Conference Call of the Federal Open Market Committee on October 16, 2013

A joint conference call of the Federal Open Market Committee and the Board of Governors of the Federal Reserve System was held on Wednesday, October 16, 2013, at 2:00 p.m. Those present were the following:

Ben Bernanke, Chairman
William C. Dudley, Vice Chairman
James Bullard
Charles L. Evans
Esther L. George
Jerome H. Powell
Sarah Bloom Raskin
Eric Rosengren
Jeremy C. Stein
Daniel K. Tarullo
Janet L. Yellen

Christine Cumming, Richard W. Fisher, Narayana Kocherlakota, and Sandra Pianalto, Alternate Members of the Federal Open Market Committee

Jeffrey M. Lacker, Dennis P. Lockhart, and John C. Williams, Presidents of the Federal Reserve Banks of Richmond, Atlanta, and San Francisco, 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
Thomas C. Baxter, Deputy General Counsel
Steven B. Kamin, Economist
David W. Wilcox, Economist

Troy Davig, Michael P. Leahy, James J. McAndrews, Daniel G. Sullivan, Geoffrey Tootell, and Christopher J. Waller, Associate Economists

Simon Potter, Manager, System Open Market Account

Robert deV. Frierson, Secretary, Office of the Secretary, Board of Governors

Michael S. Gibson, Director, Division of Banking Supervision and Regulation, Board of Governors; Louise L. Roseman, Director, Division of Reserve Bank Operations and Payment Systems, Board of Governors

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

James A. Clouse and William Nelson, Deputy Directors, Division of Monetary Affairs, Board of Governors; Matthew J. Eichner, Deputy Director, Division of Research and Statistics, Board of Governors

Jon W. Faust, Special Adviser to the Board, Office of Board Members, Board of Governors

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

Susan V. Foley, Senior Associate Director, Division of Reserve Bank Operations and Payment Systems, Board of Governors

Thomas Laubach and David E. Lebow, Associate Directors, Division of Research and Statistics, Board of Governors; Fabio M. Natalucci, Associate Director, Division of Monetary Affairs, Board of Governors

Jane E. Ihrig, Deputy Associate Director, Division of Monetary Affairs, Board of Governors

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

Penelope A. Beattie, Assistant to the Secretary, Office of the Secretary, Board of Governors

Randall A. Williams, Records Project Manager, Division of Monetary Affairs, Board of Governors

David Sapenaro, First Vice President, Federal Reserve Bank of St. Louis

David Altig, Jeff Fuhrer, Loretta J. Mester, Glenn D. Rudebusch, and Mark S. Sniderman, Executive Vice Presidents, Federal Reserve Banks of Atlanta, Boston, Philadelphia, San Francisco, and Cleveland, respectively

Ron Feldman, Craig S. Hakkio, Evan F. Koenig, Lorie K. Logan, Anthony Turcinov, John A. Weinberg, and Kei-Mu Yi, Senior Vice Presidents, Federal Reserve Banks of Minneapolis, Kansas City, Dallas, New York, Cleveland, Richmond, and Minneapolis, respectively

John Duca, Joshua L. Frost, and Sylvain Leduc, Vice Presidents, Federal Reserve Banks of Dallas, New York, and San Francisco, respectively

Satyajit Chatterjee, Senior Economic Advisor, Federal Reserve Bank of Philadelphia

Hesna Genay, Economic Advisor, Federal Reserve Bank of Chicago

Transcript of the Federal Open Market Committee Conference Call on October 16, 2013

CHAIRMAN BERNANKE. Welcome, everybody. This is a joint meeting of the Board and the FOMC, so I need a motion to close the meeting.

MS. YELLEN. So moved.

CHAIRMAN BERNANKE. Thank you. The purpose of the discussion today is to talk about debt ceiling–related issues and potential responses should the debt ceiling be breached. As you know, and Linda will explain in more detail, the Congress has made considerable progress today toward, at least for the time being, solving that problem. So, in that respect, this is very much like the August 1, 2011, meeting, where Granger causality suggests that our meeting was sufficient to solve the problem.

I did consult about whether we needed this meeting today, but first of all the Congress has not finally acted. Second, they are only putting off this issue until early February, possibly into March, with extraordinary measures. Third, we haven't discussed these issues for a couple of years. And it was also pointed out to me that the minutes of this discussion might be a potentially useful way to communicate some of our thinking to the markets in preparation for another episode, which, unfortunately, seems more likely than not to occur at some point. So the focus of the meeting today will be some briefings from staff members, and then we can take as much time as we want to talk about issues and things we need to think about for this problem if it's not resolved now or if it arises in the future.

For the purpose of the minutes, I think it is probably worth my saying that a default on U.S. Treasury securities would be a grave threat both to the economy and to the financial system. And what we are talking about here today are steps that the Federal Reserve could take to mitigate on the margin the potential effect of such a default, but, obviously, this is not a problem

that we could eliminate, by any means. I just wanted to make sure that was part of the discussion.

Unless there are any questions or preliminary comments, what I'd like to do is turn now to staff members for briefings and allow time for Q&A after each briefing. I will begin with Linda Robertson, who is feverishly trying to keep up with the latest congressional developments. Linda.

MS. ROBERTSON. Thank you, Mr. Chairman. I'll start with the current government shutdown and debt ceiling debacle, which are nearly at an end. There are many ways to account for the tremendous losses from this episode. Jobs in the private and public sector, consumer confidence, our international standing, a possible and perhaps permanent erosion in the full faith and credit standing, critical government data, and a calling into question of our systems of governance are just a few of the many losses from this self-inflicted wound. But the even more remarkable thing about this episode is that the proposed deal does not do anything whatsoever to resolve our longer-term budget or fiscal-related questions. I'm afraid that when we look back on this episode perhaps the biggest loss is that there were absolutely no lessons learned from this crisis.

So with that introduction, let me quickly cover three questions. Where are we? What are the terms of the deal? And what happens next?

In terms of the deal, it appears, if all goes to plan, that the government will be reopened in the next day or two. A budget conference of some sort will be asked to convene and to report back by December 13 to set in place the fiscal appropriation and budget parameters for 2014. It's probably worth noting that since 2010 we have had eight such budget commissions, all of which have failed to produce much of anything. In addition to that, the continuing resolution would be extended for fiscal year 2014 appropriations until January 15. This will be done at basically the current sequestration levels of $986 billion. Why January 15? It's an important date for the formulation of congressional strategy because that is when the next round of sequestration for 2014 kicks in, at about a $967 billion level. Now, that is roughly a $20 billion difference, most of which falls on defense spending. So one would ask, why all of this for $20 billion? The answer to that is this number greatly diminishes the real divide between the two chambers. And that was evidenced by the collapse of the appropriation process earlier this summer.

The Senate had been moving on a pathway that pretty much ignored sequestration for the coming year and, consequently, targeted an overall level of government spending about $90 billion above the House level. The House, while meeting the targets, had its own problems, and they, too, sort of collapsed around themselves earlier this summer because they were trying to make up for what it perceived to be

inadequate levels of spending in the defense arena by taking from all of the nondefense discretionary spending paths. For example, the IRS would have had about a 25 percent cut. Consequently, both the House and Senate paths were troubled. They got nothing done. And, consequently, it rolled up into this morass that we have had over the last several weeks. So they are now going to have another commission—"conference," if you will—that is going to look at this and report back by December 13 in order to deal with the January 15 deadlines. So that's on the government spending side.

The debt ceiling has been wrapped up into this—and we've got conflicting information at this point, so I may want to update you as the meeting goes along—but it appears that they are going to have a debt ceiling date of February 7. And because of the extraordinary measures, the way those work, and the time of year at which the Secretary of the Treasury will be exercising them, the extraordinary measures don't provide much benefit to the Treasury, extending the debt ceiling date from February 7 to probably mid-March. If this had been taking place after June 1 or September 1, those extraordinary measures would have given a lot more leeway to the Treasury Department because of the way the tools interact.

Now, the unknown, and what we are checking our BlackBerrys about, is that apparently they are still negotiating, and perhaps some of the McConnell language on the debt ceiling has made its way into this agreement. Maybe that's just for this vote or it could be a more permanent part of the debt ceiling deliberation, and that would be a big deal. Basically, what the so-called McConnell rule does is provide that the President has the authority to raise the debt ceiling, and it takes a two-thirds majority of both chambers to reject the President's action. I find it hard to believe they are going to do this on a permanent basis because that's a pretty fundamental change. But it seems that something akin to that has at least made its way at this hour into the agreement.

MR. TARULLO. I don't know that that's constitutional.

MS. ROBERTSON. Well, that's an interesting thing.

What started all of this in terms of this process were, of course, concerns about the Affordable Care Act, and it looks like the final agreement has a very small provision having to do with income-verification processes.

So what's next, and where do we find ourselves at this point in time? I anticipate that once the two chambers have legislative language, which is still evolving—that the Senate will go first. They have an apparent understanding with the senators who have been leading the Affordable Care Act efforts that those senators will not use their parliamentary tools, their process tools, to delay the votes through cloture motions. It sounds like the Senate will probably vote sometime in the early evening, then allowing the House to act perhaps into the midnight hour tonight.

The House Republicans are going to caucus at 3:00. That's always an interesting dynamic, so we'll see what happens there. But I think we're on a good trajectory—if anything about this could be called good—to get this wrapped up probably sometime this evening.

The last element here is, what do these next three fiscal moments—December 13, January 15, February 7 (that is, mid-March)—mean? Probably not a great deal, probably a bit more drama, particularly around the January 15 date when the sequestration kicks in. And it could create a dynamic for a small package to emerge where some relief is given for 2014 and '15 on the sequestration, perhaps in exchange for a few long-term entitlement provisions, but all of that is pretty unclear at this point. So, with that, I think there is more fiscal drama to come.

