Appendix 1: Materials used by Mr. Potter

Class III FOMC – Internal (FR)

Material for Briefing on

Proposed Revisions to the Authorization for Domestic Open Market Operations

Simon Potter

January 27, 2015

AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS – Side-by-Side Comparison

As of January 28, 2014	*Proposed January 2015*[1]
1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee: A. To buy or sell in the open market U.S. government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices, and, for such Account, to exchange maturing U.S. government and federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; and B. To buy or sell in the open market U.S. government securities, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, for the System Open Market Account under agreements to resell or repurchase such securities or obligations (including such transactions as are commonly referred to as repo and reverse repo transactions) in 65 business days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual counterparties.	1. The Federal Open Market Committee (the "Committee") authorizes and directs the Federal Reserve Bank selected by the Committee to execute open market transactions (the "Selected Bank"), to the extent necessary to carry out the most recent domestic policy directive adopted by the Committee: A. To buy or sell in the open market securities that are direct obligations of, or fully guaranteed as to principal and interest by, the United States, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, that are eligible for purchase or sale under Section 14(b) of the Federal Reserve Act ("Eligible Securities") for the System Open Market Account ("SOMA"): i. As an outright operation [with securities dealers and foreign and international accounts maintained at the Selected Bank]: on a same-day or deferred delivery basis (including such transactions as are commonly referred to as dollar rolls and coupon swaps) at market prices; or ii. As a temporary operation: on a same-day or deferred delivery basis, to purchase such Eligible Securities subject to an agreement to resell ("repo transactions") or to sell such Eligible Securities subject to an agreement to repurchase ("reverse repo transactions") for a term of 65 business days or less, at rates that, unless otherwise authorized by the Committee, are determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual counterparties; B. To allow Eligible Securities in the SOMA to mature without replacement; C. To exchange, at market prices, in connection with a Treasury auction, maturing Eligible Securities in the SOMA with the Treasury, in the case of Eligible Securities that are direct obligations of the United States or that are fully guaranteed as to principal and interest by the United States; and D. To exchange, at market prices, maturing Eligible Securities in the SOMA with an agency of the United States, in the case of Eligible Securities that are direct obligations of that agency or that are fully guaranteed as to principal and interest by that agency.

[1] Language shown in blue is new since the memo entitled, "Request for Votes on Authorization for Desk Operations," was circulated on January 23, 2015.

AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS – Side-by-Side Comparison

As of January 28, 2014	*Proposed January 2015*
2. The Federal Open Market Committee authorizes the Federal Reserve Bank of New York to undertake transactions of the type described in paragraphs 1.A and 1.B from time to time for the purpose of testing operational readiness. The aggregate par value of such transactions of the type described in paragraph 1.A shall not exceed $5 billion per calendar year. The outstanding amount of such transactions of the type described in paragraph 1.B shall not exceed $5 billion at any given time. These transactions shall be conducted with prior notice to the Committee.	2. The Committee authorizes the Selected Bank to undertake transactions of the type described in paragraph 1 from time to time for the purpose of testing operational readiness, subject to the following limitations: A. All transactions authorized in this paragraph 2 shall be conducted with prior notice to the Committee; B. The aggregate par value of the transactions authorized in this paragraph 2 that are of the type described in paragraph 1.A.i shall not exceed $5 billion per calendar year; and C. The outstanding amount of the transactions described in paragraph 1.A.ii shall not exceed $5 billion at any given time.
3. In order to ensure the effective conduct of open market operations, the Federal Open Market Committee authorizes the Federal Reserve Bank of New York to use agents in agency MBS-related transactions.	3. [Delete]

AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS – Side-by-Side Comparison

As of January 28, 2014	*Proposed January 2015*
4. In order to ensure the effective conduct of open market operations, the Federal Open Market Committee authorizes the Federal Reserve Bank of New York to lend on an overnight basis U.S. government securities and securities that are direct obligations of any agency of the United States, held in the System Open Market Account, to dealers at rates that shall be determined by competitive bidding. The Federal Reserve Bank of New York shall set a minimum lending fee consistent with the objectives of the program and apply reasonable limitations on the total amount of a specific issue that may be auctioned and on the amount of securities that each dealer may borrow. The Federal Reserve Bank of New York may reject bids that could facilitate a dealer's ability to control a single issue as determined solely by the Federal Reserve Bank of New York. The Federal Reserve Bank of New York may lend securities on longer than an overnight basis to accommodate weekend, holiday, and similar trading conventions.	3. In order to ensure the effective conduct of open market operations, the Committee authorizes the Selected Bank to operate a program to lend Eligible Securities held in the SOMA [to dealers] on an overnight basis (except that the Selected Bank may lend Eligible Securities for longer than an overnight term to accommodate weekend, holiday, and similar trading conventions). A. Such securities lending must be: i. At rates determined by competitive bidding; ii. At a minimum lending fee consistent with the objectives of the program; iii. Subject to reasonable limitations on the total amount of a specific issue of Eligible Securities that may be auctioned; and iv. Subject to reasonable limitations on the amount of Eligible Securities that each borrower may borrow. B. The Selected Bank may: i. Reject bids that, as determined in its sole discretion, could facilitate a bidder's ability to control a single issue; ii. Accept Treasury securities or cash as collateral for any loan of securities authorized in this paragraph 3; and iii. Accept agency securities as collateral only for a loan of agency securities authorized in this paragraph 3.

AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS – Side-by-Side Comparison

As of January 28, 2014

5. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments or other authorized services for foreign and international accounts maintained at the Federal Reserve Bank of New York and accounts maintained at the Federal Reserve Bank of New York as fiscal agent of the United States pursuant to section 15 of the Federal Reserve Act, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York:

    A. For the System Open Market Account, to sell U.S. government securities and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States to such accounts on the bases set forth in paragraph 1.A under agreements providing for the resale by such accounts of those securities in 65 business days or less on terms comparable to those available on such transactions in the market;
    B. For the New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on purchases and sales of securities in paragraph l.B, repurchase agreements in U.S. government securities and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and to arrange corresponding sale and repurchase agreements between its own account and such foreign, international, and fiscal agency accounts maintained at the Federal Reserve Bank; and
    C. For the New York Bank account, when appropriate, to buy U.S. government securities and obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States from such foreign and international accounts maintained at the Federal Reserve Bank under agreements providing for the repurchase by such accounts of those securities on the same business day.

    Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.

Proposed January 2015

4. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments or other authorized services for foreign central bank and international accounts maintained at a Federal Reserve Bank (the "Foreign Accounts") and accounts maintained at a Federal Reserve Bank as fiscal agent of the United States pursuant to section 15 of the Federal Reserve Act (together with the Foreign Accounts, the "Customer Accounts"), the Committee authorizes the following when undertaken on terms comparable to those available in the open market:
    A. The Selected Bank, for the SOMA, to undertake reverse repo transactions in Eligible Securities held in the SOMA with the Customer Accounts for a term of 65 business days or less; and
    B. Any Federal Reserve Bank that maintains Customer Accounts, for any such Customer Account, when appropriate and subject to all other necessary authorization and approvals, to:
        i. Undertake repo transactions in Eligible Securities with [market counterparties | dealers] with a corresponding reverse repo transaction in such Eligible Securities with the Customer Accounts; and
        ii. Undertake intra-day reverse repo transactions in Eligible Securities with Foreign Accounts.

    Transactions undertaken with Customer Accounts under the provisions of this paragraph 4 may provide for a service fee when appropriate. Transactions undertaken with Customer Accounts are also subject to the authorization or approval of other entities, including the Board of Governors of the Federal Reserve System and, when involving accounts maintained at a Federal Reserve Bank as fiscal agent of the United States, the United States Department of the Treasury.

AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS – Side-by-Side Comparison

As of January 28, 2014	*Proposed January 2015*
6. In the execution of the Committee's decision regarding policy during any intermeeting period, the Committee authorizes and directs the Federal Reserve Bank of New York, upon the instruction of the Chairman of the Committee, to (i) adjust somewhat in exceptional circumstances the degree of pressure on reserve positions and hence the intended federal funds rate and to take actions that result in material changes in the composition and size of the assets in the System Open Market Account other than those anticipated by the Committee at its most recent meeting or (ii) undertake transactions of the type described in paragraphs 1.A and 1.B in order to appropriately address temporary disruptions of an operational or highly unusual nature in U.S. dollar funding markets. Any such adjustment as described in clause (i) shall be made in the context of the Committee's discussion and decision at its most recent meeting and the Committee's long-run objectives to foster maximum employment and price stability, and shall be based on economic, financial, and monetary developments during the intermeeting period. Consistent with Committee practice, the Chairman, if feasible, will consult with the Committee before making any instruction under this paragraph.	5. The Committee authorizes the Chairman of the Committee, in fostering the Committee's objectives during any period between meetings of the Committee, to instruct the Selected Bank to act on behalf of the Committee to: A. Adjust somewhat in exceptional circumstances the stance of monetary policy and to take actions that may result in material changes in the composition and size of the assets in the SOMA; or B. Undertake transactions with respect to Eligible Securities in order to appropriately address temporary disruptions of an operational or highly unusual nature in U.S. dollar funding markets. Any such adjustment described in subparagraph A of this paragraph 5 shall be made in the context of the Committee's discussion and decision about the stance of policy at its most recent meeting and the Committee's long-run objectives to foster maximum employment and price stability, and shall be based on economic, financial, and monetary developments since the most recent meeting of the Committee. The Chairman, ~~if~~ whenever feasible, will consult with the Committee before making any instruction under this paragraph 5.

Appendix 2: Materials used by Mr. Potter and Ms. Logan

Class II FOMC – Restricted (FR)

Material for Briefing on

Financial Developments and Open Market Operations

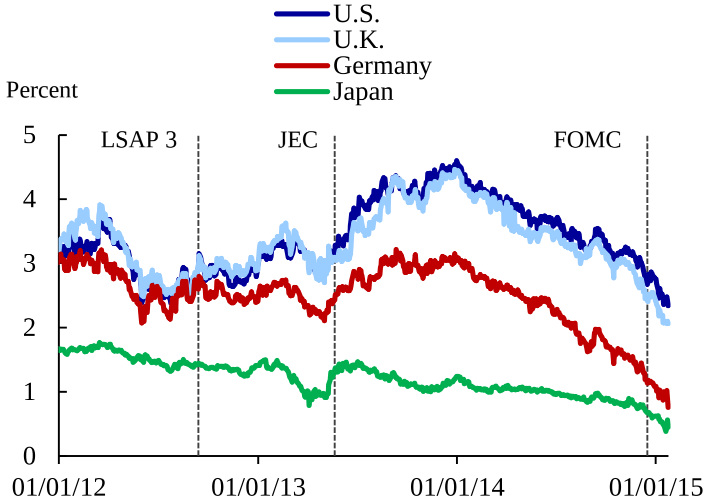
Simon Potter and Lorie Logan

January 27, 2015

Class II FOMC – Restricted (FR)

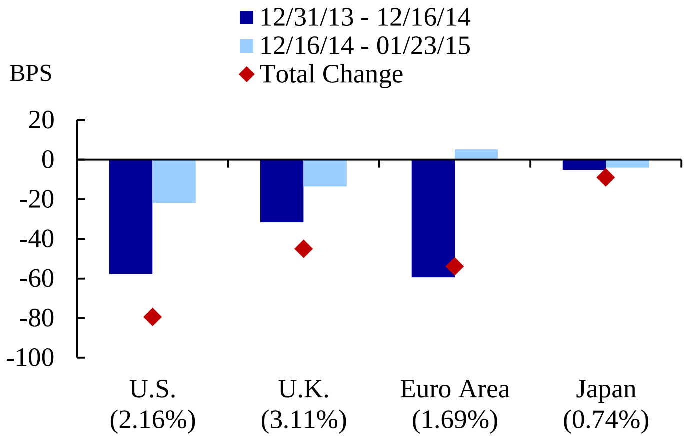
Exhibit 1

(1) Nominal Five-Year, Five-Year Forward Rates



Source: Bloomberg

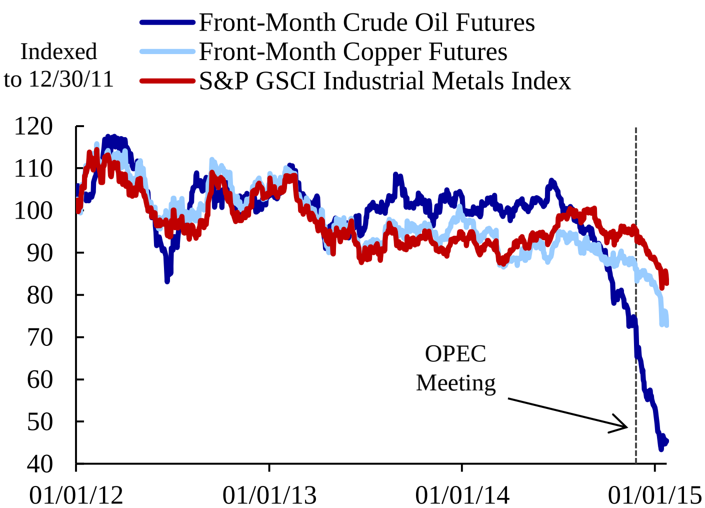
(2) Changes in Five-Year, Five-Year Forward Inflation Swaps*



*Levels as of 01/23/15 in parentheses.

