Appendix 1: Materials used by Mr. Potter

Class II FOMC – Restricted (FR)

Material for

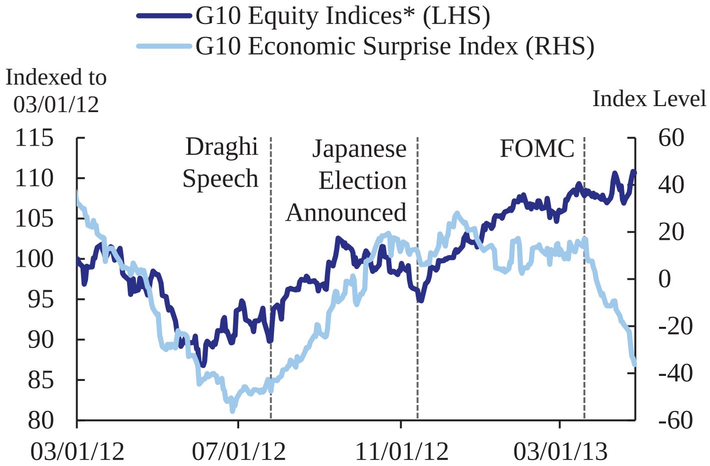
FOMC Presentation:
Financial Market Developments and Desk Operations

Simon Potter
April 30, 2013

Class II FOMC – Restricted (FR)

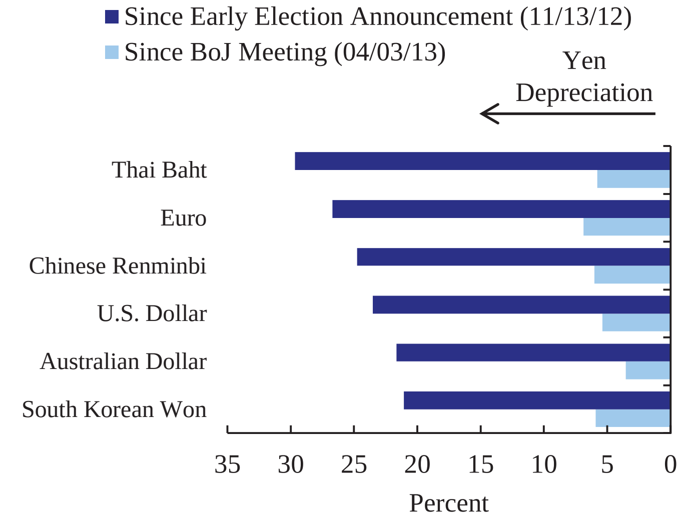
Exhibit 1

(1) Economic Surprises and Equity Prices



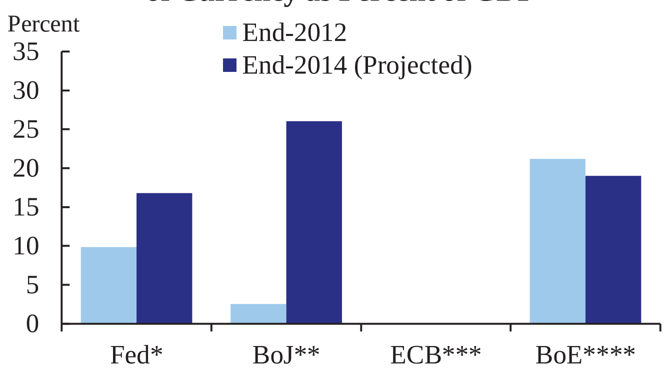
*Index of benchmark equity indices for G10 countries, weighted by GDP.
Source: Bloomberg, IMF, Citigroup

(2) Japanese Yen Exchange Rate Changes



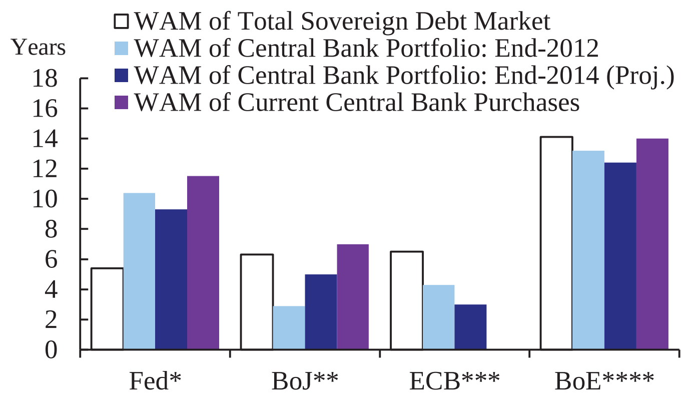
Source: Bloomberg

(3) Central Bank Securities Portfolios in Excess of Currency as Percent of GDP



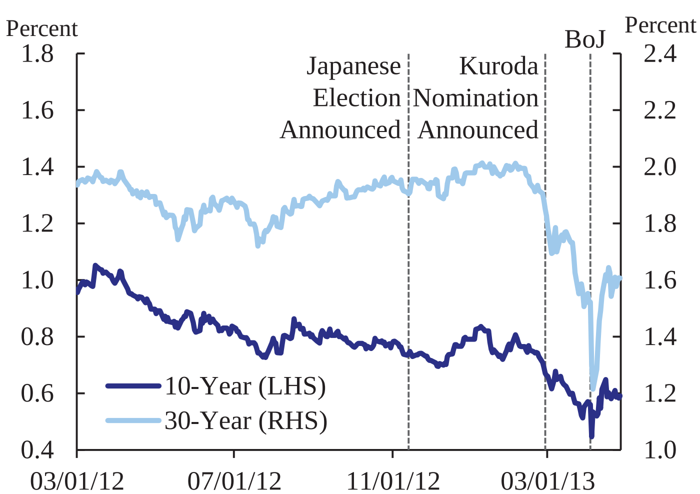
*Based on median projection for purchases from Survey of Primary Dealers.
**Assumes new policy continues through 2014.
***Assumes no new purchases and no use of OMT.
****Assumes Asset Purchase Facility remains constant at £375 billion.
Source: Central banks, IMF

