



Investigation File Report

I20130013-HQO



Investigation Details

Investigation Title: Release of Confidential Information - FOMC **Status:** Investigation Re-opened
Program Area: Federal Reserve Board
Priority: 1: Threats, Disclosure of Nonpublic FOMC Information, Computer Incidents, Security Incident, or Emergency Response
Federal Reserve System: FR Board **Source:** Anonymous
City, State: Washington District of Columbia **Division:** Other
Lead Agent: (b) (6), (b) (7)(C)
Internal/Confidential: Yes **Congressional Interest:** No **Assisting Agencies:** Yes
Waived: No **Employee Case:** Yes **Law Enforcement:** Yes
Victim Class: Other FR Operations **Related Files:** No
Program Activity: FRB - Other FRS Operations
Offense Class: Disclosure of Information
Investigation Result: Closed - No Further Action
Date Closed (Initial): 12/01/2014 **Date Reopened:** 03/10/2015 **Date Closed:** 04/06/2017

Synopsis

This investigation was reopened based on the results of complaint evaluation C20150031-HQO, in which an anonymous letter was received by Federal Reserve Board (b) (6), (b) (7)(C) who then forwarded a copy of the letter to the OIG on March 4, 2015. The anonymous letter states, (b) (6), (b) (7)(C) (b) (6), (b) (7)(C) of the Fed leaked confidential FOMC information to Medley Global Advisors and other firms before the September 2012 decision."

The investigation concerns the release of confidential information from a September 2012 meeting of the Federal Open Market Committee (FOMC), which later appeared in an October 3, 2012 newsletter written by an analyst at Medley Global Advisors, (b) (6), (b) (7)(C). When the confidential information appeared in the Medley newsletter, the details of the FOMC meeting and minutes had not been released to the public. The minutes for the September 2012 FOMC meeting were released to the public on October 4, 2012.

The initial investigation into this matter was opened on March 13, 2013, based on information from a confidential informant who alleged that a potential leak of confidential FOMC information was not reported to the OIG for investigation by the (b) (6), (b) (7)(C), and (b) (6), (b) (7)(C), as set forth in the *Program for Security of FOMC Information*. Additionally, the confidential informant alleged that the potential leak of confidential FOMC information may have occurred in violation of the *FOMC Policy on External Communications of Committee Participants*, as well as the laws, rules,

and regulations enforced by the U.S. Securities and Exchange Commission (SEC). Based on the information available to the OIG at that time, the OIG was unable to determine the source of the leak of confidential FOMC information and closed the investigation on December 1, 2014.

The new anonymous complaint, received by the OIG on March 4, 2015, contained information that warranted further investigation into this matter. Accordingly, this investigation was reopened. This investigation is being worked under suspected violation of 18 U.S.C. § 641 (public money, property, or records) and any other violation of law, rule, or regulation, including the *Standards of Ethical Conduct for Employees of the Executive Branch*, as well as any violation of Board or FOMC policy, rules, or regulations.

In March 2015, the Federal Bureau of Investigation (FBI) informed the OIG that they initiated an investigation into this matter in coordination with the U.S. Attorney's Office, Southern District of New York (USAO SDNY). Accordingly, this investigation will be coordinated with the FBI and USAO SDNY. We will also coordinate with the U.S. Commodities Futures Trading Commission (CFTC) and SEC to the extent any evidence is obtained to suggest a possible violation of law, rule, or regulation enforced by CFTC or the SEC, including Section 10(b) of the Securities Exchange Act of 1934 and SEC Rules 10b5-1 and 10b5-2.

APRIL 1, 2015 QUARTERLY REPORT

During this reporting period, this investigation was reopened based on the receipt of new information. Both (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C), received anonymous letters allegedly identifying the leaker of confidential FOMC material to Medley Global Advisors. The anonymous letters were obtained for analysis. To date, the reporting agent has coordinated with USAO SDNY and the FBI and the first meeting is scheduled for April 1, 2015 in Washington, DC.

During this reporting period, the OIG obtained a copy of the FOMC's internal review report, dated March 14, 2013. The report identifies one particular piece of confidential FOMC information that was contained in the Medley Global Advisors newsletter.

JULY 1, 2015 QUARTERLY REPORT

During this reporting period, on April 1, 2015, the reporting agent met with the FBI and USAO SDNY to discuss case planning and coordination. An anonymous letter was provided to the FBI for their review and analysis deemed appropriate.

During this reporting period, the OIG obtained a copy of the supporting documentation for the FOMC internal review report.

(b) (6), (b) (7)(C) Monetary Affairs, Board, was interviewed at which time (b) (6) discussed (b) (6), (b) (7)(C), (b) (5)

(b) (6), (b) (7)(C) was interviewed at which time (b) (6) discussed, (b) (6), (b) (7)(C), (b) (5)

(b) (6), (b) (7)(C) Monetary Affairs, Board, was interviewed at which time (b) (6) discussed, (b) (6), (b) (7)(C), (b) (5)

(b) (6), (b) (7)(C) [redacted], Research and Statistics, Board, was interviewed at which time (b) (6) discussed (b) (6), (b) (7)(C), (b) (5) [redacted]

(b) (6), (b) (7)(C) [redacted], Monetary Affairs, Board, was interviewed at which time (b) (6) discussed (b) (6), (b) (7)(C), (b) (5) [redacted]

(b) (6), (b) (7)(C) [redacted], Research and Statistics, Board, was interviewed at which time (b) (6) discussed (b) (6), (b) (7)(C), (b) (5) [redacted]

(b) (6), (b) (7)(C) [redacted], Board, was interviewed at which time (b) (6) discussed (b) (6), (b) (7)(C), (b) (5) [redacted]

(b) (6), (b) (7)(C), (b) (7)(D) [redacted] was interviewed at which time discussed (b) (6), (b) (7)(C), (b) (5), (b) (7)(D) [redacted]

(b) (6), (b) (7)(C) [redacted] Monetary Affairs, was interviewed at which time (b) (6) discussed (b) (6), (b) (7)(C), (b) (5) [redacted]

(b) (6), (b) (7)(C) [redacted] Monetary Affairs, Board, was interviewed at which time (b) (6) discussed (b) (6), (b) (7)(C), (b) (5) [redacted]

(b) (6), (b) (7)(C) [redacted] Board, was interviewed at which time (b) (6) discussed (b) (6), (b) (7)(C), (b) (5) [redacted]

(b) (6), (b) (7)(C) [redacted], Board, was interviewed at which time (b) (6) discussed (b) (6), (b) (7)(C), (b) (5) [redacted]

During this reporting period, an analysis of (b) (6), (b) (7)(C) Board email account found communications with (b) (6), (b) (7)(C), Medley Global Advisors, which were (b) (5) [redacted]. No evidence was found reflecting the release of any confidential FOMC information. Additionally, an analysis found no email communications between (b) (6), (b) (7)(C) and representatives of Medley Global Advisors.

See the associated memoranda of interview for additional details regarding the interviews described within this quarter.

OCTOBER 1, 2015 QUARTERLY REPORT

During this reporting period (b) (6), (b) (7)(C) , was interviewed in an effort to obtain (b) (6), (b) (7)(C) emails, at which time (b) (6) said that a Federal Reserve System-wide snapshot of emails was requested during the FOMC's earlier internal investigation into the leak.

During this reporting period (b) (6), (b) (7)(C) laptop computer was obtained by the OIG, as well as images of (b) (6), (b) (7)(C) devices, for review and analysis.

During this reporting period, OIG reporting agent interviewed (b) (6), (b) (7)(C) (b) (6), (b) (7)(C) , who said that (b) (6), (b) (7)(C), (b) (5)

During this reporting period, a copy of those Reserve Bank email accounts were provided to the OIG. The OIG's independent review and analysis of those emails began during this reporting period.

During this reporting period, email analysis found several communications, both prior to and during the relevant timeframe, between (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) of Medley Global Advisors (b) (5) . These communications included emails relating to the issuance of a prior Medley Global Advisors newsletter concerning the content of FOMC meeting minutes.

During this reporting period, efforts were made to interview (b) (6), (b) (7)(C) .

JANUARY 1, 2016 QUARTERLY REPORT

During this reporting period, (b) (6), (b) (7)(C) was interviewed (b) (7)(E) with the USAO SDNY. (b) (6), (b) (7)(C) stated that (b) (6), (b) (7)(C), (b) (5)

APRIL 1, 2016 QUARTERLY STATUS REPORT

During this reporting period, (b) (6), (b) (7)(C) Board was interviewed at which time (b) (6) said (b) (6) (b) (6), (b) (7)(C), (b) (5)

As of this reporting period, the investigation is also being worked under a potential violation of 18 U.S.C. § 1001.

During this reporting period, the investigative team reviewed the notes taken by (b) (6), (b) (7)(C) during (b) (6), (b) (7)(C) interview conducted by (b) (6), (b) (7)(C) . No evidence was found that (b) (6), (b) (7)(C) told (b) (6), (b) (7)(C) or others during (b) (6) interview that (b) (6) and (b) (6), (b) (7)(C) discussed the confidential FOMC information.

During this reporting period, (b) (6), (b) (7)(C) [REDACTED], Board was interviewed about [REDACTED] conducting the (b) (6), (b) (7)(C) [REDACTED] (b) (6), (b) (7)(C), (b) (6), (b) (7)(C), and others. (b) (6), (b) (7)(C) said [REDACTED] (b) (6), (b) (7)(C), (b) (5) [REDACTED]

On March 10, 2016, the OIG reporting agent met with USAO SDNY to discuss investigative findings to date.

JULY 1, 2016 QUARTERLY STATUS REPORT

On April 20, 2016, (b) (6), (b) (7)(C) [REDACTED], Board was interviewed [REDACTED] (b) (6), (b) (7)(C), (b) (5) [REDACTED]

During this reporting period, (b) (6), (b) (7)(C), (b) (3) (A) [REDACTED]

OCTOBER 1, 2016 QUARTERLY STATUS REPORT

During this reporting period, (b) (6), (b) (7)(C), (b) (3) (A) [REDACTED]

JANUARY 1, 2017 QUARTERLY STATUS REPORT

During this reporting period, (b) (6), (b) (7)(C), (b) (3) (A) [REDACTED]

APRIL 1, 2017 QUARTERLY STATUS REPORT

During this reporting period, (b) (6), (b) (7)(C), (b) (3) (A) [REDACTED]

APRIL 5, 2017 CASE CLOSING STATUS REPORT

On April 4, 2017, (b) (6), (b) (7)(C) [REDACTED] (b) (6), (b) (7)(C) [REDACTED]

USAO SDNY has declined to prosecute this matter. Based the USAO SDNY's declination and (b) (6), (b) (7)(C) [REDACTED] (b) (6), (b) (7)(C) [REDACTED], as well as a lack of any additional logical leads, no further investigative activity is warranted.



OFFICE OF INSPECTOR GENERAL
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU

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Confidential**

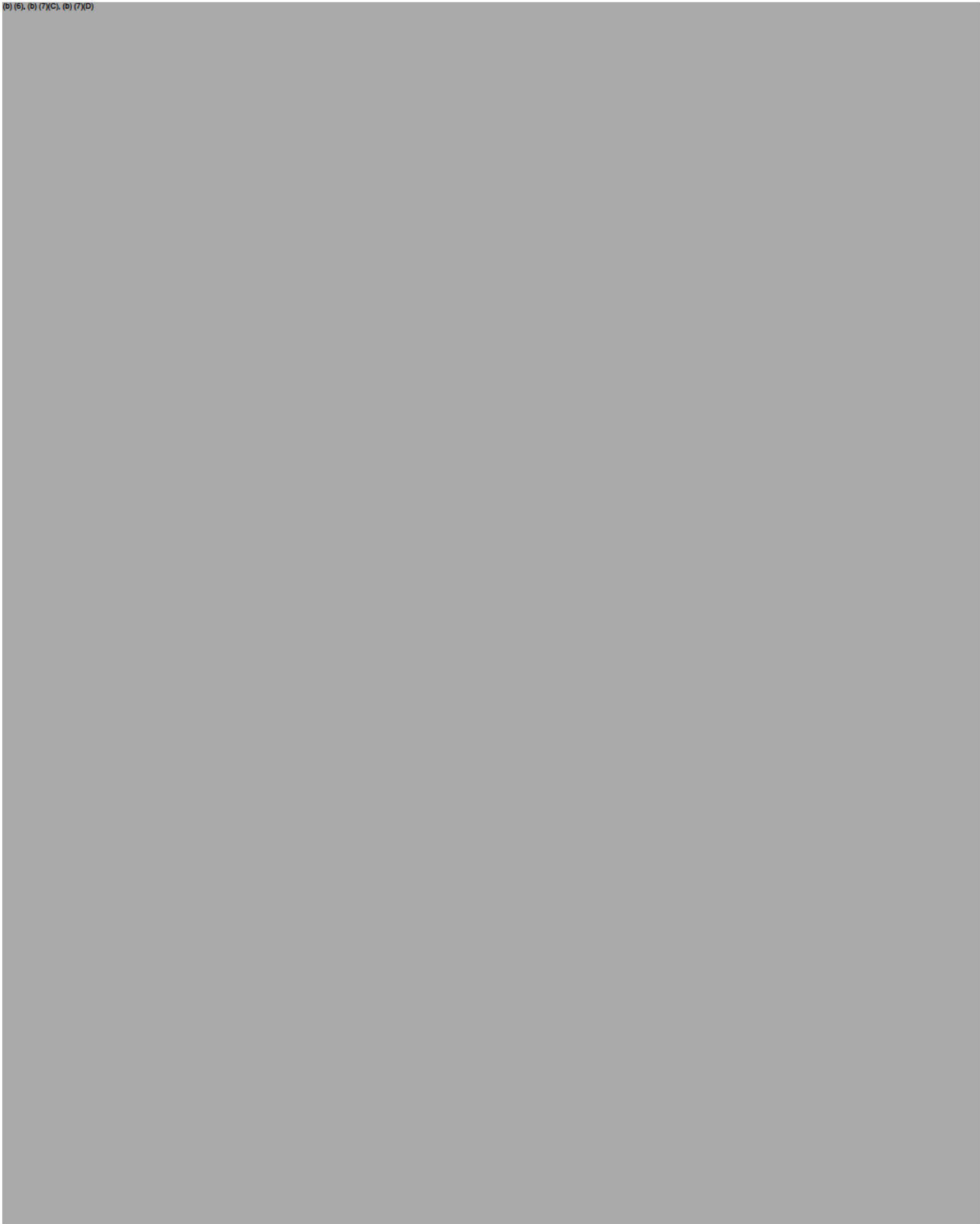
MEMORANDUM

DATE: February 15, 2013
TO: (b) (6), (b) (7)(C)
FROM: (b) (6), (b) (7)(C)
SUBJECT: Allegations from Confidential Informant

On February 14, 2013, I received a call from an individual hereinafter referred to as (CI-1) who requested anonymity. (CI-1) stated that he/she was aware of the Program for Security of FOMC Information. (CI-1) stated that when a breach of FOMC information is identified or suspected, the program requires the information to be promptly reported to the FOMC Secretary and the FOMC General Counsel who are required in consultation with the Chairman to conduct and initial review of the matter. At that point, the General Counsel determines whether to request the Board's Office of Inspector General (OIG) to conduct a full investigation.

(b) (6), (b) (7)(C), (b) (7)(D)

(b) (6), (b) (7)(C), (b) (7)(D)



(b) (6), (b) (7)(C), (b) (7)(D)

I have attached below, excerpts from the Program on Security for FOMC Information below.

C. If any FOMC participant or Federal Reserve System staff person becomes aware of an incident in which FOMC information security rules may have been breached, that individual should promptly alert the FOMC Secretary. The Secretary and the FOMC's General Counsel will perform an initial review of the incident, in consultation with the Chairman and with the President of a specific Federal Reserve Bank if the violation appears to have involved staff within that Bank. In light of that initial review, the General Counsel will determine whether to request the Board's Inspector General to perform a full investigation of the incident. The results of that investigation will be reported to the Chairman, who will inform the Committee about those results as appropriate.

D. If a staff person at the Federal Reserve Board has been found to be responsible for a breach of FOMC information security, the Chairman will determine the consequences for that individual. If a staff person at a Federal Reserve Bank has been found to be responsible for a breach of FOMC information security, the President of that Bank will determine the consequences for that individual and will inform the Chairman of that determination. If an FOMC participant has been found to be responsible for a breach of FOMC information security, the Committee will determine the consequences for that participant. The Inspector General will contact law enforcement agencies whenever an investigation indicates that criminal statutes may have been violated.



Investigative Plan

I20130013-HQO



Case Title: Release of Confidential Information - FOMC

Allegation:

The OIG initiated this investigation based on an anonymous complaint regarding the possible leak of confidential Federal Open Market Committee (FOMC) meeting information. It is alleged that a Board employee is believed to have leaked FOMC information to a private citizen prior to the information being released to the public. According to the information provided in the complaint, the private citizen is an executive at an investment firm who published the FOMC information in a newsletter subscribed to by the executive's clients. It is also alleged that the executive's firm and its clients may have been able to profit from this information. (b) (6), (b) (7)(C)

(b) (6), (b) (7)(C) The OIG is investigating this matter for possible criminal and administrative violations.

Possible Laws and Regulations Violated:

18 USC§1905 Disclosure of Confidential Information

Key Investigative Activities: *(Planned interviews, Records to be obtained, etc)*

(b) (5)



Other Sources of *(Applicable Policies and Procedures, On-Line Databases, NCIC, etc)*

Review Wall Street Journal Article by John Hilensrath dated September 28, 2012. Locate and review Regina Schleiger's newsletter for Medley Global Advisors.

Special Investigative Techniques: *Computer Forensics, Mail Cover, Consensual Meeting, Surveillance, etc)*

No special investigative techniques are anticipated.

Special Issues/Problems:

(b) (5)



Investigative Location:

The investigation is located in Washington, District of Columbia

Travel:

No travel is anticipated at this time.

Edit Authorization:



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM OF INTERVIEW

Redacted

On March 13, 2013, CS20130001 was interviewed at Juan Valdez Coffee Shop, 1889 F St NW Washington, DC 20006 by Special Agents in Charge (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) Office of the Inspector General for the Board of Governors of the Federal Reserve System. After being advised of the identity of the interviewing agent(s) and the purpose of the interview, CS20130001 provided the following information:

(b) (6), (b) (7)(C), (b) (7)(D)



Date of Activity: March 13, 2013		Location: Juan Valdez Coffee Shop, 1889 F St NW Washington, District of Columbia 20006
Conducted by: (b) (6), (b) (7)(C)		Case Number: I 2013 0013
Transcribed By: (b) (6), (b) (7)(C)	Date Transcribed: March 28, 2013	Reviewed By:

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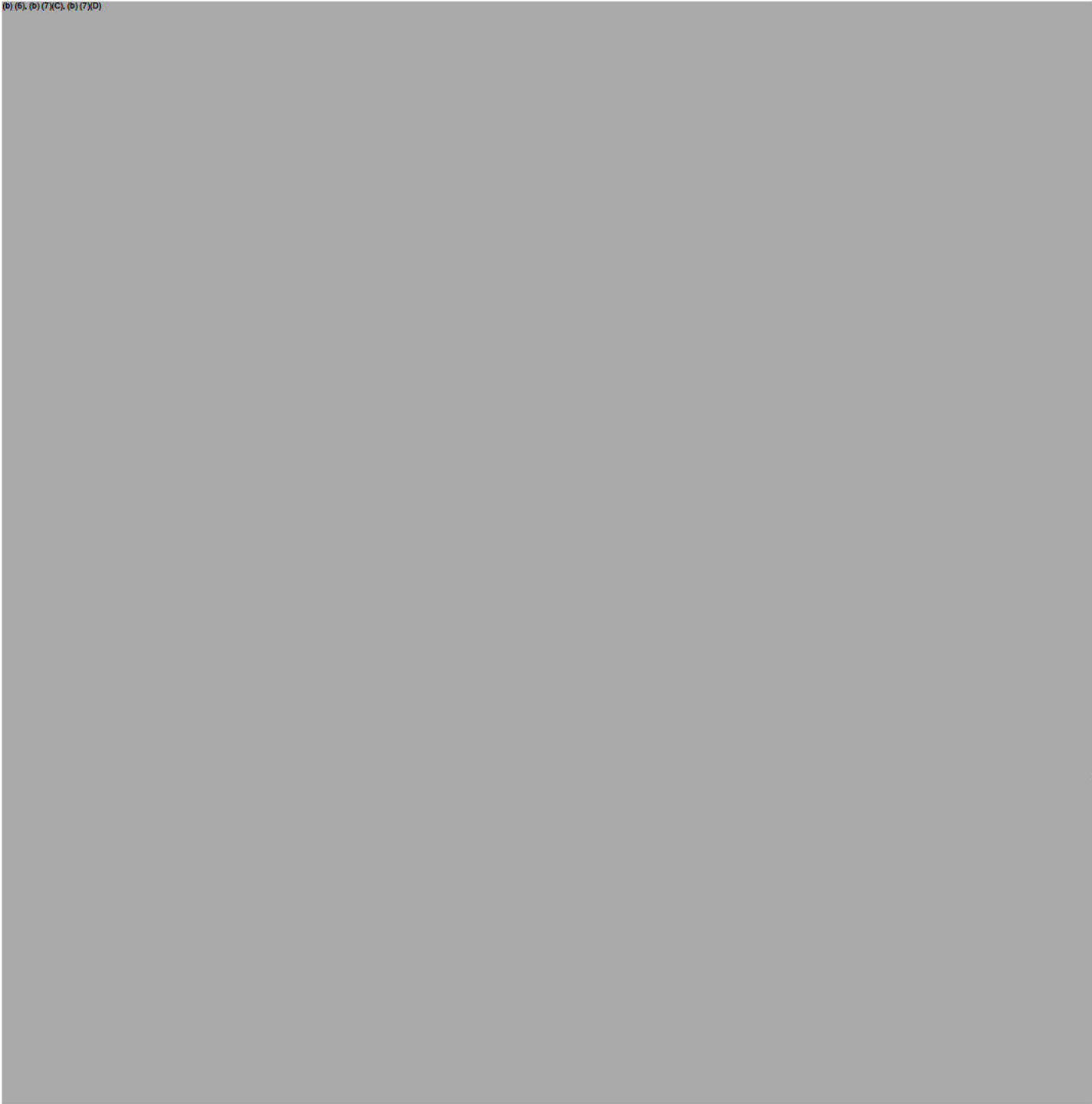
AUTHORIZED FOR RELEASE

Interview of (b) (6), (b) (7)(C), (b) (7)(D) CS20130001

- 2 -

March 13, 2013

(b) (6), (b) (7)(C), (b) (7)(D)





Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM OF INTERVIEW

On March 13, 2013, (b) (6), (b) (7)(C) was interviewed at Juan Valdez Coffee Shop, 1889 F St NW Washington, DC 20006 by Special Agents in Charge (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C), Office of the Inspector General for the Board of Governors of the Federal Reserve System. After being advised of the identity of the interviewing agent(s) and the purpose of the interview, (b) (6), (b) (7)(C) provided the following information:

(b) (6), (b) (7)(C), (b) (7)(D)



Date of Activity: March 13, 2013		Location: Juan Valdez Coffee Shop, 1889 F St NW Washington, District of Columbia 20006
Conducted by: (b) (6), (b) (7)(C)		Case Number: I 2013 0013
Transcribed By: (b) (6), (b) (7)(C)	Date Transcribed: March 28, 2013	Reviewed By:

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Interview of (b) (6), (b) (7)(C)

- 2 -

March 13, 2013

(b) (6), (b) (7)(C), (b) (7)(D)





**Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau**

Memorandum of Activity

Referral to Securities and Exchange Commission

On December 2, 2014, the reporting agent contacted (b) (6), (b) (7)(C), Attorney, Division of Enforcement and Market Abuse, United States Securities and Exchange Commission (SEC) by telephone at (b) (6), (b) (7)(C). The purpose of the telephone call was to discuss the details of OIG case number I20130013-HQO – Release of Confidential Information-FOMC. (b) (6), (b) (7)(C) was provided details related to the leak of confidential FOMC information that appeared in a Wall Street Journal article on September 28, 2013 by Jon Hilsenrath and in a newsletter by Regina Schleiger for Medley Global Advisors that appeared on October 4, 2012.

(b) (6), (b) (7)(C) was advised that the OIG had concluded its investigation and was providing the details to the SEC to determine if they should review the matter for illegal trading that could have occurred based on the leak of FOMC information. The reporting agent advised (b) (6), (b) (7)(C) that (b) (6), (b) (7)(C) would speak with OIG counsel in order to provide investigative documents to the SEC for review. The documents were provided to OIG counsel and are pending review.

Attachments:

- Recommendation to Close I20130013
- LSAP Paper
- LSAP Briefing

Date of activity: December 2, 2014	Case number: I20130013-HQO
Conducted by: (b) (6), (b) (7)(C)	Date prepared: December 2, 2014

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Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMO

Date: December 5, 2013
To: File I 2013 0013 HQO
From: SAC (b) (6), (b) (7)(C)
Subject: Email Activity

On December 5, 2013, the reporting agent received from the Board's Mobile and Messaging Group email files related to conversations to and from John Hilensrath, Wall Street Journal, the domain @medleyadvisors.com and (b) (6), (b) (7)(C) @medleyadvisors.com. The emails will be reviewed for conversations with Board personnel whose names appear on the list provided by (b) (6), (b) (7)(C) of those contacted regarding the leak of FOMC information.

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Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM OF INTERVIEW

On May 1, 2014, CS20130001 (Source) was interviewed at Paul's Bistro, 20th and Pennsylvania, Washington DC by Special Agents in Charge (b) (6), (b) (7)(C), Office of the Inspector General for the Board of Governors of the Federal Reserve System. After being advised of the identity of the interviewing agent(s) and the purpose of the interview, CS20130001 provided the following information:

(b) (6), (b) (7)(C), (b) (7)(D)



Date of Activity:		Location:
Conducted by:		Case Number:
Transcribed By:	Date Transcribed:	Reviewed By:

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**Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau**

Memorandum of Activity

INTERVIEW OF (b) (6), (b) (7)(C)

On May 5, 2015, Senior Special Agent (b) (6), (b) (7)(C), Special Agent (b) (6), (b) (7)(C), both of the Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB) in conjunction with Assistant United States Attorney (b) (6), (b) (7)(C), Assistant United States Attorney (b) (6), (b) (7)(C) and Federal Bureau of Investigation Special Agent (b) (6), (b) (7)(C) interviewed (b) (6), (b) (7)(C), a (b) (6), (b) (7)(C)

Attachment: FBI 302

Date of activity: 5/5/15	Case number: I20130013-HQO
Conducted by: SSA (b) (6), (b) (7)(C)	Date prepared: 05/14/15

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**Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau**

Memorandum of Activity

INTERVIEW OF (b) (6), (b) (7)(C)

On May 5, 2015, Senior Special Agent (b) (6), (b) (7)(C), Special Agent (b) (6), (b) (7)(C), both of the Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB) in conjunction with Assistant United States Attorney (b) (6), (b) (7)(C), Assistant United States Attorney (b) (6), (b) (7)(C) and Federal Bureau of Investigation Special Agent (b) (6), (b) (7)(C) interviewed (b) (6), (b) (7)(C)

[Redacted]

Attachment: FBI 302

Date of activity: 5/5/15	Case number: I20130013-HQO
Conducted by: SSA (b) (6), (b) (7)(C)	Date prepared: 05/14/15

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**Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau**

Memorandum of Activity

INTERVIEW OF (b) (6), (b) (7)(C)

On May 14, 2015, Senior Special Agent (b) (6), (b) (7)(C), Senior Special Agent (b) (6), (b) (7)(C) and Attorney (b) (6), (b) (7)(C), all of the Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB) in conjunction with Assistant United States Attorney (b) (6), (b) (7)(C), Assistant United States Attorney (b) (6), (b) (7)(C) and Federal Bureau of Investigation Special Agent (b) (6), (b) (7)(C) interviewed (b) (6), (b) (7)(C), a former (b) (6), (b) (7)(C).

Attachment: FBI 302

Date of activity: 5/14/15	Case number: I20130013-HQO
Conducted by: SSA (b) (6), (b) (7)(C)	Date prepared: 05/23/15

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**Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau**

Memorandum of Activity

INTERVIEW OF (b) (6), (b) (7)(C)

On May 6, 2015, Senior Special Agent (b) (6), (b) (7)(C) and Senior Special Agent (b) (6), (b) (7)(C), both of the Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB) in conjunction with Assistant United States Attorney (b) (6), (b) (7)(C), Assistant United States Attorney (b) (6), (b) (7)(C) and Federal Bureau of Investigation Special Agent (b) (6), (b) (7)(C) interviewed (b) (6), (b) (7)(C).

Attachment: FBI 302

Date of activity: 5/6/15	Case number: I20130013-HQO
Conducted by: SSA (b) (6), (b) (7)(C)	Date prepared: 05/15/15

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**Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau**

Memorandum of Activity

INTERVIEW OF (b) (6), (b) (7)(C)

On May 6, 2015, Senior Special Agent (b) (6), (b) (7)(C), Senior Special Agent (b) (6), (b) (7)(C) and Attorney (b) (6), (b) (7)(C), all of the Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB) in conjunction with Assistant United States Attorney (b) (6), (b) (7)(C), Assistant United States Attorney (b) (6), (b) (7)(C) and Federal Bureau of Investigation Special Agent (b) (6), (b) (7)(C) interviewed (b) (6), (b) (7)(C).

Attachment: FBI 302

Date of activity: 5/6/15	Case number: I20130013-HQO
Conducted by: (b) (6), (b) (7)(C)	Date prepared: 05/15/15

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**Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau**

Memorandum of Activity

INTERVIEW OF (b) (6), (b) (7)(C)

On May 5, 2015, Senior Special Agent (b) (6), (b) (7)(C), Attorney (b) (6), (b) (7)(C), both of the Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB) in conjunction with Assistant United States Attorney (b) (6), (b) (7)(C), Assistant United States Attorney (b) (6), (b) (7)(C) and Federal Bureau of Investigation Special Agent (b) (6), (b) (7)(C) interviewed (b) (6), (b) (7)(C), a (b) (6), (b) (7)(C).

Attachment: FBI 302

Date of activity: 5/5/15	Case number: I20130013-HQO
Conducted by: SSA (b) (6), (b) (7)(C)	Date prepared: 05/14/15

This document is the property of the Office of Inspector General and may not be copied or disclosed without the permission of the Office of Inspector General. Appropriate safeguards should be provided for the information contained herein. Public disclosure of this information is determined by the Freedom of Information Act, Title 5, U.S.C. § 552, and the Privacy Act, Title 5, U.S.C. § 552a.



**Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau**

Memorandum of Activity

INTERVIEW OF (b) (6), (b) (7)(C)

On May 5, 2015, Senior Special Agent (b) (6), (b) (7)(C), Special Agent (b) (6), (b) (7)(C), both of the Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB) in conjunction with Assistant United States Attorney (b) (6), (b) (7)(C), Assistant United States Attorney (b) (6), (b) (7)(C) and Federal Bureau of Investigation Special Agent (b) (6), (b) (7)(C) interviewed (b) (6), (b) (7)(C)

Attachment: FBI 302

Date of activity: 5/5/15	Case number: I20130013-HQO
Conducted by: SSA (b) (6), (b) (7)(C)	Date prepared: 05/14/15

This document is the property of the Office of Inspector General and may not be copied or disclosed without the permission of the Office of Inspector General. Appropriate safeguards should be provided for the information contained herein. Public disclosure of this information is determined by the Freedom of Information Act, Title 5, U.S.C. § 552, and the Privacy Act, Title 5, U.S.C. § 552a.



**Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau**

Memorandum of Activity

INTERVIEW OF (b) (6), (b) (7)(C)

On May 5, 2015, Senior Special Agent (b) (6), (b) (7)(C), Attorney (b) (6), (b) (7)(C), both of the Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB) in conjunction with Assistant United States Attorney (b) (6), (b) (7)(C), Assistant United States Attorney (b) (6), (b) (7)(C) and Federal Bureau of Investigation Special Agent (b) (6), (b) (7)(C) interviewed (b) (6), (b) (7)(C) of the Board.

Attachment: FBI 302

Date of activity: 5/5/15	Case number: I20130013-HQO
Conducted by: SSA (b) (6), (b) (7)(C)	Date prepared: 05/14/15

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**Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau**

Memorandum of Activity

INTERVIEW OF (b) (6), (b) (7)(C)

On May 5, 2015, Senior Special Agent (b) (6), (b) (7)(C), Attorney (b) (6), (b) (7)(C), both of the Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB) in conjunction with Assistant United States Attorney (b) (6), (b) (7)(C), Assistant United States Attorney (b) (6), (b) (7)(C) and Federal Bureau of Investigation Special Agent (b) (6), (b) (7)(C) interviewed (b) (6), (b) (7)(C)

Attachment: FBI 302

Date of activity: 5/5/15	Case number: I20130013-HQO
Conducted by: SSA (b) (6), (b) (7)(C)	Date prepared: 05/14/15

This document is the property of the Office of Inspector General and may not be copied or disclosed without the permission of the Office of Inspector General. Appropriate safeguards should be provided for the information contained herein. Public disclosure of this information is determined by the Freedom of Information Act, Title 5, U.S.C. § 552, and the Privacy Act, Title 5, U.S.C. § 552a.



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Memorandum of Activity

INTERVIEW OF (b) (6), (b) (7)(C)

On May 14, 2015, Senior Special Agent (b) (6), (b) (7)(C), Senior Special Agent (b) (6), (b) (7)(C) and Attorney (b) (6), (b) (7)(C), all of the Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB) in conjunction with Assistant United States Attorney (b) (6), (b) (7)(C), Assistant United States Attorney (b) (6), (b) (7)(C) and Federal Bureau of Investigation Special Agent (b) (6), (b) (7)(C) interviewed (b) (6), (b) (7)(C). (b) (6), (b) (7)(C) (b) (6), (b) (7)(C)

Attachment: FBI 302

Date of activity: 5/14/15	Case number: 120130013-HQO
Conducted by: SSA (b) (6), (b) (7)(C)	Date prepared: 05/23/15

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**Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau**

Memorandum of Activity

INTERVIEW OF (b) (6), (b) (7)(C)

On May 6, 2015, Senior Special Agent (b) (6), (b) (7)(C), Senior Special Agent (b) (6), (b) (7)(C) and Attorney (b) (6), (b) (7)(C), all of the Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB) in conjunction with Assistant United States Attorney (b) (6), (b) (7)(C), Assistant United States Attorney (b) (6), (b) (7)(C) and Federal Bureau of Investigation Special Agent (b) (6), (b) (7)(C) interviewed (b) (6), (b) (7)(C)

Attachment: FBI 302

Date of activity: 5/6/15	Case number: I20130013-HQO
Conducted by: SSA (b) (6), (b) (7)(C)	Date prepared: 05/15/15

This document is the property of the Office of Inspector General and may not be copied or disclosed without the permission of the Office of Inspector General. Appropriate safeguards should be provided for the information contained herein. Public disclosure of this information is determined by the Freedom of Information Act, Title 5, U.S.C. § 552, and the Privacy Act, Title 5, U.S.C. § 552a.



Office of Inspector General
 Board of Governors of the Federal Reserve System
 Consumer Financial Protection Bureau

Memorandum of Activity

INTERVIEW OF (b) (6), (b) (7)(C)

On February 3, 2016, 2016, Senior Special Agent (b) (6), (b) (7)(C) and Attorney (b) (6), (b) (7)(C), both of the Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB) in conjunction with Assistant United States Attorney (b) (6), (b) (7)(C) and Federal Bureau of Investigation Special Agent (b) (6), (b) (7)(C) interviewed (b) (6), (b) (7)(C), Board. (b) (6), (b) (7)(C) agreed to the recording of the interview.

Attachment: Interview Transcription

Date of activity: 02/03/16	Case number: I20010013-HQO
Conducted by: SSA (b) (6), (b) (7)(C)	Date prepared: 02/13/16

This document is the property of the Office of Inspector General and may not be copied or disclosed without the permission of the Office of Inspector General. Appropriate safeguards should be provided for the information contained herein. Public disclosure of this information is determined by the Freedom of Information Act, Title 5, U.S.C. § 552, and the Privacy Act, Title 5, U.S.C. § 552a.



**Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau**

Memorandum of Activity

INTERVIEW OF (b) (6), (b) (7)(C)

On February 17, 2016, Senior Special Agent (b) (6), (b) (7)(C) and Attorney (b) (6), (b) (7)(C), both of the Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB) in conjunction with Assistant United States' Attorneys (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) interviewed (b) (6), (b) (7)(C), (b) (6), (b) (7)(C), Board. (b) (6), (b) (7)(C) agreed to the recording of the interview.

Attachment: Interview Transcription

Date of activity: 02/17/16	Case number: I20010013-HQO
Conducted by: SSA (b) (6), (b) (7)(C)	Date prepared: 02/26/16

This document is the property of the Office of Inspector General and may not be copied or disclosed without the permission of the Office of Inspector General. Appropriate safeguards should be provided for the information contained herein. Public disclosure of this information is determined by the Freedom of Information Act, Title 5, U.S.C. § 552, and the Privacy Act, Title 5, U.S.C. § 552a.



**Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau**

Memorandum of Activity

INTERVIEW OF (b) (6), (b) (7)(C)

On April 20, 2016, Senior Special Agent (b) (6), (b) (7)(C) and Attorney (b) (6), (b) (7)(C), both of the Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB) in conjunction with Assistant United States Attorneys (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) interviewed (b) (6), (b) (7)(C), (b) (6), (b) (7)(C). (b) (6), (b) (7)(C) agreed to the recording of the interview.

Attachment: Interview Transcription

Date of activity: 04/20/16	Case number: I20010013-HQO
Conducted by: SSA (b) (6), (b) (7)(C)	Date prepared: 04/30/16

This document is the property of the Office of Inspector General and may not be copied or disclosed without the permission of the Office of Inspector General. Appropriate safeguards should be provided for the information contained herein. Public disclosure of this information is determined by the Freedom of Information Act, Title 5, U.S.C. § 552, and the Privacy Act, Title 5, U.S.C. § 552a.



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Memorandum of Activity

INTERVIEW OF (b) (6), (b) (7)(C)

On October 7, 2015, Senior Special Agent (b) (6), (b) (7)(C) and Attorney (b) (6), (b) (7)(C), both of the Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB) in conjunction with Assistant United States Attorney (b) (6), (b) (7)(C), Assistant United States Attorney (b) (6), (b) (7)(C), (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C), both of the US Commodity Futures Trading Commission, and Federal Bureau of Investigation Special Agent (b) (6), (b) (7)(C) interviewed (b) (6), (b) (7)(C), the (b) (6), (b) (7)(C) . (b) (6), (b) (7)(C) was (b) (6), (b) (7)(C) (b) (6), (b) (7)(C), (b) (6), (b) (7)(C), and (b) (6), (b) (7)(C) (b) (6), (b) (7)(C) .

Attachment: FBI 302

Date of activity: 10/7/15	Case number: I20130013-HQO
Conducted by: SSA (b) (6), (b) (7)(C)	Date prepared: 10/16/15

This document is the property of the Office of Inspector General and may not be copied or disclosed without the permission of the Office of Inspector General. Appropriate safeguards should be provided for the information contained herein. Public disclosure of this information is determined by the Freedom of Information Act, Title 5, U.S.C. § 552, and the Privacy Act, Title 5, U.S.C. § 552a.



OFFICE OF INSPECTOR GENERAL
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU

Restricted-FR
Confidential

MEMORANDUM

DATE: February 15, 2013

TO: (b) (6), (b) (7)(C)

FROM: (b) (6), (b) (7)(C)

SUBJECT: Allegations from Confidential Informant

On February 14, 2013, I received a call from an individual hereinafter referred to as (CI-1) who requested anonymity. (CI-1) stated that he/she was aware of the Program for Security of FOMC Information. (CI-1) stated that when a breach of FOMC information is identified or suspected, the program requires the information to be promptly reported to the FOMC Secretary and the FOMC General Counsel who are required in consultation with the Chairman to conduct and initial review of the matter. At that point, the General Counsel determines whether to request the [redacted] d's Office of Inspector General (OIG) to conduct a full investigation.

(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

(b) (6)

(b) (6), (b) (7)(C), (b) (7)(D)

(b) (6)

[Large redacted area covering the majority of the page content]

(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

(b) (5)



(b) (5)

(b) (5)

(b) (6), (b) (7)(C), (b) (7)(D)

(b) (6), (b) (7)(C), (b) (7)(D)

I have attached below, excerpts from the Program on Security for FOMC Information below.

C. If any FOMC participant or Federal Reserve System staff person becomes aware of an incident in which FOMC information security rules may have been breached, that individual should promptly alert the FOMC Secretary. The Secretary and the FOMC's General Counsel will perform an initial review of the incident, in consultation with the Chairman and with the President of a specific Federal Reserve Bank if the violation appears to have involved staff within that Bank. In light of that initial review, the General Counsel will determine whether to request the Board's Inspector General to perform a full investigation of the incident. The results of that investigation will be reported to the Chairman, who will inform the Committee about those results as appropriate.

D. If a staff person at the Federal Reserve Board has been found to be responsible for a breach of FOMC information security, the Chairman will determine the consequences for that individual. If a staff person at a Federal Reserve Bank has been found to be responsible for a breach of FOMC information security, the President of that Bank will determine the consequences for that individual and will inform the Chairman of that determination. If an FOMC participant has been found to be responsible for a breach of FOMC information security, the Committee will determine the consequences for that participant. The Inspector General will contact law enforcement agencies whenever an investigation indicates that criminal statutes may have been violated.

(b) (6), (b) (7)(C)

From: (b) (6), (b) (7)(C)
Sent: Tuesday, December 02, 2014 10:48 AM
To: (b) (6), (b) (7)(C)
Cc: (b) (6), (b) (7)(C)
Subject: Investigative Summary for SEC -FRONLY-
Attachments: LSAP_Paper.pdf; LSAP-Briefing.pdf; FOMC Closing Memo_v6_Final-08-11-2014.pdf

(b) (6), (b) (7)(C)

As we discussed, attached is case summary for the FOMC investigation. I spoke with the SEC this morning and they would like to review a copy of this report. We will also probably meet at some point in the future to discuss matters in detail. Please review the report along with the other attached documents which are support for the information contained in the FOMC minutes. The additional documents were identified during the investigation and are related to the securities discussed in the FOMC minutes and the articles in question.

Please let me know if you have any questions.

(b) (6), (b) (7)(C) | Special Agent in Charge, (b) (6), (b) (7)(C)
 Office of Inspector General
 Board of Governors of the Federal Reserve System | Consumer Financial Protection Bureau
 (b) (6), (b) (7)(C) | (b) (6), (b) (7)(C)
 OIG Hotline: 800-827-3340 | oighotline@frb.gov

www.federalreserve.gov/oig

(b) (6), (b) (7)(C)

From: (b) (6), (b) (7)(C)
Sent: Wednesday, December 04, 2013 2:34 PM
To: (b) (6), (b) (7)(C)
Subject: Question -FRSONLY-

(b) (6), (b) (7)(C)

In answer to your question at this afternoon's meeting, the Monetary Affairs staff member who had the assignment of drafting the Minutes for the September 2012 FOMC meeting was (b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

From: (b) (6), (b) (7)(C)
Sent: Friday, August 23, 2013 2:47 PM
To: (b) (6), (b) (7)(C)
Subject: Minutes Authors -FRSONLY-

(b) (6), (b) (7)(C) ... Just getting back on part of the information you requested. The authors of the September 2012 minutes are listed below. As we discussed, the primary overall author is the one focused on the policymakers discussion of the economic and policy outlook—the so-called “policy” portion of the minutes. The other authors cover the historical portion of the minutes. As we discussed, that is a much less sensitive aspect of the overall minutes process.

(b) (6), (b) (7)(C) Policy Minutes Primary Author

(b) (6), (b) (7)(C) Historical Minutes

(b) (6), (b) (7)(C) Historical Minutes

I’m still trying to track down all the interviews I participated in and will try to send you that information soon.

Thanks.

(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

From: (b) (6), (b) (7)(C)
Sent: Tuesday, April 16, 2013 4:56 PM
To: (b) (6), (b) (7)(C)
Cc: (b) (6), (b) (7)(C)
Subject: FW: Employee list -FRSONLY-

Done.

From: (b) (6), (b) (7)(C)
Sent: Tuesday, April 16, 2013 4:56 PM
To: (b) (6), (b) (7)(C)
Subject: RE: Employee list -FRSONLY-

(b) (6), (b) (7)(C)

Thanks for sending this information.

I want to revisit the issue of access to your report. Either a copy or be able to read it. Let's discuss soon, OK?

(b) (6), (b) (7)(C) will be following up with you shortly on some matters (b) (6), (b) (7)(C) discussed with you during your interview.

Thanks!

(b) (6), (b) (7)(C)

From: (b) (6), (b) (7)(C)
Sent: Monday, April 15, 2013 10:08 AM
To: (b) (6), (b) (7)(C)
Subject: Employee list -FRSONLY-
Importance: High

(b) (6), (b) (7)(C)

Here's the list of Board employees that we contacted during our review of the (b) (6), (b) (7)(C) matter.
All the best!

(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

From: (b) (6), (b) (7)(C)
Sent: Monday, April 15, 2013 10:43 AM
To: (b) (6), (b) (7)(C); (b) (6), (b) (7)(C); (b) (6), (b) (7)(C); (b) (6), (b) (7)(C)
Subject: FW: Employee list -FRSONLY-
Attachments: (b) (6), (b) (7)(C) Review List.ig.xlsx

Importance: High

Let's get together and discuss next steps.

From: (b) (6), (b) (7)(C)
Sent: Monday, April 15, 2013 10:08 AM
To: (b) (6), (b) (7)(C)
Subject: Employee list -FRSONLY-
Importance: High

(b) (6), (b) (7)(C)

Here's the list of Board employees that we contacted during our review of the (b) (6), (b) (7)(C) matter.
All the best!

(b) (6), (b) (7)(C)

First	Last	Division
(b) (6), (b) (7)(C)		Legal Division
		Legal Division
		Division of Monetary Affairs
		Division of Research and Statistics
		Office of Board Members
		Division of International Finance
		Division of Monetary Affairs
		Division of Monetary Affairs
		Division of Banking Supervision and Regulation
		Division of Monetary Affairs
		Division of International Finance
		Division of Monetary Affairs
		Division of Research and Statistics
		Division of Monetary Affairs
		Division of International Finance
		Division of Monetary Affairs
		Office of Board Members
		Office of Board Members
		Division of Monetary Affairs
		Division of Research and Statistics
		Division of Research and Statistics
		Division of Monetary Affairs
		Division of International Finance
		Office of Board Members
		Division of Monetary Affairs
		Division of Banking Supervision and Regulation
		Office of Board Members
		Office of Board Members
		Division of Monetary Affairs
		Division of Monetary Affairs
		Division of Banking Supervision and Regulation
		Division of Monetary Affairs
		Division of Monetary Affairs

First	Last	Division
(b) (6), (b) (7)(C)		Division of International Finance
		Division of Research and Statistics
		Division of Research and Statistics
		Division of Monetary Affairs
		Division of Monetary Affairs
		Office of Board Members
		Division of Research and Statistics
		Division of International Finance
		Division of Research and Statistics
		Office of Financial Stability Policy and Research
		Office of Board Members
		Division of Research and Statistics
		Office of Financial Stability Policy and Research
		Division of Monetary Affairs
		Division of Monetary Affairs
		Division of Monetary Affairs
		Office of Board Members
		Office of Board Members
		Division of Monetary Affairs
		Division of Monetary Affairs
		Office of Board Members
		Office of Board Members
		Division of Monetary Affairs
		Division of Monetary Affairs
		Division of Monetary Affairs
		Division of Research and Statistics
		Division of Research and Statistics
		Office of Board Members
		Division of Research and Statistics
		Office of Board Members
	Office of Board Members	
	Office of Board Members	
	Office of Board Members	

First	Last	Division
(b) (6), (b) (7)(C)		Division of Research and Statistics
		Division of Research and Statistics
		Office of Board Members
		Division of Monetary Affairs
		Division of Research and Statistics
		Division of Research and Statistics
		Office of Board Members
		Division of Monetary Affairs
		Office of Board Members
		Office of Board Members
		Division of Research and Statistics
		Office of Board Members
		Division of Research and Statistics
		Division of Research and Statistics
		Division of Research and Statistics
		Division of Monetary Affairs
		Division of Monetary Affairs
		Division of Research and Statistics
		Division of Monetary Affairs
		Division of Monetary Affairs
† The individuals on this list were contacted as part of the FOMC review.		
* These individuals did not receive written questionnaires as part of the FOMC review, but were personally contacted and questioned as to whether they had any contacts with (b) (6), (b) (7)(C) during the relevant time period. These individuals were contacted personally because their potential access to relevant Class I FOMC information was for limited or ministerial purposes (e.g., copy center employees who prepared Tealbook Book B).		

Excel

(b) (6), (b) (7)(C)

FRB

Search Criteria

3/25/2014 5:49:27 PM EDT

Page 1 of 1

<u>Start Date/Time</u> ▲	<u>Duration</u>	<u>Extension Used</u>	<u>Reported Dialed/CLI Number</u>	<u>Call Destination</u>	<u>Call Type</u>	<u>Trunk</u>	<u>Cost</u>
8/23/2012 10:32:36 AM	00:21:24	3799	(b) (6), (b) (7)(C)	NY CZ01A, NY	National	#91060	\$5.50
8/23/2012 10:54:18 AM	00:22:42	3799	(b) (6), (b) (7)(C)	NY CZ01A, NY	National	#91078	\$5.75
8/23/2012 10:55:00 AM	00:00:00	3799	(b) (6), (b) (7)(C)	NY CZ01A, NY	National	#91077	\$0.00
9/6/2012 1:01:30 PM	00:00:30	3799	(b) (6), (b) (7)(C)	NY CZ01A, NY	Incoming	#70003	\$0.00
9/21/2012 7:56:54 AM	00:00:06	3799	(b) (6), (b) (7)(C)	NY CZ01A, NY	Incoming	#70002	\$0.00
9/21/2012 7:57:54 AM	00:03:06	3799	(b) (6), (b) (7)(C)	NY CZ01A, NY	National	#91051	\$1.00
9/24/2012 10:03:30 AM	00:00:30	3799	(b) (6), (b) (7)(C)	NY CZ01A, NY	Incoming	#70012	\$0.00
9/24/2012 11:58:36 AM	00:00:24	3799	(b) (6), (b) (7)(C)	NY CZ01A, NY	National	#91169	\$0.25
						Total Calls	8
						Total Duration	00:48:42
						Total Cost	\$12.50

Page 1 of 1

(b) (6), (b) (7)(C) visited the Board 1 time on June 11, 2012.

SEARCH CRITERIA

You may use % as a wildcard on the indicated fields. (First Name, Last Name and Org/Agency)

FIRST NAME	(b) (6), (b) (7)(C) (%)	LAST NAME	(b) (6), (b) (7)(C) (%)
SOCIAL SECURITY #		DATE OF BIRTH	MM DD YYYY
PASSPORT #		COUNTRY OF ISSUE	-- SELECT --
ORG/AGENCY		VISITOR TYPE	-- SELECT --
VISIT DATE	MM/DD/YYYY	EMPLOYEE VISITED	-- SELECT --
REGISTRATION TITLE		ASSOCIATED EMPLOYEE	-- SELECT --
DESTINATION		PURPOSE OF VISIT	-- SELECT --
WAVES STATUS	-- SELECT --	ESCORT TYPE	-- SELECT --

SEARCH RESET FORM

1 record(s) found matching your criteria.

SEARCH RESULTS										
NAME	ORG/AGENCY	TYPE	VISIT PURPOSE	DESTINATION	START DATE	END DATE	ESCORT TYPE	ASSOCIATED EMPLOYEE	STATUS	DETAILS
(b) (6), (b) (7)(C)	Medley Global Advisors	Visitor	Meeting	(b) (6), (b) (7)(C)	06/11/2012	06/11/2012	Division	LEO Registration	Signed-In	

Visitor Registration at the Federal Reserve Board

CLEAR PENDING SEARCH VISITORS HELP

RESTRICTED FR

ABOUT THE VISITOR

* Required Field

* FIRST NAME	(b) (6), (b) (7)(C)	* LAST NAME	(b) (6), (b) (7)(C)	M.I.	
* ORG/AGENCY	Medley Global Advisors	* VISITOR TYPE	Visitor		
SOCIAL SECURITY #		DATE OF BIRTH			
PASSPORT #		COUNTRY OF ISSUE			
* ESCORT TYPE	Division	* TIME EXPECTED	10 00 AM		
EMAIL					

ABOUT THE VISIT

Required Field
By selecting "N/A" in this drop-down, a new visit registration will be created for this visitor with following visit information

* UPDATE VISIT INFORMATION FOR ALL VISITORS IN THIS VISIT? -- SELECT --

REGISTRATION TITLE		* PURPOSE OF VISIT	Meeting
* DESTINATION	(b) (6), (b) (7)(C)	* EMPLOYEE VISITED	(b) (6), (b) (7)(C)
* START DATE	6/11/2012	* PERSON TO BE CONTACTED UPON ARRIVAL	
* END DATE	6/11/2012	ALTERNATE CONTACT #1	
CONTACT CELL PHONE #		ALTERNATE CONTACT #2	

UPDATE INFORMATION

DELETE VISITOR UPDATE WAVES RELATED INFORMATION CANCEL

(b) (6), (b) (7)(C) visited the Board 29 times

- 12 times in 2012
- 14 times in 2013

(b) (6), (b) (7)(C)

From: (b) (6), (b) (7)(C)
Sent: Thursday, February 27, 2014 8:40 AM
To: (b) (6), (b) (7)(C)
Subject: RE: Request for Information -FRSONLY-
Attachments: IG Query - (b) (6), (b) (7)(C) docx

(b) (6), (b) (7)(C)

Sure, here is a Word Doc. Sorry about that. There are exportable spreadsheets that I can run too but they don't have the same level of detail.

From: (b) (6), (b) (7)(C)
Sent: Thursday, February 27, 2014 6:54 AM
To: (b) (6), (b) (7)(C)
Subject: RE: Request for Information -FRSONLY-
Importance: High

(b) (6), (b) (7)(C)

Thanks for the quick response. Is there any way to get a print out of this information. I cannot make out the details from the screen shot.

Thanks

From: (b) (6), (b) (7)(C)
Sent: Wednesday, February 26, 2014 4:02 PM
To: (b) (6), (b) (7)(C)
Cc: (b) (6), (b) (7)(C)
Subject: RE: Request for Information -FRSONLY-

(b) (6), (b) (7)(C)

If you require more information from the Visitor Registration System please let me know.

(b) (6), (b) (7)(C) visited the Board 29 times

- 12 times in 2012
- 14 times in 2013
- 3 times in 2014 – (1 Future visit scheduled for 2/28/2014)

Logged in as: (b) (6), (b) (7)(C) FEDERAL RESERVE BOARD

Visitor Registration at the Federal Reserve Board

[CLEAR PENDING](#) | [SEARCH VISITORS](#) | [HELP](#)

SEARCH CRITERIA

You may use % as a wildcard on the indicated fields. (First Name, Last Name and Org/Agency)

FIRST NAME	(%)	LAST NAME	(b) (6), (b) (7)(C)	(%)	
SOCIAL SECURITY #		DATE OF BIRTH	MM	DD	YYYY
PASSPORT #		COUNTRY OF ISSUE	- SELECT -		
ORG/AGENCY	(%)	VISITOR TYPE	- SELECT -		
VISIT DATE	MM/DD/YYYY	EMPLOYEE VISITED	- SELECT -		
REGISTRATION TITLE		ASSOCIATED EMPLOYEE	- SELECT -		
DESTINATION		PURPOSE OF VISIT	- SELECT -		
WAVES STATUS	- SELECT -	ESCORT TYPE	- SELECT -		

[SEARCH](#) | [RESET FORM](#)

32 record(s) found matching your criteria.

SEARCH RESULTS										
NAME	ORG/AGENCY	TYPE	VISIT PURPOSE	DESTINATION	START DATE	END DATE	ESCORT TYPE	ASSOCIATED EMPLOYEE	STATUS	DETAILS
(b) (6), (b) (7)(C)	Wall St Journal	Visitor	Meal with Board Staff	(b) (6), (b) (7)(C)	04/26/2012	04/26/2012	Division	(b) (6), (b) (7)(C)	Signed-In	
	Wall St Journal	Trusted	Interview		07/11/2013	07/11/2013	Division		Signed-In	
	Wall St Journal	Trusted	Interview		07/19/2013	07/19/2013	Division		Signed-In	
	Wall St Journal	Trusted	Interview		01/15/2013	01/15/2013	Division		Signed-In	
	Wall St Journal	Trusted	Interview		01/16/2013	01/15/2013	Division		Signed-In	
	Wall St Journal	Trusted	Meeting		02/01/2013	02/01/2013	Division		Signed-In	
	Wall St Journal	Trusted	Interview		03/19/2012	03/19/2012	Division		Signed-In	
	Wall St Journal	Trusted	Interview		03/02/2012	03/02/2012	Division		Signed-In	
	Wall St Journal	Trusted	Interview		07/23/2012	07/23/2012	Division		Signed-In	
	Wall St Journal	Trusted	Meal with Board Staff		04/26/2012	04/26/2012	Division		Signed-In	
	Wall St Journal	Trusted	Interview		06/04/2012	06/04/2012	Division		Signed-In	
	Wall St Journal	Trusted	Interview		12/03/2013	12/03/2013	Division		Signed-In	
	Wall St Journal	Trusted	Interview		11/28/2012	11/28/2012	Division		Signed-In	
	Wall St Journal	Trusted	Interview		07/19/2012	07/19/2012	Division		Signed-In	
	Wall St Journal	Trusted	Interview		07/03/2012	07/03/2012	Division		Signed-In	
	Wall St Journal	Trusted	Interview		09/03/2013	09/03/2013	Division		Signed-In	
	Wall St Journal	Trusted	Interview		09/04/2013	09/04/2013	Division		Signed-In	
	Wall St Journal	Trusted	Interview		06/04/2013	06/04/2013	Division		Signed-In	
	Wall St Journal	Trusted	Interview		01/17/2014	01/17/2014	Division		Signed-In	
	Wall St Journal	Trusted	Interview		02/28/2014	02/28/2014	Division		Approved	
	Wall St Journal	Visitor	Conference		01/29/2014	01/29/2014	Division		Signed-In	
	Wall St Journal	Visitor	Conference		03/20/2013	03/20/2013	Division		Signed-In	
	Wall St Journal	Visitor	Conference		04/25/2012	04/25/2012	Division		Signed-In	
	Wall St Journal	Visitor	Conference		04/22/2013	04/22/2013	Division		Signed-In	
	Wall Street Journal	Visitor	Interview		05/09/2012	05/09/2012	Division		Signed-In	
	Wall Street Journal	Visitor	Conference		09/13/2012	09/13/2012	Division		Signed-In	
	Wall Street Journal	Visitor	Conference		09/19/2013	09/19/2013	Division		Signed-In	
	Wall Street Journal	Visitor	Conference		06/20/2012	06/20/2012	Division		Signed-In	
	Wall Street Journal	Visitor	Conference		12/18/2013	12/18/2013	Division		Signed-In	
	WSJ	Trusted	Interview		03/06/2013	03/06/2013	Division		Signed-In	
	Wall St Journal	Trusted	Interview		02/06/2014	02/06/2014	Division		Signed-In	
	Wall St Journal	Visitor	Meal with Board Staff		04/26/2012	04/26/2012	Division		Signed-In	

Save As Excel File (.xls)

-(b) (6), (b) (7)(C) visited the Board 1 time on June 11, 2012.

SEARCH CRITERIA

You may use % as a wildcard on the indicated fields. (First Name, Last Name and Org/Agency)

FIRST NAME	(b) (6), (b) (7)(C) (%)	LAST NAME	(b) (6), (b) (7)(C) (%)
SOCIAL SECURITY #		DATE OF BIRTH	MM DD YYYY
PASSPORT #		COUNTRY OF ISSUE	-- SELECT --
ORG/AGENCY	(%)	VISITOR TYPE	-- SELECT --
VISIT DATE	MM/DD/YYYY	EMPLOYEE VISITED	-- SELECT --
REGISTRATION TITLE		ASSOCIATED EMPLOYEE	-- SELECT --
DESTINATION		PURPOSE OF VISIT	-- SELECT --
WAVES STATUS	-- SELECT --	ESCORT TYPE	-- SELECT --

SEARCH RESET FORM

1 record(s) found matching your criteria.

SEARCH RESULTS

NAME	ORGIAGENCY	TYPE	VISIT PURPOSE	DESTINATION	START DATE	END DATE	ESCORT TYPE	ASSOCIATED EMPLOYEE	STATUS	DETAILS
(b) (6), (b) (7)(C)	Medley Global Advisors	Visitor	Meeting	(b) (6), (b) (7)(C)	06/11/2012	06/11/2012	Division	LEO Registration	Signed-In	

Visitor Registration *at the Federal Reserve Board*

CLEAR PENDING SEARCH VISITORS HELP

RESTRICTED FR

ABOUT THE VISITOR

* Required Field

* FIRST NAME	(b) (6), (b) (7)(C)	* LAST NAME	(b) (6), (b) (7)(C)	M.I.	
* ORG/AGENCY	Medley Global Advisors	* VISITOR TYPE	Visitor		
SOCIAL SECURITY #		DATE OF BIRTH			
PASSPORT #		COUNTRY OF ISSUE			
* ESCORT TYPE	Division	* TIME EXPECTED	10 00 AM		
EMAIL					

ABOUT THE VISIT

* Required Field
By selecting 'NO' in this drop down, a new visit registration will be created for this visitor with following visit information.

* UPDATE VISIT INFORMATION FOR ALL VISITORS IN THIS VISIT? -- SELECT --

REGISTRATION TITLE		* PURPOSE OF VISIT	Meeting
* DESTINATION	(b) (6), (b) (7)(C)	* EMPLOYEE VISITED	(b) (6), (b) (7)(C)
* START DATE	6/11/2012	* PERSON TO BE CONTACTED UPON ARRIVAL	
* END DATE	6/11/2012	ALTERNATE CONTACT #1	
CONTACT CELL PHONE #		ALTERNATE CONTACT #2	

UPDATE INFORMATION

DELETE VISITOR UPDATE WAVES RELATED INFORMATION CANCEL

How Bernanke Pulled the Fed His Way

By JON HILSEN RATH

In late August, Federal Reserve Chairman Ben Bernanke argued on behalf of Fed programs to stimulate the lumbering U.S. economy and signaled that more might follow, making headlines in his highly anticipated speech at the Fed's annual retreat in Jackson Hole, Wyo.

As markets rallied at the prospect of new measures to ease credit, a quiet drama was unfolding behind the scenes. Mr. Bernanke was negotiating a high-stakes plan in a flurry of private conversations with colleagues hesitant about aggressively re-engaging the levers of America's central bank.

For weeks, Mr. Bernanke made dozens of private calls on days, nights and weekends, trying to build broad support for an unusual bond-buying program he wanted approved during the Fed's September meeting, according to people familiar with the matter.

(b) (5), (b) (7)(C), (b) (5)

Fed officials in late summer were at odds over how far the central bank should go. Some wanted a bold, innovative program. Others weren't so sure; a few were opposed. Mr. Bernanke set his sights on a handful of fence-sitters who could swing a strong consensus to his side.

Interviews with more than a dozen people involved in the Fed decision, both supporters and opponents, show how Mr. Bernanke won over skeptics to advance his policy—a distinction in a Washington era marked by rancor and gridlock. These people also gave a rare view of the low-key persistence of the former economics professor.

(b) (5), (b) (7)(C), (b) (5)

Mr. Bernanke didn't see inflation as a threat but viewed unemployment as a deeper problem than he had realized. The central bank, in his view, needed to act. The Fed chairman listened to colleagues' concerns during the calls, people familiar with the matter said, drawing out their reservations and probing for common ground. He eventually seized on a compromise that came from a little-known Fed governor.

(b) (5), (b) (7)(C), (b) (5)

The result of the Fed's two-day meeting that began Sept. 12 was an 11-1 vote to undertake one of the central bank's most ambitious stimulus programs. The Fed announced it would buy \$40 billion a month of mortgage-backed securities and, for the first time, promised to keep buying until the U.S. job market substantially improved.

The commitment marked a change from the stop-and-start programs the Fed had launched since the financial crisis.

"This is a 'Main Street' policy," Mr. Bernanke said after the September meeting. "What we are about here is trying to get jobs going." The bond buying aims to drive down long-term interest rates and push up the values of homes, stocks and other financial assets. Officials hope their commitment will jolt households and businesses into spending, investing and hiring.

Drawing broad support for the plan was important to Mr. Bernanke in part because the policies he was formulating could outlast him. His term as Fed chairman ends in January 2014. Seeing a

ATTACHMENT (3)

return to U.S. full employment as a distant goal, Mr. Bernanke needed the support of officials who might remain at the Fed after he left.

Roots of the Fed decision stretched to March, when Mr. Bernanke in a speech warned the U.S. economy wasn't growing fast enough. Since September 2011, the economy had produced about 200,000 jobs a month, driving down unemployment. But Mr. Bernanke warned that a slowdown would hobble hiring. Indeed, job gains by midyear fell to less than 100,000 a month.

At the central bank's June policy meeting, Fed Governor Daniel Tarullo, a lawyer appointed by President Barack Obama, said the economy felt like a vehicle "stuck in the mud," according to people there. The analogy stuck. A month later, Mr. Bernanke used the same phrase with Congress.

The meeting yielded what Mr. Bernanke considered an important step: the extension of Operation Twist, a Fed program to buy \$45 billion of long-term Treasury securities each month, paid with the sales of short-term securities. The program—intended to put downward pressure on long-term rates—was supposed to expire on June 30. The Fed agreed to keep it going through December, giving Mr. Bernanke time to make sense of the slowing job market and consider further action.

To move forward, Mr. Bernanke needed to corral several colleagues, including regional Fed bank president Dennis Lockhart from Atlanta, who had a vote on the Federal Open Market Committee, the Fed's decision making body. Under Fed rules, four of the 12 regional Fed banks vote on the committee on a rotating basis; a fifth, the New York Fed, always votes.

Mr. Lockhart, a former banker who spent much of his career working in emerging markets, said in an interview after the September meeting that he had spent his summer trying to "take stock of the recovery." He debated whether the U.S. had an economy with a 3% growth trend that was hit by bad luck—Europe's financial turmoil, for one. Or was it an economy growing at a 2% annual rate that couldn't sustain job growth and needed help? A string of weak economic data suggested it was the latter.

Like others, Mr. Lockhart had reservations about the effectiveness of Fed policies. Earlier bond buying hadn't yet produced strong growth. The banking system, still damaged by the financial crisis, wasn't delivering credit the way economists expected, given historically low interest rates. Still, Mr. Lockhart thought a program targeting the U.S. housing market might help.

(b) (6), (b) (7)(C), (b) (5)

Mr. Bernanke also worked on nonvoters, including Narayana Kocherlakota, who was going through his own transformation.

Several months after becoming president of the Minneapolis Fed in 2009, Mr. Kocherlakota believed the job market had structural problems beyond the reach of monetary policy—for example, too many construction workers who couldn't easily be trained for other jobs.

Mr. Kocherlakota joined Fed skeptics, so-called hawks, who doubted the effectiveness of central bank activism. During his turn as a Fed voter last year, he voted twice against loosening credit, moves championed by Mr. Bernanke.

Though they disagreed on policy, Mr. Bernanke and Mr. Kocherlakota were kindred spirits. Mr. Kocherlakota is a scholarly Ph.D. economist who enrolled at Princeton University at age 15. Mr. Bernanke, equally wonky, was later chairman of Princeton's economics department years later.

Mr. Kocherlakota and Mr. Bernanke exchanged emails over months, debating structural unemployment—the idea that unemployment was caused by mismatches between employer needs and the skills and location of workers. In Mr. Bernanke's view, employers weren't hiring because of weak demand for their goods and services, which Fed policies might help remedy.

(b) (6), (b) (7)(C), (b) (5)

"I've learned a lot by talking to him," Mr. Kocherlakota said in an interview after the September meeting. Mr. Bernanke's "thinking is framed by data and models," he said. "It beats coming in there with just your gut."

By summer, Mr. Kocherlakota said, his views about structural unemployment were shifting as he found the evidence less than persuasive. This left an opening for Mr. Bernanke.

As the Fed's August meeting approached, Mr. Bernanke and his inner circle, which included Fed Vice Chairwoman Janet Yellen and New York Fed President William Dudley, were thinking that any Fed action should be a comprehensive and novel package, rather than an incremental step, according to people familiar with their views. They agreed to take time to confirm their views of the U.S. economy and develop consensus for a plan.

The August meeting turned into a policy staging ground. One proposal on an internal list of three policy options was a new bond-buying program, according to people familiar with the list. Mr. Bernanke didn't push. But it allowed a chance for officials to debate the pros and cons of a new program—in effect, a practice run for September.

(b) (6), (b) (7)(C), (b) (5)

Some officials argued for more bond buying. Others worried about the Fed turning into too big a player in bond markets, disrupting trading in Treasury securities or mortgage securities. Fed staff wrote a memo ahead of the meeting detailing the market's capacity to absorb central bank purchases of Treasury bonds and mortgage-backed securities. They found that the Fed could carry on a large program for a couple of years if needed without disturbing markets. The finding helped set boundaries for what the Fed could do and for how long.

(b) (6), (b) (7)(C), (b) (5)

The Fed's policy committee emerged from the August meeting with familiar fissures. Opponents of the Fed's easy-money policies said the measures weren't giving the economy much of a lift, while risking future inflation.

Dallas Fed president Richard Fisher said the Fed was like a doctor over-prescribing Ritalin to attention-deficient Wall Street traders. Richmond Fed president Jeffrey Lacker dissented in August for the fifth straight meeting, taking issue with a policy already in place: An assurance the Fed had given that short-term interest rates would remain near zero through late 2014. Philadelphia Fed President Charles Plosser said in an interview that he urged Mr. Bernanke to wait until year-end before deciding on any new programs.

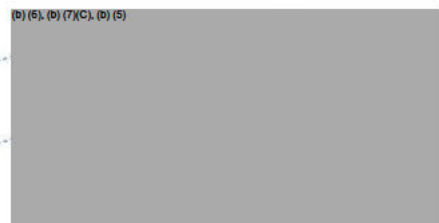
Despite their public disagreements, Fed officials were friendly behind the scenes. Mr. Plosser, who favors tighter credit policies, and the Chicago Fed's Charles Evans, who wants easier credit,

play golf together. They joined Mr. Fisher and Mr. Lockhart for a round at the Chevy Chase Country Club after the August meeting.

By late summer, the Fed had made clear it was prepared to act if the economy continued to languish. The question was how?

Many Fed activists wanted a open-ended program of bond purchases that would continue until the economy improved. Among them, some wanted to go big—at least a few hundred billion dollars worth over several months—with a promise to keep buying as needed. Moreover, some wanted to replace Operation Twist with bigger purchases of mortgage-backed securities and Treasurys.

As the September meeting neared, Mr. Bernanke needed to assure colleagues who still had reservations about moving too aggressively. In addition to Mr. Lockhart, Cleveland Fed president Sandra Pianalto had been wavering. She was among those who worried more Fed bond buying could disrupt markets.



Another fence-sitter was Washington-based Fed Governor Elizabeth Duke, a plain-spoken Virginia banker nominated to the Fed board by President George W. Bush in 2007.

Fed officials described the Fed chairman's phone calls as low-pressure conversations. Mr. Bernanke sometimes dialed up colleagues while in his office on weekends, catching them off guard when their phones identified his private number as unknown. He gave updates on the latest staff forecasts, colleagues said. He asked their thoughts and what they could comfortably support, they said.

The calls helped Mr. Bernanke gauge how far he could push his committee. It also won him trust among some of his fiercest opponents, officials said. Nearly all of Mr. Bernanke's colleagues described him as a good listener.



"Even if you disagree with him on the programs, you know your voice has been heard," said Mr. Fisher, one of his opponents. "There is no effort to bully."

Negotiations stepped up in the week before the meeting. Fed staff circulated language for policy options. Officials debated how different approaches would be described in the policy statement, which would be released after the meeting.



Officials at Fed policy meetings typically consider three options: one representing activists who want to use monetary policy aggressively; another supporting officials seeking conservative use; and a middle-ground option that typically prevails.

The premeeting documents this time listed four options, including an aggressive approach favored by activists, and no bond buying, favored by hawks. Among two middle-ground proposals was a compromise that Ms. Duke originated.



Five days before the meeting, Mr. Bernanke took time out for the Washington Nationals—his favorite baseball team was having a dream season. He arrived at the ballpark in a worn Nationals cap and wandered the infield during batting practice.

"I wanted to ask him if I should get some gold and silver but I bit my tongue," said Nationals manager Davey Johnson. Instead, they talked about how Mr. Johnson, a math major, used statistics to manage his lineup.

At the meeting the following week, the Fed adopted the compromise that Ms. Duke helped spur. The Fed would continue Operation Twist through December but add an open-ended mortgage-bond buying program.

Activists got what they most wanted: An open-ended commitment to buy mortgage bonds until the job market improved, with the strong possibility of additional Treasury purchases later. Fence-sitters got a promise to review the plan before deciding to proceed with a bigger program in 2013. Mr. Lockhart said the chance to reassess the program based on inflation and the performance of the job market helped win him over.



With an agreement on bond buying largely in place, Fed officials at the September meeting left unanswered this question: When could they leave growth of the U.S. economy on its own? Mr. Koehlerlakarta and Mr. Evans failed to get agreement for inflation and unemployment thresholds to determine when to raise short-term rates, according to people familiar with the talks.



"It's an ongoing discussion," Mr. Plosser said. "We will probably continue to work on this."



OFFICE OF INSPECTOR GENERAL
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU
WASHINGTON, DC 20551

MEMORANDUM

TO: Investigative File 2013-0013-HQO

FROM: (b) (6), (b) (7)(C)
(b) (6), (b) (7)(C)

SUBJECT: AIGI Case Closing Memorandum.

In accordance with OI Policy IN-006, Section 8-2 (effective September 30, 2014), this closed investigative file has been reviewed by the AIGI for purposes of quality control and compliance measurements (where applicable against the below criteria) consistent with OI policy and the CIGIE Quality Assessment Review for OIG Offices of Investigation (*Check all that apply*):

- FBI Letter *no*
- Original Complaint and predicated documents
- Investigative plan *no files*
- Investigative notes
- Documented Quarterly Progress Reviews *no*
- Investigation File Report includes Quarterly Status Reports and/or Closing Status Report *ok old*
- Actions claimed and reported *NA OK*
- Rights Warnings given
- Sworn Statement taken
- Sensitive Investigations
- Confidentiality Requested
- Special Investigation
- Employee Investigation
- OGE Form 278 required and completed
- Undercover Operation
- Consensual Monitoring
- Electronic surveillance/monitoring
- Use of registered Confidential Informants and/or Confidential Sources of Information
- Evidence or third-party documents returned or destroyed

2/4/15
(Review Date)

(b) (6), (b) (7)(C)



Investigation File Report

I20130013-HQO



Investigation Details

Investigation Title: Release of Confidential Information - FOMC **Status:** Investigation Closed
Program Area: Federal Reserve Board **Date Created:** 03/13/2013 **Date Received:** 02/15/2013
Priority: 1: Threats, Disclosure of Nonpublic FOMC Information, Computer Incidents, Security Incident, or
 Emergency Response
Federal Reserve System: FR Board **Source:** Anonymous
City, State: Washington District of Columbia **Division:** Other
Lead Agent: (b) (6), (b) (7)(C) **Date Assigned:** 04/11/2014 **Date Opened:** 04/11/2014
Internal/Confidential: Yes **Congressional Interest:** No **Assisting Agencies:** No
 Waived: No **Employee Case:** Yes **Law Enforcement:** No
Victim Class: Other FR Operations **Related Files:** No
Program Activity: FRB - Other FRS Operations **Total Investigative Hours Charged:** 0
Principal Subject: **Investigative Staffing Costs:** 0.00
Offense Class: Disclosure of Information **Other Investigative Staffing Costs:** 0.00
Investigation Result: Closed - No Further Action
Date Closed: 12/01/2014 **Date Reopened:**
Synopsis

The OIG initiated this investigation based on an anonymous complaint regarding the possible leak of confidential Federal Open Market Committee (FOMC) meeting information. It is alleged that a board employee is believed to have leaked FOMC information to a private citizen prior to the information being released to the public. According to the information provided in the complaint, the private citizen is an executive at an investment firm who published the FOMC information in a newsletter subscribed to by the executive's clients. It is also alleged that the executives firm and its clients may have been able to profit from this information. (b) (6), (b) (7)(C)

The OIG is investigating this matter for possible criminal and administrative violations.

(b)(6), (b)(7)(C)

(b)(6), (b)(7)(C)

APRIL 1, 2014, QUARTERLY REPORT

During the reporting period interviews were conducted with four contributors to the FOMC minutes. The contributors were interviewed as potential subjects in the investigation. Interviews with three of the subjects determined that they did not know or have any contact with the authors of the articles that contained the confidential FOMC information. An interview with a fourth subject determined that [REDACTED] had a relationship with the author of the newsletter and maintained a friendship. The subject admitted that [REDACTED] met with and shared email messages with the author of the newsletter. The subject denied discussing any FOMC related information with the author.

Also during the period, more than 100,000 emails of key subjects of the investigation were reviewed for contact with the authors. The email search revealed that several Board employees in Public Affairs, Monetary Affairs and Research and Statistics had direct contact with the Authors either through email or personal interviews conducted at the Board. Additional interviews will be determined based on the results of the email review.

JULY 1, 2014, QUARTERLY REPORT

During the reporting period, the investigation into the release of confidential Federal Open Market Committee (FOMC) meeting information that appeared in a Wall Street Journal article dated September 28, 2012 and a newsletter published by Medley Global Advisors on October 3, 2012 determined during the period, based on email reviews and telephone toll record reviews that three persons had direct contact with the writers of the article and newsletter. Interviews were conducted and determined that the three Board staff had both personal and professional relationships with the writers. Each person interviewed denied that they were the source of the leak.

The investigation was unable to determine the source of the leak of confidential FOMC information that appeared in the Wall Street Journal on September 28, 2012 and the report by Medley Global Advisors on October 3, 2012. In summary, the OIG investigation determined the following:

The Wall Street Journal article by Jon Hilsenrath and the report by Medley Global Advisors appeared to contain confidential FOMC information prior to its release to the public.

The early release of confidential FOMC information in both publications is a violation of the Program for the Security of FOMC Information and the FOMC Policy on External Communications of Committee Members.

While information was developed indicative of close or personal relationships between Hilsenrath, Schleiger, and some Board staff, no evidence was found to indicate any of those individuals released the FOMC information.

The Program for the Security of FOMC Information states that the FOMC General Counsel and Secretary will conduct a review of the leak and, "in light of review results, the general counsel will determine whether to request the Board's inspector general to perform an investigation of the incident." However, the decision of the FOMC

the Board's inspector general to perform an investigation of the incident." However, the decision of the (b) (6), (b) (7) (C) not to report both leaks to the OIG in this matter may have impacted the ability of the OIG to thoroughly pursue this matter.

During the investigation, the OIG did not have access to Federal Reserve System staff members who may have had access to confidential Class I FOMC information. The OIG requested that the (b) (6), (b) (7) (C) access to information developed during (b) (6), (b) (7) investigation which may have identified Reserve Bank System employees who reported contact with Hilsenrath or Schleiger however, the information was not provided. Accordingly, based on the inability to pursue such leads, the investigation was limited in scope.

Based on extensive telephone and e-mail reviews and analysis, the investigation has not identified any other investigative leads. No other viable leads were developed through interviews.

OCTOBER 1, 2014, QUARTERLY REPORT

During the reporting period the reporting agent provided to the AIGI an investigative summary. Based on the information obtained during the investigation, the OIG is unable to determine the source of the leak of confidential FOMC information that appeared in the Wall Street Journal on September 28, 2012 and the report by Medley Global Advisors on October 3, 2012.

The OIG investigation determined the following:

Based on interviews with Board staff and e-mail reviews, the article by Jon Hilsenrath and the newsletter by Regina Schleiger contain confidential FOMC information prior to its release to the public.

The appearance of confidential FOMC information in the publications by Hilsenrath and Schleiger violates the Program for the Security of FOMC Information and the FOMC Policy on External Communications of Committee Members.

(b) (6), (b) (7) (C)

The results of the investigation were reviewed by OIG senior management which concurred with the findings.

DECEMBER 1, 2014 CLOSING STATUS REPORT

Based on the results of the investigation, no further action is warranted. The Inspector General will discuss the results of the investigation with Board staff as deemed appropriate. The Securities and Exchange Commission was contacted regarding the conclusion of the investigation and the investigative records will be made available if deemed appropriate.

Status Reports

03/25/2013: Interview conducted with (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) (b) (6), (b) (7)(C). The purpose of the meeting was (b) (6), (b) (7)(C) release of FOMC information.

06/03/2013: Access to IMIS case, Statement of Independence added.

07/29/2013: Developed profile and questions of the sixty persons interviewed by Board Legal and Monetary Affairs during their inquiry into the premature release of FOMC information.

08/23/2013: Interview conducted with (b) (6), (b) (7)(C)

10/10/2013: Requested access to FOMC information for OIG agents.

12/05/2013: Interviewed (b) (6), (b) (7)(C). (b) (6), (b) (7)(C) advised that (b) (6), (b) (7)(C) did not know (b) (6), (b) (7)(C) or (b) (6), (b) (7)(C).

12/05/2013: Received 1500 emails for review related to (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C). The results of the initial review identified 300 emails of interest for further review as well as identified additional subjects for interviews.

02/25/2014: (b) (6), (b) (7)(C) interviewed. (b) (6), (b) (7)(C) advised that (b) (6), (b) (7)(C) did not know (b) (6), (b) (7)(C) or (b) (6), (b) (7)(C).

02/27/2014: On 02/26/2014, reviewed email. Additional email was requested for additional subjects identified. Received visitors registration log for (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C).

Assignment Details

- (b) (6), (b) (7)(C) SAC, 03/26/2013;
- (b) (6), (b) (7)(C) Case Agent, 02/25/2014;
- (b) (6), (b) (7)(C), Case Agent, 05/15/2013;
- (b) (6), (b) (7)(C), Case Agent, 05/15/2013;
- (b) (6), (b) (7)(C), Lead Agent, 05/15/2013

Assisting Agencies

Potential Violations

18 USC§1905 Disclosure of Confidential Information

Dispositions and Referrals

Law Enforcement Activities

Related Files

File Number	Title	Date Created
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Entities



OFFICE OF INSPECTOR GENERAL
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU

August 11, 2014

MEMORANDUM

TO: (b) (6), (b) (7)(C)

FROM: (b) (6), (b) (7)(C) Special Agent in Charge, (b) (6), (b) (7)(C)

SUBJECT: Recommendation to Close I20130013-HQO

Summary

The Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) has completed its investigation into the release of confidential Federal Open Market Committee (FOMC) meeting information that appeared in a Wall Street Journal article dated September 28, 2012 and a newsletter by Medley Global Advisors on October 3, 2012. At the time the confidential information appeared in the article and newsletter, the details of the FOMC meeting and minutes had not been released to the public. The minutes for the September 12, 2012 FOMC meeting were released to the public on October 4, 2012. The leak of the confidential information is potential violation of the Board's Program for the Security of FOMC information and the FOMC Policy on External Communications of Committee Participants.

The OIG initiated its investigation based a referral from the (b) (6), (b) (7)(C) (b) (6), (b) (7)(C) who received an anonymous complaint that (b) (6), (b) (7)(C)

(b) (6), (b) (7)(C), (b) (7)(D)

The OIG investigation identified the complainant as Confidential Source 20130001 (CS). The CS reported that (b) (6), (b) (7)(C), (b) (7)(D)

(b) (6), (b) (7)(C), (b) (7)(D)

Background

Program for Security of FOMC Information as amended January 28, 2014

The OIG reviewed the Program for Security of FOMC information which states the following:

The Program for Security of FOMC Information, describes what confidential FOMC information is, how it is classified, who has access to it, how it should be handled, and who is responsible for ensuring that it is protected. Everyone with access to confidential FOMC information is required to review and abide by the rules.

Confidential FOMC information includes all privileged information that comes into the possession of the Governors, Federal Reserve Bank Presidents, or Federal Reserve System staff in the performance of their duties for, or pursuant to the direction of, the FOMC. Such information covers, but is not limited to, expressions of policy views at FOMC meetings, reasons for those views, votes of the FOMC, and staff forecasts. The information that must be kept confidential may be in any form. It includes not only paper documents but also electronic messages and files, recordings, notes, oral briefings, and discussions relating to confidential FOMC matters.

Access to Confidential FOMC Information within the Federal Reserve System

Section IV of the Policy for the Security of FOMC Information States:

Staff access to confidential FOMC information, which includes Class I, Class II, and Class III information, requires prior authorization. Before gaining access and annually thereafter, staff members, including office support staff, must receive, review, and agree to abide by the rules for handling confidential information that are referred to in this document.

At each Federal Reserve Bank, the president, or the research director on the president's behalf, is responsible for designating those individuals to be given access to each class of information. At the New York Bank, the manager of the System Open Market Account may also designate staff on behalf of the president. At the Board, that responsibility is assumed by the Chairman or the Committee secretary on the Chairman's behalf and by Board members for their assistants. Access at the New York Bank and the Board of Governors is limited on a strict "need-to-know" basis. Access at the other Federal Reserve Banks is also limited on a strict "need-to-know" basis and is subject to the numerical limits noted below. In complying with these limits, Federal Reserve Banks may designate different individuals to have access to different documents. For example, one slot could be filled by designating an international economist as having access to all special memoranda relating to foreign currency operations, and a domestic economist as

having access to other Class I and Class II memoranda. At each institution, access to Class I, Class II, and Class III information should be reviewed carefully at least once every year.

- A. Access to “Class I FOMC – Restricted Controlled (FR)” materials at Federal Reserve Banks other than the New York Bank (and the Federal Reserve Bank that serves as the backup site for Open Market Operations) is restricted to the president and first vice president and to seven other Federal Reserve Bank personnel as well as a limited number of office support staff.
- B. Access to “Class II FOMC – Restricted (FR)” materials at Federal Reserve Banks other than the New York Bank (and the Federal Reserve Bank that serves as the backup site for Open Market Operations) is restricted to the president and first vice president and to eleven other Federal Reserve Bank personnel as well as a limited number of office support staff.
- C. Access to “Class III FOMC – Internal (FR)” information is limited on a “need-to-know” basis, but no specific limit is set on the number of individuals who may have access to such information at each location.

Access to Confidential FOMC Information Outside of the Federal Reserve System

Section V of the Policy for the Security of FOMC Information states:

Access to classified FOMC information outside the Federal Reserve System is limited as follows:

- A. Confidential FOMC documents generally are made available to the public after a lag of about five years. Such availability is subject to staff review (including consultation with the Chairman or the Committee where appropriate) for the purpose of redacting any materials that are still deemed to be sensitive after five years. For example, confidential information obtained from or about particular individuals or businesses, foreign governments and central banks, and international institutions that is deemed sensitive after the five year lag will be protected. In addition, national security classified information that may be contained in FOMC documents remains confidential until it is declassified. The principal objectives of the Committee’s policy of withholding sensitive information after the five year lag are to preserve the Committee’s ability to collect needed information, to allow its representatives to participate in sensitive discussions and report on them to the Committee, to avoid disclosures that would adversely affect U.S. international relations, and to comply with the applicable laws governing the disclosure of confidential information.

- B. Staff officers of the Committee, and those designated by the Chairman, are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.
- C. The Chairman may make ad hoc exceptions to this section that are either more or less restrictive for particular documents or for other confidential information.

FOMC Policy on External Communications of Committee Participants

Effective January 29, 2013 the FOMC Policy on External Communications of Committee Participants was amended and states the following:

The Federal Open Market Committee (FOMC) is committed to providing clear and timely information to the public about the Committee's monetary policy actions and the rationale for those decisions. Indeed, considerable evidence indicates that central bank transparency increases the effectiveness of monetary policy and enables households and businesses to make better informed decisions.

Two-way communication with the public is a crucial element in the FOMC's monetary policy process. Committee participants have regular contacts with members of the public as part of the process of gathering the information the Committee needs to understand current economic and financial conditions. In addition, the FOMC's public accountability is strengthened by open discussion of Committee participants' views about the economic outlook as well as their judgments about the appropriate course of monetary policy.

Therefore, to reinforce the public's confidence in the transparency and integrity of the monetary policy process, the FOMC has established the following principles to govern Committee participants' contacts with members of the public. The FOMC itself maintains responsibility for ensuring that all Committee participants—that is, the members of the Federal Reserve Board and the presidents of the Federal Reserve Banks—abide by these principles

The Policy outlines the following prohibited external communications.

1. Disclosure in any setting of confidential FOMC information.
2. Disclosure or characterization in any setting of the views that others expressed at an FOMC meeting.
3. A prediction about Committee action in advance of the Committee announcement of its decision.
4. A private meeting with selected clients of a regulated entity or financial

(b) (6), (b) (7)(C)

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firm to discuss monetary policy.

In summary, the information provided to the OIG alleged that the Wall Street Journal article and the report by Medley Global Advisors contained information which appears to have been released in violation of one or more of the external communication prohibitions.

Investigation

Interview with CS20130001

(b) (6), (b) (7)(C), (b) (7)(D)



Analysis of Wall Street Journal Article by Jon Hilsenrath

On September 28, 2012 an article was published at <http://online.wsj.com> by Jon Hilsenrath (Hilsenrath), Chief Economics Correspondent entitled How Bernanke Pulled the Fed His Way. In his article, Hilsenrath discusses details of activity by former Federal Reserve Chairman Ben Bernanke and FOMC participants leading up to the September 12, 2012, FOMC meeting.

The OIG review of the article identified sections that appear to show that Hilsenrath had direct inside knowledge of activity leading up to and during the September FOMC meeting. In his article, Hilsenrath makes the following statement related to a policy debate leading up to the September FOMC meeting:

Negotiations stepped up in the week before the meeting. Fed staff circulated language for policy options. Officials debated how different approaches would be described in the policy statement, which would be released after the meeting.

The OIG investigation determined through e-mail and interviews that this information related to the policy discussions was not in the public domain at the time the article was published.

In another statement from Hilsenrath's article he states:

The meeting yielded what Mr. Bernanke considered an important step: the extension of Operation Twist, a Fed program to buy \$45 billion of long term Treasury securities each month, paid with the sales of short-term securities. The program-intended to put downward pressure on long-term rates was supposed to expire on June 30. The Fed agreed to keep it going through December, giving Mr. Bernanke time to make sense of the slowing job market and consider further action.

