

**Conference Call of the Federal Open Market Committee on
November 28, 2011**

A conference call of the Federal Open Market Committee was held on Monday, November 28, 2011, at 11:00 a.m. Those present were the following:

Ben Bernanke, Chairman
William C. Dudley, Vice Chairman
Elizabeth Duke
Charles L. Evans
Richard W. Fisher
Narayana Kocherlakota
Sarah Bloom Raskin
Daniel K. Tarullo
Janet L. Yellen

Christine Cumming, Jeffrey M. Lacker, Dennis P. Lockhart, Sandra Pianalto, and John C. Williams, Alternate Members of the Federal Open Market Committee

James Bullard, Esther L. George, and Eric Rosengren, Presidents of the Federal Reserve Banks of St. Louis, Kansas City, and Boston, respectively

William B. English, Secretary and Economist
Deborah J. Danker, Deputy Secretary
Matthew M. Luecke, Assistant Secretary
David W. Skidmore, Assistant Secretary
Michelle A. Smith, Assistant Secretary
Scott G. Alvarez, General Counsel

James A. Clouse, Steven B. Kamin, Loretta J. Mester, Daniel G. Sullivan, and Kei-Mu Yi, Associate Economists

Brian Sack, Manager, System Open Market Account

Patrick M. Parkinson, Director, Division of Banking Supervision and Regulation, Board of Governors

Nellie Liang, Director, Office of Financial Stability Policy and Research, Board of Governors

William Wascher, Deputy Director, Division of Research and Statistics, Board of Governors

Andrew T. Levin, Special Advisor to the Board, Office of Board Members, Board of Governors

Linda Robertson, Assistant to the Board, Office of Board Members, Board of Governors

Seth B. Carpenter, Senior Associate Director, Division of Monetary Affairs, Board of Governors; Michael P. Leahy, Senior Associate Director, Division of International Finance, Board of Governors

Joyce K. Zickler, Senior Adviser, Division of Monetary Affairs, Board of Governors

Brian J. Gross, Special Assistant to the Board, Office of Board Members, Board of Governors

Michael G. Palumbo, Associate Director, Division of Research and Statistics, Board of Governors

Beth Anne Wilson, Assistant Director, Division of International Finance, Board of Governors

Valerie Hinojosa and Randall A. Williams, Records Management Analysts, Division of Monetary Affairs, Board of Governors

Jamie J. McAndrews and Mark S. Sniderman, Executive Vice Presidents, Federal Reserve Banks of New York and Cleveland, respectively

David Altig, Alan D. Barkema, Geoffrey Tootell, Christopher J. Waller, and John A. Weinberg, Senior Vice Presidents, Federal Reserve Banks of Atlanta, Kansas City, Boston, St. Louis, and Richmond, respectively

Mary C. Daly, Group Vice President, Federal Reserve Bank of San Francisco

Mark A. Wynne, Vice President, Federal Reserve Bank of Dallas

Anna Nordstrom, Assistant Vice President, Federal Reserve Bank of New York

**Transcript of the Federal Open Market Committee Conference Call on
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CHAIRMAN BERNANKE. Good morning, everybody. Thank you for joining us on this call. As you know, our main topic today is Europe and our swaps agreements. I thought I would take a minute at the beginning, though, to talk about FOMC confidentiality issues very briefly. As you know, on Wednesday, there was an article in the *Wall Street Journal* on the question of access to Fed officials. As is often the case, there was more innuendo than fact, but there were a couple of points. One, it was noted that I myself meet with various economists and consultants periodically in an effort to get outside points of view and to hear what they're thinking and so on. And second, it mentioned that until earlier this year, the staff of the New York Fed had been providing information on the staff forecast to the Bank's Economic Advisory Panel.

Let me comment briefly on responses to those issues. First of all, on my personal calendar, the article did reflect a point that the Chairman, like other members of the Committee, does need to have access to outside perspectives and information, which of course is why we have not only a Board, but also panels, advisory councils, and the like. The article also published a long quote from Michelle making the very valid point that people who meet with me sometimes have an incentive to claim inside information, even if none such exists. And finally, I'd like to note that my meetings are always in compliance with our policy. In particular, I always have a staff member there taking notes, and of course I'd never disclose information that I don't disclose in public. So I do believe that our meetings have been in full compliance with the policies that we passed over the summer. That said, the article illustrates that there is a reputational risk here, and so just for your information, we have canceled all similar meetings of

this sort for the near term, and we're going to look at whether there are any good alternative ways to get outside information, input, that don't have that particular risk. We're taking that seriously and trying to figure out a solution.

Second, on the New York staff forecast, this was something that had been going on for some time but was discontinued in June after the new policy on external communication was adopted. So it was in response to that policy that this practice was discontinued. And, in addition, you may be aware that the past forecasts were posted on the web last week in conjunction with an article by Simon Potter of the New York Fed on the ability of the Fed to forecast the recession, which of course was not very good, and the forecasts were put there as an illustration of some of the problems and issues that had come up. Now, that said, when the reporter was researching her story and the items relating the forecast materials were shown to us, I asked Bill English and Scott Alvarez, pursuant to our policies, to take a look at it and see if there was anything in there that did raise issues concerning our policies, as is required by our approach. Now, at this point, I think it's rather moot. But it is worthwhile for us to look at this episode briefly because we all deal with the problem of forecasts, have boards and councils, meet with outside individuals, and talk about the outlook in various ways. So I think it would be beneficial for us to make use of this to try to clarify for ourselves how best to use staff forecasting information. After Scott and Bill finish their look at this particular episode, I think we should maybe have a brief discussion at some point about how we treat forecasts and that kind of information—in dealing with our boards, for example.

Finally, a third issue came up, which was not in the article in any way—it was not referred to—but I got requests from an FOMC participant to look once again at the issue of the dealer survey, which, as you know, we put out before each meeting to the dealers, confidentially

asking them for their views on likely Fed policies, along with issues relating to the economy and so on. And there's been a concern raised in meetings that the dealer survey—which, again, was not mentioned in the article but nevertheless raises similar concerns—might provide or appear to provide preferential information to the recipients of the survey. Now, I raised this with Vice Chairman Dudley and Brian Sack, and from their perspective, it's perfectly fine to go ahead and start releasing the survey in real time, which we can do as early as Friday for the December meeting. The alternative would be to have some kind of Committee process, which I think none of us are particularly excited about but which I'm willing to do if there's a strong desire for it. In a moment I'll ask for comment, but the proposal is just to start releasing it, and of course we'll look carefully at it to make sure that it doesn't have any implied preferential information in it. We'll start that on Friday.

So those are just a few reactions. Vice Chairman Dudley wants to comment, and then I'll be happy to take any questions or comments on this particular issue. Bill.

VICE CHAIRMAN DUDLEY. To clarify on the release of the primary dealer survey, we're talking about releasing just the questions, not the actual results of the survey.

CHAIRMAN BERNANKE. I think that's okay, but others can comment. Does anyone have any reactions they'd like to share? [No response] Okay. Seeing none, why don't we turn to the business of the meeting. I think the best way to do this would be to turn first to Brian Sack, who will give us, as background, some markets updates, and then Steve Kamin here at the Board will talk about what's happening in Europe as they try to address the ongoing crisis. I'll say a few words about calls and contacts that I've had, and then we'll open up the discussion of the particular proposal. So let me turn it over to Brian Sack for an update on markets. Brian.