(4) Sovereign Debt Weighted Average Maturity



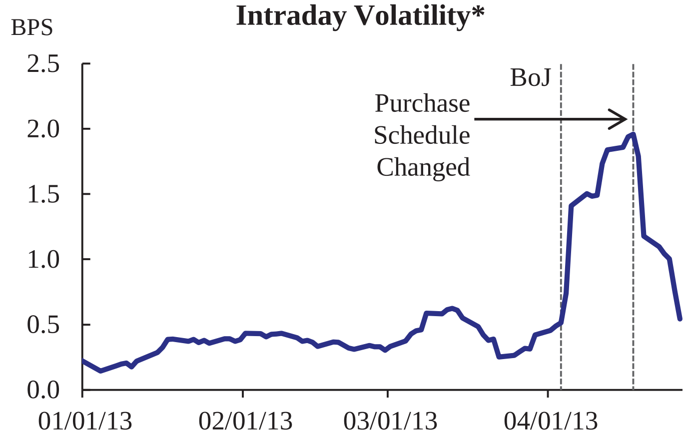
*Based on median projection for purchases from Survey of Primary Dealers.
**Assumes new policy continues through 2014.
***Assumes no new purchases and no use of OMT.
****Assumes Asset Purchase Facility remains constant at £375 billion.
Source: Central banks, country treasuries, OECD

(5) Japanese Sovereign Yields



Source: Bloomberg

(6) Ten-Year Japanese Sovereign Yield Intraday Volatility*



*10-day moving average of daily standard deviation of 10-year JGB yield, sampled every 5 minutes.
Source: Reuters

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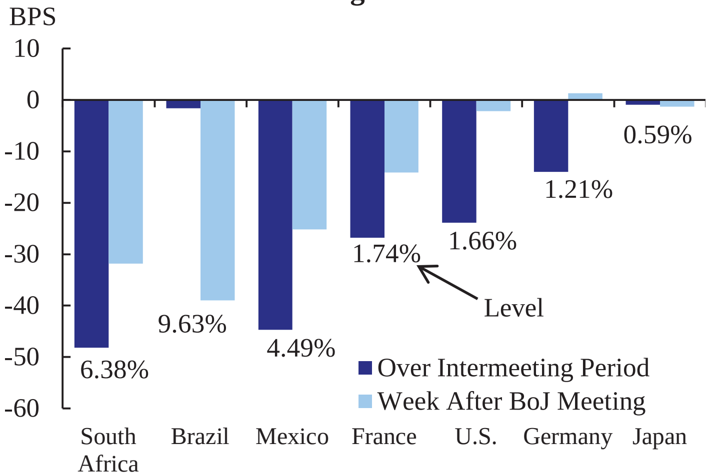
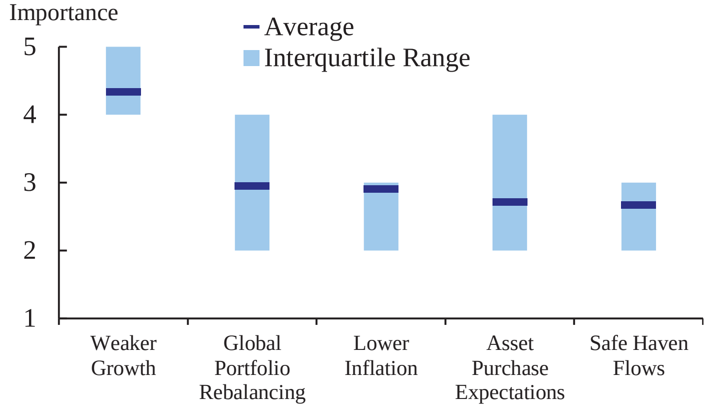
Exhibit 2

(7) Changes and Levels of Ten-Year Sovereign Yields



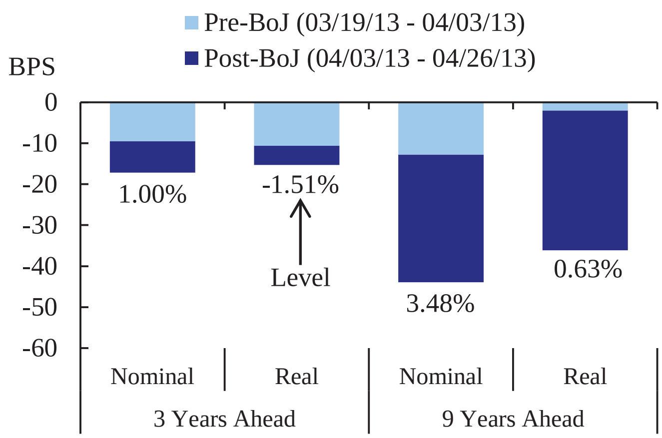
Source: Bloomberg

(8) Factors Contributing to Ten-Year Yield Decline Over Intermeeting Period*



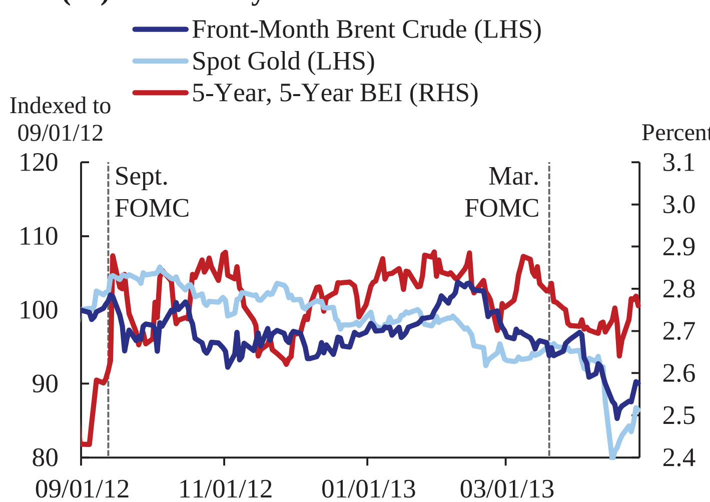
*Responses are expressed in terms of importance of each factor, where 1 is not important and 5 is very important. "Other" also received average 2.5 response.
Source: Federal Reserve Bank of New York Survey