The OIG interview determined that the FOMC minutes, released on October 4, 2012 contained information related to the purchase of \$45 billion per month in long term treasury securities. This information was not part of the former Chairman's statement released on September 13, 2012 and was not in the public domain prior to the publishing of the minutes. The FOMC minutes stated the following related to the purchase of \$45 billion in Treasury securities and downward pressure on long term interest rates:

In their discussion of monetary policy for the period ahead, members generally expressed concerns about the slow pace of improvement in labor market conditions and all members but one agreed that the outlook for economic activity and inflation called for additional monetary accommodation. Members agreed that such accommodation should be provided through both a strengthening of the forward guidance regarding the federal funds rate and purchases of additional agency MBS at a pace of \$40 billion per month. Along with the ongoing purchases of \$45 billion per month of longer-term Treasury securities under the maturity extension program announced in June [the OIG review of the June 2012 FOMC minutes determined that the rate of purchase for long-term Treasury securities was quoted as \$44

(b) (6), (b) (7)(C)

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billion], these purchases will increase the Committee's holdings of longer-term securities by about \$85 billion each month through the end of the year, and should put downward pressure on longer-term interest rates, support mortgage markets, and help make broader financial conditions more accommodative.

Hilsenrath also outlines details related to a policy debate amongst FOMC participants. Hilsenrath's article states:

Fed staff circulated language for policy options. Officials debated how different approaches would be described in the policy statement, which would be released after the meeting

The statements in Hilsenrath's article reflects information in the FOMC minutes and activity associated with policy discussions and decisions that had not yet been released to the public at the time the article was published. The publication of this information in the Wall Street Journal represents communication of FOMC information to Hilsenrath that is in violation of the Program for the Security of FOMC Information and the FOMC Policies on External Communications.

The OIG, through interviews and e-mail analysis further identified a document prepared by Board staff member (b) (6), (b) (7)(C) who through direct conversation with Hilsenrath and review of the article, outlined sections of the article that are in violation of FOMC policies. Hilsenrath was not interviewed by the OIG for this investigation.

Analysis of Medley Global Advisor's Newsletter

On October 3, 2012, Medley Global Advisors (MGA) published in its newsletter a Special Report by Regina Schleiger, Senior Managing Director, Global Macro, titled Fed: December Bound. Throughout the newsletter, Schleiger refers to what will be contained in the FOMC minutes released on October 4, 2012. In a section of Schleiger's newsletter states that:

The minutes, due at 2 p.m. EDT tomorrow, [October 4, 2012] will also highlight the intense debate between Federal Open Market Committee participants over the efficacy of using the balance sheet to ease conditions further and reference again, other potential policy tools, including changes to the 2015 predictive guidance.

The FOMC minutes for September 2012, under the section "Participants' Views on Current Conditions and the Economic Outlook" outlines committee member's views and their discussion related to long-term asset purchases. The minutes also reflect the differing views of committee members. The minute's state:

Participants again exchanged views on the likely benefits and costs of a new large-scale asset purchase program. Many participants anticipated that such a program would provide support to the economic recovery by putting downward pressure on longer-term interest rates and promoting more accommodative financial conditions.

A number of participants also indicated that it could lift consumer and business confidence by emphasizing the Committee's commitment to continued progress toward its dual mandate. In addition, it was noted that additional purchases could reinforce the Committee's forward guidance regarding the federal funds rate. Participants discussed the effectiveness of purchases of Treasury securities relative to purchases of agency MBS in easing financial conditions. Some participants suggested that, all else being equal, MBS purchases could be preferable because they would more directly support the housing sector, which remains weak but has shown some signs of improvement of late. One participant, however, objected that purchases of MBS, when compared to purchases of longer-term Treasury securities, would likely result in higher interest rates for many borrowers in other sectors. A number of participants highlighted the uncertainty about the overall effects of additional purchases on financial markets and the real economy. Some participants thought past purchases were useful because they were conducted during periods of market stress or heightened deflation risk and were less confident of the efficacy of additional purchases under present circumstances. A few expressed skepticism that additional policy accommodation could help spur an economy that they saw as held back by uncertainties and a range of structural issues. In discussing the costs and risks that such a program might entail, several participants reiterated their concern that additional purchases might complicate the Committee's efforts to withdraw monetary policy accommodation when it eventually became appropriate to do so, raising the risk of undesirably high inflation in the future and potentially unmooring inflation expectations. One participant noted that an extended period of accommodation resulting from additional asset purchases could lead to excessive risk taking on the part of some investors and so undermine financial stability over time

In reference to Schleiger's statement on the 2015 predictive guidance, the minute's state:

While members generally viewed the potential risks associated with these purchases as manageable, the Committee agreed that in determining the size, pace, and composition of its asset purchases, it would, as always, take appropriate account of the likely efficacy and costs of such purchases. With regard to the forward guidance, the Committee agreed on an extension through mid-2015, in conjunction with language in the statement indicating that it expects that a highly accommodative stance of policy will remain appropriate for a considerable time after the economic recovery strengthens.

The newsletter further states:

The minutes of September's meeting will show, however, that the groundwork for further action in coming months has been laid and that labor market improvement is unlikely to be substantial enough to stave off new Treasury purchases into 2013.

The FOMC minutes for September 2012, under the section "Participants' Views on Current Conditions and the Economic Outlook" outline a decision by committee member's to continue the

purchase of mortgage backed securities as well as to undertake the purchase of treasury securities under the maturity extension program.

Participants discussed the effectiveness of purchases of Treasury securities relative to purchases of agency MBS [Mortgage Backed Securities] in easing financial conditions. Some participants suggested that, all else being equal, MBS purchases could be preferable because they would more directly support the housing sector, which remains weak but has shown some signs of improvement of late. One participant, however objected that purchases of MBS, when compared to purchases of longer-term Treasury securities, would likely result in higher internet rates for many borrowers in other sectors.

The newsletter continued by stating:

The monthly MBS purchases of around \$40 billion launched in September will continue alongside this new program. Tomorrow's minutes will reference a staff paper that concludes the market has capacity to absorb purchases this large for a period of time.

The OIG review of the minutes determined that the minutes do not specifically address a "staff paper" but do speak to a "staff presentation that outlines the purchase of MBS. The OIG further confirmed through interviews and e-mail reviews that a paper entitled "Options for an Additional LSAP [Large Scale Asset Purchase]" was presented at the September FOMC meeting. The minute's state under the heading; "Potential Effects of a Large-Scale Asset Purchase Program:"

The staff presented an analysis of various aspects of possible large-scale asset purchase programs, including a comparison of flow-based purchase programs to programs of fixed size. The presentation reviewed the modeling approach used by the staff in estimating the financial and macroeconomic effects of such purchases. While significant uncertainty surrounds such estimates, the presentation indicated that asset purchases could be effective in fostering more rapid progress toward the Committee's objectives. The staff noted that, for a flow-based program, the public's understanding of the conditions under which the Committee would end purchases would shape expectations of the magnitude of the Federal Reserve's holdings of longer-term securities, and thus also influence the financial and economic effects of such a program. The staff also discussed the potential implications of additional asset purchases for the evolution of the Federal Reserve's balance sheet and income. The presentation noted that significant additional asset purchases should not adversely affect the ability of the Committee to tighten the stance of policy when doing so becomes appropriate. In their discussion of the staff presentation, a few participants noted the uncertainty surrounding estimates of the effects of large-scale asset purchases or the need for additional work regarding the implications of such purchases for the normalization of policy.

(b) (6), (b) (7)(C)

August 11, 2014

Schleiger’s reference to a “staff paper” which is not specifically mentioned in the minutes and was an internal FOMC presentation suggests some direct knowledge of specific activity conducted during the FOMC meeting.

Schleiger’s comments in her newsletter appear to be inferences based on information stated in the minutes and discussions during the FOMC meeting. Schleiger also appears to have some direct knowledge of internal FOMC procedures related to the development of the “Teal Book” when she states:

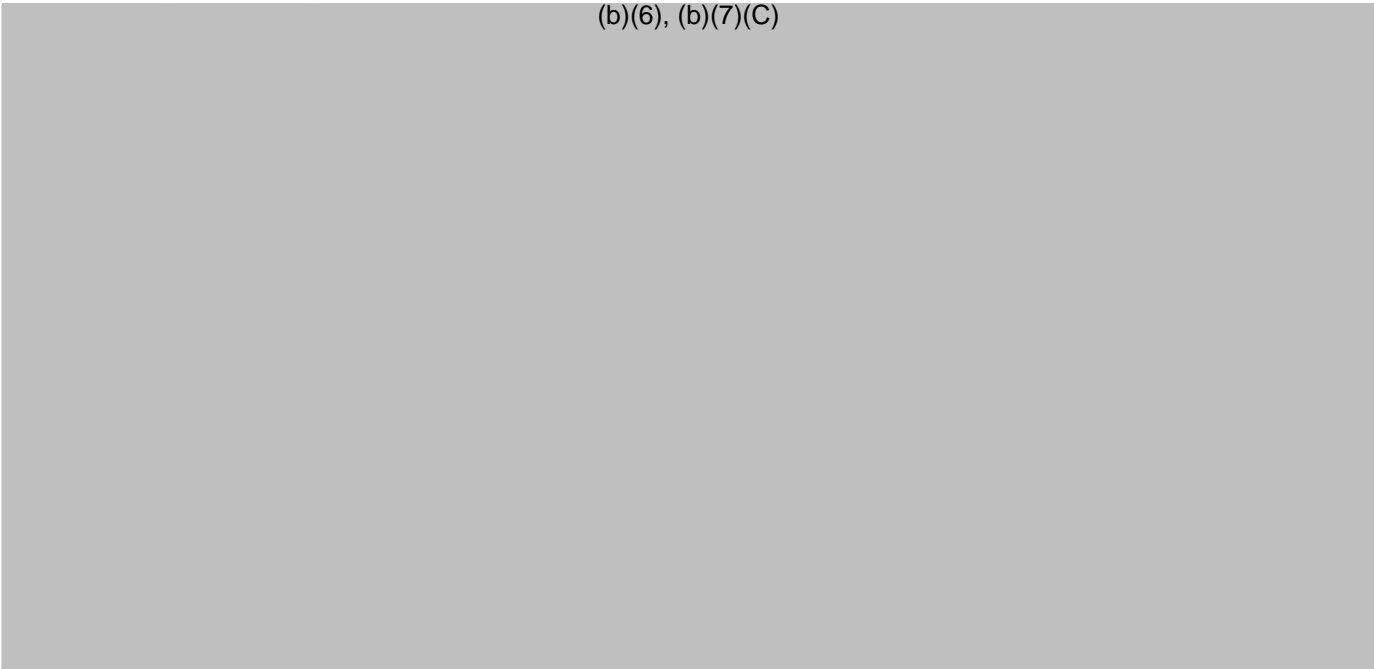
In the week leading up to the meetings, the options are circulated and can change—sometimes markedly—by the time the participants gather around the table. The “Teal Book,” which contains the staff forecasts and the policy options, is circulated in two parts. The staff forecasts circulate first and what used to be known as the “Blue Book,” which contains the policy options, follows.

The OIG analysis determined that the newsletter contained specific information related to discussions of FOMC procedures and meeting activity prior to the release of the FOMC minutes to the public. The information contained in the newsletter that relates to policy discussions, and presentations appears to be in violation of the Policy for the Security of FOMC Information and the FOMC Policy on External Communications of Committee Participants. Schleiger was not interviewed by the OIG for this investigation.

Interview with (b) (6), (b) (7)(C) **and** (b) (6), (b) (7)(C)

On March 25, 2013, the OIG met with (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C). The purpose of the meeting was to discuss (b) (6), (b) (7)(C) the publication of information contained in the September 12, 2012 FOMC minutes prior to the public release.

(b)(6), (b)(7)(C)



(b) (6), (b) (7)(C)

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(b)(6), (b)(7)(C)

The OIG also asked (b) (6), (b) (7)(C) to provide any notes, reports of interviews and analysis prepared during (b) (6), (b) (7)(C) review in order to assist the OIG with its investigation. (b) (6), (b) (7)(C) said that there were no official reports written and that some notes may be available. During the OIG's interview with (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) (b) (6), (b) (7)(C) was asked to provide the OIG with the final report of their review. (b) (6), (b) (7)(C) said (b) (6), (b) (7)(C) would not provide OIG with a copy of the final report because it contained FOMC information the OIG was not entitled to receive.

(b) (6), (b) (7)(C) was asked by the OIG if there were any other matters related to a leak of FOMC information that were part of the review conducted by (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C). In response, (b) (6), (b) (7)(C) said (b) (6), (b) (7)(C) would not answer the question. Neither (b) (6), (b) (7)(C) nor (b) (6), (b) (7)(C) provided any information regarding the leak of information contained in the Wall Street Journal Article by Jon Hilsenrath. Neither (b) (6), (b) (7)(C) nor (b) (6), (b) (7)(C) acknowledged that (b) (6), (b) (7)(C) review included information that appeared in the Wall Street Journal article by Jon Hilsenrath. (b) (6), (b) (7)(C) provided a list of approximately sixty individuals (b) (6), (b) (7)(C) reported were interviewed by the review team or had access to confidential FOMC information. (b) (6), (b) (7)(C) did not provide any information the review team gathered during their review or a copy of their final report.

Between August 2013 and February 2014, the OIG interviewed five individuals responsible for preparation of the September 12, 2012 FOMC minutes. Of those interviewed who participated in the preparation of the FOMC minutes, none reported knowing or having a personal relationship with Hilsenrath or Schlegel.

(b) (6), (b) (7)(C)

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Analysis of Telephone Toll Records

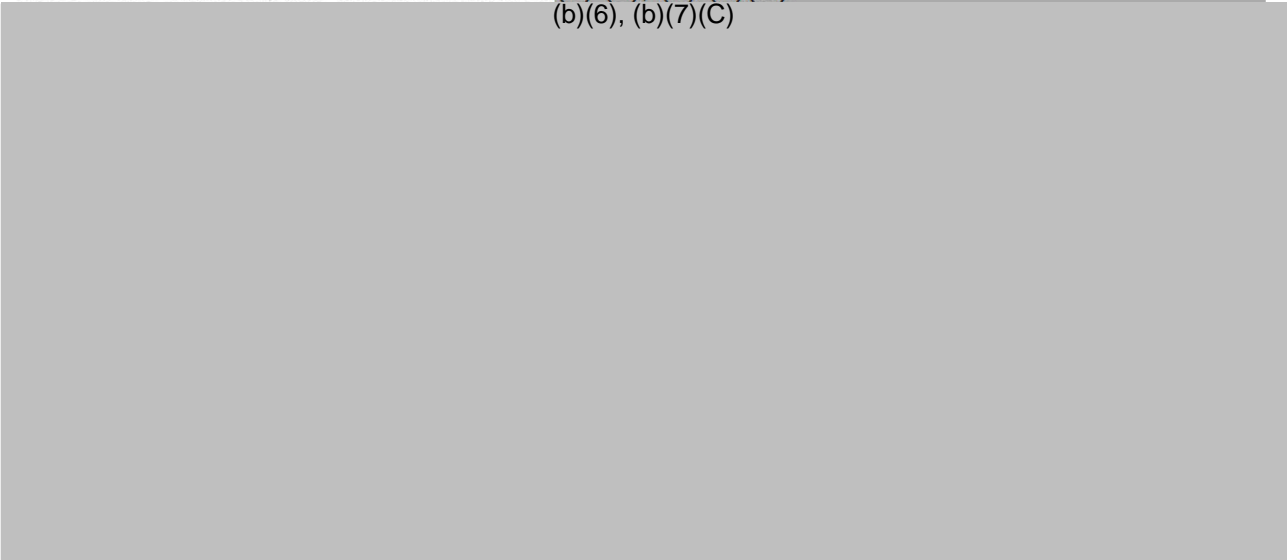
The OIG obtained access to archived toll records from Board IT, AV/Voice section. The OIG searched the toll records for telephone numbers (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) identified through e-mail reviews as belonging to (b) (6), (b) (7)(C). The OIG also searched toll records for telephone numbers (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) identified through e-mail reviews as numbers associated with Medley Global Advisors. The OIG searched telephone records for the period August 1, 2012 – October 31, 2012, which encompasses the month prior to the September FOMC meeting and one month after the conclusion of the meeting. The results of the telephone search revealed that between August 23, 2012 and September 24, 2012, telephone number (b) (6), (b) (7)(C) (b) (6), (b) (7)(C) which is a number identified as belonging to (b) (6), (b) (7)(C) contacted the Board eight times. The toll records associated with (b) (6), (b) (7)(C) telephone number were contacts with Board telephone extension (b) (6), (b) (7)(C), which is the extension of (b) (6), (b) (7)(C), (b) (6), (b) (7)(C)

Analysis of E-mails

From December 5, 2013 through April 7, 2014 the OIG reviewed e-mails as part of this investigation. The OIG requested all e-mails from the Board IT, Messaging Service that contained the addresses @wsj.com and @medleyadvisors.com in an attempt to identify individuals who may have had direct contact with Hilsenrath or Schleiger. The e-mail files were searched to identify names of Board personnel who had direct contact with Hilsenrath and Schleiger. The e-mails were searched for the period August 1, 2012 through October 31, 2012. The initial search resulted in a request to Board IT for all available e-mails related to Board staff identified as having contact with Hilsenrath and Schleiger. The OIG reviewed in excess of one hundred thousand e-mails and identified three persons as having direct contact with either Hilsenrath or Schleiger. As a result, the OIG interviewed (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C).

Interview of (b) (6), (b) (7)(C)

On March 28, 2014, the OIG interviewed (b) (6), (b) (7)(C)
 (b)(6), (b)(7)(C)

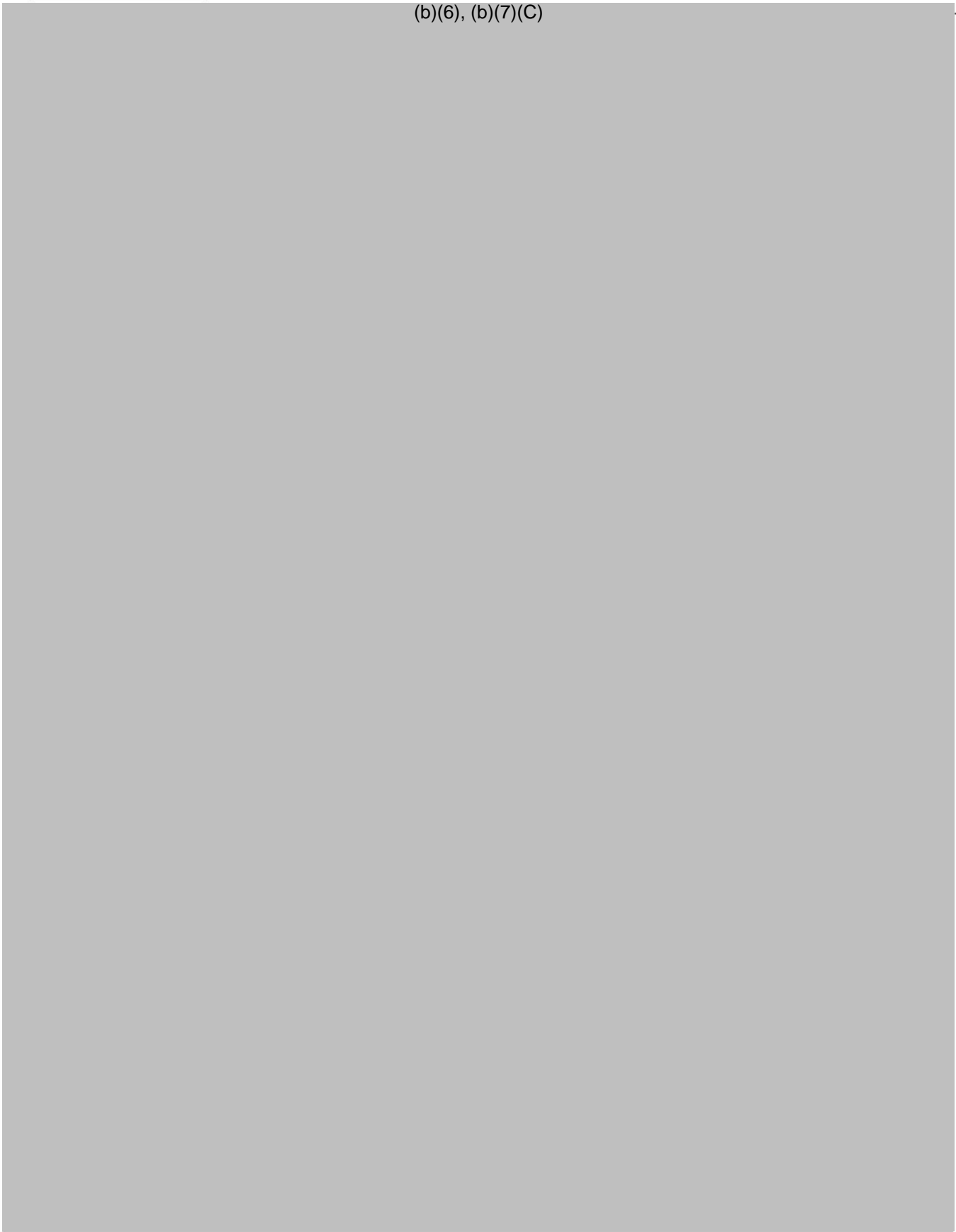


(b) (6), (b) (7)(C)

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(b)(6), (b)(7)(C)



(b) (6), (b) (7)(C)

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Interview of (b) (6), (b) (7)(C)

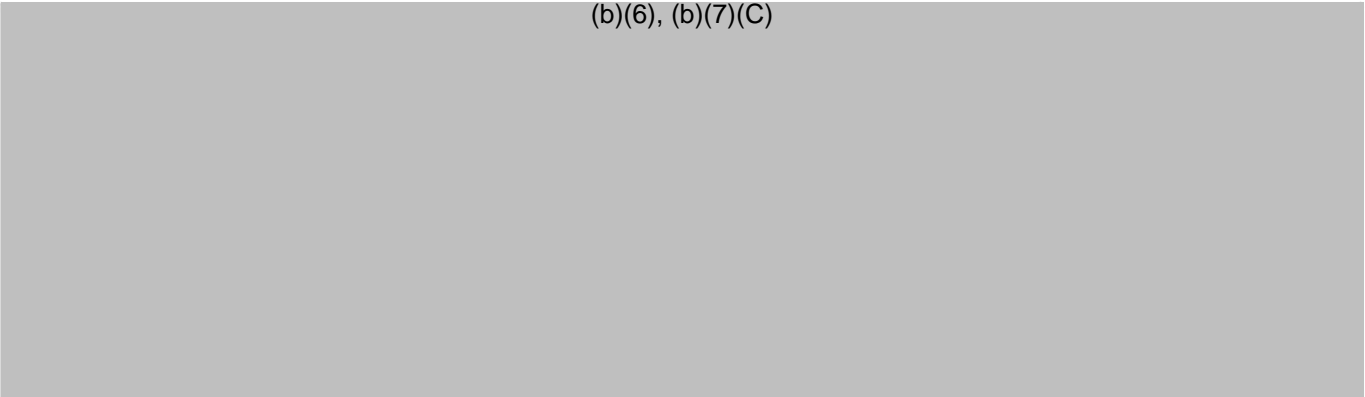
On April 7, 2014, the OIG interviewed (b) (6), (b) (7)(C)
(b)(6), (b)(7)(C)



(b) (6), (b) (7)(C)


August 11, 2014

(b)(6), (b)(7)(C)



Interview of (b) (6), (b) (7)(C)


On April 7, 2014, the OIG interviewed (b) (6), (b) (7)(C)
(b)(6), (b)(7)(C)



(b) (6), (b) (7)(C)

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(b)(6), (b)(7)(C)



(b) (6), (b) (7)(C)

August 11, 2014

(b)(6), (b)(7)(C)



(b) (6), (b) (7)(C)

August 11, 2014

(b)(6), (b)(7)(C)

Status of the Investigation

On May 1, 2014, the OIG again interviewed the CS regarding any additional information he/she could provide that would assist the OIG's investigation. (b) (6), (b) (7)(C), (b) (7)(D)

[Redacted]

(b) (6), (b) (7)(C), (b) (7)(D)
[Redacted]

Based on the information obtained during the investigation, the OIG is unable to determine the source of the leak of confidential FOMC information that appeared in the Wall Street Journal on September 28, 2012 and the report by Medley Global Advisors on October 3, 2012.

The OIG investigation determined the following:

- Based on interviews with Board staff and e-mail reviews, the article by Jon Hilsenrath and the newsletter by Regina Schleiger contain confidential FOMC information prior to its release to the public.

(b) (6), (b) (7)(C)

August 11, 2014

- The appearance of confidential FOMC information in the publications is a violation of the Program for the Security of FOMC Information and the FOMC Policy on External Communications of Committee Members.

- (b) (6), (b) (7)(C)

During the investigation, the OIG did not have access to Federal Reserve System staff members who had access to confidential Class I FOMC information. The OIG requested that (b) (6), (b) (7)(C) (b) (6), (b) (7)(C) provide access to information developed during the investigation that identified Reserve System employees who reported contact with Hilsenrath or Schleiger. (b) (6), (b) (7)(C) questioned the IG's authority to investigate this matter and any information as it relates to the Reserve banks. Based on the inability to pursue this matter as it relates to reserve bank staff, the OIG's scope is limited. Based on extensive telephone and e-mail reviews the OIG has not identified any other logical investigative leads. It is suggested that this matter be closed.



OFFICE OF INSPECTOR GENERAL
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU
WASHINGTON, DC 20551

January 30, 2015

(b) (6), (b) (7)(C)

United States Securities and Exchange Commission

(b) (6), (b) (7)(C)

Chicago, IL 60604

Dear (b) (6), (b) (7)(C)

The Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB) is forwarding the enclosed summary memorandum of a closed OIG investigation for your review and assessment, which may be relevant to a potential violation of civil or criminal law, rule, regulation, order, or policy within your jurisdiction.

The enclosed memorandum has been redacted to protect confidential Federal Open Market Committee (FOMC) information that is covered by the FOMC's *Program for Security of FOMC Information*. In accordance with the FOMC's information security program, confidential FOMC information is defined as including all privileged information that comes into the possession of the Federal Reserve's Board of Governors, Federal Reserve Bank presidents, or Federal Reserve System staff in the performance of their duties for, or pursuant to the direction of, the FOMC.

This document is being provided to you for official use only. The information contained here and in the enclosed memorandum is the property of the OIG and may not be copied or disclosed without the permission of the OIG. Appropriate safeguards should be provided for the information. Public disclosure of this information is determined by the Freedom of Information Act, 5 U.S.C. § 552, and the Privacy Act of 1974, 5 U.S.C. § 552a.

If you have any questions concerning this matter, please feel free to contact Special Agent in Charge (b) (6), (b) (7)(C)

Sincerely,

(b) (6), (b) (7)(C)

AUTHORIZED FOR RELEASE

Enclosures

AUTHORIZED FOR RELEASE



OFFICE OF INSPECTOR GENERAL
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU

August 11, 2014

MEMORANDUM

TO: (b) (6), (b) (7)(C)

FROM: (b) (6), (b) (7)(C), Special Agent in Charge, (b) (6), (b) (7)(C)

SUBJECT: Recommendation to Close I20130013-HQO

Summary

The Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (Board) has completed its investigation into the release of confidential Federal Open Market Committee (FOMC) meeting information that appeared in a Wall Street Journal article dated September 28, 2012 and a newsletter by Medley Global Advisors on October 3, 2012. At the time the confidential information appeared in the article and newsletter, the details of the FOMC meeting and minutes had not been released to the public. The minutes for the September 12, 2012 FOMC meeting were released to the public on October 4, 2012. The leak of the confidential information is potential violation of the Board's Program for the Security of FOMC information and the FOMC Policy on External Communications of Committee Participants.

The OIG initiated its investigation based a referral from [redacted] who received an anonymous complaint that (b) (6), (b) (7)(C) [redacted] [redacted] [redacted] [redacted] [redacted] [redacted] [redacted] [redacted] [redacted] [redacted] [redacted] [redacted] [redacted] [redacted]

Background

Program for Security of FOMC Information as amended January 28, 2014

The OIG reviewed the Program for Security of FOMC information which states the following:

The Program for Security of FOMC Information, describes what confidential FOMC information is, how it is classified, who has access to it, how it should be handled, and who is responsible for ensuring that it is protected. Everyone with access to confidential FOMC information is required to review and abide by the rules.

Confidential FOMC information includes all privileged information that comes into the possession of the Governors, Federal Reserve Bank Presidents, or Federal Reserve System staff in the performance of their duties for, or pursuant to the direction of, the FOMC. Such information covers, but is not limited to, expressions of policy views at FOMC meetings, reasons for those views, votes of the FOMC, and staff forecasts. The information that must be kept confidential may be in any form. It includes not only paper documents but also electronic messages and files, recordings, notes, oral briefings, and discussions relating to confidential FOMC matters.

Access to Confidential FOMC Information within the Federal Reserve System

Section IV of the Policy for the Security of FOMC Information States:

Staff access to confidential FOMC information, which includes Class I, Class II, and Class III information, requires prior authorization. Before gaining access and annually thereafter, staff members, including office support staff, must receive, review, and agree to abide by the rules for handling confidential information that are referred to in this document.

At each Federal Reserve Bank, the president, or the research director on the president's behalf, is responsible for designating those individuals to be given access to each class of information. At the New York Bank, the manager of the System Open Market Account may also designate staff on behalf of the president. At the Board, that responsibility is assumed by the Chairman or the Committee secretary on the Chairman's behalf and by Board members for their assistants. Access at the New York Bank and the Board of Governors is limited on a strict "need-to-know" basis. Access at the other Federal Reserve Banks is also limited on a strict "need-to-know" basis and is subject to the numerical limits noted below. In complying with these limits, Federal Reserve Banks may designate different individuals to have access to different documents. For example, one slot could be filled by designating an international economist as having access to all special memoranda relating to foreign currency operations, and a domestic economist as

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having access to other Class I and Class II memoranda. At each institution, access to Class I, Class II, and Class III information should be reviewed carefully at least once every year.

- A. Access to “Class I FOMC – Restricted Controlled (FR)” materials at Federal Reserve Banks other than the New York Bank (and the Federal Reserve Bank that serves as the backup site for Open Market Operations) is restricted to the president and first vice president and to seven other Federal Reserve Bank personnel as well as a limited number of office support staff.
- B. Access to “Class II FOMC – Restricted (FR)” materials at Federal Reserve Banks other than the New York Bank (and the Federal Reserve Bank that serves as the backup site for Open Market Operations) is restricted to the president and first vice president and to eleven other Federal Reserve Bank personnel as well as a limited number of office support staff.
- C. Access to “Class III FOMC – Internal (FR)” information is limited on a “need-to- know” basis, but no specific limit is set on the number of individuals who may have access to such information at each location.

Access to Confidential FOMC Information Outside of the Federal Reserve System

Section V of the Policy for the Security of FOMC Information states:

Access to classified FOMC information outside the Federal Reserve System is limited as follows:

- A. Confidential FOMC documents generally are made available to the public after a lag of about five years. Such availability is subject to staff review (including consultation with the Chairman or the Committee where appropriate) for the purpose of redacting any materials that are still deemed to be sensitive after five years. For example, confidential information obtained from or about particular individuals or businesses, foreign governments and central banks, and international institutions that is deemed sensitive after the five year lag will be protected. In addition, national security classified information that may be contained in FOMC documents remains confidential until it is declassified. The principal objectives of the Committee’s policy of withholding sensitive information after the five year lag are to preserve the Committee’s ability to collect needed information, to allow its representatives to participate in sensitive discussions and report on them to the Committee, to avoid disclosures that would adversely affect U.S. international relations, and to comply with the applicable laws governing the disclosure of confidential information.

- B. Staff officers of the Committee, and those designated by the Chairman, are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.
- C. The Chairman may make ad hoc exceptions to this section that are either more or less restrictive for particular documents or for other confidential information.

FOMC Policy on External Communications of Committee Participants

Effective January 29, 2013 the FOMC Policy on External Communications of Committee Participants was amended and states the following:

The Federal Open Market Committee (FOMC) is committed to providing clear and timely information to the public about the Committee's monetary policy actions and the rationale for those decisions. Indeed, considerable evidence indicates that central bank transparency increases the effectiveness of monetary policy and enables households and businesses to make better informed decisions.

Two-way communication with the public is a crucial element in the FOMC's monetary policy process. Committee participants have regular contacts with members of the public as part of the process of gathering the information the Committee needs to understand current economic and financial conditions. In addition, the FOMC's public accountability is strengthened by open discussion of Committee participants' views about the economic outlook as well as their judgments about the appropriate course of monetary policy.

Therefore, to reinforce the public's confidence in the transparency and integrity of the monetary policy process, the FOMC has established the following principles to govern Committee participants' contacts with members of the public. The FOMC itself maintains responsibility for ensuring that all Committee participants—that is, the members of the Federal Reserve Board and the presidents of the Federal Reserve Banks—abide by these principles

The Policy outlines the following prohibited external communications.

1. Disclosure in any setting of confidential FOMC information.
2. Disclosure or characterization in any setting of the views that others expressed at an FOMC meeting.
3. A prediction about Committee action in advance of the Committee announcement of its decision.
4. A private meeting with selected clients of a regulated entity or financial

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firm to discuss monetary policy.

In summary, the information provided to the OIG alleged that the Wall Street Journal article and the report by Medley Global Advisors contained information which appears to have been released in violation of one or more of the external communication prohibitions.

Investigation

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Analysis of Wall Street Journal Article by Jon Hilsenrath

On September 28, 2012 an article was published at <http://online.wsj.com> by Jon Hilsenrath (Hilsenrath), Chief Economics Correspondent entitled How Bernanke Pulled the Fed His Way. In his article, Hilsenrath discusses details of activity by former Federal Reserve Chairman Ben Bernanke and FOMC participants leading up to the September 12, 2012, FOMC meeting.

The OIG review of the article identified sections that appear to show that Hilsenrath had direct inside knowledge of activity leading up to and during the September FOMC meeting. In his article, Hilsenrath makes the following statement related to a policy debate leading up to the September FOMC meeting:

Negotiations stepped up in the week before the meeting. Fed staff circulated language for policy options. Officials debated how different approaches would be described in the policy statement, which would be released after the meeting.

The OIG investigation determined through e-mail and interviews that this information related to the policy discussions was not in the public domain at the time the article was published.

In another statement from Hilsenrath's article he states:

The meeting yielded what Mr. Bernanke considered an important step: the extension of Operation Twist, a Fed program to buy \$45 billion of long term Treasury securities each month, paid with the sales of short-term securities. The program-intended to put downward pressure on long-term rates was supposed to expire on June 30. The Fed agreed to keep it going through December, giving Mr. Bernanke time to make sense of the slowing job market and consider further action.

The OIG interview determined that the FOMC minutes, released on October 4, 2012 contained information related to the purchase of \$45 billion per month in long term treasury securities. This information was not part of the former Chairman's statement released on September 13, 2012 and was not in the public domain prior to the publishing of the minutes. The FOMC minutes stated the following related to the purchase of \$45 billion in Treasury securities and downward pressure on long term interest rates:

In their discussion of monetary policy for the period ahead, members generally expressed concerns about the slow pace of improvement in labor market conditions and all members but one agreed that the outlook for economic activity and inflation called for additional monetary accommodation. Members agreed that such accommodation should be provided through both a strengthening of the forward guidance regarding the federal funds rate and purchases of additional agency MBS at a pace of \$40 billion per month. Along with the ongoing purchases of \$45 billion per month of longer-term Treasury securities under the maturity extension program announced in June [the OIG review of the June 2012 FOMC minutes determined that the rate of purchase for long-term Treasury securities was quoted as \$44

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billion], these purchases will increase the Committee's holdings of longer-term securities by about \$85 billion each month through the end of the year, and should put downward pressure on longer-term interest rates, support mortgage markets, and help make broader financial conditions more accommodative.

Hilsenrath also outlines details related to a policy debate amongst FOMC participants. Hilsenrath's article states:

Fed staff circulated language for policy options. Officials debated how different approaches would be described in the policy statement, which would be released after the meeting

The statements in Hilsenrath's article reflects information in the FOMC minutes and activity associated with policy discussions and decisions that had not yet been released to the public at the time the article was published. The publication of this information in the Wall Street Journal represents communication of FOMC information to Hilsenrath that is in violation of the Program for the Security of FOMC Information and the FOMC Policies on External Communications.

[REDACTED]

Analysis of Medley Global Advisor's Newsletter

On October 3, 2012, Medley Global Advisors (MGA) published in its newsletter a Special Report by Regina Schleiger, Senior Managing Director, Global Macro, titled Fed: December Bound. Throughout the newsletter, Schleiger refers to what will be contained in the FOMC minutes released on October 4, 2012. In a section of Schleiger's newsletter states that:

The minutes, due at 2 p.m. EDT tomorrow,[October 4, 2012] will also highlight the intense debate between Federal Open Market Committee participants over the efficacy of using the balance sheet to ease conditions further and reference again, other potential policy tools, including changes to the 2015 predictive guidance.

The FOMC minutes for September 2012, under the section "Participants' Views on Current Conditions and the Economic Outlook" outlines committee member's views and their discussion related to long-term asset purchases. The minutes also reflect the differing views of committee members. The minute's state:

Participants again exchanged views on the likely benefits and costs of a new large-scale asset purchase program. Many participants anticipated that such a program would provide support to the economic recovery by putting downward pressure on longer-term interest rates and promoting more accommodative financial conditions.

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A number of participants also indicated that it could lift consumer and business confidence by emphasizing the Committee's commitment to continued progress toward its dual mandate. In addition, it was noted that additional purchases could reinforce the Committee's forward guidance regarding the federal funds rate. Participants discussed the effectiveness of purchases of Treasury securities relative to purchases of agency MBS in easing financial conditions. Some participants suggested that, all else being equal, MBS purchases could be preferable because they would more directly support the housing sector, which remains weak but has shown some signs of improvement of late. One participant, however, objected that purchases of MBS, when compared to purchases of longer-term Treasury securities, would likely result in higher interest rates for many borrowers in other sectors. A number of participants highlighted the uncertainty about the overall effects of additional purchases on financial markets and the real economy. Some participants thought past purchases were useful because they were conducted during periods of market stress or heightened deflation risk and were less confident of the efficacy of additional purchases under present circumstances. A few expressed skepticism that additional policy accommodation could help spur an economy that they saw as held back by uncertainties and a range of structural issues. In discussing the costs and risks that such a program might entail, several participants reiterated their concern that additional purchases might complicate the Committee's efforts to withdraw monetary policy accommodation when it eventually became appropriate to do so, raising the risk of undesirably high inflation in the future and potentially unmooring inflation expectations. One participant noted that an extended period of accommodation resulting from additional asset purchases could lead to excessive risk taking on the part of some investors and so undermine financial stability over time

In reference to Schleiger's statement on the 2015 predictive guidance, the minute's state:

While members generally viewed the potential risks associated with these purchases as manageable, the Committee agreed that in determining the size, pace, and composition of its asset purchases, it would, as always, take appropriate account of the likely efficacy and costs of such purchases. With regard to the forward guidance, the Committee agreed on an extension through mid-2015, in conjunction with language in the statement indicating that it expects that a highly accommodative stance of policy will remain appropriate for a considerable time after the economic recovery strengthens.

The newsletter further states:

The minutes of September's meeting will show, however, that the groundwork for further action in coming months has been laid and that labor market improvement is unlikely to be substantial enough to stave off new Treasury purchases into 2013.

The FOMC minutes for September 2012, under the section "Participants' Views on Current Conditions and the Economic Outlook" outline a decision by committee member's to continue the

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purchase of mortgage backed securities as well as to undertake the purchase of treasury securities under the maturity extension program.

Participants discussed the effectiveness of purchases of Treasury securities relative to purchases of agency MBS [Mortgage Backed Securities] in easing financial conditions. Some participants suggested that, all else being equal, MBS purchases could be preferable because they would more directly support the housing sector, which remains weak but has shown some signs of improvement of late. One participant, however objected that purchases of MBS, when compared to purchases of longer-term Treasury securities, would likely result in higher internet rates for many borrowers in other sectors.

The newsletter continued by stating:

The monthly MBS purchases of around \$40 billion launched in September will continue alongside this new program. Tomorrow's minutes will reference a staff paper that concludes the market has capacity to absorb purchases this large for a period of time.

The OIG review of the minutes determined that the minutes do not specifically address a "staff paper" but do speak to a "staff presentation that outlines the purchase of MBS. The OIG further confirmed through interviews and e-mail reviews that [REDACTED]

[REDACTED]. The minute's state under the heading; "Potential Effects of a Large-Scale Asset Purchase Program:"

The staff presented an analysis of various aspects of possible large-scale asset purchase programs, including a comparison of flow-based purchase programs to programs of fixed size. The presentation reviewed the modeling approach used by the staff in estimating the financial and macroeconomic effects of such purchases. While significant uncertainty surrounds such estimates, the presentation indicated that asset purchases could be effective in fostering more rapid progress toward the Committee's objectives. The staff noted that, for a flow-based program, the public's understanding of the conditions under which the Committee would end purchases would shape expectations of the magnitude of the Federal Reserve's holdings of longer-term securities, and thus also influence the financial and economic effects of such a program. The staff also discussed the potential implications of additional asset purchases for the evolution of the Federal Reserve's balance sheet and income. The presentation noted that significant additional asset purchases should not adversely affect the ability of the Committee to tighten the stance of policy when doing so becomes appropriate. In their discussion of the staff presentation, a few participants noted the uncertainty surrounding estimates of the effects of large-scale asset purchases or the need for additional work regarding the implications of such purchases for the normalization of policy.

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Schleiger's reference to [REDACTED] which is not specifically mentioned in the minutes and was an internal FOMC presentation suggests some direct knowledge of specific activity conducted during the FOMC meeting.

Schleiger's comments in her newsletter appear to be inferences based on information stated in the minutes and discussions during the FOMC meeting. Schleiger also appears to have some direct knowledge of internal FOMC procedures related to the development of the "Teal Book" when she states:

In the week leading up to the meetings, the options are circulated and can change—sometimes markedly—by the time the participants gather around the table. The "Teal Book," which contains the staff forecasts and the policy options, is circulated in two parts. The staff forecasts circulate first and what used to be known as the "Blue Book," which contains the policy options, follows.

The OIG analysis determined that the newsletter contained specific information related to discussions of FOMC procedures and meeting activity prior to the release of the FOMC minutes to the public. The information contained in the newsletter that relates to policy discussions, and presentations appears to be in violation of the Policy for the Security of FOMC Information and the FOMC Policy on External Communications of Committee Participants. Schleiger was not interviewed by the OIG for this investigation.

Interview with (b) (6), (b) (7)(C) **and** (b) (6), (b) (7)(C)

On March 25, 2013, the OIG met with (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C)

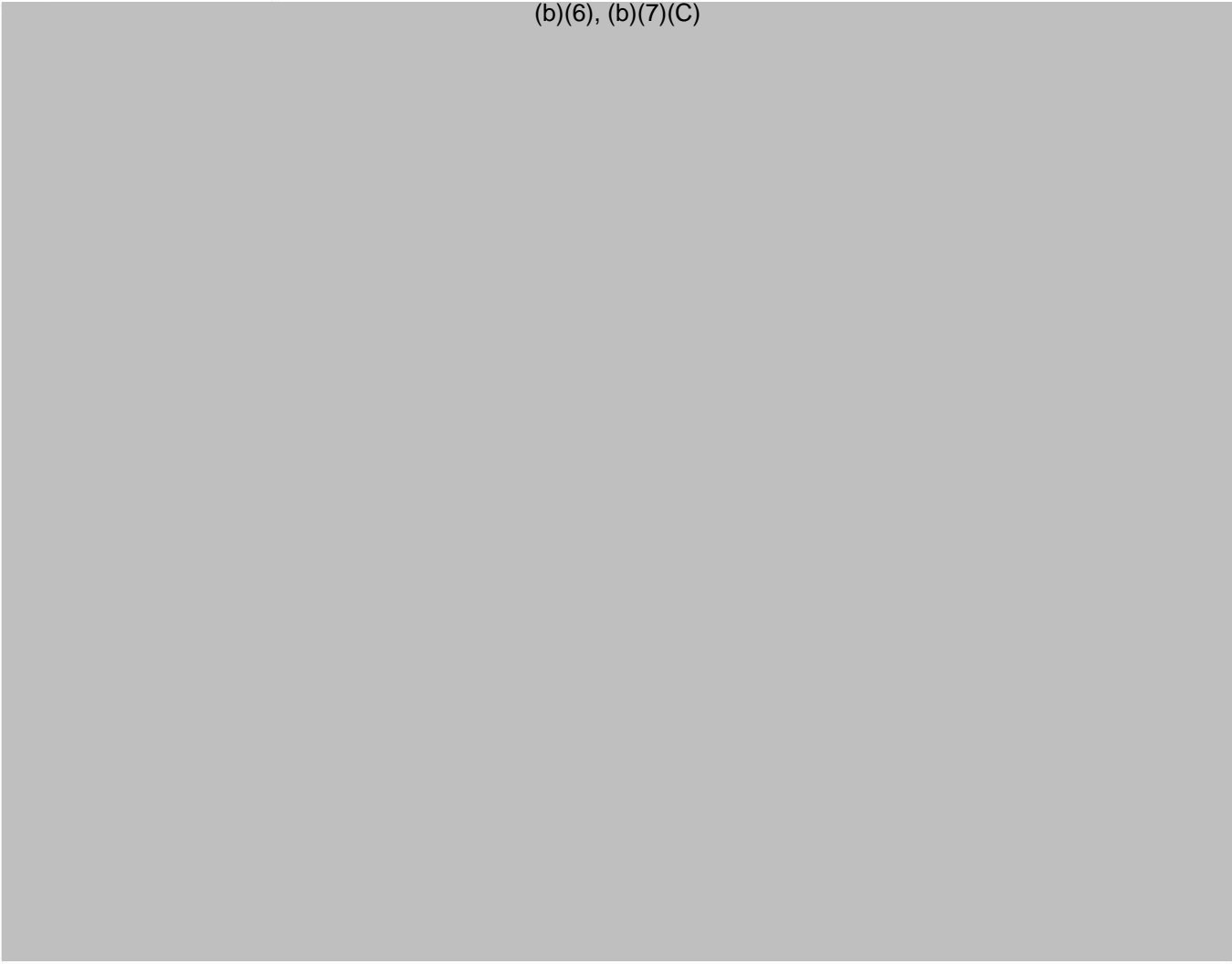
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(b) (6), (b) (7)(C)

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(b)(6), (b)(7)(C)



Between August 2013 and February 2014, the OIG interviewed five individuals responsible for preparation of the September 12, 2012 FOMC minutes. Of those interviewed who participated in the preparation of the FOMC minutes, none reported knowing or having a personal relationship with Hilsenrath or Schleiger

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Analysis of Telephone Toll Records

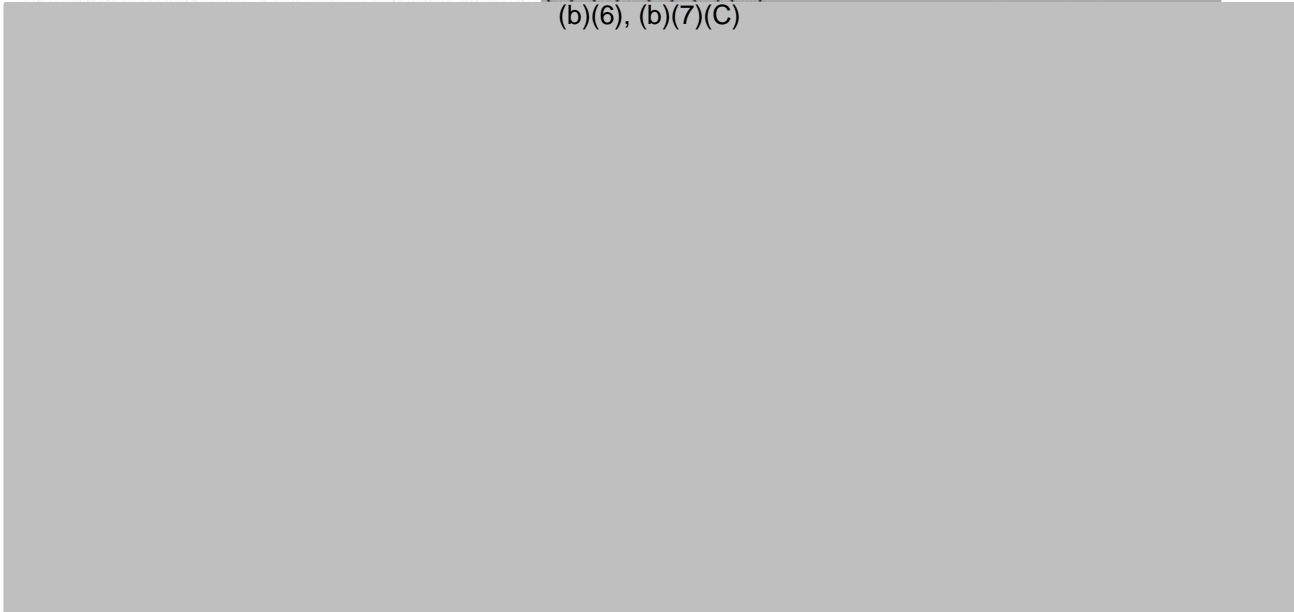
The OIG obtained access to archived toll records from Board IT, AV/Voice section. The OIG searched the toll records for telephone numbers (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) identified through e-mail reviews as belonging to (b) (6), (b) (7)(C). The OIG also searched toll records for telephone numbers (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) identified through e-mail reviews as numbers associated with Medley Global Advisors. The OIG searched telephone records for the period August 1, 2012 – October 31, 2012, which encompasses the month prior to the September FOMC meeting and one month after the conclusion of the meeting. The results of the telephone search revealed that between August 23, 2012 and September 24, 2012, telephone number (b) (6), (b) (7)(C) which is a number identified as belonging to (b) (6), (b) (7)(C) contacted the Board eight times. The toll records associated with (b) (6), (b) (7)(C) telephone number were contacts with Board telephone extension (b) (6), (b) (7)(C), which is the extension of (b) (6), (b) (7)(C), (b) (6), (b) (7)(C), (b) (6), (b) (7)(C).

Analysis of E-mails

From December 5, 2013 through April 7, 2014 the OIG reviewed e-mails as part of this investigation. The OIG requested all e-mails from the Board IT, Messaging Service that contained the addresses @wsj.com and @medleyadvisors.com in an attempt to identify individuals who may have had direct contact with Hilsenrath or Schleiger. The e-mail files were searched to identify names of Board personnel who had direct contact with Hilsenrath and Schleiger. The e-mails were searched for the period August 1, 2012 through October 31, 2012. The initial search resulted in a request to Board IT for all available e-mails related to Board staff identified as having contact with Hilsenrath and Schleiger. The OIG reviewed in excess of one hundred thousand e-mails and identified three persons as having direct contact with either Hilsenrath or Schleiger. As a result, the OIG interviewed (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C).

Interview of (b) (6), (b) (7)(C)

On March 28, 2014, the OIG interviewed (b) (6), (b) (7)(C)
(b)(6), (b)(7)(C)




(b) (6), (b) (7)(C)

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(b)(6), (b)(7)(C)




(b) (6), (b) (7)(C)

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Interview of (b) (6), (b) (7)(C)

On April 7, 2014, the OIG interviewed (b) (6), (b) (7)(C)
(b)(6), (b)(7)(C)

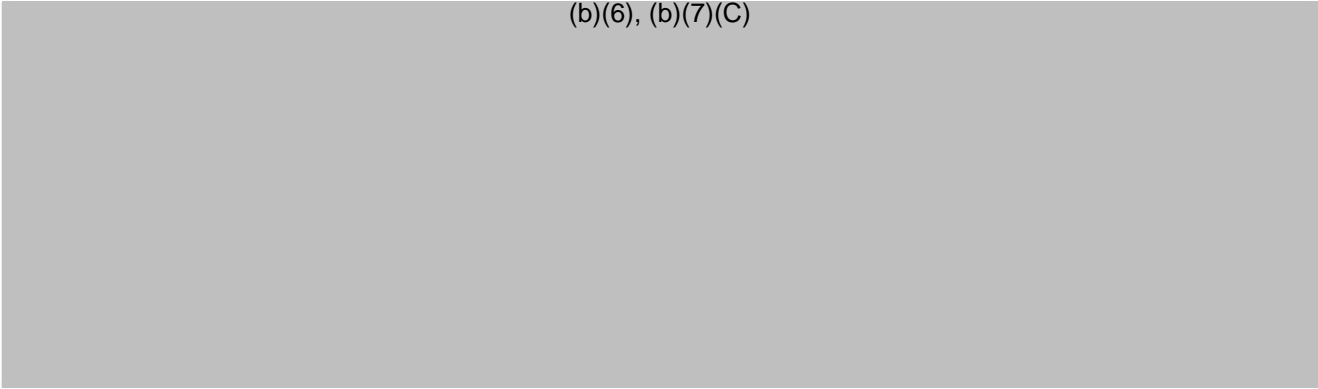


(b) (6), (b) (7)(C)

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(b)(6), (b)(7)(C)



Interview of (b) (6), (b) (7)(C) .

On April 7, 2014, the OIG interviewed (b) (6), (b) (7)(C)
(b)(6), (b)(7)(C)




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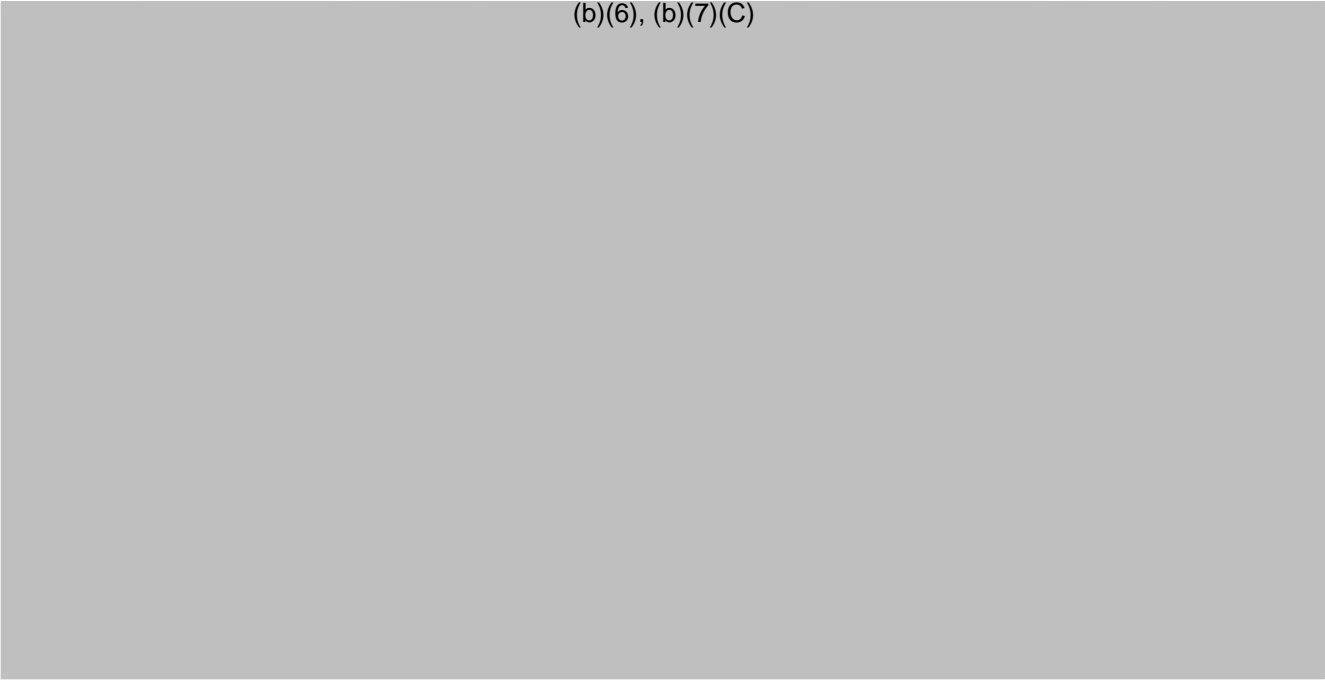


(b) (6), (b) (7)(C)

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(b)(6), (b)(7)(C)



Status of the Investigation

[REDACTED]

[REDACTED]

Based on the information obtained during the investigation, the OIG is unable to determine the source of the leak of confidential FOMC information that appeared in the Wall Street Journal on September 28, 2012 and the report by Medley Global Advisors on October 3, 2012.

The OIG investigation determined the following:

- Based on interviews with Board staff and e-mail reviews, the article by Jon Hilsenrath and the newsletter by Regina Schleiger contain confidential FOMC information prior to its release to the public.

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- The appearance of confidential FOMC information in the publications is a violation of the Program for the Security of FOMC Information and the FOMC Policy on External Communications of Committee Members.

- (b) (6), (b) (7)(C)

During the investigation, the OIG did not have access to Federal Reserve System staff members who had access to confidential Class I FOMC information. [REDACTED]

[REDACTED] (b) (6), (b) (7)(C)
questioned the IG's authority to investigate this matter and any information as it relates to the Reserve banks. Based on the inability to pursue this matter as it relates to reserve bank staff, the OIG's scope is limited. Based on extensive telephone and e-mail reviews the OIG has not identified any other logical investigative leads. It is suggested that this matter be closed.



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM OF INTERVIEW

On April 24, 2014 (b) (6), (b) (7)(C) was interviewed at the Board of Governors of the Federal Reserve System, Eccles Building, 20th and Constitution, Washington DC 20551 by Special Agent in Charge (b) (6), (b) (7)(C) and Senior Special Agent (b) (6), (b) (7)(C), Office of Inspector General for the Board of Governors of the Federal Reserve System. After being advised of the identity of the interviewing agent(s) and the purpose of the interview, (b) (6), (b) (7)(C) was advised of (b) (6), (b) (7)(C) rights under the *Warnings and Assurance to Employee Requested to Provide Information on a Voluntary Basis (Garrity)*. After reviewing and signing the Garrity form, (b) (6), (b) (7)(C) provided the following information:

(b)(6), (b)(7)(C)

Date of Activity:		Location:
Conducted by:		Case Number:
Transcribed By:	Date Transcribed:	Reviewed By:

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(b) (6), (b) (7)(C)

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April 24, 2014

(b)(6), (b)(7)(C)




Interview of (b) (6), (b) (7)(C)

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April 24, 2014

(b)(6), (b)(7)(C)

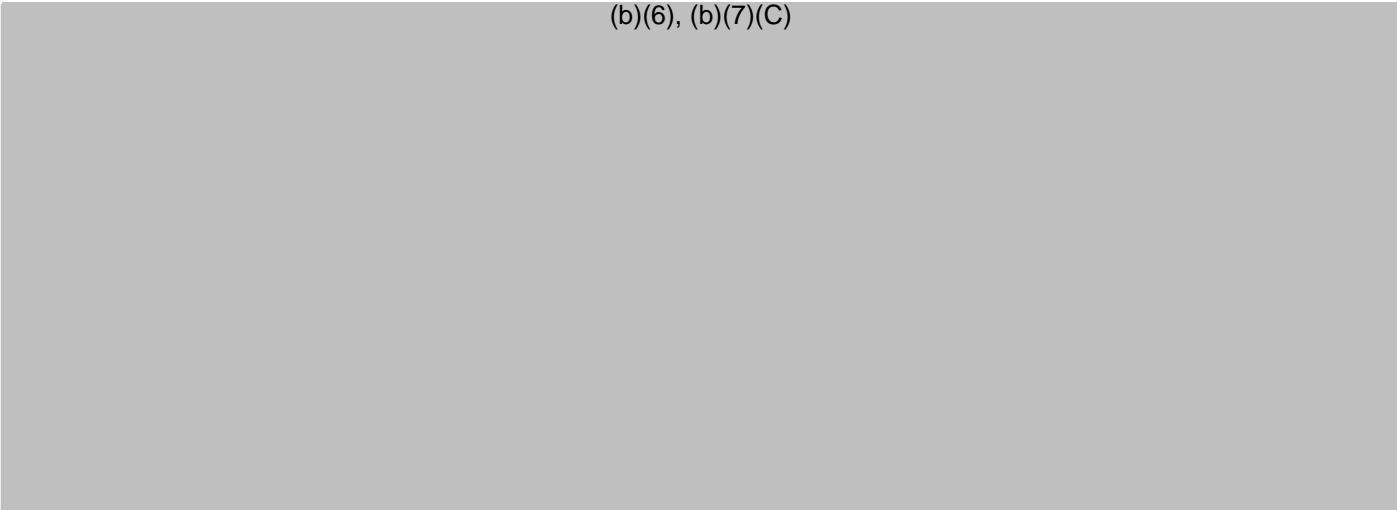


Interview of (b) (6), (b) (7)(C)

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April 24, 2014

(b)(6), (b)(7)(C)





Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM OF INTERVIEW

On April 7, 2014 (b) (6), (b) (7)(C) was interviewed at the (b) (6), (b) (7)(C) Washington, DC 20220 by Special Agents in Charge (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C), Office of Inspector General for the Board of Governors of the Federal Reserve System. After being advised of the identity of the interviewing agent(s) and the purpose of the interview, (b) (6), (b) (7)(C) was advised of (b) (6), (b) (7)(C) rights under the *Warnings and Assurance to Employee Requested to Provide Information on a Voluntary Basis (Garrity)*. After reviewing and signing the Garrity form, (b) (6), (b) (7)(C) provided the following information:

(b)(6), (b)(7)(C)

Date of Activity:		Location:
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Transcribed By:	Date Transcribed:	Reviewed By:


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Interview of (b) (6), (b) (7)(C)

- 2 -

April 7, 2014

(b)(6), (b)(7)(C)

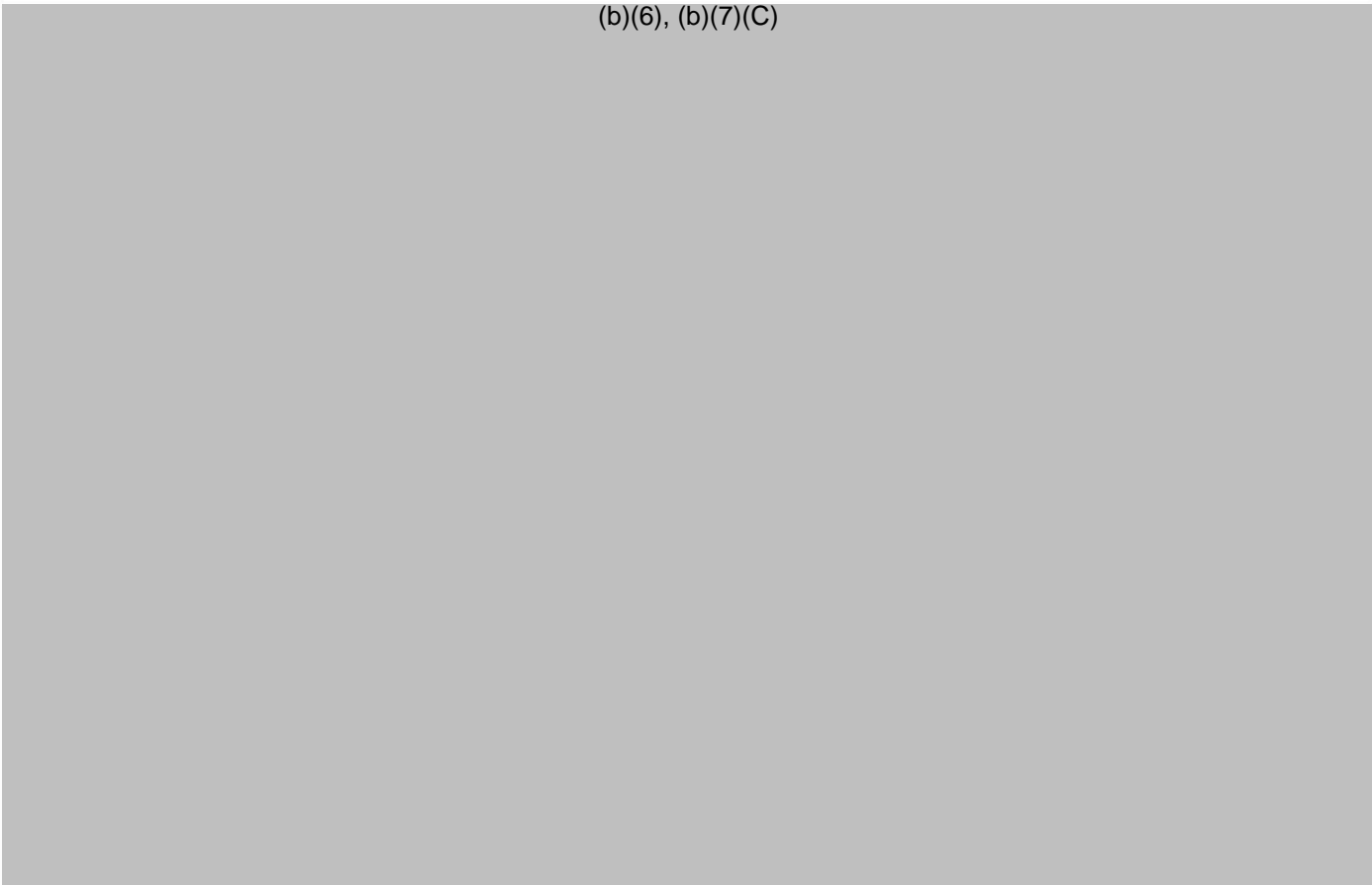


Interview of (b) (6), (b) (7)(C)

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April 7, 2014

(b)(6), (b)(7)(C)





Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM OF INTERVIEW

On March 28, 2014, (b) (6), (b) (7)(C) was interviewed by Special Agent in Charge (b) (6), (b) (7)(C) and Special Agent in Charge (b) (6), (b) (7)(C), Office of Inspector General for the Board of Governors of the Federal Reserve System at 1825 I Street, (b) (6), (b) (7)(C) Washington, DC . After being advised of the identity of the interviewing agent(s) and the purpose of the interview, (b) (6), (b) (7)(C) was advised of (b) (6), (b) (7)(C) rights under the *Warnings and Assurance to Employee Requested to Provide Information on a Voluntary Basis (Garrity)*. After reviewing and signing the Garrity form, (b) (6), (b) (7)(C) provided the following information:

(b)(6), (b)(7)(C)

Date of Activity:		Location:
Conducted by:		Case Number:
Transcribed By:	Date Transcribed:	Reviewed By:

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AUTHORIZED FOR RELEASE

Interview of (b) (6), (b) (7)(C)

- 2 -

March 28, 2014

(b)(6), (b)(7)(C)



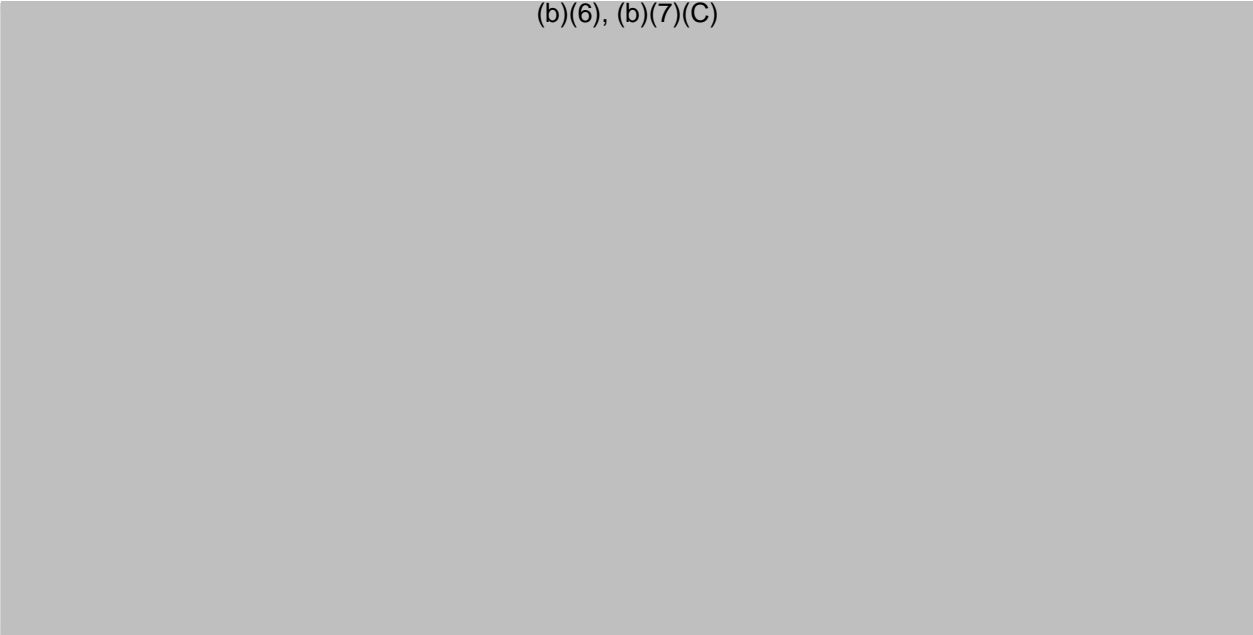
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Interview of (b) (6), (b) (7)(C)

- 3 -

March 28, 2014

(b)(6), (b)(7)(C)





Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM OF INTERVIEW

On February 25, 2014, (b) (6), (b) (7)(C) was interviewed by Special Agent in Charge (b) (6), (b) (7)(C) and Senior Special Agent (b) (6), (b) (7)(C), Office of Inspector General for the Board of Governors of the Federal Reserve System at 1825 I Street, (b) (6), (b) (7)(C), Washington, DC. After being advised of the identity of the interviewing agent(s) and the purpose of the interview, (b) (6), (b) (7)(C) was advised of (b) (6), (b) (7)(C) rights under the *Warnings and Assurance to Employee Requested to Provide Information on a Voluntary Basis (Garrity)*. After reviewing and signing the Garrity form, (b) (6), (b) (7)(C) provided the following information:

(b)(6), (b)(7)(C)

Date of Activity:		Location:
Conducted by:		Case Number:
Transcribed By:	Date Transcribed:	Reviewed By:

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RESTRICTED-FR

Interview of (b) (6), (b) (7)(C)

- 2 -

May 23, 2014

(b)(6), (b)(7)(C)





Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM OF INTERVIEW

On February 27, 2014, (b) (6), (b) (7)(C) was interviewed by Special Agent in Charge (b) (6), (b) (7)(C) and Senior Special Agent (b) (6), (b) (7)(C), Office of Inspector General for the Board of Governors of the Federal Reserve System at 1825 I Street, (b) (6), (b) (7)(C), Washington, DC. After being advised of the identity of the interviewing agent(s) and the purpose of the interview, (b) (6), (b) (7)(C) was advised of (b) (6), (b) (7)(C) rights under the *Warnings and Assurance to Employee Requested to Provide Information on a Voluntary Basis (Garrity)*. After reviewing and signing the Garrity form, (b) (6), (b) (7)(C) provided the following information:

(b)(6), (b)(7)(C)

Date of Activity:		Location:
Conducted by:		Case Number:
Transcribed By:	Date Transcribed:	Reviewed By:

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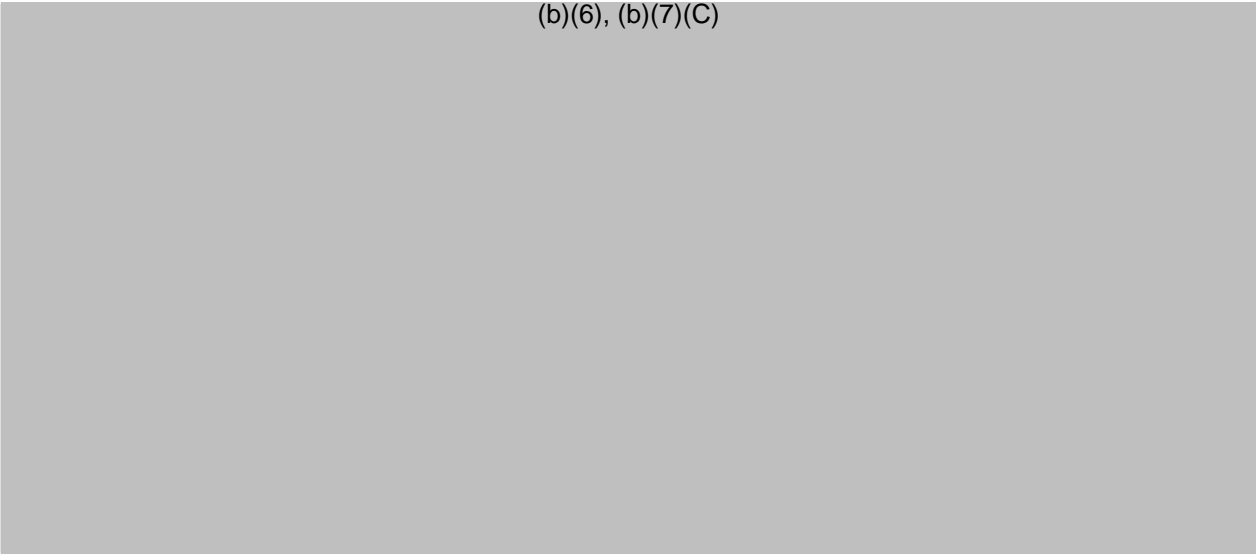
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Interview of (b) (6), (b) (7)(C)

- 2 -

May 23, 2014

(b)(6), (b)(7)(C)





Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM OF INTERVIEW

On December 5, 2013, (b) (6), (b) (7)(C) was interviewed by Special Agent's in Charge (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) of the Office of Inspector General for the Board of Governors of the Federal Reserve System (Board) and Consumer Financial Protection Bureau. The interview was conducted at OIG Headquarters, Room 2737. After being advised of the identity of the interviewing agents and the purpose of the interview, (b) (6), (b) (7)(C) provided the following information.

(b)(6), (b)(7)(C)

Date of Activity: December 5, 2013	Location: OIG, MS-K 300, Room 2737	
Conducted by: Special Agents in Charge (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C)	Case Number: 12013 0013	
Transcribed By: (b) (6), (b) (7)(C)	Date Transcribed: December 9, 2013	Reviewed By:

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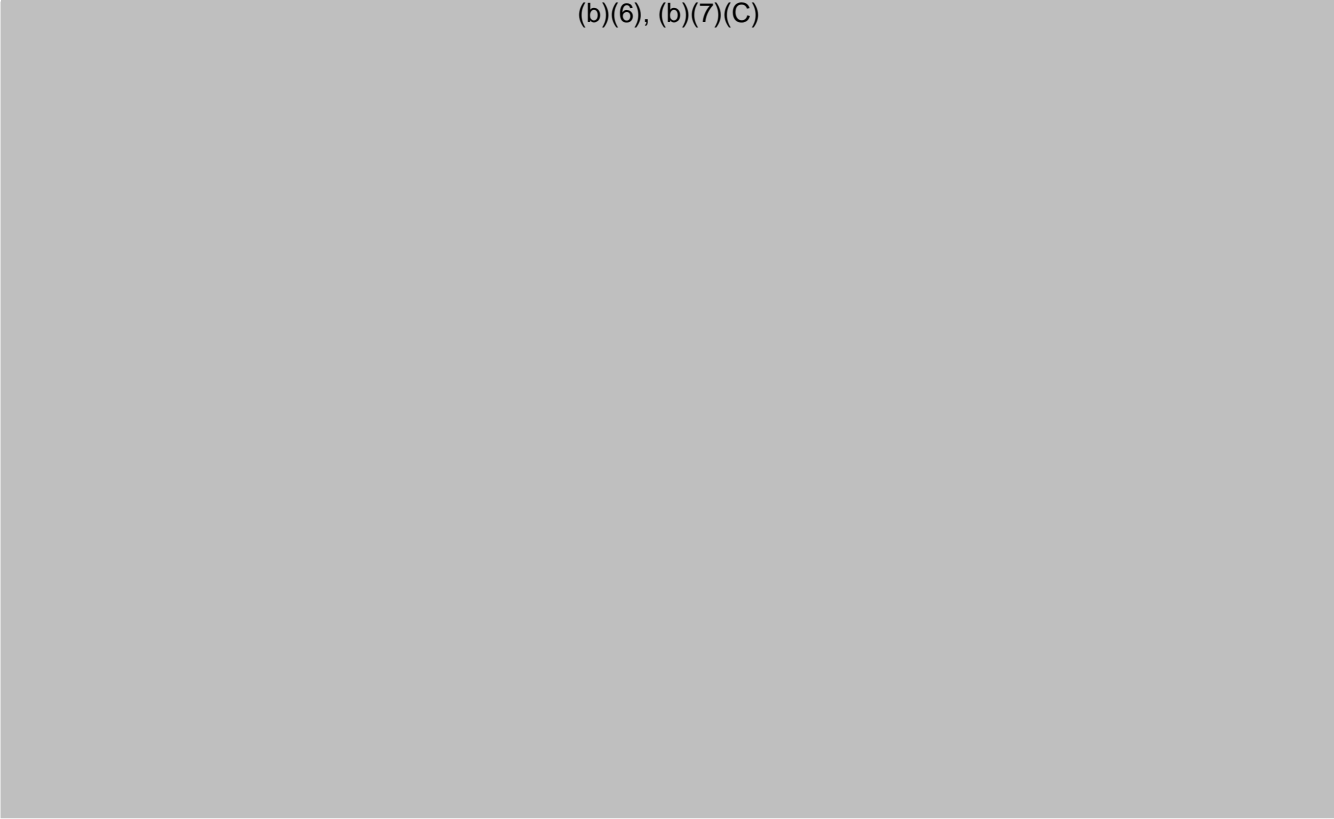
RESTRICTED-FR

Interview of (b) (6), (b) (7)(C)

- 2 -

December 5, 2013

(b)(6), (b)(7)(C)



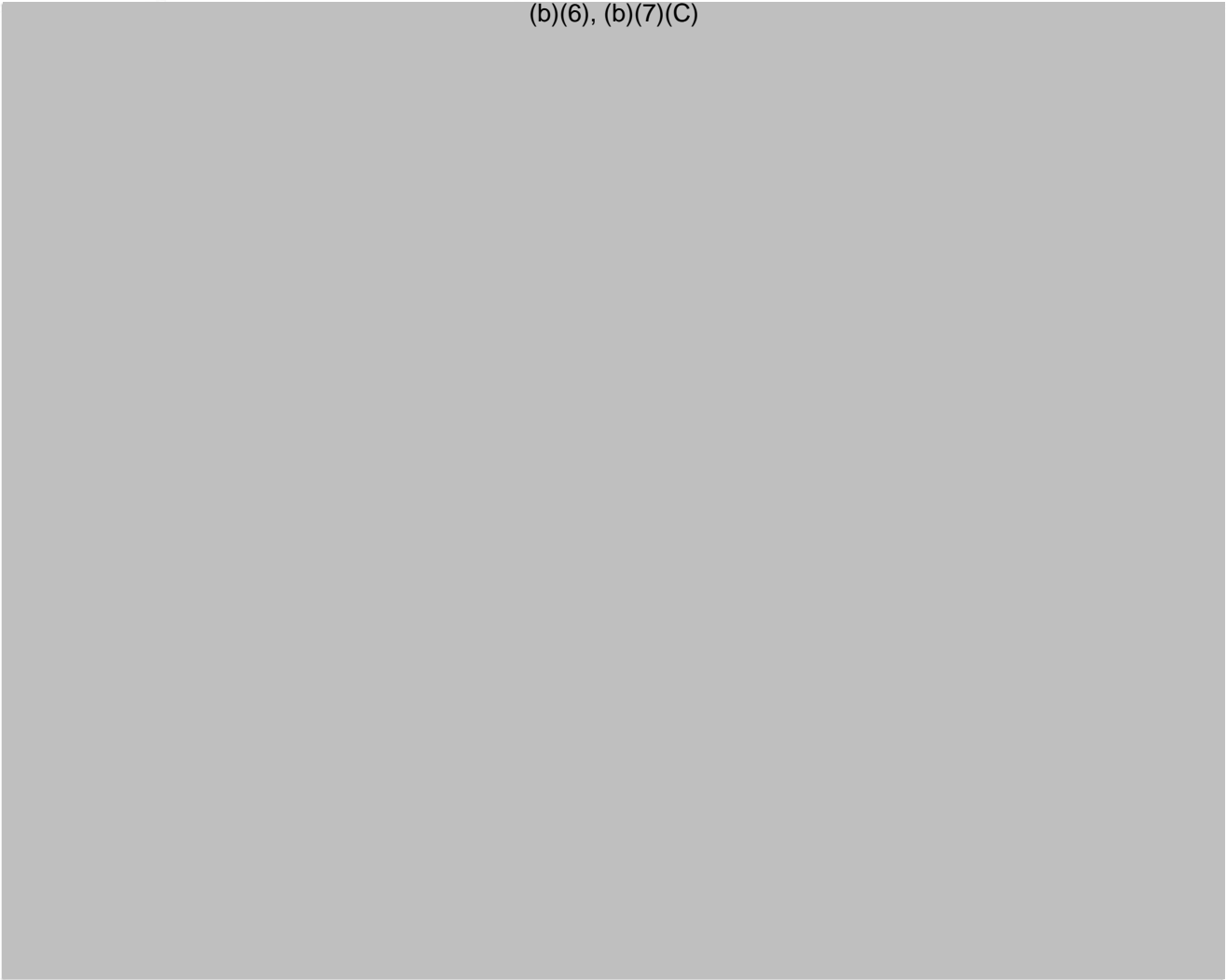


Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM OF INTERVIEW

On August 23, 2013, (b) (6), (b) (7)(C) was interviewed by Special Agent in Charge (b) (6), (b) (7)(C) at the Office of Inspector General for the Board of Governors of the Federal Reserve System. After being advised of the identity of the interviewing agent(s) and the purpose of the interview, (b) (6), (b) (7)(C) provided the following information:

(b)(6), (b)(7)(C)



Date of Activity: August 23, 2013		Location: OIG
Conducted by: (b) (6), (b) (7)(C)		Case Number: 12013 0013-HQO
Transcribed By: (b) (6), (b) (7)(C)	Date Transcribed: August 26, 2013	Reviewed By: (b) (6), (b) (7)(C)

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RESTRICTED-FR

Interview of (b) (6), (b) (7)(C)

- 2 -

August 23, 2013

(b)(6), (b)(7)(C)



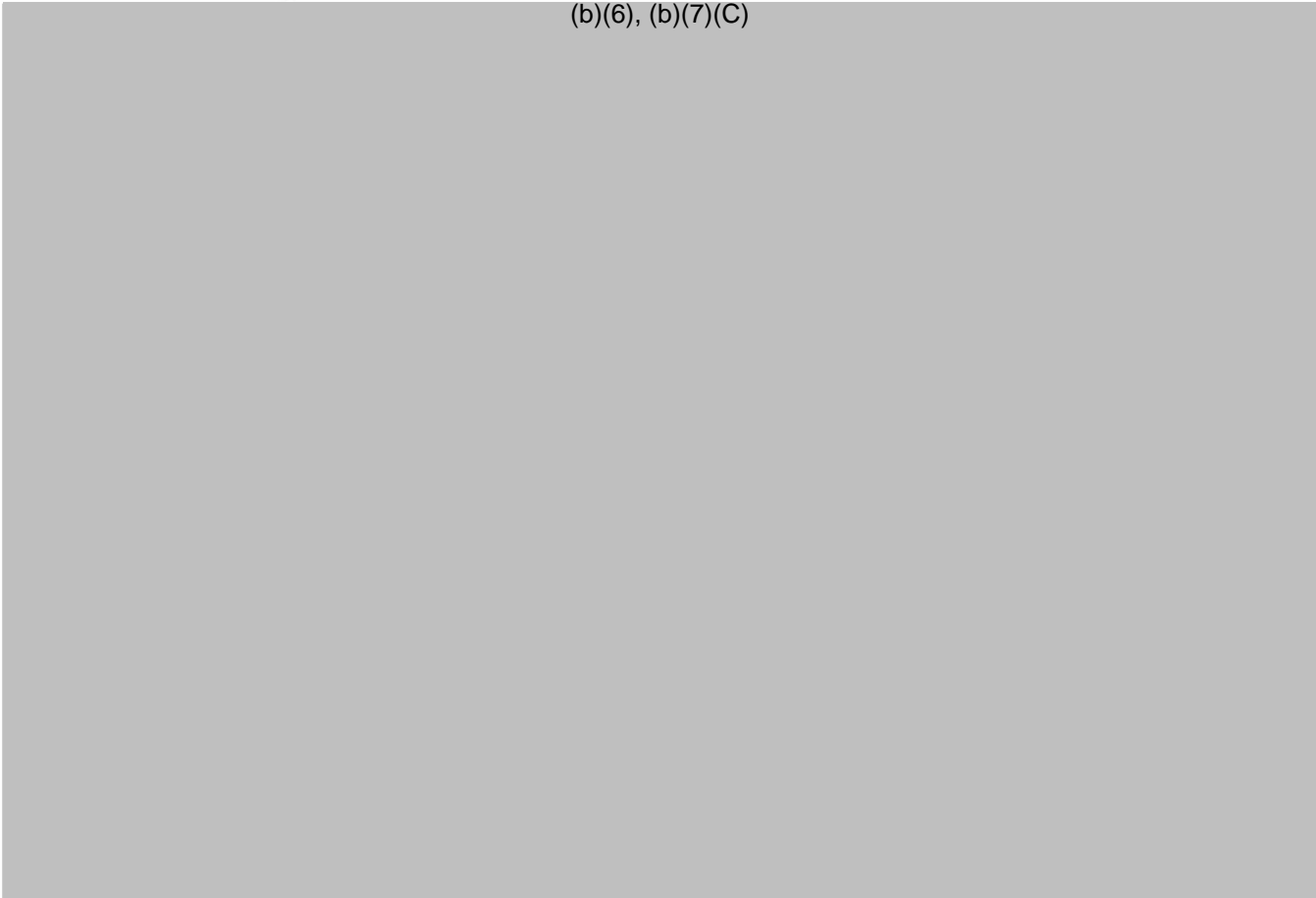


Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM OF INTERVIEW

On March 25, 2013, Special Agents in Charge, (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) met with (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C), (b) (6), (b) (7)(C). The purpose of the meeting was to discuss (b) (6), (b) (7)(C) publication of information contained in the Federal Open Market Committee minutes prior to their release to the public.

(b)(6), (b)(7)(C)



Date of Activity: March 25, 2013		Location: Eccles Bldg – Office of General Counsel
Conducted by: (b) (6), (b) (7)(C)		Case Number: I2013 0013-HQO
Transcribed By: (b) (6), (b) (7)(C)	Date Transcribed: 3-28-2013	Reviewed By: (b) (6), (b) (7)(C)

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Interview of (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) -2-

March 25, 2013

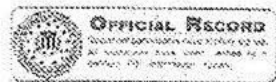
(b)(6), (b)(7)(C)

(b) (6), (b) (7)(C)

refused to provide a copy of the final report because (b) (6), (b) (7) said it contained FOMC information that the agents were not entitled to.

(b)(6), (b)(7)(C)

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Disclosure to any unauthorized person is prohibited.*



FEDERAL BUREAU OF INVESTIGATION

Date of entry 10/20/2015

On Wednesday, May 5, 2015, (b) (6), (b) (7)(C) was interviewed pursuant to the Federal Reserve Board Inspector General's Office Garrity Agreement by Special Agent (b) (6), (b) (7)(C) of the Federal Bureau of Investigation, Federal Reserve Board (FRB) Office of Inspector General (OIG) Special Agents (b) (6), (b) (7)(C) Southern District of New York (SDNY) Assistant United States Attorney (AUSA) (b) (6), (b) (7)(C) and SDNY AUSA (b) (6), (b) (7)(C).

