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Proposals Regarding the Federal Reserve Board's Financial Disclosure System. FPCD-77-46; B-118535. August 12, 1977. 15 pp. + 4 appendices (14 pp.).

Report to the Congress; by Elmer B. Staats, Comptroller General.

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Budget Function: General Government: Central Personnel Management (805).

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Authority: Federal Reserve Act of 1913. Securities Exchange Act of 1934, as amended. Fair Credit Reporting Act. Currency Transaction Reporting Act. 18 U.S.C. 212, 213. 12 U.S.C. 244. 12 U.S.C. 611. 12 U.S.C. 631. 12 U.S.C. 620. Executive Order 11222. 12 C.F.R. 264.735.

The Board of Governors of the Federal Reserve System has established a financial disclosure system for its employees that is designed to maintain public confidence in Board operations. Federal Reserve System regulations require employees in designated positions at the GS-13 level and above to submit confidential financial statements of employment and financial interests. Findings/Conclusions: Employees in 26 positions reviewed by GAO who should have filed statements, according to Civil Service guidelines, did not do so because disclosure criteria were not specific enough. Only 85 of approximately 1,500 Board employees were required to file statements in 1976. In May 1977, the Board amended its regulations to expand the number of positions requiring filing of statements. No comprehensive listing of prohibited interests and procedures has been developed to help determine if speculation has taken place. The financial disclosure form should be revised to include information needed to enforce Board regulations. Some Board employees are not restricted in their credit arrangements even though they have duties that may influence policy and decisionmaking. Recommendations: The Board should take steps to improve its financial disclosure system by: including specific criteria for identifying positions requiring financial disclosure statements; seeking Civil Service Commission approval to include more data about employees' financial transactions on the statements; and establishing written criteria for reviewing statements to include a comprehensive listing of prohibited interests, a further definition of speculative transactions, and criteria for restricting loans from supervised or regulated institutions. (Author/H77)

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REPORT TO THE CONGRESS



BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

Proposals Regarding The Federal Reserve Board's Financial Disclosure System

Because of its direct involvement with the U.S. economy and the banking industry, the Board of Governors of the Federal Reserve System must be sure that its financial disclosure system identifies and resolves potential conflict-of-interest situations effectively. This report recommends the development of criteria and procedures to make its system as effective as possible.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-118535

To the President of the Senate and the
Speaker of the House of Representatives

In light of Executive Order 11222--which prescribes standards of ethical conduct for Government officials and directs the Civil Service Commission to establish guidelines for agency financial disclosure systems--this report evaluates the financial disclosure system of the Board of Governors of the Federal Reserve System.

This review was made pursuant to a request from Representative Benjamin S. Rosenthal, Chairman, Subcommittee on Commerce, Consumer, and Monetary Affairs, House Committee on Government Operations. As instructed by the Chairman, we did not obtain formal agency comments. However, we discussed the report with the Deputy Secretary of the Board and the Assistant Director, Division of Personnel, who are responsible for the system. Their comments were considered in the report.

We are sending copies of this report to the Chairman of the Board of Governors, Federal Reserve System, and the Director, Office of Management and Budget.

A handwritten signature in black ink, reading "Luther R. Stacks".

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

PROPOSALS REGARDING THE
FEDERAL RESERVE BOARD'S
FINANCIAL DISCLOSURE SYSTEM

D I G E S T

As the Nation's central bank, the Federal Reserve System, through its Board of Governors, strives to keep the banking industry in sound condition, capable of responding to domestic and international financial needs. In order to maintain public confidence in its operations, the Board's employees should adhere to high ethical standards. The Board's financial disclosure system is designed to help accomplish this. The system has been generally effective, but GAO believes certain improvements can be made.

Federal Reserve System regulations require employees in designated positions at the GS-13 level and above to submit confidential financial statements of employment and financial interests. Because disclosure criteria were not specific enough, however, employees in 26 positions reviewed by GAO in 1976 did not file statements, although they should have according to Civil Service guidelines. (See pp. 7 and 8.)

Only 85 of approximately 1,500 Board employees were required to file financial disclosure statements in 1976. In May 1977 the Board amended its regulations to expand the number of positions requiring filing of statements. (See pp. 7 to 9 and 18 to 24.)

The Board needs to develop written review criteria to assist officials in reviewing statements. No comprehensive listing of prohibited interests and procedures has been developed to help a review official determine if speculation has taken place. (See pp. 9 and 10.)

The Board's financial disclosure form should be revised to include information needed to enforce Board regulations, such as data on employee loans, bank credit cards, and transactions in securities. (See pp. 10 and 11.)

The law prohibits bank examiners or assistant bank examiners from accepting loans from banks, corporations, associations, or other organizations which they examine. Some Board employees, however, are not restricted in their credit arrangements even though they have duties that may influence policy and decisionmaking. (See pp. 11 to 13.)

