

Appendix 1: Materials used by Mr. Potter

Class III FOMC – Internal (FR)

Material for Briefing on the

**Proposed Revisions to Documents Governing
Foreign Currency Operations**

Simon Potter
September 20, 2016

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(1) Document Structure

- Move all authorizing and purpose language into Authorization and directing language into the Directive
- Incorporate existing Procedural Instructions into Authorization and Directive, eliminating Procedural Instructions
- Move definition and governance of the Foreign Currency Subcommittee from Authorization into the Rules of Organization and Rules of Procedure, respectively

(3) Warehousing of ESF

- Add provision expressly authorizing \$5 billion warehousing arrangement with U.S. Treasury
- Require Subcommittee approval of warehousing transactions

(5) Foreign Currency Holdings

- Provide revised investment objectives for the management of foreign currency holdings
- Delegate to Subcommittee the authority to provide additional instruction to the Selected Bank
- Remove duration limit of 24 months

(2) FX Intervention Operations

- Remove Selected Bank's discretion to determine whether to execute foreign exchange intervention operations
- Eliminate list of authorized currencies and \$25 billion limit on overall open position
- Increase Subcommittee approval authority from \$1.5 billion to \$5 billion per intermeeting period

(4) Reciprocal Currency Arrangements, Swap Lines*Reciprocal currency arrangements*

- Remove Subcommittee's authority to approve drawings below a certain size

Standing liquidity swap lines

- For dollar draws, remove requirement that Chairman approve initial draws; replace with governance process for approving schedule of potential drawings
- For foreign currency draws by Federal Reserve, require Committee approval of all draws

(6) General Governance

- Delegate Subcommittee authority to Chairman if the Subcommittee cannot convene in the time available
- Delegate Committee authority to Chairman in exceptional circumstances

Appendix: Other Proposed Changes

- Add provision to Authorization stating purpose of liquidity swap operations
- Add language clarifying authority of Chairman to designate System persons who may communicate with Treasury regarding foreign currency operations
- Require Selected Bank to provide regular reports on foreign currency operations and investment activity
- Add directive to conduct operational readiness exercises of up to \$2.5 billion per calendar year
- Remove two authorities specific to transactions that are no longer conducted:
 - authority to conduct transactions at non-market exchange rates
 - authority to use foreign currency holdings to purchase U.S. government securities under agreement for repurchase as means of investment
- Remove requirement for referral to the Committee of agreements concerning administration of accounts
- Change method for calculating \$5 billion limit on intervention transactions that Subcommittee may approve

Authorization for Foreign Currency Operations

As amended effective [\[September 20, 2016\]](#)

IN GENERAL

1. The Federal Open Market Committee (the “Committee”) authorizes the Federal Reserve Bank selected by the Committee (the “Selected Bank”) to execute open market transactions for the System Open Market Account as provided in this Authorization, to the extent necessary to carry out any foreign currency directive of the Committee:

A. To purchase and sell foreign currencies (also known as cable transfers) at home and abroad in the open market, including with the United States Treasury, with foreign monetary authorities, with the Bank for International Settlements, and with other entities in the open market. This authorization to purchase and sell foreign currencies encompasses purchases and sales through standalone spot or forward transactions and through foreign exchange swap transactions. For purposes of this Authorization, foreign exchange swap transactions are: swap transactions with the United States Treasury (also known as warehousing transactions), swap transactions with other central banks under reciprocal currency arrangements, swap transactions with other central banks under standing dollar liquidity and foreign currency liquidity swap arrangements, and swap transactions with other entities in the open market.

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, foreign currencies.

2. All transactions in foreign currencies undertaken pursuant to paragraph 1 above shall, unless otherwise authorized by the Committee, be conducted:

A. In a manner consistent with the obligations regarding exchange arrangements under Article IV of the Articles of Agreement of the International Monetary Fund (IMF).¹

B. In close and continuous cooperation and consultation, as appropriate, with the United States Treasury.

C. In consultation, as appropriate, with foreign monetary authorities, foreign central banks, and international monetary institutions.

D. At prevailing market rates.

STANDALONE SPOT AND FORWARD TRANSACTIONS

3. For any operation that involves standalone spot or forward transactions in foreign currencies:

A. Approval of such operation is required as follows:

i. The Committee must direct the Selected Bank in advance to execute the operation if it would result in the overall volume of standalone spot and forward transactions in foreign currencies, as defined in paragraph 3.C of this Authorization, exceeding \$5 billion since the close of the most recent regular meeting of the Committee. The Foreign Currency Subcommittee (the “Subcommittee”) must direct the Selected Bank in advance to execute the operation if the Subcommittee believes that consultation with the Committee is not feasible in the time available.

ii. The Committee authorizes the Subcommittee to direct the Selected Bank in advance to execute the operation if it would result in the overall volume of standalone spot and forward transactions

¹ In general, as specified in Article IV, each member of the IMF undertakes to collaborate with the IMF and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. These obligations include seeking to direct the member’s economic and financial policies toward the objective of fostering or-

derly economic growth with reasonable price stability. These obligations also include avoiding manipulating exchange rates or the international monetary system in such a way that would impede effective balance of payments adjustment or to give an unfair competitive advantage over other members.

in foreign currencies, as defined in paragraph 3.C of this Authorization, totaling \$5 billion or less since the close of the most recent regular meeting of the Committee.

- B. Such an operation also shall be:
- i. Generally directed at countering disorderly market conditions; or
 - ii. Undertaken to adjust System balances in light of probable future needs for currencies; or
 - iii. Conducted for such other purposes as may be determined by the Committee.
- C. For purposes of this Authorization, the overall volume of standalone spot and forward transactions in foreign currencies is defined as the sum (disregarding signs) of the dollar values of individual foreign currencies purchased and sold, valued at the time of the transaction.

WAREHOUSING

4. The Committee authorizes the Selected Bank, with the prior approval of the Subcommittee and at the request of the United States Treasury, to conduct swap transactions with the United States Exchange Stabilization Fund established by section 10 of the Gold Reserve Act of 1934 under agreements in which the Selected Bank purchases foreign currencies from the Exchange Stabilization Fund and the Exchange Stabilization Fund repurchases the foreign currencies from the Selected Bank at a later date (such purchases and sales also known as warehousing).

RECIPROCAL CURRENCY ARRANGEMENTS, AND STANDING DOLLAR AND FOREIGN CURRENCY LIQUIDITY SWAPS

5. The Committee authorizes the Selected Bank to maintain reciprocal currency arrangements established under the North American Framework Agreement, standing dollar liquidity swap arrangements, and standing foreign currency liquidity swap arrangements as provided in this Authorization and to the extent

necessary to carry out any foreign currency directive of the Committee.

A. For reciprocal currency arrangements all drawings must be approved in advance by the Committee (or by the Subcommittee, if the Subcommittee believes that consultation with the Committee is not feasible in the time available).

B. For standing dollar liquidity swap arrangements all drawings must be approved in advance by the Chairman. The Chairman may approve a schedule of potential drawings, and may delegate to the manager, System Open Market Account, the authority to approve individual drawings that occur according to the schedule approved by the Chairman.

C. For standing foreign currency liquidity swap arrangements all drawings must be approved in advance by the Committee (or by the Subcommittee, if the Subcommittee believes that consultation with the Committee is not feasible in the time available).

D. Operations involving standing dollar liquidity swap arrangements and standing foreign currency liquidity swap arrangements shall generally be directed at countering strains in financial markets in the United States or abroad, or reducing the risk that they could emerge, so as to mitigate their effects on economic and financial conditions in the United States.

E. For reciprocal currency arrangements, standing dollar liquidity swap arrangements, and standing foreign currency liquidity swap arrangements:

- i. All arrangements are subject to annual review and approval by the Committee;
- ii. Any new arrangements must be approved by the Committee; and
- iii. Any changes in the terms of existing arrangements must be approved in advance by the Chairman. The Chairman shall keep the Committee informed of any changes in terms, and the terms shall be consistent with principles discussed with and guidance provided by the Committee.

OTHER OPERATIONS IN FOREIGN CURRENCIES

6. Any other operations in foreign currencies for which governance is not otherwise specified in this Authorization (such as foreign exchange swap transactions with private-sector counterparties) must be authorized and directed in advance by the Committee.

FOREIGN CURRENCY HOLDINGS

7. The Committee authorizes the Selected Bank to hold foreign currencies for the System Open Market Account in accounts maintained at foreign central banks, the Bank for International Settlements, and such other foreign institutions as approved by the Board of Governors under Section 214.5 of Regulation N, to the extent necessary to carry out any foreign currency directive of the Committee.

A. The Selected Bank shall manage all holdings of foreign currencies for the System Open Market Account:

- i. Primarily, to ensure sufficient liquidity to enable the Selected Bank to conduct foreign currency operations as directed by the Committee;
- ii. Secondarily, to maintain a high degree of safety;
- iii. Subject to paragraphs 7.A.i and 7.A.ii, to provide the highest rate of return possible in each currency; and
- iv. To achieve such other objectives as may be authorized by the Committee.

B. The Selected Bank may manage such foreign currency holdings by:

- i. Purchasing and selling obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency thereof (“Permitted Foreign Securities”) through outright purchases and sales;
- ii. Purchasing Permitted Foreign Securities under agreements for repurchase of such Permitted Foreign Securities and selling such securities under agreements for the resale of such securities; and
- iii. Managing balances in various time

and other deposit accounts at foreign institutions approved by the Board of Governors under Regulation N.

C. The Subcommittee, in consultation with the Committee, may provide additional instructions to the Selected Bank regarding holdings of foreign currencies.

ADDITIONAL MATTERS

8. The Committee authorizes the Chairman:

A. With the prior approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the United States Treasury about the division of responsibility for foreign currency operations between the System and the United States Treasury;

B. To advise the Secretary of the United States Treasury concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

C. To designate Federal Reserve System persons authorized to communicate with the United States Treasury concerning System Open Market Account foreign currency operations; and

D. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

9. The Committee authorizes the Selected Bank to undertake transactions of the type described in this Authorization, and foreign exchange and investment transactions that it may be otherwise authorized to undertake, from time to time for the purpose of testing operational readiness. The aggregate amount of such transactions shall not exceed \$2.5 billion per calendar year. These transactions shall be conducted with prior notice to the Committee.

10. All Federal Reserve banks shall participate in the foreign currency operations for System Open Market Account in accordance with paragraph 3G(1) of the Board of Governors’ Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks

dated January 1, 1944.

11. Any authority of the Subcommittee pursuant to this Authorization may be exercised by the Chairman if the Chairman believes that consultation with the Subcommittee is not feasible in the time available. The Chairman shall promptly report to the Subcommittee any action approved by the Chairman pursuant to this paragraph.

12. The Committee authorizes the Chairman, in exceptional circumstances where it would

not be feasible to convene the Committee, to foster the Committee's objectives by instructing the Selected Bank to engage in foreign currency operations not otherwise authorized pursuant to this Authorization. Any such action shall be made in the context of the Committee's discussion and decisions regarding foreign currency operations. The Chairman, whenever feasible, will consult with the Committee before making any instruction under this paragraph.

Foreign Currency Directive

As amended effective [\[September 20, 2016\]](#)

1. The Committee directs the Federal Reserve Bank selected by the Committee (the “Selected Bank”) to execute open market transactions, for the System Open Market Account, in accordance with the provisions of the Authorization for Foreign Currency Operations (the “Authorization”) and subject to the limits in this Directive.

2. The Committee directs the Selected Bank to execute warehousing transactions, if so requested by the United States Treasury and if approved by the Foreign Currency Subcommittee (the “Subcommittee”), subject to the limitation that the outstanding balance of United States dollars provided to the United States Treasury as a result of these transactions not at any time exceed \$5 billion.

3. The Committee directs the Selected Bank to maintain, for the System Open Market Account:

A. Reciprocal currency arrangements with the following foreign central banks:

Foreign central bank	Maximum amount (millions of dollars or equivalent)
Bank of Canada	2,000
Bank of Mexico	3,000

B. Standing dollar liquidity swap arrangements with the following foreign central banks:

Bank of Canada
Bank of England
Bank of Japan
European Central Bank
Swiss National Bank

C. Standing foreign currency liquidity swap arrangements with the following foreign central banks:

Bank of Canada
Bank of England
Bank of Japan
European Central Bank
Swiss National Bank

4. The Committee directs the Selected Bank to hold and to invest foreign currencies in the portfolio in accordance with the provisions of paragraph 7 of the Authorization.

5. The Committee directs the Selected Bank to report to the Committee, at each regular meeting of the Committee, on transactions undertaken pursuant to paragraphs 1 and 6 of the Authorization. The Selected Bank is also directed to provide quarterly reports to the Committee regarding the management of the foreign currency holdings pursuant to paragraph 7 of the Authorization.

6. The Committee directs the Selected Bank to conduct testing of transactions for the purpose of operational readiness in accordance with the provisions of paragraph 9 of the Authorization.

Federal Open Market Committee—Rules of Organization

As amended effective [\[September 20, 2016\]](#)

SECTION 1—Authority

The rulesⁱ are issued by the Federal Open Market Committee (the “Committee”) pursuant to the requirement of section 552 of title 5 of the United States Codeⁱⁱ that every agency shall publish in the Federal Register a description of its central and field organization.

SECTION 2—Composition of Committee

(a) *Members.* The Committee consists of the seven members of the Board of Governors of the Federal Reserve System (the “Board”) and five representatives of the Federal Reserve Banks, each of whom is a president or a first vice president of a Federal Reserve Bank.

(b) *Federal Reserve Bank representatives.* The representatives of the Federal Reserve Banks, and an alternate for each representative, are elected by the boards of directors of the Federal Reserve Banks in accordance with section 12A of the Federal Reserve Act (12 USC 263) for annual terms commencing on the date of the first regularly scheduled meeting of the Committee occurring on or after January 1 of each year. Prior to the first regularly scheduled meeting of the Committee on or after January 1 of each year, each member of the Committee representing the Federal Reserve Banks shall cause a record of the member’s election and of the election of the member’s alternate to be forwarded to the secretary of the Committee. If any question is raised as to the election or eligibility of a member or alternate, the Committee determines such question before such member or alternate participates in a meeting of the Committee. In the event a member is absent from a meeting of the Committee, the member’s alternate, in attending the meeting, shall have the same status as the member for whom the alternate is serving. If a member or alternate ceases to be a president or first vice president of a Federal Reserve Bank, a successor may be chosen in a special election by the boards of directors of the appropriate Federal Reserve Bank or Banks and such successor serves until the next annual election.

(c) *Oath of office.* Each member of the Committee and each alternate take the same oath of office as that prescribed by statute to be taken by officers of the United States.

SECTION 3—Chairman and Vice Chairman

At its first regularly scheduled meeting on or after January 1 of each year, the Committee elects a Chairman and a Vice Chairman from among its membership. The Chairman presides at all meetings of the Committee and performs such other duties as the Committee may require. The Vice Chairman performs the duties of the Chairman in the absence of the Chairman. In the absence of both the Chairman and the Vice Chairman of the Committee, the Vice Chairman of the Board acts as Chairman of the Committee; and, in the absence of the Chairman and the Vice Chairman of the Committee and the Vice Chairman of the Board, the member of the Board present with the longest service as a member of the Board acts as Chairman of the Committee.

SECTION 4—Foreign Currency Subcommittee

The Foreign Currency Subcommittee (the “Subcommittee”) consists of the Chairman and Vice Chairman of the Committee, and the Vice Chairman of the Board of Governors, and such other member of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, (or another Board members designated by the Chairman as an alternates if a member of the Board serving on the Subcommittee is unavailable, and in the absence of the Vice Chairman of the Committee, the alternate of the Vice Chairman’s alternate of the Committee if the Vice Chairman of the Committee is unavailable).

