Conference Call of the Federal Open Market Committee on May 9, 2010

A conference call of the Federal Open Market Committee was held on Sunday, May 9, 2010, at 11:20 a.m. Those present were the following:

Ben Bernanke, Chairman
William C. Dudley, Vice Chairman
James Bullard
Elizabeth Duke
Thomas M. Hoenig
Donald L. Kohn
Sandra Pianalto
Eric Rosengren
Daniel K. Tarullo
Kevin Warsh

Charles L. Evans, Richard Fisher, Narayana Kocherlakota, and Charles I. Plosser, Alternate Members of the Federal Open Market Committee

Jeffrey M. Lacker, Dennis P. Lockhart, and Janet L. Yellen, Presidents of the Federal Reserve Banks of Richmond, Atlanta, and San Francisco, respectively

Brian F. Madigan, Secretary and Economist
Matthew M. Luecke, Assistant Secretary
David W. Skidmore, Assistant Secretary
Michelle A. Smith, Assistant Secretary
Scott G. Alvarez, General Counsel
Nathan Sheets, Economist
David J. Stockton, Economist

Alan D. Barkema, Thomas A. Connors, Jeff Fuhrer, Christopher J. Waller, and David W. Wilcox, Associate Economists

Brian Sack, Manager, System Open Market Account

James A. Clouse, Deputy Director, Division of Monetary Affairs, Board of Governors

Linda Robertson, Assistant to the Board, Office of Board Members, Board of Governors

Michael Leahy, Senior Associate Director, Division of International Finance, Board of Governors

Valerie Hinojosa and Randall A. Williams, Records Management Analysts, Division of Monetary Affairs, Board of Governors

Harvey Rosenblum and John C. Williams, Executive Vice Presidents, Federal Reserve Banks of Dallas and San Francisco, respectively

David Altig, Patricia C. Mosser, Arthur J. Rolnick, Daniel G. Sullivan, and John A. Weinberg, Senior Vice Presidents, Federal Reserve Banks of Atlanta, New York, Minneapolis, Chicago, and Richmond, respectively

Anna Nordstrom, Assistant Vice President, Federal Reserve Bank of New York

Transcript of the Federal Open Market Committee Conference Call on May 9, 2010

CHAIRMAN BERNANKE. Good morning, everybody. I'm sorry to interrupt your Mother's Day. I hope this won't be too lengthy a meeting. The topic for today is the request that we now have to activate the foreign currency swaps—when we spoke on Friday, we had not received any formal request. Yesterday Jean-Claude Trichet called me and made what I would characterize as a personal appeal to reopen the swaps that we had before. This morning I have gotten, again, personal calls from Mervyn King, of the Bank of England, and Masaaki Shirakawa, of the Bank of Japan, also asking us to reopen the swaps. I'm also informed—and later we can ask Nathan Sheets to talk about this—that the Bank of Canada and the Swiss National Bank are also interested in joining a multilateral swaps arrangement among the G-7 plus Switzerland.

Let me give you general background on the discussions that I have been having, and then we can have a couple of comments from staff. After that, we'll want to have a go-round or an open discussion session, so that I can hear your views on how we should proceed with this.

First of all, as you know, there has been a lot of activity over the weekend in Europe. There's a great deal of concern there about what's going to happen tomorrow and this week in financial markets. Friday evening, Ecofin, which is the leadership of the EU for economic matters, met and, as you probably read in the paper, announced some plans to set up a financing mechanism in Europe that would ultimately be used to guarantee the debt of sovereign nations in the euro zone. Ecofin is meeting today, beginning around 9:00 a.m. our time, and they expect to be done around noon or 12:30 p.m. our time. They will be prepared to announce additional measures. I have a call with the G-7 ministers and governors at 2:00 p.m. our time, where we will hear in detail what Ecofin is planning. Again, I think the basic proposals will be some kind of guarantee mechanism for euro debt, plus, we hope—although we're not certain—that there will be new austerity measures from Portugal and Spain, and additional mechanisms or steps may be taken as well. We know that things are being discussed, but nothing concrete has been agreed upon.

Very importantly, the European Central Bank this morning had a meeting of its Executive Board and came to some very significant decisions. Jean-Claude Trichet shared them with me this morning on a highly confidential basis. Of course, I want to tell you about them, but this is extremely confidential, so please take that into account. The ECB is very concerned about the situation, and you will be able to see that in terms of the actions that they have decided to take.

First, they will be restoring their three-month and six-month fixed-rate tenders, which essentially provide an unlimited supply of funding to their banking system at fixed rates over three and six months; from their perspective, this amounts to reopening the unusual liquidity measures that they had shut down before. That is important, but it's not the most important thing. The novel intervention, and one that will be highly controversial in Europe, and probably here as well, is that the ECB is preparing to have an open-ended intervention policy in any market that they deem dysfunctional or illiquid. That means that they will stand ready to buy any public or private security, denominated in euros, that's traded in a market in which there is dysfunction or disorderly movement. There will be no limit to the amount that they are going to be prepared to buy.

The philosophy underlying this is, I think, analogous to foreign exchange rate intervention; that is, they're not setting up a fixed amount that they are going to buy, as we did with our securities purchases, and they are not setting up a facility that will buy bonds as offered at a fixed rate. Rather, they are going to enter markets tactically and randomly in ways that will try to make it expensive for speculators to bet against European bonds or even against private securities like the debt of European banks. They intend to sterilize their purchases, so that the net effect of these purchases on the monetary base will be nil or small. By doing so, they hope to protect the euro and to avoid any spillover into inflation expectations. So, to summarize, this will be a market-oriented intervention, with the goal of stabilizing markets and preventing momentum-driven speculation from creating problems beyond the fundamental problems. It's worth asking whether or not this will be effective. It's certainly an interesting approach, and I suspect it will have at least some short-term effects. But it cannot solve the longer-term problem without fiscal support and fiscal action.

The ECB is waiting to hear the outcome of the Ecofin meeting. The ECB has not yet taken legal steps, and it will not announce anything until tonight—Jean-Claude assures me that they will not take these actions unless they are persuaded that there is real help coming on the fiscal side. They view themselves as kind of "holding the fort" for a short period until the fiscal/political side can take the necessary action. So we will see—as I said, I have a call at 2:00 p.m., and I'm sure I will get all of the Ecofin news at that time.

I just want to emphasize—and I think it's obvious to everybody—what an extraordinary step this is, particularly for the ECB, which has been relatively conservative on market interventions. It shows that they are very, very concerned about the situation. As I said, I would also characterize Trichet's call to me as being a personal appeal. He feels it is very important for us to support him, and he understands our concerns, which, I will, of course, discuss. I got very much some of the same tone from Mervyn King, and, to a lesser extent, even from Shirakawa, who says that Japan is also facing pressure, and they are very concerned about contagion.

Turning to the swaps, in a moment, I'm going to give Brian Sack a chance to comment in more detail on interbank markets and on the foreign exchange markets, and give us some more analysis of the market implications of this, so that we can all make our own assessments. My own view is that the swaps would be substantively helpful in addressing some of the interbank flows and certain other problems there. Moreover, everybody I've talked to about this in the central banking world thinks that at least as important as the direct effect on the dollar funding problems would be the psychological effects of an international coordinated effort in size that supplements the main actions, which have to be in Europe. I think we all agree that this is not going to work unless the Europeans are taking the lead and are taking strong steps towards addressing the fiscal actions. My own view is that, absent any political considerations, this would be a pretty easy call, in that it would support financial markets, both globally and in Europe, and would be an important indicator of solidarity. I noted this morning that Vice President Biden is in Europe and said that the United States would do everything possible to assist the Europeans; I think that that symbolism is also very important.