Source: Barclays

(3) Commodities Performance



Source: Bloomberg

(4) Central Bank Actions over the Intermeeting Period

	Asset Purchases	Rate Cut	Other Easing
European Central Bank	X		X
Swiss National Bank		X	X
Danmarks Nationalbank		X	
Bank of Canada		X	
Bank of England			X
Bank of Japan	X		
Reserve Bank of India		X	
Central Bank of Turkey		X	

Source: National Central Banks

(5) ECB Policy Action

- Purchases expanded to include bonds issued by euro area central governments, agencies and European institutions
  - €60 billion combined monthly purchases, beginning in March 2015
  - Allocation according to the capital key
  - 2- to 30-year securities eligible
- To be carried out until at least September 2016; in any case until sustained adjustment in the path of inflation achieved
  - Purchases would total €1.1 trillion if continued though September 2016
- Interest rate for the remaining six TLTROs lowered to equal the MRO rate

Source: European Central Bank

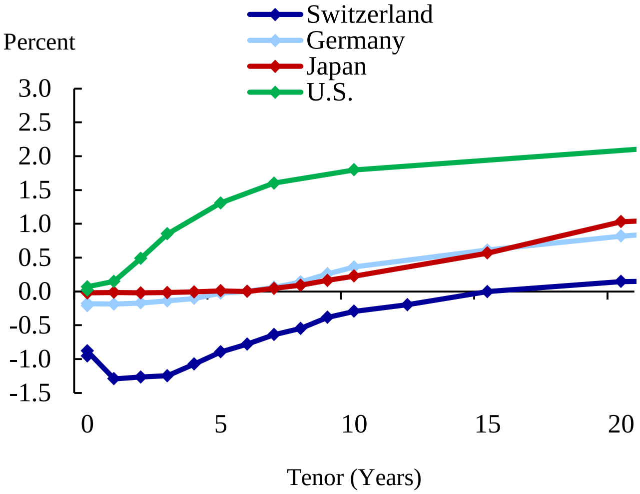
(6) Euro Area Asset Performance

	Since Jan '15 ECB Meeting	Since Jackson Hole
Changes in Basis Points		
German 30-Year	-15	-79
Italian 30-Year Spread to Germany	-29	-34
Changes in Percent		
Euro-Dollar	-3.5	-15.6
EuroStoxx 50 Index	+3.5	+8.3
EuroStoxx Bank Index	+1.3	-4.4

Source: Bloomberg

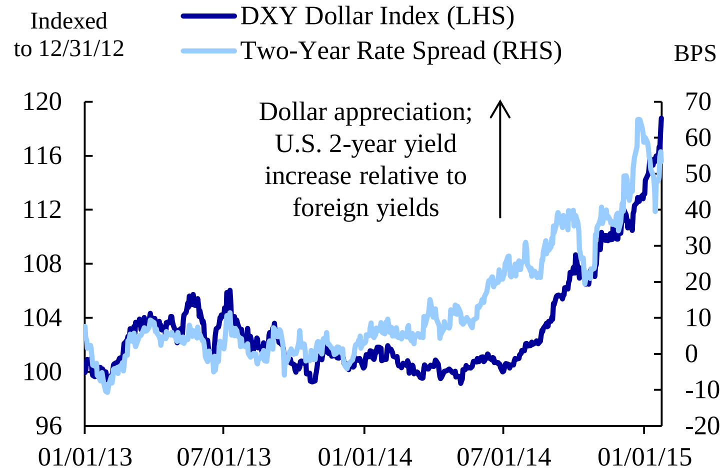
Class II FOMC – Restricted (FR) Exhibit 2

(7) Sovereign Yield Curves*



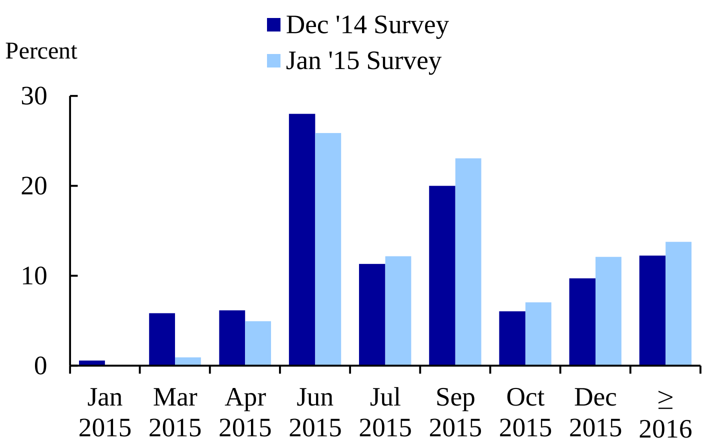
*As of 01/23/15.
Source: Bloomberg

(8) Dollar Index and Two-Year Rate Spread*



*Countries and weights comparable to DXY dollar index.
Source: Bloomberg, Federal Reserve Bank of New York Staff Calculations

(9) Probability Distribution of the Timing of Liftoff*



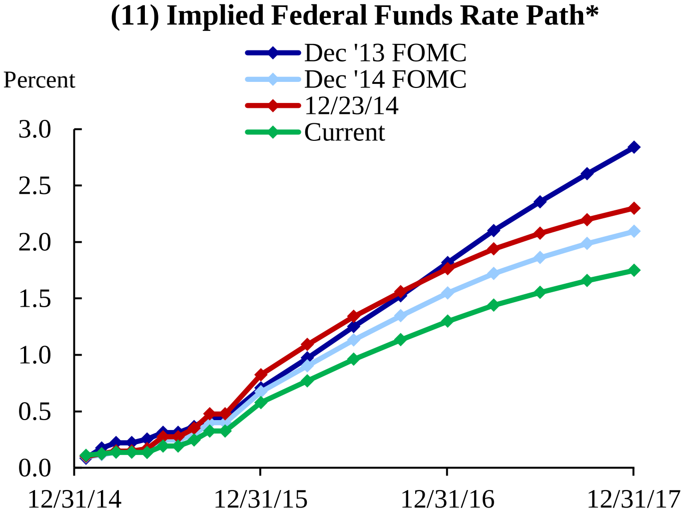
*Average of all responses from the Survey of Primary Dealers and Survey of Market Participants.
Source: Federal Reserve Bank of New York

(10) Expectations for Inflation at Liftoff*

	Modal Expectation		Probability of Inflation 1-2 Years Ahead <1.75%	
Survey	12m Headline PCE Inflation	Inflation 1-2 Years Ahead	Dealers	Buy Side
Mar '14	1.8%	2.0%	23%	28%
Apr '14	1.8%	2.0%	22%	26%
Jun '14	1.8%	2.0%	18%	21%
Jul '14	2.0%	2.2%	18%	22%
Sep '14	1.9%	2.1%	17%	25%
Oct '14	1.8%	2.0%	20%	24%
Dec '14	1.6%	2.0%	22%	29%
Jan '15	0.8%	2.0%	26%	40%

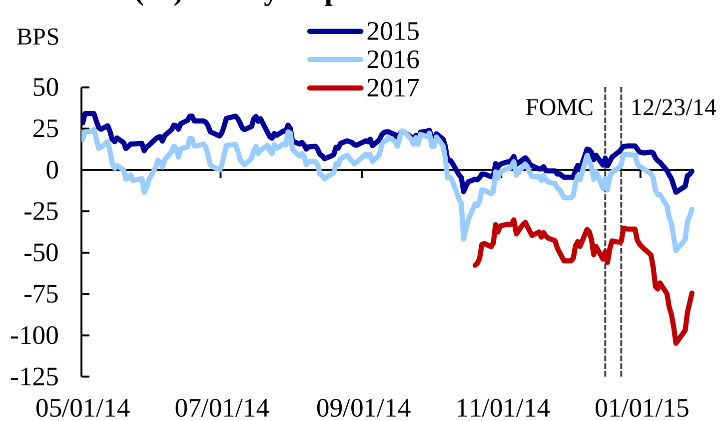
*Modal expectations are medians of all responses from the Survey of Primary Dealers and Survey of Market Participants; probabilities are averages of responses from each respective survey.
Source: Federal Reserve Bank of New York

(11) Implied Federal Funds Rate Path*



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

(12) Survey-Implied Term Premiums*

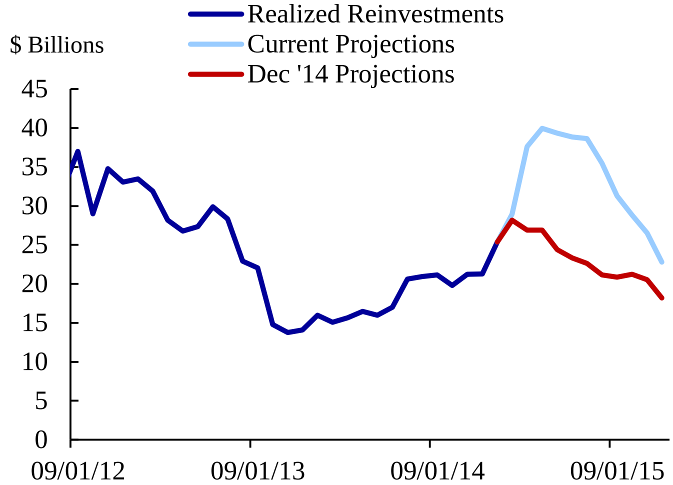


*Difference between the mean survey federal funds rate and the market-implied rate at the end of the calendar years indicated. Uses the average of all responses to the Survey of Primary Dealers and Survey of Market Participants.
Source: Bloomberg, Federal Reserve Bank of New York

Class II FOMC – Restricted (FR)