Also present was (b) (6), (b) (7)(C), (b) (6), (b) (7)(C)

(b) (6), (b) (7)(C) After being advised of the identities of the interviewing officials and after reviewing the Garrity Warning from the FRB OIG, (b) (6), (b) (7)(C) executed the Garrity document, whereupon (b) (6), (b) (7)(C) voluntarily provided the following information:

(b)(6), (b)(7)(C)

[Large redacted area covering the majority of the page content]

Investigation on 05/05/2015 at Washington, District Of Columbia, United States (In Person)

File # 318D-NY-6151941 Date drafted 05/13/2015

by (b) (6), (b) (7)(C)

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318D-NY-6151941

(b) (6), (b) (7)(C)

Continuation of FD-302 of _____


, On

05/05/2015

, Page

2 of 3

(b)(6), (b)(7)(C)



AUTHORIZED FOR RELEASE

FD-302a (Rev. 05-08-10)

318D-NY-6151941

(b) (6), (b) (7)(C)

Continuation of FD-302 of

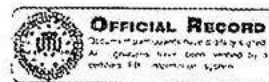


, On

05/05/2015

, Page

3 of 3

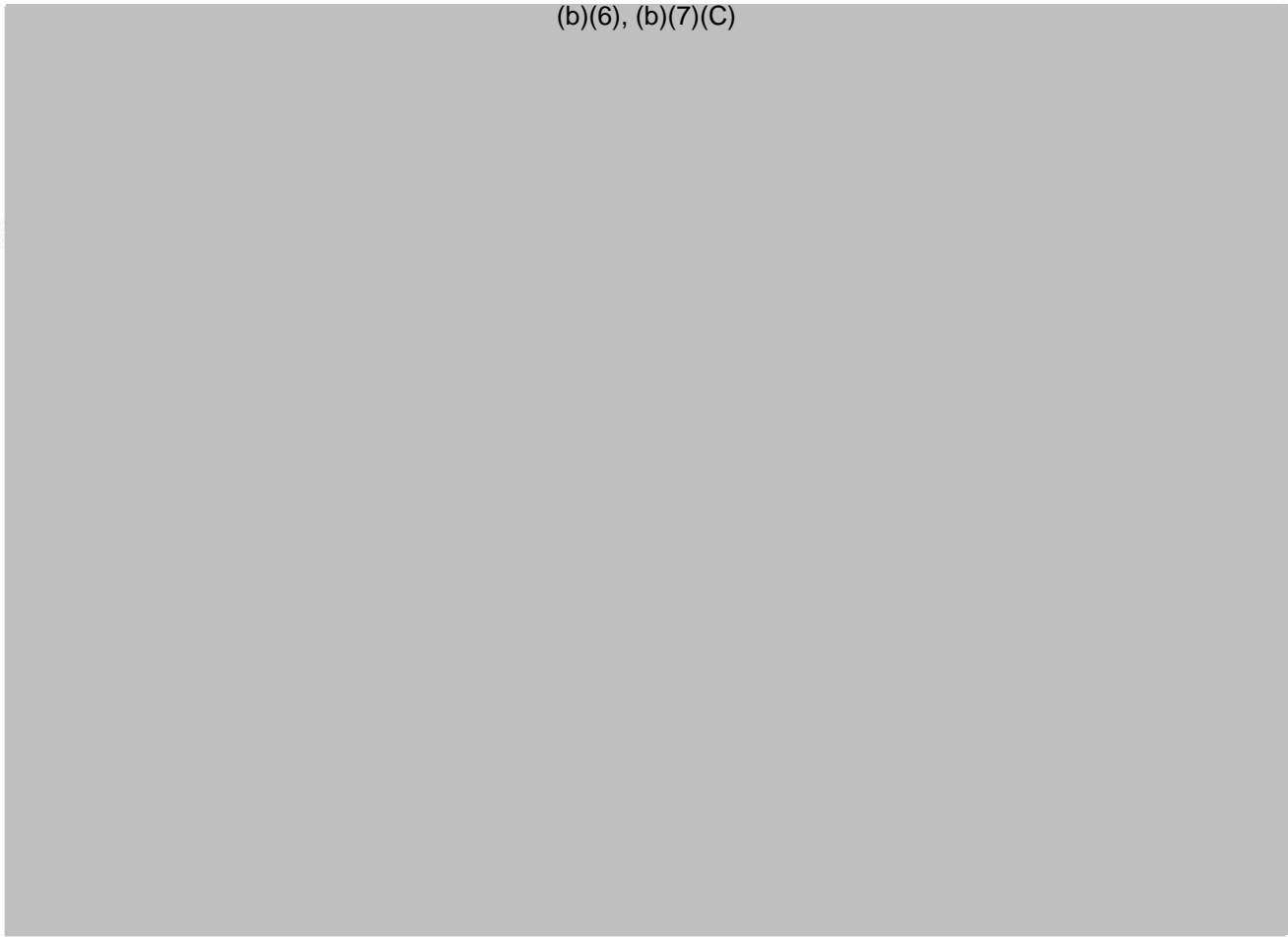


FEDERAL BUREAU OF INVESTIGATION

Date of entry 10/28/2015

On Wednesday, May 5, 2015, (b) (6), (b) (7)(C) was interviewed pursuant to the Federal Reserve Board Inspector General's Office Garrity Agreement by Special Agent (b) (6), (b) (7)(C) of the Federal Bureau of Investigation, Federal Reserve Board (FRB) Office of Inspector General (OIG) Special Agents (b) (6), (b) (7)(C) FRB OIG Counsel (b) (6), (b) (7)(C) Southern District of New York (SDNY) Assistant United States Attorney (AUSA) (b) (6), (b) (7)(C) and SDNY AUSA (b) (6), (b) (7)(C). After being advised of the identities of the interviewing officials and after reviewing the Garrity Warning from the FRB OIG, (b) (6), (b) (7)(C) executed the Garrity document, whereupon (b) (6), (b) (7) voluntarily provided the following information:

(b)(6), (b)(7)(C)



b6
b7C

Investigation on 05/05/2015 at Washington, District Of Columbia, United States (In Person)

File # 318D-NY-6151941

Date drafted 05/15/2015

by (b) (6), (b) (7)(C)

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FD-302a (Rev. 05-08-10)

318D-NY-6151941

Continuation of FD-302 of (b) (6), (b) (7)(C), On 05/05/2015, Page 2 of 3

(b)(6), (b)(7)(C)

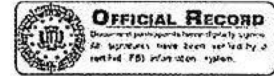


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FD-302a (Rev. 05-08-10)

318D-NY-6151941

Continuation of FD-302 of (b) (6), (b) (7)(C), On 05/05/2015, Page 3 of 3



FEDERAL BUREAU OF INVESTIGATION

Date of entry 10/30/2015

On Thursday, May 14, 2015, (b) (6), (b) (7)(C) was interviewed pursuant to the Federal Reserve Board Inspector General's Office Garrity Agreement by Special Agent (b) (6), (b) (7)(C) of the Federal Bureau of Investigation, Federal Reserve Board (FRB) Office of Inspector General (OIG) Special Agents (b) (6), (b) (7)(C) FRB OIG Counsel (b) (6), (b) (7)(C) Southern District of New York (SDNY) Assistant United States Attorney (AUSA) (b) (6), (b) (7)(C) and SDNY AUSA (b) (6), (b) (7)(C). After being advised of the identities of the interviewing officials and after reviewing the Garrity Warning from the FRB OIG, (b) (6), (b) (7)(C) executed the Garrity document, whereupon (b) (6), (b) (7) voluntarily provided the following information:

(b)(6), (b)(7)(C)

Investigation on 05/14/2015 at New York, New York, United States (In Person)

File # 318D-NY-6151941 Date drafted 05/15/2015

by (b) (6), (b) (7)(C)

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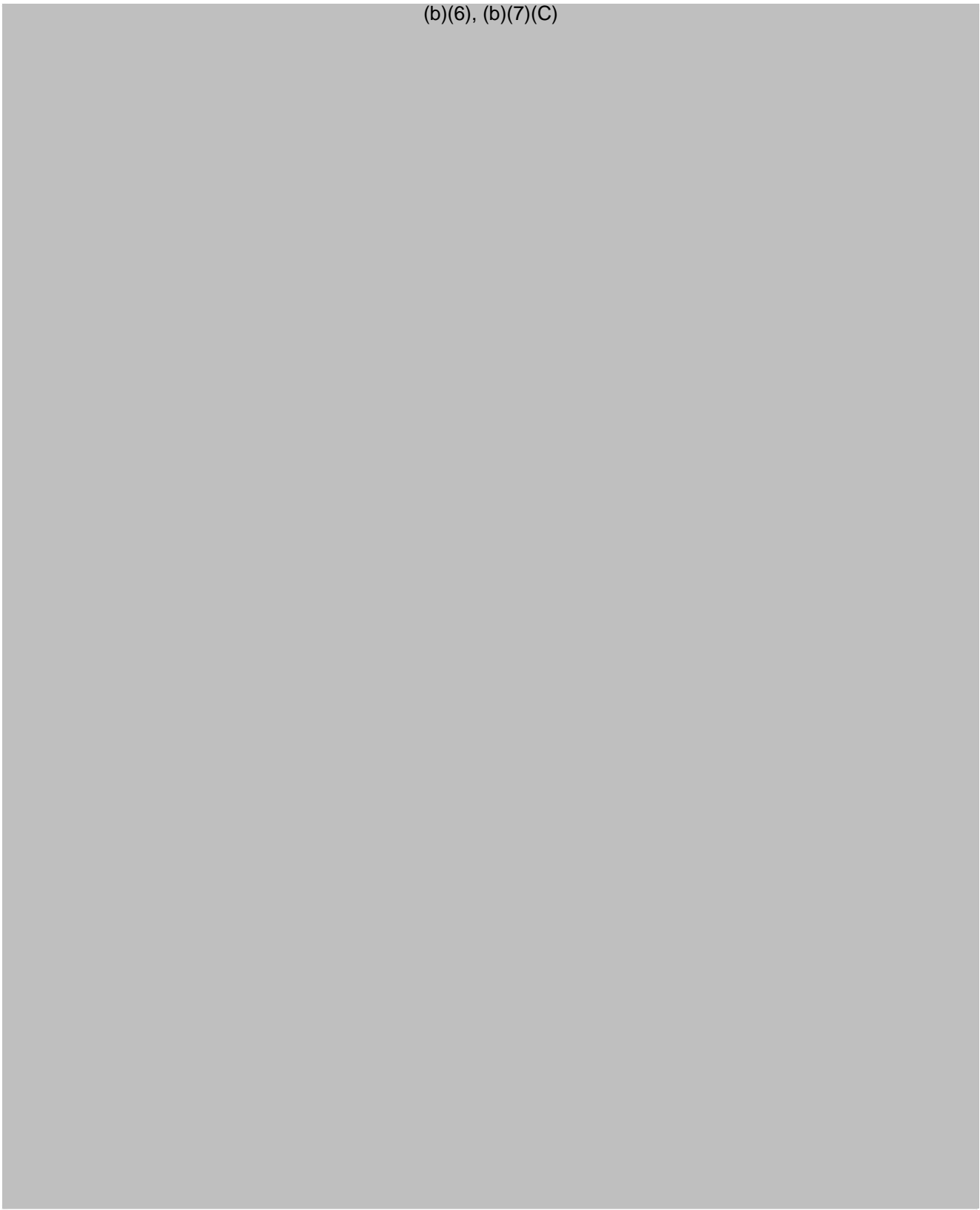
FD-302a (Rev. 05-08-10)

318D-NY-6151941

(b) (6), (b) (7)(C)

Continuation of FD-302 of _____, On 05/14/2015, Page 2 of 3

(b)(6), (b)(7)(C)

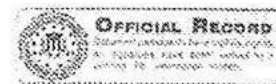


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318D-NY-6151941

Continuation of FD-302 of (b) (6), (b) (7)(C), On 05/14/2015, Page 3 of 3

(b)(6), (b)(7)(C)

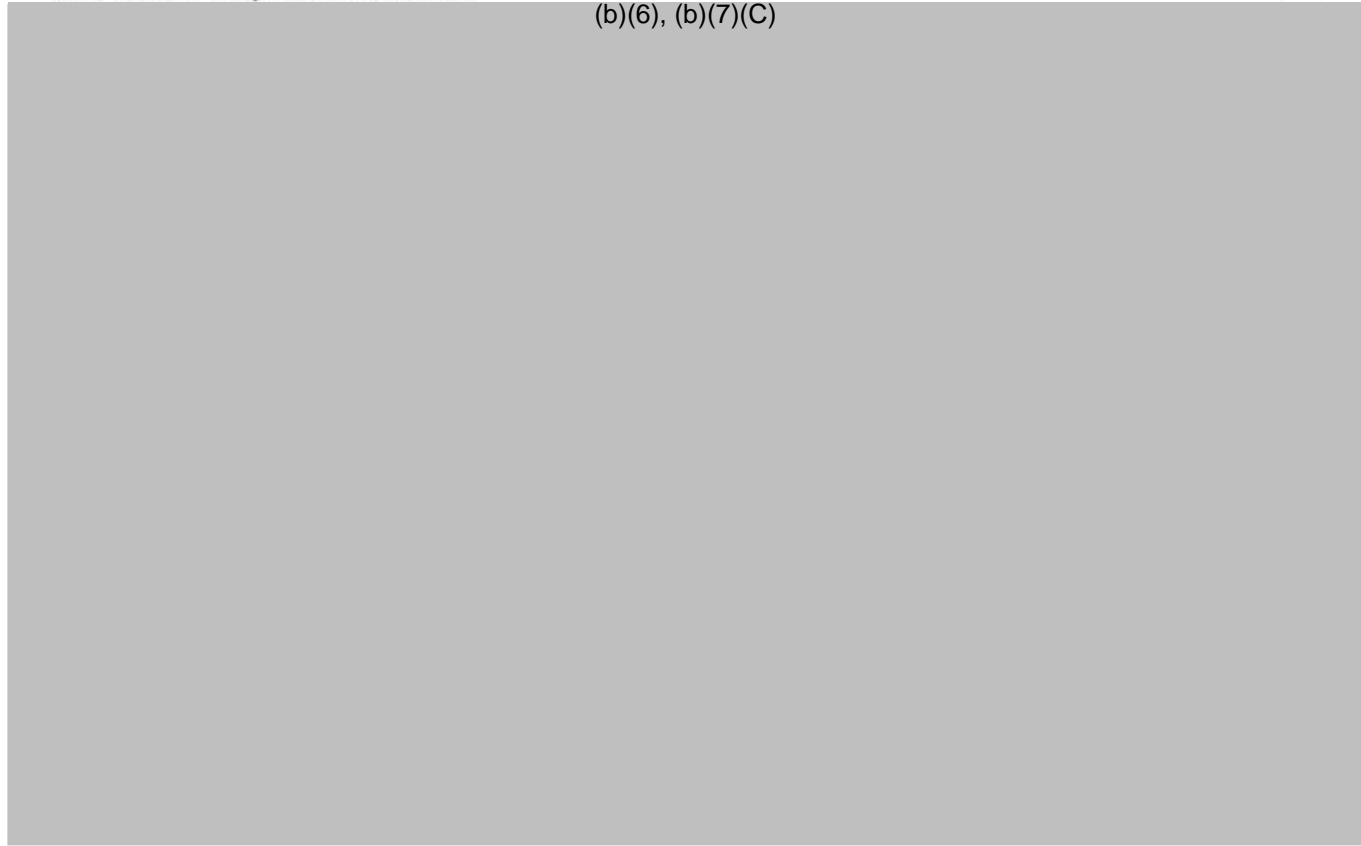


FEDERAL BUREAU OF INVESTIGATION

Date of entry 10/28/2015

On Wednesday, May 5, 2015, (b) (6), (b) (7)(C) date of birth (b) (6), (b) (7)(C)
 (b) (6), (b) (7)(C) social security account number (b) (6), (b) (7)(C) address (b) (6), (b) (7)(C)
 (b) (6), (b) (7)(C) home telephone number (b) (6), (b) (7)(C)
 (b) (6), (b) (7)(C) cellular work and personal telephone number (b) (6), (b) (7)(C) personal e-mail
 address (b) (6), (b) (7)(C) was interviewed pursuant to the Federal
 Reserve Board Inspector General's Office Garrity Agreement by Special Agent
 (b) (6), (b) (7)(C) of the Federal Bureau of Investigation, Federal Reserve
 Board (FRB) Office of Inspector General (OIG) Special Agents (b) (6), (b) (7)(C)
 (b) (6), (b) (7)(C) FRB OIG Counsel (b) (6), (b) (7)(C) Southern District of New York
 (SDNY) Assistant United States Attorney (AUSA) (b) (6), (b) (7)(C) and SDNY AUSA
 (b) (6), (b) (7)(C) After being advised of the identities of the interviewing
 officials and after reviewing the Garrity Warning from the FRB OIG,
 (b) (6), (b) (7)(C) executed the Garrity document, whereupon (b) (6), (b) (7)(C) voluntarily provided
 the following information:

(b)(6), (b)(7)(C)



Investigation on 05/06/2015 at Washington, District Of Columbia, United States (In Person)

File # 318D-NY-6151941

Date drafted 05/15/2015


by (b) (6), (b) (7)(C)

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318D-NY-6151941

Continuation of FD-302 of (b) (6), (b) (7)(C), On 05/06/2015, Page 2 of 5

(b)(6), (b)(7)(C)




318D-NY-6151941

Continuation of FD-302 of (b) (6), (b) (7)(C)

On 05/06/2015, Page 3 of 5


(b)(6), (b)(7)(C)



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Continuation of FD-302 of (b) (6), (b) (7)(C), On 05/06/2015, Page 4 of 5

(b)(6), (b)(7)(C)



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FD-302a (Rev. 05-08-10)

318D-NY-6151941

(b) (6), (b) (7)(C)

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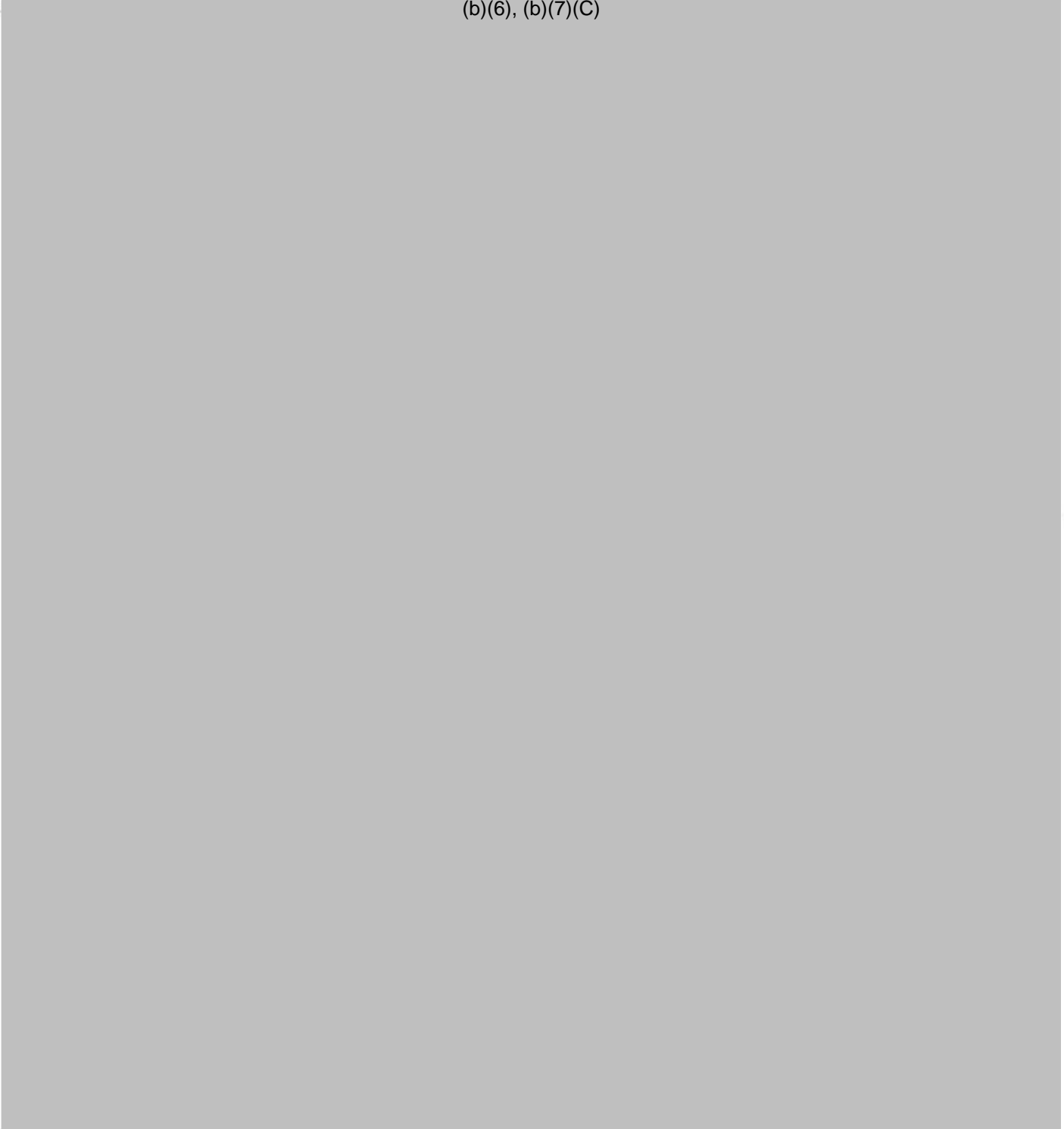
, On

05/06/2015

, Page

5 of 5

(b)(6), (b)(7)(C)



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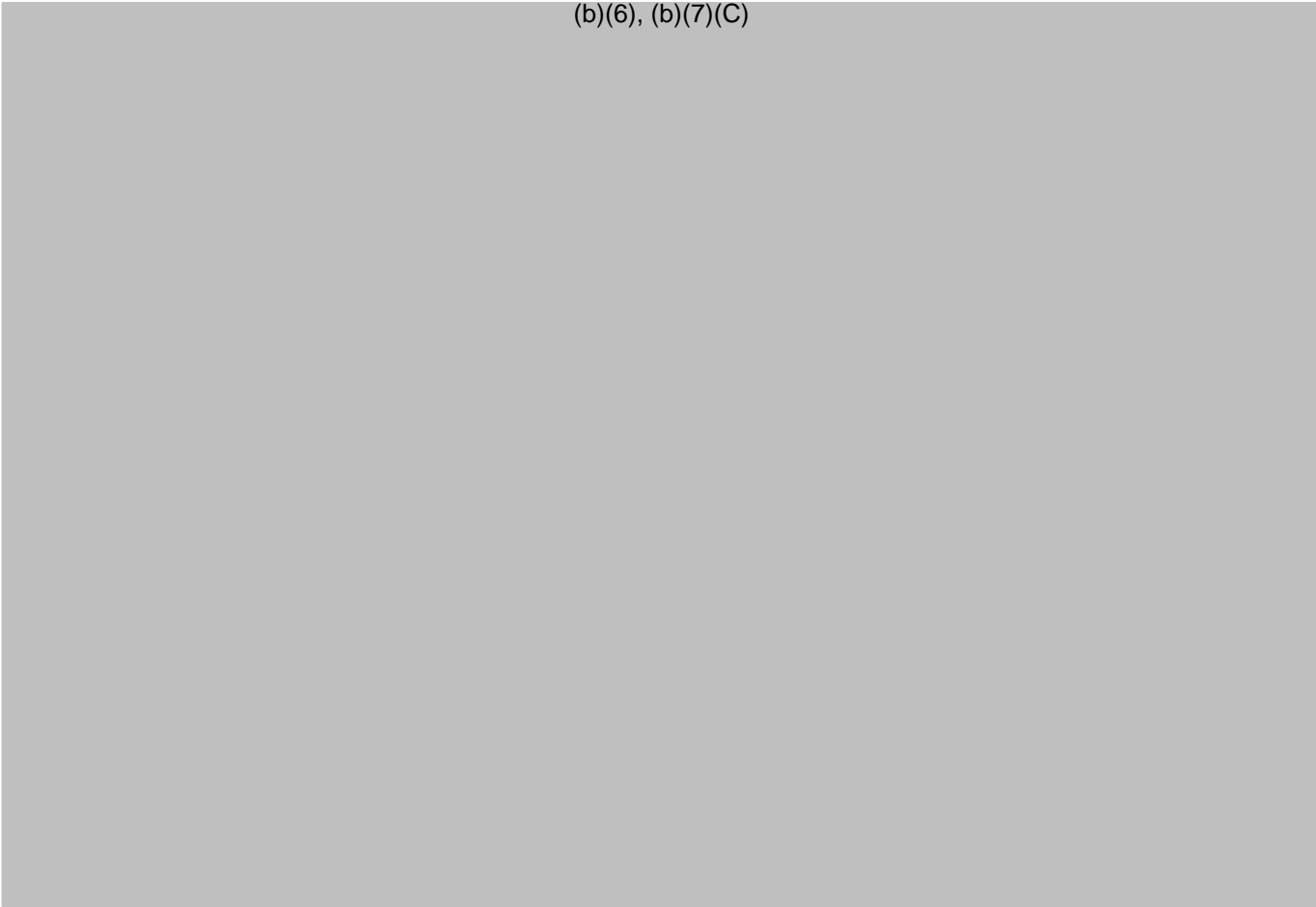


FEDERAL BUREAU OF INVESTIGATION

Date of entry 11/04/2015

On Thursday, May 6, 2015, (b) (6), (b) (7)(C) was interviewed pursuant to the Federal Reserve Board Inspector General's Office Garrity Agreement by Special Agent (b) (6), (b) (7)(C) of the Federal Bureau of Investigation, Federal Reserve Board (FRB) Office of Inspector General (OIG) Special Agents (b) (6), (b) (7)(C) FRB OIG Counsel (b) (6), (b) (7)(C) Southern District of New York (SDNY) Assistant United States Attorney (AUSA) (b) (6), (b) (7)(C) and SDNY AUSA (b) (6), (b) (7)(C). After being advised of the identities of the interviewing officials and after reviewing the Garrity Warning from the FRB OIG, (b) (6), (b) (7)(C) executed the Garrity document, whereupon (b) (6), (b) (7)(C) voluntarily provided the following information:

(b)(6), (b)(7)(C)



Investigation on 05/06/2015 at New York, New York, United States (In Person)

File # 318D-NY-6151941 Date drafted 05/15/2015

by (b) (6), (b) (7)(C)

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318D-NY-6151941

(b) (6), (b) (7)(C)

Continuation of FD-302 of


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05/06/2015

, Page

2 of 3

(b)(6), (b)(7)(C)



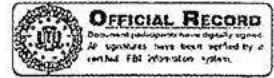
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318D-NY-6151941

Continuation of FD-302 of (b) (6), (b) (7)(C), On 05/06/2015, Page 3 of 3

(b)(6), (b)(7)(C)

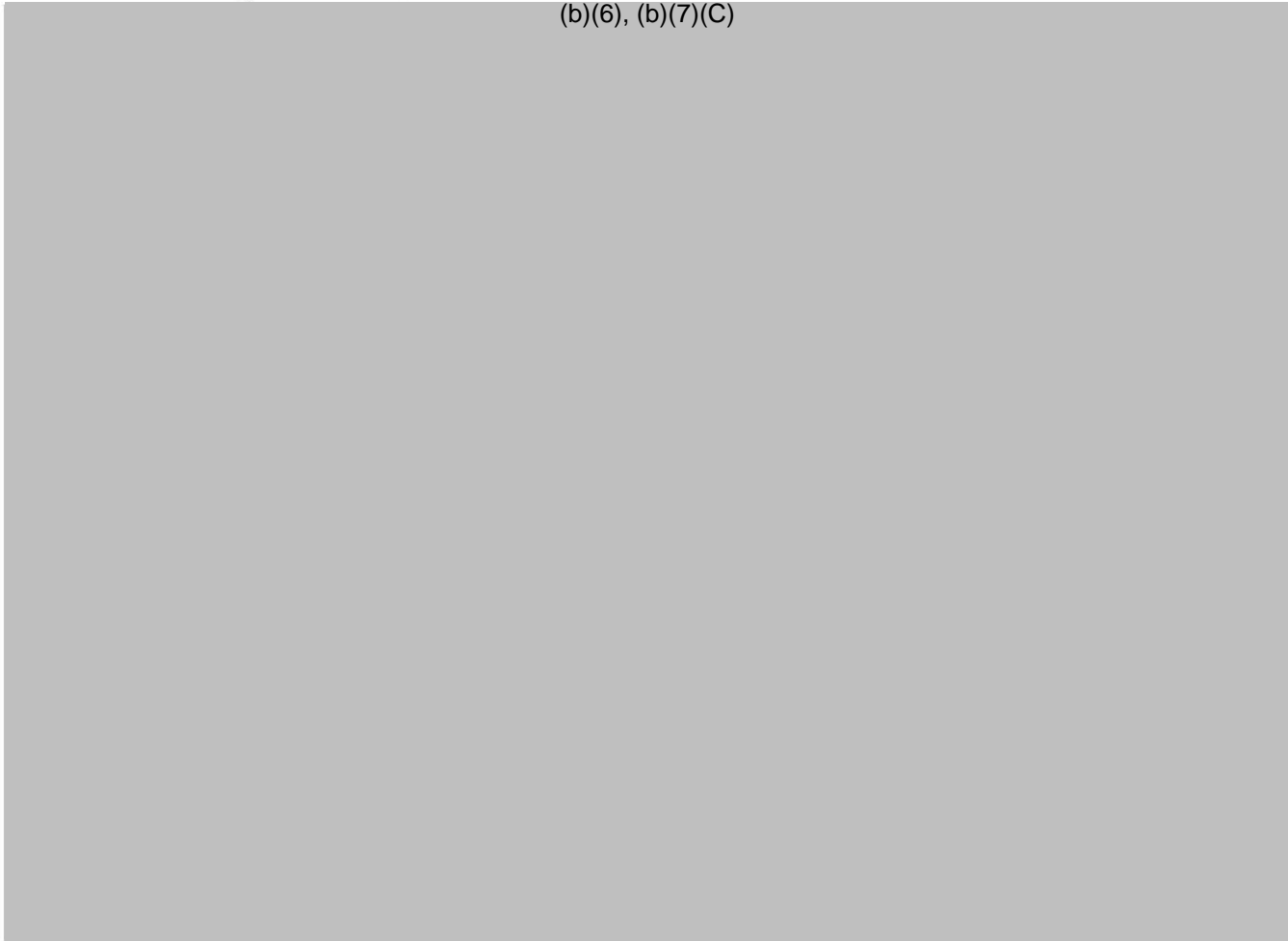


FEDERAL BUREAU OF INVESTIGATION

Date of entry 10/30/2015

On Thursday, May 6, 2015, (b)(6), (b)(7)(C) was interviewed pursuant to the Federal Reserve Board Inspector General's Office Garrity Agreement by Special Agent (b)(6), (b)(7)(C) of the Federal Bureau of Investigation, FRB Office of Inspector General (OIG) Special Agents (b)(6), (b)(7)(C) (b)(6), (b)(7)(C) FRB OIG Counsel (b)(6), (b)(7)(C) Southern District of New York (SDNY) Assistant United States Attorney (AUSA) (b)(6), (b)(7)(C) and SDNY AUSA (b)(6), (b)(7)(C). After being advised of the identities of the interviewing officials and after reviewing the Garrity Warning from the FRB OIG, (b)(6), (b)(7)(C) executed the Garrity document, whereupon (b)(6), (b)(7)(C) voluntarily provided the following information:

(b)(6), (b)(7)(C)



Investigation on 05/06/2015 at New York, New York, United States (In Person)
 File # 318D-NY-6151941 Date drafted 05/15/2015
 by (b)(6), (b)(7)(C)

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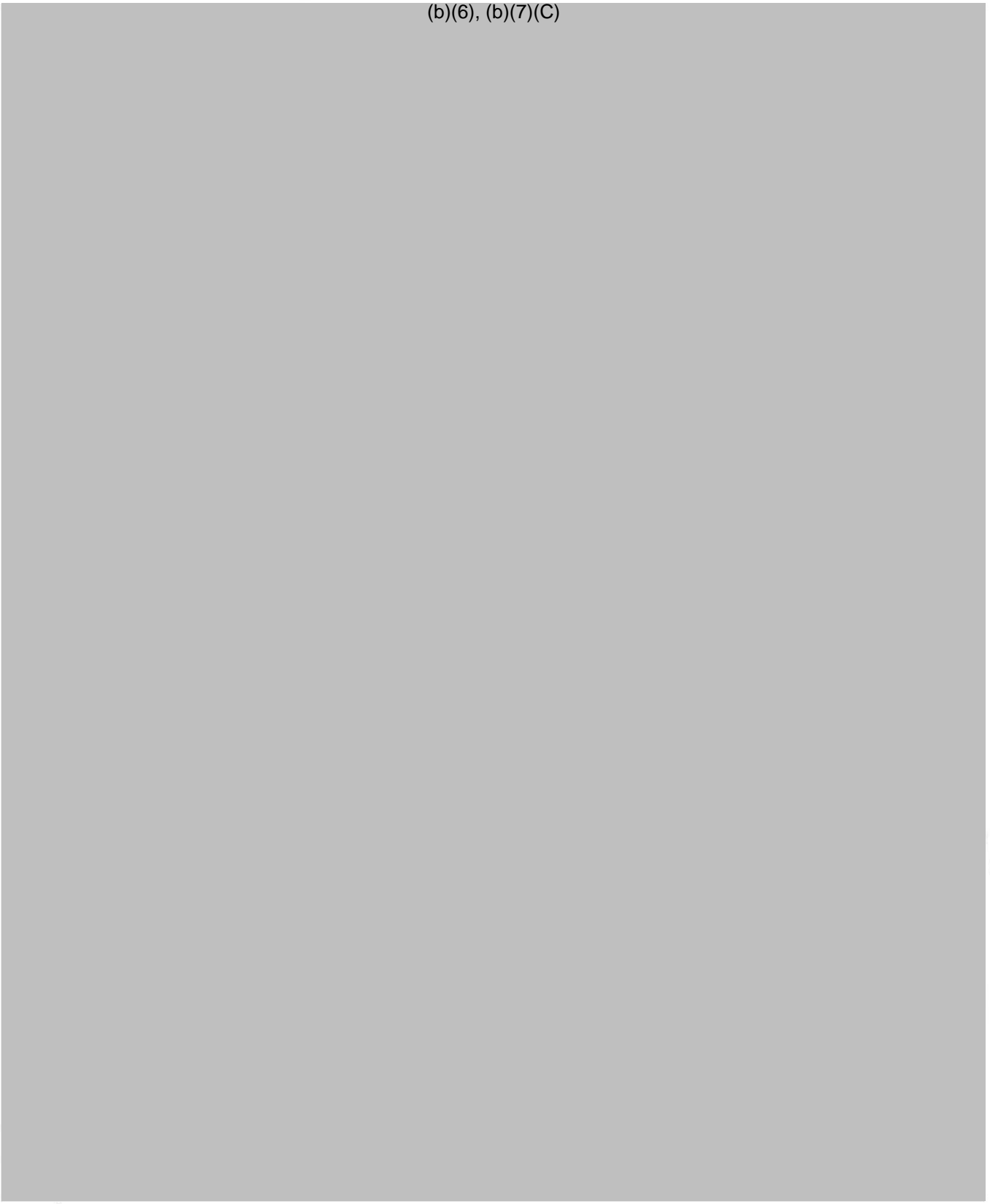
FD-302a (Rev. 05-08-10)

318D-NY-6151941

(b) (6), (b) (7)(C)

Continuation of FD-302 of _____, On 05/06/2015, Page 2 of 4

(b)(6), (b)(7)(C)



318D-NY-6151941


(b)(6), (b)(7)(C)

Continuation of FD-302 of

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, On 05/06/2015 , Page 3 of 4

(b)(6), (b)(7)(C)



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FD-302a (Rev. 05-08-10)

318D-NY-6151941

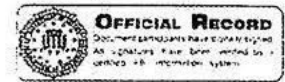
(b)(6), (b)(7)(C)

Continuation of FD-302 of _____, On 05/06/2015, Page 4 of 4

(b)(6), (b)(7)(C)



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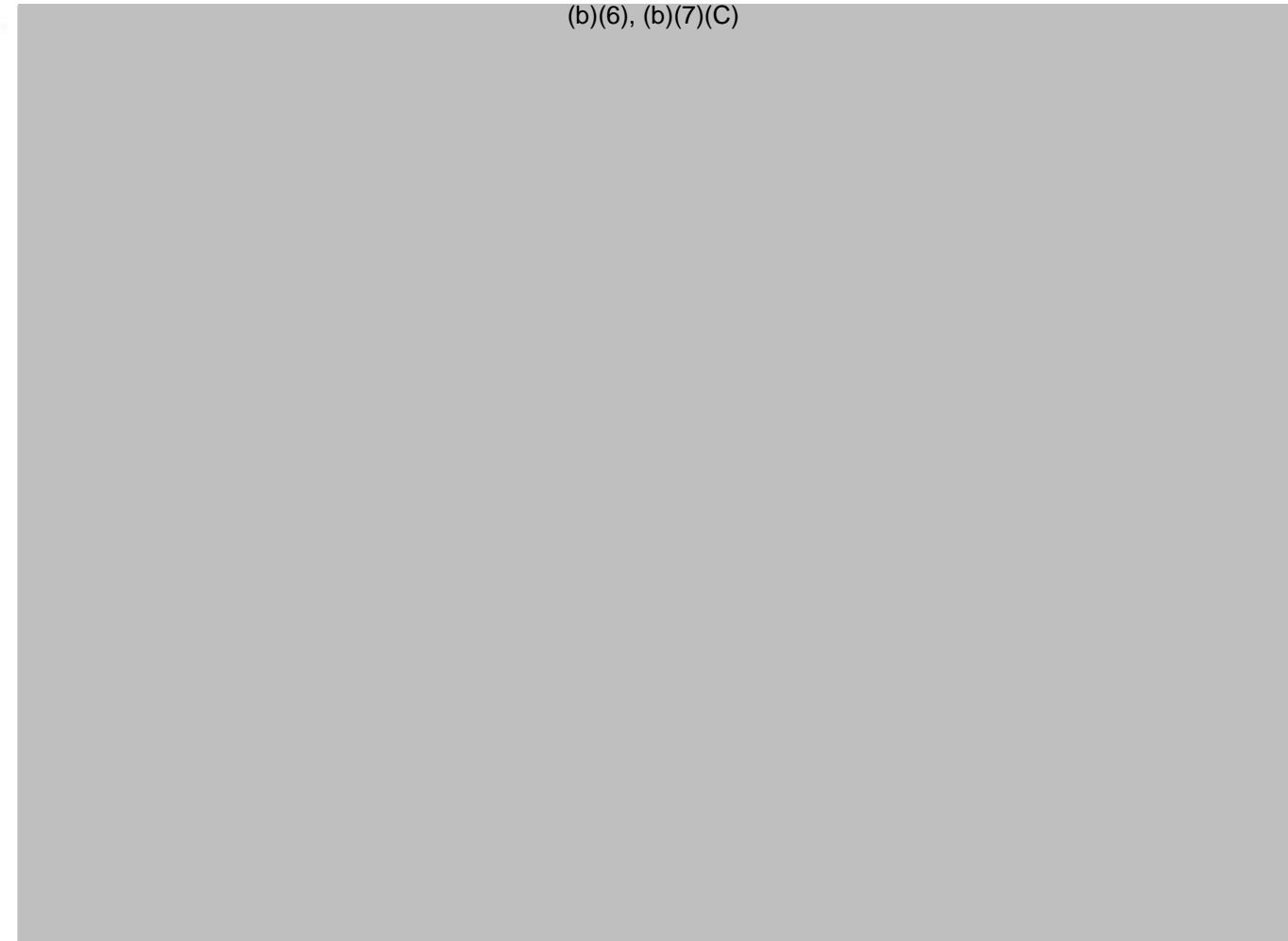


FEDERAL BUREAU OF INVESTIGATION

Date of entry 10/28/2015

On Wednesday, May 5, 2015, (b) (6), (b) (7)(C) was interviewed pursuant to the Federal Reserve Board Inspector General's Office Garrity Agreement by Special Agent (b) (6), (b) (7)(C) of the Federal Bureau of Investigation, Federal Reserve Board (FRB) Office of Inspector General (OIG) Special Agent (b) (6), (b) (7)(C) FRB OIG Counsel (b) (6), (b) (7)(C) Southern District of New York (SDNY) Assistant United States Attorney (AUSA) (b) (6), (b) (7)(C) and SDNY AUSA (b) (6), (b) (7)(C). After being advised of the identities of the interviewing officials and after reviewing the Garrity Warning from the FRB OIG, (b) (6), (b) (7)(C) executed the Garrity document, whereupon (b) (6), (b) (7)(C) voluntarily provided the following information:

(b)(6), (b)(7)(C)



Investigation on 05/05/2015 at Washington, District Of Columbia, United States (In Person)

File # 318D-NY-6151941 Date drafted 05/15/2015

by (b) (6), (b) (7)(C)

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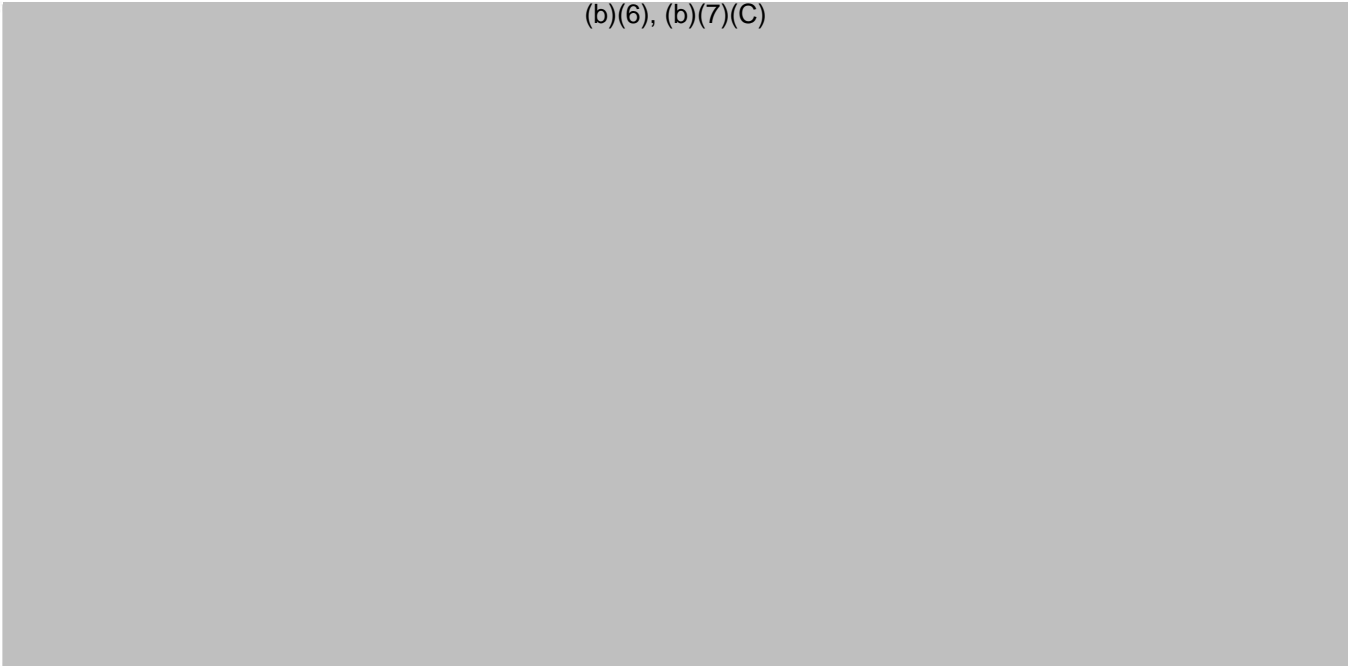
FD-302a (Rev. 05-08-10)

318D-NY-6151941

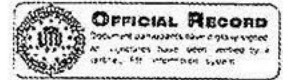
(b) (6), (b) (7)(C)

Continuation of FD-302 of _____, On 05/05/2015, Page 2 of 2

(b)(6), (b)(7)(C)



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FEDERAL BUREAU OF INVESTIGATION

Date of entry 10/28/2015

On Wednesday, May 5, 2015, (b) (6), (b) (7)(C) was interviewed pursuant to the Federal Reserve Board Inspector General's Office Garrity Agreement by Special Agent (b) (6), (b) (7)(C) of the Federal Bureau of Investigation, Federal Reserve Board (FRB) Office of Inspector General (OIG) Special Agents (b) (6), (b) (7)(C) FRB OIG Counsel (b) (6), (b) (7)(C) Southern District of New York (SDNY) Assistant United States Attorney (AUSA) (b) (6), (b) (7)(C) and SDNY AUSA (b) (6), (b) (7)(C). After being advised of the identities of the interviewing officials and after reviewing the Garrity Warning from the FRB OIG, (b) (6), (b) (7)(C) executed the Garrity document, whereupon (b) (6), (b) (7)(C) voluntarily provided the following information:

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[Redacted content]

Investigation on 05/05/2015 at Washington, District Of Columbia, United States (In Person)

File # 318D-NY-6151941

Date drafted 05/15/2015

(b) (6), (b) (7)(C)

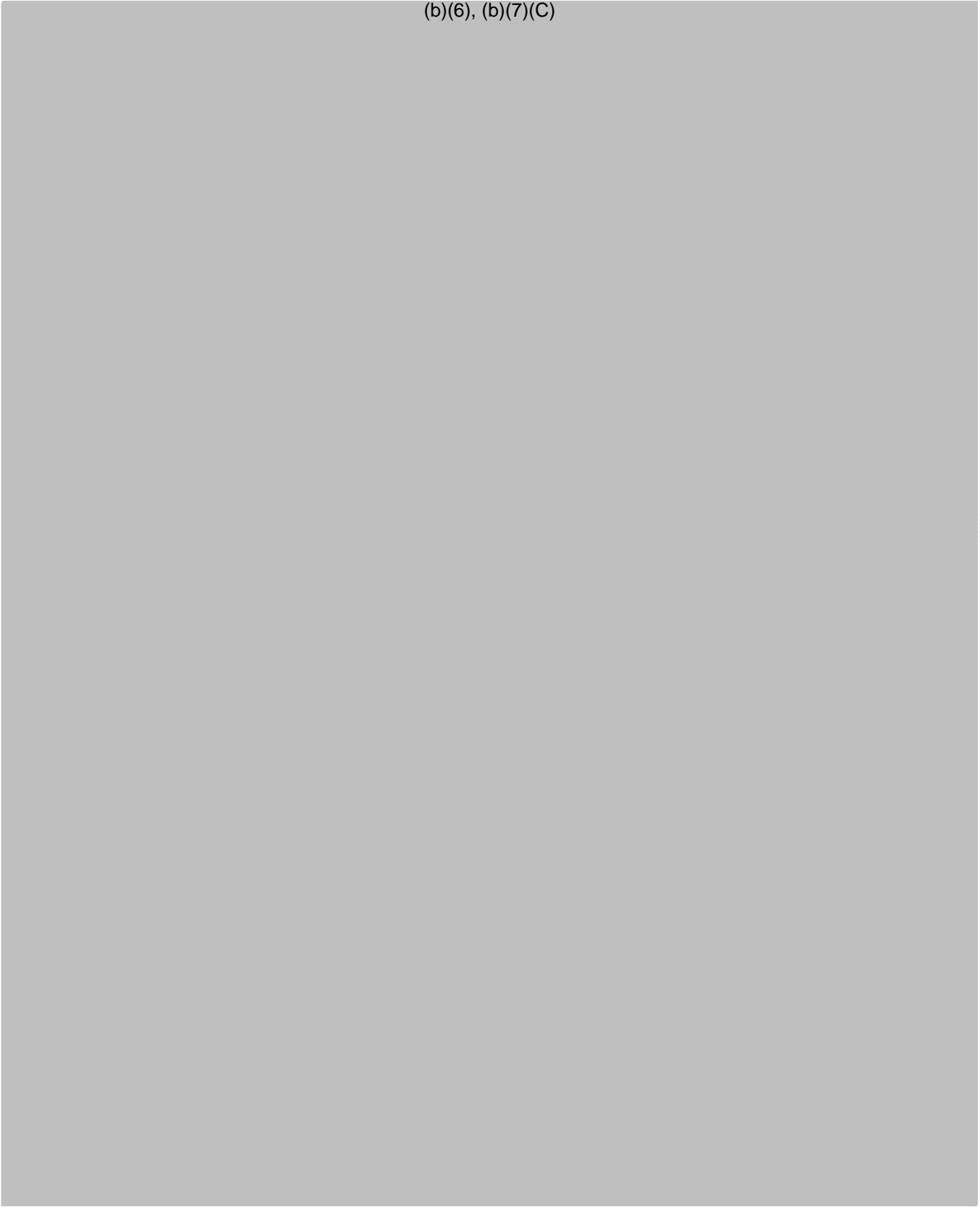
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Continuation of FD-302 of (b) (6), (b) (7)(C), On 05/05/2015, Page 2 of 3

(b)(6), (b)(7)(C)




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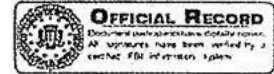
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(b)(6), (b)(7)(C)



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FEDERAL BUREAU OF INVESTIGATION

Date of entry 11/04/2015

On Wednesday, May 5, 2015, ^{(b) (6), (b) (7)(C)} [redacted]
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 Federal Reserve Board Inspector General's Office Garrity Agreement by
 Special Agent ^{(b) (6), (b) (7)(C)} [redacted] of the Federal Bureau of Investigation,
 FRB Office of Inspector General (OIG) Special Agent ^{(b) (6), (b) (7)(C)} [redacted] FRB OIG
 Counsel ^{(b) (6), (b) (7)(C)} [redacted] Southern District of New York (SDNY) Assistant United
 States Attorney (AUSA) ^{(b) (6), (b) (7)(C)} [redacted] and SDNY AUSA ^{(b) (6), (b) (7)(C)} [redacted] After being
 advised of the identities of the interviewing officials and after reviewing
 the Garrity Warning from the FRB OIG, ^{(b) (6), (b) (7)(C)} [redacted] executed the Garrity document,
 whereupon ^{(b) (6), (b) (7)(C)} [redacted] voluntarily provided the following information:

(b)(6), (b)(7)(C)

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Investigation on 05/05/2015 at New York, New York, United States (In Person)
 File # 318D-NY-6151941 Date drafted 05/15/2015
 by ^{(b) (6), (b) (7)(C)} [redacted]

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318D-NY-6151941

(b)(6), (b)(7)(C)

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FD-302a (Rev. 05-08-10)

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(b) (6), (b) (7)(C)

Continuation of FD-302 of


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05/05/2015

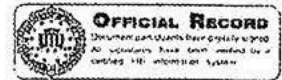
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(b)(6), (b)(7)(C)



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FEDERAL BUREAU OF INVESTIGATION

Date of entry 10/28/2015

On Wednesday, May 5, 2015, ^{(b) (6), (b) (7)(C)} [redacted] was interviewed pursuant to the Federal Reserve Board Inspector General's Office Garrity Agreement by Special Agent ^{(b) (6), (b) (7)(C)} [redacted] of the Federal Bureau of Investigation, Federal Reserve Board (FRB) Office of Inspector General (OIG) Special Agent ^{(b) (6), (b) (7)(C)} [redacted] FRB OIG Counsel ^{(b) (6), (b) (7)(C)} [redacted] Southern District of New York (SDNY) Assistant United States Attorney (AUSA) ^{(b) (6), (b) (7)(C)} [redacted] and SDNY AUSA ^{(b) (6), (b) (7)(C)} [redacted]. After being advised of the identities of the interviewing officials and after reviewing the Garrity Warning from the FRB OIG, ^{(b) (6), (b) (7)(C)} [redacted] executed the Garrity document, whereupon ^{(b) (6), (b) (7)(C)} [redacted] voluntarily provided the following information:

(b)(6), (b)(7)(C)

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Investigation on 05/05/2015 at Washington, District Of Columbia, United States (In Person)
 File # 318D-NY-6151941 Date drafted 05/15/2015
 by ^{(b) (6), (b) (7)(C)} [redacted]

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05/05/2015

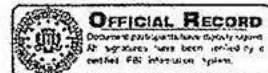
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2 of 2

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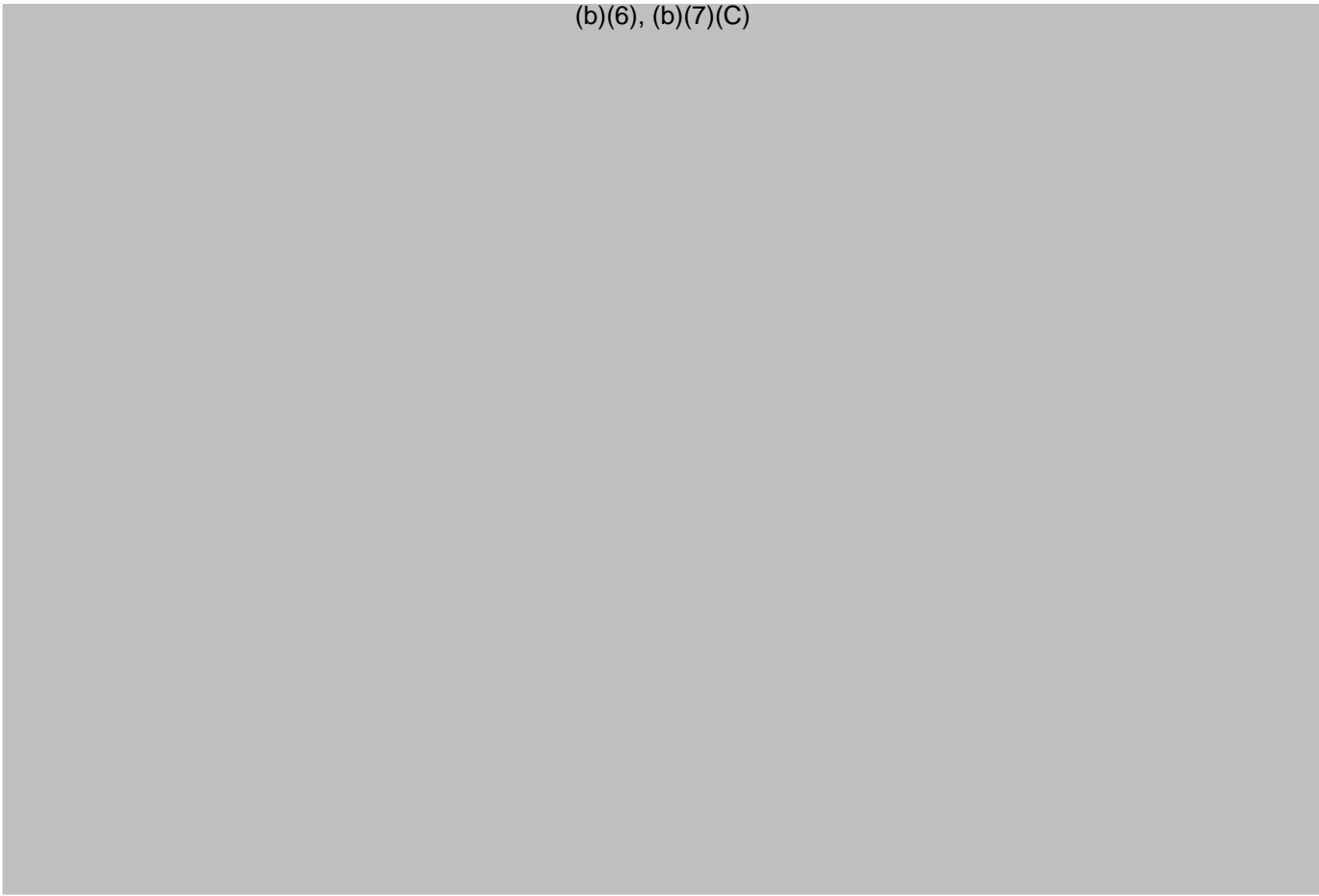


FEDERAL BUREAU OF INVESTIGATION

Date of entry 11/06/2015

On Thursday, May 14, 2015, (b) (6), (b) (7)(C) was interviewed pursuant to the Federal Reserve Board Inspector General's Office Garrity Agreement by Special Agent (b) (6), (b) (7)(C) of the Federal Bureau of Investigation, Federal Reserve Board (FRB) Office of Inspector General (OIG) Special Agents (b) (6), (b) (7)(C) FRB OIG Counsel (b) (6), (b) (7)(C) Southern District of New York (SDNY) Assistant United States Attorney (AUSA) (b) (6), (b) (7)(C) and SDNY AUSA (b) (6), (b) (7)(C) was accompanied by (b) (6), (b) (7)(C). After being advised of the identities of the interviewing officials and after reviewing the Garrity Warning from the FRB OIG, (b) (6), (b) (7)(C) executed the Garrity document, whereupon (b) (6), (b) (7)(C) voluntarily provided the following information:

(b)(6), (b)(7)(C)




Investigation on 05/14/2015 at New York, New York, United States (In Person)
 File # 318D-NY-6151941 Date drafted 05/15/2015
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Continuation of FD-302 of (b)(6), (b)(7)(C), On 05/14/2015, Page 2 of 4

(b)(6), (b)(7)(C)



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(b) (6), (b) (7)(C)

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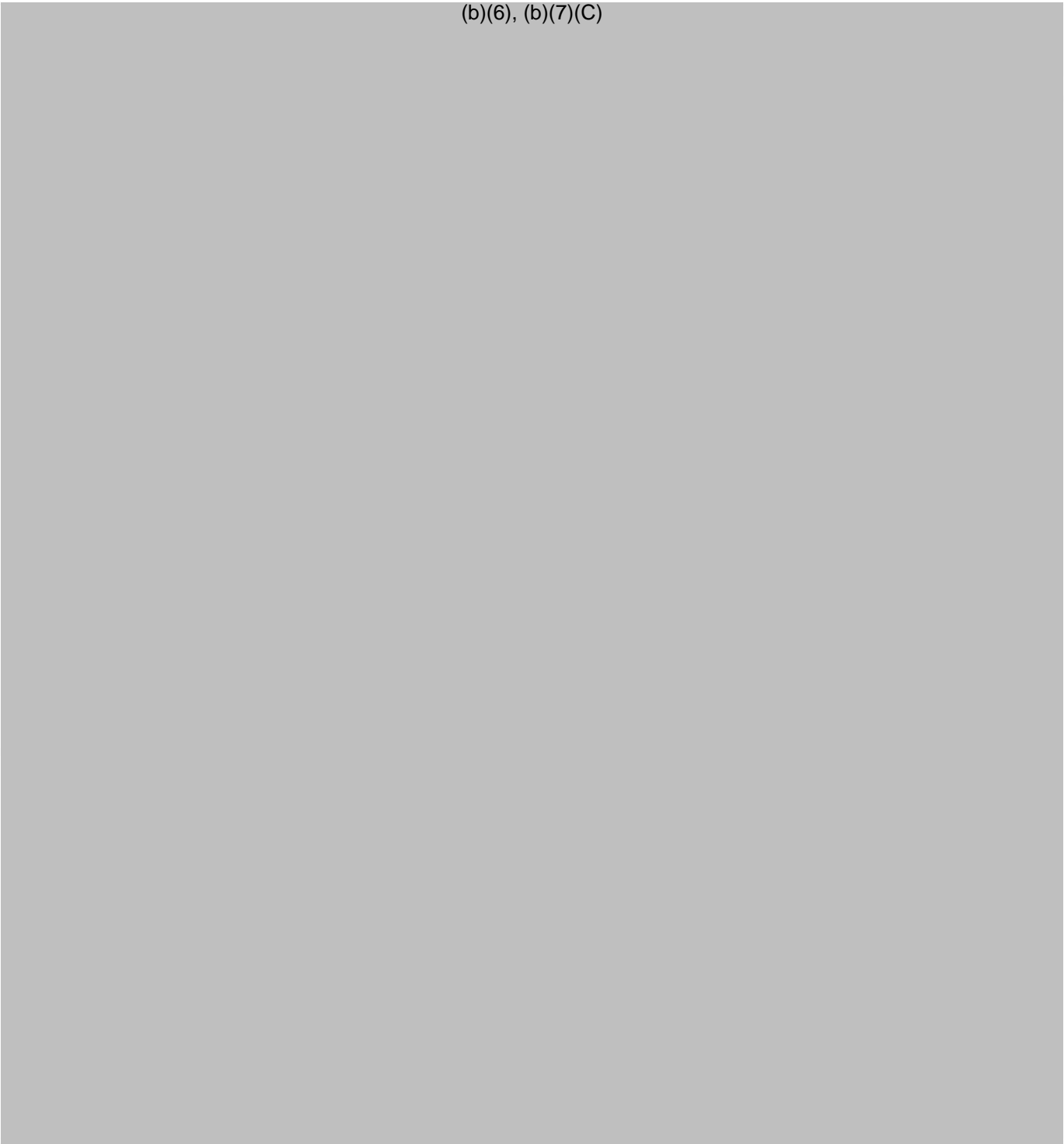
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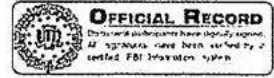
05/14/2015

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4 of 4

(b)(6), (b)(7)(C)





FEDERAL BUREAU OF INVESTIGATION

Date of entry 11/04/2015

On Thursday, May 6, 2015, (b) (6), (b) (7)(C) was interviewed pursuant to the Federal Reserve Board Inspector General's Office Garrity Agreement by Special Agent (b) (6), (b) (7)(C) of the Federal Bureau of Investigation, Federal Reserve Board (FRB) Office of Inspector General (OIG) Special Agents (b) (6), (b) (7)(C) FRB OIG Counsel (b) (6), (b) (7)(C) Southern District of New York (SDNY) Assistant United States Attorney (AUSA) (b) (6), (b) (7)(C) and SDNY AUSA (b) (6), (b) (7)(C). After being advised of the identities of the interviewing officials and after reviewing the Garrity Warning from the FRB OIG, (b) (6), (b) (7)(C) executed the Garrity document, whereupon (b) (6), (b) (7)(C) voluntarily provided the following information:

(b)(6), (b)(7)(C)



Investigation on 05/06/2015 at New York, New York, United States (In Person)

File # 318D-NY-6151941 Date drafted 05/15/2015

by (b) (6), (b) (7)(C)

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Continuation of FD-302 of (b) (6), (b) (7)(C)

, On 05/06/2015, Page 2 of 2

(b)(6), (b)(7)(C)



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FOMC Inquiry -FRSONLY-

to: (b) (6), (b) (7)(C)
 Bcc: (b) (6), (b) (7)(C)

11/16/2012 04:25 PM

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Class I FOMC - Restricted-Controlled (FR)

Dear Colleagues:

As you may know, the Chairman has asked that (b) (6), (b) (7)(C), investigate whether there has been a violation of the Program for Security of FOMC Information or the FOMC Policies on External Communications in connection with a September 28, 2012 Wall Street Journal article and an October 3, 2012 report published by Medley Global Advisors. We write now to request your full cooperation in this inquiry and to ask that you provide certain information to help facilitate the inquiry.

To this end, please provide answers to the questions contained in the attached questionnaire and email a scanned version of the signed responses to (b) (6), (b) (7)(C) of the Board's Legal Division at (b) (6), (b) (7)(C) not later than Friday, November 30. Please also gather the documents requested in the questionnaire and return the materials to (b) (6), (b) (7)(C) by Friday, November 30 by email, Federal Express or United Parcel Service (please do not return by U.S. Mail as security screening of the mail may result in substantial delay).

Please maintain and do not destroy or delete any information that may be in any way relevant to the inquiry. Please also treat all information regarding the inquiry as confidential FOMC information.

We will contact you shortly if it is appropriate to arrange an interview to collect your personal recollections and other information related to these matters. Please recognize that we represent the Committee in this process, and not any individual, and must conduct the inquiry accordingly.

Thank you in advance for your cooperation. Please do not hesitate to contact either one of us should you have any questions.

(b) (6), (b) (7)(C)



11-16-12 FOMC Letter.pdf FOMC Questionnaire.docx

FRS Users please note - This email is marked as "FRS Only" and therefore intended only for Board and Federal Reserve System recipients.

Class 1 FOMC – Restricted-Controlled (FR)



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551-0001

November 16, 2012

Dear Colleagues:

As you may know, the Chairman has asked that ^{(b) (6), (b) (7)(C)} [REDACTED], investigate whether there has been a violation of the Program for Security of FOMC Information or the FOMC Policies on External Communications in connection with a ^{(b) (6), (b) (7)(C)} [REDACTED], September 28, 2012 Wall Street Journal article and an October 3, 2012 report published by Medley Global Advisors. We write now to request your full cooperation in this inquiry and to ask that you provide certain information to help facilitate the inquiry.

To this end, please provide answers to the questions contained in the attached questionnaire and email a scanned version of the signed responses to ^{(b) (6), (b) (7)(C)} [REDACTED] of the Board's Legal Division at ^{(b) (6), (b) (7)(C)} [REDACTED] not later than Friday, November 30. Please also gather the documents requested in the questionnaire and return the materials to ^{(b) (6), (b) (7)(C)} [REDACTED] by Friday, November 30 by email, Federal Express or United Parcel Service (please do not return by U.S. Mail as security screening of the mail may result in substantial delay).

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Thank you in advance for your cooperation. Please do not hesitate to contact either one of us should you have any questions.

^{(b) (6), (b) (7)(C)} [REDACTED]

Sincerely,

^{(b) (6), (b) (7)(C)} [REDACTED]

Enclosure

Program for Security of FOMC Information Questionnaire

Please provide answers to the following questions and return to (b) (6), (b) (7)(C) at (b) (6), (b) (7)(C) not later than Friday, November 30.

1. Did you communicate with Jon Hilsenrath of the Wall Street Journal in person, by telephone, by email, or otherwise between June 1, 2012 and October 3, 2012? If “yes,” please list the dates on which you communicated with Mr. Hilsenrath. Please include the method (e.g., email, telephone, in person) for each communication listed.
2. Did you communicate with Regina Schleiger of Medley Global Advisors in person, by telephone, by email, or otherwise between June 1, 2012 and October 3, 2012? If “yes,” please list the dates on which you communicated with Ms. Schleiger. Please include the method (e.g., email, telephone, in person) for each communication listed.
3. Excluding those communications identified in response to the questions above, have you had any communications with representatives of the Wall Street Journal or Medley Global Advisors¹ between June 1, 2012 and October 3, 2012? If “yes,” please list the dates of all such communications, the name and title of each individual with whom you communicated, and the method of each communication.
4. Do you have any other information that may be relevant to the investigation of unauthorized disclosure of FOMC information? If “yes,” please summarize the information.

If you have any of the documents identified in (a) through (e) below, please identify the categories for which you have responsive documents and provide the materials to (b) (6), (b) (7)(C) (b) (6), (b) (7)(C) by Friday, November 30 by email (at (b) (6), (b) (7)(C) or by Federal Express or United Parcel Service at Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, D.C., 20551 (please do not return by U.S. Mail as security screening of the mail may result in substantial delay).

- (a) Any email communications (please print) or other written communications between June 1, 2012 and October 3, 2012 involving (i) you and Jon Hilsenrath or any other employee or representative of the Wall Street Journal; and (ii) you and Regina Schleiger or any other employee or representative of Medley Global Advisors.

¹ The Medley Global Advisors staff is identified at <http://www.medleyadvisors.com/team.html>.

- (b) Any notes or other record of any communication between June 1, 2012 and October 3, 2012 involving (i) you and Jon Hilsenrath or any other employee or representative of the Wall Street Journal; and (ii) you and Regina Schleiger or any other employee or representative of Medley Global Advisors.

- (c) Any calendar entries reflecting any call, meeting, or communication between June 1, 2012 and October 3, 2012 involving (i) you and Jon Hilsenrath or any other employee or representative of the Wall Street Journal; and (ii) you and Regina Schleiger or any other employee or representative of Medley Global Advisors.

- (d) Any call log that you or an assistant maintain reflecting any incoming and/or outgoing telephone calls involving you and any employee or representative of the Wall Street Journal or Medley Global Advisors between June 1, 2012 and October 3, 2012.

- (e) Any other document that may be pertinent to the inquiry.

Please include and complete the following signature block at the end of your written responses:

I declare that the foregoing is true and correct.

Date: _____ Printed Name: _____ Signature: _____



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

BEN S. BERNANKE
CHAIRMAN

October 4, 2012

Dear Colleagues:

I wanted to follow up on the communication I sent around last week in the wake of our concerns about the 9/28/12 WSJ piece. Many of us are deeply troubled also by a report to clients yesterday by Medley Global Advisors (attached).

It seems apparent that there have been violations of both the letter and spirit of our guidelines on public communications. I have therefore asked (b) (6), (b) (7)(C) [redacted], to look closely into these matters and report back to me their conclusions. I expect you will all give them your very prompt and full cooperation in this exercise. After this work has been completed, I will consider possible next steps and will update all of you.

Let me reiterate that I believe the communications guidelines offer us a workable path toward maintaining collegiality on the Committee, helping the public understand our actions and perspectives, and protecting important confidentiality in certain areas. They will only be effective, though, to the extent that there is full cooperation by FOMC participants and staff to the letter and spirit therein. To that end, I have asked (b) (6), (b) (7)(C) [redacted] to continue a conversation (b) (6), (b) (7) [redacted] started with the Reserve Bank public affairs officers last week about sensitivities in this arena. (b) (6), (b) (7)(C) [redacted] goal will be to help equip the public affairs offices as they assist each of us to work within the external communications guidelines.

Sincerely,

Ben

Attachment

Fed: December Bound

SUMMARY: Though tomorrow's FOMC minutes will highlight the extent of dissension over the efficacy of additional policy easing announced at the September meeting, more is likely after the US presidential elections.

The US Federal Reserve has stepped to the sidelines ahead of the presidential elections, to work on its evolving policymaking framework following September's decision to embark on further significant easing.

The minutes of September's meeting will show, however, that the groundwork for further action in coming months has been laid and that labor market improvement is unlikely to be substantial enough to stave off new Treasury purchases into 2013.

The minutes, due at 2 p.m. EDT tomorrow, will also highlight the intense debate between Federal Open Market Committee participants over the efficacy of using the balance sheet to ease conditions further and reference again, other potential policy tools, including changes to the 2015 predictive guidance.

While the minutes will reveal greater contention over large-scale asset purchases than chairman Ben Bernanke's August Jackson Hole speech did, the tone will clearly convey that economic risks remain tilted to the downside and will lean in the direction of more action.

Assuming economic conditions have not vastly improved, the FOMC is therefore likely to vote as early as its December meeting (at which point there will be a new system-wide forecast round) to cease the Maturity Extension Program (MEP) on schedule and replace it with monthly Treasury bond purchases of around \$45 billion -- similar to the current monthly average.

The committee will attach a predictive timeline outlining the duration of these purchases, that will be dependent on the economy recovering substantially. The monthly MBS purchases of around \$40 billion launched in September will continue alongside this new program. Tomorrow's minutes will reference a staff paper that concludes the market has capacity to absorb purchases this large for a period of time.

The minutes will also show the dovish voting majority was ready to cease the MEP and replace it with open-ended MBS and Treasury purchases as early as last month. By year end, they are likely to get what they want.

A motley crew

While not highly unusual, within the menu of three policy options finally presented to the FOMC at the meeting were subsets of drafts of potential policy actions, denoted as "primes" in Fed-speak. The first main option is usually an extremely hawkish proposal, the last is very dovish and contains elements some participants lightly jest, serve as "trailers" for policy decisions in subsequent meetings. The middle option, though not always the case, is traditionally the chairman's preferred outcome.

→ In this meeting, there were multiple drafts within the middle proposal including the eventual outcome of September's meeting. The language in these drafts can be tweaked at the meeting by participants determined to have some input.

→ In the week leading up to the meetings, the options are circulated and can change -- sometimes markedly -- by the time the participants gather around the table. The "Teal Book," which contains the staff forecasts and the policy options, is circulated in two parts. The staff forecasts circulate first and what used to be known as the "Blue Book," which contains the policy options, follows.

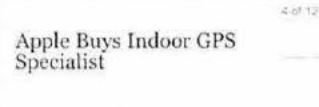
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(b) (6), (b) (7)(C) My Journal

U.S. EDITION Friday, September 28, 2012 As of 1:10 PM EDT

Home World U.S. New York Business Tech Markets Market Data Opinion Life & Culture Real Estate Management

Earnings Economy Health Law Autos Management Media & Marketing Energy Small Business Startups More Industries



ECONOMY | September 28, 2012, 1:10 p.m. ET

How Bernanke Pulled the Fed His Way

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By JON HILSEN RATH

In late August, Federal Reserve Chairman Ben Bernanke argued on behalf of Fed programs to stimulate the lumbering U.S. economy and signaled that more might follow, making headlines in his highly anticipated speech at the Fed's annual retreat in Jackson Hole, Wyo.



Ben Bernanke's high-stakes plan to restart the lumbering U.S. economy took shape in an intense flurry of behind-the-scenes discussions between him and colleagues in the days before a crucial September meeting. Jon Hilsenrath explains on Lunch Break. Photo: Getty Images.

As markets rallied at the prospect of new measures to ease credit, a quiet drama was unfolding behind the scenes. Mr. Bernanke was negotiating a high-stakes plan in a flurry of private conversations with colleagues hesitant about aggressively re-engaging the levers of America's central bank.

For weeks, Mr. Bernanke made dozens of private calls on days, nights and weekends, trying to build broad support

for an unusual bond-buying program he wanted approved during the Fed's September meeting, according to people familiar with the matter.

Fed officials in late summer were at odds over how far the central bank should go. Some wanted a bold, innovative program. Others weren't so sure; a few were opposed. Mr. Bernanke set his sights on a handful of fence-sitters who could swing a strong consensus to his side.

More

Beijing, Seoul Blast Fed Push

Interviews with more than a dozen people involved in the Fed decision, both supporters and opponents, show

how Mr. Bernanke won over skeptics to advance his policy—a distinction in a Washington era marked by rancor and gridlock. These people also gave a rare view of the low-key persistence of the former economics professor.

Mr. Bernanke didn't see inflation as a threat but viewed unemployment as a deeper problem than he had realized. The central bank, in his view, needed to act. The Fed chairman listened to colleagues' concerns during the calls, people familiar with the matter said, drawing out their reservations and probing for common ground. He eventually seized on a compromise that came from a little-known Fed governor.

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Real Time Economics

Mortgage Securitizers Didn't Know Housing Was Going Bust
New research suggests that financial workers involved in the mortgage-securitization business -- ground zero for the misaligned

The result of the Fed's two-day meeting that began Sept. 12 was an 11-1 vote to undertake one of the central bank's most ambitious stimulus programs. The Fed announced it would buy \$40 billion a month of mortgage-backed securities and, for the first time, promised to keep buying until the U.S. job market substantially improved.

The commitment marked a change from the stop-and-start programs the Fed had launched since the financial crisis.

"This is a 'Main Street' policy," Mr. Bernanke said after the September meeting. "What we are about here is trying to get jobs going." The bond buying aims to drive down long-term interest rates and push up the values of homes, stocks and other financial assets. Officials hope their commitment will jolt households and businesses into spending, investing and hiring.

Drawing broad support for the plan was important to Mr. Bernanke in part because the policies he was formulating could outlast him. His term as Fed chairman ends in January 2014. Seeing a return to U.S. full employment as a distant goal, Mr. Bernanke needed the support of officials who might remain at the Fed after he left.

Central Casting | Key actors in the Fed's decision



Roots of the Fed decision stretched to March, when Mr. Bernanke in a speech warned the U.S. economy wasn't growing fast enough. Since September 2011, the economy had produced about 200,000 jobs a month, driving down unemployment. But Mr. Bernanke warned that a slowdown would hobble hiring. Indeed, job gains by midyear fell

to less than 100,000 a month.

At the central bank's June policy meeting, Fed Governor Daniel Tarullo, a lawyer appointed by President Barack Obama, said the economy felt like a vehicle "stuck in the mud," according to people there. The analogy stuck. A month later, Mr. Bernanke used the same phrase with Congress.

The meeting yielded what Mr. Bernanke considered an important step: the extension of Operation Twist, a Fed program to buy \$45 billion of long-term Treasury securities each month, paid with the sales of short-term securities. The program—intended to put downward pressure on long-term rates—was supposed to expire on June 30. The Fed agreed to keep it going through December, giving Mr. Bernanke time to make sense of the slowing job market and consider further action.

To move forward, Mr. Bernanke needed to corral several colleagues, including regional Fed bank president Dennis Lockhart from Atlanta, who had a vote on the Federal Open Market Committee, the Fed's decision making body. Under Fed rules, four of the 12 regional Fed banks vote on the committee on a rotating basis; a fifth, the New York Fed, always votes.

Audio

Jon Hilsenrath talks about Federal Reserve Chairman Ben Bernanke's plan on The Wall Street Journal This Morning

00:00 / 00:00

Mr. Lockhart, a former banker who spent much of his career working in emerging markets, said in an interview after the September meeting that he had spent his summer trying to "take stock of the recovery." He debated whether the U.S. had an economy with a 3% growth trend that was hit by bad

luck—Europe's financial turmoil, for one. Or was it an economy growing at a 2% annual rate that couldn't sustain job growth and needed help? A string of weak economic data suggested it was the latter.

incentives that are supposed to have helped inflate the bubble -- were true believers in the housing boom.



Factory Readings on Tap This Week

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Hobbled Hiring

When the Federal Reserve launched a new bond-buying program (QE3) in September, it was responding in part to faltering job growth.



Source: Labor Department The Wall Street Journal

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from the August meeting with familiar fissures. Opponents of the Fed's easy-money policies said the measures weren't giving the economy much of a lift, while risking future inflation.

Dallas Fed president Richard Fisher said the Fed was like a doctor over-

prescribing Ritalin to attention-deficient Wall Street traders. Richmond Fed president Jeffrey Lacker dissented in August for the fifth straight meeting, taking issue with a policy already in place: An assurance the Fed had given that short-term interest rates would remain near zero through late 2014. Philadelphia Fed President Charles Plosser said in an interview that he urged Mr. Bernanke to wait until year-end before deciding on any new programs.

Despite their public disagreements, Fed officials were friendly behind the scenes. Mr. Plosser, who favors tighter credit policies, and the Chicago Fed's Charles Evans, who wants easier credit, play golf together. They joined Mr. Fisher and Mr. Lockhart for a round at the Chevy Chase Country Club after the August meeting.

By late summer, the Fed had made clear it was prepared to act if the economy continued to languish. The question was how?

Many Fed activists wanted an open-ended program of bond purchases that would continue until the economy improved. Among them, some wanted to go big—at least a few hundred billion dollars worth over several months—with a promise to keep buying as needed. Moreover, some wanted to replace Operation Twist with bigger purchases of mortgage-backed securities and Treasuries.

As the September meeting neared, Mr. Bernanke needed to assure colleagues who still had reservations about moving too aggressively. In addition to Mr. Lockhart, Cleveland Fed president Sandra Pianalto had been wavering. She was among those who worried more Fed bond buying could disrupt markets.

Another fence-sitter was Washington-based Fed Governor Elizabeth Duke, a plain-spoken Virginia banker nominated to the Fed board by President George W. Bush in 2007.

Fed officials described the Fed chairman's phone calls as low-pressure conversations. Mr. Bernanke sometimes dialed up colleagues while in his office on weekends, catching them off guard when their phones identified his private number as unknown. He gave updates on the latest staff forecasts, colleagues said. He asked their thoughts and what they could comfortably support, they said.

The calls helped Mr. Bernanke gauge how far he could push his committee. It also won him trust among some of his fiercest opponents, officials said. Nearly all of Mr. Bernanke's colleagues described him as a good listener.

"Even if you disagree with him on the programs, you know your voice has been heard," said Mr. Fisher, one of his opponents. "There is no effort to bully."

Negotiations stepped up in the week before the meeting. Fed staff circulated language for policy options. Officials debated how different approaches would be described in the policy statement, which would be released after the meeting.

Officials at Fed policy meetings typically consider three options: one representing activists who want to use monetary policy aggressively; another supporting officials seeking conservative use; and a middle-ground option that typically prevails.

The premeeting documents this time listed four options, including an aggressive approach favored by activists, and no bond buying, favored by hawks. Among two middle-ground proposals was a compromise that Ms. Duke originated.

Five days before the meeting, Mr. Bernanke took time out for the Washington Nationals—his favorite baseball team was having a dream season. He arrived at the ballpark in a worn Nationals cap and wandered the infield during batting practice.

"I wanted to ask him if I should get some gold and silver but I bit my tongue," said Nationals manager Davey Johnson. Instead, they talked about how Mr. Johnson, a math major, used statistics to manage his lineup.

At the meeting the following week, the Fed adopted the compromise that Ms. Duke helped spur. The Fed would continue Operation Twist through December but add an open-ended mortgage-bond buying program.

Activists got what they most wanted: An open-ended commitment to buy mortgage bonds until the job market improved, with the strong possibility of additional Treasury purchases later. Fence-sitters got a promise to review the plan before deciding to proceed with a bigger program in 2013. Mr. Lockhart said the chance to reassess the program based on inflation and the performance of the job market helped win him over.

With an agreement on bond buying largely in place, Fed officials at the September meeting left unanswered this question: When could they leave growth of the U.S. economy on its own? Mr. Kocherlakota and Mr. Evans failed to get agreement for inflation and unemployment thresholds to determine when to raise short-term rates, according to people familiar with the talks.

"It's an ongoing discussion," Mr. Plosser said. "We will probably continue to work on this."

Write to Jon Hilsenrath at jon.hilsenrath@wsj.com

Corrections & Amplifications

In a photo caption accompanying this article, the first name of Jeffrey Lacker, the president of the Federal Reserve Bank of Richmond, is misspelled as Jeffery.

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(b) (6), (b) (7)(C)

From: (b) (6), (b) (7)(C)
Sent: Wednesday, March 11, 2015 3:32 PM
To: (b) (6), (b) (7)(C) . (NY) (FBI)
Subject: FBI Letter
Attachments: Notification of Investigation.pdf

INTERNAL FR

As discussed. Let's talk soon.

Thanks,

(b) (6), (b) (7)(C) | Senior Special Agent
Office of Inspector General
Board of Governors of the Federal Reserve System | Consumer Financial Protection Bureau
(b) (6), (b) (7)(C) | (b) (6), (b) (7)(C)

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OFFICE OF INSPECTOR GENERAL
 BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
 CONSUMER FINANCIAL PROTECTION BUREAU
 WASHINGTON, DC 20551

March 11, 2015

Acting Special Agent in Charge (b) (6), (b) (7)(C)
 FBI New York
 26 Federal Plaza
 New York, NY 10278

SUBJECT: Notification of Investigation

SAIC (b) (6), (b) (7)(C) :

In accordance with Section VII(A) of the *Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority, December 2003*, this letter is to notify you the Office of Inspector General, Board of Governors of the Federal Reserve System / Consumer Financial Protection Bureau, has opened the following criminal investigation:

Case Title / Subject Name: Release of Confidential Information (FOMC)
 Case Number: I20130013 HQO
 Date Re-Opened: 03/10/15
 Potential Violation: 18 USC 1905 Disclosure of Confidential Information
 Synopsis:

This investigation was reopened based on an anonymous letter received by Federal Reserve Board (b) (6), (b) (7)(C) , who then forwarded a copy of the letter to the OIG on March 4, 2015. The anonymous letter states, "(b) (6), (b) (7)(C) of the Fed leaked confidential FOMC information to Medley Global Advisors and other firms before the September 2012 decision."

The investigation concerns the release of confidential information from a September 12 - 13, 2012 meeting of the Federal Open Market Committee (FOMC), which later appeared in a Wall Street Journal article dated September 28, 2012 and a newsletter by Medley Global Advisors on October 3, 2012. At the time, the confidential information appeared in the article and newsletter, the details of the FOMC meeting and minutes had not been released to the public. The minutes for the September 12 - 13, 2012 FOMC meeting were released to the public on October 4, 2012. Initially, the OIG launched an investigation on March 13, 2013, based on information from a confidential informant that alleged the leak of confidential FOMC information was not reported

Office of Inspector General

Board of Governors of the Federal Reserve System

to the OIG for investigation. Based on the findings of the OIG's initial investigation at that time and the lack of any other logical leads, the OIG was unable to determine the source of the leak of confidential FOMC information and closed the investigation on December 1, 2014.

As discussed on March 10, 2015 with FBI SAs (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C), this investigation was reopened based on new information.

Further information about this investigation is available from me, Senior Special Agent (b) (6), (b) (7)(C), 20th & C Street, NW (MS-K300), Washington, DC 20551. Should you have any further questions, please contact me at (b) (6), (b) (7)(C)

Sincerely,

(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

Senior Special Agent

(b) (6), (b) (7)(C)

JEB HENSARLING, TX, CHAIRMAN

United States House of Representatives
 Committee on Financial Services
 2129 Rayburn House Office Building
 Washington, DC 20515

MAXINE WATERS, CA, RANKING MEMBER

June 17, 2015

The Honorable Janet Yellen
 Chair
 Board of Governors of the Federal Reserve System
 20th Street and Constitution Ave. NW
 Washington, D.C. 20551

Mr. Mark Bialek
 Inspector General
 Board of Governors of the Federal Reserve System and
 Bureau of Consumer Financial Protection
 20th Street and Constitution Ave. NW
 Washington, D.C. 20551

Dear Chair Yellen and Mr. Bialek:

This is in response to your respective letters in which you both refuse to comply with the Committee's repeated requests for records relating to the leak of confidential Federal Open Market Committee (FOMC) information in 2012.¹ The Board of Governors of the Federal Reserve System (Fed), pursuant to the request of the Fed's Office of Inspector General (OIG), has refused to comply with a duly authorized and issued Congressional subpoena.² The OIG has also not complied with multiple requests from the Committee for these records, most recently citing executive privilege as its basis for non-compliance.³ As set forth more fully below, the OIG has no cognizable legal grounds for refusing to produce the requested

¹ Letter from the Hon. Janet Yellen, Chair, Board of Governors of the Federal Reserve System, to the Hon. Jeb Hensarling, Chairman, H. Comm. on Fin. Serv. (June 4, 2015); Letter from Mark Bialek, Inspector General, Board of Governors of the Federal Reserve System, to the Hon. Jeb Hensarling, Chairman, H. Comm. on Fin. Serv. (May 29, 2015).

² Subpoena by Authority of the House of Representatives of the Congress of the United States of America, to the Hon. Janet Yellen, Chair, Board of Governors of the Federal Reserve System (May 21, 2015).

³ See Letter from the Hon. Sean Duffy, Chairman, Subcmte. on Oversight & Investigations, H. Comm. on Fin. Serv., to Mark Bialek, Inspector General, Board of Governors of the Federal Reserve System (Feb. 5, 2015); Letters from the Hon. Jeb Hensarling, Chairman, H. Comm. on Fin. Serv., to Mark Bialek, Inspector General, Board of Governors of the Federal Reserve System (Mar. 13, 2015; Apr. 30, 2015); Letter from Mark Bialek, Inspector General, Board of Governors of the Federal Reserve System, to the Hon. Jeb Hensarling, Chairman, H. Comm. on Fin. Serv. (May 29, 2015) (citing executive privilege: "The OIG's concerns regarding the disclosure of ongoing criminal investigative information to Congress are consistent with the law of executive privilege, as described in the DOJ Office of Legal Counsel (OLC) opinion . . ." (emphasis added)).

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records, and the Fed's refusal to comply with the Committee's subpoena constitutes the willful obstruction of this Committee's lawful investigation.⁴

The Committee remains very concerned about the leak of confidential FOMC information and the inadequate investigations by the Fed and the OIG that followed. The leak disclosed market-moving information to a private party regarding confidential FOMC deliberations, i.e., the Fed's plan to purchase hundreds of billions of dollars' worth of securities.⁵ It should be self-evident that a leak of such confidential FOMC information is unacceptable and must be promptly and vigorously investigated both by relevant law enforcement authorities and congressional committees of jurisdiction.

Unfortunately, the Fed conducted what can most charitably be described as an inadequate internal investigation, failing to make a referral even to its own inspector general. And although the OIG began its own investigation, it concluded it a short time later without identifying the source of the leak. The media have reported that the Fed's investigation was not conducted in accordance with its own internal policy at the time, and that the Fed subsequently changed this policy to afford itself more discretion over investigations into leaks of FOMC information and to avoid referrals to the OIG.⁶ Perhaps more troubling than these deficient investigations and the Fed's failure to safeguard confidential information is that both the Fed and the OIG chose not to promptly advise Congress and the American people what had occurred, what they found, and what, if anything, was being done to ensure that such a leak never occurred again.

This history of failure has left the Committee with little confidence in the Fed and the OIG either to identify the source of the leak or to determine how a breach occurred and prevent its recurrence. Because such matters directly implicate the Committee's jurisdiction under clause 1(h) of Rule X of the House of Representatives, the Committee launched its own investigation into both the leak and the mismanagement of the response. Now that the Department of Justice (DOJ) has recently become involved, the Committee is hopeful that DOJ will thoroughly investigate such matters as are within its purview. That investigation, however, is not a substitute for the Committee's own inquiry, which serves legislative interests under Article I of the Constitution rather than law enforcement

⁴ 2 U.S.C. §§192, 194.

⁵ See, e.g., Craig Torres, *Fed Leak Handed Traders Profitable Tip, Prompted Secret Inquiry*, Bloomberg, Dec. 1, 2014, <http://www.bloomberg.com/news/articles/2014-12-01/fed-leak-handed-traders-profitable-tip-prompted-secret-inquiry>.

⁶ See Binyamin Appelbaum, *Fed Deflects Outside Aid to Investigate Data Leaks*, N.Y. Times, June 4, 2015, <http://nyti.ms/1Qv4K8k>; Pedro Da Costa, *Yellen: Fed Was Advised Against Fully Complying With Subpoena on Leak Probe*, Wall St. J., June 5, 2015, <http://www.wsj.com/articles/yellen-fed-advised-against-fully-complying-with-subpoena-on-leak-probe-1433523063>.

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interests under Article II. The Committee therefore remains committed to fulfilling its oversight responsibilities to investigate the mishandling of your respective investigations.

You have both advised that complying with the Committee's subpoena could compromise the integrity of the OIG's and/or DOJ's investigation—but it is the integrity of *your* previous investigations that is at issue here. Moreover, your legally baseless refusal to comply with the Committee's subpoena and records requests *is* compromising the integrity of this Committee's lawful investigation and oversight.

This Committee began its inquiry in February 2015, shortly after learning that confidential FOMC information had been leaked over two years prior and that both the Fed and the OIG had failed to find the source of the leak.⁷ The Committee requested records related to those closed investigations.⁸ The Fed failed to acknowledge or respond to the Committee's request until six weeks had passed, after repeated contact from the Committee.⁹ The OIG responded on February 19, 2015, that it would not provide the requested records because "the records [the Committee] requested are in the process of being reviewed by the OIG, in coordination with the Board."¹⁰ One month after the Committee began its investigation the OIG informed the Committee that there was now an open criminal investigation into the leak.¹¹ In a subsequent letter the OIG claimed it could not provide information about the new investigation to Congress due to DOJ policy regarding open criminal investigations.¹² Since then the Fed and the OIG have continually refused to comply with the Committee's requests for records. The OIG's active obstruction of the Committee's oversight efforts directly conflicts with one of Congress's principal purposes for creating Inspector Generals—to keep "Congress

⁷ See Torres, *supra* note 5.

⁸ Letter from the Hon. Sean Duffy, Chairman, Subcmte. on Oversight & Investigations, H. Comm. on Fin. Serv., to Mark Bialek, Inspector General, Board of Governors of the Federal Reserve System (Feb. 5, 2015); Letter from the Hon. Sean Duffy, Chairman, Subcmte. on Oversight & Investigations, H. Comm. on Fin. Serv., to the Hon. Janet Yellen, Chair, Board of Governors of the Federal Reserve System (Feb. 5, 2015).

⁹ See Letter from the Hon. Jeb Hensarling, Chairman, H. Comm. on Fin. Serv., to the Hon. Janet Yellen, Chair, Board of Governors of the Federal Reserve System (Mar. 13, 2015); Letter from the Hon. Janet Yellen, Chair, Board of Governors of the Federal Reserve System, to the Hon. Jeb Hensarling, Chairman, H. Comm. on Fin. Serv. (Mar. 23, 2015).

¹⁰ Letter from Mark Bialek, Inspector General, Board of Governors of the Federal Reserve System, to the Hon. Sean Duffy, Chairman, Subcmte. on Oversight & Investigations, H. Comm. on Fin. Serv. (Feb. 19, 2015).

¹¹ See Letter from the Hon. Jeb Hensarling, Chairman, H. Comm. on Fin. Serv., to the Hon. Janet Yellen, Chair, Board of Governors of the Federal Reserve System (Mar. 13, 2015).

¹² Letter from Mark Bialek, Inspector General, Board of Governors of the Federal Reserve System, to the Hon. Jeb Hensarling, Chairman, H. Comm. on Fin. Serv. (Mar. 27, 2015).