MR. SACK. Thank you, Mr. Chairman. Concerns about whether an orderly resolution to the European sovereign debt crisis can be achieved have intensified further, dominating developments in global financial markets in recent weeks.

Investors have come to view the measures that were agreed to in October, including the possibility of leveraging the EFSF funds using private capital, as inadequate to provide a credible backstop to European sovereign debt markets. The absence of this backstop, along with the decision to include a larger degree of private-sector participation in the voluntary restructuring of Greek debt, has put considerable pressure on European sovereign debt markets. Yields on Italian and Spanish debt have increased over 100 basis points over the past three weeks, with the 10-year yield approaching 7 percent in Spain and surpassing that level in Italy. Liquidity in these securities has deteriorated significantly as the perceived risk has increased.

At this point, the only backstop in the market is the purchases of sovereign debt by the European Central Bank under its Securities Markets Programme. However, the ECB is seen as somewhat reluctant to perform this role, and its purchases have been paired with a constant reminder from European officials that the ECB cannot provide monetary financing to governments. Many observers feel that the ECB will not take a more aggressive approach until there is greater clarity on a longer-term solution to Europe's fiscal challenges, which will likely take some time.

Given these circumstances, investors have increasingly considered the possibility of a more disorderly outcome for the euro area, including broader debt restructuring or changes in the composition of the currency union. Reflecting such concerns, core European countries have increasingly been swept into the negative market dynamics. Ten-year yields in France, Austria, Belgium, and the Netherlands have all come under upward pressure, increasing by 50 to 150 basis points since the most recent FOMC meeting. Even German debt yields began to rise last week, with investors' concerns reflected in a very weak auction of 10-year debt.

The anxiety about European sovereign debt is also apparent in the CDS written on that debt. At this point, five-year CDS is at 555 basis points for Italy, 488 basis points for Spain, 408 basis points for Belgium, 245 basis points for France, and 117 basis points for Germany. Those compare with a CDS rate of just 59 basis points for the United States despite our own set of fiscal issues.

The intensification of concerns about European sovereign debt has weighed on the prices of risky assets broadly, with the S&P 500 index off about 10 percent since the Friday before the most recent FOMC meeting. Over that period, corporate bond spreads and other private debt spreads have widened notably, and Treasury yields have fallen. The dollar has appreciated, including a sharp gain against the euro.

The financial sector has been under the most significant pressure over this period, with equity indexes for U.S. banks and financial institutions falling 15 to 20 percent. This repricing appears to be driven by worries about direct exposures to European markets as well as by concerns about the indirect channels through which an

unraveling of the situation in Europe could create difficulties for U.S. firms. Equity prices of many European financial firms have fallen even more sharply than those of U.S. firms over this period.

For European banks, investors' concerns have transmitted into greater difficulties obtaining short-term funding. These firms have faced increasing costs for borrowing euros in the market, with three-month euro LIBOR moving to a spread of nearly 100 basis points above the OIS rate. Moreover, some European firms have turned more heavily to the ECB for funding, causing euro-denominated funding provided by the ECB to increase sharply, particularly for Italian and French banks.

European banks have also continued to face pressures on their short-term dollar funding. As we have described before, consistent access to unsecured dollar funding has been limited to tenors of one week or less for most European firms. Moreover, the implied three-month dollar funding rate that could be obtained by borrowing at euro LIBOR and using FX swaps to convert to dollars has moved up sharply, reaching 200 basis points last week. Liquidity in the FX swaps market has worsened for horizons beyond one month.

Based on these conditions, the ECB's operations to provide 84-day dollar funding at a rate of 100 basis points above the OIS rate under the current swap arrangements would be well in the money. Indeed, it is somewhat disappointing that the presence of these arrangements has not provided a more effective cap on dollar funding rates for European banks. As Steve Kamin will describe, the staff is proposing a reduction in the pricing of the dollar swap lines to 50 basis points above the OIS rate. The ECB and our other central bank counterparties hope that this repricing will encourage a greater willingness of firms to participate at the dollar funding operations, and hence result in a more effective cap on their dollar funding rates.

The story for U.S. financial institutions is more positive, as these firms have not experienced notable difficulties obtaining short-term funding. Dollar-based LIBOR rates have moved higher, even for the U.S. banks included in the panel, and forward rates suggest that this rise is expected to continue. However, the increase has been far smaller than that in euro-based rates. Moreover, U.S. banks are not borrowing much in the term unsecured funding market, as they generally have considerable liquidity from other sources.

Another key consideration is that short-term secured funding markets appear to be holding their ground. Indeed, repo markets continue to function normally for Treasury and agency debt collateral. Even for nontraditional collateral, there has been no meaningful change in haircuts, and bid-asked spreads have moved up only slightly in recent months.

However, even though short-term funding markets for U.S. institutions appear to be functioning fairly well, we see considerable risk that the funding situation could change abruptly. The recent developments at MF Global serve as a reminder that funding can dry up quickly for a firm that is seen as having too much risk exposure.

Such concerns may be more pressing when markets are as volatile as they have been of late, and it seems likely that this volatility will continue as investors have to contend with a wide range of possible policy outcomes in Europe.

Moreover, the U.S. financial sector is still in the process of recovering from the events of recent years and adjusting to a changed environment. A notable risk in this regard is that at least one rating agency is likely to take near-term actions to downgrade U.S. financial firms, reflecting a systematic review of its government support assumptions for these firms.

Lastly, it should be noted that CDS rates and longer-term debt spreads for U.S. financial firms have moved up again, reaching very elevated levels. Indeed, as of last Friday, five-year CDS rates were more than 500 basis points for Morgan Stanley and more than 400 basis points for Bank of America and Goldman Sachs. These rates imply that it will be difficult, or at least quite costly, for these firms to roll over their longer-term debt as it matures.

Overall, even though most U.S. financial firms have ample liquidity today and are not experiencing notable difficulties with short-term funding, the financial sector continues to face a range of risks going forward, and it could quickly come under significant pressure in response to a disorderly outcome in Europe. Steve Kamin will now continue the presentation.

MR. KAMIN.¹ As Brian has discussed, the attempt by European leaders in late October to promote a comprehensive solution to the euro-area financial crisis has largely failed, and the crisis is deepening and threatening to spill over from the European periphery to the core. In Greece, the government collapsed two weeks ago and was replaced by a temporary caretaker government headed by former ECB Vice President Lucas Papademos. Greece's main opposition party has generally signed on to the fiscal reforms Greece has agreed to with the IMF and EU, but in order to repay its creditors and finance its deficit over the coming couple of years, Greece is negotiating a new €130 billion program with the IMF and EU, and this new loan is contingent on Greece's private-sector creditors voluntarily writing down the face value of their claims on Greece's government by 50 percent. However, the discussions between the Greek government and its private-sector creditors on this debt restructuring have been fractious, putting the new loan package in jeopardy and adding to speculation that Greece may soon default and possibly withdraw from the euro area.

If the European leaders had succeeded in putting the financial backstops in place to protect Italy, Spain, and other governments from contagion, the Greek situation would be just a sideshow with limited potential to destabilize broader markets. However, efforts to strengthen the euro-area financial backstop have been stymied. The October plan was to leverage the remaining €270 billion in uncommitted resources of the EFSF with private-sector funds to achieve over €1 trillion in

¹ The materials used by Mr. Kamin are appended to this transcript (appendix 1).

capacity. But with outside investors showing little enthusiasm for this scheme and the EFSF itself having difficulty raising funds, it appears unlikely that the EFSF, by itself, would be able to protect Italy and Spain from a major run on their debt.

