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II

114TH CONGRESS
1ST SESSION

S. 1848

To amend the Federal Reserve Act to improve the functioning and transparency of the Board of Governors of the Federal Reserve System and the Federal Open Market Committee, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JULY 23, 2015

Mr. LEE (for himself and Mr. CORNYN) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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A BILL

To amend the Federal Reserve Act to improve the functioning and transparency of the Board of Governors of the Federal Reserve System and the Federal Open Market Committee, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Sound Dollar Act of 2015".

(b) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

TITLE I—SINGLE MANDATE FOR PRICE STABILITY ACT

SEC. 101. FINDINGS.

Congress finds that—

(1) monetary policy can only affect the level of employment in the short term because nonmonetary factors determine the level of employment in the long term;

(2) at best, the Federal Reserve may temporarily increase the level of employment through monetary policy, but such efforts risk price inflation and increased business cycle volatility in the future;

(3) the Federal Reserve can achieve price stability in the long term through monetary policy;

(4) price stability is desirable because both price inflation and price deflation damage the United States economy;

(5) to maximize long-term economic growth and achieve the highest sustainable level of real output and employment, price stability should be the objective of monetary policy;

(6) countries whose central bank has a single mandate for price stability generally have a better record of achieving stable prices than countries whose central bank has a mandate that gives equal weight to other objectives such as maximum employment or low interest rates;

(7) while, in general, an overly accommodative monetary policy inflates both asset prices and prices for goods and services, an overly accommodative monetary policy may sometimes cause a misallocation of capital that inflates asset prices disproportionately, creating unsustainable bubbles in

asset prices, while price indices for goods and services do not register significant price inflation;

(8) if asset bubbles burst, many investments must be liquidated at considerable cost to the United States economy in terms of lower real output and employment;

(9) price stability cannot always be measured solely through price indices for goods and services since such indices exclude changes in asset prices; and

(10) the Federal Reserve should monitor—

(A) the prices of, and the expected returns from, major asset classes (including equities, residential real estate, commercial and industrial real estate, agricultural real estate, gold and other commodities, corporate bonds, United States Government bonds, State and local government bonds, and other securities);

(B) the value of the United States dollar relative to other currencies; and

(C) the value of the United States dollar relative to gold, as metrics to determine whether the Federal Reserve's monetary policy is consistent with long-term price stability.

SEC. 102. PRICE STABILITY MANDATE.

(a) IN GENERAL.—Section 2A of the Federal Reserve Act (12 U.S.C. 225a) is amended—

(1) by striking ‘‘The Board of Governors’’ and inserting the following:

‘‘(a) IN GENERAL.—The Board of Governors’’;

(2) by striking ‘‘maintain long run growth of the monetary and credit aggregates commensurate with the economy’s long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates’’ and inserting ‘‘pursue the goal of long-term price stability, to achieve the maximum sustainable rate of output growth and the maximum level of employment through time’’; and

(3) by adding at the end the following:

‘‘(b) PRICE STABILITY METRICS.—

‘‘(1) IN GENERAL.—The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall—

‘‘(A) define the term ‘long-term price stability’ for purposes of subsection (a); and

‘‘(B) establish metrics that the Board and the Committee will use to evaluate whether long-term price stability is being achieved.

"(2) ESTABLISHMENT OF METRICS.—In establishing the metrics described under paragraph (1)(B), the Board and Committee shall—

"(A) consider price indices of goods and services; and

"(B) evaluate, on an ongoing basis—

"(i) whether such metrics are comprehensively reflecting price movements in the economy; and

"(ii) whether any price movements not captured by the price indices of goods and services are causing a significant misallocation of capital in the United States economy.

"(3) METRIC EVALUATION.—With respect to the evaluation process required under paragraph (2)(B), the Board and Committee shall monitor—

"(A) the prices of, and the expected returns from, major asset classes (including equities, residential real estate, commercial and industrial real estate, agricultural real estate, gold and other commodities, corporate bonds, United States Government bonds, State and local government bonds, and other securities) and the allocation of capital in financial markets and the broader economy;

"(B) the value of the United States dollar relative to other currencies; and

"(C) the value of the United States dollar relative to gold.

"(4) PUBLIC DISCLOSURE; REPORT TO CONGRESS.—With respect to the definition of long-term price stability and the establishment of metrics required under paragraph (1), the Board and the Committee shall—

"(A) make such definition and metrics available to the public on a website maintained by the Board or the Committee; and

"(B) submit to Congress a report that includes the changed definition and metrics each time such definition and metrics are set or revised.".