CHAIRMAN BERNANKE. Thank you. Any questions for Linda? [No response] Okay. I don't see any questions. Let me turn now to Simon Potter to talk a little bit about market developments over the past few days as well as anything you'd like to say, Simon, about market preparedness.

MR. POTTER. Thank you, Mr. Chairman. Concerns about the approaching debt ceiling began to affect financial markets when the government shut down on October 1 and intensified significantly early last week. The effects on the Treasury bill and repo markets have been most pronounced, and outflows from money market funds have been sizable. Yesterday, Fitch placed the U.S. triple-A credit rating on negative watch. Nonetheless, broader financial conditions have not been materially affected.

Since the start of October, yields on Treasury bills maturing between October 17 and November 14 had increased as much as 66 basis points. The most concerning development has been soft demand in recent bill auctions, some of which have cleared at unusually high spreads to pre-auction yields and had multiyear-low bid-to-cover ratios. However, today's bill auctions were relatively well received, and bill rates have declined substantially during the trading session today.

Yields on longer-term Treasury securities, including those with interest payments scheduled for the end of the month or later this year, have been relatively little changed.

Turning to secured funding markets, overnight Treasury GC repo rates had increased as much as 16 basis points since the start of the month. Term Treasury GC repo rates have also increased, with mid-November and year-end tenors rising as much as about 20 basis points. Lenders reportedly pulled back from term lending amid concerns that, without the ability to modify collateral eligibility schedules over the term of the contract, they might receive securities at risk of delayed payment. The resulting rise in term rates, along with concerns regarding the possible receipt of at-risk securities in overnight transactions, reportedly pressured overnight rates higher.

Despite increased volatility, contacts have characterized overnight GC repo markets as relatively liquid, though they have reported some deterioration in the liquidity of term markets.

Amid the rise in repo rates, the Desk's dealer repo survey shows that the amount of Treasury securities financed by dealers in overnight repo was relatively little changed through last week, but has trended up so far this week. Money market fund outflows have been sizable, and several large fund complexes and banks indicated that they had sold their holdings of Treasury securities maturing from mid-October to early November or announced they had no holdings of these securities. Many reported taking related proceeds and placing them in overnight repo or leaving cash uninvested, and available data indicate sharp increases in deposit balances at custodian banks this week.

Turning to Desk operations, we have not seen any material change in dealer pricing of Treasury coupon securities with at-risk interest payments in our purchases, the composition of collateral in securities lending transactions, or participation in the daily overnight RRP operations. However, the Desk has received numerous questions and concerns about Federal Reserve activities and market practices more broadly. The general confusion on several important operational issues appears to have weighed on confidence and possibly on industry preparedness and contingency planning. The most frequent questions have related to the eligibility of securities with delayed payments in open market operations and at the discount window.

I would be happy to take any questions.

CHAIRMAN BERNANKE. Simon, in the event of a temporary default, what would you categorize as the most important risks to financial stability? You mentioned money market funds, repo.

MR. POTTER. In the case of delayed payment, the most crucial risk is that the Treasury loses market access. In most of the assumptions that we are working under, the Treasury would still have market access. So in that sense the principal payments would be rolling over. I guess I'm not answering the right question. In the case of an actual default, the Treasury would have issues there. The scenario we've been thinking about is that the risk of a delayed payment gets very high, and then the Treasury might lose market access. That causes problems for them in rolling over the large amount of debt, and it's the principal payments that are most sizable.

CHAIRMAN BERNANKE. Thank you. President Lacker.

MR. LACKER. I'm not sure what "losing market access" means. Do you mean they wouldn't like the price they'd get?

MR. POTTER. The most obvious would be that they would fail to cover the auction amount. I would view that as losing market access. Pricing is clearly one concern. We saw quite adverse pricing, relative to where bills were before the auctions, last week. I think that's something that we could absorb, but it would be the lack of coverage of the auction that would be the problem. And that would mean that they wouldn't be able to roll over the principal.

CHAIRMAN BERNANKE. Thank you. Other questions for Simon? [No response] Okay. Thank you. Our next briefer is Susan Foley, who is going to talk about planning for handling government payments.

> MS. FOLEY. Thank you. Louise Roseman briefed the Committee in 2011 on three principles that underlie the procedures to handle government payments during a debt ceiling impasse. Those principles largely continue to apply today based on current discussions with Treasury staff. The first one is that principal and interest payments on Treasury securities would continue to be made on time. The second principle is that the Treasury would decide each day whether to make or delay other government payments. The third principle is that any payments made would settle as usual.
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> In terms of principal and interest payments, principal payments on maturing Treasury securities would be funded by Treasury auctions that roll over the maturing securities into new issues, so the new issues would fund the redemption of the maturing securities. Interest would be paid based on available cash in the Treasury general account. To make a coupon payment, however, the Treasury may need to delay or hold back making other government payments, even if it had sufficient balances on a given day, in order to accumulate sufficient funds to pay a future large coupon payment.
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> While not expected based on current discussions, if the Treasury decided not to prioritize principal and interest payments and had insufficient balances to redeem maturing securities, it would instruct the Reserve Banks to roll forward in one-day increments the maturity date of maturing securities. The securities would then continue to be transferable on the Fedwire® Securities system. Interest payments would also be held within the system until the Treasury authorized their release. When the Treasury could make its payments, it would pay principal and interest in a manner that market participants have indicated would be the least disruptive to their operations.

Each evening, the Treasury will make a decision whether to release or delay payments based on balance projections for the next day. The Reserve Banks have worked closely with the Treasury staff to implement technological and operational controls to ensure that government payments would not be made until the Treasury has authorized their release each evening. Such procedures exist for payment systems, such as ACH and Fedwire Funds, as well as other lines of business where the Reserve Banks serve as fiscal agents. The Reserve Banks have been in close communication with the Treasury staff regarding all of the operational details.

Payments that are made would be settled as usual, and financial institutions and consumers should have confidence that payments made would not be rescinded. Payments made over the ACH, however, would be originated for overnight processing rather than the normal several days before settlement. This operational change could mean that some consumers would receive benefit payments or payroll payments somewhat later in the day on the settlement date, rather than first thing in the morning (or even the day before) as is usual industry practice. The Treasury is considering providing information to the public later this week regarding how the debt ceiling would affect government payments (assuming the Congress does not act as expected), and we understand that the Treasury's communications may address many of these issues.

I'm happy to take some questions.

CHAIRMAN BERNANKE. Any questions? President Fisher.

MR. FISHER. Mr. Chairman, as I understand it, the period we're in now is one of the periods when, given the way the tax income flows are, we are most dependent for outflows on the issuance of debt. I think the ratio is 65 to 35. Does that change in this new period, this new time frame that now runs through February? In other words, my understanding was that we were most vulnerable during this period to the dependence on debt issuance. Is there a different dynamic at the beginning of the year than there was at this time of year? Do we know?

VICE CHAIRMAN DUDLEY. You mean the composition of receipts versus outlays?

MR. FISHER. Yes, 65 percent of all outlays. Thirty-five percent were going to be covered basically by borrowing needs rather than by tax input. So I'm curious as to the difference of the dynamics on that front for the beginning of the year. Do we know?

MS. IHRIG. I don't believe so. It's tax season in the March–April time frame when we see the big receipts. But for a February time frame, I don't think so.

VICE CHAIRMAN DUDLEY. The refunds go out early, and the receipts tend to come in late. So I would imagine that February–March is probably pretty problematic.

MR. FISHER. So they probably picked this period for the same reason that we have now. That's the point. Nothing changes on that front.

CHAIRMAN BERNANKE. Other questions? [No response] Susan, what is your sense of the understanding of banks and the public about how this is going to work? What are the main weak points at this juncture in terms of their understanding of how payments would operate?

MS. FOLEY. I think that there are assumptions being made by market participants. I do know that there are some who are making scenarios that say, "Okay, if it happens in terms of prioritizing principal and interest, this is what we would do. If there is not going to be prioritization of principal and interest, here are some other assumptions that are made." I think if you are in a situation where principal and interest are not prioritized, there is a big question of how a lot of institutions would handle that situation in terms of their contingency planning. That's a big open question. So I think there's a lot of uncertainty in the market.

CHAIRMAN BERNANKE. Thank you. Linda gave me a note here saying that the McConnell debt ceiling rule will apply once to the February 7 date. Does that mean that February 7 is not in fact a concern at this point?

MS. ROBERTSON. No. It means it will apply for this vote to get to February 7. So when they hit the new "X" date in March, it will be a real vote, a real moment.

CHAIRMAN BERNANKE. I see. So they are applying the McConnell rule at this instance so that they can raise the debt ceiling without voting for it.

MS. ROBERTSON. Without having to, theoretically, vote for it.

CHAIRMAN BERNANKE. But they have to vote for the rule.

MR. POWELL. But then it's up to the President whether he acts or not.

CHAIRMAN BERNANKE. Okay.

MS. ROBERTSON. The only good news is that they sort of dipped their toe in the water of a disapproval method.

CHAIRMAN BERNANKE. All right. Well, at least it's a step in the right direction, I guess.

Okay. Thank you, Susan. If there are no other questions, let me turn to Mike Gibson to talk about supervision and other bank issues.

> MR. GIBSON. I'd just like to talk briefly about two things: what we are prepared to do in the supervision area and a little bit about what we are seeing from institutions we supervise.
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> In terms of what we are prepared to do, back in 2011, in the previous debt ceiling episode, we developed some draft interagency guidance in the form of a press release, and we have refreshed that guidance and talked with the other banking agencies, and we have agreed that we would be ready to move forward with it if and when needed.
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> The guidance covers three issues. First, it makes it clear that the supervisory and regulatory treatment of Treasury securities, other securities issued or guaranteed by the U.S. government or its agencies, and U.S. GSEs, for which a payment has been missed—these will not have any change in their risk-based capital treatment. Their risk weights don't change. They will not be adversely classified or criticized by examiners, and their treatment under other regulations, such as Regulation W, would not be affected. Second, the guidance says that potential balance sheet growth from unusually large deposit inflows or draws on existing lines of credit may result in a temporary decline in regulatory capital ratios, and that institutions that experience such a decline should contact their primary supervisor to discuss how to address the situation, and that supervisors would consider whether such an institution is still in fundamentally sound condition, even if there is a temporary drop in its regulatory capital ratio. And, third, the guidance would encourage institutions to work with their affected customers and use the flexibility that already exists to work with borrowers

who may experience temporary financial stress. We have discussed with the other agencies the draft guidance, and we would be ready to issue that if and when needed.

