113TH CONGRESS  H. R. 5018

To amend the Federal Reserve Act to establish requirements for policy rules and blackout periods of the Federal Open Market Committee, to establish requirements for certain activities of the Board of Governors of the Federal Reserve System, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JULY 7, 2014

Mr. Huizenga of Michigan (for himself and Mr. Garrett) introduced the following bill; which was referred to the Committee on Financial Services, and in addition to the Committee on Oversight and Government Reform, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To amend the Federal Reserve Act to establish requirements for policy rules and blackout periods of the Federal Open Market Committee, to establish requirements for certain activities of the Board of Governors of the Federal Reserve System, and for other purposes.

1 Be it enacted by the Senate and House of Representa-
2 tives of the United States of America in Congress assembled,
3
4 SECTION 1. SHORT TITLE.
5 This Act may be cited as the “Federal Reserve Ac-
6 countability and Transparency Act of 2014”.

SEC. 2. REQUIREMENTS FOR POLICY RULES OF THE FEDERAL OPEN MARKET COMMITTEE.

(a) IN GENERAL.—The Federal Reserve Act (12 U.S.C. 221 et seq.) is amended by inserting after section 2B the following new section:

“SEC. 2C. DIRECTIVE POLICY RULES OF THE FEDERAL OPEN MARKET COMMITTEE.

“(a) DEFINITIONS.—In this section the following definitions shall apply:

“(1) APPROPRIATE CONGRESSIONAL COMMITTEES.—The term ‘appropriate congressional committees’ means the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate.

“(2) DIRECTIVE POLICY RULE.—The term ‘Directive Policy Rule’ means a policy rule developed by the Federal Open Market Committee that meets the requirements of subsection (c) and that provides the basis for the Open Market Operations Directive.

“(3) GDP.—The term ‘GDP’ means the gross domestic product of the United States as computed and published by the Department of Commerce.

“(4) INTERMEDIATE POLICY INPUT.—The term ‘Intermediate Policy Input’—
“(A) may include any variable determined by the Federal Open Market Committee as a necessary input to guide open-market operations;

“(B) shall include an estimate of, and the method of calculation for, the current rate of inflation or current inflation expectations; and

“(C) shall include, specifying whether the variable or estimate is historical, current, or a forecast and the method of calculation, at least one of—

“(i) an estimate of real GDP, nominal GDP, or potential GDP;

“(ii) an estimate of the monetary aggregate compiled by the Board of Governors of the Federal Reserve System and Federal reserve banks; or

“(iii) an interactive variable or a net estimate composed of the estimates described in clauses (i) and (ii).

“(5) Legislative Day.—The term ‘legislative day’ means a day on which either House of Congress is in session.

an order to achieve a specified Policy Instrument Target provided to the Federal Reserve Bank of New York by the Federal Open Market Committee pursuant to powers authorized under section 14 of this Act that guide open-market operations.

“(7) POLICY INSTRUMENT.—The term ‘Policy Instrument’ means—

“(A) the nominal Federal funds rate;

“(B) the nominal rate of interest paid on nonborrowed reserves; or

“(C) the discount window primary credit interest rate most recently published on the Federal Reserve Statistical Release on selected interest rates (daily or weekly), commonly referred to as the H.15 release.


“(9) REFERENCE POLICY RULE.—The term ‘Reference Policy Rule’ means a calculation of the nominal Federal funds rate as equal to the sum of the following:

“(A) The rate of inflation over the previous four quarters.
“(B) One-half of the percentage deviation
of the real GDP from an estimate of potential
GDP.

“(C) One-half of the difference between the
rate of inflation over the previous four quarters
and two.

“(D) Two.

“(b) Submitting a Directive Policy Rule.—Not
later than 48 hours after the end of a meeting of the Fed-
eral Open Market Committee, the Chairman of the Fed-
eral Open Market Committee shall submit to the appro-
priate congressional committees and the Comptroller Gen-
eral of the United States a Directive Policy Rule and a
statement that identifies the members of the Federal Open
Market Committee who voted in favor of the Rule.

