

## **Investment and Trading Policy for FOMC Officials: Frequently Asked Questions (“FAQs”)**

FAQs issued April 15, 2022

The following FAQs provide clarification and guidance on the [Investment and Trading Policy for FOMC Officials](#) (“the Policy”), which requires senior Federal Reserve officials to comply with stringent investment and trading rules. Please contact Board or Reserve Bank ethics staff with questions about the Policy and these FAQs.

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*I. Effective date*

**1. When is the effective date of the Policy?**

The effective date is May 1, 2022, except that section 4(c) of the Policy, which covers the advance notice and pre-clearance requirements, does not become effective until July 1, 2022.

**2. Can I make trades before July 1, 2022?**

There is no prohibition against making trades before July 1, 2022, provided those trades are not made on the basis of nonpublic information, do not occur during FOMC trading blackout periods, and comply with all other applicable ethics rules (e.g., prohibition on holding equity positions in banks or primary dealers, or shares of financial services sector funds).

**3. On the effective date, are all covered individuals' investments as of that date deemed to have been held for a year?**

No. On May 1, 2022, the length of time a covered individual (or their spouse or minor child) has held an asset is based on the asset's original purchase date.

Examples:

- Covered individual A bought shares in a diversified mutual fund on December 1, 2021. On the May 1 effective date, covered individual A will have been deemed to have held those shares for 5 months. Covered individual A cannot sell those shares in the mutual fund until December 1, 2022.
- Covered individual B bought equity securities in an individual company on May 15, 2021. Covered individual B will be permitted to retain ownership in those securities on the effective date. On the May 1 effective date, covered individual B will be deemed to have held the shares for 11 months and 15 days. Covered individual B may sell the shares on or after May 15, 2022.

**4. When do I need to begin providing advance notice and obtaining pre-clearance of proposed trades?**

Section 4(c) of the Policy, which covers the advance notice and pre-clearance requirements, becomes effective July 1, 2022. At that time, covered individuals will be required to provide advance notice of trades and obtain pre-clearance before executing a trade.

**5. Will Ethics staff offer voluntary pre-clearance of trades before July 1, 2022?**

No. Ethics staff are setting up systems to process such requests and do not anticipate the systems will be available before July 1, 2022.

**6. Will I be able to execute trades in the 45-day period after July 1, 2022?**

July 1 is the first date on which covered individuals can submit advance notices, which must be submitted 45 days before a trade is executed. As a result, from July 1 to August 15, 2022, covered individuals will not be able to engage in any trades that do not fall into an exception in section 4(g) or (h) of the Policy, unless the covered individual obtains a waiver.

*II. Transition periods and divestitures*

**7. How does the Policy apply to a covered individual's existing assets as of the effective date?**

Whether a covered individual (or their spouse or minor child) may keep an asset depends on whether the asset is permissible under the Policy. Covered individuals must divest impermissible assets under section 3 of the Policy. Retention of existing holdings of individual equity securities and sector funds is permitted under section 4(a) of the Policy, but new purchases of individual equity securities and sector funds are not permitted.

**8. How long do I have to divest impermissible assets under the Policy?**

If you are a covered individual on the Policy's effective date of May 1, 2022, you have until May 1, 2023, to dispose of all impermissible assets. If you become a covered individual after May 1, 2022, you have six months after the date on which you become a covered individual to dispose of impermissible assets.

If a covered individual acquires, on or after May 1, 2022, an impermissible investment through gift, inheritance, merger, acquisition, or other change in corporate structure, or otherwise without specific intent to acquire the investment, the covered individual has six months from the date of acquisition to dispose of the investment.

**9. Do the divestiture periods under the Policy affect divestiture requirements and time periods under other applicable ethics policies?**

No. For example, Board members' ethics agreements, the Board's supplemental rules of ethical conduct, and the Reserve Banks' Code of Conduct may require divestiture of certain assets—like bank stocks—upon entering a covered position, or within 90 days. This Policy does not alter any of those divestiture requirements and time periods.

**10. How does the Policy treat inheritances that occur after the effective date?**

Whether a covered individual (or their spouse or minor child) may keep inherited assets depends on whether the underlying assets are permissible under the Policy.

Section 3(d)(2)(i) requires a covered individual (or their spouse or minor child) to divest inherited assets that are impermissible under section 3 of the Policy—such as debt securities or Treasury bonds—within 6 months of acquisition. Section 3(d)(2)(i) does not apply, however, to inherited individual equity securities or sector funds. If a

covered individual (or their spouse or minor child) inherits an individual equity security or sector fund, the covered individual (or their spouse or minor child) is not required to divest the asset because section 4(a) of the Policy only prohibits purchases of individual equity securities or sector funds after May 1, 2022. Inheriting an asset is not a purchase of an asset.

Example: A person becomes a covered individual on May 6, 2022. On June 1, 2022, following the death of the covered individual's father, the covered individual inherits a portfolio of equity securities and debt securities issued by Company A. The covered individual has 6 months (until December 1, 2022) to divest the debt securities of Company A. The covered individual is not required to divest the equity securities of Company A, as they are not impermissible holdings under section 3 of the Policy. The covered individual may keep the inherited equity securities of Company A but is prohibited from purchasing additional shares in Company A under section 4(a) of the Policy.