On what we are seeing from institutions we supervise, we have already seen some signs of defensive positioning. As Simon already noted, we have seen some increase in bank deposits and corresponding reductions in Treasury positions, although the amounts are still small so far. We have seen some selling of U.S. Treasury securities that mature in the so-called red-zone period when the potential default could happen. Of course, on the other side, others have been buying those securities who are apparently willing to hold them. And we have seen some substitution of collateral away from Treasuries that pay a coupon or mature in the so-called red zone and replacement of them with other Treasury securities. We have seen some banking organizations activate their contingency plans that they already have in existence. We have seen less availability of term repo and term commercial paper. And if conditions continued in the direction of a default, we would expect that that could lead some firms that have short-term refinancing needs to come under pressure, although we haven't seen that happening yet. I'll stop there.

CHAIRMAN BERNANKE. This is basically the same guidance that we were planning in 2011.

MR. GIBSON. Yes. It's the same.

CHAIRMAN BERNANKE. Okay. Any questions for Mike? Governor.

MR. TARULLO. Mike, in 2011, as I recall, at least one or two banks really did start to scrape up against the leverage ratio. Is that not happening this time around? They have seen some surges of deposits, but not so much that they are getting toward the leverage-ratio limit?

MR. GIBSON. Not yet. And we have been tracking the headroom that the different banks have. As Simon mentioned, the custody banks are the ones where it's the most relevant, and so far, not yet.

MR. TARULLO. Yes, that's what happened last time. Okay. Thanks.

CHAIRMAN BERNANKE. Is there any discussion of negative interest rates on deposits? Bank of New York did that last time.

MR. GIBSON. There has been some discussion of "we might have to charge a fee if we get excessive deposit inflows."

CHAIRMAN BERNANKE. Governor Powell.

MR. POWELL. Was there a discussion last time about, or do you have thinking on, when it would be appropriate to issue this? Is it post-default? Is it pre-default? What's the thinking?

MR. GIBSON. I think, generally, we have not been issuing anything in advance of an event actually occurring. I think our posture had been consistent with other parts of the Fed that had been not going out with statements. So I don't know exactly the answer to your question, but I think we are intending to wait.

CHAIRMAN BERNANKE. It's a very complicated question. In this particular instance, the first, most likely, contingency would be that the Treasury would pay principal and interest, and so it wouldn't become directly relevant. But even in the case where it was not doing that, the first risk of not paying was after November 1. So the question of, "When is the appropriate time?" is a difficult one, and I think the best thing we could probably do, if possible, would be to try to coordinate with the Treasury and the announcements that it makes. Obviously, we haven't gotten to that point.

MR. POWELL. To amplify that: If the real risk is of a failed auction, then saying something before it happens actually plays into whether it happens or not. It's worth thinking about that.

CHAIRMAN BERNANKE. That's right. Vice Chairman Dudley.

VICE CHAIRMAN DUDLEY. I was just going to make the point that Governor Powell made, that the presumption that you could get to November 1 is predicated on two assumptions: one, that the Treasury is going to run down that cash balance to a much lower number, and, two, that the auctions that are taking place over that period actually do occur and do settle. So there is

a risk of something going wrong even if you have more runway than you think. And I think we would want to reflect on that a little bit.

CHAIRMAN BERNANKE. I think that's right. As Simon said, the rollovers are perhaps the most serious risk point because it's very hard to predict what would happen there.

VICE CHAIRMAN DUDLEY. We had the Treasury bill auction—what, last week?—where some of the dealers did not bid an amount equal to their market share of primary dealership. They did not show up to their pro rata share. If two dealers wouldn't show up to their pro rata share, there's always a risk that more wouldn't. And they could actually potentially have a failed auction.

CHAIRMAN BERNANKE. That's fair. Any other questions for Mike? [No response] Seeing none, let me ask Bill English—Bill, are you going to present the joint memo?

MR. ENGLISH. Yes.

CHAIRMAN BERNANKE. We come now to some issues that are FOMC responsibilities specifically, and also some Board responsibilities.

> MR. ENGLISH. With a deal on the debt limit still not assured, I thought I would summarize the possible actions that Simon and I noted in our memo that was distributed Friday. I should emphasize that while the Federal Reserve does not want to get entangled in fiscal policy decisions, a technical default triggered by a lack of government action to raise the debt limit—or even the imminent risk of such a default—could create very substantial market strains that might have significant consequences for financial stability and our dual mandate. In such circumstances, the Committee might well want to take steps to address the market strains and so help support economic activity and keep inflation near its longer-term objective. That being said, the Committee would presumably want to avoid the impression that the Federal Reserve was effectively financing government spending.
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> In our memo, we divided the possible actions that the Federal Reserve could take into three groups. The first group included five actions that fall within the current authorization of the Desk and the authority of the Board and the Reserve Banks: outright purchases, securities lending, rollovers, repos to keep the federal funds rate in its target range, and discount window lending. These actions were discussed at the time of the debt limit scare in August 2011, and at that time Committee participants generally thought their use would be appropriate, so long as it was clear that Treasury

securities with delayed principal or interest payments, while still accepted in our operations on the usual terms, would be valued at their potentially reduced market prices. This basic conceptual approach seems appropriate so long as it seems certain that delayed interest and principal payments will be made in full and in relatively short order. An interesting question is at what point it would be appropriate to tell the public of the Federal Reserve's planned procedures, perhaps along with information on Reserve Bank and payment system operations; if it were possible, the Committee might prefer to wait until the Treasury was providing information on its intentions. That said, market participants have expressed considerable interest in how we are likely to treat securities with delayed payments. It is also worth noting that operational issues could limit the effectiveness of some of these actions, particularly securities lending operations.

The second group of actions we discussed in our memo addressed two different possible strains in money markets: Action 6 involved conducting reverse repurchase operations, under which we would provide unblemished Treasury collateral to the market; such a step might be appropriate if heavy demand for such Treasury securities was pushing RP rates below zero. Action 7 involved conducting repurchase operations—that is, providing funding to dealers—which might be appropriate if disruptions in the repo market drove repo rates and perhaps other money market rates up substantially even if the federal funds rate was relatively little affected. As Simon noted, some market developments over the past week or so point toward the second scenario.

With the federal funds rate little changed over the past week, a natural question is whether the repo rate has idiosyncratically diverged from the overall constellation of money market rates, or whether it is a symptom of broader dislocations in money markets that could interfere with the transmission of the Committee's intended monetary policy stance. If the Committee thought that conditions in the repo market were likely to deteriorate further, and would be associated with a tightening in broader financial conditions that would have adverse consequences for the overall economy, it could take action 7—for example, by directing the Desk to engage in repo operations sufficient to maintain the overnight Treasury general collateral repo rate in the same 0 to 25 basis point range as the federal funds rate.

In the third group of actions, the Committee could, if it chose, engage in either outright purchases (action 8) or CUSIP swaps (action 9). Such operations could be warranted if the Committee determined that there was a need to increase its support of market functioning by removing securities with delayed payments (or those seen as likely to have delayed payments) from the market—for example, if operational problems were impeding market functioning. Outright purchases would increase the size of the Federal Reserve's balance sheet and the supply of reserve balances. CUSIP swaps would not. However, note that in the case of CUSIP swaps, the Desk would likely be selling securities with longer average maturities than those of the securities it would be purchasing—reducing the effects of SOMA holdings on longer-term interest rates. In either case, such actions would insert the Federal Reserve into

a very strained political situation and could raise questions about its independence from Treasury debt management issues.

I thought I'd end by reminding you that we circulated suggested questions for your discussion on Friday. Simon, do you have anything to add before we take questions?

MR. POTTER. Yes. I would like to briefly highlight some of the operational issues the Desk would encounter with the possible policy actions and delayed-payment scenarios. Some of these issues are also faced by market participants in their own transactions.

First, in order for the Desk to accept Treasury securities with delayed principal payments in operations, the Treasury would need to authorize the New York Fed to extend on Fedwire the maturity date of any security maturing the next day—by 10:00 p.m. at the very latest.

Second, the Desk's current Treasury LSAP purchases are not likely to substantially mitigate market disruptions in delayed-payment scenarios. As a simple example, we have about $22 billion left to purchase in October, and even if we only purchased securities that will pay a coupon on October 31 during eligible operations for those securities, it would amount to about $9 billion of the $700 billion in affected securities.

Third, while the Desk's securities lending operation would be one way for market participants to borrow unaffected securities, the legal agreements and some of the processing infrastructure around these transactions make them less effective in delayed-payment scenarios. In particular, the timing of operations will not allow dealers to finance their borrowed securities in the triparty repo market.

Fourth, repo operations could provide cash against affected securities, providing a direct response to funding pressures. However, the current structure of triparty settlement practices for any cash lender, including the Desk, may result in large intraday credit exposures for securities that mature during the course of the repo term. That finishes the operational issues I wanted to highlight.

CHAIRMAN BERNANKE. Thank you very much. Are there any questions for Bill or Simon? Governor Tarullo.

MR. TARULLO. Thank you, Mr. Chairman. Bill, this question may be for both you and Bill Nelson. How long would it take us to ramp up a TAF 2.0?

MR. ENGLISH. TAF would be, operationally, perhaps in New York. I'm not sure how long that would take. Simon, do you have a sense?

