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Statement of the Shadow Financial Regulatory Committee on

Audit of the Federal Open Market Committee Decisions

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The House of Representatives recently passed financial reform legislation including an amendment sponsored by Congressman Ron Paul that would expand the audit of the Federal Reserve's emergency lending and monetary policy actions by the General Accountability Office (GAO). The aim is to increase transparency of Federal Reserve policy decisions, especially emergency actions recently taken under Section 13 (3) of the Federal Reserve Act. The Federal Reserve has argued that it has been responsive to Congress and forthcoming and transparent in its decisions. Furthermore, it is concerned that an audit of its monetary policy activities would adversely affect the formation policy actions.

It is important to distinguish the activities of the Board of Governors, the district Federal Reserve Banks and the Federal Open Market Committee (FOMC), each of which are separate legal bodies. The Shadow Financial Regulatory Committee believes that audit of the FOMC's deliberations is unnecessary and would be unproductive. However, the Committee supports those dimensions of the legislation pertaining to the audit of the Fed's emergency lending and Section 13 (3) activities.

The Committee believes that there is a simpler and more effective way to improve transparency of the monetary policy deliberations of the FOMC. Under current FOMC policy, summary minutes of meetings are made available with an approximate 3 week lag. The lag is to allow time for preparation of the minutes and to reflect input from FOMC members and other participants as to accuracy. The verbatim transcripts of the meetings are also available but are only made public in batch with a five-year lag. The Committee believes that the transcripts could be made available on a more expedited basis, or even on the same schedule as the summary minutes.

Release of the minutes would serve many purposes. It would help to clarify to the public the reasons for the decisions that were made at the meeting and the range of issues that were considered. It would be timely and not require expenditures of GAO resources, nor would it filter policy discussions unnecessarily through third parties. The Fed's counter argument is that release of the transcripts would inhibit the FOMC's discussion of preliminary issues and policies, such as possible exit strategies from the current quantitative easing policies and acquisition of substantial quantities of mortgage backed securities. The Committee believes that the increase in transparency is important and its benefits outweigh the alleged disadvantages while not subjecting the decision making process to second guessing by the GAO that an audit might entail.