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CHINA'S THREAT TO THE FED: CHINESE INFLUENCE AND INFORMATION THEFT AT U.S. FEDERAL RESERVE BANKS

MINORITY STAFF REPORT

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**CHINA’S THREAT TO THE FED: CHINESE INFLUENCE AND INFORMATION
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EXECUTIVE SUMMARY

At the core of the health of the U.S. economy and the stability of the U.S. financial system is our central bank—the Federal Reserve System (“Federal Reserve”). Since 1913, the Federal Reserve has aimed to provide the nation with a safe, flexible, and more stable monetary and financial system. This report reveals a sustained effort by China, over more than a decade, to gain influence over the Federal Reserve and a failure by the Federal Reserve to combat this threat effectively.

China has made no secret of its goal to supplant the U.S. as the global economic leader and end the U.S. dollar’s status as the world’s primary reserve currency. China has been willing to use every tool at its disposal in order to do so. As Federal Bureau of Investigation Director Christopher Wray warned, “the greatest long-term threat to our nation’s information and intellectual property, and to our economic vitality, is the counterintelligence and economic espionage threat from China. It’s a threat to our economic security—and by extension, to our national security.”¹ He underscored that “China is engaged in a whole-of-state effort to become the world’s only superpower by any means necessary.”²

Given the scale and scope of China’s ambitions, it is no surprise that this investigation finds us in familiar territory. In 2019, an investigative report of the Permanent Subcommittee on Investigations of the Committee on Homeland Security and Governmental Affairs, chaired by Senator Portman, documented how China uses talent recruitment programs, the most prominent of which is the Thousand Talents Plan, to target science and technology sectors. Talent recruitment plans aim to recruit high-quality overseas talent—primarily from the United States—including academics, scientists, engineers, entrepreneurs, and finance experts. The plans provide monetary benefits and other incentives to lure experts into providing proprietary information or research to China in violation of our laws and conflict of interest rules. China, in turn, exploits American research, intellectual property, and open collaboration—often U.S. taxpayer funded—for its own economic and military gain.

Although the Subcommittee’s 2019 talent recruitment plan investigation focused on America’s science and technology sectors, this investigation reveals that China has also targeted the Federal Reserve to undermine American economic and monetary policy since at least 2013.

* * * * *

¹ Christopher Wray, Director, Fed. Bureau of Investigation, Remarks at the Hudson Institute, Video Event: China’s Attempt to Influence U.S. Institutions (July 7, 2020).

² *Id.*

This investigation of the U.S. Federal Reserve shows how China has used a variety of tactics to recruit U.S.-based economists to provide China with knowledge and intellectual capital in exchange for monetary gain and other benefits.

A Federal Reserve counterintelligence analysis identified 13 persons of interest as having connections with known Chinese talent recruitment plan members or “having similar patterns of activity the [Federal Reserve] analysts deemed” of potential concern. Federal Reserve investigators dubbed these individuals, representing no fewer than 8 of the 12 Federal Reserve Banks, as the “P-Network.”

These individuals’ actions and connections to Chinese talent programs are alarming. This report includes selected case studies on P-Network individuals: stark examples of the ways in which the Chinese Government has attempted to gain access to sensitive internal information and influence the Federal Reserve. For example,

- *Individual Forcibly Detained in China.* Chinese officials forcibly detained one Federal Reserve Bank employee on four separate occasions during a 2019 trip to Shanghai, including at his hotel. Chinese officials threatened the individual’s family unless the individual provided them with economic information and assistance, allegedly tapped the employee’s phones and computers, and copied the contact information of other Federal Reserve officials from the individual’s WeChat account. The officials attempted to coerce the employee—under threat of imprisonment—to sign a letter that the individual would not discuss the interactions.
- *Affiliations with Chinese Bank.* The investigation found multiple U.S. Federal Reserve employees with close ties to the People’s Bank of China (“PBOC”)—China’s central bank. One individual at a Federal Reserve Bank previously held a position with the PBOC for part of 2017 meant for “overseas, top performing talent with directly applicable, advanced modeling experience, and insight with China and U.S. economic monetary policy.”
- *Ties to Chinese Universities Linked to Talent Programs.* Multiple Federal Reserve employees maintain close ties to Chinese academic organizations known to be affiliated with China’s Thousand Talents Program, such as Shanghai Advanced Institute of Finance at Shanghai Jiao Tong University, Tsinghua University, Wuhan University, and Fanhai International School of Finance at Fudan University. For example, one Federal Reserve Bank employee acknowledged that he applied to the Thousand Talents Program in exchange for sponsorship by one of the universities.
- *Connections to Chinese Media Outlets.* An employee at one Federal Reserve Bank directly interacted with officials at China’s Xinhua News Agency—an

arm of Chinese Government with propaganda and intelligence collection functions—to share articles, offer assistance with press questions, and invite officials to visit Washington, D.C., and the city in which his home Bank is located. This individual also had connections with Chinese talent recruitment programs and extensive and unusual travel patterns in China.

- *Unapproved Data Transfers.* One Federal Reserve Bank employee with sensitive access to Federal Reserve Board data provided modelling code to a Chinese university with ties to PBOC. Another Federal Reserve Bank employee attempted to transfer large volumes of data from the Federal Reserve to an external site in at least two separate instances. The individual had continuous contacts with Chinese nationals and universities associated with talent recruitment programs as well as access to sensitive datasets “considered of high value to an adversary” and had previously received a request from an individual with ties to the Chinese Government for non-public information on three Federal Reserve Bank presidents’ views on rate hikes.
- *Support for Known Talent Program Members.* Multiple Federal Reserve employees recommended Chinese contacts and known talent members for awards and academic positions. An individual at a Federal Reserve Bank nominated a dean at Peking University for a significant award, describing the dean as highly knowledgeable about the National Thousand Talents Program.
- *Attempts at Subterfuge and Tradecraft.* When confronted about suspicious activity, at least one Federal Reserve employee resorted to adversarial tradecraft—switching to different, unmonitored communications channels and changing email names. Analysis of the internet browsing history of another Federal Reserve employee of a Federal Reserve Bank revealed the employee had been searching for articles relating to individuals arrested for economic espionage and lying about providing Chinese intelligence agents with confidential information in exchange for financial compensation. The same employee used “xijinping” as a website password.

Despite these long-running and brazen actions by Chinese officials and certain Federal Reserve employees, the investigation found the Federal Reserve unable to counter this threat effectively. Compounding this was a lack of internal counterintelligence competency at the Federal Reserve or sufficient ongoing cooperation with Federal law enforcement and intelligence agencies. After the Committee initiated the investigation, the Federal Reserve implemented new policies prohibiting employees from accepting any compensation from a country of concern, including China. However, the Federal Reserve still has limited approval requirements for international collaborations or prohibitions on participating in a

talent recruitment plan. Left unchecked, these gaps continue to present China with an open avenue to disrupt the integrity of the American financial system, jeopardizing U.S. national security.

FINDINGS & RECOMMENDATIONS

A. Findings of Fact

- (1) **For over a decade, China has engaged in a sustained malign influence and information theft campaign against the U.S. Federal Reserve, taking advantage of America’s open and collaborative research practices.** Efforts by Beijing include talent plan recruitment, offers of academic positions, and—in at least one instance—forcible detainment and threats of imprisonment of a Federal Reserve employee.
- (2) **The Federal Reserve has been unable to counter China’s malign influence and collection campaign effectively.** The investigation found that the Federal Reserve lacks sufficient counterintelligence expertise and cooperation with U.S. law enforcement and the U.S. Intelligence Community. As a result, the Federal Reserve is unable to obtain timely and fulsome intelligence or identify intelligence threats quickly, hindering investigations into potential talent recruitment activities.
- (3) **The Federal Reserve lacks policies and procedures sufficient to prevent many of these malign influence and collection attempts.** Similar to many other science and technology research ventures in the U.S. Government, the Federal Reserve appropriately relies on foreign collaboration to “share their thinking, compare analyses, and stay informed of developments around the world.” After the initiation of this investigation, the Federal Reserve took steps to address this by prohibiting officials from accepting compensation from restricted countries, including China. However, these new policies are insufficient because they do not require Federal Reserve employees to disclose membership in a talent recruitment plan.
- (4) **Despite known ties to talent recruitment plans, Federal Reserve employees retain access to confidential information.** The Federal Reserve maintains a program meant to protect its most sensitive nonpublic information, Federal Open Market Committee restricted controlled information. Continued access requires that employees adhere to Federal Reserve ethics and other code of conduct policies. Despite known ties to talent plans or relationships with known members, the Committee found that all but one of the individuals profiled in this report retain access to this confidential information.

B. Recommendations

- (1) **Congress should promptly enact the bipartisan *Safeguarding American Innovation Act* (SAIA).** At present, America lacks the ability to counter foreign threats to American research and intellectual property. Some

Federal Reserve employees receive external funding for research, such as through academic institutions or the National Science Foundation. Enactment of SAIA would help protect that American taxpayer funded economic and financial research and intellectual property from foreign threats.

- (2) **The Federal Reserve should develop a comprehensive strategy to combat both illegal and extralegal transfers of U.S. intellectual property and research.** This report shows that Chinese efforts at influence and collection are not confined to scientific research—U.S. financial institutions, including the Federal Reserve, are primary targets.
- (3) **The Federal Reserve should enhance its relationship with Federal law enforcement agencies and members of the intelligence community.** The timely and robust sharing of information—including classified intelligence products—is needed between law enforcement and intelligence agencies and the Federal Reserve to ensure that threat information is accessible and actionable.
- (4) **The Federal Reserve must improve protection of confidential information.** The Federal Reserve should implement robust foreign contact, travel, financial support, conflict of interest, and conflict of commitment reporting requirements for Federal Reserve employees with access to confidential information, such as Class I, II, and III Federal Open Market Committee Restricted Controlled information. This should include a compliance and auditing program with penalties for failures to disclose including potential termination or denial of continued access to confidential Federal Reserve information.
- (5) **The Federal Reserve should implement a “Know Your Collaborator” culture.** The Federal Reserve should establish best practices in monitoring economic research collaboration with foreign nationals and determining whether such collaboration adheres to security requirements.

I. Background

The Chinese Government makes no secret of wanting to be the world superpower.³ No sector or institution is off limits, and China has shown that it will use any means necessary to achieve its goals.⁴ China uses a variety of tactics to exploit America's openness to advance its own national interests and achieve economic and military dominance.⁵ These and other efforts by Beijing, according to FBI Director Christopher Wray, make China "the biggest long-term threat to our economic and national security."⁶

In recent years, China's malign efforts to obtain research in science and technology fields have garnered much attention. But, as shown in this report, China considers financial knowledge and economic capability to be a lynchpin to its military modernization efforts. To this end, China has and will continue to target the American financial sector, particularly the U.S central bank—the Federal Reserve. Such efforts, according to the Federal Reserve's chief information security officer, position China to obtain "information as well as to position [itself] to gain or potentially purchase influence."⁷ And "the danger China poses ... isn't just complex. It's also getting worse," Director Wray has warned, adding that "the Chinese government is using intimidation and repression to shape the world to be more accommodating to China's campaign of theft."⁸ This section discusses the national security threat China poses, summarizes prior Committee investigations that demonstrate China's threat, and highlights the role of the Federal Reserve System and the importance of keeping it free of malign foreign influence.

³ *Securing the U.S. Research Enterprise from China's Talent Recruitment Plans: Hearing Before the Permanent Subcomm. on Investigations of the Senate Homeland Security and Governmental Affairs Comm.*, 116th Cong. (Nov. 19, 2019) (statement of John Brown, Assistant Director, Counterintelligence Division, Fed. Bureau of Investigation) ("[T]he Communist government of China has proven that it will use any means necessary to advance its interests at the expense of others, including the United States, and pursue its long-term goal of being the world's superpower by 2049. The Chinese Government knows that economic strength and scientific innovation are the keys to global influence and military power, so Beijing aims to acquire our . . . expertise, to erode our competitive advantage and supplant the United States as a global superpower").

⁴ *Id.*

⁵ See Christopher Wray, Director, Fed. Bureau of Investigation, Remarks at the Hudson Institute, Video Event: China's Attempt to Influence U.S. Institutions (July 7, 2020) (noting, "China, as led by the Chinese Communist Party, is going to continue to try to misappropriate our ideas, influence our policymakers, manipulate our public opinion, and steal our data. They will use an all-tools and all-sectors approach").

⁶ *Id.*

⁷ FRB-PSI-0000830.

⁸ Christopher Wray, Director, Fed. Bureau of Investigation, Remarks in London, England, Director's Remarks to Business Leaders in London (July 6, 2022), <https://www.fbi.gov/news/speeches/directors-remarks-to-business-leaders-in-london-070622>.

A. The Threat Posed By China

China's rise to economic power has been swift and deliberate. Prior to 1979, China's economy was routed primarily in centralized policies that promoted isolation.⁹ Economic reforms over the past 40 years, however, have ushered in an explosion in global trade, foreign investment, and free-market reforms.¹⁰ As outlined in China's "Made in China 2025" plan, improved economic governance and robust financial and fiscal systems are crucial to China's rise.¹¹ To supplement this growth, China has made economic innovation a main priority.¹²

The U.S. Intelligence Community has stressed the threat China poses to our national security. In the 2021 Annual Threat Assessment, the Director of National Intelligence warned that "China will remain the top threat . . . as [it] targets key . . . institutions associated with defense, energy, finance, and other sectors."¹³ Director Wray has similarly characterized China as the largest threat to "our ideas, our innovation, and our economic security,"¹⁴ noting that the FBI has over 2,000 open cases focused on China, with a new case being opened approximately every 12 hours.¹⁵ Director Wray recently warned, "China poses a far more complex and pervasive threat . . . than even most sophisticated . . . leaders realize."¹⁶ To achieve their goals, Director Wray noted, the Chinese are "set on using every tool at their disposal to do it."¹⁷ This seemingly includes inducing U.S. Federal law enforcement officials to aid the Chinese Government. Just weeks before the release of this report, the U.S. Department of Justice announced an indictment of several

⁹ WAYNE M. MORRISON, CONG. RESEARCH SERV., RL33534, CHINA'S ECONOMIC RISE: HISTORY, TRENDS, CHALLENGES, AND IMPLICATIONS FOR THE UNITED STATES Summary (2019).