This report recommends that the Board take steps to improve its financial disclosure system by

- including specific criteria for identifying positions whose occupants should file financial disclosure statements;
- seeking Civil Service Commission approval to include more data about employees' financial transactions on the statements; and
- establishing written criteria for reviewing statements to include (1) a comprehensive listing of prohibited interests, (2) a further definition of speculative transactions, and (3) criteria for restricting loans from supervised or regulated institutions.

GAO discussed the report with the Deputy Secretary of the Board and the Assistant Director, Division of Personnel, who are responsible for the system. Their comments were considered in the report.

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CHAPTER 1

INTRODUCTION

The Federal Reserve System was established by the Federal Reserve Act of 1913 in order to provide an "elastic" currency, afford means for discounting commercial paper, and improve the supervision of banking. As the Nation's central bank, the Federal Reserve strives to keep the banking industry in sound condition, capable of responding to domestic and international financial needs.

The Federal Reserve affects the U.S. economy primarily through influencing interest rates and the cost and availability of money and credit. It is composed of the Board of Governors and its staff in Washington, D.C.; 12 Federal Reserve banks and their 25 branches throughout the country; the Federal Open Market Committee; the Federal Advisory Council; and about 5,800 member banks, which include all national banks and any State-chartered banks and trust companies admitted to the Federal Reserve System by the Board.

The Board is the apex of the System and has about 1,500 employees. The Board is administered by seven governors appointed by the President. Its primary responsibilities are to determine general monetary, credit, and operating policy for the System and formulate the rules and regulations necessary to carry out the purposes of the Federal Reserve Act. In addition, it has broad supervisory and regulatory responsibilities over activities and operations of Federal Reserve banks and member banks, including their foreign operations.

Among its responsibilities, the Board

- issues regulations and interpretations, and sets guidelines for bank supervision;
- coordinates and evaluates the examination and supervision of State member banks, including reviewing and analyzing "reports of examination" of the banks;
- administers certain requirements or provisions of the Securities Exchange Act of 1934, as amended, the Fair Credit Reporting Act, and the Currency Transaction Reporting Act in their application to State member banks.

The operations of the Federal Reserve are conducted through a nationwide network of Federal Reserve banks, branches, and several other facilities. Each Federal Reserve bank is an incorporated institution with its own board of directors, who oversee the bank's operations under the overall supervision of the Board.

Because of its involvement with the U.S. economy and the banking industry, it is important that the Board require its employees to maintain high standards of ethical conduct.

SCOPE OF REVIEW

Our review was conducted at the Board's offices in Washington, D.C. The review examined whether the Federal Reserve Board's financial disclosure system for full-time employees

- was effective in revealing conflict-of-interest situations,
- required prompt and proper filing of all financial disclosure statements, and
- adequately reviewed financial disclosure statements.

We did not review the financial disclosure system of any of the 12 Federal Reserve banks. They are quasi-public institutions and therefore not covered by Executive Order 11222, which prescribes ethical standards for Government employees. (See p. 4.) However, certain employees of the banks do file financial statements with the banks under a separate disclosure system, as prescribed by the Board.

We reviewed all financial interests reported by 85 Board employees who had filed a 1976 financial disclosure statement. We also reviewed the disclosure statements submitted by the seven governors who filed directly with the Civil Service Commission. We did not contact any employees concerning their actual responsibilities or their financial holdings.

The confidentiality of disclosure statements was maintained at all times. Our working papers did not associate employees' names with financial interests listed on the statements, but used codes which were traceable to the names of the employees and their interests. Lists of the employees and the codes were returned to the Board at the completion of our audit.

We also reviewed the duties for 57 positions requiring no filing of financial disclosure statements in order to determine whether their excluded status was correct.

This is the last of three reports concerning the financial disclosure systems of the Federal banking regulatory agencies. We have reviewed and reported on the financial disclosure systems of the Office of the Comptroller of the Currency (FPCD-77-29, Mar. 23, 1977) and the Federal Deposit Insurance Corporation (FPCD-77-43, June 1, 1977).

CHAPTER 2

FINANCIAL DISCLOSURE REQUIREMENTS

AND AGENCY PROHIBITIONS

Executive Order 11222, dated May 8, 1965, prescribed standards of ethical conduct for Government officers and employees. The Civil Service Commission was directed by the order to establish implementing regulations. In November 1965, the Commission issued instructions requiring each agency to prepare employee conduct standards and establish a system for reviewing employees' financial disclosure statements. Standards-of-conduct regulations established by each agency and any additions or changes to the financial disclosure statement must be approved by the Commission.

