

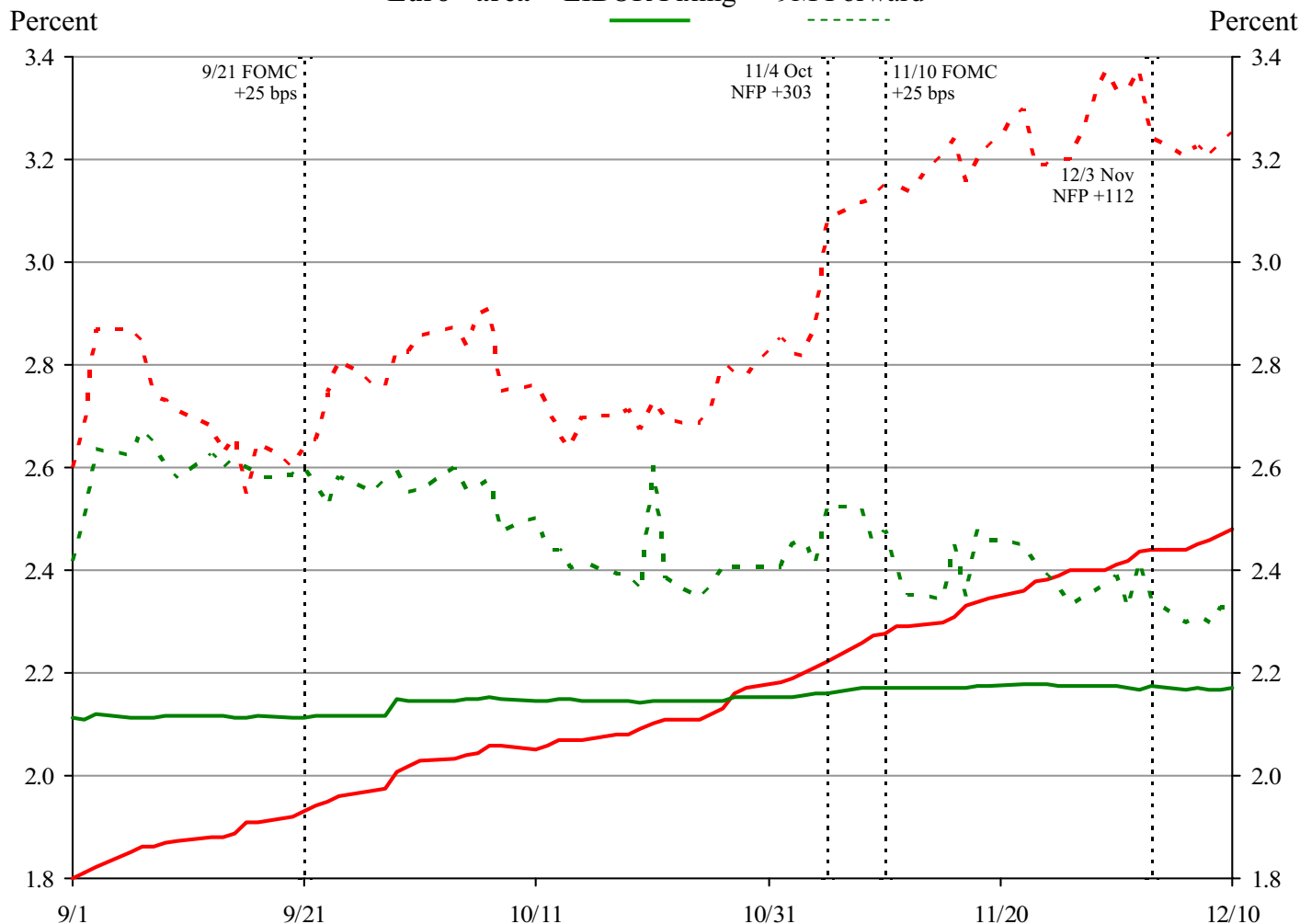
Appendix 1: Materials used by Mr. Kos

Current U.S. and Euro-area 3-Month Deposit Rates and Rates Implied by Traded Forward Rate Agreements