¹⁰ *Id.*

¹¹ See SCOTT KENNEDY, CTR. STRATEGIC & INT'L STUD., MADE IN CHINA 2025 (2015), <https://www.csis.org/analysis/made-china-2025> (noting, "[I]f China successfully upgrades its manufacturing capacity, that will have meant it has also likely improved its overall economic governance, including its financial and fiscal systems").

¹² WAYNE M. MORRISON, CONG. RESEARCH SERV., RL33534, CHINA'S ECONOMIC RISE: HISTORY, TRENDS, CHALLENGES, AND IMPLICATIONS FOR THE UNITED STATES 1, 8 (2019).

¹³ OFF. OF THE DIR. OF NAT'L INTELLIGENCE, ANN. THREAT ASSESSMENT OF THE US INTELLIGENCE COMMUNITY 7 (Apr. 9, 2021). In its 2022 Annual Threat Assessment, the Director of National Intelligence similarly cautioned, "Beijing's willingness to use espionage, subsidies, and trade policy to give its firms a competitive advantage represents . . . an ongoing challenge for the U.S. economy and its workers." *Id.*

¹⁴ Christopher Wray, Director, Fed. Bureau of Investigation, Remarks at the Ronald Reagan Presidential Library and Museum: Countering Threats Posed by the Chinese Government Inside the U.S. (Jan. 31, 2022), <https://www.fbi.gov/news/speeches/countering-threats-posed-by-the-chinese-government-inside-the-us-wray-013122>.

¹⁵ *Id.*

¹⁶ Christopher Wray, Director, Fed. Bureau of Investigation, Remarks in London, England, Director's Remarks to Business Leaders in London (July 6, 2022), <https://www.fbi.gov/news/speeches/directors-remarks-to-business-leaders-in-london-070622>.

¹⁷ *Id.*

individuals for their role in a Chinese Government orchestrated scheme involving, in part, current and former Department of Homeland Security officials’ “procurement and dissemination of sensitive and confidential information from a restricted Federal law enforcement database.”¹⁸

In testimony before the Senate Homeland Security and Governmental Affairs Permanent Subcommittee on Investigations (“PSI”) during Senator Portman’s chairmanship, John Brown, then-Assistant Director of the FBI’s Counterintelligence Division, stated:

[T]he Communist government of China has proven that it will use any means necessary to advance its interests at the expense of others, including the United States, and pursue its long-term goal of being the world’s superpower by 2049 . . . The Chinese government knows that economic strength and scientific innovation are the keys to global influence and military power. So Beijing aims to acquire our . . . expertise, to erode our competitive advantage and supplant the United States as a global superpower.¹⁹

Then-Commander, U.S. Cyber Command Gen. Keith Alexander described intellectual property theft and cyber espionage in general as “the greatest transfer of wealth in history.”²⁰ The sentiment was underscored by former national security advisor and retired Lt. Gen. H.R. McMaster. When asked about China’s growing and intertwined military and economic threat at a March 2021 Senate Armed Services Committee hearing on global security challenges, Lt. Gen. McMaster stressed the need for the United States to defend itself:

[I]t’s gut-wrenching to see how much has been stolen right . . . from . . . under our noses. And much of that research [is] funded by the Congress. . . . I think the financial dimension of this is something worth a great deal of scrutiny. We are, in large measure, *underwriting our own demise*.²¹

¹⁸ Press Release, U.S. Dep’t of Justice, Five Men Indicted for Crimes Related to Transnational Repression Scheme to Silence Critics of the People’s Republic of China Residing in the United States (July 7, 2022).

¹⁹ *Securing the U.S. Research Enterprise from China’s Talent Recruitment Plans: Hearing Before the Permanent Subcomm. on Investigations of the Senate Homeland Security and Governmental Affairs Comm.*, 116th Cong. (2019) (statement of John Brown, Assistant Director, Counterintelligence Division, Fed. Bureau of Investigation).

²⁰ Gen. Keith Alexander (U.S. Army, Retired), Commander, U.S. Cyber Command, Address at the American Enterprise Institute (July 9, 2012).

²¹ *Global Security Challenges: Hearing Before the S. Armed Servs. Comm.*, 117th Cong. (2021) (statement of Lt. Gen. H.R. McMaster, former Nat’l Sec. Advisor) (emphasis added).

B. Prior Committee Investigations into China

As then-Chairman of the Senate Homeland Security and Governmental Affairs Permanent Subcommittee on Investigations, Senator Portman released multiple bipartisan investigative reports demonstrating ways in which China threatens our national security. These include reports detailing China's role in the opioid crisis by shipping illicit synthetic opioids like fentanyl through international mail;²² China's propaganda efforts at U.S. colleges and universities through Confucius Institutes;²³ and the threats posed by Chinese-owned telecom carriers operating in the United States.²⁴ Senator Portman has also examined cyberattacks against U.S. companies that have been attributed to Chinese actors, including Equifax's 2017 data breach²⁵ and Marriott's 2018 data breach.²⁶ In November 2019, Senator Portman and Senator Carper released a bipartisan investigative report on China's use of talent recruitment plans to recruit U.S.-based researchers, scientists, and experts in the public and private sector to provide China with knowledge and intellectual capital in exchange for monetary gain and other benefits.²⁷ The Chinese



²² STAFF OF S. PERMANENT SUBCOMM. ON INVESTIGATIONS, 115TH CONG., REP. ON COMBATING THE OPIOID CRISIS: EXPLOITING VULNERABILITIES IN INTERNATIONAL MAIL (2018).

²³ STAFF OF S. PERMANENT SUBCOMM. ON INVESTIGATIONS, 116TH CONG., REP. ON CHINA'S IMPACT ON THE U.S. EDUCATION SYSTEM (2019).

²⁴ STAFF OF S. PERMANENT SUBCOMM. ON INVESTIGATIONS, 116TH CONG., REP. ON THREATS TO U.S. NETWORKS: OVERSIGHT OF CHINESE GOVERNMENT-OWNED CARRIERS (2020).

²⁵ STAFF OF S. PERMANENT SUBCOMM. ON INVESTIGATIONS, 116TH CONG., REP. ON HOW EQUIFAX NEGLECTED CYBERSECURITY AND SUFFERED A DEVASTATING DATA BREACH (2019).

²⁶ See *Examining Private Sector Data Breaches: Hearing Before the Permanent Subcomm. on Investigations of the S. Comm. on Homeland Sec. & Governmental Affairs*, 116th Cong. (2019).

²⁷ See generally STAFF OF S. PERMANENT SUBCOMM. ON INVESTIGATIONS, 116TH CONG., REP. ON THREATS TO THE U.S. RSCH. ENTER.: CHINA'S TALENT RECRUITMENT PLANS (2019). Although the United States is a primary target of Chinese talent recruitment efforts, "other countries have identified similar behaviors in their research enterprises." See EXEC. OFF. OF THE PRESIDENT, RECOMMENDED PRACTICES FOR STRENGTHENING THE SECURITY AND INTEGRITY OF AMERICA'S SCIENCE AND TECH. RSCH. ENTER. 4 (2021), <https://trumpwhitehouse.archives.gov/wp-content/uploads/2021/01/NSTC-Research-Security-Best-Practices-Jan2021.pdf>.

Government views these recruitment efforts as “vital to Chinese economic and social development,” and drivers of the “growth of the Chinese economy.”²⁸ In fact, “economic competitiveness” is a primary objective of talent recruitment plans.²⁹



Figure 1: Seal of China's Thousand Talents Plan

Source: www.1000plan.org

The Chinese Communist Party (“CCP”) directly oversees much of the talent program activities.³⁰ The Central Committee’s Organization Department plays a lead role in implementing talent programs, including through the investment of significant resources.³¹ The Organization Department is one of the most powerful CCP departments, controlling more than 90 million Party officials’ assignments at all levels of the Chinese Government.³² The CCP recognized the need to control overseas talent recruitment efforts “to ensure they were in line with Party priorities, so it created a complex system of administration and oversight to coordinate its recruitment efforts.”³³ This

coordination allows the CCP to “exert exceptional” levels of control over talent recruitment plans.³⁴

The Chinese Government’s State Council is also integral in organizing and funding talent recruitment efforts.³⁵ Although the “State Council comprises 26 cabinet-level departments, including 21 ministries, three national commissions, the National Audit Office, and the People’s Bank of China,” departments responsible for talent recruitment receive an outsized portion of the budget.³⁶ In 2019, two of the cabinet-level departments responsible for talent recruitment under the purview of the State

²⁸ EMILY WEINSTEIN, CTR. FOR SEC. & EMERGING TECH., GEORGETOWN U., *Data Visualization – Chinese Talent Program Tracker*, <https://cset.georgetown.edu/research/chinese-talent-program-tracker/>.

²⁹ Ryan Fedasiuk, *If You Want to Keep Talent Out of China, Invest at Home*, FOREIGN POLICY (Sept. 17, 2020), <https://foreignpolicy.com/2020/09/17/china-thousand-talents-plan-invest-us-xenophobia/#>.

³⁰ STAFF OF S. PERMANENT SUBCOMM. ON INVESTIGATIONS, 116TH CONG., REP. ON THREATS TO THE U.S. RSCH. ENTER.: CHINA’S TALENT RECRUITMENT PLANS 22 (2019).

³¹ *Id.*

³² Eleanor Albert, Lindsay Maizland, and Beina Xu, *The Chinese Communist Party*, COUNCIL ON FOREIGN REL. (updated June 23, 2021), <https://www.cfr.org/backgroundunder/chinese-communist-party>.

³³ STAFF OF S. PERMANENT SUBCOMM. ON INVESTIGATIONS, 116TH CONG., REP. ON THREATS TO THE U.S. RSCH. ENTER.: CHINA’S TALENT RECRUITMENT PLANS 22 (2019) (quoting Fed. Bureau of Investigation production, 10 (Oct. 12, 2018)).

³⁴ *Id.*

³⁵ See *Chinese State Council Budget Tracker*, CTR. FOR SECURITY AND EMERGING TECH., <https://statecouncil.cset.tech/>.

³⁶ See *id.*

Council—the Ministry of Education and the Ministry of Science and Technology—received over \$75 billion.³⁷ As late as 2019, at the sub-cabinet level, the State Council provided an annual budget of almost \$20 billion to “organizations, administrative offices, and institutions” which “form the backbone of China’s government-led research ecosystem” and “lead China’s efforts to . . . recruit overseas experts.”³⁸ While certain talent plans can serve legitimate purposes in collaboration and research arrangements, according to the FBI, “this is not the norm.”³⁹

The Subcommittee’s 2019 investigation focused on China’s most prominent program called the Thousand Talents Plan.⁴⁰ Launched in 2008, China designed the Thousand Talents Plan to recruit 2,000 high-quality overseas experts.⁴¹ China dramatically exceeded its goal, having recruited more than 7,000 “high-end professionals” by 2017.⁴² Thousand Talent Plan-affiliated programs seek to attract “world first-class” scholars from overseas and pay allowances based on research fields and time commitments to the talent program.⁴³ Although the Subcommittee’s investigation highlighted China’s use of Thousand Talents to recruit science and technology scholars, China also seeks to recruit U.S.-based economists, as evidenced by the existence of the Executive Subcommittee on Economics, Finance and Management within the Thousand Talents Plan.⁴⁴

C. The Importance of the Federal Reserve Bank

As China pursues economic supremacy, it continues to employ talent recruitment plans and other tactics to exploit America’s openness and advance its own national

³⁷ *See id.*

³⁸ *See id.* Sub-cabinet level funding goes to the Chinese Academy of Sciences, Chinese Academy of Engineering, and National Natural Science Foundation of China, the China Association of Science and Technology, the State Administration of Foreign Experts Affairs (now part of the Ministry of Science and Technology), and the Overseas Chinese Affairs Office (now part of the CCP Central United Front Work Department of the Communist Party).

³⁹ *The China Threat: Chinese Talent Plans Encourage Trade Secret Theft, Economic Espionage*, FED. BUREAU OF INVESTIGATION, <https://www.fbi.gov/investigate/counterintelligence/the-china-threat/chinese-talent-plans>.

⁴⁰ *See generally* STAFF OF S. PERMANENT SUBCOMM. ON INVESTIGATIONS, 116TH CONG., REP. ON THREATS TO THE U.S. RSCH. ENTER.: CHINA’S TALENT RECRUITMENT PLANS (2019). Many talent programs fall under the umbrella of the Thousand Talents Plan. *See, e.g.*, FRB-PSI-0001082 (describing a Fudan University program as being affiliated with China’s National Thousand Talents Program); *see also* FRB-PSI-0001137 (noting that Shanghai Advanced Institute of Finance (SAIF) and Shanghai Jiao Tong University (SJTU) are “active National Thousand Talents Program sponsors”).

⁴¹ *See* STAFF OF S. PERMANENT SUBCOMM. ON INVESTIGATIONS, 116TH CONG., REP. ON THREATS TO THE U.S. RSCH. ENTER.: CHINA’S TALENT RECRUITMENT PLANS 20 (2019).

⁴² *See id.*

⁴³ *See id.* at 2.

⁴⁴ *See* FRB-PSI-0000792 (noting “Association of Thousand Talents Program” employees with Federal Reserve System work experience).

interests. Financial knowledge and economic capability are crucial to these efforts and directly support China’s modernization goals. Although the Subcommittee’s 2019 talent recruitment plan investigation focused on America’s science and technology sectors, this investigation reveals that China has targeted the Federal Reserve System (“Federal Reserve”) to undermine American economic and monetary policy since at least 2013.⁴⁵

The Federal Reserve System is at the center of U.S. monetary policy and is key to the stability of our nation’s financial system.⁴⁶ The purpose of the Federal Reserve System includes “conduct[ing] the nation’s monetary policy to promote maximum employment and stable prices in the U.S. economy” and “promot[ing] the stability of the financial system and seek[ing] to minimize and contain systemic risks through active monitoring and engagement in the U.S. and abroad.”⁴⁷ Thus, protecting the Federal Reserve from malicious foreign interference is critical to ensuring the security of the American financial system.

Our country is currently experiencing record-high inflation, depleting the savings of Americans as they are forced to pay more for everyday goods like gas, food, and housing.⁴⁸ Meanwhile, China has amassed the second largest foreign holding of U.S. Treasury securities in the world, totaling nearly \$1.1 trillion as of April 2021⁴⁹—the same securities the Federal Reserve purchases and sells to effect U.S. monetary policy⁵⁰—affording China significant influence over U.S. monetary policy.⁵¹

⁴⁵ See, e.g., FRB-PSI-0000837.

