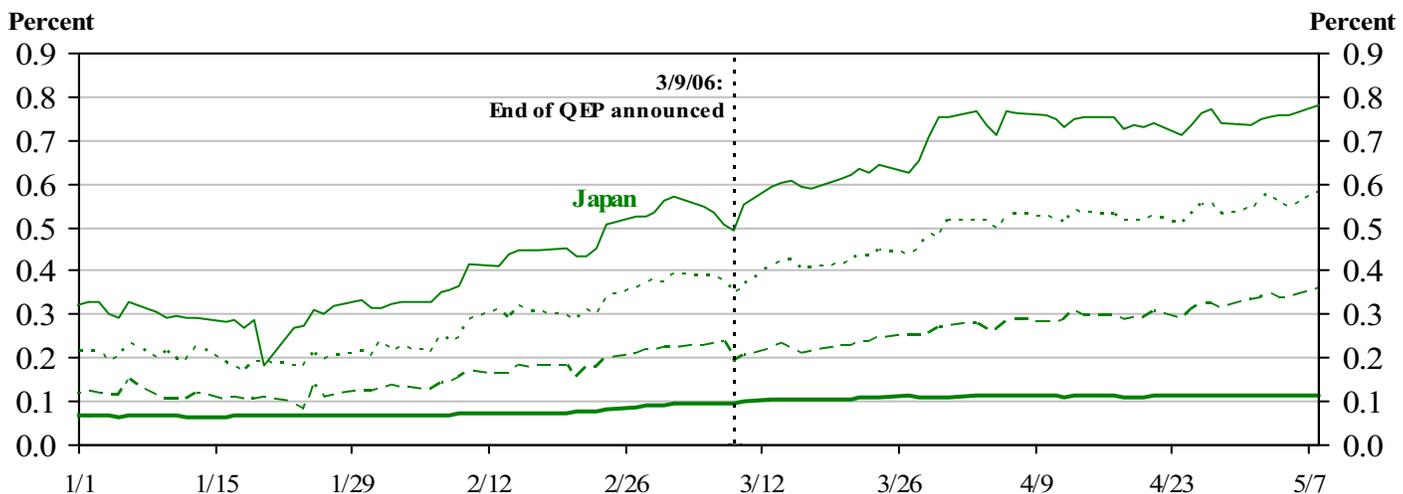
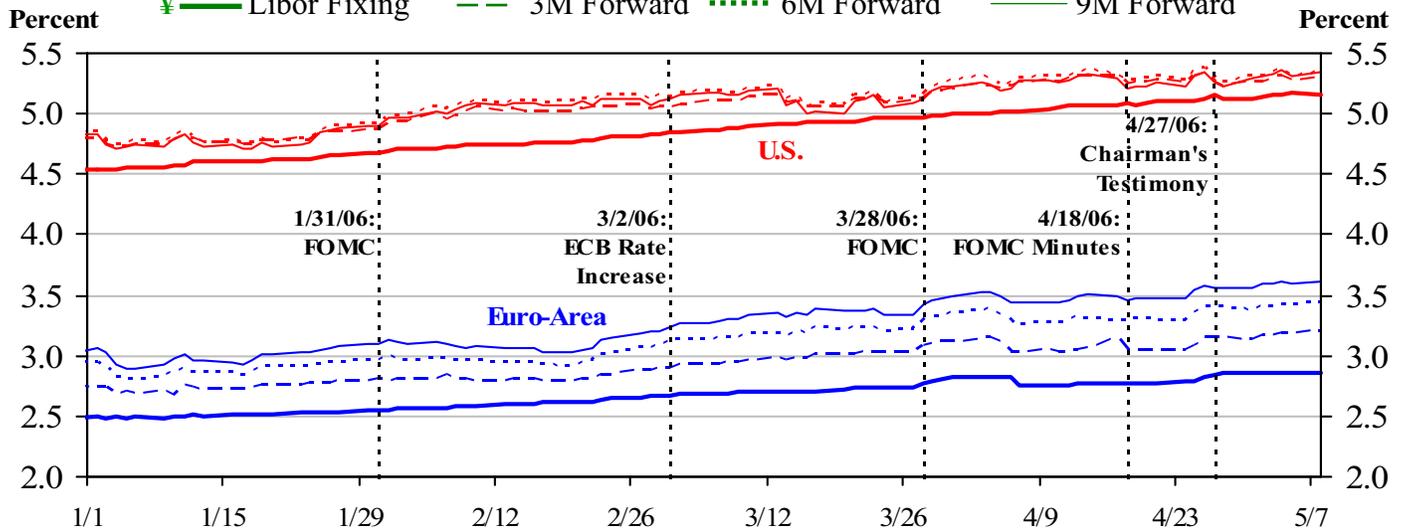