In the absence of a credible backstop, investor concerns about sovereign default have begun to snowball, as Brian has described. In Italy, soaring borrowing costs, along with weakening economic conditions and calls for more budget cutting, led to the fall of the Berlusconi government and his replacement by former EU commissioner Mario Monti. Although this change may bode well for future economic reforms, the political transition has been chaotic and has further roiled financial markets. Indeed, investors remain uncertain as to whether Italy's new government of unelected technocrats will be able to muster the political support needed to push through unpopular fiscal austerity measures.

And now, alarmingly, market pressures are spreading to core euro-area economies, with France's and Belgium's borrowing costs rising, Belgium's credit rating being downgraded by S&P, and, as Brian mentioned, even Germany having a poor bond auction last week. Calls are mounting for the ECB to stem the panic by taking a more active role in funding vulnerable governments, possibly by channeling funds either through the IMF or the EFSF. An alternative approach, involving greater fiscal centralization and the issuance of Eurobonds guaranteed by the euro area as a whole, is also mustering support, including most recently by the European Commission. However, Germany and the ECB so far have continued to resist these options, increasing investor concerns that the financial crisis could deepen while European officials watch either helplessly or passively from the sidelines. Moreover, the recently announced plans for the recapitalization of Europe's banks are believed likely to promote deleveraging and contribute to a credit crunch that will further weigh on Europe's economy.

Turning to the economic outlook, our October forecast for only slight declines in euro-area GDP this quarter and next now seems optimistic. Retail sales, industrial production, and new orders fell sharply in September; October surveys show continued declines in business and consumer confidence; and the euro-area composite PMI in October and November has fallen well into contractionary territory. Given the escalating financial stresses, the troubled banking sectors, and ever-increasing calls for fiscal consolidation, we are currently anticipating that the recession in Europe will be more severe and prolonged.

These conditions present a significant risk to U.S. financial systems and to the U.S. economic recovery. With this in mind, the FOMC might want to consider changes to its liquidity swap lines with foreign central banks aimed at easing funding stresses and bolstering investor confidence. Accordingly, as detailed in the proposed resolution circulated earlier this morning, we are seeking your approval of a six-month extension of the existing dollar swap lines through February 1, 2013, along with the establishment of additional swap arrangements with our central bank counterparties to support the provision by the Federal Reserve of liquidity in Canadian dollars, British pounds, Japanese yen, euros, and Swiss francs. These

foreign currency swap lines are not needed today, but they would be established as part of a broad network of bilateral swap lines intended to address potential future funding needs and to support market confidence by demonstrating cooperation among the major central banks. Before the initial drawing on these new swap lines, the Foreign Currency Subcommittee would consult with the Federal Open Market Committee if possible under the circumstances then prevailing. These new arrangements would also expire in February 2013.

Both for the dollar swap lines and for the new lines providing other currencies, we propose that the Chairman establish the interest rates by agreement with the foreign central banks and in consultation with the Foreign Currency Subcommittee. He would keep the Federal Open Market Committee informed, and the rates agreed would be consistent with the principles discussed with the Committee. In this regard, we have reached tentative agreement with our foreign counterparties on a reduction in the cost of borrowing through the existing dollar swap lines of 50 basis points—from 100 basis points over OIS to 50 basis points over OIS. The reduction in borrowing costs should help reduce banks' aversion to using the swap facilities, thus strengthening their liquidity positions and reducing the pace of their deleveraging and associated impacts on credit conditions. These actions, if approved, will be described in a coordinated announcement by the Federal Reserve and our five central bank counterparties—the European Central Bank, the Bank of England, the Swiss National Bank, the Bank of Japan, and the Bank of Canada. That announcement is likely to be made Wednesday morning. That concludes my remarks.

CHAIRMAN BERNANKE. Thank you very much. Are there questions for Brian or Steve? President Fisher.

MR. FISHER. Steve, can you bring us up to date on what is likely to occur in the G-7 in terms of addressing solvency issues? That's the first of many questions I have, but it seems to me that we have to have a backdrop. And I'm curious as to what you expect—or what we expect, Mr. Chairman—to come out of these discussions, in addition to our committing to addressing liquidity needs. That's question number one. What do we know that is not in the press?

MR. TARULLO. Nothing.

MR. KAMIN. Yes. On question number two, I do not believe we know that much that's not in the press, but perhaps the Chairman can add to that. On the issue of solvency, a couple of things. First, clearly, the G-7 is engaged on this, and they have had talks recently. But

ultimately the role of the non-European members of the G-7 is really going to be to advise and perhaps pressure the European leaders on steps that need to be taken. They are addressing both the liquidity and the solvency issues, and those do need to be addressed jointly. The liquidity issue is quite obvious, which is that the possibility of a self-fulfilling prophecy of an investor run leading to default looms very large, and so you do need some backstops. At the same time, particularly the European leaders are keenly aware that there are solvency issues involved. They are very reluctant to put liquidity rescue measures in place if they cannot be assured that Italy, Spain, and other peripheral countries will put in place the fiscal reforms needed to guarantee solvency and sustainability. In that regard, the most obvious option now on the table is basically that any rescue measures be done in conjunction with an IMF program to enforce the conditionality needed to provide comfort to the European leaders.

CHAIRMAN BERNANKE. President Fisher, before we begin our general discussion in just a minute, I can talk about some calls I've had. On solvency, just to reiterate what Steve said, the clearest case of insolvency is Greece, which is being addressed in various ways. Arguably, for example, the increase in the German interest rate is not a solvency issue; it's a concern about the stability of the euro and about self-fulfilling panics. So I think there is arguably, for many if not most of the countries other than Greece, a significant element of panic or liquidity issue, as opposed to a solvency issue. But again, to reiterate what Steve said, the Europeans are very focused—some would say too focused—on the moral-hazard solvency issues and are addressing that from a number of different fronts.

MR. FISHER. Brian, am I correct that two-year Greek debt is trading over 100 percent?

MR. SACK. Yes, 120 percent.

MR. FISHER. Thank you. Mr. Chairman, as I understand this—obviously, there's a code among central bankers. These don't seem to be extraordinary. I'm curious as to whether—we'll have a discussion in just a minute—part of this package is that we're going to reduce the domestic discount rate as well. In other words, what lies herein is extending swap arrangements, which we've all, for the most part, agreed to, and adding the new dimension of providing liquidity in Canadian dollars, British pounds, Japanese yen, euros, and Swiss francs if requested by the appropriate Reserve Bank—I presume that means Richmond, largely, or New York for B of A, and then the other big institutions, but it might include others. The suggestion here, as stated in the current intention, is that we reduce the rate on existing lines to OIS plus 50. OIS is, what, 12 basis points? So that would be less than the 75 we charge domestic institutions to borrow. Implicit in this is that we would reduce the domestic discount rate. Or can we justify—even though they are central banks—lending money to foreigners—to use the term that our overseers might use—at a cheaper rate than we lend to our highest-quality domestic banks? Is that our intention?

CHAIRMAN BERNANKE. That's our current intention. I was hoping to address that, though, before we begin our substantive round. Would you allow me to do that?

MR. FISHER. Yes, sir—of course.

CHAIRMAN BERNANKE. I'll come back to it.