⁴⁶ See FED. RESERVE BD., THE FED EXPLAINED: WHAT THE CENTRAL BANK DOES 7 (11th ed. 2021) (noting, Federal Reserve System entities “make decisions that help promote the health of the U.S. economy and the stability of the U.S. financial system”).

⁴⁷ *Id.* at 1.

⁴⁸ See News Release, Bureau of Labor Statistics, U.S. Dep’t of Labor, Consumer Price Index Summary (July 13, 2022), <https://www.bls.gov/news.release/cpi.nr0.htm> (noting, “[inflation] increased 9.1 percent for the 12 months ending June [2022], the largest 12-month increase since the period ending November 1981”); Jackie Benson, Senior Economist, *How Inflation is Weakening the Recovery and Harming Low-Income Americans the Most*, JOINT ECON. COMM. (Nov. 15, 2021), <https://www.jec.senate.gov/public/index.cfm/republicans/2021/11/how-inflation-is-weakening-the-recovery-and-harming-low-income-americans-the-most#:~:text=Inflation%20is%20a%20defining%20piece,harming%20poor%20Americans%20the%20most>.

⁴⁹ U.S. Dep’t of the Treasury & the Fed. Reserve Bd., Major Foreign Holders of Treasury Securities (June 15, 2022), <https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt>.

⁵⁰ FED. RESERVE BD., THE FED EXPLAINED: WHAT THE CENTRAL BANK DOES 13 (11th ed. 2021) (“The Board and FOMC have many monetary policy implementation tools at their disposal ... include[ing] the Federal Reserve’s administered interest rates and open market purchases and sales of securities”).

⁵¹ The Federal Reserve’s balance of U.S. Treasury Securities is significantly higher at \$5.8 trillion. Fed. Reserve Bd., Federal Reserve Statistical Release (June 30, 2022), <https://www.federalreserve.gov/releases/h41/current/h41.htm>.

Now, more than ever, the U.S. must ensure the security of its financial system against such malign foreign influence.

1. Structure

The Federal Reserve consists of three basic units: the Federal Reserve Board of Governors, 12 Federal Reserve Banks, and the Federal Open Market Committee. The Federal Reserve Board of Governors (“Board of Governors”) is comprised of seven members and based in Washington D.C.⁵² All seven members are nominated by the President to 14-year terms and confirmed by the Senate.⁵³ The Board of Governors is led by a Chair, Vice Chair, and Vice Chair for Supervision⁵⁴ although they only serve four-year terms.⁵⁵

Together, the Board of Governors “guides the operation of the Federal Reserve”⁵⁶ and reports annually to Congress on the status of the Federal Reserve.⁵⁷ The Board of Governors is primarily responsible for supervising the 12 Federal Reserve Banks.⁵⁸ This includes overseeing when the Reserve Banks provide financial services to depository institutions and the Federal Government, as well as the Reserve Bank’s “examination and supervision of various financial institutions.”⁵⁹ As part of its oversight functions, the Board of Governors reviews and approves the budgets of the Reserve Banks.⁶⁰ Separate from overseeing the Reserve Banks, the Board of Governors participates in consumer protection by hearing “voices and concerns of consumers and communities,” and “conducting consumer-focused supervision, research, and policy analysis.”⁶¹

⁵² *See About the Fed—Board Members*, BD. OF GOVERNORS. OF THE FED. RESERVE SYS., <https://www.federalreserve.gov/aboutthefed/bios/board/default.htm>.

⁵³ *See id.*

⁵⁴ 12 U.S.C. § 244; Email from U.S. Fed. Reserve to Committee staff (July 18, 2022).

⁵⁵ 12 U.S.C. § 242.

⁵⁶ *Structure of the Federal Reserve System: Federal Reserve Board*, BD. OF GOVERNORS. OF THE FED. RESERVE SYS., <https://www.federalreserve.gov/aboutthefed/structure-federal-reserve-board.htm>.

⁵⁷ 12 U.S.C. § 247.

⁵⁸ FED. RESERVE BD., *THE FED EXPLAINED: WHAT THE CENTRAL BANK DOES* 8 (11th ed. 2021).

⁵⁹ *Structure of the Federal Reserve System: Federal Reserve Board*, BD. OF GOVERNORS OF THE FED. RESERVE SYS., <https://www.federalreserve.gov/aboutthefed/structure-federal-reserve-board.htm>.

⁶⁰ *Id.*

⁶¹ *Id.*

The Federal Reserve operates 12 Reserve Banks with 24 branches, each operating within a particular geographic region.⁶² The Reserve Banks carry out the Federal Reserve’s core functions, including (1) supervising and examining certain financial institutions; (2) lending to depository institutions; and (3) providing financial services, including distributing currency, clearing checks, and operating automated clearinghouse systems.⁶³ The Reserve Banks also compile economic trends and other



Figure 2: Federal Reserve Districts

Source: FED. RESERVE BD., *THE FEDERAL RESERVE SYSTEM: PURPOSES & FUNCTIONS 4* (10th ed. 2016).

information about the needs of its region, which is then relayed and factored into the Federal Reserve’s monetary policy decisions.⁶⁴ Reserve Banks operate in the public interest as opposed to in the interest of shareholders, as in the case of private banks.⁶⁵ Each Reserve Bank is managed by a nine-member board of directors responsible for “overseeing their Bank’s administration and governance, reviewing the Bank’s budget and overall performance, overseeing the Bank’s audit process, and developing broad strategic goals and directions.”⁶⁶ Reserve Bank branches have their own board of directors.⁶⁷ Although the board of the directors oversees the Reserve Bank’s governance, responsibility for day-to-day operations is delegated to the president of the Reserve Bank.⁶⁸ Directors are “responsible for maintaining an effective system of internal auditing procedures and controls” concerning the Reserve Banks but are not involved in “any matters related to banking supervision, including specific supervisory decisions.”⁶⁹

⁶² Reserve Banks are located in Atlanta, Boston, Chicago, Cleveland, Dallas, Kansas City, Minneapolis, New York, Philadelphia, Richmond, St. Louis and San Francisco. *Id.*

⁶³ *Id.*

⁶⁴ *Id.*

⁶⁵ *Id.*

⁶⁶ *Id.*

⁶⁷ *Federal Reserve Banks—Directors of Federal Reserve Banks and Branches*, BD. OF GOVERNORS OF THE FED. RESERVE SYS., <https://www.federalreserve.gov/aboutthefed/directors/about.htm>.

⁶⁸ *Id.*

⁶⁹ *Federal Reserve Banks—Directors of Federal Reserve Banks and Branches*, BD. OF GOVERNORS. OF THE FED. RESERVE SYS., <https://www.federalreserve.gov/aboutthefed/directors/about.htm>.

The Federal Reserve Open Market Committee (“FOMC”) implements U.S. monetary policy.⁷⁰ The FOMC’s primary responsibility is overseeing “market operations . . . with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.”⁷¹ Twelve voting members comprise the FOMC—“the 7 members of the Board of Governors; the president of the Federal Reserve Bank of New York; and 4 of the remaining 11 Reserve Bank presidents, who serve one-year terms on a rotating basis.”⁷² Actions taken by the FOMC affect the federal funds rate, which in turn have cascading effects on the economy.⁷³ FOMC also directs Federal Reserve System efforts in “foreign exchange markets and, in recent years, has authorized currency swap programs with foreign central banks.”⁷⁴

2. Purpose and Functions

Congress enacted the Federal Reserve Act of 1913 (“the Act”),⁷⁵ which established the Federal Reserve System “to provide the nation with a safer, more flexible, and more stable monetary and financial system.”⁷⁶ The Federal Reserve’s responsibilities broadly concern U.S. monetary policy, including:

influencing the supply of money and credit; regulating and supervising financial institutions; serving as a banking and fiscal agent for the United States government; and supplying payments services to the public through depository institutions like banks, credit unions, and savings and loans.⁷⁷

Thus, the Federal Reserve plays a critical role in maintaining the stability of the U.S. financial system. Its actions affect all Americans and American businesses. In addition to ensuring stable commodity prices and keeping long-term interest rates in check, the Federal Reserve’s monetary policies affect stock prices, wealth, and currency exchange rates, which in turn “influence[] spending, investment,

⁷⁰ *Structure of the Federal Reserve System: Federal Open Market Committee*, BD. OF GOVERNORS. OF THE FED. RESERVE SYS., <https://www.federalreserve.gov/aboutthefed/structure-federal-open-market-committee.htm>.

⁷¹ 12 U.S.C. § 263.

⁷² FED. RESERVE BD., *THE FED EXPLAINED: WHAT THE CENTRAL BANK DOES 12* (11th ed. 2021).

⁷³ *Structure of the Federal Reserve System: Federal Open Market Committee*, BD. OF GOVERNORS. OF THE FED. RESERVE SYS., <https://www.federalreserve.gov/aboutthefed/structure-federal-open-market-committee.htm>.

⁷⁴ *Id.*

⁷⁵ Federal Reserve Act of 1913, Pub. L. No. 63-43, 38 Stat. 251 (1913).

⁷⁶ *Most Frequently Asked Questions—What is the Purpose of the Federal Reserve System*, BD. OF GOVERNORS. OF THE FED. RESERVE SYS., <https://www.federalreserve.gov/faqs.htm>.

⁷⁷ *The Federal Reserve System*, FED. RES. BANK OF KANSAS CITY, <https://www.kansascityfed.org/about-us/the-federal-reserve-system/>.

production, employment, and [inflation rates.]”⁷⁸ The five general functions of the Federal Reserve are:⁷⁹

- ***Conducting the Nation’s Monetary Policies.*** The Federal Reserve System sets U.S. monetary policy. Congress designed the Federal Reserve System to “promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.”⁸⁰ The Federal Reserve System largely accomplishes this mandate by “managing the level of short-term interest rates and influencing the availability and cost of credit in the economy.”⁸¹ In examining economic conditions, the Federal Reserve responds by “raising or lowering its target for the federal funds rate.”⁸² As noted above, these actions “affect the spending decisions of households and businesses”⁸³ by “influenc[ing] spending, investment, production, employment, and [U.S. inflation rates.]”⁸⁴
- ***Promoting the Stability of the Financial System.*** The Federal Reserve Act of 1913 mandated the Federal Reserve System to promote the nation’s financial stability and avoid severe economic contractions.⁸⁵ The Federal Reserve Board of Governors defines financial stability as when “financial markets are able to provide households, communities, and businesses with the resources, services, and products they need to invest, grow, and participate in a well-functioning economy.”⁸⁶ The Federal Reserve accomplishes this by monitoring the “day-to-day activities of . . . monetary policy, supervising and regulating banks, and providing payment services.”⁸⁷ During “periods of acute financial strain,” however, the Federal Reserve may “take extraordinary action to keep disruptions from spreading across the financial sector and from spilling over to the broader economy.”⁸⁸
- ***Promoting the Safety and Soundness of Individual Financial Institutions.*** Supervising and regulating financial institutions is a core mandate of the Federal Reserve System. This supervision and regulation promotes the

⁷⁸ FED. RESERVE BD., THE FED EXPLAINED: WHAT THE CENTRAL BANK DOES 21-22, 27 (11th ed. 2021).

⁷⁹ *Id.* at 1.

⁸⁰ 12 U.S.C. § 225a.

⁸¹ FED. RESERVE BD., THE FEDERAL RESERVE SYSTEM: PURPOSES & FUNCTIONS 21 (10th ed. 2016).

⁸² *Id.* at 27.

⁸³ *Id.*

⁸⁴ *Id.* at 21.

⁸⁵ *See id.* at 55.

⁸⁶ *Id.* at 56.

⁸⁷ *What is the Fed: Financial Stability*, FED. RESERVE BANK OF SAN FRANCISCO, <https://www.frbsf.org/education/teacher-resources/what-is-the-fed/financial-stability/>.

⁸⁸ *Id.*

“stability of the financial system as a whole.”⁸⁹ Regulatory efforts include “issuing specific regulations and guidelines governing the formation, operations, activities, and acquisitions of financial institutions.”⁹⁰ Supervision “involves monitoring, inspecting, and examining financial institutions.”⁹¹ The Federal Reserve System monitors United States banks operating abroad in over 60 countries, including China.⁹² It also has oversight over foreign banks operating in the United States and foreign financial holding companies.⁹³ In addition to statutory compliance, Federal Reserve regulation and supervision helps ensure “U.S. banking organizations can be fully competitive with institutions of the host country without compromising the safety and soundness of their U.S. operations.”⁹⁴

- ***Fostering Payment and Settlement System Safety and Efficiency.*** A functioning payment system and reliable currency contribute to the overall health of the U.S. economy. The U.S. payment system “is composed of payment instruments and methods, systems, and institutions.”⁹⁵ As a steward of this system, the Federal Reserve System “facilitates financial transactions and purchases of goods and services,” benefiting “individuals and institutions, buyers and sellers, consumers and businesses, [and] investors and securities issuers.”⁹⁶ The Federal Reserve also provides banking services to foreign central banks.⁹⁷

The Federal Government relies on the Federal Reserve to act as fiscal agent for the U.S. Government. Individual Reserve Banks act as “the ‘government’s bank’ and maintain the U.S. Treasury’s operating cash account; pay Treasury checks and process electronic payments; and issue, transfer, and redeem U.S. [G]overnment securities.”⁹⁸ In addition, “[t]he Federal Reserve Board issues the nation’s currency in the form of Federal Reserve notes to the Federal Reserve Banks, which, in turn, distribute currency to the public through approximately 8,500 banks, savings and loans, and credit unions.”⁹⁹

⁸⁹ FED. RESERVE BD., THE FEDERAL RESERVE SYSTEM: PURPOSES & FUNCTIONS 73 (10th ed. 2016).

⁹⁰ *Id.* at 74.

⁹¹ *Id.*

⁹² *See id.* at 90.

⁹³ *Id.* at 75.

⁹⁴ *Id.* at 91.

⁹⁵ *Id.* at 119.

⁹⁶ *Id.*

⁹⁷ *Id.* at 141.

⁹⁸ *Id.* at 121.

⁹⁹ *Id.* at 134.