Exhibit 3

(13) Realized and Projected MBS Reinvestments



Source: Federal Reserve Bank of New York

(14) Enhancement of FFER and Introduction of OBFR

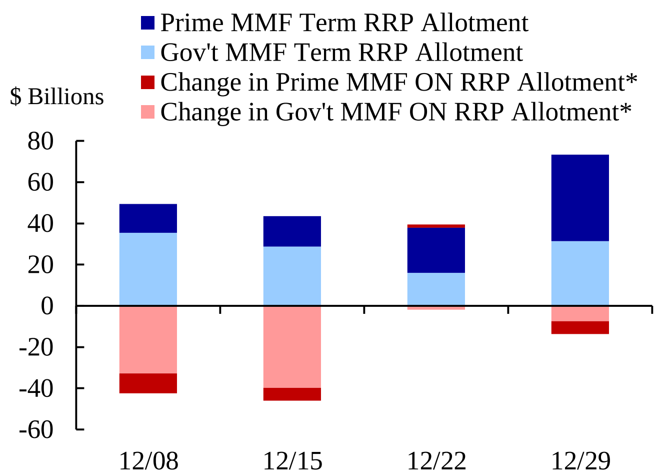
- Continue to work on
  - Enhancing the calculation of the federal funds effective rate (FFER)
  - Publishing a new overnight bank funding rate (OBFR)
- Intend to announce planned changes in a Desk statement on February 2
  - Describes the change in FFER as a technical enhancement
  - Characterizes OBFR as a broader measure of banks' marginal borrowing costs

(15) Term RRP Operation Results

	12/08	12/15	12/22	12/29
Offered ($ Billions)	50.0	50.0	100.0	150.5
Bids ($ Billions)				
Accepted	50.0	50.0	49.5	76.1
Submitted	101.9	75.1	49.5	76.1
Rates (BPS)				
Stop-out	8	7	10	10
High Bid	10	10	10	10
Low Bid	3	1	2	0
Pro-Rata Allocation at Stop-out Rate	92%	94%	n/a	n/a

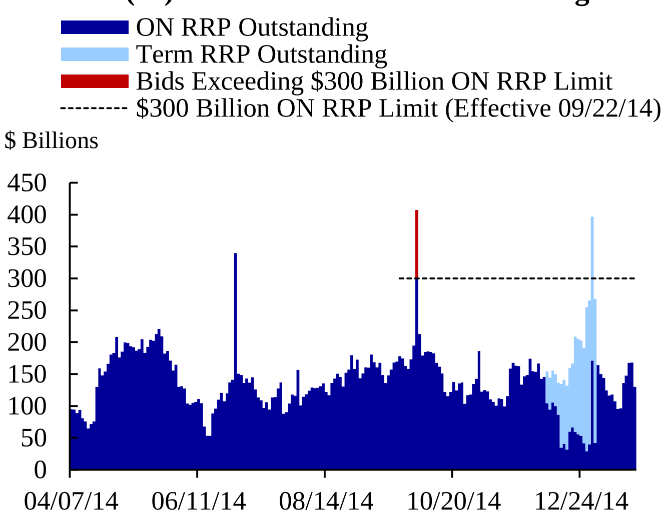
Source: Federal Reserve Bank of New York

(16) Term and ON RRP Substitution



*Change in ON RRP allotment from the previous day.
Source: Federal Reserve Bank of New York

(17) ON and Term RRP Outstanding



Source: Federal Reserve Bank of New York

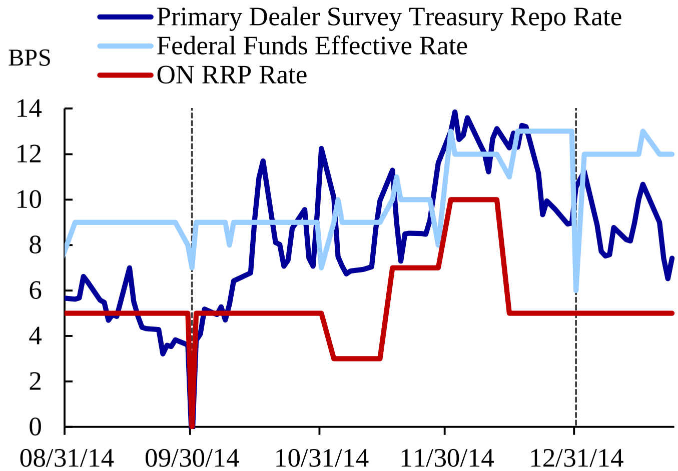
(18) Changes in Volumes on Quarter-Ends (Percent)*

Period	Brokered Federal Funds	Brokered Eurodollars	Overnight Treasury Repo**	Custodial Bank Balances
Q4 '13	-61%	-61%	-11%	+6%
Q1 '14	-33	-60	-6	+19
Q2 '14	-57	-66	-13	+16
Q3 '14	-57	-61	-15	+14
Q4 '14	-36	-55	-9	-0

*Percent change between the quarter-end value and the average value over the previous ten business days.
**Daily survey of primary dealers.
Source: Federal Reserve Bank of New York

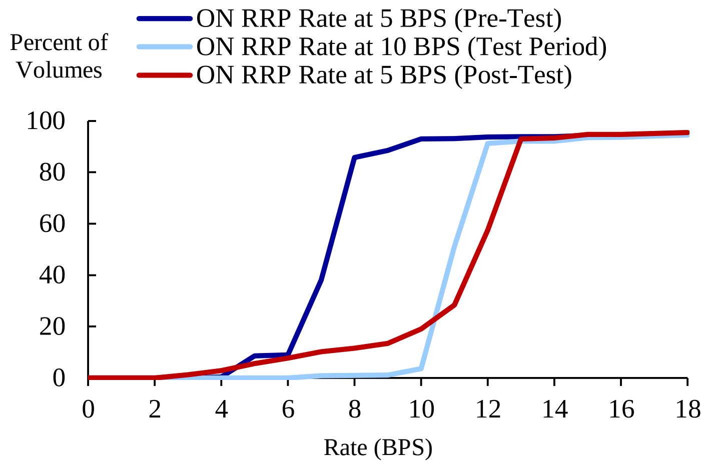
Class II FOMC – Restricted (FR) Exhibit 4 (Last)

(19) Overnight Interest Rates*



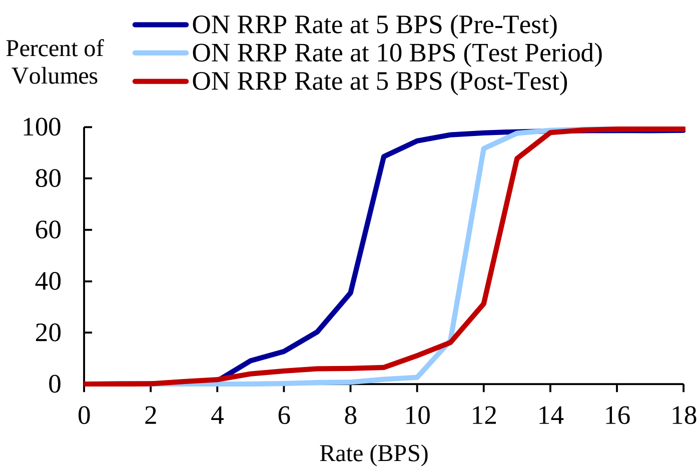
*Trip wires indicate quarter-ends.
Source: Federal Reserve Bank of New York

(20) Cumulative Distribution of Brokered Federal Funds Volumes, by Rate



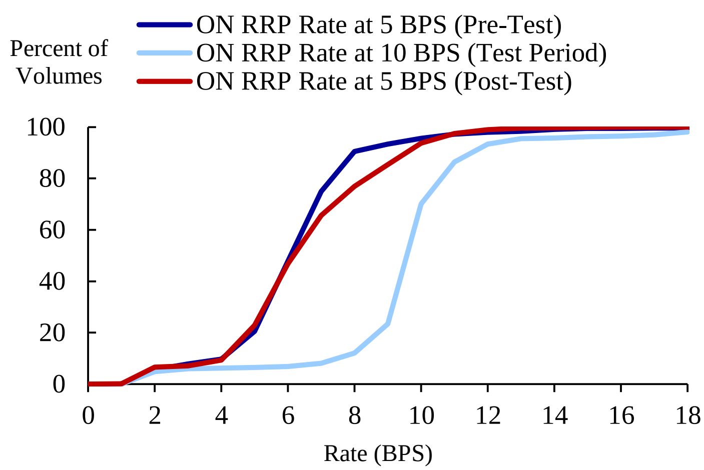
Source: Federal Reserve Bank of New York

(21) Cumulative Distribution of Brokered Eurodollar Volumes, by Rate



Source: Federal Reserve Bank of New York

(22) Cumulative Distribution of Treasury Triparty Repo Volumes, by Rate



Source: Federal Reserve Bank of New York

(23) TDF Testing

- Proposed Test
  - Conduct a series of three operations, beginning in February and maturing by mid-March
  - Introduce same-day settlement
  - Test 21-day term deposits with overlapping maturities
  - Limit individual award per operation to $20 billion
  - Offer at a spread of 3 basis points over IOER

(24) RRP Testing

- Proposed Test
  - Conduct term RRPs over March quarter-end
  - Reduce total offered amount to $200 billion
  - Mature across multiple days in early April
  - Make modest changes to the frequency and tenor
  - Express the max bid rate as a spread over ON RRP
- Potential Additional Tests
  - Conduct term RRPs away from quarter-ends
  - Consider additional changes to ON RRP rate

Appendix 3: Materials used by Ms. Logan

Class II FOMC – Restricted (FR)

Term Reverse Repurchase Operations Resolution

January 27, 2015

Proposed Resolution on Term Reverse Repurchase Operations

During the period of March 19, 2015, to March 30, 2015, the Federal Open Market Committee (FOMC) authorizes the Federal Reserve Bank of New York to conduct a series of term reverse repurchase operations involving U.S. Government securities.

Such operations shall:

(i) mature no later than April 9, 2015;
(ii) be subject to an overall size limit of $200 billion outstanding at any one time;
(iii) be subject to a maximum bid rate of five basis points above the ON RRP offering rate in effect on the day of the operation;
(iv) be awarded to all submitters:
  - (A) at the highest submitted rate if the sum of the bids received is less than or equal to the preannounced size of the operation, or
  - (B) at the stopout rate, determined by evaluating bids in ascending order by submitted rate up to the point at which the total quantity of bids equals the preannounced size of the operation, with all bids below this rate awarded in full at the stopout rate and all bids at the stopout rate awarded on a pro rata basis, if the sum of the counterparty offers received is greater than the preannounced size of the operation.

Such operations may be for forward settlement.

The System Open Market Account manager will inform the FOMC in advance of the terms of the planned operations. The Chair must approve the terms of, timing of the announcement of, and timing of the operations.

These operations shall be conducted in addition to the authorized overnight reverse repurchase agreements, which remain subject to a separate overall size limit of $300 billion per day.

Appendix 4: Materials used by Mr. Clouse

Class I FOMC – Restricted Controlled (FR)

Material for

Discussion of Liftoff Tools and Possible Liftoff Options

James Clouse

January 27, 2015

Extending Normalization Principles and Plans to Operational Liftoff Strategy

- Policy Normalization Principles and Plans
  - Provided high level outline of approach.
  - Did not provide details on exactly how tools will be used at liftoff and beyond.
- Tradeoff in Developing Detailed Liftoff Strategy
  - Maximizing the odds that liftoff proceeds smoothly.
  - Minimizing risks associated with aggressive use of individual tools.

Illustrative Options

ON RRP and Term RRP as Substitutes?

- Term RRP appeared to substitute for ON RRP at year-end.
- If this were true more generally, term RRP might be a useful way to manage takeup in ON RRP operations.
- Term RRP might help reduce financial stability risks.
- But…
  - Term RRP operationally more complex than overnight RRP.
  - Heavy use of term RRP could distort rates in term markets.
  - Could entail communications issues.

- **Illustrative Option 1**
  - *Temporary increase* in ON RRP cap to $600 billion.
  - Term RRP may be used *after liftoff* to provide upward pressure on rates and manage size of ON RRP.
- Could be attractive if…
  - Financial stability and footprint risks of *temporary* increase in cap are viewed as relatively modest.
  - Policymakers confident that Federal Reserve can assure that the temporary increase in ON RRP cap does not become long-lived.
  - Costs or communications issues associated with term RRP viewed as significant.

