

113TH CONGRESS
2D SESSION

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 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Federal Reserve Ac-
5 countability and Transparency Act of 2014”.

1 **SEC. 2. REQUIREMENTS FOR POLICY RULES OF THE FED-**
2 **ERAL OPEN MARKET COMMITTEE.**

3 (a) IN GENERAL.—The Federal Reserve Act (12
4 U.S.C. 221 et seq.) is amended by inserting after section
5 2B the following new section:

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

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

10 “(1) APPROPRIATE CONGRESSIONAL COMMIT-

11 TEES.—The term ‘appropriate congressional com-

12 mittees’ means the Committee on Financial Services

13 of the House of Representatives and the Committee

14 on Banking, Housing, and Urban Affairs of the Sen-

15 ate.

16 “(2) DIRECTIVE POLICY RULE.—The term ‘Di-

17 rective Policy Rule’ means a policy rule developed by

18 the Federal Open Market Committee that meets the

19 requirements of subsection (c) and that provides the

20 basis for the Open Market Operations Directive.

21 “(3) GDP.—The term ‘GDP’ means the gross

22 domestic product of the United States as computed

23 and published by the Department of Commerce.

24 “(4) INTERMEDIATE POLICY INPUT.—The term

25 ‘Intermediate Policy Input’—

1 “(A) may include any variable determined
2 by the Federal Open Market Committee as a
3 necessary input to guide open-market oper-
4 ations;

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

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

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

14 “(ii) an estimate of the monetary ag-
15 gregate compiled by the Board of Gov-
16 ernors of the Federal Reserve System and
17 Federal reserve banks; or

18 “(iii) an interactive variable or a net
19 estimate composed of the estimates de-
20 scribed in clauses (i) and (ii).

21 “(5) LEGISLATIVE DAY.—The term ‘legislative
22 day’ means a day on which either House of Congress
23 is in session.

24 “(6) OPEN MARKET OPERATIONS DIRECTIVE.—
25 The term ‘Open Market Operations Directive’ means

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

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

8 “(A) the nominal Federal funds rate;

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

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

16 “(8) POLICY INSTRUMENT TARGET.—The term
17 ‘Policy Instrument Target’ means the target for the
18 Policy Instrument specified in the Open Market Op-
19 erations Directive.

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

24 “(A) The rate of inflation over the pre-
25 vious four quarters.

1 “(B) One-half of the percentage deviation
2 of the real GDP from an estimate of potential
3 GDP.

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

7 “(D) Two.

8 “(b) SUBMITTING A DIRECTIVE POLICY RULE.—Not
9 later than 48 hours after the end of a meeting of the Fed-
10 eral Open Market Committee, the Chairman of the Fed-
11 eral Open Market Committee shall submit to the appro-
12 priate congressional committees and the Comptroller Gen-
13 eral of the United States a Directive Policy Rule and a
14 statement that identifies the members of the Federal Open
15 Market Committee who voted in favor of the Rule.

16 “(c) REQUIREMENTS FOR A DIRECTIVE POLICY
17 RULE.—A Directive Policy Rule shall—

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

20 “(2) describe the strategy or rule of the Federal
21 Open Market Committee for the systematic quan-
22 titative adjustment of the Policy Instrument Target
23 to respond to a change in the Intermediate Policy
24 Inputs;

1 “(3) include a function that comprehensively
2 models the interactive relationship between the In-
3 termediate Policy Inputs;

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

9 “(5) describe the procedure for adjusting the
10 supply of bank reserves to achieve the Policy Instru-
11 ment Target;

12 “(6) include a statement as to whether the Di-
13 rective Policy Rule substantially conforms to the
14 Reference Policy Rule and, if applicable—

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

17 “(B) a detailed justification for that depar-
18 ture; and

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

22 “(7) include a certification that such Rule is ex-
23 pected to support the economy in achieving stable
24 prices and maximum natural employment over the
25 long term; and

1 “(8) include a calculation that describes with
2 mathematical precision the expected annual inflation
3 rate over a 5-year period.