- ***Promoting Consumer Protection.*** The Federal Reserve protects consumers in lending and deposit transactions.¹⁰⁰ These protections include aspects of fair lending, fair housing, and community reinvestment.¹⁰¹ Individual Federal Reserve banks coordinate on consumer protection issues to identify both regional and national trends.¹⁰²

Because economic insecurity in large foreign markets can affect the U.S. economy,¹⁰³ since economic insecurity from large foreign markets may have consequences for the U.S. economic system.¹⁰⁴ To this end, “the Federal Reserve cooperates and coordinates with many other domestic and international regulatory and policy entities,”¹⁰⁵ and Federal Reserve officials regularly communicate with “officials of other U.S. and foreign government agencies, international organizations, and foreign central banks on subjects of mutual concern.”¹⁰⁶ This coordination and communication allows the Federal Reserve System “to better understand and anticipate influences on the U.S. economy that emanate from abroad”¹⁰⁷ and to address threats and concerns to the global economic system.¹⁰⁸ According to Federal Reserve officials, monetary policy collaboration work with foreign officials “is conducted on different technological platforms that are designed with a central focus on security considerations.”¹⁰⁹

¹⁰⁰ See *Making Sense of the Federal Reserve*, FED. RESERVE BANK OF ST. LOUIS, <https://www.stlouisfed.org/in-plain-english/consumer-protection#:~:text=Another%20Federal%20Reserve%20goal%20is,sure%20they%20are%20stated%20clearly>.

¹⁰¹ FED. RESERVE BD., *THE FEDERAL RESERVE SYSTEM: PURPOSES & FUNCTIONS* 153 (10th ed. 2016).

¹⁰² See *id.* at 156.

¹⁰³ See FED. RESERVE BD., *THE FED EXPLAINED: WHAT THE CENTRAL BANK DOES* 53 (11th ed. 2021) (“The changing nature of risks and fluctuations in . . . [the] economy require timely monitoring of domestic and foreign. . . financial institutions . . . to identify the buildup of vulnerabilities that might require further study or policy action”).

¹⁰⁴ See *id.* at 57 (“Economic and financial volatility in any country can have negative consequences for the world, but sizable and significant spillovers are almost assured from an economy that is large”).

¹⁰⁵ *Id.*; see also, Email from U.S. Fed. Reserve to Committee staff (July 18, 2022) (noting, “a high degree of interaction and collaboration between Federal Reserve researchers and the global community of academics is a feature that enhances interaction and is essential to achieving [Federal Reserve] goals”).

¹⁰⁶ FED. RESERVE BD., *THE FEDERAL RESERVE SYSTEM: PURPOSES & FUNCTIONS* 38 (10th ed. 2016); see also, BD. OF GOVERNORS OF THE FED. RESERVE SYS., *FOMC POLICY ON EXTERNAL COMMUNICATIONS OF FEDERAL RESERVE SYSTEM* 3, https://www.federalreserve.gov/monetarypolicy/files/FOMC_ExtCommunicationStaff.pdf (noting, “In carrying out their official responsibilities, Federal Reserve staff engage in certain closely held communications . . . with foreign central banks and governments, and with international organizations”).

¹⁰⁷ FED. RESERVE BD., *THE FEDERAL RESERVE SYSTEM: PURPOSES & FUNCTIONS* 38 (10th ed. 2016).

¹⁰⁸ *Id.*

¹⁰⁹ Email from U.S. Fed. Reserve to Committee staff (July 18, 2022).

3. Policies: Foreign Travel, Ethics, & Handling of Sensitive Information

All 12 Federal Reserve banks maintain foreign travel and code of conduct policies, to include conflict of interest provisions. These policies, in general, seek to maintain public confidence in the individual Federal Reserve banks and the Federal Reserve System as a whole.¹¹⁰ The policies encourage employees to “avoid conduct which places private gain above his or her duties to the [Reserve] Bank.”¹¹¹ This includes possible conflicts of interests associated with foreign governments or other foreign entities. The policies, however, do not require disclosure of foreign contacts.

a. Travel Policies

Federal Reserve Bank management must approve all official foreign travel by employees. While certain Federal Reserve Banks differ on approval policies, all include the individual Bank president or designee.¹¹² Reserve Banks also do not require their employees to disclose unofficial foreign travel.¹¹³

Federal Reserve travel policies generally prohibit a Bank from accepting travel reimbursement from non-Federal Reserve organizations.¹¹⁴ Federal Reserve Banks may accept, however, reimbursement from “[c]ertain nonprofit sponsors of conferences where an employee is speaking, [a]cademic institutions,” and “certain international organizations.”¹¹⁵ In the event of reimbursement from a non-Federal Reserve organization, Federal Reserve policies require payments be made directly to the Reserve bank “whenever possible.”¹¹⁶ Also, an employee must consult a Reserve Bank ethics officer when a non-Federal Reserve organization offers to reimburse travel.

b. Codes of Conduct

Federal Reserve Bank Code of Conduct policies standardize guidance across the Federal Reserve System. They require each Federal Reserve Bank employee to “perform his or her duties with honesty, integrity and impartiality.”¹¹⁷ The policies include activities prohibited by statute or regulation, those creating an actual or

¹¹⁰ FRB-PSI-0000178.

¹¹¹ FRB-PSI-0000249.

¹¹² See, e.g., FRB-PSI-0000354 (the Federal Reserve Bank of Kansas City requires the foreign travel approval process to “generally include the President, the First Vice President, and the Division Head of the traveler”).

¹¹³ See, e.g., FRB-PSI-0000001–5 (Federal Reserve Bank of St. Louis travel policy does not require disclosure of unofficial foreign travel).

¹¹⁴ FRB-PSI-0000127; see also, FRB-PSI-0000346 (noting that “it is . . . generally inappropriate to[] accept payment of travel expenses by third parties”).

¹¹⁵ FRB-PSI-0000128.

¹¹⁶ *Id.*

¹¹⁷ See, e.g., FRB-PSI-0000008.

perceived conflict of interest, and “those which would require the employee’s disqualification from matters so central or critical to the performance of his or her duties and responsibilities that the employee’s ability to give satisfactory service to the Bank would be materially impaired.”¹¹⁸ In short, an employee may not use his or her position with the Federal Reserve for private gain or the gain of another person or entity.¹¹⁹

Conflicts of Interest. Conflict of interest policies help ensure “research is scientifically rigorous and free of bias such as foreign influence.”¹²⁰ Federal Reserve System Conflicts of Interest policies prohibit an employee from participating “personally and substantially in an official capacity in any particular matter” in which the employee or related parties has a financial interest.¹²¹ The financial interests of outside entities are attributed to the employee if the employee “is an officer, director, trustee, general partner or employee . . . [or if there is] an arrangement concerning prospective employment.”¹²²

Outside Activities and Employment. Code of Conduct policies cover outside activities, including outside employment. Individual bank policies restrict outside employment that would “interfere with the full and proper discharge of [an] employee’s duties and responsibilities” or “bring discredit to the reputation of the [Reserve] Bank or the [Federal Reserve] System.”¹²³

Following Federal regulations, Federal Reserve Bank policies prohibit employees from accepting compensation from outside sources for work performed in their official capacity.¹²⁴ A Federal Reserve employee, with the Reserve Bank’s prior approval, may accept outside compensation for teaching activities as part of a regular curriculum at an academic institution, or work performed on the employee’s own time.¹²⁵ Even for approved outside activities, however, an employee may not use their Reserve Bank title for promotion purposes.¹²⁶

Post-Employment Contacts. Former Federal Reserve Bank employees may not contact current employees regarding official Bank business in which the former

¹¹⁸ FRB-PSI-0000508.

¹¹⁹ FRB-PSI-0000500.

¹²⁰ U.S. GOV’T ACCOUNTABILITY OFFICE, GAO-21-130, FEDERAL RESEARCH: AGENCIES NEED TO ENHANCE POLICIES TO ADDRESS FOREIGN INFLUENCE 4 (Dec. 2020).

¹²¹ FRB-PSI-0000011.

¹²² FRB-PSI-0000012.

¹²³ FRB-PSI-0000508.

¹²⁴ FRB-PSI-0000509.

¹²⁵ *See id.*

¹²⁶ *Id.*

employee participated while an employee at the Bank.¹²⁷ Current Federal Reserve Bank employees contacted by previous employees must not provide any non-public information to the former employee unless otherwise authorized by Federal Reserve officials.¹²⁸ In addition, former employees must hold confidential all non-public information obtained while employed by the Federal Reserve.¹²⁹

Federal Reserve System policies reviewed by the Committee contained disclosure statements, requiring employees to file “information about circumstances that might constitute an actual or potential conflict of interest or a violation of applicable [Reserve] Bank policy or law.”¹³⁰ Violations of these policies subject employees to “disciplinary action up to and including termination of employment.”¹³¹

*c. Federal Regulations*¹³²

Federal regulations also cover Federal Reserve Board employee compensation for travel and outside activities. Federal Reserve Board employees are subject to “executive branch-wide standards of ethical conduct.”¹³³ Federal regulations generally prohibit Federal Reserve Board employees from requesting or receiving gifts from foreign governments.¹³⁴ Federal regulations also consider foreign travel reimbursement to be a gift.¹³⁵ But employees may accept travel reimbursement when the travel takes place in whole outside the U.S., though a Federal Reserve Administrative Governor must approve the reimbursement.¹³⁶ If employees receive unapproved travel expenses from a foreign government, the Administrative Governor must submit a report to the Board of Governors of the Federal Reserve

¹²⁷ FRB-PSI-0000511. Former Federal Reserve Bank officers, for one year after leaving a Federal Reserve Bank, may not “appear before or communicate with an employee of any Reserve Bank . . . with the intent to influence official action on behalf of another person.” *Id.*

¹²⁸ *Id.*

¹²⁹ *Id.*

¹³⁰ *See, e.g.*, FRB-PSI-0000021.

¹³¹ FRB-PSI-0000022.

¹³² The Federal regulations cited in this subsection apply only to Federal Reserve Board employees, and do not apply to Federal Reserve Bank employees. Reserve Bank employees are subject to similar codes of conduct promulgated by their respective Reserve Banks. Email from U.S. Fed. Reserve to Committee staff (July 18, 2022).

¹³³ 12 C.F.R. § 264.101 (2022).

¹³⁴ 12 C.F.R. § 264b.3 (2022).

¹³⁵ *See* 12 C.F.R. § 264b.5(b)(1) (2022).

¹³⁶ *See* 12 C.F.R. § 264b.6(6)(b) (2022).

System within 30 days.¹³⁷ Any accepted gifts, however, must be “consistent with the interests of the United States.”¹³⁸

Federal Reserve Board employees must obtain their supervisor’s and an Ethics Officer’s approval before engaging in outside employment.¹³⁹ Federal regulations consider “outside employment” to be “any form of compensated non-Federal employment or business relationship involving the provision of personal services by the employee.”¹⁴⁰ This includes, but is not limited to, “personal services as [a] . . . employee, agent, teacher or speaker.”¹⁴¹ Supervisors will generally approve outside employment unless the activity will involve “conduct prohibited by statute or Federal regulation.”¹⁴²

d. Federal Reserve Information Security

The Federal Reserve maintains security protocols to safeguard confidential FOMC information. In general, covered FOMC information includes “expressions of policy views at Committee meetings, reasons for those views, votes of the Committee, and staff forecasts.”¹⁴³

There are three classifications of restricted controlled FOMC information: Class I, II, and III. The Federal Reserve considers Class I FOMC information—such as “information related to monetary policy decisions at meetings, nonpublic views expressed by policymakers on likely future policy, and identification of meeting participants who express particular views”—to be “very sensitive.”¹⁴⁴ Class II FOMC information, also considered “very sensitive” by the Federal Reserve, includes “[Reserve] Board staff forecasts prepared for the Committee and . . . information about open market operations.”¹⁴⁵ Class III FOMC information, although considered by the Federal Reserve to be less sensitive information, “still requires confidential treatment.”¹⁴⁶ Information generally designated as Class III FOMC includes, “background information prepared by Board staff to support policy discussions and . . . less-sensitive information about open market operations.”¹⁴⁷

¹³⁷ *See id.*

¹³⁸ 12 C.F.R. § 264b.5(b) (2022).

¹³⁹ 5 C.F.R. § 6801.109(a) (2022).

¹⁴⁰ 5 C.F.R. § 6801.109(c) (2022).

¹⁴¹ *Id.*

¹⁴² 5 C.F.R. § 6801.109(b) (2022).

¹⁴³ BD. OF GOVERNORS OF THE FED. RESERVE SYS., PROGRAM FOR SECURITY OF FOMC INFORMATION 1 (2021).

¹⁴⁴ *Id.*

¹⁴⁵ *Id.* at 1–2.

¹⁴⁶ *Id.* at 1.

¹⁴⁷ *Id.* at 2.

Reserve Board policy controls access to FOMC information on a “need-to-know” basis.¹⁴⁸ Reserve Bank employees are eligible to receive access to FOMC information following a background investigation conducted by the applicable Reserve Bank officials.¹⁴⁹ A Reserve Bank may reinvestigate employees with access to FOMC information at scheduled intervals, in a “random sampling,” or if “new information” about an employee’s eligibility becomes available.¹⁵⁰ Distribution of FOMC information outside of the Federal Reserve, including to foreign counterparts or contacts,¹⁵¹ requires approval from the Board Chair and notification to the FOMC.¹⁵² China—designated as a “restricted countr[y]” by the U.S. State Department—is prohibited from receiving FOMC information without prior approval.¹⁵³ Federal Reserve employees, to be eligible to access to FOMC information, must complete FOMC information handling training, and comply with Federal Reserve ethics and external communications policies.¹⁵⁴ Individuals must be predesignated for FOMC information clearance annually. If an individual loses eligibility, “all levels of confidential FOMC information must be terminated promptly” for that individual.¹⁵⁵

II. China’s Efforts to Target Federal Reserve Employees

Openness, transparency, reciprocity, integrity, and merit-based competition contribute to U.S. success in economic development. The Chinese Government, however, has worked to exploit and to undermine this open collaboration through talent recruitment plans and other tactics. The Federal Reserve, as discussed above, conducts monetary policy in collaboration with international counterparts. This cooperation allows Federal Reserve policymakers, when given proper approval, to work with foreign academics, foreign regulators, and supervisors at foreign central banks, enabling them to “share their thinking, compare analyses, and stay informed of developments around the world.”¹⁵⁶ Federal Reserve employees,

¹⁴⁸ *Id.* at 3. To be eligible for access to FOMC information, Federal Reserve employees must a “US citizen, or a lawful permanent resident or, if not, are not a citizen of a Restricted country [including China]”. *Id.* at 10.