MR. FISHER. And then the last thing is—and maybe this is a point you wish to address—in terms of adhering to Bagehot principles, not just regarding the rate we charge, but also regarding the collateral that is accepted, that this is an intra-central bank facility. But to take an extreme example, if during the course of time we decide to roll it over between now and

February 1, 2013, and the euro is no longer the euro that we know, I'm curious as to how this is actually secured. How would they pay us back?

MR. KAMIN. On that issue, a couple of points are worth making. First of all, in our bilateral agreement with the ECB, basically, they would be beholden, as per the contract, to return dollars to us in any event, even if the collateral that we were holding—the euros—no longer had the standing that they did beforehand. So, first, from a legal perspective, we are still owed the dollars. Second, presumably, the euro would still be exchangeable for the currencies that would succeed the euro if it came to that. So, in that instance, too, there will be value. And finally—and I think this is important—right now, we've got two different tenors of swaps, the one week and the three month. Certainly, the one-week swaps are short enough so that we could foresee an event and not lend any of those. Even the three-month swaps seem to have a sufficiently short time frame that if it looked as though the demise of the euro area were imminent, we could basically not participate in those swaps. So I think we have a reasonable amount of comfort on all of those fronts that the demise of the euro area, while no longer as unthinkable as it once was, probably does not pose a threat to the safety of these swaps.

MR. FISHER. Thank you very much. I have other questions, Mr. Chairman, but I'll defer them until we get into the discussion. Thank you.

CHAIRMAN BERNANKE. Okay. Any other questions for Brian or Steve? President Lacker.

MR. LACKER. Will these be sterilized?

CHAIRMAN BERNANKE. That had not been our plan. But if they become large, I think we would have to consider that. Up to now, of course, it's been essentially irrelevant because the draws have been tiny. And frankly, I don't expect large draws. I think this is

viewed as a backstop rather than as a major source of funding. But if they became large, we would have to consider that, yes. President Fisher.

MR. FISHER. Do we have in mind, Mr. Chairman, a limit in terms of the expansion of our balance sheet?

CHAIRMAN BERNANKE. Well, as I said, this is technically an unlimited swap line, as we have had since 2008. Of course, we do have to agree to each individual draw. Is that correct, Scott?

MR. ALVAREZ. Yes.

CHAIRMAN BERNANKE. If they became excessively large, we could either restrict them or sterilize them. So, no, I wouldn't anticipate that our balance sheet would grow meaningfully because of this, but that would be a decision for the FOMC to undertake.

MR. FISHER. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Okay. Other questions for Steve or Brian? [No response] Well, let me add just a few points. President Fisher asked whether we had information that was not in the newspapers. I would say that the answer in some technical sense is no, but we have a lot more, call it soft, information, which comes from extensive discussions with European policymakers and other policymakers. I had the pleasure of taking two G-7 calls beginning at 7:00 a.m. on Thanksgiving morning. There were two calls. The first was with both the G-7 central bank governors and the finance ministers, and the tone of these discussions remains, I think, fairly discouraging. A generous interpretation from the finance ministers' perspective is that they are approaching this on two fronts. One the one hand, they're taking a longer-run perspective—they're trying to address moral hazard issues, structural reform, building their fiscal union, and moving toward a long-term solution, which obviously is an important

component of an overall solution—at the same time that they are taking short-run steps, like leveraging the EFSF, capitalizing the banks, imposing near-term austerity measures, and allowing the ECB to buy government debt. I think the concern people are recognizing is that the process is too slow and that the short-run measures on this trajectory are not going to be adequate. So there is, obviously, a lot of concern. There are very important political constraints. The ECB, in particular, is in a very delicate position. They have been quite frank with me that although they talk about legalities, they view their main constraints as political. Essentially, what will the Germans allow the ECB to do? Their position is quite delicate in that respect, and frankly, I think it's kind of perverse that their strategy is to actually buy for their balance sheet Greek debt, as opposed to lending to some vehicle or to the European Investment Bank or some other bank to indirectly finance government debt. But that's where their arguments about monetary policy have led them. So the main inside information I would share with you is that there's considerable concern and a lot of pessimism among the policymakers in Europe.

I think it's also important to note—and I'm hearing this more on calls—the growing concern about the European economy. As Steve mentioned, the indicators have deteriorated in just the past few weeks. Draghi noted the risk of a mild recession in his first press conference recently, but on conference calls, he's pointed a number of times to a burgeoning credit crunch. That is, the banks are deleveraging very sharply, and that's beginning to have palpable effects on economic activity in Europe. So it's a stress situation. I believe that this would be the thrust of what Brian was saying—that while short-term funding markets for banks and financial institutions in the U.S. remain reasonably stable, the movements in stock prices and swap and CDS spreads for U.S. financial institutions suggest that we are at some risk of having the stress imported here.

The second call I had immediately consecutive to that was with the G-7 central bankers, and there I would just want to convey to you the sense that it's really important for central banks globally to work together, to be seen to be coordinating and cooperating. It was felt that cooperation in this particular matter would be another example that would be reassuring to markets in general. In particular, there was very strong support across all of the central banks for taking additional steps on the swaps. The proposal that has come from the group collectively—this was not really the Fed's initiative; it was partly our initiative, but it was a collective decision—has three parts. One is to extend the swap lines. Of course, we could do that later, but as part of a package, it seems to make sense. And the February 1, 2013, expiration would take us over the year-end. The second element of the proposed package that we discussed in our call was creating a complete network of swaps—every bilateral pair. Until now, it's been U.S. versus other counterparties; this would create a full, dense network of swaps between all bilateral pairs of the G-7 currencies. In particular, that would mean that we would be signing up for the option, of course—which we don't have to use and probably wouldn't use—of reciprocal swaps, where we could access pounds or euros or yen if we so needed. I don't anticipate we would need that, but it does provide yet another element. The third element, as you know, would be to reduce the swap rate to 50 basis points plus OIS. As was mentioned by Brian, the swap line rate has just recently gone in the money at its current rate. We're not seeing any activity. It's obvious that there is a significant stigma issue, and if the stigma is strong enough, then essentially the backstop is ineffective. It doesn't have any impact on market confidence. So there was a view that by reducing the swap rate, making it more economical, we would reduce the perceived stigma, and even if it were not heavily used—and I don't anticipate it to be heavily

used—it would have a stabilizing effect, or at least a positive effect, on European funding markets and then indirectly on U.S. credit markets as well.

President Fisher asked about the primary credit rate, and he's correct that on this proposal, the rate on swaps would be a little bit below the primary credit rate. I discussed this with the Board, and I would have to say that our view is not strongly one way or the other. I think that we could certainly take it up again. Clearly, there is some risk, as President Fisher suggested, that we would be criticized for lending to "foreigners" at a lower rate than to U.S. banks. There are a couple of arguments in the other direction, though, which I want to note. The first is that we've been trying over time—and Dallas is one of the Federal Reserve Banks that has pressed this—to normalize the spread between the funds rate and the primary credit rate. And when we, in fact, moved up the primary credit rate to 75 basis points, it was actually quite a communications challenge and led to some market swings. So, barring any need in terms of domestic market conditions to cut the primary credit rate, it seems as though if we did that—besides possibly signaling more concern than we have—we would then be in a situation where we would have to again, in the future, move up the rate, and we would be further than ever from a more normal spread between the funds rate and the discount window rate. So that's one observation, not necessarily dispositive. The other point, though, on the question of lending to European banks: One advantage of keeping the primary credit rate where it is now is that it would be very clear that we would want European banks to borrow from the ECB with those additional credit guarantees rather than from our discount window. And that's something we can do with moral suasion, but this provides a market incentive for them to borrow from the ECB rather than from us. I think that's a good thing for us as well. So those were the reasons that the Board—again, informally—seemed to have a mild preference for not cutting the PCR. But

again, this is something that we can certainly revisit, particularly if there's a reaction that is negative. But I guess my sense right now is that the benefits of leaving the PCR where it is are slightly greater than the costs.

