

Accessible Version

Meeting of the Federal Open Market Committee September 21, 2010 Presentation Materials

[Presentation Materials \(PDF\)](#)

Pages 129 to 151 of the Transcript

Appendix 1: Materials used by Mr. Sack

Material for

FOMC Presentation: *Financial Market Developments and Desk Operations*

Brian Sack

September 21, 2010

Class II FOMC - Restricted FR

Exhibit 1

Top-left panel

(1)

Title: Treasury Yields

Series: Yields for 2-year, 5-year, and 10-year Treasury notes

Horizon: January 1, 2010 - September 17, 2010

Description: Rates declined notably early in the intermeeting period; however, they improved in recent weeks.

A vertical line marks the FOMC meeting of August 10, 2010.

Source: Bloomberg

Top-right panel

(2)

Title: Implied Federal Funds Rate

Series: Future federal funds rates implied by Eurodollar and federal funds futures contracts.

Horizon: 4/5/2010, 8/9/2010, and 9/17/2010

Description: The implied path of the fed funds rate declined slightly since the August FOMC meeting.

Source: Federal Reserve Bank of New York

Middle-left panel

(3)

Title: Probability of First Rate Hike

Series: FRBNY dealer policy survey

Horizon: 2010:Q3 to 2012:Q3 or later

Description: Many market participants believe that the first rate hike will occur after 2012:Q3.

Source: Federal Reserve Bank of New York Policy Survey

Middle-right panel

(4)

Title: Change in 1-Year Forward Rates

Series: Change from peak in 10-year Treasury yield on 4/5/2010

Horizon: 0-14 years forward

Description: Forward rates spanning the next several years have fallen dramatically.

Source: Federal Reserve Board of Governors

Bottom-left panel

(5)

Title: Probability of Balance Sheet Policy

Series: FRBNY dealer policy survey

Horizon: Year-end and 2-year horizon

Description: Market participants have placed increased odds on an increase in the size of the balance sheet.

Source: Federal Reserve Bank of New York Policy Survey

Bottom-right panel

(6)

Title: Forward Inflation Compensation (5-Year Ahead 5-Year Rate)

Series: Board of Governors

Horizon: July 1, 2009 - September 17, 2010

Description: The 5y5y forward breakeven inflation rate has drifted lower in recent months, but has swung up considerably over the intermeeting period.

Source: Federal Reserve Board of Governors

Exhibit 2

Top-left panel

(7)

Title: US Equities

Series: US bank index and S&P 500

Horizon: August 14, 2009 - September 17, 2010

Description: Equity prices have swung widely over the intermeeting period.

Source: Bloomberg

Top-right panel

(8)

Title: US Bank CDS

Series: Average 5-year bank CDS

Horizon: August 3, 2009 - September 17, 2010

Description: Bank CDS finished the intermeeting period with little change.

Source: Bloomberg

Middle-left panel

(9)

Title: LIBOR-OIS Spreads (3-Month Rates)*

Series: 3-Month LIBOR-OIS Spread, Spot Spread

Horizon: August 3, 2009 - September 17, 2010

Description: The 3-month forward spread fell and the spot forward spread also improved in the intermeeting period, although it remains about its level from early this year.

* Forward rates derived from FRA and OIS. [Return to text](#)

Source: Bloomberg

Middle-right panel

(10)

Title: ECB Financing as a Percentage of Bank Liabilities

Series: ECB and national central banks (Greece, Ireland, Portugal, Spain, and Italy)

Horizon: June 2008 and August 2010

Description: Banks in Greece, Ireland and Portugal have been heavy users of liquidity provided by the ECB.

Source: ECB and national central banks

Bottom-left panel

(11)

Title: Euro Area Sovereign Yield Spread (2-Year Spread to German Debt)

Series: Italy, Spain, Portugal, Ireland and Greece 2-year spread to Germany

Horizon: August 3, 2009 - September 17, 2010

Description: Ireland and Portugal came under renewed pressure during the intermeeting period.

