THE SOUND DOLLAR ACT

KEVIN BRADY'S SOUND DOLLAR ACT (H.R.____)

Section-by-Section Summary

§1. Short Title & Table of Contents

TITLE I—SINGLE MANDATE FOR PRICE STABILITY ACT

Repeals the Fed's dual-mandate, and replaces it with a single price stability mandate.

§101 FINDINGS.

(1) 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.
(2) A single mandate is more conducive to achieving price stability as witnessed by the record of other countries with a single mandate.
(3) An overly accommodative monetary policy inflates asset prices and prices for goods and services, and it can also lead to a misallocation of capital, bubbles, etc., which can harm the U.S. economy.
(4) In addition to considering price indices for goods and services, in achieving price stability, it may also be helpful for the Federal Reserve to monitor the prices and returns of major asset classes including equities, real estate, gold, commodities, bonds, securities, and the value of the U.S. dollar.

§102 PRICE STABILITY MANDATE.

(a) §2A of the Federal Reserve Act [12 USC §225a] is amended by—

(1) Striking the current dual-mandate for the Federal Reserve (to achieve maximum employment and stable prices) and replacing it with a **single mandate of achieving "long-term price stability."**

(2) Sub-dividing §2A, to make the existing language a sub-(a), and
(3) Adding a **new (b)** that establishes "**Price Stability Metrics**," which would require the Federal Reserve Board of Governors to—

(b)(1)(A) *Define "long-term price stability."*
(b)(1)(B) Establish metrics that the Fed will use to determine if long-term price stability is being achieved.

(b)(2) *Establish Price Stability Metrics:*
(b)(2)(A) Consider price indices for goods and services; and

(b)(2)(B) Evaluate on an ongoing basis—(i) whether such metrics adequately reflect 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 U.S. economy.*

(b)(3) *Metric Evaluation:* In evaluating the metrics per (b)(2)(B), the Fed shall monitor—

(b)(3)(A) Prices and expected returns from major asset classes, including equities, real estate, commodities, bonds, other securities, and the allocation capital in financial markets and the broader economy; and

(b)(3)(B) Value of the U.S. dollar relative to other currencies; and

(b)(3)(C) Value of the U.S. dollar relative to gold.

(b)(4) *Public Disclosure; Report to Congress:* With respect to its definition of long-term price stability, the Fed shall—

(b)(4)(A) Publish the metrics definition on the Fed's website.

(b)(4)(B) Report to Congress upon revisions of the metrics.

(b) §2B(b) of the Federal Reserve Act 12 USC §225b is amended to provide for—

(1) A [1] discussion of material already in the Monetary Report to Congress;
(2) Continuation of the paragraph;
(3) [2] discussion of the results of the evaluation process described in §2A(b)(2)(B), above; and [3] a determination of whether the goal of long-term price stability is being met, and if not, an explanation of why and the steps the Board of the FOMC will take to ensure the goal is met in the future; and [4] a description of the main monetary policy instruments used by the Board of the FOMC and a description of the strategy of the Board and Committee with respect to using such instruments to achieve the goal of long-term price stability.

TITLE II—LENDER-OF-LAST-RESORT POLICY

Requires the Fed to formally define its lender-of-last resort policy to reduce moral hazard so that the market will know when the Fed will bail out an institution (e.g. Bear Stearns) and when the Fed will allow an institution to fail (e.g. Lehman Brothers).

§201 FINDINGS.

(1) The Federal Reserve performs an essential function for financial stability by serving as a lender of last resort to—
  (A) Prevent unnecessary failures of solvent banks and financial institutions;
  (B) Reduce the likelihood of financial contagion and disruptions in U.S. financial markets; and
  (C) Minimize adverse effects on output and employment in the U.S. economy.

(2) In acting as lender-of-last-resort, the Fed may—
  (A) Buy debt securities at fair market value; or
  (B) Provide short-term credit to otherwise solvent financial institutions.

(3) In its near 100-year history, the Fed has never formally articulated a lender-of last-resort policy.

(4) The absence of an official lender-of-last-resort policy has led to—
  (A) Increased economic uncertainty;
  (B) Financially-distressed firms seeking political solutions in the form of pressure from Congress or the Administration being placed on the Fed to act to save them;
  (C) Moral hazard from financial institutions, taking risks on the assumption that the Fed will bail them out

(5) By establishing a formal lender-of-last-resort policy, the Fed would decrease uncertainty in markets during crisis and mitigate moral hazards created by recent bailouts.

(6) An official lender-of-last-resort policy should specify that, upon dissipation of a financial crisis, in an orderly way, the Fed should sell debt securities that—
  (A) Were acquired as lender of last resort; and
  (B) Are not normally in the Fed's System Account.

(7) To further reduce moral hazard, the Fed's lender-of-last-resort policy should make clear that credit will not be provided to insolvent banks or financial institutions.

§202 <u>LENDER-OF-LAST-RESORT POLICY</u>.

