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FINANCIAL SERVICES COMMITTEE

SUBCOMMITTEE ON
INVESTOR PROTECTION, ENTREPRENEURSHIP
AND CAPITAL MARKETS
SUBCOMMITTEE ON
DIVERSITY AND INCLUSION

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House of Representatives
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August 19, 2019

Honorable Steven Mnuchin
Secretary of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Mnuchin:

I am following up on my previous letter dated July 27th, 2018 (see enclosed).

Given the importance of the issues and questions raised in the letter, I am especially disappointed you have inexplicably failed to provide a response, even as Federal Reserve Chairman Jerome Powell responded long ago.

I ask that you provide a complete and thorough response within 30 days to the questions posed.

Sincerely,



Alex X. Mooney
Member of Congress

Enclosures: Congressman Mooney letter dated July 27, 2018 (with its enclosure)

Congress of the United States
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July 27, 2018

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Honorable Steven Mnuchin
Secretary of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Honorable Jerome Powell, Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitutional Avenue, NW
Washington, DC 20551

Dear Secretary Mnuchin and Chairman Powell:

I write in response to your July 11, 2018, and July 12, 2018, letters addressing questions I raised in my April 24 letter regarding the Treasury Department's and the Federal Reserve's activities involving gold.

I appreciated the responses but a few questions were either not answered at all or not fully addressed. I also have a few follow-up questions.

1. Records in the archives of the historian of the U.S. State Department describe U.S. government policy in recent decades as aiming to drive gold out of the world financial system in favor of the Federal Reserve Note or Special Drawing Rights issued by the International Monetary Fund (IMF):

<https://history.state.gov/historicaldocuments/frus1969-76v31/d63>

Is this still U.S. government policy toward gold? If not, what *is* the U.S. government's current policy toward gold?

2. What was the policy justification for prohibiting IMF members from linking their currencies to gold? (Section 4-2b of the IMF Articles of Agreement)
3. Are the Fed and Treasury aware of the recent correlation of the gold price with the price of the Chinese yuan and the valuation of the IMF's Special Drawing Rights? Do these correlations reflect surreptitious intervention in U.S. currency markets by China and currency manipulation by China? What do the Fed and Treasury think of these correlations?
4. The response from Treasury's acting assistant secretary, Brad Bailey, addressed gold transactions between the Treasury Department / U.S. Mint and the Bank for International Settlements, Bank of England, and other central banks or governments. But Mr. Bailey did not address gold transactions by the Exchange Stabilization Fund (ESF), which the Treasury oversees.

With respect to the ESF's involvement in gold swaps, Fed General Counsel Virgil Mattingly advised the Federal Open Market Committee on their legality in 1995. Specifically, on Page 69 of the transcript of the January 31-February 1, 1995 FOMC meeting, Mattingly said:

"It's pretty clear that these ESF operations are authorized. I don't think there is a legal problem in terms of the authority. The statute is very broadly worded in terms of words like 'credit' -- it has covered things like the gold swaps -- and it confers broad authority. Counsel at the White House called the Treasury's general counsel today and asked, 'Are you sure?' And the Treasury's general counsel said, 'I am sure.' Everyone is satisfied that a legal issue is not involved, if that helps."

<https://www.federalreserve.gov/monetarypolicy/files/FOMC19950201meeting.pdf>

So I ask for a description of transactions in gold and gold derivatives by the Exchange Stabilization Fund or any other U.S. government agency, whether undertaken directly or through the Bank for International Settlements, Bank of England, other central banks, governments, or agencies or entities, governmental or non-governmental, including commercial banks or brokers. I also ask for a description of transactions in gold or gold derivatives undertaken by foreign government agencies or brokers at the urging of the U.S. government.

5. In a letter dated September 17, 2009, a copy of which is enclosed, responding to a Freedom of Information Act request about to the Fed's gold activities, Fed Board of Governors member Kevin M. Warsh said the Fed was declining to disclose information uncovered during the gold records search relating to "swap arrangements with foreign banks on behalf of the Federal Reserve System."

Given Mr. Warsh's apparent acknowledgement of the Fed's involvement in gold transactions, please explain how this reconciles with Chairman Powell's July 12, 2018, letter stating the following:

"The Federal Reserve does not, either on its own behalf or on behalf of others, including other government agencies, lend gold or silver, facilitate the lending of gold or silver, or trade in any securities, such as futures contracts and call and put options, involving gold or silver. The Federal Reserve does not engage, nor has it ever engaged, in 'gold swaps.'"

6. What markets, if any, are the Federal Reserve and the Treasury trading in, and through what mechanisms? If the Federal Reserve and Treasury are engaged in trading, what is the objective?
7. The letter from Mr. Bailey notes that the Treasury conducts an annual audit of Mint Schedules that involves "an inspection of all gold compartments and Joint Seals to verify the compartments are locked, and the seals have not been tampered with and are intact."

But an audit of Mint Schedules is neither an inventory nor an audit of our country's gold. When was the last time, if ever, that there was a complete inventory conducted of U.S. government-owned gold? What were the results of the most recent inventory?

A true audit would also review any encumbrances placed upon the metals owned by the United States. Has there been an accounting for any such encumbrances, as part of any audit, inventory, or other review? If so, when did this last occur and what were the results?

Thank you for your consideration. I look forward to receiving your complete response to these questions.

Sincerely,

**Alex X. Mooney
Member of Congress**

Cc: Acting Assistant Secretary Brad Bailey, U.S. Treasury

**Enclosures: Governor Warsh's letter dated September 17, 2009
Chairman Powell's letter dated July 12, 2018
Acting Assistant Secretary Bailey's letter dated July 11, 2008
Congressman Mooney letter dated April 24, 2018**