Appendix 1: Materials used by Mr. Potter

Class II FOMC - Restricted (FR)

Material for

FOMC Presentation:
Financial Market Developments and Desk Operations

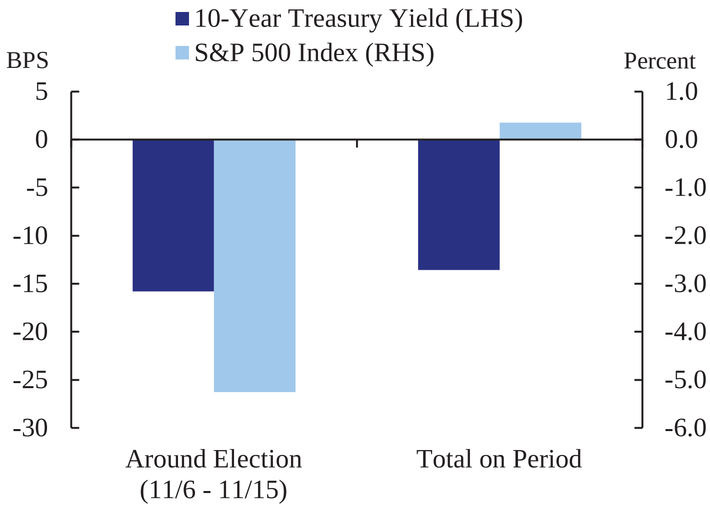
Simon Potter

December 11, 2012

Class II FOMC – Restricted (FR)

Exhibit 1

(1) Changes in Domestic Yields and Equities



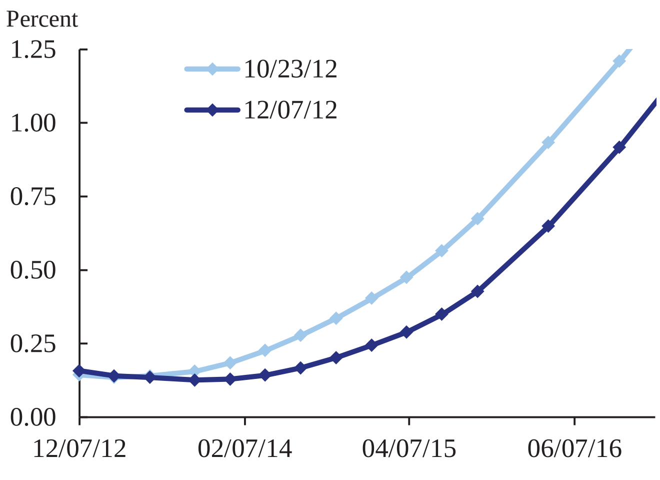
Source: Bloomberg

(2) Changes in Global Yields and Equities Over Intermeeting Period

	Change in 10-Year Yield	Change in Equity Index
U.S.	-14 bps	+0.4%
U.K.	-8 bps	+2.0%
Germany	-28 bps	+4.8%
Japan	-8 bps	+5.7%
FTSE All-World Ex-US	N/A	+2.9%

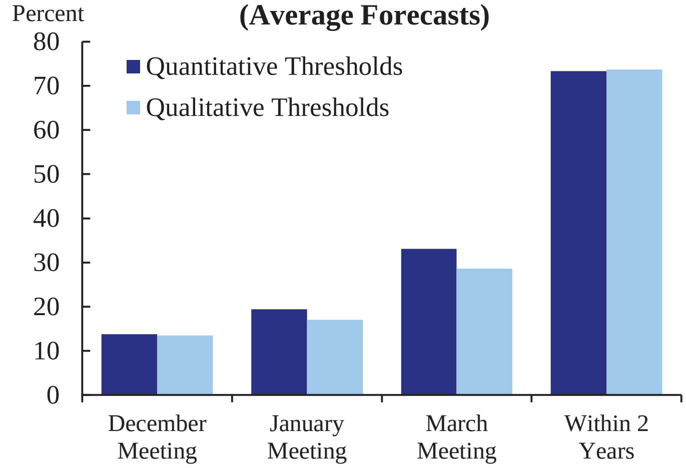
Source: Bloomberg

(3) Implied Federal Funds Rate Path*



*Derived from federal funds and Eurodollar futures.
Source: Federal Reserve Bank of New York, Bloomberg

(4) Probability of FOMC Adopting Thresholds For First Rate Hike (Average Forecasts)



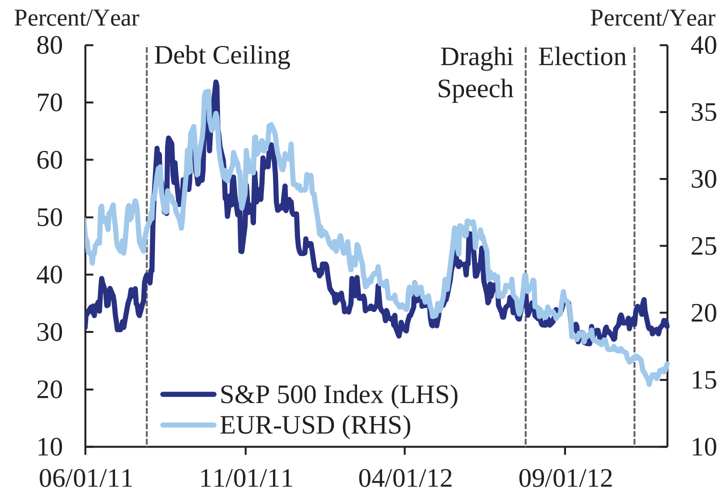
Source: Federal Reserve Bank of New York Survey

(5) Expected Outcome and Effects of Fiscal Cliff* (Average Probabilities and Median Effects)

	Probability of Scenario	Effect on 10-Year Treasury
Current Law	19%	-40 bps
No Fiscal Restraint	18%	+40 bps
Alternative Scenario**	55%	+5 bps

*Based on CBO policy scenarios, which do not encompass entire range of possible outcomes. Probabilities of these scenarios add to 92%.
**Compromise scenario with extensions of some measures.
Source: Federal Reserve Bank of New York Survey

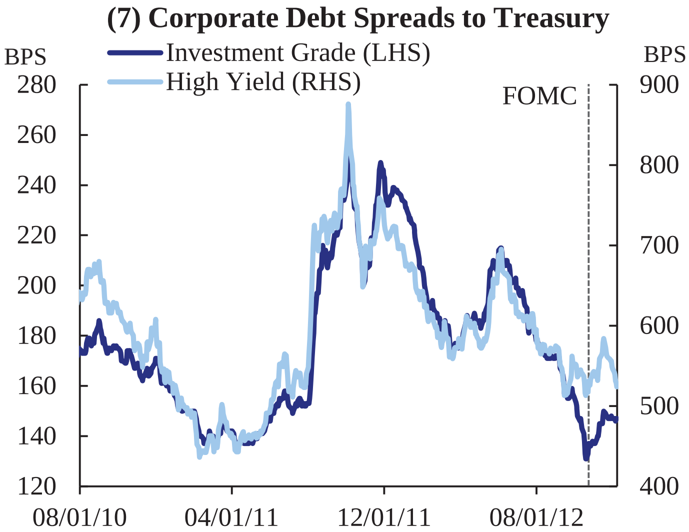
(6) 3-Month 25-Delta Strangle Prices



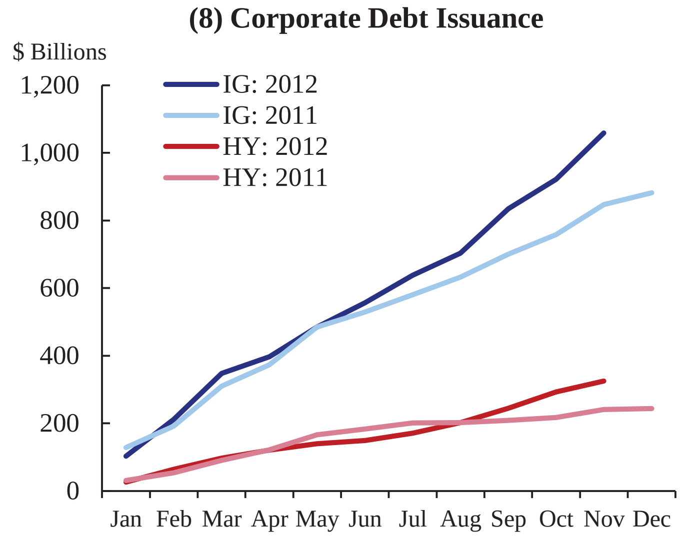
Source: Bloomberg, Federal Reserve Bank of New York

Class II FOMC – Restricted (FR)