(b) ADDITIONAL EVALUATIONS AND DETERMINATIONS INCLUDED IN SEMI-ANNUAL REPORT TO CONGRESS.—Section 2B(b) of the Federal Reserve Act (12 U.S.C. 225b(b)) is amended—

(1) by striking "containing a discussion" and inserting the following:

"containing—

"(1) a discussion";

(2) by striking the period and inserting a semicolon; and

(3) by adding at the end the following:

"(2) the results of the evaluation conducted under section 2A(b)(2)(B);

"(3) a determination of whether the goal of long-term price stability is being met and, if such goal is not being met, an explanation of—

"(A) why the goal is not being met; and

"(B) the steps that the Board and the Federal Open Market Committee will take to ensure that the goal is met in the future; and

"(4) a description of—

"(A) the main monetary policy instruments used by the Board and the Federal Open Market Committee; and

"(B) the strategy of the Board and the Committee with respect to using such instruments to achieve the goal of long-term price stability.".

TITLE II—FINANCIAL STABILITY AND MORAL HAZARD MITIGATION ACT

SEC. 201. FINDINGS.

Congress finds that—

(1) the Federal Reserve performs an essential function for financial stability by serving as lender of last resort to—

(A) prevent the unnecessary failures of otherwise solvent United States banks and other financial institutions;

(B) reduce the likelihood of financial contagion and disruptions in United States financial markets; and

(C) minimize any adverse effects on real output and employment in the United States economy;

(2) in acting as the lender of last resort, the Federal Reserve may—

(A) buy debt securities at fair market value; or

(B) provide short-term credit, secured by appropriate collateral in proper margin, to otherwise solvent banks and other financial institutions that encounter funding difficulties during a financial crisis;

(3) in its nearly 100-year history, the Federal Reserve has never clearly articulated its lender of last resort policy;

(4) the absence of an official lender of last resort policy has led to—

(A) increased economic uncertainty because it is unknown how the Federal Reserve may behave;

(B) financially distressed firms seeking political solutions through encouraging Congress or the Administration to place pressure on the Federal Reserve to act to save the firms; and

(C) a moral hazard problem from financial institutions taking greater risks and increasing leverage based upon assumptions of how the Federal Reserve will act, though there is no formal statement assuring how the Federal Reserve will act;

(5) by establishing a formal lender of last resort policy, the Federal Reserve would decrease uncertainty in the market during times of financial crisis and mitigate the moral hazards created by recent bailouts;

(6) an official lender of last resort policy should provide that once a financial crisis has dissipated, the Federal Reserve should, in an orderly way, sell any debt securities that the Federal Reserve—

(A) acquired while acting as lender of last resort; and

(B) does not normally own for its system account; and

(7) to reduce moral hazard, the lender of last resort policy of the Federal Reserve should make clear that credit in any form will not be provided to any insolvent bank or other financial institution.

SEC. 202. LENDER OF LAST RESORT POLICY.

(a) IN GENERAL.—Not later than 1 year after the date of the enactment of this Act, the Board of Governors of the Federal Reserve System shall clearly articulate the lender of last resort policy of the Board and shall make such policy available to the public on a website maintained by the Board or the Committee.

(b) CONSULTATION.—In developing the policy required under subsection (a), the Board of Governors shall consult with—

(1) the Federal Reserve bank presidents;

(2) the Comptroller of the Currency;

(3) the Chairperson of the Federal Deposit Insurance Corporation;

(4) the Securities and Exchange Commission;

(5) the Commodity Futures Trading Commission; and

(6) other persons with expertise in financial services regulation and monetary policy as the Board of Governors may determine appropriate.

TITLE III—DIVERSIFYING THE FEDERAL OPEN MARKET COMMITTEE TO REFLECT A 21ST CENTURY ECONOMY ACT

SEC. 301. FINDINGS.

