

**Appendix 1: Materials used by Mr. Potter**

**Class II FOMC – Restricted (FR)**

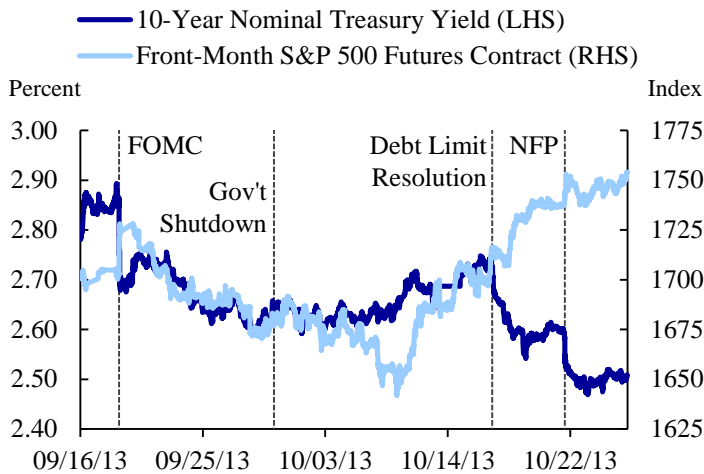
*Material for Briefing on*

**Financial Developments and  
Open Market Operations**

**Simon Potter**

**October 29, 2013**

**(1) Ten-Year Nominal Treasury Yield and Front-Month S&P 500 Futures Contract**



Source: Bloomberg

**(2) Asset Performance Over Intermeeting Period\***

	Change on 09/18/13	Change Since Sept. FOMC
<i>Changes in Basis Points</i>		
10-Year Treasury (2.51%)	-16	-34
5-Year 5-Year Forward BEI (2.42%)	+0	-1
30-Year CC MBS OAS (18 bps)	-7	-17
Primary Mortgage Rate** (4.13%)	N/A	-44
HY Corp. Credit OAS*** (425 bps)	-7	-14
<i>Changes in Percent</i>		
S&P 500 Index (1760)	+1.2	+3.2
DXY Dollar Index (79.19)	-1.1	-2.4

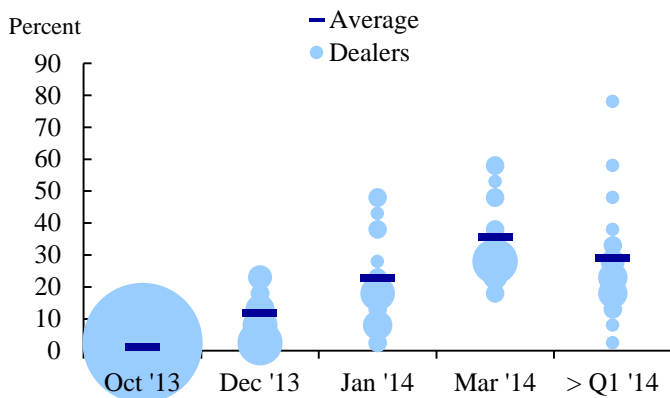
\*Current levels in parentheses.

\*\*FHLMC 30-year survey rate.

\*\*\*2-day change shown in first column.

Source: Bloomberg, Barclays

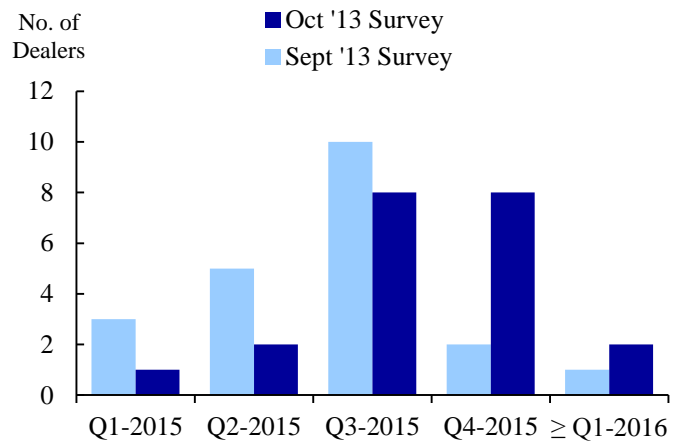
**(3) Distribution of Market Beliefs on Timing of Initial Reduction in Pace of Asset Purchases\***



\*Probability assigned to timing of initial reduction in pace of asset purchases. Dots scaled by number of dealers.

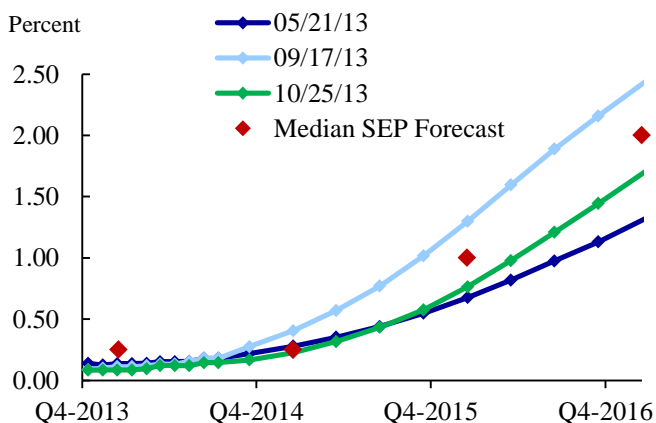
Source: Federal Reserve Bank of New York Survey

**(4) Estimate for Most Likely Quarter of First Target Rate Increase**



Source: Federal Reserve Bank of New York Survey

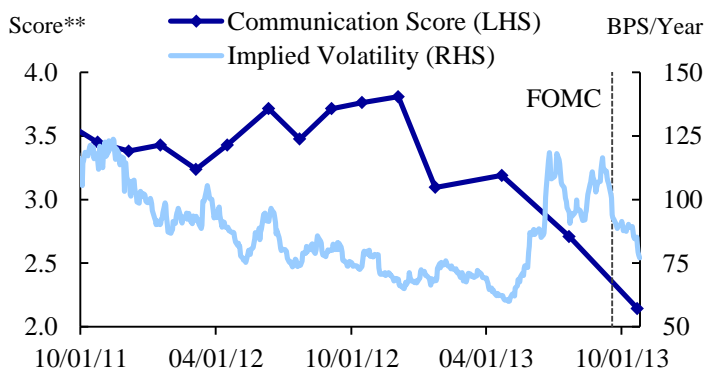
**(5) Implied Federal Funds Rate Path\***



\*Derived from federal funds futures and Eurodollar futures.