The Commission requires each agency to obtain statements of outside employment and financial interests 1/ from

- employees paid at a level of the executive schedule in subchapter II of chapter 53 of title 5, United States Code;
- employees classified at GS-13 or above, or at a comparable pay level, if they are responsible for making a decision or taking a Government action in regard to contracting or procurement, administering or monitoring grants or subsidies, regulating or auditing private or other non-Federal enterprises, or responsible for other activities where the decision or action has an economic impact on the interest of any non-Federal enterprise; and
- employees classified below GS-13 who occupy positions otherwise meeting the above criteria (an agency must obtain Commission approval to require such employees to file).

In March 1966, the Federal Reserve issued regulations governing employee responsibilities and conduct (12 C.F.R. 264.735). These regulations established the financial disclosure system for employees of the Board of Governors.

1/Interests of a spouse, minor child, or other member (blood relation) of the employee's immediate household are considered the employee's interests.

However, the seven governors are not included in this system, because Executive Order 11222 requires them to file their statements with the Civil Service Commission.

The Deputy Secretary of the Board is designated the Board Counselor, and is responsible for providing counseling and guidance regarding statutes and regulations affecting responsibility and conduct. The Director and Assistant Director of the Division of Personnel are responsible for collecting and reviewing financial disclosure statements.

When conflict-of-interest matters cannot be resolved by the Director of the Division of Personnel, the matter is referred to the Board through the Counselor for resolution. If the financial interest listed on the statement conflicts or appears to conflict with the employee's official responsibilities, remedial action, including changes in assigned duties, disqualification for a particular assignment, divestiture of the conflicting interest, or disciplinary action, may be taken.

Financial disclosure statements are required from people in designated positions within 30 days after entrance on duty and must be updated annually. If no changes occur, a negative report must be filed.

PROHIBITIONS AFFECTING EMPLOYEES OF THE BOARD OF GOVERNORS

Federal Reserve regulations on standards of conduct are issued to each Board employee. Specific Board prohibitions on financial interest state that an employee may not:

- Have a direct or indirect financial interest that conflicts substantially, or appears to conflict substantially, with his duties and responsibilities.
- Engage in speculative dealings (as distinguished from investments) in securities, commodities, real estate, exchange, or otherwise. Frequency of trading, the use of credit, and particularly transactions to take advantage of short-term price fluctuations would be significant indications that dealings were speculative.
- Purchase equity security of a bank, a bank affiliate, or a Government security dealer; and an employee holding or acquiring such securities shall dispose of them as promptly as is practicable without causing undue

hardship, unless after full disclosure in writing the Board approves continued holding of such securities.

--Engage in, directly or indirectly, a financial transaction relying on information obtained through his employment.

Unless prohibited by law, Executive Order 11222, or applicable regulation, a Board employee may have indebtedness to banks or other financial institutions on the same terms and conditions that would be available if he did not work for the Board.

Statutory prohibitions

It is unlawful for an officer, director, or employee of any bank that is a member of the Federal Reserve System or has deposits insured by the Federal Deposit Insurance Corporation (which includes national banks) to make a loan to any Government examiner "who examines or has authority to examine such a bank" (18 U.S.C. 212).

A national bank examiner or an assistant national bank examiner is prohibited by 18 U.S.C. 213 from accepting a loan or gratuity from any bank, corporation, association, or organization examined by him, or from any person connected therewith.

A governor of the Board may not be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank, nor may he hold stock in any bank, banking institution, or trust company (12 U.S.C. 244).

No member of the Board may be an officer or director of any corporation organized under the provisions of sections 611 to 631 of title 12 or of any corporation engaged in similar business organized under the laws of any State, nor hold stock in any such corporation; and before entering upon his duties as a member of the Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement (12 U.S.C. 620). The corporations referred to in sections 611 to 631 include those that are organized

"for the purpose of engaging in international or foreign banking or other international or foreign financial operations, or other banking or financial operations in a dependency or insular possession of the United States, either directly or through the agency, ownership or control of local institutions in foreign countries * * *."

CHAPTER 3

IMPROVEMENTS NEEDED IN THE BOARD'S

FINANCIAL DISCLOSURE SYSTEM

The Board's financial disclosure regulations generally followed the Civil Service Commission's regulations. The Board punctually collected statements from the 85 employees who were required to file in 1976 and reviewed the statements within a reasonable time. However, the system's effectiveness could be improved by

- including specific criteria for identifying positions whose occupants should file financial disclosure statements and
- establishing written criteria for reviewing statements, including (1) a comprehensive listing of prohibited interests, (2) a further definition of speculative transactions, and (3) criteria for restricting loans from supervised or regulated institutions.

MORE EMPLOYEES SHOULD FILE STATEMENTS

At the time of our review, Federal Reserve regulations provided that those required to file financial disclosure statements included GS-13s and above, or those equivalent, who occupied the following positions:

- Head, associate head, or assistant head of the Board, a division, or an office (regardless of title).
- Advisor or assistant to the Board.
- Legislative Counsel to the Board.
- Chief Federal Reserve Examiner.