CHAIRMAN BERNANKE. The thrust of your question is if we can't lend to the discount window because of stigma, we need—

MR. TARULLO. Yes. I've gotten very mixed views from bankers as to whether they thought stigma would attach. But the fact that at least some think it would makes me wonder what would happen if, the day after we made this announcement and there was a liquidity squeeze in the market, guys don't want to come to the window.

MR. ENGLISH. I don't have a good answer.

MR. POTTER. I think Lorie is telling me maybe about two weeks, and I think she means two weeks, not 10 business days. Is that right? Yes.

VICE CHAIRMAN DUDLEY. And the TAF also has the flexibility that you're bidding the date for settlement forward. So it doesn't really solve your current liquidity need. I'm not sure it's that well suited for this particular set of problems.

MR. TARULLO. I'm sorry. What's that again, Bill?

VICE CHAIRMAN DUDLEY. The auction takes place on day T, but then doesn't settle for several days, that's how the original TAF was set up. So you have that delay between the day when you bid and then you find out whether you actually won in the auction, and then you get the money several days later. You can't solve your term liquidity through the TAF.

MR. TARULLO. Yes. That was part of the reason I was asking the question. First, to learn how long it would take actually to get it up as it was before, but, second, whether it would have to be reconceived in any fashion in order to be effective in current circumstances. It sounds like the answer is "yes."

MR. ENGLISH. Right, we'd have to move up the settlement, though we thought that the delay was one of the reasons why it helped with the stigma, because it was clear you didn't need

the cash immediately, and it was an auction, so you might not even get it. Those were attractive features in dealing with stigma. They are potentially unattractive features here.

CHAIRMAN BERNANKE. President Lockhart.

MR. LOCKHART. Thank you, Mr. Chairman. I have two questions for either Bill or Simon. First, as regards numbers 8 and 9, where we would actually be removing securities from the market, is there an interpretation that we would be forbearing in some way? Is there an implicit forbearance associated with the Fed's taking securities out of the markets that have due dates in the coming days? First question.

MR. ENGLISH. I don't think so, or at least not necessarily so. We'd be running operations to purchase securities. We'd go out to purchase particularly CUSIPs. We'd be taking competitive bids. We'd be doing a certain size of purchase, and the competitive operation would yield, presumably, market prices and revive those market prices. So I don't think that there's necessarily a problem. If we bought them all, or something like that, then there might be an issue. But there are limits on how large a fraction of an outstanding issue the Desk will buy. Simon, did you have any other thoughts?

MR. POTTER. So that would be 70 percent. I think that's a very large number relative to the securities we're talking about. If I understand President Lockhart, it's the Fed's intervening when there are delayed payments on U.S. Treasuries and taking those out of the market that has a strange appearance. I think what Bill English was trying to say is that we would do the operation using market prices, and a lot of us think that the operational difficulties of dealing with delayed payments are what we are trying to deal with then, not providing forbearance to the U.S. government, because it would be at market prices.

MR. LOCKHART. In terms of the independence or perception-of-independence question—again, this is a little bit more of an atmospheric question—do you see a bright line between coupon payments and principal payments? That is, for those securities that involve a principal payment due, is there likely to be a perception that that's materially a different step than coupon payments?

MR. ENGLISH. I'm not sure there would be a big distinction there. In the case of bills, it's principal and interest. There are strips where you'd be picking up just coupon payments. I think the two would be viewed broadly similarly. But again, Simon, do you have a different assessment?

MR. POTTER. I would agree with what you said, Bill. The slight difference that I think President Lockhart might be indicating is that we are basically asserting a confidence that we'll be paid back the principal, which requires the Treasury to be well over at auction, because those are much larger amounts than the coupon payments.

CHAIRMAN BERNANKE. Correct me if I'm wrong here—we're required to buy in the market. Obviously, we can't buy directly from the Treasury. So our decision to buy, in some sense, if it's helping anybody, it's helping the private counterparties, not the U.S. government, except that there is an indirect price effect on their Treasuries. If it's monetization, it's a very indirect monetization.

MR. ENGLISH. The assistance it's providing would be by contributing to better market functioning in the Treasury market, and that would presumably improve Treasury pricing.

VICE CHAIRMAN DUDLEY. Presumably it would make it easier to continue to auction securities because you'd know that anything that defaulted would subsequently have a place to go.

CHAIRMAN BERNANKE. Right. Yes, it's pretty indirect help. Well, except there's the practical issue that the amounts of defaults could swamp our ability to do that, and so I guess there wouldn't be any implied guarantee. President Fisher, do you have a question?

MR. FISHER. Yes. I was going to basically make the same point. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Okay. Any other questions for Bill or Simon? While you're thinking, I will report one more comment from Linda Robertson. Apparently, according to her information, the debt ceiling disapproval vote, where there will be a vote to see if there are two-thirds of either house to disapprove the President's decision to raise the debt ceiling, will take place possibly next week, implying that there may be a little bit of uncertainty between now and when that vote takes place. That being said, I presume that when the President raises the debt ceiling, borrowing will be available immediately, so that there won't be any delay in getting access back to the market. Any other questions?

MS. RASKIN. I have one question.

CHAIRMAN BERNANKE. Governor Raskin.

MS. RASKIN. Yes, for Bill, and that has to do with the position we took in 2011 regarding money market funds, where my sense is that we weren't particularly supportive of a new liquidity facility. Has anything changed in terms of your assessment on the feasibility or advisability of a new liquidity facility in terms of money market fund stability?

MR. ENGLISH. Not really, no. I think in the discussion in 2011 the Committee expressed no particular interest in such a program. There are issues that our money fund experts have raised about whether it even helps to lend to money funds if they have losses, or if you are buying things out of them. That may just be concentrating the losses on the remaining money

fund investors who haven't yet fled, and thereby giving them an even greater incentive to then flee the money fund. So there are real questions about whether it helps, and there was a lot of discomfort, I think, on the Committee with providing assistance to money funds, where we think they are, in some sense, just a bad idea. If there were problems with money funds, the way that the Committee could address that is by potentially buying bills or doing RPs to provide some liquidity and to provide a way for the money funds to sell their holdings rapidly in a market that might not be very liquid. That would work as well as, or better, perhaps, than a lending program specifically for money funds.

CHAIRMAN BERNANKE. Any other questions? [No response] If not, let me proceed as follows. The questions that were circulated basically asked for your views on three subsets of the questions that Bill and Simon raised. I'd like to proceed in that way, one group at a time.

If we could start with the first five, those were purchases of defaulted Treasuries as part of normal LSAPs; rollovers of maturing securities, which is not relevant because we don't have any significant number of rollovers; acceptance of securities with delayed coupon payments as collateral in securities lending activity; injection of reserves to address the situation where the federal funds rate went above the 25 basis point top of the range set by the FOMC, with delayed-payment Treasuries eligible as collateral; and, finally, discount window lending against delayed-payment or impaired Treasuries. All of these actions would be at market prices. We have, essentially, a process by which the auctions are set in a way that sets a price for each CUSIP separately, so that we would be able to differentiate between securities that are similar in other respects but differ in whether they have had a delayed coupon or not.

Those are the five that were very broadly supported in 2011. I would add to that that we still, of course, have the currency swap agreements with our five counterparties, and that is

another action that could become relevant that has been authorized by the FOMC. In particular, the Desk already has the flexibility to change schedules or terms of currency swap arrangements. So if there was a need to auction dollars on short notice, for example, we have the authority to do that currently, although of course we would want to keep the FOMC informed about any such developments. Let me throw that into the first five, and let me ask if there's anyone who would like to address any of these or has any particular concerns about these potential policy actions. President Kocherlakota.

MR. KOCHERLAKOTA. Thank you, Mr. Chairman. It's not so much about the actions themselves, but about the communication issue that others have already touched on. I'm a little concerned about the prospect of simply letting our communications take a backseat to whatever the Treasury happens to decide. The Treasury's incentives might well be shaped by incentives that are different from our own; our own incentives, of course, are to promote price stability and promote maximum employment. I would encourage us to be using our own mandates as the governing principles under which we think about how to communicate. What I can conclude from that is that, once we had a breach, we should start communicating pretty rapidly about what our intentions are, in terms of how we would be treating, say, defaulted-upon Treasury securities, the discount window. I understand why we sort of took a backseat to the Treasury leading up to a breach, but I think once a breach takes place we really should start to drive our own bus, so to speak, in terms of communication so as to best achieve our own objectives.

CHAIRMAN BERNANKE. I think that is reasonable and a pretty conservative approach—to communicate once there is a breach. I guess the question remains, what kind of communication we should do even prior to a breach, because some of the operational issues, for example, take longer to resolve.

MR. KOCHERLAKOTA. Speaking for myself, I would have been a little more aggressive with communication even leading up to the date of October 17, because I think that would be better designed to safeguard the economy against the kinds of financial dislocations that we’re concerned about having downward pressures on prices and downward pressures on employment in the near term.

CHAIRMAN BERNANKE. Any other comments? I see Vice Chairman Dudley first, and then President Fisher.

VICE CHAIRMAN DUDLEY. Assuming all of this gets resolved in a smooth way, which is our hope, I think it would be very useful to get out, now, 1 to 5. If we do agree on 1 to 5, we should get that out in the marketplace. I think we saw it with the TPMG—the fact that the minutes were out there was actually helpful to get it out in the debate. Now, I know that the Treasury never wants to get this out in the middle of the situation because they view that as making it more likely that you won’t get to agreement on the debt limit, but once we get it out once, it will be out there forever, and I think that would be actually very reassuring. I think that if we can find some low-risk medium, perhaps the minutes to this meeting, to get out the idea that we agree on 1 to 5 in these kinds of situations would be very helpful.

CHAIRMAN BERNANKE. President Fisher.