Congress finds that—

(1) the Federal Reserve Act (12 U.S.C. 221 et seq.) delineates specific requirements for the 7 governors charged with oversight of the Federal Reserve System;

(2) in a reflection of the decentralized structure of the Federal Reserve System that broadly distributes power and responsibility across the United States, the Federal Reserve Act (12 U.S.C. 221 et seq.) mandates that the presidentially appointed governors come from a wide range of geographic locations and professional backgrounds, as described in

the first undesignated paragraph under section 10 of the Federal Reserve Act (12 U.S.C. 241), which states "In selecting the members of the Board, not more than one of whom shall be selected from any one Federal Reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country.";

(3) the Federal Open Monetary Committee consists of members of the Board of Governors and the President or Vice President of the Federal Reserve Bank of New York on a permanent basis and rotates voting membership among the remaining regional reserve banks;

(4) the existing structure of the Federal Open Market Committee places too much authority in the hands of Washington and New York at the expense of the remainder of the United States; and

(5) monetary policy should be conducted in the interest of all people of the United States, a policy goal that is best achieved—

(A) by a Federal Open Market Committee that provides greater representation and voice in policy decisions to all people of the United

States as represented by the regional reserve banks; and

(B) by reforming the voting membership of the Federal Open Market Committee to include all regional reserve banks on a permanent basis.

SEC. 302. FEDERAL OPEN MARKET COMMITTEE MEMBERSHIP.

Section 12A(a) of the Federal Reserve Act (12 U.S.C. 263(a)) is amended—

(1) by striking ''five representatives of the Federal Reserve banks to be selected as hereinafter provided.'' and inserting ''1 representative from each of the Federal Reserve banks.''; and

(2) by striking ''and, beginning with the election for the term commencing March 1, 1943,'' and all that follows through ''from time to time.'' and inserting ''and shall be elected by the board of directors of the Federal Reserve bank that they are to represent.''.

TITLE IV—DEMYSTIFICATION OF MONETARY POLICY DECISIONS ACT

SEC. 401. FINDINGS.

Congress finds that—

(1) a more efficient release of transcripts from the Federal Reserve would result in better guidance for market participants and more economically efficient decisionmaking;

(2) according to Federal Reserve Chairman, Ben Bernanke, ''when the monetary policy committee regularly provides information about its objectives, economic outlook, and policy plans, two benefits result. First, with more complete information available, markets will price financial assets more efficiently. Second, the policymakers will usually find that they have achieved a closer alignment between market participants' expectations about the course of future short-term rates and their own views''; and

(3) the Federal Reserve is able to release transcripts more efficiently without compromising its decisionmaking process.

SEC. 402. RELEASE OF TRANSCRIPTS.

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

''(d) RELEASE OF TRANSCRIPTS.—The Committee shall release meeting transcripts to the public not later than 3 years after each meeting.''.

TITLE V—EXCHANGE RATE RESPONSIBILITY ACT

SEC. 501. FINDINGS.

Congress finds that—

(1) the Board of Governors of the Federal Reserve System and the Federal Open Market Committee exercise control over the supply of United States dollars, which is a major factor affecting the foreign exchange rate value of the United States dollar;

(2) the Board of Governors and Federal Open Market Committee should report to Congress on the impact of monetary policy on the foreign exchange rate value of the United States dollar;

(3) over the last several decades, secretaries of the Treasury have repeatedly used the Exchange Stabilization Fund for purposes that were not envisioned by Congress;

(4) to prevent further abuses, the Exchange Stabilization Fund should be renamed as the Special Drawing Rights Fund; and

(5) the Special Drawing Rights Fund should hold the Special Drawing Rights that the International Monetary Fund provided to the United States, and any other assets currently in the Ex-

change Stabilization Fund should be liquidated, with the proceeds used to reduce the public debt.

SEC. 502. REPORT ON THE EFFECT OF EXCHANGE RATE POLICY.

Section 2B(b) of the Federal Reserve Act (12 U.S.C. 225b), as amended by section 102(b), is further amended—

(a) in paragraph (3)(b), by striking the ''and'' at the end;

(b) in paragraph (4)(b), by striking the period at the end and inserting ''; and''; and

(c) by adding at the end the following:

''(5) an analysis of how the policies of the Board and the Federal Open Market Committee are affecting the foreign exchange rate value of the United States dollar.''.

SEC. 503. RENAMING OF EXCHANGE STABILIZATION FUND.

(a) IN GENERAL.—Section 5302 of title 31, United States Code, is amended by striking ''stabilization fund'' each place such term appears and inserting ''Special Drawing Rights Fund''.

(b) CONFORMING AMENDMENTS.—

(1) BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985.—Section 255(g)(1)(A) of the Balanced Budget and Emergency Deficit Con-

trol Act of 1985 (2 U.S.C. 905(g)(1)(A)) is amended by striking ''Exchange Stabilization Fund'' and inserting ''Special Drawing Rights Fund''.