(9) Changes in One-Year Forward Rates Over Intermeeting Period



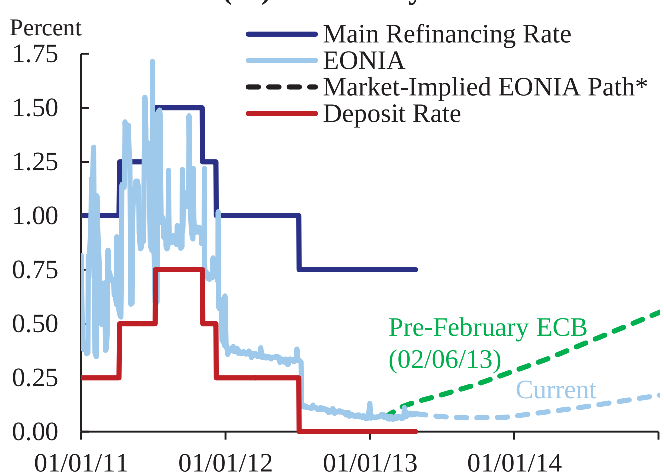
Source: Federal Reserve Board of Governors

(10) Commodity Prices and Breakeven Inflation



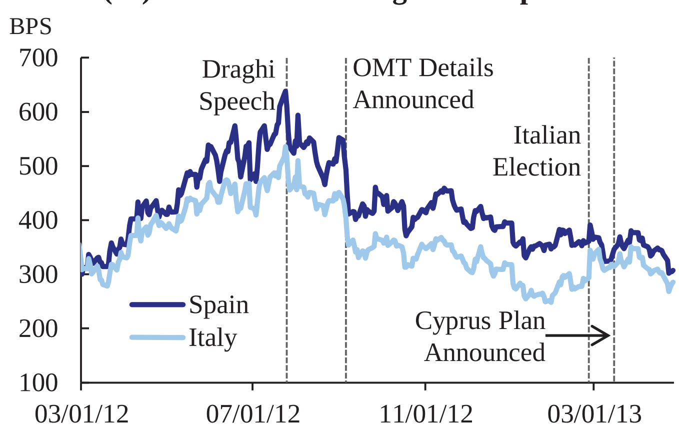
Source: Bloomberg, Federal Reserve Board of Governors

(11) ECB Policy Rates



*Risk-neutral projection based on forward EONIA swaps.
Source: ECB, Barclays

(12) Euro Area Sovereign Yield Spreads*



*10-year spreads to Germany. Outright levels of 10-year yields are 4.28% and 4.06% for Spain and Italy, respectively, compared to euro-era lows of 3.01% and 3.22% on 09/21/05.
Source: Bloomberg

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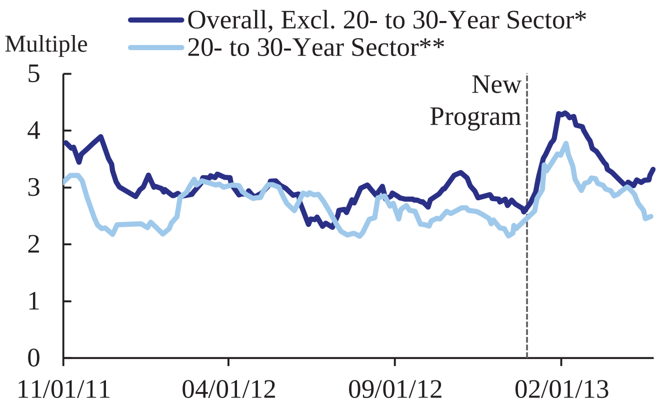
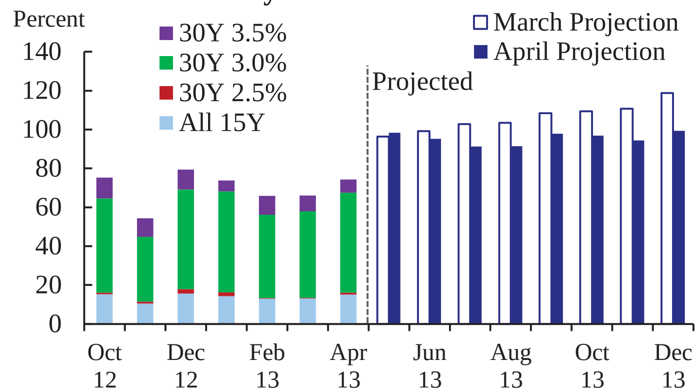
Exhibit 3

(13) Coverage Ratios for Treasury Purchase Operations



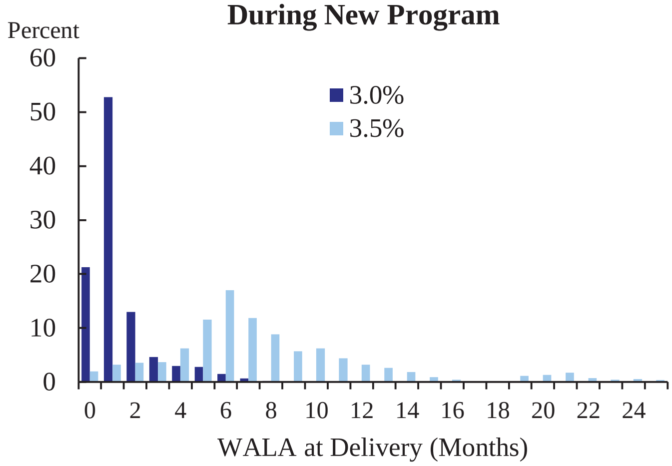
*30-day moving average.
**4-operation moving average.
Source: Federal Reserve Bank of New York

(14) SOMA MBS Purchases as Percent of Monthly Gross MBS Issuance*



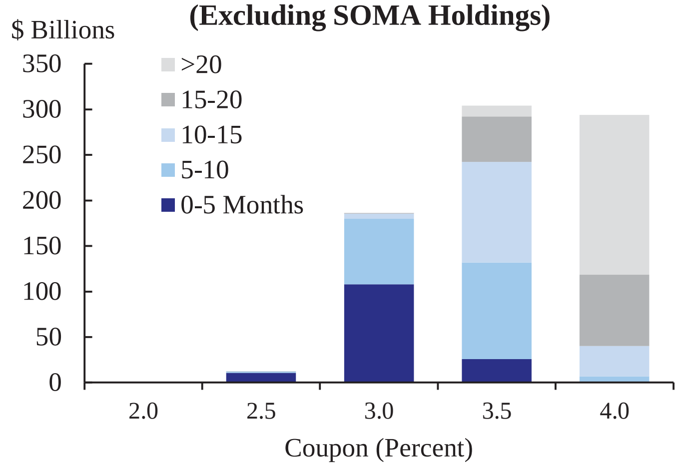
*Based on adjusted TBA-eligible issuance. Realized coupon distributions proportionate to share of purchases allocated to each coupon, with total bar height indicating SOMA purchases as percent of monthly gross issuance.
Source: Federal Reserve Bank of New York, BlackRock, eMBS, KDS

