Appendix 1: Materials used by Mr. Potter and Ms. Logan

Class II FOMC – Restricted (FR)

Material for the Briefing on

Financial Developments and Open Market Operations

Simon Potter and Lorie Logan

January 31, 2017

Class II FOMC – Restricted (FR)

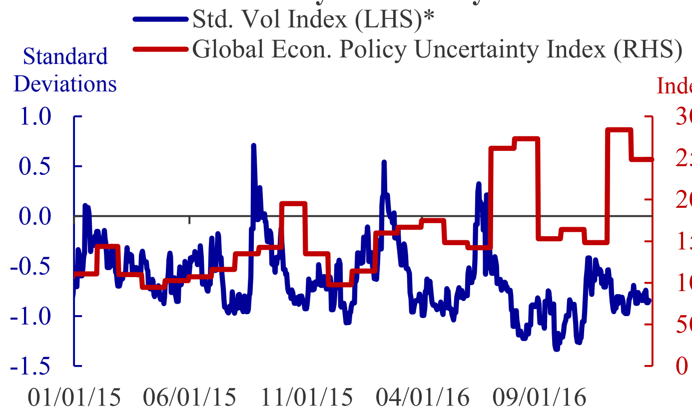
Exhibit 1

(1) Changes in Asset Prices Since Nov. FOMC

	From Nov. FOMC to Dec. FOMC	Since Dec. FOMC	Total Change
Nominal 10-Year TSY Yield	+64 bps	+1 bps	+66 bps
5Y5Y Breakeven Inflation	+31 bps	+5 bps	+36 bps
U.S. Broad T.W. Dollar	+2.5 %	+0.2 %	+2.7 %
S&P 500 Index	+7.6 %	+1.0 %	+8.7 %
High-Yield OAS	-84 bps	-26 bps	-110 bps

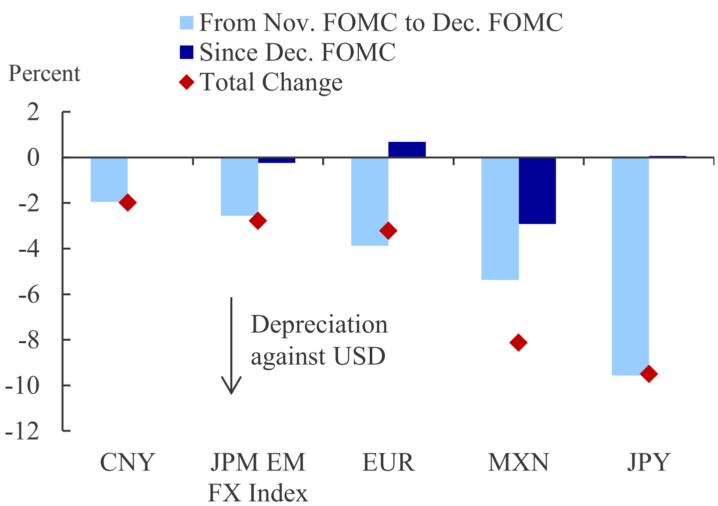
Source: Barclays, Bloomberg, Federal Reserve Board

(2) Standardized Implied Volatility and Global Policy Uncertainty Index



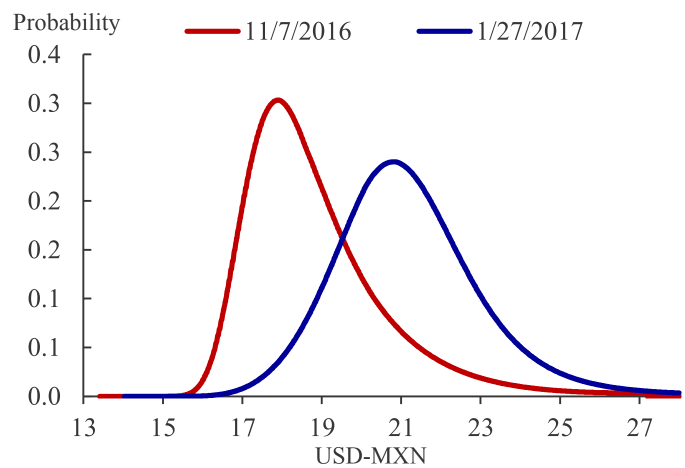
*Simple average of standardized VIX, DM FX implied volatility, 1-month 2-year swaption-implied volatility, and 1-month 10-year swaption-implied volatility re-standardized back to June 1994.
Source: Baker, Bloom and Davis, Bloomberg, Desk Calculations

(3) Currency Performance against U.S. Dollar



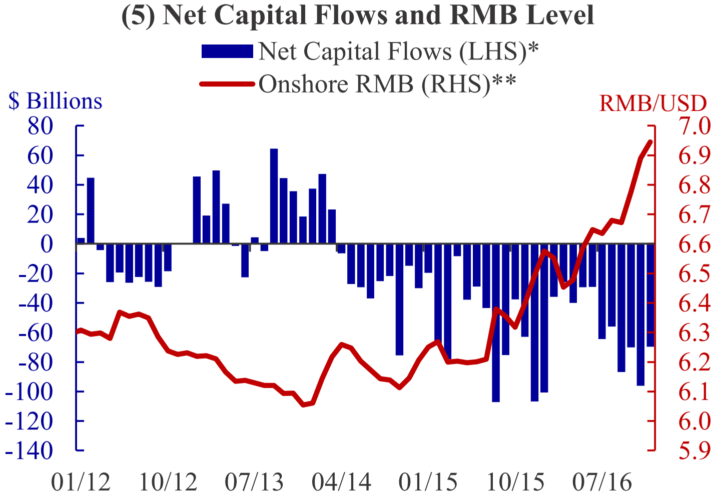
Source: Bloomberg, J.P. Morgan

(4) USD-MXN Three-Month Option-Implied Risk-Neutral PDF



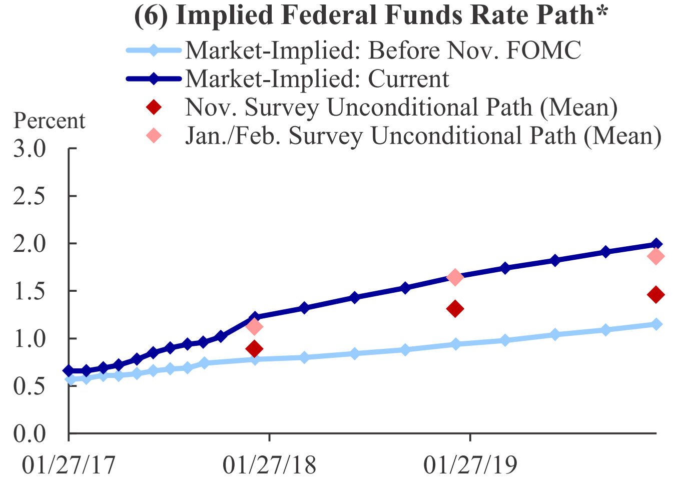
Source: FRBNY

(5) Net Capital Flows and RMB Level



*Reflects financial account balance plus errors and omissions.
**Month-end level.
Source: Bloomberg, IIF, Desk estimate for Dec. '16

(6) Implied Federal Funds Rate Path*

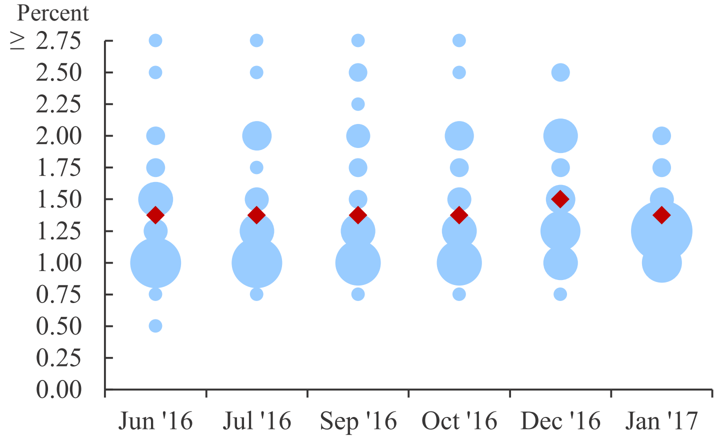


*Market-implied paths derived from federal funds and Eurodollar futures. Survey paths are the average PDF-implied means from the Nov. and Jan./Feb. Surveys of Primary Dealers and Market Participants.
Source: Bloomberg, Desk Calculations, Federal Reserve Board, FRBNY

Class II FOMC – Restricted (FR)

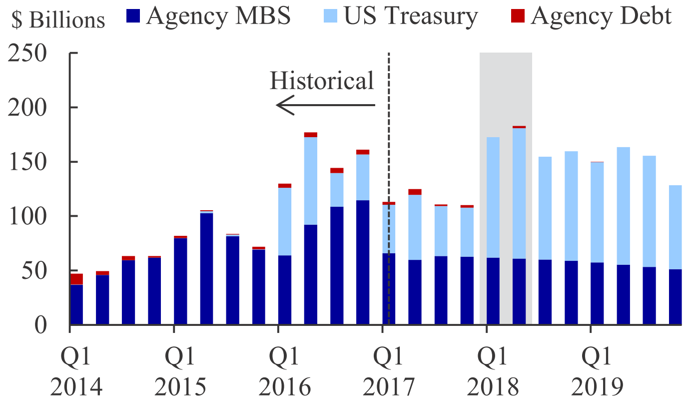
Exhibit 2

(7) Fed Funds Rate Expected at Change in Reinvestment Policy*



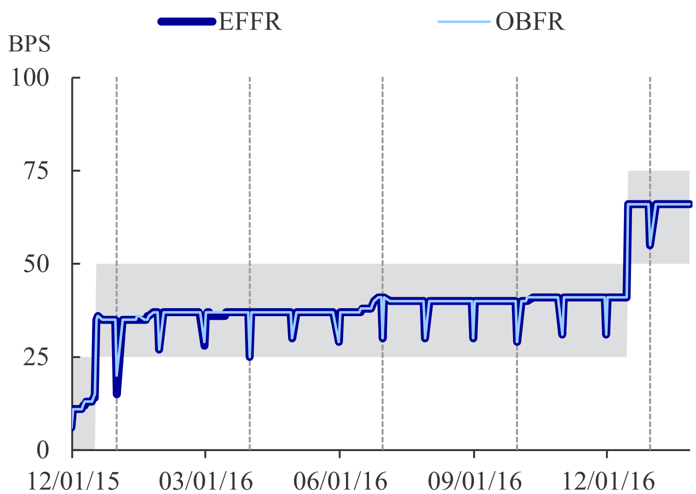
*Dots scaled by percent of respondents from the Dec. and Jan. /Feb. Surveys of Primary Dealers and Market Participants. Red diamonds are medians.
Source: FRBNY