Source: Bloomberg, Federal Reserve Bank of New York, Federal Reserve Board of Governors

**(6) Communication Score and Swaption-Implied Volatility\***

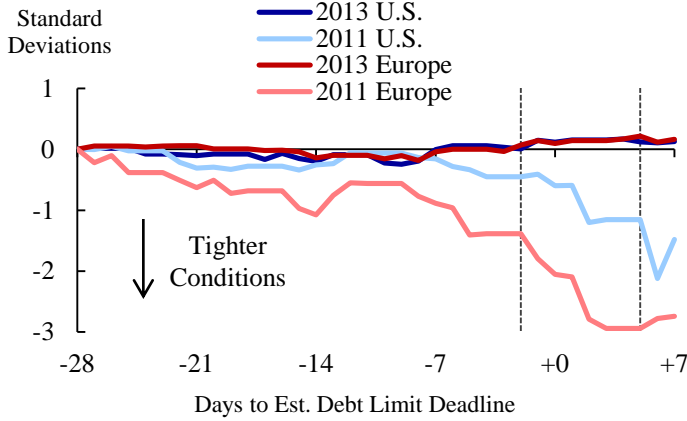


\*3-month expiry, 10-year underlying.

\*\*Dealers are asked to provide a rating between 1 and 5, with 1 indicating ineffective and 5 indicating effective communication. Average score shown.

Source: Bloomberg, Federal Reserve Bank of New York Survey

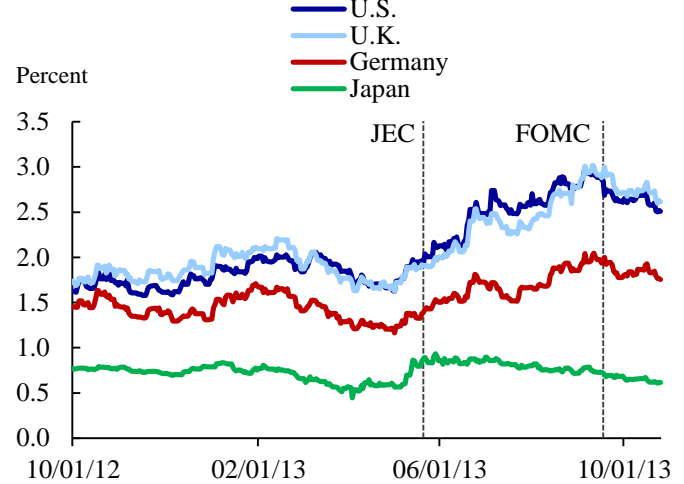
**(7) Bloomberg Financial Conditions Indices\***



\*Cumulative change starting 4 weeks before projected debt limit deadline. First trip wire represents two days prior to deadline: 07/31/11 and 10/15/13. Second trip wire represents S&P's downgrade of the U.S. on 08/08/11.

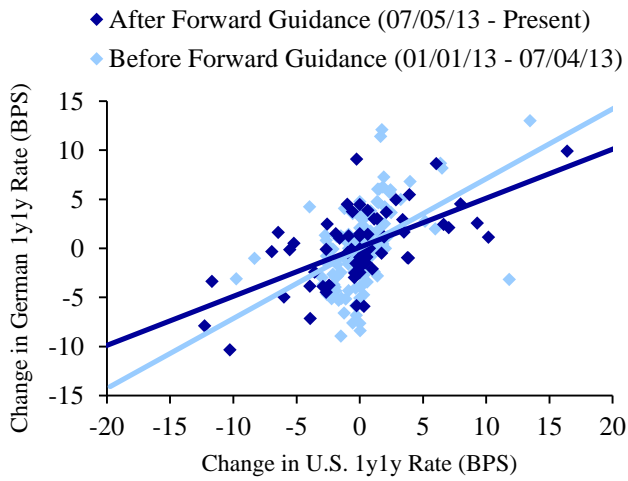
Source: Bloomberg

**(8) Ten-Year Sovereign Yields**



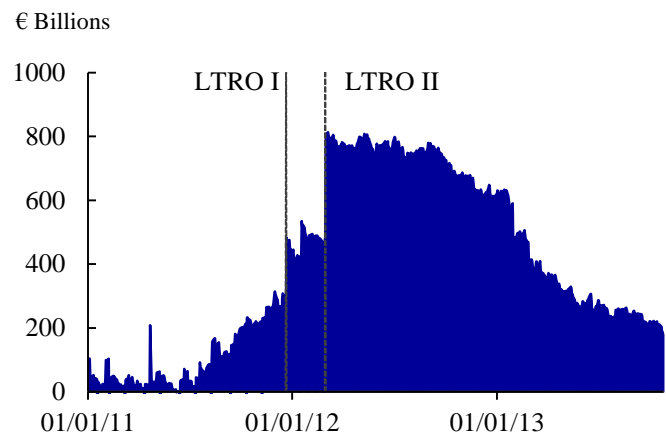
Source: Bloomberg

**(9) Pass-Through of U.S. to German Short Rates\***



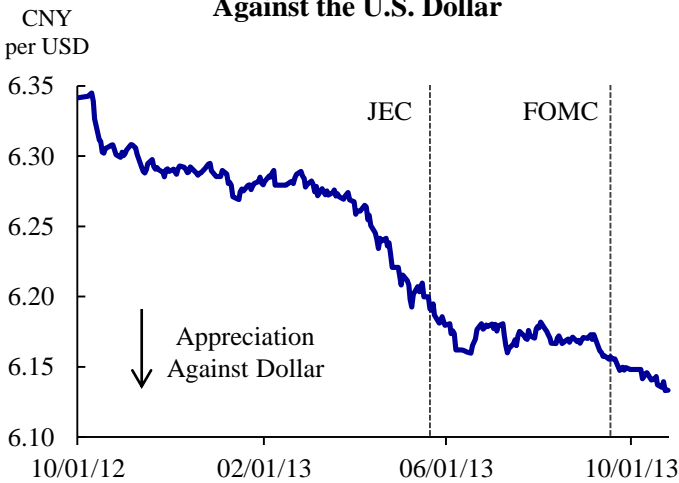
\*Daily change in 1-year forward 1-year rates from 12:00 PM EST. Source: Bloomberg, Tradeweb

