Title: Senators on Senate Banking Committee Accuse Fed Chair Powell of Hampering Trading Scandal

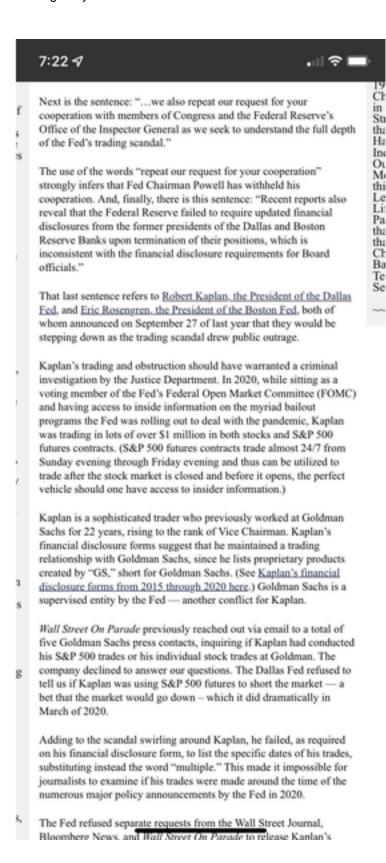
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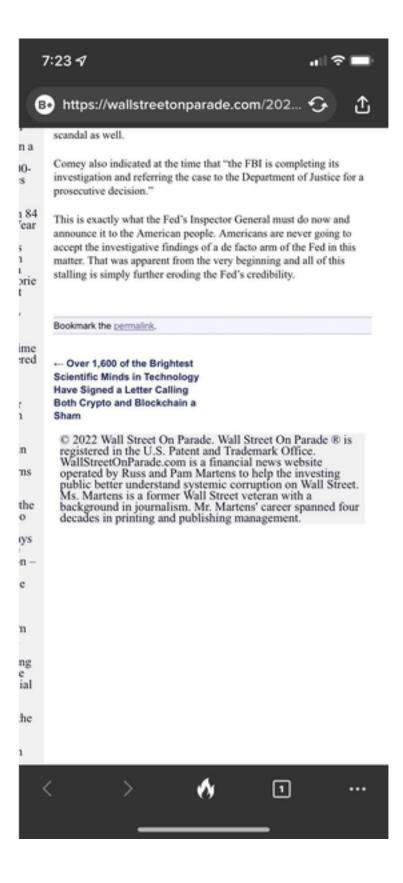
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and played a very constructive role in Systemwide management, budget and technology efforts. We wish him well."

Given the known facts at the time, this statement was a dereliction of duty by Powell and could be seen as prejudicing any future investigation. (Senator Elizabeth Warren has called Powell "a dangerous man" and refused to vote in favor of his nomination to serve a second four-year term as Fed Chair. He began that new term on May 23.)

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In addition to Kaplan's potential for insider trading as a voting member of the FOMC in 2020, Wall Street On Parade also found that Kaplan was, himself, making bold, market-moving statements to the media during the 2020 financial crisis, which should also be investigated for potential insider-trading.

Fed Chair Powell's own trading has also come under scrutiny. On October 18, Robert Kuttner at the American Prospect, broke the news that Fed Chairman Jerome Powell had sold between \$1 million and \$5 million of the Vanguard Total Stock Market Index Fund on October 1, 2020, the same day that Powell had been on four phone calls with then Treasury Secretary Steve Mnuchin, who was coordinating the White House response to the ongoing financial crisis from the pandemic.

On Monday of this week we emailed the press contact at the Fed's Inspector General, asking for an update on the investigation. The response we received was "No comment."

Unlike the Inspector General of the U.S. Department of Justice, as well as more than 30 other Federal agencies, the Inspector General of the Federal Reserve is not nominated by the President of the United States and confirmed by the U.S. Senate. Instead, the Inspector General of the Federal Reserve is appointed by the "head" of the Federal Reserve Board of Governors; he reports to the Fed Board of Governors; and he can be terminated by the Fed's Board of Governors with a two-thirds vote.