You've now heard the proposal. I'm happy to now open the floor. We don't have to have a formal go-round, but, of course, anyone who has questions, comments, or reactions is more than welcome to speak. This is, of course, a meeting, and so your expressing your views on policy is obviously perfectly appropriate. Who would like to start? President Lockhart.

MR. LOCKHART. Thank you, Mr. Chairman. I really have an FYI that leads to a question. I take it from remarks earlier about the idea of a network of bilateral swap arrangements that you would draw the line with the G-7 currencies. 552 U.S.C. (b)(4)

, who's the governor of the central bank, and in a private discussion, he made an appeal. Even though they have quite ample reserves at the moment, he made an appeal for a swap line because they are concerned about the turbulence that could come out of Europe that would affect hot money flows back and forth into 552 U.S.C. (b)(4). So that's the FYI. Maybe the Board has already heard officially from 552 U.S.C. (b)(4) or some other country, but I wanted to mention that. The question, really, is the following: Is the current thinking that we would draw the line with simply G-7 countries?

CHAIRMAN BERNANKE. Well, we have a lot of interest from emerging market economies in swap lines. As you know, we were up to 14 counterparties during the crisis.

552 U.S.C. (b)(4) would very much like to have a swap line with us. Obviously, today we're talking about the G-7. My own sense is that, first of all, there should be a higher bar to going to the emerging market counterparties, in part because of greater counterparty risk. Second, the concerns they have are still prospective rather than actual

for the most part. Obviously, if we reached a very destructive situation, we would have to look at that again. However, at this point in time, I am not planning to propose any further expansion. But, of course, again, this is an FOMC decision, and if conditions warrant and the FOMC wants to address it, that's fine. But there's no current plan in place to go beyond the G-7. Other questions? President Bullard.

MR. BULLARD. Thank you, Mr. Chairman. I guess I'd advise against this. I think that, basically, theatrics are important in a situation like this, and coordinated central bank action would more or less send a panic signal without doing very much to actually help the situation. We had the 100 basis point policy in place all the way through 2008 and 2009. It actually worked quite well in that instance and did a lot to chase borrowers out to the market once conditions returned to a more normal status. I like the 100 basis point penalty that we had before, and given that it is battle tested, I don't really see a good reason to change it here. I also think the 50 basis point backstop would be unlikely to address any stigma issues. If there are stigma issues, there's stigma. And, as you point out, 100 basis points is already in the money right now, and it doesn't seem to me that things would change that much if we moved that to 50 basis points. We're going to be under a lot of pressure and a lot of criticism that we're somehow bailing out the Europeans. That's a very dangerous situation for the organization. Also, I think that in Europe, the recent discussions of enforcing fiscal austerity at the EU level are the first serious signs I've seen of some kind of significant reform that would actually address the problem instead of piling debt on top of existing debt problems. So I'd be very reluctant to take the pressure off the politicians in Europe on that process, however mild that might be, because we're a long way away and this is relatively minor policy on that.

On the extension, I would prefer to extend in some kind of regularly scheduled meeting, preferably the January meeting. Then you could review swap lines every year in January and not review them in the heat of the crisis when you're actually sending a signal in conjunction with the review of the swap lines. I think we've often been reviewing these in the heat of the moment, and I'd prefer to review them at regularly scheduled times that do not contribute to the problem. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Just a quick comment. I think there are a number of efforts under way to address moral hazard and fiscal reform issues. The market situation is one that might not comfortably await a regular meeting. We've also had these discussions with the foreign central banks, and they all believe that this would be a positive for markets and a positive for perception of cooperation and coordination. But again, that's a judgment you have to make. Other comments? President Rosengren.

MR. ROSENGREN. I'm strongly supportive of this action. I do think the financial markets are badly disrupted, and it does make sense to address it in a coordinated effort. I do have two questions. One is whether we have communicated with the other central banks about the moral suasion issue—that there is an expectation that banks would be borrowing in their home country when there is access to a swap line. Has that communication occurred, and do we have a reason to believe that that moral suasion will be effective? Because I would have a mild preference for actually having the rate at which both domestic and foreign banks borrow be the same if we thought that moral suasion would be effective. My second question is on disclosure. One part is whether or not we would be disclosing who's tapping the lines by central bank in our own releases. And the second part is whether any other central banks have different disclosure requirements—in terms of banks borrowing from their central banks or in terms of them

borrowing from us. Have we thought through all of the disclosure issues? Because when we think of stigma, disclosure is an important component of stigma, and given the Dodd–Frank requirements for providing more information, I’d be curious about how we were thinking about those disclosure issues across countries. Thank you.

CHAIRMAN BERNANKE. Yes—I’d be happy to get any help that’s needed—but let me just say that on the moral suasion issue, we’ve been very clear, not only in the context of the swaps, but also more generally, that the discount window is a very short-term facility, and that we expect the Europeans and their regulators and their finance ministries to make sure that European banks’ issues are being addressed by Europeans and not by the Federal Reserve. We’ve gotten a few troubled cases out of the window, as you know, and I don’t believe we currently have any significant lending to European banks. So, yes, we’ve been very clear throughout that we don’t want the discount window to be used as a first resort for European banks.

On disclosure, if I understand correctly from our previous practice, we would disclose regularly the amounts drawn by each counterparty—that is, each central bank. We would not know necessarily to whom they were lending, and I don’t know about each of the five counterparties, but as far as I know, none of them disclose to whom they lend, although sometimes it’s either obvious to figure out or becomes known. But, no, we would certainly not be doing that, because our counterparties are the individual central banks.

MR. ALVAREZ. If I could add something there, Mr. Chairman. However, if we do the reciprocal lines, and, for example, we then do transactions in yen with domestic banks, that would be considered open market operations. We would disclose those eight quarters after the transactions occurred.

CHAIRMAN BERNANKE. This is an interesting question—I should have asked you this before: If we got yen, could we lend yen through the discount window, or would it be only an OMO type of thing?

MR. ALVAREZ. That's a question of first impression. Because the System has never lent any currency other than dollars, we're looking into that. We clearly can do open market operations with anyone in the market. If we consider it that way, then we would buy and sell the yen, and we would treat that as open market operations for the Dodd–Frank Act. That would involve eight-quarter disclosure.

CHAIRMAN BERNANKE. Thank you. President Fisher.

MR. FISHER. To get back to Eric's question of disclosure, I'm trying to understand this. If someone draws down one of these swap lines—I'm talking about the dollar lines—we'd book it as a loan to a central bank. Is that correct?

CHAIRMAN BERNANKE. Yes.

MR. FISHER. Once it is lent out, then, from that central bank—

MR. ALVAREZ. It's not a loan. It's a swap.

CHAIRMAN BERNANKE. But the counterparty is the central bank.

MR. ALVAREZ. Correct.

MR. FISHER. Right. Once that central bank lends it out, does it shift to a loan to depository institutions, or does it stay as a swap?

CHAIRMAN BERNANKE. It stays as a swap.

MR. ALVAREZ. It stays the same.

MR. FISHER. So we have no way of knowing, to answer President Rosengren's question, where this ultimately ends up. It's not disclosed. Is that correct?