That being said, as you know, we can't ignore the politics of this by any means. I think the Sanders amendment is now in a good place in terms of providing independence to monetary policy and to other activities, including the discount window and international transactions. The vote on that is currently planned for Tuesday. Clearly, there's some risk that action of the sort that we're contemplating would be portrayed as a bailout or another Federal Reserve unilateral action. I think that, to be responsible, we really do have to take into account those kinds of risks, because they could affect the integrity of the Federal Reserve going forward. So I think it is an appropriate consideration as we discuss the substance of this issue.

Let me talk about that a bit, and I'll also give Linda Robertson a chance to make her comments. I have had discussions primarily with the Administration—not only the Secretary, but also with Rahm Emanuel. The Administration's position is as follows: The Federal Reserve needs to make this decision based on its economic merits; the Federal Reserve should do what it thinks is right for the world economy; and, whatever that decision may be, the Administration will support us 100 percent. "Support" means: first, that the President will support the action; second, that the President will make clear that he will not accept—that is, perhaps, if necessary, he will veto—any bill that circumscribes the Federal Reserve's independence or its ability to function as lender of last resort; and, third, that the Administration will do all that it can to communicate these views to the Congress and the congressional leadership, including not just folks like Senator Reid and Congresswoman Pelosi, but also people like Senator Sanders and others, because we need to make sure they understand what we're doing and why we're doing it. For what it's worth, Emanuel's view was that this was a manageable situation; that, while it was not without risks, the Congress would appreciate the severity of the financial risks; that, in any case, we should do what's right from an economic point of view; and that at least the Administration would be fully behind us in dealing with any ramifications in the Congress.

Now, whether to proceed is, of course, going to be a judgment call. Certainly, if we decide to go ahead with this, I will be talking to some Republicans, because I assume the Administration will talk to Democrats, and we'll just try to make sure, within the bounds of keeping this quiet—and, obviously, that's a potential issue—that we get a broad understanding of what we're doing, namely, that it's part of a U.S. and international effort to stabilize global financial markets and not just European financial markets. But I think we all recognize that this is a concern. Given the importance of maintaining an independent Federal Reserve, I don't think it is inappropriate that that be part of our discussion.

I'd like to hear your views. My inclination would be to ask you to consider giving me approval to proceed with swap arrangements with all of these other central banks, to be announced either this evening or tomorrow morning, in time for market openings, contingent on two things. The primary one is that the Europeans, the Ecofin and the ECB, come through with strong and effective measures, at least as strong as those that have already been described to me. The second one is that there not be any pushback from the political side that leads us to become particularly concerned; if that were to happen, I think it would be important to come back to you and let you understand what risks there are. So that would be where I am, but I would very much like to have your advice and counsel. Before I turn to a go-round, let me just check in with a few staff. Brian Sack, you're in Basel, correct? Are you on the line?

MR. SACK. Yes, I am.

CHAIRMAN BERNANKE. I have not discussed this with you over the weekend. Could you just comment on what you see now and on anything you want to report on your discussions in Basel about the state of financial markets in general or swaps markets and the interbank market in particular?

MR. SACK. Sure. Let me make a few comments about markets broadly, but I'll focus primarily on the funding markets. The situation is largely the same as it was when we discussed it previously. Obviously, investors' concerns about sovereign risk have spilled beyond Greece and into other European countries, including Portugal, Spain, Ireland, and Italy. Investors have attempted to reduce exposures to sovereign risk in those countries. That movement has become more widespread and indiscriminate, resulting in a significant increase in the yield spreads for the debt of all of those countries. The pressures in sovereign debt have created concerns about European financial institutions and a general flight to liquidity. In particular, we've seen substantial pressure in dollar funding markets for European institutions.

Let me review in more detail where we stand on that. I think that, at this point, unsecured dollar funding in European markets has essentially collapsed to overnight lending, or at least to very short-term lending, particularly over the past couple of days. So term funding is either very expensive or simply not available. You see this in some measures, such as a rise in LIBOR, but LIBOR doesn't really capture the rate at which these institutions are borrowing. You see it more strongly in other measures, such as implied dollar funding rates through FX swaps—of course, a lot of these institutions borrow in euros and swap into dollars. The FX swaps market has come under a lot of pressure, and we've seen liquidity dry up considerably in that market. On the repo side, repo markets are still functioning, but we are seeing a large degree of tiering across both the types of collateral and types of counterparties, and, in general, I think the investor pullback from financing European institutions has become wider. Certainly, the banks that are providers of funds are participating in that, but now the money market mutual funds as well seem to be pulling back. It's not necessarily that they're actively selling and trying to get out of positions, but they're certainly not willing to roll over investments the way they were. So they're basically rolling into overnight investments and being much more discriminating, that is, making much more differentiation across borrowers.

There is widespread focus on the potential for government actions this weekend. I would say that the chances of implementing something like FX swaps or liquidity swap lines across the central banks are perceived as very likely, and there's a lot of discussion of other policy measures that might be taken over the weekend. So I do believe that, if the government actions are seen as inadequate or incomplete, then funding markets would be under considerable pressure early next week.

Many also say they're worried about funding conditions for U.S. institutions and U.S. markets. However, the U.S. situation has held up relatively well. Most anecdotes suggest that there hasn't been much change in haircuts or rates of maturity. So U.S. institutions are still having success at funding themselves in U.S. markets. I think a lot of funding desks had expected to see some pressure on Friday—they were kind of braced for that—but it didn't materialize to the degree they expected. I think there has been a bit of widening in bid–ask spreads and maybe a bit of loss of liquidity, but that's about it. We do hear a few exceptions to that, such as one or two anecdotes of institutions having to pay up through different vehicles, and there was one commentary suggesting there has been a bit more cutback in haircuts and rate effects than we see. I think there's discussion of, but not evidence of, widespread pressure on domestic markets. So, for now, this is a story of European institutions' ability to fund themselves in dollars. But I think we're very cognizant of the risk of spillovers into funding markets for U.S. institutions.

Moving away from money markets, it's also worth noting that the concerns about European sovereign debt and the associated liquidity pressures have prompted a broader flight from risk in recent days. Equity prices have tumbled around the world, and corporate bonds and other private debt instruments have suffered. This response in part reflects worries about the economic consequences of the pressures in Europe, but it also simply represents a shift in investor sentiment and a flight to safety. That flight to safety has benefited U.S. Treasuries—we've seen 10-year Treasury yields fall 30 basis points since the FOMC meeting.

Lastly, the euro has weakened notably against the dollar. It's down nearly 4 percent since the last FOMC meeting, which is an acceleration of the depreciation trend that had been seen over previous months.

Overall, there has been a strong shift in sentiment in the markets. The situation remains fragile, with considerable focus on what government actions might be taken to stem these negative dynamics. Thank you.

CHAIRMAN BERNANKE. Thanks. Are there any questions for Brian, or does anybody else want to add any color? [No response.] I see no questions. Let me turn then to Nathan Sheets. Are you there?

MR. SHEETS. I am indeed.

CHAIRMAN BERNANKE. Nathan, could you just comment on the technicalities of getting this together? I assume that we would not be able actually to implement anything for a few days and that we would just want to go with a statement today. Is that your understanding?