In 1976, the Board required 85 of its 1,500 employees to file annual financial disclosure statements. To determine the adequacy of the Board's criteria for identifying positions whose occupants should file, we reviewed the duties of employees in 57 positions, both above and below the GS-13 level, who currently do not file. These positions were mostly in the Bank Supervision and Regulation Division, the Research and Statistics Division, the Legal Division, and the Division of Consumer Affairs.

We were unable to use in our analysis the type of position descriptions maintained by most Federal agencies; the Board does not require position descriptions as detailed as those required by the Civil Service Commission. Consequently, our analysis of employee duties was based mainly on recent job vacancy announcements, organization charts, catalogs of Board programs, division missions, job evaluation plans, and discussions with supervisory personnel.

In our opinion, employees in about 26 of the 57 positions we reviewed should have been required to file. They perform duties which significantly contribute to regulatory decisions and have access to confidential information. These 26 positions include review examiners, attorneys, economists, and section chiefs.

The position descriptions indicate that these employees make important recommendations on actions pertaining to the condition of banks and bank holding companies, resolve complex legal questions on holding company applications and Board regulatory matters, do short-term analysis of money and security markets, or implement banking laws and regulations. While none of the occupants of the 26 positions make final decisions or take final actions, we believe they should file because of the impact of their recommendations on the regulatory and decisionmaking processes and/or their access to confidential information.

BOARD EFFORTS TO IMPROVE FILING SYSTEM

Prior to our review the Board had begun analyzing the responsibilities of its employees to determine whether everyone who should have filed a financial disclosure statement was required to do so. During our review, the Deputy Secretary of the Board and the Assistant Director of Personnel held meetings with the Board's division directors to identify people in their divisions who influenced the Board's regulatory process and had access to confidential information.

We believe the Board's approach is generally a good one. Coupled with an evolving system of job evaluation plans (which will describe some "benchmark" positions and show how other positions relate to them), it should aid the Board in assessing which positions should file. To help the Board receive maximum benefit from its new approach, we believe it should:

- Put in writing its criteria for identifying filing positions, to better assure a uniform understanding and application by division directors.

--Annually update the filing recommendations made by division directors to keep track of changing duties within positions.

Such procedures would also be of benefit should there be a turnover of personnel in the ethics counselor's position.

On May 26, 1977, the Board amended its regulations to expand the number of positions requiring filing of statements. (See app. II.)

STATEMENT REVIEW CRITERIA

At the time of our review the Board had not developed written review criteria or procedures nor provided a list of all bank affiliates and Government security dealers for reviewing officials to follow. For example, the reviewing official had a list of bank holding companies but had no list of other types of bank affiliates or Government security dealers. Procedures and criteria to determine if speculation in securities had taken place had not been developed. Also, the Board had not developed loan criteria for employees involved in bank supervision and regulation.

Restrictions on stock ownership

Federal Reserve regulations prohibit all Board employees except special Government employees (consultants and experts) from buying stock in banks, bank affiliates, and Government security dealers; however, only 8% out of about 1,500 employees are required to file financial disclosure statements. The Board reminds each employee annually of the stock restrictions and has recently added language on its job application forms notifying applicants that financial restrictions exist.

The reviewing official is not able to identify all companies that fall into these categories. In reviewing the financial disclosure statements, the official only matches the employee's interests against a computer printout of bank holding companies. The review official does not use a listing of other types of bank affiliates, a listing of Government security dealers, or other reference materials. This may result in not all interests being properly reviewed.

In our review of employees' statements, we found that three of them reported five financial interests in four bank holding companies, but these interests had not been questioned by the Board. At our request, the Board reviewed the interests. After considering such factors as employees' duties

and materiality and size of the interest, the Board ruled that two of the employees could retain their holdings. No analysis of the third employee's interest was made, since he had sold his interests.

We believe that the Board should develop a comprehensive listing of prohibited interests, use it in their review, and make it available to all employees. Using the lists would help Board employees identify interests that they should not acquire and provide greater assurance to the Board that Federal Reserve regulations are being followed.

We were told that in the future the Board would inform the staff annually of the existence of the lists.

Restrictions on speculative dealings

Federal Reserve regulations prohibit Board employees from engaging in speculative dealings. However, at the time of our review the Board had not developed procedures enabling the review official to determine if speculation had taken place.

Frequency of trading, use of credit, and particularly the timing of transactions to take advantage of short-term price fluctuations are cited as significant indications of speculation. Although the Board has not officially defined what is meant by a speculative dealing, as a rule of thumb the reviewing official considers a dealing speculative if it involves buying and selling within 6 months. A criterion such as this should be placed in the Federal Reserve's regulations, and what would constitute "frequency of trading" should be more adequately defined.