While it is customary for federal law enforcement agencies to decline comment on ongoing investigations or investigations that have been closed with no findings of wrongdoing, exceptions are made where the matter is of major public interest and the reputation of an important institution is involved. (Recall that on July 5, 2016, FBI Director James Comey released information on the FBI's investigation of Hillary Clinton's use of a private email server, stating: "This will be an unusual statement in at least a couple ways. First, I am going to include more detail about our process than I ordinarily would, because I think the American people deserve those details in a case of intense public interest."

"Intense public interest" are the operative words for the Fed's trading scandal as well.

Comey also indicated at the time that "the FBI is completing its investigation and referring the case to the Department of Justice for a



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## Senators on Senate Banking Committee Accuse Fed Chair Powell of Hampering Trading Scandal Investigation

By Pam Martens and Russ Martens: July 14, 2022 ~

This month marks the 10th month since the worst insider trading scandal in the 109-year history of the Fed made media headlines.

Yesterday, Senator Sherrod Brown, the Chair of the Senate Banking Committee, along with two of his fellow Senators on that Committee (Jon Ossoff and Raphael Warnock) and two additional Senators who do not serve on that Committee (Jeff Merkley and Kirsten Gillibrand) sent a stunning letter to Federal Reserve Chairman Jerome Powell.



The overall thrust of the letter suggested that the Fed had attempted to quiet public outrage over the Fed's trading scandal by issuing new trading conduct rules for Fed officials but had failed to put the force of law behind those rules or set up a proper chain of command.

But three sentences in the letter also strongly suggest that the Fed Chairman is actually hampering the investigation of the trading scandal, which was referred by Powell to the Federal Reserve's Inspector General rather than to the Securities and Exchange Commission or Department of Justice, which should be involved in any serious insider trading investigation.

Those three sentences read as follows: "Additionally, we are disappointed that the Federal Reserve has refused to provide additional information regarding the full scope of the trading scandal..." The use of the word, "refused" has a strong aroma of obstruction.

Next is the sentence: "...we also repeat our request for your cooperation with members of Congress and the Federal Reserve's Office of the Inspector General as we seek to understand the full depth





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5. The Fed refused separate requests from the Wall Street Journal, Bloomberg News, and Wall Street On Parade to release Kaplan's trading dates.

Because the financial disclosure form itself mandated that these dates be provided on the form that was released to the public, Wall Street On Parade filed a Freedom of Information Act (FOIA) request for the information on October 12 of last year, asking for expedited treatment since the dates were long past due to the public.

On October 22, we received the following response from Margaret McCloskey Shanks, Chief FOIA Officer for the Fed: "I have determined to grant your request for expedited processing in light of the fact that the topic of your request concerns a matter that has recently been the subject of news reporting. Accordingly, your request will be accorded priority treatment and processed as soon as practicable. By granting expedited treatment, your request will be processed ahead of other FOIA requests."

The mandated turnaround for all FOIA requests to federal agencies is 20 business days. It rationally follows that expedited processing would be less than that. As the calendar was approaching the 20th business day, we asked for an update from the FOIA office. We promptly received a letter indicating that the Fed anticipated being able to provide the information by November 9.

But on November 9, via email, we received a very strange communication, not from Margaret McCloskey Shanks, the Chief FOIA Officer for the Fed, but from the "Information Disclosure Section" of the "Board of Governors of the Federal Reserve System." The letter informed us that: "Pursuant to section (a)(6)(B)(i) of the FOIA, we are extending the period for our response until November 24, 2021, in order to consult with two or more components of the Board having a substantial interest in the determination of the request."

On December 8 we received a new letter from the Fed indicating that "Staff searched Board records and consulted with knowledgeable staff but did not locate any documents responsive to your request."

Clearly, the Fed could have simply demanded that Kaplan turn over the mandated and long-overdue dates of his trades. It did not.

Equally alarming, there is the distinct impression that the "two or more components of the Board" that had "a substantial interest in the determination of the request," quashed it.

Kaplan's scandalous trading had been splashed all over the news by the time he finally agreed to step down on September 27. But instead of Fed Chairman Powell delivering a statement of condemnation, Powell actually delivered a flowery sendoff to Kaplan, stating: "We are grateful for Rob's six years of service as President of the Federal Reserve Bank of Dallas and as a valued colleague in the FOMC. He has been a passionate and forestid public union a wide range of