(15) 30-Year MBS Delivered to SOMA by Weighted-Average Loan Age (WALA) During New Program



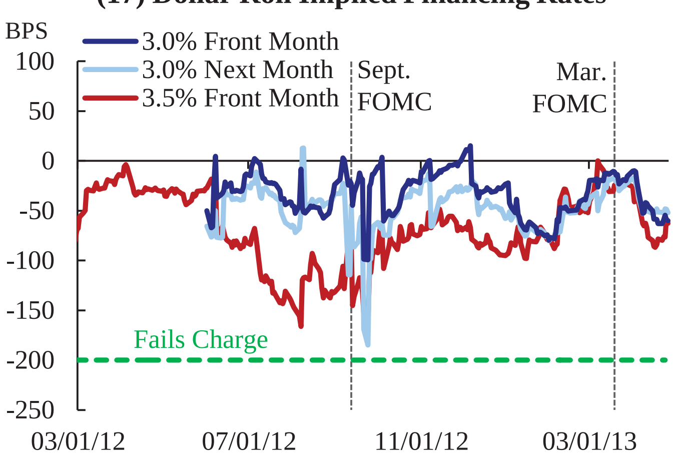
Source: Federal Reserve Bank of New York

(16) 30-Year Fixed Rate TBA MBS Outstanding by WALA (Excluding SOMA Holdings)



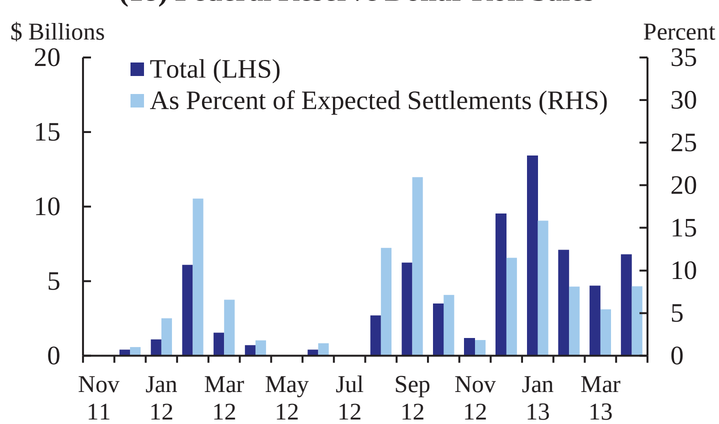
Source: FNMA, FHLMC, GNMA, KDS

(17) Dollar Roll Implied Financing Rates*



*30-year FNMA dollar rolls. Front month is currently May-June roll; next month is June-July roll.
Source: J.P. Morgan

(18) Federal Reserve Dollar Roll Sales*



*By settlement month. As a comparison, dollar roll sales during LSAP 1 averaged approximately 20% of expected settlements; during new program, dollar roll sales have averaged approximately 8% of expected settlements.
Source: Federal Reserve Bank of New York

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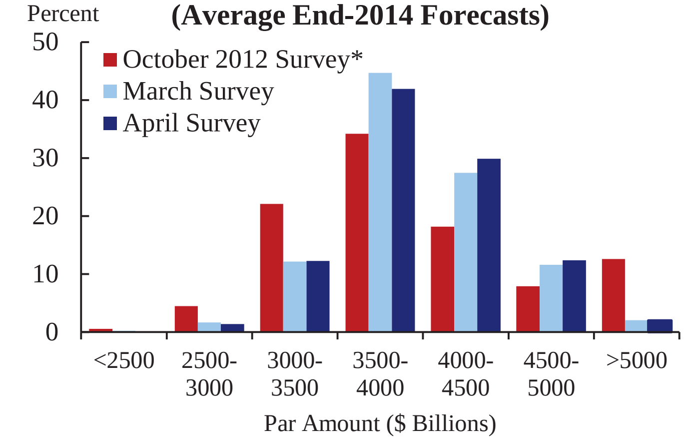
Exhibit 4 (Last)

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



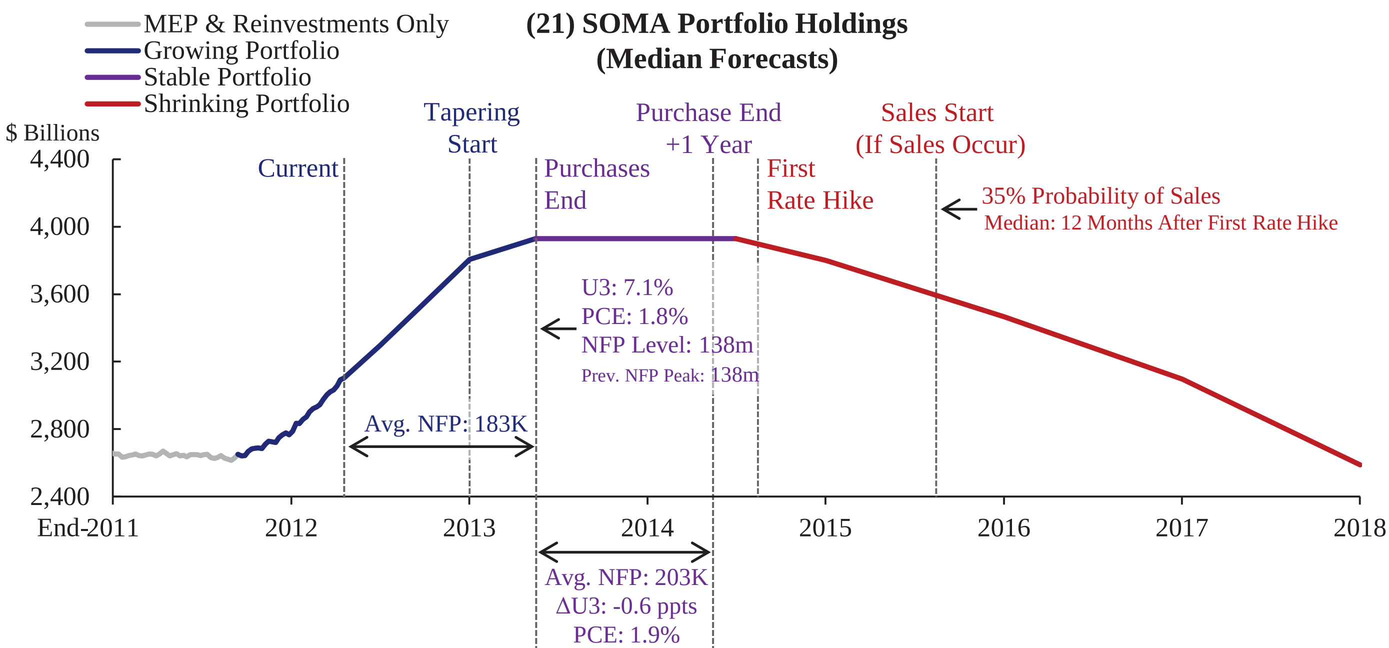
*First survey with balance sheet PDF.
Source: Federal Reserve Bank of New York Survey