- **Illustrative Option 2**
  - *Temporary increase* in ON RRP cap to $400 billion.
  - Term RRP used *prior* to liftoff to keep ON RRP can from binding.
- Could be attractive if…
  - Sizable temporary increase in ON RRP cap viewed as presenting significant financial stability risks or as a signal that large ON RRP program likely to be long-lived.
  - Confident that term RRP can be used to manage size of ON RRP program.
  - Costs and communications issues associated with term RRP viewed as manageable.

Other Possible Steps

- Other Possible Steps
  - Adjust spread of IOER over ON RRP.
  - Adjust IOER and ON RRP relative to the target range for the federal funds rate.
  - Employ term deposits.

- Communications
  - The FOMC may wish to consider communicating some elements of its operational liftoff strategy in advance to provide more clarity to the public about its intentions and to demonstrate its preparedness for a smooth liftoff.
  - Such communications could be included in minutes, the Chair's post-meeting press conference remarks, speeches, testimony.

Issues with Interest Payments on Reserves

- Current methodology applies a *single rate* over entire maintenance period.

- Possible Options
  - Change the length of the maintenance period to 7 days.
  - Calculate interest payments based on IOER in effect at the end of a reserve maintenance period.
  - Change the calculations to focus more on balances held on an individual day and the IOER rate in effect that day.

Issues for Discussion

- How should greater ex-ante certainty of a smooth liftoff be balanced with concerns regarding the potential size of an ON RRP program or more aggressive use of other policy tools?
- What are your general views of the options presented in the Illustrative Approaches memo?
  - Would a significant temporary increase in the ON RRP cap at the time of liftoff be desirable?
  - Would conducting term RRPs in size either in advance of liftoff or immediately thereafter be attractive?
  - Are other possible adjustments discussed in the memo attractive, such as narrowing the spread of IOER to the ON RRP rate, adjusting the IOER and ON RRP rates relative to the target range for the federal funds rate, or making use of term deposits.
- Are there any other steps that you think should be taken to support a smooth liftoff?
- Would you find it useful to conduct additional testing of term RRP apart from quarter-end dates as a way to learn more about the degree of substitution between ON RRP and term RRP?

Appendix 5: Materials used by Mr. Kamin

Class II FOMC – Restricted (FR)

Material for

The Foreign Outlook

Steven B. Kamin

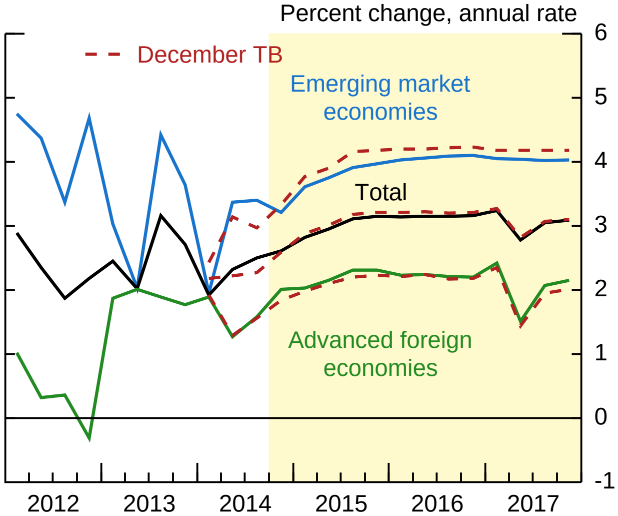
January 27, 2015

Class II FOMC - Restricted (FR)

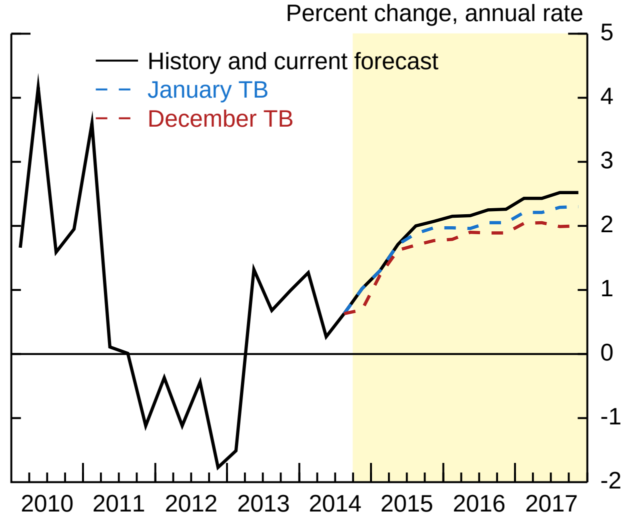
Exhibit 1

The Outlook for Foreign Economies, Oil, and the Dollar

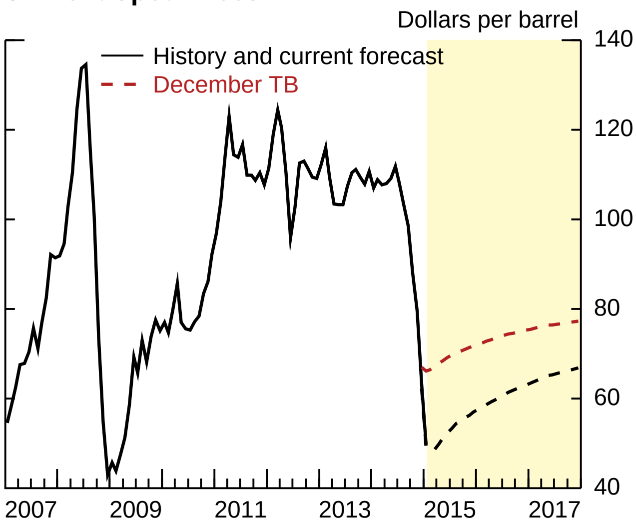
1. Foreign GDP



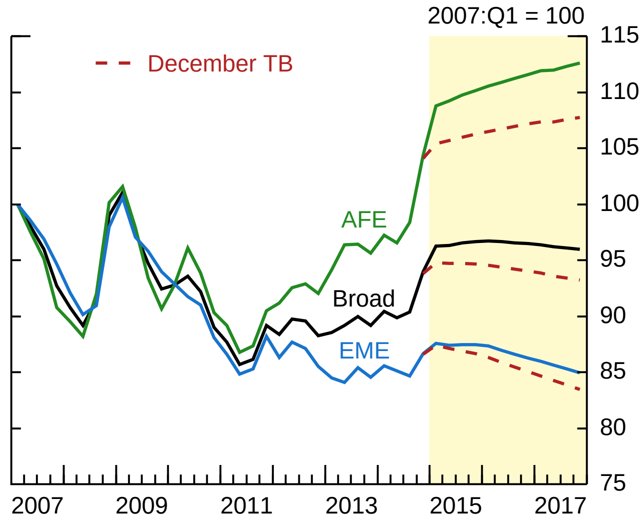
2. Euro-Area GDP



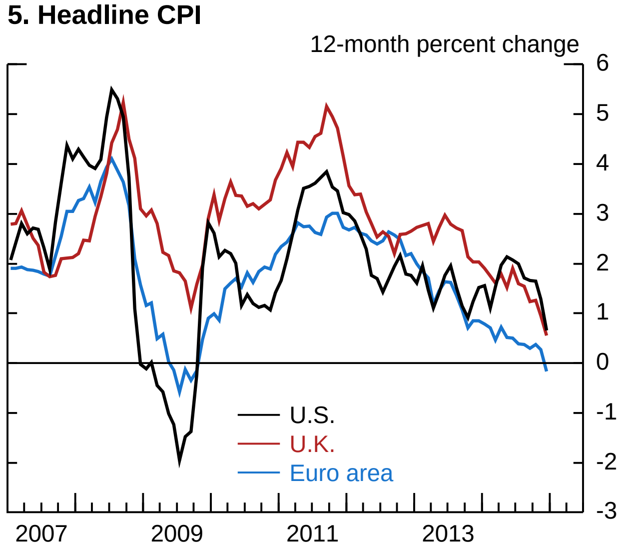
3. Brent Spot Prices



4. Real Dollar Indexes



5. Headline CPI

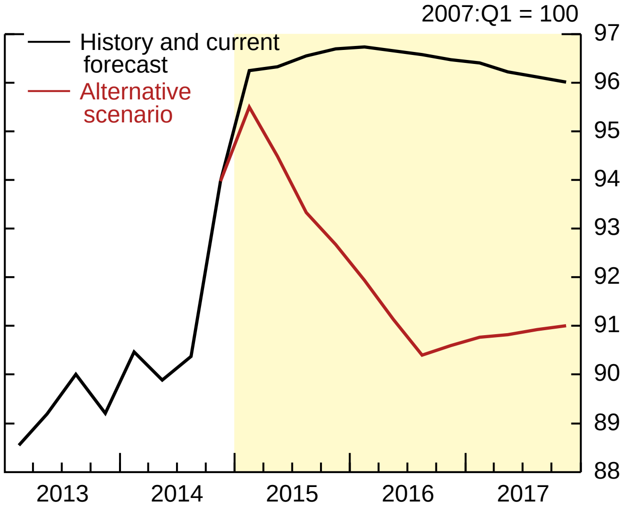


Class II FOMC - Restricted (FR)

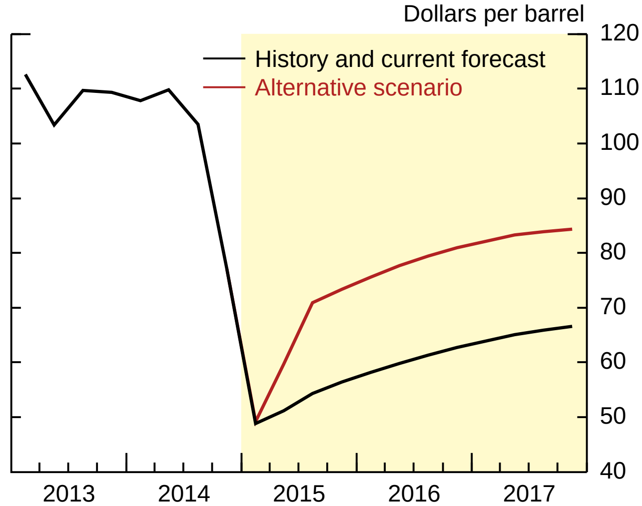
Exhibit 2

Alternative Scenario: Weaker Dollar, Higher Oil Prices, and Greater Confidence in Foreign Growth

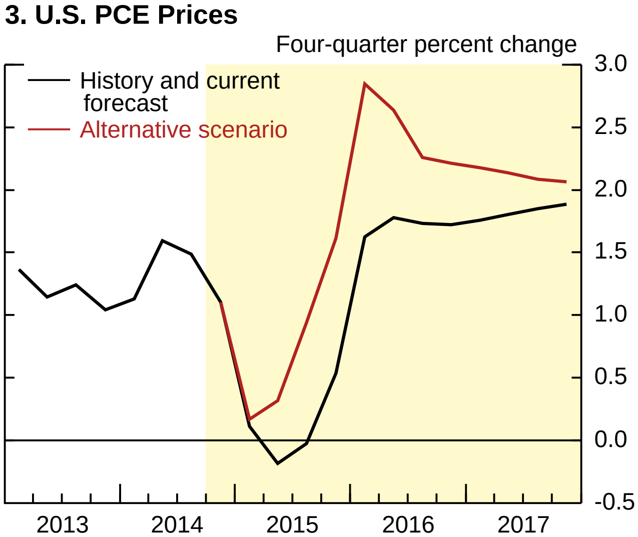
1. Real Broad Dollar Index



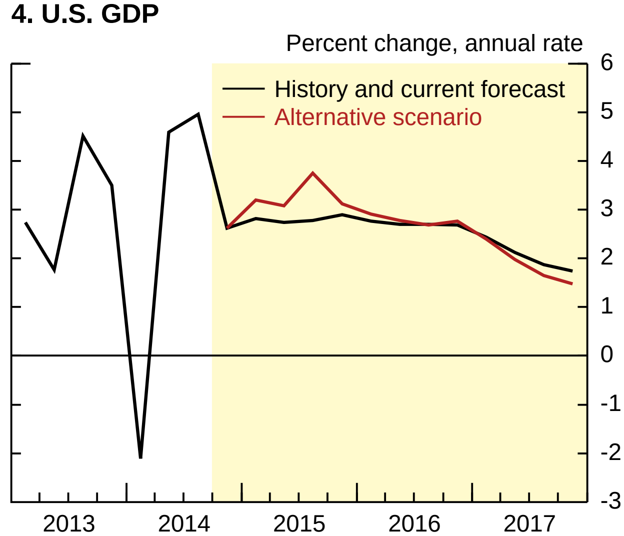
2. Brent Spot Prices



3. U.S. PCE Prices



4. U.S. GDP



Appendix 6: Materials used by Mr. Wilcox

Class II FOMC – Restricted (FR)