MR. SHEETS. That is. We are having consultations with staff at the foreign central banks and essentially dusting off the technical apparatus that we used when the swap lines were functioning. Our sense is that we could certainly do an announcement tonight and that we can agree on some common language with them. That would allow them to do auctions probably by Tuesday, and then the disbursement of any auction funds would probably be by Wednesday or Thursday of next week. So if it's the will of the Committee, our sense on the technical side is that we can move pretty quickly with this.

CHAIRMAN BERNANKE. Thanks. I didn't warn you about this, Nathan, but do you have commentary from what you have picked up in Basel about the state of the economy or the state of the markets in Europe or anything about sentiment?

MR. SHEETS. People are very, very nervous. In terms of specific policy announcements, people are waiting for the press release from Ecofin. Nobody had as much information as you just articulated to us. One point that came up several times in the meetings was that European participants noted that the real risks to their banking systems are tied into this sovereign stress: Their banks are holding sovereign instruments; the increased funding costs for the sovereigns are passed through in the increased funding costs to the banking system; and, perhaps most importantly, the stressed sovereigns are reducing the capacity of governments to provide a backstop for the banking system. So they see the heart and soul of the stresses on the banking system as reflecting these sovereign stresses rather than some sort of previously existing balance sheet problems.

CHAIRMAN BERNANKE. Nathan, I have a technical question. If there's risk that the euro might depreciate further, will that affect our security in our swaps? How can we be sure that we have a secure position?

MR. SHEETS. My feeling is that our primary source of surety is the goodwill guarantee that these major central banks give us that they will make good on unwinding the swap. Now, if the euro were to fall substantially, that would result in our euro holdings being worth less than the swap value of the dollars. One protection we have against that is that these are relatively short-term transactions. In the past, we have not taken steps like trying to do margins or mark to market or that sort of thing.

MR. SACK. Just to be clear, all we're talking about here, though, is affecting the value of the collateral, not the return of the funds.

MR. SHEETS. Yes.

MR. SACK. But they still have promised to repay the full amount.

MR. SHEETS. That's right. That's the primary source of surety. Even if the euro falls and becomes worth less than the dollar, the ECB is still contractually obligated to repay us. So the decline in the value of the euro would be important only in the state of nature where the ECB had defaulted, and we would put essentially zero possibility on that.

CHAIRMAN BERNANKE. Trish, did you have something to add to that?

MS. MOSSER. I was going to make the same point, namely, that the contracts are such that, absent the ECB or one of the central banks defaulting to us, we will get all of our dollars back. The contracts are not dependent on future exchange rate levels.

CHAIRMAN BERNANKE. Okay. Questions? I see President Plosser.

MR. PLOSSER. Thank you, Mr. Chairman. I have just a quick question. Can you review for us, Nathan or Brian, the terms of these swaps and the maturities that we're considering?

MR. SHEETS. I think that that would be at the discretion of the Committee. But in the past these maturities have ranged from overnight, to one week, to one month, out to three months. And we've tailored the maturity of various auctions to meet the perceived liquidity strains that existed in the markets. Ideally, we'd continue to have that kind of flexibility to determine the tenor of the swap funds based on market conditions.

VICE CHAIRMAN DUDLEY. Mr. Chairman, this is Bill Dudley. I think in our discussions here, the general view has probably been to replicate as nearly as possible what we had before, because the market has comfort and knowledge of that, and we also have a good experience with it. If we followed what we had before, we would have a penalty of 1 percentage point. And the real decision I think we would have to make is: Do we want to make it unlimited, that is, a fixed-rate tender swap, or do we want to cap the amount? I would favor a fixed-rate tender, with the market taking as much as it wanted at the penalty rate, as we did the last time.

CHAIRMAN BERNANKE. What was the maturity distribution last time, Bill? Do you remember?

VICE CHAIRMAN DUDLEY. Yes. Different countries had different auction cycles. They followed the TAF, so there was a 28-day TAF and an 84-day TAF, obviously. In addition to that, they had weekly cycles.

I think that that's really a second-order consideration, because they have to decide what the appropriate maturity would be, what would work best from their perspective. Of course, what would be different this time is that we wouldn't be reintroducing the TAF. Instead, they would just be conducting TAF-like auctions independent from us.

CHAIRMAN BERNANKE. Thank you. Other questions for Nathan? President Lacker.

MR. LACKER. You didn't state this, but I'm assuming that the intended use of the swap lines is for liquidity auctions, as we had last time, and not for intervention in foreign exchange markets. Is that correct? On a related note, have you been asked to intervene in foreign exchange markets?

CHAIRMAN BERNANKE. No, we have not been asked to do it. Go ahead, Nathan.

MR. SHEETS. In response to the first question, it would be the case that these funds would be restricted to be used for liquidity purposes. They wouldn't be available for foreign exchange market intervention, as was the case with similar kinds of contracts that prevailed when we had the swap lines in place before, with similar kinds of safeguards to keep the funds from being used for that purpose.

MR. LACKER. Will we sterilize these ourselves?

CHAIRMAN BERNANKE. That's a very good question. Go ahead, Brian.

MR. SACK. At the moment, it's not clear that we have a need to sterilize them. We are operating with a target band for the funds rate. We are drifting up to the upper end of that band. So we could, but I think it's not obvious that we need to.

VICE CHAIRMAN DUDLEY. We also don't know what the take-up of these swap lines will be in practice. So it would seem to me that it would be premature to consider whether sterilization was appropriate when you don't even know the magnitude of the swaps that will be outstanding.

CHAIRMAN BERNANKE. I think that's a very important question for us to discuss, but I don't think we have to decide that today, fortunately. We may want to discuss it, particularly in the context of our reserve-draining tools. President Lockhart.

MR. LOCKHART. Thank you, Mr. Chairman. When we put the swap lines in place last year or the year before, there were questions at that time about what the status of the dollar reserves was in the ECB countries, and why would they not use those reserves. As I recall, the answer was that they simply wanted a supplemental capability and that they were protective of their reserve positions. Do we know the status of their reserve positions today? And what likelihood is there that they would actually draw down their reserves to provide some of this liquidity?

CHAIRMAN BERNANKE. I'll let Nathan respond to that. But let me say—just going back to our previous discussions—that they saw value and we saw value in segregating the reserves, which could be used for exchange rate intervention, and the swaps, which were designated and dedicated to providing bank liquidity. The other aspect of it is that confidence and symbolism are important parts of the benefits of this, I think. Nathan, do you have anything to add to that?

MR. SHEETS. Brian actually has these data.

MR. SACK. We have an estimate of the amount of reserves for the euro area, so that would be the ECB and all of the member central banks. It looks as if it’s somewhere just above $150 billion. About half of that is actually held in custody at the New York Fed, so that gives us a chance to have a glimpse at its composition. In general terms, a lot of it is in Treasuries and agencies, not surprisingly. I think that gives you a sense of the status of their reserves. But, again, for them to use those reserves introduces a couple of complications. It would require them to go out and sell dollar assets, which we might not want to encourage in this market environment. Or, if they’re not going to sell dollar assets, they have to use those securities as collateral in dollar repo funding transactions. And, of course, if they’re taking dollar funding, they could be taking it from other market participants. The FX swaps, in a way, are an addition in terms of the amount of dollar funding, whereas using the reserves are not necessarily.

CHAIRMAN BERNANKE. Two-hander from President Lacker.

