



# Justice Dept. probe comes at a tricky time for the Fed

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The Federal Reserve is facing a Department of Justice probe and congressional scrutiny over a monetary policy meeting leak at a difficult time, just as lawmakers from both parties are working on legislation to trim the central bank's authority.

Fed Chairwoman Janet Yellen confirmed Monday that the Justice Department was investigating the source of the 2012 leak in a letter sent to the chairman of the House Financial Services Committee, Rep. Jeb Hensarling of Texas, and the chairman of the subcommittee responsible for oversight, Sean Duffy of Wisconsin.

While the Fed conducted an internal investigation into the leak in 2013, and it [was reported by ProPublica](#) in December, it is newly in the public's eye thanks to Congress' involvement.

"The leak has hurt the credibility of the Fed," said Mark Calabria, the director of financial regulatory studies at the libertarian Cato Institute and a proponent of measures to limit the Fed's power.

Having the leak investigation in the news, Calabria said, "makes it more difficult for them to push back" against legislation aimed at the Fed.

"At a minimum, this disclosure suggests the Fed lacks sufficient internal controls to safeguard the confidentiality of market-sensitive information," Hensarling and Duffy said in a statement Tuesday, adding that their investigation would continue despite "disappointing attempts to thwart congressional oversight."

The investigation is just the latest complaint Republicans have raised with the Fed's conduct. In February, reeling off a list of criticisms of the Fed's easy money policies and regulations,

Hensarling said, "I for one believe Fed reforms are needed and I for one believe Fed reforms are coming."

The leak, which occurred in October 2012, was not large. It involved the release of information from the Fed's September meeting before the information was set to be publicly released.

In March, a Fed summary of the incident showed that the vast majority of what was leaked was published in a front-page [Wall Street Journal article](#) by reporter Jon Hilsenrath on then-chairman Ben Bernanke's efforts to build support for a new monetary stimulus effort.

A little additional information about the Fed's deliberations, however, was revealed in a private newsletter sent by consulting firm Medley Global Advisors. It's still not known how the firm got that information.

Sen. Richard Shelby of Alabama, the Republican chairman of the Senate Banking Committee, said the investigation showed the need for more accountability at the Fed. "We need some more strong oversight over the Fed and we are working on legislation," [Shelby told Bloomberg](#) when news of the investigation first trickled out in March.

It's not just Republicans, however, who have expressed concern about the leak. Among other Democrats, Sen. Elizabeth Warren of Massachusetts has inquired about it and asked Yellen in February for a meeting to discuss the source of the leak. Warren's office did not respond Wednesday to an inquiry regarding whether the meeting has been scheduled or taken place.

Warren, with Republican Sen. David Vitter of Louisiana, is working on legislation intending to limit the Fed's ability to extend emergency loans to banks, [according to the Wall Street Journal](#).

That measure is just one of a host of possible bills that could be worked into a reform package being developed by Shelby or could see consideration separately by Congress later in the year.

Sen. Rand Paul, R-Ky., has pushed for a bill that would subject the Fed's monetary policy deliberations to audits from the Government Accountability Office. Sen. Jack Reed, D-R.I., has offered legislation to require the president of the Federal Reserve Bank of New York, a position with unique power within the Federal Reserve system, to be appointed by the president subject to confirmation by the Senate.

Those and other changes could be included in an eventual compromise bill. "It really is going to look like a hodgepodge," said Calabria, a former Shelby staffer.

Fed officials, meanwhile, have staked out opposition to virtually any change.

"I think the Federal Reserve works well," Yellen said in March, when asked if the central bank lacked accountability or transparency.

"I don't think the system is broken, I think it's working well, I don't see need for changes," Yellen said, acknowledging that it was ultimately up to Congress to decide.