“(c) Requirements for a Directive Policy
Rule.—A Directive Policy Rule shall—

“(1) identify the Policy Instrument the Direc-
tive Policy Rule is designed to target;

“(2) describe the strategy or rule of the Federal
Open Market Committee for the systematic quan-
titative adjustment of the Policy Instrument Target
to respond to a change in the Intermediate Policy
Inputs;
“(3) include a function that comprehensively models the interactive relationship between the Intermediate Policy Inputs;

“(4) include the coefficients of the Directive Policy Rule that generate the current Policy Instrument Target and a range of predicted future values for the Policy Instrument Target if changes occur in any Intermediate Policy Input;

“(5) describe the procedure for adjusting the supply of bank reserves to achieve the Policy Instrument Target;

“(6) include a statement as to whether the Directive Policy Rule substantially conforms to the Reference Policy Rule and, if applicable—

“(A) an explanation of the extent to which it departs from the Reference Policy Rule;

“(B) a detailed justification for that departure; and

“(C) a description of the circumstances under which the Directive Policy Rule may be amended in the future;

“(7) include a certification that such Rule is expected to support the economy in achieving stable prices and maximum natural employment over the long term; and
“(8) include a calculation that describes with mathematical precision the expected annual inflation rate over a 5-year period.

“(d) GAO REPORT.—The Comptroller General of the United States shall compare the Directive Policy Rule submitted under subsection (b) with the rule that was most recently submitted to determine whether the Directive Policy Rule has materially changed. If the Directive Policy Rule has materially changed, the Comptroller General shall, not later than 7 days after each meeting of the Federal Open Market Committee, conduct an audit of the Rule and submit a report to the appropriate congressional committees specifying whether the Rule submitted after that meeting and the Federal Open Market Committee are in compliance with this section.

“(e) CHANGING MARKET CONDITIONS.—

“(1) RULE OF CONSTRUCTION.—Nothing in this Act shall be construed to require that the plans with respect to the systematic quantitative adjustment of the Policy Instrument Target described under subsection (c)(2) be implemented if the Federal Open Market Committee determines that such plans cannot or should not be achieved due to changing market conditions.
“(2) GAO APPROVAL OF UPDATE.—Upon determining that plans described in paragraph (1) cannot or should not be achieved, the Federal Open Market Committee shall submit an explanation for that determination and an updated version of the Directive Policy Rule to the Comptroller General of the United States and the appropriate congressional committees not later than 48 hours after making the determination. The Comptroller General shall, not later than 48 hours after receiving such updated version, conduct an audit and issue a report determining whether such updated version and the Federal Open Market Committee are in compliance with this section.

“(f) DIRECTIVE POLICY RULE AND FEDERAL OPEN MARKET COMMITTEE NOT IN COMPLIANCE.—

“(1) IN GENERAL.—If the Comptroller General of the United States determines that the Directive Policy Rule and the Federal Open Market Committee are not in compliance with this section in the report submitted pursuant to subsection (d), or that the updated version of the Directive Policy Rule and the Federal Open Market Committee are not in compliance with this section in the report submitted pursuant to subsection (e)(2), the Chairman of the
Board of Governors of the Federal Reserve System shall, not later than 7 legislative days after the date of submission of such a report, testify before the appropriate congressional committees as to why the Directive Policy Rule, the updated version, or the Federal Open Market Committee is not in compliance.

“(2) GAO AUDIT.—Notwithstanding subsection (b) of section 714 of title 31, United States Code, upon submitting a report of noncompliance pursuant to subsection (d) or subsection (e)(2) and after the period of 7 legislative days described in paragraph (1), the Comptroller General shall audit the conduct of monetary policy by the Board of Governors of the Federal Reserve System and the Federal Open Market Committee upon request of the appropriate congressional committee. Such committee may specify the parameters of such audit.

“(g) CONGRESSIONAL HEARINGS.—The Chairman of the Board of Governors of the Federal Reserve System shall, if requested by either of the appropriate congressional committees and not later than 7 legislative days after such request, appear before such committee to explain any change to the Directive Policy Rule.”.
(b) CONFORMING AMENDMENT.—The second sentence of subsection (b) of section 714 of title 31, United States Code, is amended by striking "Audits" and inserting "Except as provided in section 2C(f) of the Federal Reserve Act, audits".

SEC. 3. FEDERAL OPEN MARKET COMMITTEE BLACKOUT PERIOD.

Section 12A of the Federal Reserve Act (12 U.S.C. 263) is amended by adding at the end the following new subsection:

"(d) BLACKOUT PERIOD.—

"(1) IN GENERAL.—During a blackout period, the only public communications that may be made by members and staff of the Committee with respect to macroeconomic or financial developments or about current or prospective monetary policy issues are the following:

"(A) The dissemination of published data, surveys, and reports that have been cleared for publication by the Board of Governors of the Federal Reserve System.

"(B) Answers to technical questions specific to a data release."