MR. LACKER. If we don’t sterilize swap draws, we’re going to be taking dollar funding from market participants in the U.S. and passing it on through the ECB. I’m not quite sure I get that. Plus, there’s the issue of selling U.S. Treasuries. Treasuries are getting scarce. Their price is going up because of the flight to quality. So I’m not quite sure I understand your line of argument, Brian.

MR. SACK. I agree with your second point. I was just pointing out that it will require dollar asset sales. You’re right that it’s in an asset class where there is demand. But, relative to the case of using swaps, it’s an incremental source of selling.

I didn’t fully follow the first part. I think if we sterilize the operations, then, yes, we would be removing short-term dollar funding from the market, just as would be the case if the euro area countries had to use their holdings as collateral. But that’s if we sterilize it. If we don’t sterilize, then I think it’s this net addition of dollar funding that I talked about.

MR. LACKER. But if we don’t sterilize, we’re adding to bank reserves, we’re essentially taking the funding from banks and lending it on through the ECB. If we do sterilize with reserve draining, then what are we doing? We’re taking it from money market mutual funds and handing it on.

MR. SACK. If we don’t sterilize, I don’t see how we’re taking funding from anyone. We’re just introducing new funding into the market.

CHAIRMAN BERNANKE. It’s creating a monetary base. President Fisher, do you have a question?

MR. FISHER. Thank you, Mr. Chairman. I have two questions. The last time we activated our swap lines, of course, others piled on—we had Singapore, Chile, Mexico, and so on. My question is: What’s the risk of other countries that are going to want to pile on?

As for my second question, maybe this isn’t the right time to ask it, but I’ll ask it anyway. Let’s say Ecofin does come forward and we announce these swap lines. I agree with you, Mr. Chairman, that doing so would serve not only substantive purposes, but it also has a psychological impact. But let’s assume that it doesn’t work. What are the next steps that we might be asked to engage in? I just want to have us think through a little bit, without taking too much time, a decision tree going forward.

I think my first question presents a different set of political risks from the ones you've already highlighted, Mr. Chairman. So I'd be interested in Brian's and Nathan's judgment on that.

CHAIRMAN BERNANKE. We haven't heard from anybody other than the G-7. I think that there's a whole new level of political risk if we go to emerging markets. I would never say "never"—it depends on how market conditions evolve, and so on. But my strong inclination would not be to go beyond the G-7.

In terms of what we do next, I'm not sure there's a whole lot more that the Federal Reserve can do. The fundamental issues have to do with fiscal stability in Europe, and that's something only they themselves can solve. I think our additional actions would be along the lines of making sure that our banks are stable. If we had to do some kind of—I'm extrapolating wildly here—new SCAP or something in the future, we could consider it. But, quite honestly, I can't see what else we could do, other than, as I mentioned on Friday, respond to the macroeconomic conditions of the United States, as necessary. But that's all I can think of.

MR. FISHER. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. President Plosser.

MR. PLOSSER. Thank you, Mr. Chairman. I'd like to go back to Jeff's point about sterilization for a minute. I'm wondering about the optics. If the ECB announces that its interventions in these markets are going to be sterilized, and we, on the other hand, say we're not going to sterilize, in effect we're doing quantitative easing in the United States, whereas they are, in fact, resisting by sterilizing their own intervention in the other markets. So I'm a little bit curious about the imbalance in how we're going to treat that. It sort of goes back to Jeff's original question. I think it's a difficult question. Do we want to be easing here on behalf of the Europeans in that case?

CHAIRMAN BERNANKE. You have to understand that our buying U.S. Treasuries and the ECB's buying Greek bonds are very different matters. They're taking very significant risks with their credibility, with their political standing, and with the value of the euro. I think what they're trying to do with the sterilization is to ensure that this decision doesn't bleed over into a major run on the euro. I think that's why they're doing what they're doing. I don't think we have quite the same risks. Having said that—and I take Brian Sack's point that, in terms of market conditions, given where we are, we're probably talking about only a few basis points in market conditions—I'm embarrassed that I haven't brought a proposal on sterilization. I think we do need to talk about it.

But from the ECB's point of view, particularly given their relatively more conservative approach to this point, they're the ones who are crossing an important line by expressing a willingness to buy any asset, including Greek bank debt or whatever it might be that they deem to be part of a disorderly market.

I don't think the dollar is going to suffer vis-à-vis the euro on these announcements. But, again, your point about sterilization is important. We should continue to think about that. President Hoenig.

MR. HOENIG. I have a couple of questions, and, if the timing isn't right, we can defer the discussion. One is in reference to what Bill Dudley said, if I understood it correctly. Were you saying that these swaps would be kind of open-ended, subject to the demand for them? Is that correct?

VICE CHAIRMAN DUDLEY. Well, it depends on how they're structured. They could be structured as a fixed size, or they could be structured as a fixed-rate unlimited tender. In the last rounds after Lehman, we did them as fixed-rate unlimited size. The reason for that, of course, is that we're not making a statement about what amount of liquidity the market demands. We're just saying that we'll supply whatever liquidity, at a penalty interest rate. That worked pretty well, because, as markets normalized, the amount outstanding went down, and it wound down very smoothly as the process unfolded.

Actually, I would argue that if we were to propose a fixed size, we probably would get more demand than if we did an unlimited tender, because with a fixed size, people would be worried that it will run out. But if it's unlimited, there's less anxiety—it serves as more of a backstop to the market than as something the market has to use. I would think, from a balance sheet perspective, that a fixed-rate tender would result in less demand relative to a large FX swap program.

MR. HOENIG. That leads to my second question and kind of comes back to the political challenge we have, Mr. Chairman. I think it's important to have a discussion on how we would announce this, because the misinformation or the misinterpretations of our actions could multiply, given the history that we've just suffered through. I think it's very important that we be very forthcoming. If we've given any thought to how this announcement would look, it would be of interest to me at this point, or before we get off the call.

CHAIRMAN BERNANKE. Michelle, do you want to comment?

MS. SMITH. Sure. I had a few sort of unorganized thoughts about this. One thing that I think would be important is that our announcement should follow Ecofin's announcement, and that it should be as international as possible—so it would be the Federal Reserve, the Bank of

Japan, the Bank of Canada, and so on. In other words, it should be some sort of broader G-7 effort.

I would also make a few other points. This is safe—we have never lost a penny, either in the recent crisis experience or in the ongoing swap situations we've had with Mexico and Canada. This is not novel—this is what central banks do. It is not a bailout, it's not altruism—this is in our interest. We have a recovery just getting going here in the United States, and this helps keep European problems—and we wouldn't say this in a statement—in Europe.

I have a question about whether there's anything new we can do on transparency in this arena. If we could somehow say that we're doing this in some newer, more transparent, quicker way, I think that would help us to mitigate some of the political risk. I don't know if we can do that, but if we could, I think that would be helpful.

VICE CHAIRMAN DUDLEY. We can publish the amounts of the auction sizes for each of the counterparties that we have. They're doing an auction, they're announcing the results, and we could just aggregate that information and publish it as it happens. Each time they have an auction, we could publish the individual counterparties and total results.

MR. KOHN. We could publish the amounts for each counterparty each week at the same time the H.4.1 comes out, so everybody knows everything on a weekly basis.

