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Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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March 18, 2010

The Honorable Ben S. Bernanke
Chairman of the Board of Governors
of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Chairman Bernanke:

We write you in connection with the House Oversight and Government Reform Committee's hearings on the federal bailout of American International Group (AIG). The Committee is the principal oversight committee in the U.S. House of Representatives, with jurisdiction over "any matter." Under Rules X and XI of the Rules of the House of Representatives, the Committee is investigating this matter further.

As you may recall, in the fall of 2008, at the height of the financial crisis, Mr. Stephen Friedman served both as a member of the Board of Directors of Goldman Sachs and as Chairman of the Board of Directors of the Federal Reserve Bank of New York (New York Fed). In September 2008, Goldman Sachs converted from an investment bank into a bank holding company, making the New York Fed its primary regulator. At the time of the conversion, Mr. Friedman owned approximately 46,000 shares in Goldman.

Notably, under a long-standing policy of the Board of Governors of the Federal Reserve System (Federal Reserve), Mr. Friedman was prohibited from owning shares of any company under the supervision of the Federal Reserve. Despite the clear prohibition and apparent conflict of interest, Mr. Friedman requested a waiver¹ from the Board of Governors in Washington and was allowed to continue serving as chairman, in direct violation of Fed policy, until a decision on the waiver was made.

In the meantime, on December 17, 2008, despite the prohibition, Mr. Friedman bought an additional 37,000 shares of Goldman Sachs, a company that was under the supervision at the New York Fed. A waiver was granted by the Board of Governors on January 21, 2009.

¹ The waiver was formally requested by the General Counsel of the New York Fed on behalf of Mr. Friedman.

It is also noteworthy that at the time of Mr. Friedman's dual role, the New York Fed was actively considering the possibility of paying tens of billions of dollars in taxpayer funding to AIG's credit default swap counterparties, including Goldman. In Goldman's case, this counterparty payment was made in November of 2008 and it amounted to roughly \$13 billion, courtesy of the American taxpayer.

What makes these transactions and the waiver that the Federal Reserve granted Mr. Friedman even more troubling is that the precise financial exposure Goldman faced from AIG was not publicly known when Mr. Friedman bought the Goldman stock in December of 2008. Indeed, the precise amount AIG paid Goldman was not released until March of 2009, after Congress placed considerable pressure on the Federal Reserve to disclose that information.

Mr. Friedman's dual role at the New York Fed and Goldman, his purchase of the Goldman stock in December 2008, and the Federal Reserve's waiver of its conflict of interest policy after the fact, raise serious questions about the integrity of the Fed's operations.

The Committee on Oversight and Government Reform received testimony from Mr. Friedman at a hearing on January 27, 2010, but key questions remain unanswered. Please provide written answers to the following questions:

1. What is the official Federal Reserve policy on ownership of stock by members of the Boards of Directors of the regional Federal Reserve banks?
2. What measures has the Federal Reserve adopted to ensure that the policy is enforced?
3. Who is currently responsible for board member compliance with applicable stock ownership prohibitions and conflict of interest policies at the Federal Reserve?
4. Who was responsible for board member compliance with stock ownership and conflict of interest policies at the Federal Reserve during the time that Mr. Friedman served as a board member at the New York Fed?
5. When and how did the New York Fed and the Federal Reserve become aware that Mr. Friedman was in violation of Federal Reserve policy on ownership of stock?
6. When the New York Fed and the Federal Reserve became aware that Mr. Friedman was not in compliance with Federal Reserve policy, why wasn't Mr. Friedman asked to resign or forced to remove the conflict by selling the Goldman shares he already owned?
7. What was the basis for the decision by the Federal Reserve to grant Mr. Friedman this waiver in light of the obvious conflict presented by his role at the New York Fed and his simultaneous role as a Goldman director and shareholder?