(20) Expectations for Slowing and End of Asset Purchases

	April	March
Median End Date	Q2 2014	Q1 2014
Dealers with Different End Date by Asset	5	3
Treasury Purchases End Last	2	3
MBS Purchases End Last	3	0
Median Slowing Start Date	Q1 2014	Q4 2013
Dealers Expecting Slowing	19	19
Treasury Slowing	19	19
MBS Slowing	17	16

Source: Federal Reserve Bank of New York Survey

(21) SOMA Portfolio Holdings (Median Forecasts)



Source: Federal Reserve Bank of New York Survey, Bureau of Labor Statistics

Appendix 2: Materials used by Mr. Wascher

Class II FOMC – Restricted (FR)

Material for

Forecast Summary

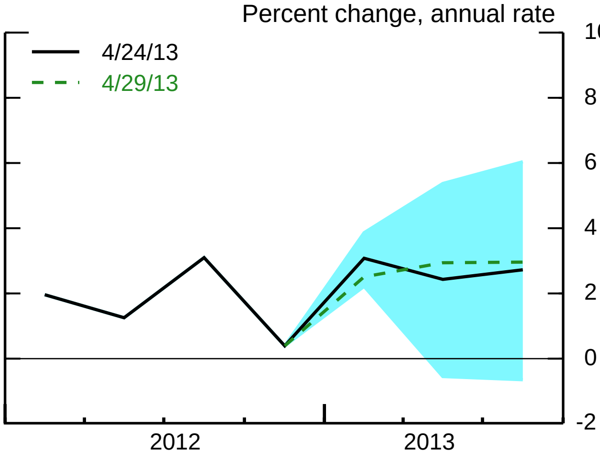
William Wascher

April 30, 2013

Forecast Summary

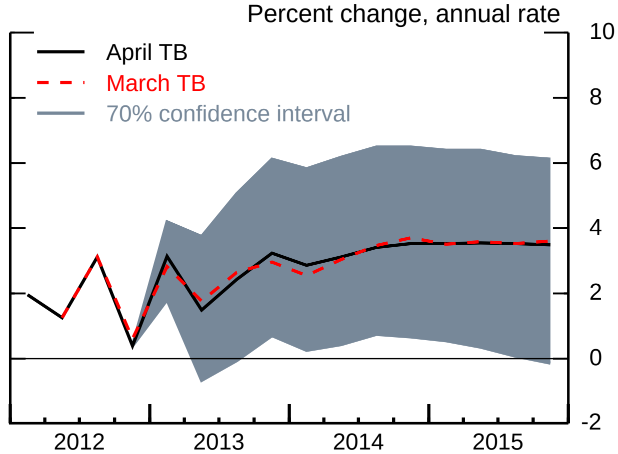
Confidence Intervals Based on FRB/US Stochastic Simulations

Real GDP Forecasts from the Factor Model

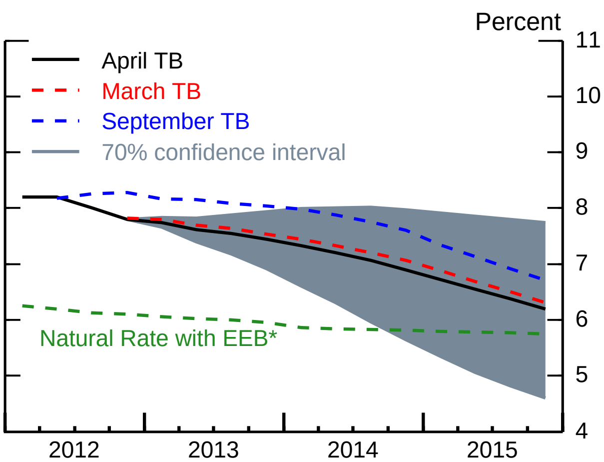


Note: The blue shaded area gives the 68% confidence interval for the 4/24 model forecast.

Real GDP

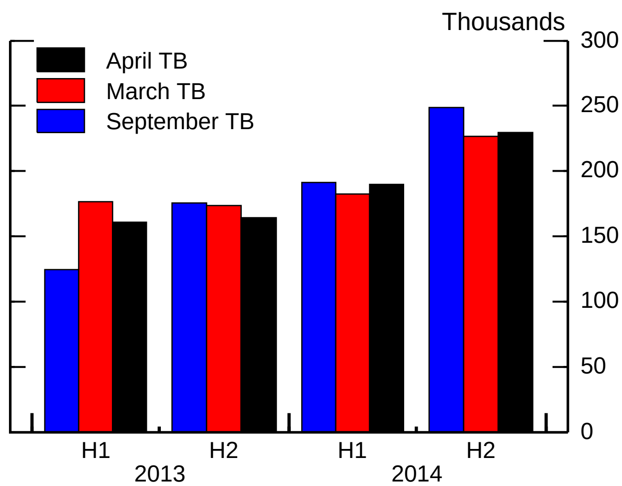


Unemployment Rate



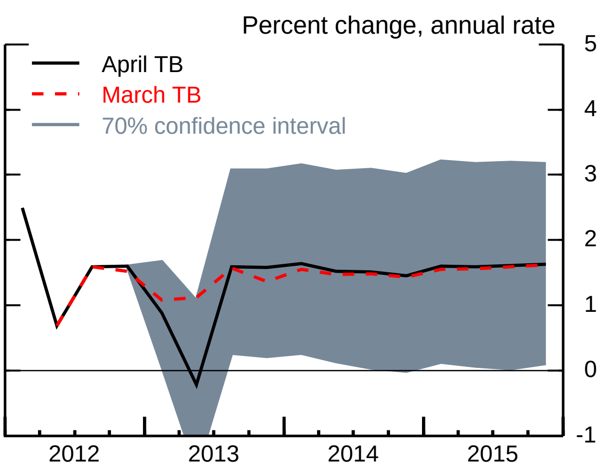
*Effect of emergency unemployment compensation and state-federal extended benefit programs.