MS. SMITH. The thing I would really try to underscore is that what the central banks are doing is not a response to Europe's problems. Europe's problems are being responded to with real measures in Europe. What we're doing is helping to facilitate—structural plumbing, flows, and so on—and protecting ourselves and our interests. So I'd emphasize that this isn't about the Fed responding, doing a bailout, or anything like that.

CHAIRMAN BERNANKE. Are there contracts with the other central banks, or agreements, or something similar that we could release? Nathan? Brian?

MR. SHEETS. We have never released swap agreements to the public. It could be done, but we'd probably want to look them over very carefully first, just for the sake of transparency and clarity.

MS. SMITH. I would say that it would be better if we could release those. You saw the kinds of things that members of the Congress said in some of the hearings. Anything that we're keeping secret is just going to fuel their speculation.

CHAIRMAN BERNANKE. Nathan, and maybe Scott, as well, assuming we proceed with this, it would help if we could look at those agreements and ask if there's anything there that would prevent a release. If there is, is it possible to rewrite new agreements that would be publicly disclosable? I can't see fundamentally why there would be any problem with that.

MR. ALVAREZ. I can't either. We've given out the contracts in our other facilities. I don't see anything off the top of my head that we couldn't sterilize if we had to. I think the agreements are actually very simple, very straightforward, and could be made available.

CHAIRMAN BERNANKE. So all we would have to say today would be that we will be releasing those contracts. President Bullard.

MR. BULLARD. These are international agreements, so you would have to get agreement from the foreign central bank.

CHAIRMAN BERNANKE. Well, we can ask them. They are, in this case, the ones who are asking for the swap lines—they want them very badly. I think they would let us let us characterize the situation—for example, who asked for the swap, or whatever—any way that we think is beneficial from a communications point of view. But your point is correct. President Fisher.

MR. FISHER. Mr. Chairman, I just want to underscore that I think all of Michelle’s points were spot on, and we need additional efforts, particularly because it’s our money, such as releasing the contracts, so that we better inform those who feel we’re conspiring against them. Mr. Chairman, I’d also like to talk a bit offline with you—I noticed you were looking at your watch, and I’m conscious of that—about certain people I think should be spoken to in a timely way, so that there’s no confusion.

I’d also say—and I’m sure Michelle has already thought this through—that we need to be able to state this in the simplest possible English, so that it’s clearly understood that this is something where we don’t bear a risk of loss, that it’s in our own best interest to do this, that taking this step is a very cheap way to provide insurance against further contagion, and that it’s certainly a better option than what might ensue if this were to infect our own system. So I’m basically underscoring the points that Michelle made. They may have been unorganized thoughts, but I think they touched all the right bases.

I also want to ask that we consider—and, again, this is a question of timing, because we can’t run any risk of leaks—broadening our base a little bit in terms of key senators. I have one, as you know, particularly in mind that we have worked with very closely—hand-in-glove—and I don’t want to undermine their sense of confidence in, and I want to enhance their understanding, which is limited, of these rather esoteric but essential tools. Thank you.

CHAIRMAN BERNANKE. Thank you. I was looking at my watch because I have a 2:00 p.m. G-7 call, but that leaves us plenty of time, so there’s no concern about that.

President Hoenig.

MR. HOENIG. Thank you. Just to carry this a bit further, I agree with what you said, Michelle. In terms of the reaction of some members of the Congress, I think their concern is that we might be exposing the taxpayer to the risk of having to pick up the tab to save organizations in Europe. I agree with you, and with President Fisher, that it's important to explain in simple language that these are liquidity facilities, that we're not risking taxpayer money, and that we're willing to show the contracts to verify that we will get paid back in full dollars. I think doing so would go a long ways not to ending the criticism but to mitigating the sense of concern. So I think you're on the right track. And I hope that as soon as we hang up here you start drafting that, because it's going to take multiple drafts to get it as simple and yet as thorough as possible. That's my suggestion and an admonition on that. Thank you.

CHAIRMAN BERNANKE. President Bullard.

MR. BULLARD. Just to come in with an unpleasant comment—the probability of the ECB not surviving has probably moved off of zero to some small positive probability that it would actually unravel. So, in the debate about this, I think people will not be hesitant to speculate on the future of the euro and the future of the ECB. I think it's something to consider when we're trying to present this. I think our best point is to say that we've been through this before, that it worked great before, so we can do it again, and we expect it to work well again this time. But I don't want to be naïve about the idea that the ECB is forever, because that's exactly what this crisis is about.

CHAIRMAN BERNANKE. That's a good point. Linda, do you want to add anything? Oh, I'm sorry. Narayana?

MR. KOCHERLAKOTA. Thanks, Mr. Chairman. I have just a quick question for you. In terms of these broad-scale interventions the ECB is contemplating, they are going to be restricting themselves to euro-denominated assets. Is that your understanding?

CHAIRMAN BERNANKE. Yes, that's my understanding.

If you have nothing further, I'll give Linda a chance to comment on the politics. I guess she's comfortable with what we've described up to now.

MR. HOENIG. I have a question.

CHAIRMAN BERNANKE. Oh, sorry. President Hoenig.

MR. HOENIG. Would there be pushback on this in the political context, where someone might say, "Well, shouldn't you collateralize this with their reserves?" Is that going to come up? And if it is, how do we answer that?

CHAIRMAN BERNANKE. Well, it is collateralized with euros.

MR. HOENIG. I mean, with the reserves they have denominated in dollars that they could then collateralize, so if it did go into default we would—

CHAIRMAN BERNANKE. Oh, I see.

MR. HOENIG. It's a question that I fear someone will ask, so I'll ask it now, so we can anticipate it.

CHAIRMAN BERNANKE. Nathan, maybe you can jump in here. I think we have done that in the past, but we have given the major central banks the courtesy of taking their signature.

MR. SHEETS. Yes, that's right. We had what was called offset rights with the emerging market economies. That meant that we could attach anything that they were holding at the New York Fed in the event that they failed to unwind the swap that had been contractually agreed upon. We haven't had that with the advanced economies, with the ECB and the like.

MR. KOHN. It would look like a vote of no confidence.

MR. SHEETS. Yes.

MR. KOHN. And it would be at a time when that would be pretty counterproductive.

CHAIRMAN BERNANKE. Particularly if we were not releasing the contract.

MR. HOENIG. I agree with you. But someone is going to ask you that.

CHAIRMAN BERNANKE. The answer is that we have both the euros and the ECB's commitment, and the ECB will be effectively backed up by Ecofin and the European Union. If the continent of Europe is bankrupt, we all have problems. But it seems relatively unlikely, to put it mildly.

MR. HOENIG. Agreed.

CHAIRMAN BERNANKE. We still have a chance for a go-round. Let me just make sure everyone is getting a chance to speak. Is there anyone else who has a question for any staff member or for me? I'm happy to respond if you have questions. President Lacker.

MR. LACKER. Yes, I have just one more question. The fundamental issue these are addressing is dollar-denominated maturity transformation by European banking institutions that are exposed to euro-denominated sovereign credit risk, which has led some to have trouble funding. I'm familiar with the change in liquidity management by some large active U.S. institutions over the last three years. This maturity transformation by European institutions was obviously a problem very early on, in late 2007. I wonder if anyone on the call has some insight into or would be able to characterize the relative progress made by European institutions in reducing the riskiness of their dollar-denominated maturity transformation activities since late 2007. If that progress has lagged notably behind the progress of U.S. institutions, I wonder whether this would be a good opportunity, as part of the conversations around this service we're offering the Europeans, to urge them to take stronger action to assure that they make progress in reducing the riskiness of their dollar portfolios.