MR. FISHER. I agree with Bill. We were just both mentioning that we spoke in Mexico yesterday, the day before I spoke here. You get questions, and all you can say is, “We will take every initiative feasible to maintain market stability.” Especially if we get through this little exercise that Linda described, there might be a space in time where we could be proactive, in the right kind of way, to make sure that we, the central bank, have the capacity to take certain actions and will do so. The risk is that it gets interpreted politically, so it’s best if it’s a period of

calm. The question is how we get it out there, and this is what needs to be considered. The idea of releasing minutes of our meeting, when we hold minutes back for other meetings—I'm not sure, Mr. Chairman, if that's the right idea. It may be either a technical communication from the Desk or a statement by you. But I do think it is wise to communicate it ex ante here, particularly if we get through this little exercise that Linda just mentioned, and we have some time to do it. Thank you.

CHAIRMAN BERNANKE. Thank you. Governor Yellen.

MS. YELLEN. I was just going to mention that it seemed to me you mentioned at the outset that the minutes of this meeting would be a good opportunity. It looks like we're going to get through this episode. The minutes would come out at a normal time. If we have a reasonably detailed discussion indicating that the Committee supports 1 to 5 and that's articulated clearly in the minutes of this meeting, while it doesn't bind a future Committee in terms of what they'll do in some future crisis, it certainly could be pointed to and would be suggestive that the Committee has considered this and would regard this as normal. And depending on what we say on the next set of issues, it might also be helpful for the minutes to provide at least some indication of the Committee's inclination, say, on RPs.

MR. FISHER. Actually, on second thought, Mr. Chairman, I just realized that we're talking about a three-week time interval. So that gives us space. I think the important thing is to have space.

CHAIRMAN BERNANKE. Actually, more than three weeks because it would come out with the minutes of the next FOMC meeting.

MS. SMITH. November 20.

CHAIRMAN BERNANKE. November 20, I'm informed.

MR. FISHER. Well, that gives us even more space. That's good.

CHAIRMAN BERNANKE. Governor Powell.

MR. POWELL. I'm not totally resolved. I'm completely fine with 1 through 5 and more than that. Just let me say that.

MR. TARULLO. You're fine as a policy matter?

MR. POWELL. As a policy matter, yes. I wonder, on a number of grounds, whether it is wise for us to be disclosing the things we will and won't do right now, a month and a half before the next debt ceiling crisis. It seems to me you could argue—and I'd like to hear, obviously, what others think—that the very thought that we actually countenance a debt default would be destabilizing. You can also argue that—here is your game plan—if it actually looks like a good game plan, then it will make it less likely that the Congress will feel enough pressure to actually raise the ceiling. I do think that the right time to be making disclosures is before a default; you don't wait until after a default. I think you want to have a plan before there's a failed auction, and to be saying we're here to provide liquidity and assure the orderly function of the short-term money markets. And that, ideally, is enough to avoid a default. The real risk is of a failed auction, is the loss of market access at any price. It's not that I want to wait until there is a default. I think that's the wrong thing. But I wonder whether just dropping this in the minutes on November 20 is wise.

CHAIRMAN BERNANKE. It's just very difficult. There is no perfect time. If you do it right after we breach the limit, which would be another natural time, then that would potentially send a signal that we are anticipating a default.

MR. POWELL. Let me just make one last point, which is that we're doing two things here. We're acting as the Treasury's agent, and we're also concerned about the dual mandate.

We obviously have an independent role to play, and I think that when financial stability threatens our execution of the dual mandate, at that time we should communicate as we see fit. I see that as coming later, but I guess that's a good question.

CHAIRMAN BERNANKE. Governor Tarullo.

MR. TARULLO. Thank you, Mr. Chairman. I have thoughts along the same lines as Jay, but maybe slightly different or perhaps complementary. That is, my observation in the past has been that in periods where there is a lot of financial turmoil for one reason or another, somewhat, to me, initially, counterintuitively, some of the most effective statements, whether from the Treasury secretary or from the Chairman of the Fed, have been very pithy—one or two sentences that state the willingness of the government or the central bank essentially to do what it takes to maintain financial stability. I have a little bit of concern that if we intentionally put out the list of things that we've got unanimity for, and then on things where we don't have unanimity—and maybe since we're not under the gun right now there's not as much pressure and the circumstances aren't upon us, so we want to keep thinking about 6 or 7 or 8 or 9, and maybe some other measures—that we might inadvertently communicate to markets that we could do 1 through 5 and maybe that's about it. In that case the game plan might be read by some market actors as insufficient to deal with some of the concerns that they have, and then in an odd and almost paradoxical fashion be unhelpful as opposed to helpful. I'm not asserting it. I'm asking the question as to whether that is a possibility, in which case we might want to reserve the option, when we get to the time—whether it's before the default, right around the default, whenever it is—of a pithy statement from the Chairman with the backing of the Committee that basically says something along the lines that Jay said a moment ago.

CHAIRMAN BERNANKE. Those pithy statements are usually in the form of the statement "The Federal Reserve stands ready to provide liquidity as needed." We could do something like that in the sense that it expresses a general willingness to address these issues by unstinting provision of liquidity without necessarily listing each individual item; that would be perhaps another way forward.

I have Vice Chairman Dudley and President Fisher again.

VICE CHAIRMAN DUDLEY. I take Governor Tarullo's point, but you could list the things that you are willing to do without saying that that's exclusive. I mean, it could be "plus whatever additional measures are necessary consistent with the Federal Reserve's financial stability mandate." It's being specific about certain things, like that we're willing to take defaulted securities at the discount window, which is quite different than saying what you would do in terms of open market operations—for example, in terms of reverse repos. I think you can be specific on certain technical issues, and you can be general on broader open market intervention issues. I think you can reconcile those two views.

MR. FISHER. Mr. Chairman, if we agreed on the first five, I would include that. But, obviously, you'd leave the door open that we will take other initiatives. What I worry about is, with each passing incident like this, markets discount things well ahead of time. We don't know when they're beginning to discount, or sniff out—and I would defer to the Desk here, but my sense is that they sniff things out a little bit more quickly. And if we wait until just before default or default, already markets and market operators are beginning to position themselves. So I think we should show that we have discussed the matter, have agreement on certain tools we can use, but that we haven't shut the door to taking other initiatives to maintain market stability. The market is moving faster with every passing day, and I don't think we have the luxury to

wait. I would like, in a market-operation sense, to at least take advantage of a period here where there seems to be a little bit of an opening to make it clear: "We've thought this stuff through. We have some tools. There are other tools we can apply," without stating the specifics of those tools. But I would defer to Simon on that.

CHAIRMAN BERNANKE. President Kocherlakota.

MR. KOCHERLAKOTA. Thank you, Mr. Chairman. President Fisher pretty eloquently already said a lot of what I wanted to say. The one thing I would add to what he said is that Governor Powell pointed to the fact that we do serve as the Treasury's fiscal agent, and I think we should draw a pretty bright line between those activities in which we're serving as the Treasury's fiscal agent—and we should not be communicating ahead of the gun without the Treasury's say-so about how we would respond along those operational issues, the issues that Susan talked through. I think 1 to 5, as far as I'm reading them, don't come into that role at all. So I would be pretty comfortable with, if we reach unanimity about 1 to 5, our reporting that unanimity in the minutes, and absolutely leaving the door open that the Federal Reserve is a very inventive, imaginative organization. We have other ways to provide support if needed.

CHAIRMAN BERNANKE. I absolutely agree that we have to make those decisions based on our own calculations and not based on the Treasury's views. But they are difficult calculations, and we don't want to understate the complexity of trying to decide exactly when the right time is to make these kinds of statements. President Lacker.

MR. LACKER. Thank you, Mr. Chairman. I'd like to follow up on the point that I think President Lockhart was driving toward, and this was sparked in my mind reading the memo and coming across the phrase "prevailing market prices" so many times. There are a number of things in 1 to 5 where we're doing things at prevailing market prices, and at issue are particular

CUSIPs where the payment has been delayed or defaulted in some way or another. The first question that arises in my mind is whether our actions—our willingness to take them in RPs, or whatever—would affect prevailing market prices. Now, if it wouldn't, because the market for those things is so large and ours is tiny, I'm wondering why we would do it. And if it would, then I think there is this issue.

There are a lot of different cases to piece out here, and I started thinking about this in terms of what principles I'd start with, with this whole endeavor, to guide our choices. And one of them is that we really ought to be ensuring monetary stability, in the sense that we're accommodating significant shifts in the demand for money, like we did on 9/11, where there was a $100 billion shift in the demand for money in one day, and we accommodated it.

But then I think—and Bill English mentioned this in his presentation and remarks—preserving the measure of independence we won in 1951, and I mean specifically avoiding the subservience of our monetary policy objectives to the Treasury's financing needs, is important, too. And I'm wondering whether intervening in a way that affects the relative price of the defaulted CUSIPs would risk raising the appearance of our essentially buffering private-sector market participants from the effects of the Treasury's default. And while that's not forbearance that benefits the Treasury directly, it does, to some extent, insulate markets from the effect of its action in a way that implicates the kind of issues that came up in '51 and that Bill alluded to. So I'm wondering, is there something in between our intervening in the way that 1 to 5 describe in the CUSIPs that are defaulted and our staying away from those CUSIPs altogether? If our actions won't affect prevailing market prices, and if we stay away that won't affect prevailing market prices, then I'm not sure what the value of our intervening in those CUSIPs is.

CHAIRMAN BERNANKE. Well, that's a complicated question. I think, though, that it's a far stretch to put an Arrow-Debreu kind of market structure on this, because at a basic operational level, these defaulted Treasuries can't be handled very well, and then there are legal questions, like how we treat them as capital, and so on. I think we learned from the crisis that there are externalities associated with massive financial disruption, and here is a case where operational and other considerations—legal considerations, transactions costs—create problems for the market dealing with these securities. Our ability to provide liquidity against these less liquid securities seems like part of our general financial stability function. But I'd be the first to admit that it's not an easy analysis.