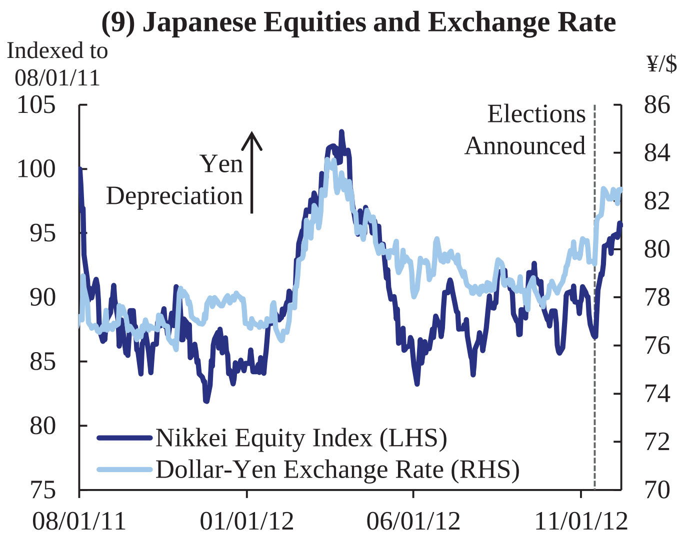
Exhibit 2



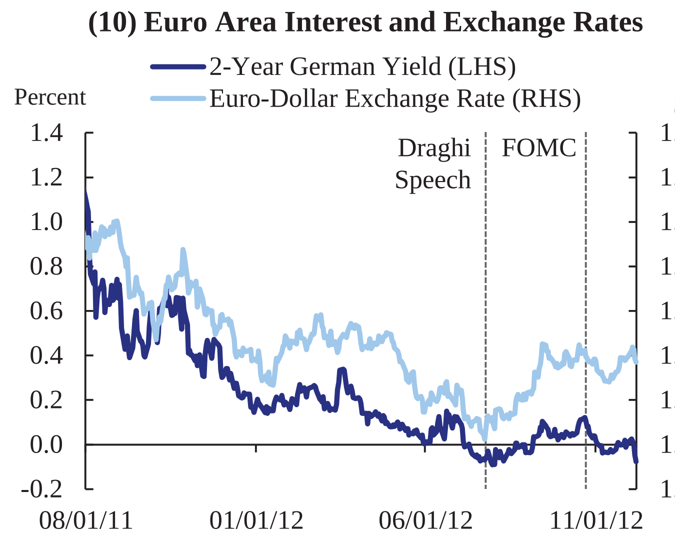
Source: Barclays



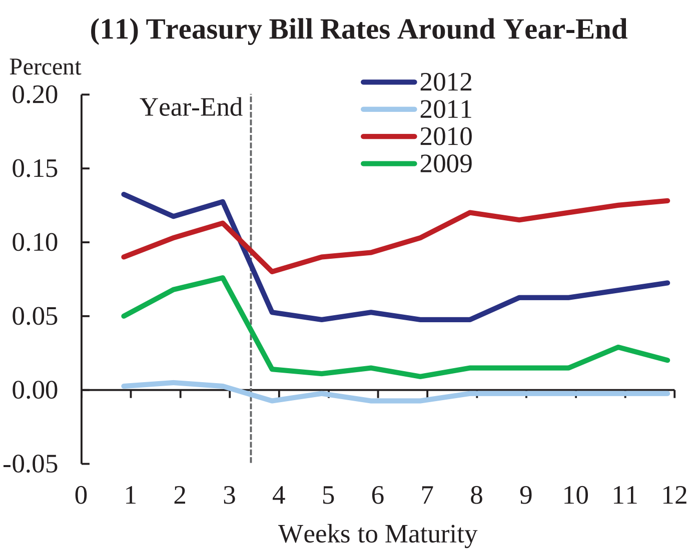
Source: Bloomberg



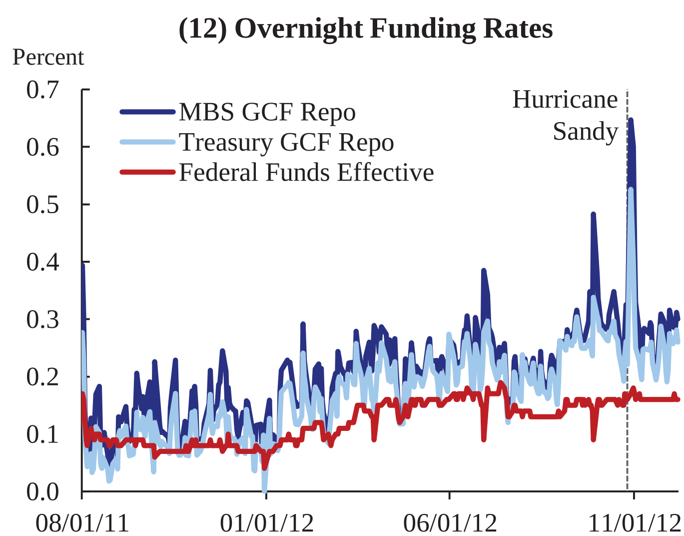
Source: Bloomberg



Source: Bloomberg



Source: Bloomberg, Federal Reserve Bank of New York

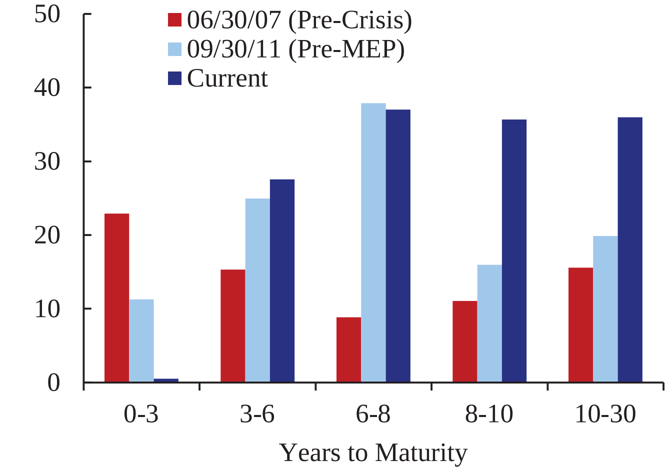


Source: DTCC, Federal Reserve Bank of New York

Class II FOMC – Restricted (FR)

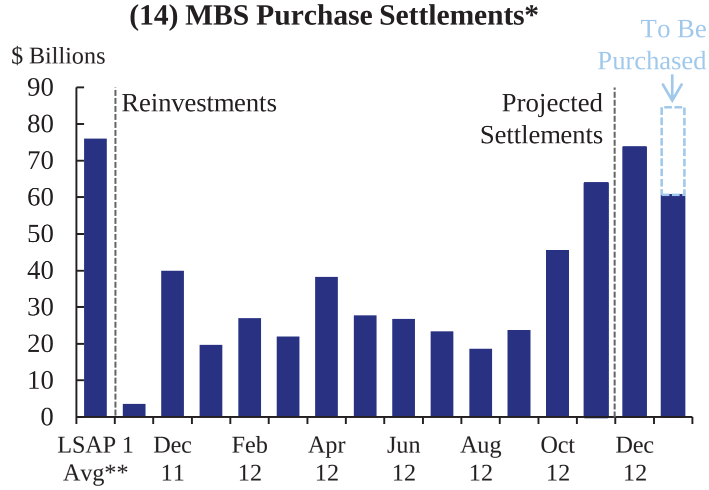
Exhibit 3

(13) SOMA Treasury Holdings as Percent of Outstanding



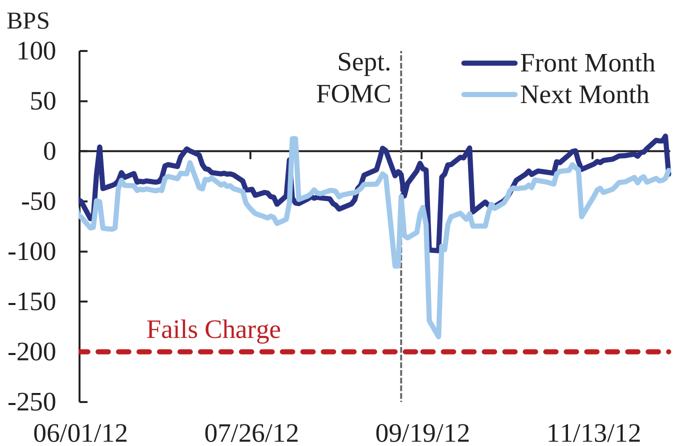
Source: Federal Reserve Bank of New York

(14) MBS Purchase Settlements*



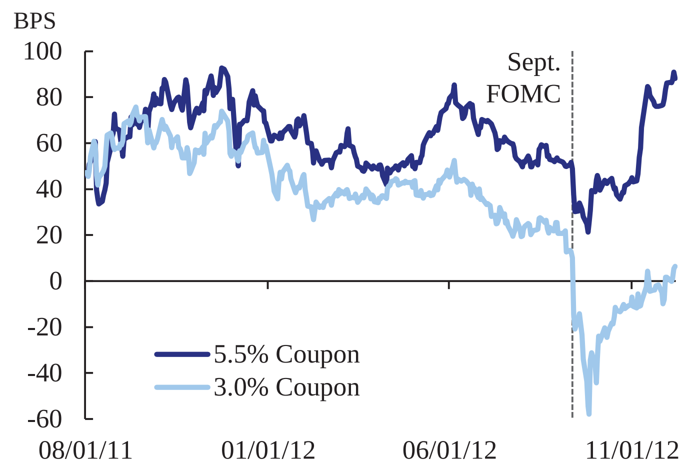
*Settlements net of realized dollar roll sales.
**Maximum settled monthly amount during LSAP 1 was $170 billion.
Source: Federal Reserve Bank of New York, TradeWeb

(15) Dollar Roll Implied Financing Rates*



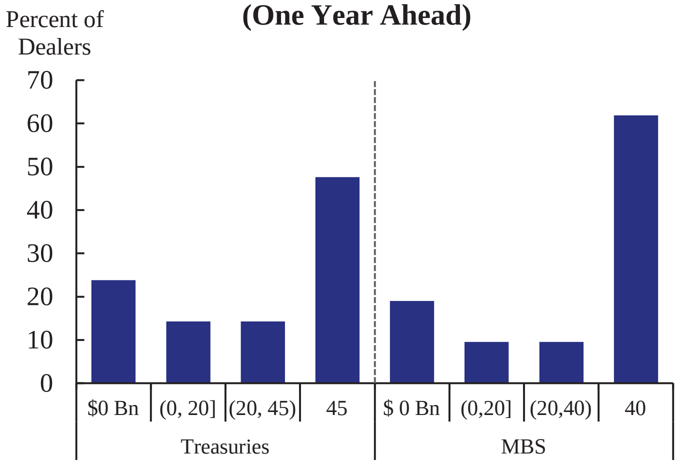
*30-year FNMA dollar rolls for 3.0% coupon. Front month is currently December-January roll; next month is January-February roll.
Source: J.P. Morgan

(16) MBS Option-Adjusted Spreads to Treasury*



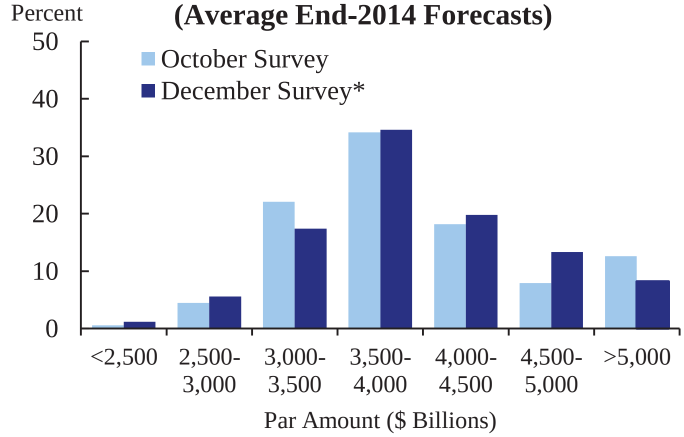
*FNMA 30-year OAS to Treasury.
Source: Barclays

(17) Expected Pace of Asset Purchases* (One Year Ahead)



*Figures from flash survey after Employment Situation report.
Source: Federal Reserve Bank of New York Survey

(18) Probability Distribution of SOMA Portfolio Holdings (Average End-2014 Forecasts)

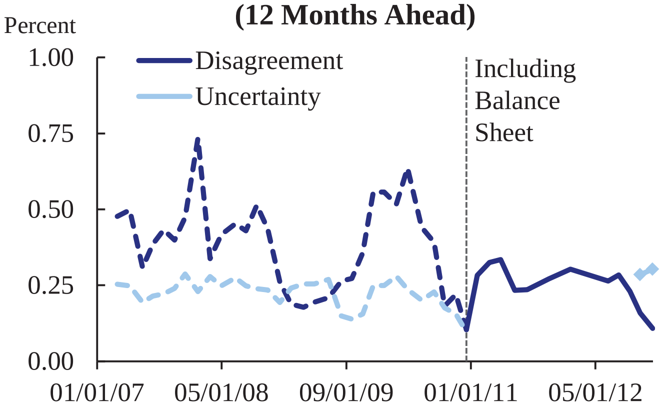


*Figures from flash survey after Employment Situation report.
Source: Federal Reserve Bank of New York Survey

Class II FOMC – Restricted (FR)

Exhibit 4 (Last)

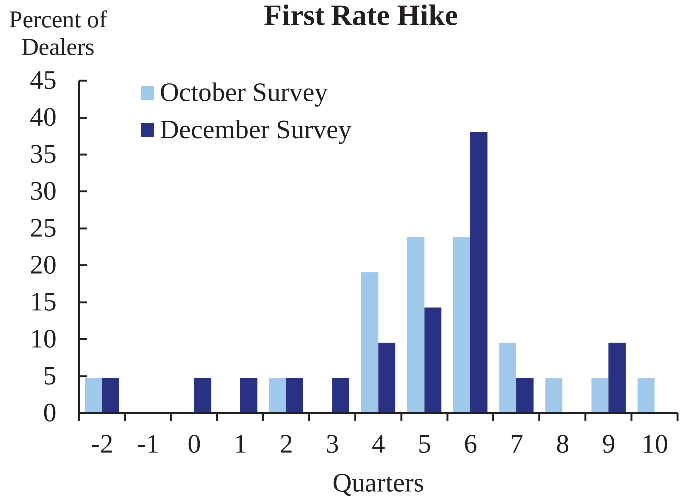
(19) Overall Policy Forecast Dispersion in Fed Funds Equivalents (12 Months Ahead)



*Dashed lines are measures for fed funds only; solid lines are overall policy uncertainty and disagreement.