**Appendix 1: Materials used by Mr. Kos**

### Current 3-Month Deposit Rates and Rates Implied by Traded Forward Rate Agreements

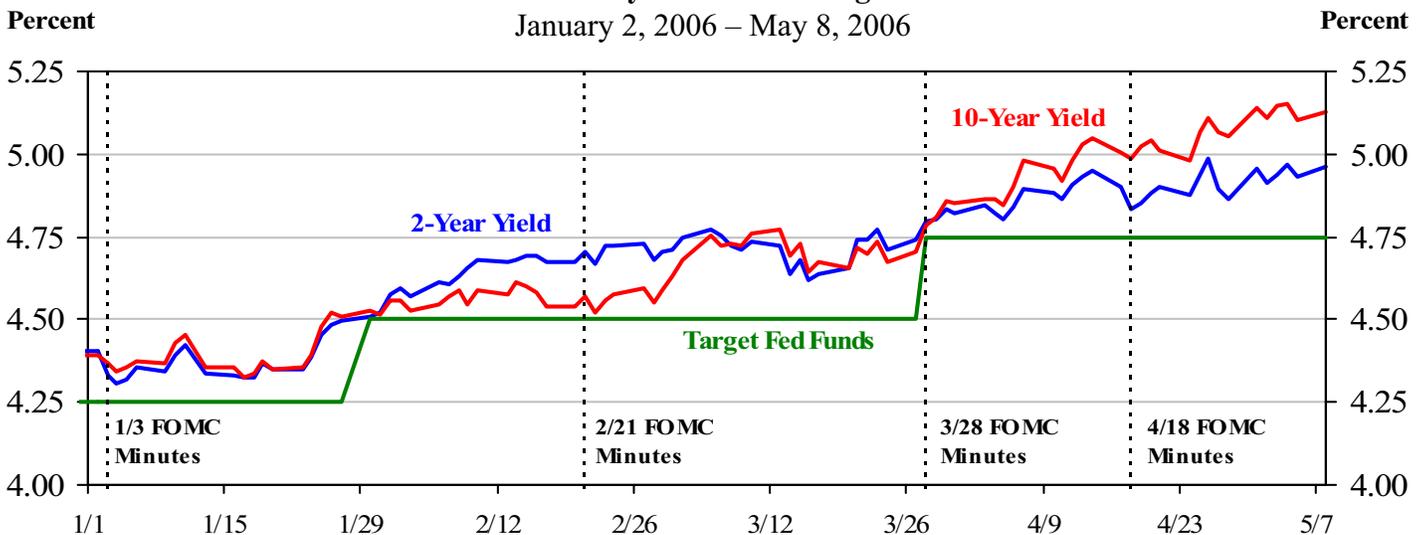
January 2, 2006 to May 8, 2006

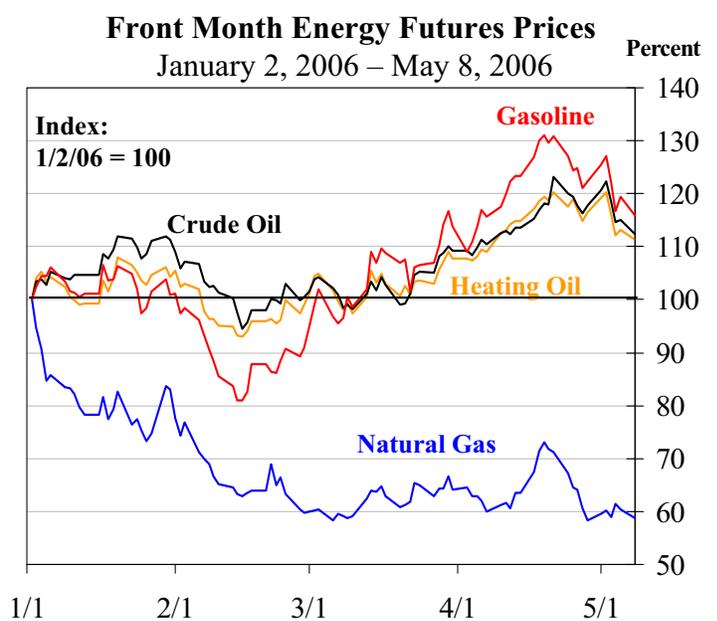