**11. When is an asset considered “acquired” in the context of inheritance or other situations where a covered individual does not have specific intent to acquire an asset?**

A covered individual has “acquired” an asset under section 3(d)(2)(i) once the individual has control over the asset.

*III. Interaction with other ethics requirements*

**12. How does the Policy interact with other ethics requirements?**

Section 1 of the Policy provides that covered individuals must continue to comply with other applicable ethics laws, rules, or policies. Assets that are otherwise permissible under the Policy nevertheless may be prohibited under other ethics rules (e.g., existing holdings of equity in banks or primary dealers, or shares of financial services sector funds) or require recusals. Covered individuals are responsible for understanding their obligations under other ethics requirements.

*IV. Spouses and children*

**13. How does the Policy define “minor child”?**

Minor child means a child of a covered individual who is defined as a minor under state law (generally under 18 years old).

**14. How does the Policy define “spouse”?**

Consistent with Office of Government Ethics financial disclosure guidance, spouse means an individual to whom a covered individual is legally married. It does not include an individual with whom a covered individual is in a civil union, domestic partnership, or any other relationship other than marriage.

**15. What happens if I anticipate changes in my marital status?**

If you are planning to get married, please review the Policy, these FAQs, and your future spouse’s financial interests to ensure that you are able to comply with the requirements of the Policy.

If you are living apart from your spouse with the intention of ending the marriage or permanently separating, you should promptly notify, in writing (e.g., via email) the Board’s Designated Agency Ethics Official, and if applicable, the Reserve Bank ethics official, of these circumstances. Individuals living apart from a spouse with the intention of ending the marriage or permanently separating, or those that are already permanently separated, are not required to report any financial interests solely owned by the spouse, or transactions that are solely initiated by the spouse. If you jointly own assets with your spouse—or anyone else—and you plan to initiate securities transactions involving those assets, the Policy’s advance notice and pre-clearance requirements apply to those transactions.

**16. If a covered individual marries after the effective date, what divestiture period applies?**

A covered individual who is newly married has six months after the date of marriage to conform their spouse’s assets to the Policy.

*V. Agency securities, real estate investment trusts (“REITs”), and real estate*

**17. What are “agency securities”?**

The Policy defines an agency security as an obligation that is a direct obligation of, or is fully guaranteed as to principal and interest by, any agency of the United States, including the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae), and Federal Home Loan Mortgage Corporation (Freddie Mac). Agency securities include agency debt as well as agency mortgage-backed securities.

**18. What types of REITs are prohibited under this Policy?**

Mortgage REITs that have a stated policy of concentrating in agency securities, such as agency debt and agency mortgage-backed securities, are impermissible investments under section 3(a)(1)(ii) of the Policy.

Conversely, equity REITs that concentrate in the ownership of real estate and pay out dividends based on the REIT’s rental income are permissible investments under the Policy. If you have questions about REITs, please reach out to a Board or Reserve Bank ethics official.

**19. Are broad real estate mutual funds permissible investments under the Policy?**

Yes. Real estate mutual funds generally invest in securities issued by public real estate companies. Following guidance from the Office of Government Ethics, real estate mutual funds that, for example, have a stated policy of tracking the MSCI US

REIT Index, of principally investing in the broader real estate industry, or of making investments in commercial real estate, without focusing on a specific industry or single country other than the United States, are considered diversified funds and are permissible investments under the Policy. However, funds that have a specific focus on a certain type of real estate (e.g., resorts or hotels) or on real estate in a specific foreign country would be considered sector funds.

**20. Are real estate investments, such as rental properties, permissible investments under the Policy?**

Yes.

*VI. Commodity*

**21. Does the definition of “commodity” include commodity derivatives?**

The definition of “commodity” does not include commodity derivatives, but commodity derivatives are still prohibited under the Policy. Commodity derivatives fall under the definition of “derivative transaction.” Section 3(a)(3) of the Policy prohibits a covered individual (and their spouse and minor child) from being a counterparty to a derivative transaction.

**22. Does the Policy prohibit ownership of a small amount of gold or silver held in an investment portfolio?**

Yes. Section 3(a)(1)(iv) prohibits a covered individual (and their spouse and minor child) from owning or controlling commodities, unless the exemption in section 3(c)(4) applies and the commodities are owned for a noninvestment purpose (e.g., gold wedding bands). There is no *de minimis* exemption under the Policy for commodities held for investment purposes (e.g., gold funds, gold bars, or gold bullion).

*VII. Control*

**23. How does the Policy treat situations where a covered individual or their spouse is named as an executor for an estate?**

Section 3(a)(1) of the Policy states that “[a] covered individual, a covered individual’s spouse, and a covered individual’s minor children must not *own or control*” impermissible assets under the Policy.

If a covered individual or their spouse serves as an executor for an estate, the key question is whether the executor “controls” the estate’s assets. An executor who merely administers the terms of a will is carrying out a ministerial role and would not be viewed as “controlling” the estate’s assets; as a result, the estate would not be subject to the Policy’s investment restrictions. In addition, the distribution of estate assets to designated beneficiaries in compliance with the provisions of a will would not be subject to the Policy’s trading restrictions.