Change in Total Payroll Employment*

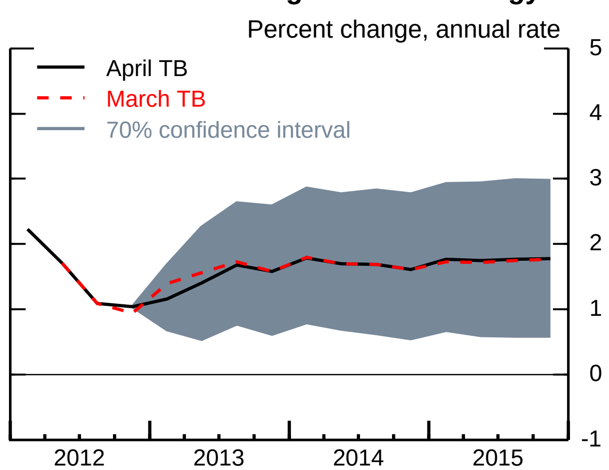


*Average monthly changes.

PCE Prices



PCE Prices Excluding Food and Energy



Appendix 3: Materials used by Mr. Clouse

Class I FOMC – Restricted Controlled (FR)

Material for

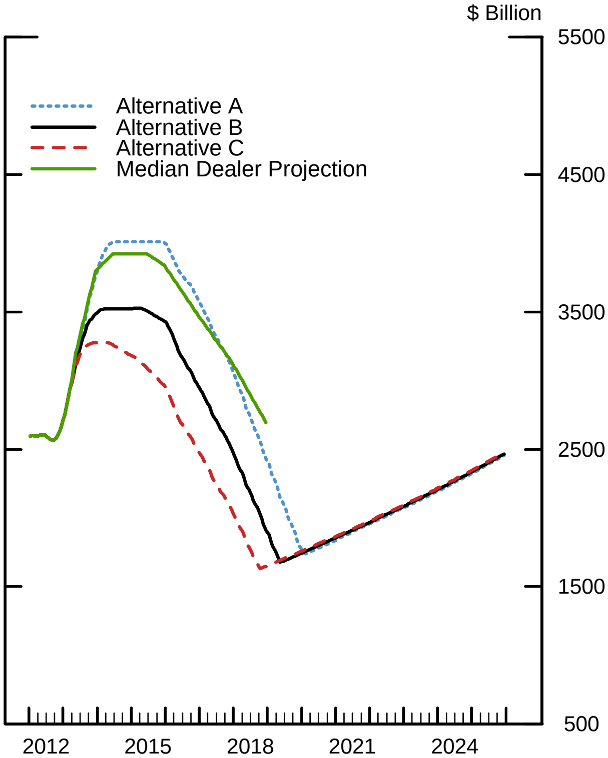
FOMC Briefing on Monetary Policy Alternatives