Nor does the financial disclosure statement require enough information to be disclosed to allow the reviewing official to determine if speculation has taken place. For example, in 1976 six employees reported disposing of 16 stock interests, but there was no way to determine if the transactions involved speculation because the disclosure statement does not require:

- Dates of acquisition or disposal of financial interests (consequently, a reviewing official cannot determine from the statements if an investment was held more or less than 6 months).
- The number of shares owned (therefore, employees can continually buy and sell stock in a company as long as they hold some interest to disclose at the end of the

year. The reviewing official would never be able to identify these transactions or determine if they were speculative).

--A listing of all interests held during the year (therefore, an employee could engage in speculative dealings between reporting dates and avoid the June 30 disclosure requirement).

Such information is important in determining whether transactions are speculative and should be included on the statement or reported on a separate form.

To discourage circumvention of the speculative dealing prohibition, the Board should more adequately define what is meant by speculative dealing, devise procedures to determine if speculation has taken place, and revise its financial disclosure statement to require disclosure of data needed to monitor securities transactions.

The Board believes that the administrative burden of requiring employees to disclose additional information to enforce the regulations on speculative dealings would not be worth the effort. They would rather inform the employees annually about the prohibition and what is prohibited than set up an elaborate enforcement mechanism. At the conclusion of our review the Board was drafting a notice to the staff which would inform them annually of 6-month speculation criteria.

Much of the information which would be needed to enforce the regulations on speculative dealings would have to be disclosed by all Federal employees at the GS-16 level and above if a bill--S.555, the Public Official Integrity Act of 1977--is enacted into law. This bill, which passed the Senate on June 27, 1977, would require these employees to disclose, among other data, the identity, date, and value by category of any transaction in securities or commodities futures exceeding \$1,000. Many similar bills introduced in the House of Representatives would, if enacted, require the disclosure of the same information.

Restrictions on loans

18 U.S.C. 212 prohibits an officer, director, or employee of any Federal Reserve commercial bank from making a loan to any examiner who examines or has authority to examine the bank. 18 U.S.C. 213 further prohibits an examiner from accepting a loan from any bank, corporation, association, or organization examined by him.

For several years the Board has favored modifying these statutory prohibitions to permit a federally insured bank to make a home mortgage loan to a bank examiner under appropriate statutory safeguards. Also, because an examiner may experience difficulties in obtaining other personal loans, the Board favors legislation to permit other loans to an examiner to be made in accordance with regulations prescribed by the employing agency.

In applying 18 U.S.C. 212 and 213, the Federal Reserve has restricted the loans that Federal Reserve bank examiners may have. These examiners may not borrow from or use credit cards of any State member bank, national bank, or bank subsidiary of a bank holding company, even though in practice Federal Reserve examiners do not examine all of these entities.

Federal Reserve bank examiners are not the only System employees involved with the bank supervision and regulation functions. Certain Board employees may, among other duties,

- review and analyze confidential examinations relating to State member banks,
- determine the condition and solvency of State member banks,
- determine that necessary corrective programs are urged upon State member banks and that appropriate remedial actions are taken, and
- process applications for holding companies to expand by acquiring banks or other companies.

Federal Reserve regulations specifically permit Board employees, unless prohibited by law, Executive Order 11222, or an applicable regulation, to receive loans from any bank as long as the loan is on the same terms that would be available to the employee if he were not working for the Board. Five Board employees, including one official involved in bank supervision and regulation, reported loans with subsidiaries of bank holding companies that were supervised and regulated by the Federal Reserve. One subsidiary was a State bank belonging to the Federal Reserve. In addition, a Board member received a loan from a bank which appeared to be a bank holding company subsidiary. Another Board member was a guarantor of two notes with holding company subsidiaries.

We believe the Federal Reserve should develop specific criteria for restricting loans and credit card use from

banks, bank holding companies, and other financial institutions over which it has supervisory or regulatory responsibilities for employees whose duties may influence policy and decisionmaking. Such criteria, however, should insure that all employees have access to other institutions that are not involved with the Federal Reserve from which they may obtain credit.

The Office of the Comptroller of the Currency has extended the provisions of 18 U.S.C. 212 and 213 to include all personnel involved in decisionmaking or policy-setting positions. In a June 1, 1977, report (FPCD-77-49) we recommended that the Federal Deposit Insurance Corporation also develop specific regulations for restricting loans from certain banking institutions for employees in policy and decisionmaking positions.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

Because of its monetary, supervisory, and regulatory responsibilities, the Board must insure that its employees maintain high ethical standards. It seeks to accomplish this through its financial disclosure system, which identifies and resolves employee conflicts of interest. While the Board's system is generally effective, certain actions can be taken to improve it.