8. What were the terms and conditions of the waiver granted by the Federal Reserve to Mr. Friedman?
9. Prior to granting the waiver, did the Federal Reserve investigate to determine what non-public information Mr. Friedman may have had access to by virtue of his positions on both the Goldman Board of Directors and as Chairman of the New York Fed Board of Directors?
10. Was Mr. Friedman told by anyone at the New York Fed or at the Federal Reserve that he should proceed as if the waiver had been granted, even though the waiver was not issued until after he purchased the Goldman stock? If he was so instructed, who gave Mr. Friedman this instruction and why?
11. Did the waiver the Federal Reserve issued Mr. Friedman in January 2009 explicitly permit him to purchase additional shares of Goldman?
12. When the Federal Reserve made the decision to grant Mr. Friedman the waiver in January 2009, was it aware that Mr. Friedman had purchased the additional 37,000 Goldman shares a month earlier?
13. Has the Federal Reserve investigated whether Goldman Sachs or Mr. Friedman benefitted financially from Mr. Friedman serving as Chairman of the Board of the New York Fed?
14. Has the Federal Reserve investigated whether Mr. Friedman benefitted financially from his purchase of 37,000 shares of Goldman Sachs shares while he served as Chairman of the Board of the New York Fed? If so, has the amount of financial benefit been determined?

In addition, please provide copies of the following records:

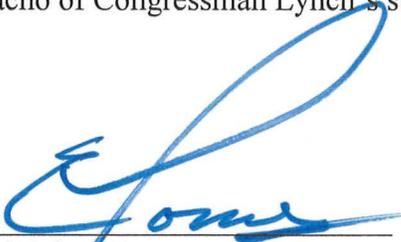
15. All records in the care, custody, or control of the Federal Reserve relating to Mr. Friedman's purchases of Goldman stock in December 2008 and January 2009.
16. A copy of the specific provision of Federal Reserve policy that prohibited Mr. Friedman from serving on the New York Fed while owning shares of a company subject to Fed supervision.
17. All records relating to the Federal Reserve's decision to grant Mr. Friedman a waiver that allowed him to serve as Chairman of the New York Fed while also owning millions of dollars of stock in a company that was supervised by the Federal Reserve.
18. Copies of all waiver requests submitted by members of the boards of directors of the regional Federal Reserve banks to the Federal Reserve during the past ten years in connection with the prohibition against ownership or purchase of stock, or options to

purchase stock, in an entity supervised by the Federal Reserve, along with copies of all decisions to grant or deny such requests.

Please deliver the requested information and records to the Committee on Oversight and Government Reform, room 2157 Rayburn House Office Building, no later than 12:00 noon on Thursday, March 25, 2010. To facilitate delivery and review, we prefer that the records be delivered in digital form. Please note that the terms "records" and "relating to" are defined in the attachment to this letter.

Should you have any questions about this request or need additional information, please contact John Arlington or Christopher Staszak of the Committee staff at 202-225-5051, or Cara Camacho of Congressman Lynch's staff at 202-225-8273.

Sincerely,



Edolphus Towns
Chairman



Stephen Lynch
Member

cc: The Honorable Darrell Issa
Ranking Minority Member
Committee on Oversight and Government Reform

The Honorable Mary Schapiro
Chairman
United States Securities and Exchange Commission

Mr. Thomas C. Baxter, Jr.
General Counsel and Executive Vice President
Federal Reserve Bank of New York

ATTACHMENT

1. The term "records" is to be construed in the broadest sense and shall mean any written or graphic material, however produced or reproduced, of any kind or description, consisting of the original and any non-identical copy (whether different from the original because of notes made on or attached to such copy or otherwise) and drafts and both sides thereof, whether printed or recorded electronically or magnetically or stored in any type of data bank, including, but not limited to, the following: correspondence, memoranda, records, summaries of personal conversations or interviews, minutes or records of meetings or conferences, opinions or reports of consultants, projections, statistical statements, drafts, contracts, agreements, purchase orders, invoices, confirmations, telegraphs, telexes, agendas, books, notes, pamphlets, periodicals, reports, studies, evaluations, opinions, logs, diaries, desk calendars, appointment books, tape recordings, video recordings, e-mails, voice mails, computer tapes, or other computer stored matter, magnetic tapes, microfilm, microfiche, punch cards, all other records kept by electronic, photographic, or mechanical means, charts, photographs, notebooks, drawings, plans, inter-office communications, intra-office and intra-departmental communications, transcripts, checks and canceled checks, bank statements, ledgers, books, records or statements of accounts, and papers and things similar to any of the foregoing, however denominated.
2. The terms "relating," "relate," or "regarding" as to any given subject means anything that constitutes, contains, embodies, identifies, deals with, or is in any manner whatsoever pertinent to that subject, including but not limited to records concerning the preparation of other records.