

Federal Reserve Reform

The Fed Oversight Reform and Modernization Act (FORM Act), H.R. 3189

The House Financial Services Committee approved legislation on July 29 that is designed to improve the economy's performance by bringing greater accountability and transparency to the Federal Reserve. The bill, the Fed Oversight Reform and Modernization Act (FORM Act) sponsored by Monetary Policy and Trade Subcommittee Chairman Bill Huizenga (R-MI), passed the Committee 33-25.

"Our economy would be healthier if the Federal Reserve were more predictable in its conduct of monetary policy and more transparent about its decision-making. Today we're merely left with so-called 'forward guidance,' which unfortunately remains amorphous, opaque and improvisational, and leaves hardworking taxpayers uncertain as they attempt to plan their economic futures," said Chairman Jeb Hensarling (R-TX). "History – not theory, but history – shows that when the Fed follows a monetary policy strategy of its own choosing and transparently communicates that strategy to the rest of us, the economy performs better and more Americans get to wake up in the morning and go to work. The FORM Act protects the Fed's independence to chart whatever monetary policy course it deems appropriate, but it has to give the American people a greater accounting of its actions."

Chairman Huizenga said, "With the Federal Reserve having more power and responsibility than ever before, it is imperative the Fed changes its opaque structure and becomes more transparent and accountable to the American people. The Fed's recent high degree of discretion and its lack of transparency in how it conducts monetary policy demonstrate that not only are reforms needed, but more importantly that reforms are necessary. We need to modernize the Federal Reserve and bring it into the 21st Century."

Among several reforms, the legislation requires the Federal Reserve to transparently communicate its monetary policy decisions to the American people. The FORM Act requires the Fed to generate a monetary policy strategy of its own choosing in order to provide added transparency about the factors leading to its monetary policy decisions.

By requiring the Fed to regularly communicate how its policy choices compare to a benchmark rule, the FORM Act helps consumers and investors make better decisions in the present and form better expectations about the future. These improvements are important for Americans to enjoy greater economic opportunity. By pursuing this expansion through increased transparency instead of policy mandates, the FORM Act further insulates the Fed from political pressures.

The FORM Act also:

- Requires the Federal Reserve to conduct cost-benefit analysis when it adopts new rules.
- Requires transparency about the Federal Reserve's bank stress tests and about international financial regulatory negotiations conducted by the Federal Reserve, Treasury Department, Office of the Comptroller of the Currency, Securities and Exchange Commission, and Federal Deposit Insurance Corporation.
- Requires the Federal Reserve to disclose the salaries of highly paid employees, provides for at least two staff positions to advise each member of the Board of Governors, and requires Fed employees to abide by the same ethical requirements as other federal financial regulators.
- Clarifies the "blackout period" governing when Federal Reserve Governors and employees may publicly speak on certain matters; provides for a more balanced representation of voters on the Federal Open Market Committee (FOMC); and provides additional assurances that the Federal Reserve's emergency lending powers are used only in emergencies.
- Requires the full FOMC to decide policy rates on excess balances maintained at a Federal Reserve Bank by a depository institution.
- Removes restrictions placed on the Government Accountability Office's ability to audit the Federal Reserve, directs the GAO to conduct an audit of the Federal Reserve within 12 months of enactment and requires the GAO to report to Congress within 90 days of completion of the audit.