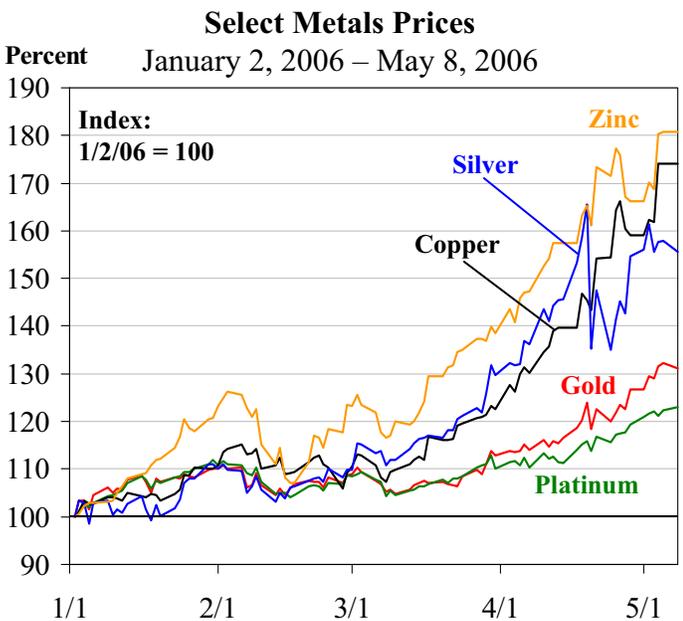
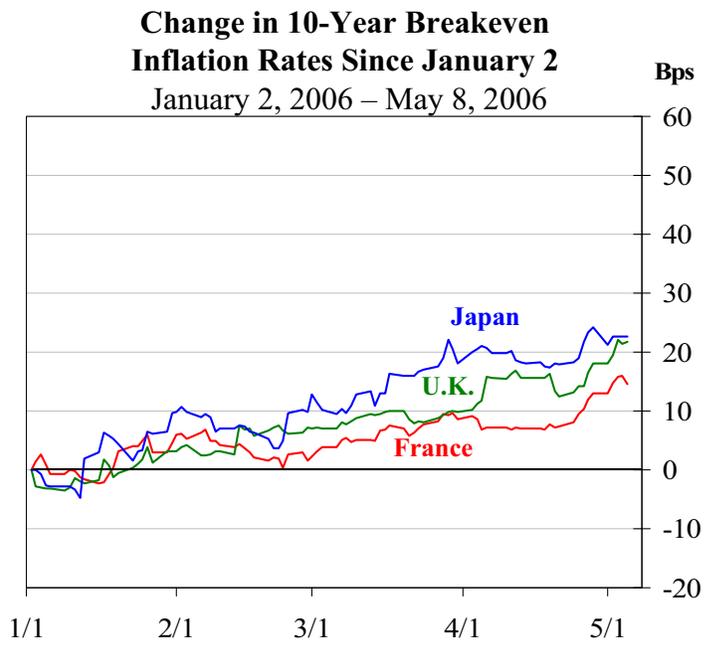
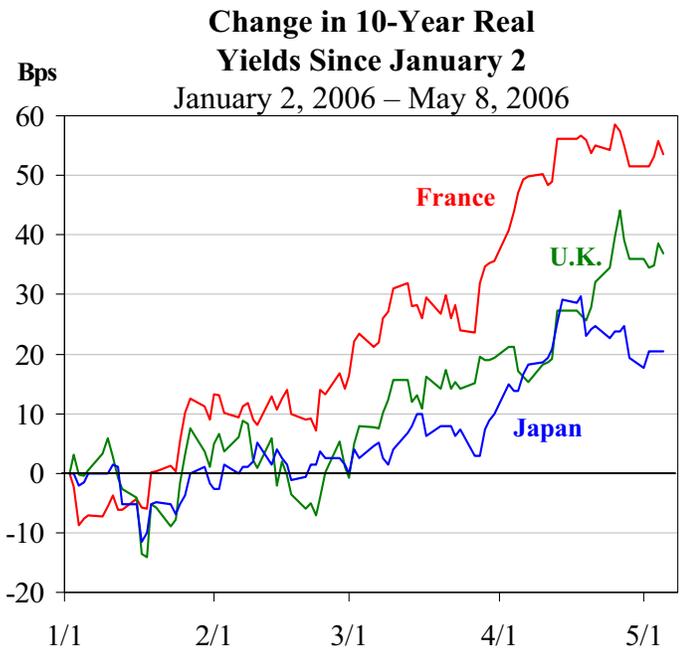
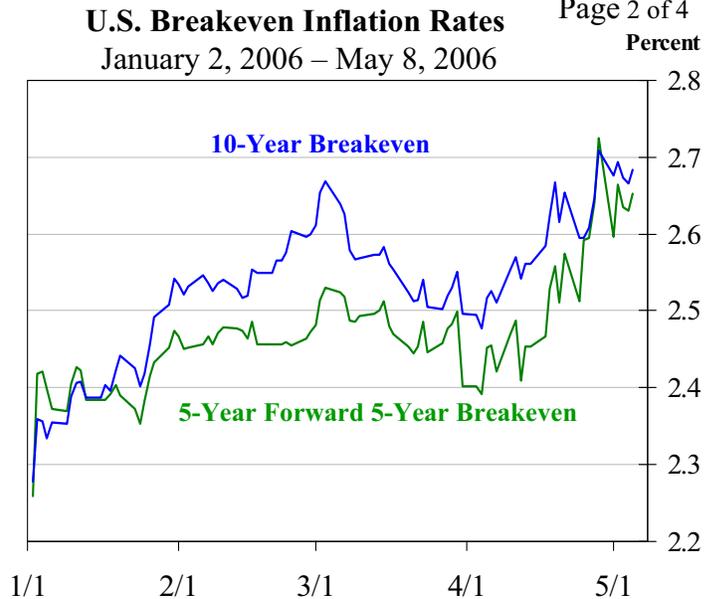
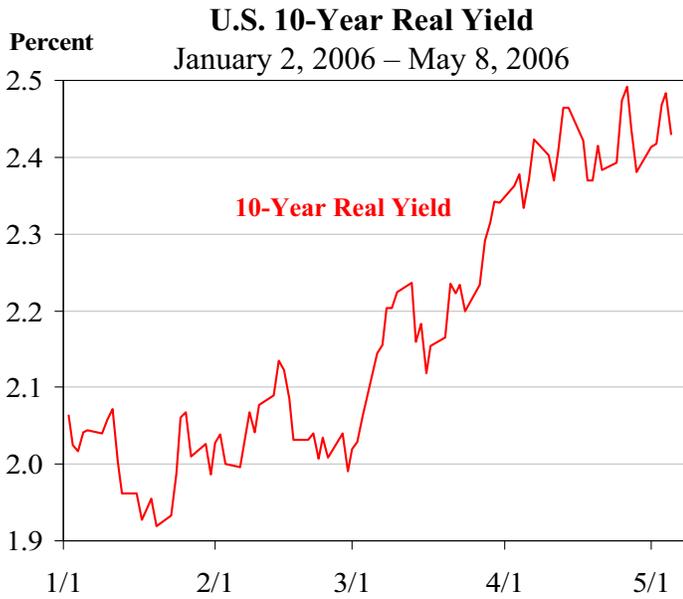
- \$ — Libor Fixing    - - - 3M Forward    · · · · · 6M Forward    — 9M Forward
- € — Libor Fixing    - - - 3M Forward    · · · · · 6M Forward    — 9M Forward
- ¥ — Libor Fixing    - - - 3M Forward    · · · · · 6M Forward    — 9M Forward