(8) Receipts of Principal on SOMA Securities*



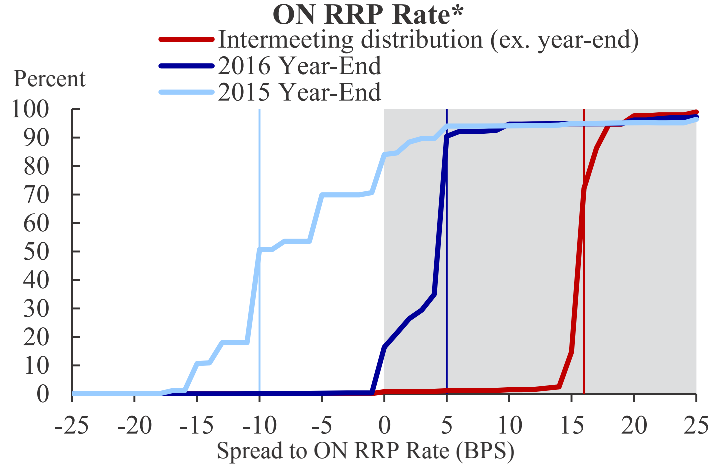
*Shaded area indicates the interquartile range of timing for first change in reinvestment policy from the Jan./Feb. Surveys of Primary Dealers and Market Participants.
Source: FRBNY

(9) Overnight Unsecured Rates*



*Grey dashed lines indicate quarter-ends. Shaded area reflects target range.
Source: FRBNY

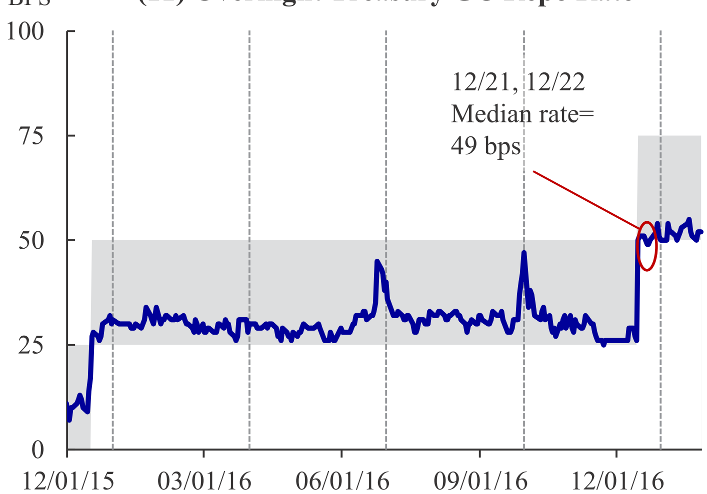
(10) Distribution of Fed Funds Volumes Relative to ON RRP Rate*



*Vertical lines indicate volume-weighted median. Shaded area reflects target range.
Source: FRBNY

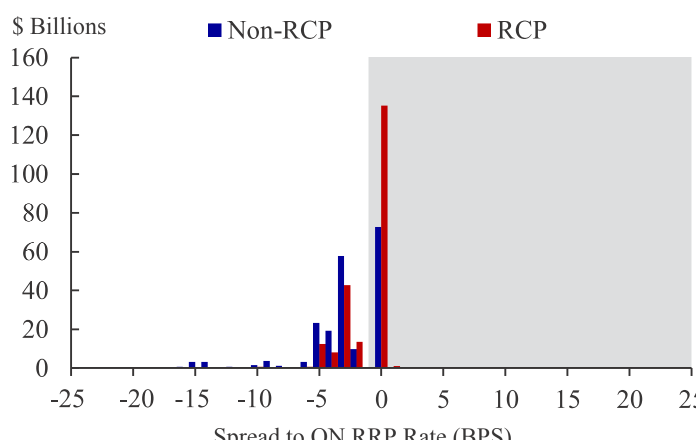
BPS

(11) Overnight Treasury GC Repo Rate*



*Tri-party GC repo rate excludes intrabank, GCF, and ON RRP trades. Grey dashed lines indicate quarter-ends. Shaded area reflects target range.
Source: BNYM, FRBNY, JPM

(12) Overnight Treasury GC Repo Transactions Conducted on Dec. 21 and Dec. 22*

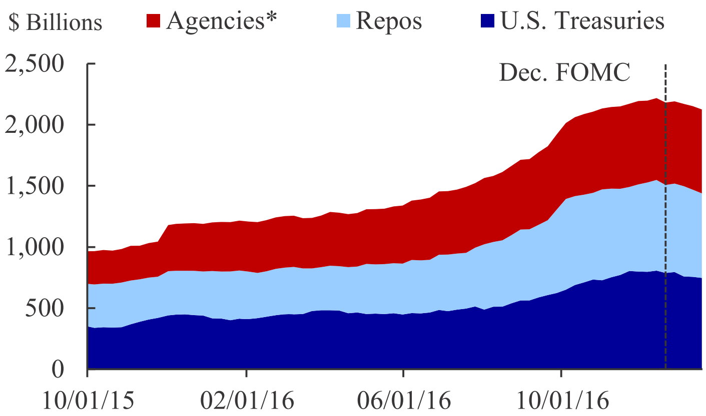


*Tri-party GC repo rate excludes intrabank, GCF, and ON RRP trades. Shaded area reflects target range.
Source: BNYM, FRBNY, JPM

Class II FOMC – Restricted (FR)

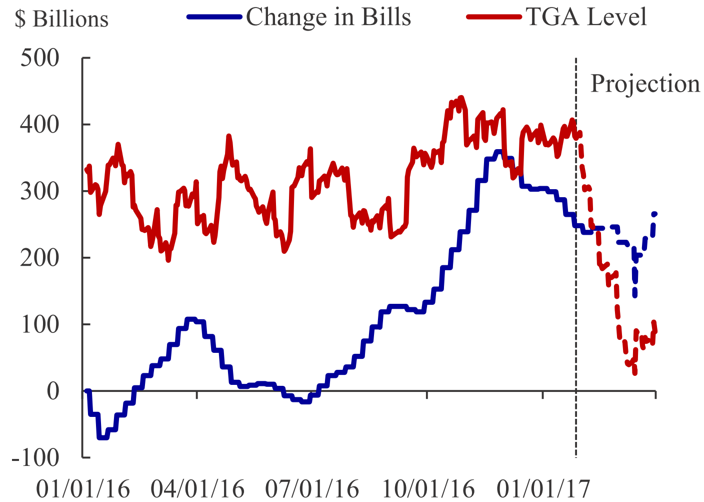
Exhibit 3

(13) Government Money Market Mutual Fund Asset Allocation



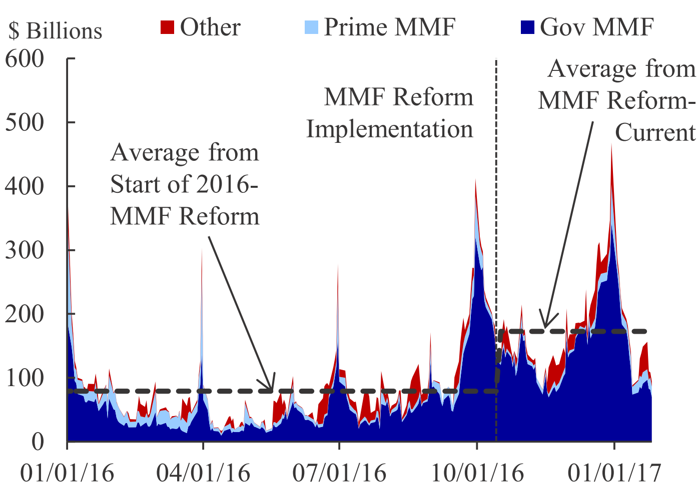
*Includes gov't agency debt and agency issued securities with floating interest rates.
Source: iMoney Net

(14) Cumulative Net Bill Issuance and Level of TGA



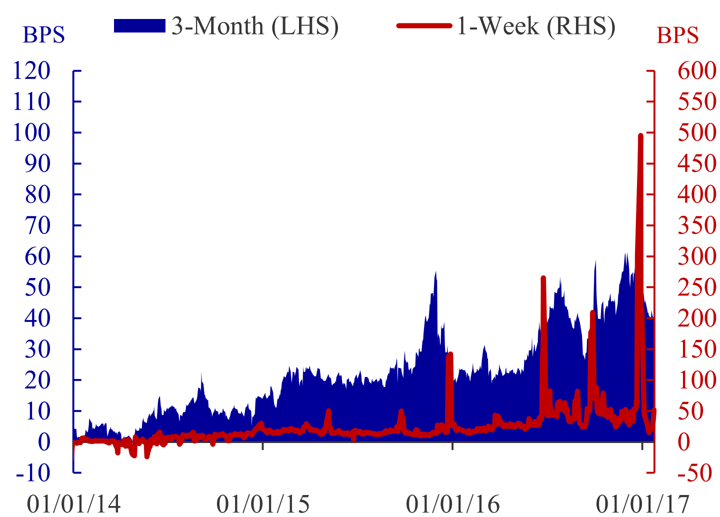
Source: FRBNY, Treasury

(15) ON RRP Take-Up by Counterparty Type*



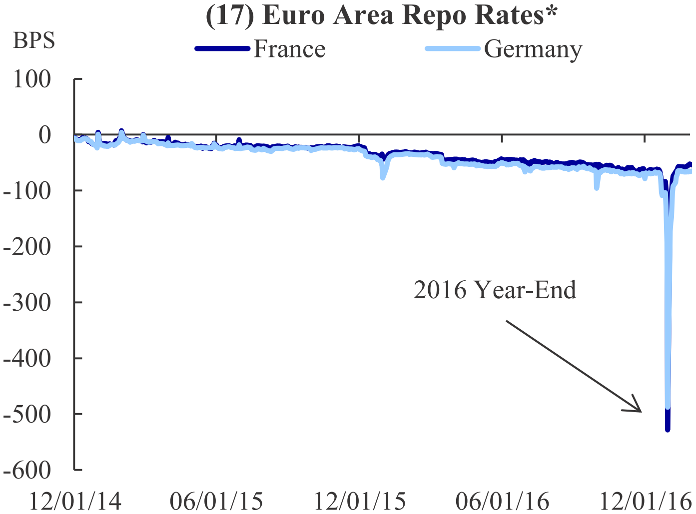
*Average lines exclude quarter-ends.
Source: FRBNY

