

United States Senate

WASHINGTON, DC 20510

May 6, 2025

The Honorable Jerome Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Dear Chair Powell:

On Tuesday, April 1, Mark Bialek, who had served as Inspector General of the Federal Reserve (Fed IG) for 14 years, retired.¹ We have been critics of Mr. Bialek's failure to appropriately address corruption at the Fed, and of the conflicted structure of the office itself.

As you consider the choice for a new Fed IG, we ask that you address the first concern and work with us to fix the second. First, we urge you to appoint a new Inspector General with a demonstrated history of effectively holding government officials accountable for corruption and mismanagement. And second, we urge you to support our recently reintroduced legislation, which requires future Fed Inspectors General to be appointed by the President, by and with the advice and consent of the Senate, ensuring the IG is able to operate independently.

Failures of the Fed IG

We have consistently expressed concern with recent failures of the Fed IG to adequately investigate misbehavior and mismanagement by Federal Reserve officials and the perverse compensation package the Fed IG receives from the Federal Reserve board. For example, the recently departed Fed IG oversaw one of the "most severe ethics failures in the Fed's history"² in 2020, when leaders of the Federal Reserve System, including you, Richard Clarida, Robert Kaplan, and Eric Rosengren, actively traded individual stocks and investments while helping set key policies in response to the Covid-19 crisis.³ Despite finding evidence of improper trading and failure to report trades by senior officials, it took the Fed IG years to release these findings.⁴ The report that was finally released also included no immediate recommendations on how senior officials could improve their compliance with Fed policies in the future.⁵ Though the IG

¹ PoliticoPro, "Longtime watchdog of Fed, CFPB steps down," Michael Stratford, April 2, 2025, <https://subscriber.politicopro.com/article/2025/04/longtime-watchdog-of-fed-cfpb-steps-down-00266056>.

² Letter from Senators Elizabeth Warren and Rick Scott to Federal Reserve Inspector General Mark Bialek, March 6, 2024, <https://www.warren.senate.gov/imo/media/doc/2024.03.05%20Letter%20to%20Fed%20IG%20Mark%20Bialek%20re.%202024%20report.pdf>;

³ New York Times, "A Fed Official's 2020 Trade Drew Outcry. It Went Further Than First Disclosed," Jeanna Smialek, January 6, 2022, <https://www.nytimes.com/2022/01/06/business/economy/richard-clarida-fed-stock-fund.html>.

⁴ Letter from Senators Elizabeth Warren and Rick Scott to Federal Reserve Inspector General Mark Bialek, March 6, 2024, <https://www.warren.senate.gov/imo/media/doc/2024.03.05%20Letter%20to%20Fed%20IG%20Mark%20Bialek%20re.%202024%20report.pdf>.

⁵ *Id.*

ultimately followed up with some recommendations⁶, the Fed has yet to fully implement them⁷ – and has not been held accountable for these delays.

Last year, a subsequent Fed IG report uncovered hundreds of prohibited trades over a 5-year timespan by another Fed official, former Federal Reserve Bank (FRB) of Atlanta President Dr. Raphael Bostic, including 154 violations of the Federal Open Market Committee’s “blackout rule.”⁸ Yet, once again, the Fed IG made no recommendations to hold Dr. Bostic accountable and instead “referr[ed] the matter to the [Federal Reserve] Board for any further action as they deem appropriate.”⁹ According to an April 14th letter from you, “the Federal Reserve Bank of Atlanta’s board of directors acted in response to the OIGs findings by directly addressing its concerns with President Bostic and making it clear that any further material failures on his part to comply” with Fed financial disclosure rules “will not be tolerated.”¹⁰ It is unclear what tangible consequences, if any, Mr. Bostic has faced for his malfeasance.

The Structure of the Fed IG’s Office Limits Independence

The failures of the recent Fed IG to aggressively hold senior Fed officials accountable underscores the need for a truly independent watchdog at the Fed – and highlights the structural flaws in the office that limit the Fed IG’s independence.

Under current law, the Fed IG is selected by the Chair of the Board of Governors of the Federal Reserve System. In other words, the Fed IG is charged with overseeing and holding accountable the very same officials he is hired by and serves at the pleasure of. This creates an unavoidable conflict of interest, which we examined in a May 2023 hearing of the Senate Banking, Housing, and Urban Affairs Committee Subcommittee on Economic Policy.¹¹ We have introduced legislation to address this conflict by requiring that the Fed IG be appointed by the President and confirmed by the Senate, the same process by which inspectors general for major federal

⁶ Office of Inspector General, Board of Governors of the Federal Reserve System, “The Board Can Further Enhance the Design and Effectiveness of the FOMC’s Investment and Trading Rules,” April 26, 2023, <https://oig.federalreserve.gov/reports/board-FOMC-investment-trading-rules-apr2023.pdf>; Letter from Senators Elizabeth Warren and Rick Scott to Chair Jerome Powell, June 10, 2024, https://www.warren.senate.gov/imo/media/doc/re-updated_final_-_warren_scott_letter_to_powell_repolicyforaddressingcoveredreservebankemployeematerialviolationsoftheinvestmennttradingpolicyandfinancialdisclosure.pdf

⁷ Letter from Chair Jerome Powell to Ranking Member Elizabeth Warren, April 14, 2025, https://www.banking.senate.gov/imo/media/doc/chair_powell_to_rm_warren_41425.pdf

⁸ Office of Inspector General of the Federal Reserve System, “Report of Investigation on the Closing of 23-0020-I Federal Reserve Bank of Atlanta President’s Trading Activity,” September 4, 2024, <https://oig.federalreserve.gov/releases/investigation-closing-frb-atlanta-trading.pdf>.

⁹ *Id.*

¹⁰ Letter from Chair Jerome Powell to Ranking Member Elizabeth Warren, April 14, 2025, https://www.banking.senate.gov/imo/media/doc/chair_powell_to_rm_warren_41425.pdf.

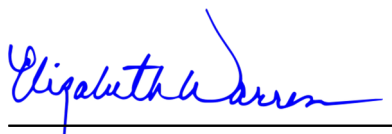
¹¹ Office of U.S. Senator Elizabeth Warren, “Chairing Subcommittee on Economic Policy, Senator Warren Highlights Need for Legislative Reforms to Promote Accountability, Transparency at Federal Reserve,” May 17, 2023, press release, <https://www.warren.senate.gov/newsroom/press-releases/chairing-subcommittee-on-economic-policy-senator-warren-highlights-need-for-legislative-reforms-to-promote-accountability-transparency-at-federal-reserve>.

agencies are selected. Our bill would ensure that future Fed IGs operate independently of the Board.

Conclusion

As you take steps to identify and appoint a successor to Mr. Bialek, please address our ongoing concerns about the need for structural changes to the role of the Fed IG. We encourage you to select an individual with a demonstrated history of effectively holding government officials accountable for corruption and mismanagement. And we also urge you to publicly support our recently reintroduced legislation to create a truly independent Fed IG.

Sincerely,



Elizabeth Warren
Ranking Member
Committee on Banking,
Housing, and Urban Affairs



Rick Scott
United States Senator