Source: Bloomberg

Bottom-right panel

(12)

Title: Currencies

Series: Yen and Euro rates

Horizon: August 3, 2009 - September 17, 2010

Description: The dollar remained marginally stronger against the euro over the intermeeting period. The dollar has remained on a steady trend of depreciation against the yen; the sharp jump in the series resulted from Japanese Ministry intervening in the dollar-yen market.

Source: Bloomberg

Exhibit 3

Top-left panel

(13)

Title: 10-Year Treasury Yield around August FOMC Meeting

Series: 10-year Treasury intraday yield

Horizon: August 1, 2010 - August 17, 2010

Description: Following the August FOMC's announcement to reinvest the principal payments from agency debt and agency MBS, the 10-year Treasury yield declined.

Source: Bloomberg

Top-right panel
(14)

Title: Treasury Purchases since August FOMC Meeting

Series: Treasury Purchases

Horizon: August 10, 2010 - September 17, 2010

Description: Since the August FOMC the Federal Reserve has purchased \$28 billion of Treasury securities.

Source: Federal Reserve Bank of New York

Middle-left panel
(15)

Title: Monthly Paydowns of Agency Debt and Agency MBS

Series: Actual and estimated MBS and Agency Debt paydowns

Horizon: January 1, 2009 - January 1, 2012

Description: Estimated paydowns are expected to be \$27 billion for the next month.

Source: Federal Reserve Bank of New York

Middle-right panel
(16)

Title: Cumulative Paydowns of Agency Debt and Agency MBS

Series: Estimated MBS and Agency Debt paydowns

Horizon: February 4, 2009 - December 1, 2011

Description: MBS will paydown greater if there is a -50 BP shift.

Source: Federal Reserve Bank of New York

Bottom-left panel
(17) *Percent Owned by the Federal Reserve*

	Current Level	Over 1 Year
MBS*	24%	17%
Treasuries (under reinvestment) **	12%	15%

* Percent of total outstanding 30-year fixed MBS. [Return to table](#)

** Percent of total outstanding Treasury coupon securities. [Return to table](#)

Source: Federal Reserve Bank of New York

Bottom-right panel
(18)

Title: Option-Adjusted MBS Spreads*

Series: Fannie Mae fixed-rate current coupon and 4% coupon option-adjusted spreads

Horizon: January 1, 2009 - September 17, 2010

Description: The spread is now marginally higher since the August FOMC meeting.

* Series reflect current coupon spreads prior to 6/1/10 and 4.0 coupon thereafter. [Return to text](#)

Source: Barclays Capital

Appendix 2: Materials used by Mr. Stockton

Page 1

Top panel

Private Housing Construction

(Thousands of units, seasonally adjusted annual rate, except where noted)

Category	2009	2009		2010		2010		
		Q4	Q1	Q2 ^f	June	July ^b	July ^r	Aug. ^p
<i>Total</i>								
Starts	554	565	617	602	539	546	541	598
Permits	583	626	655	589	583	565	559	569
<i>Single-family</i>								
Starts	445	488	524	491	450	432	420	438
Permits	441	491	525	448	421	416	406	401
Adjusted permits ¹	454	504	538	461	434	420	411	404
Permits backlog ²	58	58	58	49	49	48	49	48
<i>Multifamily</i>								
Starts	109	77	93	111	89	114	121	160
Permits	142	135	130	141	162	149	153	168
Adjusted permits ¹	143	136	130	141	162	149	153	168
Permits backlog ²	40	40	42	39	39	39	38	37
<i>Regional starts³</i>								
Northeast	62	61	69	72	60	77	74	56
Midwest	97	100	96	103	83	93	92	112
South	278	295	317	315	287	267	270	289
West	117	109	135	112	109	109	105	141

r revised [Return to table](#)

p preliminary [Return to table](#)

1. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas. [Return to table](#)

2. Number outstanding at end of period. Seasonally adjusted by staff. Excludes permits that have been cancelled, abandoned, expired, or revoked. Not at an annual rate. [Return to table](#)

3. Sum of single-family and multifamily starts. [Return to table](#)

Source: Census Bureau.