CHAIRMAN BERNANKE. That's a good question.

MR. KOHN. We've been asking that question in Basel this weekend. President Lacker is absolutely right in the way he characterized it. But the euro area banks have taken some pretty strong actions; they've reduced their dollar exposures by about half from the peak. Like U.S. banks, they have lots of legacy dollar assets that they're trying to get rid of that are slowing running off, but they still have some left. From the chart I'm looking at, it's down by about 50 percent.

CHAIRMAN BERNANKE. Governor Tarullo.

MR. TARULLO. Jeff, there are two things I'd say. One, while Don has given the aggregate statistics, my impression is that some of the institutions have made a good deal more progress than others in changing their maturity structures, so the problems are acute in some of the European institutions and significant but less acute in others.

With respect to your question about whether to use this opportunity for lecturing them on the need to make more progress, my instinct would be that, at this juncture, right when we're activating the swap lines, it's probably not the moment to say that and to kind of offer a quid pro quo, namely, that we want you to do more. But I do think that, as we go back to Basel on both capital and liquidity reforms, this is going to strengthen our hand for making some of the arguments we want to make.

CHAIRMAN BERNANKE. Thanks. Any other questions? President Evans.

MR. EVANS. Thank you, Mr. Chairman. I wanted to ask a slightly different question about the outlook in Europe. With all of the austerity measures for Southern Europe, it looks as if it would be very difficult for Europe to avoid a recession. For example, what's the chance that Germany can avoid a recession, given that they export so much to the rest of Europe? And if we're going to talk about the ECB sterilizing, which short-term interest rates are going to be driven up in Europe? I'd say it's probably the stronger sovereign debt. If anybody on the staff could give us an idea of what our increasing risk is there, and how it affects the U.S., that would be appreciated.

CHAIRMAN BERNANKE. I'll go to Nathan in just a second, but let me comment that, in all of these calls, the Germans keep saying what a great example they're going to set by consolidating their own fiscal position. And we keep trying to point out to them that it may not necessarily be in the overall interest of the continent—it's a strange mind-set.

Nathan, or anyone, do you have a view on the outlook for Europe?

MR. SHEETS. The recent data for Europe, particularly for Germany, have been surprisingly strong. I think the characterization by President Evans is right on. For the Germans, particularly, their export machine is getting cranked up, and they're doing a lot of exporting to emerging Asia and to some of the oil-producing countries.

I very much share your view that there are risks to all of them moving together to do fiscal consolidation and that this would ideally be a time when the Germans were taking steps to *strengthen* their domestic demand and provide a buffer for the necessary, unavoidable fiscal consolidation that has to go on elsewhere in the euro area.

All in all, I would say there's a reasonable chance that the Germans would be able to avoid recession, but, if everybody moves together on fiscal consolidation, I would expect to see some not very good growth numbers coming out of Europe over the next number of quarters.

MR. KOHN. I would add to that, Mr. Chairman, that I think that the ECB monetary base will rise quite substantially, because they're not going to sterilize the term lending that they're doing to the banks—the sterilization is very limited, and their base will be rising quite a lot.

CHAIRMAN BERNANKE. Thank you. Any other questions? [No response.] Let's have a quick go-round. A lot of the issues have already been discussed, but I certainly want everybody to have a chance to give a view. Governor Tarullo had a few comments on banking, so let's start with you, Dan.

MR. TARULLO. Thank you, Mr. Chairman. Actually, I managed to get my comments in in response to some of the questions. Just to rehearse a bit of what we discussed on Friday afternoon, to this point we haven't seen an impact in our financial system of any substantial magnitude. But, as everybody recalls, such an impact isn't seen until the moment it occurs.

None of us is happy with where we are. I think I would have done things differently from the Europeans three months ago. I would have done things differently from the Europeans two months ago. And I probably would have done things differently two weeks ago. But we're in this position now, and, although optimally we could use the contribution of the swaps as a way to leverage a better package from Ecofin, I just don't see that as a realistic possibility right now. There will likely be a lot of unpleasantness in markets tomorrow no matter what all this looks like, and I don't think we are in a position to calibrate whether it would be better to wait one day, two days, three days, or four days. I think it's something that we're just going to have to make a judgment on. To the degree that we can stop this unpleasant spiral from getting going with any more speed than it will already assume tomorrow, I think that a reestablishment of swap lines is probably the best thing we can do for our own financial system. Therefore, I would support the

Chairman's request that we give him authority to activate the swap lines at such time as he deems prudent.

CHAIRMAN BERNANKE. Thank you. I'm now going to go around the Reserve Banks by order of District, so I will start with President Rosengren.

MR. ROSENGREN. I'm supportive of having the swap line. I think we should do things for economic reasons, not political reasons. And I think the economics, given that we're in the middle of a crisis, indicate that it's appropriate to have a swap line with the other central banks that are in the G-7. So I support the move to open up the swap lines. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Thank you. Vice Chairman.

VICE CHAIRMAN DUDLEY. I support doing this. Obviously, it would be better if we could get greater concessions and fiscal consolidation in Europe. But the reality is that the swaps will mitigate the bad feedback loop that's occurring because of the intersection of the sovereign risk problems with the state of the European banks. If we weren't to do this now, I think things would just get worse, and we would be forced into doing it later. The reality is that doing it earlier will actually mitigate the extent of the problems to some degree. But we shouldn't fool ourselves. The swaps are addressing a symptom of the problem. The underlying problem is the European fiscal situation, the credibility of their fiscal plans, and the health of the European banks. This just will mitigate how that spreads. Still, I think it's worth doing, because, as we've seen, the propagation mechanisms and these amplifying dynamics that we've seen in the earlier parts of the crisis can be pretty important. So I think anything we can do to get out in front of that is a good thing rather than a bad thing.

CHAIRMAN BERNANKE. Thank you. President Plosser.

MR. PLOSSER. Thank you, Mr. Chairman. I'm broadly supportive as well. I think this is something that we need to do. I would just stress two points. I think the discussion we've had up to now about transparency is incredibly important. I agree that we should make the contracts available, if we can. Explaining this as carefully as we can is in our own best interest at this point and helps protect us not only on the political side but on other sides as well. I also hope that we will continue to have further discussion at some point about the issue of sterilization—where we stand and how we want to think about that as we go forward. We don't know what the amounts are going to end up being, and it may partly depend on how we think about that. With those two stipulations, I agree mostly with what President Dudley said, namely that we're attacking a symptom, not a root cause of the problem—Europe has to deal with that—but we need to cooperate where we can. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Thank you. Again, I take your point on sterilization. It interacts with our tools one way or another—we'd have to do something specific to sterilize, and we need to talk very soon about the availability of the reserve-draining tools as well as what we're going to do about potential asset sales. I understand that.

Again, Michelle, Nathan, and Scott, we want to be sure to work towards as much transparency as possible. President Pianalto.

MS. PIANALTO. Thank you, Mr. Chairman. I, too, am supportive of giving you approval to proceed with the swap lines, contingent upon Ecofin coming up with strong measures, as well as some follow-up that you're going to do to control some of the political fallout. Like others, I believe it's critical that we take these actions based on the economic merits, so I'm supportive of your moving forward. Thank you.

CHAIRMAN BERNANKE. Thank you. Don Kohn wanted to come in.