Employees in certain influential positions were not, at the time of our review, required to file disclosure statements, even though their duties and responsibilities indicated that they should have been required to file. (Subsequent to our review the Board amended its regulations to expand the number of positions required to file statements.) Also, the annual financial disclosure statement does not require enough information to determine and enable compliance with Board regulations.

Review guidelines and criteria for determining employee conflicts of interest need further development. The Board has not developed loan criteria for employees who, while not directly involved in bank examinations, have supervisory or regulatory responsibilities which influence banking policies and decisionmaking.

RECOMMENDATIONS

While the Board of Governors has required many other employees to file statements, we recommend that the Board, to further improve the financial disclosure system:

- Develop specific criteria for identifying positions and employees who should file statements and use these criteria in analyzing all agency positions.
- Develop written review criteria that inform employees of the types of interest that are prohibited and further define speculative transactions.

- Seek Civil Service Commission approval to revise the Board's financial disclosure statements to include additional data on employee loans, bank credit cards, and transactions in securities in order to enforce Board regulations.
- Develop criteria for restricting loans from supervised or regulated institutions for employees involved in bank supervision and regulation functions whose duties influence policy and decisionmaking.

BY: JAMES B. ROSENTHAL, CH. V., CHAIRMAN
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NINETY-FOURTH CONGRESS

Congress of the United States**House of Representatives**

COMMERCE, CONSUMER, AND
 MONETARY AFFAIRS SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS

RAYBURN HOUSE OFFICE BUILDING, ROOM B-350-A-B

WASHINGTON, D.C. 20518

June 30, 1976

Hon. Elmer Staats
 Comptroller General
 of the United States
 General Accounting Office
 441 G Street, N.W.
 Washington, D. C. 20548

Dear Mr. Staats:


During the past 2 years the General Accounting Office has been engaged in an extensive agency-by-agency review of Executive Branch compliance with Executive Order 11222, which prescribes standards of ethical conduct for Government officers and a financial disclosure system for Federal employees. This review is being conducted pursuant to my letter of November 11, 1974, and a similar request from Congressman Moss.

As you know, the General Accounting Office is presently conducting a performance and management audit of the operations and activities of the Federal bank regulatory agencies. On June 16, 1976, that audit was the subject of an informational hearing by the Commerce, Consumer and Monetary Affairs Subcommittee. The 12-page "Planned Approach for GAO's Study of Federal Supervision of Banks (Summary)," made available to the subcommittee, leaves unclear whether and how the GAO will review banking agencies compliance with all relevant "conflict of interest" statutes, regulations and executive orders. Because of my prior record of interest in the financial disclosure and conflict of interest matters and the subcommittee's present involvement in overseeing the Federal bank regulatory agencies, I am requesting that the Federal Personnel and Compensation Division of the General Accounting Office conduct, for and on behalf of the subcommittee, a review of the financial disclosure system of those agencies which regulate federally chartered or insured depository institutions. This includes the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board and the National Credit Union Administration. This review would cover subjects covered in previous

reports (FPCD-75-131; FPCD-76-6; FPCD-76-16; FPCD-76-21, etc.) and any other conflict of interest matters deemed relevant.

It would be greatly appreciated if these reviews could be completed and the reports made available to the subcommittee by January 1, 1977.

Sincerely,


Benjamin S. Rosenthal
Chairman

BSR:bt



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 2, 1977

Mr. Jack Covaleski
U. S. General Accounting Office
441 G Street, N. W.
Washington, D. C. 20548

Dear Jack:

With regard to the GAO's review of the financial reporting requirements under the Board's rules regarding "Employee Responsibilities and Conduct," enclosed is a copy of a document recently submitted to the Federal Register expanding the list of positions covered by the Board's rules.

Very truly yours,


William J. Carwood
Deputy Secretary of the Board

Enclosure

FEDERAL RESERVE SYSTEM

[12 CFR Part 264]

[Docket No. R-0101]

EMPLOYEE RESPONSIBILITIES AND CONDUCT

Statements of Employment and Financial Interests

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Amendment to the Board's rules of "Employee Responsibilities and Conduct."

SUMMARY: The amendment expands the number of positions for which Statements of Employment and Financial Interests are required pursuant to the Board's rules of "Employee Responsibilities and Conduct" and Executive Order 11222. It reflects additional emphasis being placed by the Board on financial reporting by key employees.

EFFECTIVE DATE: May 26, 1977

FOR FURTHER INFORMATION CONTACT: Griffith L. Garwood, Deputy Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202) 452-3259.

SUPPLEMENTARY INFORMATION:

At present Board officers are required to file Statements of Employment and Financial Interests. The proposal would expand this requirement to include approximately 120 additional individuals. The Board has determined that the duties and responsibilities of these positions justify a requirement that the incumbents file such reports in order to avoid any involvement in a possible conflict-of-interest

situation, or the appearance of conflict-of-interest, and to carry out the purposes of Executive Order 11222.