(16) EUR-USD FX Swap Basis*



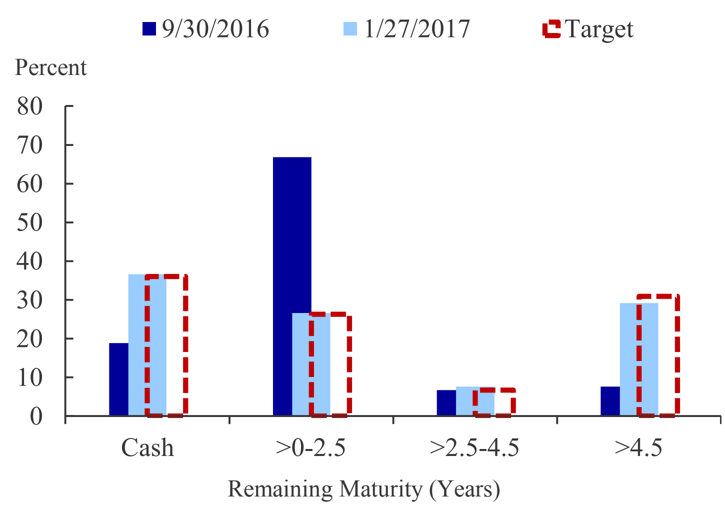
Source: Bloomberg, FRBNY

(17) Euro Area Repo Rates*



*Rates based on RepoFunds Germany and France.
Source: Bloomberg

(18) Euro Portfolio Allocations



Source: FRBNY

Appendix 1: Desk Operational Readiness Framework

(1) Planned small value exercises for 2017 authorized under the Domestic Authorization

Operation Name	Anticipated Timeframe (H: Half)	Expected Approx. Value for Each Exercise ($ millions)[1]	Approx. Value of 2016 Exercise ($millions)
Outright operations:			
MBS outright sales	H1	300	129
	H2	200	78
Coupon swaps with unsettled MBS holdings	H1	25	N/A
	H2	25	20
TSY outright purchases	H1	100-200	226
	H2	100-200	400
TSY outright sales	H1	100-200	200
	H2	100-200	400
Total expected value of outright operations:		950-1,350	1,453
Authorization limit for outright operations:		5,000	5,000
Temporary operations:			
Overnight repo	H1	70	610
	H2	70	59
Term repo	H1	70	N/A
	H2	70	N/A
Overnight reverse repo facility (agency MBS collateral)	H1	30	N/A
	H2	30	N/A
Term reverse repo	H1	175	N/A
	H2	175	N/A
Total expected value of temporary operations:		690	669
Authorization limit for temporary operations:		5,000	5,000

(2) Planned small value exercises for 2017 authorized under the Foreign Authorization

Operation Name	Anticipated Timeframe (H: Half); (number of exercises, if more than one)	Expected Approx. Value for Each Exercise (in millions)[2]	Approx. Value of 2016 Exercise (in millions)
Standing dollar and foreign currency liquidity swaps[3]	H1; (3)	<$1 each	H1 (4) <$1 each
	H2; (3)	<$1 each	H2 (3) <$1 each
Foreign currency repo	H1; (2)	€1 each	H1 (2) €1 each
	H2; (2)	€1 each	H2 (2) €1 each
Foreign currency reverse repo	H1	€ 1	N/A
	H2	€ 1	N/A
Euro and yen-denominated sovereign debt sales	H1	¥100	N/A
	H1	€ 1	N/A
Total expected value:		$15	$5
Authorization limit:		$2,500	$2,500

[1]Each exercise may consist of more than one transaction.
[2]Each exercise may consist of more than one transaction.
[3]These exercises involve the following currencies: British pound, Canadian dollar, euro, Japanese yen, and Swiss franc.

Appendix 2: Summary of Operational Testing

Summary of Operational Tests in prior period:

- None

Upcoming Operational Tests

- No tests scheduled under the Domestic Authorization
- One test scheduled under the Foreign Authorization
    - February 15: Euro-denominated overnight repo for approximately €1 million

Appendix 2: Materials used by Mr. Wilcox

Class II FOMC – Restricted (FR)

Material for Briefing on

The U.S. Outlook

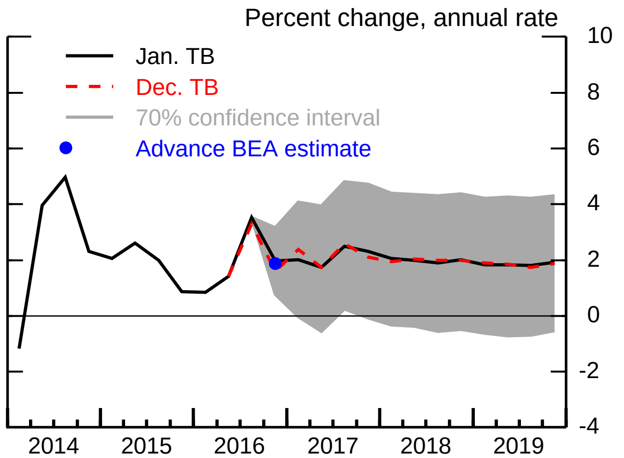
David W. Wilcox

January 31, 2017

Forecast Summary

Confidence Intervals for Panels 1, 4, 7, and 8 Based on FRB/US Stochastic Simulations

1. Real GDP

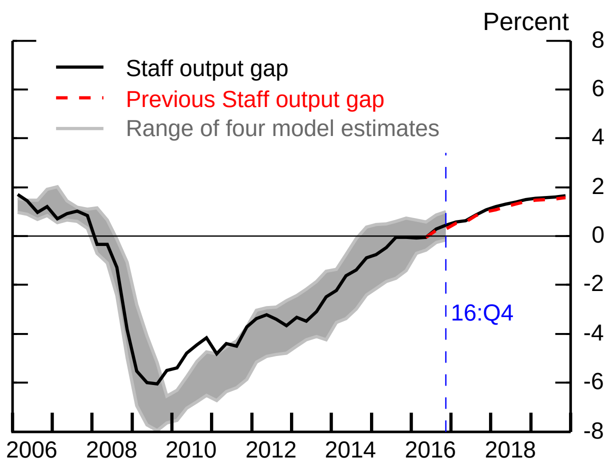


2. Tealbook Update

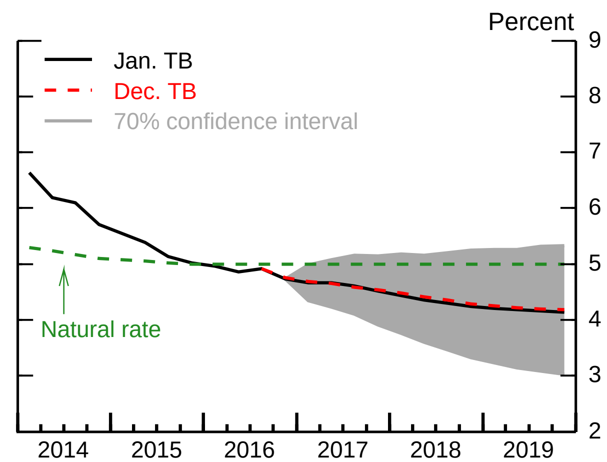
	2017 H1	2017 H2	2018	2019
	Change at AR, %		Q4-over-Q4 change, %	
Real GDP	2.0	2.3	2.0	1.8
Jan. TB	*1.9*	*2.4*	*2.0*	*1.8*
Unempl. rate*	4.7	4.5	4.2	4.1
Jan. TB	*4.7*	*4.5*	*4.2*	*4.1*
Total PCE prices	1.8	1.6	1.8	1.9
Jan. TB	*1.8*	*1.6*	*1.8*	*1.9*

* Percent, final quarter of period indicated.

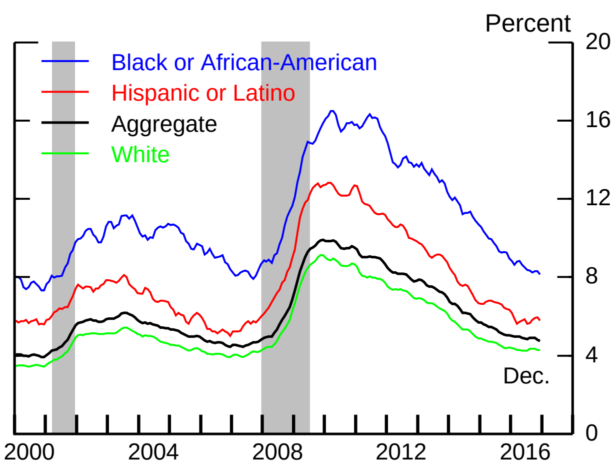
3. Output Gap Estimates



4. Unemployment Rate

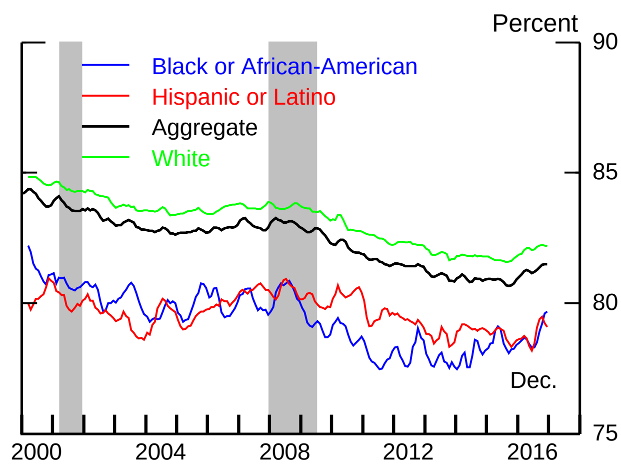


5. Unemployment Rates by Race or Ethnicity



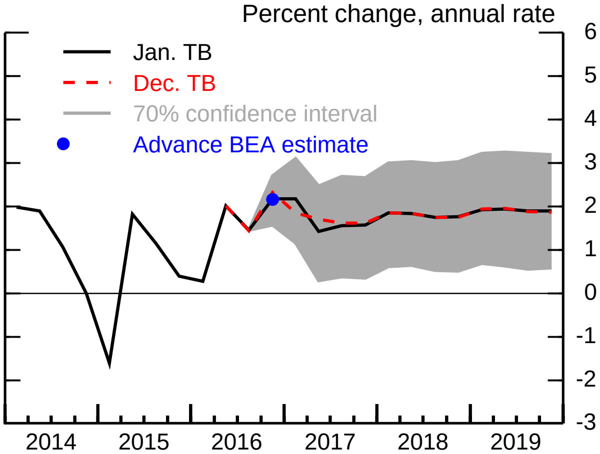
Note: Three-month moving averages. Shaded bars indicate a period of business recession as defined by the NBER.