CHAIRMAN BERNANKE. It's not disclosed. We could inquire, of course, but our counterparty is the central bank. And they're the ones who are responsible to us.

MR. FISHER. Okay. Thank you.

CHAIRMAN BERNANKE. Vice Chairman Dudley.

VICE CHAIRMAN DUDLEY. I strongly support this. I think creating a more effective backstop for dollar liquidity is important. The way that it's being proposed will signal international policy coordination; we've seen historically through the crisis that international policy coordination is perceived by the market very favorably. And cutting the rate will encourage somewhat more usage, which will help destigmatize the facility. A destigmatized facility is a more effective backstop than one that's heavily stigmatized. I think the outcome we're trying to seek here is that by having a more effective dollar backstop, we'll have less forced deleveraging by European banks of their dollar books of assets. How fast they deleverage those books of assets has real consequences for the United States' economy. That's really the connection in terms of what's in it for us; I think there really is something in it for us, and we shouldn't lose sight of that.

CHAIRMAN BERNANKE. I would commend to the group an article by my ex-colleague at Princeton, Hyun Shin, which looks at the transmission of credit from U.S. dollar sources and other dollar sources through the European banking system. Much of that dollar funding flows back into the United States. This, in fact, is addressing a funding problem of a credit source, which in turn affects U.S. borrowers. So there is a connection that we can point to. Other questions or comments? President Fisher.

MR. FISHER. Mr. Chairman, I'm torn on this issue. There is a code among central bankers. I think Vice Chairman Dudley is correct from the standpoint that we're most effective

when we work together. We've learned this from our own history. I think we have a communications problem here, which I would ask you to address. You made the correct point that we—and you used the term “we”—are trying and have been making efforts to normalize rates. And you're right—Dallas and one other Bank have been rather aggressive on that front. I'm very worried about what's going on in Europe. It's a political mare's nest, and the sovereignty issues are horrifically vexing. I'm also quite concerned about where the European banking system is—the false stress tests that they put together before and now the real effort—I know we're having an influence on them—to make sure that they get their capital ratios organized. Obviously, we know how they're doing it. They'd like to issue tier 1 equity, but that's not easy in these markets. They're cutting back, therefore, on their risk-weighted assets and on their lending. The Commerzbank call to the analysts this past week had very clear instructions and a revelation that they've instructed their bankers to lend only to Poland and to Germany, and they're just cutting out other activities. So we know some deleveraging is taking place. Shriveling up of other credits, including dollar-based credits, is happening, and I think Vice Chairman Dudley is absolutely correct. We all understand this. It comes back to bite us on the rear end.

What I'm most concerned about here is the reaction to our lending to others at less than we lend to the highest-quality community, regional, and large banks in this country. I wouldn't understate or underestimate how that might reverberate negatively against us. I'm a little concerned that we've agreed to OIS plus 50 basis points. If it were OIS plus whatever equates to 75, assuming OIS is 12, I'd be more comfortable. And that just gives me pause. I don't think that just issuing this statement, which does not refer to the OIS plus 50, is problematic. I do think it becomes problematic in terms of the execution and, again, in the minds of those on both

sides of the aisle in the Congress. There is a tradeoff here. We do want to normalize rates, but we've been presented with a very difficult circumstance that poses risk to us. And I think we need to noodle that through before we make a decision. Again, I've been probably the most aggressive advocate for normalizing rates. We've pulled back from that recently, but just because of the circumstance. I don't think we could easily answer those questions unless we deal with our highest-quality domestic credits. I think it would be very, very difficult, particularly with the community banks, the regional banks—which are high quality, from which we demand substantial and measurable collateral to make a loan—to say that we're trusting other institutions. Again, they're our brethren. These are central bankers. We understand the code. But it presents a huge communications problem, and the question is whether we should take action or just try to deal with it through communications. And I'd leave that up to the rest of the group to decide, but I wouldn't understate it. I think the optics are not very good, particularly when we're under the microscope—or certainly the magnifying glass. That's my biggest concern, Mr. Chairman. I'm torn on whether or not I can support this, unless we have a clear understanding of how we're going to deal with that. It might be through a press conference on your part. It might be through other efforts to communicate. But it's a hard sell. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Let me make a couple of comments. Others on the Board can speak to this if they wish. As I said, while there was not a strong preference in this regard, there was the advantage of pushing European banks away from our window toward the foreign central banks, which, by the way, because they are our counterparties, you could argue that, from a credit risk perspective, they're actually better risks than banks. But I suppose that's a different question. I would say two other things, if I could. One is that—and President Bullard raised this

as well—while deliberation is certainly important, we are in a very serious situation, one that is changing quickly. I don't think we're in a mode, of course, where we should be panicking or anything like that. But obviously, I think speed is useful and preemption is useful. I hesitate to make this argument, but I will anyway: I personally negotiated some of these ideas with my counterparts in the other central banks. And I do need to have a little bit of flexibility, I hope, to represent the Federal Reserve's point of view in international discussions. Now, obviously, if you're opposed to this action, by all means, you should vote against it. But if you're close to the edge, I would ask that to be an additional consideration. It's very difficult for me to consult continually with the FOMC at the same time that we're having calls and discussions and meetings with our foreign counterparties. But to go back to your main point, President Fisher, rather than defend this to the death, if in fact we do run into problems, the Board can consider making a change. We can do it in a few hours if we have to.

MR. FISHER. I think, Mr. Chairman, first of all, that nobody wants to undermine you, and I certainly personally never wish to undermine you. And I do think you have to have the leeway you discussed. I do find more convincing the explanation you gave us earlier, which is, we're not lending through the discount window. And we've had criticism of lending to foreign borrowers through the discount window, so we're not changing there. We're lending to another central bank and within the fraternity and sorority of central banks around the world. All I'm suggesting is that we really think through how this will be communicated, because we know—or at least I'm willing to surmise—that there will be tough questions asked, and we just have to be clear. And that goes beyond what the statement said. So the question is whether there is a vehicle for you to do that. I'm not against the proposal; I have concerns about the proposal. Its effectiveness will be dependent on how we communicate it. I'm just raising that flag and asking

us to think this through, as to how we get it done so we don't end up pulling the rug out from underneath you or from the purpose of the exercise. That's my point.

CHAIRMAN BERNANKE. I appreciate that. I agree—communication is a big part of this. President Bullard was next on my list.

MR. BULLARD. Thank you, Mr. Chairman. On expected usage, I understood Vice Chairman Dudley to argue that usage would probably be up substantially because of the deleveraging in Europe, but I understood you to say that you didn't think these swap lines would be used that much. So I think we should try to get some clarity on where we really think usage is likely to go. I'd also say that under the 100 basis point policy, we didn't seem to have any trouble getting people to use the facility during 2008 and 2009. So I'm wondering what's changed this time. And I'm a little concerned that at 50 basis points, if the dollar funding remains in the money, then you could end up with the addicted banking system in Europe that wants the dollar funding over the long term, and then we don't really get out of the swap lines the way we did in 2008 and 2009. The 100 basis point policy was very useful from that point of view, and you got those banks to seek other sources during that time.