Material for

The U.S. Outlook

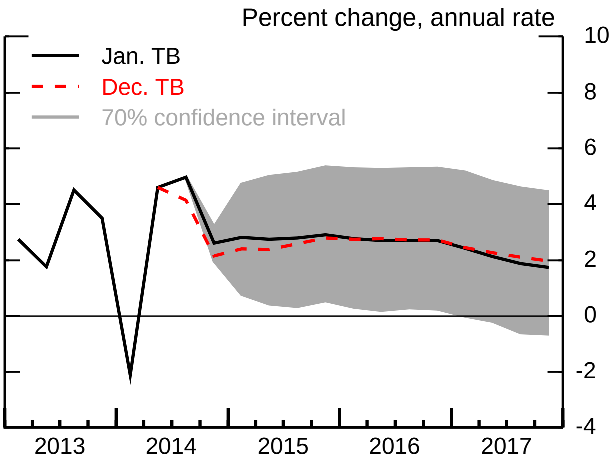
David Wilcox

January 27, 2015

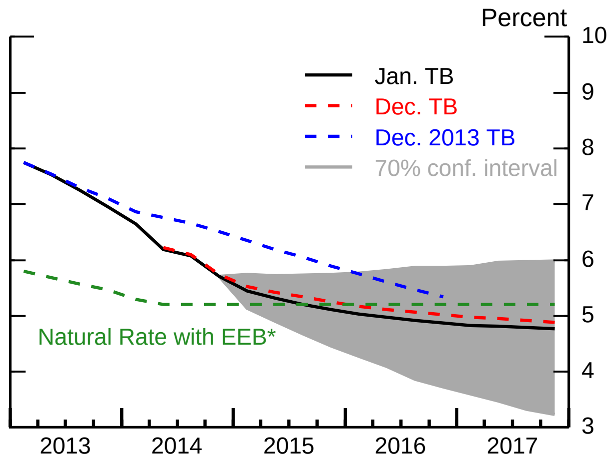
Forecast Summary

Confidence Intervals Based on FRB/US Stochastic Simulations

1. Real GDP

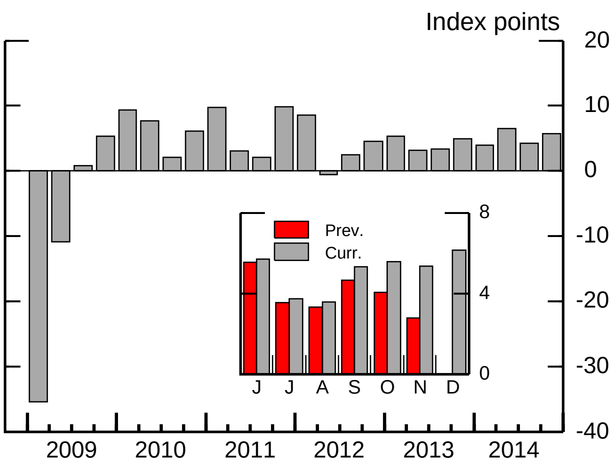


2. Unemployment Rate



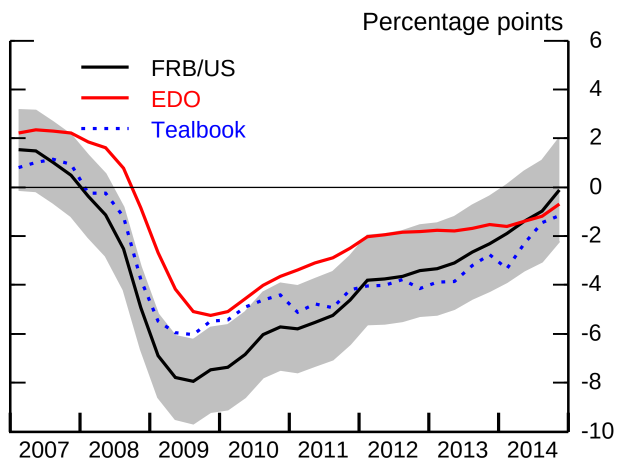
*Effect of emergency unemployment compensation and state-federal extended benefit programs.

3. Labor Market Conditions Index*



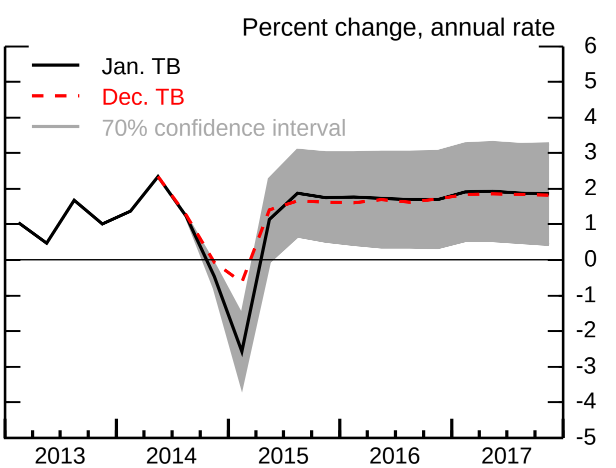
*Average monthly change over quarter or monthly change.

4. Output Gap Estimates

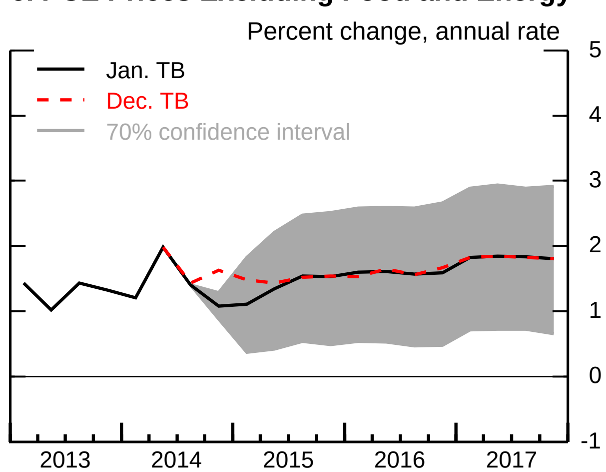


Note: The shaded region is the 2-standard deviation band around the FRB/US output gap, reflecting only filtering uncertainty.

5. PCE Prices



6. PCE Prices Excluding Food and Energy



Appendix 7: Materials used by Mr. Kiley

Class II FOMC – Restricted (FR)

Material for Briefing on

Financial Stability Developments

Michael T. Kiley

January 27, 2015

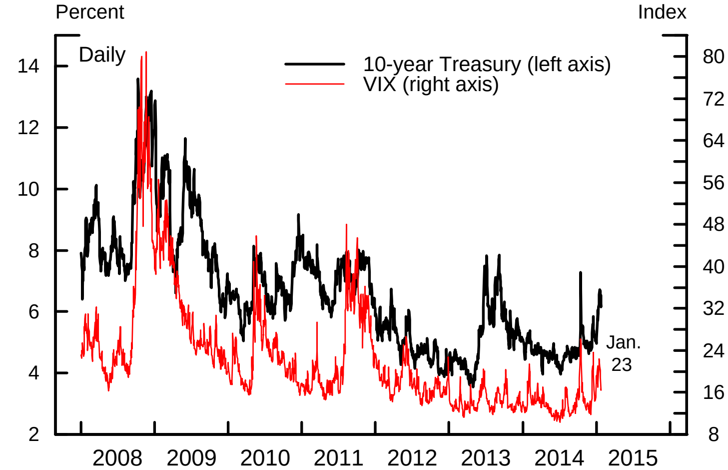
Exhibit 1

Asset Valuations

Summary Assessment

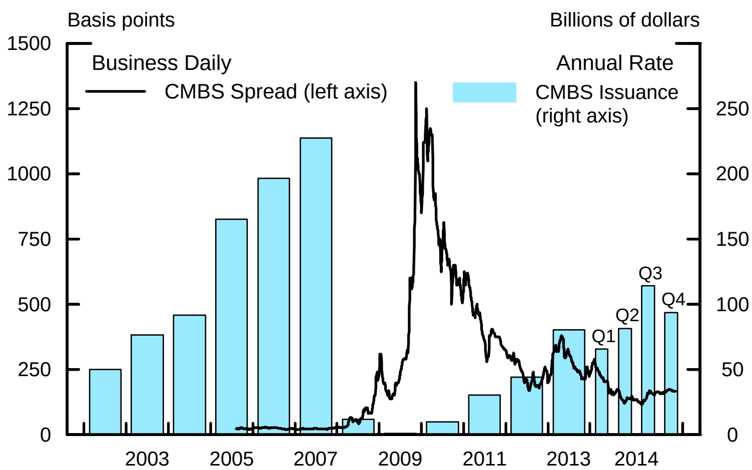
- We continue to judge overall vulnerabilities as moderate
- Three key factors
  - Valuation pressures are notable
  - Leverage and maturity transformation is low-to-moderate
  - Borrowing by the nonfinancial sector has not picked up appreciably

Measures of Implied Volatility



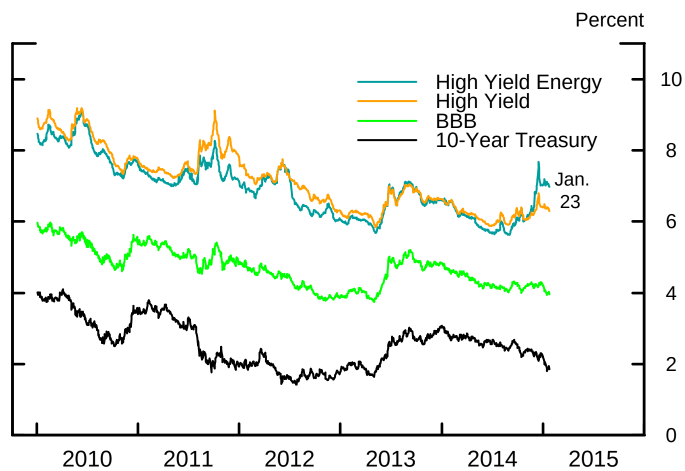
Note: Ten-year Treasury implied volatility derived from options on ten-year Treasury futures.
Source: Bloomberg.