(a) Establishes that within 1-year, the Federal Reserve Board of Governors **<u>"shall clearly articulate the Board's lender-of-last-resort policy."</u>**

(b) Provides that in articulating this policy, the Board shall consult with—

(1) Federal Reserve bank presidents;
(2) Comptroller of the Currency;
(3) Chairperson of the FDIC;
(4) Securities and Exchange Commission;
(5) Commodity Futures Trading Commission; and
(6) Other financial service regulation and monetary policy experts that the Board deems appropriate.

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

Would give all Regional Banks a permanent vote on the FOMC, to increase input both geographically and in diversity of backgrounds, as well as to balance power with New York and Washington.

§301 FINDINGS.

(1) The Federal Reserve Act delineates specific requirements for the seven governors charged with oversight of the Federal Reserve System.
(2) The Federal Reserve's decentralized structured envisioned that the governors would come from a wide geographic area and include diverse backgrounds, including financial agriculture, industrial, and commercial backgrounds.
(3) The current FOMC consists of 1 member from the Federal Reserve Bank of New York, and rotates voting membership among the remaining regional banks.
(4) This existing structure of the FOMC places too much authority in the hands of New York and Washington.
(5) The FOMC should be reformed to fulfill its geographic and diversity requirement, which can best be achieved by increasing the voting membership to all of the Regional Banks on a permanent basis.

§302 FEDERAL OPEN MARKET COMMITTEE MEMBERSHIP.

Amends §12A(a) of the Federal Reserve Act [12 USC 263(a)] by—

(1) Expanding the FOMC Membership from 12 to 19, with one member representing each of the Federal Reserve banks.
(2) Amending the previous language to address the election of representatives from the regional banks.

TITLE IV— DEMYSTIFICATION OF MONETARY POLICY DECISIONS ACT

Provides for an earlier release of FOMC transcripts.

§401 FINDINGS.

(1) Market participants would be able to make more economically efficient decisions if Federal Reserve transcripts were made available sooner.

(2) Benefits of the release of information include (1) assets being priced more efficiently by markets; and (2) a closer alignment between market participants' expectations and the views of policy-makers.

(3) The Federal Reserve is able to release transcripts more efficiently without compromising their decision-making process.

§402 RELEASE OF TRANSCRIPTS.

Amends §12A(a) of the Federal Reserve Act [12 USC 263(a)] by adding at the end a new [(d)], providing for the FOMC to release meeting transcripts to the public not later than the end of the 3-year period following each meeting.

TITLE V—EXCHANGE RATE RESPONSIBILITY ACT

Establishes that the Fed should report to Congress on the impact of monetary policy on the foreign exchange rate value of the U.S. dollar; and limits the use of the Special Drawing Rights Fund.

§501 FINDINGS.

(1) The Board of Governors of the Federal Reserve System and the FOMC control the supply of U.S. dollars, which is a major factor affecting the foreign exchange rate value of the dollar. Thus, the Board of Governors and FOMC should report to Congress on the impact of monetary policy on the foreign exchange rate value of the U.S. dollar.

(2) In recent decades, Secretaries of the Treasury have used the Exchange Stabilization Fund for purposes not envisioned by Congress. To prevent further abuses, the Exchange Stabilization Fund should be renamed the Special Drawing Rights Fund, and would hold the Special Drawing Rights that the IMF provided to the U.S., with other assets in the Exchange Stabilization Fund to be liquidated and used to reduce the public debt.

§502 REPORT ON THE EFFECT OF EXCHANGE RATE POLICY.

Amends §2B of the Federal Reserve Act, by adding at the end—

(5) an analysis of how the policies of the Board of the FOMC are affecting the foreign exchange rate value of the U.S. dollar.

§503 RENAMING OF EXCHANGE STABILIZATION FUND.

(a) Amends 31 USC §5302 by striking each instance of "stabilization fund" and inserting "Special Drawing Rights Fund" in its place.

(b) *Similar conforming amendments are made to:*

(1) §255(g)(1)(A) of the Balanced Budget and Emergency Deficit Control Act of 1985 [2 USC 905(g)(1)(A)].

(2) Emergency Economic Stabilization Act of 2008 [12 USC 5211].
(3) §1704 of the International Financial Institutions Act[22 USC 262r-3].
(4) The Special Drawing Rights Act [22 USC 286n].

(c) Any other reference in law, regulation, etc. to the "Exchange stabilization fund" shall be deemed as a reference to the "Special Drawing Rights Fund."

§504 <u>CONVERSION TO ALL-SDR FUND</u>.

(a) Requires the Treasury Secretary to liquidate all property in the Special Drawing Rights Fund, other than Special Drawing Rights, and to use proceeds to reduce the public debt.

(b) Amends 31 USC §5302 to—
(1) Limit the use of funds in [(a)(1)]; and
(2) Striking the existing [(b)], and inserting new language to limit the holdings of the Special Drawing Rights Fund to Special Drawing Rights.