September 10, 2004 – December 10, 2004

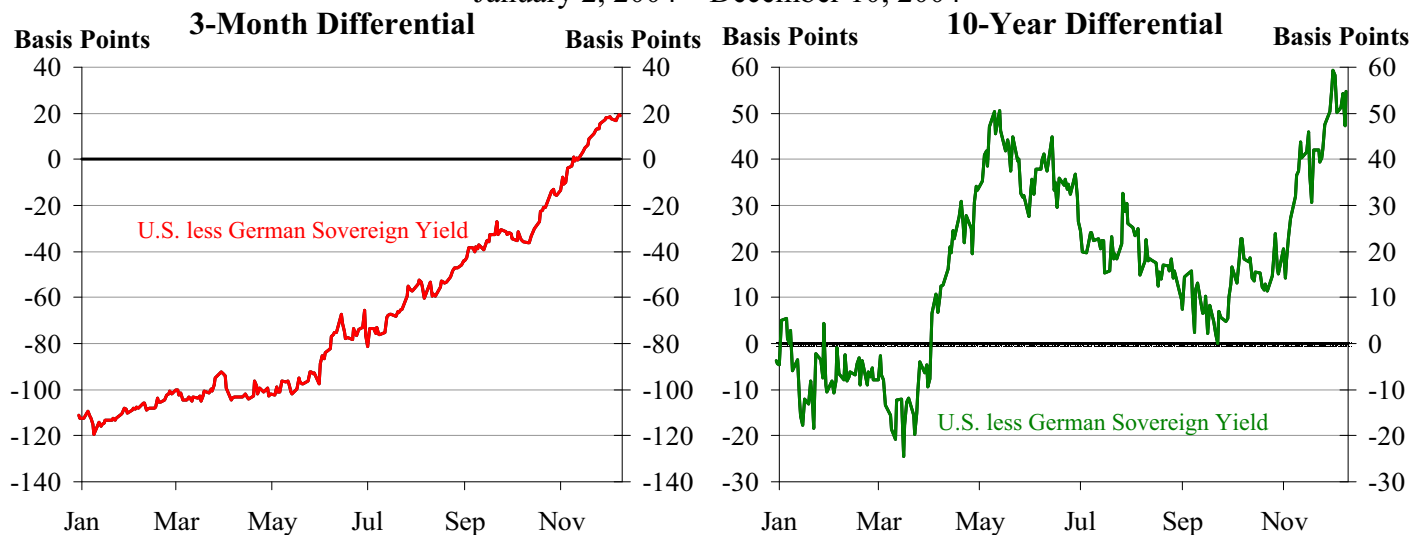
U.S. LIBOR Fixing 9M Forward

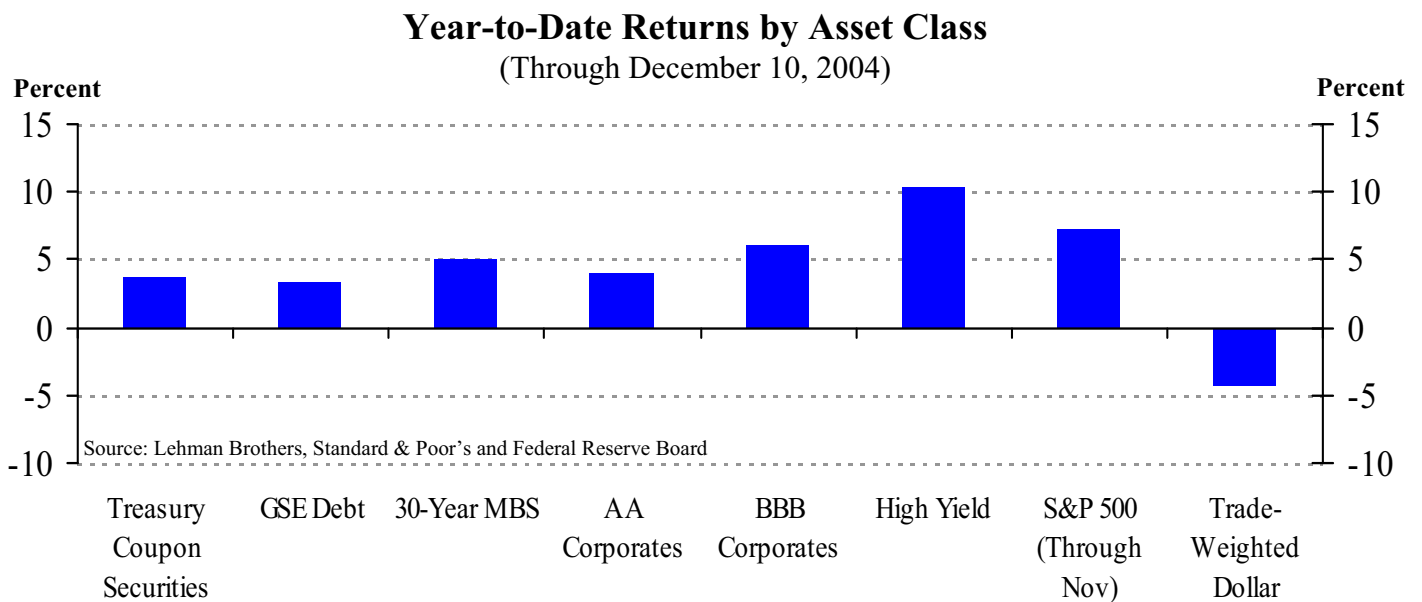