SECTION 5—Staff

(a) *Selection of staff officers.* At its first regularly scheduled meeting on or after January 1 of each year, the Committee selects, from among the officers and employees of the Board

and the Federal Reserve Banks, the following staff officers to serve until the first regularly scheduled meeting on or after January 1 of the next following year: secretary, deputy secretary, and one or more assistant secretaries; general counsel, deputy general counsel, and one or more assistant general counsels; economists, one or more of whom may be designated as senior or associate economists or given titles reflecting their areas of particular specialization; and such other officers as the Committee might wish from time to time. A staff officer ceases to be an officer of the Committee if he or she ceases to be employed by the Board or by a Federal Reserve Bank or if the Committee selects a successor to that staff officer.

(b) *Secretary and deputy and assistant secretaries.* The secretary keeps minutes of actions and records of discussions at all meetings of the Committee; maintains a complete record of the actions taken by the Committee upon all questions of policy relating to open market operations; and records the votes taken in connection with the determination of open market policies and the reasons underlying each such action. The secretary has custody of such minutes and records, and performs such other duties as the Committee may require. In the absence of the secretary of the Committee, the deputy secretary or an assistant secretary acts as secretary pro tem.

(c) *Economists.* The economists prepare for the use of the Committee and present to it such information regarding business and credit conditions and domestic and international economic and financial developments as will assist the Committee in the determination of open market policies, and they perform such other duties as the Committee may require.

(d) *General counsel and deputy and assistant general counsel.* The general counsel furnishes such legal advice as the Committee may require. In the absence of the general counsel, the deputy general counsel or an assistant general counsel acts as general counsel pro tem.

(e) *Filling of vacancies.* At any meeting the Committee may fill any vacancy in the offices described in this section.

(f) *Other staff assistance.* The services of any officers and employees of the Board and the Federal Reserve Banks are made available and are utilized by the Committee as required.

SECTION 6—Manager and Deputy Manager

The Committee selects a manager and deputy manager of the System Open Market Account. The foregoing shall be satisfactory to the Federal Reserve Bank selected by the Committee to execute open market transactions for such account (the “Selected Bank”) and shall serve at the pleasure of the Committee. The manager keeps the Committee informed on market conditions and on transactions made for such account and renders such reports as the Committee may specify. In the absence of the manager, the deputy manager acts as manager pro tem. In the event that the president of the Selected Bank determines that the manager or deputy manager is not able to perform the duties of the position, the Chairman may select a person satisfactory to such president to serve as manager or deputy manager (as relevant) until the Committee and the Selected Bank select a replacement manager or (as relevant) deputy manager in accordance with this section.

ⁱ These are uncodified rules, for use within the Federal Reserve System.

ⁱⁱ See 5 USC 552(a)(1) at 8-311.

Federal Open Market Committee—Rules of Procedure

12 CFR 272; as amended effective [\[September 20, 2016\]](#)

SECTION 272.1—Authority

This part¹ is issued by the Federal Open Market Committee (the “Committee”) pursuant to the requirement of section 552 of title 5 of the United States Code that every agency shall publish in the Federal Register its rules of procedure.

SECTION 272.2—Functions of the Committee

The procedures followed by the Committee are designed to facilitate the effective performance of the Committee’s statutory functions with respect to the regulation and direction of open market operations conducted by the Federal Reserve Banks and with respect to certain direct transactions between the Federal Reserve Banks and the United States. In determining the policies to be followed in such operations, the Committee considers information regarding business and credit conditions and domestic and international economic and financial developments, and other pertinent information gathered and submitted by its staff and the staffs of the Board of Governors of the Federal Reserve System (the “Board”) and the Federal Reserve Banks. Against the background of such information, the Committee takes actions from time to time to regulate and direct the open market operations of the Federal Reserve Banks. Such policy actions ordinarily are taken through the adoption and transmission to the Federal Reserve Banks of regulations, authorizations, and directives.

SECTION 272.3—Meetings

(a) *Place and frequency.* The Committee meets in Washington, D.C., at least four times each year and oftener if deemed necessary. Meetings are held upon the call of the Chairman of the Board or at the request of any three members of the Committee. Notices of calls by the Chairman of the Board to other members are given by the secretary of the Committee in writing, by telephone, or electronic means. Requests of any three members for the calling of a meeting shall state the time therefore and

shall be filed in writing, by telephone, or electronic means with the secretary who shall forthwith notify all members of the Committee in writing, by telephone, or electronic means. When the secretary has sent notices to all members of the Committee that a meeting has been requested by three members and of the time therefore, a meeting is deemed to have been called. If, in the judgment of the Chairman, circumstances require that a meeting be called at such short notice that one or more members cannot be present in person, such members may participate in the meeting by telephone conference arrangements or by electronic means.

(b) *Alternates.* Whenever any member of the Committee representing Federal Reserve Banks shall find that the member will be unable to attend a meeting of the Committee, the member shall promptly notify the member’s alternate and the secretary of the Committee in writing, by telephone, or electronic means, and upon receipt of such notice such alternate shall advise the secretary whether the alternate will attend such meeting.

(c) *Quorum.* Seven members, at least one of whom represents a Federal Reserve Bank, constitute a quorum of the Committee for purposes of transacting business except that, if there are fewer than seven members in office, then the number of members in office constitute a quorum. For purposes of this paragraph (c), members of the Committee include alternates acting in the absence of members. Less than a quorum may adjourn a meeting of the Committee from time to time until a quorum is in attendance.

(d) *Attendance at meetings.* Attendance at Committee meetings is restricted to members and alternate members of the Committee, the presidents of Federal Reserve Banks who are not at the time members or alternates, staff officers of the Committee, the manager, and such other advisers as the Committee may invite from time to time.

(e) *Meeting agendas.* The secretary, in consultation with the Chairman, prepares an agenda of matters to be discussed at each regularly scheduled meeting and the secretary trans-

mits the agenda to the members of the Committee within a reasonable time in advance of such meeting. In general, the agendas include reports by the manager on open market operations since the previous meeting, and ratification by the Committee of such operations; reports by economists on, and Committee discussion of, the economic and financial situation and outlook; Committee discussion of monetary policy and action with respect thereto; and such other matters as may be considered necessary.

(f) *Foreign Currency Subcommittee.* Meetings of the Foreign Currency Subcommittee (the “Subcommittee”) shall be called at the request of any Subcommittee member, or at the request of the manager, ~~for the purposes of reviewing recent or contemplated operations and of consulting with the manager on other matters relating to the manager’s responsibilities.~~ At the request of any member of the Subcommittee, questions arising from ~~such reviews and consultations~~ a matter before the Subcommittee shall be referred for determination to the Committee.

SECTION 272.4—Committee Actions

(a) *Actions at meetings.* Actions are taken at meetings of the Committee except as described below.

(b) *Policy actions between meetings.* Special circumstances may make it desirable in the public interest for Committee members to consider an action to modify an outstanding Committee authorization or directive at a time when it is not feasible to call a meeting. Whenever, in the judgment of the Chairman, such circumstances have arisen, the relevant information and recommendations for action are transmitted to the members by the secretary, and the members communicate their votes to the secretary. If the action is approved by a majority of the members, advice to that effect is promptly given by the secretary to the members of the Committee and to the Federal Reserve Bank selected to execute transactions for the System Open Market Account. All communications of

recommended actions and votes under this paragraph shall be in writing, by telephone, or electronic means; if the communication is made orally, the secretary shall cause a written record to be made without delay. An action taken between meetings has the force and effect of an action at a meeting; provided, however, that if a meeting is held before the execution of any operations pursuant to the action, the action is null and void unless it is ratified and confirmed by the Committee at such meeting.

(c) *Other actions between meetings.* Circumstances may make it desirable in the public interest for Committee members to consider other actions, such as approval of the minutes, between meetings. In these circumstances, the relevant information and recommendations for such action are transmitted to the members by the secretary, and the members communicate their votes to the secretary. All communications of recommended actions and votes under this paragraph shall be in writing, by telephone, or electronic means; if the communication is made orally, the secretary shall cause a written record to be made without delay.

(d) *Delegations of authority.* In special circumstances, the Committee may delegate authority to take an action, subject to such instructions or guidelines as the Committee deems proper. Such delegations of authority may be made to the Chairman; to a subcommittee consisting of the Chairman and the Vice Chairman of the Committee and the Vice Chairman of the Board (or in the absence of the Chairman or of the Vice Chairman of the Board the members of the Board designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee the alternate for the Vice Chairman); or to any other member or members of the Committee. An action taken pursuant to such a delegation of authority has the force and effect of an action taken by the Committee.

(e) *Technical changes to Committee rules.* The secretary of the Committee (or the acting secretary) is authorized to make technical corrections, such as spelling, grammar, construction, and organization (including removal of obsolete provisions and references), to the Committee’s rules, regulations, and orders and

§ 272.4

Federal Open Market Committee—Rules of Procedure

other records of Committee action but only with the concurrence of the Committee's general counsel.

(f) *Effective date.* Committee action ordinarily is made effective as of the time it is taken because the nature of the subject matter and the action taken is such that the public interest and the proper discharge of the Committee's responsibilities so require. Occasionally, however, the Committee may specify that an action is to be effective at some different

time.

SECTION 272.5—Notice and Public Procedure

There ordinarily is no published notice of proposed action by the Committee or public procedure thereon, as described in section 553 of title 5 of the United States Code, because such notice and procedure are impracticable, unnecessary, or contrary to the public interest.

ⁱ The words "this part," as used herein, means Rules of Procedure of the FOMC (Code of Federal

Regulations, title 12, chapter II, part 272).

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

Class II FOMC – Restricted (FR)

Material for Briefing on

**Financial Developments and
Open Market Operations**

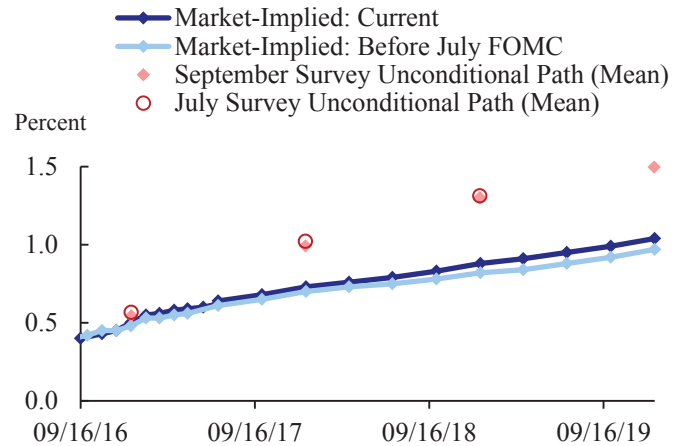
Simon Potter and Lorie K. Logan
September 20, 2016

(1) Asset Price Changes

	Sept. IMP Change	Current Level
U.S. Dollar Index	-0.5%	1193
S&P 500 Index	-1.4%	2139
5-Year HY OAS	-19 bps	5.02%
10-Year Real Yield	+11 bps	0.17%
10-Year BEI	+2 bps	1.52%
3-Mo. LIBOR-OIS	+9 bps	42 bps

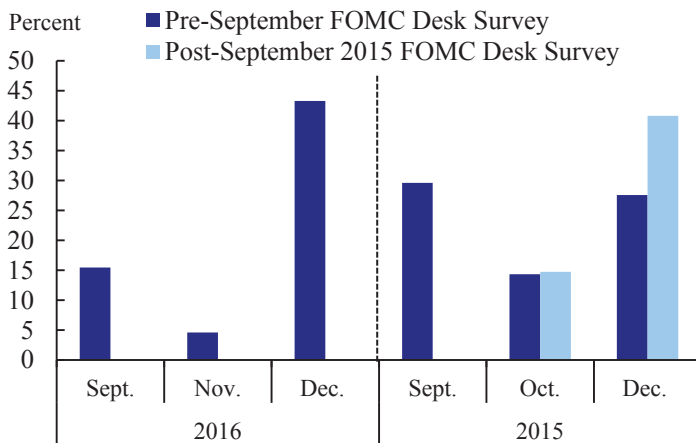
Source: Barclays, Bloomberg

(2) Implied Federal Funds Rate Path*



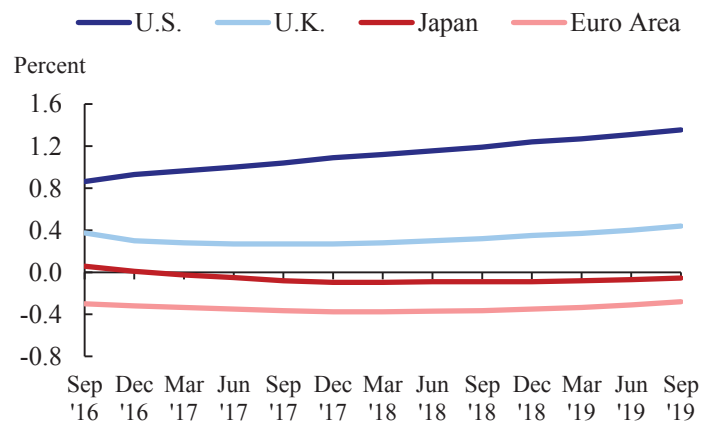
*Market-implied paths derived from federal funds and Eurodollar futures, survey paths are the average PDF-implied means from the September and July Surveys of Primary Dealers and Market Participants.
Source: Bloomberg, Desk Calculations

(3) Average Survey Probability for Timing of Next Rate Increase*



*Based on all respondents from the September 2015, September 2015 Flash, and September 2016 Surveys of Primary Dealers and Market Participants.
Source: Federal Reserve Bank of New York

(4) Path of Money Market Futures-Implied Rates*



*Levels of Tibor, Short Sterling, Euribor, and Eurodollar futures-implied rates for Japan, U.K., Euro Area, and U.S., respectively.
Source: Bloomberg

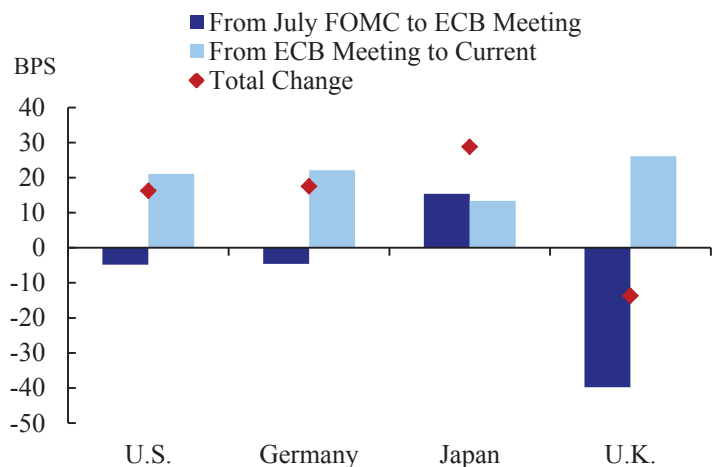
(5) BoE Policy Action Over Intermeeting Period

- Policy rate cut to 25 bps
- Additional gilt purchases
- New corporate bond purchases
- Introduced Term Funding Scheme

Forward guidance:

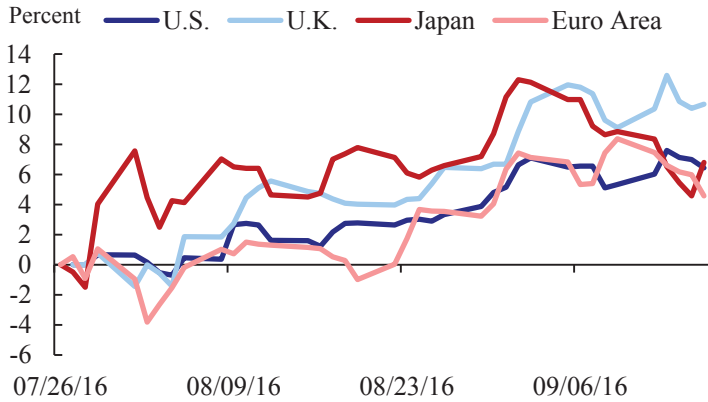
- Majority of MPC members expect additional rate cut by end of 2016
- Lower bound on rates viewed as “close to, but a little above, zero”