¹⁴⁹ *Id.* at 11.

¹⁵⁰ *Id.*

¹⁵¹ *See* BD. OF GOVERNORS OF THE FED. RESERVE SYS., FOMC POLICY ON EXTERNAL COMMUNICATIONS OF FEDERAL RESERVE SYSTEM STAFF 4 (2017).

¹⁵² BD. OF GOVERNORS. OF THE FED. RESERVE SYS., PROGRAM FOR SECURITY OF FOMC INFORMATION 4 (2017).

¹⁵³ *See id.* at 2, 13.

¹⁵⁴ *Id.* at 4.

¹⁵⁵ *Id.* at 3.

¹⁵⁶ *FAQs*, BD. OF GOVERNORS OF THE FED. RESERVE SYS., https://www.federalreserve.gov/faqs/economy_12766.htm.

however, may only release FOMC classified information with written authorization from the Chair and “prompt notification to the [FOMC] Committee.”¹⁵⁷

The P-Network. Although this openness has allowed for a share of knowledge across boundaries, it also allows foreign counterparts to undermine our economic and monetary policy—something China has been doing with the Federal Reserve since at least 2013.¹⁵⁸ China has not limited itself to targeting one part of the Federal Reserve System; rather, it has targeted employees at more than half of the Federal Reserve Banks. For example, a Federal Reserve counterintelligence analysis launched in 2015 flagged 13 persons of interest identified as having interactions with former Federal Reserve employees with known talent recruitment plan ties¹⁵⁹ or “having similar patterns of activity the [Federal Reserve] analysts deemed” of potential concern.¹⁶⁰ These individuals were employed at 8 of the 12 Federal Reserve Banks.¹⁶¹ Federal Reserve officials told the Committee they initially

[became] concerned, based on information shared by another entity outside the [Federal Reserve System], that there were organized efforts by foreign governments, some with economic and strategic interests at odds with those of the U.S., to solicit Federal Reserve researchers, typically by requesting that they enter into compensated contractual relationships.¹⁶²

Federal Reserve investigators dubbed these 13 individuals, the “P-Network.”¹⁶³ The analysis originated after a Dallas-led insider threat investigation identified several Federal Reserve employees with “patterns of activity the [Federal Reserve] analysts deemed potentially of concern.”¹⁶⁴ A former Federal Reserve employee (identified by investigators as “Z”), who left the Bank in 2013 and maintained ties to known to Chinese Talent Recruitment programs, “clearly expressed a desire to maintain an inside information sharing relationship with current [Federal Reserve] employees,”

¹⁵⁷ BD. OF GOVERNORS. OF THE FED. RESERVE SYS., FOMC POLICY ON EXTERNAL COMMUNICATIONS OF FEDERAL RESERVE SYSTEM 2 (2017).

¹⁵⁸ See, e.g., FRB-PSI-0000837.

¹⁵⁹ See, e.g., FRB-PSI-00007278, FRB-PSI-0007294 (noting, Individual A “has close and continuing ties” to “Z” who, Federal Reserve Investigators found, received a Thousand Talents Program award in 2014).

¹⁶⁰ FRB-PSI-0006690.

¹⁶¹ FRB-PSI-0006694.

¹⁶² Email from U.S. Fed. Reserve to Committee staff (July 18, 2022).

¹⁶³ FRB-PSI-0006690.

¹⁶⁴ *Id.*

according to Federal Reserve investigators.¹⁶⁵ Z then attempted to recruit members of the P-Network.¹⁶⁶ Of note, Z maintained a “close relationship” with the Federal Reserve employee (identified by investigators as “P0”) who would become the initial person of interest in the P-Network.¹⁶⁷ A November 19, 2015 email from P0 noted, “Ha ha, [Z] is my buddy and we think in the same way ☺.”¹⁶⁸ In 2016, the Federal Reserve ended P0’s employment “for violating certain [Federal Reserve System] rules.”¹⁶⁹

Investigators identified P-Network individuals based off similar foreign travel, emails, details in curricula vitae, and academic backgrounds as the initial target of the investigation.¹⁷⁰ Once Federal Reserve officials confronted the initial member of the P-Network, the individual began to employ “adversarial tradecraft,” using “unmonitored Gmail, Yahoo, Skype and other communication channels” and alternate email handles, according to Federal Reserve documents.¹⁷¹ These modified practices limited investigators’ insight into the P-Networks’ activities.¹⁷²

Since providing the initial P-Network counterintelligence analysis documents to the Committee in December 2020, the Federal Reserve now disputes many of its own prior findings.¹⁷³ Following a review of pertinent parts of the report, the Federal Reserve told the Committee that the Federal Reserve’s analysis “included many conclusory statements about [Federal Reserve] employees . . . that may lack factual support,” that the Federal Reserve has been “not been able to substantiate” its own findings in an apparent retrospective reconstruction of its prior analysis, and relayed concerns that this report “could actually undermine important U.S. government efforts to identify and prevent the unauthorized transfer abroad of sensitive information.”¹⁷⁴ It is unclear whether the records supporting the Federal

¹⁶⁵ FRB-PSI-0006732. Federal Reserve officials informed the Committee that, despite Federal Reserve officials conducting the initial investigation of “Z,” they are now unable to identify “Z” and corroborate their earlier work. *See* Email from U.S. Fed. Reserve to Committee staff (July 18, 2022) (noting, “[w]e are unable to determine if the statements regarding Z are accurate because we are unsure who Z is”).

¹⁶⁶ *See* FRB-PSI-0006732.

¹⁶⁷ FRB-PSI-0006733.

¹⁶⁸ *Id.*

¹⁶⁹ Email from U.S. Fed. Reserve to Committee staff (July 18, 2022); *see also* FRB-PSI-0001079 (noting that P0 “was terminated by a Federal Reserve Bank in January, 2016”).

¹⁷⁰ *See* FRB-PSI-0006729.

¹⁷¹ FRB-PSI-0006691.

¹⁷² *Id.*

¹⁷³ Email from U.S. Fed. Reserve to Committee staff (July 18, 2022); Email from U.S. Fed. Reserve to Committee staff (July 21, 2022).

¹⁷⁴ Email from U.S. Fed. Reserve to Committee staff (July 18, 2022); Email from U.S. Fed. Reserve to Committee staff (July 21, 2022). Notably, July 2022 was the first time the Federal Reserve raised concerns about the accuracy of its own prior findings, despite having provided the records a year and

Reserve’s initial findings were lost or never existed, but based on the level of detail, supporting documents (such as emails, travel itineraries, and employment contracts), and the Committee’s previous work detailing Chinese talent programs and other forms of malign influence, this investigation determined the statements in the Federal Reserve’s counterintelligence analysis to be credible. The Federal Reserve’s inability to locate underlying evidence now as part of a retrospective review is not a sufficient basis to disregard its prior findings and moreover raises concerns about its investigative processes, record retention policies, and communication between investigative and operational branches that the Federal Reserve should further examine and correct.

A. Case Studies in China’s Targeting of Federal Reserve Officials

China uses a number of tactics to target Federal Reserve officials. As shown below, this ranges from outright threats and coercion, to softer tactics, such as talent recruitment programs, professorships at Chinese universities, paid travel to speak at conferences, and research collaborations. The motivation, however, is the same: China obtaining access to sensitive economic and monetary policy information. This section details select examples that demonstrate China’s efforts to target employees—all with access to confidential FOMC information—across the Federal Reserve. At the request of the Federal Reserve Board, to avoid interfering with any ongoing investigations, and in keeping with the Committee’s practice, certain identifying information of individuals has been removed.¹⁷⁵

a half earlier and having briefed the Committee on the counterintelligence analysis in March 2022. Committee Briefing with the Federal Reserve (Mar. 14, 2022).

¹⁷⁵ Email from U.S. Fed. Reserve to Committee staff (July 21, 2022).

1. Individual A

Although most of the below examples involve China targeting Federal Reserve officials using soft tactics, in at least one instance in 2019, Chinese officials used direct threats and coercion to obtain sensitive information from a Federal Reserve economist.¹⁷⁶ Those instances involved Individual A, a senior official at a Federal Reserve Bank.¹⁷⁷ As the other individuals listed below, Individual A has a number of connections with Chinese institutions. These include a position at the People's Bank of China ("PBOC") prior to joining the Federal Reserve, distinctions from Chinese national foundations, and attendance at various events, conferences, and seminars in China.¹⁷⁸ Individual A had previously received a National Science

[REDACTED] In particular, Sichuan University has sponsored me by applying to the Thousand Talents Program and Changjiang Scholar Program for research funds used to support my research activities in China. Both programs are regarded as the equivalent of U.S. National Science Foundation Research Grant Programs. These universities would also like me to spend 3 to 4 weeks a year on campus, as a "adjunct professor" or "special-term professor", attending their regular seminars, teaching and advising junior faculty and graduate students, and possibly helping out with faculty recruiting.

Figure 3: Memorandum from Individual A Acknowledging Talent Plan Connections

Source: FRB-PSI-0007243

¹⁷⁶ According to FBI Director Christopher Wray, Chinese officials also work "extensively through scores of 'co-optees,' people who aren't technically Chinese government officials but assist in intelligence operations, spotting and assessing sources to recruit, providing cover and communications, and helping steal secrets in other ways." Christopher Wray, Director, Fed. Bureau of Investigation, Remarks in London, England, Director's Remarks to Business Leaders in London (July 6, 2022), <https://www.fbi.gov/news/speeches/directors-remarks-to-business-leaders-in-london-070622>.

¹⁷⁷ FRB-PSI-0007351; FRB-PSI-0007257–268.

¹⁷⁸ FRB-PSI-0007257–268.

Foundation grant for economic research related to China¹⁷⁹ Individual A retains Class III FOMC information access.¹⁸⁰

Documents suggest that Individual A joined the Thousand Talents Program. In June 2010, an individual identified as Zhe Li asked if Individual A was interested in a program “trying to attract high-level Chinese economists.”¹⁸¹ Individual A expressed his high interest in the program, asking the contact to provide more information.¹⁸² A few years later, Individual A submitted a memorandum to the Executive Vice President of the Federal Reserve Bank (FRB) seeking approval to engage in academic research with certain Chinese universities.¹⁸³ The academic research would also place Individual A in a position to assist Chinese universities with “faculty recruiting.”¹⁸⁴

Individual A acknowledged that he applied to the Thousand Talents Program in exchange for sponsorship by one of the universities.¹⁸⁵

Individual A maintained visiting professorships with these and other Chinese state-run academic institutions. This includes a visiting professorship at Shanghai Advanced

Institute of Finance (SAIF) at Shanghai Jiao Tong University that afforded him “regular access to China while acting as a mentor and research lead alongside his research colleagues.”¹⁸⁶ SAIF is an “active National Thousand Talents Program sponsor.”¹⁸⁷ Individual A spent approximately three months at SAIF’s campus in 2018.¹⁸⁸ Individual A also represented SAIF as part of a collaborative research

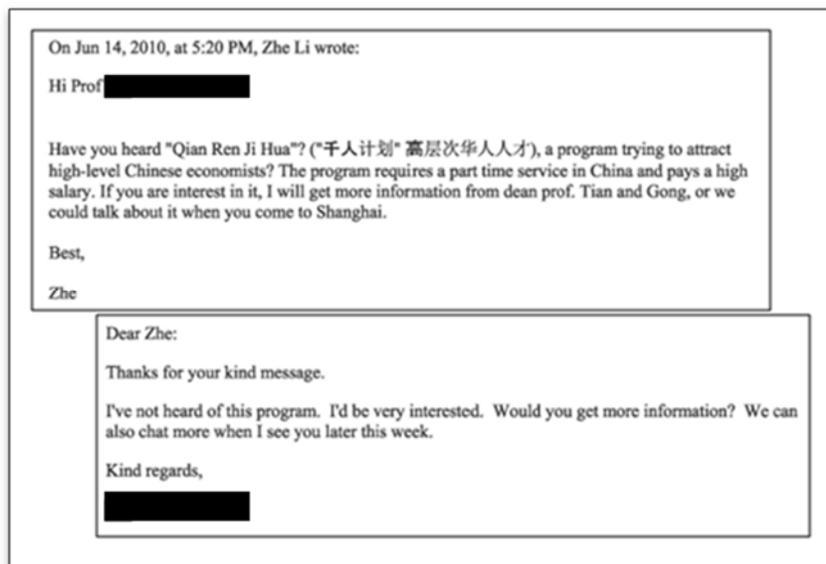


Figure 4: Email Inviting Individual A to be a Talent Plan Member

Source: FBI-PSI-0007187

¹⁷⁹ See FRB-PSI-0007272–73.

¹⁸⁰ FRB-PSI-0007296.

¹⁸¹ FRB-PSI-0007187.

¹⁸² *Id.*

¹⁸³ FRB-PSI-0007243.

¹⁸⁴ *Id.*

¹⁸⁵ *Id.*

¹⁸⁶ See FRB-PSI-0007293.

¹⁸⁷ FRB-PSI-0001137.