**(10) Eurosystem Excess Liquidity\***



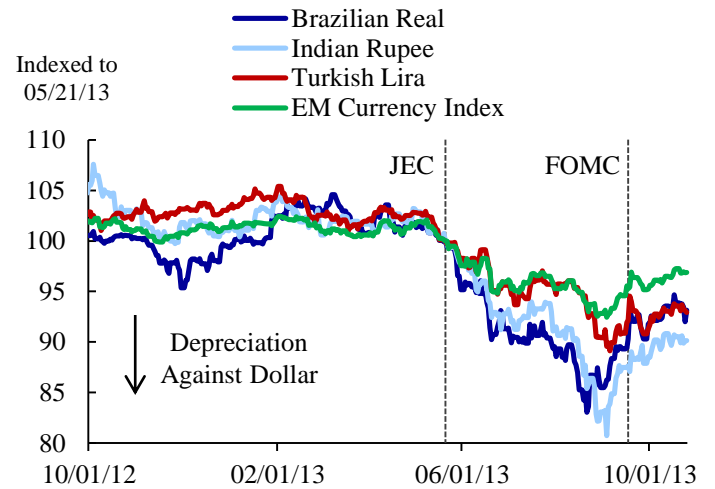
\*Calculated as current account holdings, plus deposit facility, less average reserve requirements, less use of marginal lending facility. Source: Bloomberg

**(11) Chinese Renminbi Official Fix Against the U.S. Dollar**



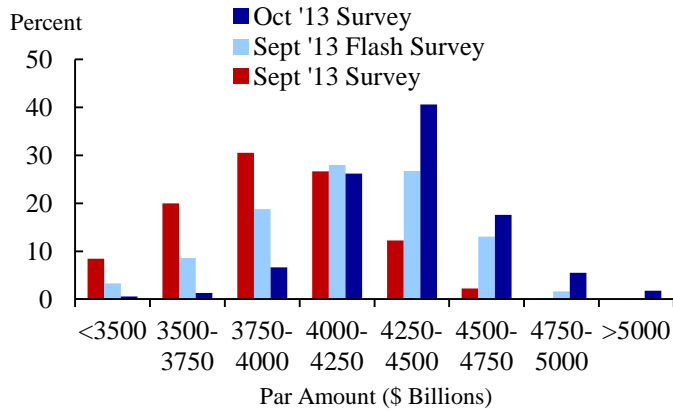
Source: Bloomberg

**(12) Currency Performance Against the Dollar**



Source: Bloomberg, J.P. Morgan

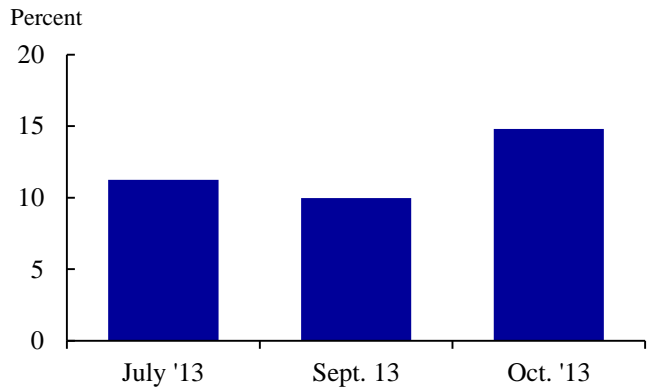
**(13) Probability Distribution of End-2014 SOMA Portfolio Holdings\***



\*Average probabilities from dealer responses. September and September flash survey results interpolated using a generalized beta distribution.

Source: Federal Reserve Bank of New York Survey

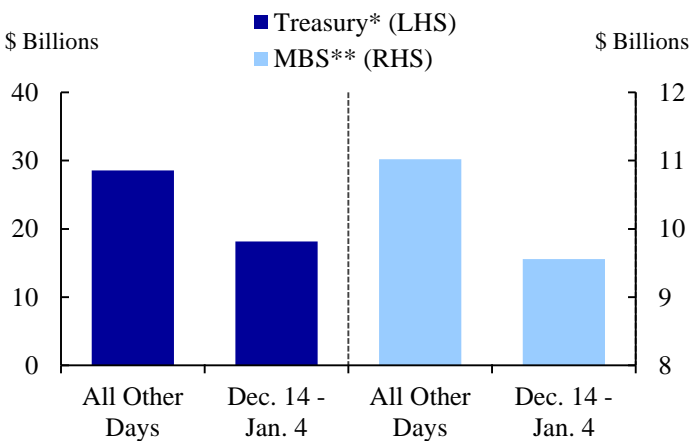
**(14) Remaining MBS Purchases Expected by Dealers as a Share of Existing Purchasable Stock\***



\*Remaining purchases calculated using the medians of implied SOMA paths from the Federal Reserve Bank of New York Survey of Primary Dealers. Purchasable stock excludes SOMA holdings and securities pledged as CMOs.

Source: Credit Suisse, KDS, Federal Reserve Bank of New York Survey

**(15) Daily Average Trading Volumes Since 2010**

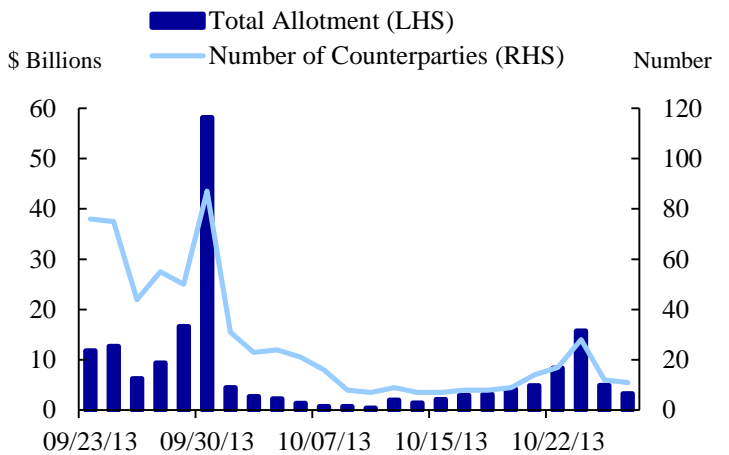


\*On-the-run 10-year note.