(6) Changes in Nominal 30-Year Yields Across G4



Source: Bloomberg

(7) Bank Sector Performance Against Broader Indices Over Intermeeting Period*



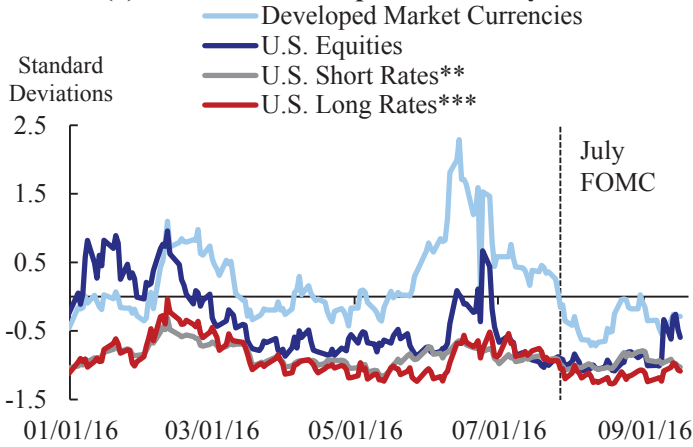
*Percentage difference in bank performance relative to respective broader index since the July FOMC.
Source: Bloomberg

(8) Select Asset Performance Since July FOMC

	Change	Current Level
HY Credit Index	-19 bps	5.02 %
EM Bond Index	-14 bps	3.71 %
MBS OAS	-9 bps	0.28 %

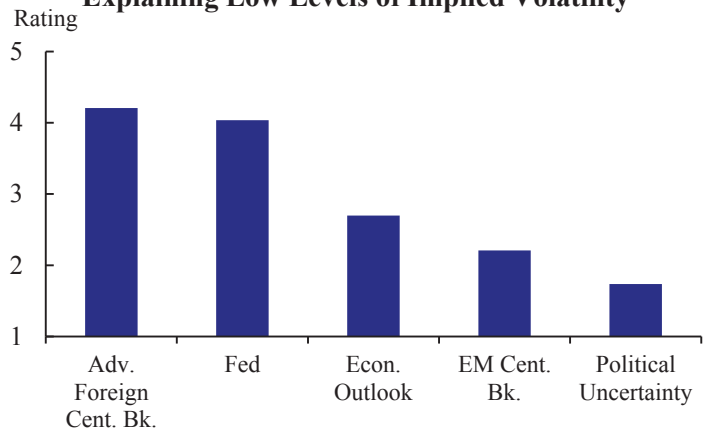
Source: Barclays, Bloomberg, J.P. Morgan Markets

(9) Standardized Implied Volatility Indices*



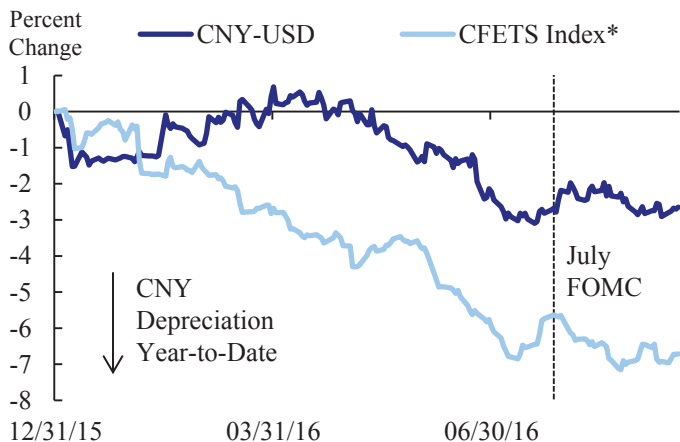
*Standardized 1-month implied volatilities since June 1994.
**Swaption with 2-year underlying.
***Swaption with 10-year underlying.
Source: Barclays, Bloomberg, CBOE, Deutsche Bank, Desk Calculations

(10) Average Ratings of Importance of Factors Explaining Low Levels of Implied Volatility*



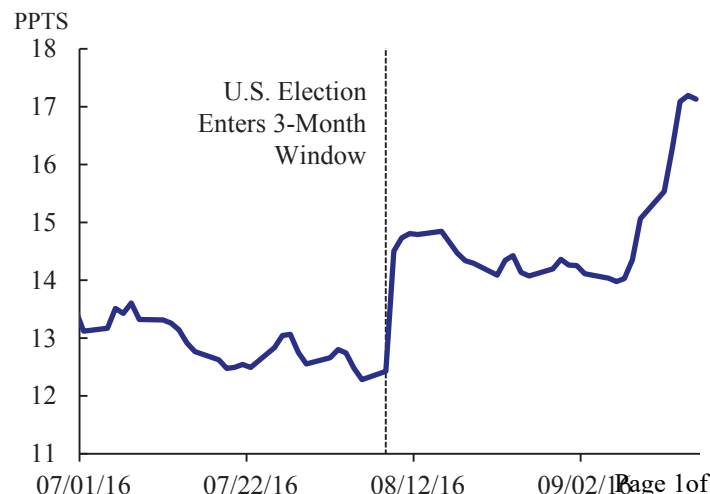
*Based on all responses from the September Surveys of Primary Dealers and Market Participants.
Source: Federal Reserve Bank of New York

(11) Chinese Exchange Rate Since Start of Year



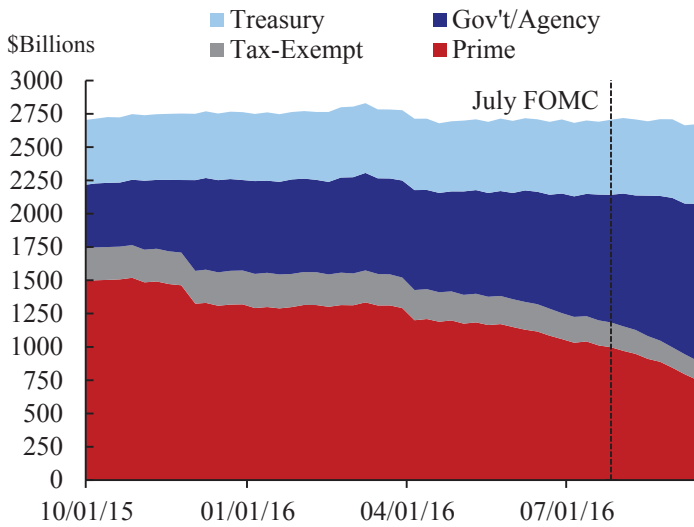
*RMB exchange rate against a basket of 13 currencies. Computed from central parity rates for all currencies traded on CFETS.
Source: Bloomberg, Desk Calculations

(12) Three-Month USD-MXN Implied Volatility



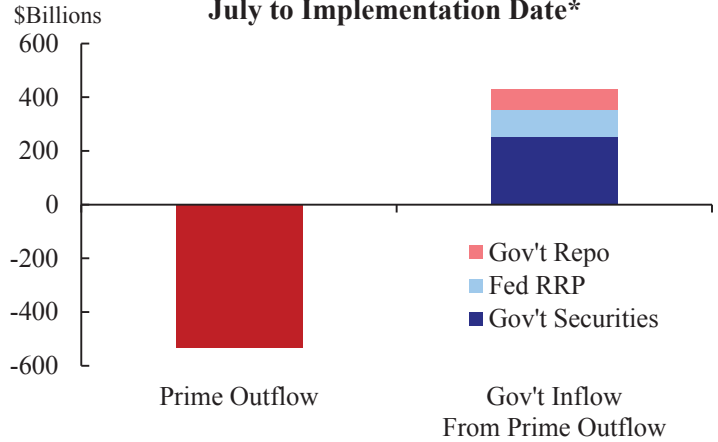
Source: Bloomberg

(13) Money Market Mutual Fund AUM



Source: iMoneyNet

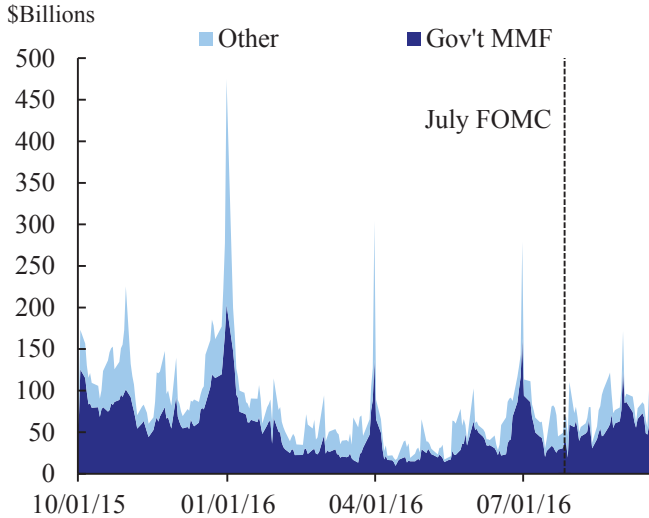
(14) Estimated MMF Flows from End of July to Implementation Date*



*Forecasts based on average across all responses from the Desk's survey of money market mutual funds.

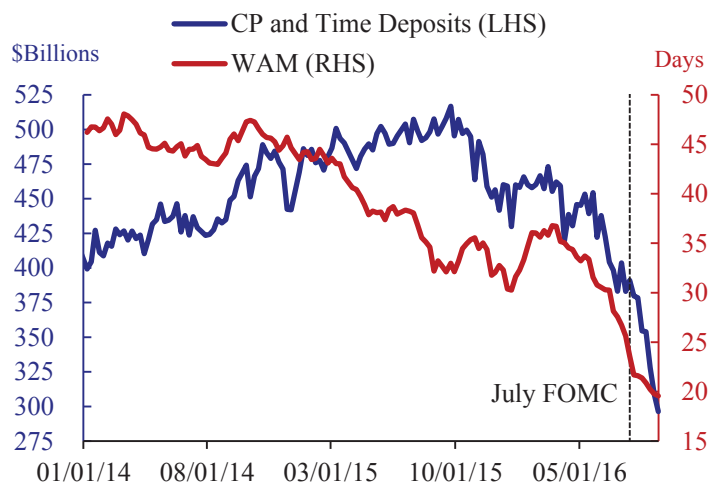
Source: Federal Reserve Bank of New York, SEC form N-MFP

(15) ON RRP Participation



Source: Federal Reserve Bank of New York

(16) Prime MMF Holdings and WAM*



*Excludes quarter-end values.

Source: iMoneyNet

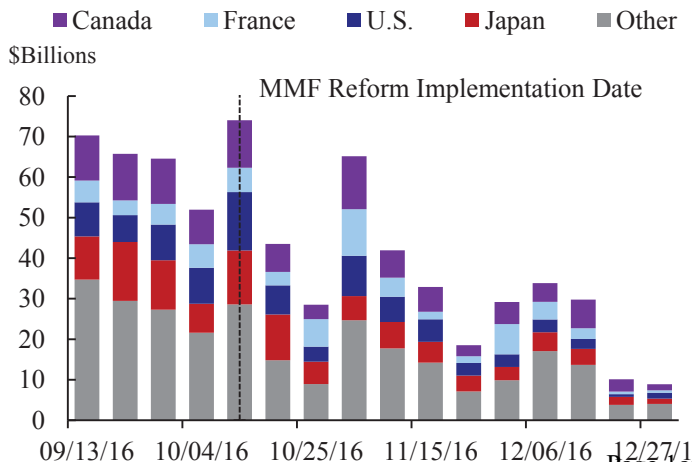
(17) 3-Month LIBOR-OIS Spreads and Survey Expectations*



*Survey expectations shown are the medians across all responses from the September Surveys of Primary Dealers and Market Participants in addition to Desk surveys of money market mutual funds and banks.

Source: Bloomberg, Federal Reserve Bank of New York

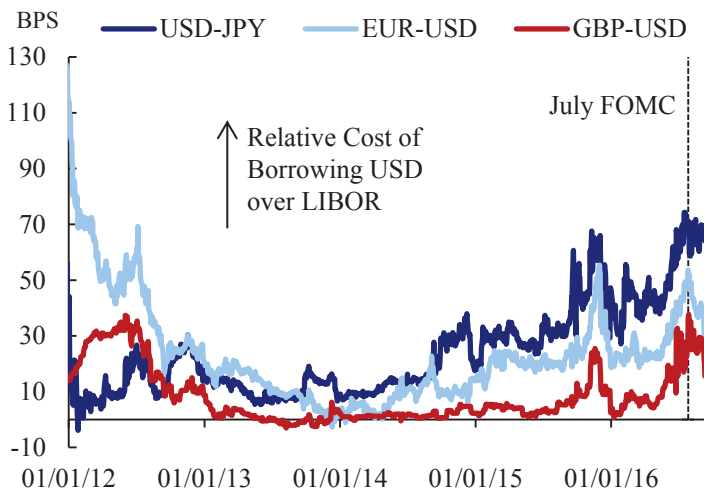
(18) Maturing Volumes of Financial CP and CDs*



*For securities with tenors of one-month to one-year.

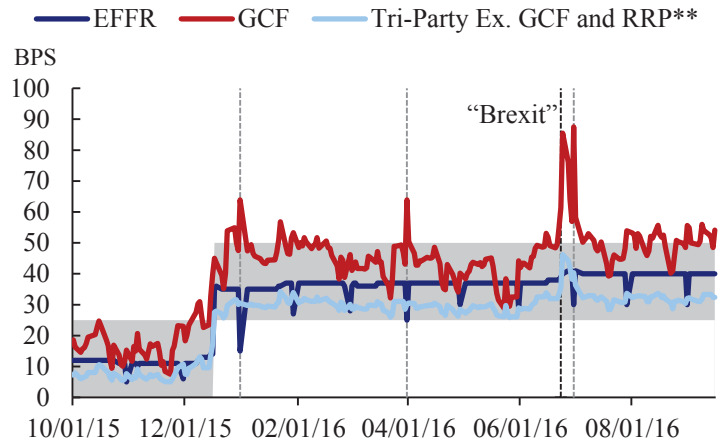
Source: DTCC

(19) Three-Month Swap Basis



Source: Bloomberg

(20) Money Market Rates*

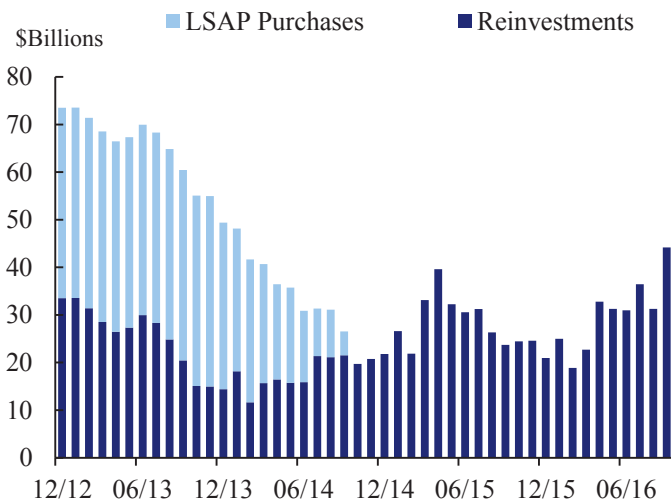


*EFFR reflects FR2420 data. Grey dashed lines indicate quarter-ends.

