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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
DIVISION OF MONETARY AFFAIRS
FOMC SECRETARIAT

Date: March 8, 2013

To: Federal Open Market Committee

From: Deborah J. Danker

Subject: Background Memo for Discussion of Asset Purchases – Risks Associated with "Reaching for Yield" and a Possible Jump in Long-Term Interest Rates

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The attached memo, "Assessing the Risk of a Substantial Increase in Long-term Interest Rates," and two supporting documents, "The Distribution of Holdings of Long-term Securities" and "Low for Long: The Behavior of Japanese Financial Institutions and Retail Investors during the Persistent Low Interest Rate Environment," complete the information being provided in connection with the third item on the bulleted list below.[1]

As a reminder, the background memos for the review of asset purchases that is planned for the March FOMC meeting will cover:

- the efficacy of asset purchases,
- the effects of purchases on market functioning,
- the risks associated with "reaching for yield" and a possible jump in long-term interest rates, and
- the fiscal implications of purchases.

[1] Another supporting document, "Interest Rate Risk at Banks," was distributed to the Committee yesterday with the QS Report.