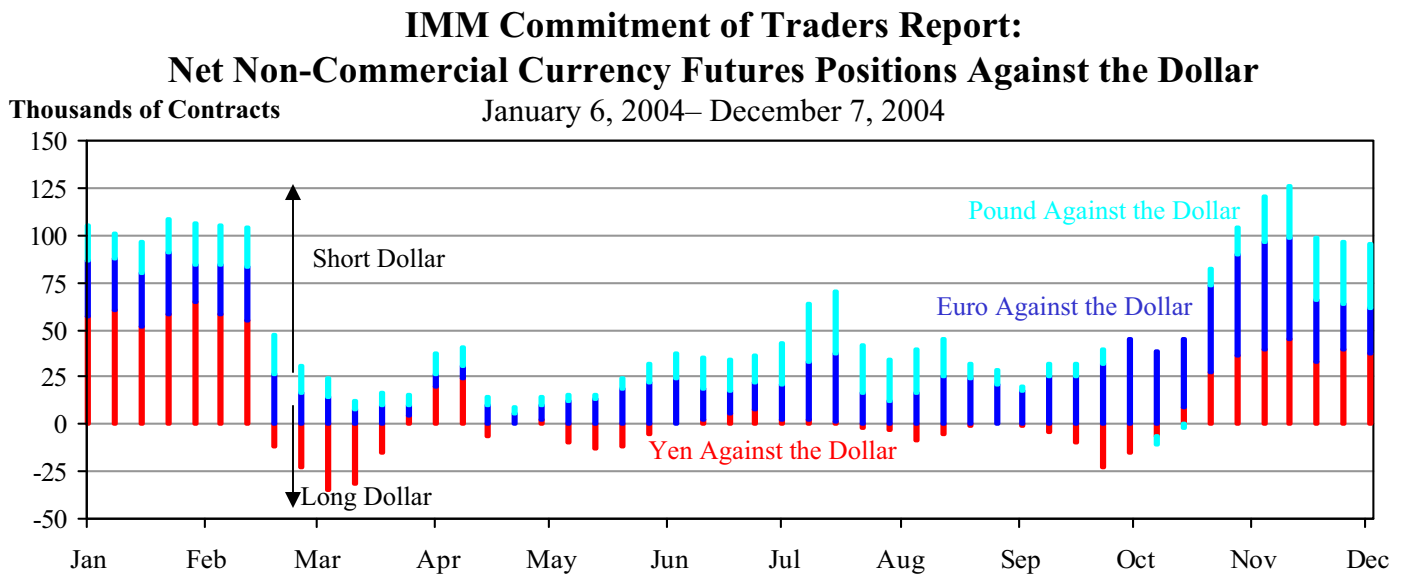
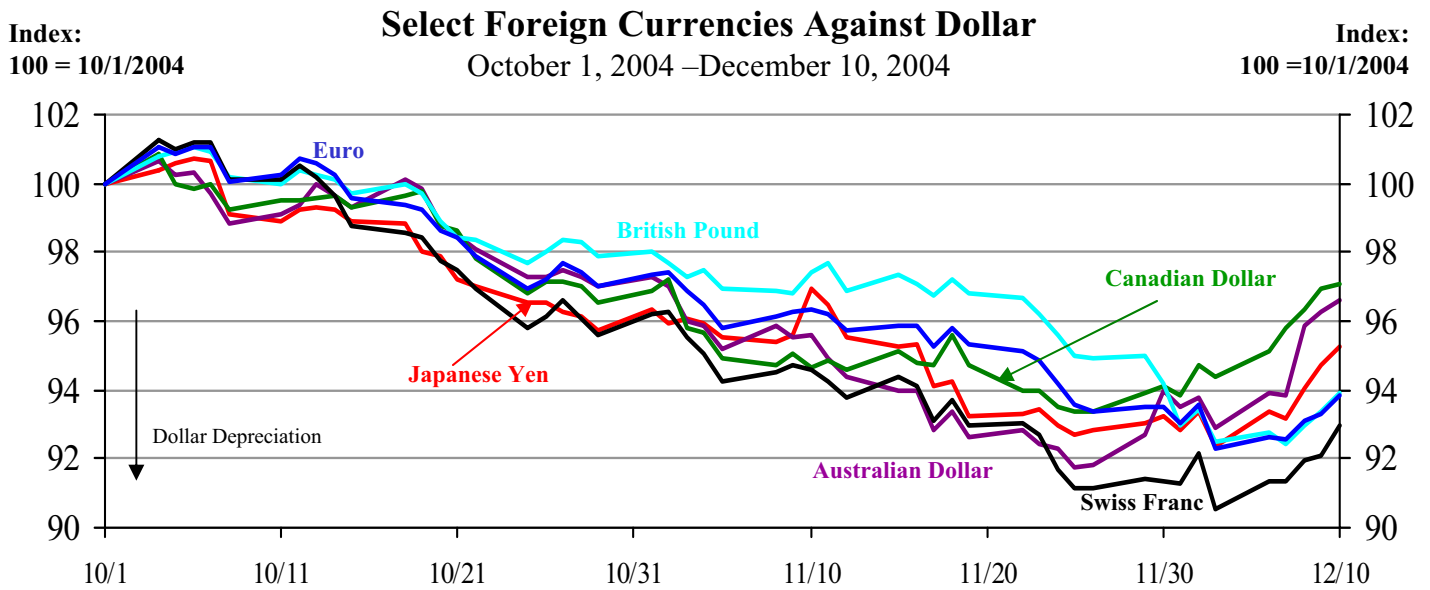
Euro - area LIBOR Fixing 9M Forward