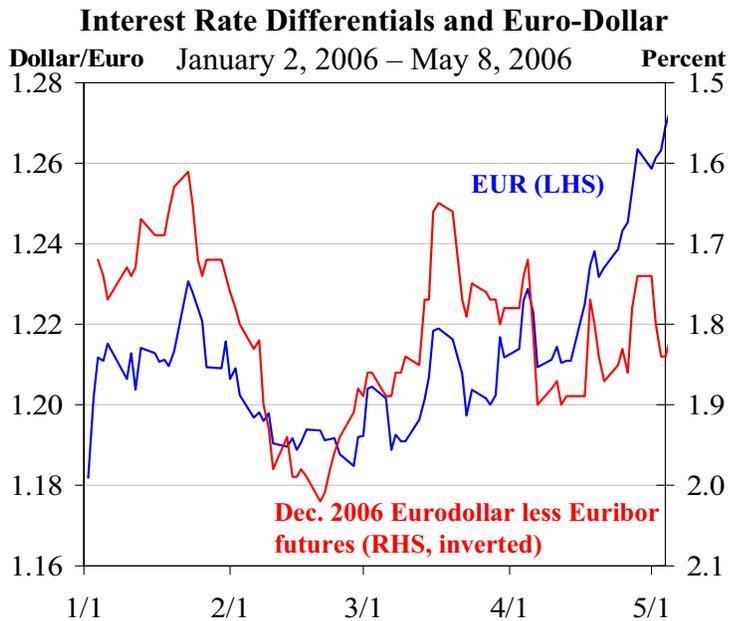
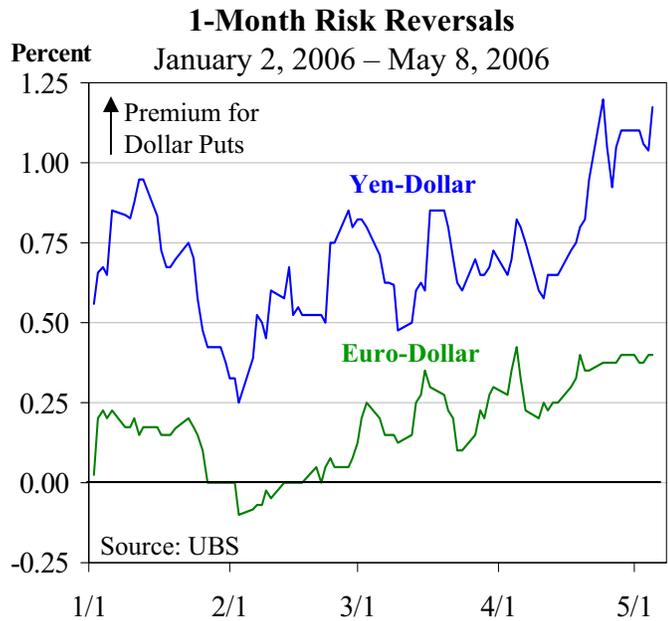
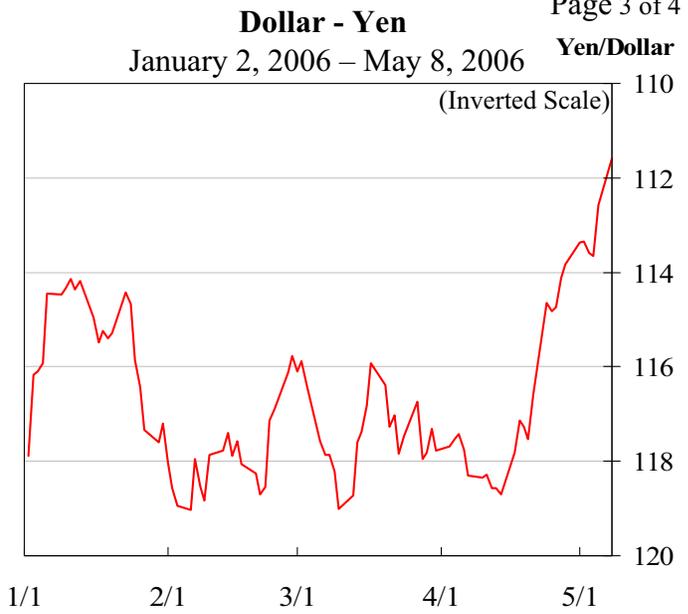
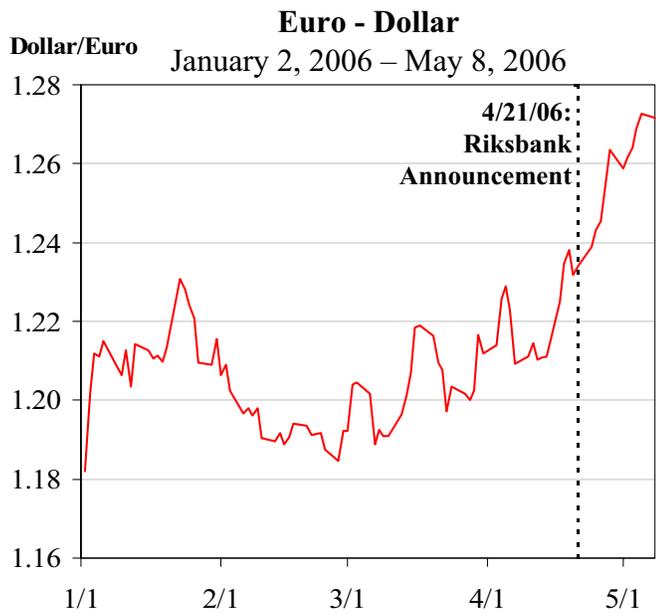


