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## The Fed Just Added Short-Selling and Margin Loans to Its List of Trading Restrictions for Fed Officials – Opening a Big Can of Worms

By Pam Martens and Russ Martens: February 22, 2022 ~

On October 21 of last year, when the Fed [originally announced its list of trading restrictions](#) that it planned to impose on Fed officials, it made no mention of restricting its officials from short-selling (making bets on a decline in price) or preventing Fed officials from [trading on margin](#). But when the Fed [announced its finalized rules last Friday](#), "short sales or purchasing securities on margin" were added to the list of prohibitions.



Federal Reserve Chairman  
Jerome Powell

Why do we find that noteworthy? Because it was *Wall Street On Parade* that asked the Dallas Fed if its President at the time, Robert Kaplan, was shorting the market when he made those "over \$1 million" trades in and out of S&P 500 futures contracts in 2020, a year when the S&P 500 dropped by as much as 30 percent between January 2 and March 23. The Dallas Fed, bizarrely, declined to answer that question. We [wrote at the time](#):

"Adding to alarm bells around Kaplan's trading, the Dallas Fed's communications team declined to provide a yes or no answer to our question as to whether Kaplan shorted the market in 2020. (Shorting means to place a trade that grows in value if the market or security declines in price.)

"If a member of the central bank of the United States shorted the market in 2020, in the midst of an economic and health crisis, it would be interpreted by millions of Americans as betting against the country. There is not a good explanation we can think of for why the Dallas Fed's communications team would not want to get that question quickly disposed of."

Kaplan was a sophisticated trader who previously worked at Goldman Sachs for 22 years, rising to the rank of Vice Chairman. His financial disclosure forms suggest that Kaplan maintained a trading relationship with Goldman Sachs, since he lists proprietary products created by "GS," short for Goldman Sachs. (See [Kaplan's financial disclosure forms from 2015 through 2020 here](#).) Goldman Sachs has been supervised by the Fed since 2008.

There are three typical reasons for an individual to trade S&P 500 futures: (1) the individual thinks he or she can time the market's moves; (2) the individual wants to trade before or after stock exchange hours; (3) the individual wants to make highly leveraged bets on the market's direction, going both long and short.

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Boston Fed President Eric Rosengren's wife had a \$150,000 to \$500,000 "Secured Loan for Investment" with Citigroup's federally-insured bank, Citibank. [Rosengren's financial disclosure form](#) shows that all 68 of his purchases and sells in individual stocks and REITs in 2020 occurred in his joint account with his spouse.

We attempted, via multiple emails, to get the Boston Fed to clarify if the "secured loan for investment" was a margin loan for trading in stocks. We received only ambiguous responses, such as that it was "a secured loan for investment from CitiBank in NY."

We located a 2021 [Citibank document](#) that offers further details on these margin loans. The paper indicates that "Qualified Citi Private Bank clients may be able to borrow at competitive rates against a range of financial assets, including stocks, bonds, cash and cash equivalents, exchange traded REIT shares, structured notes, mutual funds, ETFs, separately managed accounts, and hedge funds. Typically, there are no commitment fees and interest is payable only if the MSBF loan is drawn down."

The document also indicates that Citi Private Bank is part of Citigroup but that "Citibank, N.A. (Citi)" — the federally-insured bank — "will be your lender for this financing...." If it was Citigroup's Private Bank that was providing the investment loan to the Boston Fed President's wife, that should set off more alarm bells. Citigroup's Private Bank has a notorious history of unseemly dealings with foreign heads of state. (See our [report here](#).)

Citigroup is also a supervised entity of the Federal Reserve. Citigroup was the largest recipient of the Fed's bailout facilities during and after the 2008 financial crash, receiving over \$2.5 trillion in secret, cumulative loans according to the Government Accountability Office's (GAO) audit of the bailout facilities. The Federal Reserve is not legally allowed to make loans to insolvent institutions, which Citigroup was for much of that time. The Fed battled in court for more than two years to prevent the public from obtaining this information, along with the [trillions of dollars in cumulative loans](#) it had made to bail out other Wall Street banks and foreign banks. It lost its court battle.

There has been no word from the Department of Justice or the Securities and Exchange Commission as to whether they have opened an investigation into the Fed's trading scandal. Powell has publicly stated that he referred the matter to the Fed's own Inspector General, which reports to the Fed Board of Governors — far from an arm's length investigation. This is the largest trading scandal in the Fed's 109-year history and yet the public is being kept in the dark as the Senate gets ready to give Powell another four years at the helm of the Fed.

Until the American people demand better from Congress, this is the form of crony capitalism we will all live under.