Source: Federal Reserve Bank of New York Survey, Wallis (2005)

(20) Quarters Between End of Purchases and First Rate Hike



Source: Federal Reserve Bank of New York Survey

Appendix 2: Materials used by Mses. Ihrig and Remache

Material for

FOMC Presentation:
Options for Continuation of Open-Ended Asset Purchases in 2013

Jane Ihrig and Julie Remache

December 11, 2012

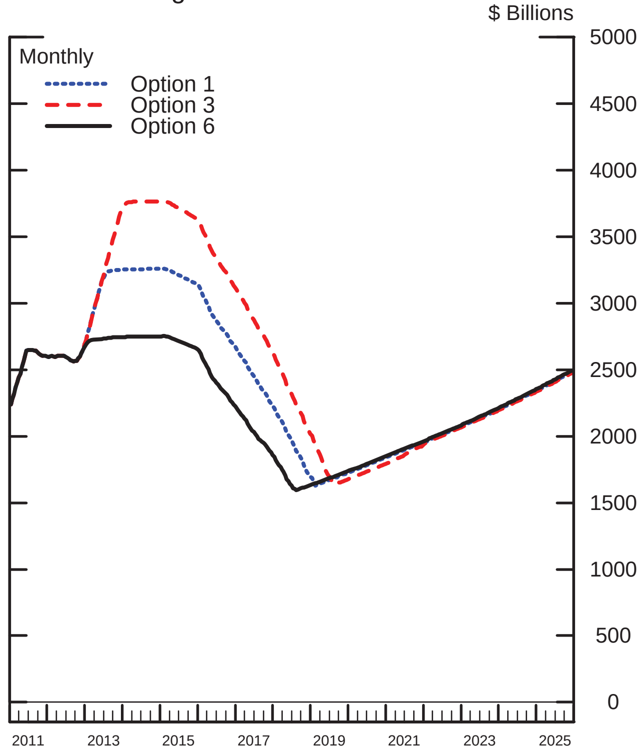
Purchase Programs

$ Billions

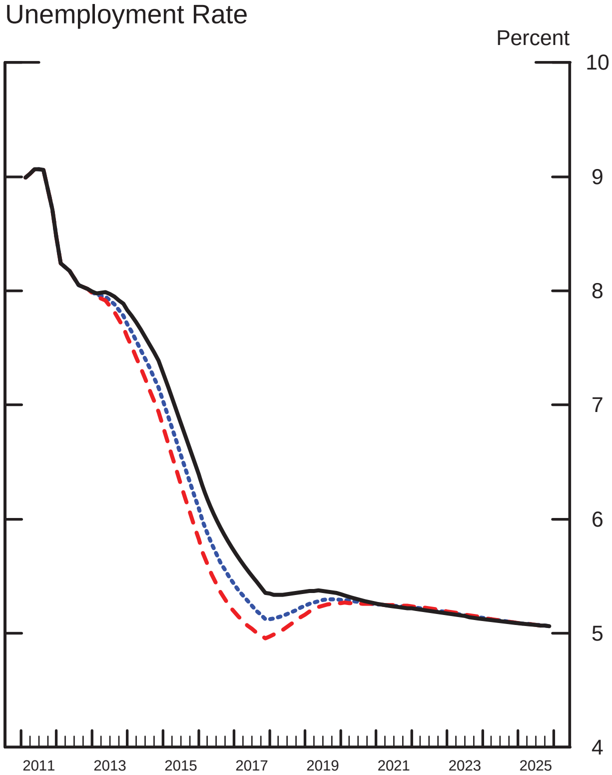
	Total Size*	2013 Purchases
Option 1	750	500
Option 3	1250	1000
Option 6	250	0

* Includes purchases from October through December 2012.

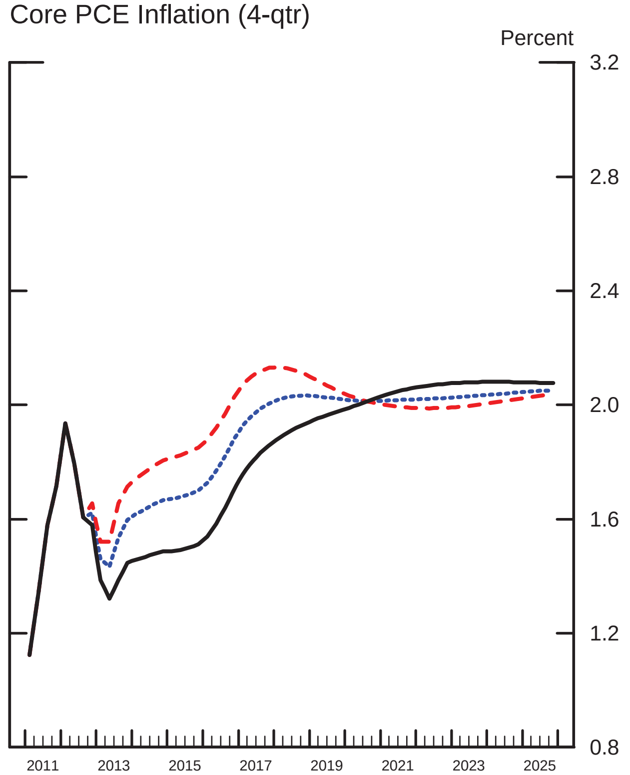
SOMA Holdings



Unemployment Rate

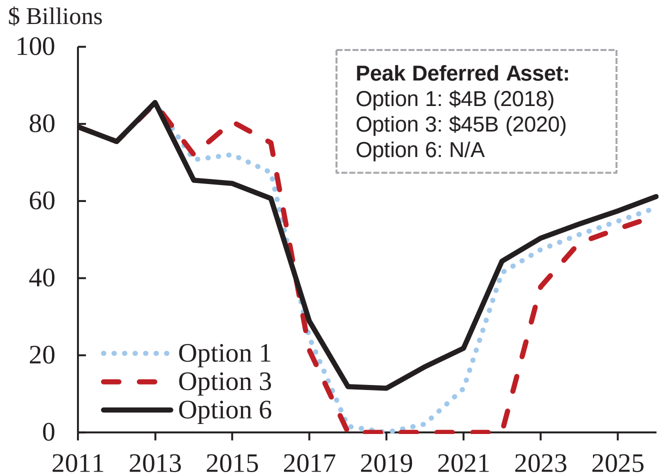


Core PCE Inflation (4-qtr)



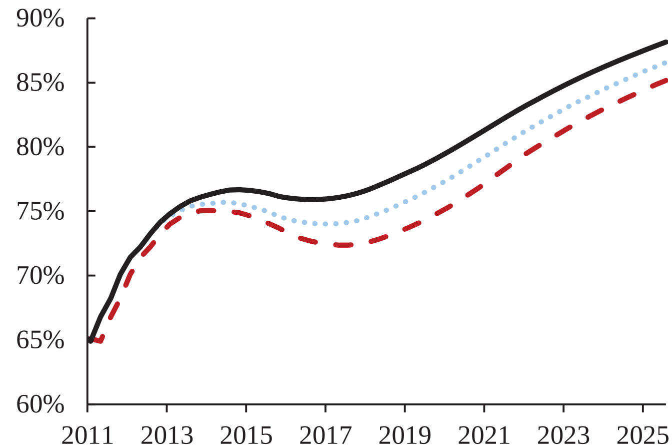
Class I FOMC – Restricted-Controlled (FR) Exhibit 2

(1) Annual Remittances to Treasury



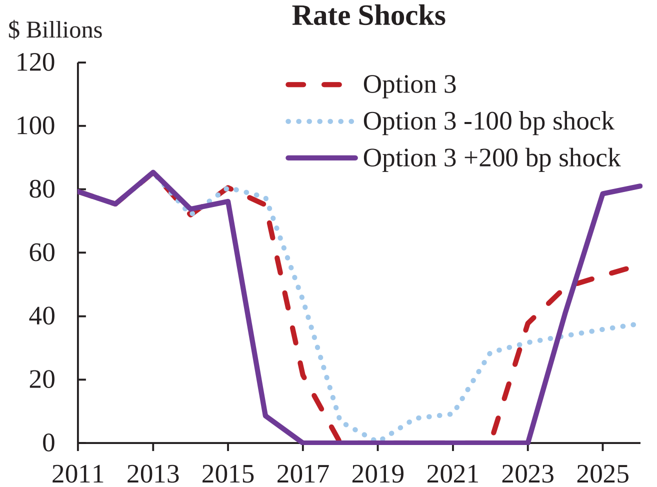
Source: Federal Reserve Board of Governors

(2) Federal Debt-to-GDP Ratio



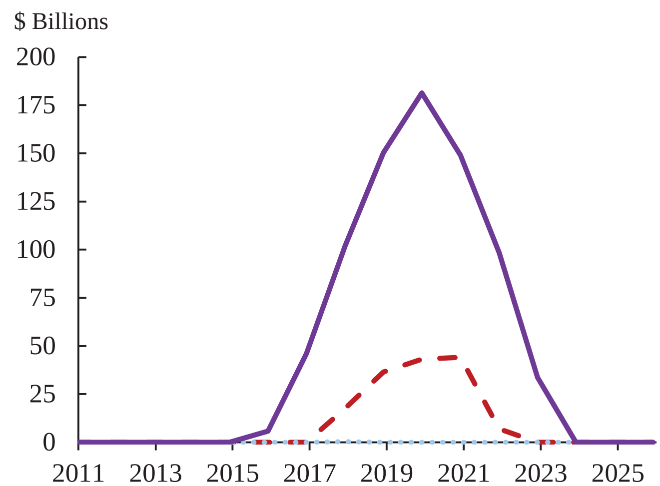
Source: Federal Reserve Board of Governors

(3) Annual Remittances to Treasury – Interest Rate Shocks



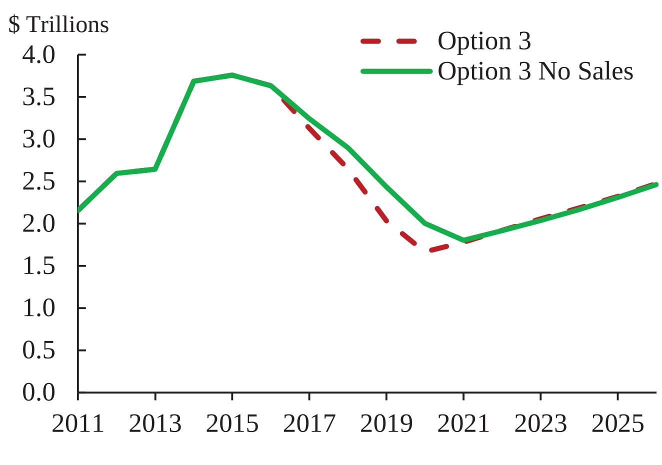
Source: Federal Reserve Board of Governors

(4) Deferred Assets – Interest Rate Shocks



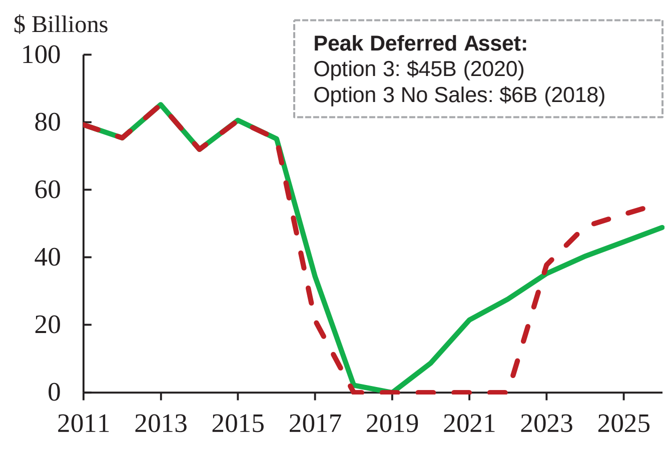
Source: Federal Reserve Board of Governors

(5) SOMA Holdings – No Sales



Source: Federal Reserve Board of Governors

(6) Annual Remittances to Treasury – No Sales



Source: Federal Reserve Board of Governors

Appendix 3: Materials used by Mr. Wilcox

Class II FOMC – Restricted (FR)

Material for

Forecast Summary

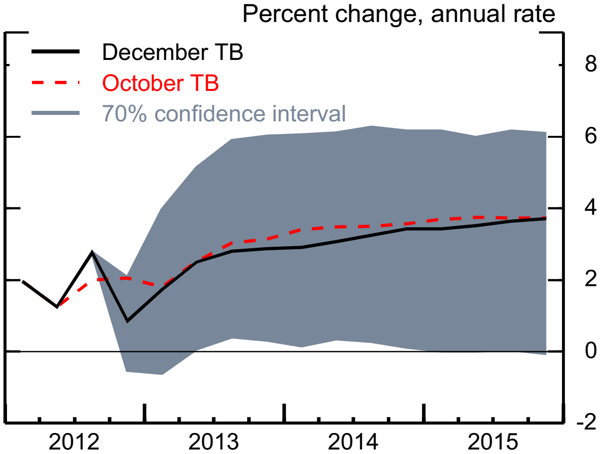
David Wilcox

December 11, 2012

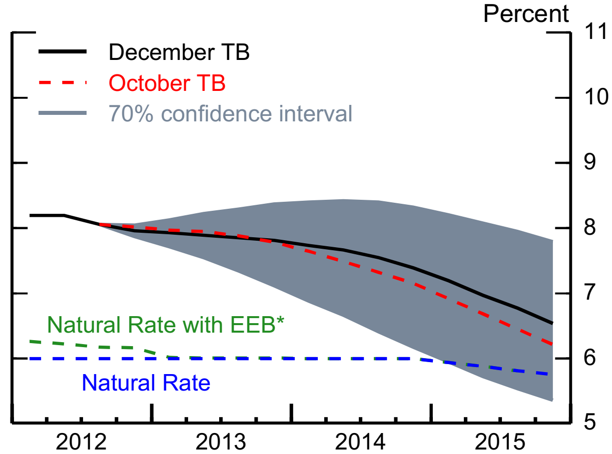
Forecast Summary

Confidence Intervals Based on Tealbook Track Record

Real GDP

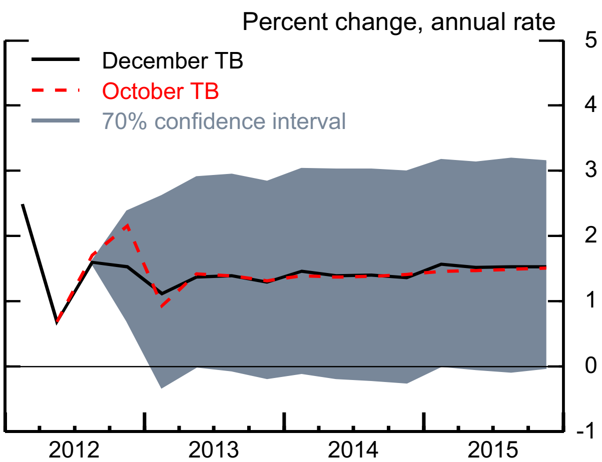


Unemployment Rate

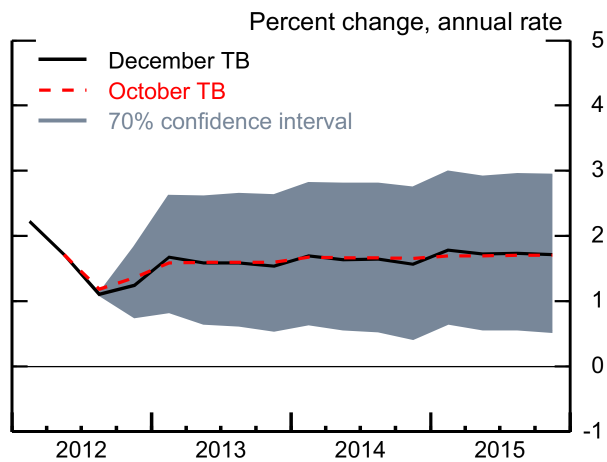


*Effect of emergency unemployment compensation and state-federal extended benefit programs.