MR. KOHN. I think I can be brief. I also support authorizing you to reinstate these swap lines. I think we're in a very dangerous situation. We saw on Thursday and Friday the beginnings of a generalized flight from risk, and the United States will not be immune from the effects of that if it gathers any kind of momentum. My understanding from talking to some Japanese central bankers is that it's not only European banks that are beginning to encounter trouble, but other banks as well. So extending the swap lines, say, to the Bank of Japan makes some sense.

I think there are a lot of reasons why it's so dangerous. Dan cited one, namely, the halting, insufficient response of the Europeans at first, and the fact that the governments are involved, so there's no backstop. When the sovereigns are involved, it's as dangerous a situation as you could ever get into. I also think the private sector remembers September and October of 2008, and they're going to that adverse equilibrium as fast as they can. They are protecting themselves very, very rapidly. So I think that, as sort of an addendum to a basically European package, we need to be there if we can.

I agree with everything that has been said about transparency, releasing the contracts, instantaneous or nearly instantaneous publishing of which central banks are drawing on the lines, and so on. I also think, unfortunately, from your perspective, Mr. Chairman, that you shouldn't leave the Democrats to the Administration while you do the Republicans. I think you ought to be contacting both sides of the aisle as the central banker. And we can talk about sterilization later. Thank you.

CHAIRMAN BERNANKE. I'm sure I will be. Sorry—back to the go-around order. President Lacker.

MR. LACKER. Thank you, Mr. Chairman. In the past, I've generally opposed swaps as a matter of regime choice. I still oppose them, but this is not the time to take a gigantic bold leap towards a regime I'd like. So I won't oppose this now, and I'll support giving you the discretion to enter into these, as you said. I think the political risks are tremendous. I think there's a good chance we will dodge them with expert communication, and I think the comments of President Fisher and others about needing to manage those aggressively are worthwhile. I think the confluence of those risks with this environment and what we're doing here isn't an accident. This is one of a set of essentially fiscal policy actions we've taken in the last three years that have generated this firestorm around us. The continuing fallout of that generates the environment that makes this fiscal policy action more politically risky for us.

On sterilization, I'd love to use this as an opportunity to argue for selling an equivalent amount of MBS, but we can wait until another date for that. Those are my comments. I support your decision.

CHAIRMAN BERNANKE. Thank you. President Lockhart.

MR. LOCKHART. Thank you, Mr. Chairman. I, too, support giving you the authority to agree with the Europeans to reinstate the swap lines. Michelle Smith actually captured one of my sentiments, and that is that we should do what's necessary to combat this within the European banking sector, trying to keep it from having a contagion effect and hitting us here in the United States. I think the contagion risk is real, and it is, as Don said, not inconceivable that it beats a path to the United States, and we all know that the result would be a possibly severe adjustment in the United States at a very delicate time. So, in weighing the political risks versus doing the right thing economically, I think we should subordinate the political considerations to the economic intervention.

I agree with all the commentary on transparency. This is a situation where we should lay out all the information necessary in order to try to keep the discussion of it at a serious level as opposed to the kind of discussion we've seen in the last year or so in the political circles. Those are my thoughts. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Thank you. President Evans.

MR. EVANS. Thank you, Mr. Chairman. I support giving you the authority for the swap lines. I'm really concerned that Europe is likely to be on fire by our June meeting. I'm worried that the Asian response is not going to be as helpful as everybody would like and that we might have more serious trade discussions about what the appropriate exchange rate values will be for some of those trading partners. I'm not sure if I heard it correctly, but if we're talking about swaps on the order of $150 billion or so, and if that's feasible and it would have a beneficial effect, then that seems to be an extremely reasonable and acceptable degree of risk, and I clearly support that. Thank you.

CHAIRMAN BERNANKE. We didn't specify a maximum. My proposal, at this point, would be uncapped. But we'll certainly monitor that very carefully.

MR. EVANS. I only mentioned that because I think somebody mentioned a number like that, but that's fine.

CHAIRMAN BERNANKE. That's the amount of reserves that the ECB has. President Bullard.

MR. BULLARD. Thank you, Mr. Chairman. I'm generally supportive of reactivating the swap lines with major central banks around the world to respond to this crisis. When I heard Jean-Claude Trichet talking a few months ago about the recent crisis, he called the swaps "decisive" in dealing with it.

I think there will possibly be heavy political pushback. I would caution everyone that the bailout debate is not really a rational debate about what has actually happened—people are confusing the Treasury and the Fed, they're confusing everything with everything else. So the political environment may be very difficult. It may require all of us to talk to whomever we can to try to get information out. If we do not get information out, other people define us and take over the debate. I think that's an important consideration.

Our best point is that the swaps worked quite well the last time around with the penalty rate, and that they are a backstop mechanism. I agree with the unlimited size idea. I would expect that, if the crisis worsens, we would see a swelling of this similar to the one we saw last time—probably not as bad as the last time—but then that would eventually go away as the situation improved.

I think we can also make some progress on this by emphasizing that there are still a lot of government guarantees in place at major financial institutions around the world. It's a little bit irrational at this point for markets to be worried about the backing of financial institutions, when countries around the world have said repeatedly that they're going to back these institutions, come hell or high water. I think if we can emphasize that, it will get some of the irrational expectations out of the market.

I do think there is a non-zero risk of euro disintegration in this process and that we have to track that very carefully. I don't think it's very likely at this point, but the probability has clearly moved off zero, and sometimes, in a crisis like this, things can happen very rapidly. You may get a country that unilaterally, say, decides to withdraw and the entire agreement falls apart.

I'm not actually that big a fan of announcing a lot of coordinated actions all at once. I think that that confuses markets. I would prefer to dribble out good news one bit at a time, but I know I'm probably in the minority on that. For that reason, I think that it may be that reactivation of the swap lines is not the main news story, and that actually might be helpful in this case. But my preference would be to announce various actions one a time as they happen. Those are my comments. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Thank you. President Kocherlakota.

MR. KOCHERLAKOTA. Thank you, Mr. Chairman. I support giving you the authority to enter into swap line agreements with the G-7. At times I'm a little confused by which central banks you're talking about, but I would be supportive of the central banks of the G-7 plus Switzerland.

I agree totally with President Rosengren's opening remarks that we should be doing this based on economics, not based on politics. However, the main political demand I've heard over and over again is for more transparency. I'm delighted to hear that we're contemplating being as transparent as possible about these agreements, and I counsel you to follow up on that as much as you can. Thank you.

CHAIRMAN BERNANKE. Thank you. Just to be clear, you're right. It's the G-7, plus Switzerland—the ECB, the Bank of England, the Bank of Japan, the Bank of Canada, and the Swiss National Bank. President Hoenig.

MR. HOENIG. Mr. Chairman, I support reengaging these swaps. We are the most important central bank. For liquidity, we need to provide the dollars to make sure this doesn't unwind on us into a global disaster. To reemphasize, I think the quality of our statement announcing this is probably the most important challenge we have, because we are going to get pushback. We are going to get some off-the-wall questions, and I think we need to anticipate them, including the point about our being in an economic recovery. We want to maintain that, both for ourselves and for the globe. And then, how transparent we are should be described. With that encouragement, I'm supportive of this action, Mr. Chairman.

CHAIRMAN BERNANKE. Thank you. President Fisher.

MR. FISHER. I'm supportive, Mr. Chairman. I think we should do what's right for the sake of the economy, and yet we should be wary of the politics, which have been discussed at great length.

