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United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510–6200

May 22, 2014

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 of the Federal Reserve (Fed) and members of the Financial Stability Oversight Council (FSOC) about contingency plans formulated for the event of any default on U.S. Treasury securities or downgrade of the U.S. sovereign credit rating. Unfortunately, I have not received adequate responses, and in most cases no responses at all, since I began asking questions in late July of 2011. My most recent inquiry of the Fed was in a January 22, 2013 letter to then-Chairman Bernanke. I have not received a response.

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 my earlier letter indicated, 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 was also made clear in my earlier letter, I do not seek information about monetary policy decisions. It is difficult to see how one could regard as monetary policy the act of planning "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 marketing functioning posed a threat to the Federal Reserve's economic objectives." Such a broad interpretation of what might possibly involve something called "monetary policy" does little, other than to invite secretive planning by the Fed and other government agencies,

discussion of such planning in an FOMC meeting, and cloaking any plans under the guise of monetary policy.

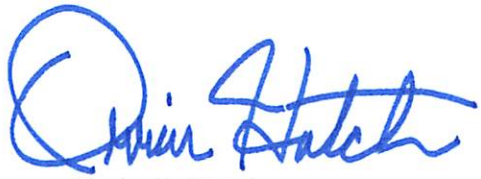
Of course, planning by the Fed and Treasury and other regulators on the FSOC for the contingencies described above would not only be prudent, but is something that I expect. As Ranking Member of the Senate Finance Committee with oversight responsibilities over Treasury, its debt, and its Fiscal Agents like the Fed, contingency plans related to Treasury debt are also things about which I should be fully informed. As a regulator that requires stress tests and living wills of private-sector firms, certainly the Fed understands the need for contingency plans and transparency with those responsible for oversight.

The plans that the Federal Reserve and Treasury formulated, which are referenced in the FOMC meeting minutes noted above, were for low-, but positive-probability events of a federal debt rating downgrade or default. Those plans would also be relevant for anything that could cause delayed payment on Treasury debt, including system failures, terrorist attacks, and natural disasters.

The Federal Reserve acts as a Fiscal Agent of the Treasury, including processing of Treasury securities over the Fedwire Securities system and should be transparent about any contingency plans concerning Treasury debt with Congress and the American people. I would hope, also, that the Fed would respond to written inquires that I make about plans that it has formulated in conjunction with Treasury. Thus far, however, the Fed, Treasury, and other regulators on the FSOC have been secretive and have not, for years, provided information that I have been requesting.

This lack of transparency is especially concerning given that the Federal Reserve Bank of New York (FRBNY) has repeatedly discussed contingency plans with Wall Street representatives, as evidenced in the minutes of a host of meetings involving FRBNY officials and representatives of large Wall Street firms in the "Treasury Market Practices Group" sponsored by the FRBNY. If the Fed can share its contingency planning and ideas with Wall Street, I believe that it can also do so with Congress and the American people. Consequently, I once again ask that the Fed provide me with details of any contingency plans that were formulated by the Federal Reserve, including any done in consultation with the Treasury and including those described in the minutes of the August 9, 2011 FOMC meeting. I request that you respond to me on or before June 2, 2014.

Sincerely,



Orrin G. Hatch
U.S. Senator