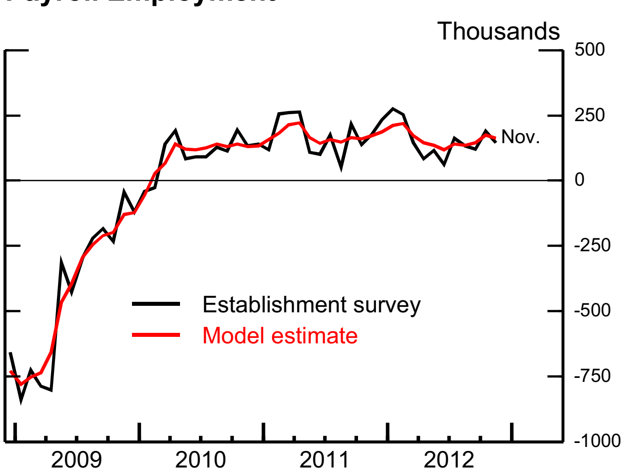
PCE Prices



PCE Prices Excluding Food and Energy

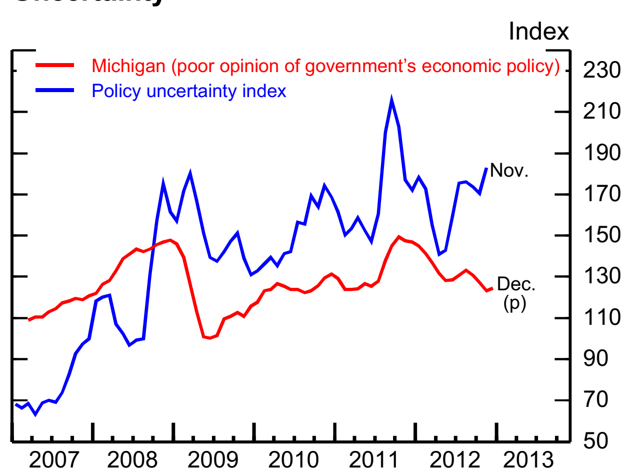


Measures of Monthly Change in Private Payroll Employment



Note: The Kalman filter estimates treat the household survey measure (not shown) and the establishment survey measure as noisy observations of the underlying signal.

Assessment of Economic Policy and Policy Uncertainty*



*Three-month moving average of index values.
Source: Thomson Reuters/University of Michigan Surveys of Consumers; www.policyuncertainty.com (Baker, Bloom, and Davis)

Appendix 4: Materials used by Mr. Kiley

Class II FOMC – Restricted (FR)

Material for Briefing on

Financial Stability

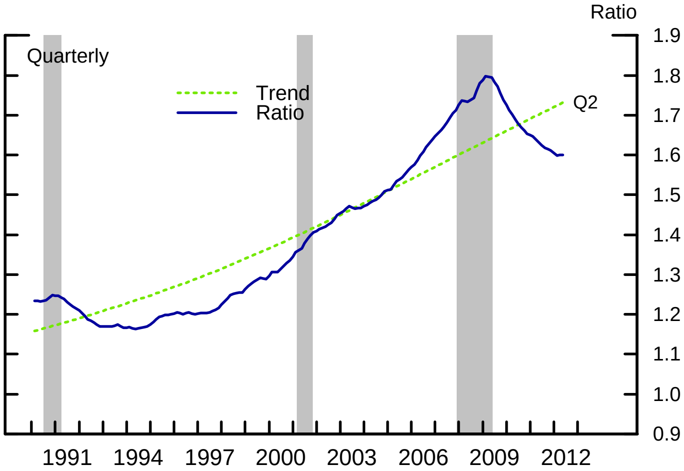
Michael Kiley

December 11, 2012

Exhibit 1

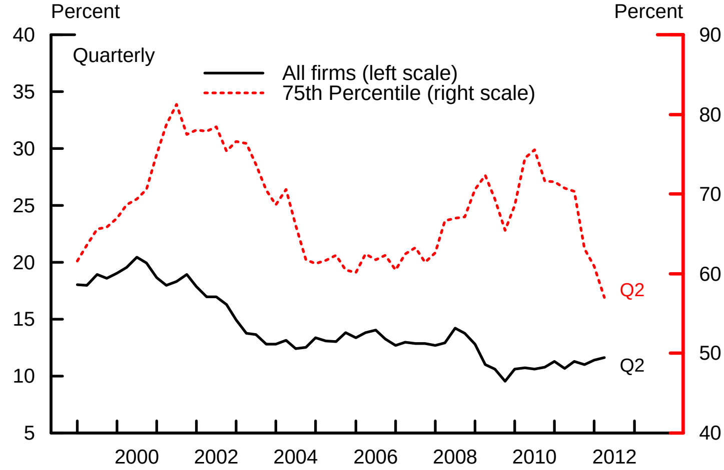
Leverage & Asset Valuations

Private Nonfinancial Sector Credit-to-GDP Ratio



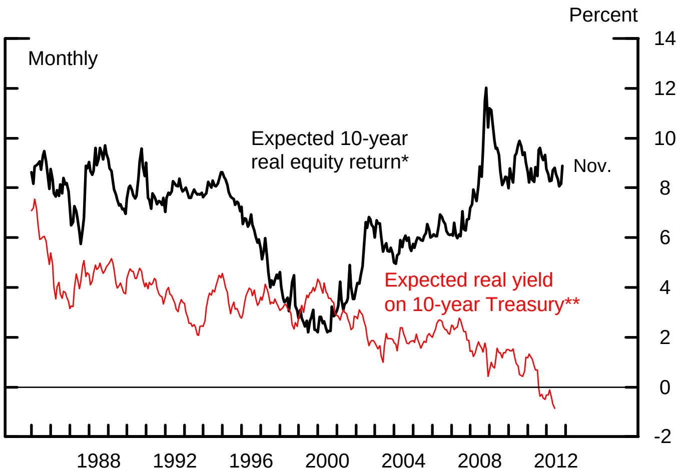
Note: Calculated using an HP filter.
Source: FOFA, NIPA, and staff calculations.

Short Term Debt as Percent of Total Debt



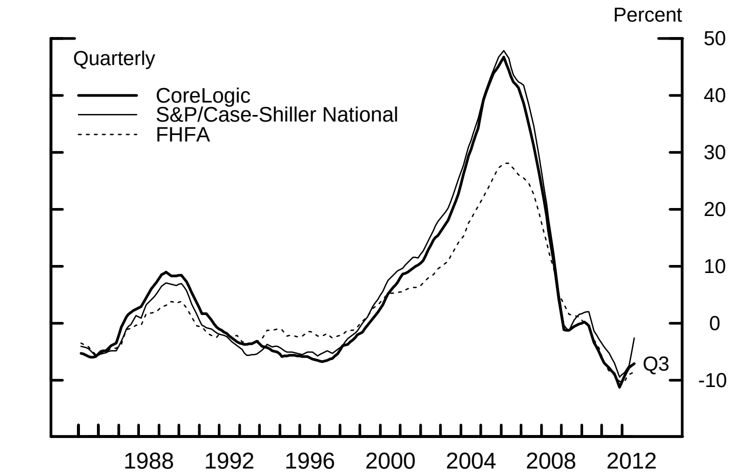
Note: Ratio of the sum of short-term debt and long-term debt due in one year to total debt.
Source: Compustat.

Expected Real Equity Return



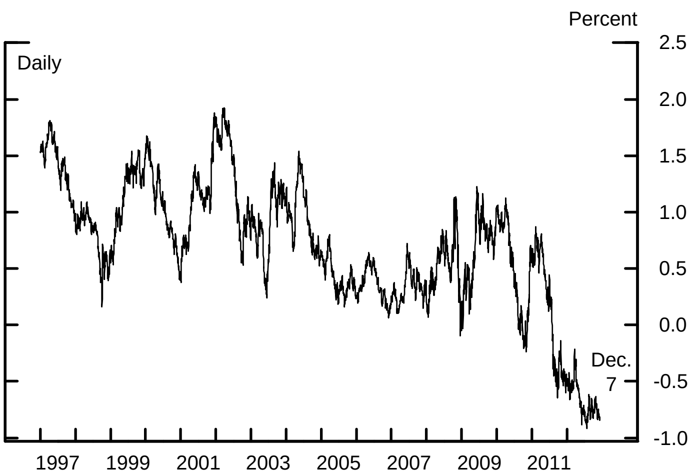
* Staff estimate using a dividend discount model incorporating private sector earnings growth estimates.
** Off-the-run 10-year Treasury yield less Philadelphia Fed 10-year expected inflation.

House Price Overvaluation Measures



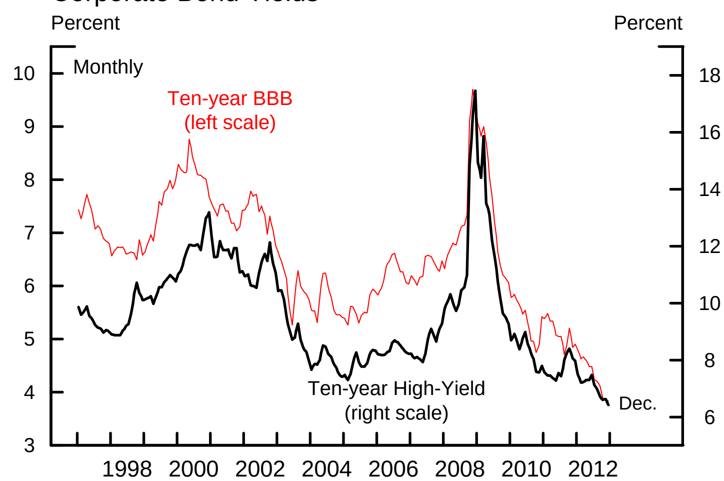
Note: Overvaluation measured as deviation from long-run relationship between house prices and rents.

Ten-Year Nominal Term Premiums



Note: Term premia are estimated by a three-factor term structure model combining Treasury yields with SPF interest rate forecasts. Source: Board.

Corporate Bond Yields

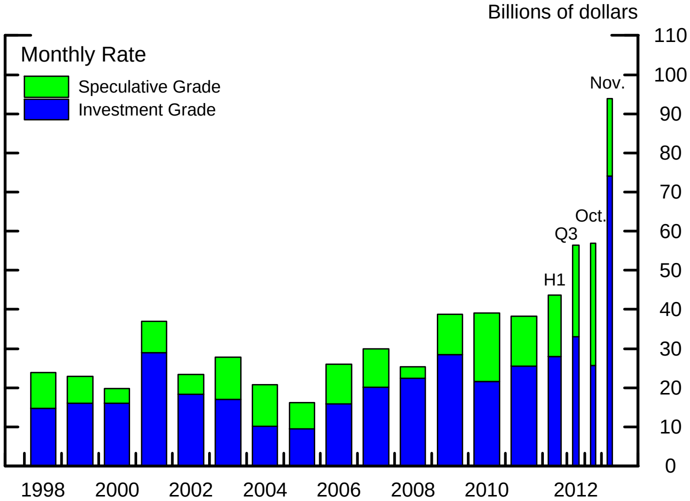


Note: Staff estimates of smooth yield curves based on Merrill Lynch bond data.