U.S.-German Interest Rate Differentials

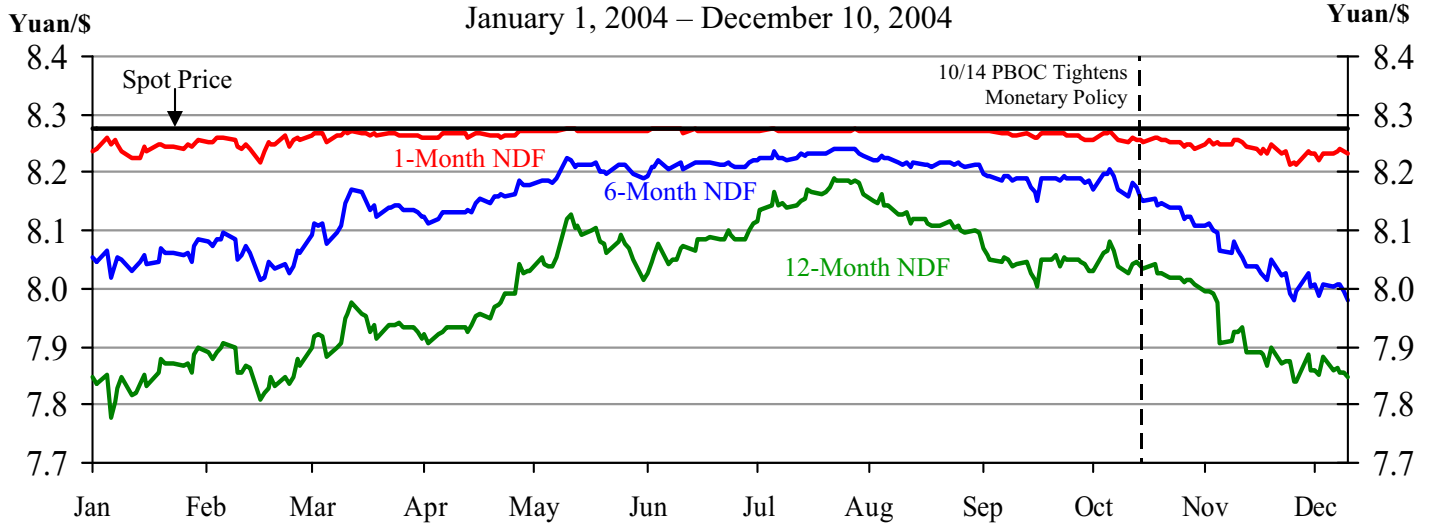
January 2, 2004 – December 10, 2004





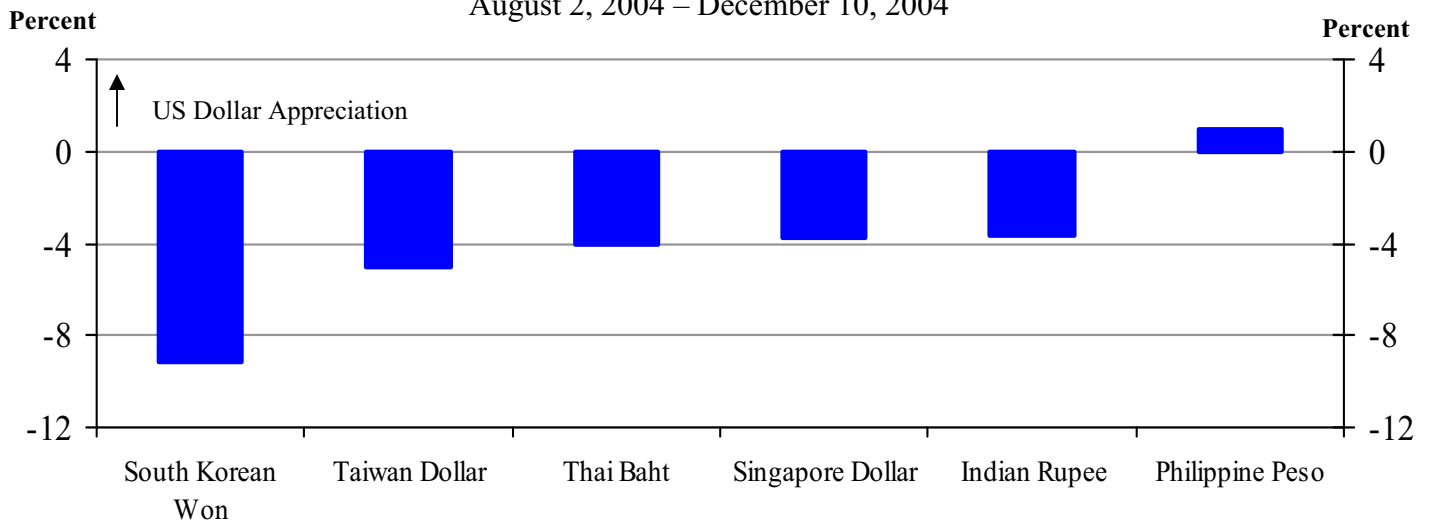
Dollar-Yuan Exchange Value Implied by the NDF Market