Commercial Real Estate



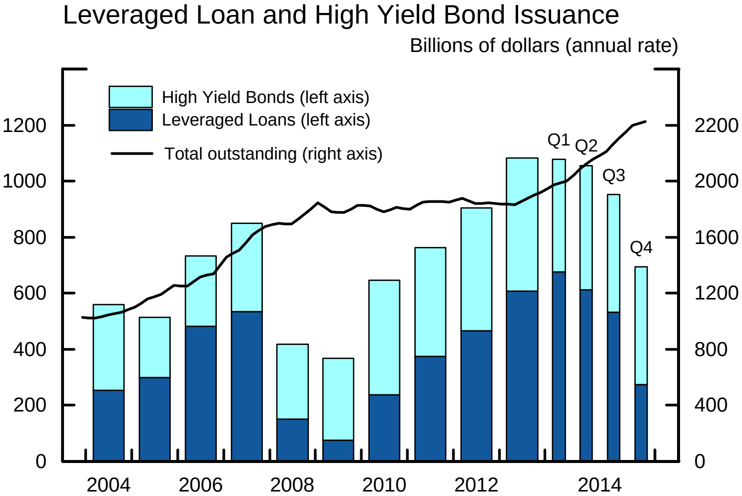
Note: CMBS Spread is 10-Year Triple-A spread over swaps, secondary market.
Source: CMBS issuance from Commercial Mortgage Alert and Thomson Reuters. CMBS spread from J.P. Morgan.

Bond Yields



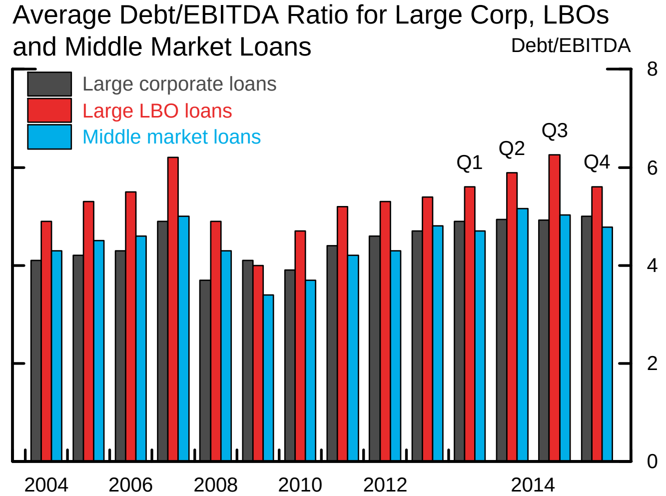
Source: Staff estimates of smoothed corporate yield curves based on Merrill Lynch data and smoothed Treasury yield curve.

Leveraged Loan and High Yield Bond Issuance



Note: Total outstanding is quarterly data. Data includes bonds and loans to both financial and nonfinancial companies. Data includes unrated bonds and loans.
Source: S&P LCD,Mergent FISD

Average Debt/EBITDA Ratio for Large Corp, LBOs and Middle Market Loans

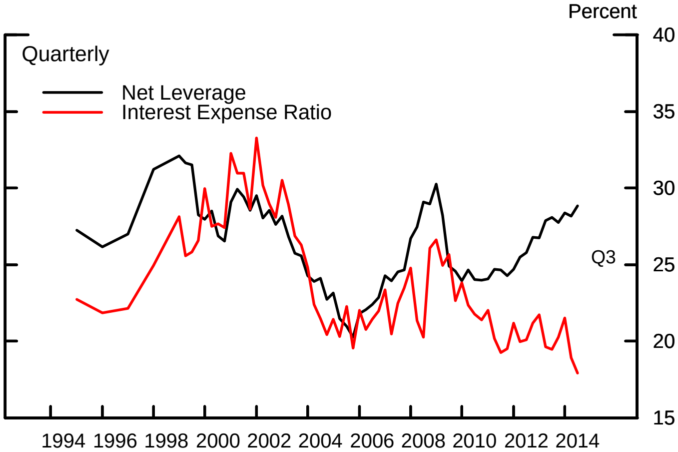


Note: Large corporate loans captures loans to issuers with EBITDO of more than 50 million. Middle market loans captures issuers with EBITDA of $50 million or less.
Source: S&P LCD.

Exhibit 2

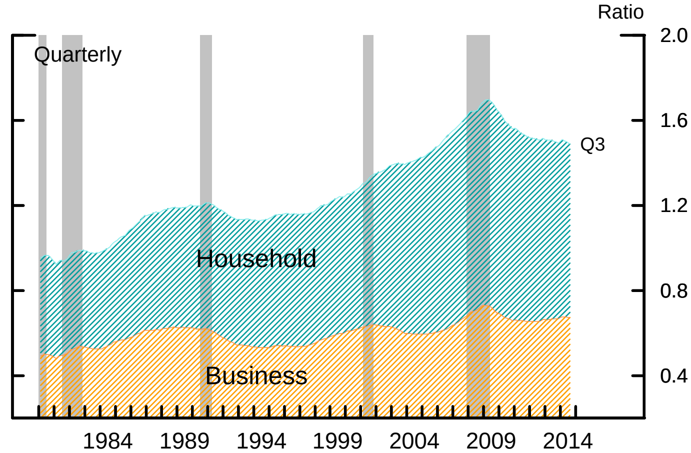
Leverage and Maturity Transformation

Speculative-Grade and Unrated Firm Debt Burden



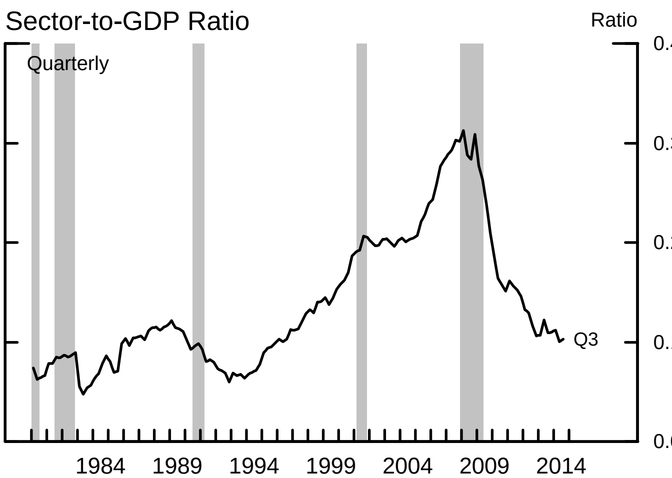
Note: Net leverage is the ratio of the book value of total debt minus cash and cash equivalents to the book value of total assets. Interest expense ratio is calculated as the ratio of total interest expenses to earnings before interest, depreciation and taxes. Data is annual until 1999 and quarterly thereafter.
Source: Compustat.

Nonfinancial Sector Credit-to-GDP Ratio



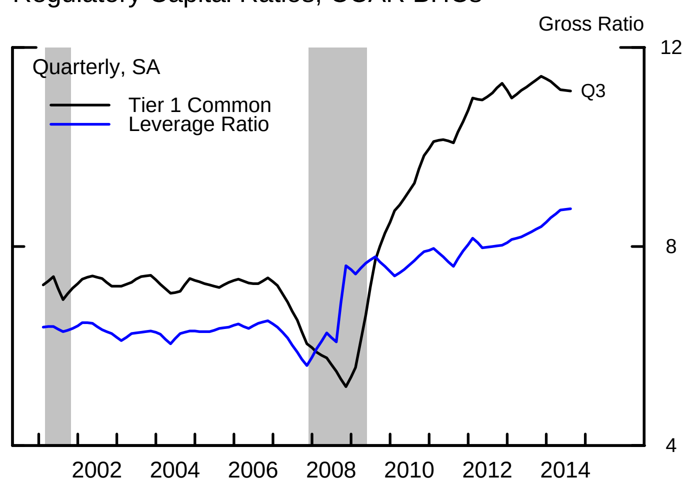
Source: FOFA.

Net Short-Term Wholesale Debt of Financial Sector-to-GDP Ratio



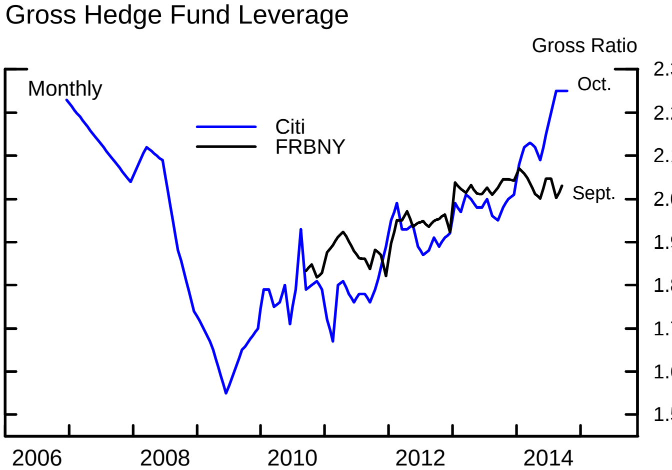
Source: FOFA

Regulatory Capital Ratios, CCAR BHCs



Source: FR Y-9C.

Gross Hedge Fund Leverage



Note: FRBNY gross leverage is calculated as total market value in prime broker (PB) clients' accounts (long plus short) divided by clients' total equity. Citi values represent the report of Citi Prime Finance for gross leverage of their own hedge fund clients.
Source: Federal Reserve Bank of New York, Citi Prime Finance.

Ongoing Developments

- Effects of the sharp appreciation of the Swiss franc likely limited
- One source of volatility has been a rekindling of concerns related to Greece and the potential for surprises remains palpable
- Continue to investigate the volatility in the Treasury market on October 15

Exhibit 3

Staff Judgment on Levels of Vulnerabilities Now Versus Pre-Crisis

Key: Extremely subdued Low Moderate Notable Elevated

Notes: Heat map color assignments were made by staff judgment. In the absence of significant structural changes, we would expect vulnerabilities to spend roughly equal proportions of time in each of the colored risk buckets.

	1H2004	**1H2007**	**January 2015**
Valuation Pressures	• Valuation pressures in corporate bonds and some equity segments • Real and implied volatility is low • Building valuation pressures in housing markets	• Overvaluation pressures in all markets • Markets with biggest overvaluation (real estate) supported by significant leverage • Volatility is very low	• Pressures persist in speculative corporate debt markets, despite a widening of yield spreads • Valuation pressures in CRE are moderate but increasing • Equity prices remain high relative to sales, but appear moderate relative to earnings
Private Nonfinancial Sector Leverage	• Credit-to-GDP ratio above estimated trend • Bank lending standards had been loosening for most loan categories since 1H2003	• Credit-to-GDP ratio far above estimated trend • Bank lending standards loose	• Credit-to-GDP ratio remains below estimated trend • Further leveraging at riskier firms could leave sector vulnerable to adverse macroeconomic shock
Financial Sector Leverage	• With hindsight, banks were undercapitalized for risks that were undertaken and overly reliant on low quality capital Moderate use of leverage by nonbanks	• With hindsight, banks were severely undercapitalized for risks that were taken and overly reliant on low quality capital • High use of leverage by nonbanks	• Capital positions at BHCs and insurance companies further improved • Hedge fund leverage remains at higher-end of its range since the crisis • Accommodative standards persist for underlying loans in non-agency CMBS and CLOs
Maturity and Liquidity Transformation	• Maturity transformation at banks is moderate but growing • Short-term wholesale funding in financial markets is high (including via money funds) • Limited liquidity transformation through open-end mutual funds • High securitization issuance	• Maturity transformation at banks is high • Short-term wholesale funding in financial markets is very high (including via money funds) • Limited liquidity transformation through open-end mutual funds • Very high securitization issuance	• Structural vulnerabilities in money market funds persist • Assets held by bond and loan mutual funds and ETFs represent large shares of relatively illiquid asset classes • Maturity transformation at banks is low overall but remains high for smaller banks • Large BHCs continue to increase their holdings of high-quality liquid assets (HQLA)
Overall Assessment			

Appendix 8: Materials used by Mr. Frost

Class II FOMC – Restricted (FR)

Material for Briefing on

Additional Term RRP Testing

Joshua Frost

January 28, 2015

Option 1: Test Term RRPs Over March Quarter-End Only

- Conduct term RRPs over March quarter-end
- Total offered amount of $200 billion
    - In addition to $300 billion ON RRP limit
- Mature across multiple days in early April
- Make modest changes to the frequency and tenor
- Express the max bid rate as a spread over ON RRP

Option 2: Test Term RRPs Over March Quarter-End and Small Operations in February and March

- Conduct March quarter-end tests as in Option 1
- Also, conduct small operations in February and early March
    - Total outstanding up to $50 billion; start at $10 billion
    - Mature on or before March 12
    - Likely a series of rolling one-week RRPs
    - Max bid rate as spread over ON RRP

Exhibit 2

<u>Proposed Resolution for Term Reverse Repurchase Operations that Span March 31</u>

During the period of March 19, 2015, to March 30, 2015, the Federal Open Market Committee (FOMC) authorizes the Federal Reserve Bank of New York to conduct a series of term reverse repurchase operations involving U.S. government securities.