**24. How does the Policy treat situations where a covered individual or their spouse has a financial power of attorney?**

As with executors, the key principle is whether the covered individual or their spouse uses their power of attorney to control investment and trading decisions. These scenarios will be considered on a case-by-case basis.

Example: A covered individual has a financial power of attorney over the assets of their elderly father. Ethics staff will consider the scope and authority of the covered individual's financial power of attorney in determining whether the covered individual "controls" the father's assets and, therefore, if the requirements in sections 3 and 4 of the Policy apply to the assets.

*VIII. Covered trust*

**25. Does the definition of "covered trust" include revocable trusts?**

Yes, in some cases. A covered trust is any trust—revocable or irrevocable—in which a covered individual or their spouse is the trustee or fiduciary of the trust, or otherwise exercises discretionary authority or control over the trust's assets.

**26. Does "covered trust" include trusts in which a covered individual (or their spouse or minor child) is only a beneficiary and has no control over the trust investment decisions?**

No. The definition of covered trust does not include a trust in which a covered individual (or their spouse or minor child) is only a beneficiary, and the covered individual or their spouse does not exercise any control over the trust. Of course, beneficiaries of a trust ultimately may inherit assets that are prohibited under other applicable ethics rules and need to be divested—e.g., based on the prohibition on holding equity in banks or primary dealers or shares of financial services sector funds.

**27. Would it be feasible for covered individuals to place their investments in qualified blind trusts or qualified diversified trusts ("qualified trusts") to comply with the Policy?**

No. Federal law strictly controls which trusts are considered qualified trusts within the government. While qualified trusts would not be covered trusts under the Policy, qualified trusts are extremely rare, and the Office of Government Ethics ("OGE") would need to approve the terms of any qualified trust created for a Board employee. To date, OGE has not approved a qualified trust for any current Board employee. Moreover, under the law, it is our understanding that OGE could not approve qualified trusts for Reserve Bank employees, because they are not executive branch employees. Therefore, blind trusts would not be a feasible option to comply with the Policy.

*IX. Cryptocurrency*

**28. Does the definition of “cryptocurrency” include stock in businesses engaged in crypto activities or stock in crypto exchanges?**

No. The definition of “cryptocurrency” does not cover stock in crypto exchanges or companies engaged in crypto activities. However, section 3(a)(2) of the Policy separately prohibits holding bonds issued by individual cryptocurrency companies (or other companies), and section 4(a) prohibits purchasing stocks issued by individual cryptocurrency companies (or other companies). The Policy also prohibits holding funds that concentrate in derivatives, including cryptocurrency futures exchange traded funds (“ETFs”).

**29. How are crypto investment funds treated under the Policy?**

Section 3(a)(1)(iii) prohibits a covered individual (and their spouse and minor child) from holding assets in an investment fund that has a stated policy of concentrating in cryptocurrencies. A crypto investment fund that concentrates in cryptocurrencies would be an impermissible asset. Some examples of crypto investment funds are Grayscale Bitcoin Trust, Grayscale Ethereum Trust, and the Bitwise 10 Crypto Index Fund. Crypto futures funds, such as the VanEck Bitcoin Strategy ETF and the ProShares Bitcoin Strategy ETF, are also prohibited investments.

*X. Debt security*

**30. Is a foreign government bond a “debt security” under the Policy?**

Yes. Individual foreign government bonds fall under the definition of debt security and thus are impermissible assets. Note that a bond fund that concentrates in the bonds of a single foreign country is a “sector fund” under the Policy, but a mutual fund that concentrates in bonds of multiple foreign countries (such as a European government bond fund) would be a diversified mutual fund.

**31. Are hybrid securities, such as convertible bonds, included in the definition of “debt security”?**

Yes. Hybrid securities, such as convertible bonds, fall under the definition of debt security and thus are impermissible assets.

*XI. Defined contribution plans, defined benefit plans, and individual retirement accounts*

**32. What are examples of a defined contribution retirement plan established by the federal government?**

Defined contribution plans established by the federal government include the federal government’s Thrift Savings Plan and the Federal Reserve’s Thrift Plan. These plans are exempt from the prohibitions and requirements in section 3(a) and sections 4(a) through 4(d) of the Policy. This is consistent with the Office of Government Ethics’ approach to federal government retirement plans, which are exempt from financial conflicts of interest and financial disclosure requirements.

**33. Does the Policy apply to defined contribution and defined benefit plans sponsored by a covered individual’s prior employers, such as private companies, state and local governments, and non-profit entities?**

Sections 3(c)(3) and section 4(g) of the Policy exempt from the investment and trading rules (i) any defined benefit retirement plan; and (ii) a defined contribution retirement plan *established by the federal government*. All defined benefit plans are exempt from the Policy. Defined contribution plans sponsored by private sector, state and local government, and non-profit employers are not exempt from the Policy. As such, the investment rules in section 3 and the trading rules in section 4 apply to those defined contribution plans.

**34. Does the Policy apply to defined contribution or defined benefit plans sponsored by employers in foreign countries?**

All defined benefit plans are exempt from the Policy. However, the investment and trading restrictions in sections 3 and 4 apply to defined contribution plans established by any employer other than the federal government. This would include employers located outside the United States.