### 2- and 10-Year Treasury Yields and Target Fed Funds Rate

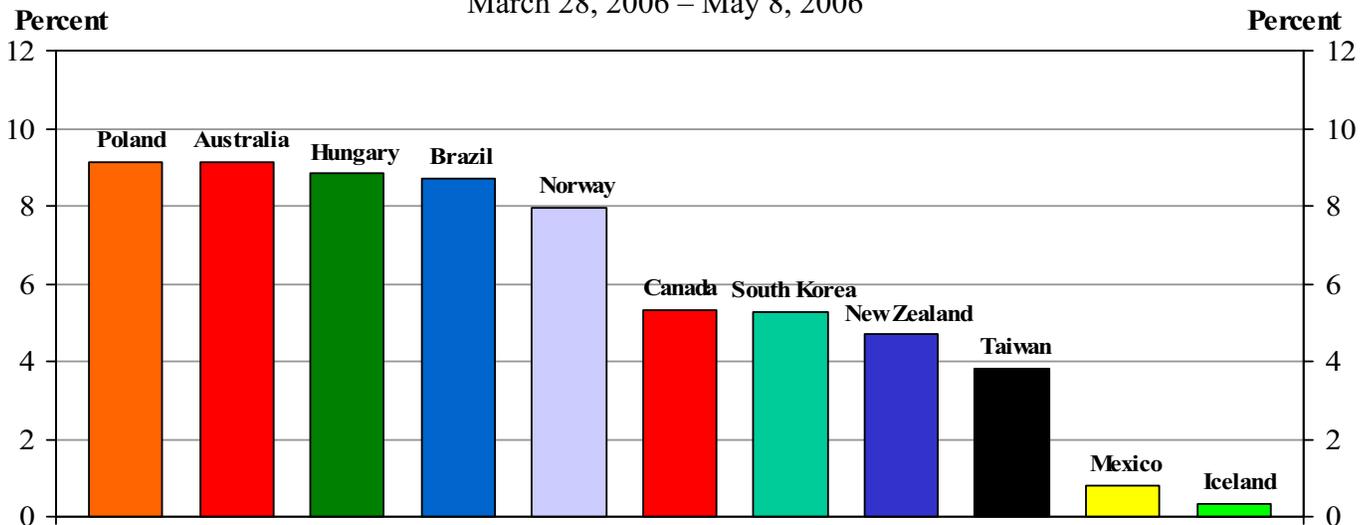
January 2, 2006 – May 8, 2006



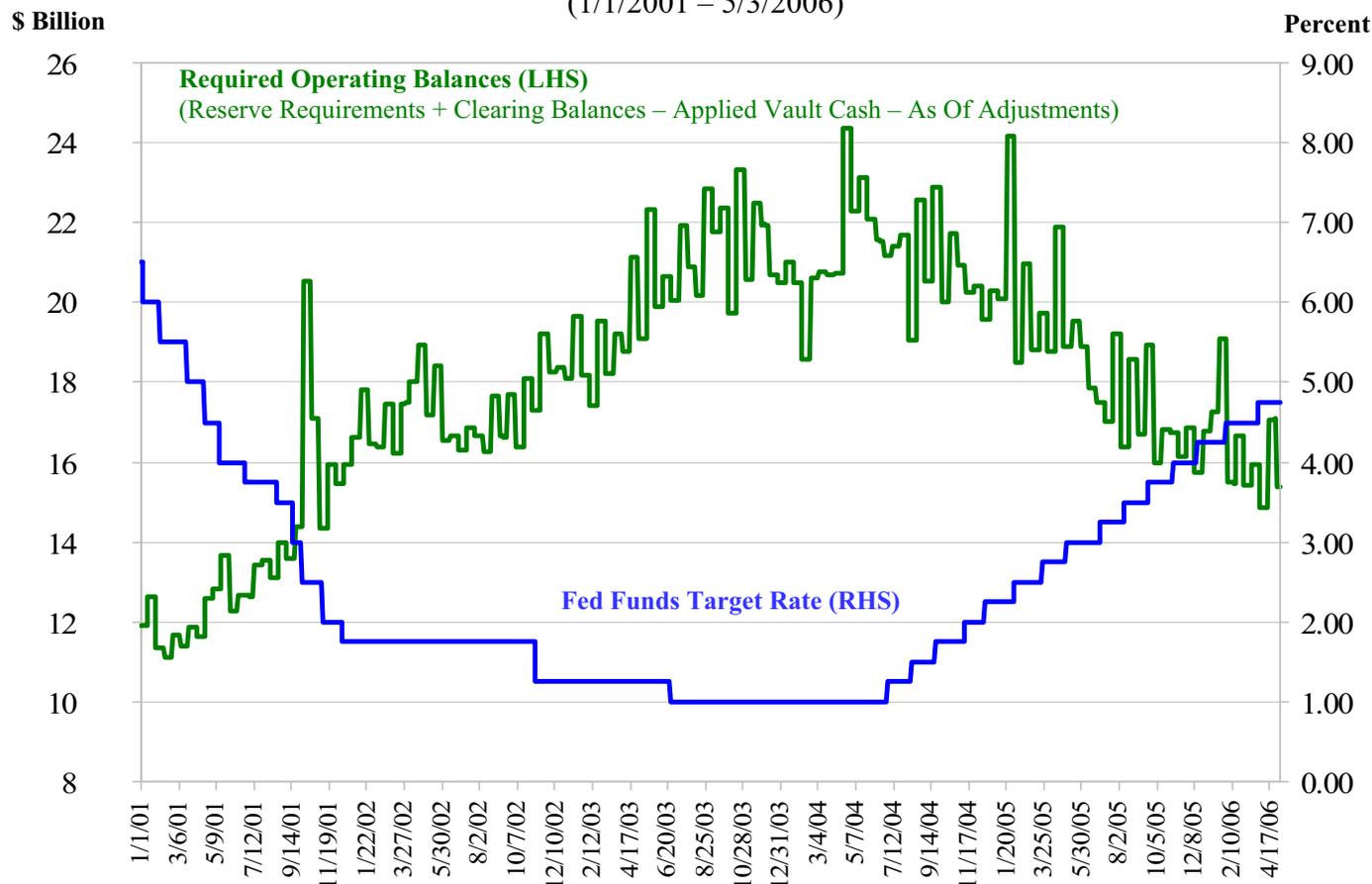




**Select Foreign Currency Appreciation Against the Dollar**  
March 28, 2006 – May 8, 2006



### Required Operating Balances and Fed Funds Target Rate (1/1/2001 – 5/3/2006)



### New FedTrade Auction System

- Used for all open market operations: securities lending, repos and outright security purchases
- Replaces 14 year old mainframe-based TRAPS system and FedLine terminals at dealers
- Reduces operational risk, increases transparency of operations, very flexible
  - Operational results released faster
  - Built-in optimizers to select winning propositions
  - Easier to use front-end for dealers
  - Information flows automatically to dealers, data warehouses, external website, wire services
- Designed by FRBNY, built by vendor (Sapient)
- Live for securities lending November 2005 and repo March 2006
- Expected go live for outright security purchases May 2006