Exhibit 2

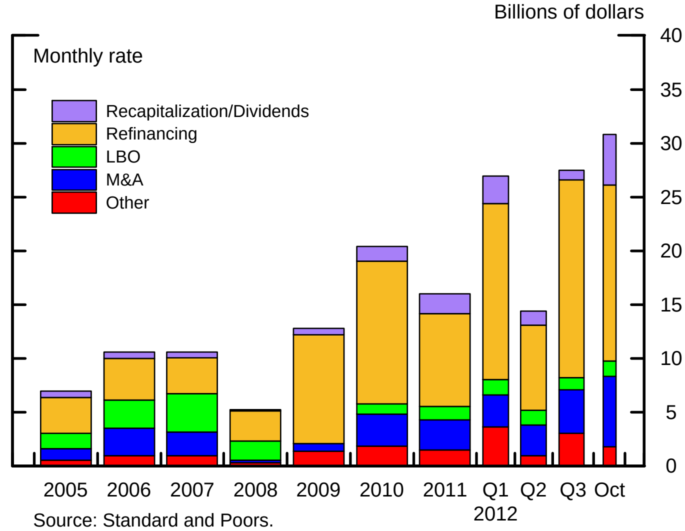
Developments in Business Finance

Gross Nonfinancial Corporate Bond Issuance



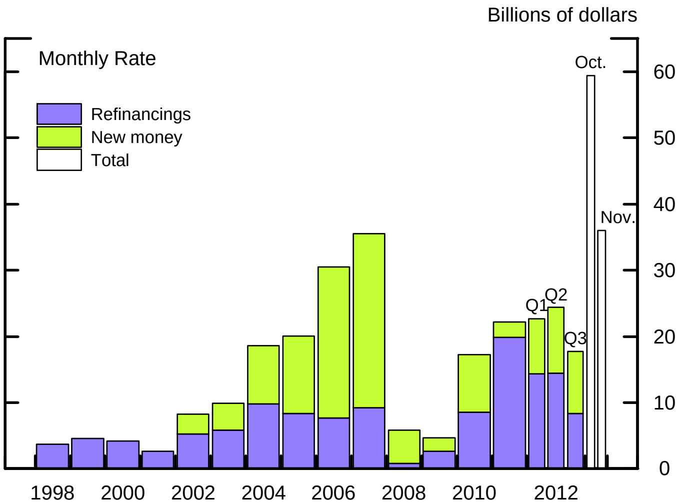
Source: Thomson Financial.

Use of Proceeds for HY Issues



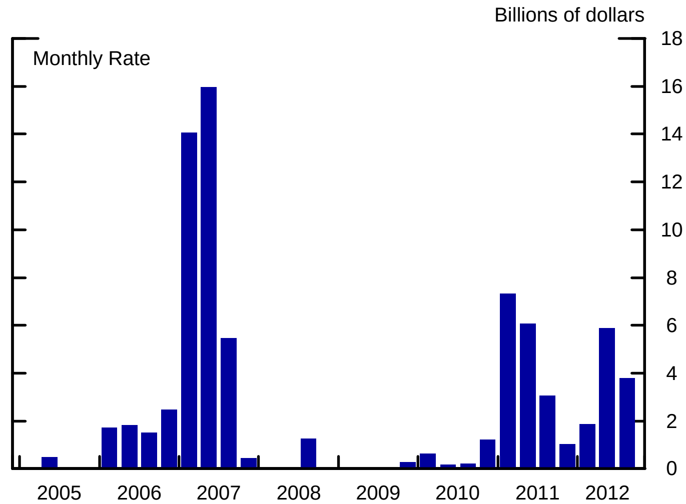
Source: Standard and Poors.

Institutional Issuance of Leveraged Loans



Source: Thomson Reuters LPC LoanConnector.

Covenant-lite Issuance



Source: LPC LoanConnector.

Summary

- Developments to date may not signal a notable increase in systemic risk.
  - Increased demand for corporate credits reflects, in part, interest on the part of long-term investors.
  - Dealers appear to be better managing the pipeline of deals.
  - Market participants continue to characterize conditions as significantly tighter than in 2006 and 2007.
- Some situations bear watching.
  - Potential for a disorderly deleveraging could rise if available borrowing capacity were taken up quickly.
  - Reversal of inflows into corporate bond and loan funds could strain these markets.
  - Some institutions could "reach for yield" in new and difficult-to-detect ways.
- Overall, low interest rates may be contributing to some increase in willingness to bear risk.

Appendix 5: Materials used by Ms. Roush

Class I FOMC – Restricted Controlled (FR)

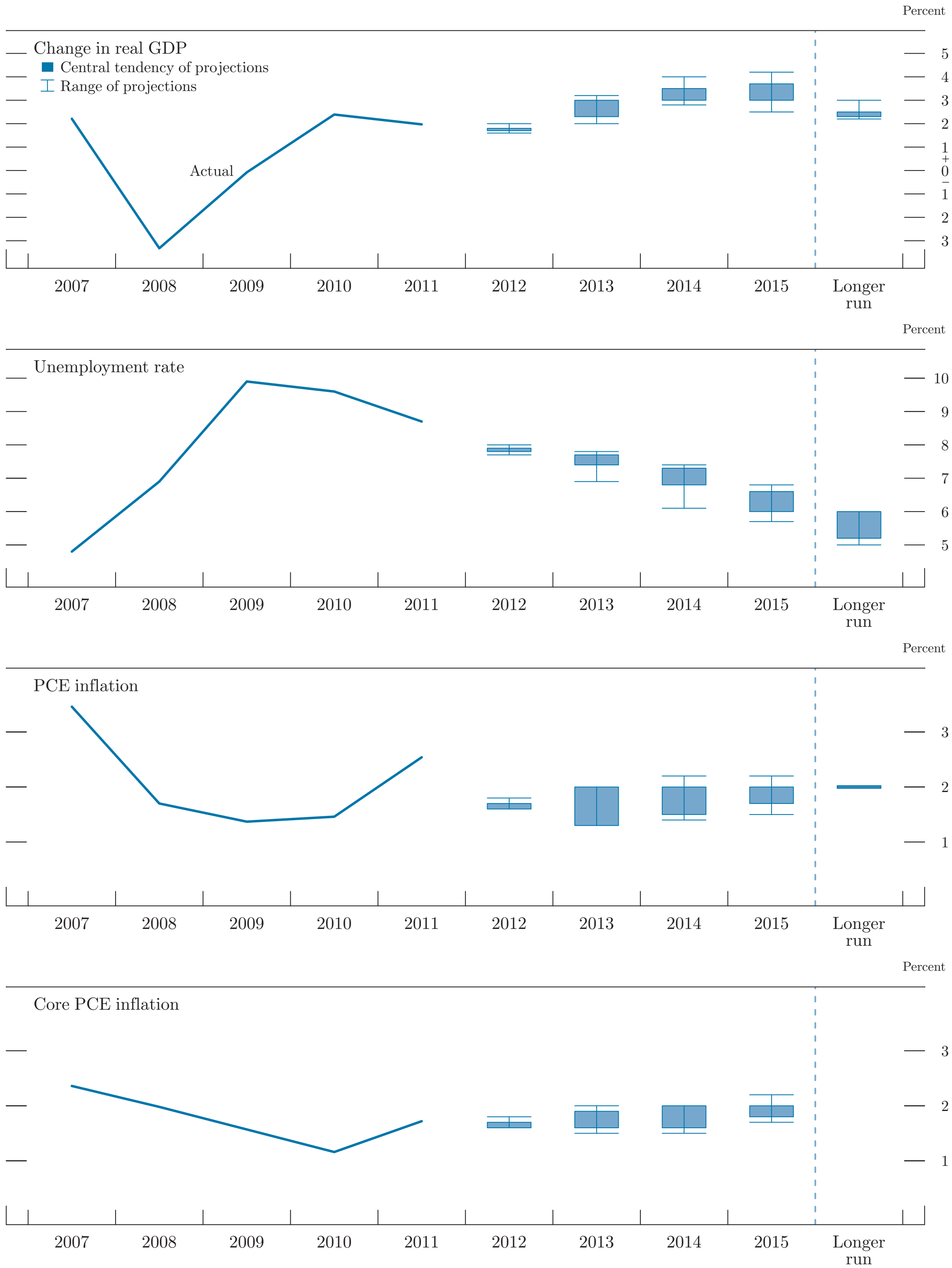
Material for Briefing on the

Summary of Economic Projections

Jennifer E. Roush

December 11, 2012

Exhibit 1. Central tendencies and ranges of economic projections, 2012–15 and over the longer run



NOTE: The data for the actual values of the variables are annual.

Exhibit 2. Economic projections for 2013-2015 and over the longer run (percent)

Change in real GDP

	2013	2014	2015	Longer run
Central Tendency	2.3 to 3.0	3.0 to 3.5	3.0 to 3.7	2.3 to 2.5
September projections	*2.5 to 3.0*	*3.0 to 3.8*	*3.0 to 3.8*	*2.3 to 2.5*
Range	2.0 to 3.2	2.8 to 4.0	2.5 to 4.2	2.2 to 3.0
September projections	*2.3 to 3.5*	*2.7 to 4.1*	*2.5 to 4.2*	*2.2 to 3.0*
Memo: Tealbook	2.5	3.2	3.6	2.5
September Tealbook	*2.4*	*3.2*	*3.6*	*2.5*

Unemployment rate

	2013	2014	2015	Longer run
Central Tendency	7.4 to 7.7	6.8 to 7.3	6.0 to 6.6	5.2 to 6.0
September projections	*7.6 to 7.9*	*6.7 to 7.3*	*6.0 to 6.8*	*5.2 to 6.0*
Range	6.9 to 7.8	6.1 to 7.4	5.7 to 6.8	5.0 to 6.0
September projections	*7.0 to 8.0*	*6.3 to 7.5*	*5.7 to 6.9*	*5.0 to 6.3*
Memo: Tealbook	7.8	7.4	6.5	5.2
September Tealbook	*8.0*	*7.6*	*6.7*	*5.2*

PCE inflation

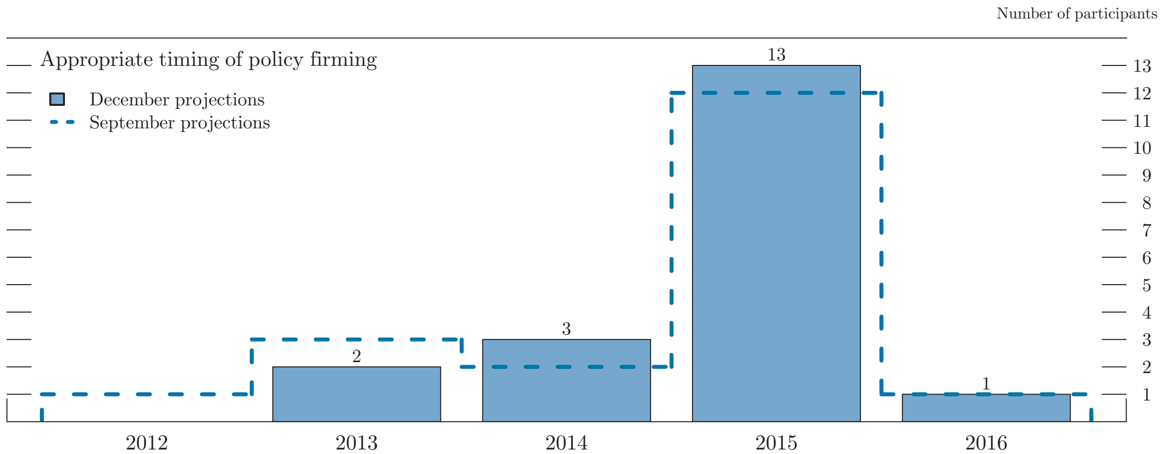
	2013	2014	2015	Longer run
Central Tendency	1.3 to 2.0	1.5 to 2.0	1.7 to 2.0	2.0 to 2.0
September projections	*1.6 to 2.0*	*1.6 to 2.0*	*1.8 to 2.0*	*2.0 to 2.0*
Range	1.3 to 2.0	1.4 to 2.2	1.5 to 2.2	2.0 to 2.0
September projections	*1.5 to 2.1*	*1.6 to 2.2*	*1.8 to 2.3*	*2.0 to 2.0*
Memo: Tealbook	1.3	1.4	1.5	2.0
September Tealbook	*1.4*	*1.4*	*1.5*	*2.0*