Jim Clouse

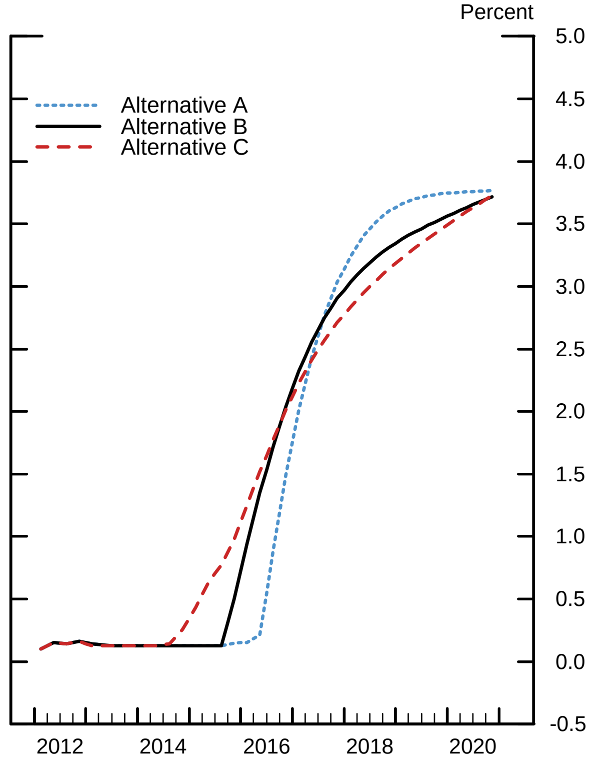
April 30, 2013

Monetary Policy Alternatives

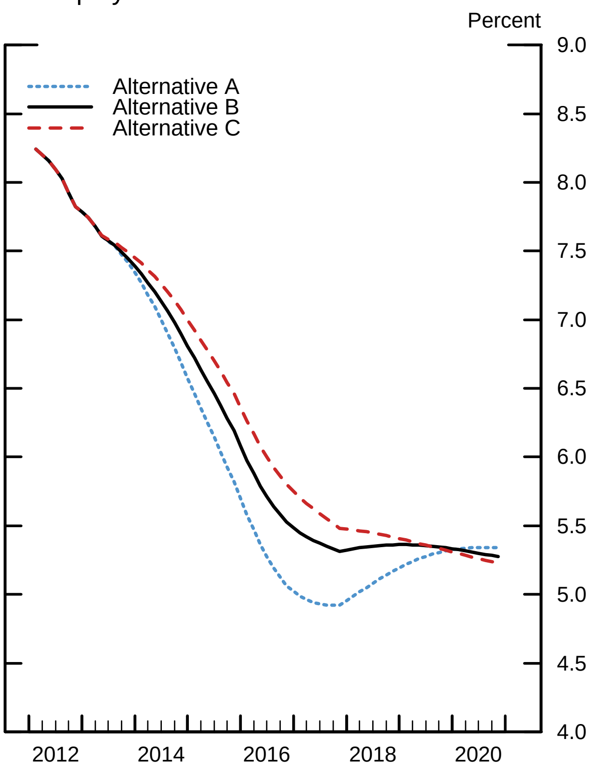
Total Projected SOMA Security Holdings



Federal Funds Rate

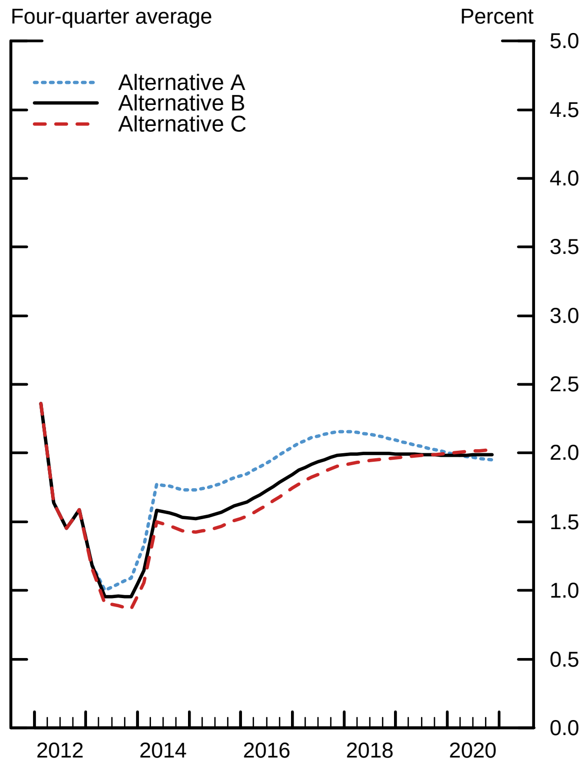


Unemployment Rate



PCE Inflation

Four-quarter average



MARCH FOMC STATEMENT

1. Information received since the Federal Open Market Committee met in January suggests a return to moderate economic growth following a pause late last year. Labor market conditions have shown signs of improvement in recent months but the unemployment rate remains elevated. Household spending and business fixed investment advanced, and the housing sector has strengthened further, but fiscal policy has become somewhat more restrictive. Inflation has been running somewhat below the Committee's longer-run objective, apart from temporary variations that largely reflect 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 expects that, with appropriate policy accommodation, economic growth will proceed at a moderate pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee continues to see downside risks to the economic outlook. The Committee also anticipates that inflation over the medium term likely 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 decided to continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities 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 of rolling over maturing Treasury securities at auction. Taken together, these actions should maintain 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. The Committee will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will continue to take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives.

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 asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that 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 a half 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 its longer-run goals of maximum employment and inflation of 2 percent.

FOMC STATEMENT—APRIL-MAY 2013 ALTERNATIVE A

1. Information received since the Federal Open Market Committee met in ~~January~~ **March** suggests ~~a return to moderate~~ **that** economic ~~growth following a pause late last year~~ **activity has been expanding at a moderate pace, on balance, in recent months**. **However, the pace of improvement in** labor market conditions ~~have shown signs of improvement in recent months but~~ **appears to have slowed, and** the unemployment rate remains elevated. Household spending and business fixed investment advanced, and the housing sector has strengthened further, but fiscal policy ~~has become somewhat more restrictive~~ **is restraining economic growth**. Inflation has been running ~~somewhat~~ below the Committee's longer-run objective, apart from temporary variations that largely reflect 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 ~~expects~~ **judges** that, ~~with appropriate~~ **without further** policy accommodation, economic growth ~~will proceed at a moderate pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate~~ **might not be strong enough to generate a sustained improvement in labor market conditions and** ~~The Committee also anticipates~~ that inflation over the medium term likely ~~will~~ **would continue to** run below its 2 percent objective. **Moreover,** the Committee continues to see downside risks to the economic outlook.

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 ~~decided to continue purchasing additional~~ **will increase the pace at which it purchases** agency mortgage-backed securities ~~at a pace of $40~~ **to [$45]** billion per month and longer-term Treasury securities ~~at a pace of $45~~ **to [$55]** 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 of rolling over maturing Treasury securities at auction. Taken together, these actions **will increase the Committee's holdings of longer-term securities more quickly and** should ~~maintain~~ **put additional** 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. The Committee will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will continue to take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives.

5. **Moreover,** to support ~~continued~~ **faster** progress toward maximum employment and price stability, the Committee ~~expects that~~ **intends to maintain** a highly accommodative stance of monetary policy ~~will remain appropriate~~ for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and ~~currently anticipates that~~ **now intends to retain** this exceptionally low range for the federal funds rate ~~will be appropriate~~ at least as long as the unemployment rate remains above ~~6½~~ **5½** percent, inflation between one and two years ahead is projected to be no more than a half 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 its longer-run goals of maximum employment and inflation of 2 percent.

FOMC STATEMENT—APRIL-MAY 2013 ALTERNATIVE B

1. Information received since the Federal Open Market Committee met in ~~January~~ **March** suggests ~~a return to moderate~~ **that** economic ~~growth following a pause late last year~~ **activity has been expanding at a moderate pace**. Labor market conditions have shown ~~signs of~~ **some** improvement in recent months, **on balance,** but the unemployment rate remains elevated. Household spending and business fixed investment advanced, and the housing sector has strengthened further, but fiscal policy ~~has become somewhat more restrictive~~ **is restraining economic growth**. Inflation has been running somewhat below the Committee's longer-run objective, apart from temporary variations that largely reflect 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 expects that, with appropriate policy accommodation, economic growth will proceed at a moderate pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee continues to see downside risks to the economic outlook. The Committee also anticipates that inflation over the medium term likely 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 decided to continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities 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 of rolling over maturing Treasury securities at auction. Taken together, these actions should maintain 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. The Committee will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will continue to take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives.

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 asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that 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 a half 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 its longer-run goals of maximum employment and inflation of 2 percent.