**35. Do the investment and trading rules apply to individual retirement accounts (“IRAs”)?**

Yes. The Policy applies to IRAs owned or controlled by covered individuals (and their spouses and minor children).

**36. My non-federal government defined contribution plan allows me to purchase assets that are impermissible under section 3 of the Policy. The plan also does not require one-year holding periods as required in section 4 of the Policy. Am I required to follow the Policy’s requirements for assets and transactions in that defined contribution plan?**

Yes. The investment rules in section 3 and trading rules in section 4 of the Policy apply to defined contribution retirement plans that are not sponsored by the federal government. Covered individuals (and their spouses and minor children) are responsible for ensuring their compliance with the Policy and for reporting transactions on applicable disclosure forms.

*XII. Derivative transactions*

**37. Are diversified mutual funds and ETFs that hold some underlying derivatives prohibited under the Policy?**

Generally, no. Diversified mutual funds and ETFs that do not have a stated policy of concentrating in derivative investments are permissible investments.

**38. Are mutual funds and ETFs that have a stated policy of concentrating in derivatives prohibited under the Policy?**

Yes. Investment funds that have a stated policy of concentrating in derivative instruments are prohibited under the Policy.

**39. How are commodity derivatives treated under the Policy?**

Commodity derivatives are prohibited under the Policy. Commodity derivatives fall under the definition of “derivative transaction.” Section 3(a)(3) of the Policy prohibits a covered individual (and their spouse and minor child) from being a counterparty to a derivative transaction. Additionally, funds that concentrate in commodity derivatives cannot be held.

*XIII. Financial market stress blackout period*

**40. How will I be notified about the start or end of a financial market stress blackout period?**

The Board’s General Counsel will promptly notify covered individuals and Reserve Bank ethics officers about the beginning and end of a financial market stress period.

**41. May I submit an advance notice of a new trade after a financial market stress period is declared?**

No. Section 4(c)(1)(iii)(B) prohibits covered individuals from submitting advance notices during a financial market stress period.

**42. Must I still execute a trade that received pre-clearance before the announcement of a financial market stress period, even if the proposed trade window inadvertently falls during the stress period?**

Yes. Section 4(d)(1) of the Policy requires trades that received pre-clearance before the beginning of a financial market stress period to still be executed during the trade window that falls during the stress period.

*XIV. Foreign currencies*

**43. Does the Policy prohibit holding shares of an international equity or bond fund or other diversified equity or bond funds with investments denominated in foreign currencies?**

No.

**44. Is it permissible for me or my spouse to own a bank account in a foreign country or to own foreign currency?**

Yes. Covered individuals and their spouses may own or control foreign bank accounts and own foreign currency for noninvestment purposes. There is no fixed, quantitative limit on the amount of foreign currency that a covered individual (or their spouse or minor child) may hold, but foreign currency must be held only for noninvestment purposes.

Examples: Permitted noninvestment holdings of foreign currency include:

- Owning foreign currency to pay mortgage, rent, or taxes on a personal residence in a foreign country.
- Owning foreign currency to facilitate travel in a foreign country.

*XV. Holding period*

**45. How will the one-year holding period be calculated?**

The holding period in section 4(b) is calculated based on the date that the covered individual (or their spouse or minor child) purchased the asset. If shares in an asset are purchased periodically over time, all of the shares to be sold must have been held for at least one year.

Example: A covered individual purchased \$200 worth of shares (which equaled 40 shares) in diversified mutual fund Z (“Fund Z”) on October 24, 2021, and then purchased an additional \$300 worth of shares (which equaled 50 shares) in Fund Z on May 4, 2022. The covered individual later wants to sell all their shares in Fund Z in November 2022. In November 2022, the covered individual could sell the initial 40 shares of Fund Z—even if the shares have increased in value to be worth more than \$200—as the one-year holding period for those shares expired on October 24, 2022. In November 2022, however, the covered individual could not yet sell the 50 shares purchased in May 2022. The covered individual must wait until May 4, 2023, to sell those remaining 50 shares.

*XVI. Margin securities*

**46. Is it permissible under the Policy to obtain a loan that is collateralized by securities?**

A covered individual (or their spouse or minor child) may obtain a loan that is collateralized by securities, provided that the borrower does not use the loan proceeds for the purpose of purchasing or carrying securities—which would violate the prohibition on purchasing or carrying securities on margin in section 3(a)(4) of the Policy—or any other impermissible asset under the Policy. However, covered individuals should be mindful of the risk that the securities could be automatically sold by the lender under the loan agreement without prior direction from the borrower, which would violate the Policy’s requirement of advance notice and pre-clearance for securities transactions.

*XVII. Noninvestment purpose*

**47. What does “noninvestment purpose” mean? What are some examples?**

Section 3(c) of the Policy provides exemptions for holdings of commodities and foreign currencies that have a “noninvestment purpose.” “Noninvestment purpose” refers to an expenditure for consumption or use without the expectation or purpose of achieving a profit on resale.