January 1, 2004 – December 10, 2004

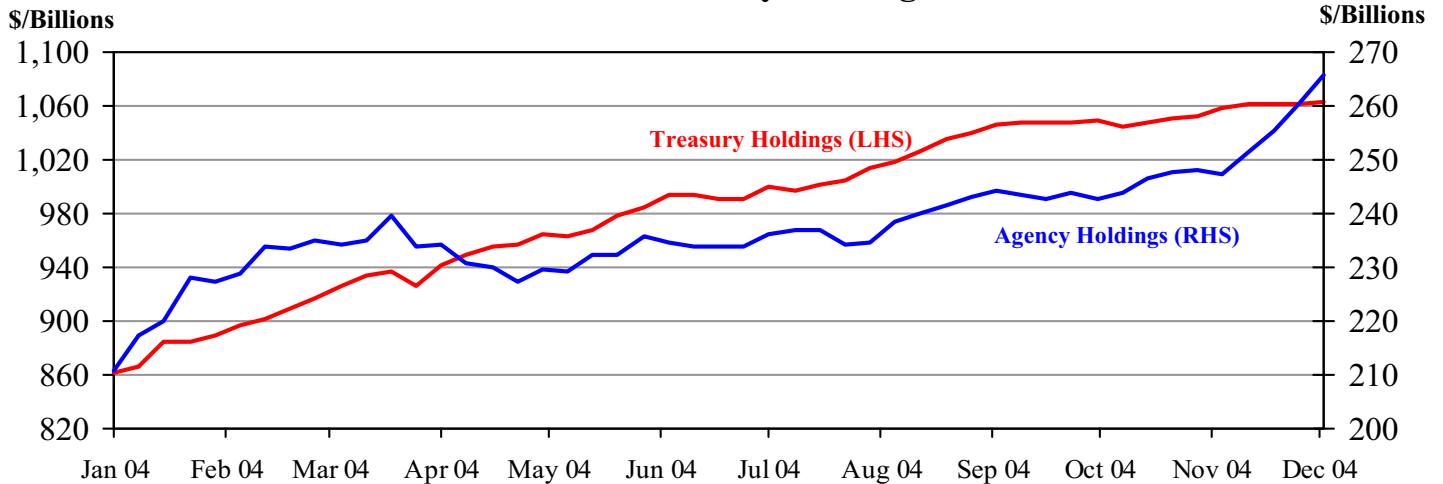


Select Asian Currencies Against the Dollar

August 2, 2004 – December 10, 2004

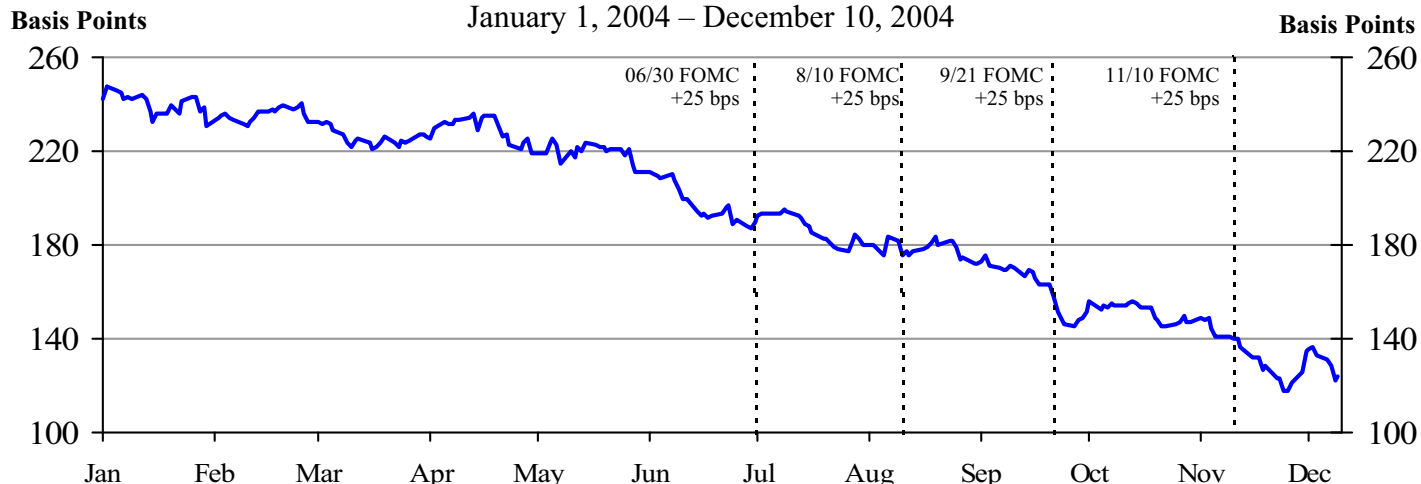


FRBNY Custody Holdings



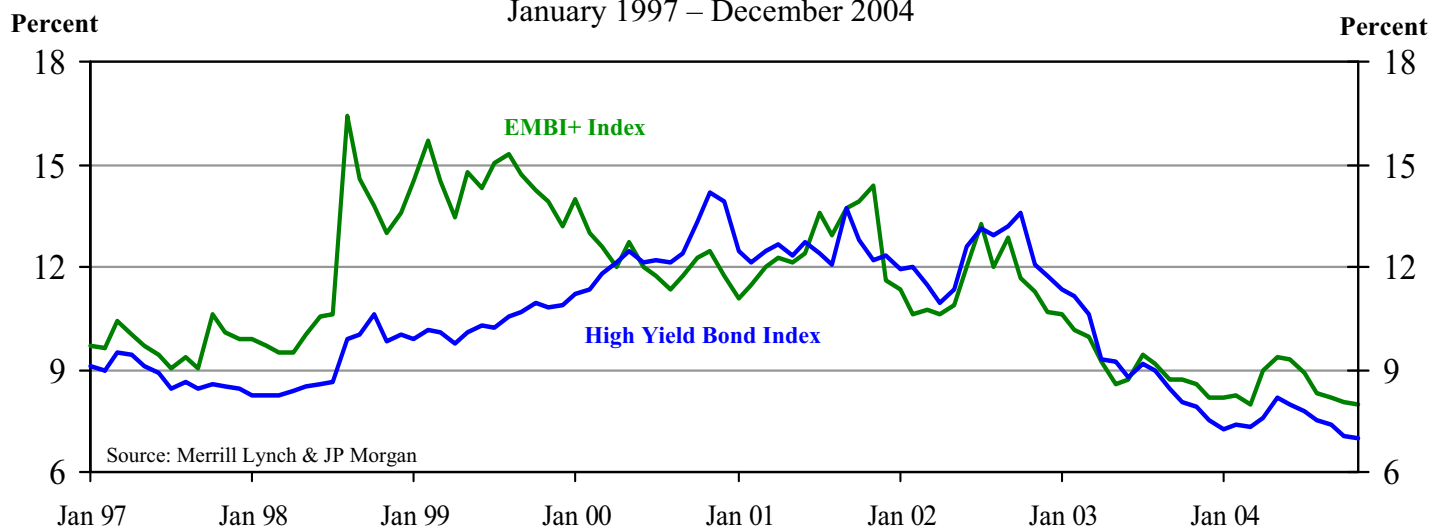
Yield Spread between 2- and 10-Year Treasury Notes

January 1, 2004 – December 10, 2004



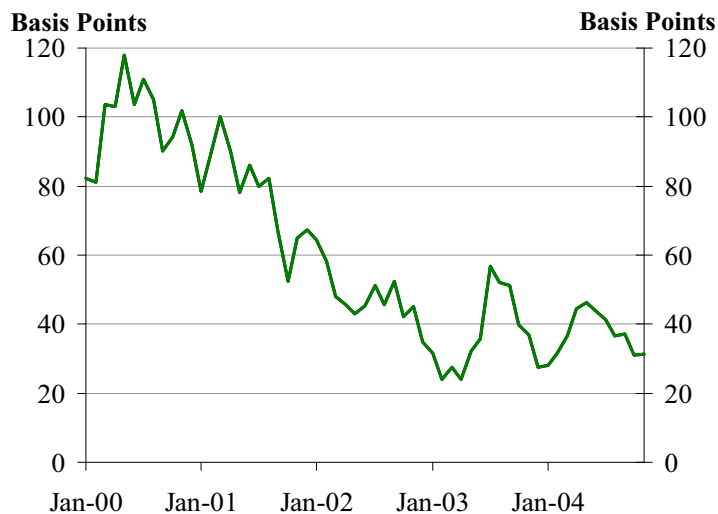
Absolute Yield Level of Non-Investment Grade Debt Indices