Such operations shall:

- (i) mature no later than April 9, 2015;
- (ii) be subject to an overall size limit of $200 billion outstanding at any one time;
- (iii) be subject to a maximum bid rate of five basis points above the ON RRP offering rate in effect on the day of the operation;
- (iv) be awarded to all submitters:
  - (A) at the highest submitted rate if the sum of the bids received is less than or equal to the preannounced size of the operation, or
  - (B) at the stop-out rate, determined by evaluating bids in ascending order by submitted rate up to the point at which the total quantity of bids equals the preannounced size of the operation, with all bids below this rate awarded in full at the stop-out rate and all bids at the stop-out rate awarded on a pro rata basis, if the sum of the counterparty offers received is greater than the preannounced size of the operation.

Such operations may be for forward settlement.

The System Open Market Account manager will inform the FOMC in advance of the terms of the planned operations. The Chair must approve the terms of, timing of the announcement of, and timing of the operations.

These operations shall be conducted in addition to the authorized overnight reverse repurchase agreements, which remain subject to a separate overall size limit of $300 billion per day.

Exhibit 2 (cont.)

Proposed Resolution for $[50] Billion in Term RRPs in February/March

During the period of February 12, 2015, to March 10, 2015, the Federal Open Market Committee (FOMC) authorizes the Federal Reserve Bank of New York to conduct a series of term reverse repurchase operations involving U.S. government securities.

Such operations shall:

(i) mature no later than March 12, 2015;
(ii) be subject to an overall size limit of $[50] billion outstanding at any one time;
(iii) be subject to a maximum bid rate of five basis points above the ON RRP offering rate in effect on the day of the operation;
(iv) be awarded to all submitters:
  (A) at the highest submitted rate if the sum of the bids received is less than or equal to the preannounced size of the operation, or
  (B) at the stop-out rate, determined by evaluating bids in ascending order by submitted rate up to the point at which the total quantity of bids equals the preannounced size of the operation, with all bids below this rate awarded in full at the stop-out rate and all bids at the stop-out rate awarded on a pro rata basis, if the sum of the counterparty offers received is greater than the preannounced size of the operation.

Such operations may be for forward settlement.

The System Open Market Account manager will inform the FOMC in advance of the terms of the planned operations. The Chair must approve the terms of, timing of the announcement of, and timing of the operations.

These operations shall be conducted in addition to the authorized overnight reverse repurchase agreements, which remain subject to a separate overall size limit of $300 billion per day.

Appendix 9: Materials used by Mr. Nelson

Class I FOMC – Restricted Controlled (FR)

Material for

Briefing on the Timing of Liftoff and the Pace of Tightening

Ed Nelson

January 27, 2015

Timing and Pace of Policy Normalization:
Memos sent to the Committee on January 16, 2015

Issues Concerning the Timing and Pace of Policy Firming

- Expectations for the overall trajectory of the federal funds rate are more important than the precise date at which firming commences.
- Participants' December SEP paths for the federal funds rate feature more-gradual tightening than the prescription of the noninertial Taylor 1999 rule.
    - May indicate preference for smoothing, concerns about downside risks, or perceived benefit of letting unemployment temporarily fall below natural rate.
    - Gradualism could be costly if taken too far (undesirably-large increase in inflation, financial instability).

Stochastic Implications of Alternative Strategies for the Beginning of Policy Normalization

- Evaluate performance of two alternative firming strategies, "earlier-and-gradual" versus "later-and-steep," in response to a range of shocks.
- Little difference between the two strategies in terms of the values they generate for a policymaker loss function.
- Earlier-and-gradual policy has higher probability of return to ELB; later-and-steep has higher probability of rapid rate increases.

FOMC Deliberations Prior to the Initial Tightening of Monetary Policy in 1994, 1999, and 2004

- In all cases, the decisions to tighten monetary policy were data-dependent.
- Expanded communications toolkit left financial markets better prepared for policy firming in 1999 and 2004 than in 1994, when the market reaction was sizable.

Foreign Experience with Liftoff from the Effective Lower Bound

- No case in which policy firming was too late or otherwise insufficient.
- For Japan and Sweden, undue weight may have been assigned to factors other than inflation and economic activity. Policy firming was subsequently reversed.
- Canadian experience more orderly, perhaps because firming was gradual and keyed to macroeconomic developments.

Options for Evolving the Statement Language in Preparation for Liftoff

- An orderly transition from the effective-lower-bound policy to the tightening phase is clearly desirable, and communications can contribute to such a transition.
- The memo suggests language for successive FOMC statements to facilitate this transition.

Statement for a meeting or two before liftoff

1. Information received since the Federal Open Market Committee met in…
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that…
3. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to ¼ percent target range for the federal funds rate remains appropriate. In determining **future adjustments of the target range for the federal funds rate**, the Committee will assess realized and expected **deviations of employment and inflation from** its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. Based on its current assessment, the Committee judges **that economic conditions [may | could potentially] warrant an increase in the target range for the federal funds rate in a couple of meetings**. However, if incoming information indicates **slower** progress toward the Committee's employment and inflation objectives than the Committee now expects, then increases in the target range for the federal funds rate are likely to occur **later** than currently anticipated.
4. **Based on its economic outlook,** the Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run. **In response to unanticipated economic and financial developments, the Committee will adjust the target federal funds rate to best promote the attainment of its objectives of maximum employment and 2 percent inflation.**
5. 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. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

Statement for the time of liftoff

1. Information received since the Federal Open Market Committee met in…
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that…
3. **In light of the considerable progress that has been achieved toward the attainment of the Committee's objective of maximum employment and the Committee's expectation that inflation will rise to its 2 percent objective over the medium term, the Committee decided today to raise the target range for the federal funds to ¼ to ½ percent**. In determining future adjustments of the target range for the federal funds rate, the Committee will assess realized and expected deviations of employment and inflation from its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. Based on its current assessment, the Committee **continues to** anticipate that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run. In response to unanticipated economic and financial developments, the Committee will adjust the target federal funds rate to best promote the attainment of its objectives of maximum employment and 2 percent inflation.
4. **Even after today's adjustment to the target range for the federal funds rate, the stance of policy remains highly accommodative and will continue to support a strong economy.** Moreover, 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. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

Questions for the Committee Discussion of Liftoff Timing and the Pace of Policy Firming

1. How should the Committee, in its decisions about the path of the federal funds rate, weigh the risks of lifting off prematurely versus the risks of waiting too long to lift off?
2. At your expected time of liftoff, what developments would you need to see in the data to be reasonably confident that inflation will move back toward the Committee's 2 percent longer-run objective over time? What information would undermine that confidence?
3. Do you think the suggestions for how the statement language might evolve in advance of liftoff that were included in the staff memo, "Options for Evolving the Statement Language in Preparation for Liftoff," are useful for conveying the Committee's policy intentions? Do you have alternative suggestions?

Appendix 10: Materials used by Mr. Evans

Class I FOMC – Restricted Controlled (FR)

Material for

President Evans' Discussion of Liftoff Timing in the Face of Policy Firming

January 27, 2015

President Evans will be referring to the following alternative language for paragraph 3 in the statement to be issued the meeting or two before liftoff during the go around on liftoff timing and the pace of policy firming.

> In determining future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected deviations of employment and inflation from its objectives of maximum employment and price stability. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. Based on its current median assessment, the Committee judges that economic conditions could potentially warrant an increase in the target range for the federal funds rate in a couple of meetings. In making this determination, the Committee will be looking for developments that [increase confidence in | affirm] its expectations for further improvements in employment and inflation relative to its objectives. These would include: continued improvements in a range of labor market indicators; firming in market measures of longer-term inflation compensation; strengthening in measures of underlying inflation trends such as core and trimmed mean inflation indexes; and rising wage and cost pressures better associated with productivity trends and inflation rising to our 2 percent objective. If incoming information suggests less confidence in this assessment, then increases in the target range for the federal funds rate are likely to occur later than this timeframe.

Appendix 11: Materials used by Mr. Laubach

Material for

Briefing on Monetary Policy Alternatives

Thomas Laubach

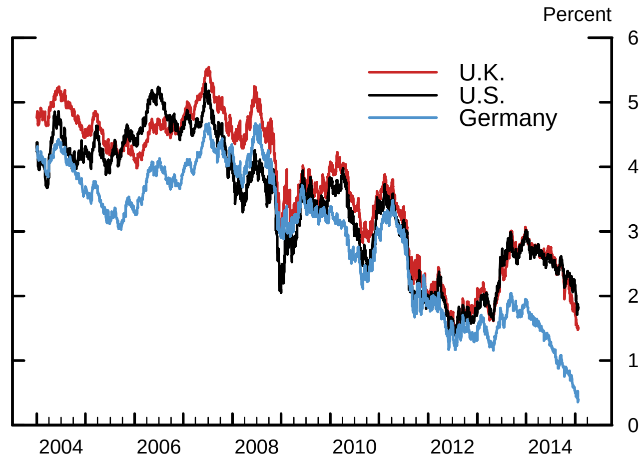
January 27–28, 2015

Market Expectations and Policy Issues

Policy Implications of Recent Decline in Longer-Run Yields

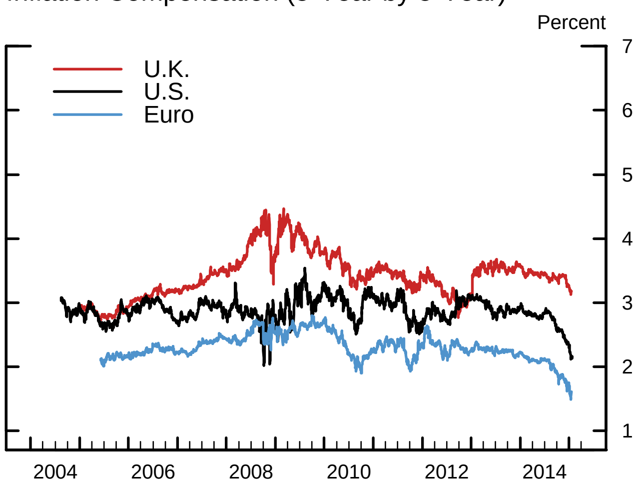
- Recent declines concentrated in longer-run forward rates.
- Does the path of short-term rates need to be higher or lower to achieve the Committee's objectives?

Sovereign Yields (10-Year)



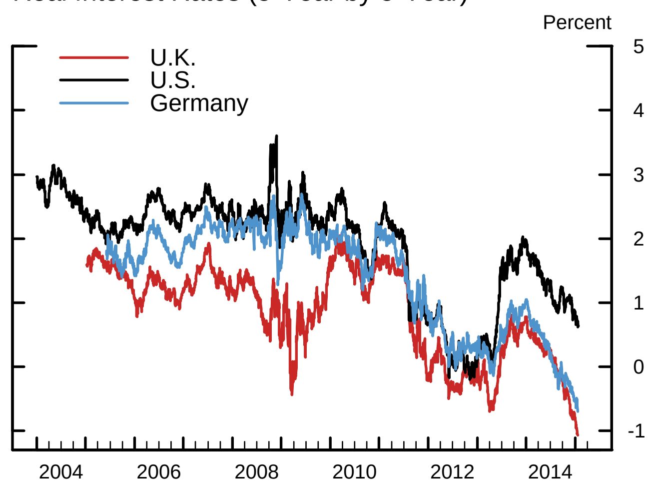
Source: Bloomberg.