For the foregoing reason, and pursuant to the authority in Executive Order 11222 and 5 CFR § 735, § 264.735-8(a) is amended to read as follows:

Section 264.735-8 STATEMENTS OF EMPLOYMENT AND FINANCIAL INTERESTS

(a) Employees required to submit statements. Except as provided in paragraph (b) of this section, statements of employment and financial interests shall be filed by:

(1) Employees receiving compensation equivalent to GS-13 or above whose positions are identified in Appendix A to this Part by reason of meeting the following criteria:

(i) positions the incumbents of which are responsible for making a Government decision or taking a Government action in regard to:

- (A) contracting or procurement;
- (B) administering or monitoring grants or subsidies;
- (C) regulating or auditing private or other non-Federal enterprise; or

(D) other activities where the decision or action has an economic impact on the interests of any non-Federal enterprise.

(ii) positions which the Board determines require the incumbent to report employment and financial interests in order to carry out the purpose of law, executive order, this Part, and the Board's regulations.

(2) employees receiving compensation below the equivalent to GS-13 whose positions otherwise meet the criteria in subparagraph (1) when the inclusion of the positions in Appendix A has been specifically justified by the Board in writing to the Civil Service Commission as an exception that is essential to protect the integrity of the Government and avoid employee involvement in a possible conflict-of-interest situation.

* * * * *

APPENDIX A

General

Each Head, Associate, Deputy or Assistant Head of a Division or Office of the Board (regardless of specific title), Research Officer or Assistant to the Board.

Division of International Finance

Assistant to the Director
 Chief, Trade and Financial Studies Section
 Chief, International Banking Section
 Chief, U.S. International Transactions Section
 Chief, Financial Markets Section
 * Economist, Financial Markets Section
 Chief, World Payments and Economic Activity Section
 Chief, Quantitative Studies Section
 Chief, International Development Section

Division of Banking Supervision and Regulation

Chief, Banking Activities, Bank Holding Companies Section
 Chief, Nonbanking Activities, Bank Holding Companies Section
 * Review Examiner, Bank Holding Companies Section
 Chief, Financial Institutions Supervisory Section
 Senior Attorney, Financial Institutions Supervisory Section
 Senior Staff Assistant, Financial Institutions Supervisory Section
 Chief, Trust Activities Section
 Trust Review Examiner, Trust Activities Section
 Chief, Bank Holding Company Analysis Section
 * Financial Analyst, Bank Holding Company Analysis Section
 Chief Attorney, Securities Credit Regulation
 Senior Attorney, Securities Credit Regulation
 Accountant Analyst, State Bank Securities/Accounting Section
 * Foreign Banking Analyst, Foreign Banking Section
 Supervisory Examiner, Foreign Banking Section

Division of Administration Services

Program Analyst/Construction
 Chief of Planning
 Chief of Procurement

Office of the Controller

Chief, Finance and Accounting Section

* Grade 13 and above.

Division of Consumer Affairs

Chief, Fair Credit Practices Section
 Chief, Equal Credit Opportunity Section
 Chief, Compliance Section
 Senior Attorney

Division of Research and Statistics

Chief, Banking Section
 *Economist, Banking Section
 Chief, Capital Markets Section
 *Economist, Capital Markets Section
 Chief, Government Finance Section
 *Economist, Government Finance Section
 Chief, Mortgage and Consumer Finance Section
 Chief, Financial Structure Section
 *Economist, Financial Structure Section
 Chief, Econometric and Computer Applications Section
 *Economist, Econometric and Computer Applications Section
 Chief, National Income Section
 Chief, Wages, Prices and Productivity Section
 Chief, Business Conditions Section
 Chief, Financial Studies Section
 Chief, Special Studies Section
 Chief, Flow of Funds Section

Division of Federal Reserve Bank
Examinations and Budgets

Manager, Financial Examinations Section
 * Senior Financial Examiner

Division of Federal Reserve Bank Operations

Architect, Building Planning Section
 Manager, Lending, Credit and Cash Services
 Manager, Payments Mechanism Section
 Program Manager for EFTS Operations
 Program Manager, EFTS Planning

Legal Division

Senior Attorney

* Grade 13 and above.

Office of Board Members

Administrative Assistant to the Chairman
Staff Assistant
Economist

Office of Staff Director for Management

Assistant for Program Coordination

Office of Staff Director for Monetary Policy

Economist
Staff Assistant

Division of Data Processing

Senior Staff Assistant
Chief, Mathematical/Statistical Section
Project Analyst/Programmer - Reserves, Mathematical/Statistical Section
Project Analyst/Programmer - Models, Mathematical/Statistical Section
Project Analyst/Programmer - Transmissions of Edited Deposit Systems,
Mathematical/Statistical Section
Project Analyst/Programmer - Capital Markets, Mathematical/Statistical
Section
Chief, Bank Holding Company Applications Section
Chief, Data Production Section

The provisions of section 553 of Title 5, United States Code, relating to notice and public participation and deferred effective date are not followed in connection with the adoption of these amendments because the changes involved are procedural in nature and do not constitute substantive rules subject to the requirements of such section.