(2) EMERGENCY ECONOMIC STABILIZATION ACT OF 2008.—The Emergency Economic Stabilization Act of 2008 (12 U.S.C. 5211 et seq.) is amended—

(A) in section 131, by striking ''Exchange Stabilization Fund'' each place such term appears in headings and text and inserting ''Special Drawing Rights Fund''; and

(B) in the item relating to section 131 in the table of contents of such Act, by striking ''Exchange Stabilization Fund'' and inserting ''Special Drawing Rights Fund''.

(3) INTERNATIONAL FINANCIAL INSTITUTIONS ACT.—Section 1704 of the International Financial Institutions Act (22 U.S.C. 262r–3) is amended—

(A) in the section heading, by striking ''**EXCHANGE STABILIZATION FUND**'' and inserting ''**SPECIAL DRAWING RIGHTS FUND**''; and

(B) by striking ''stabilization fund'' each place such term appears and inserting ''Special Drawing Rights Fund''.

(4) SPECIAL DRAWING RIGHTS ACT.—The Special Drawing Rights Act (22 U.S.C. 286n et seq.) is amended by striking "Exchange Stabilization Fund" each place such term appears in headings and text and inserting "Special Drawing Rights Fund".

(5) STABILIZING EXCHANGE RATES AND ARRANGEMENTS.—Section 5302 of title 31, United States Code, is amended by striking "Exchange Stabilization Fund" each place such term appears and inserting "Special Drawing Rights Fund".

(c) REFERENCES.—Any reference in a law, regulation, document, paper, or other record of the United States to the "Exchange Stabilization Fund" shall be deemed a reference to the "Special Drawing Rights Fund".

SEC. 504. CONVERSION TO ALL-SDR FUND.

(a) FUNDS USED TO REDUCE THE DEBT.—The Secretary of the Treasury shall liquidate all property in the Special Drawing Rights Fund (as so renamed under section 503), other than Special Drawing Rights, and use all such amounts to reduce the public debt.

(b) LIMITATION ON FUND.—Section 5302 of title 31, United States Code, is amended—

(1) in subsection (a)(1)—

(A) by striking ‘‘is available to carry out’’ and inserting ‘‘is only available to carry out’’; and

(B) by striking ‘‘, and for’’ and all that follows through the period at the end; and

(2) by striking subsection (b) and inserting the following:

‘‘(b) FUND ONLY TO HOLD SPECIAL DRAWING RIGHTS.—Notwithstanding any other provision of law, only Special Drawing Rights may be deposited into the Special Drawing Rights Fund.’’.

(c) CONFORMING AMENDMENTS.—

(1) BRETTON WOODS AGREEMENTS ACT.—Section 18 of the Bretton Woods Agreements Act (22 U.S.C. 286e–3) is repealed.

(2) SUPPORT FOR EAST EUROPEAN DEMOCRACY (SEED) ACT OF 1989.—The Support for East European Democracy (SEED) Act of 1989 (22 U.S.C. 5401 et seq.) is amended—

(A) in section 101(b)(1), by striking ‘‘such as—’’ and all that follows through the end of the paragraph and inserting ‘‘such as the authority provided in section 102(c) of this Act.’’; and

(B) in section 102(a), by striking "section 101(b)—" and all that follows through the end of the subsection and inserting "section 101(b), should work closely with the European Community and international financial institutions to determine the extent of emergency assistance required by Poland for the fourth quarter of 1989.".

(d) TREATMENT OF CERTAIN FUNDS.—Funds that would otherwise have been deposited into the Special Drawing Rights Fund (as so renamed under subsection (a)), but for the amendments made by this section, shall instead be paid to the Secretary of the Treasury, and the Secretary of the Treasury shall use such funds to reduce the public debt.

(e) WIND DOWN PERIOD FOR CERTAIN TRANSACTIONS.—Notwithstanding any other provision of this section, during the 3-year period beginning on the date of the enactment of this Act, property other than Special Drawing Rights may be deposited and maintained in the Special Drawing Rights Fund as needed to fulfill any outstanding obligations on the Fund.

TITLE VI—CREDIT ALLOCATION NEUTRALITY ACT

SEC. 601. FINDINGS.

Congress finds that—

(1) in conducting open market operations, the Federal Open Market Committee should not allocate credit among households, firms, and sectors of the United States economy; and

(2) to assure the credit allocation neutrality of open market operations among households, firms, and sectors of the United States economy, the Federal Open Market Committee should conduct open market operations in United States Government securities, and repurchase and reverse repurchase agreements that have a term of 1 year or less, except in unusual and exigent circumstances.