(c) *Provides other conforming amendments to:*
(1) Bretton Woods Agreements Act, §18 [22 USC 286e-3].
(2) Support for East European Democracy (SEED) Act of 1989 [22 USC 5401].

(d) Provides that funds that would otherwise have been deposited into the Special Drawing Rights Fund are now to be paid to the Treasury Secretary, and used reduce the public debt.

(e) A 3-year wind-down period for assets in the Special Drawing Rights fund is allowed.

TITLE VI— CREDIT ALLOCATION NEUTRALITY ACT

Provides that the FOMC should only deal in U.S. government securities, except in unusual and exigent circumstances.

§601 FINDINGS.

(1) The FOMC should not allocate credit among households, firms and sectors of the U.S. economy.

(2) To assure credit allocation neutrality of open market operations among households, firms and sectors of the U.S. economy, the FOMC should conduct open market operations in U.S. government securities, and repurchase and reverse repurchase agreements limited to 1 year in duration, except in unusual and exigent circumstances.

§602 LIMITATION ON CERTAIN NON-EMERGENCY SECURITY PURCHASE.

(a) Amends the Federal Reserve Act as follows—

(a)(1) Adds a (d) to §12A:

(d) *Emergency Purchasing Authority.*—

(d)(1) In unusual and exigent circumstances and with a vote of 2/3 Committee Members, the Committee may authorize any Federal reserve bank to buy and sell—

(d)(1)(A) At home or abroad, assets with a maturity not exceeding 6 months, issued in anticipation of collection of taxes or receipts by any State, county, district, political subdivision, or municipality of the U.S., or fully guaranteed principal and interest by a foreign government.

(d)(1)(B) In the open market, under direction and regulation of the Committee, any obligation which is a direct obligation of any agency of the U.S.

(d)(2) Any security purchased by the Fed under (d)(1) shall be disposed of within 5 years of the end of the emergency that caused the unusual and exigent circumstances, which triggered the emergency purchasing authority.

(d)(3) The Committee shall provide to the Senate Banking Committee and the House Financial Services Committee a report within 7 days after the Committee makes an authorization under this subsection, with the report including—

(d)(3)(A) Justification for the exercise of authority to provide;
(d)(3)(B) Identity of person to/from which purchases/sales were made;
(d)(3)(C) Date and amount of purchases/sales; and
(d)(3)(D) Material terms of the purchases/sales; and

(3) In §14(b)—

(A) In paragraph (1), striking components of the paragraph, in order to reduce the Feds authority for dealing in non-Treasury securities, unless special authority is invoked.

(B) In paragraph (2), replacing the existing language to explicitly grant authority, previously assumed, to the Fed for entering into security repurchase agreements and reverse repurchase agreements if the duration of the agreement is for a term of 1 year or less.

(b) Giving each Federal Reserve Bank, which holds assets purchased under the authority granted by the provisions, which were struck in the preceding paragraph, a 5-year period upon enactment of this act to dispose of those obligations.

TITLE VII— BUREAU OF CONSUMER FINANCIAL PROTECTION FUNDING ACT

Provides for the Bureau of Consumer Financial Protection to be funded by Congress.

§701 <u>FINDINGS</u>.

(1) The Fed conducts U.S. monetary policy and exercises broad oversight responsibility to ensure safety, soundness and smooth function of the nation's banking and payments systems.
(2) There is broad consensus that a central bank's independence is necessary to properly conducting monetary policy and regulatory activities necessary to the implementation of monetary policy.
(3) To maintain the Fed's independence, it should remain operationally and financially autonomous within the U.S. government.
(4) However, those activities extraneous to the central banking functions listed in (1) should not occur outside of the Constitutionally-granted authority of Congress to authorize and oversee the expenditure of public funds.
(5) Thus, 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.

§702 <u>LIMITATION ON CERTAIN NON-EMERGENCY SECURITY PURCHASE</u>.

(a) §1017 of the Consumer Financial Protection Act of 2010 is amended—
(1) In (a) by:

(A) By changing the heading in (a) to "Budget, Financial Management, and Audit.— "
(B) By striking paragraphs providing for (1) Transfer of Funds from the Fed; (2) a cap on that funding (since it no would longer exist); and (3) the transition period for this funding.
(C) Redesignating paragraphs (4) and (5) as (1) and (2); and
(D) In the new paragraph (1) "Budget and Financial Management,"—

(i) striking paragraph (4) "Rule of Construction," which allows the Director to operate free of having to consult with the OMB Director; and

(ii) redesignating sub-(F) as sub-(E).

(2) By striking subsections (b), which sets up funding operation within the Fed; and striking subsection (c), which provides for a victim's relief fund.

(3) By redesignating sub-(d) and (e) as sub-(b) and (c); and

(4) By striking paragraphs (1), (2), and (3); and inserting new language to provide for (1) an authorization of appropriations for the Bureau.

(b) Makes the amendments in this section effective as of October 1, 2012.