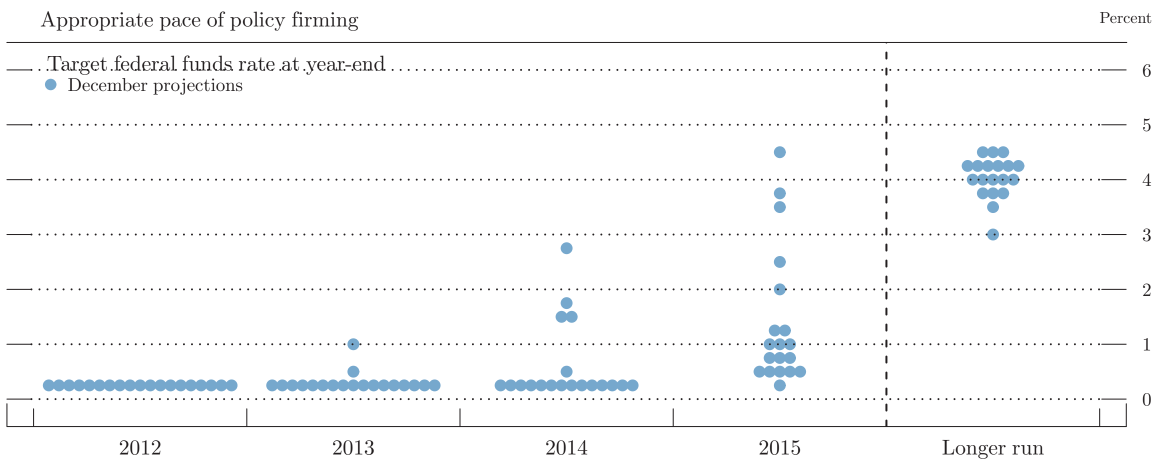
Core PCE inflation

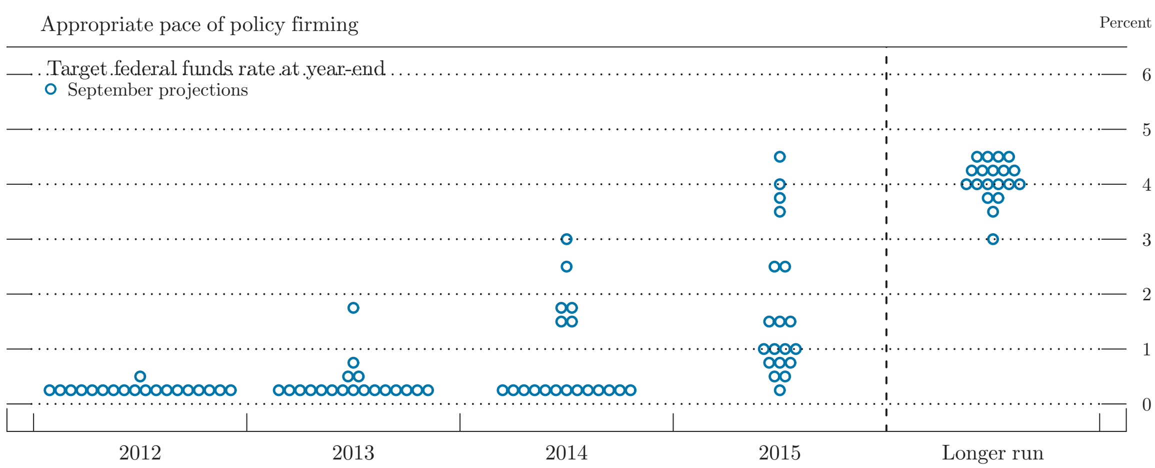
	2013	2014	2015
Central Tendency	1.6 to 1.9	1.6 to 2.0	1.8 to 2.0
September projections	*1.7 to 2.0*	*1.8 to 2.0*	*1.9 to 2.0*
Range	1.5 to 2.0	1.5 to 2.0	1.7 to 2.2
September projections	*1.6 to 2.0*	*1.6 to 2.2*	*1.8 to 2.3*
Memo: Tealbook	1.6	1.6	1.7
September Tealbook	*1.6*	*1.6*	*1.7*

NOTE: The changes in real GDP and inflation are measured Q4/Q4.

Exhibit 3. Overview of FOMC participants' assessments of appropriate monetary policy

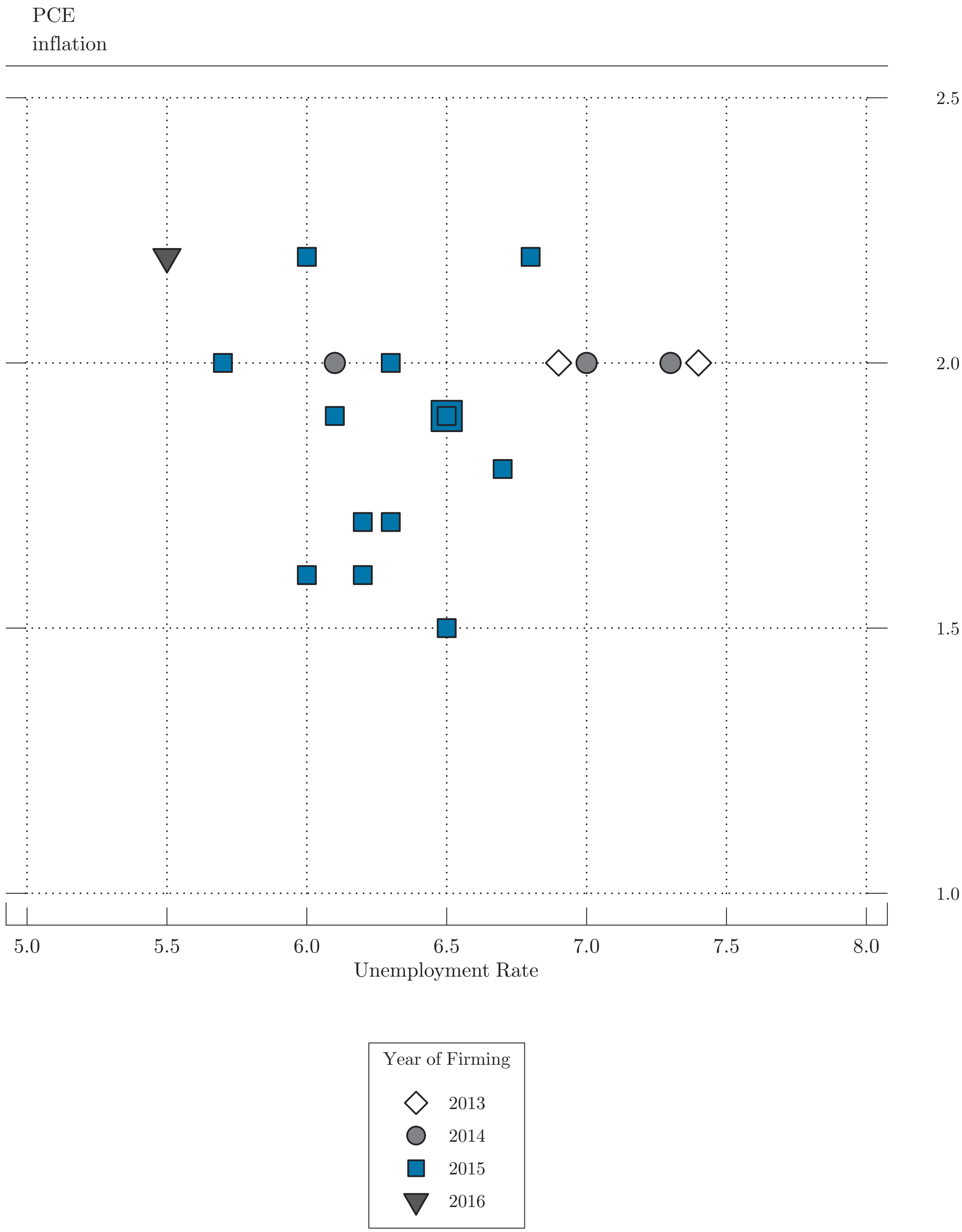






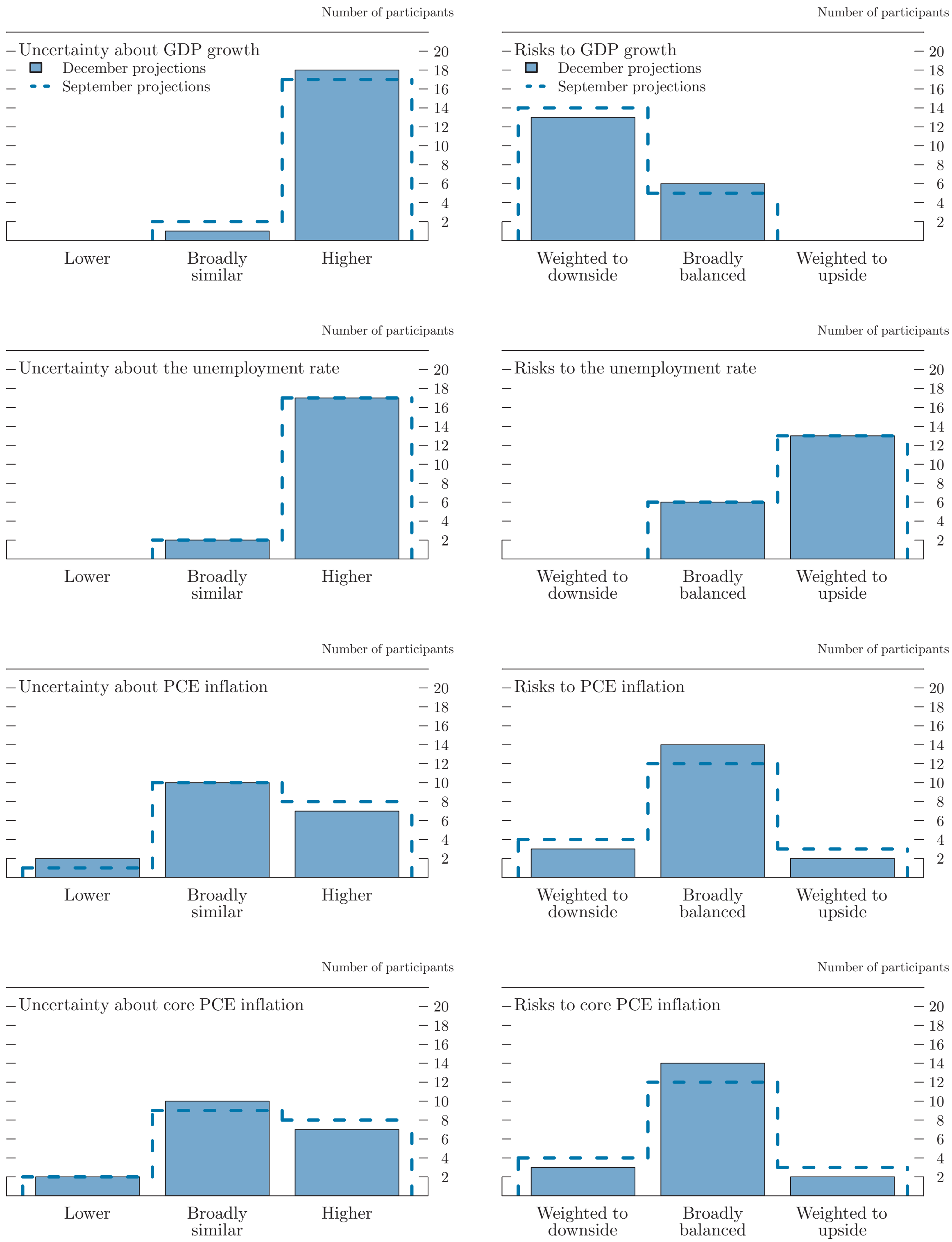
Note: In the upper panel, the height of each bar denotes the number of FOMC participants who judge that, under appropriate monetary policy, the first increase in the target federal funds rate from its current range of 0 to 1/4 percent will occur in the specified calendar year. In the middle and lower panels, each circle indicates the value (rounded to the nearest 1/4 percentage point) of an individual participant's judgment of the appropriate level of the target federal funds rate at the end of the specified calendar year or over the longer run.

