

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.

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## 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

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## 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.