Appendix 1: Materials used by Mr. Kos

Page 1

Top panel

Title: Current U.S. and Euro-area 3-Month Deposit Rates and Rates Implied by Traded Forward Rate Agreements
Series: 3-month USD Libor, USD 9-month forward rate agreement, 3-month Euro-area Libor, Euro-area 9-month forward rate agreement
Horizon: September 10, 2004 - December 10, 2004
Description: U.S. forward rate agreements and LIBOR increase slightly while Euro-area rates decline.

Bottom-left panel

Title: U.S. - German Interest Rate Differentials
Series: 3-month U.S. Treasury note yield less German sovereign debt yield
Horizon: January 2, 2004 - December 10, 2004
Description: 3-month U.S. - German interest rate differential widens.

Bottom-right panel

Title: U.S. - German Interest Rate Differentials
Series: 10-Year U.S. Treasury note yield less German sovereign debt yield
Horizon: January 2, 2004 - December 10, 2004
Description: 10-year U.S. - German interest rate differential widens.

Page 2

Top panel

Title: Select Foreign Currencies Against Dollar
Series: Foreign exchange rates against the U.S. dollar for Canadian dollar, Japanese Yen, Australian dollar, Swiss franc, British pound, and euro
Horizon: October 1, 2004 - December 10, 2004
Description: Dollar appreciates against foreign currencies.
Middle panel

Title: IMM Commitment of Traders Report: Net Non-Commercial Currency Futures Positions Against the Dollar
Series: Net non-commercial currency futures positions against the U.S. dollar for the Japanese yen, euro, and British pound
Horizon: January 6, 2004 - December 7, 2004
Description: Non-commercial currency futures short the U.S. dollar.

Bottom panel

Title: Year-to-Date Returns by Asset Class
Series: Year-to-date return for Treasury coupon securities, GSE debt, 30-year MBS, AA corporate, BBB corporate, high yield, S&P 500 index, and the trade-weighted U.S. dollar
Horizon: Through December 10, 2004
Description: Asset classes have positive year-to-date returns except the U.S. dollar, with a -5% year-to-date return.

Source: Lehman Brothers, Standard & Poor's and Federal Reserve Board

Page 3

Top panel

Title: Dollar-Yuan Exchange Value Implied by the NDF Market
Series: Dollar-yuan 1-month NDF, 6-month NDF, and 12-month NDF
Horizon: January 1, 2004 - December 10, 2004
Description: Implied dollar-Yuan exchange rate declines in the 6-month and 12-month terms.

Middle panel

Title: Select Asian Currencies Against the Dollar
Series: Dollar foreign exchange rate against the South Korean won, Singapore dollar, Taiwan dollar, Indian rupee, Thai baht, and Philippine peso
Horizon: August 2, 2004 - December 10, 2004
Description: U.S. dollar depreciates against Korean won, Singapore dollar, Taiwan dollar, Indian rupee and Thai baht.

Bottom panel

Title: FRBNY Custody Holdings
Series: Federal Reserve Bank of New York custody holdings of Treasury securities and Agency debt securities
Horizon: January 2004 - December 2004
Description: FRBNY custody holdings increase and agency debt securities surpass Treasuries.

Page 4

Top panel
Title: Yield Spread between 2- and 10-Year Treasury Notes  
Series: Spread between 2- and 10-year Treasury notes  
Horizon: January 1, 2004 - December 10, 2004  
Description: Treasury yield curve flattens.

Middle panel

Title: Absolute Yield Level of Non-Investment Grade Debt Indices  
Series: EMBI+ index and high yield bond index  
Horizon: January 1997 - December 2004  
Description: EMBI+ and high yield bond indices decline.

Source: Merrill Lynch & JP Morgan

Bottom-left panel

Title: MBS Spread to Treasuries  
Series: MBS spread to Treasuries  
Horizon: January 2000 - December 2004  
Description: MBS spread to Treasuries narrows.

Bottom-right panel

Title: Percent of Bank Assets Invested in MBS  
Series: Percent of bank assets invested in MBS  
Horizon: January 2000 - December 2004  
Description: Percent of bank assets invested in MBS decreasing recently though still higher than historical levels.

Page 5

Top panel

Title: Annual SOMA Expansion  
Series: Annual System Open Market Account expansion  
Horizon: 1994 - 2004  
Description: SOMA expansion year-to-date higher than average.

Middle panel

Title: Currency in Circulation  
Series: Currency in circulation  
Horizon: December to December change, 1994 - 2004  
Description: Currency in circulation December to December change lower than recent years.