MR. LACKER. If I could, Mr. Chairman, follow up. I wasn't basing this on the assumptions of an Arrow-Debreu environment. I was just reacting to the staff who seem to be asserting that our actions with regard to particular CUSIPs wouldn't affect the prevailing market price. There could be externalities, there could be operational issues that make that valuable, but that is not really the case that the staff made on this. It was that it's innocuous with respect to the market value of these things, and so I'm sort of puzzled about the rationale to intervene and whether there is some other way to go here with respect to these CUSIPs.

CHAIRMAN BERNANKE. Governor Stein.

MR. STEIN. I just wanted to reiterate something that I thought I heard Bill English say. I don't think the claim is that it is not affecting market prices. It's that we are effectively taking operational risk out of the system rather than taking default risk out of the system. And I think if we're doing that, and that's the overarching principle, in some sense that's monetary policy, right? These things are functioning less well as a transactions medium because of the operational risk, and we replace them, in some sense, with something that functions better,

without absorbing default risk from the Treasury. I think that's the case. I didn't hear Bill making a case that it was not going to affect market prices. If it didn't affect some kind of market prices, it would be an irrelevant proposition in the first place.

MR. ENGLISH. I think that's right. But our point was, in part, that in our operations, we would want to, for example, run competitive auctions and make our purchases and not set a price or try to fix the price of a security with a deferred payment equal to those of similar securities without a deferred payment, and so on. But the open market operations, presumably because of the operational problems that some people would be facing, would affect the price of these securities.

CHAIRMAN BERNANKE. Okay. Any other comments on 1 through 5? President Kocherlakota.

MR. KOCHERLAKOTA. Yes, I will just follow up briefly on what President Lacker said, because I think he raises some very good points that I have certainly been troubled by. I think it is important that when we are thinking through 1 through 5, one of the backdrops for that —at least for me—is that we are thinking about this as being a relatively short-term event where the Treasury will eventually make us whole. If we buy a defaulted-upon security, we expect that within a relatively short period of time, the Treasury will actually act to make us whole on that. If we didn't have that expectation, I think that 1 through 5 wouldn't look as attractive to me. But I think our interventions that are being described in 1 through 5 are expressing that confidence that we will be made whole, and in that way moving market prices. That's very similar to—as you, Mr. Chairman, referred to—how we operated in a crisis. We expressed a level of confidence that maybe the private-sector agents, because they were operating on their own, couldn't have.

CHAIRMAN BERNANKE. Okay. Thank you.

MS. GEORGE. Mr. Chairman?

CHAIRMAN BERNANKE. Yes.

MS. GEORGE. I, too, have no concerns with 1 through 5, but I wanted to align myself on this issue of communications; my sense is that it is important to communicate ahead, for two reasons. One is the confidence component of that. However pithily or broadly we could describe the fact that we have or are discussing a range of scenarios or tools, I think that could be helpful. The second thing that I think is important, particularly as it relates to these facilities, is giving people a sense of how we would treat collateral. Thousands of smaller institutions have collateral pledged, and already over the past two weeks, we have heard from them regularly asking questions about, "How should I position myself?" "What should I do?" "How will you be treating this collateral?" So I think those two components—to the extent that we can be more conclusive about how we might act and still address the broader confidence issue—could be important to communications ahead of any actual default. Thank you.

CHAIRMAN BERNANKE. Thank you. Vice Chairman Dudley.

VICE CHAIRMAN DUDLEY. Simon wanted to jump in.

MR. POTTER. I was going to give the example of the Treasury Market Practices Group (TMPG), which put out some guidance in the summer of 2012 about how we would roll securities as being a good market practice. One way of looking at getting clarity over the discount window and open market operations would be to give the market—assuming 1 through 5 would actually happen—certainty about that. And the way that the TMPG put this is, even with this clarity, the actual event of either a delayed payment or getting very close to it, would be a very serious event. And I think what I was trying to capture when I went through the

operational issues is even though, say, 1 through 5 is out there, that doesn't really deal with those fundamental operational issues. It just takes one of them off the table for the market. They still have the rest of them to deal with.

For President Lacker's point, we gave the example in our existing LSAPs that there would be $700 billion at risk for the October 31 coupon. At most, under our existing regime, we will be able to buy 9 of those. So it's unlikely we could directly affect whatever the market would want to do with those $700 billion if the market had a strong view on those securities.

CHAIRMAN BERNANKE. President Pianalto.

MS. PIANALTO. I was just going to make the comment that we couldn't hear Esther's comments. But listening to Simon's response, I think we got the gist of it.

CHAIRMAN BERNANKE. Okay. President Evans.

VICE CHAIRMAN DUDLEY. We couldn't hear her either, Sandy.

CHAIRMAN BERNANKE. Okay. I don't want to try to paraphrase Esther, but I took her as supporting providing some basic information about our decisions today about policy responses. President Evans.

MR. EVANS. Thank you, Mr. Chairman. I just want to be clear that I support the existing authority that the Markets Group and you have for actions 1 through 5. In Simon's response, he touched on something that I recall from previous videoconferences, which is that he alluded to this group—I think you called it the TMPG—Treasury Management Planning Group, or something like that. I assume that's what that meant. We're working under the assumption that the markets either do know about this or they don't know about this, but the New York Fed talks to the market people all the time, and I thought I heard something like they are already

expecting us to use our authorities under 1 through 5, which seems to be more detail than many of us know ourselves or thought about before. Could you provide some more clarity on that?

CHAIRMAN BERNANKE. Yes. The TMPG is the Treasury Market Practices Group, and they, in consultation with the New York Fed, put in their minutes some descriptions of how defaulted Treasuries would be handled in payments—in particular, this notion that the maturity could be artificially extended by one day as a way of letting systems deal with the defaulted coupon Treasuries. I do not believe there was anything in their minutes about Fed actions, including discount window actions and the like, so those things are not out there.

MR. POTTER. It's actually the opposite, President Evans. When this came up at the most recent TMPG meeting, and people repeatedly asked us, we would not give an answer to this, because our understanding is there hadn't been an agreement to give clarity on this issue. So we have various nonanswers that we give to people.

MR. EVANS. Okay. Thank you.

VICE CHAIRMAN DUDLEY. Simon, can I just add one thing? I think there is a general view that people have trouble perceiving why we wouldn't do that, because they recognize that not only do we wear the fiscal agent hat, which I think they are quite sympathetic to, but they don't understand our silence on monetary policy and financial stability issues. So I think we're in an awkward position when we don't clarify our role in terms of financial stability and monetary policy issues. This is going back to President Kocherlakota's point.

MR. POTTER. I think most people perfectly understand why we're not saying anything. But they might not understand why they're supposed to understand that—if people can follow that.

CHAIRMAN BERNANKE. Okay. President Bullard.

MR. BULLARD. Thank you, Mr. Chairman. To weigh in on the communications issue a little bit, I think markets are making assumptions about what we will do anyway, whether we announce something or not. And so I think that's where it becomes a little bit odd to say, "Well, we are not going to communicate about something where markets have clear assumptions about what we do anyway," because all that's doing is putting a cloud of uncertainty around what might actually happen in the case of a default. I would say also that the Treasury has long had the policy of not wanting to talk about this issue publicly. But there again, markets are making assumptions about what the Treasury will do, and in particular that they will prioritize principal and interest payments, which has really been something Treasury secretaries for a long time have said. So I think that this idea about not communicating ahead of the crisis because you might bring the crisis on maybe isn't the best way to think about this, if you start thinking about the fact that private-sector guys are making assumptions anyway. All the Treasury is doing is putting a cloud of uncertainty about what it might do in the case of a crisis, so if we actually got into the crisis, it would make things much worse than they would otherwise have to be. I think there is room for some change in thinking on this if we get past this particular round so that you could at least have some contingency planning and some statements on the table, frankly, both by the Treasury and by the Fed here—if we could get the Treasury to come around to that view, which it probably won't. Then when we actually got into the crisis we would be able to mitigate it further, or better than we otherwise would be able to. And this would be an important component of meeting our price stability goals. This probably dovetails a little bit with President Kocherlakota's leading comments earlier in this meeting. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Thank you very much. I wonder, in the interest of time, if we could get to the second half, and of course the communications issues are relevant there as

well. Let me try to do this in an efficient way. Actions 6 and 7 had to do with the use of RRPs or RPs in the Treasury repo market. Let me focus particularly on number 7. The idea here is: Suppose that repo rates jump sharply because of liquidity pressures in the market, would there be circumstances, not all circumstances, in which we would be willing to intervene in order to bring those rates down somewhat? For concreteness, I think there are at least a couple of situations where we might want to at least consider that. One has to do with the transmission of monetary policy. Even though our explicit target is the federal funds rate, if the effects of the federal funds rate on broader market rates are being obscured or interfered with by very high short-term repo rates, arguably our monetary policy mandate would lead us to want to make sure that interest rates generally were consistent with achievement of our policy mandate. So that's one possible reason. The other reason that I can think of offhand goes back to Governor Raskin's question about money market funds. This might be a situation in which spikes in Treasuries—short-term Treasury bills, for example—are putting a lot of pressure on money market funds, perhaps generating runs. And by reducing those yields, we might be able to take some of the pressure off of that indirectly. I'm not suggesting that under 7 we would always move to address any kind of spike in repo rates. But if they affected monetary policy, or threatened financial stability, say, in the context of money market funds, then we might want to consider that. So let me put that out there for consideration.