**Excludes intra-bank transactions.

Source: Federal Reserve Bank of New York

(21) MBS LSAP and Reinvestment Purchases



Source: Federal Reserve Bank of New York

(22) Implementation of New Foreign Reserves Investment Framework

Ready to implement new benchmark discussed in April

New framework:

- More explicit process for assessing investment objectives
- Uses mean-variance optimization approach to establish benchmark portfolio
- Will result in increase in cash and longer-term securities for the euro portfolio
- Will leave maturing yen proceeds on deposit with the BoJ for time being

Timeline:

- Begin implementation in early October
- Take 3 months to reinvest maturing proceeds toward new benchmark
- Update FOMC at next meeting on status
- Provide quarterly updates thereafter

Appendix: Summary of Operational Testing*Summary of Operational Tests in prior period:*

- Domestic Authorization
 - August 16: Treasury Outright purchase for \$400 million

Upcoming Operational Tests

- One test scheduled under the Domestic Authorization
 - October 5 and 6: Coupon swaps with unsettled agency MBS holdings for approximately \$20 million
- Three tests scheduled under the Foreign Authorization
 - October 6: Liquidity swap with four foreign central banks for approximately USD51 thousand
 - October 18: Liquidity swap with the Bank of Japan for approximately JPY51 thousand
 - October 20: Liquidity swap with the Bank of England for approximately GBP51 thousand

Appendix 3: Materials used by Ms. McLaughlin

Class II FOMC – Restricted (FR)

Material for Briefing on

Proposed Counterparty Policy

Susan McLaughlin
September 20, 2016

(1) Counterparty Information on FRBNY Public Website - September 2016

	Primary Dealers	RRP	FX	Foreign Reserves
List of Counterparties	Yes	Yes	No	No
Counterparty Policy	Yes	Yes	Yes	No
Ex Post Trade Disclosures	Yes	Yes	Yes	Yes

Source: FRBNY

(2) Proposed Changes to Primary Dealer Eligibility Criteria

- Reduce minimum net regulatory capital threshold from \$150 million to \$50 million
- Increase minimum Tier 1 capital threshold from \$150 million to \$1 billion
- Establish a new 0.25 percent Treasury market share threshold for all primary dealers

(3) Impact Analysis for New Net Regulatory Capital (NRC) Threshold

Minimum net regulatory capital threshold	Estimate of additional government securities dealers that will be eligible to apply
\$100 million	8
\$75 million	9
\$50 million	12

Source: FRBNY

(4) Evolution of Market Share Threshold

Date	Use of market share to assess primary dealer capacity
March 1982	FRBNY public statement says primary dealers have a "substantial share" of their activity with retail customers.
April 1985	FRBNY President Corrigan notes that the 1% market share threshold is a barrier to entry for new primary dealers.
September 1985	FRBNY official says that a primary dealer must account, on average, for at least 0.75% of customer trades done by all primary dealers.
Mid 1988	Desk requires primary dealers to account for at least 1% of total primary dealer volume with customers, as measured by FR 2004 data.
1992	Market share requirement dropped from primary dealer policy after 1991 Salomon Brothers Treasury auction scandal, amid efforts to expand primary dealer list.

Source: FRBNY

(5) Monthly Customer Market Shares Reported by Recent Primary Dealer and TOC Pilot Applicants

Application type	PD	PD	PD	TOC	TOC	TOC	TOC	TOC	TOC
Firm NRC at application	\$2 billion	\$122 million	\$325 million	\$1.2 million	\$1.2 million	\$15.3 million	\$2.7 million	\$3.2 million	\$46.1 million
Average monthly market share over data period	1.23%	0.32%	0.76%	0.01%	0.00%	0.001	0.01%	0.02%	0.10%
Data period	Jan–Dec 2014	Feb 2011–Apr 2012	Aug–Dec 2010	Jan 2010–Dec 2012	Jan 2010–Dec 2012	Jan 2010–Dec 2012	Jan 2010–Dec 2012	Jan 2010–Dec 2012	Jan 2010–Dec 2012

Source: FRBNY

Appendix 4: Materials used by Mr. Wilcox

Class II FOMC – Restricted (FR)

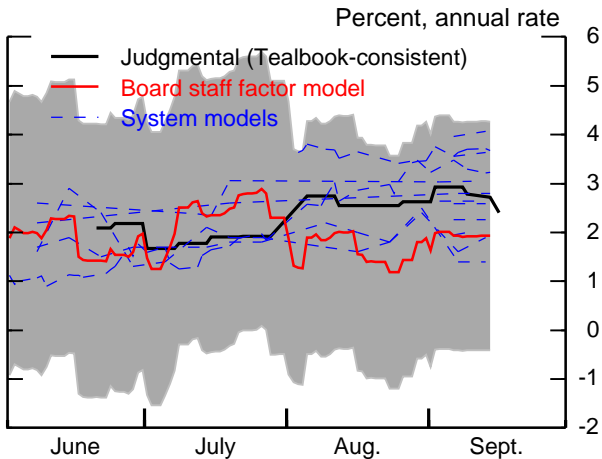
Material for Briefing on
The U.S. Outlook

David W. Wilcox
September 20, 2016

Forecast Summary

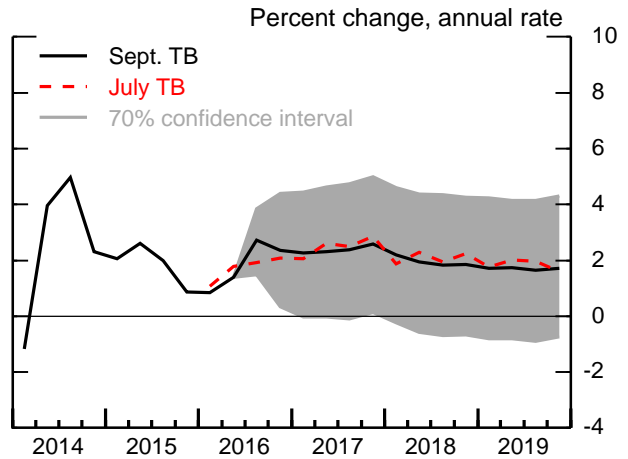
Confidence Intervals for Panels 2, 4, 5, and 6 Based on FRB/US Stochastic Simulations

1. Evolution of 2016:Q3 GDP Growth Nowcasts

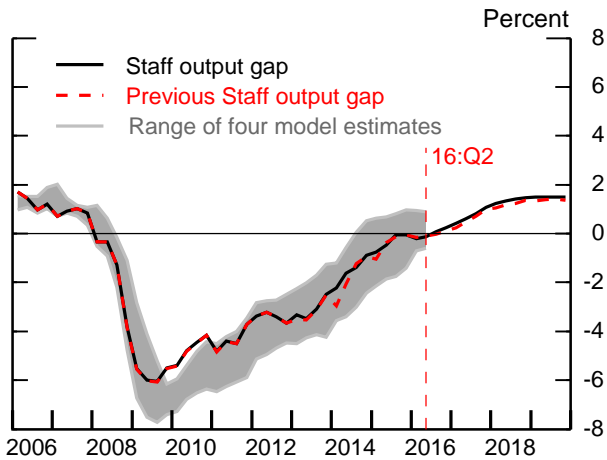


Note: The shaded region is a 70 percent confidence interval around the Board staff factor model estimate.

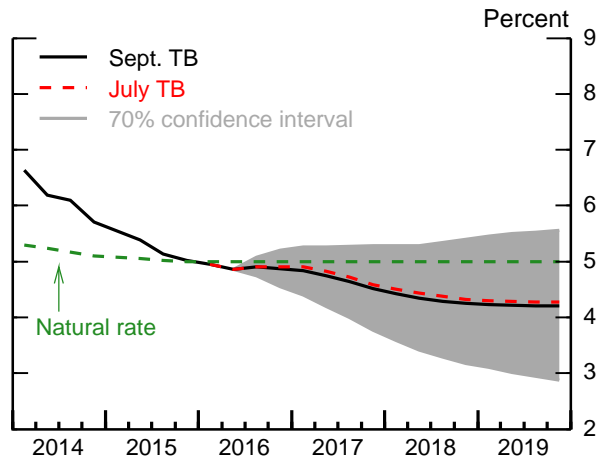
2. Real GDP



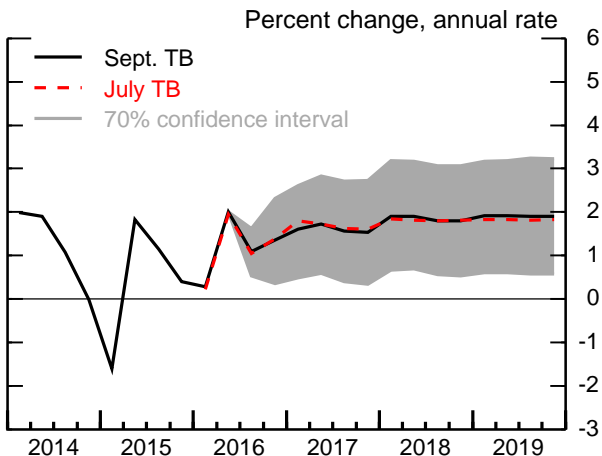
3. Output Gap Estimates



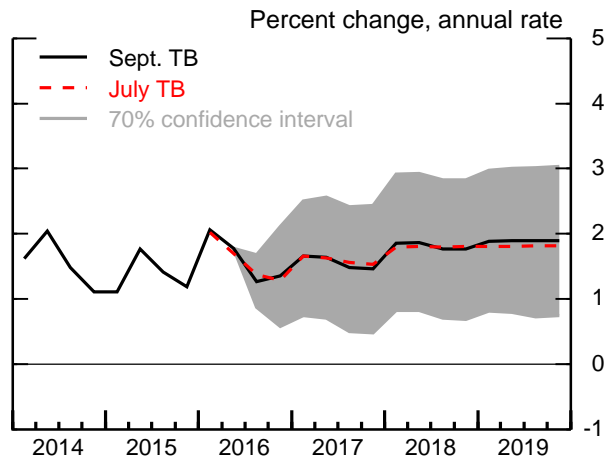
4. Unemployment Rate



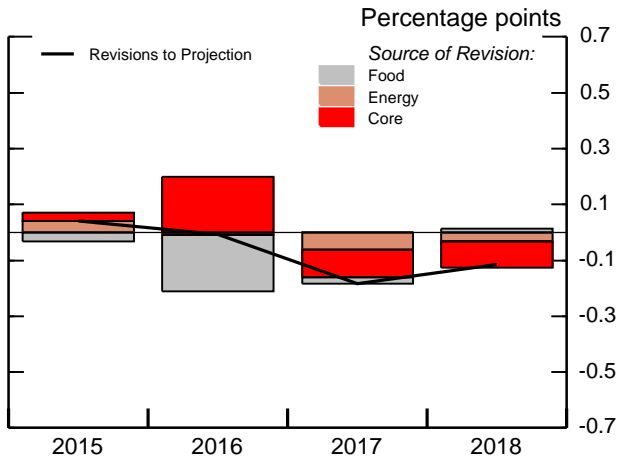
5. PCE Prices



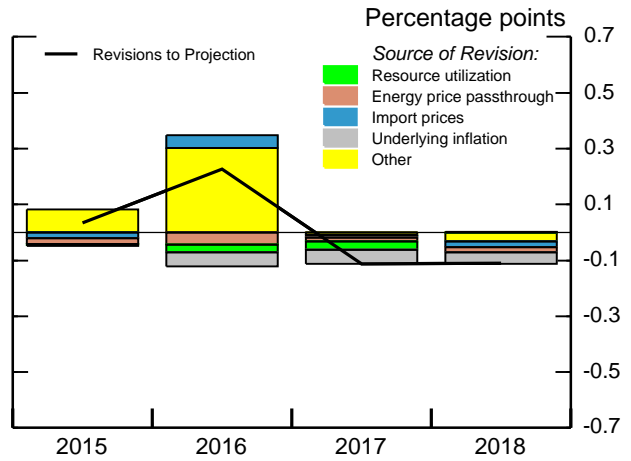
6. PCE Prices Excluding Food and Energy



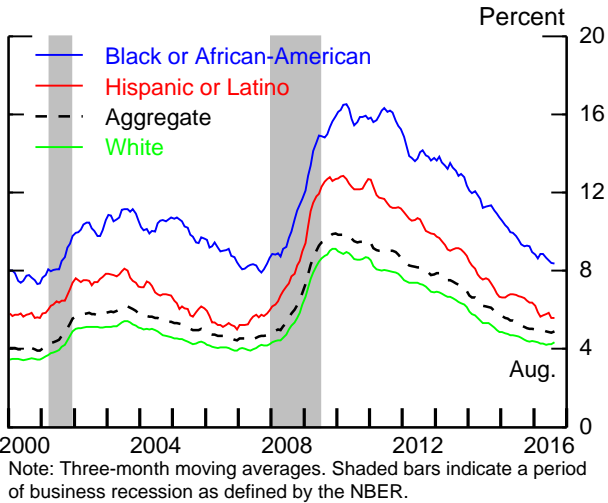
**7. Inflation Revisions Since December:
Total PCE**



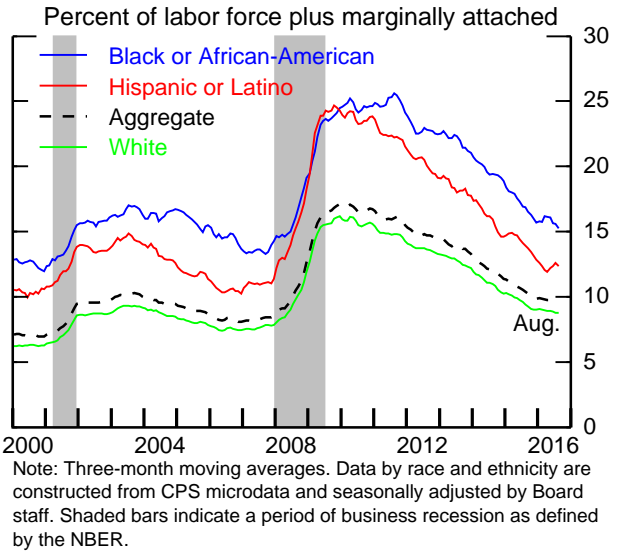
**8. Inflation Revisions Since December:
Core PCE**