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fully and currently informed about problems and deficiencies relating to the administration” of congressionally-created agencies.¹³

The timing of the recent criminal investigation into the leak is suspect. While the Committee is encouraged that DOJ is now investigating this matter, DOJ’s involvement comes more than two years after the events in question—almost certainly making the investigation more difficult to conclude successfully. Moreover, both the Fed and the OIG had ample opportunity to provide the requested records to the Committee before the criminal investigation was reopened. Instead, following the Committee’s requests for records relating to investigations that both the Fed and the OIG characterized as closed, the OIG suddenly “reopened” its case and, in concert with the Fed, advised the Committee that it would not comply with the Committee’s requests due to an open criminal investigation.¹⁴ This, of course, raises an important question: Other than this Committee’s request for records, what new facts suddenly came to the OIG’s attention that would warrant “reopening” a long-closed case? Based on the vigorous and coordinated obstruction to this Committee’s oversight, one plausible scenario is that the OIG merely “reopened” the investigation to create a pretext for the Fed and the OIG to delay complying with this Committee’s requests. That too is now the subject of the Committee’s investigation.

This Committee has been clear in its position that it has an absolute right to the requested records.¹⁵ Congress’s investigative authority “is inherent in the power to make laws”¹⁶ and is “as penetrating and far reaching as the potential power to enact and appropriate under the Constitution.”¹⁷ The Supreme Court has stated that this investigative power “comprehends probes into departments of the federal government to expose corruption, inefficiency, or waste,”¹⁸ and authorizes Congress “to inquire into and publicize corruption, maladministration, or inefficiencies in the agencies of Government.”¹⁹ House and Senate committees have routinely obtained law enforcement materials regarding cases described by DOJ as “open” or “pending.”²⁰ Despite the Committee’s clear constitutional mandate and the

¹³ Inspector General Act of 1978, as amended, 5 U.S.C. App §2(3).

¹⁴ Letter from Mark Bialek, Inspector General, Board of Governors of the Federal Reserve System, to the Hon. Jeb Hensarling, Chairman, H. Comm. on Fin. Serv. (Mar. 27, 2015).

¹⁵ See Letter from the Hon. Jeb Hensarling, Chairman, H. Comm. on Fin. Serv., to Mark Bialek, Inspector General, Board of Governors of the Federal Reserve System (Apr. 30, 2015).

¹⁶ *Eastland v. U.S. Servicemen’s Fund*, 421 U.S. 491, 504 (1975).

¹⁷ *Barenblatt v. United States*, 360 U.S. 109, 111-12 (1959).

¹⁸ *Watkins v. United States*, 354 U.S. 178, 187 (1957).

¹⁹ *Id.* at 200 n.33.

²⁰ One particularly salient instance was in 2002, during an investigation before the House Committee on Government Reform into the misuse of informants by the Federal Bureau of Investigation (FBI). See *Investigation Into Allegations of Justice Department Misconduct In New England-Volume I, Hearings Before the H. Comm. on Government Reform*, 107th Cong. (May 3,

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persuasive weight of historical evidence, the OIG has claimed that it “must decline” to provide the Committee with any of the requested records, apparently invoking executive privilege over an ongoing criminal investigation as its basis for refusal.²¹ At the request of the OIG, the Fed has stated that it is withholding nearly every record the Committee has subpoenaed in reliance upon the OIG’s invocation of

December 13, 2001; Feb. 6, 2002). In that investigation DOJ provided deliberative prosecutorial documents to the Committee, including prosecutorial memoranda for open cases, testimony of FBI field agents and U.S. Attorneys, FBI investigative reports, summaries of FBI interviews, and memoranda and correspondence prepared during undercover operations, among other items. Alissa Dolan et. al., Cong. Research Serv., R42811, Congressional Investigations of the Department of Justice, 1920-2012: History, Law, and Practice 38-39 (2012). During that investigation White House Counsel Alberto Gonzales wrote to Chairman Burton of the Committee on Government Reform conceding that it was a “misimpression” that congressional committees could never have access to deliberative documents from a criminal investigation or prosecution, stating “[t]here is no such brightline policy, nor did we intend to articulate any such policy.” Letter from Alberto R. Gonzales, Counsel to the President, to the Hon. Dan Burton, Chairman, H. Government Reform Comm. (Jan. 10, 2002), at 1. Other examples abound. In 1979, the Committees on the Judiciary and Interstate and Foreign Commerce investigated allegations that the Department of Energy and DOJ failed to prosecute alleged fraudulent fuel pricing in the oil industry; in executive session, the committees received testimony and evidence regarding open cases in which indictments were pending and criminal proceedings were in progress. See Dolan at 23. The committees also received access to declination memoranda and a DOJ staff attorney testified in open session concerning the reasons why DOJ did not proceed with a particular prosecution. *Id.* In the 1980s, when investigating the Environmental Protection Agency’s (EPA) enforcement of the “Superfund” law, an Energy and Commerce subcommittee requested and received from DOJ documents relating to on-going enforcement actions, including memoranda of EPA and DOJ attorneys containing litigation and negotiation strategy, settlement positions, and other similar materials. See *id.* at 27. During approximately the same time period, a Senate Judiciary subcommittee obtained DOJ documents relating to two ongoing investigations of alleged false shipbuilding claims against the U.S. Navy. See Todd David Peterson, *Congressional Oversight of Open Criminal Investigations*, 77 Notre Dame L. Rev. 1373, 1401 (2002). Finally, in 1997, the Senate Judiciary Committee obtained a memorandum suggesting that Attorney General Reno appoint an independent counsel to investigate allegations of campaign finance violations notwithstanding DOJ’s initial objection that providing the memorandum would violate “longstanding DOJ policy prohibiting disclosure of deliberative material in open criminal cases to Congress and concerns about the chilling effect such disclosures would have on Department personnel in future investigations.” Dolan at 37. Moreover, even DOJ’s Office of Legal Counsel has opined that “[t]he policy of confidentiality does not necessarily extend to all material contained in investigative files” and that “there may be documents in even the open . . . files that do not implicate . . . constitutional or pragmatic problems” that may be provided to Congress. Congressional Subpoenas of Department of Justice Investigative Files, 8 Op. O.L.C. 252, 267 (1984).²¹ “The OIG’s concerns regarding the disclosure of ongoing criminal investigative information to Congress are consistent with the law of executive privilege, as described in the DOJ Office of Legal Counsel (OLC) opinion . . .”; see Letter from Mark Bialek, Inspector General, Board of Governors of the Federal Reserve System, to the Hon. Jeb Hensarling, Chairman, H. Comm. on Fin. Serv. (May 29, 2015), at 1.

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executive privilege.²² The OIG's position is without legal basis and the Fed is mistaken to rely upon it.

The OIG was created by the Inspector General Act of 1978, as amended (IG Act), which states that "nothing . . . in any . . . provision of this Act shall be construed to authorize or permit the withholding of information from Congress."²³ Remarkably, the OIG has advised the Committee that this is "irrelevant" and that it is relying upon an opinion by DOJ's Office of Legal Counsel (OLC Opinion) that the OIG can invoke executive privilege as a basis for impeding this Committee's investigation.²⁴ Even assuming, *arguendo*, that (1) the records sought by the Committee are by their character eligible for a claim of executive privilege²⁵ and (2) the OLC Opinion has any legal force, the opinion explicitly states that "executive privilege cannot be asserted vis-a-vis Congress without specific authorization by the President."²⁶ The policy of recent administrations, including the Obama Administration, is that the privilege can only be asserted by the President at the written request of the Attorney General.²⁷ The OIG itself advised the Committee that the OIG has confirmed with DOJ that the OLC Opinion remains in effect.²⁸ However, this Committee has not received any notification of a Presidential assertion of executive privilege, nor is it aware of any memo by the Attorney General requesting that it be asserted. Thus, because the President has not asserted executive privilege over the requested records, the OIG has no legal basis to interfere with the Committee's

²² See Letter from the Hon. Janet Yellen, Chair, Board of Governors of the Federal Reserve System, to the Hon. Jeb Hensarling, Chairman, H. Comm. on Fin. Serv. (June 4, 2015).

²³ Inspector General Act of 1978, as amended, 5 U.S.C. App § 5(e)(3).

²⁴ Letter from Mark Bialek, Inspector General, Board of Governors of the Federal Reserve System, to the Hon. Jeb Hensarling, Chairman, H. Comm. on Fin. Serv. (May 29, 2015) (citing Congressional Requests for Information from Inspectors General Concerning Open Criminal Investigations, 13 Op. O.L.C. 77 (1989) (hereinafter "OLC Opinion")).

²⁵ The Supreme Court in two cases has recognized a *limited* Executive privilege, rooted in the Constitution, for Presidential communications, which is not at issue here. Deliberative process privilege, which applies to law enforcement investigations, is "a common law privilege that is 'Executive,' not because it has any constitutional basis, but only in the sense that it is asserted by the Executive" and "is substantially weaker than the already limited Presidential communications privilege." This weaker common law privilege has no application to a congressional subpoena. See Memorandum of Points and Authorities in Support of Plaintiff's Motion for Summary Judgment at 19-21, *Comm. on Oversight and Gov't Reform, United States House of Representatives v. Eric H. Holder, Jr.*, No 12-01332 (D.D.C. 2013) (No. 61).

²⁶ OLC Opinion at 82 n.8.

²⁷ See Letter from Mary Kendal, Deputy Inspector General, U.S. Department of the Interior, to the Hon. Doc Hastings, Chairman, H. Comm. on Natural Resources (Mar. 19, 2014) (explaining the practice by recent administrations on asserting executive privilege); Letter from Eric Holder, Attorney General, to President Barack Obama (June 19, 2012) (requesting the President assert executive privilege over documents related to Operation Fast and Furious).

²⁸ Letter from Mark Bialek, Inspector General, Board of Governors of the Federal Reserve System, to the Hon. Jeb Hensarling, Chairman, H. Comm. on Fin. Serv. (May 29, 2015).

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subpoena to the Fed, and the Fed is mistaken to refuse compliance with the subpoena based on the OIG's claim that it is acting "consistent with the law of executive privilege."²⁹

However, even if the President attempted to assert executive privilege over the requested records, the privilege does not apply to investigations into government misconduct, such as this one.³⁰ Courts have found that "where there is reason to believe the documents sought may shed light on government misconduct, the [deliberative process] privilege is routinely denied on the grounds that shielding internal government deliberations in this context does not serve 'the public interest in honest, effective government.'"³¹ Consistent with this limitation, past administrations have refrained from invoking executive privilege in matters involving unethical conduct.³² The Committee is not aware that the Obama Administration has deviated from this established practice. Regardless, executive privilege is not a trump card to evade Congressional oversight. At best it is a qualified privilege and can be overcome by a sufficient showing of need.³³ Given the public facts of the FOMC leak, the requested records are critical to this Committee's ability to ascertain whether misconduct or mismanagement at the Federal Reserve and the OIG has occurred and is continuing to occur. Accordingly, because both the Fed and the OIG have failed to state any cognizable legal basis upon which to withhold the requested records from Congress, the Committee expects full and immediate compliance with its subpoena and investigative requests.

²⁹ "The OIG's concerns regarding the disclosure of ongoing criminal investigative information to Congress are consistent with the law of executive privilege, as described in the DOJ Office of Legal Counsel (OLC) opinion . . ."; see Letter from Mark Bialek, Inspector General, Board of Governors of the Federal Reserve System, to the Hon. Jeb Hensarling, Chairman, H. Comm. on Fin. Serv. (May 29, 2015), at 1.

³⁰ *In re Sealed Case (Espy)*, 121 F.3d 729, 745-46 (D.C. Cir. 1997).

³¹ *Id.*

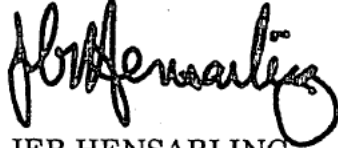
³² Assertion of Executive Privilege in Response to Congressional Demands for Law Enforcement Files, 6 Op. O.L.C. 31, 36 (1982) ("These principles will not be employed to shield documents which contain evidence of criminal or unethical conduct by agency officials from proper review."); see also Congressional Subpoenas of Department of Justice Investigative Files, 8 Op. O.L.C. 315 (1984) ("[T]he privilege should not be invoked to conceal evidence of wrongdoing or criminality on the part of executive officers."); Memorandum for All Executive Department and Agency General Counsel's Re: Congressional Requests to Departments and Agencies Protected By Executive Privilege, September 28, 1994, at 1 ("In circumstances involving communications relating to investigations of personal wrongdoing by government officials, it is our practice not to assert executive privilege, either in judicial proceedings or in congressional investigations and hearings.").

³³ *Espy*, 121 F.3d 729, 745; accord Todd Garvey et. al., Cong. Research Serv., R42670, Presidential Claims of Executive Privilege: History, Law, Practice, and Recent Developments 1 (2012).

Chair Yellen
Mr. Mark Bialek
June 17, 2015
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If you have any questions regarding this request, please contact Brett Sisto of the Committee staff at (202) 225-7502.

Sincerely,



JEB HENSARLING
Chairman



SEAN DUFFY
Chairman
Subcommittee on Oversight and
Investigations

cc: The Honorable Maxine Waters, Ranking Member
The Honorable Al Green, Ranking Member, Subcommittee on Oversight and
Investigations

(b) (6), (b) (7)(C)

From: (b) (6), (b) (7)(C)
Sent: Wednesday, June 17, 2015 12:48 PM
To: (b) (6), (b) (7)(C); (b) (6), (b) (7)(C); (b) (6), (b) (7)(C); (b) (6), (b) (7)(C); (b) (6), (b) (7)(C); (b) (6), (b) (7)(C);
Subject: FW: Lawmakers: Criminal Investigation of Fed Leak Appears Timed to Obstruct Congressional Probe

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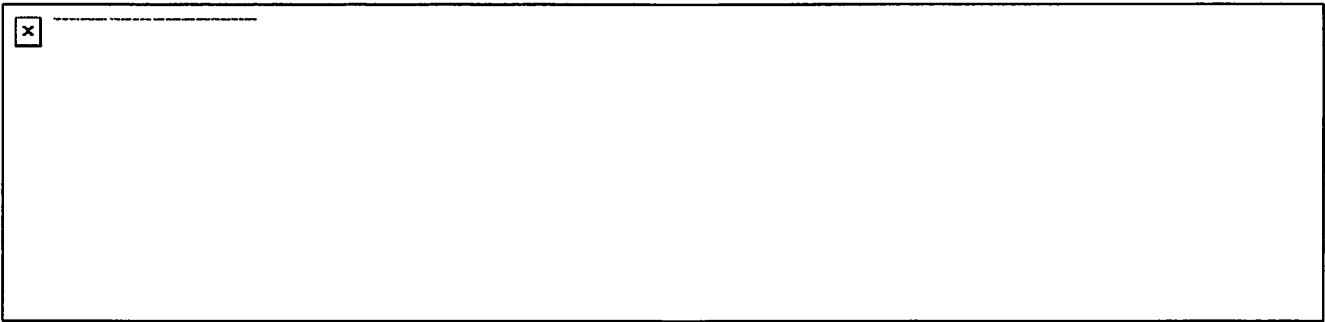
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From: Financial Services Committee [mailto:fsc.gop.press@mail.house.gov]
Sent: Wednesday, June 17, 2015 12:45 PM
To: (b) (6), (b) (7)(C)
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Press Release

For Immediate Release | Contacts: Jeff Emerson (202) 226-0471; David Popp (202) 226-2467

June 17, 2015

Lawmakers: Criminal Investigation of Fed Leak Appears Timed to Obstruct Congressional Probe

WASHINGTON – Leaders of the House Financial Services Committee suspect the recent criminal investigation into a 2012 leak of market-sensitive information at the Federal Reserve was timed in an effort to obstruct Congress’s investigation into possible misconduct or mismanagement at the Fed.

Last month the Committee subpoenaed the Fed for documents related to the leak of confidential deliberations from a September 2012 Federal Open Market Committee (FOMC) meeting. Details of that FOMC meeting were reported in a client-only special report by Medley Global Advisors before their official release. Medley’s clients include hedge funds, institutional investors and asset managers, according to its website.

Both the Federal Reserve and the Fed’s Office of Inspector General (OIG) told the Committee they had previously conducted and closed internal investigations but were unable to identify who leaked the information to Medley. However, one month after the Financial Services Committee began its investigation into the matter, the OIG suddenly reopened its investigation and informed the Committee that there was now an open criminal investigation into the leak by the Department of Justice (DOJ). The Fed has cited that inquiry as a basis for its refusal to comply with the congressional subpoena.

In a letter sent today to Federal Reserve Chair Janet Yellen and the OIG, Committee Chairman Jeb Hensarling (R-TX) and Oversight and Investigations Subcommittee Chairman Sean Duffy (R-WI) called the timing of the criminal investigation into the leak “suspect” and a possible “pretext for the Fed and the OIG to delay complying with this Committee’s requests.”

“That too is now the subject of the Committee’s investigation,” they said.

“You have both advised that complying with the Committee’s subpoena could compromise the integrity of the OIG’s and/or DOJ’s investigation – but it is the integrity of *your* previous investigation that is at issue here,” Hensarling and Duffy write. “Moreover, your legally baseless refusal to comply with the Committee’s subpoena and records request *is* compromising the integrity of this Committee’s lawful investigation and oversight.”

Moreover, the Committee leaders write that the OIG is erroneously claiming that "executive privilege" prevents it from complying with the Committee's request and the Fed is relying upon this claim as a basis to refuse to comply with the subpoena.

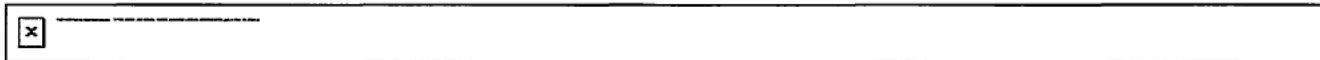
However, executive privilege cannot be asserted to Congress without specific authorization by the President, according to precedent and DOJ's Office of Legal Counsel.

"However, even if the President attempted to assert executive privilege over the requested records, the privilege does not apply to investigations into government misconduct, such as this one," Hensarling and Duffy write in their letter.

"[P]ast administrations have refrained from invoking executive privilege in matters involving unethical conduct," they note. "Regardless, executive privilege is not a trump card to evade Congressional oversight."

The Committee therefore "expects full and immediate compliance with its subpoena and investigative requests."

###



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**REVIEW OF POSSIBLE UNAUTHORIZED DISCLOSURE OF
CONFIDENTIAL FOMC INFORMATION**

**Secretary and General Counsel
Federal Open Market Committee**

March 14, 2013

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Executive Summary

At the request of the Chairman, the FOMC Secretary and General Counsel have conducted a review of the potential unauthorized disclosure of confidential FOMC information reflected in a September 28, 2012 Wall Street Journal article by Jon Hilsenrath and an October 3, 2012 report by Regina Schleiger of Medley Global Advisors, a provider of macroeconomic policy intelligence to private clients. As part of this review, the FOMC Secretary and General Counsel and their designees contacted more than three hundred individuals and have conducted interviews with sixty different FOMC participants and staff, including each member of the Board of Governors, each Reserve Bank president, the public information officer for each Reserve Bank, and staff members with access to Class I FOMC information who had contact with a representative of the Wall Street Journal or Medley Global Advisors between June 1, 2012 and October 3, 2012.¹ In addition, the FOMC Secretary, General Counsel and their designees have collected and reviewed emails, meeting notes and transcripts, papers and other documents involving contacts between relevant Federal Reserve personnel and representatives of the Wall Street Journal or representatives of Medley Global Advisors during this same period.

This report contains a summary of the information collected through the interviews and document collections conducted in the review and discusses all relevant contacts identified in the review between Federal Reserve personnel and either Wall Street Journal staff or representatives of Medley Global Advisors.

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Background

On September 28, 2012, the Wall Street Journal published a front-page article by Jon Hilsenrath entitled “How Bernanke Pulled the Fed His Way” (Attachments B, D). The Hilsenrath article focused on the decision-making process that led to the securities-buying action taken by the FOMC at its September 12-13, 2012 meeting. The Hilsenrath article indicated that it was based on “[i]nterviews with more than a dozen people involved in the Fed decision.”

In his article, Hilsenrath made a number of statements that suggest the possible unauthorized disclosure of confidential FOMC information. (b)(5)



The article also purported to offer insights into certain processes by which the FOMC reached its decision to take further action, although these details—including the existence of communications between the Chairman

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and FOMC participants—do not necessarily reflect confidential FOMC information. The article focused on the September 12-13 FOMC meeting, but also included potential unauthorized disclosures regarding the June 19-20 and July 31-August 1 FOMC meetings.

Five days after publication of the Hilsenrath article, on October 3, 2012, analyst Regina Schleiger of Medley Global Advisors (MGA)—a provider of macro policy intelligence for hedge funds, institutional investors, and asset managers—published a “Special Report” entitled “Fed: December Bound” (Attachments C, E). The Schleiger memorandum, which was distributed on the day before the minutes of the September 12-13 FOMC meeting were published, purported both to describe policy options presented at the FOMC meeting and to predict the contents of the forthcoming minutes. Although the tone of the memorandum suggested insider access, many of the details provided repeated assertions made in the Hilsenrath article, were erroneous or speculation, or provided background on FOMC processes that have been described publicly in the past by reporters, current or former Federal Reserve personnel, or “Fed watchers.” However, certain of the information contained in the memorandum—in particular, the detailed description of one of the policy options set forth in the pre-meeting documents—suggests that Schleiger may have been privy to an independent, unauthorized disclosure of confidential FOMC information.

On September 28, the same day the Hilsenrath article was published, Chairman Bernanke circulated a memorandum expressing his concern and the concern of other FOMC participants that certain items in the article “seemed clearly in violation of our guidelines.” Attachment D at 1. After the Schleiger memorandum was published on October 3, Chairman Bernanke circulated a second memorandum on October 4 noting that he and other participants were “deeply troubled” by the report and that it “seems apparent that there have been violations of both the letter and spirit of our guidelines on public communications.” Attachment E at 1. As a result, the Chairman informed participants and staff that he had asked the Secretary and General Counsel of the FOMC “to look closely into these matters and report back to me their conclusions.”

Annotated versions of the Hilsenrath article and the Schleiger memorandum are attached that identify potential sources for information contained in the article and memorandum. Attachments B and C.

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Relevant Authority

Three authorities directly govern confidential FOMC information and the review requested by the Chairman: (1) the Program for Security of FOMC Information (Attachment F); (2) the FOMC Policy on External Communications of Committee Participants (Attachment G); and (3) the FOMC Policy on External Communications of Federal Reserve System Staff (Attachment H).²

Pursuant to the Program for Security of FOMC Information,

Confidential FOMC information includes all privileged information that comes into the possession of the Governors, Federal Reserve Bank Presidents, or Federal Reserve System staff in the performance of their duties for, or pursuant to the direction of, the Committee. Such information covers, but is not limited to, expressions of policy views at FOMC meetings, reasons for those views, votes of the Committee, and staff forecasts. The information that must be kept confidential may be in any form. It includes not only paper documents, but also electronic messages and files, recordings, notes, oral briefings, and discussions relating to confidential FOMC matters. Attachment F at 1.

The security program provides three security classifications for confidential FOMC information, the highest of which is “Class I FOMC – Restricted Controlled (FR).” Pursuant to the security program, this classification “is generally applied to information that includes policymaker input, e.g., information related to monetary policy decisions at meetings, views expressed by policymakers on likely future policy, and identification of meeting participants who express particular views.” Tealbook Book B and special memoranda or reports deemed particularly sensitive are among the written materials subject to Class I designation.

The FOMC Policy on External Communications of Committee Participants “focuses specifically on external communications and is binding on all FOMC participants,” “that is, the members of the Federal Reserve Board and the presidents of the Federal Reserve Banks.” Recognizing that “[t]wo-way communication with the public is a crucial element in the FOMC’s monetary policy process,” the participant policy sets forth a number of “General Principles”

² Each of these authorities is available publicly at http://www.federalreserve.gov/monetarypolicy/rules_authorizations.htm.

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supported by “Practical Examples.” The first of the general principles states that participants “are free to explain their individual views but are expected to do so in a spirit of collegiality and to refrain from characterizing the views of other individuals on the Committee.” Other general principles provide that, “[t]o foster the ongoing frank exchange of views at FOMC meetings, participants will refrain from publicly characterizing such discussions beyond what has been published in the minutes of each FOMC meeting,” that “FOMC participants will carefully safeguard all confidential information,” and that “participants will strive to ensure that their contacts with members of the public do not provide any profit-making person or organization with a prestige advantage over its competitors.” The practical examples portion of the policy makes clear that “[d]isclosure or characterization in any setting of the views that others expressed at an FOMC meeting” is impermissible, and concludes that “good judgment will be essential” in applying the principles set forth in the policy. It also provides that “[w]henever practical, a public information officer or other Federal Reserve staff should be present” when a participant has a “private meeting with members of the public . . . to collect information about the economy.”

The FOMC Policy on External Communications of Federal Reserve System Staff is similar in structure to the participant policy. As in the participant policy, the staff policy provides that staff “will carefully safeguard all confidential information” and that staff “will strive to ensure that their contacts with members of the public do not provide any profit-making person, firm, or organization with a prestige advantage over its competitors.” The staff policy also provides that, “[t]o foster the ongoing frank exchange of views at FOMC meetings, staff will refrain from characterizing such discussions—apart from what has been published in the minutes of each FOMC meeting—in any contact with an individual, firm, or organization outside of the Federal Reserve System.” In addition, the staff policy states that “[w]henever practical, at least two Federal Reserve Staff should be present” at any “private meeting with members of the public . . . to collect information about the economy.”

In the event that FOMC information security rules may have been breached, the Program for Security of FOMC Information provides that the FOMC Secretary and General Counsel “will perform an initial review of the incident, in consultation with the Chairman and with the President of a specific Federal Reserve Bank if the violation appears to have involved staff within that Bank. In light of that initial review, the General Counsel will determine whether to request the Board’s Inspector General to perform a full investigation of the incident.”

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With respect to consequences of an FOMC security breach, the Program for Security of FOMC Information provides the following:

If a staff person at the Federal Reserve Board has been found to be responsible for a breach of FOMC information security, the Chairman will determine the consequences for that individual. If a staff person at a Federal Reserve Bank has been found to be responsible for a breach of FOMC information security, the President of that Bank will determine the consequences for that individual and will inform the Chairman of that determination. If an FOMC participant has been found to be responsible for a breach of FOMC information security, the Committee will determine the consequences for that participant. Attachment F at 5.

Potential Unauthorized Disclosures—Hilsenrath

As discussed above, the Hilsenrath article included information about the June, August, and September 2012 FOMC meetings that had not been disclosed by the FOMC prior to the publication of the article. (b)(5)

³ A third category of information in the article addressed the interaction between the Chairman and other participants. The following statements fall within that category: "For weeks, Mr. Bernanke made dozens of private calls on days, nights and weekends, trying to build broad support for an unusual bond-buying program he wanted approved during the Fed's September meeting, according to people familiar with the matter"; "Fed officials described the Fed chairman's phone calls as low-pressure conversations. Mr. Bernanke sometimes dialed up colleagues while in his office on weekends, catching them off guard when their phones identified his private number as unknown. He gave updates on the latest staff forecasts, colleagues said. He asked their thoughts and what they could comfortably support, they said."

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⁴ This reference is apparently to the July 25, 2012 “Background Memo on Market Functioning and Limits on Asset Purchases” prepared for the Committee.

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Potential Unauthorized Disclosures—Schleiger

The Schleiger memorandum was dated and released on October 3, 2012, and made a number of predictions regarding the minutes of the FOMC meeting that were to be released the next day. These include that:

“Tomorrow’s minutes will reference a staff paper that concludes the market has capacity to absorb purchases this large for a period of time.”

“[T]here were multiple drafts within the middle proposal including the eventual outcome of September’s meeting.”

“The minutes will also show the dovish voting majority was ready to cease the MEP and replace it with open-ended MBS and Treasury purchases as early as last month.”

“Within one of the ‘primes’ was included a proposal to denote conditional guidance around employment and inflation conditions under which the committee might consider withdrawal of policy accommodation and a hike in the Fed funds rate. With Minneapolis Fed president Narayana Kocherlakota’s input, a 6.5% (as opposed to the 5.5% later trailed publicly) unemployment threshold was floated in print as a trial balloon.”

The Tealbook policy options were not circulated “until after midnight.”

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Scope of Inquiry

In response to the Chairman's request, the FOMC Secretary and General Counsel worked together to develop a methodology for their review that would serve two principal purposes: (1) to determine the source of any unauthorized disclosures of confidential FOMC information in the Hilsenrath article and the Schleiger memorandum; and (2) to determine whether there are steps that can be taken to help avoid such unauthorized disclosures in the future.

To this end, the inquiry began by focusing on all principals and staff in attendance at the June, August, and September FOMC meetings. These individuals, along with the public information officer for each Reserve Bank, received a questionnaire (Attachment I) designed to elicit all contacts during the relevant time period (June 1, 2012 through October 3, 2012) between these individuals and Hilsenrath, Schleiger, and any other representatives of the Wall Street Journal or Medley Global Advisors. The initial recipients of the questionnaire—114 individuals in total—were also asked to provide any and all emails, notes, calendar entries, phone logs, and other records of such communications. The purpose of the questionnaire was to assess the scope of relevant contacts, to review all relevant documentation, and to identify those individuals for whom follow-up interviews would be required.

Following a review of the questionnaire responses and submitted materials, interviews were conducted with all FOMC participants, each individual who attended any one of the three relevant FOMC meetings and also had any relevant contact with the Wall Street Journal or Medley Global Advisors, and the public information officer of each Reserve Bank and the Board (49 individuals in total). Interviews with members of the Board of Governors, Reserve Bank presidents, and Board staff were conducted in-person at the Board by the FOMC Secretary and General Counsel or their designees. Interviews of Reserve Bank staff were conducted by telephone.

The Secretary and General Counsel subsequently expanded the inquiry to include those within the Federal Reserve System who may have had access to relevant Class I FOMC documents at any time during the period between June 1 and October 5, 2012, even if they did not attend one of the June, August, or September FOMC meetings. Eleven additional interviews were conducted based on the responses received.

No attempt was made to contact (b)(6) or (b)(6) directly.

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The review relied on voluntary compliance with the requests for document production and on honest disclosure by all who were interviewed. All FOMC participants and staff identified above were requested to submit telephone logs, notes and emails involving contacts with Hilsenrath and other Wall Street Journal staff and/or Schleiger and other employees of MGA, and a number of these types of records were provided.

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Results of Review—Hilsenrath

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Results of Review—Policies & Practices/Lessons Learned

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Recommendations

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ATTACHMENT A

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Chronology of Relevant Events

Date	Event
June 19-20, 2012	FOMC Meeting (June 20 Press Release)
July 25, 2012	Background Memo on Market Functioning and Limits on Asset Purchases
July 31-August 1, 2012	FOMC Meeting (August 1 Press Release)
August 22, 2012	July 31-August 1 Meeting Minutes released
August 30-September 1, 2012	Jackson Hole Economic Policy Symposium
September 4, 2012	Draft statement alternatives distributed via SDS to the Committee without an unemployment threshold option
September 6, 2012	First version of statement proposing 6.5% unemployment threshold distributed to the Committee via SDS
September 7, 2012	Tealbook Book B circulated in early morning hours via SDS
September 12-13, 2012	FOMC Meeting (September 13 Press Release)
September 28, 2012	Hilsenrath article published (Chairman's memorandum re article distributed same day)
October 3, 2012	Medley Global Advisors Special Report published
October 4, 2012	September 12-13 Meeting Minutes released (Chairman's memorandum re Medley Global Advisors Special Report distributed)

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Annotation of Hilsenrath Article

<p>How Bernanke Pulled the Fed His Way By Jon Hilsenrath</p>	
<p>The Wall Street Journal Fri, 28 Sep 2012</p> <p>In late August, Federal Reserve Chairman Ben Bernanke argued on behalf of Fed programs to stimulate the lumbering U.S. economy and signaled that more might follow, making headlines in his highly anticipated speech at the Fed's annual retreat in Jackson Hole, Wyo.</p> <p>As markets rallied at the prospect of new measures to ease credit, a quiet drama was unfolding behind the scenes. Mr. Bernanke was negotiating a high-stakes plan in a flurry of private conversations with colleagues hesitant about aggressively re-engaging the levers of America's central bank.</p>	<p>(b)(5)</p>
<p>For weeks, Mr. Bernanke made dozens of private calls on days, nights and weekends, trying to build broad support for an unusual bond-buying program he wanted approved during the Fed's September meeting, according to people familiar with the matter.</p> <p>Fed officials in late summer were at odds over how far the central bank should go. Some wanted a bold, innovative program. Others weren't so sure; a few were opposed. Mr. Bernanke set his sights on a handful of fence-sitters who could swing a strong consensus to his side.</p> <p>Interviews with more than a dozen people involved in the Fed decision, both supporters and opponents, show how Mr. Bernanke won over skeptics to</p>	

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advance his policy – a distinction in a Washington era marked by rancor and gridlock. These people also gave a rare view of the low-key persistence of the former economics professor.

Mr. Bernanke didn't see inflation as a threat but viewed unemployment as a deeper problem than he had realized. The central bank, in his view, needed to act. The Fed chairman listened to colleagues' concerns during the calls, people familiar with the matter said, drawing out their reservations and probing for common ground. He eventually seized on a compromise that came from a little-known Fed governor.

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The result of the Fed's two-day meeting that began Sept. 12 was an 11-1 vote to undertake one of the central bank's most ambitious stimulus programs. The Fed announced it would buy \$40 billion a month of mortgage-backed securities and, for the first time, promised to keep buying until the U.S. job market substantially improved.

The commitment marked a change from the stop-and-start programs the Fed had launched since the financial crisis.

"This is a 'Main Street' policy," Mr. Bernanke said after the September meeting. "What we are about here is trying to get jobs going." The bond buying aims to drive down long-term interest rates and push up the values of homes, stocks and other financial assets. Officials hope their commitment will jolt households and businesses into spending, investing and hiring.

Drawing broad support for the plan was important to Mr. Bernanke in part because the policies he was formulating could outlast him. His term as Fed chairman ends in January 2014. Seeing a return to U.S. full employment as a distant goal, Mr. Bernanke needed the support of officials who might remain at the Fed after he left.

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Roots of the Fed decision stretched to March, when Mr. Bernanke in a speech warned the U.S. economy wasn't growing fast enough. Since September 2011, the economy had produced about 200,000 jobs a month, driving down unemployment. But Mr. Bernanke warned that a slowdown would hobble hiring. Indeed, job gains by midyear fell to less than 100,000 a month.

At the central bank's June policy meeting, Fed Governor Daniel Tarullo, a lawyer appointed by President Barack Obama, said the economy felt like a vehicle "stuck in the mud," according to people there. The analogy stuck. A month later, Mr. Bernanke used the same phrase with Congress.

The meeting yielded what Mr. Bernanke considered an important step: the extension of Operation Twist, a Fed program to buy \$45 billion of long-term Treasury securities each month, paid with the sales of short-term securities. The program -- intended to put downward pressure on long-term rates -- was supposed to expire on June 30. The Fed agreed to keep it going through December, giving Mr. Bernanke time to make sense of the slowing job market and consider further action.

To move forward, Mr. Bernanke needed to corral several colleagues, including regional Fed bank president Dennis Lockhart from Atlanta, who had a vote on the Federal Open Market Committee, the Fed's decision making body.

Under Fed rules, four of the 12 regional Fed banks vote on the committee on a rotating basis; a fifth, the New York Fed, always votes.

Mr. Lockhart, a former banker who spent much of his career working in emerging markets, said in an interview after the September meeting that he had spent his summer trying to "take stock of the recovery." He debated whether the U.S. had an economy with a 3% growth trend that was hit by bad luck -- Europe's financial turmoil, for one. Or was it an economy growing at a 2% annual rate that couldn't sustain job growth and needed help? A string of weak economic data suggested it was the

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<p>latter.</p> <p>Like others, Mr. Lockhart had reservations about the effectiveness of Fed policies. Earlier bond buying hadn't yet produced strong growth. The banking system, still damaged by the financial crisis, wasn't delivering credit the way economists expected, given historically low interest rates. Still, Mr. Lockhart thought a program targeting the U.S. housing market might help.</p> <p>Mr. Bernanke also worked on nonvoters, including Narayana Kocherlakota, who was going through his own transformation.</p> <p>Several months after becoming president of the Minneapolis Fed in 2009, Mr. Kocherlakota believed the job market had structural problems beyond the reach of monetary policy -- for example, too many construction workers who couldn't easily be trained for other jobs.</p> <p>Mr. Kocherlakota joined Fed skeptics, so-called hawks, who doubted the effectiveness of central bank activism. During his turn as a Fed voter last year, he voted twice against loosening credit, moves championed by Mr. Bernanke.</p> <p>Though they disagreed on policy, Mr. Bernanke and Mr. Kocherlakota were kindred spirits. Mr. Kocherlakota is a scholarly Ph.D. economist who enrolled at Princeton University at age 15. Mr. Bernanke, equally wonky, was later chairman of Princeton's economics department years later.</p> <p>Mr. Kocherlakota and Mr. Bernanke exchanged emails over months, debating structural unemployment -- the idea that unemployment was caused by mismatches between employer needs and the skills and location of workers.</p> <p>In Mr. Bernanke's view, employers weren't hiring because of weak demand for their goods and</p>	<p>(b)(5)</p>
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<p>services, which Fed policies might help remedy.</p> <p>“I’ve learned a lot by talking to him,” Mr. Kocherlakota said in an interview after the September meeting. Mr. Bernanke’s “thinking is framed by data and models,” he said. “It beats coming in there with just your gut.” By summer, Mr. Kocherlakota said, his views about structural unemployment were shifting as he found the evidence less than persuasive. This left an opening for Mr. Bernanke.</p> <p>As the Fed’s August meeting approached, Mr. Bernanke and his inner circle, which included Fed Vice Chairwoman Janet Yellen and New York Fed President William Dudley, were thinking that any Fed action should be a comprehensive and novel package, rather than an incremental step, according to people familiar with their views. They agreed to take time to confirm their views of the U.S. economy and develop consensus for a plan.</p> <p>The August meeting turned into a policy staging ground. One proposal on an internal list of three policy options was a new bond-buying program, according to people familiar with the list. Mr. Bernanke didn’t push. But it allowed a chance for officials to debate the pros and cons of a new program – in effect, a practice run for September.</p> <p>Some officials argued for more bond buying. Others worried about the Fed turning into too big a player in bond markets, disrupting trading in Treasury securities or mortgage securities. Fed staff wrote a memo ahead of the meeting detailing the market’s capacity to absorb central bank purchases of Treasury bonds and mortgage-backed securities. They found that the Fed could carry on a large program for a couple of years if needed without disturbing markets. The finding helped set boundaries for what the Fed could do and for how long.</p>	<p>(b)(5)</p>
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<p>The Fed's policy committee emerged from the August meeting with familiar fissures. Opponents of the Fed's easy-money policies said the measures weren't giving the economy much of a lift, while risking future inflation.</p> <p>Dallas Fed president Richard Fisher said the Fed was like a doctor over-prescribing Ritalin to attention-deficient Wall Street traders.</p> <p>Richmond Fed president Jeffrey Lacker dissented in August for the fifth straight meeting, taking issue with a policy already in place: An assurance the Fed had given that short-term interest rates would remain near zero through late 2014.</p> <p>Philadelphia Fed President Charles Plosser said in an interview that he urged Mr. Bernanke to wait until year-end before deciding on any new programs.</p> <p>Despite their public disagreements, Fed officials were friendly behind the scenes. Mr. Plosser, who favors tighter credit policies, and the Chicago Fed's Charles Evans, who wants easier credit, play golf together. They joined Mr. Fisher and Mr. Lockhart for a round at the Chevy Chase Country Club after the August meeting.</p> <p>By late summer, the Fed had made clear it was prepared to act if the economy continued to languish. The question was how?</p> <p>Many Fed activists wanted a[n] open-ended program of bond purchases that would continue until the economy improved. Among them, some wanted to go big -- at least a few hundred billion dollars worth over several months -- with a promise to keep buying as needed. Moreover, some wanted to replace Operation Twist with bigger purchases of mortgage-backed securities and Treasurys.</p> <p>As the September meeting neared, Mr. Bernanke needed to assure colleagues who still had reservations about moving too aggressively. In</p>	<p>(b)(5)</p>
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<p>addition to Mr. Lockhart, Cleveland Fed president Sandra Pianalto had been wavering. She was among those who worried more Fed bond buying could disrupt markets.</p> <p>Another fence-sitter was Washington-based Fed Governor Elizabeth Duke, a plainspoken Virginia banker nominated to the Fed board by President George W. Bush in 2007.</p> <p>Fed officials described the Fed chairman's phone calls as low-pressure conversations. Mr. Bernanke sometimes dialed up colleagues while in his office on weekends, catching them off guard when their phones identified his private number as unknown. He gave updates on the latest staff forecasts, colleagues said. He asked their thoughts and what they could comfortably support, they said.</p>	<p>(b)(5)</p>
<p>The calls helped Mr. Bernanke gauge how far he could push his committee. It also won him trust among some of his fiercest opponents, officials said. Nearly all of Mr. Bernanke's colleagues described him as a good listener.</p> <p>"Even if you disagree with him on the programs, you know your voice has been heard," said Mr. Fisher, one of his opponents. "There is no effort to bully."</p> <p>Negotiations stepped up in the week before the meeting. Fed staff circulated language for policy options. Officials debated how different approaches would be described in the policy statement, which would be released after the meeting.</p> <p>Officials at Fed policy meetings typically consider three options: one representing activists who want to use monetary policy aggressively; another supporting officials seeking conservative use; and a middle-ground option that typically prevails.</p> <p>The premeeting documents this time listed four options, including an aggressive approach favored by activists, and no bond buying, favored by hawks. Among two middle-ground proposals was a compromise that Ms. Duke originated.</p>	

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<p>Five days before the meeting, Mr. Bernanke took time out for the Washington Nationals – his favorite baseball team was having a dream season. He arrived at the ballpark in a worn Nationals cap and wandered the infield during batting practice.</p> <p>“I wanted to ask him if I should get some gold and silver but I bit my tongue,” said Nationals manager Davey Johnson. Instead, they talked about how Mr. Johnson, a math major, used statistics to manage his lineup.</p>	<p>(b)(5)</p>
<p>At the meeting the following week, the Fed adopted the compromise that Ms. Duke helped spur.</p> <p>The Fed would continue Operation Twist through December but add an open-ended mortgage-bond buying program.</p> <p>Activists got what they most wanted: An open-ended commitment to buy mortgage bonds until the job market improved, with the strong possibility of additional Treasury purchases later. Fence-sitters got a promise to review the plan before deciding to proceed with a bigger program in 2013.</p> <p>Mr. Lockhart said the chance to reassess the program based on inflation and the performance of the job market helped win him over.</p> <p>With an agreement on bond buying largely in place, Fed officials at the September meeting left unanswered this question: When could they leave</p>	

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<p>growth of the U.S. economy on its own?</p> <p>Mr. Kocherlakota and Mr. Evans failed to get agreement for inflation and unemployment thresholds to determine when to raise short-term rates, according to people familiar with the talks.</p> <p>“It’s an ongoing discussion,” Mr. Plosser said. “We will probably continue to work on this.”</p>	<p>(b)(5)</p>
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ATTACHMENT C

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Annotation of Schleiger Memorandum¹³

<p>Fed: December Bound</p> <p>SUMMARY: Though tomorrow's FOMC minutes will highlight the extent of dissension over the efficacy of additional policy easing announced at the September meeting, more is likely after the US presidential elections.</p> <p>The US Federal Reserve has stepped to the sidelines ahead of the presidential elections, to work on its evolving policymaking framework following September's decision to embark on further significant easing.</p> <p>The minutes of September's meeting will show, however, that the groundwork for further action in coming months has been laid and that labor market improvement is unlikely to be substantial enough to stave off new Treasury purchases into 2013.</p>	<p>(b)(5)</p>
<p>The minutes, due at 2 p.m. EDT tomorrow, will also highlight the intense debate between Federal Open Market Committee participants over the efficacy of using the balance sheet to ease conditions further and reference again, other potential policy tools, including changes to the 2015 predictive guidance.</p> <p>While the minutes will reveal greater contention over large-scale asset purchases than chairman Ben Bernanke's August Jackson Hole speech did, the tone will clearly convey that economic risks remain tilted to the downside and will lean in the direction of more action.</p> <p>Assuming economic conditions have not vastly improved, the FOMC is therefore likely to vote as early as its December meeting (at which point there</p>	

¹³ Note that the Schleiger memorandum includes numerous grammatical and punctuation errors and those errors remain in the reproduction of the article contained here.

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<p>will be a new system-wide forecast round) to cease the Maturity Extension Program (MEP) on schedule and replace it with monthly Treasury bond purchases of around \$45 billion -- similar to the current monthly average.</p> <p>The committee will attach a predictive timeline outlining the duration of these purchases, that will be dependent on the economy recovering substantially.</p> <p>The monthly MBS purchases of around \$40 billion launched in September will continue alongside this new program.</p> <p>Tomorrow's minutes will reference a staff paper that concludes the market has capacity to absorb purchases this large for a period of time.</p>	<p>(b)(5)</p>
<p>The minutes will also show the dovish voting majority was ready to cease the MEP and replace it with open-ended MBS and Treasury purchases as early as last month. By year end, they are likely to get what they want.</p> <p><u>A motley crew</u></p> <p>While not highly unusual, within the menu of three policy options finally presented to the FOMC at the meeting were subsets of drafts of potential policy actions, denoted as "primes" in Fed-speak. The first main option is usually an extremely hawkish proposal, the last is very dovish and contains elements some participants lightly jest, serve as "trailers" for policy decisions in subsequent meetings. The middle option, though not always the case, is traditionally the chairman's preferred outcome.</p> <p>In this meeting, there were multiple drafts within the middle proposal including the eventual outcome of September's meeting. The language in these drafts can be tweaked at the meeting by participants determined to have some input.</p>	

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<p>In the week leading up to the meetings, the options are circulated and can change -- sometimes markedly -- by the time the participants gather around the table. The "Teal Book," which contains the staff forecasts and the policy options, is circulated in two parts. The staff forecasts circulate first and what used to be known as the "Blue Book," which contains the policy options, follows.</p> <p>It is not unusual for board staff to pull all-nighters working on the final draft of the policy recommendations, once these has been commented on. This one took until after midnight.</p> <p>Within one of the "primes" was included a proposal to denote conditional guidance around employment and inflation conditions under which the committee might consider withdrawal of policy accommodation and a hike in the Fed funds rate.</p> <p>With Minneapolis Fed president Narayana Kocherlakota's input, a 6.5% (as opposed to the 5.5% later trailed publicly) unemployment threshold was floated in print as a trial balloon.</p> <p>The leadership knew this would not get anywhere that day but it served to propel forward a vigorous debate between committee participants about assigning potential numerical parameters on conditionality for "lift-off" which has led to some of the recent public expositions of preferred thresholds. It has also implied a degree of inevitability over the Fed deciding to put numerical conditionality around its forward guidance on rates.</p> <p>So varied were views on the committee going into September's meeting that many participants were unsure of the outcome. Committee members who at the time of the Jackson Hole meeting said they were prepared to dissent over additional action were coaxed into doing more in the ensuing weeks and fell into line behind the chairman by the time the FOMC met.</p>	<p>(b)(5)</p>
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<p><u>Swapping calendar lift-off for conditionality</u></p> <p>After the September meeting, Kocherlakota publicly suggested the Fed should not consider lift-off as long as the medium-term outlook for inflation does not exceed 2.25%, or until the unemployment rate has fallen below 5.5%.</p> <p>Many Fed system officials believe so-called “full employment” to be between 5.5-6.5%. The Fed’s current longer-run goal on unemployment is 5.2-6.0%.</p> <p>While Kocherlakota’s proposal is viewed as far fetched, the policy optionality he emphasizes if either side breaches thresholds to maintain Fed funds at an extraordinarily low level (0-0.25%) depending upon conditions, appeals to the leadership.</p>	<p>(b)(5)</p>
<p>The committee has been debating such conditionality for a year and a half already. The ultimate objective of specifying such parameters is to reassure markets that policy will remain highly accommodative for a considerable time after the economy strengthens – which is currently not expected to occur for four more years. Chicago Fed President Charlie Evans has long advocated what he calls a “7/3 threshold”: no rise in fed funds unless unemployment falls below 7% or the outlook for inflation over the medium term exceeds 3%.</p> <p>As an illustration of the difficulty the committee has had on agreeing parameters, when putting together its principles on longer-run goals an monetary policy strategy earlier this year, it nailed an inflation target but failed on the employment/growth side of the mandate. It settled on a rate of 2% as a longer-run goal for inflation</p>	

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<p>but noted that unemployment was largely determined by non-monetary factors and not directly measurable, rendering a fixed employment goal inappropriate.</p> <p>Within the meeting options over several months, some versions of numerical conditionality have shown up in the hawkish "A" option, mostly to spur ongoing discussion. While the committee got close to potentially articulating one such version at an earlier meeting, there remained too much opposition to the proposal at the time and participants were too evenly split to form a majority consensus.</p> <p>Still the momentum behind a collective desire to get away from the 2015 calendar guidance in the FOMC statement will likely force agreement on numerical conditionality before too long.</p>	<p>(b)(5)</p>
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ATTACHMENT D

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

BEN S. BERNANKE
CHAIRMAN

September 28, 2012

Dear Colleagues:

I have heard from a number of you about this morning's Wall Street Journal article by Jon Hilsenrath (attached). Hilsenrath interviewed quite a few participants, and (from the perspective of FOMC communications guidelines) much of what he reported seemed fine -- I am thinking, for example, of the explanations of several participants of their own views about policy. But there were also a number of items in the article that seemed clearly in violation of our guidelines -- for example, references to the specific alternatives under consideration by the Committee and information about research done by the staff for the Committee. Also, it seems clear that the views of some participants were described by others, rather than by the individual participants themselves. I very much share the concerns raised by some of you about these violations.

Clearly, we need to try harder to adhere to the letter and spirit of the guidelines. For example, I would urge particular care when speaking to reporters who are actively seeking the views of a large number of participants in order to piece together a narrative, as in this case. However, as we have had several previous incidents like this one, it may be that we also need to think further about the guidelines themselves -- either to strengthen them or to change our expectations for what the guidelines can accomplish. If participants believe that our communications guidelines no longer serve the purpose for which they were intended and that they should be reconsidered or amended, I encourage them to convey their views to me and to Governor Yellen in her role as chair of our communications subcommittee.

Sincerely,

Ben

Attachment

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How Bernanke Pulled the Fed His Way

By Jon Hilsenrath
The Wall Street Journal
Fri, 28 Sep 2012

In late August, Federal Reserve Chairman Ben Bernanke argued on behalf of Fed programs to stimulate the lumbering U.S. economy and signaled that more might follow, making headlines in his highly anticipated speech at the Fed's annual retreat in Jackson Hole, Wyo.

As markets rallied at the prospect of new measures to ease credit, a quiet drama was unfolding behind the scenes. Mr. Bernanke was negotiating a high-stakes plan in a flurry of private conversations with colleagues hesitant about aggressively re-engaging the levers of America's central bank.

For weeks, Mr. Bernanke made dozens of private calls on days, nights and weekends, trying to build broad support for an unusual bond-buying program he wanted approved during the Fed's September meeting, according to people familiar with the matter.

Fed officials in late summer were at odds over how far the central bank should go. Some wanted a bold, innovative program. Others weren't so sure; a few were opposed. Mr. Bernanke set his sights on a handful of fence-sitters who could swing a strong consensus to his side.

Interviews with more than a dozen people involved in the Fed decision, both supporters and opponents, show how Mr. Bernanke won over skeptics to advance his policy -- a distinction in a Washington era marked by rancor and gridlock. These people also gave a rare view of the low-key persistence of the former economics professor.

Mr. Bernanke didn't see inflation as a threat but viewed unemployment as a deeper problem than he had realized. The central bank, in his view, needed to act. The Fed chairman listened to colleagues' concerns during the calls, people familiar with the matter said, drawing out their reservations and probing for common ground. He eventually seized on a compromise that came from a little-known Fed governor.

The result of the Fed's two-day meeting that began Sept. 12 was an 11-1 vote to undertake one of the central bank's most ambitious stimulus programs. The Fed announced it would buy \$40 billion a month of mortgage-backed securities and, for the first time, promised to keep buying until the U.S. job market substantially improved.

The commitment marked a change from the stop-and-start programs the Fed had launched since the financial crisis.

"This is a 'Main Street' policy," Mr. Bernanke said after the September meeting. "What we are about here is trying to get jobs going." The bond buying aims to drive down long-term interest rates and push up the values of homes, stocks and other financial assets. Officials hope their commitment will jolt households and businesses into spending, investing and hiring.

Drawing broad support for the plan was important to Mr. Bernanke in part because the

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policies he was formulating could outlast him. His term as Fed chairman ends in January 2014. Seeing a return to U.S. full employment as a distant goal, Mr. Bernanke needed the support of officials who might remain at the Fed after he left.

Roots of the Fed decision stretched to March, when Mr. Bernanke in a speech warned the U.S. economy wasn't growing fast enough. Since September 2011, the economy had produced about 200,000 jobs a month, driving down unemployment. But Mr. Bernanke warned that a slowdown would hobble hiring. Indeed, job gains by midyear fell to less than 100,000 a month.

At the central bank's June policy meeting, Fed Governor Daniel Tarullo, a lawyer appointed by President Barack Obama, said the economy felt like a vehicle "stuck in the mud," according to people there. The analogy stuck. A month later, Mr. Bernanke used the same phrase with Congress.

The meeting yielded what Mr. Bernanke considered an important step: the extension of Operation Twist, a Fed program to buy \$45 billion of long-term Treasury securities each month, paid with the sales of short-term securities. The program -- intended to put downward pressure on long-term rates -- was supposed to expire on June 30. The Fed agreed to keep it going through December, giving Mr. Bernanke time to make sense of the slowing job market and consider further action.

To move forward, Mr. Bernanke needed to corral several colleagues, including regional Fed bank president Dennis Lockhart from Atlanta, who had a vote on the Federal Open Market Committee, the Fed's decision making body. Under Fed rules, four of the 12 regional Fed banks vote on the committee on a rotating basis; a fifth, the New York Fed, always votes.

Mr. Lockhart, a former banker who spent much of his career working in emerging markets, said in an interview after the September meeting that he had spent his summer trying to "take stock of the recovery." He debated whether the U.S. had an economy with a 3% growth trend that was hit by bad luck -- Europe's financial turmoil, for one. Or was it an economy growing at a 2% annual rate that couldn't sustain job growth and needed help? A string of weak economic data suggested it was the latter.

Like others, Mr. Lockhart had reservations about the effectiveness of Fed policies. Earlier bond buying hadn't yet produced strong growth. The banking system, still damaged by the financial crisis, wasn't delivering credit the way economists expected, given historically low interest rates. Still, Mr. Lockhart thought a program targeting the U.S. housing market might help.

Mr. Bernanke also worked on nonvoters, including Narayana Kocherlakota, who was going through his own transformation.

Several months after becoming president of the Minneapolis Fed in 2009, Mr. Kocherlakota believed the job market had structural problems beyond the reach of monetary policy -- for example, too many construction workers who couldn't easily be trained for other jobs.

Mr. Kocherlakota joined Fed skeptics, so-called hawks, who doubted the effectiveness of

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central bank activism. During his turn as a Fed voter last year, he voted twice against loosening credit, moves championed by Mr. Bernanke.

Though they disagreed on policy, Mr. Bernanke and Mr. Kocherlakota were kindred spirits. Mr. Kocherlakota is a scholarly Ph.D. economist who enrolled at Princeton University at age 15. Mr. Bernanke, equally wonky, was later chairman of Princeton's economics department years later.

Mr. Kocherlakota and Mr. Bernanke exchanged emails over months, debating structural unemployment -- the idea that unemployment was caused by mismatches between employer needs and the skills and location of workers. In Mr. Bernanke's view, employers weren't hiring because of weak demand for their goods and services, which Fed policies might help remedy.

"I've learned a lot by talking to him," Mr. Kocherlakota said in an interview after the September meeting. Mr. Bernanke's "thinking is framed by data and models," he said. "It beats coming in there with just your gut."

~~By summer, Mr. Kocherlakota said, his views about structural unemployment were shifting as he found the evidence less than persuasive. This left an opening for Mr. Bernanke.~~

As the Fed's August meeting approached, Mr. Bernanke and his inner circle, which included Fed Vice Chairwoman Janet Yellen and New York Fed President William Dudley, were thinking that any Fed action should be a comprehensive and novel package, rather than an incremental step, according to people familiar with their views. They agreed to take time to confirm their views of the U.S. economy and develop consensus for a plan.

The August meeting turned into a policy staging ground. One proposal on an internal list of three policy options was a new bond-buying program, according to people familiar with the list. Mr. Bernanke didn't push. But it allowed a chance for officials to debate the pros and cons of a new program -- in effect, a practice run for September.

Some officials argued for more bond buying. Others worried about the Fed turning into too big a player in bond markets, disrupting trading in Treasury securities or mortgage securities. Fed staff wrote a memo ahead of the meeting detailing the market's capacity to absorb central bank purchases of Treasury bonds and mortgage-backed securities. They found that the Fed could carry on a large program for a couple of years if needed without disturbing markets. The finding helped set boundaries for what the Fed could do and for how long.

The Fed's policy committee emerged from the August meeting with familiar fissures. Opponents of the Fed's easy-money policies said the measures weren't giving the economy much of a lift, while risking future inflation.

Dallas Fed president Richard Fisher said the Fed was like a doctor over-prescribing Ritalin to attention-deficient Wall Street traders. Richmond Fed president Jeffrey Lacker dissented in August for the fifth straight meeting, taking issue with a policy already in place: An assurance the Fed had given that short-term interest rates would remain near

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zero through late 2014. Philadelphia Fed President Charles Plosser said in an interview that he urged Mr. Bernanke to wait until year-end before deciding on any new programs.

Despite their public disagreements, Fed officials were friendly behind the scenes. Mr. Plosser, who favors tighter credit policies, and the Chicago Fed's Charles Evans, who wants easier credit, play golf together. They joined Mr. Fisher and Mr. Lockhart for a round at the Chevy Chase Country Club after the August meeting.

By late summer, the Fed had made clear it was prepared to act if the economy continued to languish. The question was how?

Many Fed activists wanted a open-ended program of bond purchases that would continue until the economy improved. Among them, some wanted to go big -- at least a few hundred billion dollars worth over several months -- with a promise to keep buying as needed. Moreover, some wanted to replace Operation Twist with bigger purchases of mortgage-backed securities and Treasurys.

As the September meeting neared, Mr. Bernanke needed to assure colleagues who still had reservations about moving too aggressively. In addition to Mr. Lockhart, Cleveland Fed president Sandra Pianalto had been wavering. She was among those who worried more Fed bond buying could disrupt markets.

Another fence-sitter was Washington-based Fed Governor Elizabeth Duke, a plain-spoken Virginia banker nominated to the Fed board by President George W. Bush in 2007.

Fed officials described the Fed chairman's phone calls as low-pressure conversations. Mr. Bernanke sometimes dialed up colleagues while in his office on weekends, catching them off guard when their phones identified his private number as unknown. He gave updates on the latest staff forecasts, colleagues said. He asked their thoughts and what they could comfortably support, they said.

The calls helped Mr. Bernanke gauge how far he could push his committee. It also won him trust among some of his fiercest opponents, officials said. Nearly all of Mr. Bernanke's colleagues described him as a good listener.

"Even if you disagree with him on the programs, you know your voice has been heard," said Mr. Fisher, one of his opponents. "There is no effort to bully."

Negotiations stepped up in the week before the meeting. Fed staff circulated language for policy options. Officials debated how different approaches would be described in the policy statement, which would be released after the meeting.

Officials at Fed policy meetings typically consider three options: one representing activists who want to use monetary policy aggressively; another supporting officials seeking conservative use; and a middle-ground option that typically prevails.

The premeeting documents this time listed four options, including an aggressive approach favored by activists, and no bond buying, favored by hawks. Among two middle-ground proposals was a compromise that Ms. Duke originated.

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Five days before the meeting, Mr. Bernanke took time out for the Washington Nationals - his favorite baseball team was having a dream season. He arrived at the ballpark in a worn Nationals cap and wandered the infield during batting practice.

"I wanted to ask him if I should get some gold and silver but I bit my tongue," said Nationals manager Davey Johnson. Instead, they talked about how Mr. Johnson, a math major, used statistics to manage his lineup.

At the meeting the following week, the Fed adopted the compromise that Ms. Duke helped spur. The Fed would continue Operation Twist through December but add an open-ended mortgage-bond buying program.

Activists got what they most wanted: An open-ended commitment to buy mortgage bonds until the job market improved, with the strong possibility of additional Treasury purchases later. Fence-sitters got a promise to review the plan before deciding to proceed with a bigger program in 2013. Mr. Lockhart said the chance to reassess the program based on inflation and the performance of the job market helped win him over.

With an agreement on bond buying largely in place, Fed officials at the September meeting left unanswered this question: When could they leave growth of the U.S. economy on its own? Mr. Kocherlakota and Mr. Evans failed to get agreement for inflation and unemployment thresholds to determine when to raise short-term rates, according to people familiar with the talks.

"It's an ongoing discussion," Mr. Plosser said. "We will probably continue to work on this."

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ATTACHMENT E

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
 WASHINGTON, D. C. 20551

BEN S. BERNANKE
 CHAIRMAN

October 4, 2012

Dear Colleagues:

I wanted to follow up on the communication I sent around last week in the wake of our concerns about the 9/28/12 WSJ piece. Many of us are deeply troubled also by a report to clients yesterday by Medley Global Advisors (attached).

It seems apparent that there have been violations of both the letter and spirit of our guidelines on public communications. I have therefore asked (b)(6), (b)(7)(C) (b)(6), (b)(7)(C) to look closely into these matters and report back to me their conclusions. I expect you will all give them your very prompt and full cooperation in this exercise. After this work has been completed, I will consider possible next steps and will update all of you.

Let me reiterate that I believe the communications guidelines offer us a workable path toward maintaining collegiality on the Committee, helping the public understand our actions and perspectives, and protecting important confidentiality in certain areas. They will only be effective, though, to the extent that there is full cooperation by FOMC participants and staff to the letter and spirit therein. To that end, I have asked (b)(6), (b)(7)(C) (b)(6), (b)(7)(C) to continue a conversation (b)(6), (b)(7)(C) started with the Reserve Bank public affairs officers last week about sensitivities in this arena. (b)(6), (b)(7)(C) goal will be to help equip the public affairs offices as they assist each of us to work within the external communications guidelines.

Sincerely,

Ben

Attachment

 <p>MGA LEADING POLICY INTELLIGENCE</p>	<p>SPECIAL REPORT</p> <p>OCTOBER 3, 2012</p>
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Fed: December Bound

SUMMARY: Though tomorrow's FOMC minutes will highlight the extent of dissension over the efficacy of additional policy easing announced at the September meeting, more is likely after the US presidential elections.

The US Federal Reserve has stepped to the sidelines ahead of the presidential elections, to work on its evolving policymaking framework following September's decision to embark on further significant easing.

The minutes of September's meeting will show, however, that the groundwork for further action in coming months has been laid and that labor market improvement is unlikely to be substantial enough to stave off new Treasury purchases into 2013.

The minutes, due at 2 p.m. EDT tomorrow, will also highlight the intense debate between Federal Open Market Committee participants over the efficacy of using the balance sheet to ease conditions further and reference again, other potential policy tools, including changes to the 2015 predictive guidance.

While the minutes will reveal greater contention over large-scale asset purchases than chairman Ben Bernanke's August Jackson Hole speech did, the tone will clearly convey that economic risks remain tilted to the downside and will lean in the direction of more action.

Assuming economic conditions have not vastly improved, the FOMC is therefore likely to vote as early as its December meeting (at which point there will be a new system-wide forecast round) to cease the Maturity Extension Program (MEP) on schedule and replace it with monthly Treasury bond purchases of around \$45 billion – similar to the current monthly average.

The committee will attach a predictive timeline outlining the duration of these purchases, that will be dependent on the economy recovering substantially. The monthly MBS purchases of around \$40 billion launched in September will continue alongside this new program. Tomorrow's minutes will reference a staff paper that concludes the market has capacity to absorb purchases this large for a period of time.

The minutes will also show the dovish voting majority was ready to cease the MEP and replace it with open-ended MBS and Treasury purchases as early as last month. By year end, they are likely to get what they want.

A motley crew

While not highly unusual, within the menu of three policy options finally presented to the FOMC at the meeting were subsets of drafts of potential policy actions, denoted as "primes" in Fed-speak. The first main option is usually an extremely hawkish proposal, the last is very dovish and contains elements some participants lightly jest, serve as "trallars" for policy decisions in subsequent meetings. The middle option, though not always the case, is traditionally the chairman's preferred outcome.

In this meeting, there were multiple drafts within the middle proposal including the eventual outcome of September's meeting. The language in these drafts can be tweaked at the meeting by participants determined to have some input.

In the week leading up to the meetings, the options are circulated and can change -- sometimes markedly -- by the time the participants gather around the table. The "Teal Book," which contains the staff forecasts and the policy options, is circulated in two parts. The staff forecasts circulate first and what used to be known as the "Blue Book," which contains the policy options, follows.

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It is not unusual for board staff to pull all-nighters working on the final draft of the policy recommendations, once these has been commented on. This one took until after midnight.

Within one of the "primes" was included a proposal to denote conditional guidance around employment and inflation conditions under which the committee might consider withdrawal of policy accommodation and a hike in the Fed funds rate. With Minneapolis Fed president Narayana Kocherlakota's input, a 6.5% (as opposed to the 5.5% later trailed publicly) unemployment threshold was floated in print as a trial balloon.

The leadership knew this would not get anywhere that day but it served to propel forward a vigorous debate between committee participants about assigning potential numerical parameters on conditionality for "lift-off" which has led to some of the recent public expositions of preferred thresholds. It has also implied a degree of inevitability over the Fed deciding to put numerical conditionality around its forward guidance on rates.

So varied were views on the committee going into September's meeting that many participants were unsure of the outcome. Committee members who at the time of the Jackson Hole meeting said they were prepared to dissent over additional action were coaxed into doing more in the ensuing weeks and fell into line behind the chairman by the time the FOMC met.

Swapping calendar lift-off for conditionality

After the September meeting, Kocherlakota publicly suggested the Fed should not consider lift-off as long as the medium-term outlook for inflation does not exceed 2.25%, or until the unemployment rate has fallen below 5.5%. Many Fed system officials believe so-called "full employment" to be between 5.5-6.5%. The Fed's current longer-run goal on unemployment is 5.2-6.0%.

While Kocherlakota's proposal is viewed as far fetched, the policy optionality he emphasizes if either side breaches thresholds to maintain Fed funds at an extraordinarily low level (0-0.25%) depending upon conditions, appeals to the leadership.

The committee has been debating such conditionality for a year and a half already. The ultimate objective of specifying such parameters is to reassure markets that policy will remain highly accommodative for a considerable time after the economy strengthens — which is currently not expected to occur for four more years. Chicago Fed President Charlie Evans has long advocated what he calls a "7/3 threshold": no rise in fed funds unless unemployment falls below 7% or the outlook for inflation over the medium term exceeds 3%.

As an illustration of the difficulty the committee has had on agreeing parameters, when putting together its principles on longer-run goals and monetary policy strategy earlier this year, it nailed an inflation target but failed on the employment/growth side of the mandate. It settled on a rate of 2% as a longer-run goal for inflation but noted that unemployment was largely determined by non-monetary factors and not directly measurable, rendering a fixed employment goal inappropriate.

Within the meeting options over several months, some versions of numerical conditionality have shown up in the hawkish "A" option, mostly to spur ongoing discussion. While the committee got close to potentially articulating one such version at an earlier meeting, there remained too much opposition to the proposal at the time and participants were too evenly split to form a majority consensus.

Still the momentum behind a collective desire to get away from the 2015 calendar guidance in the FOMC statement will likely force agreement on numerical conditionality before too long.

Analyst: Regina Schlegler

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ATTACHMENT F

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Program for Security of FOMC Information

As reaffirmed January 24, 2012

I. INTRODUCTION.

The Program for Security of FOMC Information ("the Program") describes what confidential FOMC information is, how it is classified, who has access to it, how it should be handled, and who is responsible for ensuring that it is protected. Everyone with access to confidential FOMC information is required to review and abide by the rules described below.

These security procedures are not intended to preclude discussions within the Federal Reserve of important FOMC-related issues, including the general reasons for the Committee's decisions. Such discussions may be conducted for research purposes or for preparing briefings and other information for Committee members, but care should be taken that all discussion participants have the appropriate level of authorization if confidential information is being shared.

II. DEFINITION OF CONFIDENTIAL FOMC INFORMATION.

Confidential FOMC information includes all privileged information that comes into the possession of the Governors, Federal Reserve Bank Presidents, or Federal Reserve System staff in the performance of their duties for, or pursuant to the direction of, the Committee. Such information covers, but is not limited to, expressions of policy views at FOMC meetings, reasons for those views, votes of the Committee, and staff forecasts. The information that must be kept confidential may be in any form. It includes not only paper documents, but also electronic messages and files, recordings, notes, oral briefings, and discussions relating to confidential FOMC matters.

III. CLASSIFICATION OF CONFIDENTIAL FOMC INFORMATION.

There are three security classifications for confidential FOMC information. The first two classifications — "Class I FOMC - Re-

stricted Controlled (FR)" and "Class II FOMC - Restricted (FR)" — apply to very sensitive FOMC information. Class I FOMC information must be handled at least as securely as material classified by the Federal Reserve Board as "Restricted Controlled (FR)." Access to Class II information is somewhat less restrictive than access to Class I. It must be treated at least as securely as material classified by the Federal Reserve Board as "Restricted (FR)." The classification "Class III FOMC - Internal (FR)" applies to less sensitive information that still requires confidential treatment. It must be handled at least as securely as material classified by the Federal Reserve Board as "Internal (FR)." (See Section VI below for handling requirements.)

Information in these classifications must be kept confidential until it is released to the public by the Chairman or by the Committee Secretary pursuant to Committee instructions. All questions related to the classification, distribution, or handling of documents should be directed to the FOMC Secretariat.

A. "Class I FOMC - Restricted Controlled (FR)."

This classification is generally applied to information that includes policymaker input, e.g., information related to monetary policy decisions at meetings, views expressed by policymakers on likely future policy, and identification of meeting participants who express particular views. Class I information includes, but is not limited to:

1. *Monetary Policy: Strategies and Alternatives* ("Tealbook Book B").
2. Minutes of FOMC meetings.
3. FOMC meeting recordings and transcripts.
4. Policy-related portions of FOMC participants' prepared remarks.
5. Information related to FOMC participants' quarterly economic forecasts and to the associated semiannual Congressional testimony.
6. Special memoranda or reports deemed particularly sensitive, including

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§ III

Program for Security of FOMC Information

materials that might otherwise carry a Class II designation (e.g., a report from the Manager containing information on sensitive foreign exchange operations).

B. "Class II FOMC - Restricted (FR)."

This classification is generally applied to staff forecasts prepared for the FOMC and to information about open market operations. Class II information includes, but is not limited to:

1. *Economic and Financial Conditions: Current Situation and Outlook* ("Tealbook Book A"), and staff projections or assumptions relating to interest rates.

2. Reports of the Manager on domestic and foreign open market operations.

3. Information on Desk operations posted on confidential portions of the "MarketSource" website of the New York Bank.

4. Other materials on economic and financial developments (including foreign), special memoranda, tables, and charts less sensitive than those in Class I, including briefing materials containing Class II information that are produced and circulated within the Board or individual Reserve Banks.

C. "Class III FOMC - Internal (FR)."

This classification is generally applied to less-sensitive background information supporting policy discussions. Class III information includes, but is not limited to, the Tealbook Data Sheets.

D. Security Classification Downgrading of FOMC Information.

FOMC information loses its security classification when the Committee releases it to the public. Class II information is downgraded to Class III six months after the relevant FOMC meeting. Additionally, Tealbook Book B is downgraded from Class I to Class II six months after the relevant FOMC meeting, and from Class II to Class III one year after the relevant meeting.

IV. ACCESS TO CONFIDENTIAL FOMC INFORMATION WITHIN THE FEDERAL RESERVE SYSTEM.

Staff access to confidential FOMC information requires prior authorization. Before gaining access and annually thereafter, the staff member must receive, review, and agree to abide by the rules for handling confidential information that are referred to in this document.

At each Bank, the President, or the Research Director on the President's behalf, is responsible for designating those individuals to be given access to each class of information. At the New York Bank, the Manager of the System Open Market Account may also designate staff on behalf of the President. At the Board, that responsibility is assumed by the Chairman or the Committee Secretary on the Chairman's behalf and by Board members for their assistants. Access at the New York Bank and the Board of Governors is limited on a strict "need-to-know" basis; access at other Banks is subject to the numerical limits noted below. In complying with these limits, Banks may designate different individuals to have access to different documents. For example, one slot could be filled by designating an international economist as having access to all special memoranda relating to foreign currency operations, and a domestic economist as having access to other Class I and Class II memoranda. At each institution, access to Class I and Class II information should be reviewed carefully at least once every year.

A. Access to "Class I FOMC - Restricted Controlled (FR)" materials at Reserve Banks other than the New York Bank (and the Bank that serves as the backup site for Open Market Operations) is restricted to the President and First Vice President and to seven other Bank personnel as well as a limited number of office support staff.

B. Access to "Class II FOMC - Restricted (FR)" materials at Reserve Banks other than the New York Bank (and the Bank that serves as the backup site for

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Open Market Operations) is restricted to the President and First Vice President and to eleven other Bank personnel as well as a limited number of office support staff.

C. Access to "Class III FOMC -- Internal (FR)" information is limited on a "need-to-know" basis, but no specific limit is set on the number of individuals who may have access to such information at each location.

D. The lists of all persons who are authorized to have access to Class I and Class II information are to be generated and transmitted to the Secretariat annually, after the first regularly scheduled FOMC meeting of the year (at which any changes to the Program would typically be considered). Over the course of the year, changes resulting from new staff assignments should also be transmitted. Records of individuals' agreements to abide by the rules described in the Program should be maintained at each institution. Such records would include individuals' signatures or electronic equivalent. Office support personnel, such as executive assistants, who have substantive access to Class I or Class II information are included in those required to review and agree to the rules described in the Program.

E. To facilitate the preparation of special analyses and briefings within the System, qualified staff may be granted ad-hoc access to Class I and Class II information on a strict "need-to-know" basis for a specific and limited period of time. Such ad-hoc access may be granted by the President of a Federal Reserve Bank or a Research Director on his/her behalf or by the Secretary for Board staff. Staff granted ad-hoc access must review and agree to abide by the rules described in the Program before receiving access. The Secretariat should be advised that such access has been given, and records of the access and related agreement should be maintained at each Bank.

F. The Chairman may make ad-hoc exceptions to this section that are either more

or less restrictive for particular documents being circulated or for other confidential information.

G. In order to provide secure and rapid document delivery, access to selected confidential FOMC information is given electronically through the Secure Document System (SDS) for up to four users at each Bank. The Desk at the New York Bank has access for two additional users at that Bank. The President of each Bank may delegate to the Research Director the responsibility for selecting users, monitoring compliance with SDS guidelines, and communicating with the Secretariat when changes in usage or other issues occur. Access to SDS for Board staff is authorized by the Secretary on behalf of the Chairman and monitored by the Secretariat.

H. Eligibility for access to confidential FOMC information for non-US citizens is governed by 12 CFR 268.205. (A summary of this rule, as it pertains to FOMC information, is appended to this document as "Attachment 1.") Eligibility is determined based on a number of factors (including, but not limited to, country of origin, immigration status, length of residency, and employment history) and in many cases may require a background check.

I. Individuals who are not employees may not be given confidential FOMC information unless all the requirements of this section IV, including citizenship requirements, are met and the Secretary gives prior approval.

V. ACCESS TO CONFIDENTIAL FOMC INFORMATION OUTSIDE THE FEDERAL RESERVE SYSTEM.

Access to classified FOMC information outside the Federal Reserve System is limited as follows:

A. Confidential FOMC documents generally are made available to the public after a lag of about five years. Such availability is subject to staff review (including consul-

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§ V

Program for Security of FOMC Information

tation with the Chairman or the Committee where appropriate) for the purpose of redacting any materials that are still deemed to be sensitive after five years. For example, confidential information obtained from or about particular individuals or businesses, foreign governments and central banks, and international institutions that is deemed sensitive after the five-year lag will be protected. In addition, national security classified information that may be contained in FOMC documents remains confidential until it is declassified. The principal objectives of the Committee's policy of withholding sensitive information after the five-year lag are to preserve the Committee's ability to collect needed information, to allow its representatives to participate in sensitive discussions and report on them to the Committee, to avoid disclosures that would adversely affect U.S. international relations, and to comply with the applicable laws governing the disclosure of confidential information.

B. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

C. The Chairman may make ad-hoc exceptions to this section that are either more or less restrictive for particular documents or for other confidential information.

VI. HANDLING OF CONFIDENTIAL FOMC MATERIALS.

To assure the necessary confidentiality, it is important that special care be exercised in handling FOMC materials. The minimum requirements for handling confidential FOMC and Federal Reserve information are described in the Federal Reserve Board's "Information Classification & Handling Specifications" document (copies of summary appendices of this document, labeled "Attachment 2-A" and "Attachment 2-B," are attached for convenience and are also available as pages 20-22 at: <http://fedweb.frb.gov/>

Fedweb/board/irm/Infosec/policies/InfoClassificationHandling.pdf). As noted in Section III above, confidential FOMC information must be treated at least as securely as information in the corresponding Federal Reserve Board category. The following requirements are highlighted here:

A. In addition to ensuring that the materials themselves are made available only to staff members who have been given access to them, the information they contain should be discussed with such persons only.

B. Persons who no longer have access to confidential FOMC information, whether because of a job change within the Federal Reserve, employment outside the Federal Reserve, or retirement, must release custody of all confidential materials in their possession and remain subject to all the prohibitions relating to the disclosure of FOMC information that is still confidential.

C. The distribution to the FOMC of all documents, other than the Manager's reports, should be handled through the Secretariat.

D. In addition, to facilitate the identification of Class I and Class II FOMC information, the appropriate coversheet should be placed on all such documents that are to be circulated. (The Tealbook is distinctive in appearance and meets this requirement without an additional cover page.) The most up-to-date coversheets are available on the FOMC Secretariat's web site: (<http://fweb.rsma.frb.gov/dma/fomc/>).

VII. ONGOING RESPONSIBILITY FOR MAINTAINING CONFIDENTIALITY.

A. The President of each Federal Reserve Bank is responsible for ensuring the confidentiality of FOMC information at that Bank and for the conduct and discretion of that Bank's staff with regard to the use of the information. The Chairman fulfills this role at the Board. No confidential FOMC information may be released except pursuant to

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§ VII

Program for Security of FOMC Information

Committee instructions or with written authorization from the Chairman and prompt notification to the FOMC.

B. At each institution (Board or Bank), the basic principles and rules of confidentiality shall be reviewed at least once a year with every individual who has access to confidential FOMC information. In addition to annual circulation of the Program for Security of FOMC Information, institutions may implement further procedures in support of information security.

C. If any FOMC participant or Federal Reserve System staff person becomes aware of an incident in which FOMC information security rules may have been breached, that individual should promptly alert the FOMC Secretary. The Secretary and the FOMC's General Counsel will perform an initial review of the incident, in consultation with the Chairman and with the President of a specific Federal Reserve Bank if the violation appears to have involved staff within that Bank. In light of that initial review, the General Counsel will determine whether to request the Board's Inspector General to perform a full investigation of the incident. The results of that investigation will be reported to the Chairman, who will inform the Committee about those results as appropriate.

D. If a staff person at the Federal Reserve Board has been found to be responsible for a breach of FOMC information security, the Chairman will determine the consequences for that individual. If a staff person at a Federal Reserve Bank has been found to be responsible for a breach of FOMC information security, the President of that Bank will determine the consequences for that individual and will inform the Chairman of that determination. If an FOMC participant has been found to be responsible for a breach of FOMC information security, the Committee

will determine the consequences for that participant. The Inspector General will contact law enforcement agencies whenever an investigation indicates that criminal statutes may have been violated.

VIII. FOMC MEETING ATTENDANCE.

A. Except by approval of the Committee, attendance at FOMC meetings, including conference calls, is limited to:

1. Governors and Reserve Bank Presidents and any other Alternate Members. In the absence of a President, a substitute Bank officer designated by the President or the Bank's board of directors.
2. Committee officers. In the absence of an associate economist from a Reserve Bank, one substitute designated in advance by the President, with notice to the Secretariat.
3. The Manager of the System Open Market Account. In the Manager's absence, a substitute designated by the Manager or the President of the New York Bank, with notice to the Secretariat.
4. One adviser or one substitute designated in advance, with notice to the Secretariat, by each President who is not currently a member of the Committee.
5. One First Vice President of a Bank. This designee would be in addition to those listed above. The Secretariat maintains a rotational schedule based on nominations from Banks.
6. One assistant to the Manager, Secretariat assistance, and a limited number of additional members of System staff designated by the Chairman.

B. Attendance may be limited further by the Chairman if a meeting, or portion of a meeting, gives rise to unusual sensitivity problems.

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Attachment I

Program for Security of FOMC Information

Attachment I
NON-CITIZEN ELIGIBILITY FOR ACCESS TO FOMC INFORMATION
Summary of 12 C.F.R. 268.205

Access to all FOMC information is governed under the Program for the Security of FOMC Information. Under these rules, U.S. citizens are eligible for access to all levels of FOMC information (Class I, II, and III).¹ As explained below, eligibility for access to FOMC information for non-citizens depends on the individual's job, citizenship status, residency and other requirements. The FOMC applies the same requirements for access to its information that the Board applies when granting access to sensitive information of the Board.²

As a general matter, a non-citizen is eligible for access to FOMC Information in only one of two ways—as a *Protected Individual* or as an *Eligible Employee*. Protected Individuals, defined below, are treated similarly to citizens, and are eligible for all levels of FOMC Information. Eligible Employees, defined below, are initially eligible for access based on their country of origin, but may subsequently be eligible for a higher level of access if they meet certain criteria. Non-citizens who are neither Protected Individuals nor Eligible Employees may not be granted access to FOMC Information.

1. Protected Individuals³

¹ In all cases, whether an individual is a citizen or not, access to information of the FOMC is contingent on both the eligibility discussed here and a "need to know," which involves a determination by the FOMC Secretariat or the FOMC Chairman that the individual must be permitted access at the proposed level in order to perform his or her job. Individuals who are granted access to FOMC information must abide by all rules that apply to the handling of that information.

² The Board's rule for access to sensitive information by non-citizens is set forth in 12 C.F.R. 268.205.

³ Under the Board's rule, the term "Protected Individual" also includes U.S. citizens and U.S. nationals (persons who are born in American Sa-

A "Protected Individual" is a person who is a lawful permanent resident (that is, holds a "green card") and who has taken certain steps toward becoming a U.S. citizen. Those steps require that the person *either*:

- A. Sign a declaration of intent to become a U.S. citizen and file for U.S. citizenship within six months of becoming eligible to do so,

or

- A. Be an employee of the Federal Reserve System (FRS) since January 1, 2006;
- B. File for citizenship before requesting access to FOMC Information; and
- C. Pass a background check acceptable to the Board.

A green card holder who does not qualify under one of these criteria is not a Protected Individual, and therefore is eligible for access only if he or she is an Eligible Employee (see below).

2. Eligible Employees

To be an Eligible Employee, the non-citizen must be employed in a position at the Board or Reserve Bank that requires a Ph.D. in economics or finance. If the non-citizen is employed in such a position, his or her eligibility for access is granted in two stages.

- A. *Initial Eligibility:* Eligibility in the initial stage depends on whether the non-citizen's country of origin is on the current "country list," which is a list of countries whose citizens may be hired by appropriated federal agencies under

moa, certain former citizens of the former Trust Territory of the Pacific Islands, and certain children of non-citizen nationals born abroad). The term "Protected Individuals" also covers three additional categories of individuals (those admitted for temporary residence under certain immigration provisions and those granted asylum or refugee status). However, requests for access by persons in these later categories are unlikely to arise and are thus not described here.

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Attachment I

Program for Security of FOMC Information

federal legislation (see the current country list below).⁴

i. If the non-citizen is from a country on the country list, he or she is eligible initially for Class II access.

ii. If the non-citizen is not from a country on the country list, he or she is eligible initially only for Class III access.

B. Higher Eligibility: In the second stage of eligibility, a non-citizen can become eligible for access to information one level higher (i.e., a non-citizen from a country list country can become eligible for Class I access and a non-citizen who is not from a country list country can become eligible for Class II access). A non-citizen is eligible for this next level of access if he or she has:

- i. Resided in the United States for six years;
- ii. Been employed with the FRS for two years;
- iii. Been recommended for a higher level of access by his or her division director; and
- iv. Passed a background check acceptable to the Board.

COUNTRY LIST

Albania
 Argentina
 Australia
 Bahamas
 Belgium
 Bolivia
 Brazil
 Bulgaria
 Canada
 Chile
 Colombia
 Costa Rica
 Croatia
 Cuba

Czech Republic
 Denmark
 Dominican Republic
 Ecuador
 El Salvador
 Estonia
 France
 Germany
 Greece
 Guatemala
 Haiti
 Honduras
 Hungary
 Iceland
 Ireland
 Israel
 Italy
 Japan
 Latvia
 Lithuania
 Luxembourg
 Netherlands
 New Zealand
 Nicaragua
 Norway
 Panama
 Paraguay
 Peru
 Philippines
 Poland
 Portugal
 Romania
 Slovakia
 Slovak Republic
 Slovenia
 Spain
 South Korea
 Thailand
 Trinidad & Tobago
 Turkey
 United Kingdom
 Uruguay
 Venezuela

⁴ The list of eligible countries and persons is subject to legislative and other changes. The last change to the list was in 2004.

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Attachment 2-A: Summary for Handling Printed Information

PRINTED	Restricted-Controlled FR	Restricted FR	Board Personnel (Sensitive PII)	Internal FR (including Non-Sensitive PII)
MP-2 Access	A list of the specific FR Staff authorized to access the information must be prepared & attached to the document(s) or centrally maintained by an authorized authority	Authorized and need to know for official business purposes and limited to as few people as possible.	Share only as provided in the Board's Policy for Handling Personally Identifiable Information policy and limited to as few people as possible	Authorized & need to know for official business purposes. PII may be shared with a FRS employee or Board contractor if authorized by the Board employee's supervisor or the employee's position
MP-2 Duplication	Not recommended. If necessary, each copy must have a unique identifier	Limited to need to know	Limited to need to know	Limited to need to know
MP-3 Labeling	"Restricted-Controlled FR" at the top of every page. Numbered using the "x of y" numbering or consecutively numbered w/ the final page labeled "last page"	"Restricted FR" at the top of every page. Numbered using the "x of y" numbering or consecutively numbered w/ the final page labeled "last page"	"Board Personnel" at the top of every page. All pages must be consecutively numbered	"Internal FR" at the top of the first page. All pages must be consecutively numbered
MP-3 Coversheet	Restricted-Controlled FR blue coversheet	Restricted FR pink coversheet	Board Personnel green coversheet	No coversheet
MP-4 Storage	1 of the following physical controls: locked desk drawer, file cabinet or office	1 of the following physical controls: locked desk drawer, file cabinet or office	1 of the following physical controls: locked desk drawer, file cabinet or office	Stored in a secure location
MP-5 Transport: Internal	Hand-delivered or placed within two sealed envelopes. The innermost envelope labeled as "Restricted-Controlled FR."	Hand-delivered or placed within a sealed envelope	Hand-delivered or placed within a sealed envelope	No special requirements
MP-5 Transport: External	Two sealed envelopes and sent via Registered Mail (or equivalent service) providing delivery tracking & confirmation. Sender must maintain a list of specific items containing Restricted-Controlled FR that were shipped	Two sealed envelopes and sent via Registered Mail (or equivalent service) providing delivery tracking & confirmation.	2 sealed envelopes & sent via Registered Mail providing delivery tracking & confirmation. Sender must maintain a list of specific items containing Sensitive PII that were shipped. When tracking is not used, the transmitter must use compensating controls to the extent possible.	Placed within a sealed envelope
MP-5 Transport: Fax	Sent via encrypted fax machine and confirm receipt	Sent via encrypted fax machine and confirm receipt	Sent via encrypted fax machine & confirm receipt. When using non-secure fax, the transmitter must use compensating controls to the extent possible.	No special requirements
MP-6 Sanitization & Disposal	Physically destroyed (e.g., paper shredders or approved secure document receptacles)	Physically destroyed (e.g., paper shredders or approved secure document receptacles)	Physically destroyed (e.g., paper shredders or approved secure document receptacles)	Physically destroyed (e.g., paper shredders or recycle bins)

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Attachment 2-B: Summary for Handling Digital Information

DIGITAL	Restricted-Controlled FR	Restricted FR	Board Personnel (Sensitive PII)	Internal FR (Including Non-sensitive PII)
MP-2 Access	A list of the specific FR Staff authorized to access the information must be prepared & attached to the media or centrally maintained by an authorized authority.	Authorized and need to know for official business purposes and limited to as few people as possible.	Share only as provided in the Board's Policy for Handling Personally Identifiable Information policy and limited to as few people as possible	Authorized & need to know for official business purposes. PII may be shared with a FRS employee or Board contractor if authorized by the Board employee's supervisor or the employee's position
MP-2 Duplication	Not recommended. If necessary, each copy must have a unique identifier	Limited to need to know	Limited to need to know	Limited to need to know
MP-3 Labeling	Restricted-Controlled FR label must be provided when the information is accessed or displayed. Label Removable media "Restricted-Controlled FR"	Restricted FR label must be provided when the information is accessed or displayed. Label Removable media "Restricted FR"	Removable media labeled "Board Personnel"	Removable media labeled as "Internal FR"
MP-4 Storage	1 of the following physical controls: locked desk drawer, file cabinet or office. Store only on Board or Trusted Third Party owned media that is encrypted using an encryption module that is FIPS-140-2 certified.	1 of the following physical controls: locked desk drawer, file cabinet or office. Store only on Board or Trusted Third Party owned media that is encrypted using an encryption module that is FIPS-140-2 certified.	1 of the following physical controls: locked desk drawer, file cabinet or office. Sensitive PII stored on portable media must be encrypted. Store only on Board or Trusted Third Party owned media that is encrypted using an encryption module that is FIPS-140-2 certified.	Store in a secure location. Store only on Board or FRS owned media.
MP-5 Transport: Internal	Transport on Board or Trusted Third Party owned encrypted portable media that is encrypted using an encryption module that is FIPS-140-2 certified and hand-deliver or place in 2 sealed envelopes. Innermost envelope labeled Restricted-Controlled FR	Transport on Board or Trusted Third Party owned encrypted portable media that is encrypted using an encryption module that is FIPS-140-2 certified and hand-deliver or place in a sealed envelope	Transport on Board or Third Party owned encrypted portable media that is encrypted using an encryption module that is FIPS-140-2 certified and hand-deliver or place in a sealed envelope	Transport only on Board or FRS owned media
MP-5 Transport: External	Transport on Board or Trusted Third Party owned encrypted removable media that is encrypted using an encryption module that is FIPS-140-2 certified in 2 sealed envelopes and sent via Registered Mail providing delivery tracking & confirmation. Sender must maintain a list of specific items containing Restricted-Controlled FR that were shipped	Transport on Board or Trusted Third Party owned encrypted removable media that is encrypted using an encryption module that is FIPS-140-2 certified in 2 sealed envelopes and sent via Registered Mail (or equivalent service) providing delivery tracking & confirmation.	Transport on Board or FRS owned encrypted removable media that is encrypted using an encryption module that is FIPS-140-2 certified in 2 sealed envelopes and sent via Registered Mail providing delivery tracking & confirmation. Sender must maintain a list of specific items that were shipped. When tracking is not used, the transmitter must use compensating controls to the extent possible.	Placed within a sealed envelope. Transport only on Board or FRS owned media.