\*\*15- and 30-year securities, all agencies and traded coupons.

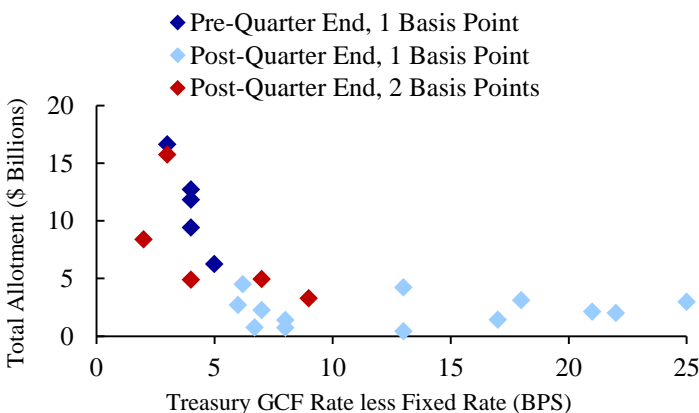
Source: Tradeweb, BrokerTec

**(16) Fixed Rate Capped Allotment Reverse Repo Operation Results**



Source: Federal Reserve Bank of New York

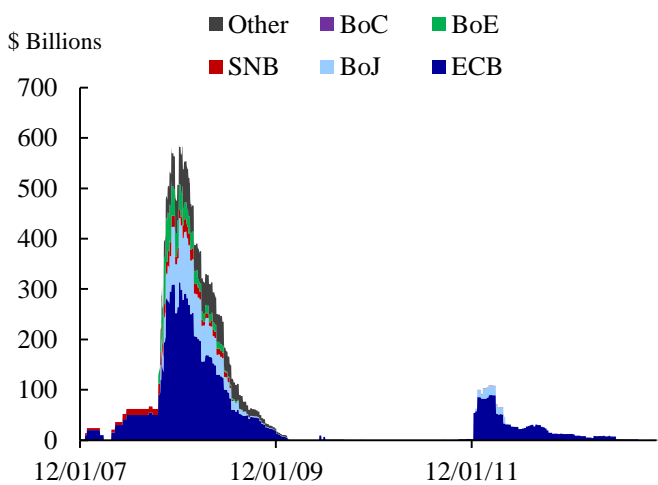
**(17) Fixed Rate Capped Allotment Reverse Repo Operation Participation vs. Rate Spread\***



\*Excludes quarter end, when the Treasury GCF repo spread to the fixed rate was 9 basis points and \$58 billion was allotted.

Source: Bloomberg, Federal Reserve Bank of New York

**(18) Central Bank Liquidity Swaps Outstanding**



Source: Federal Reserve Bank of New York

**Appendix 2: Materials used by Mr. Potter**

**Class II FOMC – Restricted (FR)**

*Material for*

**Action on Liquidity Swap Lines**

**October 29, 2013**

## **Proposed FOMC Resolution**

The Federal Open Market Committee directs the Federal Reserve Bank of New York to convert the existing temporary dollar liquidity swap arrangements with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank to standing facilities, with the modifications approved by the Committee. In addition, the Federal Open Market Committee directs the Federal Reserve Bank of New York to convert the existing temporary foreign currency liquidity swap arrangements with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank to standing facilities, also with the modifications approved by the Committee.

Drawings on the dollar and foreign currency liquidity swap lines will be approved by the Chairman in consultation with the Foreign Currency Subcommittee. The Foreign Currency Subcommittee will consult with the Federal Open Market Committee prior to the initial drawing on the dollar or foreign currency liquidity swap lines if possible under the circumstances then prevailing; authority to approve subsequent drawings of a more routine character for either the dollar or foreign currency liquidity swap lines may be delegated to the Manager, in consultation with the Chairman.

The Chairman may change the rates and fees on the swap arrangements by mutual agreement with the foreign central banks and in consultation with the Foreign Currency Subcommittee. The Chairman shall keep the Federal Open Market Committee informed of any changes in rates or fees, and the rates and fees shall be consistent with principles discussed with and guidance provided by the Committee.