6. Labor Force Participation Rates by Race or Ethnicity

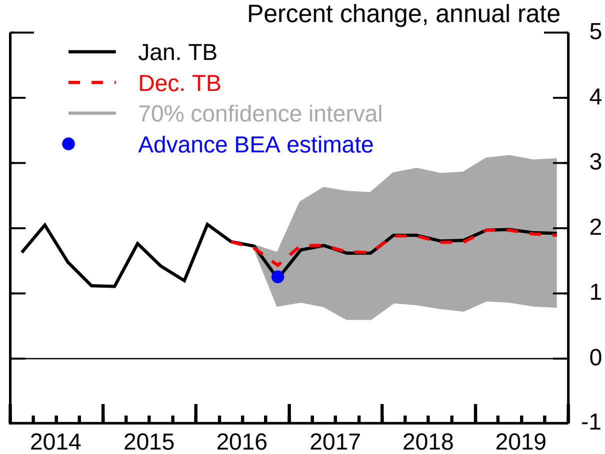


Note: Three-month moving averages. Data cover persons between the ages of 25 and 54; data by race or ethnicity are seasonally adjusted by Board staff. Shaded bars indicate a period of business recession as defined by the NBER.

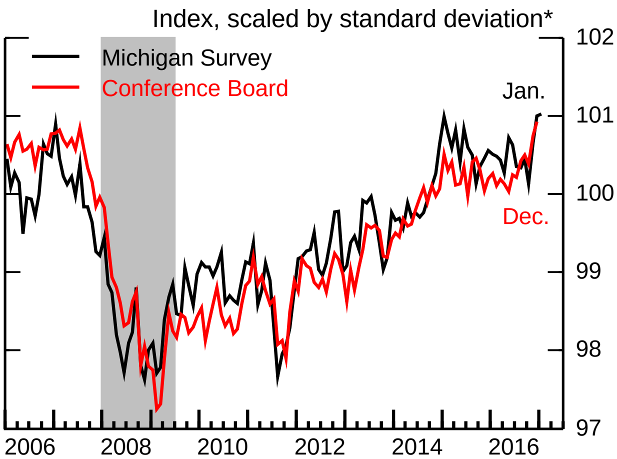
7. PCE Prices



8. PCE Prices Excluding Food and Energy

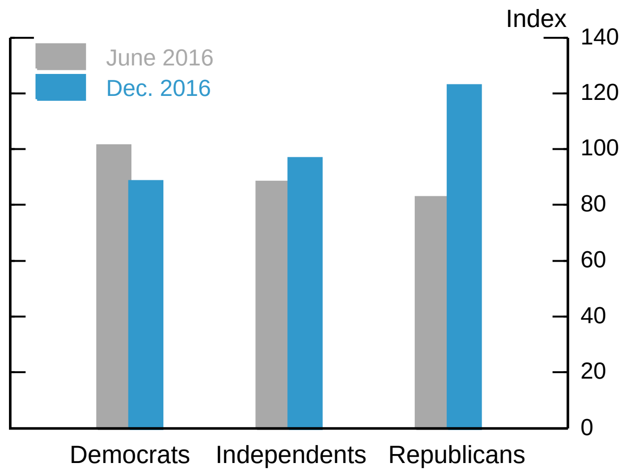


9. Consumer Sentiment

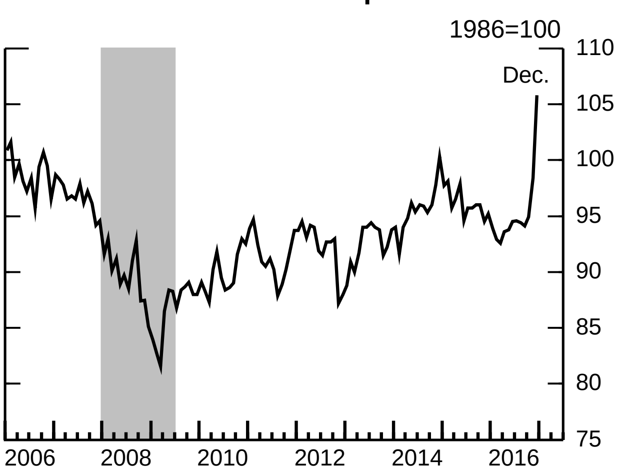


Note: *Average value since 1978 equals 100. Shaded bar indicates a period of business recession as defined by the NBER.

10. Michigan Survey Sentiment by Political Party

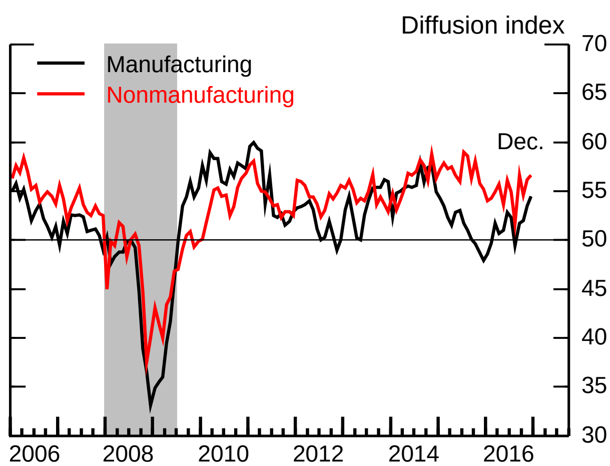


11. NFIB Small Business Optimism Index



Note: Data are seasonally adjusted. Shaded bar indicates a period of business recession as defined by the NBER.

12. ISM Indexes



Note: Shaded bar indicates a period of business recession as defined by the NBER.

Appendix 3: Materials used by Mr. Kamin

Class II FOMC – Restricted (FR)

Material for Briefing on

The International Outlook

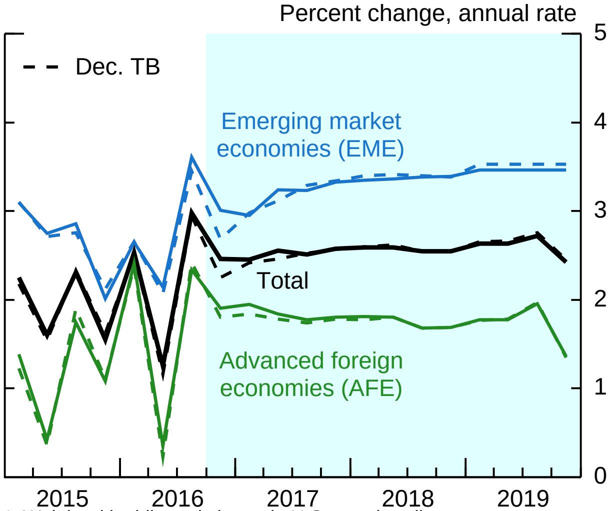
Steven B. Kamin
Exhibits by Meghan Letendre
January 31, 2017

Class II FOMC - Restricted (FR)

Exhibit 1

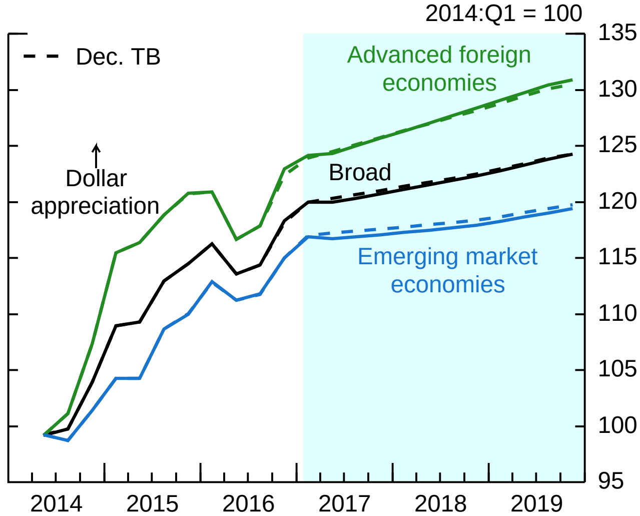
The International Outlook

1. Foreign GDP*

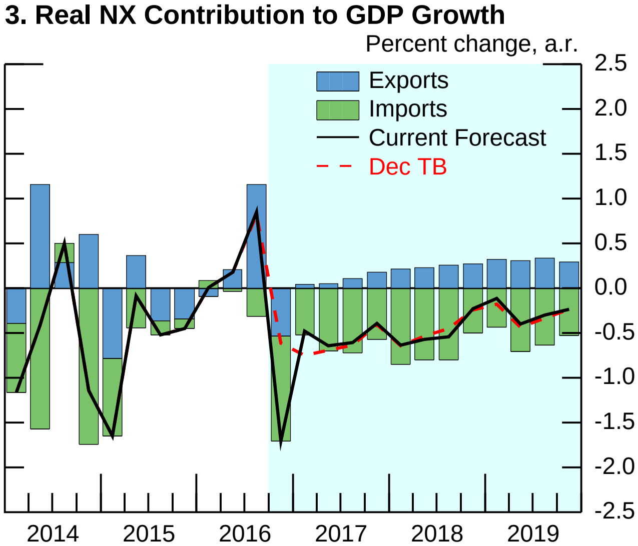


* Weighted by bilateral shares in U.S. merchandise exports.

