

H.R. 3189, the Fed Oversight Reform and Modernization FORM Act of 2015

Sec. 1. Title: The Fed Oversight Reform and Modernization Act of 2015

Sec. 2 Requirements for Policy Rules of the Federal Open Market Committee; Limited Fed GAO Audit Requirement

This section requires the Fed to generate a monetary policy rule to provide added transparency about the factors leading to a future rate recommendation, has the Fed compare its rule to the Taylor rule and explain any differences, and has the GAO audit the rule to determine if it complies with the statute.

A monetary policy rule is an equation that shows exactly why the Fed recommends a particular monetary policy course and allows the public to predict how the Fed will change course in the future depending on how the economy shifts. The Taylor Rule, developed by Professor John Taylor, a Stanford economist and former Undersecretary of the Treasury, is a popular example of a monetary policy rule. The Taylor Rule gives a precise interest rate recommendation based on changes in inflation and on the deviation of GDP growth from historical trends.

If the Fed's submission does not meet the statute's requirements for a valid rule, the bill allows the Financial Services Committee or the Senate Banking to instruct the Government Accountability Office to conduct a one-time audit of the Fed's conduct of monetary policy along parameters specified by the requesting committee. Any time the Fed updates its rule, or if the GAO determines at any time that the rule does not comply with the statute, the bill requires the Fed Chairman to testify upon request of the Financial Services Committee or the Senate Banking Committee.

Sec. 3. Federal Open Market Committee Blackout Period

This section clarifies that the FOMC blackout period, a Federal Reserve policy that prohibits Fed Governors and officials from speaking in public on any matter during the week prior to an FOMC meeting and immediately following an FOMC meeting, begins immediately after midnight on the day that is one-week before the meeting and ends at midnight on the day after the meeting takes place. It also clarifies that the blackout period does not apply to answering technical questions specific to data releases or to testimony regarding the Fed's supervisory and prudential functions.

Sec. 4. Membership of Federal Open Market Committee

This section reforms the voting membership of the Federal Open Market Committee. Under the bill, voting members consist of the seven members of the Board of Governors

and six of the twelve Fed District Bank Presidents on a rotating basis. Thus, each District Bank president would be a voting member of the FOMC every other year.

Sec. 5. Transparency of Stress Test and Regulatory Activities

This section requires the Fed to issue regulations, after providing for public notice and comment, for stress test scenarios under Section 165 of the Dodd-Frank Act.

Sec. 6. Appearances before Congress

This section requires the Fed Chairman to testify before the Financial Services Committee and the Senate Banking Committee on a quarterly basis (rather than semi-annually as provided under current law).

Sec. 7. Vice Chairman for Supervision Report Requirement

This section requires the Fed Vice Chairman for Supervision to provide as part of his statutorily required semi-annual testimony to the Financial Services and Senate Banking Committees a report on the status of proposed and anticipated rulemakings. This section also requires that if the Vice Chairman for Supervision position is vacant, the Vice Chairman of the Board of Governors must fulfill the statutory requirement for semi-annual testimony.

Sec. 8. Economic Analysis

This section requires cost-benefit analysis for all regulations promulgated by the Federal Reserve.

It specifies particular costs the Fed must take into account, such as the cost impact of new rules on the safety and soundness of the banking system, on market liquidity in securities markets, on small businesses, on community banks, on economic growth, on cost and access to capital, on market stability, on global competitiveness, on job creation, on the effectiveness of the monetary policy transmission mechanism, and on employment levels.

This section also requires that major new rules must be accompanied by metrics which would indicate their success and requires a post-adoption study based on those metrics.

Sec. 9. Salary Disclosure and Office Staff of the Fed Board

This section requires the Fed to post on a public website the annual salary and the benefits of any employees whose salary exceeds that of a GS-15 federal employee. It also provides for at least two staff positions to advise each member of the Board of Governors who would be able to provide advice to the Governors independent of the Chairman's influence. This section also subjects Fed employees to the same ethical standards as Securities and Exchange Commission employees.

Sec. 10. Requirements for International Negotiations

This section requires the Fed, FDIC, Treasury, OCC, and SEC to release for notice and comment a public disclosure of any positions the regulators plan to take as part of international regulatory negotiations and to provide a public report on the negotiations at their conclusion. This section also requires a similar process for final agreements made pursuant to international negotiations.

Sec. 11. Reforms to Emergency Lending Powers

This section amends Section 13(3) of the Federal Reserve Act to allow the Federal Reserve to invoke its emergency lending powers only upon a finding that “unusual and exigent circumstances exist that pose a threat to the financial stability of the United States.” (This amendment raises the bar from the current trigger, which permits the Fed to utilize Section 13(3) in “unusual and exigent circumstances.”)

It also mandates that, in addition to the current requirement that 5 of 7 Fed Board Governors approve of a 13(3) facility, 9 of the 12 District Fed Bank Presidents must also approve.

This section also limits eligible recipients of 13(3) assistance to financial institutions, defined as those entities that derive 85 percent or more of their annual gross revenues from activities that are “financial in nature.”

Finally, this section further discourages discretionary lending through the following amendments to Section 13(3):

Adequate collateral. Directs the Federal Reserve to adopt a rule, within 6 months of the date of enactment, specifying the method it will use to determine the sufficiency of collateral pledged to secure 13(3) lending, including which classes of collateral it will accept, as well as a “method for obtaining independent appraisals of the collateral [the Fed] receives.” In no event may the Federal Reserve accept equity securities issued by the recipient of 13(3) assistance as collateral.

Solvent borrower. Requires that for any entity regulated by the OCC, SEC, CFTC, or FDIC, that regulator must certify in writing to the Federal Reserve that the entity is not insolvent before it can be eligible for assistance under Section 13(3).

At penalty rates. Directs the Federal Reserve to adopt a rule, within 6 months of the date of enactment, establishing a minimum interest rate on the principal amount of any loan or financial assistance extended pursuant to Section 13(3). The applicable minimum interest rate shall be calculated as a trailing 90-day average of the Federal Reserve’s discount rate plus a 90-day trailing average of the spread between a

corporate bond yield index specified by this rule and a bond yield index of debt issued by the United States specified by this rule.

Sec. 12. Interest Rates on Balances Maintained at a Federal Reserve Bank by Depository Institutions Established by the Federal Open Market Committee

This section amends Section 19(b)(12)(a) of the Federal Reserve Act to specify that the Federal Open Market Committee, not the Federal Reserve Board of Governors, shall be responsible for setting the rate of interest paid on excess reserves.

Sec. 13. Audit Reform and Transparency for the Board of Governors of the Federal Reserve System

This section directs GAO to conduct an audit within 12 months of the date of enactment, with a report to be delivered to Congress within 90 days of completion of the audit. The audit must include a detailed description of the findings of the audit with GAO's recommendations for legislative and administrative action. This section also removes the restrictions placed on GAO's ability to audit the Federal Reserve contained in 31 U.S.C. Sec. 714. Finally, it makes a technical correction to 31 U.S.C. 714 by removing language, included in the Dodd-Frank Act, which explicitly provided for GAO's audit of the Federal Reserve's use of certain emergency authorities, because this language would be rendered redundant by passage of the Act.