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<p>MP-5 Transport: Email</p>	<p>Send via encrypted Lotus Notes or Board-approved encrypted email solution such as ZixMail</p>	<p>Send via encrypted Lotus Notes or Board-approved encrypted email solution such as ZixMail</p>	<p>Send via encrypted email unless the person the information concerns specifically authorizes the unencrypted email communication. Using unencrypted e-mail requires the transmitter to use compensating controls. Use Lotus Notes encryption within FRS. Outside the FRS do not use Lotus Notes, use another Board-approved encrypted email.</p>	<p>No special requirements</p>
<p>MP-6 Sanitization & Disposal</p>	<p>Follow the Media Sanitation and Disposal Policy & Procedures</p>	<p>Follow the Media Sanitation and Disposal Policy & Procedures</p>	<p>Follow the Media Sanitation and Disposal Policy & Procedures</p>	<p>Follow the Media Sanitation and Disposal Policy & Procedures</p>

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ATTACHMENT G

Class I FOMC – Restricted Controlled (FR)

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FOMC Policy on External Communications of Committee Participants¹
 As adopted effective June 22, 2011

PREAMBLE

The Federal Open Market Committee (FOMC) is committed to providing clear and timely information to the public about the Committee's monetary policy actions and the rationale for those decisions. Indeed, considerable evidence indicates that central bank transparency increases the effectiveness of monetary policy and enables households and businesses to make better-informed decisions.

Two-way communication with the public is a crucial element in the FOMC's monetary policy process. Committee participants have regular contacts with members of the public as part of the process of gathering the information the Committee needs to understand current economic and financial conditions. In addition, the FOMC's public accountability is strengthened by open discussion of Committee participants' views about the economic outlook as well as their judgments about the appropriate course of monetary policy.

Therefore, to reinforce the public's confidence in the transparency and integrity of the monetary policy process, the FOMC has established the following principles to govern Committee participants' contacts with members of the public. The FOMC itself maintains responsibility for ensuring that all Committee participants—that is, the members of the Federal Reserve Board and the presidents of the Federal Reserve Banks—abide by these principles.²

¹ The Committee's policy governing the external communications of Federal Reserve System staff is set forth in a separate document.

² This policy is fully consistent with and complements the more general policies for ethical conduct published in the *Federal Reserve Administrative Manual (FRAM)* section 2-026.1 ("Ethics—Voluntary Guide to Conduct for Senior Officials"). That section recognizes the overarching principle that senior Federal Reserve officials "have a special responsibility for maintaining the integrity, dignity, and reputation of the System" and "should scrupulously avoid conduct that might in any way tend to embarrass the System or impair the effectiveness of its operations." The policy in this document focus-

GENERAL PRINCIPLES

1. Committee participants will endeavor to enhance the public's understanding of monetary policy. They are free to explain their individual views but are expected to do so in a spirit of collegiality and to refrain from characterizing the views of other individuals on the Committee. In explaining the rationale for announced FOMC decisions, participants will draw on Committee communications and the Chairman's press conference remarks as appropriate.

2. To foster the ongoing frank exchange of views at FOMC meetings, Committee participants will refrain from publicly characterizing such discussions beyond what has been published in the minutes of each FOMC meeting.

3. To protect the independence of the FOMC's decision-making process from short-term political pressures, participants will strive to avoid any appearance of political partisanship and will be prudent in selecting venues for their speaking engagements.

4. FOMC participants will carefully safeguard all confidential information.³ No confidential FOMC information may be released except pursuant to Committee instructions or with written authorization from the Chairman and prompt notification to the FOMC.

5. To the fullest extent possible, Committee participants will refrain from describing their personal views about monetary policy in any meeting or conversation with any individual, firm, or organization who could profit financially from acquiring that information unless those views have already been expressed in their public communications.

6. Committee participants will strive to

es specifically on external communications and is binding on all FOMC participants.

³ The Committee's regulations concerning the designation and handling of confidential FOMC information are set forth in a separate document, "*Program for Security of FOMC Information*," available at http://www.federalreserve.gov/monetarypolicy/files/FOMC_InformationSecurityProgram.pdf.

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FOMC Policy on External Communications of Committee Participants

ensure that their contacts with members of the public do not provide any profit-making person or organization with a prestige advantage over its competitors. They will consider this principle carefully and rigorously in scheduling meetings with anyone who might benefit financially from apparently exclusive contacts with Federal Reserve officials and in considering invitations to speak at meetings that are sponsored by profit-making organizations or that are closed to the public and the media.

7. To facilitate the effectiveness of the Committee's policy deliberations and the clarity of its communications, participants observe a blackout period on monetary policy communication that begins on the Tuesday morning of the week prior to each regularly-scheduled FOMC meeting and ends at midnight Eastern Time on the Thursday following the meeting. During each blackout period, participants refrain from expressing their views about macroeconomic developments or monetary policy issues in meetings or conversations with members of the public.

PRACTICAL EXAMPLES

To assist FOMC participants in understanding the application of these principles, the Committee has considered how the principles should be applied to some common requests for public contact. For example, the following contacts would generally be consistent with the Committee's policy on external communications, as long as the participant carefully adheres to all of the principles listed above during the contact itself:

1. A speech on a monetary policy topic at a widely-attended event with press in attendance, where the event is organized by a

non-profit entity and does not involve fundraising. Such a speech might be given at an academic institution, a conference sponsored by a non-profit organization, or a meeting sponsored by a civic or trade association (such as a chamber of commerce or a state or national bankers' association).

2. An interview with the press regarding the participant's personal views on monetary policy issues.

3. A private meeting with members of the public—such as bankers, community representatives, industry representatives, or labor representatives—to collect information about the economy without disseminating any information about the participant's personal views on monetary policy unless those views have already been expressed in their public communications. Whenever practical, a public information officer or other Federal Reserve staff should be present at such a meeting.

In contrast, the following contacts would not be consistent with the principles set out above:

1. Disclosure in any setting of confidential FOMC information.
2. Disclosure or characterization in any setting of the views that others expressed at an FOMC meeting.
3. A prediction about Committee action in advance of the Committee announcement of its decision.
4. A private meeting with selected clients of a regulated entity or financial firm to discuss monetary policy.

Of course, the foregoing examples are not intended to serve as an exhaustive list, and hence good judgment will be essential in applying these principles.

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ATTACHMENT H

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FOMC Policy on External Communications of Federal Reserve System Staff¹

As amended effective June 19, 2012

PREAMBLE

In the course of making monetary policy decisions, the Federal Open Market Committee (FOMC) makes extensive use of background materials prepared by the staff of the Federal Reserve System, and senior staff give regular briefings at FOMC meetings. In addition, staff are directly involved in the implementation and communication of the Committee's policy decisions.

Federal Reserve System staff have contacts with members of the public in the process of gathering information about current economic and financial conditions. In addition, staff synthesize that information using a variety of analytical methods and statistical tools, and the continual refinement of these methods and tools is facilitated by ongoing interactions with academic researchers, staff at foreign central banks, and other outside analysts. Finally, staff play a significant role in helping the public understand the rationale for FOMC decisions. The principles described below recognize the importance of these activities for monetary policymaking and are not intended to inhibit the staff from conducting or broadly disseminating economic research or from carrying out other appropriate communications with members of the public.

To reinforce the public's confidence in the transparency and integrity of the monetary policy process, the FOMC has established the following principles to govern the public contacts of Federal Reserve System staff who have access to confidential FOMC information.² The FOMC maintains responsibility for ensuring that all System staff with such access abide by these principles. Specifically, the President of each Federal Reserve Bank is responsible for ensuring the confidentiality of

¹ This document complements the FOMC policy regarding the external communication of Committee participants, which is set forth in a separate document.

² This policy is fully consistent with and complements the rules for ethical conduct prescribed for the staff of the Board of Governors and for staff at each Federal Reserve Bank.

FOMC information at that Bank and for the conduct and discretion of that Bank's staff with regard to the use of that information, and the Chairman fulfills this role for Board staff.

GENERAL PRINCIPLES

1. Federal Reserve staff play a significant role in enhancing public understanding of the FOMC's actions, thereby promoting the effectiveness of monetary policy. In all communications with the public regarding monetary policy issues, members of the staff should refrain from publicly expressing their own personal opinions or predictions regarding prospective monetary policy decisions. In explaining the rationale for announced FOMC decisions, staff should draw on Committee communications, the Chairman's press conference remarks, and other published materials as appropriate. Whenever staff make public comments on monetary policy, they should clearly indicate that those comments are solely their own responsibility and should not be interpreted as necessarily representing the views of the FOMC, its principals, or any other person associated with the Federal Reserve System.

2. To foster the ongoing frank exchange of views at FOMC meetings, staff will refrain from characterizing such discussions—apart from what has been published in the minutes of each FOMC meeting—in any contact with an individual, firm, or organization outside of the Federal Reserve System.

3. To protect the independence of the FOMC's decision-making process from short-term political pressures, members of the staff of the Board and Reserve Banks will follow their respective codes of conduct regarding partisan political activities and strive to avoid any appearance of political partisanship when discussing economic or policy issues with the public.

4. Staff will carefully safeguard all con-

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FOMC Policy on External Communications of Federal Reserve System Staff

fidential FOMC information.³ No confidential information may be released except pursuant to Committee instructions or with written authorization from the Chairman and prompt notification to the Committee.

5. Unless the information has been made widely available to the public, Federal Reserve staff members will refrain from disseminating information outside the Federal Reserve System, such as information about economic and financial conditions or about the methods and tools that are currently being used to assess those conditions, that might allow an individual, firm, or organization to profit financially.

6. Staff will strive to ensure that their contacts with members of the public do not provide any profit-making person, firm, or organization with a prestige advantage over its competitors. They will consider this principle carefully and rigorously in considering invitations to speak at meetings sponsored by profit-making organizations and in scheduling meetings with anyone who might benefit financially from apparently-exclusive contacts with Federal Reserve staff.

7. To facilitate the effectiveness of the Committee's policy deliberations and the clarity of its communications, staff will observe the blackout period on monetary policy communication that begins at midnight Eastern time seven days prior to each regularly-scheduled FOMC meeting and ends at midnight Eastern Time on the next day after the meeting. During each blackout period, staff will refrain from expressing their views or providing analysis to members of the public about macroeconomic or financial developments or about current or prospective monetary policy issues unless that information has already been cleared for publication and made

widely available to the public prior to the blackout period. Staff will be able to carry out their responsibilities for public dissemination of published Federal Reserve data and System surveys and reports, including answering technical questions specific to a data release.

8. In carrying out their official responsibilities, Federal Reserve staff engage in certain closely-held communications with other parts of the U.S. government, with foreign central banks and governments, and with international organizations such as the International Monetary Fund and the Bank for International Settlements. In communicating with individuals from such institutions, staff may exchange views on current economic and financial conditions or discuss policy-related matters of interest to the Federal Reserve, including non-public information, and such communications are not subject to the blackout period described above. In all such interactions, however, no confidential FOMC information may be released except pursuant to Committee instructions or with written authorization from the Chairman and prompt notification to the Committee.

PRACTICAL EXAMPLES

To assist Federal Reserve System staff in understanding the application of these principles, the FOMC has considered how the principles should be applied to some common requests for public contact. For example, the following contacts would generally be consistent with the Committee's policy on external communications, as long as the staff member carefully adheres to all of the principles listed above during the contact itself:

1. A presentation at a widely-attended meeting, where the event is organized by a non-profit entity and does not involve fundraising. Such a meeting might be sponsored by an academic institution, non-profit organization, or civic or trade association (such as a chamber of commerce or a state or national bankers' association).
2. A private meeting with members of the public—such as bankers, community

³ The Committee's regulations concerning the designation and handling of confidential FOMC information are set forth in a separate document, "Program for Security of FOMC Information," available at http://www.federalreserve.gov/monetarypolicy/files/FOMC_InformationSecurityProgram.pdf.

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FOMC Policy on External Communications of Federal Reserve System Staff

representatives, industry representatives, or labor representatives—to collect information about current economic and financial conditions, without disseminating any information that is not widely available to the public. Whenever practical, at least two Federal Reserve staff should be present at such a meeting.

3. A working paper, presentation, or publication that evaluates the effectiveness of monetary policy actions taken in the past.

4. A discussion between Federal Reserve and Treasury staff (including during the blackout period) regarding recent economic and financial developments in a foreign economy, how to interpret them, and their implications for future developments.

In contrast, the following contacts would *not* be consistent with the principles set out above:

1. Disclosure of confidential FOMC information.
2. Disclosure or characterization of the views expressed at an FOMC meeting.
3. Disclosure of an FOMC participant's

personal views on monetary policy that have not previously been communicated to the public.

4. Public communications in which a Federal Reserve staff member expresses personal opinions about prospective monetary policy decisions.

5. A prediction to members of the public about Committee action prior to the Committee's announcement of such decisions.

6. A private meeting with selected clients of a regulated entity or financial firm to discuss monetary policy.

Of course, the foregoing examples are not intended to serve as an exhaustive list, and hence good judgment will be essential in applying these principles. Moreover, whenever staff are unsure about whether specific contacts with the public would be appropriate, they should consult in advance with the appropriate staff person or with the head of their respective institution—namely, the Chairman in the case of staff at the Board of Governors, and the President in the case of staff at a Federal Reserve Bank.

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Class I FOMC – Restricted Controlled (FR)

ATTACHMENT I

Class I FOMC – Restricted Controlled (FR)

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(b)(5)



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(b)(5)





Background on FOMC Minutes Production

(b)(6)

MAY 5, 2015

FEDERAL OPEN MARKET COMMITTEE

- Membership
 - Seven members of Board of Governors
 - President of FRBNY
 - On rotating basis four of other eleven presidents
- All seven Board members and twelve Reserve Bank presidents participate in FOMC meetings, but only members of the Committee can vote

FOMC PROCEDURES

- FOMC meets eight times per year in Washington
 - Additional meetings by conference call as necessary
- FOMC meetings
 - Staff briefings on financial markets, economic outlook, monetary policy alternatives
 - FOMC participants discuss economic situation and outlook
 - Reserve Bank presidents report on economic conditions in their district
- Participants discuss monetary policy alternatives
- Committee members vote on FOMC statement and directive on open market operations to New York Fed

MINUTES STRUCTURE

- "Front & Back" - green material
- Historical Minutes - orange (stuff documents)
 - Developments in Financial Markets and the Federal Reserve's Balance Sheet
 - Staff Review of the Economic Situation ^{Teal Book A (collective wisdom of Board & FRB-NY)}
 - Domestic
 - International
 - Staff Review of the Financial Situation ^{Teal Book B Market Alternatives}
 - Domestic
 - International
 - Staff Economic Outlook ^{→ Mc was}
- Policy Minutes - Blue Text ✓
 - Participants' Views on Current Conditions and the Economic Outlook
 - Committee Policy Action
- Special Topics - Purple
 - Potential Effects of a Large-Scale Asset Purchase Program
 - Consensus Forecast Experiment

MINUTES PRODUCTION

*Summary of Economic
Projection Ps. 12*

Minutes Roles

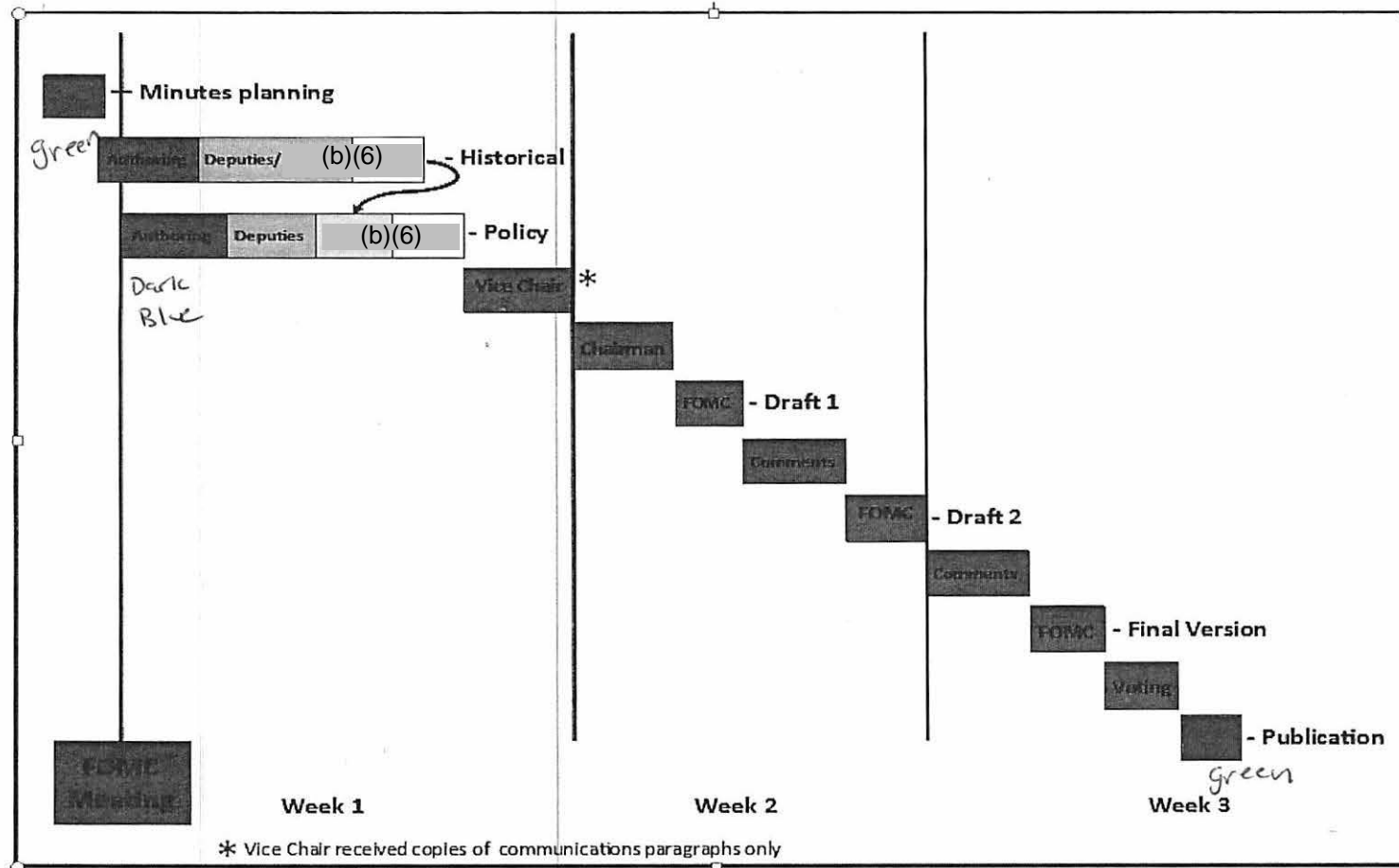
- "Front & Back": (b)(6)
- Historical Minutes
 - International sections: IF Division staff: (b)(6)
 - Domestic economic section: R&S Division staff: (b)(6)
 - Domestic financial section: MA Division staff: (b)(6)
 - "Lead" author rotates between R&S and MA, attends relevant FOMC meeting
- Policy Minutes: (b)(6)
- Special Topics: initial drafts usually prepared by staff subject matter expert
 - Potential Effects of a Large-Scale Asset Purchase Program
 - Consensus Forecast Experiment
- Economic Editing Review: (b)(6)
- MA/IF Deputy Reviewers: (b)(6)
- FOMC Secretariat facilitation: (b)(6)
- FOMC Assistant Secretary & coordination: (b)(6)
- FOMC Deputy Secretary & oversight: (b)(6)
- FOMC Secretary & primary oversight: (b)(6)

SEP Roles

- SEP: (b)(6)
- SEP Checker: (b)(6)
- SEP Research Assistant: (b)(6)
- R&S Deputy Reviewer: (b)(6)

MINUTES PRODUCTION TIMELINE

SEPTEMBER 2012



MINUTES AND SEP ACCESS OVERVIEW

- Board staff authors
- Board staff content reviewers
- Economic editing staff
- Secretariat staff
- SDS readers: Governors, Presidents, Board & Banks staff members
- Potentially additional Bank reviewers, via paper
- Public-facing staff (Office of Board Members)

IT SYSTEMS



MINUTES AND SEP PROCESS SUPPORTING DOCUMENTS

- September 2012 minutes and SEP
- 2005 Bulletin article
- August 28, 2012, minutes planning agenda
- Timeline for minutes (and SEP)
- Calendar view of minutes timeline
- Detailed spreadsheet for minutes (and SEP) process: names, dates, file names

**Minutes of the Federal Open Market Committee
September 12–13, 2012**

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Wednesday, September 12, 2012, at 10:30 a.m. and continued on Thursday, September 13, 2012, at 8:30 a.m.

PRESENT:

Ben Bernanke, Chairman
William C. Dudley, Vice Chairman
Elizabeth Duke
Jeffrey M. Lacker
Dennis P. Lockhart
Sandra Pianalto
Jerome H. Powell
Sarah Bloom Raskin
Jeremy C. Stein
Daniel K. Tarullo
John C. Williams
Janet L. Yellen

James Bullard, Christine Cumming, Charles L. Evans, Esther L. George, and Eric Rosengren, Alternate Members of the Federal Open Market Committee

Richard W. Fisher, Narayana Kocherlakota, and Charles I. Plosser, Presidents of the Federal Reserve Banks of Dallas, Minneapolis, and Philadelphia, 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

David Altig, Thomas A. Connors, Michael P. Leahy, William Nelson, David Reifschneider, Glenn D. Rudebusch, William Wascher, and John A. Weinberg, Associate Economists

Simon Potter, Manager, System Open Market Account

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

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

James A. Clouse, Deputy Director, Division of Monetary Affairs, Board of Governors; Maryann F. Hunter, Deputy Director, Division of Banking Supervision and Regulation, Board of Governors

Andreas Lehnert,¹ Deputy Director, Office of Financial Stability Policy and Research, Board of Governors

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

Seth B. Carpenter, Senior Associate Director, Division of Monetary Affairs, Board of Governors

Thomas Laubach, Senior Adviser, Division of Research and Statistics, Board of Governors; Ellen E. Meade and Joyce K. Zickler, Senior Advisers, Division of Monetary Affairs, Board of Governors

Brian J. Gross,² Special Assistant to the Board, Office of Board Members, Board of Governors

Eric M. Engen, Michael G. Palumbo, and Wayne Passmore, Associate Directors, Division of Research and Statistics, Board of Governors

Fabio M. Natalucci, Deputy Associate Director, Division of Monetary Affairs, Board of Governors

Edward Nelson, Section Chief, Division of Monetary Affairs, Board of Governors

Jeremy B. Rudd, Senior Economist, Division of Research and Statistics, Board of Governors

Kelly J. Dubbert, First Vice President, Federal Reserve Bank of Kansas City

¹ Attended Wednesday's session only.

² Attended Thursday's session only.

Minutes of the Federal Open Market Committee

September 12-13, 2012

Tuesday & Wednesday

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Minutes of the Federal Open Market Committee were held at the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Wednesday, September 12, 2012, at 10:30 a.m. and continued on Thursday, September 13, 2012, at 9:30 a.m.

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[Redacted list of names and titles]

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Loretta J. Mester, Harvey Rosenblum, and Daniel G. Sullivan, Executive Vice Presidents, Federal Reserve Banks of Philadelphia, Dallas, and Chicago, respectively

Cletus C. Coughlin, Troy Davig, Mark E. Schweitzer, and Kei-Mu Yi, Senior Vice Presidents, Federal Reserve Banks of St. Louis, Kansas City, Cleveland, and Minneapolis, respectively

Lorie K. Logan, Jonathan P. McCarthy, Giovanni Olivei, and Nathaniel Wuerffel,³ Vice Presidents, Federal Reserve Banks of New York, New York, Boston, and New York, respectively

Michelle Ezer,⁴ Markets Officer, Federal Reserve Bank of New York

³ Attended after the discussion on potential effects of a large-scale asset purchase program.

⁴ Attended the discussion on potential effects of a large-scale asset purchase program.

Potential Effects of a Large-Scale Asset Purchase Program

The staff presented an analysis of various aspects of possible large-scale asset purchase programs, including a comparison of flow-based purchase programs to programs of fixed size. The presentation reviewed the modeling approach used by the staff in estimating the financial and macroeconomic effects of such purchases. While significant uncertainty surrounds such estimates, the presentation indicated that asset purchases could be effective in fostering more rapid progress toward the Committee's objectives. The staff noted that, for a flow-based program, the public's understanding of the conditions under which the Committee would end purchases would shape expectations of the magnitude of the Federal Reserve's holdings of longer-term securities, and thus also influence the financial and economic effects of such a program. The staff also discussed the potential implications of additional asset purchases for the evolution of the Federal Reserve's balance sheet and income. The presentation noted that significant additional asset purchases should not adversely affect the ability of the Committee to tighten the stance of policy when doing so becomes appropriate. In their discussion of the staff presentation, a few participants noted the uncertainty surrounding estimates of the effects of large-scale asset purchases or the need for addi-

tional work regarding the implications of such purchases for the normalization of policy.

Developments in Financial Markets and the Federal Reserve's Balance Sheet

The Manager of the System Open Market Account (SOMA) reported on developments in domestic and foreign financial markets during the period since the Federal Open Market Committee (FOMC) met on July 31–August 1, 2012. He also reported on System open market operations, including the ongoing reinvestment into agency-guaranteed mortgage-backed securities (MBS) of principal payments received on SOMA holdings of agency debt and agency-guaranteed MBS as well as the operations related to the maturity extension program authorized at the June 19–20, 2012, FOMC meeting. By unanimous vote, the Committee ratified the Desk's domestic transactions over the intermeeting period. There were no intervention operations in foreign currencies for the System's account over the intermeeting period.

Staff Review of the Economic Situation

The information reviewed at the September 12–13 meeting suggested that economic activity continued to increase at a moderate pace in recent months. Employment rose slowly, and the unemployment rate was still high. Consumer price inflation stayed subdued, while measures of long-run inflation expectations remained stable.

Private nonfarm employment increased in July and August at only a slightly faster pace than in the second quarter, and the rate of decline in government employment eased somewhat. The unemployment rate was 8.1 percent in August, just a bit lower than its average during the first half of the year, and the labor force participation rate edged down further. The share of workers employed part time for economic reasons remained large, and the rate of long-duration unemployment continued to be high. Indicators of job openings and firms' hiring plans were little changed, on balance, and initial claims for unemployment insurance were essentially flat over the intermeeting period.

Manufacturing production increased at a faster pace in July than in the second quarter, and the rate of manufacturing capacity utilization rose slightly. However, automakers' schedules indicated that the pace of motor vehicle assemblies would be somewhat lower in the coming months than it was in July, and broader indicators of manufacturing activity, such as the diffusion indexes of new orders from the national and regional manufacturing surveys, generally remained quite muted

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Orange

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in recent months at levels consistent with only meager gains in factory output in the near term.

Following a couple of months when real personal consumption expenditures (PCE) were roughly flat, spending increased in July, and the gains were fairly widespread across categories of consumer goods and services. Incoming data on factors that tend to support household spending were somewhat mixed. Real disposable incomes increased solidly in July, boosted in part by lower energy prices. The continued rise in house values through July, and the increase in equity prices during the intermeeting period, suggested that households' net worth may have improved a little in recent months. However, consumer sentiment remained more downbeat in August than earlier in the year.

Housing market conditions continued to improve, but construction activity was still at a low level, reflecting the restraint imposed by the substantial inventory of foreclosed and distressed properties and by tight credit standards for mortgage loans. Starts of new single-family homes declined in July, but permits increased, which pointed to further gains in single-family construction in the coming months. Both starts and permits for new multifamily units rose in July. Home prices increased for the sixth consecutive month in July, and sales of both new and existing homes also rose.

Real business expenditures on equipment and software appeared to be decelerating. Both nominal shipments and new orders for nondefense capital goods excluding aircraft declined in July, and the backlog of unfilled orders decreased. Other forward-looking indicators, such as downbeat readings from surveys of business conditions and capital spending plans, also pointed toward only muted increases in real expenditures for business equipment in the near term. Nominal business spending for new nonresidential construction declined in July after only edging up in the second quarter. Inventories in most industries looked to be roughly aligned with sales in recent months.

Real federal government purchases appeared to decrease further, as data for nominal federal spending in July pointed to continued declines in real defense expenditures. Real state and local government purchases also appeared to still be trending down. State and local government payrolls contracted in July and August, although at a somewhat slower rate than in the second quarter, and nominal construction spending by these governments decreased slightly in July.

The U.S. international trade deficit was about unchanged in July after narrowing significantly in June. Exports declined in July, as decreases in the exports of industrial supplies, automotive products, and consumer goods were only partially offset by greater exports of agricultural products. Imports also declined in July, reflecting lower imports of capital goods and petroleum products and somewhat higher imports of automotive products. The trade data for July pointed toward real net exports having a roughly neutral effect on the growth of U.S. real gross domestic product (GDP) in the third quarter after they made a positive contribution to the increase in real GDP in the second quarter.

Overall U.S. consumer prices, as measured by the PCE price index, were flat in July. Consumer food prices were essentially unchanged, but the substantial increases in spot and futures prices of farm commodities in recent months, reflecting the effects of the drought in the Midwest, pointed toward some temporary upward pressures on retail food prices later this year. Consumer energy prices declined slightly in July, but survey data indicated that retail gasoline prices rose in August. Consumer prices excluding food and energy also were flat in July. Near-term inflation expectations from the Thomson Reuters/University of Michigan Surveys of Consumers increased somewhat in August, while longer-term inflation expectations in the survey edged up but remained within the narrow range that they have occupied for many years. Long-run inflation expectations from the Federal Reserve Bank of Philadelphia Survey of Professional Forecasters continued to be stable in the third quarter.

Measures of labor compensation indicated that increases in nominal wages remained modest. The rise in compensation per hour in the nonfarm business sector was muted over the year ending in the second quarter, and with small gains in productivity, unit labor costs rose only slightly. The employment cost index increased a little more slowly than the measure of compensation per hour over the same period. More recently, the gains in average hourly earnings for all employees in July and August were small.

Overall foreign economic growth appeared to be subdued in the third quarter after slowing in the second quarter. In the euro area, policy developments contributed to an improvement in financial conditions; recent indicators pointed to further decreases in production, however, and both business and consumer confidence continued to decline. Indicators of activity in the emerging market economies generally weakened. In

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China, export growth slowed, while retail sales and investment spending changed little. The rate of economic growth rose in Brazil but was still sluggish, and increases in economic activity in Mexico were below the faster pace seen earlier in the year. Consistent with the slowing in foreign economic growth, readings on foreign inflation continued to moderate.

Staff Review of the Financial Situation

Sentiment in financial markets improved somewhat since the time of the August FOMC meeting. Investors' concerns about the situation in Europe seemed to ease somewhat, and market participants also appeared to have increased their expectations of additional monetary policy accommodation.

On balance, the nominal Treasury yield curve steepened over the intermeeting period, with yields on longer-dated Treasury securities rising notably. Following the August FOMC statement, Treasury yields moved up, reportedly in part because investors had factored in some probability that the anticipated liftoff date for the federal funds rate in the forward-guidance language would be moved back at that meeting. Treasury yields subsequently rose further as concerns about the situation in the euro area moderated. Later in the period, Treasury yields retraced some of their earlier gains as market participants' expectations of additional policy action increased following the release of the minutes of the August FOMC meeting, the Chairman's speech at the economic symposium in Jackson Hole, and the weaker-than-expected August employment report. On net, the expected path of the federal funds rate derived from overnight index swap rates was little changed. Indicators of inflation expectations derived from nominal and inflation-protected Treasury securities edged up over the period but stayed in the ranges observed over recent quarters.

Conditions in unsecured short-term dollar funding markets remained stable over the intermeeting period. In secured funding markets, conditions were also little changed.

In the September Senior Credit Officer Opinion Survey on Dealer Financing Terms, respondents reported no significant changes in credit terms for important classes of counterparties over the past three months, although a few noted a slight easing in terms for some clients. The use of leverage by hedge funds was reported to have remained basically unchanged. However, respondents noted greater demand for funding of agency and non-agency residential MBS.

Broad price indexes for U.S. equities rose moderately, on net, over the intermeeting period, prompted by generally better-than-expected readings on economic activity released early in the period, somewhat reduced concerns about the situation in Europe, and some additional anticipation of monetary policy easing later in the period. Option-implied volatility on the S&P 500 index fell in early August to levels not seen since the middle of 2007; it subsequently partially retraced. Equity prices for large domestic banks rose about in line with the broad equity price indexes, and credit default swap (CDS) spreads for the largest bank holding companies continued to move down.

Yields on investment-grade corporate bonds were little changed at near-record low levels over the intermeeting period, while yields on speculative-grade corporate bonds edged down. The spread of yields on corporate bonds over those on comparable-maturity Treasury securities narrowed. Net debt issuance by nonfinancial firms continued to be strong over the period. Investment- and speculative-grade bond issuance increased in August from an already robust pace in preceding months, and commercial and industrial (C&I) loans rose further. In the syndicated leveraged loan market, gross issuance of institutional loans continued to be solid in July and August. Issuance of collateralized loan obligations remained on pace to post its strongest year since 2007. The rate of gross public equity issuance by nonfinancial firms increased slightly in August but was still at a subdued level.

Financial conditions in the commercial real estate (CRE) market were still somewhat strained against a backdrop of weak fundamentals and tight underwriting standards. Nevertheless, issuance of commercial mortgage-backed securities continued at a solid pace over the intermeeting period.

Mortgage rates remained at very low levels over the intermeeting period. Refinancing activity increased but was still restrained by tight underwriting conditions, capacity constraints at mortgage originators, and low levels of home equity. Nonrevolving consumer credit continued to expand briskly in June, largely due to robust growth in student loans originated by the federal government, while revolving credit remained subdued. Delinquency rates for consumer credit were still low, mostly reflecting a shift in lending toward higher-credit-quality borrowers.

Gross issuance of long-term municipal bonds picked up in August from the subdued pace in July, but net issuance continued to decline. CDS spreads for debt

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issued by state governments moved lower over the intermeeting period, and the ratio of yields on long-term general obligation municipal bonds to yields on comparable-maturity Treasury securities decreased, on balance.

Bank credit continued to expand at a moderate pace over the intermeeting period, as growth in C&I loans remained brisk while CRE and home equity loans both trended down further. The August Survey of Terms of Business Lending indicated that overall interest-rate spreads on C&I loans were little changed; spreads on loans drawn on recently established commitments narrowed materially, although they remained wide.

M2 growth was rapid in July, likely reflecting investors' heightened demand for safe and liquid assets amid concerns about the situation in Europe, but it slowed to a moderate pace in August as those concerns eased somewhat. The monetary base rose in July and August as reserve balances and currency expanded.

Sentiment improved in foreign financial markets as the European Central Bank (ECB) outlined a plan to make additional sovereign bond purchases in conjunction with the European Financial Stability Facility and the European Stability Mechanism. Spreads of shorter-term yields on peripheral euro-area sovereign bonds over those on comparable-maturity German bunds declined substantially over the period. The staff's broad nominal index of the foreign exchange value of the dollar declined and benchmark sovereign yields in the major advanced foreign economies increased as safe-haven demands eased with the lessening of concerns about the European situation. Most global benchmark indexes for equity prices moved up, and the equity prices of European banks rose sharply. Funding conditions for euro-area banks improved, although these conditions remained fragile, and draws on the Federal Reserve's liquidity swap facility with the ECB fell.

The staff also reported on potential risks to financial stability, including those owing to the developments in Europe and to the current environment of low interest rates. Although the support for economic activity provided by low interest rates enhances financial stability, low interest rates also could eventually contribute to excessive borrowing or risk-taking and possibly leave some aspects of the financial system vulnerable to a future rise in interest rates. The staff surveyed a wide range of asset markets and financial institutions for signs of excessive valuations, leverage, or risk-taking that could pose systemic risks. Valuations for broad

asset classes did not appear stretched, or supported by excessive leverage. The staff also did not find evidence that excessive risk-taking was widespread, although such behavior had appeared in a few smaller and less liquid markets.

Staff Economic Outlook

In the economic projection prepared by the staff for the September FOMC meeting, the forecast for real GDP growth in the near term was broadly similar, on balance, to the previous projection. The near-term forecast incorporated a larger negative effect of the drought on farm output in the second half of this year than the staff previously anticipated, but this effect was mostly offset by the staff's expectation of a smaller drag from net exports. The staff's medium-term projection for real GDP growth, which was conditioned on the assumption of no changes in monetary policy, was revised up a little, mostly reflecting a slight improvement in the outlook for the European situation and a somewhat higher projected path for equity prices. Nevertheless, with fiscal policy assumed to be tighter next year than this year, the staff expected that increases in real GDP would not materially exceed the growth of potential output in 2013. In 2014, economic activity was projected to accelerate gradually, supported by an easing in fiscal policy restraint, increases in consumer and business confidence, further improvements in financial conditions and credit availability, and accommodative monetary policy. The expansion in economic activity was expected to narrow the significant margin of slack in labor and product markets only slowly over the projection period, and the unemployment rate was anticipated to still be elevated at the end of 2014.

The staff's near-term forecast for inflation was revised up from the projection prepared for the August FOMC meeting, reflecting increases in consumer energy prices that were greater than anticipated. However, the staff's projection for inflation over the medium term was little changed. With crude oil prices expected to gradually decline from their current levels, the boost to retail food prices from the drought anticipated to be only temporary and comparatively small, long-run inflation expectations assumed to remain stable, and substantial resource slack persisting over the projection period, the staff continued to forecast that inflation would be subdued through 2014.

The staff viewed the uncertainty around the forecast for economic activity as elevated and the risks skewed to the downside, largely reflecting concerns about the situation in Europe and the possibility of a more severe

issued by state governments moved lower over the intermeeting period, and the ratio of yields on long-term general obligation municipal bonds to yields on comparable-maturity Treasury securities decreased, on balance.

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M2 growth was rapid in July, likely reflecting investors' heightened demand for safe and liquid assets amid concerns about the situation in Europe, but it slowed to a moderate pace in August as those concerns eased somewhat. The monetary base rose in July and August as reserve balances and currency expanded.

Sentiment improved in foreign financial markets as the European Central Bank (ECB) outlined a plan to make additional sovereign bond purchases in conjunction with the European Financial Stability Facility and the European Stability Mechanism. Spreads of shorter-term yields on peripheral euro-area sovereign bonds over those on comparable-maturity German bunds declined substantially over the period. The staff's broad nominal index of the foreign exchange value of the dollar declined and benchmark sovereign yields in the major advanced foreign economies increased as safe-haven demands eased with the lessening of concerns about the European situation. Most global benchmark indexes for equity prices moved up, and the equity prices of European banks rose sharply. Funding conditions for euro-area banks improved, although these conditions remained fragile, and draws on the Federal Reserve's liquidity swap facility with the ECB fell.

The staff also reported on potential risks to financial stability, including those owing to the developments in Europe and to the current environment of low interest rates. Although the support for economic activity provided by low interest rates enhances financial stability, low interest rates also could eventually contribute to excessive borrowing or risk-taking and possibly leave some aspects of the financial system vulnerable to a future rise in interest rates. The staff surveyed a wide range of asset markets and financial institutions for signs of excessive valuations, leverage, or risk-taking that could pose systemic risks. Valuations for broad

asset classes did not appear stretched, or supported by excessive leverage. The staff also did not find evidence that excessive risk-taking was widespread, although such behavior had appeared in a few smaller and less liquid markets.

Staff Economic Outlook

In the economic projection prepared by the staff for the September FOMC meeting, the forecast for real GDP growth in the near term was broadly similar, on balance, to the previous projection. The near-term forecast incorporated a larger negative effect of the drought on farm output in the second half of this year than the staff previously anticipated, but this effect was mostly offset by the staff's expectation of a smaller drag from net exports. The staff's medium-term projection for real GDP growth, which was conditioned on the assumption of no changes in monetary policy, was revised up a little, mostly reflecting a slight improvement in the outlook for the European situation and a somewhat higher projected path for equity prices. Nevertheless, with fiscal policy assumed to be tighter next year than this year, the staff expected that increases in real GDP would not materially exceed the growth of potential output in 2013. In 2014, economic activity was projected to accelerate gradually, supported by an easing in fiscal policy restraint, increases in consumer and business confidence, further improvements in financial conditions and credit availability, and accommodative monetary policy. The expansion in economic activity was expected to narrow the significant margin of slack in labor and product markets only slowly over the projection period, and the unemployment rate was anticipated to still be elevated at the end of 2014.

The staff's near-term forecast for inflation was revised up from the projection prepared for the August FOMC meeting, reflecting increases in consumer energy prices that were greater than anticipated. However, the staff's projection for inflation over the medium term was little changed. With crude oil prices expected to gradually decline from their current levels, the boost to retail food prices from the drought anticipated to be only temporary and comparatively small, long-run inflation expectations assumed to remain stable, and substantial resource slack persisting over the projection period, the staff continued to forecast that inflation would be subdued through 2014.

The staff viewed the uncertainty around the forecast for economic activity as elevated and the risks skewed to the downside, largely reflecting concerns about the situation in Europe and the possibility of a more severe

tightening in U.S. fiscal policy than anticipated. Although the staff saw the outlook for inflation as uncertain, the risks were viewed as balanced and not unusually high.

Participants' Views on Current Conditions and the Economic Outlook

In conjunction with this FOMC meeting, meeting participants—the 7 members of the Board of Governors and the presidents of the 12 Federal Reserve Banks, all of whom participate in the deliberations of the FOMC—submitted their assessments of real output growth, the unemployment rate, inflation, and the target federal funds rate for each year from 2012 through 2015 and over the longer run, under each participants' judgment of appropriate monetary policy. The longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge, over time, under appropriate monetary policy and in the absence of further shocks to the economy. These economic projections and policy assessments are described in the Summary of Economic Projections, which is attached as an addendum to these minutes.

In their discussion of the economic situation and outlook, meeting participants regarded the information received during the intermeeting period as indicating that economic activity had continued to expand at a moderate pace in recent months. However, recent gains in employment were small and the unemployment rate remained high. Although consumer spending had continued to advance, growth in business fixed investment appeared to have slowed. The housing sector showed some further signs of improvement, albeit from a depressed level. Consumer price inflation had been subdued despite recent increases in the prices of some key commodities, and longer-term inflation expectations had remained stable.

Regarding the economic outlook, participants generally agreed that the pace of the economic recovery would likely remain moderate over coming quarters but would pick up over the 2013–15 period. In the near term, the drought in the Midwest was expected to weigh on economic growth. Moreover, participants observed that the pace of economic recovery would likely continue to be held down for some time by persistent headwinds, including continued weakness in the housing market, ongoing household sector deleveraging, still-tight credit conditions for some households and businesses, and fiscal consolidation at all levels of government. Many participants also noted that a high level of uncertainty regarding the European fiscal and banking crisis and

the outlook for U.S. fiscal and regulatory policies was weighing on confidence, thereby restraining household and business spending. However, others questioned the role of uncertainty about policy as a factor constraining aggregate demand. In addition, participants still saw significant downside risks to the outlook for economic growth. Prominent among these risks were a possible intensification of strains in the euro zone, with potential spillovers to U.S. financial markets and institutions and thus to the broader U.S. economy; a larger-than-expected U.S. fiscal tightening; and the possibility of a further slowdown in global economic growth. A few participants, however, mentioned the possibility that economic growth could be more rapid than currently anticipated, particularly if major sources of uncertainty were resolved favorably or if faster-than-expected advances in the housing sector led to improvements in household balance sheets, increased confidence, and easier credit conditions. Participants' forecasts for economic activity, which in most cases were conditioned on an assumption of additional, near-term monetary policy accommodation, were also associated with an outlook for the unemployment rate to remain close to recent levels through 2012 and then to decline gradually toward levels judged to be consistent with the Committee's mandate.

In the household sector, incoming data on retail sales were somewhat stronger than expected. Participants noted, however, that households were still in the process of deleveraging, confidence was low, and consumers appeared to remain particularly pessimistic about the prospects for the future, raising doubts that the somewhat stronger pace of spending would persist. Although the level of activity in the housing sector remained low, the somewhat faster pace of home sales and construction provided some encouraging signs of improvement. A number of participants also observed that house prices were rising. It was noted that such increases, coupled with historically low mortgage rates, could lead to a stronger upturn in housing activity, although constraints on the capacity for loan origination and still-tight credit terms for some borrowers continued to weigh on mortgage lending.

Business contacts in many parts of the country were reported to be highly uncertain about the outlook for the economy and for fiscal and regulatory policies. Although firms' balance sheets were generally strong, these uncertainties had led them to be particularly cautious and to remain reluctant to hire or expand capacity. Reports on manufacturing activity were mixed, with production related to autos and housing the most not-

tightening in U.S. fiscal policy than anticipated. Although the staff saw the outlook for inflation as uncertain, the risks were viewed as balanced and not unusually high.

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Bice

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able areas of relative strength. In one District, business surveys pointed to further growth; however, readings on forward-looking indicators of orders around the country were less positive. In addition, business contacts noted that export demand was showing signs of weakness as a result of the slowdown in economic activity in Europe. The energy sector continued to expand. In the agricultural sector, high grain prices and crop insurance payments were supporting farm incomes, helping offset declines in production and reduced profits on livestock. The drought was expected to reduce farm inventories and have a transitory impact on broader measures of economic growth.

Participants generally expected that fiscal policy would continue to be a drag on economic activity over coming quarters. In addition to ongoing weakness in spending at the federal, state, and local government levels, uncertainties about tax and spending policies reportedly were restraining business decisionmaking. Participants also noted that if an agreement was not reached to tackle the expiring tax cuts and scheduled spending reductions, a sharp consolidation of fiscal policy would take place at the beginning of 2013.

The available indicators pointed to continued weakness in overall labor market conditions. Growth in employment had been disappointing, with the average monthly increases in payrolls so far this year below last year's pace and below the pace that would be required to make significant progress in reducing the unemployment rate. The unemployment rate declined around the turn of the year but had not fallen significantly since then. In addition, the labor force participation rate and employment-to-population ratios were at or near post-recession lows.

Meeting participants again discussed the extent of slack in labor markets. A few participants reiterated their view that the persistently high level of unemployment reflected the effect of structural factors, including mismatches across and within sectors between the skills of the unemployed and those demanded in sectors in which jobs were currently available. It was also suggested that there was an ongoing process of polarization in the labor market, with the share of job opportunities in middle-skill occupations continuing to decline while the shares of low and high skill occupations increased. Both of these views would suggest a lower level of potential output and thus reduced scope for combating unemployment with additional monetary policy stimulus. Several participants, while acknowledging some evidence of structural changes in the labor

market, stated again that weak aggregate demand was the principal reason for the high unemployment rate. They saw slack in resource utilization as remaining wide, indicating an important role for additional policy accommodation. Several participants noted the risk that continued high levels of unemployment, even if initially cyclical, might ultimately induce adverse structural changes. In particular, they expressed concerns about the risk that the exceptionally high level of long-term unemployment and the depressed level of labor participation could ultimately lead to permanent negative effects on the skills and prospects of those without jobs, thereby reducing the longer-run normal level of employment and potential output.

Sentiment in financial markets improved notably during the intermeeting period. Participants indicated that recent decisions by the ECB helped ease investors' anxiety about the near-term prospects for the euro. However, participants also observed that significant risks related to the euro-area banking and fiscal crisis remained, and that a number of important issues would have to be resolved in order to achieve further progress toward a comprehensive solution to the crisis. Participants noted that indicators of financial stress in the United States were not especially high and overall conditions in U.S. financial markets remained favorable. Longer-term interest rates were low and supportive of economic growth, while equity prices had risen. One participant noted that, while there were few current signs of excessive risk-taking, low interest rates could ultimately lead to financial imbalances that would be challenging to detect before they became serious problems.

The incoming information on inflation over the intermeeting period was largely in line with participants' expectations. Despite recent increases in the prices of some key commodities, consumer price inflation remained subdued. With longer-term inflation expectations stable and the unemployment rate elevated, participants generally anticipated that inflation over the medium run would likely run at or below the 2 percent rate that the Committee judges to be most consistent with its mandate. Most participants saw the risks to the outlook for inflation as roughly balanced. A few participants felt that maintaining a highly accommodative stance of monetary policy over an extended period could unmoor longer-term inflation expectations and, against a backdrop of higher energy and commodity prices, posed upside risks to inflation. Other participants, by contrast, saw inflation risks as tilted to the

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downside, given their expectations for sizable and persistent resource slack.

Participants again exchanged views on the likely benefits and costs of a new large-scale asset purchase program. Many participants anticipated that such a program would provide support to the economic recovery by putting downward pressure on longer-term interest rates and promoting more accommodative financial conditions. A number of participants also indicated that it could lift consumer and business confidence by emphasizing the Committee's commitment to continued progress toward its dual mandate. In addition, it was noted that additional purchases could reinforce the Committee's forward guidance regarding the federal funds rate. Participants discussed the effectiveness of purchases of Treasury securities relative to purchases of agency MBS in easing financial conditions. Some participants suggested that, all else being equal, MBS purchases could be preferable because they would more directly support the housing sector, which remains weak but has shown some signs of improvement of late. One participant, however, objected that purchases of MBS, when compared to purchases of longer-term Treasury securities, would likely result in higher interest rates for many borrowers in other sectors. A number of participants highlighted the uncertainty about the overall effects of additional purchases on financial markets and the real economy. Some participants thought past purchases were useful because they were conducted during periods of market stress or heightened deflation risk and were less confident of the efficacy of additional purchases under present circumstances. A few expressed skepticism that additional policy accommodation could help spur an economy that they saw as held back by uncertainties and a range of structural issues. In discussing the costs and risks that such a program might entail, several participants reiterated their concern that additional purchases might complicate the Committee's efforts to withdraw monetary policy accommodation when it eventually became appropriate to do so, raising the risk of undesirably high inflation in the future and potentially unmooring inflation expectations. One participant noted that an extended period of accommodation resulting from additional asset purchases could lead to excessive risk-taking on the part of some investors and so undermine financial stability over time. The possible adverse effects of large purchases on market functioning were also noted. However, most participants thought these risks could be managed since the Committee could make adjustments to its purchases, as needed, in re-

sponse to economic developments or to changes in its assessment of their efficacy and costs.

Participants also discussed issues related to the provision of forward guidance regarding the future path of the federal funds rate. It was noted that clear communication and credibility allow the central bank to help shape the public's expectations about policy, which is crucial to managing monetary policy when the federal funds rate is at its effective lower bound. A number of participants questioned the effectiveness of continuing to use a calendar date to provide forward guidance, noting that a change in the calendar date might be interpreted pessimistically as a downgrade of the Committee's economic outlook rather than as conveying the Committee's determination to support the economic recovery. If the public interpreted the statement pessimistically, consumer and business confidence could fall rather than rise. Many participants indicated a preference for replacing the calendar date with language describing the economic factors that the Committee would consider in deciding to raise its target for the federal funds rate. Participants discussed the benefits of such an approach, including the potential for enhanced effectiveness of policy through greater clarity regarding the Committee's future behavior. That approach could also bolster the stimulus provided by the System's holdings of longer-term securities. It was noted that forward guidance along these lines would allow market expectations regarding the federal funds rate to adjust automatically in response to incoming data on the economy. Many participants thought that more-effective forward guidance could be provided by specifying numerical thresholds for labor market and inflation indicators that would be consistent with maintaining the federal funds rate at exceptionally low levels. However, reaching agreement on specific thresholds could be challenging given the diversity of participants' views, and some were reluctant to specify explicit numerical thresholds out of concern that such thresholds would necessarily be too simple to fully capture the complexities of the economy and the policy process or could be incorrectly interpreted as triggers prompting an automatic policy response. In addition, numerical thresholds could be confused with the Committee's longer-term objectives, and so undermine the Committee's credibility. At the conclusion of the discussion, most participants agreed that the use of numerical thresholds could be useful to provide more clarity about the conditionality of the forward guidance but thought that further work would be needed to address the related communications challenges.

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Committee Policy Action

Committee members saw the information received over the intermeeting period as suggesting that economic activity had continued to expand at a moderate pace in recent months. However, growth in employment had been slow, and almost all members saw the unemployment rate as still elevated relative to levels that they viewed as consistent with the Committee's mandate. Members generally judged that without additional policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Moreover, while the sovereign and banking crisis in Europe had eased some recently, members still saw strains in global financial conditions as posing significant downside risks to the economic outlook. The possibility of a larger-than-expected fiscal tightening in the United States and slower global growth were also seen as downside risks. Inflation had been subdued, even though the prices of some key commodities had increased recently. Members generally continued to anticipate that, with longer-term inflation expectations stable and given the existing slack in resource utilization, inflation over the medium term would run at or below the Committee's longer-run objective of 2 percent.

In their discussion of monetary policy for the period ahead, members generally expressed concerns about the slow pace of improvement in labor market conditions and all members but one agreed that the outlook for economic activity and inflation called for additional monetary accommodation. Members agreed that such accommodation should be provided through both a strengthening of the forward guidance regarding the federal funds rate and purchases of additional agency MBS at a pace of \$40 billion per month. Along with the ongoing purchases of \$45 billion per month of longer-term Treasury securities under the maturity extension program announced in June, these purchases will increase the Committee's holdings of longer-term securities by about \$85 billion each month through the end of the year, and should put downward pressure on longer-term interest rates, support mortgage markets, and help make broader financial conditions more accommodative. Members also agreed to maintain the Committee's existing policy of reinvesting principal payments from its holdings of agency debt and agency MBS into agency MBS. The Committee agreed that it would closely monitor incoming information on economic and financial developments in coming months, and that if the outlook for the labor market did not improve substantially, it would continue its purchases

of agency MBS, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability. This flexible approach was seen as allowing the Committee to tailor its policy response over time to incoming information while incorporating conditional features that clarified the Committee's intention to improve labor market conditions, thereby enhancing the effectiveness of the action by helping to bolster business and consumer confidence. While members generally viewed the potential risks associated with these purchases as manageable, the Committee agreed that in determining the size, pace, and composition of its asset purchases, it would, as always, take appropriate account of the likely efficacy and costs of such purchases. With regard to the forward guidance, the Committee agreed on an extension through mid-2015, in conjunction with language in the statement indicating that it expects that a highly accommodative stance of policy will remain appropriate for a considerable time after the economic recovery strengthens. That new language was meant to clarify that the maintenance of a very low federal funds rate over that period did not reflect an expectation that the economy would remain weak, but rather reflected the Committee's intention to support a stronger economic recovery. One member dissented from the policy decision, on the grounds that he opposed additional asset purchases and preferred to omit the calendar date from the forward guidance; in his view, it would be better to use qualitative language to describe the factors that would influence the Committee's decision to increase the target federal funds rate.

At the conclusion of the discussion, the Committee voted to authorize and direct the Federal Reserve Bank of New York, until it was instructed otherwise, to execute transactions in the System Account in accordance with the following domestic policy directive:

"The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about \$267 billion by the end of December 2012, and to sell or redeem Treasury securities with remaining

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The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal fund trading in a range from 0 to 1/2 percent. The Committee directs the Desk to continue the maturity extension program announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about \$25 billion by the end of December 2012, and to sell on tender Treasury securities with maturations

Green

maturities of approximately 3 years or less with a total face value of about \$267 billion. For the duration of this program, the Committee directs the Desk to suspend its policy of rolling over maturing Treasury securities into new issues. The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. The Desk is also directed to begin purchasing agency mortgage-backed securities at a pace of about \$40 billion per month. The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability."

The vote encompassed approval of the statement below to be released at 12:30 p.m.:

"Information received since the Federal Open Market Committee met in August suggests that economic activity has continued to expand at a moderate pace in recent months. Growth in employment has been slow, and the unemployment rate remains elevated. Household spending has continued to advance, but growth in business fixed investment appears to have slowed. The housing sector has shown some further signs of improvement, albeit from a depressed level. Inflation has been subdued, although the prices of some key commodities have increased recently. Longer-term inflation expectations have remained stable.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee is concerned that, without further policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial markets continue to pose significant downside risks

to the economic outlook. The Committee also anticipates that inflation over the medium term likely would run at or below its 2 percent objective.

To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee agreed today to increase policy accommodation by purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month. The Committee also will continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. These actions, which together will increase the Committee's holdings of longer-term securities by about \$85 billion each month through the end of the year, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

The Committee will closely monitor incoming information on economic and financial developments in coming months. If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will, as always, take appropriate account of the likely efficacy and costs of such purchases.

To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens. In particular, the Committee also decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that exceptionally low levels for the

maturities of approximately 3 years or less with a total face value of about \$267 billion. For the duration of this program, the Committee directs the Desk to suspend its policy of rolling over maturing Treasury securities into new issues. The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. The Desk is also directed to begin purchasing agency mortgage-backed securities at a pace of about \$40 billion per month. The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

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To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens. In particular, the Committee also decided today to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that exceptionally low levels for the

federal funds rate are likely to be warranted at least through mid-2015.”

Voting for this action: Ben Bernanke, William C. Dudley, Elizabeth Duke, Dennis P. Lockhart, Sandra Pianalto, Jerome H. Powell, Sarah Bloom Raskin, Jeremy C. Stein, Daniel K. Tarullo, John C. Williams, and Janet L. Yellen.

Voting against this action: Jeffrey M. Lacker.

Mr. Lacker dissented because he believed that additional monetary stimulus at this time was unlikely to result in a discernible improvement in economic growth without also causing an unwanted increase in inflation. Moreover, he expressed his opposition to the purchase of more MBS, because he viewed it as inappropriate for the Committee to choose a particular sector of the economy to support; purchases of Treasury securities instead would have avoided this effect. Finally, he preferred to omit the description of the time period over which exceptionally low levels for the federal funds rate were likely to be warranted.

Consensus Forecast Experiment

In light of the discussion at the previous FOMC meeting, the subcommittee on communications developed a second experimental exercise intended to shed light on

the feasibility and desirability of constructing an FOMC consensus forecast. At this meeting, participants discussed possible formulations of the monetary policy assumptions on which to condition an FOMC consensus forecast and alternative approaches for participants to express their endorsement of the consensus forecast. In conclusion, participants agreed to have a broad discussion of the experiences gathered from the two experimental exercises in conjunction with the October FOMC meeting.

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, October 23–24, 2012. The meeting adjourned at 12:10 p.m. on September 13, 2012.

Notation Vote

By notation vote completed on August 21, 2012, the Committee unanimously approved the minutes of the FOMC meeting held on July 31–August 1, 2012.

William B. English
Secretary

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Voting for this action: Ben Bernanke, William C. Dudley, Elizabeth Duke, Dennis P. Lockhart, Sandra Pianalto, Jerome H. Powell, Sarah Bloom Raskin, Jeremy C. Stein, Daniel K. Tarullo, John C. Williams, and Janet L. Yellen.

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blue/green

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William B. English
Secretary

Green



Board of Governors
of the
Federal Reserve System
Washington, D.C. 20551

Investigator's Statement of Personal Independence

The Quality Standards for the Federal Offices of Inspector General (Silver Book, Oct. 2003) provides:

"The Inspector General and OIG Staff shall adhere to the highest ethical principles by conducting their work with integrity. Integrity is the cornerstone of all ethical conduct, ensuring adherence to accepted codes of ethics and practice. Objectivity, independence, professional judgment and confidentiality are all elements of integrity. Objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest. Independence is a critical element of objectivity. Without independence, both in fact and in appearance, objectivity is impaired."

This form, which documents compliance with Silver Book Standards, is to be completed by each staff member assigned to an administrative investigation, civil/criminal investigation, preliminary or proactive review and will be maintained as an exhibit in the case file of each such matter. Although not all-inclusive, investigators should consider the following as well as other potential impairment of independence prior to the start of each assignment:

- Immediate family or close family member who is a director or officer of the entity being investigated, or an employee of the entity, is in a position to exert direct and significant influence over the entity or the program under investigation;
- Financial interest in the entity or program;
- Preconceived ideas toward individuals, groups, organizations, or objectives of a particular program that could bias the investigation;
- Employment being sought with an entity under investigation; or
- Official, professional, personal, or financial relationships that might cause the investigator to limit the extent of the inquiry or to weaken or slant findings in any way, or that might cause a reasonable person to question the investigator's ability to maintain impartiality in the matter.

I certify that I am not aware of any conditions that could constitute or cause impairment to my performance on this investigation. If any such condition should arise during the course of this investigation, I will immediately notify the appropriate investigative manager.

Release of Confidential Information -
FOMC

I20130013-HQO

Case Name

Case Number

(b) (6), (b) (7)(C)

Wednesday, May 15, 2013

Investigator Name

Date

(b) (6), (b) (7)(C)

05/15/2013



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

**WARNINGS AND ASSURANCES TO EMPLOYEE REQUESTED TO PROVIDE
INFORMATION ON A VOLUNTARY BASIS (GARRITY)**

- You are being asked to provide information as part of an investigation being conducted by the Office of the Inspector General into alleged misconduct and for improper performance of official duties.
- This investigation is being conducted pursuant to the Inspector General Act of 1978, as amended.
- This is a voluntary interview. Accordingly, you do not have to answer questions. No disciplinary action will be taken against you solely for refusing to answer questions.
- Any statement you furnish may be used as evidence in any future criminal proceeding or agency disciplinary proceeding, or both.

ACKNOWLEDGMENT

I understand the warnings and assurances stated above and I am willing to make a statement and answer questions. No promises or threats have been made to me and no pressure or coercion of

(b) (6), (b) (7)(C)

OIG Special Agent

(b) (6), (b) (7)(C)

Employee's Signature

(b) (6), (b) (7)(C)

Witness Signature

120 pm 4/24/14

Date and Time

Location

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Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

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(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

Employee's Signature

(b) (6), (b) (7)(C)

April 7, 2014 1:25 p.m.

Date and Time

Witness Signature

(b) (6), (b) (7)(C)

Location

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Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

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(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

Employee's Signature

(b) (6), (b) (7)(C)

Witness Signature

02/25/14
Date and Time

1825 I Street, (b) (6), (b) (7)(C)
Location

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Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

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(b) (6), (b) (7)(C)

Director, Special Agent

(b) (6), (b) (7)(C)

Witness Signature

(b) (6), (b) (7)(C)

Employee's Signature

2/27/2013 2⁰⁰ PM

Date and Time

Location

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Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Evidence Custodian Log #:	151
Search Warrant Evidence Log #:	(if applicable)
Search Warrant Box #:	(if applicable)

Evidence Custody Document

Case Name: Release of Confidential Information - FOMC	Case Agent: SSA (b) (6), (b) (7)(C)
Case Number: 12013-0013	Office: HQO

Evidence Obtained Through: Search Warrant Consent Search Other (if applicable, state method) (b) (6), (b) (7)(C)

Date Evidence Obtained: 8/14/15	Address of Where Evidence Was Obtained: FRB Philadelphia
---------------------------------	--

Search Warrant/Consent Search Information (Skip section if evidence was not obtained via search warrant or consent search.)

Room Where Evidence was Found:	Other Specific Information Where Evidence was Found:
Evidence Found By (Finder) (handwritten initials also needed):	Witness (handwritten initials also needed):
Releasing Official (Finder):	Receiving Official (On-Site Seizing Agent):
Signature of Releasing Official (Finder):	Signature of Receiving Official (On-Site Seizing Agent):
Releasing Official (On-Site Seizing Agent):	Receiving Official (Evidence Custodian):
Signature of Releasing Official (On-Site Seizing Agent):	Signature of Receiving Official (Evidence Custodian):

Description of Evidence: DATA LOCKER S/N (b)(6), (b)(7)(C)

Chain of Custody (continuation on back page if needed)

Date: 8/14/15	Releasing Official and Title: (b) (6), (b) (7)(C)	Receiving Official and Title: (b) (6), (b) (7)(C)
	Signature of Releasing Official: (b) (6), (b) (7)(C)	Signature of Receiving Official: (b) (6), (b) (7)(C)
	Purpose of Change of Custody: Evidence	

Final Disposition of Evidence: Returned to Owner Destroyed Other

Date	Name and Title of Individual Authorizing Final Disposition of Evidence	Signature (Witnessing Special Agent)
Date	Printed Names of Evidence Custodian and Witnessing Special Agent	Signature (Evidence Custodian)

Original- Attach to Evidence

Copy - Evidence Room (Three-Ring Binder)

Copy - Case File

Chain of Custody (continuation from front page)		
Date 8/17/2015	Releasing Official and Title: SA (b) (6), (b) (7)(C)	Receiving Official and Title: SAC, (b) (6), (b) (7)(C)
	Signature: (b) (6), (b) (7)(C)	Signature: (b) (6), (b) (7)(C)
	Purpose of Change of Custody: ECU	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Evidence Custodian Log #: 150
Search Warrant Evidence Log #: (if applicable)
Search Warrant Box #: (if applicable)

Evidence Custody Document

Case Name: Release of Confidential Information - FDIC	Case Agent: SSA (b) (6), (b) (7)(C)
Case Number: I2013-0013	Office: HQO

Evidence Obtained Through: Search Warrant Consent Search Other (if applicable, state method) Provided by (b) (6), (b) (7)(C)

Date Evidence Obtained: 8/7/2015	Address of Where Evidence Was Obtained: (b) (6), (b) (7)(C)
----------------------------------	---

Search Warrant/Consent Search Information (Skip section if evidence was not obtained via search warrant or consent search.)

Room Where Evidence was Found:	Other Specific Information Where Evidence was Found:
Evidence Found By (Finder) (handwritten initials also needed):	Witness (handwritten initials also needed):
Releasing Official (Finder): Date	Receiving Official (On-Site Seizing Agent): Date
Signature of Releasing Official (Finder):	Signature of Receiving Official (On-Site Seizing Agent):
Releasing Official (On-Site Seizing Agent): Date	Receiving Official (Evidence Custodian): Date
Signature of Releasing Official (On-Site Seizing Agent):	Signature of Receiving Official (Evidence Custodian):

Description of Evidence: One (1) HP laptop model 2506P (serial number (b) (6), (b) (7)(C)) issued to (b) (6), (b) (7)(C) at (b) (6), (b) (7)(C)

Chain of Custody (continuation on back page if needed)

Date: 8/7/2015	Releasing Official and Title: SSA (b) (6), (b) (7)(C)	Receiving Official: SA (b) (6), (b) (7)(C)
	Sig: (b) (6), (b) (7)(C)	Sig: (b) (6), (b) (7)(C)
Purpose of Change of Custody: Evidence		

Final Disposition of Evidence: Returned to Owner Destroyed Other

Date	Name and Title of Individual Authorizing Final Disposition of Evidence	Signature (Witnessing Special Agent)
Date	Printed Names of Evidence Custodian and Witnessing Special Agent	Signature (Evidence Custodian)

Original - Attach to Evidence

Copy - Evidence Room (Three-Ring Binder)

Copy - Case File

Chain of Custody (continuation from front page)		
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
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	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
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	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	



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Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

ELECTRONIC CRIMES UNIT EVIDENCE/PROPERTY REPORT

DATE: Wednesday, March 25, 2015	CASE NUMBER: I20130013-HQO	DATE PROPERTY ACQUIRED: Wednesday, March 25, 2015	REPORT NUMBER:
SOURCE FROM WHICH PROPERTY WAS ACQUIRED: (b) (6), (b) (7)(C) Board II		PROPERTY WAS ACQUIRED BY:	
Property Retained At: ECU Lab 1825 I Street NW, Wash DC 20551		<input type="checkbox"/> Search Warrant <input type="checkbox"/> Given Voluntarily <input type="checkbox"/> Grand Jury Action <input type="checkbox"/> Found/Abandoned <input type="checkbox"/> From Other Agency <input checked="" type="checkbox"/> Other (Specify): Employee Investigation	

Description of Property Acquired

<i>ITEMS LISTED BELOW INCLUDE: 1. HIGH VALUE</i> YES NO		
ITEM NO. 1	DESCRIPTION .pst file for (b) (6), (b) (7)(C)	DISPOSITION CODE (SEE BELOW):
DISPOSITION CODE A) Returned to Rightful Owner B) Retained in Case File C) Retained by Court/AUSA D) Destroyed (See Below or Attached Certificate) E) Retained Pending Appeal		F) Other (Please Specify)

Destruction Certification

DATE	ITEM # LISTED ABOVE	HOW DESTROYED	SA'S SIGNATURE
I Have Witnessed the Destruction of the Property Above in the Manner and on the Date Stated Below.			
DATE:	WITNESS:	DATE:	WITNESS:

This document is the property of the OIG and may not be copied or disclosed without the permission of the OIG. Appropriate safeguards should be provided for the information contained herein. Public disclosure of this information is determined by the Freedom of Information Act, Title 5, U.S.C. Section 552, and the Privacy Act, Title 5, U.S.C. Section 552a.

ITEM NO.	DESCRIPTION
1	.pst file for (b) (6), (b) (7)(C)

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OIG Form IN-016-2



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

**Warnings and Assurances to Employee Requested to
Provide Information on a Voluntary Basis (Garrity)**

(b) (6), (b) (7)(C)

You are being asked to provide information as part of an investigation being conducted by the Office of the Inspector General into alleged misconduct and for improper performance of official duties.

This investigation is being conducted pursuant to the Inspector General Act of 1978, as amended.

This is a voluntary interview. Accordingly, you do not have to answer questions. No disciplinary action will be taken against you solely for refusing to answer questions.

Any statement you furnish may be used as evidence in any future criminal proceeding or agency disciplinary proceeding, or both.

ACKNOWLEDGMENT

I understand the warnings and assurances stated above, and I am willing to make a statement and answer questions. No promises or threats have been made to me and no pressure or coercion of any kind has been used against me.

(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

OIG Special Agent

(b) (6), (b) (7)(C)

9/20/2016 9:40 a.m.

Date and time

1825 I St. NW Wash DC

Location

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Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

**WARNINGS AND ASSURANCES TO EMPLOYEE REQUESTED TO PROVIDE
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ACKNOWLEDGMENT

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OIG Special Agent

(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

Employee's Signature

5/6/15 @ 1520

Date and Time

1825 I St. W.C.D.C

Location

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Office of Inspector General
Board of Governors of the Federal Reserve System
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ACKNOWLEDGMENT

I understand the warnings and assurances stated above and I am willing to make a statement and answer questions. No promises or threats have been made to me and no pressure or coercion of any kind has been used against me.

(b) (6), (b) (7)(C)

OIG Special Agent

(b) (6), (b) (7)(C)

Employee's Signature

(b) (6), (b) (7)(C)

Witness Signature

5/5/15

Date and Time

Bd of Governors, Wash DC

Location



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

**WARNINGS AND ASSURANCES TO EMPLOYEE REQUESTED TO PROVIDE
INFORMATION ON A VOLUNTARY BASIS (GARRITY)**

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(b) (6), (b) (7)(C)

OIG Special Agent

(b) (6), (b) (7)(C)

Employee's Signature

(b) (6), (b) (7)(C)

Witness Signature

5/14/2015 11:39 a.m.

Date and Time

1825 I St. NW

Location

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RESTRICTED-FR



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

**WARNINGS AND ASSURANCES TO EMPLOYEE REQUESTED TO PROVIDE
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(b) (6), (b) (7)(C)

OIG Special Agent

(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

Employee's Signature

5/6/2015 @ 0900

Date and Time

1825 I

Location

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Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

**WARNINGS AND ASSURANCES TO EMPLOYEE REQUESTED TO PROVIDE
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ACKNOWLEDGMENT

I understand the warnings and assurances stated above and I am willing to make a statement and answer questions. No promises or threats have been made to me and no pressure or coercion of any kind (b) (6), (b) (7)(C).

(b) (6), (b) (7)(C)

OIG Special Agent
(b) (6), (b) (7)(C)

Witness Signature

(b) (6), (b) (7)(C)

Employee's Signature

5/6/15 1:05 pm

Date and Time

IG offices

Location

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Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

**WARNINGS AND ASSURANCES TO EMPLOYEE REQUESTED TO PROVIDE
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ACKNOWLEDGMENT

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(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

OIG Special Agent

Employee's Signature

(b) (6), (b) (7)(C)

05/06/15 @ 11:10

Date and Time

1825 I St. NW W.C. DC

Location

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Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

**WARNINGS AND ASSURANCES TO EMPLOYEE REQUESTED TO PROVIDE
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ACKNOWLEDGMENT

I understand the warnings and assurances stated above and I am willing to make a statement and answer questions. No promises or threats have been made to me and no pressure or coercion of

(b) (6), (b) (7)(C)

OIG Special Agent

(b) (6), (b) (7)(C)

Employee's Signature

(b) (6), (b) (7)(C)

Witness Signature

5/5/15 1:20 pm

Date and Time

1825 F St NW

Location

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RESTRICTED-FR



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

**WARNINGS AND ASSURANCES TO EMPLOYEE REQUESTED TO PROVIDE
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ACKNOWLEDGMENT

I understand the warnings and assurances stated above and I am willing to make a statement and answer questions. No promises or threats have been made to me and no pressure or coercion of any (b) (6), (b) (7)(C) has been made against me.

(b) (6), (b) (7)(C)

OIG Special Agent

(b) (6), (b) (7)(C)

Employee's Signature

(b) (6), (b) (7)(C)

Witness Signature

May 5, 2015

Date and Time

1825 K St. NW

Location

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RESTRICTED-FR



AUTHORIZED FOR RELEASE

Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

**WARNINGS AND ASSURANCES TO EMPLOYEE REQUESTED TO PROVIDE
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ACKNOWLEDGMENT

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(b) (6), (b) (7)(C)

OIG Special Agent
(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

Employee's Signature

May 5, 2015

Date and Time

Federal Reserve Board

Location

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AUTHORIZED FOR RELEASE



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

**WARNINGS AND ASSURANCES TO EMPLOYEE REQUESTED TO PROVIDE
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(b) (6), (b) (7)(C)

OIG Special Agent

(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

Witness Signature

May 5, 2015 9:00 pm

Date and Time

1825 Eye St NW DC

Location



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

**WARNINGS AND ASSURANCES TO EMPLOYEE REQUESTED TO PROVIDE
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(b) (6), (b) (7)(C)

 OIG Special Agent
 (b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)
 ✓ _____
 Employee's Signature
 5/6/2015 2:30

 Date and Time
 1825 I St. DC

 Location

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Restricted FR



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Warnings and Assurances to Employee Requested to
Provide Information on a Voluntary Basis (Garrity)

(b) (6), (b) (7)(C)

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ACKNOWLEDGMENT

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(b) (6), (b) (7)(C)

OIG Special Agent

(b) (6), (b) (7)(C)

Employee's signature

(b) (6), (b) (7)(C)

2/3/16

Date and time

FRB-OIG 2763

Location

This document is the property of the Office of Inspector General and may not be copied or disclosed without the permission of the Office of Inspector General. Appropriate safeguards should be provided for the information contained herein. Public disclosure of this information is determined by the Freedom of Information Act, Title 5, U.S.C. § 552, and the Privacy Act, Title 5, U.S.C. § 552a.

Restricted FR



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Warnings and Assurances to Employee Requested to
Provide Information on a Voluntary Basis (Garrity)

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(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

2/17/16 11:01 am
Date and time

DTG - (b) (6), (b) (7)(C)
Location

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OIG Form IN-007-4

Restricted FR



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

**Warnings and Assurances to Employee Requested to
Provide Information on a Voluntary Basis (Garrity)**

(b) (6), (b) (7)(C)

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(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

OIG Special Agent

(b) (6), (b) (7)(C)

4/20/16 11:30am
Date and time

Location

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Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

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(b) (6), (b) (7)(C)

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(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

OIG Special Agent

(b) (6), (b) (7)(C)

10/7/15
Date and time

(b) (6), (b) (7)(C)

Location

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Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Evidence Custodian

Log #: 150

Search Warrant

Evidence Log #:
(if applicable)

Search Warrant Box #:
(if applicable)

Evidence Custody Document

Case Name: Release of Confidential Information - FOMC Case Agent: SSA (b) (6), (b) (7)(C)
Case Number: I2013-0013 Office: HQO

Evidence Obtained Through: Search Warrant Consent Search Other (if applicable, state method) Provided by (b) (6), (b) (7)(C)

Date Evidence Obtained: 8/7/2015 Address of Where Evidence Was Obtained: (b) (6), (b) (7)(C)

Search Warrant/Consent Search Information (Skip section if evidence was not obtained via search warrant or consent search.)

Room Where Evidence was Found: Other Specific Information Where Evidence was Found:
Evidence Found By (Finder) Witness (handwritten initials also needed):
Releasing Official (Finder): Date Receiving Official (On-Site Seizing Agent): Date
Signature of Releasing Official (Finder): Signature of Receiving Official (On-Site Seizing Agent):
Releasing Official (On-Site Seizing Agent): Date Receiving Official (Evidence Custodian): Date
Signature of Releasing Official (On-Site Seizing Agent): Signature of Receiving Official (Evidence Custodian):

Description of Evidence: One (1) HP laptop model 2506P / serial number (b) (6), (b) (7)(C) issued to (b) (6), (b) (7)(C)

Chain of Custody (continuation on back page if needed)

Date: 8/7/2015
Releasing Official and Title: SSA (b) (6), (b) (7)(C)
Receiving Official and Title: SA (b) (6), (b) (7)(C)
Signature: (b) (6), (b) (7)(C) Signature: (b) (6), (b) (7)(C)
Purpose of Change of Custody: Evidence

Final Disposition of Evidence: Returned to Owner Destroyed Other

Date Name and Title of Individual Authorizing Final Disposition of Evidence Signature (Witnessing Special Agent)
Date Printed Names of Evidence Custodian and Witnessing Special Agent Signature (Evidence Custodian)

Chain of Custody (continuation from front page)		
Date 9/1/2015	Releasing Official and Title: SA (b) (6), (b) (7)(C)	Receiving Official and Title: SAC (b) (6), (b) (7)(C)
	Signature of Releasing Official: (b) (6), (b) (7)(C)	Signature of Receiving Official: (b) (6), (b) (7)(C)
	Purpose of Change of Custody: ECU	
Date 9/11/2015	Releasing Official and Title: SAC (b) (6), (b) (7)(C)	Receiving Official and Title: SA (b) (6), (b) (7)(C)
	Signature of Releasing Official: (b) (6), (b) (7)(C)	Signature of Receiving Official: (b) (6), (b) (7)(C)
	Purpose of Change of Custody: Evidence	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	



**Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau**

Evidence Custodian Log #:	153
Search Warrant Evidence Log #:	(if applicable)
Search Warrant Box #:	(if applicable)

Evidence Custody Document

Case Name: Release of Confidential Information	Case Agent: SSA (b) (6), (b) (7)(C)
Case Number: I2013-0013	Office: HQO

Evidence Obtained Through: Search Warrant Consent Search Other (if applicable, state method) **(b) (6), (b) (7)(C)**

Date Evidence Obtained: 09/24/2015
Address of Where Evidence Was Obtained: (b) (6), (b) (7)(C)

Search Warrant/Consent Search Information (Skip section if evidence was not obtained via search warrant or consent search.)

Room Where Evidence was Found:	Other Specific Information Where Evidence was Found:
Evidence Found By (Finder) (handwritten initials also needed):	Witness (handwritten initials also needed):
Releasing Official (Finder): _____ Date _____	Receiving Official (On-Site Seizing Agent): _____ Date _____
Signature of Releasing Official (Finder): _____	Signature of Receiving Official (On-Site Seizing Agent): _____
Releasing Official (On-Site Seizing Agent): _____ Date _____	Receiving Official (Evidence Custodian): _____ Date _____
Signature of Releasing Official (On-Site Seizing Agent): _____	Signature of Receiving Official (Evidence Custodian): _____

Description of Evidence: One Hitachi Hard Drive S/N: (b)(6), (b)(7)(C)

Chain of Custody (continuation on back page if needed)

Date	Releasing Off	Receiving Off
9/11/15	SAC (b) (6), (b) (7)(C)	SA (b) (6), (b) (7)(C)
	(b) (6), (b) (7)(C)	Sign: (b) (6), (b) (7)(C)
Purpose of Change of Custody: Evidence		

Final Disposition of Evidence: Returned to Owner Destroyed Other _____


Date	Name and Title of Individual Authorizing Final Disposition of Evidence	Signature (Witnessing Special Agent)
Date	Printed Names of Evidence Custodian and Witnessing Special Agent	Signature (Evidence Custodian)

Original- Attach to Evidence

Copy - Evidence Room (Three-Ring Binder)

Copy - Case File

Chain of Custody (continuation from front page)		
Date 9/11/15	Releasing Official SA (b) (6), (b) (7)(C)	Receiving Official SAC (b) (6), (b) (7)(C)
	Signature of Releasing Official (b) (6), (b) (7)(C)	Signature of Receiving Official (b) (6), (b) (7)(C)
	Purpose of Change of Custody: ECU	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	

 <p>Office of Inspector General Board of Governors of the Federal Reserve System Consumer Financial Protection Bureau</p> <p align="center">Evidence Custody Document</p>	Evidence Custodian Log #: 152
	Search Warrant Evidence Log #: (if applicable)
	Search Warrant Box #: (if applicable)
Case Name: Release of Confidential Information	Case Agent: SSA (b) (6), (b) (7)(C)
Case Number: I2013-0013	Office: HQO
Evidence Obtained Through: <input type="checkbox"/> Search Warrant <input type="checkbox"/> Consent Search <input checked="" type="checkbox"/> Other (if applicable, state method)	
(b) (6), (b) (7)(C)	
Date Evidence Obtained: 09/04/2015	Address of Where Evidence Was Obtained: (b) (6), (b) (7)(C)
Search Warrant/Consent Search Information (Skip section if evidence was not obtained via search warrant or consent search.)	
Room Where Evidence was Found: Evidence Found By (Finder) (handwritten initials also needed):	Other Specific Information Where Evidence was Found: Witness (handwritten initials also needed):
Releasing Official (Finder): _____ Date _____	Receiving Official (On-Site Seizing Agent): _____ Date _____
Signature of Releasing Official (Finder): _____	Signature of Receiving Official (On-Site Seizing Agent): _____
Releasing Official (On-Site Seizing Agent): _____ Date _____	Receiving Official (Evidence Custodian): _____ Date _____
Signature of Releasing Official (On-Site Seizing Agent): _____	Signature of Receiving Official (Evidence Custodian): _____
Description of Evidence: One 500 GB Western Digital hard drive S/N: (b) (6), (b) (7)(C)	
_____ _____ _____ _____ _____	
Chain of Custody (continuation on back page if needed)	
Date: 9/11/15	Releasing Official: SAC (b) (6), (b) (7)(C) Signature: (b) (6), (b) (7)(C)
_____	Receiving Official: SA (b) (6), (b) (7)(C) Signature: (b) (6), (b) (7)(C)
11 Evidence	
Final Disposition of Evidence: <input type="checkbox"/> Returned to Owner <input type="checkbox"/> Destroyed <input type="checkbox"/> Other _____	
Date _____	Name and Title of Individual Authorizing Final Disposition of Evidence _____ Signature (Witnessing Special Agent) _____
Date _____	Printed Names of Evidence Custodian and Witnessing Special Agent _____ Signature (Evidence Custodian) _____

Original- Attach to Evidence

Copy - Evidence Room (Three-Ring Binder)

Copy - Case File

Chain of Custody (continuation from front page)		
Date 9/11/15	Releasing Official: SA (b) (6), (b) (7)(C)	Receiving Official: SAC (b) (6), (b) (7)(C)
	Sig (b) (6), (b) (7)(C)	(b) (6), (b) (7)(C)
	Purpose of Change of Custody: ECU	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Evidence Custodian
Log #: 152
Search Warrant
Evidence Log #:
(if applicable)
Search Warrant Box #:
(if applicable)

Evidence Custody Document

Case Name: Release of Confidential Information Case Agent: SSA (b) (6), (b) (7)(C)
Case Number: I2013-0013 Office: HQO

Evidence Obtained Through: Search Warrant Consent Search Other (if applicable, state method)

(b) (6), (b) (7)(C)

Date Evidence Obtained: 09/04/2015

(b) (6), (b) (7)(C)

Search Warrant/Consent Search Information (Skip section if evidence was not obtained via search warrant or consent search.)

Room Where Evidence was Found:	Other Specific Information Where Evidence was Found:
Evidence Found By (Finder) (handwritten initials also needed):	Witness (handwritten initials also needed):
Releasing Official (Finder): Date	Receiving Official (On-Site Seizing Agent): Date
Signature of Releasing Official (Finder):	Signature of Receiving Official (On-Site Seizing Agent):
Releasing Official (On-Site Seizing Agent): Date	Receiving Official (Evidence Custodian): Date
Signature of Releasing Official (On-Site Seizing Agent):	Signature of Receiving Official (Evidence Custodian):

Description of Evidence: One 500 GB Western Digital hard drive
S/N: (b) (6), (b) (7)(C)

Chain of Custody (continuation on back page if needed)

Date	Releasing Official (Print and Title)	Receiving Official (Print and Title)
9/11/15	SAC (b) (6), (b) (7)(C)	SA (b) (6), (b) (7)(C)
	Signature (b) (6), (b) (7)(C)	Signature (b) (6), (b) (7)(C)
	Print Name	Print Name

Final Disposition of Evidence: Returned to Owner Destroyed Other

Date	Name and Title of Individual Authorizing Final Disposition of Evidence	Signature (Witnessing Special Agent)
Date	Printed Names of Evidence Custodian and Witnessing Special Agent	Signature (Evidence Custodian)

Original- Attach to Evidence

Copy - Evidence Room (Three-Ring Binder)

Copy - Case File

Chain of Custody (continuation from front page)		
Date 9/11/15	Releasing Official SA (b) (6), (b) (7)(C)	Receiving Official SAC (b) (6), (b) (7)(C)
	Signature (b) (6), (b) (7)(C)	Signature (b) (6), (b) (7)(C)
	Purpose of Change of Custody: FCU	
Date 6/20/16	Releasing Official SA (b) (6), (b) (7)(C)	Receiving Official SA (b) (6), (b) (7)(C)
	Signature (b) (6), (b) (7)(C)	Signature (b) (6), (b) (7)(C)
	Purpose of Change of Custody: Evidence	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Evidence Custodian
Log #: 153

Search Warrant
Evidence Log #:
(if applicable)

Search Warrant Box #:
(if applicable)

Evidence Custody Document

Case Name: Release of Confidential Information	Case Agent: SSA (b) (6), (b) (7)(C)
Case Number: 12013-0013	Office: HQO
Evidence Obtained Through: <input type="checkbox"/> Search Warrant <input type="checkbox"/> Consent Search <input checked="" type="checkbox"/> Other (if applicable, state method)	(b) (6), (b) (7)(C)

Date Evidence Obtained: 09/09/2015
Address of Where Evidence Was Obtained: (b) (6), (b) (7)(C)

Search Warrant/Consent Search Information (Skip section if evidence was not obtained via search warrant or consent search.)

Room Where Evidence was Found:	Other Specific Information Where Evidence was Found:
Evidence Found By (Finder) (handwritten initials also needed):	Witness (handwritten initials also needed):
Releasing Official (Finder): _____ Date _____	Receiving Official (On-Site Seizing Agent): _____ Date _____
Signature of Releasing Official (Finder): _____	Signature of Receiving Official (On-Site Seizing Agent): _____
Releasing Official (On-Site Seizing Agent): _____ Date _____	Receiving Official (Evidence Custodian): _____ Date _____
Signature of Releasing Official (On-Site Seizing Agent): _____	Signature of Receiving Official (Evidence Custodian): _____

Description of Evidence: One Hitachi Hard Drive SN: (b)(6), (b)(7)(C)

Chain of Custody (continuation on back page if needed)

Date: 9/11/15	Releasing Official and Title: SAC (b) (6), (b) (7)(C)	Receiving Official and Title: SA (b) (6), (b) (7)(C)
	Signature: (b) (6), (b) (7)(C)	Signature: (b) (6), (b) (7)(C)
	Purpose of Change in Custody: Evidence	

Final Disposition of Evidence: Returned to Owner Destroyed Other

Date	Name and Title of Individual Authorizing Final Disposition of Evidence	Signature (Witnessing Special Agent)
Date	Printed Names of Evidence Custodian and Witnessing Special Agent	Signature (Evidence Custodian)

Chain of Custody (continuation from front page)		
Date 9/11/15	Releasing Official SA (b) (6), (b) (7)(C) Signature (b) (6), (b) (7)(C)	Receiving Official SAC (b) (6), (b) (7)(C) Signature (b) (6), (b) (7)(C)
Purpose of Change of Custody: ECU		
Date 6/20/16	Releasing Official SAC (b) (6), (b) (7)(C) Signature (b) (6), (b) (7)(C)	Receiving Official SA (b) (6), (b) (7)(C) Signature (b) (6), (b) (7)(C)
Evidence		
Date	Releasing Official and Title: Signature of Releasing Official: Purpose of Change of Custody:	Receiving Official and Title: Signature of Receiving Official:
Date	Releasing Official and Title: Signature of Releasing Official: Purpose of Change of Custody:	Receiving Official and Title: Signature of Receiving Official:
Date	Releasing Official and Title: Signature of Releasing Official: Purpose of Change of Custody:	Receiving Official and Title: Signature of Receiving Official:
Date	Releasing Official and Title: Signature of Releasing Official: Purpose of Change of Custody:	Receiving Official and Title: Signature of Receiving Official:
Date	Releasing Official and Title: Signature of Releasing Official: Purpose of Change of Custody:	Receiving Official and Title: Signature of Receiving Official:
Date	Releasing Official and Title: Signature of Releasing Official: Purpose of Change of Custody:	Receiving Official and Title: Signature of Receiving Official:
Date	Releasing Official and Title: Signature of Releasing Official: Purpose of Change of Custody:	Receiving Official and Title: Signature of Receiving Official:



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Evidence Custodian

Log #: 151

Search Warrant
Evidence Log #:
(if applicable)

Search Warrant Box #:
(if applicable)

Evidence Custody Document

Case Name: Release of Confidential Information - Form 12013-0013 Case Agent: SSA (b) (6), (b) (7)(C)
Office: HQO

Evidence Obtained Through: Search Warrant Consent Search Other (if applicable, state method) (b) (6), (b) (7)(C)

Date Evidence Obtained: 8/14/15 Address of Where Evidence Was Obtained: (b) (6), (b) (7)(C)

Search Warrant/Consent Search Information (Skip section if evidence was not obtained via search warrant or consent search.)