2. Real Dollar



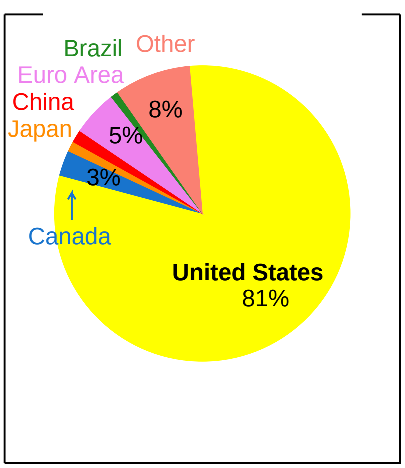
3. Real NX Contribution to GDP Growth



4. Foreign Risks

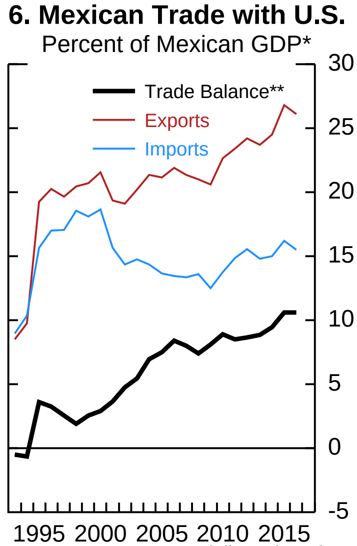
	Still present	Somewhat subsided	Largely subsided
1. Oil Prices			X
2. Brexit		X	
3. European Banking		X	
4. China	X		
5. EME Turbulence	X		

5. Mexican Goods Exports*



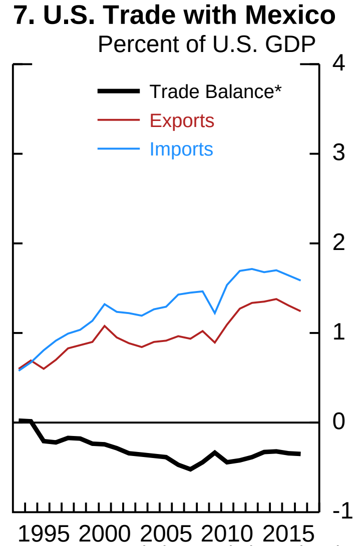
* Estimate for 2016.

6. Mexican Trade with U.S.



* For 2016, uses 2015 dollar value of GDP.
** For 2016, trade is cumulative value through November, annualized.

7. U.S. Trade with Mexico



* For 2016, trade is cumulative value through November, annualized.

Class II FOMC - Restricted (FR)

Exhibit 2 (last)

The International Outlook (2)

8. Key Elements of Proposed Border Adjustment Tax

Similar to a VAT:
- Domestic sales revenue taxed at 20 percent.
- Purchases of domestic inputs deductible.
- Border adjustments:
  - Purchases of imported inputs not deductible.
  - Taxes on export revenues essentially rebated.

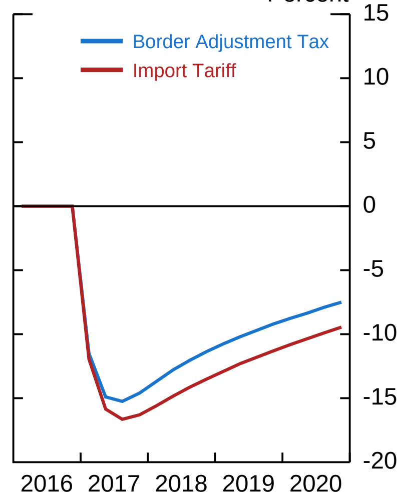
But more like a tax on corporate profits or cash flow:
- Firms may deduct domestic wage payments.
- Advantages domestic producer vs. imports.
- Advantages exporters to foreign markets.

Two other general provisions:
- Interest expenses not deductible.
- Immediate deductibility of capital expenditures.

9. Imports

Deviations from baseline

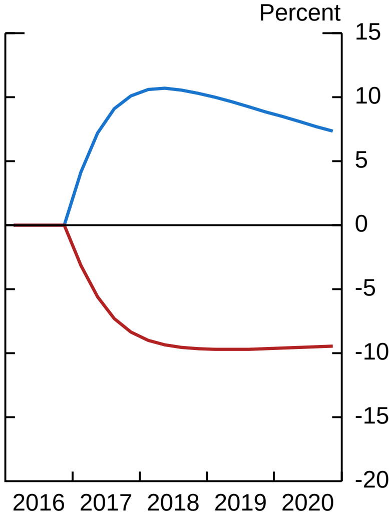
Percent



10. Exports

Deviations from baseline

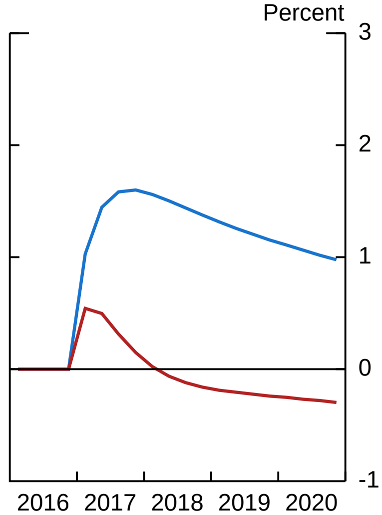
Percent



11. GDP

Deviations from baseline

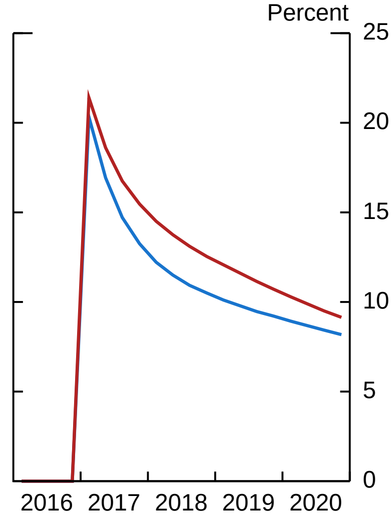
Percent



12. Import Prices

Deviations from baseline

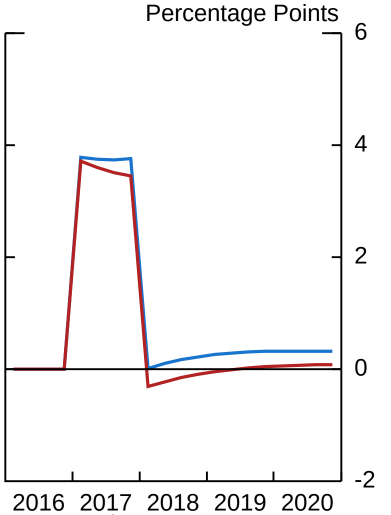
Percent



13. Inflation (PCE)*

Deviations from baseline

Percentage Points

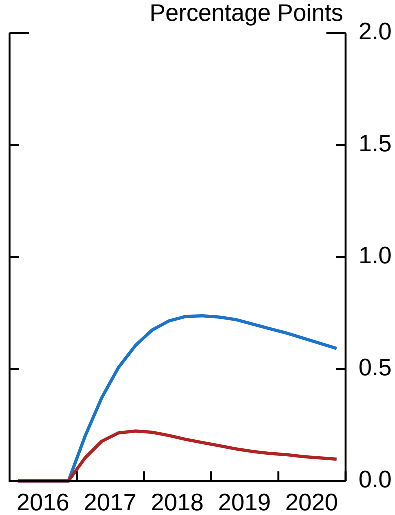


* 4-quarter changes

14. Policy Rate

Deviations from baseline

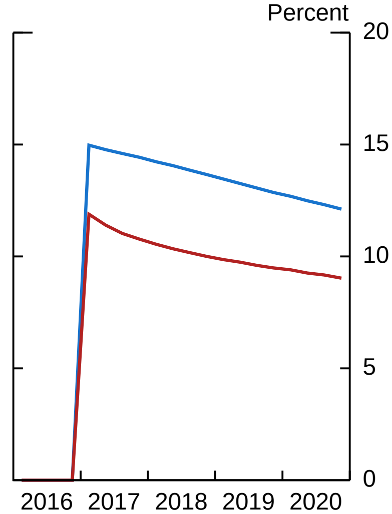
Percentage Points



15. Broad Real Dollar

Deviations from baseline

Percent



Appendix 4: Materials used by Mr. Lehnert

Class II FOMC – Restricted (FR)

Material for Briefing on

Financial Stability Developments

Andreas Lehnert
January 31, 2017

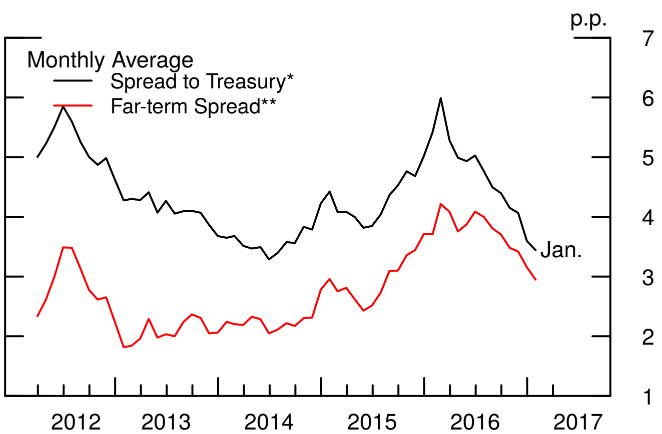
Class II FOMC -- Restricted FR

Exhibit 1

January 31, 2017

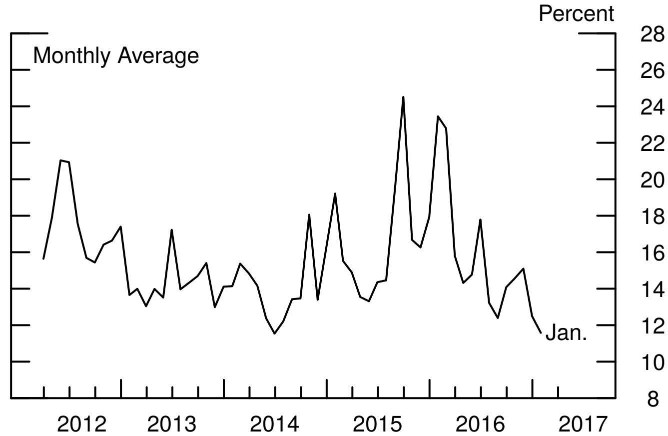
Risk Appetite and Financial Sector Leverage