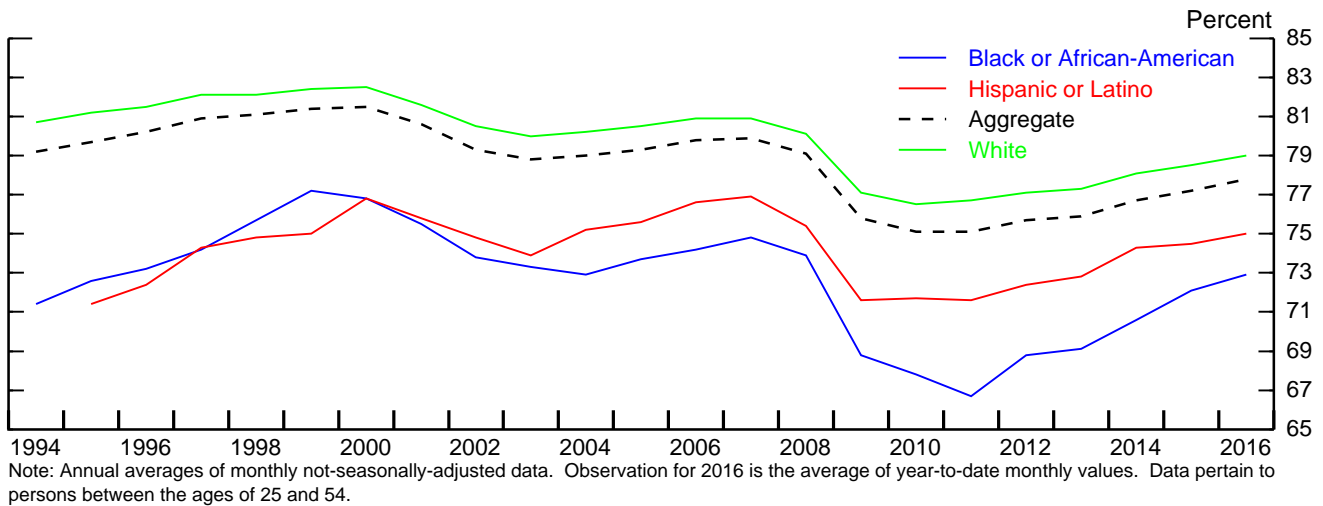
9. U-3 by Race or Ethnicity



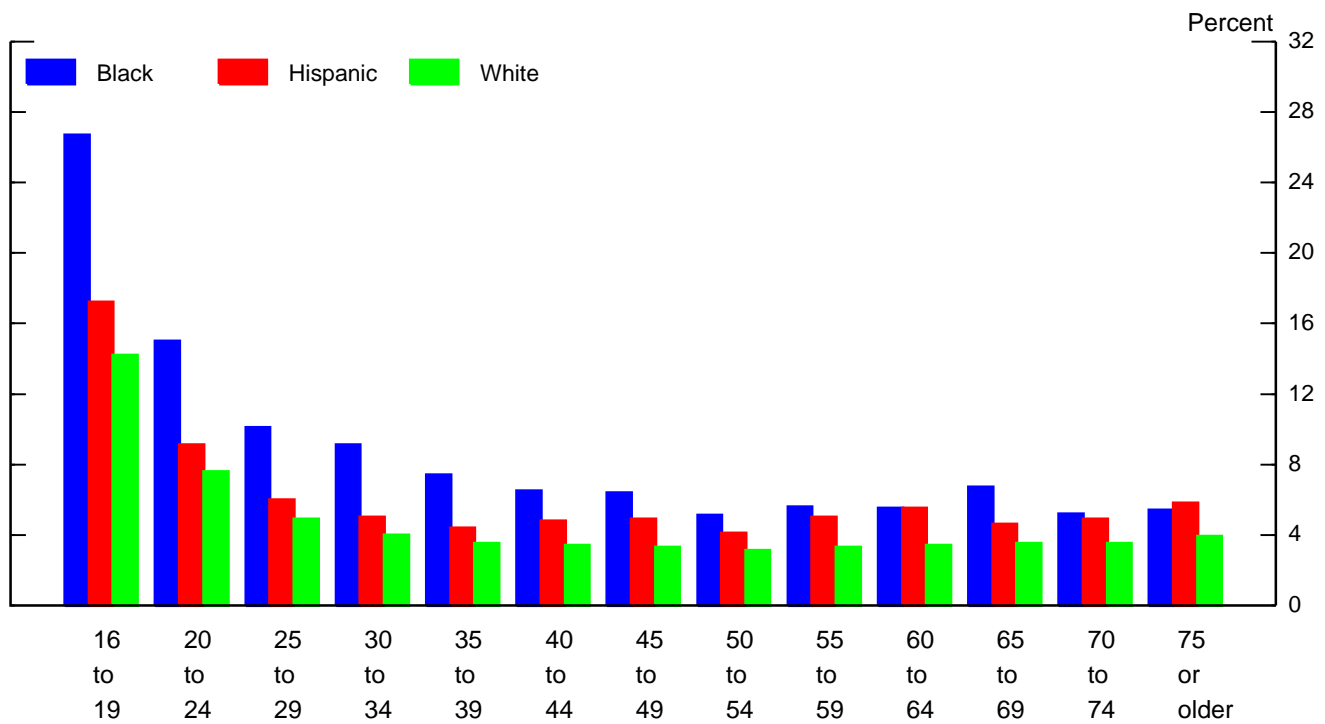
10. U-6 by Race or Ethnicity



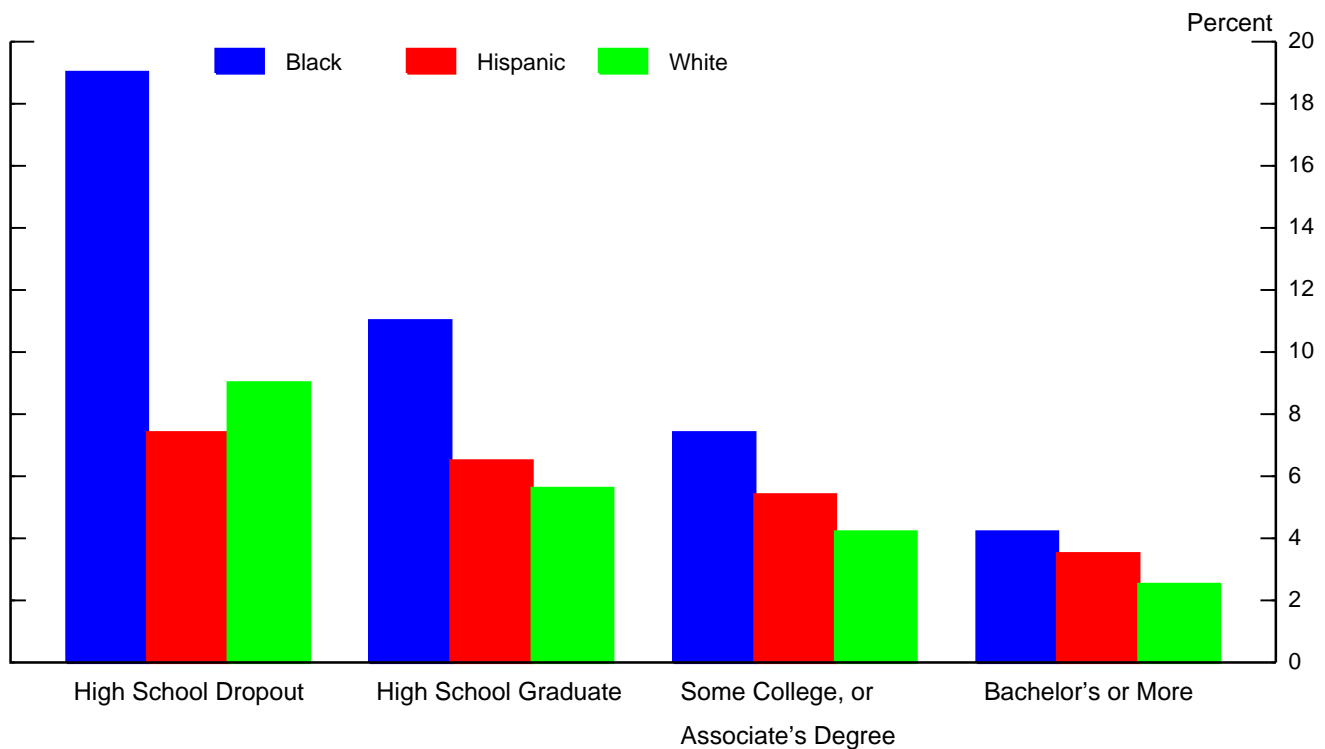
11. Employment-to-Population Ratios



12. Unemployment Rates by Age

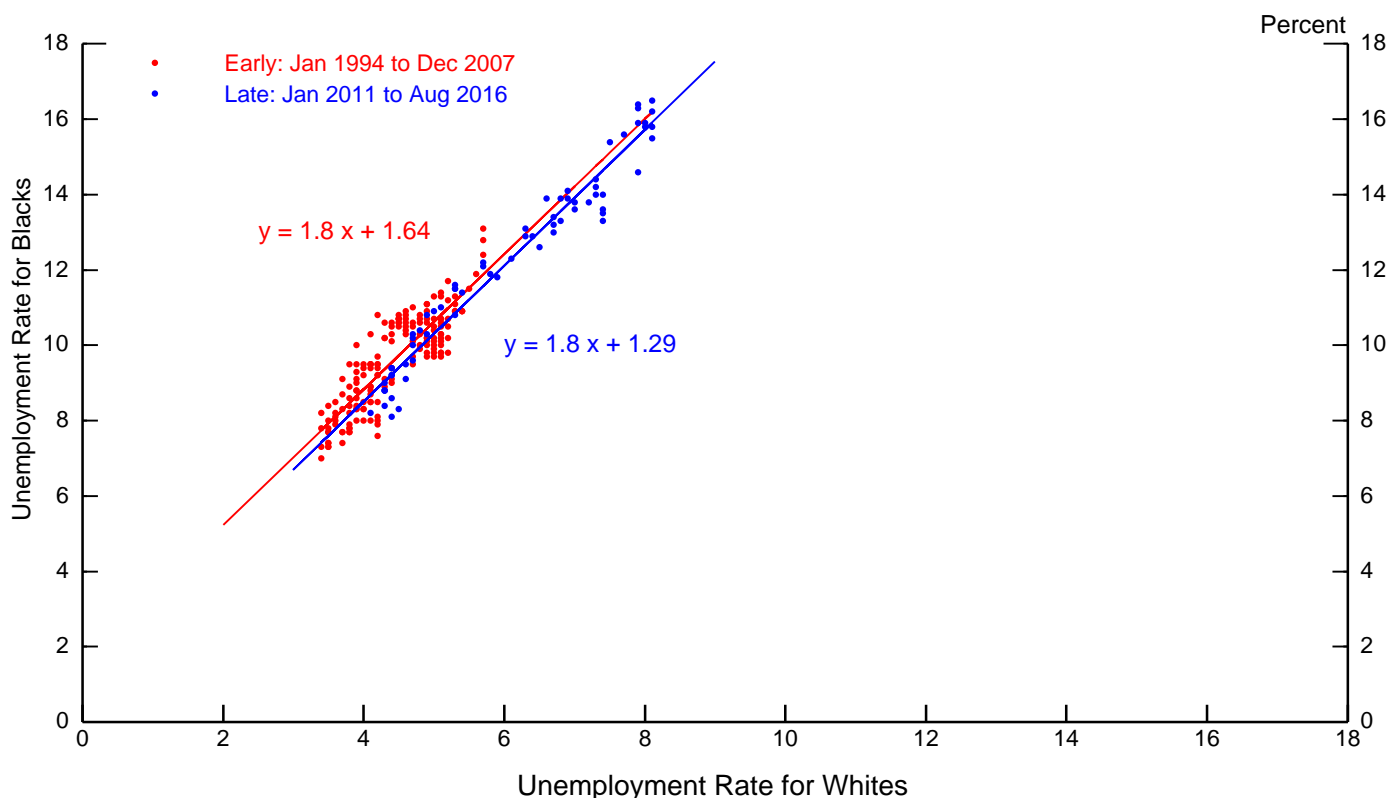


13. Unemployment Rates by Educational Attainment

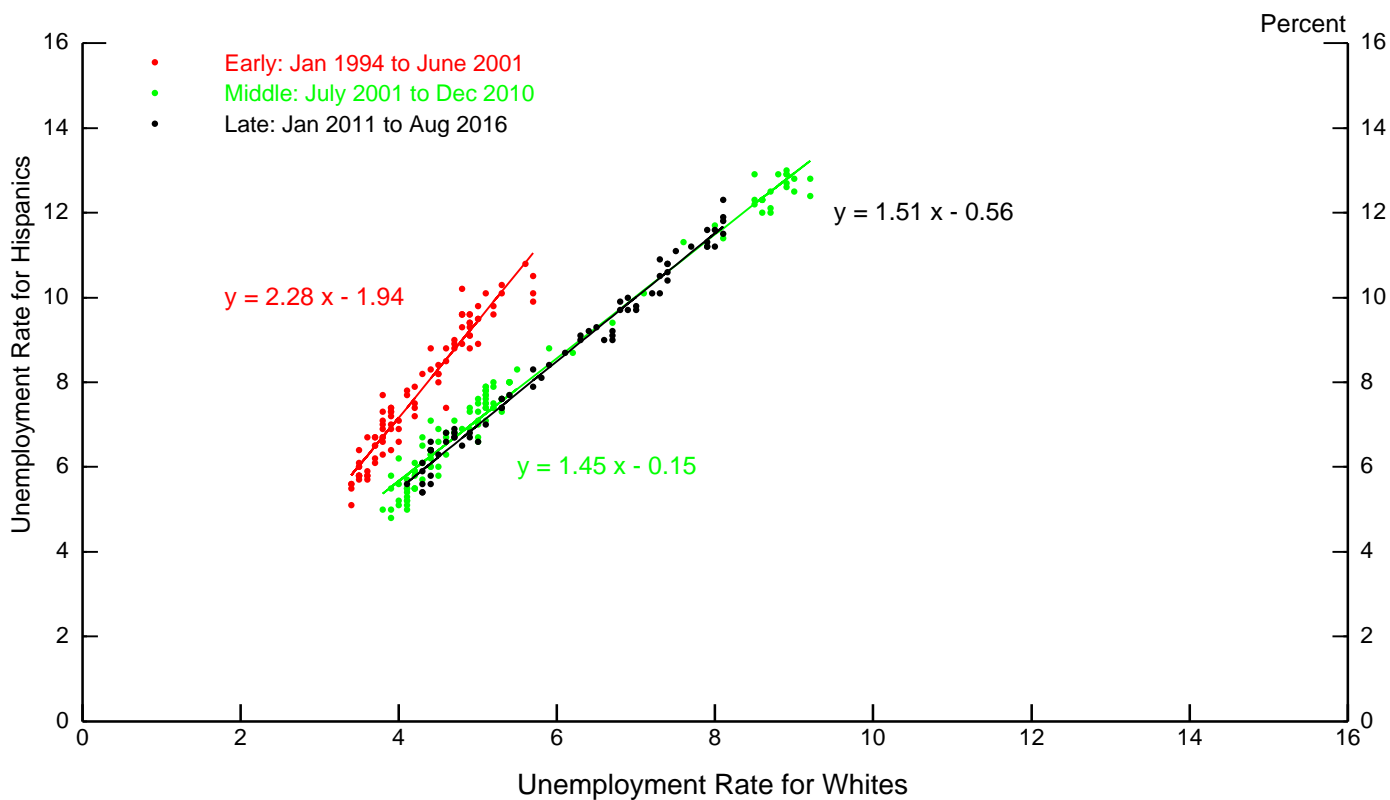


Note: Data in panels 12 and 13 are averages of monthly observations from September 2015 through August 2016.

14. Black Unemployment Rates Compared to White Unemployment Rates

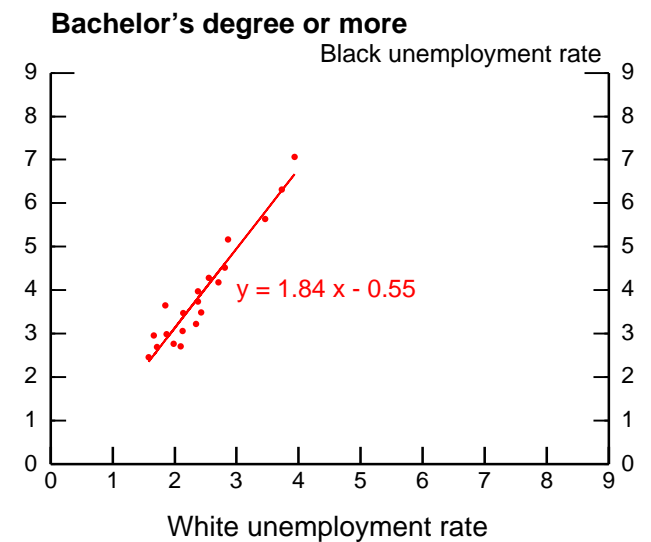
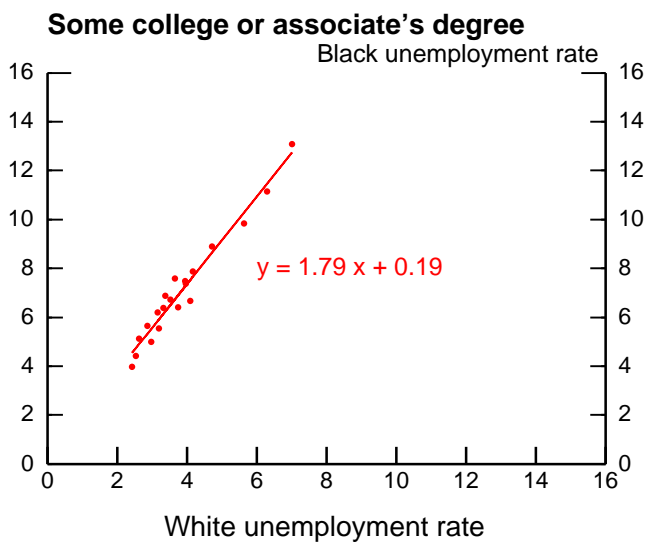
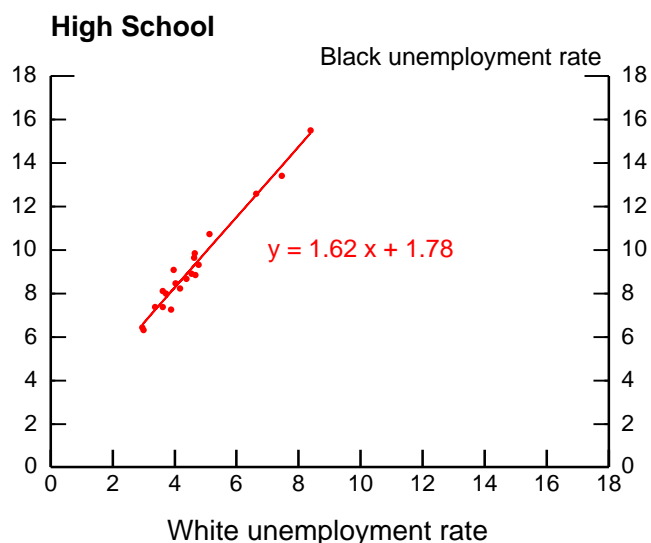
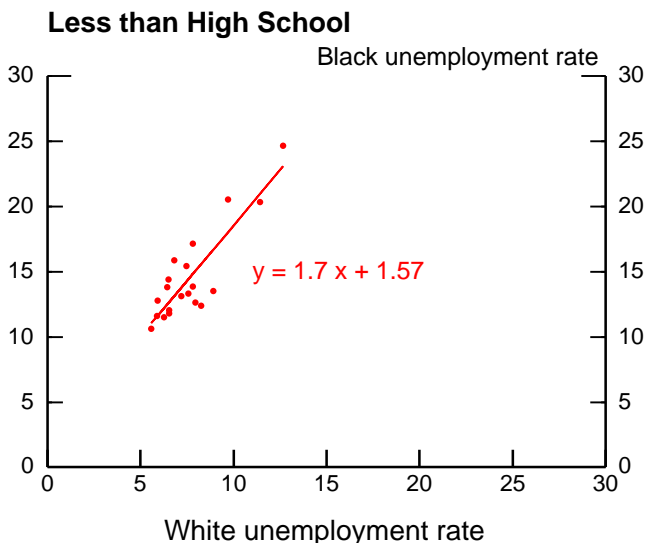