Room Where Evidence was Found:	Other Specific Information Where Evidence was Found:
Evidence Found By (Finder) (handwritten initials also needed):	Witness (handwritten initials also needed):
Releasing Official (Finder): Date	Receiving Official (On-Site Seizing Agent): Date
Signature of Releasing Official (Finder):	Signature of Receiving Official (On-Site Seizing Agent):
Releasing Official (On-Site Seizing Agent): Date	Receiving Official (Evidence Custodian): Date
Signature of Releasing Official (On-Site Seizing Agent):	Signature of Receiving Official (Evidence Custodian):

Description of Evidence: DATA LOCKER SN (b)(6), (b)(7)(C)

Chain of Custody (continuation on back page if needed)

Date: 8/14/15	Releasing Official and Title: (b) (6), (b) (7)(C) Investigator Analyst	Receiving Official and Title: SA (b) (6), (b) (7)(C)
	Signature: (b) (6), (b) (7)(C)	Signature: (b) (6), (b) (7)(C)
	Purpose of Change of Custody: Evidence	

Final Disposition of Evidence: Returned to Owner Destroyed Other

Date	Name and Title of Individual Authorizing Final Disposition of Evidence	Signature (Witnessing Special Agent)
Date	Printed Names of Evidence Custodian and Witnessing Special Agent	Signature (Evidence Custodian)

Chain of Custody (continuation from front page)		
Date 8/17/2015	Releasing Official and Title: SA (b) (6), (b) (7)(C)	Receiving Official and Title: SAC (b) (6), (b) (7)(C)
	Signature: (b) (6), (b) (7)(C)	Signature: (b) (6), (b) (7)(C)
	Purpose of Change of Custody: ECU	
Date 8/24/2015	Releasing Official and Title: SAC (b) (6), (b) (7)(C)	Receiving Official and Title: SA (b) (6), (b) (7)(C)
	Signature: (b) (6), (b) (7)(C)	Signature: (b) (6), (b) (7)(C)
	Purpose of Change of Custody: Evidence	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	



**Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau**

Evidence Custodian
Log #: **150**

Search Warrant
Evidence Log #:
(if applicable)

Search Warrant Box #:
(if applicable)

Evidence Custody Document

Case Name: **Release of Confidential Information - FDI** Case Agents: **SSA (b) (6), (b) (7)(C)**
Case Number: **12013-0013** Office: **HQO**

Evidence Obtained Through: Search Warrant Consent Search Other (if applicable, state method) **Provided by (b) (6), (b) (7)(C)**

Date Evidence Obtained: **8/7/2015** Address of Where Evidence Was Obtained: **(b) (6), (b) (7)(C)**

Search Warrant/Consent Search Information (Skip section if evidence was not obtained via search warrant or consent search.)

Room Where Evidence was Found:	Other Specific Information Where Evidence was Found:
Evidence Found By (Finder) (handwritten initials also needed):	Witness (handwritten initials also needed):
Releasing Official (Finder): _____ Date _____	Receiving Official (On-Site Seizing Agent): _____ Date _____
Signature of Releasing Official (Finder): _____	Signature of Receiving Official (On-Site Seizing Agent): _____
Releasing Official (On-Site Seizing Agent): _____ Date _____	Receiving Official (Evidence Custodian): _____ Date _____
Signature of Releasing Official (On-Site Seizing Agent): _____	Signature of Receiving Official (Evidence Custodian): _____

Description of Evidence: **One (1) HP laptop model 2506P (serial number (b) (6), (b) (7)(C)) issued to (b) (6), (b) (7)(C)**

Chain of Custody (continuation on back page if needed)

Date 8/7/2015	Releasing Of SSA (b) (6), (b) (7)(C) (b) (6), (b) (7)(C)	Receiving Of SA (b) (6), (b) (7)(C)
		Sig (b) (6), (b) (7)(C)
Purpose of Change of Custody: Evidence		

Final Disposition of Evidence: Returned to Owner Destroyed Other _____

Date	Name and Title of Individual Authorizing Final Disposition of Evidence	Signature (Witnessing Special Agent)
Date	Printed Names of Evidence Custodian and Witnessing Special Agent	Signature (Evidence Custodian)

Chain of Custody (continuation from front page)		
Date 9/1/2015	Releasing Official SA (b) (6), (b) (7)(C)	Receiving Official and Title SAC (b) (6), (b) (7)(C)
	Signature (b) (6), (b) (7)(C)	Sig (b) (6), (b) (7)(C)
	Purpose of Change of Custody: ECU	
Date 9/11/2015	Releasing Official SAC (b) (6), (b) (7)(C)	Receiving Official SA (b) (6), (b) (7)(C)
	Signature (b) (6), (b) (7)(C)	Sig (b) (6), (b) (7)(C)
	Purpose of Change of Custody: Evidence	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	
Date	Releasing Official and Title:	Receiving Official and Title:
	Signature of Releasing Official:	Signature of Receiving Official:
	Purpose of Change of Custody:	



Restricted FR

Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

ELECTRONIC CRIMES UNIT EVIDENCE/PROPERTY REPORT

DATE: 4/23/2015	CASE NUMBER: I20130013-HQO	DATE PROPERTY ACQUIRED: 04/22/2015	REPORT NUMBER: 2
SOURCE FROM WHICH PROPERTY WAS ACQUIRED: .pst file for (b) (6), (b) (7)(C)		PROPERTY WAS ACQUIRED BY: <input type="checkbox"/> Search Warrant <input checked="" type="checkbox"/> Given Voluntarily <input type="checkbox"/> Grand Jury Action <input type="checkbox"/> Found/Abandoned <input type="checkbox"/> From Other Agency <input type="checkbox"/> Other (Specify):	
Property Retained At: ECU Lab, Washington DC/Ft. Myers FL.			

Description of Property Acquired

<i>ITEMS LISTED BELOW INCLUDE: 1. HIGH VALUE</i> YES NO		
ITEM NO. 1.	DESCRIPTION 2 nd .pst file for (b) (6), (b) (7)(C)	DISPOSITION CODE (SEE BELOW):
DISPOSITION CODE A) Returned to Rightful Owner B) Retained in Case File C) Retained by Court/AUSA D) Destroyed (See Below or Attached Certificate) E) Retained Pending Appeal		F) Other (Please Specify)

Destruction Certification

DATE	ITEM # LISTED ABOVE	HOW DESTROYED	SA'S SIGNATURE
I Have Witnessed the Destruction of the Property Above in the Manner and on the Date Stated Below.			
DATE:	WITNESS:	DATE:	WITNESS:

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Restricted FR

Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

ELECTRONIC CRIMES UNIT EVIDENCE/PROPERTY REPORT

DATE: 04/10/2015	CASE NUMBER: I20130013-HQO	DATE PROPERTY ACQUIRED: 04/10/2015	REPORT NUMBER:
SOURCE FROM WHICH PROPERTY WAS ACQUIRED: Copy of email files for (b) (6), (b) (7)(C)		PROPERTY WAS ACQUIRED BY:	
Property Retained At: ECU Lab, Washington DC		<input type="checkbox"/> Search Warrant <input checked="" type="checkbox"/> Given Voluntarily <input type="checkbox"/> Grand Jury Action <input type="checkbox"/> Found/Abandoned <input type="checkbox"/> From Other Agency <input type="checkbox"/> Other (Specify):	

Description of Property Acquired

ITEMS LISTED BELOW INCLUDE: 1. HIGH VALUE YES NO		
ITEM NO.	DESCRIPTION	DISPOSITION CODE (SEE BELOW):
1.	.pst file for (b) (6), (b) (7)(C)	
2.	.pst file for (b) (6), (b) (7)(C)	
DISPOSITION CODE A) Returned to Rightful Owner B) Retained in Case File C) Retained by Court/AUSA D) Destroyed (See Below or Attached Certificate) E) Retained Pending Appeal		F) Other (Please Specify)

Destruction Certification

DATE	ITEM # LISTED ABOVE	HOW DESTROYED	SA'S SIGNATURE
I Have Witnessed the Destruction of the Property Above in the Manner and on the Date Stated Below.			
DATE:	WITNESS:	DATE:	WITNESS:

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FedEx
Tracking
Number

8050 0921 9093

AUTHORIZED FOR RELEASE

Form
ID No.

0200

Sender's Copy

Please print and press hard.

5/11/2015

Sender's FedEx
Account Number

(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

Phone

(b) (6), (b) (7)(C)

Federal Reserve Board of Governors

12730 New Brittany Blvd., Suite 400

Dept./Floor/Suite/Room

Fort Myers, FL

State

FL

ZIP

33907

Internal Billing Reference

Factors will appear on invoice.

SSA (b) (6), (b) (7)(C)

Phone

(b) (6), (b) (7)(C)

Federal Reserve Board of Governors

Attn: (b) (6), (b) (7)(C)

MS K-300
Dept./Floor/Suite/Room

HOLD Weekday
FedEx location address
REQUIRED. **NOT** available for
FedEx First Overnight.

HOLD Saturday
FedEx location address
REQUIRED. **Available ONLY for**
FedEx Priority Overnight and
FedEx 2Day to select locations.

(b) (6), (b) (7)(C)

(b) (6), (b) (7)(C)

4 Express Package Service *To most locations.

NOTE: Service order has changed. Please select carefully.

Packages up to 150 lbs.
For packages over 150 lbs., use the new
FedEx Express Freight US Airbill.

Next Business Day

FedEx First Overnight
Earliest next business morning delivery to select
locations. Friday shipments will be delivered on
Monday unless SATURDAY Delivery is selected.

FedEx Priority Overnight
Next business morning * Friday shipments will be
delivered on Monday unless SATURDAY Delivery
is selected.

FedEx Standard Overnight
Next business afternoon *
Saturday Delivery NOT available.

2 or 3 Business Days

FedEx 2Day A.M.
Second business morning *
Saturday Delivery NOT available.

FedEx 2Day
Second business afternoon * Thursday shipments
will be delivered on Monday unless SATURDAY
Delivery is selected.

FedEx Express Saver
Third business day *
Saturday Delivery NOT available.

5 Packaging *Declared value limit \$500.

FedEx Envelope* FedEx Pak* FedEx
Box FedEx
Tube Other

6 Special Handling and Delivery Signature Options

SATURDAY Delivery
NOT available for FedEx Standard Overnight, FedEx 2Day A.M., or FedEx Express Saver.

No Signature Required
Package may be left without
obtaining a signature for delivery.

Direct Signature
Someone at recipient's address
may sign for delivery. **Fee applies.**

Indirect Signature
If no one is available at recipient's
address, someone at a neighboring
address may sign for delivery. For
residential deliveries only. **Fee applies.**

Does this shipment contain dangerous goods?

One box must be checked.

No Yes
As per attached
Shipper's Declaration. Yes
Shipper's Declaration
not required. Dry Ice
Dry Ice, 9 UN 1845 _____ x _____ kg

Dangerous goods (including dry ice) cannot be shipped in FedEx packaging
or placed in a FedEx Express Drop Box.

Cargo Aircraft Only

7 Payment Bill to:

Sender
Acct. No. in Section
I will be billed. Recipient Third Party Credit Card Cash/Check

FedEx Acct. No.
Credit Card No.

Exp.
Date

Total Packages Total Weight Total Declared Value!

lbs. \$.00

Your liability is limited to US\$100 unless you declare a higher value. See back for details. By using this Airbill you agree to the service conditions on the back of this Airbill and in the current FedEx Service Guide, including terms that may apply.

644

Easy new Peel-and-Stick airbill. No pouch needed.

Apply airbill directly to your package. See directions on back.

AUTHORIZED FOR RELEASE

PULL AND RETAIN THIS COPY BEFORE AFFIXING TO THE PACKAGE. NO POUCH NEEDED.

Terms and Conditions Summary

For the current FedEx Service Guide, which contains the complete Terms and Conditions, go to fedex.com.

Definitions On this Airbill, "we," "our," "us," and "FedEx" refer to Federal Express Corporation, its employees, and agents. "You" and "your" refer to the sender, its employees, and agents.

Agreement To Terms By giving us your package to deliver, you agree to all the terms on this Airbill and in the current FedEx Service Guide, which is available at fedex.com or at a FedEx location. You also agree to those terms on behalf of any third party with an interest in the package. If there is a conflict between the current FedEx Service Guide and this Airbill, the current FedEx Service Guide will control. No one is authorized to change the terms of our Agreement.

Responsibility For Packaging And Completing Airbill

You are responsible for adequately packaging your goods and properly filling out this Airbill. If you omit the number of packages and/or weight per package, our billing will be based on our best estimate of the number of packages we received and/or an estimated "default" weight per package as determined by us.

Responsibility For Payment Even if you give us different payment instructions, you will always be primarily responsible for all delivery costs, as well as any cost we incur in either returning your package to you or warehousing it pending disposition.

Limitations On Our Liability And Liabilities Not Assumed

- Unless a higher value is declared and paid for, our liability for each package is limited to US\$100. You may pay an additional charge for each additional US\$100 of declared value. The declared value does not constitute, nor do we provide, cargo liability insurance.
- In any event, we will not be liable for any damage, whether direct, incidental, special, or consequential, in excess of the declared value of a shipment, whether or not FedEx had knowledge that such damages might be incurred, including but not limited to loss of income or profits.

• We won't be liable:

- for your acts or omissions, including but not limited to improper or insufficient packing, securing, marking, or addressing, or those of the recipient or anyone else with an interest in the package.
- if you or the recipient violates any of the terms of our Agreement.
- for loss of or damage to shipments of prohibited items.
- for loss, damage, or delay caused by events we cannot control, including but not limited to acts of God, perils of the air, weather conditions, acts of public enemies, war, strikes, civil commotions, or acts of public authorities with actual or apparent authority.

Declared Value Limits

- The maximum declared value allowed for a FedEx Envelope or FedEx Pak shipment is US\$500.
- For other shipments, the maximum declared value allowed is US\$50,000 per package, unless your package contains items of extraordinary value, in which case the maximum declared value allowed is US\$1,000 per package.
- Items of extraordinary value include shipments containing such items as artwork, jewelry, furs, precious metals, negotiable instruments, and other items listed in the current FedEx Service Guide.
- You may send more than one package on this Airbill and fill in the total declared value for all packages, not to exceed the US\$500, US\$1,000, or US\$50,000 per package limit described above. (Example: 5 packages can have a total declared value of up to US\$250,000.) In that case, our liability is limited to the actual value of the package(s) lost or damaged, but may not exceed the maximum allowable declared value(s) or the total declared value, whichever is less. You are responsible for proving the actual loss or damage.

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You may call our Customer Service department at 1.800.GoFedEx 1.800.463.3339 to report a claim; however, you must still file a timely written claim. We aren't obligated to act on any claim until you have paid all transportation charges, and you may not deduct the amount of your claim from those charges.

If the recipient accepts your package without noting any damage on the delivery record, we will assume the package was delivered in good condition. For us to process your claim, you must make the original shipping cartons and packing available for inspection.

Right To Inspect We may, at our option, open and inspect your packages before or after you give them to us to deliver.

Right Of Rejection We reserve the right to reject a shipment when such shipment would be likely to cause delay or damage to other shipments, equipment, or personnel; or if the shipment is prohibited by law; or if the shipment would violate any terms of our Airbill or the current FedEx Service Guide.

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Air Transportation Tax Included A federal excise tax when required by the Internal Revenue Code on the air transportation portion of this service, if any, is paid by us.

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ECONOMY

How Bernanke Pulled the Fed His Way

By JON HILSEN RATH

Updated Sept. 28, 2012 1:10 p.m. ET

In late August, Federal Reserve Chairman Ben Bernanke argued on behalf of Fed programs to stimulate the lumbering U.S. economy and signaled that more might follow, making headlines in his highly anticipated speech at the Fed's annual retreat in Jackson Hole, Wyo.

As markets rallied at the prospect of new measures to ease credit, a quiet drama was unfolding behind the scenes. Mr. Bernanke was negotiating a high-stakes plan in a flurry of private conversations with colleagues hesitant about aggressively re-engaging the levers of America's central bank.

For weeks, Mr. Bernanke made dozens of private calls on days, nights and weekends, trying to build broad support for an unusual bond-buying program he wanted approved during the Fed's September meeting, according to people familiar with the matter.

Ben Bernanke's high-stakes plan to restart the lumbering U.S. economy took shape in an intense flurry of behind-the-scenes discussions between him and colleagues in the days before a crucial September meeting. Jon Hilsenrath explains on Lunch Break. Photo: Getty Images.

Fed officials in late summer were at odds over how far the central bank should go. Some wanted a bold, innovative program. Others weren't so sure; a few were opposed. Mr. Bernanke set his sights on a handful of fence-sitters who could swing a strong consensus to his side.

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Interviews with more than a dozen people involved in the Fed decision, both supporters and opponents, show how Mr. Bernanke won over skeptics to advance his policy—a

distinction in a Washington era marked by rancor and gridlock. These people also gave a rare view of the low-key persistence of the former economics professor.

Mr. Bernanke didn't see inflation as a threat but viewed unemployment as a deeper problem than he had realized. The central bank, in his view, needed to act. The Fed chairman listened to colleagues' concerns during the calls, people familiar with the matter said, drawing out their reservations and probing for common ground. He eventually seized on a compromise that came from a little-known Fed governor.

The result of the Fed's two-day meeting that began Sept. 12 was an 11-1 vote to undertake one of the central bank's most ambitious stimulus programs. The Fed announced it would buy \$40 billion a month of mortgage-backed securities and, for the first time, promised to keep buying until the U.S. job market substantially improved.

The commitment marked a change from the stop-and-start programs the Fed had launched since the financial crisis.

"This is a 'Main Street' policy," Mr. Bernanke said after the September meeting. "What we are about here is trying to get jobs going." The bond buying aims to drive down long-term interest rates and push up the values of homes, stocks and other financial assets. Officials hope their commitment will jolt households and businesses into spending, investing and hiring.

Drawing broad support for the plan was important to Mr. Bernanke in part because the policies he was formulating could outlast him. His term as Fed chairman ends in January 2014. Seeing a return to U.S. full employment as a distant goal, Mr. Bernanke needed the support of officials who might remain at the Fed after he left.

Central Casting | Key actors in the Fed's decision

			
Ben Bernanke Chairman	Janet Yellen Vice Chair	Elizabeth Duke Fed Governor	Dennis Lockhart Fed Pres
Worked telephones to corral reluctant colleagues	Argued for strong Fed response to unemployment	Originated a compromise plan that resulted in Fed's new program	Agreed to new plan for a year

Roots of the Fed decision stretched to March, when Mr. Bernanke in a speech warned the U.S. economy wasn't growing fast enough. Since September 2011, the economy had produced about 200,000 jobs a month, driving down unemployment. But Mr. Bernanke warned that a slowdown would hobble hiring. Indeed, job gains by midyear fell to less than 100,000 a month.

At the central bank's June policy meeting, Fed Governor Daniel Tarullo, a lawyer appointed by President Barack Obama, said the economy felt like a vehicle "stuck in the

mud," according to people there. The analogy stuck. A month later, Mr. Bernanke used the same phrase with Congress.

The meeting yielded what Mr. Bernanke considered an important step: the extension of Operation Twist, a Fed program to buy \$45 billion of long-term Treasury securities each month, paid with the sales of short-term securities. The program—intended to put downward pressure on long-term rates—was supposed to expire on June 30. The Fed agreed to keep it going through December, giving Mr. Bernanke time to make sense of the slowing job market and consider further action.

To move forward, Mr. Bernanke needed to corral several colleagues, including regional Fed bank president Dennis Lockhart from Atlanta, who had a vote on the Federal Open Market Committee, the Fed's decision making body. Under Fed rules, four of the 12 regional Fed banks vote on the committee on a rotating basis; a fifth, the New York Fed, always votes.

Audio

Jon Hilsenrath talks about Federal Reserve Chairman Ben Bernanke's plan on The Wall Street Journal This Morning.

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Mr. Lockhart, a former banker who spent much of his career working in emerging markets, said in an interview after the September meeting that he had spent his summer trying to "take stock of the recovery." He debated whether the U.S. had an economy with a 3% growth trend that was hit by bad luck—Europe's financial turmoil, for one. Or was it an economy growing at a 2% annual rate that couldn't sustain job growth and needed help? A string of weak economic data

suggested it was the latter.

Like others, Mr. Lockhart had reservations about the effectiveness of Fed policies. Earlier bond buying hadn't yet produced strong growth. The banking system, still damaged by the financial crisis, wasn't

delivering credit the way economists expected, given historically low interest rates. Still, Mr. Lockhart thought a program targeting the U.S. housing market might help.

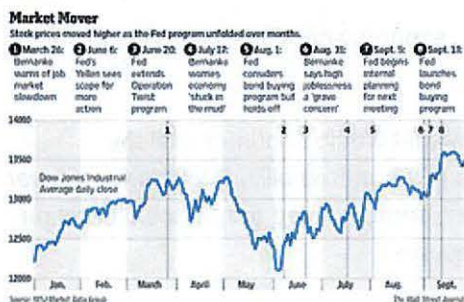
Mr. Bernanke also worked on nonvoters, including Narayana Kocherlakota, who was going through his own transformation.

Several months after becoming president of the Minneapolis Fed in 2009, Mr. Kocherlakota believed the job market had structural problems beyond the reach of monetary policy—for example, too many construction workers who couldn't easily be trained for other jobs.

Mr. Kocherlakota joined Fed skeptics, so-called hawks, who doubted the effectiveness of central bank activism. During his turn as a Fed voter last year, he voted twice against loosening credit, moves championed by Mr. Bernanke.

Though they disagreed on policy, Mr. Bernanke and Mr. Kocherlakota were kindred spirits. Mr. Kocherlakota is a scholarly Ph.D. economist who enrolled at Princeton University at age 15. Mr. Bernanke, equally wonky, was later chairman of Princeton's economics department years later.

Mr. Kocherlakota and Mr. Bernanke exchanged emails over months, debating structural unemployment—the idea that unemployment was caused by mismatches between employer needs and the skills and location of workers. In Mr. Bernanke's view, employers weren't hiring because of weak demand for their goods and services, which Fed policies might help remedy.



"I've learned a lot by talking to him," Mr. Kocherlakota said in an interview after the September meeting. Mr. Bernanke's "thinking is framed by data and models," he said. "It beats coming in there with just your gut."

By summer, Mr. Kocherlakota said, his views about structural unemployment were shifting as he found the evidence less than persuasive. This left an opening for Mr. Bernanke.

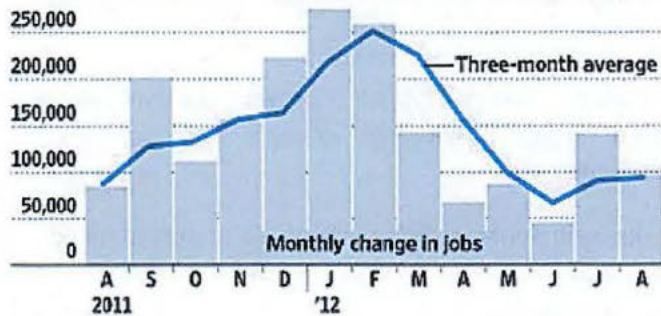
As the Fed's August meeting approached, Mr. Bernanke and his inner circle, which included Fed Vice Chairwoman Janet Yellen and New York Fed President William Dudley, were thinking that any Fed action should be a comprehensive and novel package, rather than an incremental step, according to people familiar with their views. They agreed to take time to confirm their views of the U.S. economy and develop consensus for a plan.

The August meeting turned into a policy staging ground. One proposal on an internal list of three policy options was a new bond-buying program, according to people familiar with the list. Mr. Bernanke didn't push. But it allowed a chance for officials to debate the pros and cons of a new program—in effect, a practice run for September.

Some officials argued for more bond buying. Others worried about the Fed turning into too big a player in bond markets, disrupting trading in Treasury securities or mortgage securities. Fed staff wrote a memo ahead of the meeting detailing the market's capacity to absorb central bank purchases of Treasury bonds and mortgage-backed securities. They found that the Fed could carry on a large program for a couple of years if needed without disturbing markets. The finding helped set boundaries for what the Fed could do and for how long.

Hobbled Hiring

When the Federal Reserve launched a new bond-buying program (QE3) in September, it was responding in part to faltering job growth.



Source: Labor Department

The Wall Street Journal

The Fed's policy committee emerged from the August meeting with familiar fissures. Opponents of the Fed's easy-money policies said the measures weren't giving the economy much of a lift, while risking future inflation.

Dallas Fed president Richard Fisher said the Fed was like a doctor over-prescribing Ritalin to attention-deficient Wall Street traders. Richmond Fed president Jeffrey Lacker dissented in August for the fifth straight meeting, taking issue with a policy already in place: An assurance the Fed had given that short-term interest rates would

remain near zero through late 2014. Philadelphia Fed President Charles Plosser said in an interview that he urged Mr. Bernanke to wait until year-end before deciding on any new programs.

Despite their public disagreements, Fed officials were friendly behind the scenes. Mr. Plosser, who favors tighter credit policies, and the Chicago Fed's Charles Evans, who wants easier credit, play golf together. They joined Mr. Fisher and Mr. Lockhart for a round at the Chevy Chase Country Club after the August meeting.

By late summer, the Fed had made clear it was prepared to act if the economy continued to languish. The question was how?

Many Fed activists wanted a open-ended program of bond purchases that would continue until the economy improved. Among them, some wanted to go big—at least a few hundred billion dollars worth over several months—with a promise to keep buying as needed. Moreover, some wanted to replace Operation Twist with bigger purchases of mortgage-backed securities and Treasuries.

As the September meeting neared, Mr. Bernanke needed to assure colleagues who still had reservations about moving too aggressively. In addition to Mr. Lockhart, Cleveland Fed president Sandra Pianalto had been wavering. She was among those who worried more Fed bond buying could disrupt markets.

Another fence-sitter was Washington-based Fed Governor Elizabeth Duke, a plain-spoken Virginia banker nominated to the Fed board by President George W. Bush in 2007.

Fed officials described the Fed chairman's phone calls as low-pressure conversations. Mr. Bernanke sometimes dialed up colleagues while in his office on weekends, catching them off guard when their phones identified his private number as unknown. He gave updates on the latest staff forecasts, colleagues said. He asked their thoughts and what they could comfortably support, they said.

The calls helped Mr. Bernanke gauge how far he could push his committee. It also won him trust among some of his fiercest opponents, officials said. Nearly all of Mr. Bernanke's colleagues described him as a good listener.

"Even if you disagree with him on the programs, you know your voice has been heard," said Mr. Fisher, one of his opponents. "There is no effort to bully."

Negotiations stepped up in the week before the meeting. Fed staff circulated language for policy options. Officials debated how different approaches would be described in the policy statement, which would be released after the meeting.

Officials at Fed policy meetings typically consider three options: one representing activists who want to use monetary policy aggressively; another supporting officials seeking conservative use; and a middle-ground option that typically prevails.

The premeeting documents this time listed four options, including an aggressive approach favored by activists, and no bond buying, favored by hawks. Among two middle-ground proposals was a compromise that Ms. Duke originated.

Five days before the meeting, Mr. Bernanke took time out for the Washington Nationals—his favorite baseball team was having a dream season. He arrived at the ballpark in a worn Nationals cap and wandered the infield during batting practice.

"I wanted to ask him if I should get some gold and silver but I bit my tongue," said Nationals manager Davey Johnson. Instead, they talked about how Mr. Johnson, a math major, used statistics to manage his lineup.

At the meeting the following week, the Fed adopted the compromise that Ms. Duke helped spur. The Fed would continue Operation Twist through December but add an open-ended mortgage-bond buying program.

Activists got what they most wanted: An open-ended commitment to buy mortgage bonds until the job market improved, with the strong possibility of additional Treasury purchases later. Fence-sitters got a promise to review the plan before deciding to proceed with a bigger program in 2013. Mr. Lockhart said the chance to reassess the program based on inflation and the performance of the job market helped win him over.

With an agreement on bond buying largely in place, Fed officials at the September meeting left unanswered this question: When could they leave growth of the U.S. economy on its own? Mr. Kocherlakota and Mr. Evans failed to get agreement for inflation and unemployment thresholds to determine when to raise short-term rates, according to people familiar with the talks.

"It's an ongoing discussion," Mr. Plosser said. "We will probably continue to work on this."

Write to Jon Hilsenrath at jon.hilsenrath@wsj.com

Corrections & Amplifications

In a photo caption accompanying this article, the first name of Jeffrey Lacker, the president of the Federal Reserve Bank of Richmond, is misspelled as Jeffery.

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OPERATING POLICY

Statement Regarding Transactions in Agency Mortgage-Backed Securities and Treasury Securities

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September 13, 2012

On September 13, 2012, the Federal Open Market Committee (FOMC) directed the Open Market Trading Desk (the Desk) at the Federal Reserve Bank of New York to begin purchasing additional agency mortgage-backed securities (MBS) at a pace of \$40 billion per month. The FOMC also directed the Desk to continue through the end of the year its program to extend the average maturity of its holdings of Treasury securities as announced in June and to maintain its existing policy of reinvesting principal payments from the Federal Reserve's holdings of agency debt and agency MBS in agency MBS.

The FOMC noted that these actions, which together will increase the Committee's holdings of longer-term securities by about \$85 billion each month through the end of the year, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

Purchases of Agency MBS

The purchases of additional agency MBS will begin tomorrow, and are expected to total approximately \$23 billion over the remainder of September. Going forward, details associated with the additional amount of MBS to be purchased each month will be announced on or around the last business day of the prior month.

Consistent with current practice, the planned amount of purchases associated with reinvestments of principal payments on holdings of agency securities that are anticipated to take place over each monthly period will be announced on or around the eighth business day of the prior month. The next monthly reinvestment purchase amount was also published today, and can be found here: http://www.newyorkfed.org/markets/ambs/ambs_schedule.html.

The Desk anticipates that the agency MBS purchases associated with both the additional asset purchases and the principal reinvestments will likely be concentrated in newly-issued agency MBS in the To-Be-Announced (TBA) market, although the Desk may purchase other agency MBS if market conditions warrant.

Consistent with current practices, all purchases of agency MBS will be conducted with the Federal Reserve's primary dealers through a competitive bidding process and results will be published on the Federal Reserve Bank of New York's website. The Desk will also continue to publish transaction prices for individual operations on a monthly basis.

Frequently Asked Questions associated with these purchases will be released later today.

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Press Release

FEDERAL RESERVE press release



Release Date: September 13, 2012

For immediate release

Information received since the Federal Open Market Committee met in August suggests that economic activity has continued to expand at a moderate pace in recent months. Growth in employment has been slow, and the unemployment rate remains elevated. Household spending has continued to advance, but growth in business fixed investment appears to have slowed. The housing sector has shown some further signs of improvement, albeit from a depressed level. Inflation has been subdued, although the prices of some key commodities have increased recently. Longer-term inflation expectations have remained stable.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee is concerned that, without further policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that inflation over the medium term likely would run at or below its 2 percent objective.

To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee agreed today to increase policy accommodation by purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month. The Committee also will continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. These actions, which together will increase the Committee's holdings of longer-term securities by about \$85 billion each month through the end of the year, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

The Committee will closely monitor incoming information on economic and financial developments in coming months. If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will, as always, take appropriate account of the likely efficacy and costs of such purchases.

To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens. In particular, the Committee also decided today to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least

through mid-2015.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; Elizabeth A. Duke; Dennis P. Lockhart; Sandra Pianalto; Jerome H. Powell; Sarah Bloom Raskin; Jeremy C. Stein; Daniel K. Tarullo; John C. Williams; and Janet L. Yellen. Voting against the action was Jeffrey M. Lacker, who opposed additional asset purchases and preferred to omit the description of the time period over which exceptionally low levels for the federal funds rate are likely to be warranted.

Statement Regarding Transactions in Agency Mortgage-Backed Securities and Treasury Securities



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LEADING POLICY INTELLIGENCE

SPECIAL REPORT

OCTOBER 3, 2012

Fed: December Bound

SUMMARY: Though tomorrow's FOMC minutes will highlight the extent of dissension over the efficacy of additional policy easing announced at the September meeting, more is likely after the US presidential elections.

The US Federal Reserve has stepped to the sidelines ahead of the presidential elections, to work on its evolving policymaking framework following September's decision to embark on further significant easing.

The minutes of September's meeting will show, however, that the groundwork for further action in coming months has been laid and that labor market improvement is unlikely to be substantial enough to stave off new Treasury purchases into 2013.

The minutes, due at 2 p.m. EDT tomorrow, will also highlight the intense debate between Federal Open Market Committee participants over the efficacy of using the balance sheet to ease conditions further and reference again, other potential policy tools, including changes to the 2015 predictive guidance.

While the minutes will reveal greater contention over large-scale asset purchases than chairman Ben Bernanke's August Jackson Hole speech did, the tone will clearly convey that economic risks remain tilted to the downside and will lean in the direction of more action.

Assuming economic conditions have not vastly improved, the FOMC is therefore likely to vote as early as its December meeting (at which point there will be a new system-wide forecast round) to cease the Maturity Extension Program (MEP) on schedule and replace it with monthly Treasury bond purchases of around \$45 billion -- similar to the current monthly average.

The committee will attach a predictive timeline outlining the duration of these purchases, that will be dependent on the economy recovering substantially. The monthly MBS purchases of around \$40 billion launched in September will continue alongside this new program. Tomorrow's minutes will reference a staff paper that concludes the market has capacity to absorb purchases this large for a period of time.

The minutes will also show the dovish voting majority was ready to cease the MEP and replace it with open-ended MBS and Treasury purchases as early as last month. By year end, they are likely to get what they want.

A motley crew

While not highly unusual, within the menu of three policy options finally presented to the FOMC at the meeting were subsets of drafts of potential policy actions, denoted as "primes" in Fed-speak. The first main option is usually an extremely hawkish proposal, the last is very dovish and contains elements some participants lightly jest, serve as "trailers" for policy decisions in subsequent meetings. The middle option, though not always the case, is traditionally the chairman's preferred outcome.

In this meeting, there were multiple drafts within the middle proposal including the eventual outcome of September's meeting. The language in these drafts can be tweaked at the meeting by participants determined to have some input.

In the week leading up to the meetings, the options are circulated and can change -- sometimes markedly -- by the time the participants gather around the table. The "Teal Book," which contains the staff forecasts and the policy options, is circulated in two parts. The staff forecasts circulate first and what used to be known as the "Blue Book," which contains the policy options, follows.

It is not unusual for board staff to pull all-nighters working on the final draft of the policy recommendations, once these has been commented on. This one took until after midnight.

Within one of the "primes" was included a proposal to denote conditional guidance around employment and inflation conditions under which the committee might consider withdrawal of policy accommodation and a hike in the Fed funds rate. With Minneapolis Fed president Narayana Kocherlakota's input, a 6.5% (as opposed to the 5.5% later trailed publicly) unemployment threshold was floated in print as a trial balloon.

The leadership knew this would not get anywhere that day but it served to propel forward a vigorous debate between committee participants about assigning potential numerical parameters on conditionality for "lift-off" which has led to some of the recent public expositions of preferred thresholds. It has also implied a degree of inevitability over the Fed deciding to put numerical conditionality around its forward guidance on rates.

So varied were views on the committee going into September's meeting that many participants were unsure of the outcome. Committee members who at the time of the Jackson Hole meeting said they were prepared to dissent over additional action were coaxed into doing more in the ensuing weeks and fell into line behind the chairman by the time the FOMC met.

Swapping calendar lift-off for conditionality

After the September meeting, Kocherlakota publicly suggested the Fed should not consider lift-off as long as the medium-term outlook for inflation does not exceed 2.25%, or until the unemployment rate has fallen below 5.5%. Many Fed system officials believe so-called "full employment" to be between 5.5-6.5%. The Fed's current longer-run goal on unemployment is 5.2-6.0%.

While Kocherlakota's proposal is viewed as far fetched, the policy optionality he emphasizes if either side breaches thresholds to maintain Fed funds at an extraordinarily low level (0-0.25%) depending upon conditions, appeals to the leadership.

The committee has been debating such conditionality for a year and a half already. The ultimate objective of specifying such parameters is to reassure markets that policy will remain highly accommodative for a considerable time after the economy strengthens -- which is currently not expected to occur for four more years. Chicago Fed President Charlie Evans has long advocated what he calls a "7/3 threshold": no rise in fed funds unless unemployment falls below 7% or the outlook for inflation over the medium term exceeds 3%.

As an illustration of the difficulty the committee has had on agreeing parameters, when putting together its principles on longer-run goals an monetary policy strategy earlier this year, it nailed an inflation target but failed on the employment/growth side of the mandate. It settled on a rate of 2% as a longer-run goal for inflation but noted that unemployment was largely determined by non-monetary factors and not directly measurable, rendering a fixed employment goal inappropriate.

Within the meeting options over several months, some versions of numerical conditionality have shown up in the hawkish "A" option, mostly to spur ongoing discussion. While the committee got close to potentially articulating one such version at an earlier meeting, there remained too much opposition to the proposal at the time and participants were too evenly split to form a majority consensus.

Still the momentum behind a collective desire to get away from the 2015 calendar guidance in the FOMC statement will likely force agreement on numerical conditionality before too long.

Analyst: Regina Schleiger

**Minutes of the Federal Open Market Committee
September 12–13, 2012**

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Wednesday, September 12, 2012, at 10:30 a.m. and continued on Thursday, September 13, 2012, at 8:30 a.m.

PRESENT:

Ben Bernanke, Chairman
William C. Dudley, Vice Chairman
Elizabeth Duke
Jeffrey M. Lacker
Dennis P. Lockhart
Sandra Pianalto
Jerome H. Powell
Sarah Bloom Raskin
Jeremy C. Stein
Daniel K. Tarullo
John C. Williams
Janet L. Yellen

James Bullard, Christine Cumming, Charles L. Evans, Esther L. George, and Eric Rosengren, Alternate Members of the Federal Open Market Committee

Richard W. Fisher, Narayana Kocherlakota, and Charles I. Plosser, Presidents of the Federal Reserve Banks of Dallas, Minneapolis, and Philadelphia, 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

David Altig, Thomas A. Connors, Michael P. Leahy, William Nelson, David Reifschneider, Glenn D. Rudebusch, William Wascher, and John A. Weinberg, Associate Economists

Simon Potter, Manager, System Open Market Account

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

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

James A. Clouse, Deputy Director, Division of Monetary Affairs, Board of Governors; Maryann F. Hunter, Deputy Director, Division of Banking Supervision and Regulation, Board of Governors

Andreas Lehnert,¹ Deputy Director, Office of Financial Stability Policy and Research, Board of Governors

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

Seth B. Carpenter, Senior Associate Director, Division of Monetary Affairs, Board of Governors

Thomas Laubach, Senior Adviser, Division of Research and Statistics, Board of Governors; Ellen E. Meade and Joyce K. Zickler, Senior Advisers, Division of Monetary Affairs, Board of Governors

Brian J. Gross,² Special Assistant to the Board, Office of Board Members, Board of Governors

Eric M. Engen, Michael G. Palumbo, and Wayne Passmore, Associate Directors, Division of Research and Statistics, Board of Governors

Fabio M. Natalucci, Deputy Associate Director, Division of Monetary Affairs, Board of Governors

Edward Nelson, Section Chief, Division of Monetary Affairs, Board of Governors

Jeremy B. Rudd, Senior Economist, Division of Research and Statistics, Board of Governors

Kelly J. Dubbert, First Vice President, Federal Reserve Bank of Kansas City

¹ Attended Wednesday's session only.

² Attended Thursday's session only.

Loretta J. Mester, Harvey Rosenblum, and Daniel G. Sullivan, Executive Vice Presidents, Federal Reserve Banks of Philadelphia, Dallas, and Chicago, respectively

Cletus C. Coughlin, Troy Davig, Mark E. Schweitzer, and Kei-Mu Yi, Senior Vice Presidents, Federal Reserve Banks of St. Louis, Kansas City, Cleveland, and Minneapolis, respectively

Lorie K. Logan, Jonathan P. McCarthy, Giovanni Olivei, and Nathaniel Wuerffel,³ Vice Presidents, Federal Reserve Banks of New York, New York, Boston, and New York, respectively

Michelle Ezer,⁴ Markets Officer, Federal Reserve Bank of New York

³ Attended after the discussion on potential effects of a large-scale asset purchase program.

⁴ Attended the discussion on potential effects of a large-scale asset purchase program.

Potential Effects of a Large-Scale Asset Purchase Program

The staff presented an analysis of various aspects of possible large-scale asset purchase programs, including a comparison of flow-based purchase programs to programs of fixed size. The presentation reviewed the modeling approach used by the staff in estimating the financial and macroeconomic effects of such purchases. While significant uncertainty surrounds such estimates, the presentation indicated that asset purchases could be effective in fostering more rapid progress toward the Committee's objectives. The staff noted that, for a flow-based program, the public's understanding of the conditions under which the Committee would end purchases would shape expectations of the magnitude of the Federal Reserve's holdings of longer-term securities, and thus also influence the financial and economic effects of such a program. The staff also discussed the potential implications of additional asset purchases for the evolution of the Federal Reserve's balance sheet and income. The presentation noted that significant additional asset purchases should not adversely affect the ability of the Committee to tighten the stance of policy when doing so becomes appropriate. In their discussion of the staff presentation, a few participants noted the uncertainty surrounding estimates of the effects of large-scale asset purchases or the need for addi-

tional work regarding the implications of such purchases for the normalization of policy.

Developments in Financial Markets and the Federal Reserve's Balance Sheet

The Manager of the System Open Market Account (SOMA) reported on developments in domestic and foreign financial markets during the period since the Federal Open Market Committee (FOMC) met on July 31–August 1, 2012. He also reported on System open market operations, including the ongoing reinvestment into agency-guaranteed mortgage-backed securities (MBS) of principal payments received on SOMA holdings of agency debt and agency-guaranteed MBS as well as the operations related to the maturity extension program authorized at the June 19–20, 2012, FOMC meeting. By unanimous vote, the Committee ratified the Desk's domestic transactions over the intermeeting period. There were no intervention operations in foreign currencies for the System's account over the intermeeting period.

Staff Review of the Economic Situation

The information reviewed at the September 12–13 meeting suggested that economic activity continued to increase at a moderate pace in recent months. Employment rose slowly, and the unemployment rate was still high. Consumer price inflation stayed subdued, while measures of long-run inflation expectations remained stable.

Private nonfarm employment increased in July and August at only a slightly faster pace than in the second quarter, and the rate of decline in government employment eased somewhat. The unemployment rate was 8.1 percent in August, just a bit lower than its average during the first half of the year, and the labor force participation rate edged down further. The share of workers employed part time for economic reasons remained large, and the rate of long-duration unemployment continued to be high. Indicators of job openings and firms' hiring plans were little changed, on balance, and initial claims for unemployment insurance were essentially flat over the intermeeting period.

Manufacturing production increased at a faster pace in July than in the second quarter, and the rate of manufacturing capacity utilization rose slightly. However, automakers' schedules indicated that the pace of motor vehicle assemblies would be somewhat lower in the coming months than it was in July, and broader indicators of manufacturing activity, such as the diffusion indexes of new orders from the national and regional manufacturing surveys, generally remained quite muted

in recent months at levels consistent with only meager gains in factory output in the near term.

Following a couple of months when real personal consumption expenditures (PCE) were roughly flat, spending increased in July, and the gains were fairly widespread across categories of consumer goods and services. Incoming data on factors that tend to support household spending were somewhat mixed. Real disposable incomes increased solidly in July, boosted in part by lower energy prices. The continued rise in house values through July, and the increase in equity prices during the intermeeting period, suggested that households' net worth may have improved a little in recent months. However, consumer sentiment remained more downbeat in August than earlier in the year.

Housing market conditions continued to improve, but construction activity was still at a low level, reflecting the restraint imposed by the substantial inventory of foreclosed and distressed properties and by tight credit standards for mortgage loans. Starts of new single-family homes declined in July, but permits increased, which pointed to further gains in single-family construction in the coming months. Both starts and permits for new multifamily units rose in July. Home prices increased for the sixth consecutive month in July, and sales of both new and existing homes also rose.

Real business expenditures on equipment and software appeared to be decelerating. Both nominal shipments and new orders for nondefense capital goods excluding aircraft declined in July, and the backlog of unfilled orders decreased. Other forward-looking indicators, such as downbeat readings from surveys of business conditions and capital spending plans, also pointed toward only muted increases in real expenditures for business equipment in the near term. Nominal business spending for new nonresidential construction declined in July after only edging up in the second quarter. Inventories in most industries looked to be roughly aligned with sales in recent months.

Real federal government purchases appeared to decrease further, as data for nominal federal spending in July pointed to continued declines in real defense expenditures. Real state and local government purchases also appeared to still be trending down. State and local government payrolls contracted in July and August, although at a somewhat slower rate than in the second quarter, and nominal construction spending by these governments decreased slightly in July.

The U.S. international trade deficit was about unchanged in July after narrowing significantly in June. Exports declined in July, as decreases in the exports of industrial supplies, automotive products, and consumer goods were only partially offset by greater exports of agricultural products. Imports also declined in July, reflecting lower imports of capital goods and petroleum products and somewhat higher imports of automotive products. The trade data for July pointed toward real net exports having a roughly neutral effect on the growth of U.S. real gross domestic product (GDP) in the third quarter after they made a positive contribution to the increase in real GDP in the second quarter.

Overall U.S. consumer prices, as measured by the PCE price index, were flat in July. Consumer food prices were essentially unchanged, but the substantial increases in spot and futures prices of farm commodities in recent months, reflecting the effects of the drought in the Midwest, pointed toward some temporary upward pressures on retail food prices later this year. Consumer energy prices declined slightly in July, but survey data indicated that retail gasoline prices rose in August. Consumer prices excluding food and energy also were flat in July. Near-term inflation expectations from the Thomson Reuters/University of Michigan Surveys of Consumers increased somewhat in August, while longer-term inflation expectations in the survey edged up but remained within the narrow range that they have occupied for many years. Long-run inflation expectations from the Federal Reserve Bank of Philadelphia Survey of Professional Forecasters continued to be stable in the third quarter.

Measures of labor compensation indicated that increases in nominal wages remained modest. The rise in compensation per hour in the nonfarm business sector was muted over the year ending in the second quarter, and with small gains in productivity, unit labor costs rose only slightly. The employment cost index increased a little more slowly than the measure of compensation per hour over the same period. More recently, the gains in average hourly earnings for all employees in July and August were small.

Overall foreign economic growth appeared to be subdued in the third quarter after slowing in the second quarter. In the euro area, policy developments contributed to an improvement in financial conditions; recent indicators pointed to further decreases in production, however, and both business and consumer confidence continued to decline. Indicators of activity in the emerging market economies generally weakened. In

China, export growth slowed, while retail sales and investment spending changed little. The rate of economic growth rose in Brazil but was still sluggish, and increases in economic activity in Mexico were below the faster pace seen earlier in the year. Consistent with the slowing in foreign economic growth, readings on foreign inflation continued to moderate.

Staff Review of the Financial Situation

Sentiment in financial markets improved somewhat since the time of the August FOMC meeting. Investors' concerns about the situation in Europe seemed to ease somewhat, and market participants also appeared to have increased their expectations of additional monetary policy accommodation.

On balance, the nominal Treasury yield curve steepened over the intermeeting period, with yields on longer-dated Treasury securities rising notably. Following the August FOMC statement, Treasury yields moved up, reportedly in part because investors had factored in some probability that the anticipated liftoff date for the federal funds rate in the forward-guidance language would be moved back at that meeting. Treasury yields subsequently rose further as concerns about the situation in the euro area moderated. Later in the period, Treasury yields retraced some of their earlier gains as market participants' expectations of additional policy action increased following the release of the minutes of the August FOMC meeting, the Chairman's speech at the economic symposium in Jackson Hole, and the weaker-than-expected August employment report. On net, the expected path of the federal funds rate derived from overnight index swap rates was little changed. Indicators of inflation expectations derived from nominal and inflation-protected Treasury securities edged up over the period but stayed in the ranges observed over recent quarters.

Conditions in unsecured short-term dollar funding markets remained stable over the intermeeting period. In secured funding markets, conditions were also little changed.

In the September Senior Credit Officer Opinion Survey on Dealer Financing Terms, respondents reported no significant changes in credit terms for important classes of counterparties over the past three months, although a few noted a slight easing in terms for some clients. The use of leverage by hedge funds was reported to have remained basically unchanged. However, respondents noted greater demand for funding of agency and non-agency residential MBS.

Broad price indexes for U.S. equities rose moderately, on net, over the intermeeting period, prompted by generally better-than-expected readings on economic activity released early in the period, somewhat reduced concerns about the situation in Europe, and some additional anticipation of monetary policy easing later in the period. Option-implied volatility on the S&P 500 index fell in early August to levels not seen since the middle of 2007; it subsequently partially retraced. Equity prices for large domestic banks rose about in line with the broad equity price indexes, and credit default swap (CDS) spreads for the largest bank holding companies continued to move down.

Yields on investment-grade corporate bonds were little changed at near-record low levels over the intermeeting period, while yields on speculative-grade corporate bonds edged down. The spread of yields on corporate bonds over those on comparable-maturity Treasury securities narrowed. Net debt issuance by nonfinancial firms continued to be strong over the period. Investment- and speculative-grade bond issuance increased in August from an already robust pace in preceding months, and commercial and industrial (C&I) loans rose further. In the syndicated leveraged loan market, gross issuance of institutional loans continued to be solid in July and August. Issuance of collateralized loan obligations remained on pace to post its strongest year since 2007. The rate of gross public equity issuance by nonfinancial firms increased slightly in August but was still at a subdued level.

Financial conditions in the commercial real estate (CRE) market were still somewhat strained against a backdrop of weak fundamentals and tight underwriting standards. Nevertheless, issuance of commercial mortgage-backed securities continued at a solid pace over the intermeeting period.

Mortgage rates remained at very low levels over the intermeeting period. Refinancing activity increased but was still restrained by tight underwriting conditions, capacity constraints at mortgage originators, and low levels of home equity. Nonrevolving consumer credit continued to expand briskly in June, largely due to robust growth in student loans originated by the federal government, while revolving credit remained subdued. Delinquency rates for consumer credit were still low, mostly reflecting a shift in lending toward higher-credit-quality borrowers.

Gross issuance of long-term municipal bonds picked up in August from the subdued pace in July, but net issuance continued to decline. CDS spreads for debt

issued by state governments moved lower over the intermeeting period, and the ratio of yields on long-term general obligation municipal bonds to yields on comparable-maturity Treasury securities decreased, on balance.

Bank credit continued to expand at a moderate pace over the intermeeting period, as growth in C&I loans remained brisk while CRE and home equity loans both trended down further. The August Survey of Terms of Business Lending indicated that overall interest-rate spreads on C&I loans were little changed; spreads on loans drawn on recently established commitments narrowed materially, although they remained wide.

M2 growth was rapid in July, likely reflecting investors' heightened demand for safe and liquid assets amid concerns about the situation in Europe, but it slowed to a moderate pace in August as those concerns eased somewhat. The monetary base rose in July and August as reserve balances and currency expanded.

Sentiment improved in foreign financial markets as the European Central Bank (ECB) outlined a plan to make additional sovereign bond purchases in conjunction with the European Financial Stability Facility and the European Stability Mechanism. Spreads of shorter-term yields on peripheral euro-area sovereign bonds over those on comparable-maturity German bunds declined substantially over the period. The staff's broad nominal index of the foreign exchange value of the dollar declined and benchmark sovereign yields in the major advanced foreign economies increased as safe-haven demands eased with the lessening of concerns about the European situation. Most global benchmark indexes for equity prices moved up, and the equity prices of European banks rose sharply. Funding conditions for euro-area banks improved, although these conditions remained fragile, and draws on the Federal Reserve's liquidity swap facility with the ECB fell.

The staff also reported on potential risks to financial stability, including those owing to the developments in Europe and to the current environment of low interest rates. Although the support for economic activity provided by low interest rates enhances financial stability, low interest rates also could eventually contribute to excessive borrowing or risk-taking and possibly leave some aspects of the financial system vulnerable to a future rise in interest rates. The staff surveyed a wide range of asset markets and financial institutions for signs of excessive valuations, leverage, or risk-taking that could pose systemic risks. Valuations for broad

asset classes did not appear stretched, or supported by excessive leverage. The staff also did not find evidence that excessive risk-taking was widespread, although such behavior had appeared in a few smaller and less liquid markets.

Staff Economic Outlook

In the economic projection prepared by the staff for the September FOMC meeting, the forecast for real GDP growth in the near term was broadly similar, on balance, to the previous projection. The near-term forecast incorporated a larger negative effect of the drought on farm output in the second half of this year than the staff previously anticipated, but this effect was mostly offset by the staff's expectation of a smaller drag from net exports. The staff's medium-term projection for real GDP growth, which was conditioned on the assumption of no changes in monetary policy, was revised up a little, mostly reflecting a slight improvement in the outlook for the European situation and a somewhat higher projected path for equity prices. Nevertheless, with fiscal policy assumed to be tighter next year than this year, the staff expected that increases in real GDP would not materially exceed the growth of potential output in 2013. In 2014, economic activity was projected to accelerate gradually, supported by an easing in fiscal policy restraint, increases in consumer and business confidence, further improvements in financial conditions and credit availability, and accommodative monetary policy. The expansion in economic activity was expected to narrow the significant margin of slack in labor and product markets only slowly over the projection period, and the unemployment rate was anticipated to still be elevated at the end of 2014.

The staff's near-term forecast for inflation was revised up from the projection prepared for the August FOMC meeting, reflecting increases in consumer energy prices that were greater than anticipated. However, the staff's projection for inflation over the medium term was little changed. With crude oil prices expected to gradually decline from their current levels, the boost to retail food prices from the drought anticipated to be only temporary and comparatively small, long-run inflation expectations assumed to remain stable, and substantial resource slack persisting over the projection period, the staff continued to forecast that inflation would be subdued through 2014.

The staff viewed the uncertainty around the forecast for economic activity as elevated and the risks skewed to the downside, largely reflecting concerns about the situation in Europe and the possibility of a more severe

tightening in U.S. fiscal policy than anticipated. Although the staff saw the outlook for inflation as uncertain, the risks were viewed as balanced and not unusually high.

Participants' Views on Current Conditions and the Economic Outlook

In conjunction with this FOMC meeting, meeting participants—the 7 members of the Board of Governors and the presidents of the 12 Federal Reserve Banks, all of whom participate in the deliberations of the FOMC—submitted their assessments of real output growth, the unemployment rate, inflation, and the target federal funds rate for each year from 2012 through 2015 and over the longer run, under each participants' judgment of appropriate monetary policy. The longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge, over time, under appropriate monetary policy and in the absence of further shocks to the economy. These economic projections and policy assessments are described in the Summary of Economic Projections, which is attached as an addendum to these minutes.

In their discussion of the economic situation and outlook, meeting participants regarded the information received during the intermeeting period as indicating that economic activity had continued to expand at a moderate pace in recent months. However, recent gains in employment were small and the unemployment rate remained high. Although consumer spending had continued to advance, growth in business fixed investment appeared to have slowed. The housing sector showed some further signs of improvement, albeit from a depressed level. Consumer price inflation had been subdued despite recent increases in the prices of some key commodities, and longer-term inflation expectations had remained stable.

Regarding the economic outlook, participants generally agreed that the pace of the economic recovery would likely remain moderate over coming quarters but would pick up over the 2013–15 period. In the near term, the drought in the Midwest was expected to weigh on economic growth. Moreover, participants observed that the pace of economic recovery would likely continue to be held down for some time by persistent headwinds, including continued weakness in the housing market, ongoing household sector deleveraging, still-tight credit conditions for some households and businesses, and fiscal consolidation at all levels of government. Many participants also noted that a high level of uncertainty regarding the European fiscal and banking crisis and

the outlook for U.S. fiscal and regulatory policies was weighing on confidence, thereby restraining household and business spending. However, others questioned the role of uncertainty about policy as a factor constraining aggregate demand. In addition, participants still saw significant downside risks to the outlook for economic growth. Prominent among these risks were a possible intensification of strains in the euro zone, with potential spillovers to U.S. financial markets and institutions and thus to the broader U.S. economy; a larger-than-expected U.S. fiscal tightening; and the possibility of a further slowdown in global economic growth. A few participants, however, mentioned the possibility that economic growth could be more rapid than currently anticipated, particularly if major sources of uncertainty were resolved favorably or if faster-than-expected advances in the housing sector led to improvements in household balance sheets, increased confidence, and easier credit conditions. Participants' forecasts for economic activity, which in most cases were conditioned on an assumption of additional, near-term monetary policy accommodation, were also associated with an outlook for the unemployment rate to remain close to recent levels through 2012 and then to decline gradually toward levels judged to be consistent with the Committee's mandate.

In the household sector, incoming data on retail sales were somewhat stronger than expected. Participants noted, however, that households were still in the process of deleveraging, confidence was low, and consumers appeared to remain particularly pessimistic about the prospects for the future, raising doubts that the somewhat stronger pace of spending would persist. Although the level of activity in the housing sector remained low, the somewhat faster pace of home sales and construction provided some encouraging signs of improvement. A number of participants also observed that house prices were rising. It was noted that such increases, coupled with historically low mortgage rates, could lead to a stronger upturn in housing activity, although constraints on the capacity for loan origination and still-tight credit terms for some borrowers continued to weigh on mortgage lending.

Business contacts in many parts of the country were reported to be highly uncertain about the outlook for the economy and for fiscal and regulatory policies. Although firms' balance sheets were generally strong, these uncertainties had led them to be particularly cautious and to remain reluctant to hire or expand capacity. Reports on manufacturing activity were mixed, with production related to autos and housing the most not-

able areas of relative strength. In one District, business surveys pointed to further growth; however, readings on forward-looking indicators of orders around the country were less positive. In addition, business contacts noted that export demand was showing signs of weakness as a result of the slowdown in economic activity in Europe. The energy sector continued to expand. In the agricultural sector, high grain prices and crop insurance payments were supporting farm incomes, helping offset declines in production and reduced profits on livestock. The drought was expected to reduce farm inventories and have a transitory impact on broader measures of economic growth.

Participants generally expected that fiscal policy would continue to be a drag on economic activity over coming quarters. In addition to ongoing weakness in spending at the federal, state, and local government levels, uncertainties about tax and spending policies reportedly were restraining business decisionmaking. Participants also noted that if an agreement was not reached to tackle the expiring tax cuts and scheduled spending reductions, a sharp consolidation of fiscal policy would take place at the beginning of 2013.

The available indicators pointed to continued weakness in overall labor market conditions. Growth in employment had been disappointing, with the average monthly increases in payrolls so far this year below last year's pace and below the pace that would be required to make significant progress in reducing the unemployment rate. The unemployment rate declined around the turn of the year but had not fallen significantly since then. In addition, the labor force participation rate and employment-to-population ratios were at or near post-recession lows.

Meeting participants again discussed the extent of slack in labor markets. A few participants reiterated their view that the persistently high level of unemployment reflected the effect of structural factors, including mismatches across and within sectors between the skills of the unemployed and those demanded in sectors in which jobs were currently available. It was also suggested that there was an ongoing process of polarization in the labor market, with the share of job opportunities in middle-skill occupations continuing to decline while the shares of low and high skill occupations increased. Both of these views would suggest a lower level of potential output and thus reduced scope for combating unemployment with additional monetary policy stimulus. Several participants, while acknowledging some evidence of structural changes in the labor

market, stated again that weak aggregate demand was the principal reason for the high unemployment rate. They saw slack in resource utilization as remaining wide, indicating an important role for additional policy accommodation. Several participants noted the risk that continued high levels of unemployment, even if initially cyclical, might ultimately induce adverse structural changes. In particular, they expressed concerns about the risk that the exceptionally high level of long-term unemployment and the depressed level of labor participation could ultimately lead to permanent negative effects on the skills and prospects of those without jobs, thereby reducing the longer-run normal level of employment and potential output.

Sentiment in financial markets improved notably during the intermeeting period. Participants indicated that recent decisions by the ECB helped ease investors' anxiety about the near-term prospects for the euro. However, participants also observed that significant risks related to the euro-area banking and fiscal crisis remained, and that a number of important issues would have to be resolved in order to achieve further progress toward a comprehensive solution to the crisis. Participants noted that indicators of financial stress in the United States were not especially high and overall conditions in U.S. financial markets remained favorable. Longer-term interest rates were low and supportive of economic growth, while equity prices had risen. One participant noted that, while there were few current signs of excessive risk-taking, low interest rates could ultimately lead to financial imbalances that would be challenging to detect before they became serious problems.

The incoming information on inflation over the intermeeting period was largely in line with participants' expectations. Despite recent increases in the prices of some key commodities, consumer price inflation remained subdued. With longer-term inflation expectations stable and the unemployment rate elevated, participants generally anticipated that inflation over the medium run would likely run at or below the 2 percent rate that the Committee judges to be most consistent with its mandate. Most participants saw the risks to the outlook for inflation as roughly balanced. A few participants felt that maintaining a highly accommodative stance of monetary policy over an extended period could unmoor longer-term inflation expectations and, against a backdrop of higher energy and commodity prices, posed upside risks to inflation. Other participants, by contrast, saw inflation risks as tilted to the

downside, given their expectations for sizable and persistent resource slack.

Participants again exchanged views on the likely benefits and costs of a new large-scale asset purchase program. Many participants anticipated that such a program would provide support to the economic recovery by putting downward pressure on longer-term interest rates and promoting more accommodative financial conditions. A number of participants also indicated that it could lift consumer and business confidence by emphasizing the Committee's commitment to continued progress toward its dual mandate. In addition, it was noted that additional purchases could reinforce the Committee's forward guidance regarding the federal funds rate. Participants discussed the effectiveness of purchases of Treasury securities relative to purchases of agency MBS in easing financial conditions. Some participants suggested that, all else being equal, MBS purchases could be preferable because they would more directly support the housing sector, which remains weak but has shown some signs of improvement of late. One participant, however, objected that purchases of MBS, when compared to purchases of longer-term Treasury securities, would likely result in higher interest rates for many borrowers in other sectors. A number of participants highlighted the uncertainty about the overall effects of additional purchases on financial markets and the real economy. Some participants thought past purchases were useful because they were conducted during periods of market stress or heightened deflation risk and were less confident of the efficacy of additional purchases under present circumstances. A few expressed skepticism that additional policy accommodation could help spur an economy that they saw as held back by uncertainties and a range of structural issues. In discussing the costs and risks that such a program might entail, several participants reiterated their concern that additional purchases might complicate the Committee's efforts to withdraw monetary policy accommodation when it eventually became appropriate to do so, raising the risk of undesirably high inflation in the future and potentially unmooring inflation expectations. One participant noted that an extended period of accommodation resulting from additional asset purchases could lead to excessive risk-taking on the part of some investors and so undermine financial stability over time. The possible adverse effects of large purchases on market functioning were also noted. However, most participants thought these risks could be managed since the Committee could make adjustments to its purchases, as needed, in re-

sponse to economic developments or to changes in its assessment of their efficacy and costs.

Participants also discussed issues related to the provision of forward guidance regarding the future path of the federal funds rate. It was noted that clear communication and credibility allow the central bank to help shape the public's expectations about policy, which is crucial to managing monetary policy when the federal funds rate is at its effective lower bound. A number of participants questioned the effectiveness of continuing to use a calendar date to provide forward guidance, noting that a change in the calendar date might be interpreted pessimistically as a downgrade of the Committee's economic outlook rather than as conveying the Committee's determination to support the economic recovery. If the public interpreted the statement pessimistically, consumer and business confidence could fall rather than rise. Many participants indicated a preference for replacing the calendar date with language describing the economic factors that the Committee would consider in deciding to raise its target for the federal funds rate. Participants discussed the benefits of such an approach, including the potential for enhanced effectiveness of policy through greater clarity regarding the Committee's future behavior. That approach could also bolster the stimulus provided by the System's holdings of longer-term securities. It was noted that forward guidance along these lines would allow market expectations regarding the federal funds rate to adjust automatically in response to incoming data on the economy. Many participants thought that more-effective forward guidance could be provided by specifying numerical thresholds for labor market and inflation indicators that would be consistent with maintaining the federal funds rate at exceptionally low levels. However, reaching agreement on specific thresholds could be challenging given the diversity of participants' views, and some were reluctant to specify explicit numerical thresholds out of concern that such thresholds would necessarily be too simple to fully capture the complexities of the economy and the policy process or could be incorrectly interpreted as triggers prompting an automatic policy response. In addition, numerical thresholds could be confused with the Committee's longer-term objectives, and so undermine the Committee's credibility. At the conclusion of the discussion, most participants agreed that the use of numerical thresholds could be useful to provide more clarity about the conditionality of the forward guidance but thought that further work would be needed to address the related communications challenges.

Committee Policy Action

Committee members saw the information received over the intermeeting period as suggesting that economic activity had continued to expand at a moderate pace in recent months. However, growth in employment had been slow, and almost all members saw the unemployment rate as still elevated relative to levels that they viewed as consistent with the Committee's mandate. Members generally judged that without additional policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Moreover, while the sovereign and banking crisis in Europe had eased some recently, members still saw strains in global financial conditions as posing significant downside risks to the economic outlook. The possibility of a larger-than-expected fiscal tightening in the United States and slower global growth were also seen as downside risks. Inflation had been subdued, even though the prices of some key commodities had increased recently. Members generally continued to anticipate that, with longer-term inflation expectations stable and given the existing slack in resource utilization, inflation over the medium term would run at or below the Committee's longer-run objective of 2 percent.

In their discussion of monetary policy for the period ahead, members generally expressed concerns about the slow pace of improvement in labor market conditions and all members but one agreed that the outlook for economic activity and inflation called for additional monetary accommodation. Members agreed that such accommodation should be provided through both a strengthening of the forward guidance regarding the federal funds rate and purchases of additional agency MBS at a pace of \$40 billion per month. Along with the ongoing purchases of \$45 billion per month of longer-term Treasury securities under the maturity extension program announced in June, these purchases will increase the Committee's holdings of longer-term securities by about \$85 billion each month through the end of the year, and should put downward pressure on longer-term interest rates, support mortgage markets, and help make broader financial conditions more accommodative. Members also agreed to maintain the Committee's existing policy of reinvesting principal payments from its holdings of agency debt and agency MBS into agency MBS. The Committee agreed that it would closely monitor incoming information on economic and financial developments in coming months, and that if the outlook for the labor market did not improve substantially, it would continue its purchases

of agency MBS, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability. This flexible approach was seen as allowing the Committee to tailor its policy response over time to incoming information while incorporating conditional features that clarified the Committee's intention to improve labor market conditions, thereby enhancing the effectiveness of the action by helping to bolster business and consumer confidence. While members generally viewed the potential risks associated with these purchases as manageable, the Committee agreed that in determining the size, pace, and composition of its asset purchases, it would, as always, take appropriate account of the likely efficacy and costs of such purchases. With regard to the forward guidance, the Committee agreed on an extension through mid-2015, in conjunction with language in the statement indicating that it expects that a highly accommodative stance of policy will remain appropriate for a considerable time after the economic recovery strengthens. That new language was meant to clarify that the maintenance of a very low federal funds rate over that period did not reflect an expectation that the economy would remain weak, but rather reflected the Committee's intention to support a stronger economic recovery. One member dissented from the policy decision, on the grounds that he opposed additional asset purchases and preferred to omit the calendar date from the forward guidance; in his view, it would be better to use qualitative language to describe the factors that would influence the Committee's decision to increase the target federal funds rate.

At the conclusion of the discussion, the Committee voted to authorize and direct the Federal Reserve Bank of New York, until it was instructed otherwise, to execute transactions in the System Account in accordance with the following domestic policy directive:

"The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about \$267 billion by the end of December 2012, and to sell or redeem Treasury securities with remaining

maturities of approximately 3 years or less with a total face value of about \$267 billion. For the duration of this program, the Committee directs the Desk to suspend its policy of rolling over maturing Treasury securities into new issues. The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. The Desk is also directed to begin purchasing agency mortgage-backed securities at a pace of about \$40 billion per month. The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability."

The vote encompassed approval of the statement below to be released at 12:30 p.m.:

"Information received since the Federal Open Market Committee met in August suggests that economic activity has continued to expand at a moderate pace in recent months. Growth in employment has been slow, and the unemployment rate remains elevated. Household spending has continued to advance, but growth in business fixed investment appears to have slowed. The housing sector has shown some further signs of improvement, albeit from a depressed level. Inflation has been subdued, although the prices of some key commodities have increased recently. Longer-term inflation expectations have remained stable.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee is concerned that, without further policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial markets continue to pose significant downside risks

to the economic outlook. The Committee also anticipates that inflation over the medium term likely would run at or below its 2 percent objective.

To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee agreed today to increase policy accommodation by purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month. The Committee also will continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. These actions, which together will increase the Committee's holdings of longer-term securities by about \$85 billion each month through the end of the year, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

The Committee will closely monitor incoming information on economic and financial developments in coming months. If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will, as always, take appropriate account of the likely efficacy and costs of such purchases.

To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens. In particular, the Committee also decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that exceptionally low levels for the

federal funds rate are likely to be warranted at least through mid-2015.”

Voting for this action: Ben Bernanke, William C. Dudley, Elizabeth Duke, Dennis P. Lockhart, Sandra Pianalto, Jerome H. Powell, Sarah Bloom Raskin, Jeremy C. Stein, Daniel K. Tarullo, John C. Williams, and Janet L. Yellen.

Voting against this action: Jeffrey M. Lacker.

Mr. Lacker dissented because he believed that additional monetary stimulus at this time was unlikely to result in a discernible improvement in economic growth without also causing an unwanted increase in inflation. Moreover, he expressed his opposition to the purchase of more MBS, because he viewed it as inappropriate for the Committee to choose a particular sector of the economy to support; purchases of Treasury securities instead would have avoided this effect. Finally, he preferred to omit the description of the time period over which exceptionally low levels for the federal funds rate were likely to be warranted.

Consensus Forecast Experiment

In light of the discussion at the previous FOMC meeting, the subcommittee on communications developed a second experimental exercise intended to shed light on

the feasibility and desirability of constructing an FOMC consensus forecast. At this meeting, participants discussed possible formulations of the monetary policy assumptions on which to condition an FOMC consensus forecast and alternative approaches for participants to express their endorsement of the consensus forecast. In conclusion, participants agreed to have a broad discussion of the experiences gathered from the two experimental exercises in conjunction with the October FOMC meeting.

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, October 23–24, 2012. The meeting adjourned at 12:10 p.m. on September 13, 2012.

Notation Vote

By notation vote completed on August 21, 2012, the Committee unanimously approved the minutes of the FOMC meeting held on July 31–August 1, 2012.

William B. English
Secretary

Summary of Economic Projections

In conjunction with the September 12–13, 2012, Federal Open Market Committee (FOMC) meeting, meeting participants—the 7 members of the Board of Governors and the 12 presidents of the Federal Reserve Banks, all of whom participate in the deliberations of the FOMC—submitted their assessments, under each participant’s judgment of appropriate monetary policy, of real output growth, the unemployment rate, inflation, and the target federal funds rate for each year from 2012 through 2015 and over the longer run. These assessments were based on information available at the time of the meeting and participants’ individual assumptions about the factors likely to affect economic outcomes. The longer-run projections represent each participant’s judgment of the rate to which each variable would be expected to converge, over time, under appropriate monetary policy and in the absence of further shocks to the economy. “Appropriate monetary policy” is defined as the future path of policy that participants deem most likely to foster outcomes for economic activity and inflation that best satisfy their individual interpretations of the Federal Reserve’s objectives of maximum employment and stable prices.

Overall, the assessments that FOMC participants submitted in September indicated that, under appropriate monetary policy, the pace of economic recovery over the 2012–15 period would gradually pick up and inflation would remain subdued (table 1 and figure 1). Par-

ticipants judged that the growth rate of real gross domestic product (GDP) would increase somewhat in 2013 and that economic growth in 2014 and 2015 would modestly exceed participants’ estimates of the longer-run sustainable rate of growth, while the unemployment rate would decline gradually through 2015. Participants projected that inflation, as measured by the annual change in the price index for personal consumption expenditures (PCE), would run close to or below the FOMC’s longer-run inflation objective of 2 percent.

As shown in figure 2, most participants judged that highly accommodative monetary policy was likely to be warranted over the next few years. In particular, 13 participants thought that it would be appropriate for the first increase in the target federal funds rate to occur during 2015 or later. The majority of participants judged that appropriate monetary policy would involve a decision by the Committee, at the September meeting or before long, to undertake significant additional asset purchases.

As in June, participants in September judged the uncertainty associated with the outlook for real activity and the unemployment rate to be unusually high compared with historical norms, with the risks weighted mainly toward slower economic growth and a higher unemployment rate. While a number of participants viewed the uncertainty surrounding their projections for inflation to be unusually high in comparison with historical

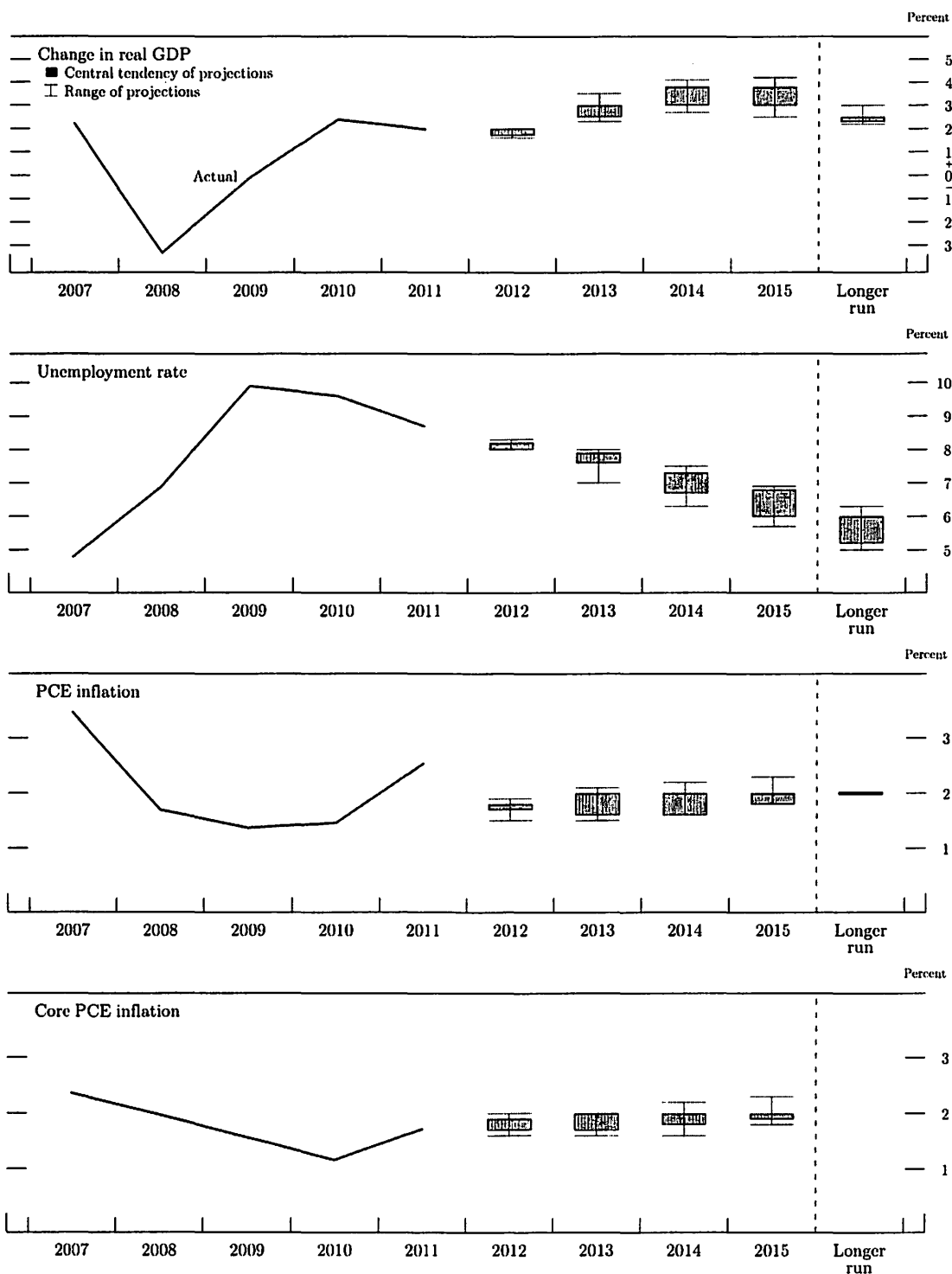
Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, September 2012
Percent

Variable	Central tendency ¹					Range ²				
	2012	2013	2014	2015	Longer run	2012	2013	2014	2015	Longer run
Change in real GDP . . .	1.7 to 2.0	2.5 to 3.0	3.0 to 3.8	3.0 to 3.8	2.3 to 2.5	1.6 to 2.0	2.3 to 3.5	2.7 to 4.1	2.5 to 4.2	2.2 to 3.0
June projection . . .	1.9 to 2.4	2.2 to 2.8	3.0 to 3.5	n.a.	2.3 to 2.5	1.6 to 2.5	2.2 to 3.5	2.8 to 4.0	n.a.	2.2 to 3.0
Unemployment rate . . .	8.0 to 8.2	7.6 to 7.9	6.7 to 7.3	6.0 to 6.8	5.2 to 6.0	8.0 to 8.3	7.0 to 8.0	6.3 to 7.5	5.7 to 6.9	5.0 to 6.3
June projection . . .	8.0 to 8.2	7.5 to 8.0	7.0 to 7.7	n.a.	5.2 to 6.0	7.8 to 8.4	7.0 to 8.1	6.3 to 7.7	n.a.	4.9 to 6.3
PCE inflation	1.7 to 1.8	1.6 to 2.0	1.6 to 2.0	1.8 to 2.0	2.0	1.5 to 1.9	1.5 to 2.1	1.6 to 2.2	1.8 to 2.3	2.0
June projection . . .	1.2 to 1.7	1.5 to 2.0	1.5 to 2.0	n.a.	2.0	1.2 to 2.0	1.5 to 2.1	1.5 to 2.2	n.a.	2.0
Core PCE inflation ³ . .	1.7 to 1.9	1.7 to 2.0	1.8 to 2.0	1.9 to 2.0		1.6 to 2.0	1.6 to 2.0	1.6 to 2.2	1.8 to 2.3	
June projection . . .	1.7 to 2.0	1.6 to 2.0	1.6 to 2.0	n.a.		1.7 to 2.0	1.4 to 2.1	1.5 to 2.2	n.a.	

NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant’s projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant’s assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The June projections were made in conjunction with the meeting of the Federal Open Market Committee on June 19–20, 2012.

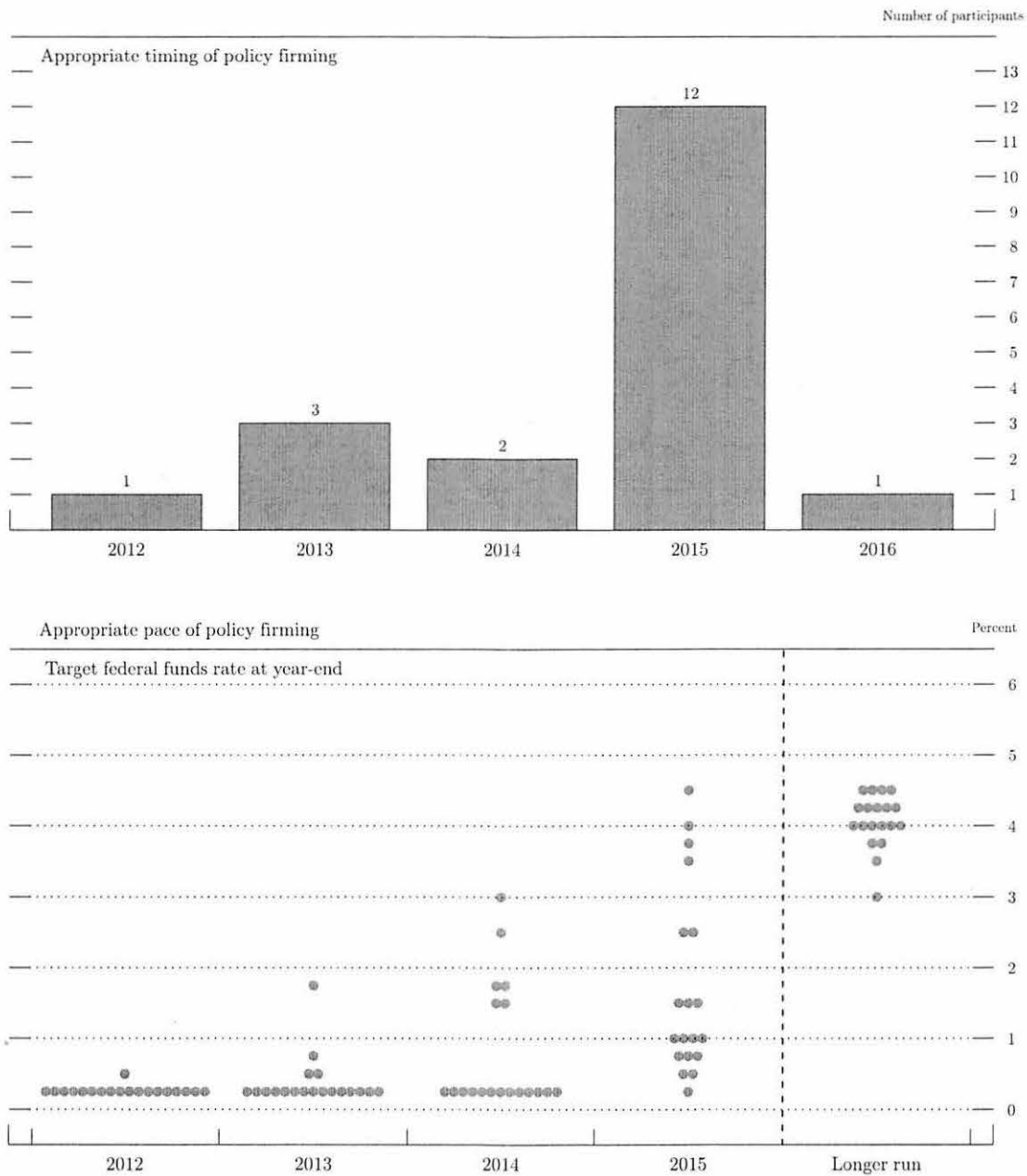
1. The central tendency excludes the three highest and three lowest projections for each variable in each year.
2. The range for a variable in a given year includes all participants’ projections, from lowest to highest, for that variable in that year.
3. Longer-run projections for core PCE inflation are not collected.

Figure 1. Central tendencies and ranges of economic projections, 2012-15 and over the longer run



NOTE: Definitions of variables are in the general note to table 1. The data for the actual values of the variables are annual.

Figure 2. Overview of FOMC participants' assessments of appropriate monetary policy, September 2012



NOTE: In the upper panel, the height of each bar denotes the number of FOMC participants who judge that, under appropriate monetary policy, the first increase in the target federal funds rate from its current range of 0 to 1/4 percent will occur in the specified calendar year. In June 2012, the numbers of FOMC participants who judged that the first increase in the target federal funds rate would occur in 2012, 2013, 2014, and 2015 were, respectively, 3, 3, 7, and 6. In the lower panel, each shaded circle indicates the value (rounded to the nearest 1/4 percentage point) of an individual participant's judgment of the appropriate level of the target federal funds rate at the end of the specified calendar year or over the longer run.

norms, many judged it to be broadly similar to historical norms, and most considered the risks to inflation to be roughly balanced.

The Outlook for Economic Activity

Conditional on their individual assumptions about appropriate monetary policy, participants judged that the economy would grow at a moderate pace over coming quarters and then pick up somewhat in 2013 before expanding in 2014 and 2015 at a rate modestly above what participants saw as the longer-run rate of output growth. The central tendency of their projections for the change in real GDP in 2012 was 1.7 to 2.0 percent, somewhat lower than in June. Many participants characterized the incoming data as having been to the weak side of their expectations at the time of the June meeting; several participants also cited the severe drought as a factor causing them to mark down their projections for economic growth in 2012. However, participants' projections for 2013 and 2014 were generally slightly higher than in June; this reflected, in part, a greater assumed amount of monetary policy accommodation than in their June submissions as well as some improvement since then in the outlook for economic activity in Europe. The central tendency of participants' projections for real GDP growth in 2013 was 2.5 to 3.0 percent, followed by central tendencies for both 2014 and 2015 of 3.0 to 3.8 percent. The central tendency for the longer-run rate of increase of real GDP remained at 2.3 to 2.5 percent, unchanged from June. While most participants noted that the increased degree of monetary policy accommodation assumed in their projections would help promote a faster recovery, participants cited several headwinds that would be likely to hold back the pace of economic expansion over the forecast period, including slower growth abroad, a still-weak housing market, the difficult fiscal and financial situation in Europe, and fiscal restraint in the United States.

Participants projected the unemployment rate at the end of 2012 to remain close to recent levels, with a central tendency of 8.0 to 8.2 percent, the same as in their June submissions. Participants anticipated gradual improvement from 2013 through 2015; even so, they generally thought that the unemployment rate at the end of 2015 would still lie well above their individual estimates of its longer-run normal level. The central tendencies of participants' forecasts for the unemployment rate were 7.6 to 7.9 percent at the end of 2013, 6.7 to 7.3 percent at the end of 2014, and 6.0 to 6.8 percent at the end of 2015. The central tendency of participants' estimates of the longer-run normal rate of unemploy-

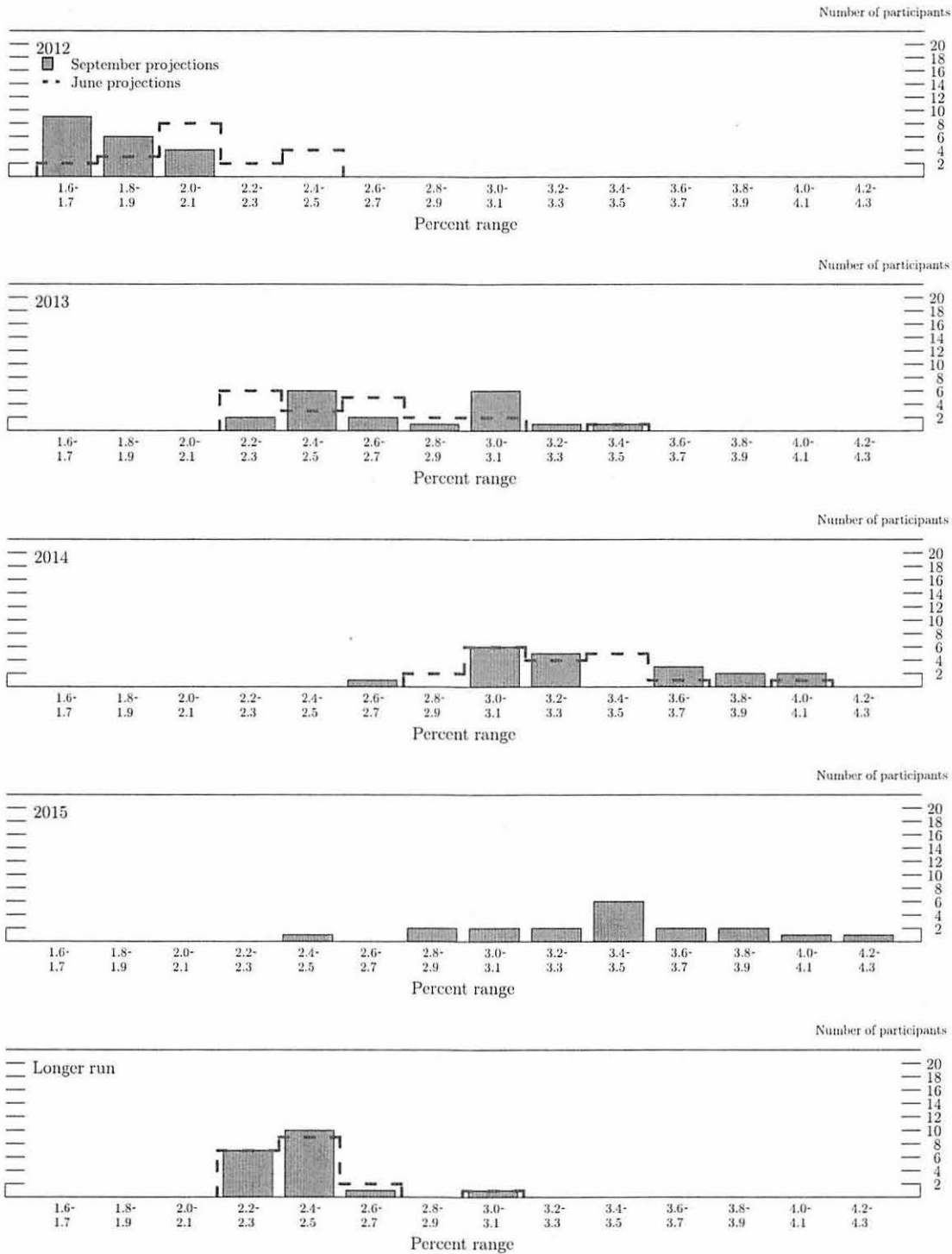
ment that would prevail under the assumption of appropriate monetary policy and in the absence of further shocks to the economy was 5.2 to 6.0 percent, unchanged from June. Most participants projected that the gap between the current unemployment rate and their estimates of its longer-run normal rate would be closed in five or six years, while a few judged that less time would be needed.