High Yield Bond Spreads



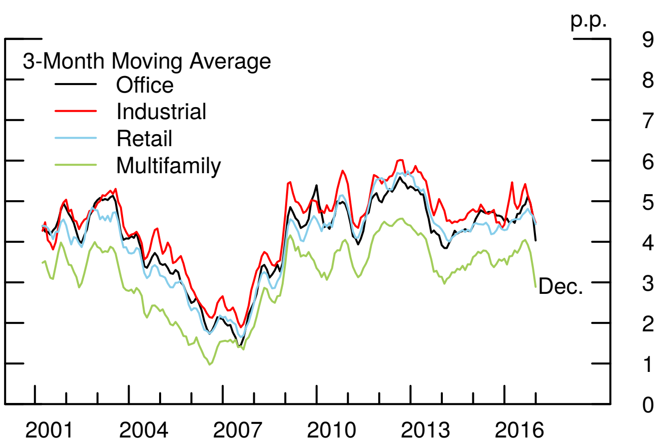
Notes: *Estimated from curve fit to Merrill Lynch bond yields. Treasury yields from smoothed yield curve estimated from off-the-run securities. **Spread of 1 year 9 year forward high yield rate over Treasury forward rate.
Source: Staff estimates. Plot includes data up to Jan 27.

VIX



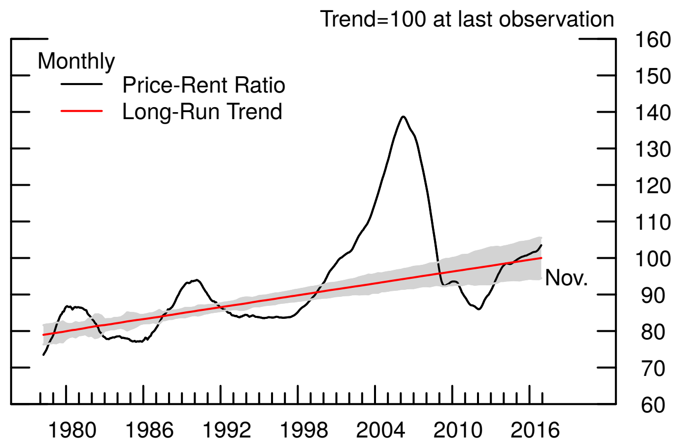
Source: Chicago Board Options Exchange.
Plot includes data up to Jan 30.

Spread of Capitalization Rate at Origination to Treasury Yield



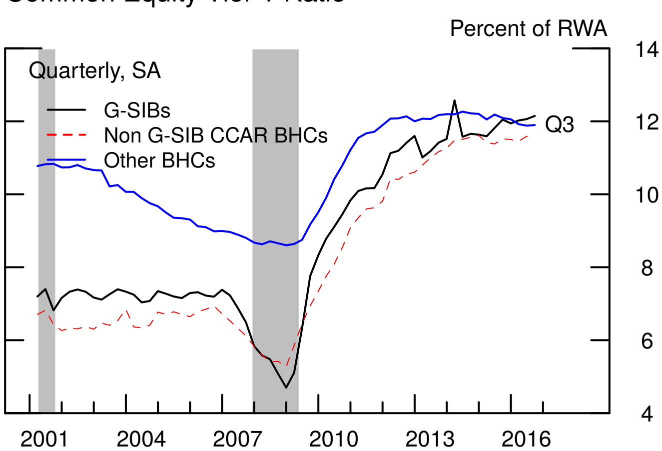
Source: Real Capital Analytics.

Aggregate Price-Rent Ratio



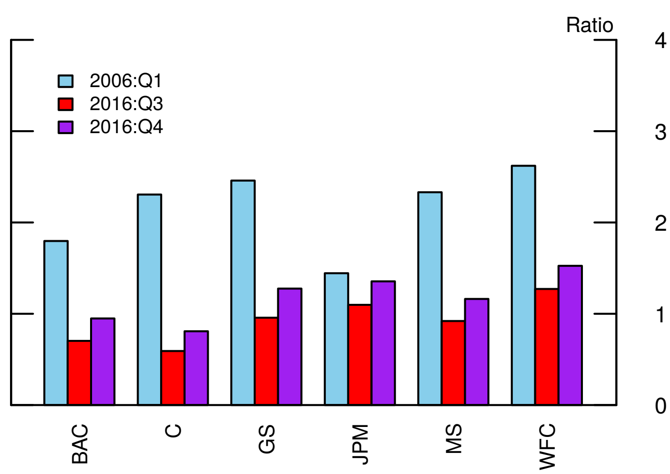
Note: Chart shows the log of the price-rent ratio. Shaded area shows 95-percent confidence interval for the long-run trend, which is estimated using data from 1978-2001 and includes the effect of carrying costs on the expected price-rent ratio.
Source: For prices, CoreLogic. For rents, BLS.

Common Equity Tier 1 Ratio



Note: Prior to 2014:Q1, the numerator of the common equity tier 1 ratio is tier 1 common capital. Beginning in 2014:Q1 for advanced approaches BHCs and in 2015:Q1 for all other BHCs, the numerator is common equity tier 1 capital.
Source: FR Y-9C.

Price-to-Book Ratios for 6 Largest U.S. BHCs

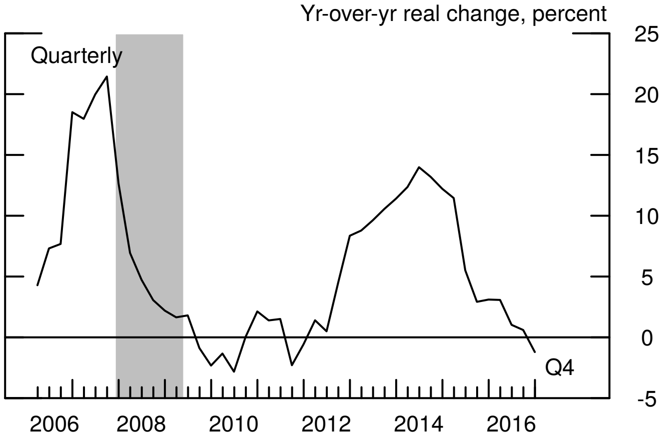


Source: FactSet, SNL.

Class II FOMC -- Restricted FR **Exhibit 2** January 31, 2017

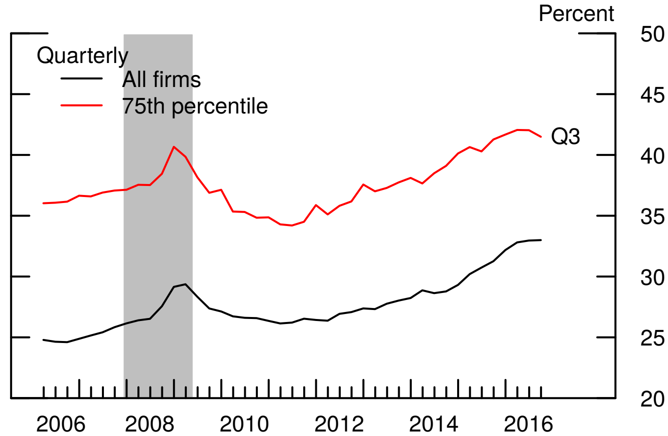
Nonfinancial Leverage and Maturity/Liquidity Transformation

Total High Risk Debt



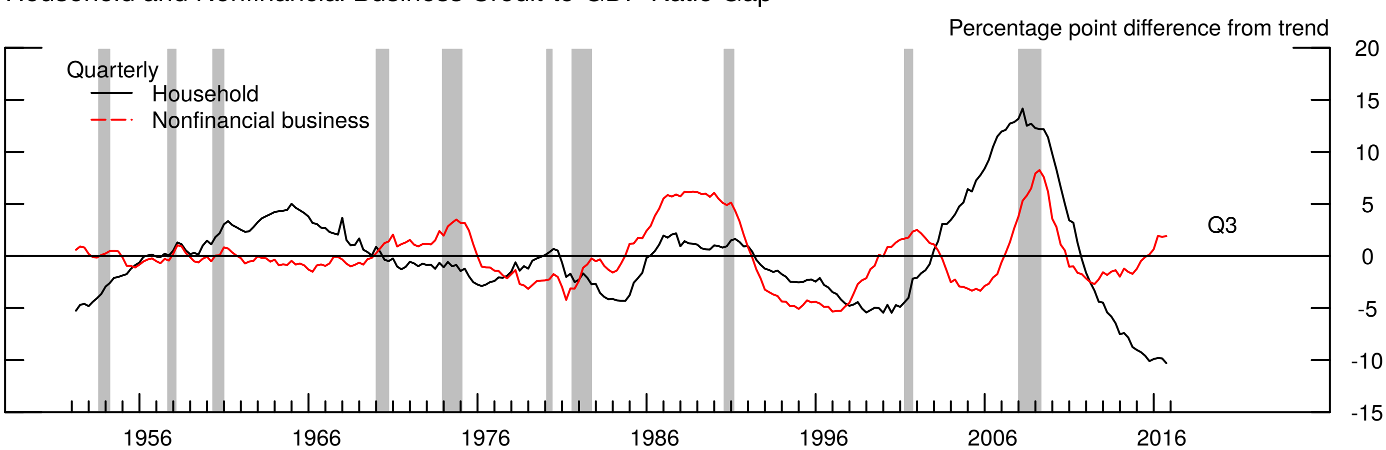
Note: Total high risk debt is the sum of speculative grade and unrated bonds and leveraged loans. Nominal outstandings growth is translated into real terms after subtracting the growth rate of the price deflator for nonfinancial business sector output.
Source: Mergent Fixed Investment Securities Database, Standard & Poor's.

Gross Leverage



Note: Gross leverage is the ratio of the book value of total debt to the book value of total assets. 75th percentile is calculated from subset of 3000 largest firms, by assets.
Source: Compustat.

