

THE FEDERAL RESERVE SYSTEM

Date: October 19, 2018 (Corrected October 22, 2018)¹
To: Federal Open Market Committee
From: Thomas Laubach and Simon Potter
Subject: Background Materials and Plans for FOMC Discussion of Long-Run Monetary Policy Implementation Frameworks (Corrected)

The staff has prepared four memos as background for your discussion of long-run implementation frameworks at the upcoming FOMC meeting. The memo titled “The Federal Reserve’s Long-Run Operating Regime” discusses a range of issues associated with frameworks for implementing monetary policy based on a limited supply of excess reserves and those based on an abundant supply of excess reserves. The memo titled “The Federal Reserve’s Target Interest Rate” discusses possible choices of target rates that might be appropriate for implementation frameworks with limited or abundant excess reserves. The third memo, “Recent Developments in Reserve Markets and Understanding Reserve Demand,” discusses the recent behavior of the effective federal funds rate and other overnight rates and reviews some results of a recent survey of banks aimed at learning more about the factors shaping the demand for reserves in the current regulatory environment. The final memo, titled “Future Plans for Monetary Policy Implementation at the Bank of England and European Central Bank,” discusses the approaches that the Bank of England and European Central Bank have taken so far in contemplating a future long-run operating framework.

For the December FOMC meeting, the staff plans to prepare memos on additional aspects of the choice of a long-run operating framework, such as considerations regarding the composition of the asset side of the balance sheet, the operations necessary to support the framework, and the transition to the long-run framework. These memos will be informed by the discussion at the upcoming meeting.

At the upcoming meeting, the staff plans to deliver four short briefings summarizing each of the background memos. The staff briefings will be followed by an opportunity for questions and answers. Following the question and answer session, there will be a full go-round for policymakers to comment on issues related to long-run implementation frameworks. The attached list of questions may helpful in framing your remarks.

¹ The October 19, 2018, version of this package of memos was updated to include a corrected version of the first memo, titled “The Federal Reserve’s Long-Run Operating Regime.” The corrected version of that memo was also circulated separately, along with an explanation of the correction, on October 22, 2018.

Questions for Discussion

1. What do you see as the tradeoffs between remaining in a framework like the current one, with abundant excess reserves, versus moving to a framework with limited excess reserves? How does the level of reserves that would ultimately be necessary in each framework affect your views on the appropriate choice of framework?
2. In your preferred framework for policy implementation, what interest rate(s) would you prefer to target? What do you see as the important tradeoffs in choosing among the range of possible target rates discussed in the staff background memos—the effective federal funds rate (EFFR), the overnight bank funding rate (OBFR), a Treasury repo rate, and the general level of short-term rates (GLOSTR)?