Exhibit 4. Scatterplot of unemployment and PCE inflation rates in the initial year of policy firming (in percent)



NOTE: When the projections of two or more participants are identical, larger markers, which represent one participant each, are used so that each projection can be seen.

Exhibit 5. Uncertainty and risks in economic projections



Appendix 6: Materials used by Chairman Bernanke

Benefit-cost analysis

$B(E,\pi)$, $C(x)$ benefits and costs depend on the size of the balance sheet (*x*)

$E = ex + g$ employment depends on size of balance sheet plus other factors (g)
---suppressing the funds rate

We are likely to learn more about benefits, costs, efficacy, and other factors as *x* increases

Optimality (ex post)

$B'(ex^* + g)e = C'(x^*)$ suppressing the inflation term
(assume in region where more stimulus is helpful; infl expectations captured in C)

$E^* = ex^* + g$

$\frac{dx}{dg} < 0$ $\frac{dx}{de} > 0$ if e small, otherwise negative

Evaluating benefits and costs at beginning of program

Benefits
1. Forecast-based; unemployment and inflation miss in same direction through 2015
2. Efficacy assessment

Costs
1. Market function
2. Fiscal/capital gains and losses
3. Exit (balance sheet normalization)
4. Financial stability

Exiting from the program: Rhetoric should focus on ongoing evaluation of efficacy and costs

Case 1. Seeing progress
a. Because e is higher: "income effect" (-) versus "substitution effect" (+)
b. Because g is higher: can do less than expected, partially offsetting increase in g

Case 2. Limited progress, no identifiable exogenous factor
Presumption that e is low, costs of program increasing
Efficacy, cost language sets predicate for ultimate winddown with E^* still low

Case 3. Progress impeded by identifiable factors g (e.g., fiscal cliff)
a. If e appears substantial despite the headwinds, do more, but not enough to offset the effects of adverse factors on unemployment ("temper expectations" for labor market improvement)
b. If believe the limited progress is primarily due to low e, curtail and pursue other approaches

Appendix 7: Materials used by Mr. English

Class I FOMC – Restricted Controlled (FR)

Material for

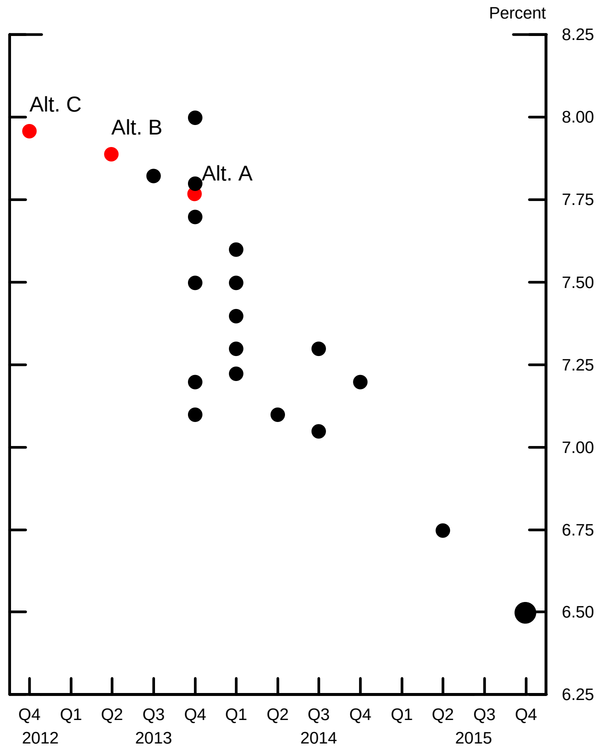
FOMC Briefing on Monetary Policy Alternatives

Bill English

December 11-12, 2012

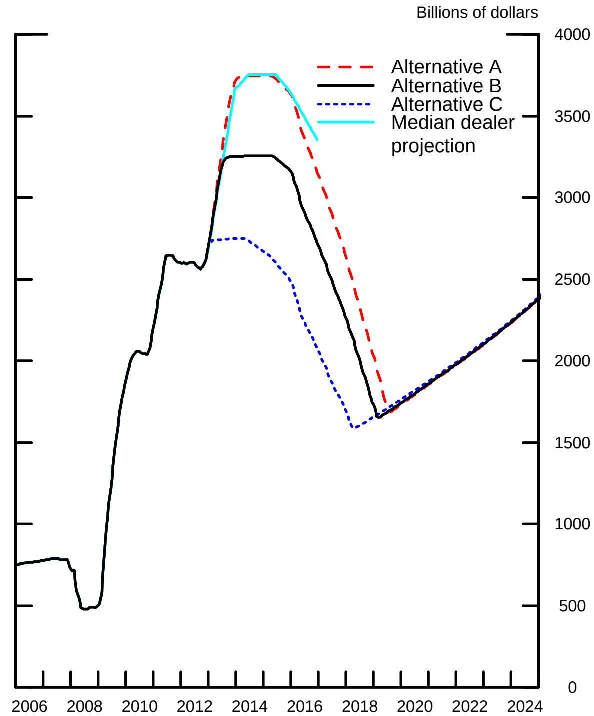
Federal Reserve Security Purchases and Holdings

Modal Unemployment Rate at Expected End of Security Purchases: Dealer Survey



Note. Primary dealer unemployment rates are interpolated from average Q4 values reported in the survey. Not plotted are two primary dealers who did not report an unemployment rate for sufficiently long horizons.
A larger dot denotes two observations.

Total Projected SOMA Security Holdings



SEP Information on Purchases

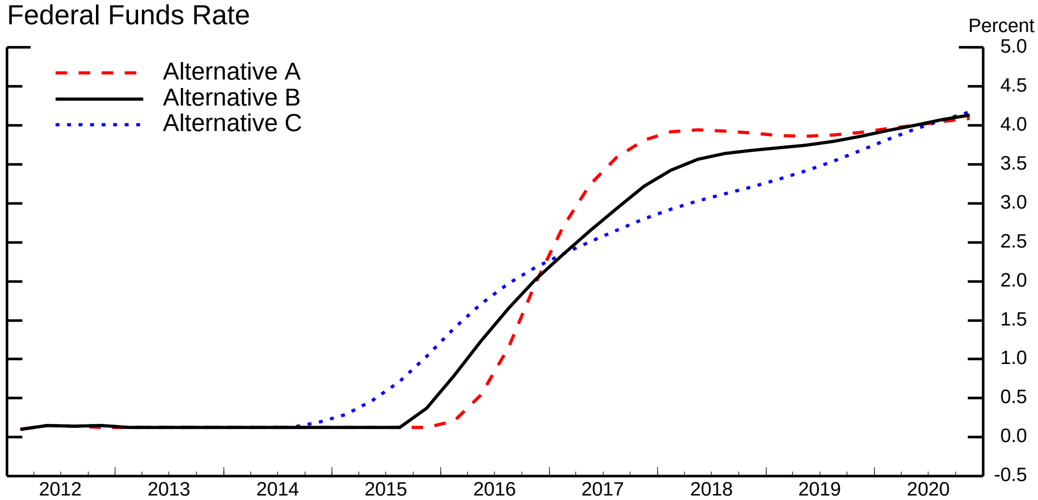
- Eight of you indicated that your balance sheet projections did not differ materially from staff's
- Seven of you judged that appropriate policy implied a larger volume of purchases
- Four of you judged that purchases should be smaller

Possible Explanations for the Discrepancy

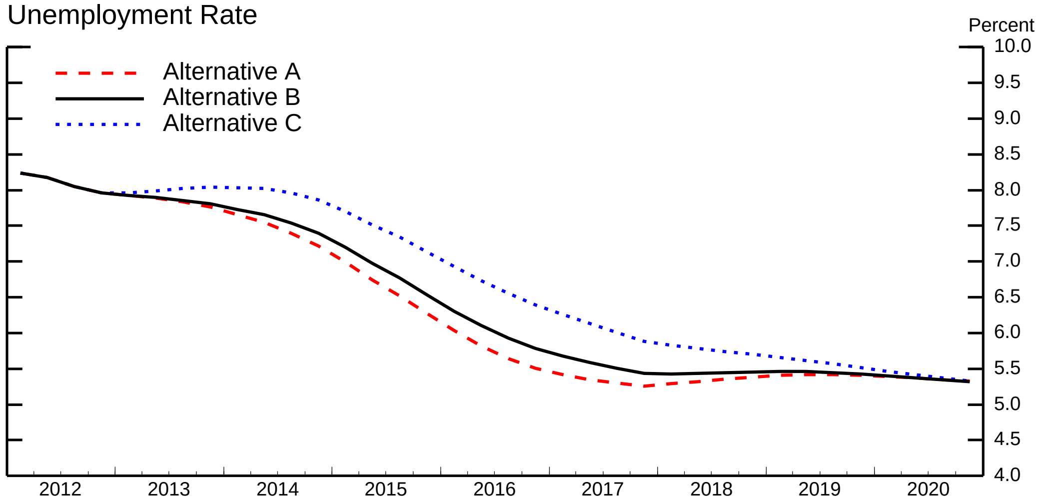
- Difference likely not due to the dealers having a weaker outlook
- Dealers may believe that the Committee will follow a more aggressive stopping rule
- Dealers may be less concerned about efficacy and costs
- Dealers are highly uncertain about the ultimate level of purchases

Alternative Monetary Policy Scenarios

Federal Funds Rate

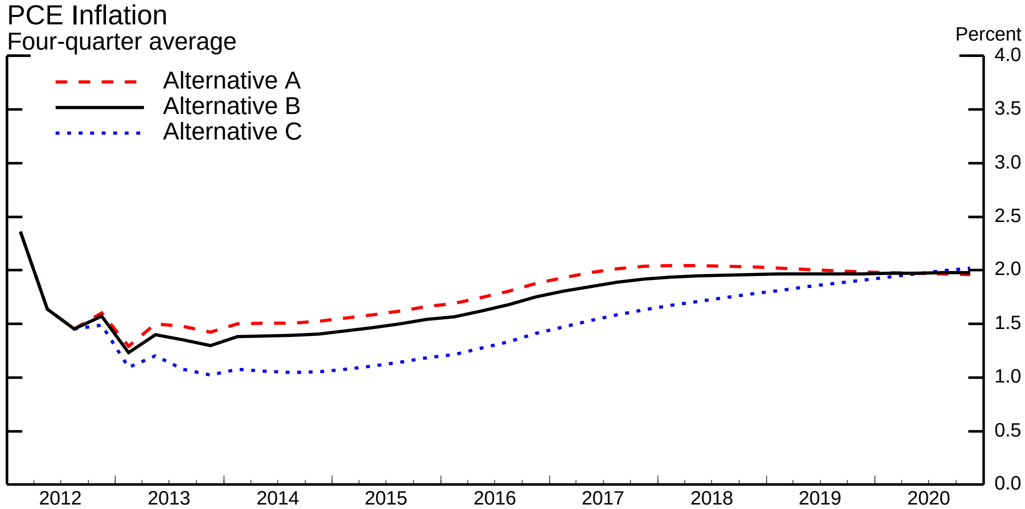


Unemployment Rate



PCE Inflation

Four-quarter average



OCTOBER FOMC STATEMENT

1. Information received since the Federal Open Market Committee met in September suggests that economic activity has continued to expand at a moderate pace in recent months. Growth in employment has been slow, and the unemployment rate remains elevated. Household spending has advanced a bit more quickly, but growth in business fixed investment has slowed. The housing sector has shown some further signs of improvement, albeit from a depressed level. Inflation recently picked up somewhat, reflecting higher energy prices. Longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee remains concerned that, without sufficient policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that inflation over the medium term likely would run at or below its 2 percent objective.
3. To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee will continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month. The Committee also will continue through the end of the year its program to extend the average maturity of its holdings of Treasury securities, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. These actions, which together will increase the Committee's holdings of longer-term securities by about $85 billion each month through the end of the year, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months. If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will, as always, take appropriate account of the likely efficacy and costs of such purchases.
5. To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens. In particular, the Committee also decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015.

DECEMBER FOMC STATEMENT—ALTERNATIVE A

1. Information received since the Federal Open Market Committee met in ~~September~~ **October** suggests that economic activity has continued to expand at a moderate pace in recent months**, apart from weather-related disruptions**. Growth in employment has been slow, and the unemployment rate remains elevated. Household spending has **continued to** advance~~d a bit more quickly~~, but growth in business fixed investment has slowed. The housing sector has shown some further signs of improvement, albeit from a depressed level. Inflation ~~recently picked up somewhat,~~ **has been running somewhat below the Committee's longer-run objective, apart from temporary variations that largely** reflect~~ing higher~~ **fluctuations in** energy prices. Longer-term inflation expectations have remained stable.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee remains concerned that, without ~~sufficient~~ **further** policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that inflation over the medium term likely ~~would~~ **will** run at or below its 2 percent objective.