And finally, at the same time, I'll mention 8 and 9. Number 8 is purchasing Treasuries with delayed coupons in an effort to take them out of the market. We wouldn't be able to do that in any kind of comprehensive way, given the size of the Treasury market. Number 9 is a sterilized version of that, where we essentially swap undefaulted Treasuries for defaulted Treasuries. It was the presumption of the staff that we would not want to do that, but let me raise

both of these things at the same time and get reactions to number 7, which is the circumstances in which we might want to intervene because of a spike in repo rates. And if there is no support for 8 or 9, we can take that as given. But if anyone wants to make the case for 8 or 9, then this would be an opportunity to do that. So let me open the floor for any comments on those issues. Vice Chairman Dudley.

VICE CHAIRMAN DUDLEY. I support giving discretion to the Chairman on 6 and 7, because you don't really know exactly how market conditions are going to evolve. And you may not always be able to call the FOMC together to decide, if things are moving very, very rapidly. Six seems like a little bit of an obscure one. But I can also imagine a problem where you could actually have a lot of liquidity hoarding, lots of large cash balances built up at the clearing banks. And I can imagine that you might want to find another avenue for that cash to flow, and that might be through the reverse repurchase full-allotment facility that we have in place today. One thing you could do with respect to 6 is to give the Chairman the discretion to either raise the limit or just take the ceiling off altogether. This isn't going to be relevant once this is fully in place, perhaps, but in the near term, if this comes up over the next few months, we might want to have the ability for the money not to pile up at the banks but to have another way of flowing to the Fed. So I think 6 is something we should think about.

On 7, I think the repo market is much more the money market now than the federal funds rate market. You know, in the old regime, you could sort of say the federal funds rate market was really this deep, liquid market. But in the current regime, the fed funds market is tiny. The repo market is really, really big, and so I think that you definitely want to have the ability to react if the GC repo rate climbs above your target range of 25 basis points. I not only think it's completely consistent with our monetary policy mandate, but there's also a financial stability

aspect to this as well, because if that's happening, markets are probably going to be very disrupted. I also think that there would be a separate benefit of potentially doing this: It would have the effect of signaling that the Federal Reserve is concerned about what's happening to market functioning. And to the extent that we did intervene, that would be helpful in terms of calming markets down. Imagine the opposite, if the repo rate climbed to 50 basis points and the Fed just sat there on our hands. You can imagine that could lead to a whole bunch of knockout effects, behaviors that we can't even anticipate today that could actually make this an even bigger financial stability issue. So I think it's worthy to do for its own sake, from a monetary policy perspective, but I also think there is a financial stability angle as well as a signaling effect of the intervention that is much broader than the action itself.

CHAIRMAN BERNANKE. Thank you. Any other comments? President Kocherlakota.

MR. KOCHERLAKOTA. Thank you, Mr. Chairman. I am actually interested in what other people have to say about 8 and 9, so I don't necessarily want to speak about 8 and 9 at this point. In terms of 6 and 7, I think that Vice Chairman Dudley raised a great point in terms of 7, that maybe the fed funds rate isn't really necessarily the right marker for the way we are influencing interest rates. I think that should force us to be thinking about a very broad question about how we are communicating our monetary policy and the state of monetary policy. Is it enough to say we're targeting the fed funds rate between 0 and 25 basis points? It really transcends what's happening in the context of a financial crisis. I'm not sure of the scenarios in which we would be moving so rapidly, with respect to 7, that we wouldn't be able to call a meeting as we did in the past four or five business days, to address this. What I'm working toward is that I would like us to begin talking in a more holistic way about how we want to communicate the stance of monetary policy. Is it really through targeting the fed funds rate, or

do we want to have a broader discussion of other interest rates? And then I think it becomes very natural to think of 7 as just fitting in with that broader context. In the absence of that, we'll have to deal with it on a more case-by-case basis. It's hard for me to think about scenarios in which things are so fast-moving that we wouldn't be able to come together to think about 7.

Six seems very different to me. It just feels like we've been struggling with the problem of making monetary policy easy, at least that's the way I think about it. We have this zero lower bound on the fed funds rate, and on other interest rates. A lot of times it looks like we'd like to lower that, and now we're coming along and saying, "Boy, we'd like to actually make rates higher." So 6 seems weird to me, and I guess at this point, at least, I would have to have a much better understanding of what we're trying to accomplish.

Finally, one quick point: When I think about these issues, I actually don't think about financial stability as some separate goal of monetary policy, or of this Committee. I think of us as trying to achieve our goals of promoting price stability and promoting maximum employment. Financial stability certainly interacts with that in the sense that it introduces risks for our ability to make progress on our goals. But certainly with an alternative like 6, where I think it sounds more like you're trying to actually address a market problem, then I would have to know a lot more than I know right now about how raising rates in this way is actually helpful in terms of promoting maximum employment and price stability.

So to summarize, I can see myself being in favor of 7, but I think I would want to do it on a case-by-case basis. I actually think Vice Chairman Dudley's comments open up a much broader question that we should really be thinking about as the Committee, outside of any debt crisis. And, I would just need to know a lot more about 6 before we sign on in the abstract to it.

CHAIRMAN BERNANKE. Governor Powell, did you have a comment?

MR. POWELL. Yes, please. I want to come back to what the risk is here. I think the risk is of a failed auction. Specifically, it's a failed bill auction; it's a bill auction where the bill is going to be due in the middle of the next crisis. And if you look at options 1 through 5—again, which I am happy to support—they don't really help with that. Bills are excluded from many of the options, and the discount window has got stigma. So I think you get to 6 and 7, and really 7 is the one that puts us in a position to address what is in fact the main issue that we could be facing here. You're offering repo; you're offering liquidity against short-term securities. And, again, I would be doing this, as Governor Tarullo suggested, in connection with an announcement that we are providing liquidity to assure the working of the cash markets.

As long as I'm talking, I find 8 and 9 to be loathsome. I hope that gets into the minutes. [Laughter] But I don't want to say today what I would and wouldn't do, if we have to actually deal with a catastrophe on this.

CHAIRMAN BERNANKE. So you are willing to accept "loathsome" under some certain circumstances. [Laughter]

MR. POWELL. Yes, under certain circumstances.

CHAIRMAN BERNANKE. President Evans, I think you had raised your hand.

MR. EVANS. Thank you, Mr. Chairman. I agree with Vice Chairman Dudley's suggestion. I would be willing to give you the discretion to act on options 6 and 7 between meetings if you thought that the markets really required that. In particular, option 7 makes a lot of sense. The way I heard Vice Chairman Dudley describe this, it harkened back to the period in the late '80s and early '90s when the Fed was targeting the funds rate and they gave the Chairman discretion between meetings, if economic events warranted, to move the funds rate in the direction that they thought the bias was. If short-term market rates are inconsistent with our

0 to 25 range for the funds rate, that strikes me as being very similar to past practices, and we would very quickly get to another meeting where we could revisit that. I think repos are the way to do it, because they're temporary so they don't necessarily have to be confused with more permanent actions that we're looking at. And I think that they would be conveying that we're interested in keeping market functioning going properly. So I support that.

I will take note that option 6 included the footnote where it mentioned that an alternative would be the Term Securities Lending Facility; we might want to think about that one a little more carefully. If that's an option, in some cases swapping security for security might be more direct, and in certain cases, it might have also a beneficial effect on the rates for the other people involved in that. Thank you.

CHAIRMAN BERNANKE. Thank you. Governor Stein.

MR. STEIN. First, very quickly, I also support 6 and 7, pretty much for the same reasoning that Vice Chairman Dudley laid out, and I'd happily give my proxy on that.

Let me wade into 8 and 9 and take on "loathsome." I sort of understand that people are extremely uncomfortable with this stuff. I have to say, I don't fully understand the discomfort. Of course, we have to put ourselves in the state of the world in which you would need to do this. It's a bad state of the world. You want to go at it first with option 7. That is to say, you'd like to say, "Here, we'll lend to you against these securities." But imagine the state of the world in which, for whatever operational reasons, the money funds said, "I can't be long in this stuff. I don't want to borrow to be long. I just can't hold it." So there are just huge sales of these things. I don't quite see the cost-benefit going the wrong way here. In other words, I'm taking the stipulation that Bill laid out before, that it's an operational problem. We're not buying default risk; we're buying operational risk in a very, very bad state of the world. In that state of the

world, I would basically be willing to do it. I understand it's optically problematic, so I wouldn't want to be making statements ahead of time that I was planning to do that, because you're going to bear all of the cost and not get the benefit. But I think in the state of the world where there are basically huge sales of the red-zone T-bills, and we can step up and stem that to some degree, I don't see the problem.

MR. POWELL. Perhaps I can amplify what I meant by "loathsome."

MR. STEIN. Yes. Please do.

MR. POWELL. I don't disagree with a word of that. I'm just saying that these are decisions you really, really don't ever want to have to make. It's a terrible decision to have to make. And by my last comment, I meant to suggest that, in extremis, I wouldn't rule it out. And that's kind of where you are at that point.

MR. STEIN. I understand why it's optically bad, but I don't quite see the economic argument. In other words, we are all sort of on board with action 1, which is that because we happen to have an LSAP program going, we're pretty happy to buy defaulted coupons. But defaulted bills, because we wouldn't normally be buying them under the LSAP? I don't see where the Rubicon is being crossed here. You know, we're taking on some of these types of securities.

MR. TARULLO. Another martial metaphor.

MR. STEIN. So I just don't see—I mean, maybe then action 1 is sort of a small "loathsome?"

MR. POWELL. The institutional risk would be huge. The economics of it are right, but you'd be stepping into this difficult political world and looking like you are making the problem go away. I mean, I wouldn't say we wouldn't do it or I wouldn't support doing it.

CHAIRMAN BERNANKE. I think we agree we are going to have to have an FOMC vote on that particular one.

MR. POWELL. Can I amplify one question? I see 7 as going much broader than defaulted securities, though. I don't see 7 as being limited to defaulted securities.

SEVERAL. Right.

MR. POWELL. Okay.

CHAIRMAN BERNANKE. Governor Tarullo.

