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June 14, 2017

## **Addendum to the Policy Normalization Principles and Plans**

All participants agreed to augment the Committee's Policy Normalization Principles and Plans by providing the following additional details regarding the approach the FOMC intends to use to reduce the Federal Reserve's holdings of Treasury and agency securities once normalization of the level of the federal funds rate is well under way.<sup>1</sup>

- The Committee intends to gradually reduce the Federal Reserve's securities holdings by decreasing its reinvestment of the principal payments it receives from securities held in the System Open Market Account. Specifically, such payments will be reinvested only to the extent that they exceed gradually rising caps.
  - For payments of principal that the Federal Reserve receives from maturing Treasury securities, the Committee anticipates that the cap will be \$6 billion per month initially and will increase in steps of \$6 billion at three-month intervals over 12 months until it reaches \$30 billion per month.
  - For payments of principal that the Federal Reserve receives from its holdings of agency debt and mortgage-backed securities, the Committee anticipates that the cap will be \$4 billion per month initially and will increase in steps of \$4 billion at three-month intervals over 12 months until it reaches \$20 billion per month.
  - The Committee also anticipates that the caps will remain in place once they reach their respective maximums so that the Federal Reserve's securities holdings will

(more)

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<sup>1</sup> The Committee's Policy Normalization Principles and Plans were adopted on September 16, 2014, and are available at [www.federalreserve.gov/monetarypolicy/files/FOMC\\_PolicyNormalization.pdf](http://www.federalreserve.gov/monetarypolicy/files/FOMC_PolicyNormalization.pdf). On March 18, 2015, the Committee adopted an addendum to the Policy Normalization Principles and Plans, which is available at [www.federalreserve.gov/monetarypolicy/files/FOMC\\_PolicyNormalization.20150318.pdf](http://www.federalreserve.gov/monetarypolicy/files/FOMC_PolicyNormalization.20150318.pdf).

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continue to decline in a gradual and predictable manner until the Committee judges that the Federal Reserve is holding no more securities than necessary to implement monetary policy efficiently and effectively.

- Gradually reducing the Federal Reserve's securities holdings will result in a declining supply of reserve balances. The Committee currently anticipates reducing the quantity of reserve balances, over time, to a level appreciably below that seen in recent years but larger than before the financial crisis; the level will reflect the banking system's demand for reserve balances and the Committee's decisions about how to implement monetary policy most efficiently and effectively in the future. The Committee expects to learn more about the underlying demand for reserves during the process of balance sheet normalization.
- The Committee affirms that changing the target range for the federal funds rate is its primary means of adjusting the stance of monetary policy. However, the Committee would be prepared to resume reinvestment of principal payments received on securities held by the Federal Reserve if a material deterioration in the economic outlook were to warrant a sizable reduction in the Committee's target for the federal funds rate. Moreover, the Committee would be prepared to use its full range of tools, including altering the size and composition of its balance sheet, if future economic conditions were to warrant a more accommodative monetary policy than can be achieved solely by reducing the federal funds rate.

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