Figures 3.A and 3.B provide details on the diversity of participants' views regarding the likely outcomes for real GDP growth and the unemployment rate over the next three years and over the longer run. The dispersion in these projections reflects differences in participants' assessments of many factors, including appropriate monetary policy and its effects on the economy, the rate of improvement in the housing sector, the spillover effects of the fiscal and financial situation in Europe, the prospective path for U.S. fiscal policy, the extent of structural dislocations in the labor market, the likely evolution of credit and financial market conditions, and longer-term trends in productivity and the labor force. With much of the data for the first eight months of 2012 now in hand, the dispersion of participants' projections of real GDP growth and the unemployment rate this year narrowed in September compared with June. The range of participants' forecasts for the change in real GDP in 2013 and 2014, however, was little changed from June, on balance. The distribution of projections for the unemployment rate was not much altered for 2013, while for 2014 it narrowed a bit and shifted down slightly. The range for the unemployment rate for 2015 was 5.7 to 6.9 percent. As in June, the dispersion of estimates for the longer-run rate of output growth was fairly narrow, with the values being mostly from 2.2 to 2.7 percent. The range of participants' estimates of the longer-run rate of unemployment was 5.0 to 6.3 percent, a similar range to that in June; this range reflected different judgments among participants about several factors, including the outlook for labor force participation and the structure of the labor market.

The Outlook for Inflation

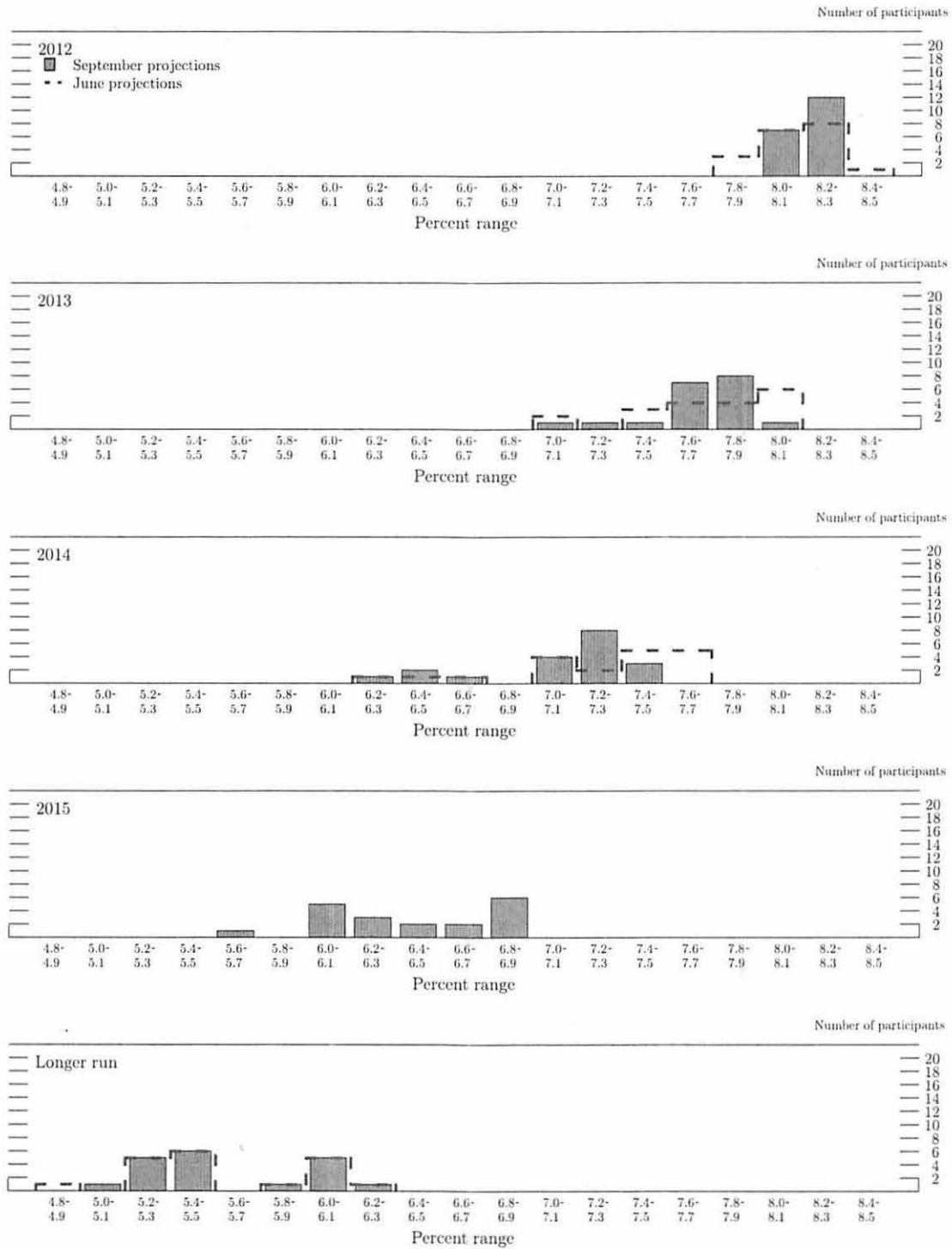
Participants' views on the broad outlook for inflation under the assumption of appropriate monetary policy were little changed from June. For 2012 as a whole, most anticipated that overall inflation would be only slightly above its average annual rate of 1.6 percent over the first half of the year; a number of participants pointed to higher food prices in response to the drought, along with recent increases in oil prices, as temporary sources of upward pressure on the headline

Figure 3.A. Distribution of participants' projections for the change in real GDP, 2012–15 and over the longer run



NOTE: Definitions of variables are in the general note to table 1.

Figure 3.B. Distribution of participants' projections for the unemployment rate, 2012–15 and over the longer run



NOTE: Definitions of variables are in the general note to table 1.

rate. Almost all participants judged that both headline and core inflation would remain subdued over the 2013–15 period, running at rates at or below the FOMC's longer-run objective of 2 percent. In pointing to factors likely to restrain price pressures, several participants cited sizable resource slack and stable inflation expectations, while a few noted the subdued behavior of labor compensation. Specifically, the central tendency of participants' projections for inflation, as measured by the PCE price index, moved up and tightened to 1.7 to 1.8 percent for 2012 and was little changed for 2013 and 2014 at 1.6 to 2.0 percent. For 2015, the central tendency was 1.8 to 2.0 percent. The central tendencies of the forecasts for core inflation were broadly similar to those for the headline measure for 2013 through 2015.

Figures 3.C and 3.D provide information about the diversity of participants' views about the outlook for inflation. Participants' projections for headline inflation for 2012, which in June had ranged from 1.2 to 2 percent, narrowed in September to the range of 1.5 to 1.9 percent; about three-fourths of participants' projections took values of 1.7 to 1.8 percent, broadly in line with recent inflation readings. The distributions of participants' projections for headline inflation in 2013 and 2014 were very similar to those for June, while the range of projections for core inflation narrowed slightly for both years. The distributions for core and overall inflation in 2015 were concentrated near the Committee's longer-run inflation objective of 2 percent.

Appropriate Monetary Policy

As indicated in figure 2, most participants judged that exceptionally low levels of the federal funds rate would remain appropriate for several more years. In particular, 12 participants thought that the first increase in the target federal funds rate would not be warranted until 2015, and 1 viewed a start to firming in 2016 as appropriate (upper panel). The 12 participants who expected that the target federal funds rate would not move above its effective lower bound until 2015 thought the federal funds rate would be 1.6 percent or lower at the end of that year, while the one participant who expected that policy firming would commence in 2016 saw the funds rate target at 75 basis points at the end of that year. Six participants judged that policy firming in 2012, 2013, or 2014 would be consistent with the Committee's statutory mandate. Those participants judged that the appropriate value for the federal funds rate would range from 1½ to 3 percent at the end of 2014 and from 2½ to 4½ percent at the end of 2015. In total, 14 participants judged that appropriate mone-

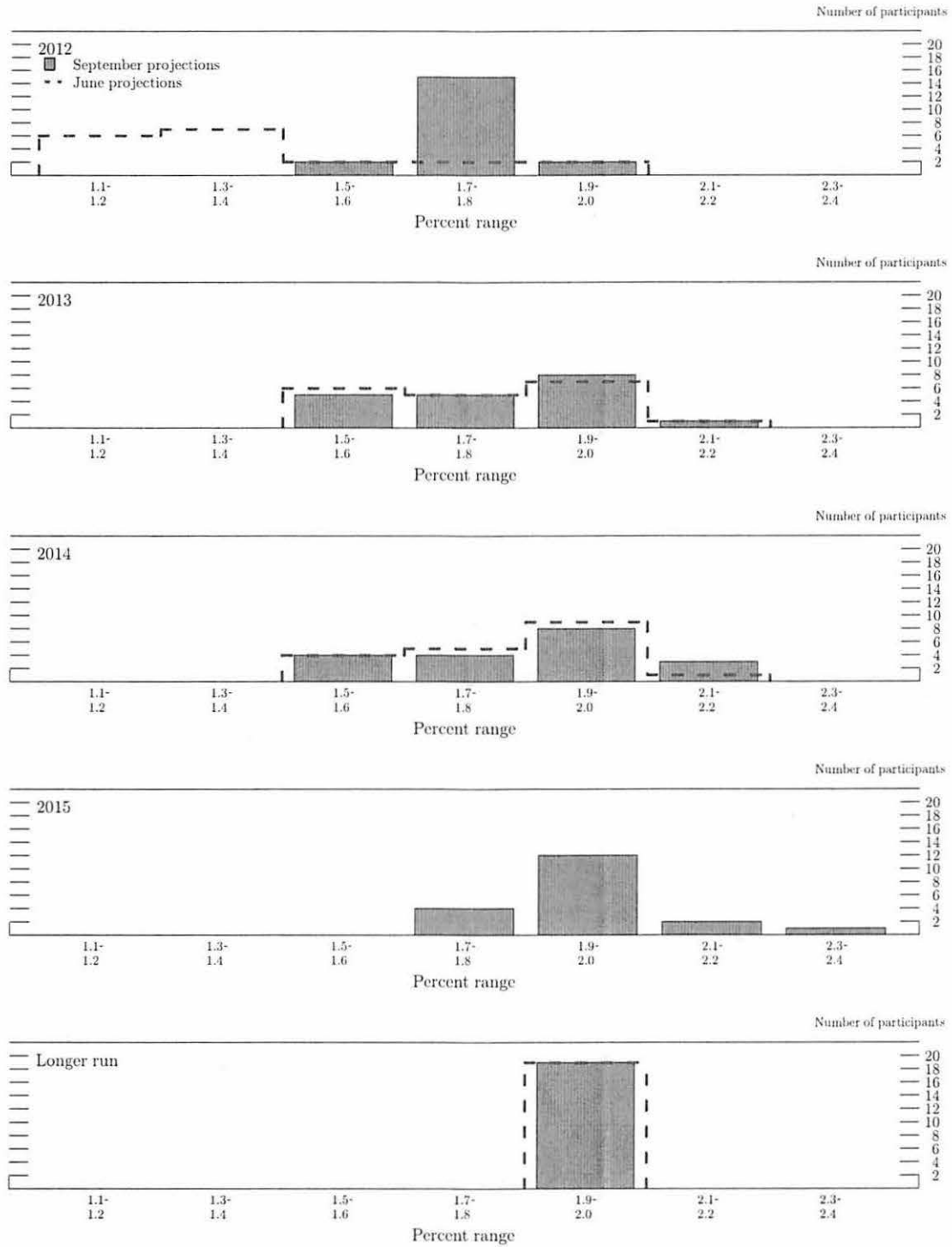
tary policy called for a more-accommodative path for the federal funds rate than in their June submissions, involving either a lower target for the federal funds rate at the end of the initial year of policy firming, or a shift out in the first year of firming.

All participants reported levels for the appropriate target federal funds rate at the end of 2014 that were well below their estimates of the level expected to prevail in the longer run, and most saw the appropriate target federal funds rate as still well below its longer-run value at the end of 2015. Estimates of the longer-run target federal funds rate ranged from 3 to 4½ percent, reflecting the Committee's inflation objective of 2 percent and participants' judgments about the longer-run equilibrium level of the real federal funds rate.

Participants also provided qualitative information on their views regarding the appropriate path of the Federal Reserve's balance sheet. Eleven participants indicated that appropriate policy would involve a decision by the Committee, at the September meeting or soon thereafter, to undertake significant additional asset purchases. Several participants envisioned this program as entailing purchases of agency mortgage-backed securities. Almost all participants assumed that, at the appropriate time, the Committee would carry out the normalization of the balance sheet according to the principles approved at the June 2011 FOMC meeting. In general, participants linked their preferred start dates for the normalization process to their views for the appropriate timing of the first increase in the target federal funds rate.

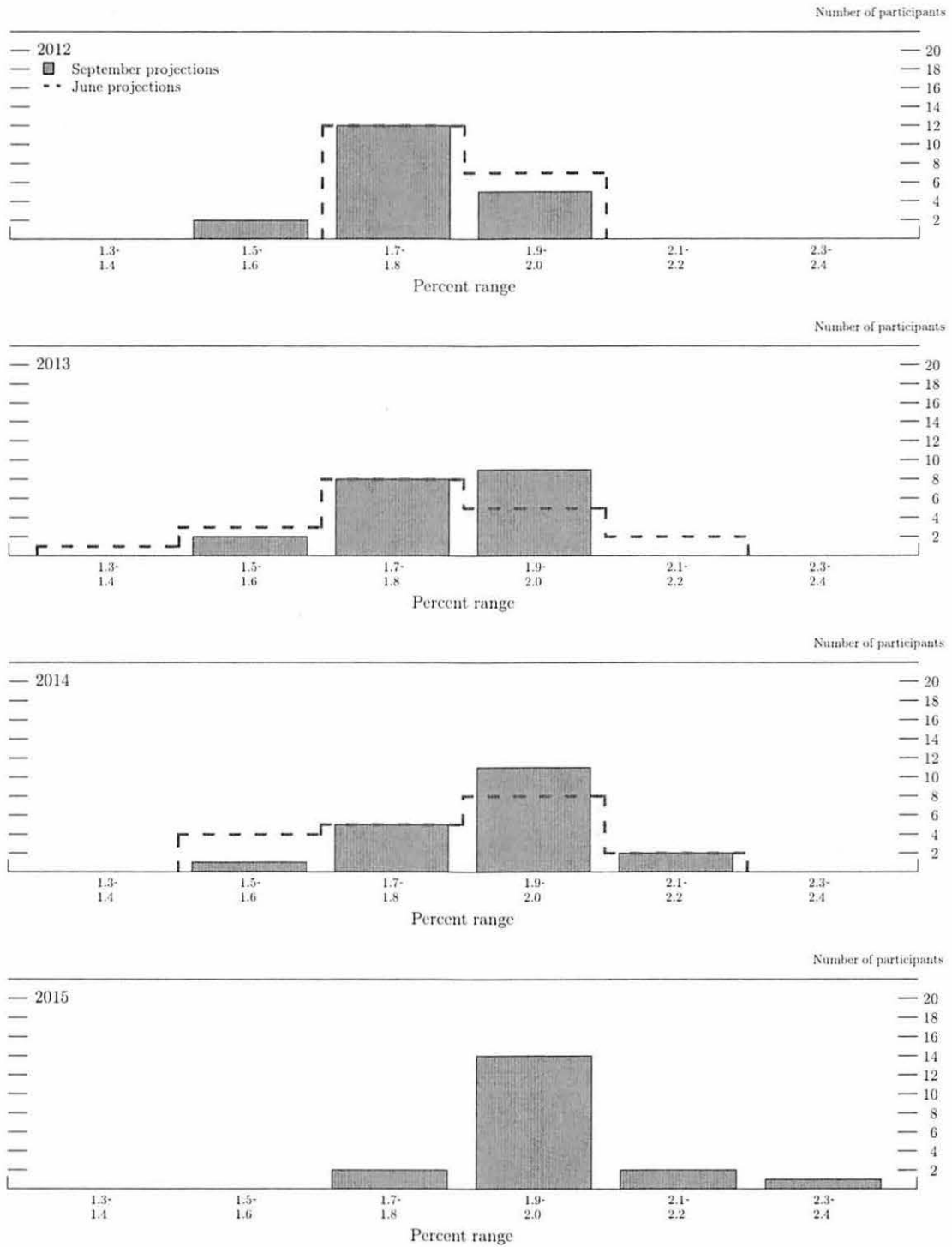
The key factors informing participants' individual assessments of the appropriate setting for monetary policy included their judgments regarding labor market conditions that would be consistent with the maximum level of employment, the extent to which employment currently deviated from the maximum level of employment, the extent to which inflation deviated from the Committee's longer-term objective of 2 percent, and participants' projections of the likely time horizon necessary to return employment and inflation to mandate-consistent levels. Several participants noted that their assessments of appropriate monetary policy reflected the subpar pace of labor market improvement and the persistent shortfall of output from potential since the 2007–09 recession. A few participants noted that their settings of appropriate federal funds rate policy took into account unusual factors prevailing in recent years, such as the likelihood that the neutral level of the federal funds rate was somewhat below its his-

Figure 3.C. Distribution of participants' projections for PCE inflation, 2012–15 and over the longer run



NOTE: Definitions of variables are in the general note to table 1.

Figure 3.D. Distribution of participants' projections for core PCE inflation, 2012–15



NOTE: Definitions of variables are in the general note to table 1.

torical norm and the fact that policy rate setting had been constrained by the effective lower bound on nominal interest rates. Two participants expressed concern that a protracted period of very accommodative monetary policy could lead to imbalances in the financial system. Participants also noted that because the appropriate stance of monetary policy is conditional on the evolution of real activity and inflation over time, their assessments of the appropriate future path of the federal funds rate and the balance sheet could change if economic conditions were to evolve in an unexpected manner.

Figure 3.E details the distribution of participants' judgments regarding the appropriate level of the target federal funds rate at the end of each calendar year from 2012 to 2015 and over the longer run. As previously noted, most participants judged that economic conditions would warrant maintaining the current low level of the federal funds rate through the end of 2014. Views on the appropriate level of the federal funds rate at the end of 2015 were more widely dispersed, with 10 participants seeing the appropriate level of the federal funds rate as 1 percent or lower and 6 of them seeing the appropriate rate as 2½ percent or higher. Those who judged that a longer period of very accommodative monetary policy would be appropriate generally were participants who projected a sizable gap between the unemployment rate and the longer-run normal level of the unemployment rate until 2015 or later. In contrast, the 6 participants who judged that policy firming should begin in 2012, 2013, or 2014 indicated that the Committee would need to act relatively soon in order to keep inflation near the FOMC's longer-run objective of 2 percent and to prevent a rise in inflation expectations.

Uncertainty and Risks

Nearly all participants judged that their current level of uncertainty about real GDP growth and unemployment was higher than was the norm during the previous 20 years (figure 4).¹ Eight participants judged the level of uncertainty associated with their forecasts of total PCE inflation to be higher as well, while another 10 participants viewed uncertainty about inflation as

¹ Table 2 provides estimates of the forecast uncertainty for the change in real GDP, the unemployment rate, and total consumer price inflation over the period from 1991 to 2011. At the end of this summary, the box "Forecast Uncertainty" discusses the sources and interpretation of uncertainty in the economic forecasts and explains the approach used to assess the uncertainty and risks attending the participants' projections.

Table 2. Average historical projection error ranges
Percentage points

Variable	2012	2013	2014	2015
Change in real GDP ¹	±0.6	±1.4	±1.7	±1.7
Unemployment rate ¹	±0.2	±0.9	±1.5	±1.9
Total consumer prices ²	±0.5	±0.9	±1.1	±1.0

NOTE: Error ranges shown are measured as plus or minus the root mean squared error of projections for 1992 through 2011 that were released in the fall by various private and government forecasters. As described in the box "Forecast Uncertainty," under certain assumptions, there is about a 70 percent probability that actual outcomes for real GDP, unemployment, and consumer prices will be in ranges implied by the average size of projection errors made in the past. Further information may be found in David Reifschneider and Peter Tulip (2007), "Gauging the Uncertainty of the Economic Outlook from Historical Forecasting Errors," Finance and Economics Discussion Series 2007-60 (Washington: Board of Governors of the Federal Reserve System, November).

1. Definitions of variables are in the general note to table 1.

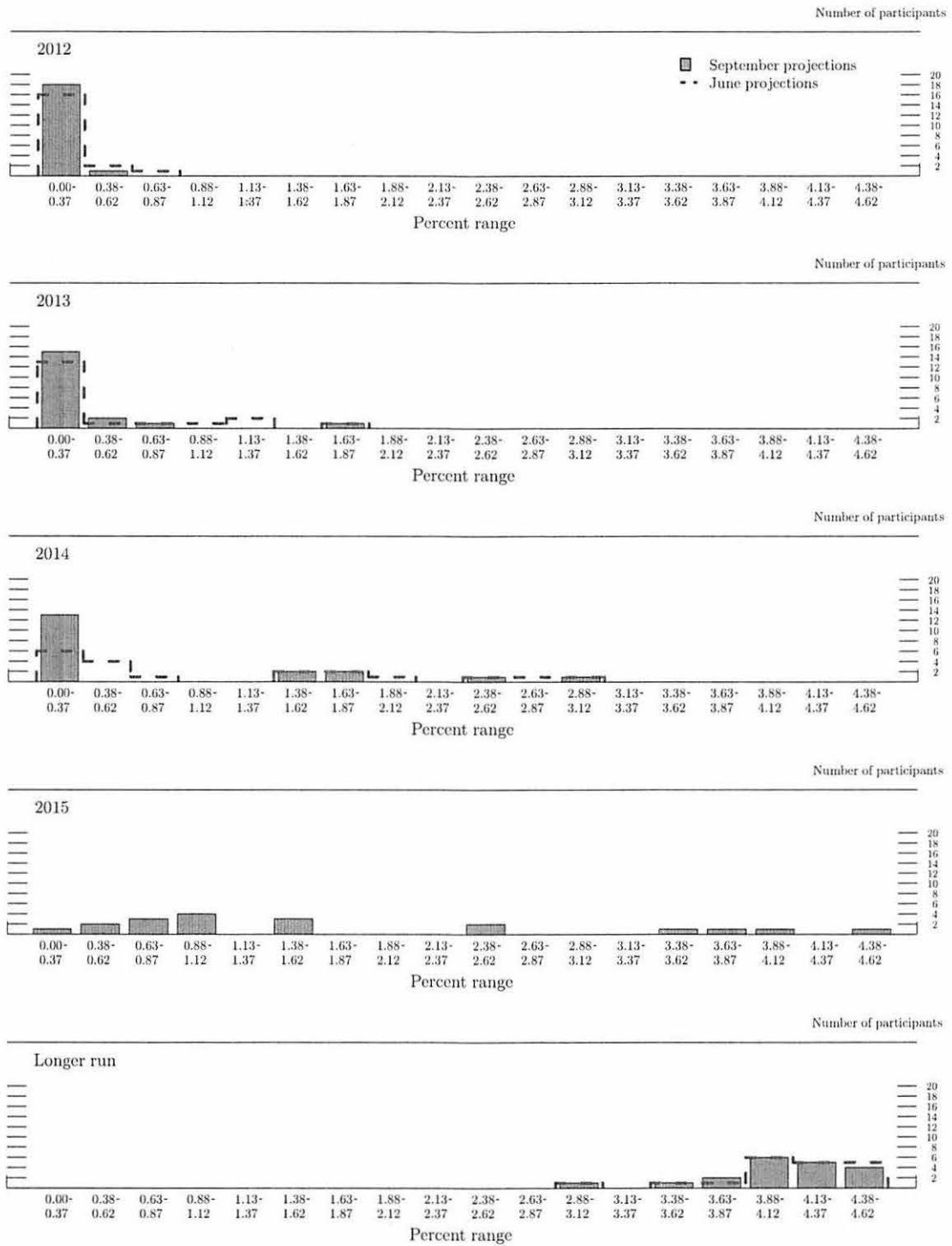
2. Measure is the overall consumer price index, the price measure that has been most widely used in government and private economic forecasts. Projection is percent change, fourth quarter of the previous year to the fourth quarter of the year indicated.

broadly similar to historical norms. The main factors cited as contributing to the elevated uncertainty about economic outcomes were the ongoing fiscal and financial situation in Europe, the outlook for fiscal policy in the United States, and a general slowdown in global economic growth, including the possibility of a significant slowdown in China. As in June, participants noted the difficulties associated with forecasting the path of the U.S. economic recovery following a financial crisis and recession that differed markedly from recent historical experience. A number of participants commented that in the aftermath of the financial crisis, they were more uncertain about the level of potential output and its rate of growth. A couple of participants noted that some of the uncertainty about potential output arose from the risk that continuation of long-term unemployment might impair the skill level of the labor force or cause some workers to retire earlier than would otherwise have been the case, thereby reducing potential output in the medium term.

A majority of participants reported that they saw the risks to their forecasts of real GDP growth as weighted toward the downside and, accordingly, the risks to their projections of the unemployment rate as tilted to the upside. The most frequently identified sources of risk were the situation in Europe, which many participants thought had the potential to slow global economic activity further, particularly over the near term, and issues associated with fiscal policy in the United States.

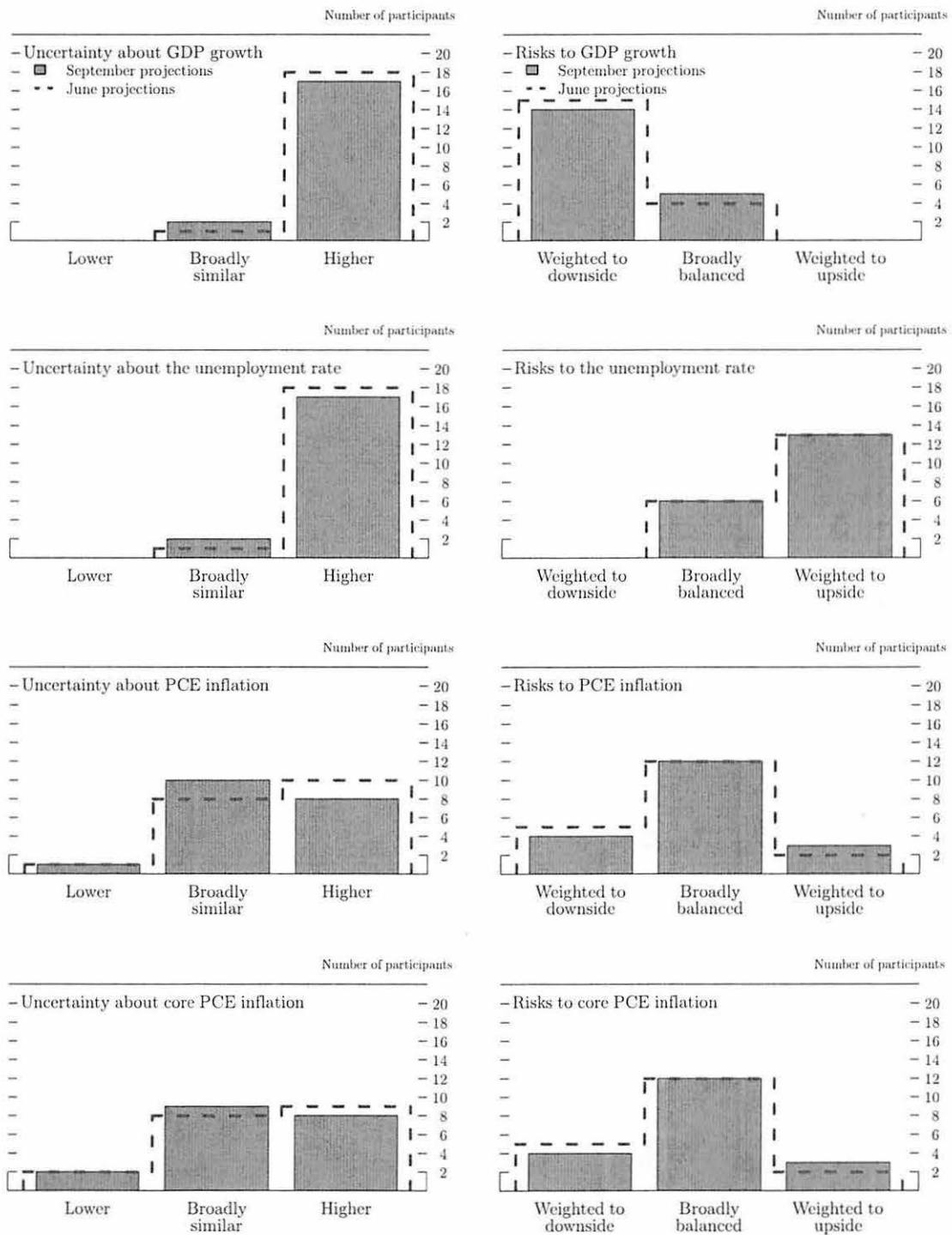
Most participants continued to judge the risks to their projections for inflation as broadly balanced, with several highlighting the recent stability of inflation expecta-

Figure 3.E. Distribution of participants' projections for the target federal funds rate, 2012–15 and over the longer run



NOTE: The target federal funds rate is measured as the level of the target rate at the end of the calendar year or in the longer run.

Figure 4. Uncertainty and risks in economic projections



NOTE: For definitions of uncertainty and risks in economic projections, see the box "Forecast Uncertainty." Definitions of variables are in the general note to table 1.

tions. However, four participants saw the risks to inflation as tilted to the downside, with a couple of them noting that slack in resource markets could turn out to be greater than they were anticipating. Three participants saw the risks to inflation as weighted to the up

side in light of concerns about U.S. fiscal imbalances, the current highly accommodative stance of monetary policy, and uncertainty about the Committee's ability to shift to a less accommodative policy stance when it becomes appropriate to do so.

Forecast Uncertainty

The economic projections provided by the members of the Board of Governors and the presidents of the Federal Reserve Banks inform discussions of monetary policy among policymakers and can aid public understanding of the basis for policy actions. Considerable uncertainty attends these projections, however. The economic and statistical models and relationships used to help produce economic forecasts are necessarily imperfect descriptions of the real world, and the future path of the economy can be affected by myriad unforeseen developments and events. Thus, in setting the stance of monetary policy, participants consider not only what appears to be the most likely economic outcome as embodied in their projections, but also the range of alternative possibilities, the likelihood of their occurring, and the potential costs to the economy should they occur.

Table 2 summarizes the average historical accuracy of a range of forecasts, including those reported in past *Monetary Policy Reports* and those prepared by the Federal Reserve Board's staff in advance of meetings of the Federal Open Market Committee. The projection error ranges shown in the table illustrate the considerable uncertainty associated with economic forecasts. For example, suppose a participant projects that real gross domestic product (GDP) and total consumer prices will rise steadily at annual rates of, respectively, 3 percent and 2 percent. If the uncertainty attending those projections is similar to that experienced in the past and the risks around the projections are broadly balanced, the numbers reported in table 2 would imply a probability of about 70 percent that actual GDP would expand within a range of 2.4 to 3.6 percent in the current year, 1.6 to 4.4 per-

cent in the second year, and 1.3 to 4.7 percent in the third and fourth years. The corresponding 70 percent confidence intervals for overall inflation would be 1.5 to 2.5 percent in the current year, 1.1 to 2.9 percent in the second year, 0.9 to 3.1 percent in the third year, and 1.0 to 3.0 percent in the fourth year.

Because current conditions may differ from those that prevailed, on average, over history, participants provide judgments as to whether the uncertainty attached to their projections of each variable is greater than, smaller than, or broadly similar to typical levels of forecast uncertainty in the past, as shown in table 2. Participants also provide judgments as to whether the risks to their projections are weighted to the upside, are weighted to the downside, or are broadly balanced. That is, participants judge whether each variable is more likely to be above or below their projections of the most likely outcome. These judgments about the uncertainty and the risks attending each participant's projections are distinct from the diversity of participants' views about the most likely outcomes. Forecast uncertainty is concerned with the risks associated with a particular projection rather than with divergences across a number of different projections.

As with real activity and inflation, the outlook for the future path of the federal funds rate is subject to considerable uncertainty. This uncertainty arises primarily because each participant's assessment of the appropriate stance of monetary policy depends importantly on the evolution of real activity and inflation over time. If economic conditions evolve in an unexpected manner, then assessments of the appropriate setting of the federal funds rate would change from that point forward.

**Minutes of the Federal Open Market Committee
September 12–13, 2012**

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Wednesday, September 12, 2012, at 10:30 a.m. and continued on Thursday, September 13, 2012, at 8:30 a.m.

PRESENT:

Ben Bernanke, Chairman
William C. Dudley, Vice Chairman
Elizabeth Duke
Jeffrey M. Lacker
Dennis P. Lockhart
Sandra Pianalto
Jerome H. Powell
Sarah Bloom Raskin
Jeremy C. Stein
Daniel K. Tarullo
John C. Williams
Janet L. Yellen

James Bullard, Christine Cumming, Charles L. Evans, Esther L. George, and Eric Rosengren, Alternate Members of the Federal Open Market Committee

Richard W. Fisher, Narayana Kocherlakota, and Charles I. Plosser, Presidents of the Federal Reserve Banks of Dallas, Minneapolis, and Philadelphia, 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

David Altig, Thomas A. Connors, Michael P. Leahy, William Nelson, David Reifschneider, Glenn D. Rudebusch, William Wascher, and John A. Weinberg, Associate Economists

Simon Potter, Manager, System Open Market Account

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

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

James A. Clouse, Deputy Director, Division of Monetary Affairs, Board of Governors; Maryann F. Hunter, Deputy Director, Division of Banking Supervision and Regulation, Board of Governors

Andreas Lehnert,¹ Deputy Director, Office of Financial Stability Policy and Research, Board of Governors

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

Seth B. Carpenter, Senior Associate Director, Division of Monetary Affairs, Board of Governors

Thomas Laubach, Senior Adviser, Division of Research and Statistics, Board of Governors; Ellen E. Meade and Joyce K. Zickler, Senior Advisers, Division of Monetary Affairs, Board of Governors

Brian J. Gross,² Special Assistant to the Board, Office of Board Members, Board of Governors

Eric M. Engen, Michael G. Palumbo, and Wayne Passmore, Associate Directors, Division of Research and Statistics, Board of Governors

Fabio M. Natalucci, Deputy Associate Director, Division of Monetary Affairs, Board of Governors

Edward Nelson, Section Chief, Division of Monetary Affairs, Board of Governors

Jeremy B. Rudd, Senior Economist, Division of Research and Statistics, Board of Governors

Kelly J. Dubbert, First Vice President, Federal Reserve Bank of Kansas City

¹ Attended Wednesday's session only.

² Attended Thursday's session only.

Loretta J. Mester, Harvey Rosenblum, and Daniel G. Sullivan, Executive Vice Presidents, Federal Reserve Banks of Philadelphia, Dallas, and Chicago, respectively

Cletus C. Coughlin, Troy Davig, Mark E. Schweitzer, and Kei-Mu Yi, Senior Vice Presidents, Federal Reserve Banks of St. Louis, Kansas City, Cleveland, and Minneapolis, respectively

Lorie K. Logan, Jonathan P. McCarthy, Giovanni Olivei, and Nathaniel Wuerffel,³ Vice Presidents, Federal Reserve Banks of New York, New York, Boston, and New York, respectively

Michelle Ezer,⁴ Markets Officer, Federal Reserve Bank of New York

³ Attended after the discussion on potential effects of a large-scale asset purchase program.

⁴ Attended the discussion on potential effects of a large-scale asset purchase program.

Potential Effects of a Large-Scale Asset Purchase Program

The staff presented an analysis of various aspects of possible large-scale asset purchase programs, including a comparison of flow-based purchase programs to programs of fixed size. The presentation reviewed the modeling approach used by the staff in estimating the financial and macroeconomic effects of such purchases. While significant uncertainty surrounds such estimates, the presentation indicated that asset purchases could be effective in fostering more rapid progress toward the Committee's objectives. The staff noted that, for a flow-based program, the public's understanding of the conditions under which the Committee would end purchases would shape expectations of the magnitude of the Federal Reserve's holdings of longer-term securities, and thus also influence the financial and economic effects of such a program. The staff also discussed the potential implications of additional asset purchases for the evolution of the Federal Reserve's balance sheet and income. The presentation noted that significant additional asset purchases should not adversely affect the ability of the Committee to tighten the stance of policy when doing so becomes appropriate. In their discussion of the staff presentation, a few participants noted the uncertainty surrounding estimates of the effects of large-scale asset purchases or the need for addi-

tional work regarding the implications of such purchases for the normalization of policy.

Developments in Financial Markets and the Federal Reserve's Balance Sheet

The Manager of the System Open Market Account (SOMA) reported on developments in domestic and foreign financial markets during the period since the Federal Open Market Committee (FOMC) met on July 31–August 1, 2012. He also reported on System open market operations, including the ongoing reinvestment into agency-guaranteed mortgage-backed securities (MBS) of principal payments received on SOMA holdings of agency debt and agency-guaranteed MBS as well as the operations related to the maturity extension program authorized at the June 19–20, 2012, FOMC meeting. By unanimous vote, the Committee ratified the Desk's domestic transactions over the intermeeting period. There were no intervention operations in foreign currencies for the System's account over the intermeeting period.

Staff Review of the Economic Situation

The information reviewed at the September 12–13 meeting suggested that economic activity continued to increase at a moderate pace in recent months. Employment rose slowly, and the unemployment rate was still high. Consumer price inflation stayed subdued, while measures of long-run inflation expectations remained stable.

Private nonfarm employment increased in July and August at only a slightly faster pace than in the second quarter, and the rate of decline in government employment eased somewhat. The unemployment rate was 8.1 percent in August, just a bit lower than its average during the first half of the year, and the labor force participation rate edged down further. The share of workers employed part time for economic reasons remained large, and the rate of long-duration unemployment continued to be high. Indicators of job openings and firms' hiring plans were little changed, on balance, and initial claims for unemployment insurance were essentially flat over the intermeeting period.

Manufacturing production increased at a faster pace in July than in the second quarter, and the rate of manufacturing capacity utilization rose slightly. However, automakers' schedules indicated that the pace of motor vehicle assemblies would be somewhat lower in the coming months than it was in July, and broader indicators of manufacturing activity, such as the diffusion indexes of new orders from the national and regional manufacturing surveys, generally remained quite muted

in recent months at levels consistent with only meager gains in factory output in the near term.

Following a couple of months when real personal consumption expenditures (PCE) were roughly flat, spending increased in July, and the gains were fairly widespread across categories of consumer goods and services. Incoming data on factors that tend to support household spending were somewhat mixed. Real disposable incomes increased solidly in July, boosted in part by lower energy prices. The continued rise in house values through July, and the increase in equity prices during the intermeeting period, suggested that households' net worth may have improved a little in recent months. However, consumer sentiment remained more downbeat in August than earlier in the year.

Housing market conditions continued to improve, but construction activity was still at a low level, reflecting the restraint imposed by the substantial inventory of foreclosed and distressed properties and by tight credit standards for mortgage loans. Starts of new single-family homes declined in July, but permits increased, which pointed to further gains in single-family construction in the coming months. Both starts and permits for new multifamily units rose in July. Home prices increased for the sixth consecutive month in July, and sales of both new and existing homes also rose.

Real business expenditures on equipment and software appeared to be decelerating. Both nominal shipments and new orders for nondefense capital goods excluding aircraft declined in July, and the backlog of unfilled orders decreased. Other forward-looking indicators, such as downbeat readings from surveys of business conditions and capital spending plans, also pointed toward only muted increases in real expenditures for business equipment in the near term. Nominal business spending for new nonresidential construction declined in July after only edging up in the second quarter. Inventories in most industries looked to be roughly aligned with sales in recent months.

Real federal government purchases appeared to decrease further, as data for nominal federal spending in July pointed to continued declines in real defense expenditures. Real state and local government purchases also appeared to still be trending down. State and local government payrolls contracted in July and August, although at a somewhat slower rate than in the second quarter, and nominal construction spending by these governments decreased slightly in July.

The U.S. international trade deficit was about unchanged in July after narrowing significantly in June. Exports declined in July, as decreases in the exports of industrial supplies, automotive products, and consumer goods were only partially offset by greater exports of agricultural products. Imports also declined in July, reflecting lower imports of capital goods and petroleum products and somewhat higher imports of automotive products. The trade data for July pointed toward real net exports having a roughly neutral effect on the growth of U.S. real gross domestic product (GDP) in the third quarter after they made a positive contribution to the increase in real GDP in the second quarter.

Overall U.S. consumer prices, as measured by the PCE price index, were flat in July. Consumer food prices were essentially unchanged, but the substantial increases in spot and futures prices of farm commodities in recent months, reflecting the effects of the drought in the Midwest, pointed toward some temporary upward pressures on retail food prices later this year. Consumer energy prices declined slightly in July, but survey data indicated that retail gasoline prices rose in August. Consumer prices excluding food and energy also were flat in July. Near-term inflation expectations from the Thomson Reuters/University of Michigan Surveys of Consumers increased somewhat in August, while longer-term inflation expectations in the survey edged up but remained within the narrow range that they have occupied for many years. Long-run inflation expectations from the Federal Reserve Bank of Philadelphia Survey of Professional Forecasters continued to be stable in the third quarter.

Measures of labor compensation indicated that increases in nominal wages remained modest. The rise in compensation per hour in the nonfarm business sector was muted over the year ending in the second quarter, and with small gains in productivity, unit labor costs rose only slightly. The employment cost index increased a little more slowly than the measure of compensation per hour over the same period. More recently, the gains in average hourly earnings for all employees in July and August were small.

Overall foreign economic growth appeared to be subdued in the third quarter after slowing in the second quarter. In the euro area, policy developments contributed to an improvement in financial conditions; recent indicators pointed to further decreases in production, however, and both business and consumer confidence continued to decline. Indicators of activity in the emerging market economies generally weakened. In

China, export growth slowed, while retail sales and investment spending changed little. The rate of economic growth rose in Brazil but was still sluggish, and increases in economic activity in Mexico were below the faster pace seen earlier in the year. Consistent with the slowing in foreign economic growth, readings on foreign inflation continued to moderate.

Staff Review of the Financial Situation

Sentiment in financial markets improved somewhat since the time of the August FOMC meeting. Investors' concerns about the situation in Europe seemed to ease somewhat, and market participants also appeared to have increased their expectations of additional monetary policy accommodation.

On balance, the nominal Treasury yield curve steepened over the intermeeting period, with yields on longer-dated Treasury securities rising notably. Following the August FOMC statement, Treasury yields moved up, reportedly in part because investors had factored in some probability that the anticipated liftoff date for the federal funds rate in the forward-guidance language would be moved back at that meeting. Treasury yields subsequently rose further as concerns about the situation in the euro area moderated. Later in the period, Treasury yields retraced some of their earlier gains as market participants' expectations of additional policy action increased following the release of the minutes of the August FOMC meeting, the Chairman's speech at the economic symposium in Jackson Hole, and the weaker-than-expected August employment report. On net, the expected path of the federal funds rate derived from overnight index swap rates was little changed. Indicators of inflation expectations derived from nominal and inflation-protected Treasury securities edged up over the period but stayed in the ranges observed over recent quarters.

Conditions in unsecured short-term dollar funding markets remained stable over the intermeeting period. In secured funding markets, conditions were also little changed.

In the September Senior Credit Officer Opinion Survey on Dealer Financing Terms, respondents reported no significant changes in credit terms for important classes of counterparties over the past three months, although a few noted a slight easing in terms for some clients. The use of leverage by hedge funds was reported to have remained basically unchanged. However, respondents noted greater demand for funding of agency and non-agency residential MBS.

Broad price indexes for U.S. equities rose moderately, on net, over the intermeeting period, prompted by generally better-than-expected readings on economic activity released early in the period, somewhat reduced concerns about the situation in Europe, and some additional anticipation of monetary policy easing later in the period. Option-implied volatility on the S&P 500 index fell in early August to levels not seen since the middle of 2007; it subsequently partially retraced. Equity prices for large domestic banks rose about in line with the broad equity price indexes, and credit default swap (CDS) spreads for the largest bank holding companies continued to move down.

Yields on investment-grade corporate bonds were little changed at near-record low levels over the intermeeting period, while yields on speculative-grade corporate bonds edged down. The spread of yields on corporate bonds over those on comparable-maturity Treasury securities narrowed. Net debt issuance by nonfinancial firms continued to be strong over the period. Investment- and speculative-grade bond issuance increased in August from an already robust pace in preceding months, and commercial and industrial (C&I) loans rose further. In the syndicated leveraged loan market, gross issuance of institutional loans continued to be solid in July and August. Issuance of collateralized loan obligations remained on pace to post its strongest year since 2007. The rate of gross public equity issuance by nonfinancial firms increased slightly in August but was still at a subdued level.

Financial conditions in the commercial real estate (CRE) market were still somewhat strained against a backdrop of weak fundamentals and tight underwriting standards. Nevertheless, issuance of commercial mortgage-backed securities continued at a solid pace over the intermeeting period.

Mortgage rates remained at very low levels over the intermeeting period. Refinancing activity increased but was still restrained by tight underwriting conditions, capacity constraints at mortgage originators, and low levels of home equity. Nonrevolving consumer credit continued to expand briskly in June, largely due to robust growth in student loans originated by the federal government, while revolving credit remained subdued. Delinquency rates for consumer credit were still low, mostly reflecting a shift in lending toward higher-credit-quality borrowers.

Gross issuance of long-term municipal bonds picked up in August from the subdued pace in July, but net issuance continued to decline. CDS spreads for debt

issued by state governments moved lower over the intermeeting period, and the ratio of yields on long-term general obligation municipal bonds to yields on comparable-maturity Treasury securities decreased, on balance.

Bank credit continued to expand at a moderate pace over the intermeeting period, as growth in C&I loans remained brisk while CRE and home equity loans both trended down further. The August Survey of Terms of Business Lending indicated that overall interest-rate spreads on C&I loans were little changed; spreads on loans drawn on recently established commitments narrowed materially, although they remained wide.

M2 growth was rapid in July, likely reflecting investors' heightened demand for safe and liquid assets amid concerns about the situation in Europe, but it slowed to a moderate pace in August as those concerns eased somewhat. The monetary base rose in July and August as reserve balances and currency expanded.

Sentiment improved in foreign financial markets as the European Central Bank (ECB) outlined a plan to make additional sovereign bond purchases in conjunction with the European Financial Stability Facility and the European Stability Mechanism. Spreads of shorter-term yields on peripheral euro-area sovereign bonds over those on comparable-maturity German bunds declined substantially over the period. The staff's broad nominal index of the foreign exchange value of the dollar declined and benchmark sovereign yields in the major advanced foreign economies increased as safe-haven demands eased with the lessening of concerns about the European situation. Most global benchmark indexes for equity prices moved up, and the equity prices of European banks rose sharply. Funding conditions for euro-area banks improved, although these conditions remained fragile, and draws on the Federal Reserve's liquidity swap facility with the ECB fell.

The staff also reported on potential risks to financial stability, including those owing to the developments in Europe and to the current environment of low interest rates. Although the support for economic activity provided by low interest rates enhances financial stability, low interest rates also could eventually contribute to excessive borrowing or risk-taking and possibly leave some aspects of the financial system vulnerable to a future rise in interest rates. The staff surveyed a wide range of asset markets and financial institutions for signs of excessive valuations, leverage, or risk-taking that could pose systemic risks. Valuations for broad

asset classes did not appear stretched, or supported by excessive leverage. The staff also did not find evidence that excessive risk-taking was widespread, although such behavior had appeared in a few smaller and less liquid markets.

Staff Economic Outlook

In the economic projection prepared by the staff for the September FOMC meeting, the forecast for real GDP growth in the near term was broadly similar, on balance, to the previous projection. The near-term forecast incorporated a larger negative effect of the drought on farm output in the second half of this year than the staff previously anticipated, but this effect was mostly offset by the staff's expectation of a smaller drag from net exports. The staff's medium-term projection for real GDP growth, which was conditioned on the assumption of no changes in monetary policy, was revised up a little, mostly reflecting a slight improvement in the outlook for the European situation and a somewhat higher projected path for equity prices. Nevertheless, with fiscal policy assumed to be tighter next year than this year, the staff expected that increases in real GDP would not materially exceed the growth of potential output in 2013. In 2014, economic activity was projected to accelerate gradually, supported by an easing in fiscal policy restraint, increases in consumer and business confidence, further improvements in financial conditions and credit availability, and accommodative monetary policy. The expansion in economic activity was expected to narrow the significant margin of slack in labor and product markets only slowly over the projection period, and the unemployment rate was anticipated to still be elevated at the end of 2014.

The staff's near-term forecast for inflation was revised up from the projection prepared for the August FOMC meeting, reflecting increases in consumer energy prices that were greater than anticipated. However, the staff's projection for inflation over the medium term was little changed. With crude oil prices expected to gradually decline from their current levels, the boost to retail food prices from the drought anticipated to be only temporary and comparatively small, long-run inflation expectations assumed to remain stable, and substantial resource slack persisting over the projection period, the staff continued to forecast that inflation would be subdued through 2014.

The staff viewed the uncertainty around the forecast for economic activity as elevated and the risks skewed to the downside, largely reflecting concerns about the situation in Europe and the possibility of a more severe

tightening in U.S. fiscal policy than anticipated. Although the staff saw the outlook for inflation as uncertain, the risks were viewed as balanced and not unusually high.

Participants' Views on Current Conditions and the Economic Outlook

In conjunction with this FOMC meeting, meeting participants—the 7 members of the Board of Governors and the presidents of the 12 Federal Reserve Banks, all of whom participate in the deliberations of the FOMC—submitted their assessments of real output growth, the unemployment rate, inflation, and the target federal funds rate for each year from 2012 through 2015 and over the longer run, under each participants' judgment of appropriate monetary policy. The longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge, over time, under appropriate monetary policy and in the absence of further shocks to the economy. These economic projections and policy assessments are described in the Summary of Economic Projections, which is attached as an addendum to these minutes.

In their discussion of the economic situation and outlook, meeting participants regarded the information received during the intermeeting period as indicating that economic activity had continued to expand at a moderate pace in recent months. However, recent gains in employment were small and the unemployment rate remained high. Although consumer spending had continued to advance, growth in business fixed investment appeared to have slowed. The housing sector showed some further signs of improvement, albeit from a depressed level. Consumer price inflation had been subdued despite recent increases in the prices of some key commodities, and longer-term inflation expectations had remained stable.

Regarding the economic outlook, participants generally agreed that the pace of the economic recovery would likely remain moderate over coming quarters but would pick up over the 2013–15 period. In the near term, the drought in the Midwest was expected to weigh on economic growth. Moreover, participants observed that the pace of economic recovery would likely continue to be held down for some time by persistent headwinds, including continued weakness in the housing market, ongoing household sector deleveraging, still-tight credit conditions for some households and businesses, and fiscal consolidation at all levels of government. Many participants also noted that a high level of uncertainty regarding the European fiscal and banking crisis and

the outlook for U.S. fiscal and regulatory policies was weighing on confidence, thereby restraining household and business spending. However, others questioned the role of uncertainty about policy as a factor constraining aggregate demand. In addition, participants still saw significant downside risks to the outlook for economic growth. Prominent among these risks were a possible intensification of strains in the euro zone, with potential spillovers to U.S. financial markets and institutions and thus to the broader U.S. economy; a larger-than-expected U.S. fiscal tightening; and the possibility of a further slowdown in global economic growth. A few participants, however, mentioned the possibility that economic growth could be more rapid than currently anticipated, particularly if major sources of uncertainty were resolved favorably or if faster-than-expected advances in the housing sector led to improvements in household balance sheets, increased confidence, and easier credit conditions. Participants' forecasts for economic activity, which in most cases were conditioned on an assumption of additional, near-term monetary policy accommodation, were also associated with an outlook for the unemployment rate to remain close to recent levels through 2012 and then to decline gradually toward levels judged to be consistent with the Committee's mandate.

In the household sector, incoming data on retail sales were somewhat stronger than expected. Participants noted, however, that households were still in the process of deleveraging, confidence was low, and consumers appeared to remain particularly pessimistic about the prospects for the future, raising doubts that the somewhat stronger pace of spending would persist. Although the level of activity in the housing sector remained low, the somewhat faster pace of home sales and construction provided some encouraging signs of improvement. A number of participants also observed that house prices were rising. It was noted that such increases, coupled with historically low mortgage rates, could lead to a stronger upturn in housing activity, although constraints on the capacity for loan origination and still-tight credit terms for some borrowers continued to weigh on mortgage lending.

Business contacts in many parts of the country were reported to be highly uncertain about the outlook for the economy and for fiscal and regulatory policies. Although firms' balance sheets were generally strong, these uncertainties had led them to be particularly cautious and to remain reluctant to hire or expand capacity. Reports on manufacturing activity were mixed, with production related to autos and housing the most not-

able areas of relative strength. In one District, business surveys pointed to further growth; however, readings on forward-looking indicators of orders around the country were less positive. In addition, business contacts noted that export demand was showing signs of weakness as a result of the slowdown in economic activity in Europe. The energy sector continued to expand. In the agricultural sector, high grain prices and crop insurance payments were supporting farm incomes, helping offset declines in production and reduced profits on livestock. The drought was expected to reduce farm inventories and have a transitory impact on broader measures of economic growth.

Participants generally expected that fiscal policy would continue to be a drag on economic activity over coming quarters. In addition to ongoing weakness in spending at the federal, state, and local government levels, uncertainties about tax and spending policies reportedly were restraining business decisionmaking. Participants also noted that if an agreement was not reached to tackle the expiring tax cuts and scheduled spending reductions, a sharp consolidation of fiscal policy would take place at the beginning of 2013.

The available indicators pointed to continued weakness in overall labor market conditions. Growth in employment had been disappointing, with the average monthly increases in payrolls so far this year below last year's pace and below the pace that would be required to make significant progress in reducing the unemployment rate. The unemployment rate declined around the turn of the year but had not fallen significantly since then. In addition, the labor force participation rate and employment-to-population ratios were at or near post-recession lows.

Meeting participants again discussed the extent of slack in labor markets. A few participants reiterated their view that the persistently high level of unemployment reflected the effect of structural factors, including mismatches across and within sectors between the skills of the unemployed and those demanded in sectors in which jobs were currently available. It was also suggested that there was an ongoing process of polarization in the labor market, with the share of job opportunities in middle-skill occupations continuing to decline while the shares of low and high skill occupations increased. Both of these views would suggest a lower level of potential output and thus reduced scope for combating unemployment with additional monetary policy stimulus. Several participants, while acknowledging some evidence of structural changes in the labor

market, stated again that weak aggregate demand was the principal reason for the high unemployment rate. They saw slack in resource utilization as remaining wide, indicating an important role for additional policy accommodation. Several participants noted the risk that continued high levels of unemployment, even if initially cyclical, might ultimately induce adverse structural changes. In particular, they expressed concerns about the risk that the exceptionally high level of long-term unemployment and the depressed level of labor participation could ultimately lead to permanent negative effects on the skills and prospects of those without jobs, thereby reducing the longer-run normal level of employment and potential output.

Sentiment in financial markets improved notably during the intermeeting period. Participants indicated that recent decisions by the ECB helped ease investors' anxiety about the near-term prospects for the euro. However, participants also observed that significant risks related to the euro-area banking and fiscal crisis remained, and that a number of important issues would have to be resolved in order to achieve further progress toward a comprehensive solution to the crisis. Participants noted that indicators of financial stress in the United States were not especially high and overall conditions in U.S. financial markets remained favorable. Longer-term interest rates were low and supportive of economic growth, while equity prices had risen. One participant noted that, while there were few current signs of excessive risk-taking, low interest rates could ultimately lead to financial imbalances that would be challenging to detect before they became serious problems.

The incoming information on inflation over the intermeeting period was largely in line with participants' expectations. Despite recent increases in the prices of some key commodities, consumer price inflation remained subdued. With longer-term inflation expectations stable and the unemployment rate elevated, participants generally anticipated that inflation over the medium run would likely run at or below the 2 percent rate that the Committee judges to be most consistent with its mandate. Most participants saw the risks to the outlook for inflation as roughly balanced. A few participants felt that maintaining a highly accommodative stance of monetary policy over an extended period could unmoor longer-term inflation expectations and, against a backdrop of higher energy and commodity prices, posed upside risks to inflation. Other participants, by contrast, saw inflation risks as tilted to the

downside, given their expectations for sizable and persistent resource slack.

Participants again exchanged views on the likely benefits and costs of a new large-scale asset purchase program. Many participants anticipated that such a program would provide support to the economic recovery by putting downward pressure on longer-term interest rates and promoting more accommodative financial conditions. A number of participants also indicated that it could lift consumer and business confidence by emphasizing the Committee's commitment to continued progress toward its dual mandate. In addition, it was noted that additional purchases could reinforce the Committee's forward guidance regarding the federal funds rate. Participants discussed the effectiveness of purchases of Treasury securities relative to purchases of agency MBS in easing financial conditions. Some participants suggested that, all else being equal, MBS purchases could be preferable because they would more directly support the housing sector, which remains weak but has shown some signs of improvement of late. One participant, however, objected that purchases of MBS, when compared to purchases of longer-term Treasury securities, would likely result in higher interest rates for many borrowers in other sectors. A number of participants highlighted the uncertainty about the overall effects of additional purchases on financial markets and the real economy. Some participants thought past purchases were useful because they were conducted during periods of market stress or heightened deflation risk and were less confident of the efficacy of additional purchases under present circumstances. A few expressed skepticism that additional policy accommodation could help spur an economy that they saw as held back by uncertainties and a range of structural issues. In discussing the costs and risks that such a program might entail, several participants reiterated their concern that additional purchases might complicate the Committee's efforts to withdraw monetary policy accommodation when it eventually became appropriate to do so, raising the risk of undesirably high inflation in the future and potentially unmooring inflation expectations. One participant noted that an extended period of accommodation resulting from additional asset purchases could lead to excessive risk-taking on the part of some investors and so undermine financial stability over time. The possible adverse effects of large purchases on market functioning were also noted. However, most participants thought these risks could be managed since the Committee could make adjustments to its purchases, as needed, in re-

sponse to economic developments or to changes in its assessment of their efficacy and costs.

Participants also discussed issues related to the provision of forward guidance regarding the future path of the federal funds rate. It was noted that clear communication and credibility allow the central bank to help shape the public's expectations about policy, which is crucial to managing monetary policy when the federal funds rate is at its effective lower bound. A number of participants questioned the effectiveness of continuing to use a calendar date to provide forward guidance, noting that a change in the calendar date might be interpreted pessimistically as a downgrade of the Committee's economic outlook rather than as conveying the Committee's determination to support the economic recovery. If the public interpreted the statement pessimistically, consumer and business confidence could fall rather than rise. Many participants indicated a preference for replacing the calendar date with language describing the economic factors that the Committee would consider in deciding to raise its target for the federal funds rate. Participants discussed the benefits of such an approach, including the potential for enhanced effectiveness of policy through greater clarity regarding the Committee's future behavior. That approach could also bolster the stimulus provided by the System's holdings of longer-term securities. It was noted that forward guidance along these lines would allow market expectations regarding the federal funds rate to adjust automatically in response to incoming data on the economy. Many participants thought that more-effective forward guidance could be provided by specifying numerical thresholds for labor market and inflation indicators that would be consistent with maintaining the federal funds rate at exceptionally low levels. However, reaching agreement on specific thresholds could be challenging given the diversity of participants' views, and some were reluctant to specify explicit numerical thresholds out of concern that such thresholds would necessarily be too simple to fully capture the complexities of the economy and the policy process or could be incorrectly interpreted as triggers prompting an automatic policy response. In addition, numerical thresholds could be confused with the Committee's longer-term objectives, and so undermine the Committee's credibility. At the conclusion of the discussion, most participants agreed that the use of numerical thresholds could be useful to provide more clarity about the conditionality of the forward guidance but thought that further work would be needed to address the related communications challenges.

Committee Policy Action

Committee members saw the information received over the intermeeting period as suggesting that economic activity had continued to expand at a moderate pace in recent months. However, growth in employment had been slow, and almost all members saw the unemployment rate as still elevated relative to levels that they viewed as consistent with the Committee's mandate. Members generally judged that without additional policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Moreover, while the sovereign and banking crisis in Europe had eased some recently, members still saw strains in global financial conditions as posing significant downside risks to the economic outlook. The possibility of a larger-than-expected fiscal tightening in the United States and slower global growth were also seen as downside risks. Inflation had been subdued, even though the prices of some key commodities had increased recently. Members generally continued to anticipate that, with longer-term inflation expectations stable and given the existing slack in resource utilization, inflation over the medium term would run at or below the Committee's longer-run objective of 2 percent.

In their discussion of monetary policy for the period ahead, members generally expressed concerns about the slow pace of improvement in labor market conditions and all members but one agreed that the outlook for economic activity and inflation called for additional monetary accommodation. Members agreed that such accommodation should be provided through both a strengthening of the forward guidance regarding the federal funds rate and purchases of additional agency MBS at a pace of \$40 billion per month. Along with the ongoing purchases of \$45 billion per month of longer-term Treasury securities under the maturity extension program announced in June, these purchases will increase the Committee's holdings of longer-term securities by about \$85 billion each month through the end of the year, and should put downward pressure on longer-term interest rates, support mortgage markets, and help make broader financial conditions more accommodative. Members also agreed to maintain the Committee's existing policy of reinvesting principal payments from its holdings of agency debt and agency MBS into agency MBS. The Committee agreed that it would closely monitor incoming information on economic and financial developments in coming months, and that if the outlook for the labor market did not improve substantially, it would continue its purchases

of agency MBS, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability. This flexible approach was seen as allowing the Committee to tailor its policy response over time to incoming information while incorporating conditional features that clarified the Committee's intention to improve labor market conditions, thereby enhancing the effectiveness of the action by helping to bolster business and consumer confidence. While members generally viewed the potential risks associated with these purchases as manageable, the Committee agreed that in determining the size, pace, and composition of its asset purchases, it would, as always, take appropriate account of the likely efficacy and costs of such purchases. With regard to the forward guidance, the Committee agreed on an extension through mid-2015, in conjunction with language in the statement indicating that it expects that a highly accommodative stance of policy will remain appropriate for a considerable time after the economic recovery strengthens. That new language was meant to clarify that the maintenance of a very low federal funds rate over that period did not reflect an expectation that the economy would remain weak, but rather reflected the Committee's intention to support a stronger economic recovery. One member dissented from the policy decision, on the grounds that he opposed additional asset purchases and preferred to omit the calendar date from the forward guidance; in his view, it would be better to use qualitative language to describe the factors that would influence the Committee's decision to increase the target federal funds rate.

At the conclusion of the discussion, the Committee voted to authorize and direct the Federal Reserve Bank of New York, until it was instructed otherwise, to execute transactions in the System Account in accordance with the following domestic policy directive:

"The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about \$267 billion by the end of December 2012, and to sell or redeem Treasury securities with remaining

maturities of approximately 3 years or less with a total face value of about \$267 billion. For the duration of this program, the Committee directs the Desk to suspend its policy of rolling over maturing Treasury securities into new issues. The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. The Desk is also directed to begin purchasing agency mortgage-backed securities at a pace of about \$40 billion per month. The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability."

The vote encompassed approval of the statement below to be released at 12:30 p.m.:

"Information received since the Federal Open Market Committee met in August suggests that economic activity has continued to expand at a moderate pace in recent months. Growth in employment has been slow, and the unemployment rate remains elevated. Household spending has continued to advance, but growth in business fixed investment appears to have slowed. The housing sector has shown some further signs of improvement, albeit from a depressed level. Inflation has been subdued, although the prices of some key commodities have increased recently. Longer-term inflation expectations have remained stable.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee is concerned that, without further policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial markets continue to pose significant downside risks

to the economic outlook. The Committee also anticipates that inflation over the medium term likely would run at or below its 2 percent objective.

To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee agreed today to increase policy accommodation by purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month. The Committee also will continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. These actions, which together will increase the Committee's holdings of longer-term securities by about \$85 billion each month through the end of the year, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

The Committee will closely monitor incoming information on economic and financial developments in coming months. If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will, as always, take appropriate account of the likely efficacy and costs of such purchases.

To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens. In particular, the Committee also decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that exceptionally low levels for the

federal funds rate are likely to be warranted at least through mid-2015.”

Voting for this action: Ben Bernanke, William C. Dudley, Elizabeth Duke, Dennis P. Lockhart, Sandra Pianalto, Jerome H. Powell, Sarah Bloom Raskin, Jeremy C. Stein, Daniel K. Tarullo, John C. Williams, and Janet L. Yellen.

Voting against this action: Jeffrey M. Lacker.

Mr. Lacker dissented because he believed that additional monetary stimulus at this time was unlikely to result in a discernible improvement in economic growth without also causing an unwanted increase in inflation. Moreover, he expressed his opposition to the purchase of more MBS, because he viewed it as inappropriate for the Committee to choose a particular sector of the economy to support; purchases of Treasury securities instead would have avoided this effect. Finally, he preferred to omit the description of the time period over which exceptionally low levels for the federal funds rate were likely to be warranted.

Consensus Forecast Experiment

In light of the discussion at the previous FOMC meeting, the subcommittee on communications developed a second experimental exercise intended to shed light on

the feasibility and desirability of constructing an FOMC consensus forecast. At this meeting, participants discussed possible formulations of the monetary policy assumptions on which to condition an FOMC consensus forecast and alternative approaches for participants to express their endorsement of the consensus forecast. In conclusion, participants agreed to have a broad discussion of the experiences gathered from the two experimental exercises in conjunction with the October FOMC meeting.

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, October 23–24, 2012. The meeting adjourned at 12:10 p.m. on September 13, 2012.

Notation Vote

By notation vote completed on August 21, 2012, the Committee unanimously approved the minutes of the FOMC meeting held on July 31–August 1, 2012.

William B. English
Secretary

Summary of Economic Projections

In conjunction with the September 12–13, 2012, Federal Open Market Committee (FOMC) meeting, meeting participants—the 7 members of the Board of Governors and the 12 presidents of the Federal Reserve Banks, all of whom participate in the deliberations of the FOMC—submitted their assessments, under each participant’s judgment of appropriate monetary policy, of real output growth, the unemployment rate, inflation, and the target federal funds rate for each year from 2012 through 2015 and over the longer run. These assessments were based on information available at the time of the meeting and participants’ individual assumptions about the factors likely to affect economic outcomes. The longer-run projections represent each participant’s judgment of the rate to which each variable would be expected to converge, over time, under appropriate monetary policy and in the absence of further shocks to the economy. “Appropriate monetary policy” is defined as the future path of policy that participants deem most likely to foster outcomes for economic activity and inflation that best satisfy their individual interpretations of the Federal Reserve’s objectives of maximum employment and stable prices.

Overall, the assessments that FOMC participants submitted in September indicated that, under appropriate monetary policy, the pace of economic recovery over the 2012–15 period would gradually pick up and inflation would remain subdued (table 1 and figure 1). Par-

ticipants judged that the growth rate of real gross domestic product (GDP) would increase somewhat in 2013 and that economic growth in 2014 and 2015 would modestly exceed participants’ estimates of the longer-run sustainable rate of growth, while the unemployment rate would decline gradually through 2015. Participants projected that inflation, as measured by the annual change in the price index for personal consumption expenditures (PCE), would run close to or below the FOMC’s longer-run inflation objective of 2 percent.

As shown in figure 2, most participants judged that highly accommodative monetary policy was likely to be warranted over the next few years. In particular, 13 participants thought that it would be appropriate for the first increase in the target federal funds rate to occur during 2015 or later. The majority of participants judged that appropriate monetary policy would involve a decision by the Committee, at the September meeting or before long, to undertake significant additional asset purchases.

As in June, participants in September judged the uncertainty associated with the outlook for real activity and the unemployment rate to be unusually high compared with historical norms, with the risks weighted mainly toward slower economic growth and a higher unemployment rate. While a number of participants viewed the uncertainty surrounding their projections for inflation to be unusually high in comparison with historical

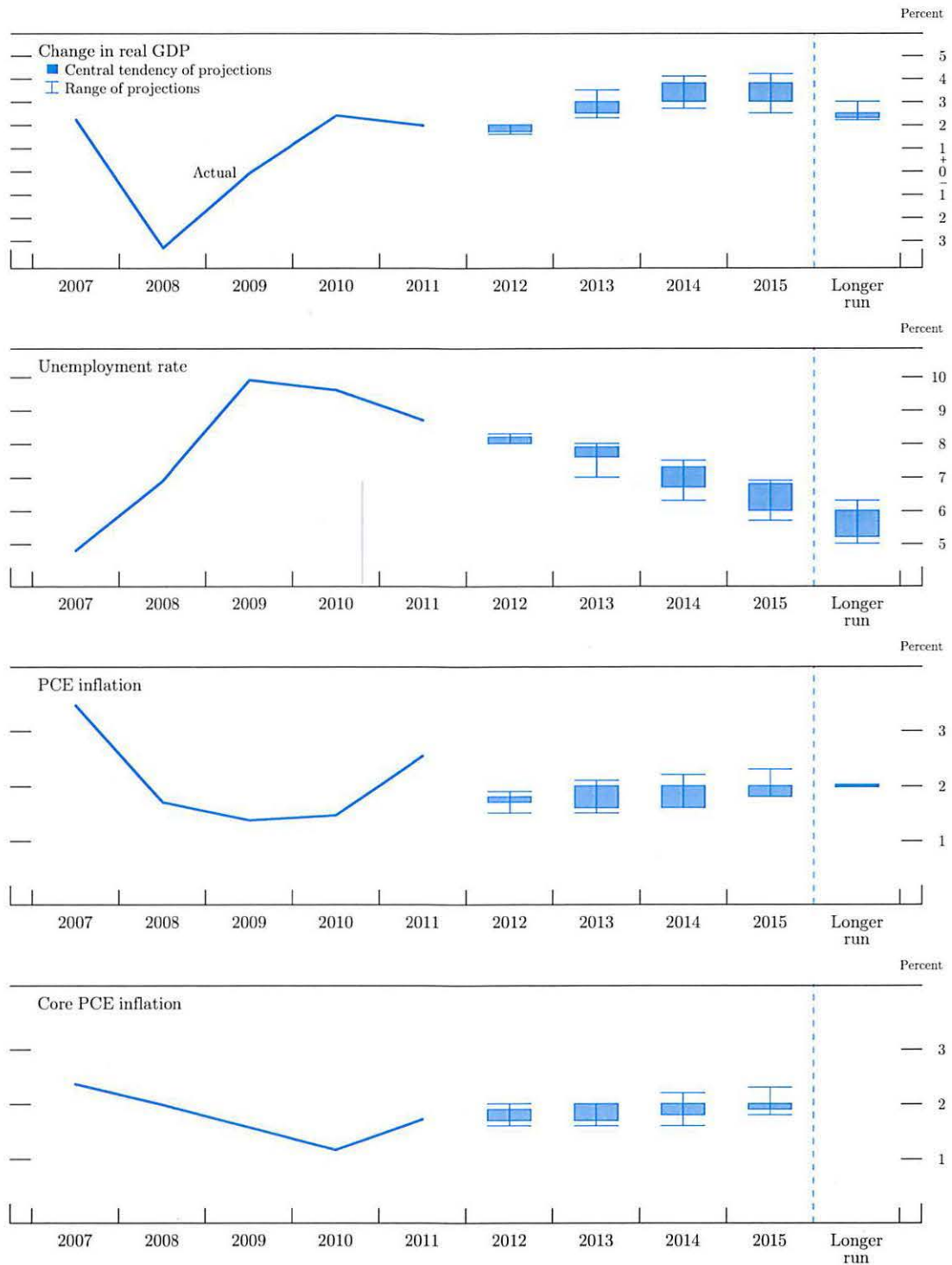
Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, September 2012
Percent

Variable	Central tendency ¹					Range ²				
	2012	2013	2014	2015	Longer run	2012	2013	2014	2015	Longer run
Change in real GDP . .	1.7 to 2.0	2.5 to 3.0	3.0 to 3.8	3.0 to 3.8	2.3 to 2.5	1.6 to 2.0	2.3 to 3.5	2.7 to 4.1	2.5 to 4.2	2.2 to 3.0
June projection . . .	1.9 to 2.4	2.2 to 2.8	3.0 to 3.5	n.a.	2.3 to 2.5	1.6 to 2.5	2.2 to 3.5	2.8 to 4.0	n.a.	2.2 to 3.0
Unemployment rate . .	8.0 to 8.2	7.6 to 7.9	6.7 to 7.3	6.0 to 6.8	5.2 to 6.0	8.0 to 8.3	7.0 to 8.0	6.3 to 7.5	5.7 to 6.9	5.0 to 6.3
June projection . . .	8.0 to 8.2	7.5 to 8.0	7.0 to 7.7	n.a.	5.2 to 6.0	7.8 to 8.4	7.0 to 8.1	6.3 to 7.7	n.a.	4.9 to 6.3
PCE inflation	1.7 to 1.8	1.6 to 2.0	1.6 to 2.0	1.8 to 2.0	2.0	1.5 to 1.9	1.5 to 2.1	1.6 to 2.2	1.8 to 2.3	2.0
June projection . . .	1.2 to 1.7	1.5 to 2.0	1.5 to 2.0	n.a.	2.0	1.2 to 2.0	1.5 to 2.1	1.5 to 2.2	n.a.	2.0
Core PCE inflation ³ . .	1.7 to 1.9	1.7 to 2.0	1.8 to 2.0	1.9 to 2.0		1.6 to 2.0	1.6 to 2.0	1.6 to 2.2	1.8 to 2.3	
June projection . . .	1.7 to 2.0	1.6 to 2.0	1.6 to 2.0	n.a.		1.7 to 2.0	1.4 to 2.1	1.5 to 2.2	n.a.	

NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant’s projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant’s assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The June projections were made in conjunction with the meeting of the Federal Open Market Committee on June 19–20, 2012.

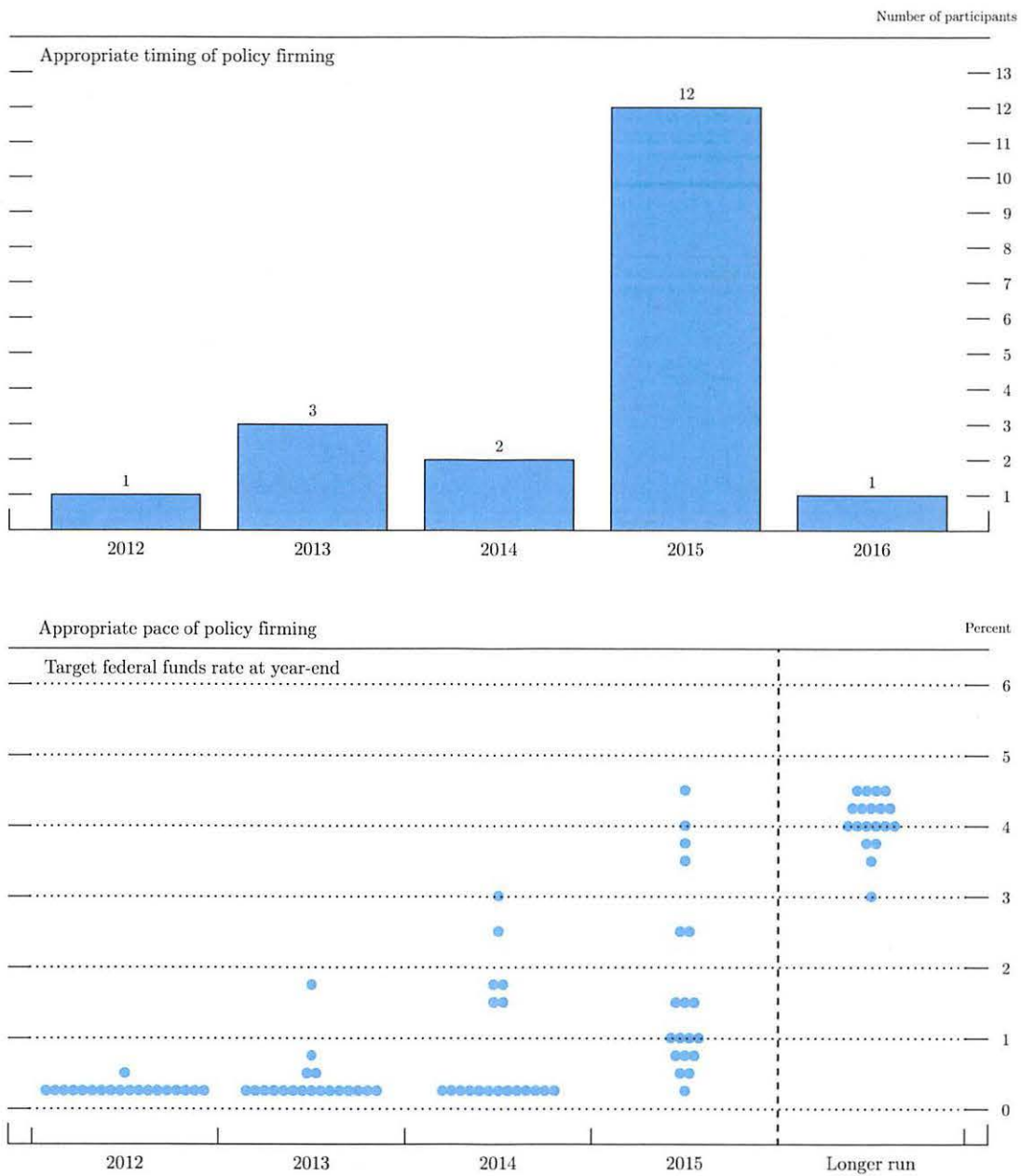
1. The central tendency excludes the three highest and three lowest projections for each variable in each year.
2. The range for a variable in a given year includes all participants’ projections, from lowest to highest, for that variable in that year.
3. Longer-run projections for core PCE inflation are not collected.

Figure 1. Central tendencies and ranges of economic projections, 2012–15 and over the longer run



NOTE: Definitions of variables are in the general note to table 1. The data for the actual values of the variables are annual.

Figure 2. Overview of FOMC participants' assessments of appropriate monetary policy, September 2012



NOTE: In the upper panel, the height of each bar denotes the number of FOMC participants who judge that, under appropriate monetary policy, the first increase in the target federal funds rate from its current range of 0 to 1/4 percent will occur in the specified calendar year. In June 2012, the numbers of FOMC participants who judged that the first increase in the target federal funds rate would occur in 2012, 2013, 2014, and 2015 were, respectively, 3, 3, 7, and 6. In the lower panel, each shaded circle indicates the value (rounded to the nearest 1/4 percentage point) of an individual participant's judgment of the appropriate level of the target federal funds rate at the end of the specified calendar year or over the longer run.

norms, many judged it to be broadly similar to historical norms, and most considered the risks to inflation to be roughly balanced.

The Outlook for Economic Activity

Conditional on their individual assumptions about appropriate monetary policy, participants judged that the economy would grow at a moderate pace over coming quarters and then pick up somewhat in 2013 before expanding in 2014 and 2015 at a rate modestly above what participants saw as the longer-run rate of output growth. The central tendency of their projections for the change in real GDP in 2012 was 1.7 to 2.0 percent, somewhat lower than in June. Many participants characterized the incoming data as having been to the weak side of their expectations at the time of the June meeting; several participants also cited the severe drought as a factor causing them to mark down their projections for economic growth in 2012. However, participants' projections for 2013 and 2014 were generally slightly higher than in June; this reflected, in part, a greater assumed amount of monetary policy accommodation than in their June submissions as well as some improvement since then in the outlook for economic activity in Europe. The central tendency of participants' projections for real GDP growth in 2013 was 2.5 to 3.0 percent, followed by central tendencies for both 2014 and 2015 of 3.0 to 3.8 percent. The central tendency for the longer-run rate of increase of real GDP remained at 2.3 to 2.5 percent, unchanged from June. While most participants noted that the increased degree of monetary policy accommodation assumed in their projections would help promote a faster recovery, participants cited several headwinds that would be likely to hold back the pace of economic expansion over the forecast period, including slower growth abroad, a still-weak housing market, the difficult fiscal and financial situation in Europe, and fiscal restraint in the United States.

Participants projected the unemployment rate at the end of 2012 to remain close to recent levels, with a central tendency of 8.0 to 8.2 percent, the same as in their June submissions. Participants anticipated gradual improvement from 2013 through 2015; even so, they generally thought that the unemployment rate at the end of 2015 would still lie well above their individual estimates of its longer-run normal level. The central tendencies of participants' forecasts for the unemployment rate were 7.6 to 7.9 percent at the end of 2013, 6.7 to 7.3 percent at the end of 2014, and 6.0 to 6.8 percent at the end of 2015. The central tendency of participants' estimates of the longer-run normal rate of unemploy-

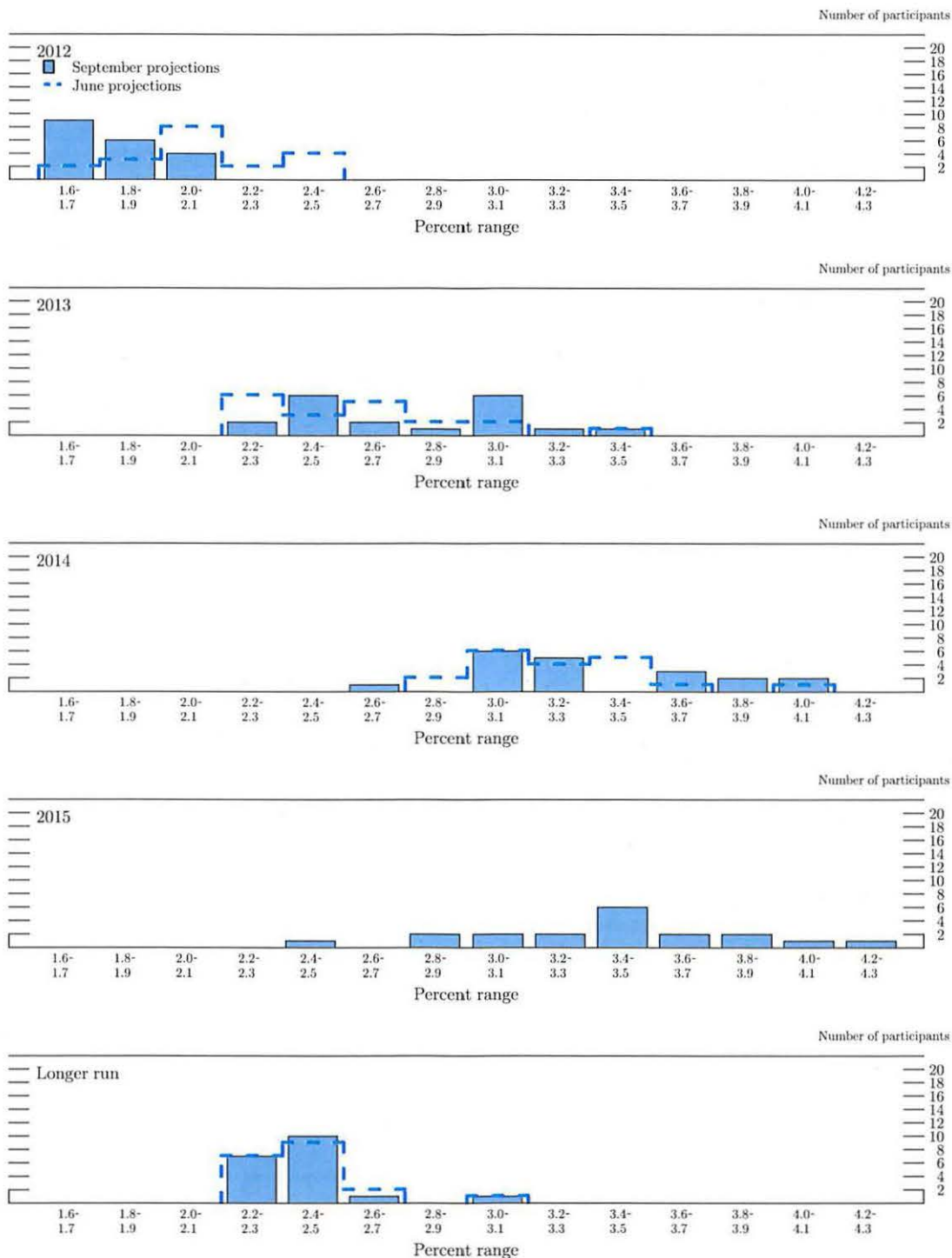
ment that would prevail under the assumption of appropriate monetary policy and in the absence of further shocks to the economy was 5.2 to 6.0 percent, unchanged from June. Most participants projected that the gap between the current unemployment rate and their estimates of its longer-run normal rate would be closed in five or six years, while a few judged that less time would be needed.

Figures 3.A and 3.B provide details on the diversity of participants' views regarding the likely outcomes for real GDP growth and the unemployment rate over the next three years and over the longer run. The dispersion in these projections reflects differences in participants' assessments of many factors, including appropriate monetary policy and its effects on the economy, the rate of improvement in the housing sector, the spillover effects of the fiscal and financial situation in Europe, the prospective path for U.S. fiscal policy, the extent of structural dislocations in the labor market, the likely evolution of credit and financial market conditions, and longer-term trends in productivity and the labor force. With much of the data for the first eight months of 2012 now in hand, the dispersion of participants' projections of real GDP growth and the unemployment rate this year narrowed in September compared with June. The range of participants' forecasts for the change in real GDP in 2013 and 2014, however, was little changed from June, on balance. The distribution of projections for the unemployment rate was not much altered for 2013, while for 2014 it narrowed a bit and shifted down slightly. The range for the unemployment rate for 2015 was 5.7 to 6.9 percent. As in June, the dispersion of estimates for the longer-run rate of output growth was fairly narrow, with the values being mostly from 2.2 to 2.7 percent. The range of participants' estimates of the longer-run rate of unemployment was 5.0 to 6.3 percent, a similar range to that in June; this range reflected different judgments among participants about several factors, including the outlook for labor force participation and the structure of the labor market.

The Outlook for Inflation

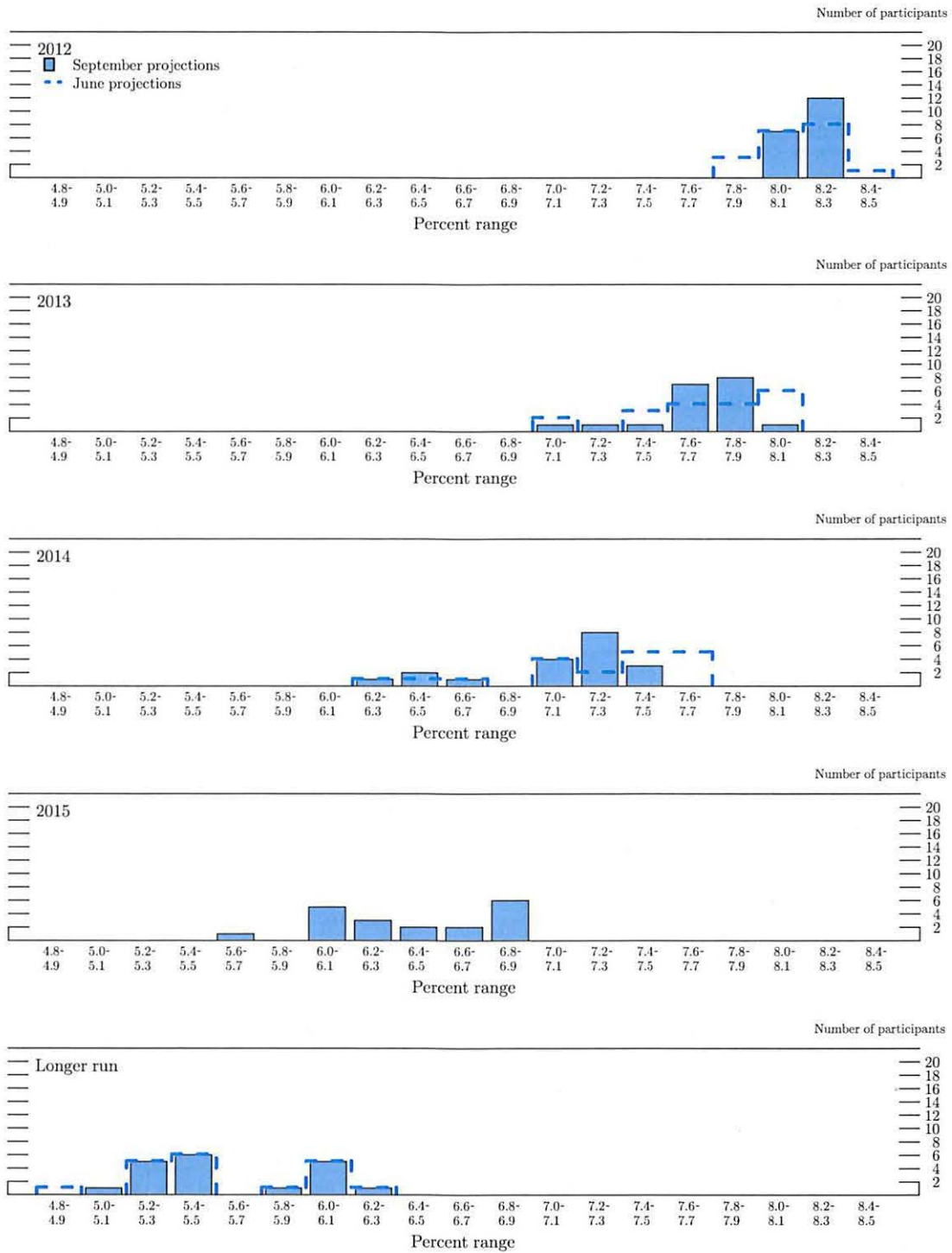
Participants' views on the broad outlook for inflation under the assumption of appropriate monetary policy were little changed from June. For 2012 as a whole, most anticipated that overall inflation would be only slightly above its average annual rate of 1.6 percent over the first half of the year; a number of participants pointed to higher food prices in response to the drought, along with recent increases in oil prices, as temporary sources of upward pressure on the headline

Figure 3.A. Distribution of participants' projections for the change in real GDP, 2012–15 and over the longer run



NOTE: Definitions of variables are in the general note to table 1.

Figure 3.B. Distribution of participants' projections for the unemployment rate, 2012–15 and over the longer run



NOTE: Definitions of variables are in the general note to table 1.

rate. Almost all participants judged that both headline and core inflation would remain subdued over the 2013–15 period, running at rates at or below the FOMC's longer-run objective of 2 percent. In pointing to factors likely to restrain price pressures, several participants cited sizable resource slack and stable inflation expectations, while a few noted the subdued behavior of labor compensation. Specifically, the central tendency of participants' projections for inflation, as measured by the PCE price index, moved up and tightened to 1.7 to 1.8 percent for 2012 and was little changed for 2013 and 2014 at 1.6 to 2.0 percent. For 2015, the central tendency was 1.8 to 2.0 percent. The central tendencies of the forecasts for core inflation were broadly similar to those for the headline measure for 2013 through 2015.