By order of the Board of Governors effective May 26, 1977.

(SEAL) (signed) Theodore E. Allison

Theodore E. Allison
Secretary of the Board

REPORTS ISSUED ON AGENCIES'FINANCIAL DISCLOSURE SYSTEMS

<u>Agency</u>	<u>Report title, number, and issue date</u>
Federal Power Commission	Need for Improving the Regulation of the Natural Gas Industry and Management of Internal Operations, B-180228, 9/13/74.
U.S. Geological Survey	Effectiveness of the Financial Disclosure System for Employees of the U.S. Geological Survey, FPCD-75-131, 3/3/75.
Civil Aeronautics Board	Effectiveness of the Financial Disclosure System for Civil Aeronautics Board Employees Needs Improvements, FPCD-76-6, 9/16/75.
Federal Maritime Commission	Improvements Needed in the Federal Maritime Commission's Financial Disclosure System for Employees, FPCD-76-16, 10/22/75.
U.S. Railway Association	Improvements Needed in Procurement and Financial Disclosure Activities of the U.S. Railway Association, RED-76-41, 11/5/75.
Department of the Interior	Department of the Interior Improves Its Financial Disclosure System for Employees, FPCD-75-167, 12/2/75.
Food and Drug Administration	Financial Disclosure System for Employees of the Food and Drug Administration Needs Tightening, FPCD-76-21, 1/19/76.
U.S. Geological Survey	Letter report to Congressman John Moss on U.S. Geological Survey Employees' Divestiture, FPCD-76-37, 2/2/76.

<u>Agency</u>	<u>Report title, number, and issue date</u>
Inter-American Foundation	Inter-American Foundation's Financial Disclosure System for Employees and Its Procurement Practices, ID-76-69, 6/30/76.
Federal Aviation Administration	Problems With the Financial Disclosure System, Federal Aviation Administration, FPCD-76-50, 8/4/76.
Department of Commerce	Problems Found in the Financial Disclosure System for Department of Commerce Employees, FPCD-76-55, 8/10/76.
Small Business Administration	Management Control Functions of the Small Business Administration--Improvements Are Needed, GGD-76-74, 8/23/76.
Export-Import Bank	Export-Import Bank's Financial Disclosure System for Employees and Its Procurement Practice, ID-76-81, 10/4/76.
Federal Communications Commission	Actions Needed To Improve the Federal Communications Commission Financial Disclosure System, FPCD-76-51, 12/21/76.
Tennessee Valley Authority	Tennessee Valley Authority: Information on Certain Contracting and Personnel Management Activities, CED-77-4, 12/29/76.
Food and Drug Administration	The Food and Drug Administration's Financial Disclosure System for Special Government Employees: Progress and Problems, FPCD-76-99, 1/24/77.
Energy Research and Development Administration	An Improved Financial Disclosure System, FPCD-77-14, 1/26/77.

<u>Agency</u>	<u>Report title, number, and issue date</u>
Department of Agriculture	Financial Disclosure System for Department of Agriculture Employees Needs Strengthening, FPCD-77-17, 1/31/77.
The White House	Action Needed To Make the Executive Branch Financial Disclosure System Effective, FPCD-77-23, 2/28/77.
Office of the Comptroller of the Currency	Financial Disclosure Systems in Banking Regulatory Agencies, FPCD-77-29, 3/23/77.
The Federal Deposit Insurance Corporation	The Federal Deposit Insurance Corporation's Financial Disclosure Regulations Should Be Improved, FPCD-77-49, 6/1/77.
Civil Service Commission	Financial Disclosure For High-Level Executive Officials: The Current System And The New Commitment, FPCD-77-59, 8/1/77.

PRINCIPAL FEDERAL RESERVE SYSTEM OFFICIALSRESPONSIBLE FOR ADMINISTERING ACTIVITIESDISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
CHAIRMAN, BOARD OF GOVERNORS:		
Arthur R. Burns	Feb. 1970	Present
VICE-CHAIRMAN, BOARD OF GOVERNORS:		
Stephen S. Gardner	Feb. 1976	Present
George W. Mitchell	May 1973	Feb. 1976
GOVERNORS:		
David M. Lilly	June 1976	Present
J. Charles Partee	Jan. 1976	Present
Philip C. Jackson, Jr.	July 1975	Present
Philip E. Coldwell	Oct. 1974	Present
Henry C. Wallich	Mar. 1974	Present
Robert C. Holland	June 1973	May 1976
Jeffrey M. Bucher	June 1972	Jan. 1976