Bottom panel
Private Housing Starts and Permits

Single-family starts, single-family adjusted permits, and multifamily starts. Data plotted as curves. The period covered is from January 1999 through August 2010. All three curves are shown in millions of units at a seasonally adjusted annual rate. The contour of the curves for single-family starts and single-family adjusted permits are almost the same throughout the period covered, with starts lagging permits slightly. While there is some variation from month to month single family starts and permits remained relatively flat through 2001, and then trended upward through 2005. Starting in 2006 both series fell drastically until reaching a "trough" at the beginning of 2009. Since then they have both increased slightly, but for the most part remained flat. For the most recent month of data (August 2010) single-family starts increased slightly from the previous month to about 0.42, while permits fell slightly from the previous month to about 0.40. The third curve is multifamily starts, which has an overall lower level, and different contour than single-family starts and permits. Multifamily starts were flat from 1999 through mid-2008, at which point they decreased through 2009. In 2010 they have increased slightly, and the most recent month of data (August 2010) was an increase over the previous month to about 0.15.

Note. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.

Source: Census Bureau.

Appendix 3: Materials used by Chairman Bernanke

Page 1

Top panel

Title: Beveridge Curve: 1971-1978 (Quarterly Data)

Series: Unemployment rate (x-axis); Help wanted index, percent of employment (y-axis)

Horizon: 1971:Q1-1978:Q4

Description: The data shows a decrease in the unemployment rate from approximately 6% to 4.7% and a rise in the help wanted index from approximately 80 to 115 over the period of 1971 through 1973. From 1974 through the second quarter of 1975, we see the unemployment rate rise dramatically to approximately 8.8% and the help wanted index fall to approximately 70. Over the next year we see some recovery, as the unemployment rate drops to approximately 7.5% and the help wanted index rises to approximately 80. The unemployment rate holds around this value and the help wanted index increases by about 5 over the next three quarters. From 1976 through 1978, the unemployment rate drops down to approximately 5.7%, and the help wanted index rises to its highest level over this horizon, to approximately 125.

Bottom panel

Title: Beveridge Curve: 1979-1987 (Quarterly Data)

Series: Unemployment rate (x-axis); Help wanted index, percent of employment (y-axis)

Horizon: 1979:Q1-1986:Q4

Description: Beginning in the first quarter of 1979, the unemployment rate is at approximately 5.7%, and the help wanted index is at roughly 125. Until the third quarter of 1982, the unemployment rate consistently rises until it reaches approximately 9.8%, and over this interval the help wanted index drops down to approximately 65. Over the next quarter, the help wanted index is stable but the unemployment rate jumps to about 10.7%. The following interval takes us through the last quarter of 1986, and over this time the unemployment rate drops back down to about 5.9% while the help wanted index rises to nearly 110.

Page 2

Top panel

Title: Beveridge Curve: 1989-1995 (Quarterly Data)

Series: Unemployment rate (x-axis); Help wanted index, percent of employment (y-axis)

Horizon: 1989:Q1-1995:Q4

Description: In the first quarter of 1989, the unemployment rate is at approximately 5.3% and the help wanted index is just over 100. Over the next five quarters, the help wanted index drops to approximately 85 with only a slight upward movement in the unemployment rate to approximately 5.4%. From this point through the third quarter of 1992, the unemployment rate rises to roughly 7.6% with the help wanted index falling to a level of around 60. Over the remainder of the horizon, the unemployment rate recovers to around 5.5% while the help wanted index rises, eventually settling on a level between 80 and 85.