**Appendix 3: Materials used by Mr. Lebow**

**Class II FOMC – Restricted (FR)**

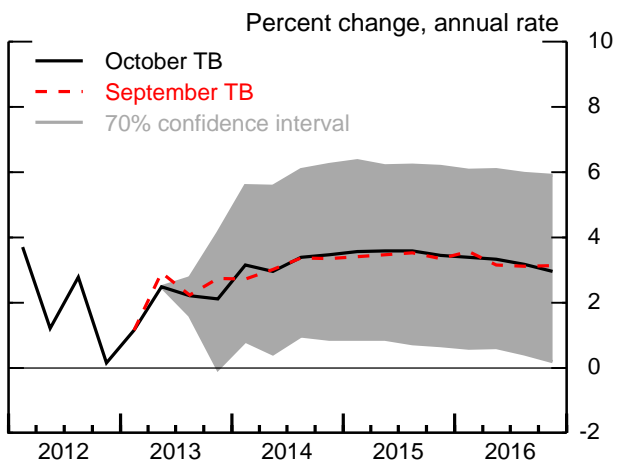
*Material for*  
**Forecast Summary**

**David Lebow**  
**October 29, 2013**

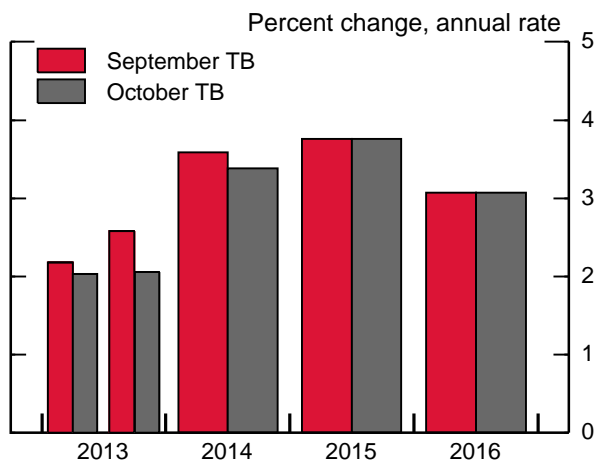
# Forecast Summary

Confidence Intervals Based on FRB/US Stochastic Simulations

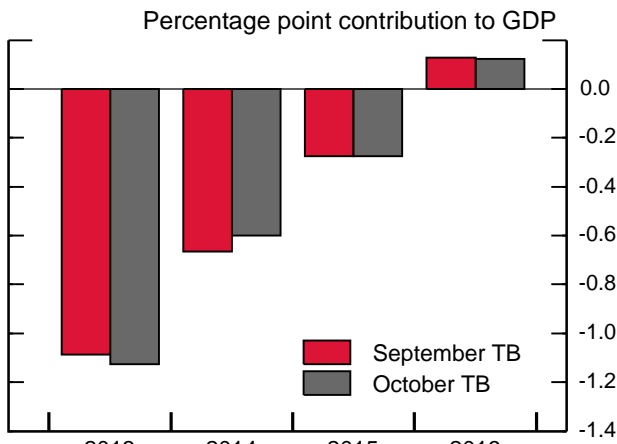
## Real GDP



## Real PCE

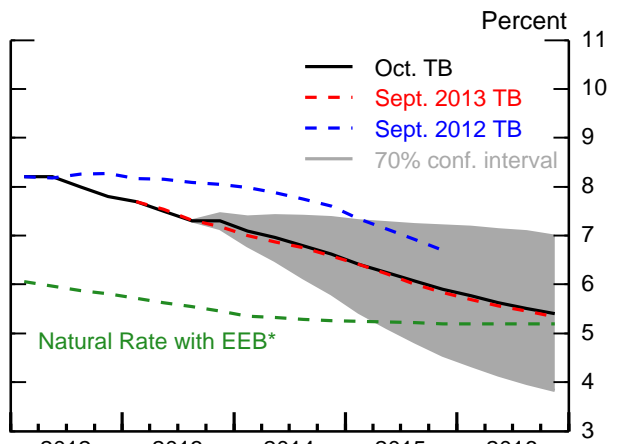


## Total Fiscal Impetus



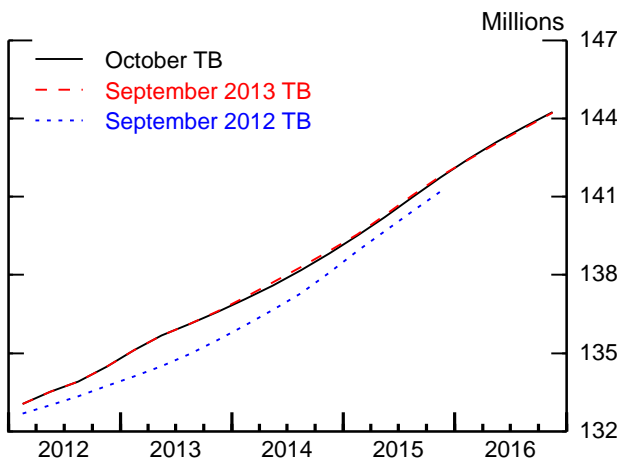
Note: Includes federal and state and local fiscal policies.

## Unemployment Rate

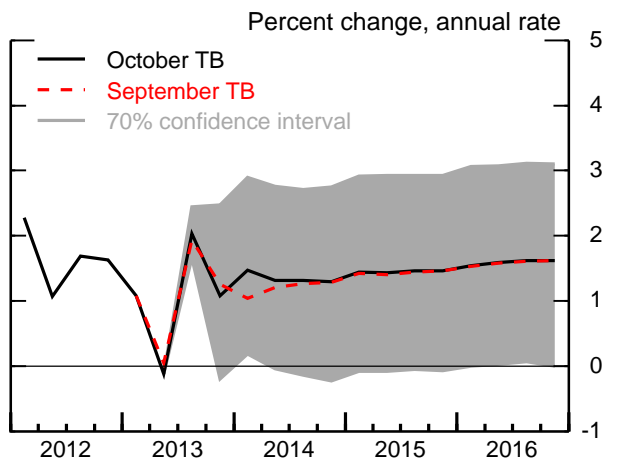


\*Effect of emergency unemployment compensation and state-federal extended benefit programs.

## Total Payroll Employment



## PCE Prices



**Appendix 4: Materials used by Messrs. Tetlow and Clouse**

**Class I FOMC – Restricted Controlled (FR)**

*Material for*  
**Policy Planning**

**Robert Tetlow, James A. Clouse**  
**October 29, 2013**

## Additions to Forward Guidance and Simple Rules to Guide LSAPs

### Inflation Floors

- Could signal commitment to price stability when inflation is low
- An *addition*, not amendment, to thresholds
- Results from stochastic simulations:
  - In most cases, 1½ percent floor provides only small economic benefits
  - Acts as hedge against bad economic states
- Communications issues
  - Added complexity
  - Could be taken as signal of concerns about low inflation

### Post-liftoff policy guidance

- Monetary conditions depend on the entire path of future interest rates
- If effectively communicated and regarded as credible, additional inertia in the Taylor rule would:
  - Result in a similar liftoff date as in the baseline case
  - Produce a more gradual climb in the funds rate after liftoff
  - Likely lead to small improvements in economic performance
- Communications issues
  - State-contingent gradual increase in the funds rate may be difficult to communicate
  - Could be used to draw a distinction between funds rate policy and asset purchase policy

## Additions to Forward Guidance and Simple Rules to Guide LSAPs (2)

### Simple Rules for LSAPs

- Three simple rules for large-scale asset purchases (LSAPs)
  - One based on the unemployment rate
  - Two based on changes in payroll employment
- Choice among rules matters only when unemployment rate and payroll gains comove unusually
  - If recent declines in LFPR continue, while payroll gains stay near current levels, unemployment-based rule calls for faster reductions than employment-based rules
  - If recent declines in LFPR are cyclical, unemployment-based rule might slow reductions, even though payroll gains are strong
- Communications issues
  - Conflicts in signals from labor market indicators
  - Co-ordination with existing thresholds for the funds rate
  - Does the pace only ratchet down?