Ran Kaplan was a voting member of the Fed's Federal Open Market Committee (FOMC) in 2020, where he had access to market-moving information throughout the unprecedented first year of the pandemic. There was no good reason for a man in this position to be trading in S&P 500 futures for his own account.

And yet, Jerome Powell, the Fed Chair at the time and President Biden's current nominee for a second term as Fed Chair, [said this when Kaplan stepped down](#) as a result of the fallout from the trading scandal on September 27 of last year:

"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 forceful public voice on a wide range of issues, including the critical value of early childhood education and literacy. In addition, he strengthened the Bank's economic research and played a very constructive role in Systemwide management, budget and technology efforts. We wish him well."

Drawing further suspicions around Kaplan, he failed to comply with the Fed's official financial disclosure rules to list the dates of his trades. Instead of listing the individual date for each purchase and each sale, he substituted the word "Multiple." That eliminated the ability to detect a short sale as well as the ability to determine how many millions of dollars (or tens of millions of dollars) Kaplan had invested in his S&P 500 bets.

*Wall Street On Parade* attempted to get Kaplan's trading dates from the Dallas Fed. They refused. We then filed a Freedom of Information Act (FOIA) request with the Federal Reserve Board of Governors in Washington, D.C. At first, we were told that our request would be given "expedited" treatment. Then we were told that a response from the Fed to our request was being held up because "two or more components of the Board" had a "substantial interest in the determination of the request."

On December 8 we received a 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."

*Wall Street On Parade* was not the only news outlet unable to obtain Kaplan's trading dates that were legally required to be released. The Wall Street Journal reported that it had tried and failed. Senator Elizabeth Warren's office tried and failed to obtain them from Powell. On January 26 of this year, at Jerome Powell's press conference following the FOMC meeting, Bloomberg News reporter Craig Torres had this exchange with Powell:

**Torres:** "Chair Powell, I have a quick administrative question. You know, Robert Kaplan's disclosure of his securities transactions: In a couple of months, Chair Powell, or maybe sooner, you and I will file our tax returns. And we'll list transactions and all kinds of things. And next to those

Gpop just Tweeted:

<https://t.co/E11oX1j1tR>



of Mr. Kaplan's transactions. The Dallas Fed is not giving us the dates. And I don't see why this is a matter for the Inspector General or anybody else. I mean, why can't he give us the dates? Will you help us get the dates of those transactions? Thanks."

**Powell:** "I know you've been all over this issue with my colleagues, Craig, on the issue of information. We don't have that information at the Board. And, you know, I had — I asked the Inspector General to do an investigation, and that is out of my hands. I'm playing no role in it. I seek to play no role in it. And I don't — I really — I can't help you here today on this issue. And I'm sorry I can't."

Powell's response ignores the fact that Kaplan's trading dates were legally required to be provided on his financial disclosure forms from 2015 through 2020 and weren't. That's public information that Kaplan failed to provide. It's long overdue to the public. Having that information before the Senate votes to confirm Powell for another four years as Fed Chairman would allow the public to decide just how incompetently the Fed was being run under Powell.

If Powell is telling the truth and the Federal Reserve Board of Governors allowed Kaplan to trade S&P 500 futures in "over \$1 million" trades from 2015 through 2020 without ever inquiring about the dates of the trades or the precise dollar amounts or whether he was shorting the market, then the Fed — at best — appears incompetent at supervising its own officials. How can it be trusted to supervise the largest megabanks on Wall Street?

On January 21, 2021, the Federal Reserve Board of Governors announced that it had given its approval for the reappointment of the Presidents of all 12 Federal Reserve Banks for a new five-year term. That included Dallas Fed President Robert Kaplan. The [Fed's press release](#) said that "the eligible Reserve Bank directors, with significant input from the Board of Governors and key stakeholders, have conducted a rigorous process to inform their reappointment decisions."

Any "rigorous process" of vetting these Fed Bank Presidents should have included a review of their trading records. In any "rigorous process," Kaplan's trades in S&P 500 futures should have resulted in his immediate termination from the Dallas Fed. Instead, Kaplan was allowed to engage in these S&P 500 trades in every year from 2015 through 2020.

The fact that the Fed has also restricted Fed officials from using margin accounts may relate to Kaplan as well as to Eric Rosengren, the former President of the Boston Fed who stepped down on the same day as Kaplan — September 27, 2021.

Boston Fed President Eric Rosengren's wife had a \$150,000 to \$500,000 "Secured Loan for Investment" with Citigroup's federally-insured bank, Citibank. [Rosengren's financial disclosure form](#) shows that all 60 of his purchases and calls in individual stocks and ETFs in