Examples:

- Owning gold or silver jewelry.
- Owning foreign currency to pay personal expenses in a foreign country, such as a mortgage, rent, or taxes on a personal residence; tuition and education-related expenses of a child or other family member; or to travel abroad.
- Owning commonly purchased goods for personal consumption like groceries, gasoline, and construction materials.

*XVIII. Qualifying automatic trades*

**48. What is a “qualifying automatic trade”?**

A qualifying automatic trade is a trade that happens on a periodic, pre-determined basis in connection with a transaction that is permissible under the Policy.

Examples of qualifying automatic trades are:

- Periodic automatic contributions to a 529 plan, 401(k) or 403(b) plan; defined contribution retirement plan; or mutual fund.
- Periodic automatic rebalancing within a 529 plan, 401(k) or 403(b) plan; defined contribution retirement plan; or mutual fund.
- An automatic dividend reinvestment plan for a diversified mutual fund.

**49. Does starting a new qualifying automatic trade program (i.e., a new series of qualifying automatic trades) require advance notice and pre-clearance?**

Yes, with one exception. Although qualifying automatic trades are exempt from the advance notice and pre-clearance requirements, beginning a new qualifying automatic trade program requires advance notice and pre-clearance, except for automatic dividend reinvestment plans for diversified investment funds. Covered individuals should provide the relevant ethics officials with 45 days’ advance notice before beginning any other new qualifying automatic trade program. Once a new qualifying automatic trade program has been approved, the qualifying automatic trades made pursuant to the program’s specifications will be exempt from the advance notice and pre-clearance requirements.

Example: A covered individual that is employed at the Board wishes to set up a new investment program through which the covered individual will purchase shares in diversified mutual funds. The covered individual plans to make monthly contributions of \$1000 to the mutual funds. The covered individual must give the Board’s Designated Agency Ethics Official 45 days’ advance notice of the qualifying automatic trade program before their first contribution to the mutual funds under the program. In their advance notice, the covered individual should describe the qualifying automated trade program, including the periodicity and amount of contributions to each mutual fund. Once the covered individual receives pre-clearance for the qualifying automatic trade program, the covered individual’s

qualifying automatic trades according to the program need no further advance notice or pre-clearance.

**50. Do changes to a qualifying automatic trade program require advance notice and pre-clearance?**

Some changes to an existing qualifying automatic trade program require 45 days' advance notice and pre-clearance. Specifically, changes to the periodicity of trades and asset allocation (both fund type and allocation percentages) require 45 days' advance notice and pre-clearance. However, changes to the dollar amount of contributions do not require 45 days' advance notice and pre-clearance.

Example: A spouse of a covered individual previously received approval to make monthly \$1000 contributions to a 403(b) plan offered by his employer through which the spouse invests equally in two diversified mutual funds (Fund A and Fund B), with biannual rebalancing to preserve the 50/50 allocation between the two funds.

The following changes to the qualifying automatic trade program would require advance notice and pre-clearance:

- Changing the periodicity of contributions (e.g., from monthly to quarterly)
- Changing the types of funds in which the spouse invests (e.g., ceasing purchases of Fund A and purchasing Fund C instead)
- Changing allocation percentages (e.g., moving from 50/50 between Funds A and B to 75/25)
- Changing the frequency of rebalancing (e.g., from biannual to quarterly)
- Making a one-time rebalancing of the portfolio (this would not be a qualifying automatic trade because it is not periodic)
- Making a one-time transfer of cash from Fund A to Fund B (this would not be a qualifying automatic trade because it is not periodic)

The following changes to the qualifying automatic trade program would not require advance notice and pre-clearance:

- Increasing the periodic contribution amount (e.g., from \$1000 to \$2000)
- Decreasing the periodic contribution amount (e.g., from \$1000 to \$500)
- Changing the date on which a qualifying automatic trade is made, provided the periodicity does not change (e.g., changing a monthly contribution from the 1<sup>st</sup> to the 15<sup>th</sup> of a month)
- Stopping periodic \$1000 contributions (that is, terminating the program)

**51. Does stopping a qualifying automatic trade program require advance notice and pre-clearance?**

No. Terminating a qualifying automatic trade program does not require advance notice and pre-clearance.

**52. Do I need to provide 45 days' advance notice for ongoing qualifying automatic trade programs that are in existence on July 1, 2022?**

No. Qualifying automatic trade programs in existence on July 1, 2022, do not require advance notice and pre-clearance; these programs will be grandfathered into the Policy. However, covered individuals should notify their ethics officials about any ongoing qualifying automatic trade programs, and certain changes to these programs would require advance notice and pre-clearance.

**53. Are qualifying automatic trades exempt from the one-year holding period, advance notice and pre-clearance process, and financial market stress trading blackout in sections 4(b) through (d) of the Policy?**

Yes, although changes to qualifying automatic trade programs may require advance notice and pre-clearance. Additionally, if a covered individual wishes to sell securities in a trade that is not a qualifying automatic trade, sections 4(b) through (d) will apply, regardless of whether the securities were originally purchased through qualifying automatic trades.

**54. How are qualifying automatic trades treated during financial market stress periods?**

During a financial market stress period, a covered individual may (i) terminate a qualifying automatic trade program, such as stopping contributions to a 401(k) account; or (ii) decrease their contribution amount. However, a covered individual cannot initiate a new qualifying automatic trade program or make any other change to a qualifying automatic trade program during such a time.