## Balance Sheet Actions to Strengthen Forward Guidance

- ▶ Long-term repurchase operations at a fixed rate.
  - Cap on term repo rates and certainty about financing costs.
- ▶ Standing purchase facility for shorter-term Treasury securities at a fixed yield.
  - Cap on shorter-term Treasury yields.
- ▶ Standing *overnight* repurchase operations at a fixed rate.
  - Available until a threshold is crossed.
  - Cap on overnight rates.
- ▶ Forward operations in short-term Treasury securities.
  - Targeting particular points on the curve.
  - Impact on Fed balance sheet delayed.
- ▶ Reduction in IOER and fixed-rate, overnight RRP facility.
  - A firmer floor on money market rates.
  - Implications for funds market and dealer financing.

## Considerations Regarding Reductions in the Pace of Asset Purchases

- ▶ Could choose a small initial reduction in the pace of asset purchases if...
  - Desire to signal gradual reductions.
  - Concerned about possible outsized market reaction to first pace reduction.
- ▶ Could trim Treasuries faster than MBS if...
  - Desire to signal continued commitment to foster recovery in housing market.
  - Judge that MBS purchases have stronger economic effects than Treasury purchases.
- ▶ Could trim MBS faster than Treasuries if...
  - Concerned about potential effects on market functioning in MBS markets.
  - Judge that MBS purchases are more likely to generate distortions in credit markets.
- ▶ Roughly equal reductions...
  - Consistent with market expectations.
  - Allows gradual reductions for both Treasuries and MBS.



## Questions for Discussion

1. Further clarifying or strengthening the guidance regarding the federal funds rate target (e.g., providing more information about the conditions under which the first increase would occur or about the pace of subsequent increases) could in principle reduce the extent of undesired policy tightening associated with a slowing of asset purchases. Several approaches for modifying the guidance have been discussed in previous meetings, and a staff memo distributed on October 22 provided an analysis of some selected options. Do you favor modifying the current rates guidance? If so, how and under what circumstances?
2. As discussed in a forthcoming staff memo, the existing rates guidance might be strengthened by announcing the Committee's willingness to do targeted market interventions if necessary. Are there circumstances under which you would favor such an announcement? If so, what type(s) of intervention(s) would you expect to be most effective?
3. Yet another approach to signaling the Committee's intent to keep rates low would be to lower the target range for the federal funds rate, say to 0-15 bps, presumably accompanied by a reduction in the IOER to 15 bps. This policy action could also directly ease financial conditions through its effects on short-term rates. If desired, the overnight reverse repo facility currently in testing could help provide a floor for the range. Do you see this approach as worth exploring further?
4. Alternatively, or in conjunction with enhanced guidance on rates, the guidance regarding asset purchases might be further elaborated--for example, by providing additional criteria for reducing purchases or by providing more information about the expected evolution of the balance sheet after the purchases end. Do you favor modifying the Committee's existing guidance regarding the balance sheet? If so, how? Are there circumstances under which you might favor a more mechanical type of guidance (e.g., tying asset purchases to payroll employment or the unemployment rate) as described in the staff memo distributed on October 22?
5. The sequencing or mix of the reduction of asset purchases (e.g., Treasuries first, or Treasuries and MBS in roughly equal proportion) also may serve as a signal as discussed in the staff memo distributed on October 17. What are your preferences on this issue?
6. Do you favor other ways to improve the Committee's communications regarding the balance sheet and the overall stance of policy?

**Appendix 5: Materials used by Mr. English**

**Class I FOMC – Restricted Controlled (FR)**

*Material for*

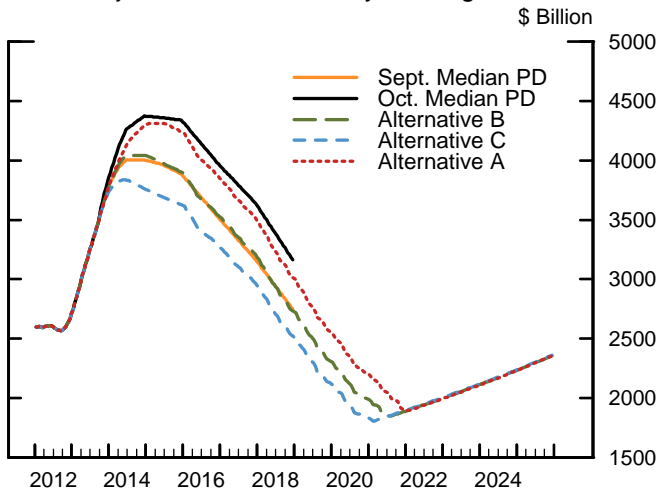
**FOMC Briefing on Monetary Policy Alternatives**