Bottom panel

Title: Direct Currency Shipments Abroad (Net)  
Series: Payments less receipts for direct currency shipments abroad  
Horizon: Annual totals for 1990 - 2004  
Description: Direct currency shipments abroad are negative year-to-date.
Appendix 2: Materials used by Mr. Madigan

Material for FOMC Briefing on Monetary Policy Alternatives
Brian Madigan
December 14, 2004

Strictly Confidential (FR) Class I - FOMC

Exhibit 1
Market Developments and Policy Expectations

Top-left panel
Yields and Stock Prices

<table>
<thead>
<tr>
<th></th>
<th>Dec. 13</th>
<th>Net change from Nov. 9</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Treasury yields</strong>*</td>
<td>-percent-</td>
<td>-basis points-</td>
</tr>
<tr>
<td>1. Two-year</td>
<td>2.98</td>
<td>17</td>
</tr>
<tr>
<td>2. Five-year</td>
<td>3.52</td>
<td>2</td>
</tr>
<tr>
<td>3. Ten-year</td>
<td>4.27</td>
<td>-9</td>
</tr>
<tr>
<td>4. Five-year TIPS</td>
<td>0.96</td>
<td>-2</td>
</tr>
<tr>
<td>5. Ten-year TIPS</td>
<td>1.66</td>
<td>-9</td>
</tr>
<tr>
<td><strong>Equity Indexes</strong></td>
<td>-level-</td>
<td>-percent-</td>
</tr>
<tr>
<td>6. Wilshire</td>
<td>11790</td>
<td>3.4</td>
</tr>
<tr>
<td>7. Nasdaq</td>
<td>2148</td>
<td>5.1</td>
</tr>
</tbody>
</table>

* Nominal yields derived from smoothed yield curve based on off-the-run securities. TIPS yields based on smoothed yield curve. Return to table

Top-right panel
Expected Federal Funds Rates*

A line chart displays the expected path of the federal funds rate embedded in futures quotes as of November 9 and December 13, 2004. This chart indicates that the December 13 expected path of monetary policy edged up relative to the November 9 path for the next year or so, but declined slightly in the longer-term. Current futures quotes suggest that the federal funds rate will rise to around 3½ percent by the fourth quarter of 2007.

* Estimates from federal funds and eurodollar futures, with an allowance for term premia and other adjustments. Return to text

Middle panel
Desk Survey of Primary Dealers

- Unanimously expect 25-basis-point firming today.
- Unanimously expect retention of balanced risks and "measured pace" language.
- Apparently none expects signal of a pause today.

Bottom panel
Longer-term Policy Expectations

- Two dealers expect a pause in February and seven in March.
- Futures quotes can be read as implying a pause in March and a move roughly every other meeting over the rest of year.
- Blue Chip consensus consistent with two pauses before Fall 2005.

Exhibit 2
Case For Firming Policy

Top panel
Arguments For Firming Policy Today

- Expansion seems well entrenched, with labor market conditions improving gradually
- Concern about a buildup of inflationary pressure
  - possible slowing of productivity growth
  - actual inflation has risen
  - short-term inflation expectations up
  - anecdotal information on price pressures
  - inflation surprises to the upside of market expectations
  - dollar depreciation
- Real federal funds rate well below most estimates of its equilibrium level

Middle panel
Short-Run Equilibrium Real Federal Funds Rate

A line chart shows the actual federal funds rate with bands of shading representing the confidence interval of model-based estimates and a dashed line charting the Greenbook forecast. The actual rate is currently a bit below the 70 percent confidence interval of the model-based estimates and noticeably below the estimate implicit in the Greenbook forecast.

Bottom-left panel
Arguments For Alternative B

Policy firming can now proceed at slower pace:

- Some output gap remains; not closing rapidly
- Significant reduction in policy accommodation already accomplished
- Unusual business caution may persist

Bottom-right panel
Arguments For Alternative C

Recent pace of tightening should be maintained:

- Substantial remaining policy accommodation
- Policy works with long lags
- Signs of pressure on inflation and inflation expectations
- Buoyant attitudes toward risk in financial markets
### Exhibit 3
**Table 1: Alternative Language for the December FOMC Announcement**

[Note: In Table 1, emphasis (italic) has been added to indicate red text in the original document. Strong emphasis (bold) indicates bold text in the original document.]