Inflation Compensation (5-Year by 5-Year)



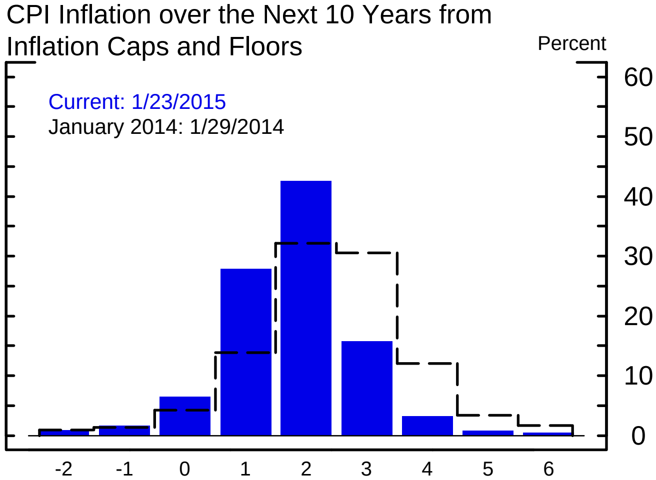
Note: Inflation compensation calculated based on inflation swap contracts for all three currencies.
Source: Bloomberg.

Real Interest Rates (5-Year by 5-Year)



Source: Bloomberg.

Probability Distribution of Annualized Headline CPI Inflation over the Next 10 Years from Inflation Caps and Floors



Note: Derived under the assumption that average inflation takes discrete values (for example, the bar for 3 percent covers roughly the area between 2.5 and 3.5 percent).

Market Reaction to ECB Announcement

	Change* (bps)
10-Year Sovereign Bond Yields	
1. U.S. Treasuries	-11.3
2. Germany	-13.6
3. Italy	-8.2
Eurodollar Futures	
1. June 2017	-9.0

*Note: Change in market rates one-hour following the start of the ECB press conference.
Source: Bloomberg.

DECEMBER 2014 FOMC STATEMENT

1. Information received since the Federal Open Market Committee met in October suggests that economic activity is expanding at a moderate pace. Labor market conditions improved further, with solid job gains and a lower unemployment rate. On balance, a range of labor market indicators suggests that underutilization of labor resources continues to diminish. Household spending is rising moderately and business fixed investment is advancing, while the recovery in the housing sector remains slow. Inflation has continued to run below the Committee's longer-run objective, partly reflecting declines in energy prices. Market-based measures of inflation compensation have declined somewhat further; survey-based measures of 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 activity will expand at a moderate pace, with labor market indicators moving toward levels the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for economic activity and the labor market as nearly balanced. The Committee expects inflation to rise gradually toward 2 percent as the labor market improves further and the transitory effects of lower energy prices and other factors dissipate. The Committee continues to monitor inflation developments closely.
3. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to ¼ percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress—both realized and expected—toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. Based on its current assessment, the Committee judges that it can be patient in beginning to normalize the stance of monetary policy. The Committee sees this guidance as consistent with its previous statement that it likely will be appropriate to maintain the 0 to ¼ percent target range for the federal funds rate for a considerable time following the end of its asset purchase program in October, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored. However, if incoming information indicates faster progress toward the Committee's employment and inflation objectives than the Committee now expects, then increases in the target range for the federal funds rate are likely to occur sooner than currently anticipated. Conversely, if progress proves slower than expected, then increases in the target range are likely to occur later than currently anticipated.
4. 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. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

5. 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. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

FOMC Statement—January 2015 Alternative A

1. Information received since the Federal Open Market Committee met in ~~October~~ **December** suggests that economic activity is expanding at a moderate pace. Labor market conditions improved further, with solid job gains and a lower unemployment rate. ~~On balance,~~ A range of labor market indicators suggests that underutilization of labor resources continues to diminish**, but wage increases remain subdued**. Household spending is rising moderately ~~and~~**; recent declines in energy prices have boosted household purchasing power.** Business fixed investment is advancing **modestly**, while the recovery in the housing sector remains slow. Inflation has ~~continued to run~~ **declined further** below the Committee's longer-run objective, partly reflecting declines in energy prices. **Although** survey-based measures of longer-term inflation expectations have remained stable~~;~~**,** market-based measures of inflation compensation have declined ~~somewhat further~~ **substantially in recent months**.
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 activity will expand at a moderate pace, with labor market indicators ~~moving~~ **continuing to move** toward levels the Committee judges consistent with its dual mandate. The **foreign economic outlook has become somewhat more uncertain in recent months, but the** Committee **continues to** see~~s~~ the risks to the outlook for **domestic** economic activity and the labor market as nearly balanced. The Committee expects inflation to rise **very** gradually toward 2 percent as the labor market improves further and the transitory effects of lower energy prices and other factors dissipate. **However,** the Committee **is concerned that inflation could run substantially below the 2 percent objective for a protracted period and** continues to monitor inflation developments closely.
3. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to ¼ percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress—both realized and expected—toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. ~~Based on its~~ **The Committee's** current assessment~~, the Committee judges~~ **is** that **persistently low wage and price inflation indicate that [appreciable] slack remains in the labor market, and thus that** it ~~can~~ **is appropriate to** be patient in beginning to normalize the stance of monetary policy. ~~The Committee sees this guidance as consistent with its previous statement that it likely will be appropriate to maintain the 0 to ¼ percent target range for the federal funds rate for a considerable time following the end of its asset purchase program in October, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored. However~~ If incoming information indicates faster progress toward the Committee's employment and inflation objectives than the Committee now expects, then increases in the target range for the federal funds rate are likely to occur sooner than currently anticipated. Conversely, if progress proves

slower than expected, then increases in the target range are likely to occur later than currently anticipated.

OR

3′. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to ¼ percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress—both realized and expected—toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. Based on its current assessment **of these factors**, the Committee ~~judges~~ **anticipates** that ~~it can be patient in beginning to normalize the stance of monetary policy~~ **it likely will be appropriate to maintain the current target range for the federal funds rate at least as long as inflation between one and two years ahead is projected to be below 2 percent**. ~~The Committee sees this guidance as consistent with its previous statement that it likely will be appropriate to maintain the 0 to ¼ percent target range for the federal funds rate for a considerable time following the end of its asset purchase program in October, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored. However~~ If**, once energy prices stabilize, inflation between one and two years ahead is projected to remain below 2 percent, the Committee will take additional actions to foster a more rapid return of inflation to the 2 percent objective** ~~incoming information indicates faster progress toward the Committee's employment and inflation objectives than the Committee now expects, then increases in the target range for the federal funds rate are likely to occur sooner than currently anticipated. Conversely, if progress proves slower than expected, then increases in the target range are likely to occur later than currently anticipated~~.

4. 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. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

5. 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. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

FOMC STATEMENT—JANUARY 2015 ALTERNATIVE B

1. Information received since the Federal Open Market Committee met in ~~October~~ **December** suggests that economic activity ~~is~~ **has been** expanding at a ~~moderate~~ **solid** pace. Labor market conditions **have** improved further, with ~~solid~~ **strong** job gains and a lower unemployment rate. On balance, a range of labor market indicators suggests that underutilization of labor resources continues to diminish. Household spending is rising moderately ~~and~~**; recent declines in energy prices have boosted household purchasing power.** Business fixed investment is advancing, while the recovery in the housing sector remains slow. Inflation has ~~continued to run~~ **declined further** below the Committee's longer-run objective, ~~partly~~ **largely** reflecting declines in energy prices. Market-based measures of inflation compensation have declined ~~somewhat further~~ **substantially in recent months**; survey-based measures of 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 activity will expand at a moderate pace, with labor market indicators ~~moving~~ **continuing to move** toward levels the Committee judges consistent with its dual mandate. The Committee **continues to** see~~s~~ the risks to the outlook for [**domestic**] economic activity and the labor market as nearly balanced [**, although the foreign economic outlook has become somewhat more uncertain in recent months**]. **Inflation is anticipated to decline further in the near term, but** the Committee expects inflation to rise gradually toward 2 percent **over the medium term** as the labor market improves further and the transitory effects of lower energy prices and other factors dissipate. The Committee continues to monitor inflation developments closely.
3. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to ¼ percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress—both realized and expected—toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. Based on its current assessment, the Committee judges that it can be patient in beginning to normalize the stance of monetary policy. ~~The Committee sees this guidance as consistent with its previous statement that it likely will be appropriate to maintain the 0 to ¼ percent target range for the federal funds rate for a considerable time following the end of its asset purchase program in October, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored.~~ However, if incoming information indicates faster progress toward the Committee's employment and inflation objectives than the Committee now expects, then increases in the target range for the federal funds rate are likely to occur sooner than currently anticipated. Conversely, if progress proves slower than expected, then increases in the target range are likely to occur later than currently anticipated.

4. 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. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.
5. 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. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

FOMC STATEMENT—JANUARY 2015 ALTERNATIVE C

1. Information received since the Federal Open Market Committee met in ~~October~~ **December** suggests that **the** economic ~~activity is expanding at a moderate pace~~ **expansion has gained momentum**. Labor market conditions improved further, with solid job gains and a lower unemployment rate. On balance, a range of labor market indicators suggests that underutilization of labor resources continues to diminish. Household spending is rising moderately ~~and~~**; recent declines in energy prices have boosted household purchasing power.** Business fixed investment is advancing, while the recovery in the housing sector remains slow. Inflation has continued to run below the Committee's longer-run objective, ~~partly~~ **largely** reflecting declines in energy prices. **Although** market-based measures of inflation compensation have declined somewhat further~~;~~**,** survey-based measures of 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 activity will expand at a moderate pace, with labor market indicators ~~moving~~ **continuing to move** toward levels the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for economic activity and the labor market as nearly balanced. The Committee expects inflation to rise gradually ~~toward~~ **to** 2 percent **over the medium term** as the labor market improves further and the transitory effects of lower energy prices and other factors dissipate. The Committee continues to monitor inflation developments closely.

3. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to ¼ percent target range for the federal funds rate remains appropriate. In determining ~~how long to maintain this~~ **future adjustments of the** target range **for the federal funds rate**, the Committee will assess ~~progress—both~~ realized and expected **deviations of employment and inflation from** ~~toward~~ its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. Based on its current assessment, the Committee judges that ~~it can be patient in beginning to normalize the stance of monetary policy~~ **economic conditions [may | could potentially] warrant an increase in the target range for the federal funds rate in a couple of meetings**. ~~The Committee sees this guidance as consistent with its previous statement that it likely will be appropriate to maintain the 0 to ¼ percent target range for the federal funds rate for a considerable time following the end of its asset purchase program in October, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored.~~ However, if incoming information indicates ~~faster~~ **slower** progress toward the Committee's employment and inflation objectives than the Committee now expects, then **the initial** increase~~s in the target range for the federal funds rate are~~ **is** likely to occur ~~sooner~~ **later** than currently anticipated. ~~Conversely, if progress proves slower than expected, then increases in the target range are likely to occur later than currently anticipated.~~

4. ~~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.~~ **Based on its economic outlook,** the Committee currently anticipates that even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run. **In response to unanticipated economic and financial developments, the Committee will adjust the target federal funds rate to best promote the attainment of its objectives of maximum employment and 2 percent inflation.**

5. 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. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

DECEMBER 2014 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 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 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 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 JANUARY 2015 ALTERNATIVES A, B, AND 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. 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 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 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.