January 1997 – December 2004



MBS Spread to Treasuries

January 2000 – December 2004

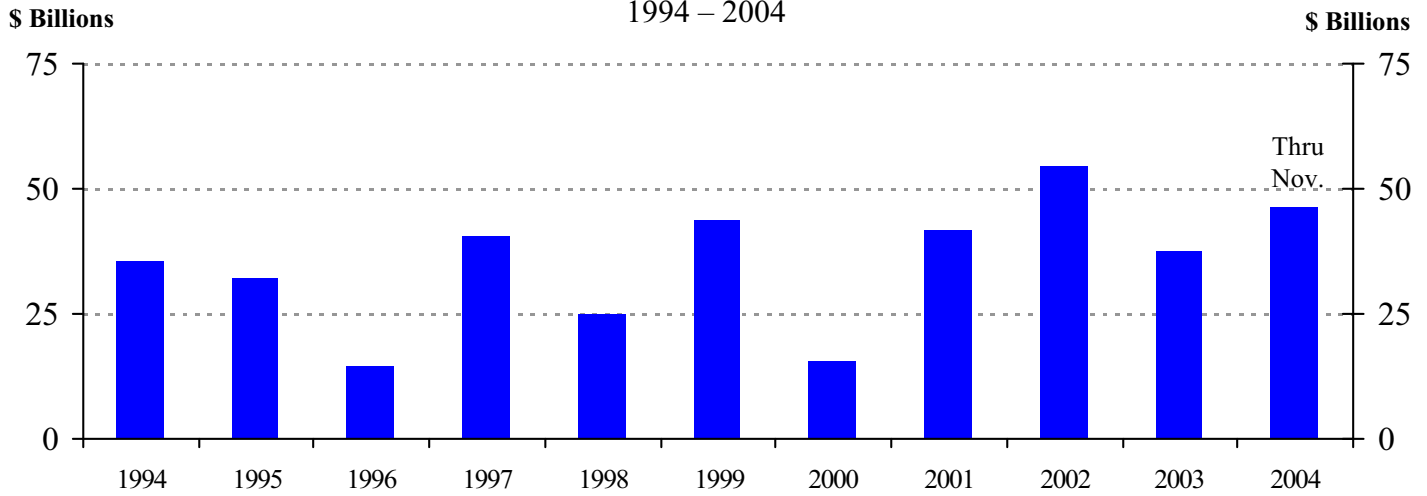


Percent of Bank Assets Invested in MBS

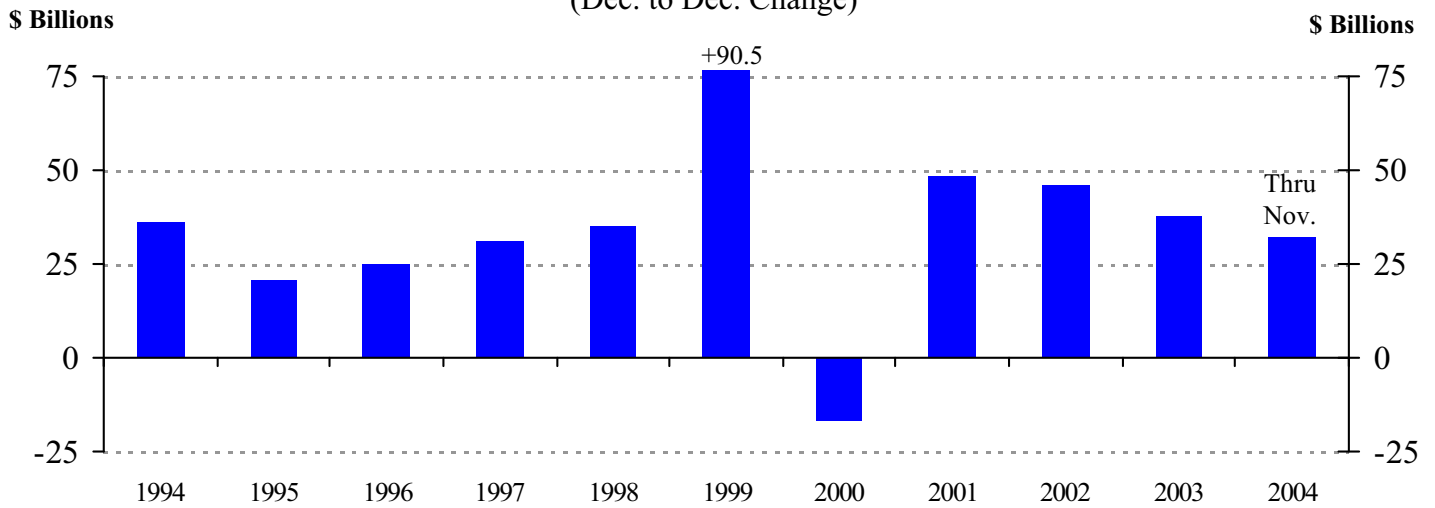
January 2000 – December 2004



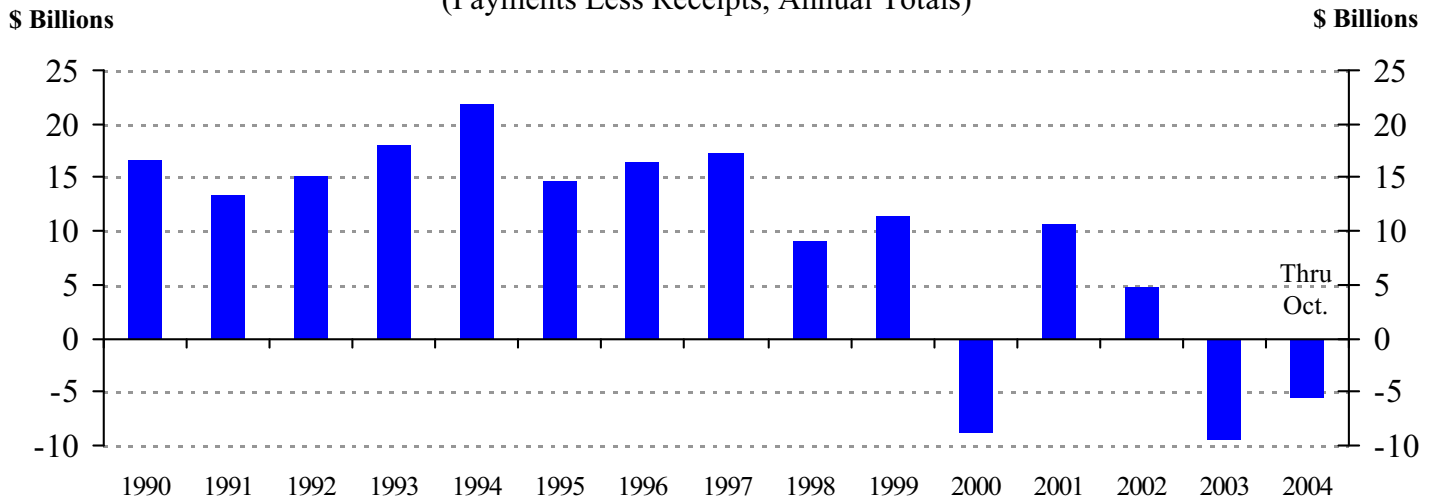
Annual SOMA Expansion 1994 – 2004



Currency in Circulation (Dec. to Dec. Change)