FOMC Statement—April-May 2013 Alternative C

1. Information received since the Federal Open Market Committee met in ~~January~~ **March** ~~suggests~~ **confirms** a return to moderate economic growth following a pause late last year. ~~Labor market conditions have shown signs of improvement in recent months but the unemployment rate remains elevated.~~ **Although the unemployment rate remains elevated, it has declined further, and other indicators of labor market conditions have shown additional improvement in recent months.** Household spending and business fixed investment advanced, and the housing sector has strengthened further, but fiscal policy ~~has become~~ **is** somewhat more restrictive. Inflation has been running somewhat below the Committee's longer-run objective, apart from temporary variations that largely reflect 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 expects that, with appropriate policy accommodation, economic growth will proceed at a moderate pace **in coming quarters and then pick up,** and the unemployment rate will ~~gradually~~ **continue to** decline toward levels the Committee judges consistent with its dual mandate. ~~The Committee continues to see downside risks to the economic outlook~~. The Committee also anticipates that inflation over the medium term likely will run ~~at or below~~ **close to** its 2 percent objective. **The Committee sees the risks to both economic growth and inflation as roughly balanced.**

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,~~ **Based on the improvement in its outlook for the labor market since last September, the Committee decided to expand its asset holdings at a slower pace. In particular,** the Committee ~~decided to continue purchasing~~ **will purchase** additional agency mortgage-backed securities at a pace of ~~$40~~ **[$30]** billion per month and longer-term Treasury securities at a pace of ~~$45~~ **[$30]** 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 of rolling over maturing Treasury securities at auction. Taken together, these actions **will increase the Committee's holdings of longer-term securities by $60 billion per month and** should ~~maintain~~ **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. The Committee will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will continue to take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives.

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 asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that 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 a half 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 its longer-run goals of maximum employment and inflation of 2 percent.

March Directive

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, 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 undertake open market operations as necessary to maintain such conditions. The Desk is directed to continue purchasing longer-term Treasury securities at a pace of about $45 billion per month and to continue purchasing agency mortgage-backed securities at a pace of about $40 billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. 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.

Directive for April-May 2013 Alternative A

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, 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 undertake open market operations as necessary to maintain such conditions. **Beginning with the month of May,** the Desk is directed to ~~continue purchasing~~ **purchase** longer-term Treasury securities at a pace of about ~~$45~~ **$55** billion per month and ~~continue purchasing~~ **purchase** agency mortgage-backed securities at a pace of about ~~$40~~ **$45** billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. 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.

DIRECTIVE FOR APRIL-MAY 2013 ALTERNATIVE B

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, 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 undertake open market operations as necessary to maintain such conditions. The Desk is directed to continue purchasing longer-term Treasury securities at a pace of about $45 billion per month and to continue purchasing agency mortgage-backed securities at a pace of about $40 billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve’s agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. 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.

DIRECTIVE FOR APRIL-MAY 2013 ALTERNATIVE C

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, 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 undertake open market operations as necessary to maintain such conditions. **Beginning with the month of May,** the Desk is directed to ~~continue purchasing~~ **purchase** longer-term Treasury securities at a pace of about ~~$45~~ **$30** billion per month and to ~~continue purchasing~~ **purchase** agency mortgage-backed securities at a pace of about ~~$40~~ **$30** billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. 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 4: Materials used by Ms. Duke

May 1, 2013

Suggestions for Modifying the Draft FOMC Statement

1. Governor Duke suggests inserting the following language between the third and fourth sentences of paragraph 4:

   The Committee is prepared to increase or reduce the pace of its purchases to maintain appropriate policy accommodation as the outlook for the labor market or inflation changes.

Appendix 5: Materials used by Mr. Meyer

Material for Briefing on

Exit Strategy Principles

Stephen A. Meyer

May 1, 2013

June 2011 Exit Strategy Principles

1. The Committee will determine the timing and pace of policy normalization to promote its statutory mandate of maximum employment and price stability.

2. To begin the process of policy normalization, the Committee will likely first cease reinvesting some or all payments of principal on the securities holdings in the SOMA.

3. At the same time or sometime thereafter, the Committee will modify its forward guidance on the path of the federal funds rate and will initiate temporary reserve-draining operations aimed at supporting the implementation of increases in the federal funds rate when appropriate.

4. When economic conditions warrant, the Committee's next step in the process of policy normalization will be to begin raising its target for the federal funds rate, and from that point on, changing the level or range of the federal funds rate target will be the primary means of adjusting the stance of monetary policy. During the normalization process, adjustments to the interest rate on excess reserves and to the level of reserves in the banking system will be used to bring the funds rate toward its target.

5. Sales of agency securities from the SOMA will likely commence sometime after the first increase in the target for the federal funds rate. The timing and pace of sales will be communicated to the public in advance; that pace is anticipated to be relatively gradual and steady, but it could be adjusted up or down in response to material changes in the economic outlook or financial conditions.

6. Once sales begin, the pace of sales is expected to be aimed at eliminating the SOMA's holdings of agency securities over a period of three to five years, thereby minimizing the extent to which the SOMA portfolio might affect the allocation of credit across sectors of the economy. Sales at this pace would be expected to normalize the size of the SOMA securities portfolio over a period of two to three years. In particular, the size of the securities portfolio and the associated quantity of bank reserves are expected to be reduced to the smallest levels that would be consistent with the efficient implementation of monetary policy.

7. The Committee is prepared to make adjustments to its exit strategy if necessary in light of economic and financial developments.

Discussion Questions

1. In your view, when would be the best time for the Committee to adopt and release any revision to its exit strategy principles – after one of the next couple of FOMC meetings or further out in the future?

2. What approach would you suggest for the revision of the exit principles in light of policy developments of the past two years? For example, how should the exit principles accommodate the Committee's new threshold-based forward guidance?

3. Would you want to retain a commitment to eliminating agency securities from the SOMA portfolio over a particular time frame? Would you prefer a more general commitment to eliminate holdings of agency securities without specifying a time frame? Or would you prefer to introduce flexibility to maintain some agency MBS in the SOMA, subject to future Committee decisions?

4. What are your views on sales of MBS or shorter-term Treasuries during exit? Would you favor announcing specific plans with regard to those securities in revised exit principles?