4 “(d) GAO REPORT.—The Comptroller General of the
5 United States shall compare the Directive Policy Rule sub-
6 mitted under subsection (b) with the rule that was most
7 recently submitted to determine whether the Directive Pol-
8 icy Rule has materially changed. If the Directive Policy
9 Rule has materially changed, the Comptroller General
10 shall, not later than 7 days after each meeting of the Fed-
11 eral Open Market Committee, conduct an audit of the
12 Rule and submit a report to the appropriate congressional
13 committees specifying whether the Rule submitted after
14 that meeting and the Federal Open Market Committee are
15 in compliance with this section.

16 “(e) CHANGING MARKET CONDITIONS.—

17 “(1) RULE OF CONSTRUCTION.—Nothing in
18 this Act shall be construed to require that the plans
19 with respect to the systematic quantitative adjust-
20 ment of the Policy Instrument Target described
21 under subsection (c)(2) be implemented if the Fed-
22 eral Open Market Committee determines that such
23 plans cannot or should not be achieved due to
24 changing market conditions.

1 “(2) GAO APPROVAL OF UPDATE.—Upon deter-
2 mining that plans described in paragraph (1) cannot
3 or should not be achieved, the Federal Open Market
4 Committee shall submit an explanation for that de-
5 termination and an updated version of the Directive
6 Policy Rule to the Comptroller General of the
7 United States and the appropriate congressional
8 committees not later than 48 hours after making the
9 determination. The Comptroller General shall, not
10 later than 48 hours after receiving such updated
11 version, conduct an audit and issue a report deter-
12 mining whether such updated version and the Fed-
13 eral Open Market Committee are in compliance with
14 this section.

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

17 “(1) IN GENERAL.—If the Comptroller General
18 of the United States determines that the Directive
19 Policy Rule and the Federal Open Market Com-
20 mittee are not in compliance with this section in the
21 report submitted pursuant to subsection (d), or that
22 the updated version of the Directive Policy Rule and
23 the Federal Open Market Committee are not in com-
24 pliance with this section in the report submitted pur-
25 suant to subsection (e)(2), the Chairman of the

1 Board of Governors of the Federal Reserve System
2 shall, not later than 7 legislative days after the date
3 of submission of such a report, testify before the ap-
4 propriate congressional committees as to why the
5 Directive Policy Rule, the updated version, or the
6 Federal Open Market Committee is not in compli-
7 ance.

8 “(2) GAO AUDIT.—Notwithstanding subsection
9 (b) of section 714 of title 31, United States Code,
10 upon submitting a report of noncompliance pursuant
11 to subsection (d) or subsection (e)(2) and after the
12 period of 7 legislative days described in paragraph
13 (1), the Comptroller General shall audit the conduct
14 of monetary policy by the Board of Governors of the
15 Federal Reserve System and the Federal Open Mar-
16 ket Committee upon request of the appropriate con-
17 gressional committee. Such committee may specify
18 the parameters of such audit.

19 “(g) CONGRESSIONAL HEARINGS.—The Chairman of
20 the Board of Governors of the Federal Reserve System
21 shall, if requested by either of the appropriate congres-
22 sional committees and not later than 7 legislative days
23 after such request, appear before such committee to ex-
24 plain any change to the Directive Policy Rule.”.

1 (b) CONFORMING AMENDMENT.—The second sen-
2 tence of subsection (b) of section 714 of title 31, United
3 States Code, is amended by striking “Audits” and insert-
4 ing “Except as provided in section 2C(f) of the Federal
5 Reserve Act, audits”.

6 **SEC. 3. FEDERAL OPEN MARKET COMMITTEE BLACKOUT**
7 **PERIOD.**

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

11 “(d) BLACKOUT PERIOD.—

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

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

22 “(B) Answers to technical questions spe-
23 cific to a data release.