Direct Currency Shipments Abroad (Net) (Payments Less Receipts, Annual Totals)



Appendix 2: Materials used by Mr. Madigan

Strictly Confidential (FR) Class I – FOMC

Material for

FOMC Briefing on Monetary Policy Alternatives

Brian Madigan
December 14, 2004

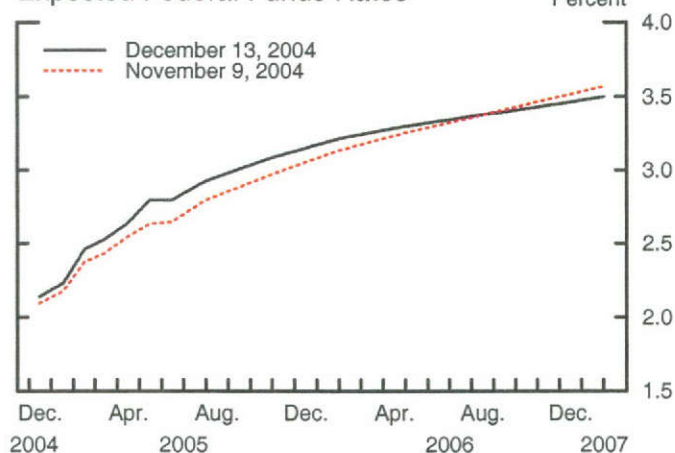
Exhibit 1 Market Developments and Policy Expectations

Yields and Stock Prices

	Dec. 13	Net change from Nov. 9
U.S. Treasury yields*	-percent-	-basis points-
1. Two-year	2.98	17
2. Five-year	3.52	2
3. Ten-year	4.27	-9
4. Five-year TIPS	0.96	-2
5. Ten-year TIPS	1.66	-9
Equity Indexes	-level-	-percent-
6. Wilshire	11790	3.4
7. Nasdaq	2148	5.1

*Nominal yields derived from smoothed yield curve based on off-the-run securities. TIPS yields based on smoothed yield curve.

Expected Federal Funds Rates*



*Estimates from federal funds and eurodollar futures, with an allowance for term premia and other adjustments.

Desk Survey of Primary Dealers

- Unanimously expect 25-basis-point firming today.
- Unanimously expect retention of balanced risks and "measured pace" language.
- Apparently none expects signal of a pause today.

Longer-term Policy Expectations

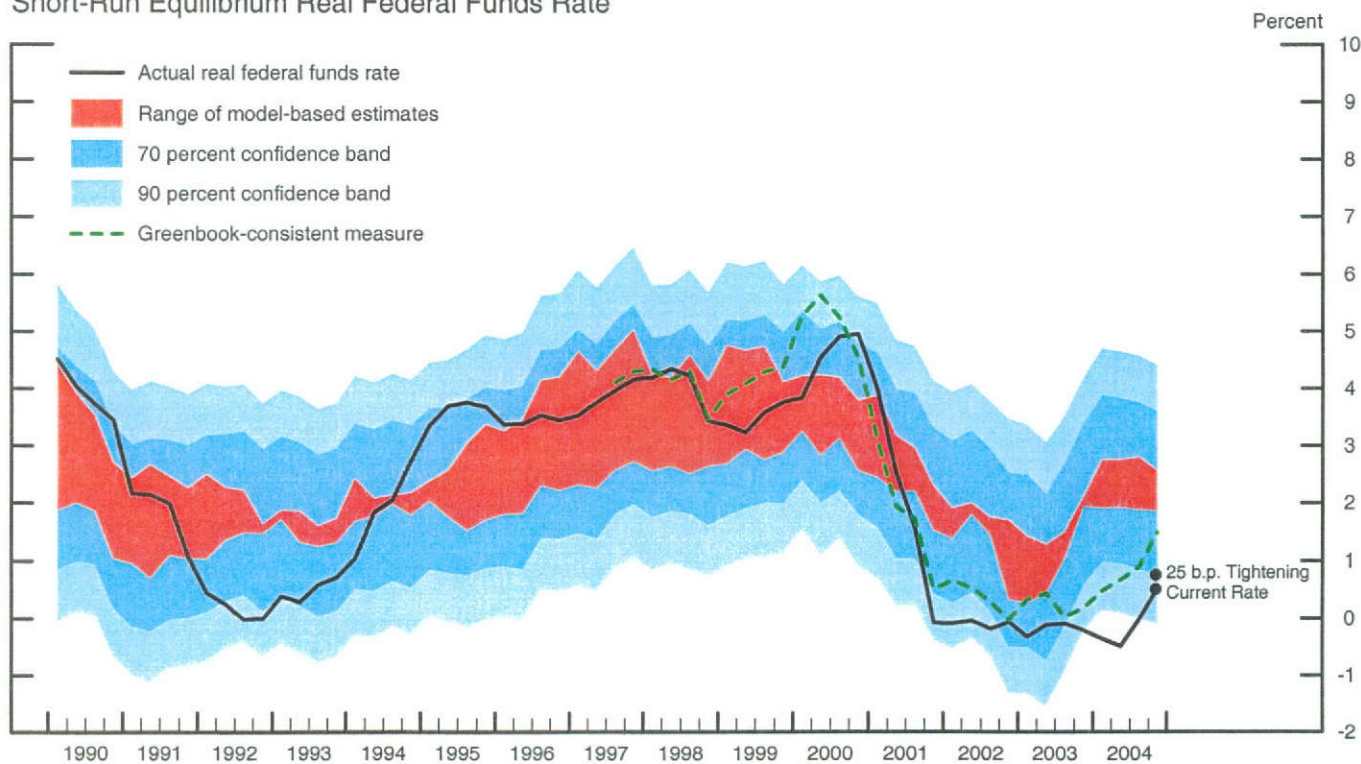
- Two dealers expect a pause in February and seven in March.
- Futures quotes can be read as implying a pause in March and a move roughly every other meeting over the rest of year.
- Blue Chip consensus consistent with two pauses before Fall 2005.