3. To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee ~~will continue purchasing~~ **agreed today to increase its purchases of** additional agency mortgage-backed securities ~~at~~ **to** a pace of ~~$40~~ **$50** billion per month **beginning in January**. The Committee also will ~~continue through the end of the year~~ **purchase longer-term Treasury securities at a pace of $50 billion per month after** its program to extend the average maturity of its holdings of Treasury securities~~, and it~~ **is completed at the end of this year**. **The Committee** is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities **and, in January, will resume rolling over maturing Treasury securities at auction**. These actions, which together will increase the Committee's holdings of longer-term securities by about ~~$85~~ **$100** billion ~~each~~ **per** month ~~through the end of the year~~, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

4. The Committee will closely monitor incoming information on economic and financial developments in coming months. If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of **Treasury and** agency mortgage-backed securities, ~~undertake additional asset purchases,~~ and employ its other policy tools as appropriate, until ~~such improvement is achieved~~ **it judges that data on economic activity and labor market conditions are consistent with an outlook for sustained progress toward maximum employment** in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will, as always, take appropriate account of the likely efficacy and costs of such purchases.

5. To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after **[it sees a substantial improvement in the outlook for the labor market, the asset purchase program ends, and]** the economic recovery strengthens. In particular, the Committee ~~also~~ decided ~~today~~ to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that ~~exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015~~ **this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6 percent, inflation between one and two years ahead is projected to be no more than ½ percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored**. **In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with [maintaining satisfactory progress toward maximum employment in a context of price stability | its longer-run goals of maximum employment and inflation of 2 percent].**

DECEMBER FOMC STATEMENT—ALTERNATIVE B

1. Information received since the Federal Open Market Committee met in ~~September~~ **October** suggests that economic activity **and employment** ~~has~~ **have** continued to expand at a moderate pace in recent months**, apart from weather-related disruptions**. ~~Growth in employment has been slow, and~~ **Although** the unemployment rate **has declined somewhat since the summer, it** remains elevated. Household spending has **continued to** advance~~d a bit more quickly~~, **and the housing sector has shown further signs of improvement,** but growth in business fixed investment has slowed. ~~The housing sector has shown some further signs of improvement, albeit from a depressed level.~~ Inflation ~~recently picked up somewhat,~~ **has been running somewhat below the Committee's longer-run objective, apart from temporary variations that largely** reflect~~ing higher~~ **fluctuations in** energy prices. Longer-term inflation expectations have remained stable.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee remains concerned that, without sufficient policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that inflation over the medium term likely ~~would~~ **will** run at or below its 2 percent objective.

3. To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee will continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month. The Committee also will ~~continue through the end of the year~~ **purchase longer-term Treasury securities after** its program to extend the average maturity of its holdings of Treasury securities~~, and it~~ **is completed at the end of the year, initially at a pace of $45 billion per month**. **The Committee** is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities **and, in January, will resume rolling over maturing Treasury securities at auction**. **Taken together,** these actions~~, which together will increase the Committee's holdings of longer-term securities by about $85 billion each month through the end of the year,~~ should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

4. The Committee will closely monitor incoming information on economic and financial developments in coming months. If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of **Treasury and** agency mortgage-backed securities, ~~undertake additional asset purchases,~~ and employ its other policy tools as appropriate, until such improvement is achieved in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will, as always, take appropriate account of the likely efficacy and costs of such purchases.

5. To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will

remain appropriate for a considerable time after **[it sees a substantial improvement in the outlook for the labor market, the asset purchase program ends, and]** the economic recovery strengthens. In particular, the Committee ~~also~~ decided ~~today~~ to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that ~~exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015~~ **this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6½ percent, inflation between one and two years ahead is projected to be no more than ½ percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored**. **The Committee views these thresholds as consistent with its earlier date-based guidance. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with [maintaining satisfactory progress toward maximum employment in a context of price stability | its longer-run goals of maximum employment and inflation of 2 percent].**

OR

5'. To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after **[it sees a substantial improvement in the outlook for the labor market, the asset purchase program ends, and]** the economic recovery strengthens. In particular, the Committee also decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015.

DECEMBER FOMC STATEMENT—ALTERNATIVE C

1. Information received since the Federal Open Market Committee met in ~~September~~ **October** suggests that economic activity **and employment** ~~has~~ **have** continued to expand at a moderate pace in recent months**, apart from weather-related disruptions**. ~~Growth in employment has been slow, and~~ The unemployment rate, ~~remains~~ **though still** elevated**, has declined**. ~~Household spending has advanced a bit more quickly, but growth in business fixed investment has slowed.~~ **Private domestic demand has continued to advance, and** the housing sector has shown ~~some~~ further signs of improvement~~, albeit from a depressed level~~. Inflation ~~recently picked up somewhat, reflecting higher energy prices~~ **has been running close to the Committee's longer-run objective**. Longer-term inflation expectations have remained stable.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee ~~remains concerned that, without sufficient policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions~~ **expects economic growth to be moderate over coming quarters and then to pick up gradually, supported in part by the highly accommodative stance of monetary policy, and consequently anticipates that the unemployment rate will continue to decline at a pace that the Committee judges consistent with its mandate**. ~~Furthermore~~ **However**, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that inflation over the medium term ~~likely would~~ **will** run ~~at or below~~ **near** its 2 percent objective.

3. **In light of the improving economic outlook, the Committee judges that it has provided sufficient policy accommodation** to support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its ~~dual~~ mandate**. Accordingly,** the Committee will**, at the end of the year, dis**continue purchasing additional agency mortgage-backed securities ~~at a pace of $40 billion per month.~~ **and complete** ~~The Committee also will continue through the end of the year~~ its program to extend the average maturity of its holdings of Treasury securities. ~~and it~~ **The Committee** is ~~maintaining~~ **continuing** its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities **and, in January, will resume rolling over maturing Treasury securities at auction**. These actions, which together will ~~increase~~ **keep** the Committee's holdings of longer-term securities ~~by about $85 billion each month through the end of the year,~~ **at a level of about $2.8 trillion, will maintain a highly accommodative stance of monetary policy and** should ~~put~~ **sustain** downward pressure on longer-term interest rates, support mortgage markets, and help to ~~make~~ **keep** broader financial conditions ~~more~~ accommodative.

4. The Committee will closely monitor incoming information on economic and financial developments ~~in coming months. If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved~~ **and is prepared to take further action as needed to promote sustained improvement in labor market conditions** in a context of price stability. ~~In determining the size, pace, and composition of its asset purchases, the Committee will, as always, take appropriate account of the likely efficacy and costs of such purchases.~~

5. To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for **[** a considerable **| some]** time after the economic recovery strengthens. In particular, the Committee ~~also~~ decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that ~~exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015~~ **this exceptionally low range for the federal funds rate will be appropriate until it has observed substantial improvement in labor market conditions, provided that the Committee projects that inflation over the medium term will be close to its [2 percent] objective and longer-term inflation expectations remain stable**.

OR

5'. To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for **[** a considerable **| some]** time after the economic recovery strengthens. In particular, the Committee ~~also~~ decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through ~~mid-2015~~ **[late 2014 | mid-2014 | late 2013]**.

OCTOBER 2012 DIRECTIVE

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about \$267 billion by the end of December 2012, and to sell or redeem Treasury securities with remaining maturities of approximately 3 years or less with a total face value of about \$267 billion. For the duration of this program, the Committee directs the Desk to suspend its policy of rolling over maturing Treasury securities into new issues. The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. The Desk is also directed to continue purchasing agency mortgage-backed securities at a pace of about \$40 billion per month. The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

DECEMBER 2012 DIRECTIVE—ALTERNATIVE A

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to ~~continue~~ **complete** the maturity extension program it announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about $267 billion by the end of December 2012, and to sell or redeem Treasury securities with remaining maturities of approximately 3 years or less with a total face value of about $267 billion. ~~For the duration~~ **Following the completion** of this program, the Committee directs the Desk to ~~suspend~~ **resume** its policy of rolling over maturing Treasury securities into new issues. **From the beginning of January, the Desk is directed to purchase longer-term Treasury securities at a pace of about $50 billion per month**. The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. The Desk is also directed to continue purchasing agency mortgage-backed securities at a pace of about $40 billion per month **until the end of December 2012, and to purchase agency mortgage-backed securities at a pace of about $50 billion per month beginning in January**. The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

DECEMBER 2012 DIRECTIVE—ALTERNATIVE B

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to ~~continue~~ **complete** the maturity extension program it announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about $267 billion by the end of December 2012, and to sell or redeem Treasury securities with remaining maturities of approximately 3 years or less with a total face value of about $267 billion. ~~For the duration~~ **Following the completion** of this program**,** the Committee directs the Desk to ~~suspend~~ **resume** its policy of rolling over maturing Treasury securities into new issues. **From the beginning of January, the Desk is directed to purchase longer-term Treasury securities at a pace of about $45 billion per month.** The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. The Desk is also directed to continue purchasing agency mortgage-backed securities at a pace of about $40 billion per month. The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

DECEMBER 2012 DIRECTIVE—ALTERNATIVE C

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to ~~continue~~ **complete** the maturity extension program it announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about $267 billion by the end of December 2012, and to sell or redeem Treasury securities with remaining maturities of approximately 3 years or less with a total face value of about $267 billion. ~~For the duration~~ **Following the completion** of this program, the Committee directs the Desk to ~~suspend~~ **resume** its policy of rolling over maturing Treasury securities into new issues. The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. The Desk is also directed to continue purchasing agency mortgage-backed securities at a pace of about $40 billion per month **until the end of December 2012**. The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

Appendix 8: Materials used by Ms. Logan

Material for

FOMC Presentation:
Draft Desk Operating Statement

Lorie Logan

December 12, 2012

Class I FOMC - Restricted-Controlled (FR)

DRAFT

Statement Regarding Purchases of Treasury Securities and Agency Mortgage-Backed Securities

On December 12, 2012, the Federal Open Market Committee (FOMC) directed the Open Market Trading Desk (the Desk) at the Federal Reserve Bank of New York to purchase longer-term Treasury securities after the maturity extension program is completed at the end of December 2012, initially at a pace of about $45 billion per month. The FOMC also directed the Desk to continue purchasing additional agency mortgage-backed securities (MBS) at a pace of about $40 billion per month. These actions should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

The FOMC also directed the Desk to maintain its existing policy of reinvesting principal payments from the Federal Reserve's holdings of agency debt and agency MBS in agency MBS, and, in January, to resume rolling over maturing Treasury securities into new issues at auction.

Beginning in January, the purchases of longer-term Treasury securities will be distributed across 7 sectors based on the following approximate weights:

Nominal Coupon Securities by Maturity Range*						TIPS**
4 – 4¾ Years	4¾ - 5¾ Years	5¾ - 7 Years	7 - 10 Years	10 - 20 Years	20 - 30 Years	4 - 30 Years
11%	12%	16%	29%	2%	27%	3%

**The on-the-run 7-year note will be considered part of the 5¾- to 7-year sector, and the on-the-run 10-year note will be considered part of the 7- to 10-year sector.*
***TIPS weights are based on unadjusted par amounts.*

Under this distribution, the Desk anticipates that the Treasury securities purchased will have an average duration of approximately 9 years, roughly the same as the net of the duration of the securities purchased and sold under the maturity extension program. The distribution of Treasury securities purchased could change if market conditions warrant.

The Desk will continue to publish a tentative schedule of Treasury purchase operations for the following calendar month on or around the last business day of each month. The schedule will include the anticipated amount of purchases to be conducted, operation dates, settlement dates, security types (nominal coupons or TIPS) to be purchased, the maturity date range of eligible issues, and an expected range for the size of each operation. The next schedule of operations will be released on Monday, December 31. The amount of additional agency MBS to be purchased each month will also be announced on or around the last business day of the prior month.

Consistent with current practices, the purchases of Treasury securities and agency MBS will be conducted with the Federal Reserve's primary dealers through a competitive bidding process and results will be published on the Federal Reserve Bank of New York's website. The Desk will continue to publish transaction prices for individual operations at the end of each monthly period. All other purchase details remain the same at this time.

Frequently Asked Questions associated with these purchases, which include a technical adjustment to the process of reinvesting maturing Treasury securities into new issues at auction, will be released later today.