¹⁸⁸ FRB-PSI-0007293.

agreement with the PBOC.¹⁸⁹ More recently, Individual A signed a three-year employment contract for a professorship at the PBOC School of Finance at Tsinghua University.¹⁹⁰

Individual A also maintained close personal contact with the Chief Economist of the PBOC. On one occasion in May 2016, Individual A agreed to contact the Chief Economist to inquire about the status of a research contract for a friend.¹⁹¹ Individual A told the friend that he would “inquire while [he was in] China” because “oftentimes person-to-person exchanges will speed up things a bit.”¹⁹² In addition, Individual A’s close collaboration with the Chief Economist of the PBOC resulted in “modeling source code and macroeconomic experience . . . being directly shared to assist PBOC with developing monetary capabilities.”¹⁹³ Individual A also had ties to an Associate Dean at Tsinghua University who was affiliated with the CCP’s

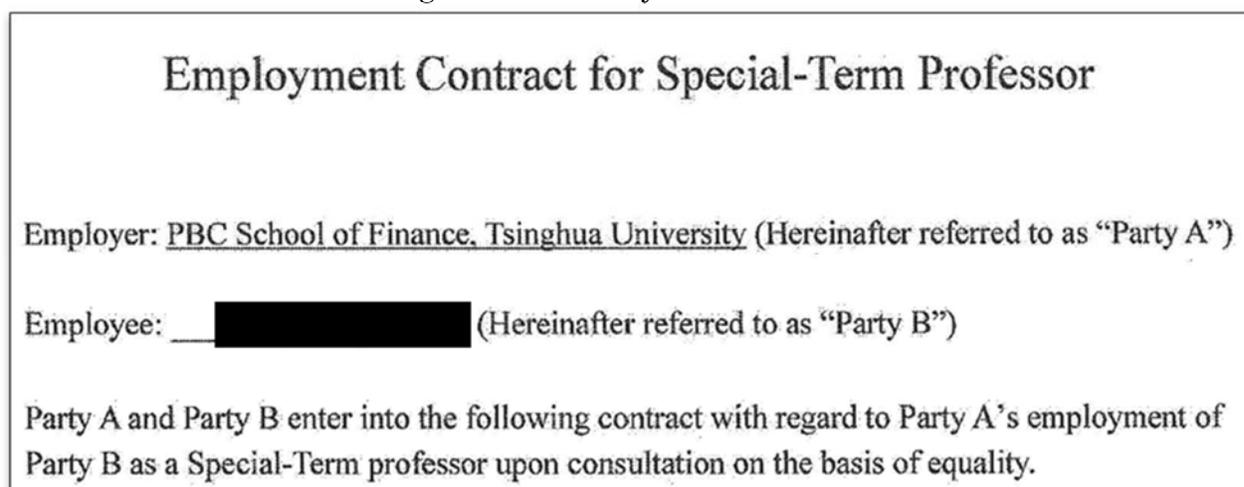


Figure 5: Individual A Employment Contract with Chinese University

Source: FRB-PSI-0007247

Organization Department, a highly influential department within the CCP’s Central Committee that oversees nearly every senior position in the country and administers China’s talents programs.¹⁹⁴

¹⁸⁹ *See id.*

¹⁹⁰ FRB-PSI-0007247.

¹⁹¹ FRB-PSI-0007178.

¹⁹² *Id.*

¹⁹³ FRB-PSI-0007278; FRB-PSI-0007282.

¹⁹⁴ FRB-PSI-0007293; *see also*, Richard McGregor, *5 Myths About the Chinese Communist Party*, FOREIGN POLICY (Jan. 3, 2011), <https://foreignpolicy.com/2011/01/03/5-myths-about-the-chinese-communist-party/> (“[T]he party dictates all senior personnel appointments in ministries and companies, universities and the media, through a shadowy and little-known body called the Organization Department. Through the department, the party oversees just about every significant position in every field in the country.”); STAFF OF S. PERMANENT SUBCOMM. ON INVESTIGATIONS, 116TH CONG., REP. ON THREATS TO THE U.S. RSCH. ENTER.: CHINA’S TALENT RECRUITMENT PLANS 22 (2019).

Individual A Forcibly Detained in China. In 2019, Individual A traveled to China. Individual A reported to Federal Reserve personnel that Chinese officials forcibly detained him on four separate occasions during the trip.¹⁹⁵ The officials threatened Individual A’s family, allegedly tapped his phones and computers, and copied the contact information of other Federal Reserve officials from Individual A’s WeChat account.¹⁹⁶

Individual A reported that Chinese officials first approached him at his hotel room in Shanghai, escorting Individual E to another room in the hotel, “making the atmosphere frightening to [him].”¹⁹⁷ On this first occurrence, according to Individual A, two Chinese officials told him they had been monitoring his phone conversations (including conversations involving his previous divorce), accused him of crimes against China,¹⁹⁸ and demanded that he “say good things about China” while in the United States.¹⁹⁹ The officials insisted that Individual A “sign a piece of paper” acknowledging access to Chinese national security information and that he could be “punished accordingly” if the information was disclosed.²⁰⁰

On two subsequent occasions, Chinese officials interrogated Individual A about his position with the Federal Reserve—as well as his views on the trade war and China’s economy—and attempted to force Individual A, under threat of imprisonment, to sign a letter stating he would not mention the meeting to his family.²⁰¹ Any mention of the meetings to his family, Individual A said, and “my life will be destroyed.”²⁰² The Chinese officials “informed [Individual A] that he must cooperate with the Chinese Government and share sensitive, non-public economic data to which he has access as a [Federal Reserve] economist,”²⁰³ as well as that Individual A was required to “advise senior [Chinese] government officials on sensitive economic issues, including trade tariffs and FOMC information.”²⁰⁴ One of the officials offered to pose as one of Individual A’s students on his WeChat account.²⁰⁵

¹⁹⁵ See FRB-PSI-0007351–55.

¹⁹⁶ See FRB-PSI-0007351–54.

¹⁹⁷ FRB-PSI-0007353.

¹⁹⁸ See *id.* (the crimes included 1) Abandoning the Chinese Government after the Tiananmen Square massacre, 2) publishing confidential Chinese data in international journals, and 3) using this “confidential data to help the U.S. government . . . hurt the Chinese government”).

¹⁹⁹ FRB-PSI-0007353.

²⁰⁰ FRB-PSI-0007353–54.

²⁰¹ See FRB-PSI-0007351–52.

²⁰² FRB-PSI-0007354.

²⁰³ See FRB-PSI-0007351, FRB-PSI-0007353.

²⁰⁴ See FRB-PSI-0007351–54.

²⁰⁵ See FRB-PSI-0007354.

At the final coerced meeting, the Chinese officials insisted that Individual A drink liquor and commit to regular meetings on future visits to “give economic advice about the Chinese and global economy.”²⁰⁶ Saying he was not feeling well in an attempt to get out of the meeting, an official told Individual A, “liquor is good for [his stomach].”²⁰⁷ A Chinese official, after seeing that Individual A was avoiding liquor, remarked that was because Individual A was afraid of being drunk and providing the officials with important information.²⁰⁸ At this final meeting, a Chinese official demanded that Individual A delete the officials’ WeChat accounts and provided him with a new one.²⁰⁹

Federal Reserve officials told Committee staff that they reported the incident to the FBI and the Department of State after receiving Individual A’s account.²¹⁰ The officials indicated to Committee Staff that the FBI interviewed Individual A. Following the incident notification and interview, neither the FBI nor State Department advised the Federal Reserve regarding what to do to prevent and mitigate these incidents going forward.²¹¹ Without such assistance, the Federal Reserve was not “sure what else could be done to protect [its] people.”²¹² The FBI declined to provide a comment in response to this allegation. The FBI’s general practice is not to confirm or deny the existence of any pending investigation.²¹³

On July 18, 2019, the Federal Reserve issued a general warning to all economists about travel to China.²¹⁴ Federal Reserve officials told Committee staff that it is not aware of other instances of a Federal Reserve official being detained and threatened by Chinese officials.²¹⁵

²⁰⁶ *Id.*

²⁰⁷ *Id.*

²⁰⁸ *See* FRB-PSI-0007355 (Individual A’s notes recount that the Chinese official said, “You [individual A] did not want to have much liquor because you were afraid that we would make you drunk and get important information from you”).

²⁰⁹ *Id.*

²¹⁰ Committee Briefing with the Federal Reserve (Mar. 14, 2022).

²¹¹ *Id.*

²¹² *Id.*

²¹³ *E.g., Hearing before the Subcomm. on Commerce, Science, Justice, and Related Agencies of the S. Comm. on Appropriations: Appropriations for Fiscal Year 2016*, 114th Cong. (Mar. 12, 2015) (response by Fed. Bureau of Investigation to question for the record) (“In general, the FBI does not confirm or deny the existence of any pending investigation . . .”).

²¹⁴ Committee Briefing with the Federal Reserve (Mar. 14, 2022).

²¹⁵ *Id.* Harassing and threatening individuals is a known tactic of the Chinese Government. On March 16, 2022, the U.S. Department of Justice unsealed charges against five individuals for “efforts by the secret police of the People’s Republic of China to stalk, harass and spy on Chinese nationals . . . whose political views and actions are disfavored by the PRC government.” *See* Press Release, U.S. Dep’t of Justice, Five Individuals Charged Variously with Stalking, Harassing and Spying on U.S. Residents on Behalf of the PRC Secret Police (Mar. 16, 2022). A superseding indictment issued by the Department of Justice on July 7, 2022 revealed alleged involvement by one current and one former Department of Homeland Security (DHS) law enforcement officers in the

2. Individual B

Individual B was a visiting scholar at multiple Federal Reserve Banks, before joining one full-time in 2008.²¹⁶ In his current position conducting research at the Bank, Individual B maintains access to sensitive (Class II FOMC) FRB information and the Bank describes him as a top economist.²¹⁷ Individual B's close and continuing contacts with Chinese Government officials, other Chinese nationals, and universities affiliated with talent recruitment programs raise concerns about the security of sensitive FRB information. On at least one occasion in August 2018, Individual B provided modelling code to a non-FRB employee to assist with academic research at Peking University's National School of Development.²¹⁸ Individual B retains Class II FOMC information access.²¹⁹

Individual B also has longstanding ties to the People's Bank of China ("PBOC"), which implements China's top talent recruitment programs abroad.²²⁰ Individual B has encouraged the Federal Reserve Bank he works at to consider "a longer-term relationship" with the PBOC, including a joint visiting scholar program or short-term research visitors.²²¹ In 2019, according to Federal Reserve investigators, a PBOC representative was "happy to discuss this idea."²²² Individual B has also assisted in developing predictive models for PBOC,²²³ as well as coordinated PBOC officials' visits to the Bank, using WeChat to communicate directly to the PBOC officials.²²⁴ These and other actions taken by Individual B because of these relationships raise concerns about actual or apparent foreign influence. For example, at the request of an Associate Dean at Tsinghua University, Individual B endorsed a former PBOC Chief Economist for a research fellow position.²²⁵

"procurement and dissemination of sensitive and confidential information from a restricted federal law enforcement database regarding U.S.-based dissidents from the PRC." Press Release, U.S. Dep't of Justice, Five Men Indicted for Crimes Related to Transnational Repression Scheme to Silence Critics of the People's Republic of China Residing in the United States (July 7, 2022).

²¹⁶ Curriculum Vitae of Individual B (on file with the Committee); *see also* FRB-PSI-0001147.

²¹⁷ Individual A maintains Class II FOMC access. *See* FRB-PSI-0001146. Additional information relating to the individual's position is on file with the Committee.

²¹⁸ FRB-PSI-0001141.

²¹⁹ FRB-PSI-0001148.

²²⁰ STAFF OF S. PERMANENT SUBCOMM. ON INVESTIGATIONS, 116TH CONG., REP. ON THREATS TO THE U.S. RSCH. ENTER.: CHINA'S TALENT RECRUITMENT PLANS 23–24 (2019).

²²¹ FRB-PSI-0001138.

²²² *Id.*

²²³ *See* FRB-PSI-0001145. Despite Federal Reserve officials conducting the initial investigation into Individual B and noting his "research to develop predictive models for PBOC" in an October 2019 investigative profile, Federal Reserve officials informed the Committee they "are [now] unaware of any factual basis for that statement." *See* Email from U.S. Fed. Reserve to Committee staff (July 18, 2022).

²²⁴ *See* FRB-PSI-0001138–39.

²²⁵ FRB-PSI-0001143.

Individual B signed the endorsement with Individual B's FRB credentials, without caveating that he was not acting in an official Federal Reserve capacity.²²⁶

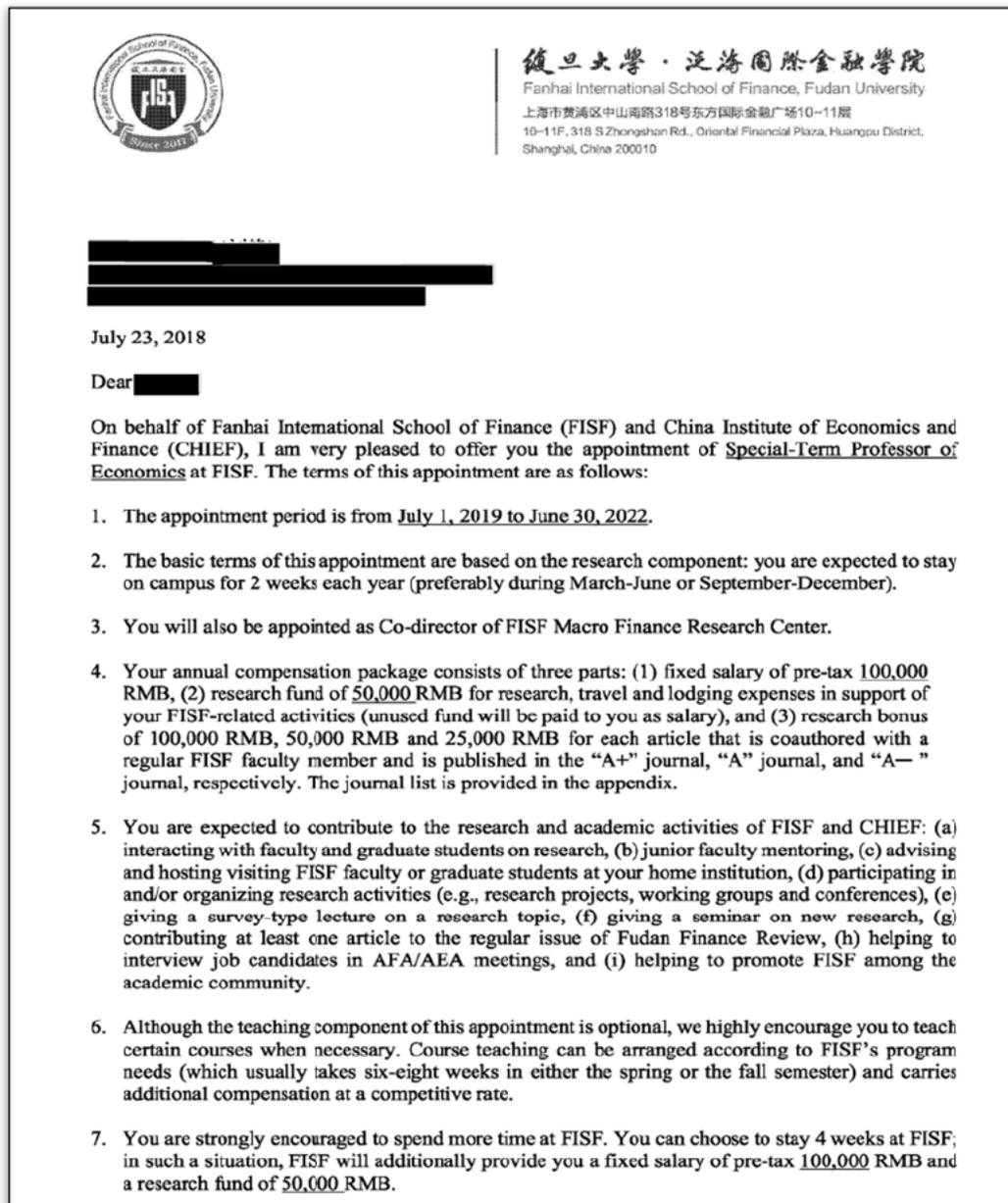


Figure 6: Appointment Letter from FISF to Individual B as a Special Term Professor of Economics

