Title X: FED OVERSIGHT REFORM AND MODERNIZATION

CHOICE Act 2.0 seeks to improve how the Federal Reserve communicates monetary policy by imposing on the FOMC a requirement to submit to Congress, following each of its meetings, a "directive policy rule," intended to achieve specified targets for various rates (e.g., the federal funds rate, the rate charged on reserves, and the discount window rate) based upon a formula that varies as a function of changes in inflation, gross domestic product and other macroeconomic factors. By requiring the Federal Reserve to communicate its monetary policy strategy through the directive policy rules, CHOICE Act 2.0 aims to increase transparency of the FOMC's process. The FOMC would have the ability to select the specific policy inputs for each rule and would also be able to deviate from any directive policy rule when it determines that it cannot or should not comply with such rule due to changing economic conditions.

Additionally, the FOMC would be subject to a week-long blackout period prior to each of its meetings, during which FOMC members and staff would only be permitted limited public communications with respect to macroeconomic or financial developments or monetary policy issues. Further, transcripts of all FOMC meetings would be made publicly available.

CHOICE Act 2.0 would also change the membership composition of the FOMC by expanding the committee's rotating members from five to six Federal Reserve Bank members, removing the president of the Federal Reserve Bank of New York as a permanent member.

CHOICE Act 2.0 would also require an annual audit of the Federal Reserve and Federal Reserve Banks by the Comptroller General, with a report of such audit, including legislative recommendations, required to be submitted to Congress.

A bipartisan Centennial Monetary Commission would also be established under CHOICE Act 2.0, which commission would be tasked with reviewing, among other things: (i) the history of the Federal Reserve's monetary policy since its inception and its impact on the American economy, (ii) the Federal Reserve's use of macroprudential supervision and regulation as a tool of monetary policy, (iii) the Federal Reserve's lender of last resort function, and (iv) the impact of the Federal Reserve's dual mandate on economic activity, federal debt, and actions of the Federal Reserve. The Centennial Monetary Commission would be required to prepare a report to Congress summarizing its findings and conclusions, which includes specified recommendations for monetary policy going forward.

Limitation on Section 13(3) Authority

The Federal Reserve's emergency lending authority under Section 13(3) of the Federal Reserve Act was limited by the Dodd-Frank Act. CHOICE Act 2.0 would further limit the Federal Reserve's emergency lending authority under Section 13(3) by:

- requiring that the authority could only be invoked where the "unusual and exigent circumstance" currently required for use of such authority are also those that "pose a threat to the financial stability of the United States";
- requiring that the use of the lending authority must be approved by no fewer than nine presidents of the Federal Reserve Banks, in addition to the currently required approval of five of seven Federal Reserve Board members;
- modifying the collateral requirements by prohibiting the acceptance of equity securities as collateral and requiring the Federal Reserve to issue a rulemaking that would: (i) develop a method for determining the sufficiency of requisite collateral, (ii) establish acceptable classes of collateral, (iii) develop a method for determining the haircut that would apply for purposes of calculating sufficiency of collateral and (iv) develop a method for independent appraisal of collateral;
- revising the solvency requirement to prohibit self-certification as to solvency by any recipient of emergency funds. Rather, the Federal Reserve and the applicable federal banking regulator shall make the certification; and
- requiring the Federal Reserve to implement by rulemaking, a minimum interest rate for emergency lending.