Bottom panel

Title: Beveridge Curve: 1999-2006 (Quarterly Data)

Series: Unemployment rate (x-axis); Help wanted index, percent of employment (y-axis)

Horizon: 1999:Q1-2006:Q4

Description: In the first quarter of 1999 the unemployment rate is approximately 4.4% and the help wanted index is roughly 105. The help wanted index falls over the next two quarters to just over 100, with little change in the unemployment rate. Through the first quarter of 2000, the unemployment rate falls to approximately 4.1% while the help wanted index rises to over 110. Through the fourth quarter of 2001, the unemployment rate now rises to 5.5% while the help wanted index falls down to roughly 65. Through the end of 2004, the unemployment rate rises to approximately 6.2% before falling back to around 5.4%, and during this time the help wanted index gradually rises up to about 75. From the first quarter of 2005 through the end of 2006, the help wanted index rises slightly to just over 90, then falls down to just over 80, before ending at just under 90. In this time, the unemployment rate falls from about 5.4% to approximately 4.4%.

Page 3

Top panel

Title: Beveridge Curve: 2007Q1-2010Q2

Series: Unemployment rate (x-axis); Help wanted index, percent of employment (y-axis)

Horizon: 2007:Q1-2010:Q2

Description: The data begins in the first quarter of 2007 at unemployment rate of about 4.5% and a help wanted index level of 70. Over the next four quarters until the first quarter of 2008, the unemployment rate gradually rises to about 5.3%, and the help wanted index falls to about 60. Over the next six quarters, until the fourth quarter of 2009, the unemployment rate rises dramatically to approximately 10%, with the help wanted index falling further to about 45 by the first quarter of 2009 and holding constant through the end of the year. In 2010, the unemployment rate drops to approximately 9.7% and the help wanted index rises slightly to approximately 55 in the first quarter. Both values remain steady in the second quarter of 2010.

Appendix 4: Materials used by Mr. English

Material for **FOMC Briefing on Monetary Policy Alternatives**

Bill English

September 21, 2010

Class I FOMC - Restricted Controlled (FR)

August FOMC Statement

Information received since the Federal Open Market Committee met in June indicates that the pace of recovery in output and employment has slowed in recent months. Household spending is increasing gradually, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising; however, investment in nonresidential structures continues to be

weak and employers remain reluctant to add to payrolls. Housing starts remain at a depressed level. Bank lending has continued to contract. Nonetheless, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be more modest in the near term than had been anticipated.

Measures of underlying inflation have trended lower in recent quarters and, with substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to be subdued for some time.

The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period.

To help support the economic recovery in a context of price stability, the Committee will keep constant the Federal Reserve's holdings of securities at their current level by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities.¹ The Committee will continue to roll over the Federal Reserve's holdings of Treasury securities as they mature.

The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to promote economic recovery and price stability.

¹ The Open Market Desk will issue a technical note shortly after the statement providing operational details on how it will carry out these transactions. [\[Return to text\]](#)

[Note: In the September FOMC Statement--Alternatives A1 and A2, emphasis (strike-through) indicates strike-through text in the original document, and strong emphasis (bold) indicates bold red underlined text in the original document.]

September FOMC Statement--Alternative A1

1. Information received since the Federal Open Market Committee met in ~~June~~**August** ~~indicates~~**confirms** that the pace of recovery in output and employment has slowed in recent months. Household spending is increasing **only** gradually, ~~but remains~~ constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software ~~is rising; however,~~**has slowed and** investment in nonresidential structures continues to be weak. ~~and~~ Employers remain reluctant to add to payrolls. Housing starts remain at a depressed level. Bank lending has continued to contract. ~~Nonetheless,~~ The Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be ~~more~~ modest in the near term ~~than had been anticipated~~.