Figures 3.C and 3.D provide information about the diversity of participants' views about the outlook for inflation. Participants' projections for headline inflation for 2012, which in June had ranged from 1.2 to 2 percent, narrowed in September to the range of 1.5 to 1.9 percent; about three-fourths of participants' projections took values of 1.7 to 1.8 percent, broadly in line with recent inflation readings. The distributions of participants' projections for headline inflation in 2013 and 2014 were very similar to those for June, while the range of projections for core inflation narrowed slightly for both years. The distributions for core and overall inflation in 2015 were concentrated near the Committee's longer-run inflation objective of 2 percent.

Appropriate Monetary Policy

As indicated in figure 2, most participants judged that exceptionally low levels of the federal funds rate would remain appropriate for several more years. In particular, 12 participants thought that the first increase in the target federal funds rate would not be warranted until 2015, and 1 viewed a start to firming in 2016 as appropriate (upper panel). The 12 participants who expected that the target federal funds rate would not move above its effective lower bound until 2015 thought the federal funds rate would be 1.6 percent or lower at the end of that year, while the one participant who expected that policy firming would commence in 2016 saw the funds rate target at 75 basis points at the end of that year. Six participants judged that policy firming in 2012, 2013, or 2014 would be consistent with the Committee's statutory mandate. Those participants judged that the appropriate value for the federal funds rate would range from 1½ to 3 percent at the end of 2014 and from 2½ to 4½ percent at the end of 2015. In total, 14 participants judged that appropriate mone-

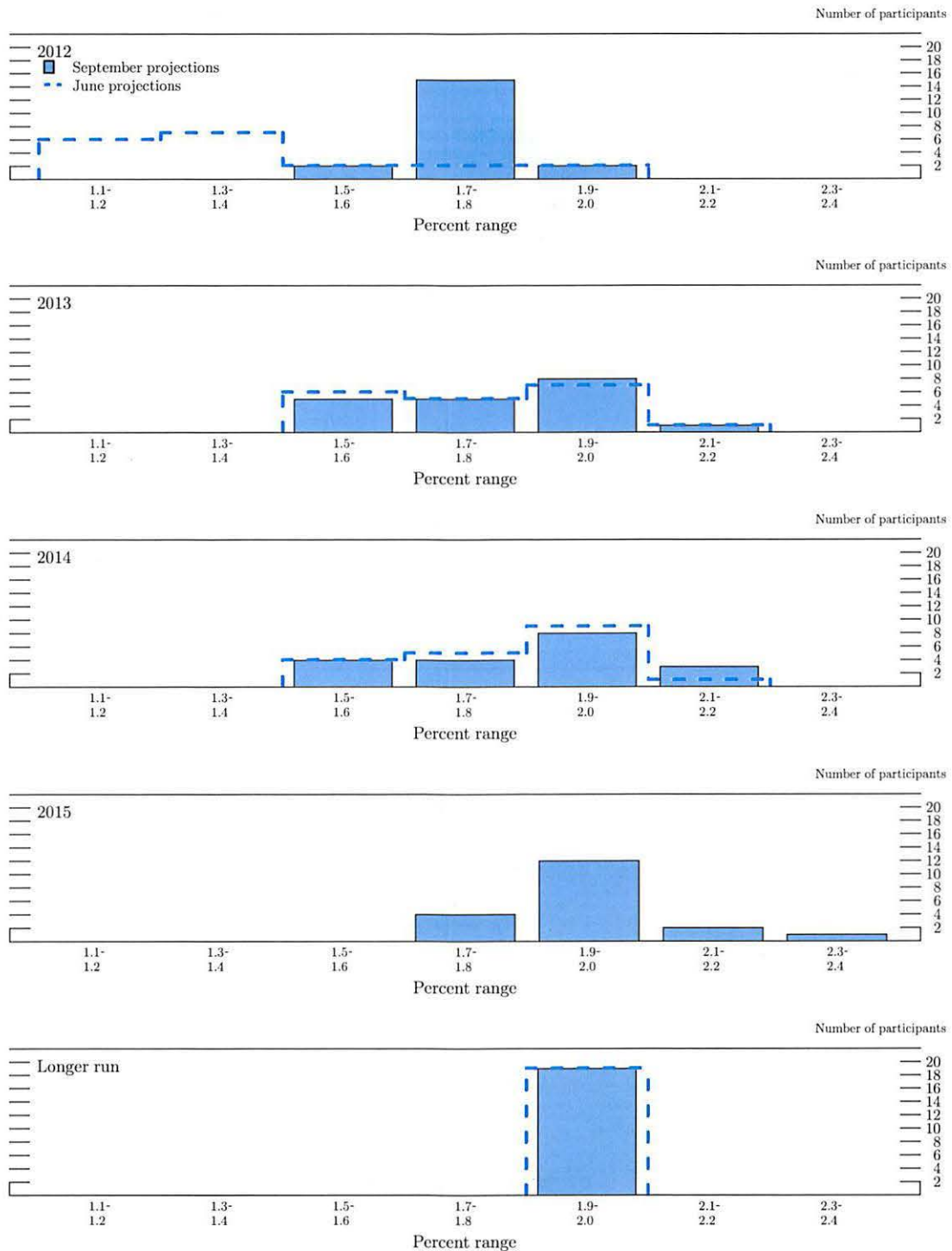
tary policy called for a more-accommodative path for the federal funds rate than in their June submissions, involving either a lower target for the federal funds rate at the end of the initial year of policy firming, or a shift out in the first year of firming.

All participants reported levels for the appropriate target federal funds rate at the end of 2014 that were well below their estimates of the level expected to prevail in the longer run, and most saw the appropriate target federal funds rate as still well below its longer-run value at the end of 2015. Estimates of the longer-run target federal funds rate ranged from 3 to 4½ percent, reflecting the Committee's inflation objective of 2 percent and participants' judgments about the longer-run equilibrium level of the real federal funds rate.

Participants also provided qualitative information on their views regarding the appropriate path of the Federal Reserve's balance sheet. Eleven participants indicated that appropriate policy would involve a decision by the Committee, at the September meeting or soon thereafter, to undertake significant additional asset purchases. Several participants envisioned this program as entailing purchases of agency mortgage-backed securities. Almost all participants assumed that, at the appropriate time, the Committee would carry out the normalization of the balance sheet according to the principles approved at the June 2011 FOMC meeting. In general, participants linked their preferred start dates for the normalization process to their views for the appropriate timing of the first increase in the target federal funds rate.

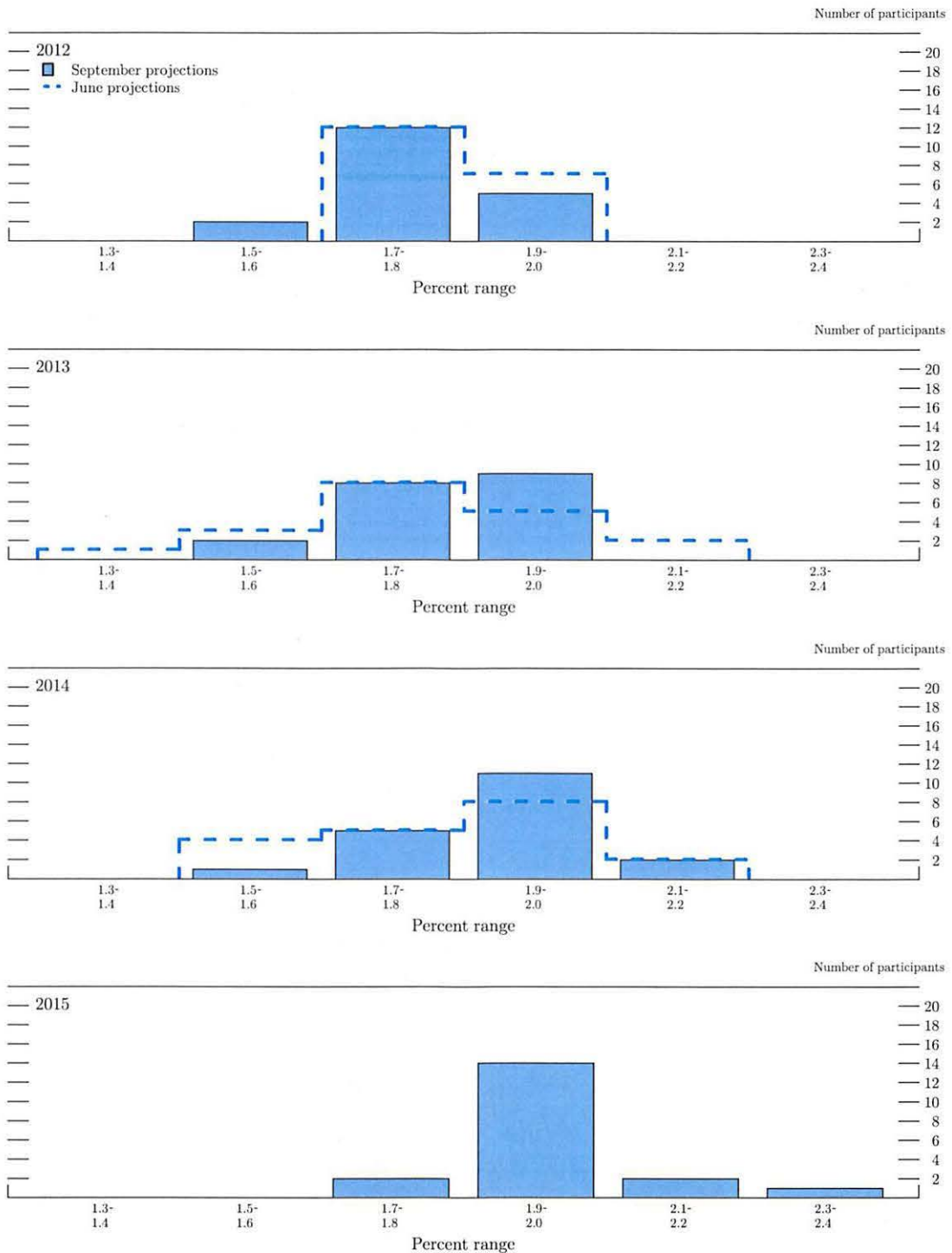
The key factors informing participants' individual assessments of the appropriate setting for monetary policy included their judgments regarding labor market conditions that would be consistent with the maximum level of employment, the extent to which employment currently deviated from the maximum level of employment, the extent to which inflation deviated from the Committee's longer-term objective of 2 percent, and participants' projections of the likely time horizon necessary to return employment and inflation to mandate-consistent levels. Several participants noted that their assessments of appropriate monetary policy reflected the subpar pace of labor market improvement and the persistent shortfall of output from potential since the 2007–09 recession. A few participants noted that their settings of appropriate federal funds rate policy took into account unusual factors prevailing in recent years, such as the likelihood that the neutral level of the federal funds rate was somewhat below its his-

Figure 3.C. Distribution of participants' projections for PCE inflation, 2012–15 and over the longer run



NOTE: Definitions of variables are in the general note to table 1.

Figure 3.D. Distribution of participants' projections for core PCE inflation, 2012–15



NOTE: Definitions of variables are in the general note to table 1.

torical norm and the fact that policy rate setting had been constrained by the effective lower bound on nominal interest rates. Two participants expressed concern that a protracted period of very accommodative monetary policy could lead to imbalances in the financial system. Participants also noted that because the appropriate stance of monetary policy is conditional on the evolution of real activity and inflation over time, their assessments of the appropriate future path of the federal funds rate and the balance sheet could change if economic conditions were to evolve in an unexpected manner.

Figure 3.E details the distribution of participants' judgments regarding the appropriate level of the target federal funds rate at the end of each calendar year from 2012 to 2015 and over the longer run. As previously noted, most participants judged that economic conditions would warrant maintaining the current low level of the federal funds rate through the end of 2014. Views on the appropriate level of the federal funds rate at the end of 2015 were more widely dispersed, with 10 participants seeing the appropriate level of the federal funds rate as 1 percent or lower and 6 of them seeing the appropriate rate as 2½ percent or higher. Those who judged that a longer period of very accommodative monetary policy would be appropriate generally were participants who projected a sizable gap between the unemployment rate and the longer-run normal level of the unemployment rate until 2015 or later. In contrast, the 6 participants who judged that policy firming should begin in 2012, 2013, or 2014 indicated that the Committee would need to act relatively soon in order to keep inflation near the FOMC's longer-run objective of 2 percent and to prevent a rise in inflation expectations.

Uncertainty and Risks

Nearly all participants judged that their current level of uncertainty about real GDP growth and unemployment was higher than was the norm during the previous 20 years (figure 4).¹ Eight participants judged the level of uncertainty associated with their forecasts of total PCE inflation to be higher as well, while another 10 participants viewed uncertainty about inflation as

¹ Table 2 provides estimates of the forecast uncertainty for the change in real GDP, the unemployment rate, and total consumer price inflation over the period from 1991 to 2011. At the end of this summary, the box "Forecast Uncertainty" discusses the sources and interpretation of uncertainty in the economic forecasts and explains the approach used to assess the uncertainty and risks attending the participants' projections.

Table 2. Average historical projection error ranges
Percentage points

Variable	2012	2013	2014	2015
Change in real GDP ¹	±0.6	±1.4	±1.7	±1.7
Unemployment rate ¹	±0.2	±0.9	±1.5	±1.9
Total consumer prices ²	±0.5	±0.9	±1.1	±1.0

NOTE: Error ranges shown are measured as plus or minus the root mean squared error of projections for 1992 through 2011 that were released in the fall by various private and government forecasters. As described in the box "Forecast Uncertainty," under certain assumptions, there is about a 70 percent probability that actual outcomes for real GDP, unemployment, and consumer prices will be in ranges implied by the average size of projection errors made in the past. Further information may be found in David Reifschneider and Peter Tulip (2007), "Gauging the Uncertainty of the Economic Outlook from Historical Forecasting Errors," Finance and Economics Discussion Series 2007-60 (Washington: Board of Governors of the Federal Reserve System, November).

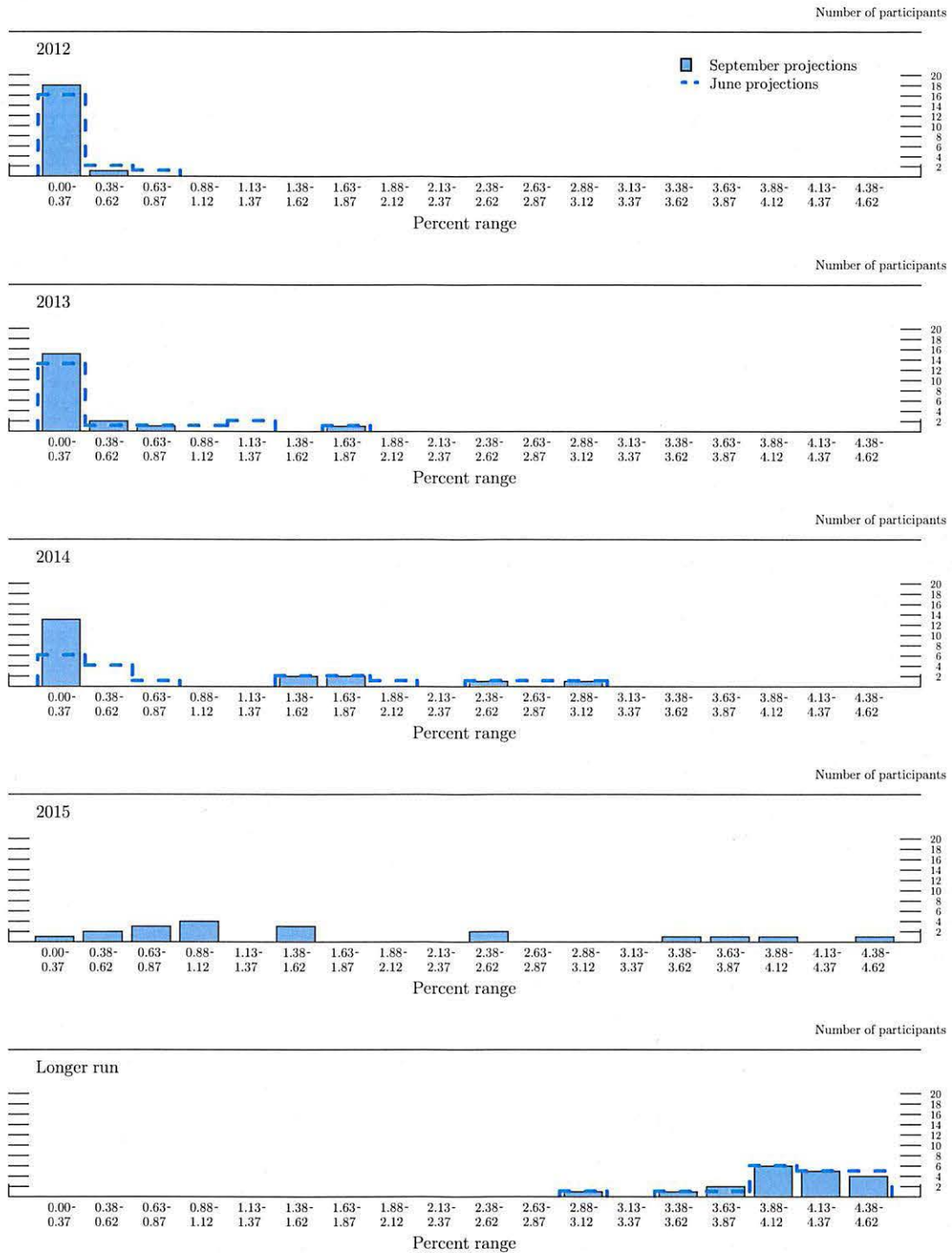
1. Definitions of variables are in the general note to table 1.
2. Measure is the overall consumer price index, the price measure that has been most widely used in government and private economic forecasts. Projection is percent change, fourth quarter of the previous year to the fourth quarter of the year indicated.

broadly similar to historical norms. The main factors cited as contributing to the elevated uncertainty about economic outcomes were the ongoing fiscal and financial situation in Europe, the outlook for fiscal policy in the United States, and a general slowdown in global economic growth, including the possibility of a significant slowdown in China. As in June, participants noted the difficulties associated with forecasting the path of the U.S. economic recovery following a financial crisis and recession that differed markedly from recent historical experience. A number of participants commented that in the aftermath of the financial crisis, they were more uncertain about the level of potential output and its rate of growth. A couple of participants noted that some of the uncertainty about potential output arose from the risk that continuation of long-term unemployment might impair the skill level of the labor force or cause some workers to retire earlier than would otherwise have been the case, thereby reducing potential output in the medium term.

A majority of participants reported that they saw the risks to their forecasts of real GDP growth as weighted toward the downside and, accordingly, the risks to their projections of the unemployment rate as tilted to the upside. The most frequently identified sources of risk were the situation in Europe, which many participants thought had the potential to slow global economic activity further, particularly over the near term, and issues associated with fiscal policy in the United States.

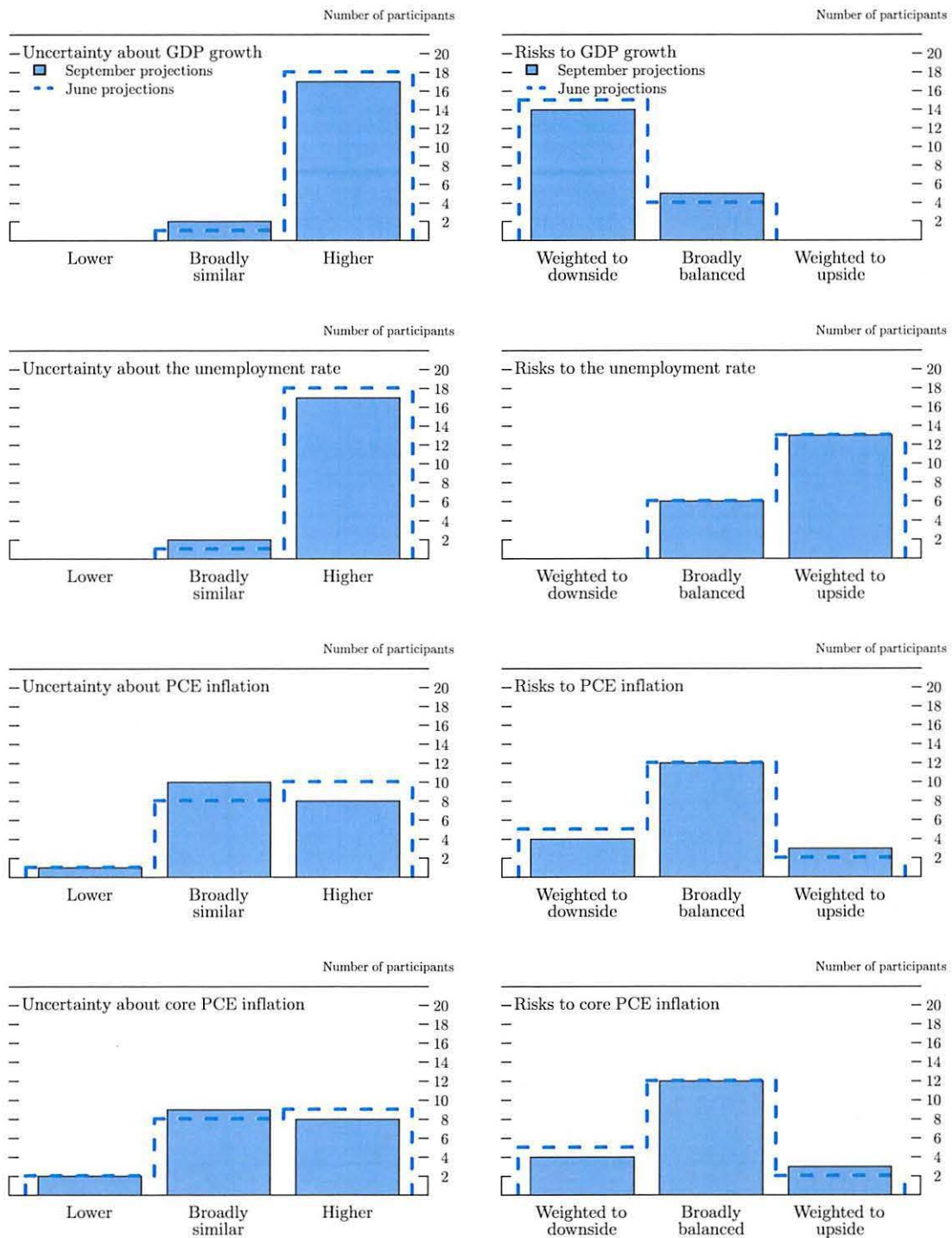
Most participants continued to judge the risks to their projections for inflation as broadly balanced, with several highlighting the recent stability of inflation expecta-

Figure 3.E. Distribution of participants' projections for the target federal funds rate, 2012–15 and over the longer run



NOTE: The target federal funds rate is measured as the level of the target rate at the end of the calendar year or in the longer run.

Figure 4. Uncertainty and risks in economic projections



NOTE: For definitions of uncertainty and risks in economic projections, see the box "Forecast Uncertainty." Definitions of variables are in the general note to table 1.

tions. However, four participants saw the risks to inflation as tilted to the downside, with a couple of them noting that slack in resource markets could turn out to be greater than they were anticipating. Three participants saw the risks to inflation as weighted to the up

side in light of concerns about U.S. fiscal imbalances, the current highly accommodative stance of monetary policy, and uncertainty about the Committee's ability to shift to a less accommodative policy stance when it becomes appropriate to do so.

Forecast Uncertainty

The economic projections provided by the members of the Board of Governors and the presidents of the Federal Reserve Banks inform discussions of monetary policy among policymakers and can aid public understanding of the basis for policy actions. Considerable uncertainty attends these projections, however. The economic and statistical models and relationships used to help produce economic forecasts are necessarily imperfect descriptions of the real world, and the future path of the economy can be affected by myriad unforeseen developments and events. Thus, in setting the stance of monetary policy, participants consider not only what appears to be the most likely economic outcome as embodied in their projections, but also the range of alternative possibilities, the likelihood of their occurring, and the potential costs to the economy should they occur.

Table 2 summarizes the average historical accuracy of a range of forecasts, including those reported in past *Monetary Policy Reports* and those prepared by the Federal Reserve Board's staff in advance of meetings of the Federal Open Market Committee. The projection error ranges shown in the table illustrate the considerable uncertainty associated with economic forecasts. For example, suppose a participant projects that real gross domestic product (GDP) and total consumer prices will rise steadily at annual rates of, respectively, 3 percent and 2 percent. If the uncertainty attending those projections is similar to that experienced in the past and the risks around the projections are broadly balanced, the numbers reported in table 2 would imply a probability of about 70 percent that actual GDP would expand within a range of 2.4 to 3.6 percent in the current year, 1.6 to 4.4 per-

cent in the second year, and 1.3 to 4.7 percent in the third and fourth years. The corresponding 70 percent confidence intervals for overall inflation would be 1.5 to 2.5 percent in the current year, 1.1 to 2.9 percent in the second year, 0.9 to 3.1 percent in the third year, and 1.0 to 3.0 percent in the fourth year.

Because current conditions may differ from those that prevailed, on average, over history, participants provide judgments as to whether the uncertainty attached to their projections of each variable is greater than, smaller than, or broadly similar to typical levels of forecast uncertainty in the past, as shown in table 2. Participants also provide judgments as to whether the risks to their projections are weighted to the upside, are weighted to the downside, or are broadly balanced. That is, participants judge whether each variable is more likely to be above or below their projections of the most likely outcome. These judgments about the uncertainty and the risks attending each participant's projections are distinct from the diversity of participants' views about the most likely outcomes. Forecast uncertainty is concerned with the risks associated with a particular projection rather than with divergences across a number of different projections.

As with real activity and inflation, the outlook for the future path of the federal funds rate is subject to considerable uncertainty. This uncertainty arises primarily because each participant's assessment of the appropriate stance of monetary policy depends importantly on the evolution of real activity and inflation over time. If economic conditions evolve in an unexpected manner, then assessments of the appropriate setting of the federal funds rate would change from that point forward.

September 13, 2012

Chairman Bernanke's Press Conference

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**Transcript of Chairman Bernanke's Press Conference
September 13, 2012**

CHAIRMAN BERNANKE. Good afternoon. Earlier today the Federal Open Market Committee (FOMC) approved new measures to support the recovery and employment growth. I'll get to the specifics of our actions in a few moments, but I'll first describe the economic conditions that motivated the Committee's decision to take additional actions.

As you know, the Federal Reserve conducts monetary policy under a dual mandate from Congress to promote maximum employment and price stability. The United States has enjoyed broad price stability since the mid-1990s and continues to do so today. The employment situation, however, remains a grave concern. While the economy appears to be on a path of moderate recovery, it isn't growing fast enough to make significant progress reducing the unemployment rate. Fewer than half of the 8 million jobs lost in the recession have been restored. And, at 8.1 percent, the unemployment rate is nearly unchanged since the beginning of the year and is well above normal levels.

The weak job market should concern every American. High unemployment imposes hardship on millions of people, and it entails a tremendous waste of human skills and talents. Five million Americans have been unemployed for more than six months, and millions more have left the labor force—many of them doubtless because they have given up on finding suitable work. As the skills of the long-term unemployed atrophy and as their connections to the labor market wither, they may find it increasingly difficult to get good jobs, to their and their families' cost, of course, but also to the detriment of our nation's productive potential.

To help bolster the recovery and promote price stability, the FOMC has provided unprecedented levels of policy accommodation in recent years. With our main policy interest

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rate near its effective lower bound, we have been using two complementary tools to carry out monetary policy—balance sheet actions and forward guidance regarding how long we anticipate maintaining exceptional levels of policy accommodation. While providing this support, we have been prudent, carefully weighing the potential benefits and costs of each new policy action, and recognizing that monetary policy, particularly in the current circumstances, cannot cure all economic ills.

The FOMC has taken several actions this year. In January, it extended its forward guidance, stating that it anticipated that the federal funds rate will remain near current levels until late 2014. In June, the Committee decided to continue through the end of the year the previously established program to extend the average maturity of the securities it holds by buying longer-term securities and selling an equivalent amount of shorter-term securities. However, incoming data confirm that the modest pace of growth continues to be inadequate to generate much progress on unemployment. With inflation anticipated to run at or below our 2 percent objective, the Committee has become convinced that further policy accommodation is warranted to strengthen the recovery and support the gains we have begun to see in housing and other sectors.

Accordingly, the FOMC decided today on new actions, electing to expand its purchases of securities and extend its forward guidance regarding the federal funds rate. Specifically, the Committee decided to purchase additional agency mortgage-backed securities, or MBS, at a pace of \$40 billion per month. The new MBS purchases—combined with the existing maturity extension program and the continued reinvestment of principal payments from agency debt and agency MBS already on our balance sheet—will result in an increase in our holdings of longer-term securities of about \$85 billion each month for the remainder of the year. The program of MBS purchases should increase the downward pressure on long-term interest rates more

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generally, but also on mortgage rates, specifically, which should provide further support for the housing sector by encouraging home purchases and refinancing.

The Committee also took two steps to underscore its commitment to ongoing support for the recovery. First, the Committee will closely monitor incoming information on economic and financial developments in coming months, and if we do not see substantial improvement in the outlook for the labor market, we will continue the MBS purchase program, undertake additional asset purchases, and employ our policy tools as appropriate until we do. We will be looking for the sort of broad-based growth in jobs and economic activity that generally signal sustained improvement in labor market conditions and declining unemployment. Of course, in determining the size, pace, and composition of any additional asset purchases, we will, as always, take appropriate account of the inflation outlook and of their efficacy and costs.

Additionally, the Committee emphasized that it expects a highly accommodative stance of monetary policy to remain appropriate for a considerable time after the economic recovery strengthens. This should provide greater assurance to households and businesses that policy accommodation will remain even as the economy picks up. In particular, the Committee today kept the target range for the federal funds rate at 0 to ¼ percent and stated that it anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015.

In conjunction with today's meeting, FOMC participants—the 7 Board members and 12 Reserve Bank presidents—submitted their individual economic projections and policy assessments for the years 2012 through 2015 and over the longer run. Committee participants' projections for the unemployment rate in the fourth quarter of this year have a central tendency of 8.0 to 8.2 percent, declining to 6.0 to 6.8 percent in the fourth quarter of 2015, levels that

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remain somewhat above participants' estimates of the longer-run normal rate of unemployment. Participants' projections of inflation have a central tendency of 1.7 percent to 1.8 percent for this year and 1.8 percent to 2.0 percent for 2015.

While the economy appears to be advancing at a moderate pace, with some improvements appearing in housing and elsewhere, FOMC participants see an economic outlook that remains uncertain. The economy continues to face economic headwinds, including the situation in Europe; tight credit for some borrowers; and fiscal contraction at the federal, state, and local levels. In addition, strains in global financial markets continue to pose significant downside risks.

Before I take your questions, I'd like to briefly address three concerns that have been raised about the Federal Reserve's accommodative monetary policy. The first is the notion that the Federal Reserve's securities purchases are akin to fiscal spending. The second is that a policy of very low rates hurts savers. The third is that the Federal Reserve's policies risk inflation down the road.

On the first concern, I want to emphasize that the Fed's purchases of longer-term securities are not comparable to government spending. The Federal Reserve buys financial assets, not goods and services. Ultimately, the Federal Reserve will normalize its balance sheet by selling these financial assets back into the market or by allowing them to mature. In the interim, the Federal Reserve's earnings from its holdings of securities are remitted to the Treasury. In fact, the odds are strong that the Fed's asset purchase programs, both through their net interest earnings and by strengthening the overall economy, will help reduce rather than increase the federal deficit and debt.

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On the second concern, my colleagues and I are very much aware that holders of interest-bearing assets, such as certificates of deposit, are receiving very low returns. But low interest rates also support the value of many other assets that Americans own, such as homes and businesses large and small. Indeed, in general, healthy investment returns cannot be sustained in a weak economy, and, of course, it is difficult to save for retirement or other goals without the income from a job. Thus, while low interest rates do impose some costs, Americans will ultimately benefit most from the healthy and growing economy that low interest rates help promote.

And finally, on inflation: Inflation has varied in recent years with swings in global food and fuel prices caused by a range of factors, such as drought and geopolitical tensions. However, overall inflation has averaged very close to the Committee's goal of 2 percent per year for quite a few years now, and a variety of measures show that longer-term inflation expectations are quite stable. The Federal Reserve is fully committed to both sides of its mandate—to price stability as well as to maximum employment—and it has both the tools and the will to act at the appropriate time to avoid any emerging threat to price stability.

Thank you. I'd be happy to respond to your questions.

DARREN GERSH. Hi, Mr. Chairman, it's Darren Gersh, *Nightly Business Report*. Your forecast doesn't get back to full employment for four years, so could these new bond purchases go on for years? And can you give us a better idea of when you'll—if you have specifics in mind on when you'll know it's time to stop?

CHAIRMAN BERNANKE. Yes. We'll be looking for signs that the economy is strong enough to promote improvement and sustained improvement in labor market conditions and declines in unemployment. I mean, that's—we're not going to be able to sustain purchases until

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we're all the way back to full employment, that's not the objective. The idea is to quicken the recovery, to help the economy begin to grow quickly enough to generate new jobs and reduce the unemployment rate. So that's the criterion we're looking at.

KRISTINA PETERSON. Kristina Peterson of Dow Jones. The statement indicated that the highly accommodative stance would be maintained until after the recovery starts to strengthen, but there aren't any specific economic conditions that are described. Could you describe what those would be? Or is the Fed—the Fed seems reluctant to have done that so far.

CHAIRMAN BERNANKE. Well, we've been talking about our communications at the FOMC and trying to think about how best to communicate to the public, you know, what our policy reaction function, so to speak, is. And we haven't, to this point, come to a set of numbers, a set of data that we can put out. But what we're trying to convey here is that we're not going to be premature in removing policy accommodation. Even after the economy starts to recover more quickly, even after the unemployment rate begins to move down more decisively, we're not going to rush to begin to tighten policy. We're going to give it some time to make sure the recovery is well established.

STEVE LIESMAN. Mr. Chairman, I want to talk about that same line in the statement. Does that mean that your tolerance for inflation will be higher in coming years, in the middle of the recovery? And, if not, what good is that language there if it doesn't tell people that the reaction function relative to inflation has changed? Secondly, stock prices are up today, so are oil prices and gold. Why aren't those part of the same reaction to the Fed's acts today?

CHAIRMAN BERNANKE. Well, our policy approach doesn't involve intentionally trying to raise inflation. That's not the objective. The idea is to make sure we provide enough support so the economy will grow fast enough to bring unemployment down over time. I mean,

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as we look back at the last six months or so, we've seen unemployment at basically the same place it was in January. We've seen not enough jobs growth to bring down the unemployment rate, and what we need to see is more progress. And that's what we will be looking at. In terms of the mid-2015 date, we think by that point that the economy will be recovering, we'll be providing the support it needs. But if you look at our projections, you'll see it doesn't involve any inflation, that we still believe that inflation is going to be close to our 2 percent target.

STEVE LIESMAN. All right, I just need to follow up. Does this—so you're saying it does not include greater tolerance for inflation, that you will—you would reverse course if inflation were to be above your target level, even given that statement?

CHAIRMAN BERNANKE. Well, if inflation goes above the target level, as we talked about in our statement in January, we take a balanced approach. We bring inflation back to the target over time, but we do it in a way that takes into account the deviations of both of our objectives, you know, from their targets.

ZACHARY GOLDFARB. Thank you, Mr. Chairman. Earlier this year, on two occasions, the Fed took policy actions, which you defended as extremely important for the economy, but, as you mentioned, there hasn't been any improvement in the labor markets since the beginning of the year. Why should people believe this will make a difference? And the projections seem to suggest it's approximately a 0.4 reduction in unemployment. Is that the limit of what Fed policies can do going forward?

CHAIRMAN BERNANKE. Well, our assessment—I talked about this at my remarks at Jackson Hole—our assessment, and that of the research literature, is that the policies that we've undertaken have had real benefits for the economy—that they have provided some support, that they have eased financial conditions and help reduce unemployment. All that being said,

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monetary policy, as I've said many times, is not a panacea. It's not by itself able to solve these problems. We're looking for policymakers in other areas to do their part. We'll do our part, and we'll try to make sure that unemployment moves in the right direction, but we can't solve this problem by ourselves.

ZACHARY GOLDFARB. And do you think that 0.4 percent difference in the projections is about what's possible?

CHAIRMAN BERNANKE. Well, what happens is going to depend on where the economy goes—how much ultimate accommodation we give the economy. The 0.4 percent you're referring to is the change in the forecast between the last projection and this one. But remember, people make projections assuming that policy is appropriate. So some of them may have assumed these policies in their last projections, and not all are assuming these policies in this projection. So that's probably a little bit of an understatement of what we think we can get. But in any case, again, I want to be clear that while I think we can make a meaningful and significant contribution to this problem—to reducing this problem, we can't solve it. We don't have tools that are strong enough to solve the unemployment problem.

MIKE MCKEE. You've made an eloquent explanation over the past couple of weeks of the Fed's ability to lower interest rates. But what's missing for many economists is how the transmission mechanism is going to work. Most people think this will have a minimal effect on rates. Can you give us an idea of how much you think it might push rates down, and why moving rates down a few basis points might change demand, which seems to be the problem in the economy?

CHAIRMAN BERNANKE. Well, the ultimate effect is going to depend, of course, on how much we end up doing, and that, in turn, is going to depend on what the economy does.

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This is a conditional program; we're going to be providing accommodation according to how the economy evolves. I think that's the virtue of putting it this way, is that if the economy is weaker, we'll provide more support; if the economy strengthens on its own or other headwinds die down, then it will require less support. So the amount of support we provide is going to depend on how the economy evolves. We do think that these policies can bring interest rates down—not just Treasury rates, but a whole range of rates, including mortgage rates and rates for corporate bonds and other types of important interest rates. It also affects stock prices. It affects other asset prices—home prices, for example. So looking at all the different channels of effect, we think it does have impact on the economy. It will have impact on the labor market, but, as again, the way I would describe it is a meaningful effect, a significant effect, but not a panacea, not a solution for the whole issue. We're just trying to get the economy moving in the right direction, to make sure that we don't stagnate at high levels of unemployment, that we're making progress towards more acceptable levels of unemployment.

ROBIN HARDING. Robin Harding from the *Financial Times*. Mr. Chairman, is this the limit of what the Fed could do? You refer in your statement to other policy tools. If the unemployment situation doesn't improve, then what other measures do you have available? Thank you.

CHAIRMAN BERNANKE. Well, there's a variety of possibilities, and we continue to look at all different options. But the two primary types of tools, as I've discussed, are balance sheet actions—and, of course, we can restructure those, change those in various ways; the other type of tool is communication tools. And we could—we continue to work on how best to communicate with the public and how best to assure the public that the Fed will remain accommodative long enough to ensure recovery. So, working with our communications tools,

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clarifying our response to economic conditions, might be one way in which we could further provide accommodation.

PEDRO DA COSTA. Pedro da Costa from Reuters. My question is—I want to go back to the transmission mechanism because, speaking to people on the sidelines of the Jackson Hole conference, that seemed to be the concern about the remarks that you made is that they could clearly see the effect on rates and they could see the effect on the stock market, but they couldn't see how that had helped the economy. So I think there's a fear that, over time, this has been a policy that's helping Wall Street but not doing that much for Main Street. So could you describe, in some detail, how does it really differ—differ from trickle-down economics, where you just pump money into the banks and hope that they lend?

CHAIRMAN BERNANKE. Well we are—this is a Main Street policy, because what we're about here is trying to get jobs going. We are trying to create more employment, we are trying to meet our maximum employment mandate, so that's the objective. Our tools involve—I mean, the tools we have involve affecting financial asset prices, and that's—those are the tools of monetary policy. There are a number of different channels—mortgage rates, I mentioned other interest rates, corporate bond rates, but also the prices of various assets, like, for example, the prices of homes. To the extent that home prices begin to rise, consumers will feel wealthier, they'll feel more disposed to spend. If house prices are rising, people may be more willing to buy homes because they think that they'll, you know, make a better return on that purchase. So house prices is one vehicle. Stock prices—many people own stocks directly or indirectly. The issue here is whether or not improving asset prices generally will make people more willing to spend. One of the main concerns that firms have is there is not enough demand, there's not enough people coming and demanding their products. And if people feel that their financial

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situation is better because their 401(k) looks better or for whatever reason, their house is worth more, they are more willing to go out and spend, and that's going to provide the demand that firms need in order to be willing to hire and to invest.

JON HILSEN RATH. Jon Hilsenrath from the *Wall Street Journal*. Mr. Chairman, the statement says—we've come back to this a couple of times—“If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, ... additional asset purchases, and employ ... other policy tools.” Can you define and describe more specifically what “improve substantially” means? And what do you—what is the Committee referring to when it says “additional asset purchases” and “other ... tools.”

CHAIRMAN BERNANKE. Well, again, we're looking for ongoing sustained improvement in the labor market. There's not a specific number we have in mind. But what we've seen in the last six months isn't it. We're looking for something that involves unemployment coming down in a sustained way, not necessarily a rapid way, because I don't know if our tools are that strong, but we'd like to see an economy which is strong enough that it will support improving labor market conditions and unemployment that's declining gradually over time. That's essentially what we're looking for. In terms of the tools that we have, we have the mortgage-backed security purchases, which we can continue or expand or change in any—you know, in various ways. We could also purchase, of course, Treasuries; we've retained that capacity. And in terms of other policies, again, there are a number of possibilities, but the one I mentioned to Zach in particular is our communication policies, finding ways to better explain our rate policies that will engender more-accommodative financial conditions.

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BINYAMIN APPELBAUM. Mr. Chairman, it seems pretty clear that the Fed's announcement today has created a good deal of confusion about how long you'll keep buying assets, judging from the questions in this room and outside of it. Why did you choose not to adopt a specific target? Did the Committee consider specific targets—there have been a number of proposals—and why did you choose not to do that?

CHAIRMAN BERNANKE. Well, we—the problem is that, for this purpose, that what we're looking for is a general improvement in labor market conditions. We want to see the unemployment rate come down, but that's not the only indicator, obviously, of labor market conditions. The unemployment rate came down last month because participation fell. That's not necessarily a sign of improvement. So we want to see more jobs. We want to see lower unemployment. We want to see a stronger economy that can cause the improvement to be sustained; it's not just a one-month or two-month phenomenon. We're not going to be looking for little wiggles in the numbers that are going to cause us to radically shift our policy. So, we, at least at this point, have decided to define it qualitatively. I hope I am giving you at least a little color in terms of what we'll be looking for. We'll be looking for, again, an economy which is quickening, that gives signs of continued improvement, that allows labor markets to be stronger, and that will be the type of qualitative criteria that we look at. We don't—again, we don't have a single number that captures that, but we anticipate that we'll have to do more, and we'll do enough to make sure that the economy gets on the right track.

CRAIG TORRES. Hi, Mr. Chairman. Someone told me that less than 1 percent of all mortgages originated in the past 18 months went to borrowers with impaired credit history. So when we talk about people and a Main Street policy, it seems like you're struggling, like many other central banks, and that's to get the low rates down to—the challenge is to get them to

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people who really need them, people who are paying high rates or companies with somewhat fragile balance sheets. So, given that's the case—I mean, you guys got involved in markets when they were dysfunctional in the crisis. What's your appetite for doing more-targeted credit programs if, post-election, you had a Treasury Secretary and a Congress that was willing to underwrite some of the credit risk?

CHAIRMAN BERNANKE. Well, now you're talking about congressional programs, and I don't, you know, I don't advocate specific programs. It's up to them to make those decisions. I think we're seeing modest improvement in mortgage markets. One thing that's helping is a stronger housing market. One reason that lenders have been very constrained is they are worried about further house price declines that will make the collateral worth less than the loan. As house prices have begun to rise, as the economy has gotten a little stronger, lending standards have eased just a bit. There's also been other changes which are useful. I note, for example, that the FHFA and the GSEs have recently changed their policy on putbacks so that banks will have more certainty about under what conditions a mortgage will be put back to them if it defaults. So I think there's number of things in train that will make the mortgage markets a little bit more open, and that is one factor, actually, that could make our policy more effective rather than less effective over time—if more people have access to mortgage credit, more people can take advantage of the low rates that we're providing.

GREG IP. Greg Ip of the *Economist*. Mr. Chairman, one of the innovations of your statement today is that you have for the first time explicitly predicated your monetary policy action on the achievement of explicit economic goals, in this case a substantial improvement in the labor market. Could you give us some explanation of how that conditioning will make your policy more effective than if you had simply done as you previously have: announced the policy

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and then conducted it? And a technical question: When "Operation Twist" ends, do you anticipate adjusting the size of your asset purchases in order to maintain the \$85 billion monthly flow of long-term asset purchases?

CHAIRMAN BERNANKE. On the latter, when Operation Twist ends, we will be looking at the whole set of asset purchases in order to make decisions. We'll be looking at the state of the economy, as we described in the statement. In particular, what's the state of the labor market, what's the state of the outlook for economic growth? On conditioning, our policies have always been conditional in that we've always been clear that our asset purchases, for example, were reviewed periodically to see if they were still necessary, if they needed to be expanded. We did extend the maturity extension program, for example, when we thought that more support was needed for the economy, so our policies have always had a significant element of conditionality. But the idea here is to make that more explicit, more transparent to the public, make it more obvious that the Fed will do what's needed to provide the support for the economy. And we hope that what that will do is provide a bit more assurance, maybe a bit more confidence, that the Fed will be there to do what it can. Again, we're not promising, you know, a cure to all these ills. But what we can do is provide some support, and by assuring the public that we will be prepared to take action if the economy falters, we're hopeful that that will increase confidence and make people more willing to invest, hire, and spend.

PETER BARNES. Sir, just to follow up on—Peter Barnes with Fox Business—to follow up on Darren's questions, a question about getting back to full employment. It looks like there's a lot more work to do here. And so I wanted to ask you about your plans as Fed Chairman—your term expires in January of 2014. Governor Romney's comments notwithstanding, what are your plans? Do you plan to leave at that time? Would you consider an appointment to a third

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term at the Fed at all? And then, if I may, on election year politics, is there any—do you have any concern or was there any discussion within the Committee about whether or not your actions today might be perceived as helping President Obama, helping the economy, and thus helping President Obama get reelected and hurting Governor Romney's chances in the presidential contest? Thank you.

CHAIRMAN BERNANKE. Well, on the former, I'm—I have a lot to do. I am very focused on my work, and I don't have any decision or any information to give you on my personal plans. On the politics, we have tried very, very hard—and I think we've been successful—at the Federal Reserve to be nonpartisan and apolitical. We make our decisions based entirely on the state of the economy and the needs of the economy for policy accommodation. So we just don't take those factors into account, and we think that's the best way to maintain our independence and maintain the trust of the public.

DONNA BORAK. Chairman, Donna Borak with *American Banker*. My question pertains to Basel III. Community bankers, as you know, have been very worried about the impact that these rules will have on their banks, especially given the fact that there's been some industry consolidation, and some have even questioned whether or not the Fed has actually looked at the impact that the rules would have on smaller-sized institutions. So my question for you is, will there be relief for the smaller institutions, and can you provide any assurance that this will not be a one-size-fits-all regulation?

CHAIRMAN BERNANKE. Certainly. We are very interested in and very focused on community banks at the Fed. We believe they play a very important role in our economy and in our communities. We have a number of ways of communicating with community banks. It includes our advisory council made up of community bankers. It includes a special set of

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programs we have to reach out and talk to community bankers. So we are very interested in their views. I speak regularly to conventions and the like and talk to various groups. In terms of Basel III, of course, it's not one-size-fits-all. Many—and, indeed, many of the most difficult, complex regulations apply only to the largest and most complex institutions—for example, the capital surcharge that the largest banks have to hold, the complex rules applying to trading books and derivatives, the extra supervision under section 165, the orderly liquidation authority, the liquidity rules—the whole range of things that apply only to the largest, most complex, and internationally active banks. For the smaller banks, what our proposed rule does is try to strengthen their capital, and many small banks will already meet those capital requirements. Smaller banks tend to be very well capitalized. But, of course, it's important for small banks to be well capitalized as well as large banks. And there's a leverage requirement. But, again, most of the rules, most of the—particularly the most complex rules in Basel III will not apply to the smaller banks. Indeed, banks under \$500 million have special exemptions from these rules. Having said all of that, I remind you that what we have now is a proposed rule, and we're receiving comment on that. We have a subcommittee of our supervision committee with two experienced—one community banker, one community bank supervisor on it from our Board who are particularly interested in making sure that the rules are not excessively onerous, and we will be looking at the comments and trying to make sure that we take into account the needs of community banks when we put out the final rule.

GREG ROBB. Thank you, Mr. Chairman. Yesterday former Fed Governor Larry Meyer at a conference in Washington said he'd never seen such a divided Fed. And we see it, we who cover the Fed see it in the speeches, in the run-up to today's decision. Some people said that it was dubious whether QE3 would work. Could you comment on former Governor Meyer's

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suggestions, and then—and sometimes don't you think, don't you wish that some of the Fed officials who don't support QE would keep their—keep their fears to themselves? Thank you.

CHAIRMAN BERNANKE. Well, as you know, we are living in a very complex time and dealing with a complex economic situation and a variety of novel and different issues, including new policies that haven't been used in the same way in the past, and so naturally we have a range of views, a range of opinions. I think on the whole that's probably a good thing. It's good to hear different points of view, and it's good to make sure that the points of view that are outside the Fed are reflected in the discussion around the table inside the Fed. So we have a very collaborative and collegial discussion process, that, again—that spans a range of views. We were, however, able to come to a pretty good consensus—as you know, the vote on this was 11 to 1—and that's a sign that the broad center of the Committee does support these actions and will continue to support them going forward.

GREG ROBB. Does the negative commentary hurt QE? Could it, if people in the market don't think it will work?

CHAIRMAN BERNANKE. There's going to be negative commentary whether it comes from Fed officials or not. Again, because there's a range of views—some people think it's more effective than others. I discussed some of the evidence in my speech in Jackson Hole, and I talked about the fact that, you know, different researchers have gotten different estimates of the impact. Virtually all of them find that there is some beneficial impact, but they disagree on how much. So, there's going to be disagreement. And again, I personally don't think that it's a panacea, I personally don't think it's going to solve the problem. But I do think it has enough force to help nudge the economy in the right direction.

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MICHELLE FLEURY. You said that you can't cure all ills, that you haven't got strong enough tools to deal with the unemployment problem. I was curious to know what policy actions you'd like to see outside the Fed to try and address this. And, secondly, also on the "fiscal cliff," the expected spending cuts and tax increases, how concerned are you about that? And what ammunition do you have to deal with that, if that becomes a problem?

CHAIRMAN BERNANKE. Well there's, again, a range of areas where actions could be taken, and I can't really prescribe all those possible responses. I would focus, I think, on the fiscal side. We currently have the so-called fiscal cliff. If no action is taken, there's going to be a very substantial increase in taxes and cut in spending on January 1 of the coming year. The CBO has suggested that if that's allowed to take place, that it would cause unemployment to begin to rise, and it might throw the economy back into recession. So I think one very basic thing that could be done to help address the recovery—the weakness of the recovery and the need for more employment—would be to address the fiscal cliff while simultaneously addressing longer-term fiscal sustainability issues which remain, of course, very serious. So that's one area where there is a lot of potential benefit. If the fiscal cliff isn't addressed, as I've said, I don't think our tools are strong enough to offset the effects of a major fiscal shock, so we'd have to think about what to do in that contingency. So I think it's really important for the fiscal policymakers to, you know, work together and try to find a solution for that.

PATRICK WELTER. Mr. Chairman, my name is Patrick Welter with the German newspaper *Frankfurter Allgemeine Zeitung*. I have two questions, if I may. One is in the projections. In the economic and inflation projections, you foresee a low inflation rate below 2 percent to 2015—not you personally, but the FOMC. I am wondering, if you look at the growth rates, you have growth rates of about 3.4 percentage points in 2014 and 2015. How long

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do you think that it might work that you have such strong growth and no inflation pressure? And the second question, if I may, is, a lot of economists don't see too much effect out of the further round of QE3. Aren't you worried that, in promising that you will do whatever you can, even if it is tiny, small, that you give some kind of carte blanche to the fiscal policy and to the Congress not to do enough on their side of the policy action?

CHAIRMAN BERNANKE. Well, the—on inflation, we do anticipate at some point what's normal in a recovery, which is, given that the economy fell very quickly and there's a lot of unused capacity, there's a lot of slack in the economy, it would be normal that there would be a period where the economy would grow faster than trend in order to make up some of the slack that was created. So we don't anticipate the economy is going to be overheating anytime soon. And as long as we pay close attention to inflation expectations as well as the trajectory of the economy, we think inflation will remain close to our 2 percent target. On your second question, certainly, there is a range of views on how effective these tools are. I've spent a lot of time, as all of my colleagues have, looking at the evidence, and, of course, the staff here have done a great deal of work on the question. And the bottom line for most of it, most of the research, is that while these tools are not so powerful that they can solve the problem, they are at least able to provide meaningful support to the economy. Our job is to use the tools we have to meet our mandate, which is maximum employment and price stability. So if we have tools that we think can provide some assistance and we're not meeting our mandate, then I think that our obligation is to do what we can. Of course, we would like to see policies across the board to help address these issues. But, you know, that's not our province; we are the monetary policy authorities, and our job is to use monetary policy as effectively as we can.

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STEVE BECKNER. Steve Beckner of MNI, Mr. Chairman. There have been concerns raised, questions raised by people like Columbia Professor Michael Woodford and others about the credibility of your forward guidance on the path, the future path of the federal funds rate—the idea being that, to the extent it's conditional, it's not really convincing and doesn't provide the kind of confidence that you referred to. Now, on this latest statement, you've removed some of that conditionality. I am particularly struck by the statement that “the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens.” I assume that was done to make your forward guidance more credible, and yet the question remains whether, you know, as the economy picks up steam, whether the FOMC will really follow through and keep rates low or whether you will do as the Fed has always done and begin to raise the funds rate.

CHAIRMAN BERNANKE. Well, that's an important question. Michael Woodford—who, by the way, is my former colleague and coauthor and friend, so I know him quite well, and I know his works quite well—I think, actually, the thrust of his research is that forward guidance—communication about future policy—is, in fact, the most powerful tool that central banks have when the interest rate is close to zero. And he advocates policies like nominal GDP targeting, for example, that would essentially require credibility lasting many years, the implication being that the Fed would target the nominal level of GDP and promise to do that for many years in the future even if inflation, you know, rose as part of that policy. So his own perspective is that credibility is the key tool that central banks have in order to get traction at the zero lower bound. Whether we have the credibility to persuade markets that we'll follow through is an empirical question. And the evidence, which I also, again, discussed in my remarks recently, is that when we've announced extended guidance, that financial markets have

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responded to that, that private-sector forecasters have changed their estimates of what unemployment and inflation will be when the Fed begins to remove accommodation. So the empirical evidence is that our announcements do have considerable credibility. And I think there's a good reason for that, which is that we have talked a lot both publicly and privately about the rationale for maintaining rates low even as the economy strengthens, and I think the basic ideas are broadly espoused within the Committee. And so there is a consensus that even as the personnel change and so on going forward, that this is the appropriate approach, and that by following through, we will have created a reserve of credibility that we can use in any subsequent episodes that occur.

DON LEE. Don Lee with the *L.A. Times*. With mortgage rates already at historical lows, how much further do you think the actions, your actions, will drive down the rates, and related to that, I'm assuming that you expect the purchases of mortgage-backed securities to have a meaningful effect on refinancings and housing activity. What would that look like? What would that meaningful effect mean?

CHAIRMAN BERNANKE. Well, again, as I mentioned before, it's true that our mortgage-backed securities purchases ought to drive down mortgage rates, and put downward pressure on mortgage rates, and create more demand for homes and more refinancing. But it will depend, again, ultimately on several things. One will be on the amount that we do, the amount of purchases that we do, and that in turn is going to be a function of how the economy evolves. If the economy is weaker, we'll do more, and in those cases, probably rates would be pretty low at any case because the economy is looking weak. If the economy is stronger, strong enough to create improving labor market conditions, we won't have to do as much. And so, the amount that we do depends on how the economy evolves. So, since I don't know exactly how much

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we'll end up doing, it's a little bit hard to give you an exact estimate. So I think that's, you know, in terms of how many homes and those kinds of questions, again, I think that the markets are looking—are looking a little better. I think that house prices are beginning to rise in some markets, which will encourage people to look at homes, will encourage lenders to make more mortgage loans. So I'm hopeful that we'll see continued progress in the housing market; that—that has been one of the missing pistons in the engine here. Housing is usually a big part of the recovery process. We haven't had that nearly to the usual extent, and to the extent that we can support housing, I think that would be a very useful outcome.

DON LEE. There doesn't seem to be that many people who could qualify for refinancings. Can we expect a meaningful effect on an increase in refinancing activity?

CHAIRMAN BERNANKE. Well, I think there'll be some, but you get more benefit when people buy homes. And sales of homes are down still, but they have been rising steadily, and we're trying to provide more support for people who want to go out and buy homes, construct homes, and also those who want to refinance. But it's the purchases of new homes that generate the construction activity, the furnishing, all those things that help the economy grow.

SCOTT SPOERRY. Scott Spoerry with CNN and CNNMoney. Earlier this year at one of your news conferences in this room, you said that you were already hearing anecdotal information from some of your colleagues at the regional Fed Banks about firms, companies making decisions on hiring next year because they were afraid of the fiscal cliff or whatever the federal government was going to do in terms of—in terms of cutbacks. It's been a few months since you made that statement, and I'm sure your staff are working hard on it, but how much of a headwind to the economy is the fear of the federal government just sort of cutting way back, falling across the fiscal cliff or even—even if they take a few steps back from the cliff, it's still

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there. How much is that fear contributing to lack of—lack of growth or adequate GDP growth in the economy?

CHAIRMAN BERNANKE. Well I—you know, it's pretty hard to give you a number, but I can certainly confirm that as the Reserve Bank presidents and Governors made their reports today and yesterday around the table, there was considerable discussion of uncertainty, including policy uncertainty, fiscal policy uncertainty, and the implications of that for hiring and investment decisions. A lot of—a lot of firms are waiting to see whether that problem will be resolved. And if so, how? And I think it is a concern. It is something that is affecting behavior now. But again, I don't know—I don't have a number, I don't know how big that effect is, but, certainly, the sooner that can be resolved, the sooner it can be clarified, it will be beneficial not just because we avoid the cliff itself, but because we clarify for firms, for employers and investors, how that's going to be resolved. So, I think it's an issue that is of some consequence, yes.

CATHERINE HOLLANDER. Hi, Mr. Chairman. Catherine Hollander, *National Journal*. How much was the fiscal cliff a decision, or a factor in your decision, to do an open-ended QE instead of a fixed sum? Or fiscal uncertainty more generally?

CHAIRMAN BERNANKE. Well, we take the economy as we find it. There are a lot of headwinds right now that are affecting the economy. There's fiscal headwinds. There's international factors, including the situation in Europe. There's factors arising from still-impaired credit markets, and so on. So we looked at that—looked at the economy from the perspective of, you know, how quickly it's been growing over the last six months to a year. And, as I talked about in a speech in March, in order for employment gains to be sustained, for unemployment to fall, the economy needs to grow at or above trend levels. And lately it's not

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really been at trend. So we've been responding to that problem and trying to take steps that will assure somewhat stronger growth and, we hope, will help bring unemployment down over time. Now, again, the fiscal cliff, the uncertainty about the fiscal cliff, is one of the factors, one of the headwinds, but I'm sure there are many others, and we don't try to differentiate among them in any sense. If the fiscal cliff does occur, I suspect it won't, and I hope it won't, but if it does, and we get the kind of impact the Congressional Budget Office is talking about, as I've said, I don't think the Federal Reserve has the tools to offset that, and we would have to rethink at that point. But we've taken the steps we've taken now because we'd like to see the economy gather more momentum, and the more momentum it has, the better placed we are to deal with any shocks that might come down the road.

MARCY GORDON. Marcy Gordon with the Associated Press. One of the aspects we've seen in recent reports on unemployment is the shrinking labor force. Is that something that's of specific concern to you, and what does it tell us about the labor market and the economy?

CHAIRMAN BERNANKE. Well, you are absolutely right. And as I mentioned earlier, the unemployment decline last month was more than 100 percent accounted for by declines in participation. Some decline in participation is anticipated, is as expected. We're an aging society. We have more people retiring. Female participation has flattened out; it hasn't continued to climb as it did for several decades. We're seeing less participation among younger people, fewer college students taking part-time jobs and the like. So part of this decline in participation was something that we anticipated quite a long time ago, but part of it is cyclical. Part of it reflects the fact that some people—because they have essentially given up or at least are very discouraged—have decided to leave the labor force. And the anticipation is that if the

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economy really were to strengthen, and labor markets were to strengthen, at least some of those people would come back into the labor force. They might even temporarily raise the unemployment rate because they're now looking again. So the participation rate over and above—the decline in participation rate over and above the downward trend is just one of the other indicators of a generally weak labor market. And it's why I said earlier that we do want to look at a range of indicators, not just the unemployment rate, although that's a very important indicator, not just payrolls, although that also is a leading indicator, but participation, hours, part-time work, and a variety of other measures which suggest that our labor market is still in quite weak condition.

Thank you.

Background on FOMC Meeting Minutes

Deborah J. Danker and Matthew M. Luecke, of the Board's Division of Monetary Affairs, prepared this article.

On December 14, 2004, the Federal Open Market Committee (FOMC) decided to move up the publication of its minutes to three weeks after the end of each meeting. That action has cut in half the average time between the meeting and publication of the minutes. It has also apparently heightened public attention to the FOMC minutes. To give additional context to the Committee's decision, this article outlines previous changes to the release schedule for the minutes and provides a brief overview of the content of the minutes and the way they are now produced.

From the inception of the FOMC, the Federal Reserve has had an obligation to maintain records of the Committee's policymaking actions and to publish those records in its annual report to the Congress.¹ Accordingly, the Federal Reserve initially published a summary of FOMC proceedings once a year. Over time, however, as views about public access to information changed and as financial markets matured, broadened, and deepened, the FOMC provided more information more promptly, going well beyond the basic information required by the Federal Reserve Act.

This article focuses on the minutes and their production, but the minutes are by no means the sole source of public information about FOMC policymaking. For example, the Committee releases a statement on the same day that policy decisions are made, the Chairman provides semiannual testimony to the Congress, and the Board submits semiannual Monetary Policy Reports, which include a summary of the economic projections of the Board members and

Reserve Bank presidents. In addition, the Chairman testifies on the economy and other topics on several occasions during the year; Committee members regularly give public speeches; and a wide range of documents, including FOMC meeting transcripts, is made available after a five-year lag.

HISTORY

The Federal Open Market Committee was created in its modern form by the Banking Act of 1935, and for much of its history, the publicly available reports from its meetings were the "Records of Policy Actions"—also known as the "Policy Record." (See timeline chart of past and present nomenclature.) For its own use, the Committee initially maintained extensive "minutes," which were detailed records of attendance, discussions, and decisions at each meeting. These minutes remained confidential, and the Records of Policy Actions, which were published once a year, were the official statement of FOMC policymaking for decades.² At first, the Records of Policy Actions included only a paragraph or two of background or reasoning behind each action. However, these records grew over time and had reached an average of about five pages per meeting by the mid-1960s, when the Committee reviewed its information-disclosure practices.

1967—Release of Record of Policy Actions after Ninety Days

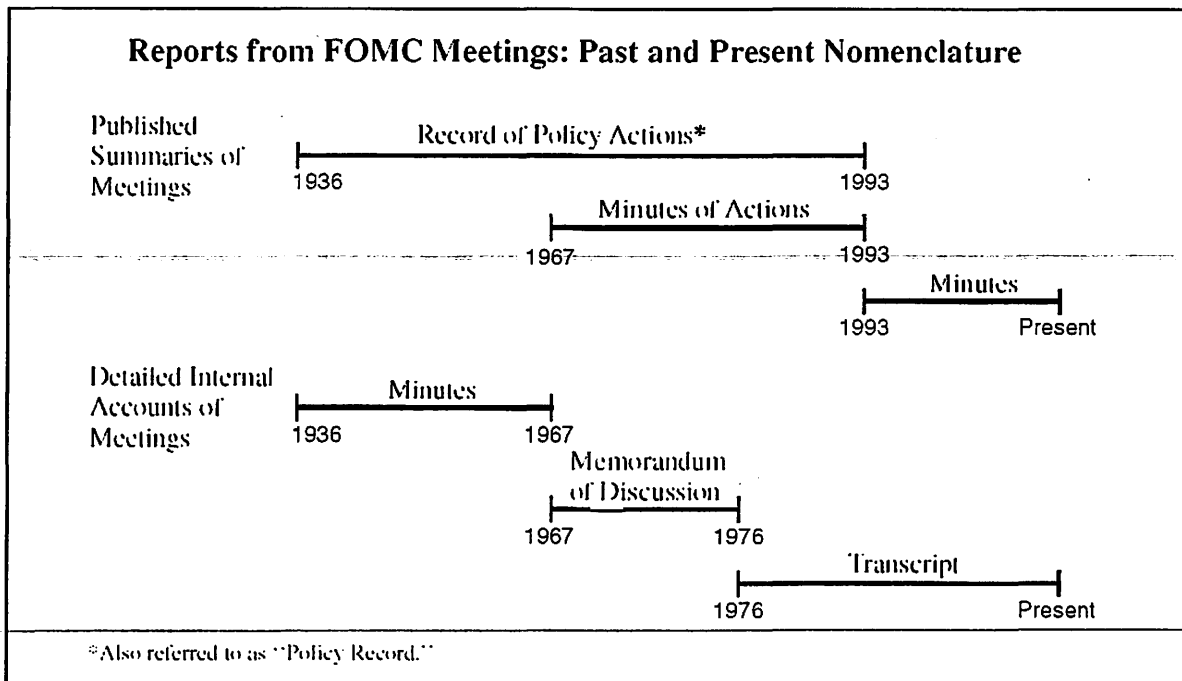
In discussions undertaken in light of the pending effective date of the Freedom of Information Act, the Committee agreed that information about monetary policy decisions should be made available to the public on a timely basis but that caution was needed so that the information released would not impair the Committee's ability to formulate and implement policy. The consensus that emerged was that the time lag on the release of information should be shortened.

Accordingly, in June 1967, the Committee announced that it would release the Record of Policy Actions about ninety days after each meeting and

NOTE: The authors are grateful for helpful comments received, especially from their former colleagues Normand Bernard and David Lindsey.

1. Section 10, paragraph 10 of the Federal Reserve Act states: "The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall . . . include in its annual report to the Congress . . . a copy of the records required to be kept under the provisions of this paragraph."

2. In 1964, the FOMC made the minutes for the years 1936–60 available to the public through the National Archives.



would also publish it in the *Federal Reserve Bulletin*. The Committee believed that a ninety-day lag would be a relatively safe starting point and that, as experience was gained, it might be possible to reduce the lag between policy action and publication.

The Committee also began to make available on the same schedule a new document—a companion piece to the Record of Policy Actions—that was called "Minutes of Actions." This document included summaries of all actions (both policy actions and nonpolicy actions, such as procedural or organizational votes) as well as a list of attendees. The document did not state the reasoning behind the actions or give any indication of the discussion at the meeting; that information was covered in the Record of Policy Actions. The material previously included in the FOMC's internal minutes was now in effect split into two documents—the Minutes of Actions and the "Memorandum of Discussion," a detailed account of the discussion at each meeting. Subsequently, the Committee began releasing its internal minutes, and later the Memorandum of Discussion, to the public with a lag of about five years.³

3. In 1967, the Committee sent the internal minutes for 1961 to the National Archives. In 1976, it transmitted those for 1962–65 and decided on a regular schedule of releasing them after about five years.

1975—Release of Record of Policy Actions after Forty-Five Days

In the years after the passage of the Freedom of Information Act, it became clear that there was a substantial public appetite for further and more-timely information related to the Committee's meetings. Committee discussions about the schedule and content of existing information releases resulted in a decision to cut the lag on the release of the Record of Policy Actions from ninety days to forty-five days. The March 1975 announcement about shortening the release lag time noted that "in the light of experience, the Committee decided that a delay as long as 90 days was no longer necessary to avoid an unacceptable degree of risk that speculators would be able to take unfair advantage of the information or that market reactions would impair the effectiveness of the Committee's functions."

1976—Earlier Release of Lengthened Record of Policy Actions

In May 1976, the Committee announced that an expanded version of the Record of Policy Actions for each meeting would be released a few days after the

subsequent meeting.⁴ Because the Committee was meeting monthly at that point, the lag shortened to an average of just over thirty days.⁵ The expanded document, which was approximately doubled in length, included a fuller discussion of economic and financial developments and more information on members' views on current and longer-run policy issues. At the same time, the Committee decided that continued production of the Memorandum of Discussion was no longer merited.

1993—Combination of the Record of Policy Actions and Minutes of Actions

Congressional interest in FOMC information disclosure picked up substantially in the early 1990s. To dispel some confusion that arose in the midst of discussions with the Congress about information release and to simplify its procedures, the Committee decided to combine the content of the Record of Policy Actions and that of the Minutes of Action into a single document called the "Minutes of the FOMC Meeting." Also, the Committee agreed to construct lightly edited transcripts of its previous meetings from unedited transcripts dating back to 1976, which would be released to the public with a lag of about five years.⁶ In early 1995, the Committee decided to follow the same publication practice for future transcripts as well.

2004—Release of the Minutes after Three Weeks

In December 2004, the Committee announced that it would expedite the release of the minutes of its meetings to three weeks after each meeting, a reduction of between two and five weeks in the lag (the previous release schedule had depended on the timing of the subsequent meeting, which could vary by several weeks). In support of this decision, participants at that FOMC meeting noted that the minutes contained a more complete and more nuanced expla-

nation of the reasons for the Committee's decisions and views of the risks to the outlook than was possible to include in the post-meeting announcement. They also noted that the earlier release would help markets interpret economic developments and predict the course of interest rates and that the minutes would provide a more up-to-date context for public remarks by individual policymakers. Some concern was expressed, however, that the financial markets could misinterpret the minutes and that the specter of early release could either impair the discussion at FOMC meetings or lead to less-comprehensive, and therefore less-useful, minutes over time. On balance, the Committee viewed the pluses as outweighing the minuses and decided unanimously to expedite the release of the minutes.

CONTENT

The FOMC expressed its views on the content of the minutes years ago when it said that the document "contains a full and accurate report of all matters of policy discussed and views presented, clearly sets forth all policy actions taken by the FOMC and the reasons therefor, and includes the votes by individual members on each policy action."⁷ In practice, this means that the minutes cover all policy-related topics that receive a significant amount of attention at the meeting and they record the policy decisions and the reasoning supporting those decisions. All policy votes are recorded. If there is a dissent, the reason for the dissent as expressed at the meeting is included in the minutes. All attendees at the meeting are named and identified by title and affiliation. Because the objective of the minutes is to provide a fair, accurate, and complete record of the FOMC meeting, only information that was available at the time of the meeting is reflected in the content of the minutes, and only opinions that were expressed at the meeting are included. Subsequent information—such as a market reaction to the post-meeting statement, new economic data, or any notation votes or unscheduled FOMC meetings that might occur before the publication date of the minutes—would not be included in the minutes for that meeting; it would be reflected in the minutes of the next regularly scheduled meeting.

4. In practice, this decision meant that the minutes were released on the Friday after the next meeting. They continued to be released on that schedule until early 1997, when the release was shifted to the Thursday after the next meeting.

5. In 1981, when the FOMC cut its meeting schedule back to eight regularly scheduled meetings each year, the lag on releasing the policy record lengthened concomitantly: "A few days after the subsequent meeting" came to mean a publication date that was once again about forty-five days, on average, after the meeting.

6. To date, transcripts for 1979-99 have been released; 1976-78 are pending.

7. From the March 10, 1977, FOMC—Statements of Policy, which is available in the *Federal Reserve Regulatory Service*, vol. 4, loc. no. 8-830. That statement referred specifically to the Record of Policy Actions, which at the time was the functional equivalent of the current minutes.

Conventions of Language

The minutes try to convey clearly the content of the meeting through commonly used language. At times, the minutes use specific terms in the interest of precision. For example, the minutes distinguish among the terms “members,” “meeting participants,” and “staff.” “Members” refers only to the twelve members of the FOMC—namely, the individuals eligible to vote at that meeting—whereas “meeting participants” includes both the members and the seven nonvoting Reserve Bank presidents (or those attending in their stead). The views of all meeting participants are included in the discussion of current economic conditions and the outlook. When it comes to the description of the policy discussion (usually the final few paragraphs of the minutes), however, the views of the twelve members are the focus. This focus reflects the intention of this section, which is to provide the specific reasons underlying the policy action decided upon by those voting at the meeting. Comments by other meeting participants may be mentioned by way of background in this section when it is felt that they provide important context for the policy discussion, but such comments would not be attributed to members.

To give an indication of how widely expressed a particular view is at a meeting, the minutes use common quantitative wording: “all,” “most,” “many,” “several,” “few,” or “one,” in descending order. Often, other similar words are used for stylistic purposes, and care should be used by readers to avoid over-interpreting specific wording. Moreover, tracking expressions of support for particular viewpoints in the give-and-take of a meeting tends to be an imprecise science. For example, a meeting participant speaking relatively late in a meeting may choose not to repeat views expressed earlier by others, or speakers may alter or amend their views in the course of the meeting. Therefore, these quantitative words should be read as indicative rather than definitive.

Document Structure

The minutes follow a structure that is fairly consistent from one meeting to the next. The initial section includes a list of attendees and any noteworthy organizational or procedural items. For the FOMC’s annual organizational meeting, this initial section is appreciably longer because it also includes the election of Committee officers and the approval of various Committee documents.

The second section of the minutes follows a more-or-less standard format in presenting an overview of

the economic and financial information provided to the Committee. This section ends with a summary of the staff forecast at the time of the meeting. In the case of the two-day meetings, during which the Committee discusses a special topic, the opening paragraphs of this section typically summarize the staff presentation and the Committee discussion of the special topic.

The third section covers meeting participants’ perspectives on current economic developments and the outlook. The structure of this section is less standard because it depends upon the focus of the discussion. Nevertheless, the section typically includes paragraphs on such topics as business investment, consumer spending, the labor market, the external sector, and inflation. For the two-day meetings, the third section tends to be longer, in part because the minutes cover participants’ projections for the economy.

The fourth section of the minutes focuses directly on the policy decision. It includes a few paragraphs covering members’ views on policy and any discussion of the post-meeting statement. It also records the vote, including the language that the Committee voted on and the vote of each member by name. The minutes then conclude with confirmation of the date for the FOMC’s next scheduled meeting.

A record of any notation votes that occurred during the period between regularly scheduled meetings would be included at the end of the minutes of the later meeting, as would the minutes of any unscheduled FOMC meetings, such as conference calls, that occurred during that period.

PROCESS

The minutes of each FOMC meeting are now prepared on an accelerated timetable in order for the document to be approved by the Committee and published on time, twenty-one days after the end of the meeting. An internal experiment covering most of the 2004 FOMC meetings preceded the decision to expedite the release, and that experiment was an essential element in providing the Committee with the necessary confidence that the shortened schedule could be met reliably.

Staff Draft

The minutes are drafted by staff members of the Board of Governors who attend the FOMC meeting. But the process of producing the minutes begins even before the meeting, as the standard staff summaries of the economic and financial situation (for example,

the Greenbook and the Bluebook) prepared for each meeting become available a few days ahead of the meeting. A Board staff member uses those summaries, along with the staff presentations prepared for the FOMC meeting and other input, to draft the section of the minutes that reviews the information provided to the Committee. Shortly after the meeting, a draft of this section is completed, and several senior staff members review it for accuracy and pass it on to be incorporated with the other sections.

The writing of the third and fourth sections of the minutes, which cover the discussion of the economic outlook and the policy decision, begins as soon as the meeting ends. Several senior staff members gather and discuss major themes from the meeting and the way they will be covered in the minutes. The author of these sections, an officer from the Board's Division of Monetary Affairs serving on a rotating basis, begins a draft based initially on notes taken at the meeting. By the day after the meeting, however, a rough transcript of the meeting has been prepared, and the author typically relies on the transcript to complete the draft. By the end of the week of the meeting, a draft that includes all sections of the minutes is circulated among the officers in the Division of Monetary Affairs for review.

Policymaker Review

A series of several rounds of policymaker review of the draft minutes begins during the week after the

meeting. After the minutes have been reviewed by the Chairman, the Secretary of the FOMC sends the draft to the meeting participants for comments late in the week after the FOMC meeting (typically on Thursday of that week, or nine days after a Tuesday meeting). Early in the subsequent week, the Secretary sends out a revised draft that incorporates input received from meeting participants. By the end of the second week after the meeting, a final version is produced and provided to the Committee for approval by a notation vote. The notation voting period lasts about four calendar days and closes at noon on the day before publication. After the processes of preparation and coordination for the release of the minutes are completed, the approved minutes are published at 2:00 p.m., twenty-one days after the policy decision was made.

This shortened schedule for release has required the Federal Reserve to devote additional resources to produce the minutes. A wider circle of drafters is engaged to ensure that the deadline is met, and logistics are closely coordinated to ensure that policymakers are available for timely review and approval of the minutes. The Committee believed that the costs and risks associated with the new schedule were outweighed by the benefits of additional policy transparency and openness. As such, the earlier release of the minutes was viewed as consistent with the evolution of the FOMC's communication strategy over the years. □

Embargoed for release at 2:00 p.m., EDT, September 13, 2012

Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents, September 2012

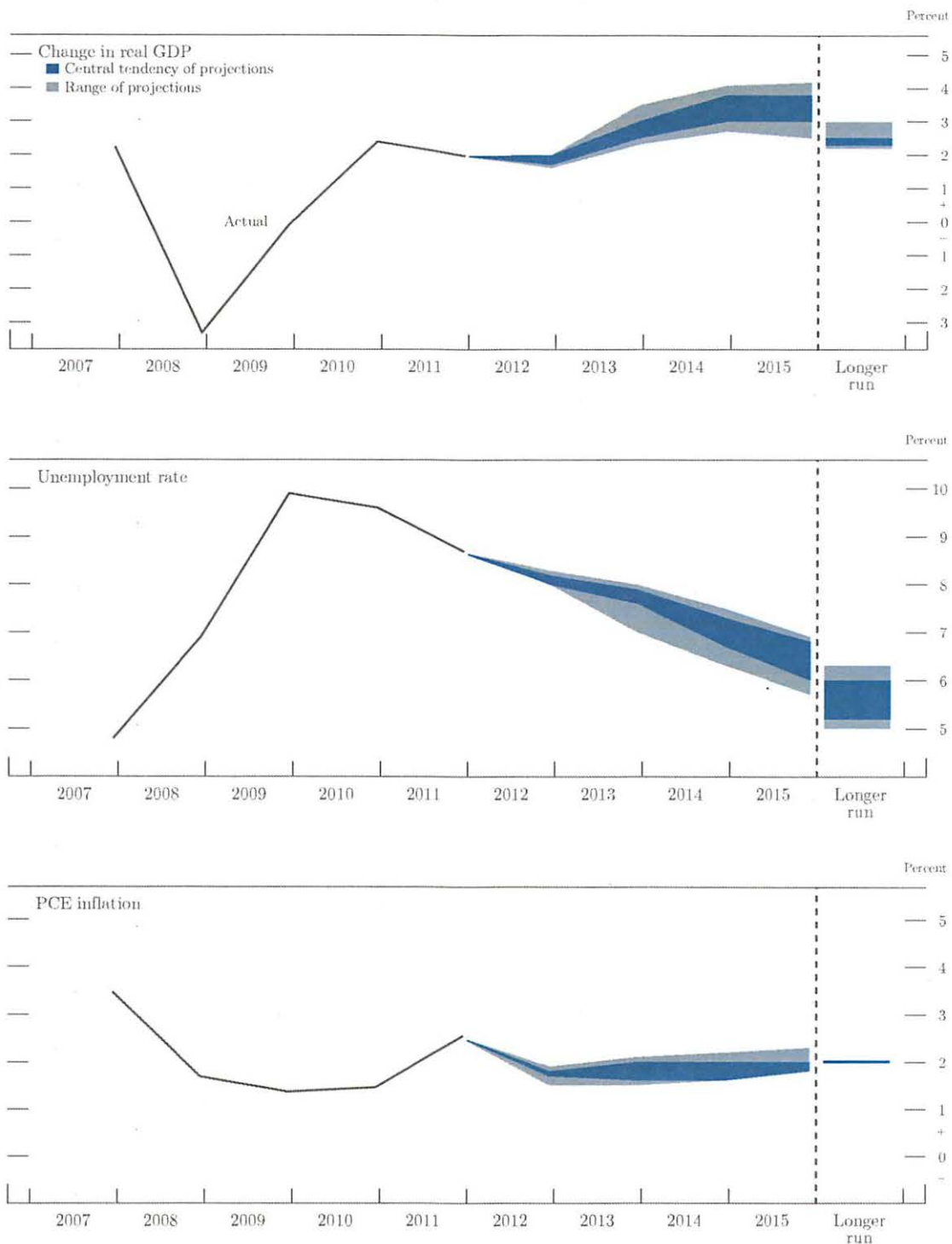
Advance release of table 1 of the Summary of Economic Projections to be released with the FOMC minutes

Percent										
Variable	Central tendency ¹					Range ²				
	2012	2013	2014	2015	Longer run	2012	2013	2014	2015	Longer run
Change in real GDP	1.7 to 2.0	2.5 to 3.0	3.0 to 3.8	3.0 to 3.8	2.3 to 2.5	1.6 to 2.0	2.3 to 3.5	2.7 to 4.1	2.5 to 4.2	2.2 to 3.0
June projection	1.9 to 2.4	2.2 to 2.8	3.0 to 3.5	n.a.	2.3 to 2.5	1.6 to 2.5	2.2 to 3.5	2.8 to 4.0	n.a.	2.2 to 3.0
Unemployment rate	8.0 to 8.2	7.6 to 7.9	6.7 to 7.3	6.0 to 6.8	5.2 to 6.0	8.0 to 8.3	7.0 to 8.0	6.3 to 7.5	5.7 to 6.9	5.0 to 6.3
June projection	8.0 to 8.2	7.5 to 8.0	7.0 to 7.7	n.a.	5.2 to 6.0	7.8 to 8.4	7.0 to 8.1	6.3 to 7.7	n.a.	4.9 to 6.3
PCE inflation	1.7 to 1.8	1.6 to 2.0	1.6 to 2.0	1.8 to 2.0	2.0	1.5 to 1.9	1.5 to 2.1	1.6 to 2.2	1.8 to 2.3	2.0
June projection	1.2 to 1.7	1.5 to 2.0	1.5 to 2.0	n.a.	2.0	1.2 to 2.0	1.5 to 2.1	1.5 to 2.2	n.a.	2.0
Core PCE inflation ³	1.7 to 1.9	1.7 to 2.0	1.8 to 2.0	1.9 to 2.0		1.6 to 2.0	1.6 to 2.0	1.6 to 2.2	1.8 to 2.3	
June projection	1.7 to 2.0	1.6 to 2.0	1.6 to 2.0	n.a.		1.7 to 2.0	1.4 to 2.1	1.5 to 2.2	n.a.	

NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The June projections were made in conjunction with the meeting of the Federal Open Market Committee on June 19–20, 2012.

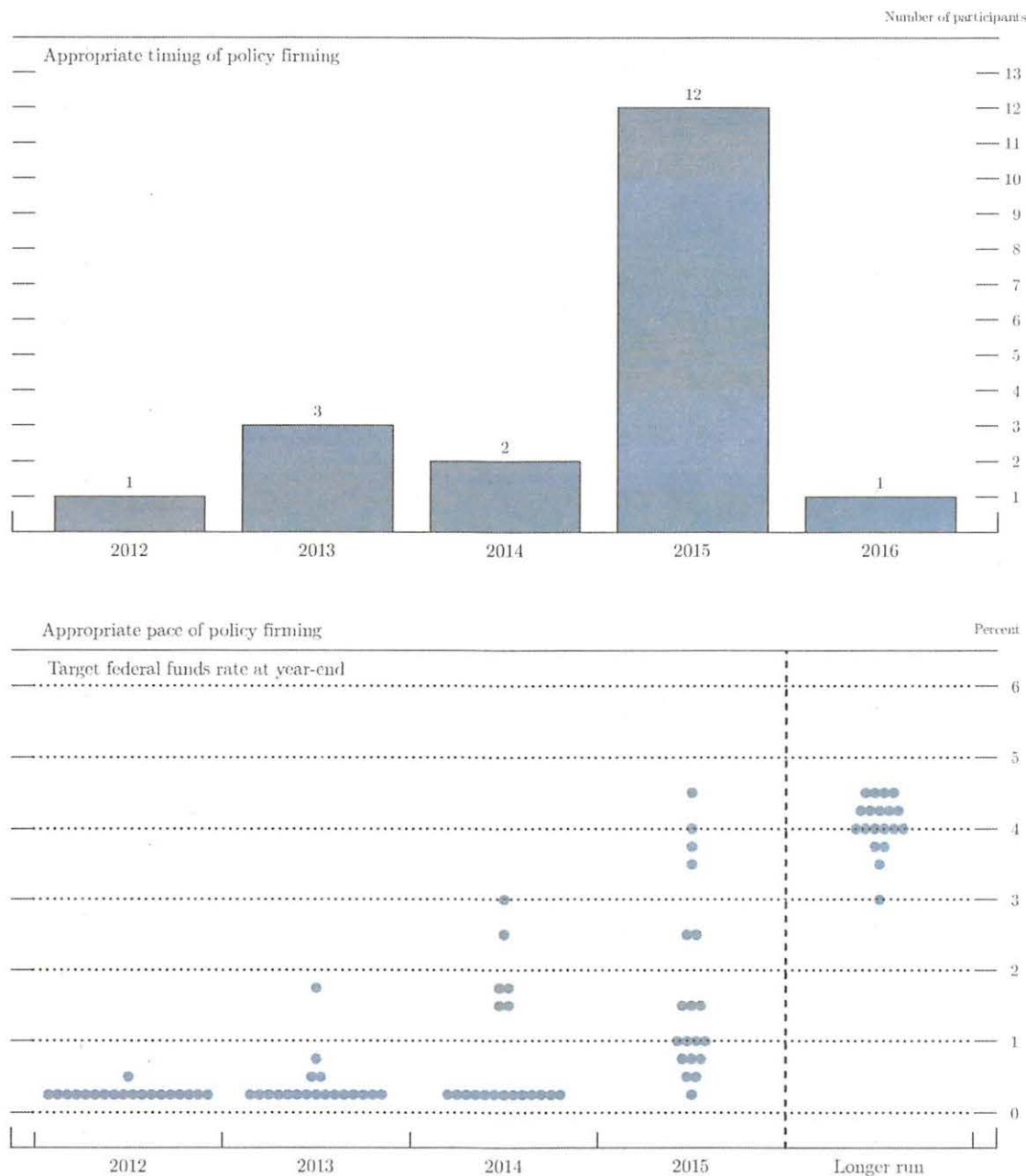
1. The central tendency excludes the three highest and three lowest projections for each variable in each year.
2. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.
3. Longer-run projections for core PCE inflation are not collected.

Figure 1. Central tendencies and ranges of economic projections, 2012–15 and over the longer run



NOTE: Definitions of variables are in the general note to the projections table. The data for the actual values of the variables are annual.

Figure 2. Overview of FOMC participants' assessments of appropriate monetary policy, September 2012



NOTE: In the upper panel, the height of each bar denotes the number of FOMC participants who judge that, under appropriate monetary policy, the first increase in the target federal funds rate from its current range of 0 to 1/4 percent will occur in the specified calendar year. In June 2012, the numbers of FOMC participants who judged that the first increase in the target federal funds rate would occur in 2012, 2013, 2014, and 2015 were, respectively, 3, 3, 7, and 6. In the lower panel, each shaded circle indicates the value (rounded to the nearest 1/4 percentage point) of an individual participant's judgment of the appropriate level of the target federal funds rate at the end of the specified calendar year or over the longer run.

Explanation of Economic Projections Charts

The charts show actual values and projections for three economic variables, based on FOMC participants' individual assessments of appropriate monetary policy:

- Change in Real Gross Domestic Product (GDP)—as measured from the fourth quarter of the previous year to the fourth quarter of the year indicated, with values plotted at the end of each year.
- Unemployment Rate—the average civilian unemployment rate in the fourth quarter of each year, with values plotted at the end of each year.
- PCE Inflation—as measured by the change in the personal consumption expenditures (PCE) price index from the fourth quarter of the previous year to the fourth quarter of the year indicated, with values plotted at the end of each year.

Information for these variables is shown for each year from 2007 to 2015, and for the longer run.

The solid line, labeled “Actual,” shows the historical values for each variable.

The lightly shaded areas represent the ranges of the projections of policymakers. The bottom of the range for each variable is the lowest of all of the projections for that year or period. Likewise, the top of the range is the highest of all of the projections for that year or period.

The dark shaded areas represent the central tendency, which is a narrower version of the range that excludes the three highest and three lowest projections for each variable in each year or period.

The longer-run projections, which are shown on the far right side of the charts, are the rates of growth, unemployment, and inflation to which a policymaker expects the economy to converge over time—maybe in five or six years—in the absence of further shocks and under appropriate monetary policy. Because appropriate monetary policy, by definition, is aimed at achieving the Federal Reserve's dual mandate of maximum employment and price stability in the longer run, policymakers' longer-run projections for economic growth and unemployment may be interpreted, respectively, as estimates of the economy's normal or trend rate of growth and its normal unemployment rate over the longer run. The longer-run projection shown for inflation is the rate of inflation judged to be most consistent with the Federal Reserve's dual mandate.

Explanation of Policy Path Charts

These charts are based on policymakers' assessments of the appropriate path for the FOMC's target federal funds rate. The target funds rate is measured as the level of the target rate at the end of the calendar year or in the longer run. Appropriate monetary policy, by definition, is the future path of policy that each participant deems most likely to foster outcomes for economic activity and inflation that best satisfy his or her interpretation of the Federal Reserve's dual objectives of maximum employment and stable prices.

- In the upper panel, the shaded bars represent the number of FOMC participants who judge that the initial increase in the target federal funds rate (from its current range of 0 to $\frac{1}{4}$ percent) would appropriately occur in the specified calendar year.
- In the lower panel, the dots represent individual policymakers' assessments of the appropriate federal funds rate target at the end of each of the next several years and in the longer run. Each dot in that chart represents one policymaker's projection. Please note that for purposes of this chart the responses are rounded to the nearest $\frac{1}{4}$ percentage point, with the exception that all values below 37.5 basis points are rounded to $\frac{1}{4}$ percent.

These assessments of the timing of the initial increase of the target federal funds rate and the path of the target federal funds rate are the ones that policymakers view as compatible with their individual economic projections.