**55. How does the one-year holding period apply to assets purchased or sold through qualifying automatic trades?**

The Policy defines a “qualifying automatic trade” as a trade that happens on a periodic, pre-determined basis in connection with a transaction that is permissible under the Policy. Under section 4(h)(2) of the Policy, qualifying automatic trades are exempt from the requirements in section 4(b) through (d) of the Policy, which includes the one-year holding period requirement described in section 4(b).

The purchase of an asset through a qualifying automatic trade does not mean that the asset is categorically exempt from the minimum holding period in the future. Rather, assets are exempt from the minimum holding period in section 4(b) so long as any trades in the asset (either purchases or sales) are effectuated through a qualifying automatic trade. If a covered individual wishes to sell shares in an asset through a trade that is not a qualifying automatic trade, the covered individual may only do so if

the asset has been held for a year (and meets other relevant requirements, such as advance notice and pre-clearance as described in section 4(c) of the Policy).

Example:

A covered individual schedules an automatic contribution of \$250 into a 401(k) retirement account every month and uses the 401(k) contributions to purchase shares in two diversified mutual funds, Fund A and Fund B. These transactions are qualifying automatic trades because they are periodic (every month), pre-determined, and automatic; the entire investment approach is a qualifying automatic trade program. After the covered individual requests 45 days' advance notice for the entire qualifying automatic trade program and obtains preapproval for the program, the \$250 contributions and related share purchases do not need to meet the advance notice and pre-clearance requirements.

So long as the covered individual's future trades involving these assets are qualifying automatic trades, the assets are not subject to the minimum holding period. For example, if the covered individual sets up an automatic rebalancing of the 401(k) portfolio every six months as part of the qualifying automatic trade program, any purchases or sales of shares of Fund A and Fund B that result from the automatic rebalancing will be permissible, even though the shares of Fund A and Fund B may not have been held for one year.

Conversely, any future trades involving the 401(k) account's mutual fund holdings will be subject to the minimum holding period if the future trade is not a qualifying automatic trade. If, for example, six months after the covered individual begins the recurring \$250 contributions, the covered individual wants to sell all their holdings in Fund A and use the proceeds to buy more shares in Fund B in a one-time transaction, the minimum holding period will apply to the Fund A shares. The covered individual may only engage in that trade after the covered individual has owned all the shares in Fund A for one year. The one-time sale of Fund A shares and purchase of Fund B shares will also be subject to the advance notice and pre-clearance requirements.

**56. Can you use a qualifying automatic trade to purchase additional shares in a diversified mutual fund?**

Yes. Purchasing a fixed dollar amount of shares in a diversified mutual fund on a pre-determined schedule, such as the first of every month, would constitute a qualifying automatic trade.

**57. Can you use a qualifying automatic trade to purchase individual equity securities or sector funds?**

No. The definition of qualifying automatic trade is "a trade that happens on a periodic, pre-determined basis *in connection with a transaction that is permissible under this policy.*" A purchase that is impermissible under the Policy is not a qualifying automatic trade.

Example: On the effective date of the Policy, a covered individual owns \$500 of shares in company Z, which equals 50 shares. The covered individual has an automatic dividend reinvestment plan through which the covered individual's dividends from company Z are automatically used to purchase more stock in company Z. After May 1, 2022, the covered individual may continue to hold the 50 shares in company Z but cannot use an automatic dividend reinvestment plan to purchase more stock of company Z. The covered individual must receive dividends from the shares in cash.

**58. Are trades executed by an automated investment account (“robo-account”) that only purchases diversified funds permissible under the Policy?**

Yes. A trade executed by a robo-account is a “qualifying automatic trade,” provided that the robo-account automatically purchases (via a pre-set algorithm) permissible assets under the Policy.

**59. Does the definition of “qualifying automatic trade” include contributions to defined contribution plans sponsored by a private company or a state or local government?**

Yes. A pre-scheduled, periodic, contribution to a private company or state or local government defined contribution plan (such as an automated salary deferral) is a qualifying automatic trade, provided that any purchases made with the contributions involve permissible assets under the Policy.

**60. Is an automatic dividend reinvestment plan for a diversified mutual fund or diversified ETF a permissible qualifying automatic trade program?**

Yes. Mutual funds and ETFs generally distribute dividends on a quarterly basis, although some may issue dividends more infrequently (such as annually). Covered individuals may choose to automatically reinvest dividends issued by a diversified mutual fund or diversified ETF, and these will be considered permissible qualifying automatic trade programs.

**61. Are limit orders considered to be qualifying automatic trades? Are they permissible under the Policy?**

No. A limit order is an order to buy or sell a security at a specific price or better and if the price is not met, the trade is not executed. This type of transaction does not comply with the requirement that a trade be non-retractable and executed during an identified trade window as required under sections 4(c)(1)(i) and (c)(2)(iii) of the Policy. Thus, limit orders and other transactions that will only occur based on the satisfaction of a contingency do not comply with the Policy.

