trades did not violate the Fed's rules. Yet the Fed's ethics guidelines, which are similar to those for other government officials, restrict trading that raises the appearance of a conflict of interest. Clarida has not commented on his trades.

All three officials have been participants in the Fed's debates about whether to raise or lower interest rates or take other steps to influence the economy. They have also been privy to a tremendous amount of data tracked and analyzed by Fed economists, and their public comments can move markets.

Clarida was appointed to the Fed by President Donald Trump in 2018. Before that he worked for 12 years at PIMCO, an investment management firm that specializes in fixed income. He was promoted to managing director at PIMCO in 2015. Rosengren spent most of his career at the Boston Fed.

Fed Chair Jerome Powell said during a congressional hearing last week that the trades by Rosengren and Kaplan seemed to be “in compliance with the existing rules,” which “just tells you that the problem is that the rules and the practices and the disclosure needs to be improved and that’s what we’re working on.”