Source: FRB-PSI-000806

²²⁶ *Id.*

Individual B also maintains close ties to Chinese academic organizations affiliated with China's Thousand Talents Program. Individual B's resume includes an affiliation with SAIF.²²⁷ Although not listed on Individual B's resume, Individual B was offered a three-year special term professorship with the Fanhai International School of Finance ("FISF") at Fudan University to last from July 2019 through June 2022.²²⁸ Under the contract, Individual B would be appointed co-director of FISF's Macro Finance Research Center and receive approximately \$24,000 annually.²²⁹ Notably, the contract requires Individual B to host FISF faculty and students at Individual B's home Federal Reserve Bank.²³⁰

3. Individual C

Individual C is a senior economist at a Federal Reserve Bank who, like Individual B, maintains close relationships with Chinese officials and universities. Many of these relationships are evident on Individual C's resume.²³¹ For example, Individual C assisted with important economic modeling at the PBOC in the past five years, a position meant for "overseas, top performing talent with directly applicable, advanced modeling experience, and insight with China and U.S. economic monetary policy."²³² Individual C also previously held a short-term professorship at Wuhan University.²³³ Individual C's resume also lists various positions on Chinese conference organizing committees, as well as speaking engagements with the PBOC and the National Bureau of Statistics of China.²³⁴ Individual C retains Class III FOMC information access.²³⁵

The Federal Reserve flagged Individual C because of his connections to another individual then under investigation. An analysis of Individual C's contacts and work patterns revealed a number of red flags, including that Individual C was "observed communicating with Chinese State Council affiliated research center [and] assisting Chinese Government news agencies with publications"²³⁶ In

²²⁷ See FRB-PSI-0001147.

²²⁸ FRB-PSI-0000806. Documents obtained by the Committee from the Federal Reserve show that after the Permanent Subcommittee on Investigations of the Committee on Homeland Security and Governmental Affairs began its investigation of the Thousand Talents Program in 2019, individuals began removing or replacing references to talent programs in their resumes. See FRB-PSI-0001149.

²²⁹ *Id.* The contract specifies that Individual B would receive a fixed annual salary of RMB 100,000, as well as RMB 50,000 for research, travel, and lodging expenses. Using today's exchange rates, this equates to approximately \$16,000 and \$8,000, respectively. Individual B would also receive bonuses for every article co-authored with FISF faculty and published in particular journals.

²³⁰ *Id.*

²³¹ Curriculum Vitae of Individual C (on file with the Committee).

²³² *Id.*; FRB-PSI-0001062 (punctuation added).

²³³ Curriculum Vitae of Individual C (on file with the Committee).

²³⁴ *Id.*

²³⁵ FRB-PSI-0001073.

²³⁶ FRB-PSI-0001057.

2010, Individual C attempted to have the then-PBOC Governor and Deputy Governor visit his home FRB.²³⁷ Individual C has also directly interacted with China's Xinhua News Agency to share articles, offer assistance with press questions, and invite officials to visit Washington and the city in which his home FRB is located.²³⁸ Xinhua is a U.S.-designated foreign agent and is widely regarded

MEMORANDUM

April 30, 2018

To: [REDACTED]

Subject: Foreign Travel Request for [REDACTED]

[REDACTED] has been collaborating with the [REDACTED] Fed to build a framework to better track and forecast economic development in China. The key contribution of this framework is to incorporate big data into advanced models to evaluate economic growth and financial risks in China. The advantage of building such a framework is to provide a timely and potentially more accurate estimate of the growth momentum in China (compared to using a small set of aggregate data), which will greatly help gauge global development and possible spillovers from China to the U.S. in a timely fashion to help set monetary policy.

This will be a multi-year joint research project with [REDACTED] at the [REDACTED] Fed and [REDACTED] who is also the [REDACTED] Sargent Institute of Quantitative Economics of Finance at Peking University. During the whole process, [REDACTED] will continuously use this research data for policy analysis.

To collect and clean the required data, [REDACTED] will coordinate the time that needs to be spent in China. After consulting with the [REDACTED] proposes 11 business days during the summer at Peking University, Tsinghua University and Wuhan University which have rich data resources. To conduct research and use the data, it is required that [REDACTED] be a visiting professor, but this visiting position is non-paid. Analyst Comment: A visiting professor position at a foreign university would require a contract to facilitate sharing sensitive China datasets (high confidence).

In addition, [REDACTED] plans to combine this visit with the trip to attend two back-to-back macroeconomic conferences in China in June. [REDACTED] will present a bank research paper at the 2018 China International Conference in Macroeconomics and is invited to discuss a related paper at the Tsinghua Workshop in Macroeconomics. These two conferences represent the highest levels of macroeconomic conferences in China. Other participants include many top researchers such as [REDACTED].

[REDACTED] By presenting papers and interacting with other conference participants, [REDACTED] will be able to build relationships with these macroeconomic experts which will benefit [REDACTED] future research and policy advice.

Please let me know if you have any questions or would like additional information on the research project with [REDACTED] Fed or the conferences.

Figure 7: Foreign Travel Request Form from Individual C

Source: FRB-PSI-0000798

as effectively an arm of the Chinese Government to collect intelligence and disseminate Chinese Communist Party propaganda.²³⁹ According to the U.S.-China

²³⁷ FRB-PSI-0001059.

²³⁸ FRB-PSI-0001065.

²³⁹ See, U.S.-CHINA ECON. & SEC. REVIEW COMM'N, 2017 REPORT TO CONGRESS 475 (2017); see also, Christopher Wray, Director, Fed. Bureau of Investigation, Remarks in London, England, Director's Remarks to Business Leaders in London (July 6, 2022), <https://www.fbi.gov/news/speeches/directors-remarks-to-business-leaders-in-london-070622> (noting, "a whole lot of Chinese

Economic and Security Review Commission, Xinhua “serves some of the functions of an intelligence agency by gathering information and producing classified reports for the Chinese leadership”²⁴⁰ Individual C did not include Federal Reserve public affairs officials in most of these communications.²⁴¹

Individual C also has ties to Chinese universities affiliated with talent recruitment programs, as well as directly received Thousand Talents Program themed emails and event invitations.²⁴² In April 2018, for example, Individual C submitted a foreign travel request form noting that Individual C was working with a Peking University official on a research project.²⁴³ Through this research project and in exchange for accepting a non-paid visiting professorship, Individual C received access to restricted China data sets available at three Chinese universities.²⁴⁴ Individual C did not specify at which university Individual C would be teaching. Analysis revealed extensive and “unusual pattern[s]” of travel to China following submission of the travel request.²⁴⁵

4. Individual D

Individual D is a Senior Economic Advisor and Economist at a Federal Reserve Bank, who has also worked at the Board of Governors and one other Federal Reserve Bank. Individual D’s resume does not list any direct ties to talent recruitment plans, but documents suggest that Individual D has been a member of the Thousand Talents Program since at least 2017. Individual D received emails from accounts associated with the Thousand Talents Program that referenced

companies are owned by the Chinese government—effectively the Chinese Communist Party. And often that ownership is indirect and not advertised. And those that aren’t owned outright are effectively beholden to the government all the same”).

²⁴⁰ U.S.-CHINA ECON. & SEC. REVIEW COMM’N, 2017 REPORT TO CONGRESS 475 (2017). According to Federal Reserve documents, a former Federal Reserve employee was removed in large part due to their assistance in attempting to access restricted information at a Federal Reserve bank for a Chinese media outlet (China Global Television Network) designated by the U.S. as a foreign agent. *See* FRB-PSI-0001065.

²⁴¹ FRB-PSI-0001065.

²⁴² FRB-PSI-0001057.

²⁴³ *See* FRB-PSI-0000798.

²⁴⁴ *See id.*

²⁴⁵ *See* FRB-PSI-0001059; FRB-PSI-0001075–76 (noting that the frequency of Individual A’s travel, closely scheduled and across a wide geographic area “would require extensive coordination”). Despite individual C’s travel patterns being characterized as “unusual” by Federal Reserve investigations in November 2017, Federal Reserve officials told the Committee they “are unaware of any factual support for the statement.” Email from U.S. Fed. Reserve to Committee staff (July 18, 2022).

Dear Thousand Talents Plan Expert, hello!

IN order to deepen the implementation of the talent strategy, Zhejiang Province is now globalized into the high-level talent to the province's innovation and entrepreneurship, Special preferential policy "2017 Zhejiang Province to enter overseas high-level talent announcement (link)"

This year, we will focus on information economy, environmental protection, health, tourism, fashion, finance, high-end equipment manufacturing. High-level people in key industries such as cultural creativity, a new generation of information technology, marine development, life sciences, are needed. High-level talents in frontier science and key technology fields such as energy and new materials, as well as major innovation projects and key learning departments, key laboratories and other platforms are in urgent need of leading talents who need to apply for entrepreneurship talents. The park environment provider will directly contact you for starting negotiations for innovative applicants. The National Talent Office of the Organization Department (of the CCP) will match you with the appropriate supporting unit (i.e. enterprise, university, and research institutes, etc.) full time in Zhejiang.

Those who are selected into the Thousand Talents Plan for the province will be voted "Zhejiang Specially Appointed Experts" and enjoy excellent work conditions and living conditions mainly including a one-time, 1,000,000 Yuan science and technology talent award awarded by the provincial and local government. The government supports incentives and other supporting policies accordingly. For more policy details, please feel free to call us.

If you or your friends are interested in this plan, please send your Chinese resume and project brief to service@1000thinktank.com mailbox. After receiving your materials, we will arrange the meeting in time. If any needs or questions, please feel free to call us (links in Chinese).

*Contact: Liu teacher
Mobile phone: 861571714 3602
WeChat: [cenzlau](#)*

Thousand People Magazine is the designated reading of the National Thousand Talents Program and its forward looking and constructive way of writing journals continuously playing the role of a bridge between high-end talents and government agencies is important for people at home and abroad.

Figure 8: Email Recognizing Individual D as a Thousand Talents Plan Expert

Source: FRB-PSI-0000801

Individual D as a “Thousand Talents Plan Expert” and “high-level expert.”²⁴⁶ Individual D retains Class III FOMC information access.²⁴⁷

As a senior employee, Individual D has access to sensitive data, including certain datasets “considered of high value to an adversary and recognized by the [U.S. Government] as an area of elevated targeting interest.”²⁴⁸ Individual D’s continuous contacts with Chinese nationals and universities affiliated with talent recruitment programs raises concerns that such information may be provided to the Chinese Government. Individual D has been involved in at least two incidents in which Individual D attempted to transfer large volumes of data from the Federal Reserve to an external site.²⁴⁹ Further, in 2015, an individual with known ties to the Chinese Government and the Thousand Talents Program emailed Individual D—among other Federal Reserve employees—seeking non-public insight on three

²⁴⁶ See, e.g., FRB-PSI-0001093; FRB-PSI-0000801.

²⁴⁷ FRB-PSI-0001108.

²⁴⁸ See FRB-PSI-0001083; FRB-PSI-0001085.

²⁴⁹ FRB-PSI-0001105.



Figure 9: Email to Individual C Requesting a Federal Reserve Bank President's Views on Rate Hikes
Source: FRB-PSI-0001101

Federal Reserve Bank presidents' views on rate hikes.²⁵⁰ Individual D provided impressions of his home Bank president's views.²⁵¹ An internal Federal Reserve review determined that "the comments . . . [were] inappropriate and concerning given an external inquiry of non-public, sensitive information."²⁵²

5. Individual E

Individual E joined a Federal Reserve Bank in 2005.²⁵³ Individual E is likely a member of the Thousand Talents Program, a talent recruitment program previously

²⁵⁰ See FRB-PSI-0000802; FRB-PSI-0001101.

²⁵¹ See FRB-PSI-0001101.

²⁵² *Id.* Despite Federal Reserve investigators citing a "Federal Reserve economist," Federal Reserve officials told the Committee they "are unaware of the factual basis for that statement." Email from U.S. Fed. Reserve to Committee staff (July 18, 2022).

²⁵³ See FRB-PSI-0001540. Individual E was employed as of November 2020. *Id.*

examined by this Committee.²⁵⁴ For example, in 2016, a sender associated with the Thousand Talents Program emailed Individual E's FRB email address, writing "Thank you for always understanding and support [sic] of the service window of our country's 'Thousand Talents Program!' In the new year, we will . . . provide you with better services."²⁵⁵ As recently as October 2019, Individual E retained Class III FOMC information access..²⁵⁶

Subject: [External] "National Thousand Talents Program" service window wishes you a happy new year
From: "National Thousand Talents Plan" service window [REDACTED]
Date: 12/30/2015, 1:40 AM
To: [REDACTED]

<graphics header>

Dear [REDACTED] expert:

With a new and festive atmosphere, we usher in 2017 year of the Rooster. Thank you for always understanding and support of the service window of our country's "Thousand Talents Program!" In the new year, we will continue to work hard to do a good job in various services and provide you with better services.

On the occasion of this new year, I wish you:

Good health, smooth work, family is happy and, everything goes well!