**Bill English**

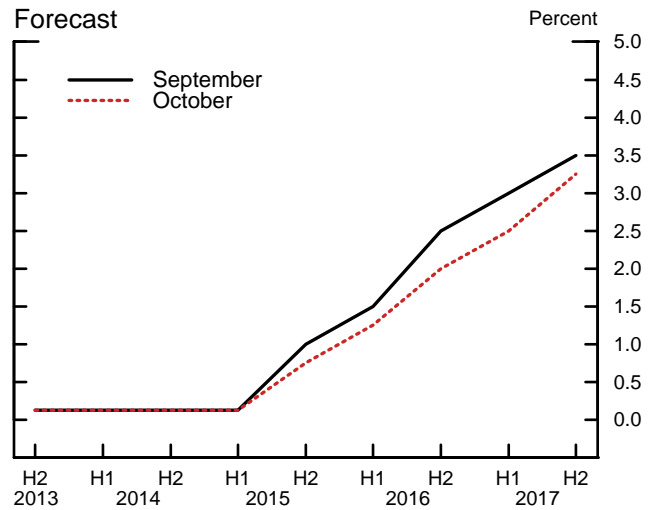
**October 29-30, 2013**

### Policy Issues and Market Expectations

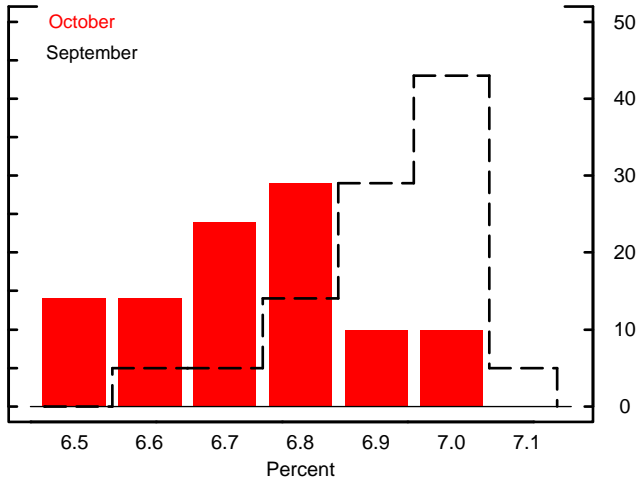
Total Projected SOMA Security Holdings



Median Dealer Federal Funds Rate Forecast

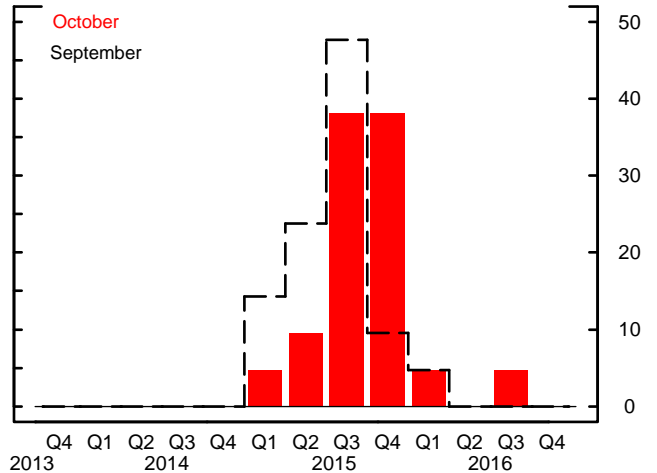


Dealer Unemployment Rate Forecast at Expected Program End



Note: Based on interpolated unemployment rate forecasts from 20 dealers; one dealer did not provide a sufficiently long unemployment rate forecast.

Distribution of Dealer Modal Timing of First Rate Increase



#### Simple Rule for Purchases

- Could clarify the Committee's intentions regarding future asset purchases
- But reduces flexibility
- Could be based on the unemployment rate or the level of payroll employment

#### Strengthening Forward Guidance

- Could clarify that forward guidance and purchase program are distinct tools
- Options
  - Reduce unemployment rate threshold
  - Introduce inflation floor
  - Rate decisions based on broad set of indicators
  - Information about path after liftoff

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## SEPTEMBER FOMC STATEMENT

1. Information received since the Federal Open Market Committee met in July suggests that economic activity has been expanding at a moderate pace. Some indicators of labor market conditions have shown further improvement in recent months, but the unemployment rate remains elevated. Household spending and business fixed investment advanced, and the housing sector has been strengthening, but mortgage rates have risen further and fiscal policy is restraining economic growth. Apart from fluctuations due to changes in energy prices, inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the downside risks to the outlook for the economy and the labor market as having diminished, on net, since last fall, but the tightening of financial conditions observed in recent months, if sustained, could slow the pace of improvement in the economy and labor market. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it anticipates that inflation will move back toward its objective over the medium term.
3. Taking into account the extent of federal fiscal retrenchment, the Committee sees the improvement in economic activity and labor market conditions since it began its asset purchase program a year ago as consistent with growing underlying strength in the broader economy. However, the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. Accordingly, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month. 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. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. In judging when to moderate the pace of asset purchases, the Committee will, at its coming meetings, assess whether incoming information continues to support the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective. Asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases.

5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6½ percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

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**FOMC STATEMENT—OCTOBER 2013 ALTERNATIVE A**

1. **The effects of the temporary shutdown of the federal government [ , including delays in releases of some key data, ] have made the evolution of economic conditions during the intermeeting period somewhat more difficult to assess.** **However,** information received since the Federal Open Market Committee met in July **September generally** suggests that economic activity has been expanding at a moderate **modest** pace. ~~Some~~ Indicators of labor market conditions have shown **some** further improvement ~~in recent months~~, but the unemployment rate remains elevated. **Available data suggest that** household spending and business fixed investment advanced, ~~and~~ **but that the recovery in** the housing sector ~~has been strengthening, but mortgage rates have risen further~~ **has slowed in response to higher mortgage rates.** ~~and~~ Fiscal policy is restraining economic growth. Apart from fluctuations due to changes in energy prices, inflation has been running below the Committee's longer-run objective, ~~but~~ **even though** longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the downside risks to the outlook for the economy and the labor market as having diminished, on net, since last fall, but the tightening of financial conditions observed ~~in recent months~~ **since the spring**, if sustained, could slow the pace of improvement in the economy and labor market. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it anticipates that inflation will move back toward its objective over the medium term.
3. Taking into account the extent of federal fiscal retrenchment **over the past year**, the Committee sees the improvement in economic activity and labor market conditions since it began its asset purchase program ~~a year ago~~ as consistent with growing underlying strength in the broader economy. However, the Committee ~~decided to await more evidence that progress will be sustained before adjusting~~ **judges that progress toward its objectives for the labor market and inflation is not yet sufficient to warrant reducing** the pace of its purchases. Accordingly, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month. 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. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price

stability. In judging when to moderate the pace of asset purchases, the Committee will, ~~at its coming meetings,~~ assess whether incoming information ~~continues to~~ supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective. Asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases.

