

Policy for Addressing Covered Reserve Bank Employee Material Violations of the Investment & Trading Policy and Financial Disclosure Rules

Background

This policy explains the process the Board intends to follow for addressing material violations of the Investment & Trading Policy and the Financial Disclosure Rules by Covered Reserve Bank employees.¹ The Board has broad authority to redress violations of these policies by Covered Reserve Bank employees. For example, Covered Reserve Bank employees are officers of Reserve Banks, and under section 11 of the Federal Reserve Act (FRA), the Board is authorized to suspend or remove any officer of a Reserve Bank. 12 U.S.C. § 248(f). In addition, under section 4 of the FRA, the Board must approve the pay of Reserve Bank employees (12 U.S.C. § 307), and under section 11 of the FRA, may exercise general supervision over Reserve Banks (12 U.S.C. § 248(j)). These authorities provide the Board with the ability to take a wide range of actions to respond to material violations of the Investment & Trading Policy and Financial Disclosure Rules by Covered Reserve Bank employees.

Definitions

Covered Reserve Bank employee means any Reserve Bank employee who meets the definition of a covered individual under the Investment & Trading Policy.

Financial Disclosure Rules means the rules related to the filing of financial disclosure reports as explained in section 2-026 of the Federal Reserve Administrative Manual (or any successor policy).

Investment & Trading Policy means the FOMC Policy on Investment and Trading for Committee Participants and Federal Reserve System Staff (or any successor policy).

Material Violations of the Investment & Trading Policy and Financial Disclosure Rules by Covered Reserve Bank Employees

Once the Board's Designated Agency Ethics Officer (DAEO) becomes aware of a potential material violation of either the Investment & Trading Policy or the Financial Disclosure Rules by a Covered Reserve Bank employee, the following process shall be followed:²

¹ The processes described in this policy do not apply to non-Covered Reserve Bank Employees or Covered Reserve Bank Employees against whom an action is being considered for a reason other than a material violation of the Investment and Trading Policy or the Financial Disclosure Rules. Adoption of this policy should not be interpreted or construed as limiting any rights or powers granted to the Board in contexts outside of the scope of this policy.

² This process shall apply to ethics violations that occur after the date this policy is adopted by the Board.

1. The DAEO shall determine in the first instance whether the potential violation, if proven true, would be a material violation.³ The DAEO has the sole discretion to determine whether a violation is material. If the DAEO determines that a violation would be material, the DAEO shall proceed to step 2. If the DAEO determines the violation would not be material, the DAEO shall refer the violation back to the Reserve Bank that employs the individual and the Reserve Bank shall determine next steps, if any.
2. The DAEO shall inform the Director of the Division of Reserve Bank Operations and Payment Systems (“RBOPS”), the Board’s General Counsel (“General Counsel”), and the Director of the Division of Board Members (“BDM”), of the potential violation. Unless prohibited by applicable law, the DAEO shall notify the General Counsel of the relevant Reserve Bank of the potential violation, unless the potential violation involves such General Counsel, in which case the DAEO shall notify the President of the relevant Reserve Bank.
3. Based on the initial facts reported by the DAEO, the General Counsel shall determine, in the General Counsel’s sole discretion, whether any further fact finding is needed to determine whether a violation occurred. If the General Counsel determines no additional facts need to be developed, the process shall move forward to step 4. If the General Counsel determines further development of the facts is needed, the General Counsel shall determine how to develop the facts and, once an appropriate factual record is developed, the process shall move forward to step 4.
4. The DAEO shall provide the Covered Reserve Bank employee with the opportunity to submit written material explaining their views regarding the alleged violation, including whether they believe a material violation occurred. This written material shall be submitted within 20 business days from the date of the DAEO’s written request for such material. Any written response the DAEO receives from the Covered Reserve Bank employee shall be shared with the Board’s General Counsel, the Chair, and any other Board employees with a need to know the information, as determined by the DAEO. The DAEO shall review and take into consideration the factual record and any written material timely submitted by the Covered Reserve Bank employee. The DAEO, in consultation with the General Counsel, shall determine whether a violation of the Investment & Trading Policy or the Financial Disclosure Rules occurred and shall promptly inform the Directors of RBOPS and BDM of the determination. If the DAEO determines that no violation has occurred, the DAEO shall close out the matter. In addition, the DAEO shall inform the Covered Reserve Bank employee under review, as well as any party who reported the alleged violation, that no violation was found if the DAEO determines it would be appropriate under the circumstances to do so and would not violate any other law, such as the Privacy Act of 1974.

³ In determining whether a violation is material, the DAEO may consider, among any other factors deemed relevant by the DAEO: i) the nature of the potential violation; ii) whether the potential violation was knowingly committed in disregard of the policy; iii) the probability of serious reputational impact to the System; iv) whether a pattern of violations exist; v) whether the violation was as a result of the actions of a third party, the employee’s minor child or spouse. Whether, and the extent to which, a particular factor is taken into consideration in any specific circumstance will be in the sole discretion of the DAEO.

5. If the DAEO determines a violation has occurred, the DAEO shall recommend a penalty to the Director of RBOPS, making sure that any recommended penalty is proportionate to the violation. Whether a penalty is proportionate to the violation will be determined by the DAEO in their sole discretion.
6. The Director of RBOPS, the General Counsel, and the Director of BDM shall review the facts, information from the DAEO, and any written material timely submitted by the Covered Reserve Bank. Based on that information the Director of RBOPS, after consulting with the Director of BDM and the General Counsel, shall make a recommendation to the Chair regarding the appropriate action to take.
7. The Chair shall review the recommendation of the Director of RBOPS. For violations involving a President or First Vice President, the Chair will inform the Chair of the Board of Directors of the relevant Reserve Bank regarding any proposed recommended actions. The Chair will recommend to the Board the appropriate action to take. The Board shall decide whether to adopt the Chair's recommendation. If the Board votes to take action or impose a penalty against the Covered Reserve Bank employee (including, but not limited to, removal or suspension), the Board shall communicate the decision to the Covered Reserve Bank employee and shall provide in writing the reason for the decision to the employee and the employing Reserve Bank.
8. The Board's decision is final. The Covered Reserve Bank employee has no right to appeal or otherwise challenge the Board's decision. The Board's decision shall be effective immediately upon being communicated to the Covered Reserve Bank employee unless the decision expressly states a different effective date.

Responsibility

The Chair may amend this policy at any time. The Chair will endeavor to provide prior notice of any such amendments to the Reserve Banks and afford the Reserve Banks an opportunity to comment on any such amendments.