Household and Nonfinancial Business Credit-to-GDP Ratio Gap



Note: Gaps calculated using an HP filter with Lambda = 400,000.
Source: Financial accounts of the United States, and authors' calculations.

Money Market Mutual Fund Holdings

Billions of dollars

	2015:H1 (ave)	Dec. 31, 2016
1. Treasury+Agency+ONRRP	1089	1955
With counterparties other than the federal government		
2. CP+CD	1032	303
3. Repo	387	452
4. Other	479	213
5. Total	2987	2923

Money Market Mutual Fund Reform

- Some CP and CD funding has shifted elsewhere in the financial system
- Potential growth of alternative investment vehicles with similar fragilities
- Rapid growth of FHLB liabilities held by government-only funds

Exhibit 3 (last page)

Staff Judgment on Levels of Vulnerabilities

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.

	January 2016	**October 2016**	**January 2017**
Valuation Pressures	• Wider risk spreads and lower issuance of speculative-grade debt suggest further easing of valuation pressures in corporate debt markets • CRE prices continue to grow rapidly, although they may be supported by low interest rates • Treasury term premiums remain low • Equity valuation pressures are little changed	• Treasury term premiums remain well in negative territory • CRE valuations continue to rise as capitalization rates reached historical lows, but sales volumes declined and lending standards tightened • Corporate bond spreads and equity risk premiums are in line with historical norms	• Risky corporate bond spreads and forward price-to-earnings ratios now stand in the second and fifth quintiles of their respective historical distributions • CRE and residential prices rose further; valuation measures stand above their historical averages • Treasury term premiums increased but remain below their historical average
Private Nonfinancial Sector Leverage	• Leverage of speculative and unrated firms is at a multi-decade high, in particular in the oil sector • Debt growth in nonfinancial business sector has decelerated • Credit-to-GDP ratio remains below estimated trend	• Leverage for the nonfinancial corporate sector stayed elevated • Growth of risky corporate debt has been modest recently, but leverage of speculative-grade firms remained elevated • The debt-to-income ratio of households continued to inch down	• Leverage for the nonfinancial corporate sector, particularly among speculative-grade firms, stayed elevated • Outstanding risky corporate debt edged lower relative to a year earlier • The debt-to-income ratio of households continued to inch down
Financial Sector Leverage	• Capital positions at BHCs are relatively high and increased further • Net secured borrowing by dealers decreased from its already low level • Hedge fund leverage has moderated in recent months	• Regulatory capital ratios for banks and insurance companies remain at high levels • Measures of leverage in the nonbank sector suggest little change • Spillovers related to developments at DB have been limited to equity prices of weakly capitalized European banks with similar business models	• Regulatory capital ratios for banks and insurance companies remain at high levels • Measures of leverage in the nonbank sector are about unchanged • Risks associated with spillovers from troubled Italian banks appear low as U.S. and European banks have limited exposures to these banks
Maturity and Liquidity Trans-formation	• Liquidity buffers at large BHCs remain robust • Liquidity mismatches at open-end mutual funds could magnify volatility in corporate bond markets in case of large outflows • Securitization has contracted in recent months and new regulations took effect in November	• Large BHCs' holdings of liquid assets remain at high levels • Prime institutional money market funds have considerably lower AUM, decreasing the risks associated with a run in this sector • First-mover advantage, and thus run-risk, remains at some open-end bond mutual funds	• Large BHCs' holdings of liquid assets remain at high levels • Reforms have made prime MMFs less prone to runs; AUM at prime MMFs declined and stand at low levels • Some caution remains with regard to the use of FHLB advances and the potential growth of alternative and fragile short-term funding vehicles
Overall Assessment			

Appendix 5: Materials used by Mr. Laubach

Class I FOMC – Restricted Controlled (FR)

Material for the Briefing on

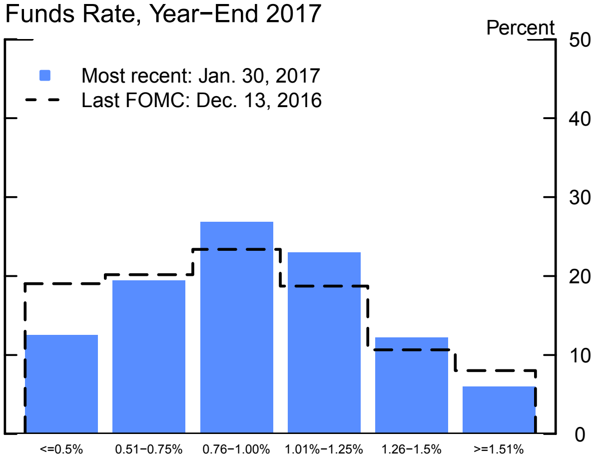
Monetary Policy Alternatives

Thomas Laubach

January 31–February 1, 2017

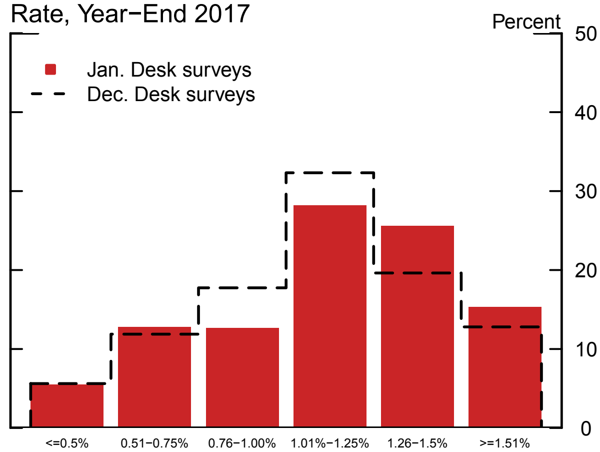
Policy Expectations and Uncertainty

Market−Implied Probability Distribution of the Federal Funds Rate, Year−End 2017



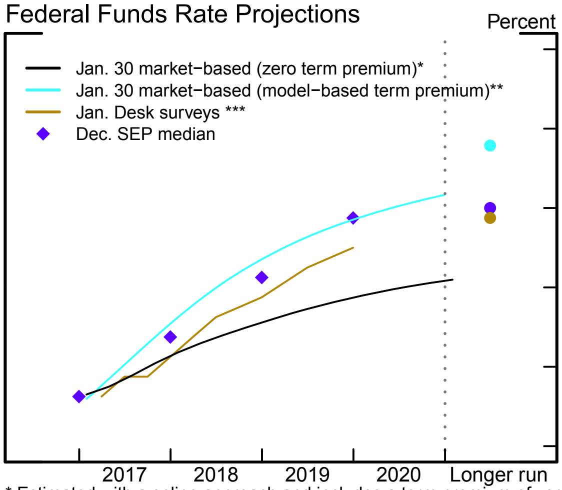
Note: Estimated from Eurodollar futures options, accounting for the differences in the levels and option−implied volatilities of LIBOR and the federal funds rate, but not adjusted for risk premiums.
Source: CME Group and staff calculations.

Survey Probability Distribution of the Federal Funds Rate, Year−End 2017



Note: Average unconditional probabilities across Desk survey respondents for different ranges of the federal funds rate at the end of 2017.
Source: FRBNY Primary Dealer and Market Particpants surveys.

Federal Funds Rate Projections



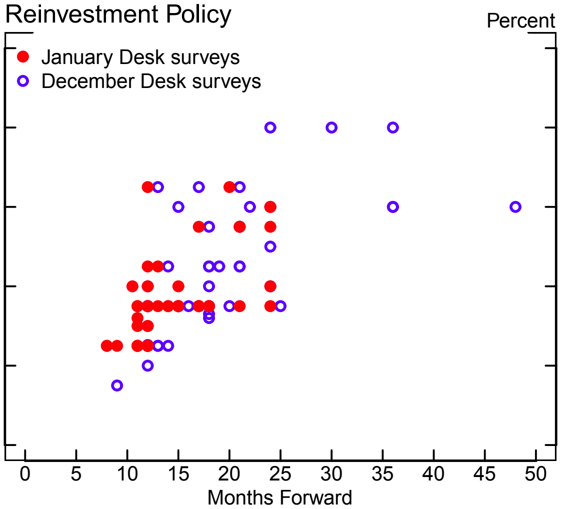
* Estimated with a spline approach and includes a term premium of zero.
** Estimated using a term structure model maintained by Board staff.
*** Path is the median of the particpants' modal paths for the federal funds rate.
Note: The longer−run market−based forecast is the federal funds rate 5 to 10 years ahead.
Source: Bloomberg, Blue Chip Financial Forecasts, Federal Reserve Board staff estimates, and FRBNY Primary Dealer and Market Participants surveys.

Policy Responses to Alternative Outcomes

		2017 Unemployment Rate (Q4)		
		−50 bps	Current Median 4.5%	+50 bps
2017 Core PCE deflator (Q4/Q4)	−50 bps	1.13%	0.88%	0.63%
	Current Median 1.8%	1.38%	1.13%	0.88%
	+50 bps	1.88%	1.63%	1.13%

Note: Shaded cell represents the current baseline assumptions.
Source: January 2017 FRBNY Primary Dealer and Market Participants surveys.

Expectations for Change in Committee's Reinvestment Policy



Note: Vertical axis represents the federal funds rate.
Source: Dec. 2016 and Jan. 2017 FRBNY Primary Dealer and Market Participants surveys.

Reinvestment Policy: Expectations and Communications

- Median expectation for funds rate at time of first change now 1.38 percent.
- Views about the timing also less dispersed than before.
- Coalescing of views did not cause notable market response.
- But experience of 2013 counsels caution.

DECEMBER 2016 FOMC STATEMENT

1. Information received since the Federal Open Market Committee met in November indicates that the labor market has continued to strengthen and that economic activity has been expanding at a moderate pace since mid-year. Job gains have been solid in recent months and the unemployment rate has declined. Household spending has been rising moderately but business fixed investment has remained soft. Inflation has increased since earlier this year but is still below the Committee's 2 percent longer-run objective, partly reflecting earlier declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation have moved up considerably but still are low; most survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market conditions will strengthen somewhat further. Inflation is expected to rise to 2 percent over the medium term as the transitory effects of past declines in energy and import prices dissipate and the labor market strengthens further. Near-term risks to the economic outlook appear roughly balanced. The Committee continues to closely monitor inflation indicators and global economic and financial developments.