5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above [ 6 | 6½ ] percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. **Once the unemployment rate reaches [ 6 | 6½ ] percent—and assuming that inflation remains well contained, as the Committee expects—the Committee will also consider other information a broad set of indicators in determining how long to maintain a highly accommodative stance of monetary policy an exceptionally low range for the federal funds rate. Relevant factors will include additional measures of labor market conditions such as the level and growth of employment, indicators of inflation pressures and inflation expectations, and readings on financial developments. In any case, the Committee anticipates that it will not raise its target for the federal funds rate if inflation between one and two years ahead is projected to be below [ 1½ | 2 ] percent.**
6. When the Committee **eventually** decides to begin to remove policy accommodation, it will take a balanced approach consistent with **to achieving** its longer-run goals of maximum employment and inflation of 2 percent. **In addition, the Committee anticipates that the headwinds that have been restraining the economic recovery will abate only gradually. For this reason, achieving and maintaining maximum employment and price stability will likely require a patient policy approach that keeps the target for the federal funds rate below its longer-run normal value for a considerable time.**



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**FOMC STATEMENT—OCTOBER 2013 ALTERNATIVE B**

1. The effects of the temporary shutdown of the federal government [ , including delays in releases of some key data, ] have made the evolution of economic conditions during the intermeeting period somewhat more difficult to assess. However, information received since the Federal Open Market Committee met in ~~July~~ September generally suggests that economic activity has ~~been expanding~~ continued to expand at a moderate pace. ~~Some~~ Indicators of labor market conditions have shown some further improvement in recent months, but the unemployment rate remains elevated. Available data suggest that household spending and business fixed investment advanced, ~~and~~ while the recovery in the housing sector ~~has been strengthening, but mortgage rates have risen further~~ slowed somewhat in recent months in response to higher mortgage rates. ~~and~~ Fiscal policy is restraining economic growth. Apart from fluctuations due to changes in energy prices, inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the downside risks to the outlook for the economy and the labor market as having diminished, on net, since last fall, ~~but the tightening of financial conditions observed in recent months, if sustained, could slow the pace of improvement in the economy and labor market.~~ The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it anticipates that inflation will move back toward its objective over the medium term.
3. Taking into account the extent of federal fiscal retrenchment over the past year, the Committee sees the improvement in economic activity and labor market conditions since it began its asset purchase program ~~a year ago~~ as consistent with growing underlying strength in the broader economy. However, the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. Accordingly, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month. 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. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. In judging when to moderate the pace of asset purchases, the Committee will, at its coming meetings, assess whether incoming information continues to

support the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective. Asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases.

5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6½ percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments.
6. When the Committee **eventually** decides to begin to remove policy accommodation, it will take a balanced approach ~~consistent with~~ **to achieving** its longer-run goals of maximum employment and inflation of 2 percent. **In addition, because the headwinds that have been restraining the economic recovery will likely abate only gradually, the Committee anticipates that achieving and maintaining maximum employment and price stability will require a patient policy approach that keeps the target for the federal funds rate below its longer-run normal value for a considerable time.**

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**FOMC STATEMENT—OCTOBER 2013 ALTERNATIVE C**

1. Information received since the Federal Open Market Committee met in July **September** suggests that economic activity ~~has been expanding~~ **continues to expand** at a moderate pace. ~~Some~~ Indicators of labor market conditions have shown ~~some~~ further improvement ~~in recent months~~; **in particular**, but the unemployment rate, ~~remains~~ **though still** elevated, **has continued to decline**. Household spending and business fixed investment advanced, and the housing sector has ~~been strengthening~~, but **continued to strengthen, even though** mortgage rates have risen further **on balance in recent months** and fiscal policy is restraining economic growth. Apart from fluctuations due to changes in energy prices, inflation has been running **somewhat** below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the downside risks to the outlook for the economy and the labor market as having diminished, on net, since last fall. ~~but the tightening of financial conditions observed in recent months, if sustained, could slow the pace of improvement in the economy and labor market.~~ The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it anticipates **The Committee has become more confident that labor market conditions will continue to improve and** that inflation will move back toward its **2 percent** objective over the medium term.
3. Taking into account the extent of federal fiscal retrenchment **over the past year**, the Committee sees the improvement in economic activity and labor market conditions since it began its asset purchase program a year ago as consistent with growing underlying strength in the broader economy. ~~However, the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. Accordingly, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month.~~ **In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions, the Committee decided to make modest downward adjustments in the pace of its of asset purchases. Beginning in November, the Committee will add to its holdings of agency mortgage-backed securities at a pace of [ \$30 ] billion per month rather than \$40 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of [ \$35 ] billion per month rather than \$45 billion per month.** 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. ~~Taken together, these actions~~ **The Committee's sizable and still-increasing holdings of longer-term securities** should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.

4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. In judging when to moderate ~~again reduce~~ the pace of asset purchases, the Committee will, at its coming meetings, assess whether incoming information continues to support the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective. Asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases.

**OR**

- 4'. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. ~~In judging when to moderate the pace of asset purchases, the Committee will, at its coming meetings, assess whether incoming information continues to support the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective.~~ **In particular, the Committee intends to continue asset purchases until the level of [ nonfarm payrolls is [ 1½ | 2 ] million above | the unemployment rate is ½ percentage point below ] its value in September 2013, and expects to reduce the monthly pace of purchases roughly in proportion to observed progress toward that level.** Asset purchases are not on a preset course, and the Committee's **Nonetheless,** decisions about their **the** pace **of asset purchases also** will remain contingent on the Committee's economic outlook **for inflation** as well as its **the Committee's** assessment of the likely efficacy and costs of such purchases.
5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6½ percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

**SEPTEMBER 2013 DIRECTIVE**

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. The Desk is directed to continue purchasing longer-term Treasury securities at a pace of about \$45 billion per month and to continue purchasing agency mortgage-backed securities at a pace of about \$40 billion per month. 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. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

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**DIRECTIVE FOR OCTOBER 2013 ALTERNATIVE A**

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to  $\frac{1}{4}$  percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. The Desk is directed to continue purchasing longer-term Treasury securities at a pace of about \$45 billion per month and to continue purchasing agency mortgage-backed securities at a pace of about \$40 billion per month. 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. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

**DIRECTIVE FOR OCTOBER 2013 ALTERNATIVE B**

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to  $\frac{1}{4}$  percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. The Desk is directed to continue purchasing longer-term Treasury securities at a pace of about \$45 billion per month and to continue purchasing agency mortgage-backed securities at a pace of about \$40 billion per month. 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. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

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**DIRECTIVE FOR OCTOBER 2013 ALTERNATIVE C**

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. **Beginning in November,** the Desk is directed to ~~continue purchasing~~ **purchase** longer-term Treasury securities at a pace of about ~~\$45~~ **\$35** billion per month and to ~~continue purchasing~~ **purchase** agency mortgage-backed securities at a pace of about ~~\$40~~ **\$30** billion per month. 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. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.