*XIX. Sector fund*

**62. What is an example of a “sector fund”?**

The Policy defines sector fund as “a fund that has a stated policy of concentrating its investments in an industry, business, single country other than the United States, or

bonds of a single State within the United States.” Individuals may rely on the fund’s prospectus in determining whether a fund has a stated policy of concentrating investments in a particular industry, business, foreign country, or bonds of a single U.S. state. For purposes of the Policy, Ethics staff generally plan to follow guidance from the Office of Government Ethics on the definition of a sector fund.

Examples:

- Fidelity Energy Select Portfolio, iShares U.S. Healthcare ETF, and BlackRock Pennsylvania Municipal Bond Fund are sector funds with stated policies of concentrating their investments in energy, healthcare, and Pennsylvania bonds, respectively. Section 4(a) of the Policy prohibits covered individuals from purchasing shares of these funds.
- Similarly, Matthews China Fund, Eaton Vance Greater India Fund, and iShares MSCI Ireland ETF are examples of sector funds concentrating their investments in a single foreign country; covered individuals also cannot purchase shares of these funds under section 4(a).

**63. Is a fund that focuses on two related sectors a sector fund?**

Yes. Consistent with Office of Government Ethics policy, “dual industry” funds that are expressly marketed as being concentrated in two related industry or business sectors, such as “defense and aerospace,” “telecommunications and utilities,” or “media and telecommunications,” are non-diversified sector funds. Covered individuals are encouraged to consult with ethics officials regarding dual industry funds.

*XX. Security*

**64. Are shares in mutual funds and ETFs “securities” under the Policy?**

Yes. Mutual funds and ETFs, however, are not considered “individual equity securities” under section 4(a) of the Policy. Accordingly, covered individuals may purchase shares of mutual funds or ETFs unless the funds are sector funds or otherwise prohibited under the Policy (e.g., funds concentrating in Treasuries).

**65. Does the definition of “security” cover shares in small businesses, such as a family farm?**

The definition of “security” includes shares in small businesses, such as a family farm. Section 4(h)(1)(ii) of the Policy, however, exempts equity securities issued by small businesses, including small family farms, from the prohibition on purchases of individual equity securities in section 4(a) of the Policy. Purchases and sales of securities in small businesses are subject to the other trading requirements in section 4 of the Policy, such as the one-year holding period and advance notice and pre-clearance process.

**66. Does the definition of “security” include securities of both privately held and publicly traded entities?**

Yes.

**67. Does the prohibition on purchases of individual equity securities in section 4(a) apply to private and publicly traded securities?**

Yes.

**68. Which individual securities holdings may covered individuals (and their spouses and minor children) retain under the Policy?**

Section 4(a) of the Policy states that a covered individual, a covered individual’s spouse, and a covered individual’s minor children must not purchase individual equity securities or interests in a sector fund. Covered individuals (and their spouses and minor children) may retain ownership in any non-prohibited individual equity securities or sector funds that are owned or controlled when they become subject to the Policy, but they are prohibited under section 4(a) of the Policy from purchasing any additional individual equity securities or shares of sector funds on and after that date.

Covered individuals (and their spouses and minor children) must divest any holdings in individual debt securities or other impermissible securities as described in section 3 of the Policy.

*XXI. Spousal equity and options*

**69. Do the exemptions in section 3 and section 4 cover (i) stock options from a spouse’s current or prior employer, or (ii) stock options that the spouse may only exercise after their employment ends?**

Yes. Equity securities and equity options of a covered individual’s spouse that are acquired or held in connection with the spouse’s current or former employment are exempt from both (i) the investment rules, pursuant to section 3(c)(2) of the Policy, and (ii) the purchase prohibition in section (4)(a), pursuant to section 4(h)(1)(i) of the Policy.

So long as the stock or stock options are “acquired or held in connection with the spouse’s employment,” the exemptions will apply, even after the spouse’s employment ends.

**70. Does the spousal equity exemption cover any benefits that a spouse receives in connection with their employment, such as retirement plans?**

This exemption covers benefit plans that would not be covered under the exemptions in sections 3(c)(3) and 4(g) but that involve equity securities and equity options of a covered individual’s spouse that are acquired or held in connection with the spouse’s employment. For example, this exemption would cover shares acquired via an Employee Stock Ownership Plan for a covered individual’s spouse, including shares

of company stock offered at a discounted price to employees. However, this exemption is limited to stock and options in the spouse's employing company. The exemption does not apply to other assets (like investment funds) held within a defined contribution plan sponsored by the employer.

**71. As part of their employment, my spouse acquired equity securities of their former employer. Can my spouse purchase more stock in that company through automatic dividend reinvestments?**

Yes. Equity securities and equity options of a covered individual's spouse that are acquired or held in connection with the spouse's employment are exempt from the prohibition on new purchases of individual equity securities in section 4(a). This exemption includes purchases of additional shares through an automatic dividend reinvestment plan.

*XXII. Treasury bonds and notes*

**72. Are U.S. savings bonds included in the definition of "Treasury bonds and notes"?**

No. U.S. savings bonds are not considered Treasury bonds or notes under the Policy and are permissible assets.

**73. Are U.S. Treasury bills included in the definition of "Treasury bonds and notes"?**

No. U.S. Treasury bills with maturities of one year or less are not considered Treasury bonds and notes under the Policy and are permissible assets. However, covered individuals must hold Treasury bills to maturity.