MR. TARULLO. Thank you, Mr. Chairman. I would not take any options off the table, even though for some of the reasons just discussed it is not clear we would want to exercise those options. I think Jeremy made the key point, which is that you have to imagine us in particular states of the world that could be quite bad. One thing I have been struck by in the run-up to this fiscal cliff, unlike the 2011 one, is the degree to which some of the key people in financial markets are much more focused on this than they were before. Number two, they have difficulty articulating exactly what bad things they think would happen, but they are pretty sure some really bad stuff would happen. And that suggests to me that if this were to come to pass, we would be in really an unprecedented situation in which we would be ill-advised to, ex ante, say that we are going to restrain ourselves from doing things that we otherwise wouldn't do, but in the circumstances where the alternative is sufficiently bad, we might want to collectively hold our noses and do. I think that's really the most important point coming out of this, which is why I was so concerned that the way in which we communicate what we are willing to do not be an implicit exclusion of things that we might otherwise want to think about doing.

CHAIRMAN BERNANKE. I think several people supported you on that, and I think Governor Powell did not exclude this.

MR. TARULLO. No, he didn't. And Bill Dudley put it well when he tried to sort of marry the two things together.

CHAIRMAN BERNANKE. President Lacker.

MR. LACKER. Yes. I wanted to follow up on Governor Stein, and on this whole 6/7/8/9 question. For me, 7 is consistent with our broad monetary stability objectives. A broad rise in RP rates, across the spectrum of red-zone and non-red-zone securities, would suggest an increasing demand for liquidity that we're ideally situated to supply. We did this on 9/11. We just fixed the RP rate and offered to intervene at whatever quantity people wanted. Moreover, we did this strange thing. We usually keep a spread between Treasury-only, agency, and MBS RP rates, and we flattened that out and just took them all at the same rate. We were making a judgment there that we were willing to squash those spreads. And the same question would arise with regard to these "red-zone CUSIPs," I guess we could call them. So, subject to the proviso that there's some delicacy about that, I'd support 7.

The same for 6 too, I think, but "undesirable from a policy point of view" was a phrase that had me scratching my head. I thought we wanted to get rates low, but the broader question here has to do with transitory versus permanent, more persistent changes, because a rate that spikes for a day or two is not going to really affect our monetary policy objectives in any meaningful way. You know, we are thinking about things flowing through longer-term rates and monetary policy being transmitted that way. Yes, some people would lose some money if rates go up or down by a lot in one particular day or not. But I think it's for something that's expected to persist for a couple of days that we would want to intervene. I don't think we'd want to intervene just for something that we were sure was only going to last a day. I think President Kocherlakota's comments are germane here, and I think going down this path is consequential

enough that I would like to see some check-in with the Committee on this. But I would be willing to delegate if that's the broad group's view.

About 8 and 9, I was going to use the phrase "beyond the pale." Governor Stein invites us to put ourselves in the position of a state of the world, ex post, in which things are really bad. And back to President Kocherlakota's observation that our willingness to intervene in these red-zone CUSIPs reflects an underlying assessment on our part that the government is not going to default. Well, if this is a bad state of the world, like Governor Stein describes, there would be a difference of views between us and members of the financial public on that. Otherwise, the price declines would be arrested, and yields wouldn't go up so much. So if it's really a disaster for those red-zone CUSIPs, it must be that a lot of the market participants don't have the confidence that President Kocherlakota suggests we should act on in buying these. I think that raises delicate questions, and I don't think that ex post is the sole perspective you want to consider that from. I think you want to ask the question of, what do you want markets to think we are going to do in that situation? And you want to look at things from an ex ante perspective. This is sort of a general proposition. From that point of view, it strikes me that Governor Powell's "loathsomeness" is really germane here. So I'm opposed to 8 or 9.

CHAIRMAN BERNANKE. President Fisher.

MR. FISHER. Mr. Chairman, I am comfortable with 6 and 7—of course, 7 is an FOMC matter, but I am very comfortable in delegating to you, on an intermeeting basis, the authority that was discussed. As far as 8 and 9 are concerned, I see Governor Stein's argument from an economic standpoint, as Governor Powell mentioned. I think Governor Powell is guilty of understatement in terms of my description of the politics of those two options. I would like, if we can—and I don't know how we're going to write the minutes to this meeting—say that we've

agreed to 1 through 7, but I would not, if we can, specifically articulate 8 and 9 and just say that other options are still on the table.

The one thing I would ask us to consider over time, and maybe to discuss in a more fulsome manner when we have the time to do it, is that if we do everything in this menu, we are going to have a pretty odd-looking balance sheet, and I still don't have a sense of what the limits are. And I would like to have that discussed at some juncture. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Thank you. President Williams.

MR. WILLIAMS. Thank you, Mr. Chairman. I also support actions 6 and 7 in the event the repo market showed serious signs of strains or impairment for the reasons that Vice Chairman Dudley outlined. Also, in the context of an emergency, obviously, the Chairman may need to authorize such actions on his own. But that said, I am very sympathetic to what President Kocherlakota said. If we're really thinking about this as part of our monetary policy framework—in other words, if we don't want repo rates to persistently be above 25 basis points, or something that like—I do see that as something for the Committee to discuss and decide upon a policy on that.

In terms of actions 8 and 9, apparently I am beyond the pale. I agree with Governor Stein's comments fully. I would just add that in our public communications, it will be important in such a situation to distinguish between our lender-of-last-resort actions to enhance liquidity and our monetary policy actions aimed at macro stabilization. And obviously for actions 8 and 9 that's a difficult challenge, and obviously the bar would be very high for taking these actions. It would be very important for us to explain that these purchases or swaps would not in any way interfere with our ability to pursue our macro mandate goals of price stability and maximum employment. And I think it's really important, as always, to communicate that, in our

transactions for our Treasury securities, we are transacting at market prices, and in no way propping up the fiscal authority through our actions. Thank you.

CHAIRMAN BERNANKE. Thank you. President Rosengren.

MR. ROSENGREN. I support 1 through 7. I view 1 through 5 more as providing operational clarity—I think operational uncertainty is counterproductive—and those should be communicated in the minutes. Six and 7 are a little bit different. I support the discretion of the Chairman for the reasons that were highlighted by Vice Chairman Dudley. I view it as reducing stresses in the liquid markets where the lender is solvent and has the capacity to pay, and I view that as fundamental to what central bank functions are. So I think 6 and 7, with the discretion of the Chairman—I think it would be useful to have a meeting if it was possible, but I could easily imagine circumstances where that wouldn't be possible and we should be providing discretion.

For the reasons that Governor Stein highlighted, I don't find 8 or 9 repugnant. I do think that we shouldn't do it without having severe stress in the markets, but I think we certainly shouldn't take it off the table. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Thank you. President Bullard.

MR. BULLARD. Thank you, Mr. Chairman. On option 7, I do think we should consider this as part of our toolkit. However, if we made a decision like that, it could be a momentous decision for the Committee—arguing that we would possibly be targeting repo in the future instead of fed funds. That's a decision that should be made by the Committee and not by a crisis or by the Chairman alone. So I would say that the Committee should authorize that if we get to that. I doubt that there would be a situation that would be so dramatic that we would have to go ahead with a decision of that magnitude without consulting the Committee.

The other options I think we should put in our pocket for now, and just table them for the time being.

CHAIRMAN BERNANKE. Thank you. Governor Yellen.

MS. YELLEN. I would just say, to be brief, I agree completely with President Rosengren that on 7 particularly, it's something we should be prepared to do for the sake of financial stability and our monetary policy objectives, if there's real pressure on repo rates. The ways in which this can occur have been well articulated by Vice Chairman Dudley and Governor Powell. And if there is time to consult with the FOMC, I think it's advisable to do so. But I can easily imagine situations where there wouldn't be time to consult, and I think the Chairman should have the discretion.

And on 8 and 9, I agree with Governors Stein, Tarullo, and Rosengren—these are things I wouldn't take off the table. I wouldn't be eager to do them, but I wouldn't say "never."

CHAIRMAN BERNANKE. Thank you. President Pianalto.

MS. PIANALTO. Thank you, Mr. Chairman. I, like others, support giving you the authority to take actions along the lines of 6 and 7 for financial stability reasons or for our monetary policy objectives. And then I also believe that the threshold for actions 8 and 9 would be very, very high. I'd be very reluctant for the Federal Reserve to take those actions.

I want to go back to the issue of communications. On 6 and 7, I was going to comment that I would avoid early communication of our willingness to take these actions. I am concerned that announcing them in advance could lead some market participants to assume that the Federal Reserve expects problems to occur, and, thereby, we would foster some uncertainty in markets. For other market participants, though, announcing these potential tools in advance might engender overconfidence that the Fed could substantially offset market disruptions. And so I

would prefer to hold off communications about 6 and 7 until it becomes clear that action is warranted. That raises the question of how what we've talked about today is going to appear in minutes. When this happened back in 2011, the minutes of that discussion were very brief. I'm just wondering whether minutes are going to be more detailed this time around, given the discussion we've had today.

CHAIRMAN BERNANKE. Well, I think we need to review the discussion we had, not only in terms of the substance but also in terms of communication. And of course the minutes, as always, will be circulated, and we will try to come to some agreement. My sense of the meeting is that we should provide somewhat more detail in terms of our broad willingness to address liquidity issues without limiting the range of things that we are willing to do. But we have a few weeks yet. We can work on trying to find language that will meet the concerns that were raised.

But I'm actually very glad that we had this discussion, notwithstanding that it may be moot for the time being, in part because it was useful to talk about some of these tools, but also precisely because of this communication issue, which is relevant, even now, because it may be that this is the right time to communicate some of these things to the market. So we will give this some thought and circulate something for Committee approval, obviously, at the appropriate time.

We are at 4:00. Is there anyone who has not been able to speak who would like to speak? [No response] Okay. Again, I'm glad we had this discussion. I thought it was actually very useful, and I thank you for making the time.

END OF MEETING