I think we should not just issue a statement, but we should have Michelle draft an FAQ. We want to answer the questions we want to have asked, anticipate them, state very clearly and in simple English what our answers are. I was asking myself earlier if it might be worth your actually doing a press conference. There are risks to doing so, but, in this atmosphere now, all of us are being asked different questions, and I want to make sure we have clarity and a straightforward explanation coming from one source, which, of course, has to be you, as Chairman. So consider either a press conference or, in addition to a statement, in some other format answering questions that we know will be asked of us in the most direct fashion.

I would urge you, as Don mentioned, not just to reach out to Republicans, but also to Democrats. And, again, I want to have an offline discussion, if I can, with Linda and you quickly about one particular senator who I think needs to be included in that group. But, obviously, I'd recommend front-running to the degree you can, with regard to sensitive time and risk of leakage, as well as contact with key Ds and Rs from you directly before the announcement is made, or simultaneously, or however it can be done.

In sum, I'm supportive and continue to be worried about the politics of this, but I think they can be handled. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Thank you. President Yellen.

MS. YELLEN. Thank you, Mr. Chairman. I'm very strongly supportive of giving you the discretion to enter into these swap arrangements. I think this is an incredibly perilous moment and that it's essential that we participate in a forceful, coordinated global effort to contain the risks to the global financial system and economy at this point. I think it's clearly the right thing for us to do for the sake of the global economy and the U.S. economy.

We've had a very good discussion, I think, and very helpful suggestions in this go-around about the political and communications challenges. And I'm very supportive of the comments that you've heard about the need to manage the communications and the potential political fallout.

CHAIRMAN BERNANKE. Thank you. Governor Warsh.

MR. WARSH. Thank you, Mr. Chairman. I have just a few comments. First, to state what everyone has been saying, this is a mess. I would say this is as fundamental a weekend for the global financial architecture as any we have had over the last few years. I think for some difficult risks to the system we need systemic risk councils and triangles, and the like, to get to the bottom of them. This wasn't one of them. So it's disappointing that we find ourselves collectively in a global economic mire at this point. I would say that policymakers, particularly in Europe, have underestimated the risks of spending by those who can ill afford it, have been made complacent by low sovereign costs of credit, and did not take advantage of the window of opportunity that our firms did to recapitalize. So I think the banking system in Europe will now get asked the hardest questions. And I think that, unlike the U.S. experience, the question in markets will be whether the sovereigns have the ability, the financial wherewithal, to write the kinds of checks that the United States at least underwrote some time ago. I think the risks in the near term are probably mostly about a disorderly move in the euro and a walk-back from exposure to European financial institutions, even those that were thought to be tiered into a stronger category.

With respect to the moves by the European Central Bank, if they come about as Jean-Claude said to Ben earlier today, then they bring to my mind the well-known bazooka that we heard about a couple of years ago at the end of the last Administration. I would be surprised if this bazooka isn't tested, and that's a huge challenge. That the ECB is willing to do this, I think, shows how seriously they assess the risks.

I think talk will quickly turn to the "malicious shorts" that brought this on Europe, and they will likely look to U.S. financial institutions that had the gall to hedge themselves over the last weeks and months as somehow precipitating this. So I think our financial institutions will be part of this narrative, even if from a prudential perspective we would think that for them to pare back their exposures as risks mounted was perfectly appropriate.

The ECB is putting itself in a position of having to be a transitional authority; but I think markets will wonder, "As a transitional authority to what?" These sovereigns are going to have very tough questions, and I would tend to think that the political challenges among many of these member states will be massive.

On the swaps themselves, I think what we've all said is that we're making this decision based on what is in the best interest of the U.S. economy. We're certainly sensitive to the integrated nature of our financial markets and global economies, but I think I'd put myself in the category of thinking that this is important to do for our own sake.

With respect to the communications of this, I think it's important to describe our role as supportive but secondary. This is not the antidote to problems in Europe or the U.S., and I think we ought not to oversell its relative import. The half-life of policy initiatives out of Europe in this cycle has been falling. I wouldn't expect that to change with dramatic speed, so we should be in the business here of under-promising, but being as supportive as we can in the interests of the U.S. Finally, I think we're going to see massive flows into U.S. safe-haven securities, for liquidity at least as much as for safety, but we should not be lulled into that false sense of complacency that others have.

I think this is a very tough period in front of us, and I regret to say that I suspect we will have another videoconference before our next regularly scheduled FOMC meeting. Thank you.

CHAIRMAN BERNANKE. Your forecasting has been good on that so far.

MR. WARSH. Regrettably.

CHAIRMAN BERNANKE. Governor Duke.

MS. DUKE. Thank you, Mr. Chairman. I fully support giving you the authority to open the swap lines, subject to the conditions you outlined. I think we have to take the right actions for the economy, and, frankly, the fact that we have to discuss the political risk underscores the seriousness of the GAO audit provision. I do have a little bit of a faint hope—there are some lawmakers that were supporting the GAO audit issue, not so much because they thought it was a great idea but because they didn't see the harm in it. And, while it can't go in Michelle's statement, I think that this is an opportunity for some one-on-one conversations to use this as an illustration of how important it is that we be able to take the right action and to take it quickly, without concern about political interference. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Thank you very much. We will have a formal vote in a second. Brian, are you going to read this? Before we take the vote, I'll ask if there are any final questions or comments. Brian.

MR. MADIGAN. The Committee would be asked to vote on the following resolution. The Committee authorizes the Chairman to agree to establish swap lines with the European Central Bank, the Bank of England, the Swiss National Bank, the Bank of Japan, and the Bank of Canada, as discussed by the Committee today.

CHAIRMAN BERNANKE. Any comments on the statement? President Bullard.

MR. BULLARD. On the Bank of Canada, it just occurred to me that we, of course, have a swap line with Canada already, and we also have one with Mexico, and I wonder if there would be any considerations about that situation.

CHAIRMAN BERNANKE. We doubled up before, right, Nathan?

MR. SHEETS. That's right. We had temporary liquidity swap lines with both of them at the same time that we had the NAFA lines. And it didn't create any operational or communication or other kinds of problems.

CHAIRMAN BERNANKE. Anything else?

MR. BULLARD. So we're intentionally leaving Mexico out of this list, I guess.

CHAIRMAN BERNANKE. I'm sorry? No, Mexico is not on this list.

MR. BULLARD. Intentionally? Should you say something like, "The existing swap lines will remain in place," or something like that? I don't know.

CHAIRMAN BERNANKE. No. I don't think so.

MS. SMITH. We'll answer that question if we get it.

CHAIRMAN BERNANKE. Michelle says we'll answer that question if we get it. Maybe that is a better way to handle it. Anything else? [No response.] All right. Matt, could you call the roll?

MR. LUECKE. Yes. This vote will encompass the text that Brian Madigan has read.

Chairman Bernanke	Yes
Vice Chairman Dudley	Yes
President Bullard	Yes
Governor Duke	Yes
President Hoenig	Yes
Governor Kohn	Yes
President Pianalto	Yes
President Rosengren	Yes
Governor Tarullo	Yes
Governor Warsh	Yes

CHAIRMAN BERNANKE. Did you get Governor Duke? Yes—okay. Thank you very much. This was an extremely helpful conversation with many good ideas. I will proceed as directed, and we will keep in close communication as the day and the weekend progress. Thanks, and I hope you enjoy the rest of your Mother's Day.

END OF MEETING