2. Measures of underlying inflation have trended lower in recent quarters. **Underlying inflation is now running below the level of 2 percent or a bit less, as measured by the price index for personal consumption expenditures, that the Committee judges most consistent, over the longer run, with its mandate to promote maximum employment and price stability. In the current environment, disinflation is an impediment to economic recovery.** ~~and, with substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to be subdued for some time.~~

3. **To help foster a stronger pace of economic recovery and to move underlying inflation closer, over time, to rates consistent with its mandate, the Committee will increase its total holdings of securities to approximately \$2.5 trillion by purchasing an additional \$500 billion of longer-term Treasury securities over the next six months. The Committee will maintain its existing policy of reinvesting principal payments from its securities holdings.** The Committee **also** will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period. ~~To help support the economic recovery in a context of price stability, the Committee will keep constant the Federal Reserve's holdings of securities at their current level by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. The Committee will continue to roll over the Federal Reserve's holdings of Treasury securities as they mature.~~

4. The Committee will continue to monitor the economic outlook and financial developments and will ~~employ its policy tools as necessary to promote economic recovery and price stability~~**act as needed to support a stronger economic recovery and foster price stability.**

September FOMC Statement--Alternative A2

1. Information received since the Federal Open Market Committee met in ~~June~~**August** ~~indicates~~**confirms** that the pace of recovery in output and employment has slowed in recent months. Household spending is increasing **only** gradually, ~~but remains~~ constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising; ~~however,~~**has slowed and** investment in nonresidential structures continues to be weak. ~~and~~ Employers remain reluctant to add to payrolls. Housing starts remain at a depressed level. Bank lending has continued to contract. ~~Nonetheless,~~The Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be ~~more~~ modest in the near term ~~than had been anticipated~~.

2. Measures of underlying inflation have trended lower in recent quarters, **to levels below those the Committee judges most consistent, over the longer run, with its mandate to promote maximum employment and price stability. In the current environment, disinflation is an impediment to economic recovery.** ~~and, with substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to be subdued for some time.~~

3. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.

4. **To help foster a stronger pace of economic recovery and to move underlying inflation closer, over time, to rates consistent with its mandate, the Committee will increase its total holdings of securities to approximately \$2.5 trillion by purchasing an additional \$500 billion of longer-term Treasury securities over the next six months. The Committee will maintain its existing policy of reinvesting principal payments from its securities holdings.** ~~To help support the economic recovery in a context of price stability, the Committee will keep constant the Federal Reserve's holdings of securities at their current level by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. The Committee will continue to roll over the Federal Reserve's holdings of Treasury securities as they mature.~~

5. The Committee will continue to monitor the economic outlook and financial developments and will ~~employ its policy tools as necessary to promote economic recovery and price stability~~**act as needed to support a stronger economic recovery and foster price stability.**

-- OR --

5. The Committee will continue to monitor the economic outlook and financial developments ~~and will employ its policy tools as necessary to promote economic recovery and price stability.~~ **The Committee will determine, each time it meets, whether an adjustment--either upward or downward--to its holdings of securities is needed to foster maximum employment and price stability.**

[Note: In the September FOMC Statement--Alternative B, strong emphasis (bold) indicates bold red underlined text in the original document, emphasis (italics) indicates text that is bold blue (and underlined except as indicated) in the original document, and strike-through text indicates strike-through text in the original document.]

September FOMC Statement--Alternative B

1. Information received since the Federal Open Market Committee met in ~~June~~**August** ~~indicates~~**confirms** ~~indicates~~ that the pace of recovery in output and employment has slowed in recent months. Household spending is increasing gradually, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, **though less rapidly than earlier in the year; however, while** investment in nonresidential structures continues to be weak. ~~and~~ Employers remain reluctant to add to payrolls. Housing starts ~~remain~~**are** at a depressed level. Bank lending has continued to contract, **but at a reduced rate in recent months.** ~~Nonetheless,~~The Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be ~~more~~ modest in the near term ~~than had been anticipated~~.