3. In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 1/2 to 3/4 percent. The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a return to 2 percent inflation.

4. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to 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 and international developments. In light of the current shortfall of inflation from 2 percent, the Committee will carefully monitor actual and expected progress toward its inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

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, and it anticipates doing so until normalization of the level of the federal funds rate is well under way. This policy, by keeping the Committee's holdings of

longer-term securities at sizable levels, should help maintain accommodative financial conditions.

JANUARY-FEBRUARY 2017 ALTERNATIVE A

1. Information received since the Federal Open Market Committee met in ~~November~~ **December** indicates that the labor market has continued to strengthen and that economic activity has ~~been expanding~~ **continued to expand** at a moderate pace ~~since mid-year~~. Job gains ~~have been~~ **remained** solid ~~in recent months~~ and the unemployment rate ~~has declined~~ **stayed near its recent low**. Household spending has been rising moderately but business fixed investment has remained soft. **Although** inflation ~~has~~ increased ~~since earlier this year~~ **in recent quarters,** ~~but~~ **it** is still below the Committee's 2 percent longer-run objective~~, partly reflecting earlier declines in energy prices and in prices of non-energy imports~~. Market-based measures of inflation compensation ~~have moved up considerably but still are~~ **remain** low; most survey-based measures of longer-term inflation expectations are little changed, on balance~~, in recent months~~.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market conditions will strengthen somewhat further. Inflation is expected to rise to 2 percent over the medium term as ~~the transitory effects of past declines in energy and import prices dissipate and~~ the labor market strengthens further. Near-term risks to the economic outlook appear roughly balanced. The Committee continues to closely monitor inflation indicators and global economic and financial developments.

3. ~~In view of realized and expected labor market conditions and inflation~~ **Against this backdrop**, the Committee decided to ~~raise~~ **maintain** the target range for the federal funds rate ~~to~~ **at** 1/2 to 3/4 percent **while waiting for evidence of further progress toward its employment and inflation objectives**. The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a return to 2 percent inflation.

4. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation**, along with risks to the economic outlook**. 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 and international developments. In light of the current shortfall of inflation from 2 percent, the Committee will carefully monitor actual and expected progress toward its **symmetric** inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

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, and it anticipates doing so until normalization of the level of the federal funds rate is well under way. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

JANUARY-FEBRUARY 2017 ALTERNATIVE B

1. Information received since the Federal Open Market Committee met in ~~November~~ **December** indicates that the labor market has continued to strengthen and that economic activity has ~~been expanding~~ **continued to expand** at a moderate pace ~~since mid-year~~. Job gains ~~have been~~ **remained** solid ~~in recent months~~ and the unemployment rate ~~has declined~~ **stayed near its recent low**. Household spending has ~~been rising~~ **continued to rise** moderately ~~but~~ **while** business fixed investment has remained soft. **[Measures of] consumer and business sentiment have improved of late.** Inflation ~~has~~ increased ~~since earlier this year~~ **in recent quarters** but is still below the Committee's 2 percent longer-run objective~~, partly reflecting earlier declines in energy prices and in prices of non-energy imports~~. Market-based measures of inflation compensation ~~have moved up considerably but still are~~ **remain** low; most survey-based measures of longer-term inflation expectations are little changed, on balance~~, in recent months~~.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace**,** ~~and~~ labor market conditions will strengthen somewhat further~~.~~**, and** inflation ~~is expected to~~ **will** rise to 2 percent over the medium term ~~as the transitory effects of past declines in energy and import prices dissipate and the labor market strengthens further~~. Near-term risks to the economic outlook appear roughly balanced. The Committee continues to closely monitor inflation indicators and global economic and financial developments.

3. In view of realized and expected labor market conditions and inflation, the Committee decided to ~~raise~~ **maintain** the target range for the federal funds rate ~~to~~ **at** 1/2 to 3/4 percent. The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a return to 2 percent inflation.

4. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to 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 and international developments. In light of the current shortfall of inflation from 2 percent, the Committee will carefully monitor actual and expected progress toward its inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

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, and it anticipates doing so until normalization of the level of the federal funds rate is well under way. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

JANUARY-FEBRUARY 2017 ALTERNATIVE C

1. Information received since the Federal Open Market Committee met in ~~November~~ **December** indicates that the labor market has continued to strengthen and that economic activity has ~~been expanding~~ **continued to expand** at a moderate pace ~~since mid-year~~. Job gains ~~have been~~ **remained** solid ~~in recent months~~ and the unemployment rate ~~has declined~~ **stayed near its recent low**. **Although** household spending has been rising moderately ~~but~~ **and** business fixed investment has remained soft**, consumer and business sentiment recently have improved substantially**. Inflation has increased ~~since earlier this year but is still below~~ **in recent quarters, moving toward** the Committee's 2 percent longer-run objective~~, partly reflecting earlier declines in energy prices and in prices of non-energy imports~~. Market-based measures of inflation compensation ~~have moved up considerably but still are low;~~ **and** most survey-based measures of longer-term inflation expectations are little changed, on balance~~, in recent months~~.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace**,** ~~and~~ labor market conditions will strengthen somewhat further~~.~~**, and** inflation ~~is expected to~~ **will** rise to 2 percent over the medium term ~~as the transitory effects of past declines in energy and import prices dissipate and the labor market strengthens further~~. Near-term risks to the economic outlook appear roughly balanced. The Committee continues to closely monitor inflation indicators and global economic and financial developments.

3. In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to ~~1/2 to~~ 3/4 **to 1** percent. The stance of monetary policy remains **moderately** accommodative, thereby supporting some further strengthening in labor market conditions and a return to 2 percent inflation.

4. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to 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 and international developments. ~~In light of the current shortfall of inflation from 2 percent, the Committee will carefully monitor actual and expected progress toward its inflation goal.~~ **In light of currently available information,** the Committee expects that economic conditions will evolve in a manner that will warrant ~~only~~ gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

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, and it anticipates doing so until normalization of the level of the federal funds rate is well under way. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

Implementation Note for January-February 2017 Alternatives A and B

Release Date: February 1, 2017

Decisions Regarding Monetary Policy Implementation

The Federal Reserve has made the following decisions to implement the monetary policy stance announced by the Federal Open Market Committee in its statement on ~~December 14, 2016~~ **February 1, 2017**:

- The Board of Governors of the Federal Reserve System voted unanimously to ~~raise~~ **maintain** the interest rate paid on required and excess reserve balances ~~to~~ **at** 0.75 percent~~, effective December 15, 2016~~.

- As part of its policy decision, the Federal Open Market Committee voted to authorize and direct the Open Market Desk at the Federal Reserve Bank of New York, until instructed otherwise, to execute transactions in the System Open Market Account in accordance with the following domestic policy directive:

  > "Effective ~~December 15, 2016~~ **February 2, 2017**, the Federal Open Market Committee directs the Desk to undertake open market operations as necessary to maintain the federal funds rate in a target range of 1/2 to 3/4 percent, including overnight reverse repurchase operations (and reverse repurchase operations with maturities of more than one day when necessary to accommodate weekend, holiday, or similar trading conventions) at an offering rate of 0.50 percent, in amounts limited only by the value of Treasury securities held outright in the System Open Market Account that are available for such operations and by a per-counterparty limit of $30 billion per day.
  >
  > The Committee directs the Desk to continue rolling over maturing Treasury securities at auction and to continue 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."

  More information regarding open market operations may be found on the Federal Reserve Bank of New York's website.

- In a related action, the Board of Governors of the Federal Reserve System voted unanimously to approve ~~a 1/4 percentage point increase in the discount rate~~ **the establishment of** ~~(~~the primary credit rate~~) to~~ **at the existing level of** 1.25 percent~~, effective December 15, 2016.~~ ~~In taking this action, the Board approved requests submitted by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Kansas City, Dallas, and San Francisco.~~

This information will be updated as appropriate to reflect decisions of the Federal Open Market Committee or the Board of Governors regarding details of the Federal Reserve's operational tools and approach used to implement monetary policy.

Implementation Note for January-February 2017 Alternative C

Release Date: February 1, 2017

Decisions Regarding Monetary Policy Implementation

The Federal Reserve has made the following decisions to implement the monetary policy stance announced by the Federal Open Market Committee in its statement on ~~December 14, 2016~~ **February 1, 2017**:

- The Board of Governors of the Federal Reserve System voted unanimously to raise the interest rate paid on required and excess reserve balances to ~~0.75~~ **1.00** percent, effective ~~December 15, 2016~~ **February 2, 2017**.

- As part of its policy decision, the Federal Open Market Committee voted to authorize and direct the Open Market Desk at the Federal Reserve Bank of New York, until instructed otherwise, to execute transactions in the System Open Market Account in accordance with the following domestic policy directive:

  > "Effective ~~December 15, 2016~~ **February 2, 2017**, the Federal Open Market Committee directs the Desk to undertake open market operations as necessary to maintain the federal funds rate in a target range of ~~1/2 to~~ 3/4 **to 1** percent, including overnight reverse repurchase operations (and reverse repurchase operations with maturities of more than one day when necessary to accommodate weekend, holiday, or similar trading conventions) at an offering rate of ~~0.50~~ **0.75** percent, in amounts limited only by the value of Treasury securities held outright in the System Open Market Account that are available for such operations and by a per-counterparty limit of $30 billion per day.
  >
  > The Committee directs the Desk to continue rolling over maturing Treasury securities at auction and to continue 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."

  More information regarding open market operations may be found on the Federal Reserve Bank of New York's website.

- In a related action, the Board of Governors of the Federal Reserve System voted unanimously to approve a 1/4 percentage point increase in the ~~discount rate (~~the primary credit rate~~)~~ to 1.25 percent, effective ~~December 15, 2016~~ **February 2, 2017**. In taking this action, the Board approved requests **to establish that rate** submitted by the Boards of Directors of the Federal Reserve Banks of ~~Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Kansas City, Dallas, and San Francisco~~ **[insert appropriate list]**.

This information will be updated as appropriate to reflect decisions of the Federal Open Market Committee or the Board of Governors regarding details of the Federal Reserve's operational tools and approach used to implement monetary policy.