15. Hispanic Unemployment Rates Compared to White Unemployment Rates



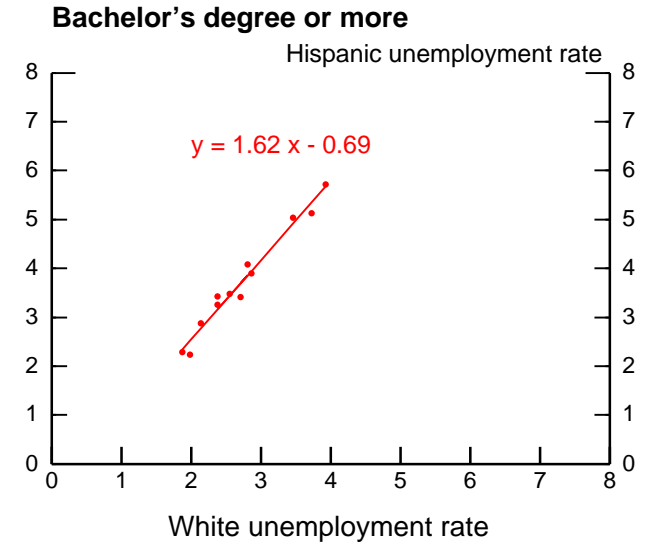
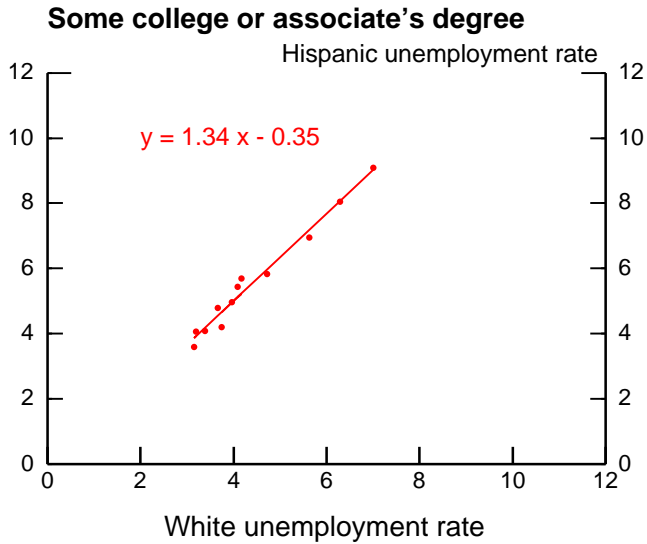
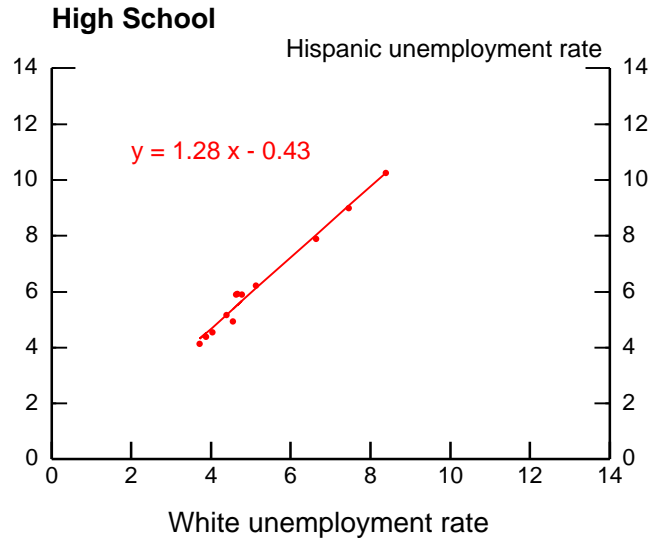
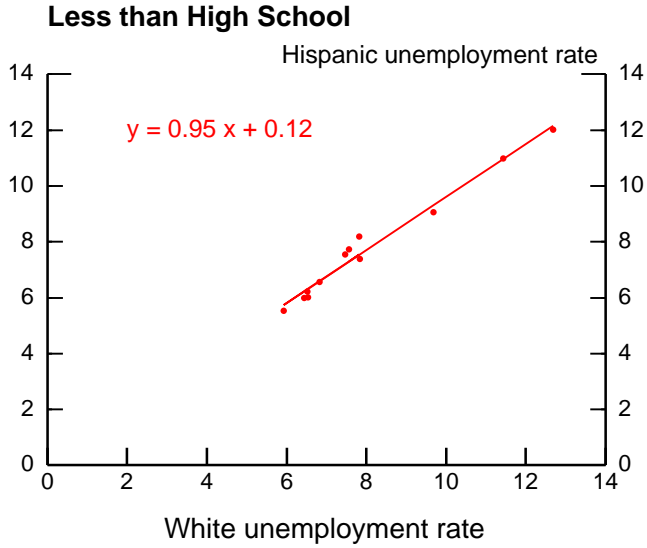
16. Black Unemployment Rates Compared to White Unemployment Rates by Educational Attainment

(annual averages of monthly not-seasonally-adjusted data)

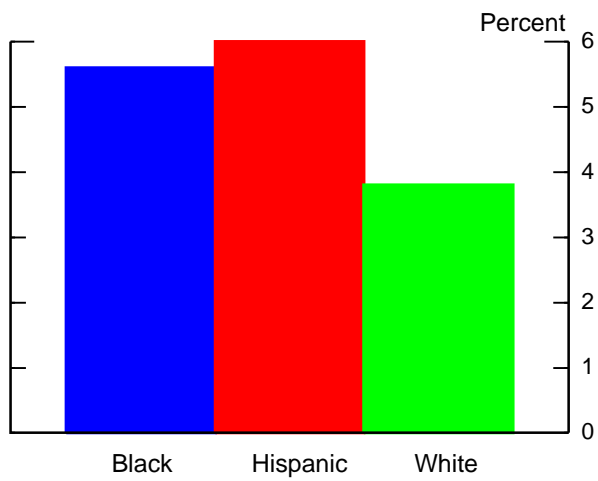


17. Hispanic Unemployment Rates Compared to White Unemployment Rates by Educational Attainment

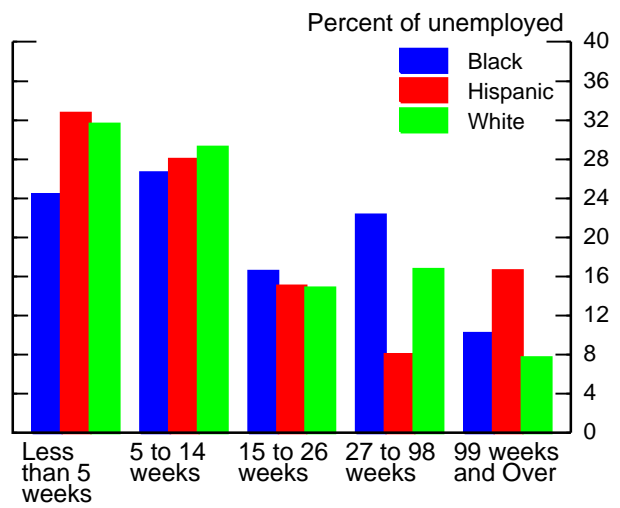
(annual averages of monthly not-seasonally-adjusted data)



18. Involuntary Part-Time Employment



19. Duration of Unemployment by Race



Note: Data in panels 18 and 19 are averages of monthly observations from September 2015 through August 2016.

Appendix

Key Economic Indicators for the September, November, and December FOMC Meetings

(Percent change at annual rate, except as noted)

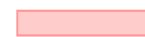
	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Total PCE price index							
3-month change	2.5	1.1	1.0	1.3	1.7	1.4	1.0
<i>July Tealbook</i>	2.5	1.4	1.0	0.8			
12-month change	0.9	0.8	0.9	1.2	1.2	1.1	1.3
<i>July Tealbook</i>	0.8	0.8	0.9	1.0			
Core PCE price index							
3-month change	1.8	1.3	1.4	1.5	1.6	1.4	1.3
<i>July Tealbook</i>	1.8	1.5	1.3	1.3			
12-month change	1.6	1.6	1.6	1.6	1.7	1.7	1.7
<i>July Tealbook</i>	1.6	1.6	1.6	1.6			
Unemployment rate (percent)	4.9	4.9	4.9	4.9	4.9	4.9	4.9
<i>July Tealbook</i>	4.9	4.9	4.9	4.9			
Payroll employment (change in 000s)	271	275	151	185	171	171	171
<i>July Tealbook</i>	287	165	165	165			
Gross Domestic Product			2nd Q2 est.	1st Q3 est.		2nd Q3 est.	
<i>July Tealbook</i>			1.4	2.7		2.7	
			1.8	1.9		1.9	

Key: Estimate first available at:

September meeting



November meeting



December meeting

Appendix 5: Materials used by Mr. Wood

Class II FOMC – Restricted (FR)