Exhibit 2 Case For Firming Policy

Arguments For Firming Policy Today

- Expansion seems well entrenched, with labor market conditions improving gradually
- Concern about a buildup of inflationary pressure
 - possible slowing of productivity growth
 - anecdotal information on price pressures
 - actual inflation has risen
 - inflation surprises to the upside of market expectations
 - short-term inflation expectations up
 - dollar depreciation
- Real federal funds rate well below most estimates of its equilibrium level

Short-Run Equilibrium Real Federal Funds Rate



Arguments For Alternative B

Policy firming can now proceed at slower pace:

- Some output gap remains; not closing rapidly
- Significant reduction in policy accommodation already accomplished
- Unusual business caution may persist

Arguments For Alternative C

Recent pace of tightening should be maintained:

- Substantial remaining policy accommodation
- Policy works with long lags
- Signs of pressure on inflation and inflation expectations
- Buoyant attitudes toward risk in financial markets

Exhibit 3

Table 1: Alternative Language for the December FOMC Announcement

	November FOMC	Alternative A	Alternative B	Alternative C
Policy Decision	1. The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2 percent.	The Federal Open Market Committee decided today to keep its target for the federal funds rate at 2 percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2¼ percent. The Committee's policy actions since mid-2004 have resulted in a significant reduction in the degree of monetary policy accommodation.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2¼ percent.
Rationale	2. The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.	The Committee believes that the stance of monetary policy remains somewhat accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.	Nonetheless, the Committee believes that, even after this action, the stance of monetary policy remains somewhat accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.	[Unchanged from November statement]
	3. Output appears to be growing at a moderate pace despite the rise in energy prices, and labor market conditions have improved.	Output appears to be growing at a moderate pace, but labor market conditions have been improving only gradually, apparently evidencing continued business caution.	Output appears to be growing at a moderate pace despite the earlier rise in energy prices, and labor market conditions continue to improve gradually.	Output appears to be growing at a moderate pace despite the earlier rise in energy prices, and labor market conditions continue to improve gradually.
	4. Inflation and longer-term inflation expectations remain well contained.	[Unchanged from November statement]	[Unchanged from November statement]	[Unchanged from November statement]
Assessment of Risk	5. The Committee perceives the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters to be roughly equal.	[Unchanged from November statement]	[Unchanged from November statement]	[Unchanged from November statement]
	6. With underlying inflation expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.	With underlying inflation expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to promote price stability and sustainable growth.	[Unchanged from November statement]	[Unchanged from November statement]

Appendix 3: Materials used by Mr. Reinhart

Exhibit 1

Arguments For and Against Expediting the Release of the Minutes:

<p>For:</p> <ul style="list-style-type: none"> • Provide more timely and nuanced information to the public • Convey the range of views within the Committee • The policy statement could potentially be shortened 	<p>Against:</p> <ul style="list-style-type: none"> • Lead to undue market attention to the minutes • Complicate the Committee's deliberations • Lead to the minutes becoming more sanitized and unhelpful over time • May be operationally difficult
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Schedule for the Experiment with Expediting the Release of the Minutes

<i>Week</i>	<i>Monday</i>	<i>Tuesday</i>	<i>Wednesday</i>	<i>Thursday</i>	<i>Friday</i>
0		FOMC meeting			
+1				C.O.B.: First draft posted	
+2	Noon: Comments from the FOMC	C.O.B.: Second draft posted	C.O.B. Final draft posted; Voting begins		Noon: FOMC vote closes 2:00 P.M.: PUBLISH <i>(hypothetically)</i>

Changes in the Production of the Minutes

- Contracted with a private firm to produce a transcript quickly
- Distributed drafting responsibilities among more staff
- Provided more systematic feedback on comments in the final week
- Developed a procedure for secure voting
- Collaborated with staff in Public Affairs and the FRBNY to assess the likely financial market reaction to the minutes

Exhibit 2

Lessons Learned

1. Using more resources to produce and distribute the minutes soon after the meeting is helpful.
2. Not all participants were familiar with all the rules governing the drafting of the minutes.
3. The expedited schedule poses the risks that:
 - a. Not all members will be able to vote by the deadline.
 - b. The schedule may be too tight to guarantee achieving a consensus.
4. Friday afternoon is a terrible time to release the minutes.

Untested Aspects

The experiment was conducted during a period in which:

1. There were no significant disagreements among members about the overall direction of policy.
2. There were no intermeeting conference calls.

The experiment stopped short of actually releasing the statement early, implying that:

3. It is unclear how much increased scrutiny more timely minutes will receive or how members will adjust their editing behavior.
4. It is unclear how the public will react to conditional statements.

Exhibit 3

Three Possibilities for Today's Meeting**1. Vote today to expedite the release of the minutes**

If so, I recommend beginning expedited release with the minutes of the February 2005 meeting and adopting a schedule of releasing the minutes of regular meeting three weeks after the day of the policy decision.

- By beginning with the February meeting, the decision would be noted in the minutes of today's meeting, which would be released after the February meeting and thus give the public advance notice of the new policy.
- Adding a few days to the schedule by releasing the minutes after three weeks would:
 - Give staff more time to draft and participants more time to comment.
 - Position the release in the middle of the week, which would be less likely to cause difficulties.

2. Extend the experiment

If so, I recommend shifting to a three-week schedule because it seems more sustainable.

3. Stop the experiment

If so, I recommend continuing approximately the same production and distribution schedule so that the minutes are prepared while the memory of the meeting is still fresh.