<table>
<thead>
<tr>
<th>Policy Decision</th>
<th>November FOMC</th>
<th>Alternative A</th>
<th>Alternative B</th>
<th>Alternative C</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2 percent.</td>
<td>The Federal Open Market Committee decided today to keep its target for the federal funds rate at 2 percent.</td>
<td>The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2¼ percent. The Committee's policy actions since mid-2004 have resulted in a significant reduction in the degree of monetary policy accommodation.</td>
<td>The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2¼ percent.</td>
<td></td>
</tr>
<tr>
<td>Rationale</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.</td>
<td>The Committee believes that the stance of monetary policy remains somewhat accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.</td>
<td>Nonetheless, the Committee believes that, even after this action, the stance of monetary policy remains somewhat accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.</td>
<td>[Unchanged from November statement]</td>
<td></td>
</tr>
<tr>
<td>3. Output appears to be growing at a moderate pace despite the rise in energy prices, and labor market conditions have improved.</td>
<td>Output appears to be growing at a moderate pace, but labor market conditions have been improving only gradually, apparently evidencing continued business caution.</td>
<td>Output appears to be growing at a moderate pace despite the earlier rise in energy prices, and labor market conditions continue to improve gradually.</td>
<td>Output appears to be growing at a moderate pace despite the earlier rise in energy prices, and labor market conditions continue to improve gradually.</td>
<td></td>
</tr>
<tr>
<td>4. Inflation and longer-term inflation expectations remain well contained.</td>
<td>[Unchanged from November statement]</td>
<td>[Unchanged from November statement]</td>
<td>[Unchanged from November statement]</td>
<td></td>
</tr>
<tr>
<td>Assessment of Risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. The Committee perceives the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters to be roughly</td>
<td>[Unchanged from November statement]</td>
<td>[Unchanged from November statement]</td>
<td>[Unchanged from November statement]</td>
<td></td>
</tr>
</tbody>
</table>
November FOMC

6. With underlying inflation expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.

Alternative A

With underlying inflation expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to promote price stability and sustainable growth.

Alternative B

[Unchanged from November statement]

Alternative C

[Unchanged from November statement]

Appendix 3: Materials used by Mr. Reinhart

Exhibit 1

Top panel
Arguments For and Against Expediting the Release of the Minutes:

For:

- Provide more timely and nuanced information to the public
- Convey the range of views within the Committee
- The policy statement could potentially be shortened

Against:

- Lead to undue market attention to the minutes
- Complicate the Committee's deliberations
- Lead to the minutes becoming more sanitized and unhelpful over time
- May be operationally difficult

Middle panel
Schedule for the Experiment with Expediting the Release of the Minutes

<table>
<thead>
<tr>
<th>Week</th>
<th>Monday</th>
<th>Tuesday</th>
<th>Wednesday</th>
<th>Thursday</th>
<th>Friday</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>FOMC meeting</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>+1</td>
<td></td>
<td></td>
<td></td>
<td>C.O.B.: First draft posted</td>
<td></td>
</tr>
<tr>
<td>+2</td>
<td>Noon: Comments from the FOMC</td>
<td>C.O.B.: Second draft posted</td>
<td>C.O.B.: Final draft posted;</td>
<td>Noon: FOMC vote closes</td>
<td></td>
</tr>
</tbody>
</table>
Bottom panel

Changes in the Production of the Minutes

- Contracted with a private firm to produce a transcript quickly
- Distributed drafting responsibilities among more staff
- Provided more systematic feedback on comments in the final week
- Developed a procedure for secure voting
- Collaborated with staff in Public Affairs and the FRBNY to assess the likely financial market reaction to the minutes

Exhibit 2

Top panel

Lessons Learned

1. Using more resources to produce and distribute the minutes soon after the meeting is helpful.
2. Not all participants were familiar with all the rules governing the drafting of the minutes.
3. The expedited schedule poses the risks that:
   a. Not all members will be able to vote by the deadline.
   b. The schedule may be too tight to guarantee achieving a consensus.
4. Friday afternoon is a terrible time to release the minutes.

Bottom panel

Untested Aspects

The experiment was conducted during a period in which:

1. There were no significant disagreements among members about the overall direction of policy.
2. There were no intermeeting conference calls.

The experiment stopped short of actually releasing the statement early, implying that:

3. It is unclear how much increased scrutiny more timely minutes will receive or how members will adjust their editing behavior.
4. It is unclear how the public will react to conditional statements.

Exhibit 3

Three Possibilities for Today's Meeting

1. Vote today to expedite the release of the minutes
If so, I recommend beginning expedited release with the minutes of the February 2005 meeting and adopting a schedule of releasing the minutes of regular meeting three weeks after the day of the policy decision.

- By beginning with the February meeting, the decision would be noted in the minutes of today's meeting, which would be released after the February meeting and thus give the public advance notice of the new policy.
- Adding a few days to the schedule by releasing the minutes after three weeks would:
  - Give staff more time to draft and participants more time to comment.
  - Position the release in the middle of the week, which would be less likely to cause difficulties.

2. Extend the experiment

If so, I recommend shifting to a three-week schedule because it seems more sustainable.

3. Stop the experiment

If so, I recommend continuing approximately the same production and distribution schedule so that the minutes are prepared while the memory of the meeting is still fresh.