United States Senate

COMMITTEE ON FINANCE
WASHINGTON, DC 20510–6200

July 13, 2016

The Honorable Janet Yellen
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, D.C. 20551

Dear Chairman Yellen,

I have made repeated inquiries since July of 2011 of the Federal Reserve (Fed), Treasury, and other members of the opaque Financial Stability Oversight Council (FSOC) about contingency plans formulated for any default on U.S. Treasury securities (stemming, for example, from cyberattacks, terrorist attacks, weather events, debt limit impasses, or any other contingency that could interrupt Treasury access to funding markets) or downgrade of the U.S. sovereign credit rating. Unfortunately, I have still not received adequate responses, and in most cases no responses at all, since I began asking questions. As Chairman of the Senate Finance Committee, I have oversight responsibilities which include oversight of debt management functions of the U.S. Treasury and any fiscal agency agreements made by Treasury.

As you know, it is clear that the Federal Reserve and the Treasury have formulated contingency plans for a federal debt default or a credit-rating downgrade. As I have repeatedly identified, according to the Minutes of the August 9, 2011 Federal Open Market Committee (FOMC) meeting, released on August 30, 2011, in a Videoconference Meeting of the FOMC on August 1, 2011:

> "…the Committee met by videoconference to discuss issues associated with contingencies in the event that the Treasury was temporarily unable to meet its obligations because the statutory federal debt limit was not raised or in the event of a downgrade of the U.S. sovereign credit rating. The staff provided an update on the debt limit status, conditions in financial markets, *plans that the Federal Reserve and the Treasury had developed* regarding the processing of federal payments, potential implications for bank supervision and regulatory policies, and *possible actions that the Federal Reserve could take* if disruptions to market functioning posed a threat to the Federal Reserve's economic objectives." (Italics added.)

As I have also repeatedly made clear, I do not seek information about monetary policy decisions. Nor do I seek repetition of arguments identifying risks associated with debt limit impasses; those are well known, and my inquiry includes the broader issue of contingency planning by the government for debt-default events that include contingencies like cyberattacks, terror attacks, adverse weather events, and the like.

Responses to my repeated requests for information about contingency plans of the Fed and Treasury for debt default or credit rating downgrades have repeatedly drawn the same response which, paraphrased, amounts to the following: we never submitted a plan to the President because a debt limit impasse was averted and those impasses pose risks, so we really didn't have plans. That response is woefully incomplete and inadequate, especially given, as you know, that default contingencies can arise from many events that have nothing to do with the debt limit. The American public and Congress are entitled to know what the government plans to do if those events were to arise, no matter how much we all wish they never will, and certainly deserve, at minimum, information parity with large financial firms.

Disturbingly, investigations by the House Financial Services Committee have uncovered clear documentation that contingency plans involving the Fed, Treasury, and large financial firms have been developed, were in place, and have even been subjected to "tabletop exercise" testing, yet never revealed to Congress in spite of my numerous requests for such information. Moreover, documents uncovered by the House Financial Services Committee identify that Federal Reserve officials remained silent on planning during debt limit impasses, under the idea that the Fed's Fiscal Agent agreements with Treasury somehow require that Fed official stay mum on risks to the financial system, unless given permission from Treasury.

These revelations are deeply concerning. The formulation of plans that involve the Fed and Treasury, and include roles for large private-sector financial firms, with implicit understandings that information should be withheld from the American people and Congress, is unacceptable. Moreover, it is not at all clear who in the Fed or Treasury has access to what I have repeatedly been told by Treasury officials is "market sensitive" information that is withheld from Congress because of its sensitivity. If, for example, Congress and the American people are not allowed by Treasury to have access to cash forecasts about how much cash Treasury expects to have in the taxpayers' till surrounding breach of a debt limit, while the very same information is circulated among Fed and Treasury contingency planners, how are leaks of "market sensitive" information prevented?

Please respond to my following requests.

I once again ask that the Federal Reserve provide me with details of the "plans that the Federal Reserve and the Treasury had developed," as referenced in the Minutes of the August 9, 2011 Federal Open Market Committee (FOMC) meeting.

Please disclose the security protocols, including clearances of relevant employees, surrounding work performed by Federal Reserve System employees who have participated since January 2011 in contingency planning related to events such as debt limit impasses, cyberattacks, weather events, or other events that could prevent market access for Treasury debt transactions, including those who have participated in "debt ceiling tabletop exercise" activities, and those who have had access to Treasury cash balance information and balance projections surrounding an impending breach of the federal debt limit.

Please provide a list of names of employees at the Federal Reserve Board, Federal Reserve Bank of New York, and any of the Federal Reserve System's other Regional Banks who have participated since January 2011 in development of contingency plans for U.S. debt default or credit rating downgrade, and identify, for each employee, any security clearance that the employee possessed.

Please provide copies of all Fiscal Agent agreements among the Fed, any of the Federal Reserve System's Regional Banks (e.g., the Federal Reserve Bank of St. Louis where, as I understand it, the Fed has consolidated Fiscal Agent functions), and the U.S. Treasury, including the Bureau of the Fiscal Service. Please include any agreements in which Treasury may have specified that the Federal Reserve, acting as Fiscal Agent, shall not share information with Congress.

Please provide a listing, for each fiscal year beginning in fiscal year 2009, of amounts received by the Federal Reserve System, including any of its Regional Banks, of each Fiscal Agent activity performed by the Fed acting as Fiscal Agent of the Treasury. Please also describe the work performed by the Federal Reserve for each of those activities.

Please provide the information requested above by August 15, 2016.

Sincerely,

Orrin Hatch

Orrin G. Hatch
Chairman, U.S. Senate Committee on Finance