SEC. 602. LIMITATION ON CERTAIN NON-EMERGENCY SECURITY PURCHASES.

(a) IN GENERAL.—The Federal Reserve Act (12 U.S.C. 221 et seq.) is amended—

(1) in section 12A, by adding at the end the following:

"(d) EMERGENCY PURCHASING AUTHORITY.—

"(1) IN GENERAL.—In unusual and exigent circumstances, the Committee, by the affirmative vote of at least ⅔ of the members of the Committee, may authorize any Federal Reserve bank, during such period as the Committee may determine—

"(A) to buy and sell, at home or abroad, bills, notes, revenue bonds, and warrants—

"(i) with a maturity from the date of purchase not exceeding 6 months; and

"(ii) that were issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, and obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency; and

"(B) to buy and sell in the open market, under the direction and regulations of the Committee, any obligation which is a direct obligation of, or fully guaranteed as to principal and interest by, any agency of the United States.

"(2) MAXIMUM HOLDING PERIOD.—Any bond, bill, note, revenue bond, warrant, or other obligation purchased by a Federal Reserve bank under paragraph (1) shall be disposed of before the end of the 5-year period beginning on the end of the period determined by the Committee under paragraph (1).

"(3) REPORT.—Not later than 7 days after the Committee makes an authorization under this subsection, the Committee shall provide to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives a report that includes—

"(A) the justification for providing emergency purchasing authority;

"(B) the identity of the person to or from whom purchases or sales were made;

"(C) the date and amount of the purchases or sales; and

"(D) the material terms of the purchases or sales."; and

(2) in section 14(b) (12 U.S.C. 355(b))—

(A) in paragraph (1), by striking "bonds" and all that follows through "thereof," and inserting "with"; and

(B) by striking paragraph (2) and inserting the following:

"(2) To enter into security repurchase agreements and reverse repurchase agreements that have a term of 1 year or less, in accordance with rules and regulations prescribed by the Board of Governors of the Federal Reserve System.".

(b) TRANSITION PROVISION.—Each Federal Reserve bank that holds bonds, bills, notes, revenue bonds, warrants, or other obligations purchased under the authority granted by a provision struck under subsection (a)(2) shall dispose of such obligations not later than the end of the 5-year period beginning on the date of the enactment of this Act.

TITLE VII—BUREAU OF CONSUMER FINANCIAL PROTECTION FUNDING ACT

SEC. 701. FINDINGS.

Congress finds that—

(1) as the central bank of the United States, the Federal Reserve conducts United States monetary policy and necessarily exercises broad oversight responsibility to ensure the safety, soundness, and smooth functioning of the banking and payments systems of the United States;

(2) there exists a broad consensus among policymakers, academics, and most informed com-

mentators that central bank independence is necessary to the proper and effective conduct of monetary policy and those regulatory activities necessary for the implementation of such monetary policy;

(3) to preserve the independence of its activities, the Federal Reserve should remain operationally and financially autonomous within the United States Government;

(4) those activities that do not relate to the functions listed in paragraph (1) should not occur outside of the constitutionally granted authority of Congress to authorize and oversee the expenditure of public funds; and

(5) the Bureau of Consumer Financial Protection should be subject to the Federal appropriations process to ensure effective Congressional oversight over its activities and use of public funds.

SEC. 702. BUREAU OF CONSUMER FINANCIAL PROTECTION FUNDING.

(a) IN GENERAL.—Section 1017 of the Consumer Financial Protection Act of 2010 (12 U.S.C. 5497) is amended—

(1) in subsection (a)—

(A) by amending the heading of such subsection to read as follows: ''BUDGET, FINANCIAL MANAGEMENT, AND AUDIT.—'';

(B) by striking paragraphs (1), (2), and (3);

(C) by redesignating paragraphs (4) and (5) as paragraphs (1) and (2), respectively; and

(D) in paragraph (1), as so redesignated—

(i) by striking subparagraph (E); and

(ii) by redesignating subparagraph (F) as subparagraph (E);

(2) by striking subsections (b) and (c);

(3) by redesignating subsections (d) and (e) as subsections (b) and (c), respectively; and

(4) in subsection (c), as so redesignated—

(A) by striking paragraphs (1), (2), and (3) and inserting the following:

''(1) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated such funds as may be necessary to carry out this title.''; and

(B) by redesignating paragraph (4) as paragraph (2).

(b) EFFECTIVE DATE.—The amendments made by this section shall take effect on October 1, 2015.

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