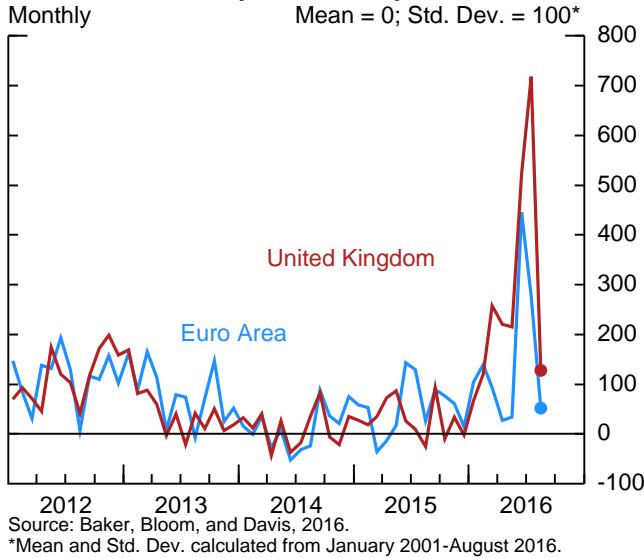
Material for Briefing on

The International Outlook

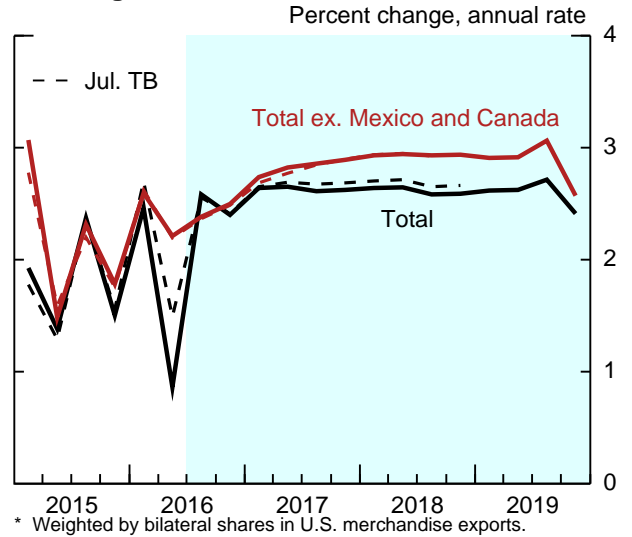
Paul R. Wood
September 20, 2016

The International Outlook

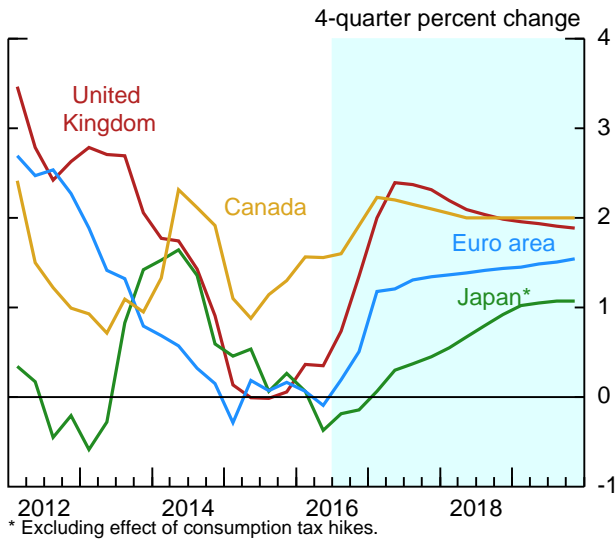
1. Economic Policy Uncertainty Indexes



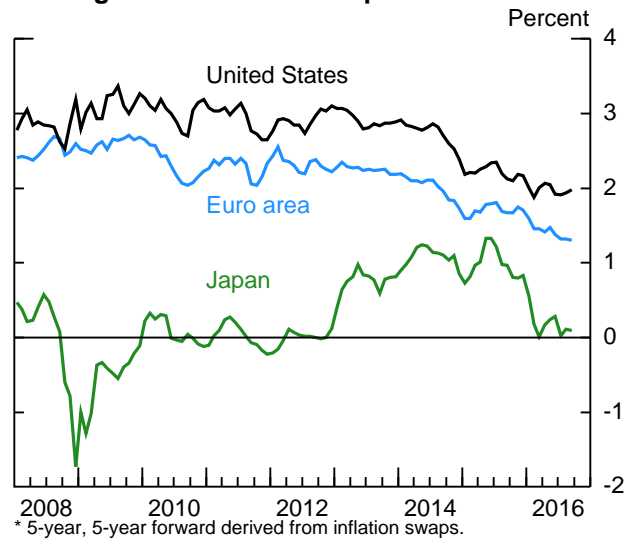
2. Foreign GDP*



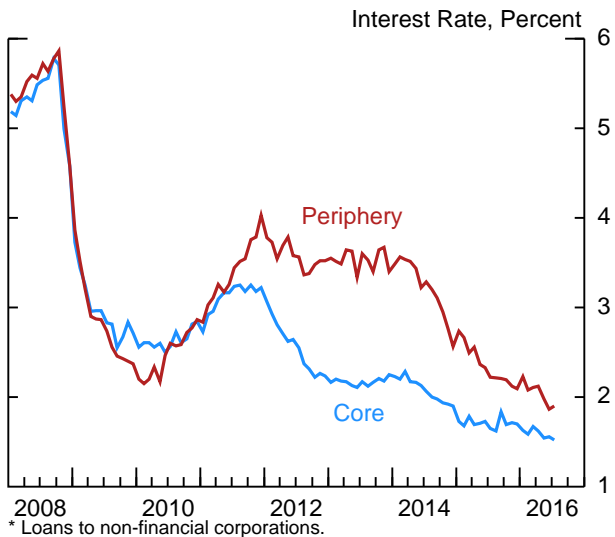
3. Consumer Prices



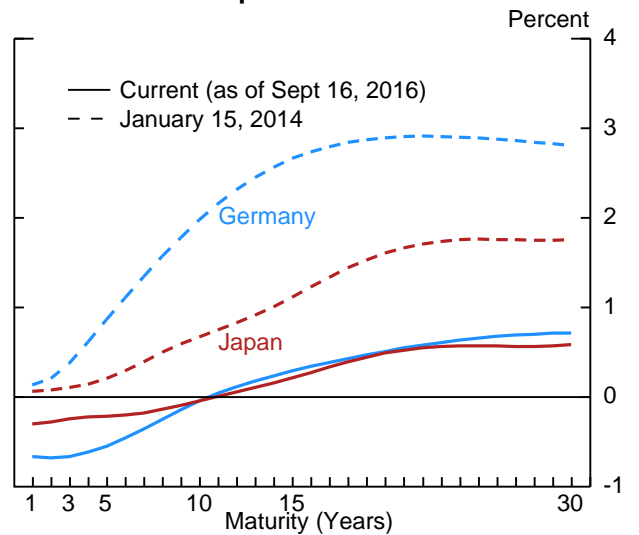
4. Long-Term Inflation Compensation*



5. Euro-Area NFC Loans*

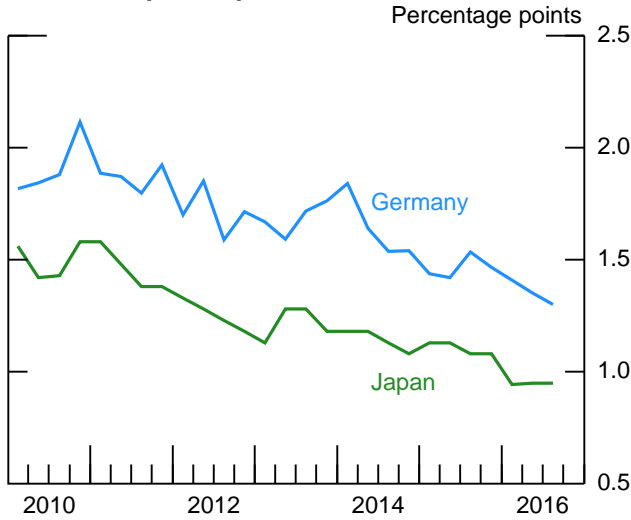


6. German and Japanese Yield Curves

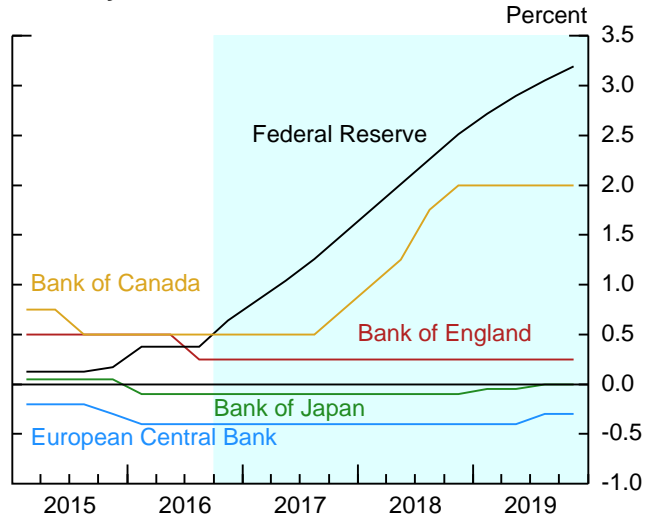


The International Outlook (2)

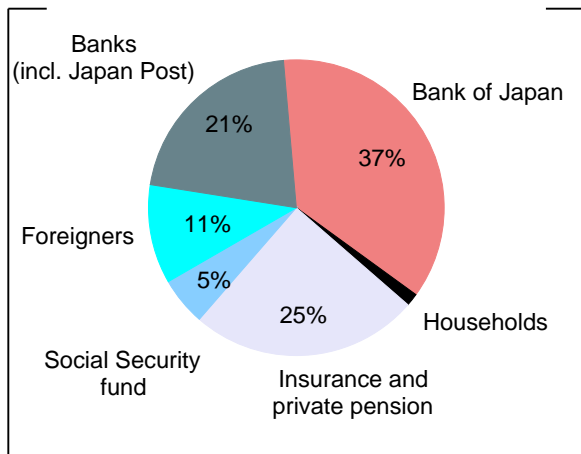
1. Loan-Deposit Spreads



2. Policy Interest Rates

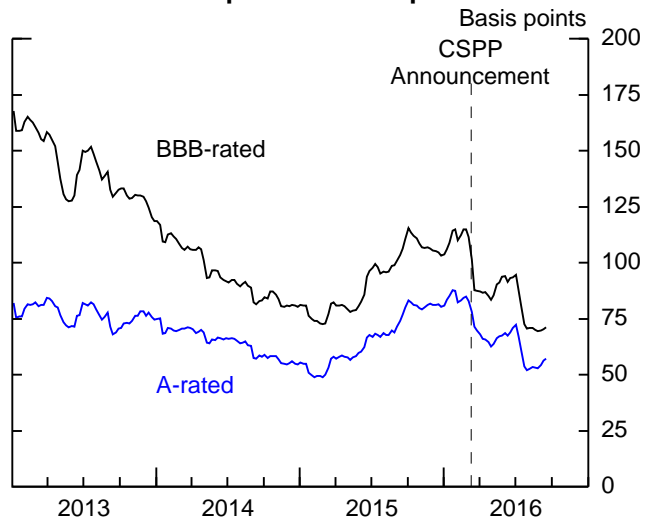


3. Holders of Japanese Government Debt*



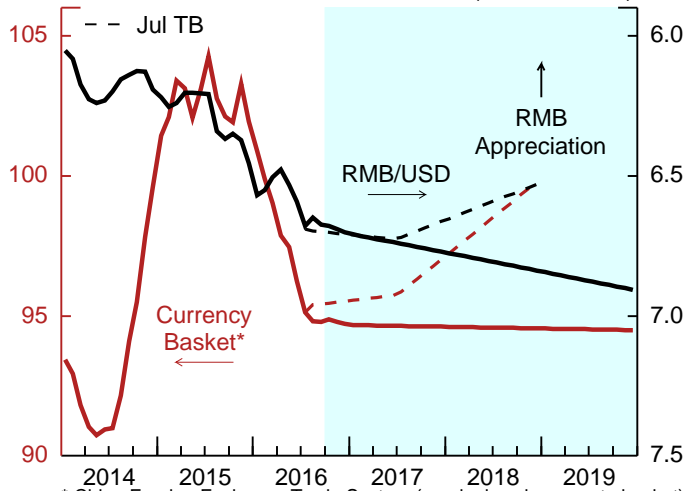
*Includes JGBs and T-bills at 2016:Q1.

4. Euro-Area Corporate Bond Spreads*

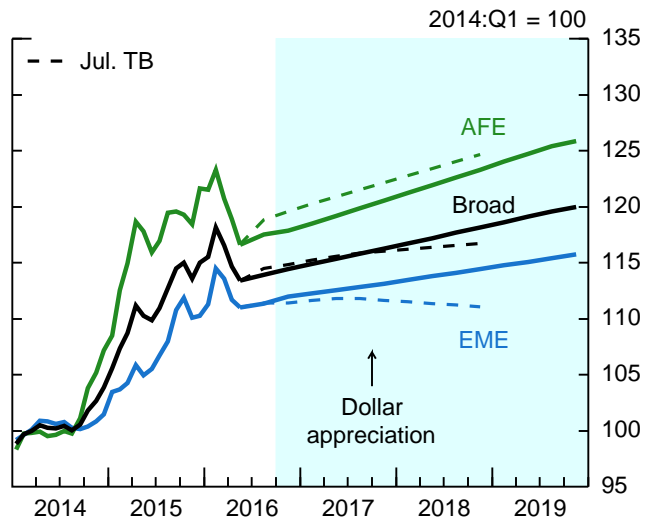


5. Chinese Exchange Rates

December 31, 2014 = 100 RMB/USD (inverted scale)



6. Real Dollar Indexes



Appendix 6: Materials used by Ms. Klee

Class I FOMC – Restricted Controlled (FR)

Material for Briefing on the

Summary of Economic Projections

Elizabeth Klee
September 20, 2016

Class I FOMC – Restricted Controlled (FR)

Exhibit 1. Medians, central tendencies, and ranges of economic projections, 2016–19 and over the longer run



NOTE: The data for the actual values of the variables are annual. The percent changes in real GDP and inflation are measured Q4/Q4. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. One participant did not submit longer-run projections for the change in real GDP or the unemployment rate.

Class I FOMC – Restricted Controlled (FR)

Exhibit 2. Economic projections for 2016–19 and over the longer run (percent)

Change in real GDP					
	2016	2017	2018	2019	Longer run
Median.....	1.8	2.0	2.0	1.8	1.8
June projection	2.0	2.0	2.0	n.a.	2.0
Range.....	1.7 – 2.0	1.6 – 2.5	1.5 – 2.3	1.6 – 2.2	1.6 – 2.2
June projection	1.8 – 2.2	1.6 – 2.4	1.5 – 2.2	n.a.	1.6 – 2.4
Memo: Tealbook**	1.7	2.4	2.0	1.7	1.7
June projection	1.9	2.4	2.1	1.6	1.9

Unemployment rate					
	2016	2017	2018	2019	Longer run
Median.....	4.8	4.6	4.5	4.6	4.8
June projection	4.7	4.6	4.6	n.a.	4.8
Range.....	4.7 – 4.9	4.4 – 4.8	4.3 – 4.9	4.2 – 5.0	4.5 – 5.0
June projection	4.5 – 4.9	4.3 – 4.8	4.3 – 5.0	n.a.	4.6 – 5.0
Memo: Tealbook	4.9	4.5	4.3	4.2	5.0
June projection	4.8	4.5	4.3	4.3	5.0

PCE inflation					
	2016	2017	2018	2019	Longer run
Median.....	1.3	1.9	2.0	2.0	2.0
June projection	1.4	1.9	2.0	n.a.	2.0
Range.....	1.1 – 1.7	1.5 – 2.0	1.8 – 2.0	1.8 – 2.1	2.0
June projection	1.3 – 2.0	1.6 – 2.0	1.8 – 2.1	n.a.	2.0
Memo: Tealbook	1.2	1.6	1.8	1.9	2.0
June projection	1.3	1.7	1.8	1.9	2.0

Core PCE inflation					
	2016	2017	2018	2019	
Median.....	1.7	1.8	2.0	2.0	
June projection	1.7	1.9	2.0	n.a.	
Range.....	1.5 – 2.0	1.6 – 2.0	1.8 – 2.0	1.8 – 2.1	
June projection	1.3 – 2.0	1.6 – 2.0	1.8 – 2.1	n.a.	
Memo: Tealbook	1.6	1.6	1.8	1.9	
June projection	1.6	1.6	1.8	1.9	

* The percent changes in real GDP and inflation are measured Q4/Q4. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. One participant did not submit longer-run projections in conjunction with the June 14–15, 2016, meeting. For the September 20–21, 2016, meeting, one participant did not submit longer-run projections for the change in real GDP, the unemployment rate, or the federal funds rate.

** The updated September Tealbook value for 2016 is reported here.

Class I FOMC – Restricted Controlled (FR)

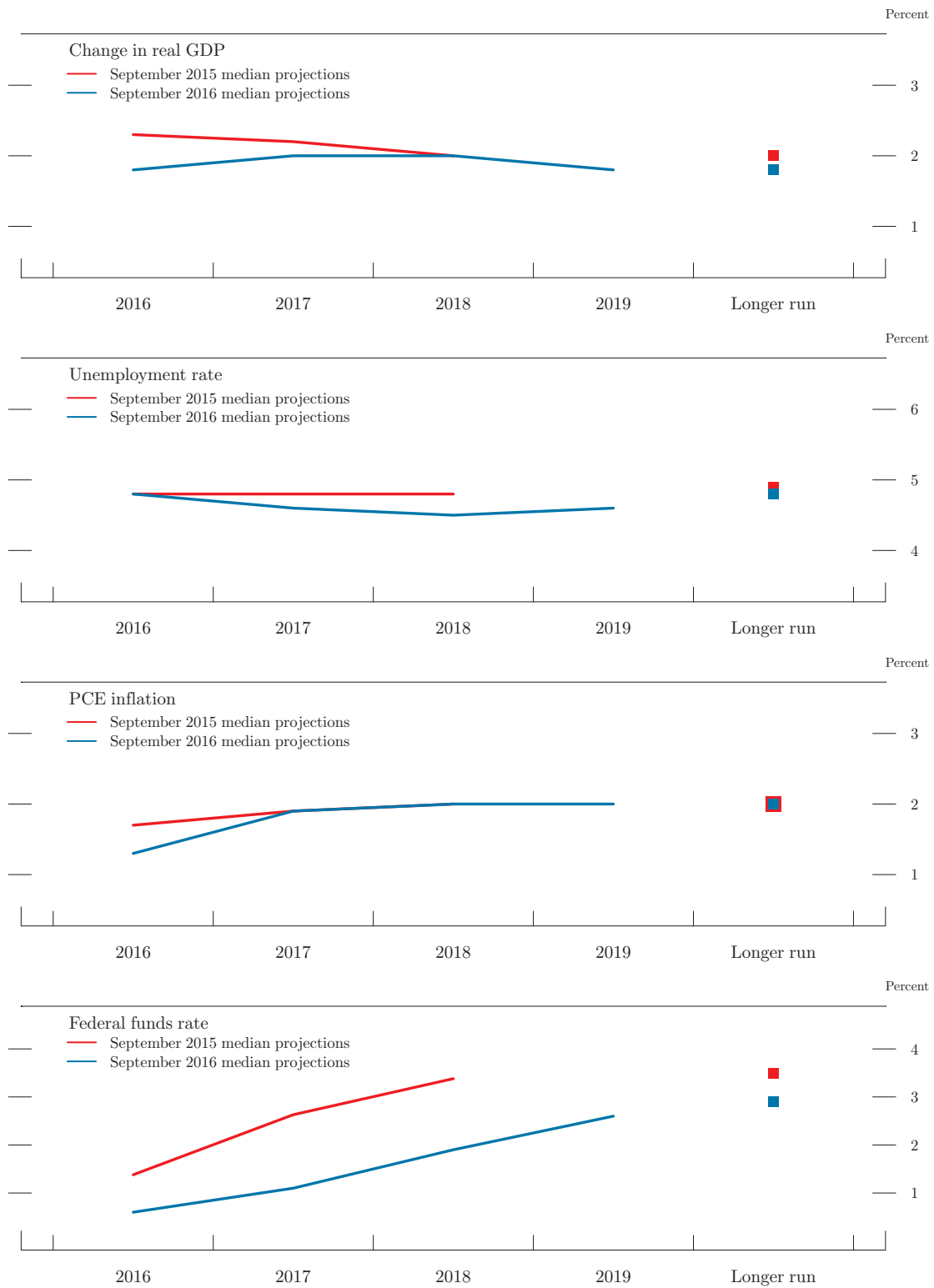
Exhibit 3. Overview of FOMC participants’ assessments of appropriate monetary policy



NOTE: In the two panels above, each circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant’s judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The red diamonds for each year represent the median of the federal funds rate prescriptions that were derived by taking each participant’s projections for the unemployment gap, core PCE inflation and longer-run nominal federal funds rate for that year and inserting them into the non-inertial Taylor (1999) rule. The whiskers represent the central tendency of the prescriptions of the non-inertial Taylor (1999) rule using participants’ projections. One participant did not submit longer-run projections for the federal funds rate in conjunction with the June 14–15, 2016, meeting. One participant did not submit longer-run projections for the federal funds rate in conjunction with the September 20–21, 2016, meeting.