2. Measures of underlying inflation have ~~declined and are currently at~~ *[end underline]* ~~trended lower in recent quarters~~ *[begin underline]*, **to levels somewhat below those the Committee judges most consistent, over the longer run, with its mandate to promote maximum employment and price stability.** ~~and~~ With substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely

to ~~be~~ remain subdued for some time **before rising to levels the Committee considers consistent with its mandate.**

3. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period. **The Committee also will maintain its existing policy of reinvesting principal payments from its securities holdings.**

~~4. To help support the economic recovery in a context of price stability, the Committee will keep constant the Federal Reserve's holdings of securities at their current level by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. The Committee will continue to roll over the Federal Reserve's holdings of Treasury securities as they mature.~~

4. The Committee will continue to monitor the economic outlook and financial developments and ~~will employ its policy tools as necessary to promote economic recovery and price stability.~~ **is prepared to provide additional accommodation as needed to support the ~~foster a stronger~~ economic recovery and to ~~help~~ return inflation, over time, to levels consistent with its mandate.**

[Note: In the September FOMC Statement--Alternative C, emphasis (strike-through) indicates strike-through text in the original document, and strong emphasis (bold) indicates bold red underlined text in the original document.]

September FOMC Statement--Alternative C

1. Information received since the Federal Open Market Committee met in ~~June~~**August** indicates that the ~~pace of economic recovery in output and employment has slowed in recent months~~**is proceeding**. Household ~~income and spending is~~ increasing gradually, ~~but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit.~~ **Manufacturing activity and** business spending on equipment and software ~~have risen~~ is rising; however, investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls. Housing starts remain at a depressed level. Bank lending has continued to contract, **but at a reduced rate in recent months**. Measures of underlying inflation have ~~trended lower~~**stayed subdued** in recent quarters, and longer-term inflation expectations **have remained** stable. Nonetheless, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability. Although the pace of economic recovery is likely to be ~~more~~ modest in the near term, ~~than had been anticipated.~~ **the Committee continues to anticipate a gradual return to higher levels of resource utilization in a context of price stability.**

~~2. Measures of underlying inflation have trended lower in recent quarters and, with substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to be subdued for some time.~~

2. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and ~~continues to~~ anticipates that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant ~~exceptionally~~ low levels of the federal funds rate for ~~an extended period~~**some time**. ~~To help support the economic recovery in a context of price stability,~~ **For the time being,** the Committee **also will maintain its existing policy of reinvesting principal payments to** keep constant the Federal Reserve's holdings of securities at their current level. ~~by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. The Committee will continue to roll over the Federal Reserve's holdings of Treasury securities as they mature.~~

3. The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to promote economic recovery and price stability.

August 2010 FOMC Directive

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to maintain the total face value of domestic securities held in the System Open Market Account at approximately \$2

trillion by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

[Note: In the September 2010 FOMC Directive Alternatives, emphasis (strike-through) indicates strike-through text in the original document, and strong emphasis (bold) indicates bold red text in the original document.]

September 2010 FOMC Directive -- Alternative A1

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. **The Committee directs the Desk to execute purchases of about \$500 billion of longer-term Treasury securities by the end of March 2011 in order to increase the total face value of domestic securities held in the System Open Market Account to approximately \$2.5 trillion.** The Committee ~~also~~ directs the Desk to ~~maintain the total face value of domestic securities held in the System Open Market Account at approximately \$2 trillion by~~ reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. ~~The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions.~~ The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

September 2010 FOMC Directive -- Alternative A2

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. **The Committee directs the Desk to execute purchases of about \$500 billion of longer-term Treasury securities by the end of March 2011 in order to increase the total face value of domestic securities held in the System Open Market Account to approximately \$2.5 trillion.** The Committee ~~also~~ directs the Desk to ~~maintain the total face value of domestic securities held in the System Open Market Account at approximately \$2 trillion by~~ reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. ~~The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions.~~ The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

September 2010 FOMC Directive -- Alternative B

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to maintain the total face value of domestic securities held in the System Open Market Account at approximately \$2 trillion by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. ~~The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions.~~ The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

September 2010 FOMC Directive -- Alternative C

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve

markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to maintain the total face value of domestic securities held in the System Open Market Account at approximately \$2 trillion by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. ~~The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions.~~ The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

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