**74. Which bond funds that invest in Treasury securities are prohibited under the Policy?**

Investment funds with a stated policy of concentrating in Treasury bonds and notes are prohibited under the Policy (e.g., Vanguard Inflation Protected Securities fund or iShares 1-3 Year Treasury Bond ETF). However, total or aggregate bond funds that have a broader investment focus on bonds in general are permissible assets even if they hold Treasury securities (e.g., Schwab U.S. Aggregate Bond Index Fund, BNY Mellon Bond Market Index Fund, and T. Rowe Price QM U.S. Bond Index Fund).

*XXIII. 529 plans, health savings accounts ("HSAs"), and other similar accounts*

**75. What does "other similar accounts" mean in section 4(h)(2)(iii) of the Policy?**

Section 4(h)(2)(iii) of the Policy exempts "[u]ntaxed distributions from 529 plans, health savings accounts, or other similar accounts" from the one-year holding period, advance notice and pre-clearance process, and financial market stress period prohibitions. "Other similar accounts" is intended to cover tax-advantaged accounts that operate in a similar manner, such as an Achieving a Better Life Experience

(“ABLE”) account, which is a tax-advantaged account for individuals with disabilities and their families.

**76. What does the reference to “untaxed distributions” mean?**

Section 4(h)(2)(iii) of the Policy exempts “[u]ntaxed distributions from 529 plans, health savings accounts, or other similar accounts” from the one-year holding period, advance notice and pre-clearance process, and financial market stress period prohibitions. To qualify for this exemption, your distributions or withdrawals from these accounts must meet the tax code requirements so that they are not included in your federal taxable income.

*XXIV. Waivers*

**77. To whom should a waiver request be sent?**

Covered individuals who are Board employees must submit waiver requests to the Board’s Designated Agency Ethics Official. Covered individuals who are Reserve Bank employees must submit waiver requests to the Board’s Designated Agency Ethics Official and their Reserve Bank Ethics Official.

*XXV. Reporting and disclosure*

**78. Will covered individuals still be required to continue to comply with existing applicable annual financial disclosure reports under the Policy.**

Yes.

**79. What does “promptly posted” mean in section 5(b) regarding the requirement to post any Periodic Transaction Reports and annual financial disclosure reports filed by a Reserve Bank president?**

Consistent with the requirements for Board members’ financial disclosures, Reserve Bank presidents’ disclosures should be posted online within 30 days of submission of a signed report to the Reserve Bank ethics official.

*XXVI. Miscellaneous*

**80. Are separately managed accounts permissible under the Policy?**

Separately managed accounts, while not prohibited, will generally be challenging to hold under the Policy. With a managed account, an investor gives a financial advisor the discretion to buy, sell, and trade investments on the investor’s behalf, often through a predetermined portfolio selected by the investor. However, covered individuals ultimately retain control over their managed accounts and are responsible for all trades made within a managed account, even if the trading decision is delegated to an account manager. Because the Policy requires a covered individual to provide a minimum of 45-days’ advance notice before a purchase or sale of a security, an account manager must notify the covered individual at least 45 days in advance of a proposed transaction—even a transaction in a predetermined portfolio—so that the covered individual can ensure compliance with the notice and pre-

clearance requirements, as well as the investment restrictions imposed by the Policy. Further, the advance notice and pre-clearance system will only be accessible to Federal Reserve System employees, thus, the account manager would not be able to submit advance notice on the covered individual's behalf. If a covered individual cannot ensure a managed account's compliance with the notice, investment, or trading restrictions in the Policy, then the covered individual must exit (or not enter into) the managed account.

**81. Is a gift of securities by a covered individual considered a "sale" under the Policy?**

A gift or transfer of securities by a covered individual with no consideration received in exchange is not a "sale" under the Policy.

**82. Are donor-advised funds permissible?**

Yes. A contribution to a donor-advised fund in which the covered individual no longer retains legal control over the investment is considered a gift under the Policy.

**83. May a covered individual use a corporate entity, such as a special purpose LLC, to engage in permissible investments?**

Yes, however, the Policy applies to all investments owned or controlled by a covered individual or their spouse. Thus, Ethics officials generally will apply a look-through approach to investments made by corporate entities controlled by covered individuals or their spouses. Accordingly, if a covered individual or their spouse exercises control over a corporate entity, then they generally will be deemed to control the corporate entity's investments, and those investments would be subject to the Policy.

**84. Are covered individuals eligible to obtain certificates of divestitures ("CDs")?**

Board employees are eligible to request a CD from OGE prior to selling investment assets that they must divest to comply with federal ethics requirements. If OGE grants the request and the Board employee receives a CD, they may defer capital gains taxes resulting from the sales if the proceeds are promptly reinvested in diversified mutual funds or diversified ETFs. However, under federal law, Reserve Bank employees are not eligible for CDs.

**85. What will happen if covered individuals violate the Policy, such as failing to execute a pre-cleared trade?**

The consequences of any particular instance of noncompliance with the Policy will depend on a number of factors, such as the severity of the violation, whether the violation was intentional or inadvertent, and whether the violation was a first or repeat offense.