As far as the signaling goes, I disagree with the way the other central banks see this. They want to send a united signal, which I would interpret mostly as they want to get the Fed on board, but I don't think that this is the way to go in this crisis. What you've got are governments that are counting on central banks to bail them out, and you need to keep pressure on those governments to get the fiscal austerity that they need. They've borrowed way too much, and they're certainly hoping that central banks will somehow bail them out, so we're sending exactly the wrong signal. I can believe other central banks want to do it, but I don't think it's a good idea, and I don't think it's a good way to manage a crisis. Again, I would prefer to review swap

lines at regular junctures, not at particular moments of intense turmoil in markets. That's a better way to go, and then you get rid of the signaling problem of a panic mode and a signal that the central banks are all coming to the governments' rescue. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. On the exit problem, the fact is, of course, that all of the loans are for finite periods, and we can stop lending anytime we want, or we can raise the rate anytime we want. So I don't think that is a real issue.

I don't know how much the swap borrowing would increase. Maybe Vice Chairman Dudley has a thought. My thinking on why it would not be so large is that if it does create more assurance, it will ease the flow of private money, because of the backstop feature, so that the funding can take place through private channels. But I obviously don't know for sure. Vice Chairman Dudley, you have a two-handed response to that?

VICE CHAIRMAN DUDLEY. Yes. I think you're absolutely right—we don't know for sure. We want some increase in usage because if we didn't get an increase in usage, it would just show us that the swap lines were still very stigmatized. So we want some increase in usage, which would serve to destigmatize the swaps, make them more effective as a backstop, and therefore keep more private-sector players in the game. I think you'd see some increase in usage. How much depends on how well we actually are destigmatizing the facility so it serves as an effective backstop. I don't know if it would be substantial or small. All we can say is that reducing the rate from 100 basis points to 50 basis points does two things: One, it increases the economics of using the swap facilities to a degree; and, two, it allows people who had been staying out to now say, "Oh, it's now okay to use this facility." If you have a number of people use it rather than just two or three, then the facility becomes destigmatized, and so it becomes more effective as a backstop. That's how I see it.

CHAIRMAN BERNANKE. Thanks. President Evans.

MR. EVANS. Thank you, Mr. Chairman. I support this resolution today. I think that it's a relatively small action given everything that's going on. As Vice Chairman Dudley just mentioned, I'm not sure if this will solve the stigma problem, but we can find out. Showing coordination with the other G-7 central banks is helpful in the current situation. Having listened to the discussion from President Fisher and President Rosengren, I am a little nervous about the discount rate alignment. It might be worth thinking through more carefully whether or not reducing the discount rate to 50 basis points would be a good idea to align it with the overall borrowing incentives associated with this swap. Trying to avoid any appearance that we're attempting to skirt disclosure requirements might be helpful, but that's for the Board to decide, obviously. Thank you.

CHAIRMAN BERNANKE. Thank you. Governor Duke.

MS. DUKE. Thank you. President Fisher, I had a lot of the same concerns about what this said in terms of the difference in the borrowing rates to our banks versus the foreign central banks. But here is the reason I've come out on the side of doing nothing with the primary credit rate at this point. First of all, I think there would certainly be some risk that in communicating the reduction in the primary credit rate, you could get some speculation as to what U.S. banks we were reducing it for and what the reason—changes in financial conditions in U.S. banks—for that was. To the extent that it actually did encourage usage of our discount window at the same time, there's always the speculation as to who's in there using that rate. Also, we will be reporting to the Congress who was using the discount window. All of that seemed to me to raise a lot of questions that might actually be more harmful to U.S. banks than not. Finally, if you haven't lowered it yet, you can always lower it. And if there does get to be a very public

criticism about the difference in the rates, then you can very specifically respond to that criticism by changing the rate, and it seems to me that the communication challenge is a little bit easier then. Thank you.

CHAIRMAN BERNANKE. Thank you. President Lacker.

MR. LACKER. Thank you, Mr. Chairman. I'm going to respectfully recommend that we don't pursue this course for many of the same reasons that President Bullard expressed. I can understand how funding can suddenly dry up for a financial institution, as in the case of MF Global. I can understand how funding pressures can emerge for a broad set of market participants. But I don't see us in a situation where there's a deficiency of liquidity supply. Just look at our balance sheet. There's plenty of liquidity in dollars available in the marketplace. What I think we see is a deficiency in the willingness to lend to particular institutions, largely for the reason that they're viewed as riskier. What we know both from public sources and from supervisory sources suggests that that reluctance in the marketplace lines up pretty well with differences in the riskiness of those counterparties. I don't see any evidence that it doesn't reflect a difference in concerns about creditworthiness. And so this doesn't seem like a matter of market efficiency or functioning. It seems as though intervention here would be distributional. More broadly, I think some financial strains are consistent with a well-functioning set of markets. MF Global is a great example of that. I don't think that's a case where we should have intervened, and I don't see MF Global's demise as a failure of market functioning, apart from the fraud they committed relative to the use of funds. More central bank credit is always going to be seen as positive for markets. So I don't think the fact that markets would view this as positive is an argument for doing this. A farm bill is always positive for agricultural land prices, but it's not an argument that you want an infinitely large farm bill.

My predecessors have a long history of dissenting on foreign exchange operations. The reasoning is that, like other central bank credit actions, they essentially involve fiscal policy, they're distributional, and they're essentially end runs around constitutional appropriations policy, and that entangles us in political controversy. I think that, as I said, applies to virtually all central bank credit extension. That's why we've declared, as a Committee, our intention to get back to a Treasury-only balance sheet as soon as we can. And I'd argue that this dynamic has contributed to the hostile political environment that we currently face. More broadly, an expansion of central bank swap lines is going to send the message of an implied backstop commitment that I think is too large. It's counterproductive. It will contribute to financial instability rather than reduce it.

So I remain respectfully opposed to additional swap arrangements to support our provision of liquidity in foreign currencies. I agree with those who highlight the political risk that would be associated, I think, with offering these central bank swaps on terms that are more advantageous than those we offer at the discount window to domestic borrowers. I would urge you, Mr. Chairman, if we go down this road, to consult with your colleagues and ask them if a straight 75 basis points would be acceptable, rather than 50 over OIS. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Thank you. I have Governor Raskin next.

MS. RASKIN. Thank you, Mr. Chairman. I have a couple of operational issues that are suggested by the text that I thought would be worth getting some clarification on. First of all, I was wondering whether we know the timing of other central bank announcements, if we were to go forward with this.

CHAIRMAN BERNANKE. All six banks will announce simultaneously before markets open on Wednesday.

MS. RASKIN. Thank you. Second, in terms of the process that is suggested in the second paragraph of the resolution, there is a sentence in it that indicates that the “requests for drawings on the foreign currency swap lines and distribution of the proceeds to U.S. financial institutions shall be initiated by the appropriate Reserve Bank and approved by the Chairman in consultation with the Foreign Currency Subcommittee.” One question I have on that process is really about the statement of approval by the Chairman, and the question is whether that is an “approved or denied,” or is the implication that it would be, in essence, “approved”?

CHAIRMAN BERNANKE. Scott, will you help?

MR. ALVAREZ. I think this would give the Chairman the latitude, after consulting with the subcommittee and informing the full Committee, to deny draws or approve draws.

MS. RASKIN. So it’s “approved or denied”?

MR. ALVAREZ. Yes.

MS. RASKIN. Okay. And in that same sentence, the idea about “distribution of the proceeds to U.S. financial institutions”—to come back to the earlier part of the conversation regarding transparency, would the distribution of proceeds to U.S. financial institutions be disclosed?