Class I FOMC – Restricted Controlled (FR)

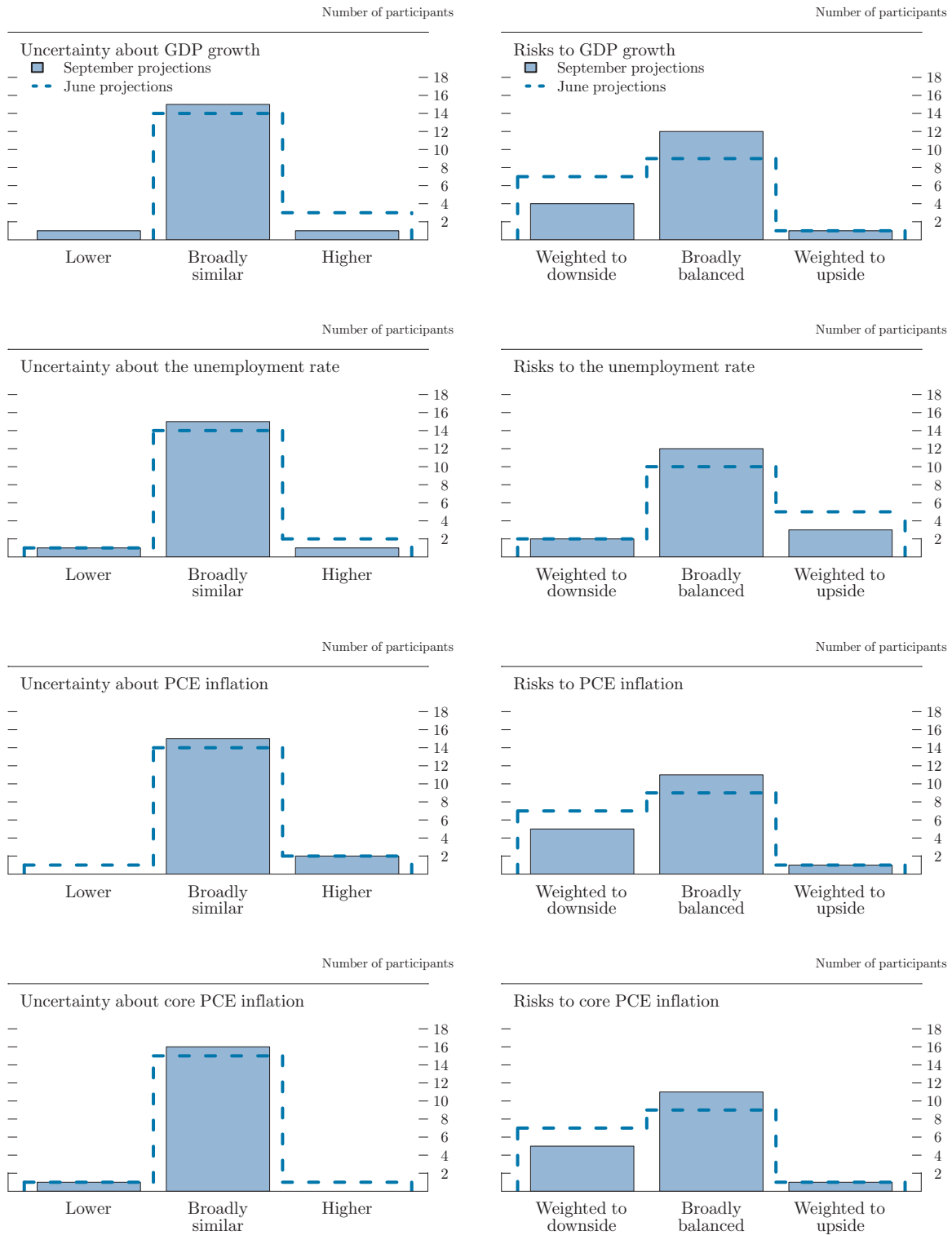
Exhibit 4. Comparison of medians of projections: September 2015 SEP versus September 2016 SEP



NOTE: Projections for 2019 were not collected in the September 2015 SEP. For the September 20–21, 2016, meeting, one participant did not submit longer-run projections for the change in real GDP, the unemployment rate, or the federal funds rate.

Class I FOMC – Restricted Controlled (FR)

Exhibit 5. Uncertainty and risks in economic projections



Appendix 7: Materials used by Mr. Laubach

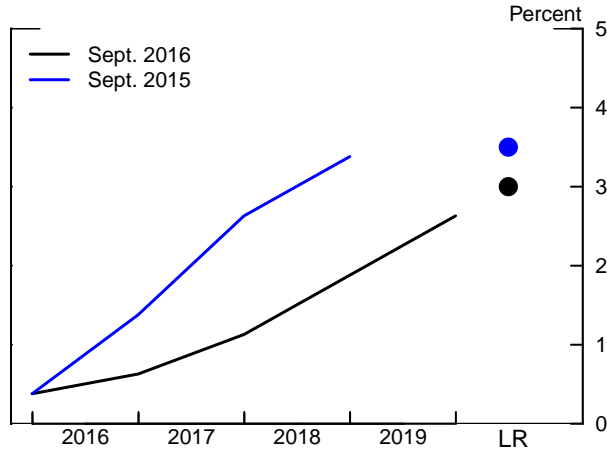
Class I FOMC – Restricted Controlled (FR)

Material for the Briefing on
Monetary Policy Alternatives

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Exhibit 1: SEP-implied Neutral Real Rates

SEP Median Projections for the Fed Funds Rate



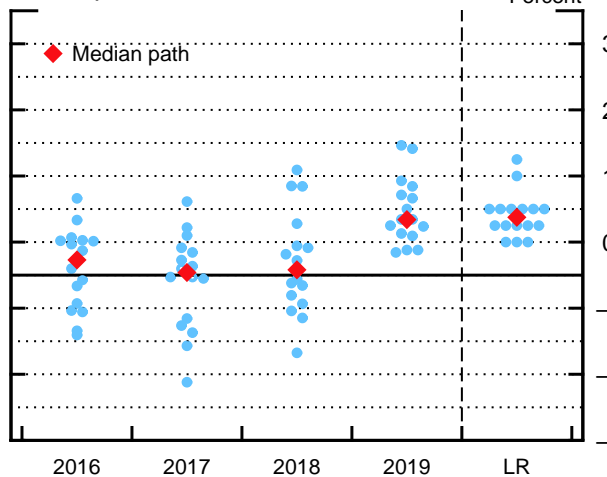
Note: Circles represent LR estimates.
Source: Sept. 2016 and Sept. 2015 SEPs.

Estimates of Time-varying r^* Implied by Participants' Projections

- IS equation relates the unemployment gap to the real interest gap as follows:

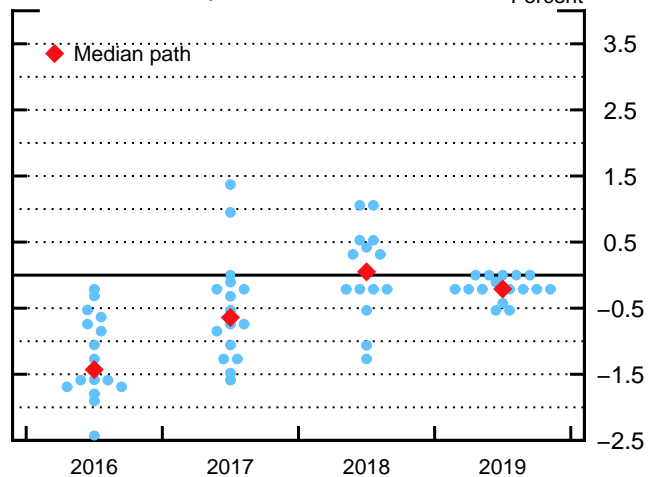
$$(u_t - u_t^*) = \alpha \times (u_{t-1} - u_{t-1}^*) + \beta \times (r_{t-1} - r_{t-1}^*)$$
- Estimate coefficients α and β using data from the 4th quarter of each year, staff's estimate of u^* , and Laubach-Williams estimates of r^*
- Insert participants' estimates of the longer-run unemployment rate and projections for the unemployment rate and real federal funds rate to solve for their implied time-varying r^* .

SEP Projected r^* : Implicit Year-End and Longer-Run Equilibrium Real Interest Rate



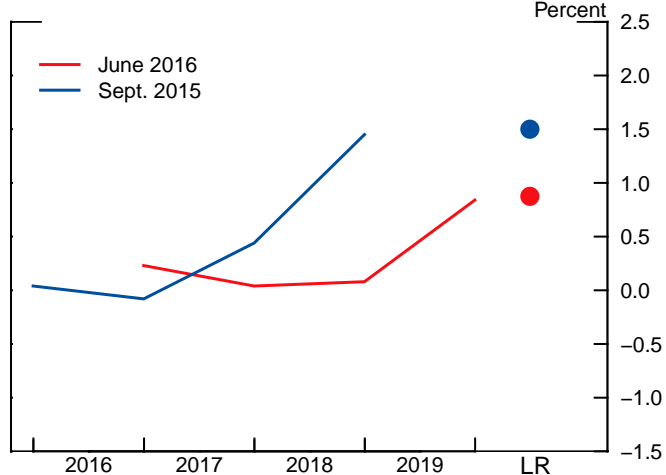
Note: 2019 values assume that participants' projections for the unemployment rate in 2020 are equal to their 2019 values, and that core PCE is equal to 2 percent by year-end 2020.
Source: Sept. SEP.

SEP Projected $r-r^*$: Implicit Year-End Real Interest Rate Gap



Note: 2019 values assume that participants' projections for the unemployment rate in 2020 are equal to their 2019 values, and that core PCE is equal to 2 percent by year-end 2020.
Source: Sept. SEP.

Median r^* Paths



Note: Circles represent LR estimates.
Source: Sept. 2015 and Sept. 2016 SEPs.

Policy Implications

- Alternative C: Confident to achieve economic outcomes with an increase at this meeting; important to start narrowing real rate gap
- Alternative A: r^* is low, likely to remain low for some time; convey no rush to remove accommodation
- Alternative B: Don't need much additional evidence to raise rates, but waiting for further evidence appropriate in light of successive downward revisions to r^*

JULY 2016 FOMC STATEMENT

1. Information received since the Federal Open Market Committee met in June indicates that the labor market strengthened and that economic activity has been expanding at a moderate rate. Job gains were strong in June following weak growth in May. On balance, payrolls and other labor market indicators point to some increase in labor utilization in recent months. Household spending has been growing strongly but business fixed investment has been soft. Inflation has continued to run 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 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 currently expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will strengthen. Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but 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 have diminished. The Committee continues to closely monitor inflation indicators and global economic and financial developments.
3. Against this backdrop, the Committee decided to maintain the target range for the federal funds rate at $\frac{1}{4}$ to $\frac{1}{2}$ percent. The stance of monetary policy remains accommodative, thereby supporting further improvement 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.

SEPTEMBER 2016 ALTERNATIVE A

1. Information received since the Federal Open Market Committee met in June ~~July~~ indicates that the labor market ~~strengthened~~ **has continued to strengthen** and that **growth of** economic activity ~~has been expanding at a moderate rate~~ **has picked up from the modest pace seen in the first half of this year**. Job gains ~~were strong in June following weak growth in May~~. On balance, payrolls and **have been solid in recent months, on average, but** other labor market indicators, **including the unemployment rate**, point to ~~some increase~~ **little change** in labor utilization in ~~recent months~~. Household spending has been growing strongly but business fixed investment has ~~been~~ **remained** soft. Inflation has continued to run below the Committee's 2 percent longer-run objective, **only** partly reflecting earlier declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation 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 currently expects that, with ~~gradual adjustments in the~~ **appropriate** stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators **conditions** will strengthen **further**. Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but to rise **gradually** 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 have diminished~~. The Committee continues to closely monitor inflation indicators and global economic and financial developments.
3. Against this backdrop, the Committee decided to maintain the target range for the federal funds rate at $\frac{1}{4}$ to $\frac{1}{2}$ percent. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation. **The Committee judges that an increase in the target range will not be warranted until inflation moves closer to 2 percent on a sustained basis.**
4. In determining ~~the timing and size of future~~ **when** adjustments to the target range for the federal funds rate **might become appropriate**, 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 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~~ **remaining**, 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.

SEPTEMBER 2016 ALTERNATIVE B

1. Information received since the Federal Open Market Committee met in June ~~July~~ indicates that the labor market ~~strengthened~~ **has continued to strengthen** and that **growth of** economic activity ~~has been expanding at a moderate rate~~ **has picked up from the modest pace seen in the first half of this year.** **Although the unemployment rate is little changed in recent months,** job gains ~~were strong in June following weak growth in May~~ **have been solid, on average.** On balance, payrolls and other labor market indicators point to some increase in labor utilization ~~in recent months.~~ Household spending has been growing strongly but business fixed investment has ~~been~~ **remained** soft. Inflation has continued to run 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 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 ~~currently~~ expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators ~~conditions~~ will strengthen **somewhat further.** Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but 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 ~~have diminished~~ **appear roughly balanced.** The Committee continues to closely monitor inflation indicators and global economic and financial developments.
3. Against this backdrop, the Committee decided to maintain the target range for the federal funds rate at $\frac{1}{4}$ to $\frac{1}{2}$ percent. **The Committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives.** The stance of monetary policy remains accommodative, thereby supporting further improvement 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.

SEPTEMBER 2016 ALTERNATIVE C

1. Information received since the Federal Open Market Committee met in June ~~June~~ **July** indicates that the labor market ~~strengthened~~ **has continued to strengthen** and that **growth of** economic activity ~~has been expanding at a moderate rate~~ **has picked up from the modest pace seen in the first half of this year**. **Although the unemployment rate is little changed in recent months**, job gains ~~were strong in June following weak growth in May~~ **have been solid, on average**. On balance, payrolls and other labor market indicators point to some increase in labor utilization ~~in recent months~~. Household spending has been growing strongly but business fixed investment has ~~been~~ **remained** soft. Inflation has continued to run 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 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 ~~currently~~ expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators **conditions** will strengthen **somewhat further**. Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but 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 ~~have diminished~~ **appear balanced**. The Committee continues to closely monitor inflation indicators and global economic and financial developments.
3. ~~Against this backdrop~~ **In view of realized and projected progress toward maximum employment and 2 percent inflation**, the Committee decided to ~~maintain~~ **raise** the target range for the federal funds rate ~~at 1/4 to 1/2~~ **to 3/4** percent. The stance of monetary policy remains accommodative **after this increase**, thereby supporting **[some]** further improvement **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 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 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.

Implementation Note if the Committee maintains the current target range

Release Date: ~~July 27~~ **September 21**, 2016

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 ~~July 27~~ **September 21**, 2016:

- The Board of Governors of the Federal Reserve System left unchanged the interest rate paid on required and excess reserve balances at 0.50 percent.
- 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 ~~July 28~~ **September 22**, 2016, 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 $\frac{1}{4}$ to $\frac{1}{2}$ 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 0.25 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](#).

- The Board of Governors of the Federal Reserve System took no action to change the discount rate (the primary credit rate), which remains at 1.00 percent.

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 if the Committee raises the target range to $\frac{1}{2}$ to $\frac{3}{4}$ percent

Release Date: ~~July 27~~ **September 21**, 2016

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 ~~July 27~~ **September 21**, 2016:

- The Board of Governors of the Federal Reserve System ~~left unchanged~~ **voted [unanimously] to raise** the interest rate paid on required and excess reserve balances ~~at 0.50~~ **to 0.75** percent, **effective September 22, 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 ~~July 28~~ **September 22**, 2016, 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 ~~$\frac{1}{4}$ to $\frac{1}{2}$~~ **to $\frac{3}{4}$** 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 0.25 **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 ~~took no action to change~~ **voted [unanimously] to approve a $\frac{1}{4}$ percentage point increase in** the discount rate (the primary credit rate) ~~, which remains at 1.00~~ **to 1.25** percent, **effective September 22, 2016**. **In taking this action, the Board approved requests submitted by the Boards of Directors of the Federal Reserve Banks of ...**

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.