Figure 10: Email Associating Individual E with Thousand Talents Program

Source: FRB-PSI-0001164

Similarly, in 2018, Individual E nominated a dean at Peking University for a significant award, describing the dean as highly knowledgeable about the National Thousand Talents Program.²⁵⁷ The dean Individual E recommended for the award is affiliated with China's State Council and National Committee of the Chinese People's Political Consultative Conference and was also an early National Thousand Talents Program participant himself.²⁵⁸ Further, throughout his FRB tenure, Individual E maintained close connections with Chinese universities known to be active in talent recruitment plans, including by attending and organizing conferences and through adjunct professorships at Tsinghua University and Peking University.²⁵⁹ More recently, Individual E joined Peking University's National

²⁵⁴ See FRB-PSI-0001163 (Federal Reserve investigators obtained an email to Individual E, likely originating from China's National Thousand Talents Plan and meant for members). However, Federal Reserve officials told the Committee they are "unaware of the factual basis for the statement." Email from U.S. Fed. Reserve to Committee staff (July 18, 2022).

²⁵⁵ FRB-PSI-0001164.

²⁵⁶ FRB-PSI-0001152, 1161.

²⁵⁷ FRB-PSI-0001154; FRB-PSI-0000813.

²⁵⁸ FRB-PSI-0001154, FRB-PSI-0001159.

²⁵⁹ See, e.g., FRB-PSI-0000812; FRB-PSI-0001157; FRB-PSI-0001159.

School of Development (NSD) as a visiting faculty member.²⁶⁰ Some NSD materials list individual E as knowledgeable about the Millennium Project,²⁶¹ a probable reference to a Thousand Talents Program.²⁶²

Analysis of Individual E’s internet browsing history also showed particular interest in Chinese President Xi Jinping, as well as articles relating to individuals arrested for economic espionage.²⁶³ For example, Individual E reviewed articles about a U.S. State Department official arrested for lying about providing Chinese intelligence agents internal government information in exchange for monetary benefits, and a separate article entitled “Businessman admits helping Chinese military hackers target U.S. contractors.”²⁶⁴ A keystroke capture of Individual E shows he was using the name of China’s President, “Xijiping,” as a website password.²⁶⁵ The Federal Reserve no longer employs Individual E.²⁶⁶

* * * * *

The Federal Reserve reviewed the contacts of individuals A, B, C, D, and E “to determine whether any [Federal Reserve System] employees disclosed information in violation of [its] policies [and] did not identify any policy violations.”²⁶⁷

B. Policies & Procedures

As evidenced above in the case studies, Federal Reserve officials regularly collaborate with foreign economists. Yet, while Banks maintain Code of Conduct policies, as described above,²⁶⁸ the Federal Reserve has limited policies or procedures governing these collaborations.²⁶⁹ Federal Reserve officials told Committee staff that its officials are able to collaborate with whomever they like, without any paperwork or approval requirements.²⁷⁰ The Federal Reserve officials likened the process to the “university model,” with one official adding that “supervisors are probably aware of what their staff is working on.”²⁷¹ The same official noted that the Federal Reserve requires annual information security

²⁶⁰ See FRB-PSI-0001153.

²⁶¹ FRB-PSI-0001153.

²⁶² FRB-PSI-0001161.

²⁶³ FRB-PSI-0001545; FRB-PSI-0001156.

²⁶⁴ FRB-PSI-0001157–58.

²⁶⁵ FRB-PSI-0001156.

²⁶⁶ Email from U.S. Fed. Reserve to Committee staff (July 18, 2022).

²⁶⁷ *Id.*

²⁶⁸ Although the Federal Reserve maintains various policies governing employee conduct, none is specific to collaboration with foreign economists. See *supra* Section I(C)(3)(a–b).

²⁶⁹ Committee Briefing with the Federal Reserve (Mar. 14, 2022).

²⁷⁰ *Id.*

²⁷¹ *Id.*

training that is “very clear” that non-public information may not be shared outside the Federal Reserve without express permission.²⁷²

Despite a prior investigation and counterintelligence analysis in 2015, the incidents described above in the case studies, and suggestions from the FBI, the Federal Reserve did not take any steps to update its policies to account for threats from China until after the Committee initiated its inquiry.

In May 2020, the FBI provided the Federal Reserve with a number of policy and procedure best practices to assist in mitigating Chinese malign foreign influence and information theft.²⁷³ The suggestions included enhanced policies regarding paid travel for Federal Reserve employees by foreign entities, required disclosure of foreign travel and contacts, prohibiting talent recruitment plan membership, Federal Reserve-wide coordinated background checks, and adopting an information classification system standardized across Federal agencies.²⁷⁴ The Federal Reserve, however, largely chose not to implement these best practices.

In June 2021, the Federal Reserve adopted two policies—one covering the Board of Governors and one covering the Reserve Banks—that prohibit officials from accepting compensation from restricted countries, including China.²⁷⁵ The policies contain limited exceptions and a waiver process.²⁷⁶ The Federal Reserve has not implemented any requirement that employees disclose membership in talent recruitment programs. When Committee staff noted that this is something many agencies are affirmatively requiring, a Federal Reserve official pointed to the June 2021 policy, adding employees do not need to disclose if they are a member of a talent program, if they are a member and are receiving any form of compensation “[they are] going to be fired.”²⁷⁷

Notwithstanding the information in the above case studies, Federal Reserve officials determined that none of the individuals violated any internal policy or procedure, closing the analysis into the 13 persons of interest identified as having known talent recruitment plan ties.²⁷⁸ While it is unclear if Federal Reserve officials

²⁷² *Id.*

²⁷³ Letterhead Memorandum from Fed. Bureau of Investigation to Senator Portman and Sen. Carper (Sept. 2020) (on file with the Committee).

²⁷⁴ *Id.*

²⁷⁵ Committee Briefing with the Federal Reserve (Mar. 14, 2022).

²⁷⁶ *Id.*

²⁷⁷ *Id.*

²⁷⁸ *Id.* Documents provided to the Committee by the Federal Reserve show all five individuals profiled in this report to have talent recruitment plan ties. *See, e.g.*, FRB-PSI-0001057, FRB-PSI-0001064, FRB-PSI-0001093, FRB-PSI-0001137, FRB-PSI-0007243.

conducted reinvestigations of any individuals in the P-Network, all but one of the above individuals retain access to confidential FOMC information.²⁷⁹

C. Collaboration with Law Enforcement

There are a number of limiting factors that hinder the Federal Reserve’s ability to conduct thorough investigations into foreign influence. Of note, the Federal Reserve has limited counterintelligence capabilities and authorities.²⁸⁰ “Although [Federal Reserve investigators] have ample experience with forensic analysis and employee investigations in support of Legal and Human Resources . . . there is very

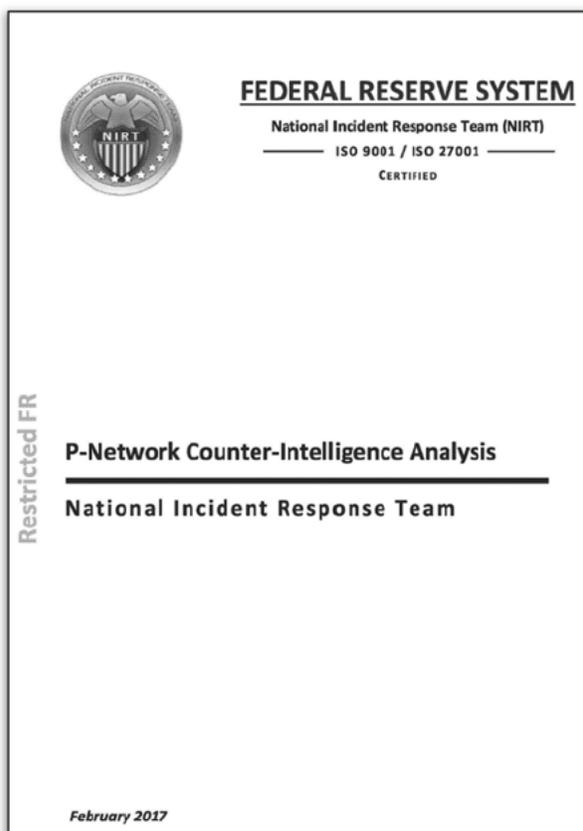


Figure 11: Cover Page from Federal Reserve Counterintelligence Analysis, February 2017
Source: FRB-PSI-0006727

limited internal expertise on the discipline of Counterintelligence,” a Federal Reserve document obtained by the Committee notes.²⁸¹ Federal Reserve officials further told the Committee that the Federal Reserve does “not conduct counterintelligence investigations,”²⁸² despite providing the Committee with a February 2017 “P-Network Counter-Intelligence Analysis” and associated briefing noting, the Federal Reserve’s “counter-intelligence expertise”—while limited—is “growing.”²⁸³

However, the Federal Reserve does receive general intelligence reports from the Intelligence Community (though not specific to China).²⁸⁴ The Integrated Resiliency and Threat Program within the Federal Reserve receives these reports and disseminates them “as appropriate.”²⁸⁵

²⁷⁹ See FRB-PSI-0001073; FRB-PSI-0001108; FRB-PSI-0001146; FRB-PSI-0001161; FRB-PSI-0007296.

²⁸⁰ See FRB-PSI-0006731 (noting the Federal Reserve has “very limited internal expertise on the discipline of Counter-Intelligence”).

²⁸¹ FRB-PSI-0006731.

²⁸² Email from U.S. Fed. Reserve to Committee staff (July 18, 2022).

²⁸³ FRB-PSI-0006720, 6726–6735.

²⁸⁴ Committee Briefing with the Federal Reserve (Mar. 14, 2022).

²⁸⁵ *Id.*

Federal Reserve officials also told the Committee that they meet with the FBI two to three times each year to “make sure they don’t know something we don’t know.”²⁸⁶

Prior to and during the Federal Reserve’s investigation and counterintelligence analysis into employees linked to Thousand Talents Programs, the Federal Reserve received no specific information from the Intelligence Community regarding China targeting Federal Reserve employees.²⁸⁷ In addition, Federal Reserve investigators did not have access to classified material that might have aided their work.²⁸⁸

A lack of context and external intelligence also contributes to the Federal Reserve’s lack of investigative capability. “[A]nalysts commonly lacked enough context to adequately judge apparently suspicious activities or associations that have been observed [as part of the P-Network],” a Federal Reserve analysis notes.²⁸⁹ “[I]ntelligence may have been lacking, personal relationships only partially understood, or only portions of given communications threads observed.”²⁹⁰ Timeliness and quantity of external intelligence reports also hindered Federal Reserve investigators. “There has been no fresh input/intelligence in this area for many months,” a February 2017 Federal Reserve counterintelligence analysis notes regarding P-Network individuals.²⁹¹

Looking to improve their ability to investigate potential foreign threats, Federal Reserve investigators acknowledge the need to collaborate closely with the FBI.²⁹² “Aggressively pursuing collaboration with the FBI in the immediate-term not only could pay significant short-term dividends, but it is apt to lend insight towards achieving this longer-term partnership,” a February 2017 Federal Reserve investigative report notes.²⁹³

III. Conclusion

China is determined to attain global supremacy, undermining the U.S. economy in the process. As this investigation has shown, China’s attempts at compromising the U.S. Federal Reserve have increased, and in some cases, seen success. In the future, China will certainly continue to target the Federal Reserve for malign

²⁸⁶ *Id.*

²⁸⁷ *Id.*

²⁸⁸ *See* FRB-PSI-0006692 (noting, “US Government-sourced reporting is restricted at higher classification, and cannot be brought to bear on the analysis”); *see also*, FRB-PSI-0006693 (“External intelligence is lacking—thus diminishing our capacity to correlate events and actions of Subjects”).

²⁸⁹ FRB-PSI-0006731.

²⁹⁰ *Id.*

²⁹¹ *Id.*

²⁹² *See* FRB-PSI-0006729.

²⁹³ *Id.*

influence and information theft. As the Federal Reserve National Incident Response Team warned:

[T]he Federal Reserve has been confronted with a challenge that will, if anything, become more pronounced. As with others in elite technical and analytical fields, our Research Economists have and will continue to reflect a more international demographic—one that, while certainly an asset for its diverse perspectives and networking opportunities, also represents a heightened threat of “foreign agent” targeting.²⁹⁴

Although the Federal Reserve took an important step by implementing a policy prohibiting its officials from receiving remuneration from restricted countries, including China, more needs to be done to ensure the Federal Reserve is secure from malign foreign influence.

The Federal Reserve need not forgo contact with China altogether—collaboration between the Federal Reserve and foreign institutions allows the Federal Reserve “to better understand and anticipate influences on the U.S. economy that emanate from abroad”²⁹⁵ and to work collectively to address threats and concerns to the global economic system.²⁹⁶ The Federal Reserve told the Committee, “[i]t is important [to] protect the integrity of the Federal Reserve, and its most sensitive technologies and information, while allowing continued and meaningful engagement with scholars, as both are essential to [the Federal Reserve’s] mission.”²⁹⁷ This investigation reaches the same conclusion—it is imperative to balance collaboration with foreign institutions against national security interests. However, China’s targeting of Federal Reserve officials appears rarely aimed at fostering legitimate collaboration, business arrangements, or research exchanges. Rather, China’s efforts seem aimed at malicious, undisclosed, and illegal transfers of information that seek to undermine the United States.²⁹⁸

Striking an appropriate balance between international collaboration and national security requires the Board of Governors and the presidents of the individual Federal Reserve Banks to exercise greater oversight, to evaluate regularly the risks and illegal conduct incentivized by Chinese talent recruitment efforts, and to take steps to safeguard the institution from malign foreign interference. At a minimum, the Federal Reserve System needs strict transparency and disclosure requirements

²⁹⁴ FRB-PSI-0006728.

²⁹⁵ FED. RESERVE BD., *THE FEDERAL RESERVE SYSTEM: PURPOSES & FUNCTIONS* 38 (10th ed. 2016).

²⁹⁶ FED. RESERVE BD., *THE FED EXPLAINED: WHAT THE CENTRAL BANK DOES* 59 (11th ed. 2021).

²⁹⁷ Email from U.S. Fed. Reserve to Committee staff (July 18, 2022).

²⁹⁸ See *The China Threat – Chinese Talent Plans Encourage Trade Secret Theft, Economic Espionage*, FED. BUREAU OF INVESTIGATION, <https://www.fbi.gov/investigate/counterintelligence/the-china-threat/chinese-talent-plans>.

for employee conflicts of interest and conflicts of commitment. The Federal Reserve must also implement a strong compliance and auditing program to ensure employees report actual or potential conflicts. This is the only way our monetary institutions can assess the risks to and prevent abuse of access to their information.