MR. ALVAREZ. Yes. Remember, there are two directions that these swaps would work in. There are the swaps with the foreign central bank that they disseminate through their mechanisms and their countries. The disclosure of that would all be done by the foreign central bank, if at all—not by us. We do disclose that we’ve had the swap with the foreign central bank and how much draw there has been by that foreign central bank. But the clause you’re referring

to is the reciprocal side of the line. So if we were to allow an institution in the United States to draw down yen that we had taken from a swap line, for example, then we would consider that an open market operation, the sale of foreign exchange in the open market. We would have to disclose that eight quarters after the transaction had occurred. We would make a disclosure of our counterparty and the amount and the rate, but it would be done in the future.

MS. RASKIN. Thank you.

CHAIRMAN BERNANKE. Other questions, comments? President Lacker has two hands.

MR. LACKER. Yes, I'd like to follow up on this point. It says "initiated by the appropriate Reserve Bank." That seems to parallel the discount window and the way it works, and that Reserve Bank is essentially in charge of lending to an institution in its District. But this is an open market operation? Would this be administered through New York? And, more broadly, should we go down this path? Do you have in mind any protocol for deciding on an individual institution in a given District outside New York? What if the Reserve Bank doesn't initiate it?

MR. ALVAREZ. I'll leave the policy issue to others, but on the operational side, the thought was that because each financial institution—bank, in particular—has accounts at its local Reserve Bank, it made sense for banks in particular to deal with the Reserve Bank where they had an account and then for the Reserve Bank—say, Richmond—to obtain the currency from the SOMA. That was an easier operational method than having banks deal directly with New York, which wouldn't have the account set up for the bank. So they're OMO transactions, but we would be dealing with counterparties beyond the primary dealers, which are normally who we do the OMO transactions with.

MR. LACKER. Would this just be with banks, or could it be with any affiliates?

MR. ALVAREZ. It could be done with any financial institution, the way the resolution is worded. So that would include affiliates as well.

CHAIRMAN BERNANKE. I think it's important that we get these details straight, but I would hope we don't get too far down this line because this is a pretty hypothetical situation. President Fisher.

MR. FISHER. Mr. Chairman, the way the statement is written, there's no mention of the rate we would charge. It does say that "the Chairman shall establish the rates on the swap arrangements by mutual agreement with the foreign central banks and in consultation with the Foreign Currency Subcommittee," and that you'll keep us informed. I assume that paragraph applies to both sets of swap arrangements—the dollar swaps and the foreign currency swaps—is that correct?

MR. ENGLISH. Yes, that's right.

MR. FISHER. Okay. And that it'll be "consistent with principles discussed with and guidance provided by the Committee." Again, my guidance, for what it's worth, as an individual on the Committee and as a voter, is that we not lend at less than what we lend to high-quality U.S. banks. You will have the freedom under this, in consultation with the Foreign Currency Subcommittee, to make that decision. I want to be extremely careful here in terms of not undermining authority. You're primus inter pares; you're the Chairman. But I do think it is inadvisable for us to lend—despite the counterarguments, which are helpful and should be articulated—at less than we lend to our domestic counterparts; I have real trouble supporting that. I guess—and please don't take offense—I don't like the process with which this has been developed. I think we should have had this discussion at some point to highlight what these

obstacles are. Obviously, you know us all well. You're making the best judgment possible, and you are the central bank in the eyes of our counterparts. But that is a very tough one for me to swallow as an individual member of this Committee. And then the second thing, which President Rosengren and President Evans mentioned, is the transparency issue. I'm sure we're going to get questions. We have to be prepared to deal with that. Again, when we release the statement, we're not going to state the rate, as I understand it. We are going to say that you will establish the rate in consultation.

MR. ENGLISH. No, I think there's a distinction that you need to make between the resolution that the Committee will pass and the statement that will be released Wednesday morning before the opening of business, which is being negotiated.

CHAIRMAN BERNANKE. Right. There will be a press release.

MR. FISHER. So you're asking us to agree, then, on the 50 basis points—is that correct? And we would make that public?

CHAIRMAN BERNANKE. Well, technically, you're agreeing to delegate it to me, in consultation with the Foreign Currency Subcommittee. But I'm informing you that it would be my intention, along with the other five central banks, to agree to a rate of 50 basis points plus OIS.

MR. FISHER. Would we record minutes of this meeting, where you had some concerns expressed about lending at less than we would have lent to the domestic banks?

CHAIRMAN BERNANKE. Of course. This is a formal meeting, and it'll have minutes and transcripts.

MR. FISHER. Well, again, I'm worried about putting you in an uncomfortable position. There is a principle here that I'm worried about as well, and then there is the reactive aspect of

this, which I'm concerned about. If I may just put my cards on the table, in answer to Governor Duke's question, I think it would be a mistake to cut the rate to domestic banks to 50 basis points and do it simultaneously. I believe we would then panic the markets. So, Governor Duke, I agree with you. I think it would send a bad signal. I wouldn't close that door, depending on what happens in terms of economic developments. Where I come down personally is that we should not have agreed to 50 basis points. We should have agreed to 75 or 12 basis points less than that, wherever OIS is. But this is a dilemma because, again, we don't want to undermine our standing, and certainly we don't want to undermine your standing. So I'm just being utterly frank here. I think that's the biggest problem with this proposal—the 50 basis points. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Thank you. Vice Chairman Dudley.

VICE CHAIRMAN DUDLEY. I just wanted to make the very simple point that we think it's highly unlikely that we'd ever be lending foreign currencies to U.S. depository institutions or other financial institutions. So all of this discussion about how these bilateral swap lines would actually work in practice is, as you said, hypothetical—extremely hypothetical. My understanding of why the bilateral swap lines are even on the table is that this is just something that the other central banks would like to see to signal the greatest degree of international policy coordination, as opposed to a need that we think we actually are, under any reasonable scenario, likely to ever have.

CHAIRMAN BERNANKE. Thank you. Any other questions or comments? [No response] All right. Well, I thank you for the discussion. The reservations are noted. I appreciate, Richard, the points you made. We are somewhat reactive of necessity. The world is changing quickly, and we are trying to coordinate with five other central banks, which makes it

more difficult to do things with a long lead time. My view is that this is a helpful step, not a major step. But I am quite concerned about market developments in general, and I think we should be prepared to have another meeting should that be necessary. As I said before, my concern is that it's even worse than political. I think the Europeans just do not, in some sense, get it, to use the vernacular. I don't believe they understand quite how dangerous the situation is that they're involved in. They are, of course, in a situation where politicians are making the decisions, and they have many concerns other than the ideal economic outcome.

If there are no further comments, given that there were some concerns, I think we probably should take a roll call vote on this. Debbie.

MS. DANKER. Okay. This vote is on the resolution that was sent around this morning.

Chairman Bernanke	Yes
Vice Chairman Dudley	Yes—a hundred times, yes. [Laughter]
Governor Duke	Yes
President Evans	Yes
President Fisher	

MR. FISHER. This is just on the section in quotes, is that correct?

MS. DANKER. That's correct. It's the resolution.

President Fisher	Yes—thank you. Reluctantly, yes.
President Kocherlakota	Yes
President Lacker	No—and I'd like to know if I can vote a hundred times, too?

[Laughter]

CHAIRMAN BERNANKE. By the way, President Lacker is voting in place of President Plosser, who was unable to join us today.

Governor Raskin	Yes
Governor Tarullo	Yes
Governor Yellen	Yes

CHAIRMAN BERNANKE. All right. Thank you, again, and we will do our best to keep you well informed. And, if not sooner, we will see you in a couple of weeks. Thank you.

END OF MEETING