**Appendix 2: Materials used by Mr. Reinhart**

**Class I FOMC – Restricted-Controlled FR**

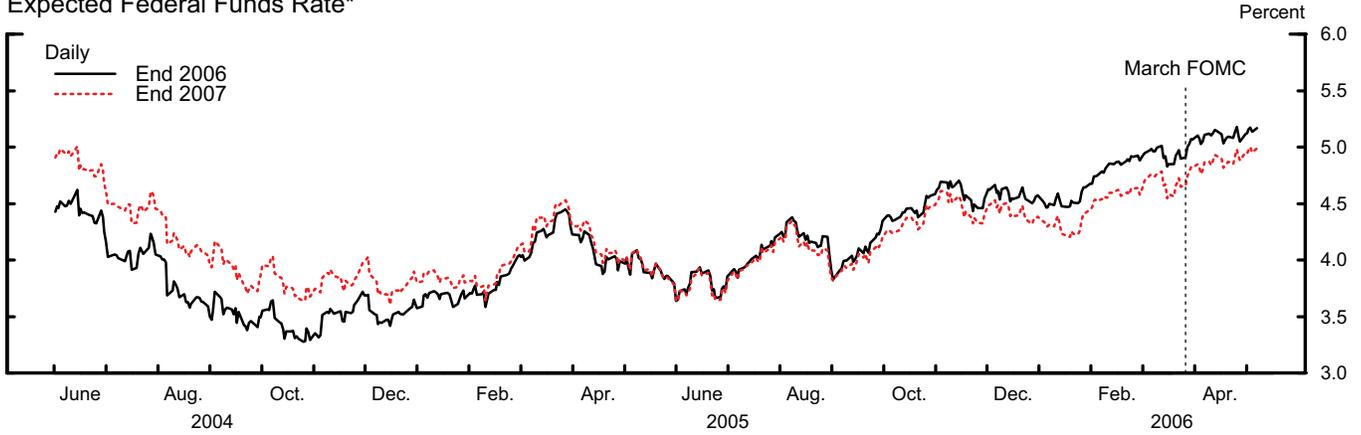
*Material for*

**FOMC Briefing on Monetary Policy Alternatives**

**Vincent R. Reinhart**  
**May 10, 2006**

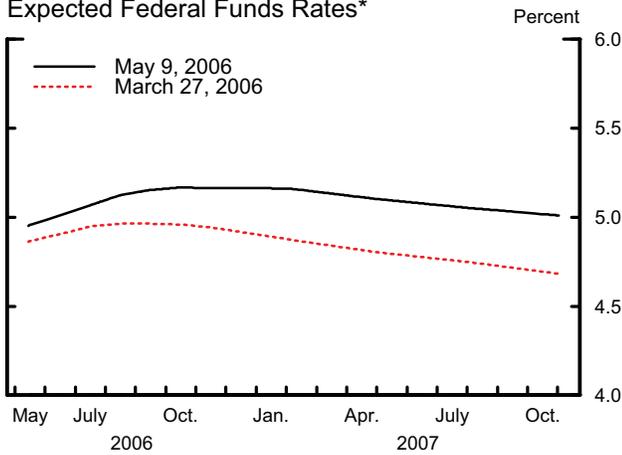
### Exhibit 1 Policy Expectations and Yields

Expected Federal Funds Rate\*



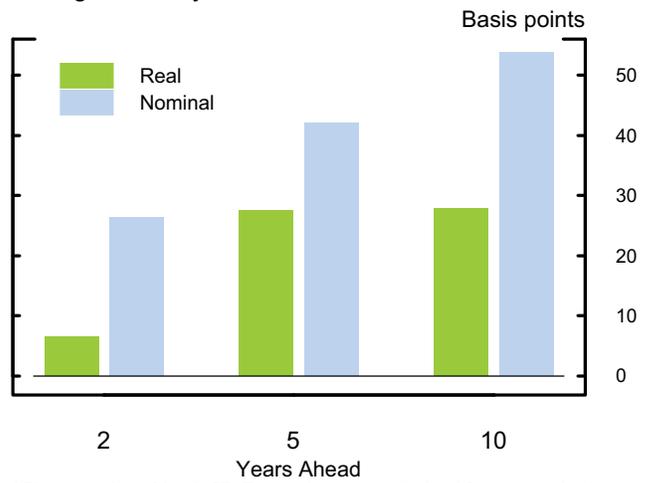
\*Derived from Eurodollar futures, with a term premium adjustment.

Expected Federal Funds Rates\*



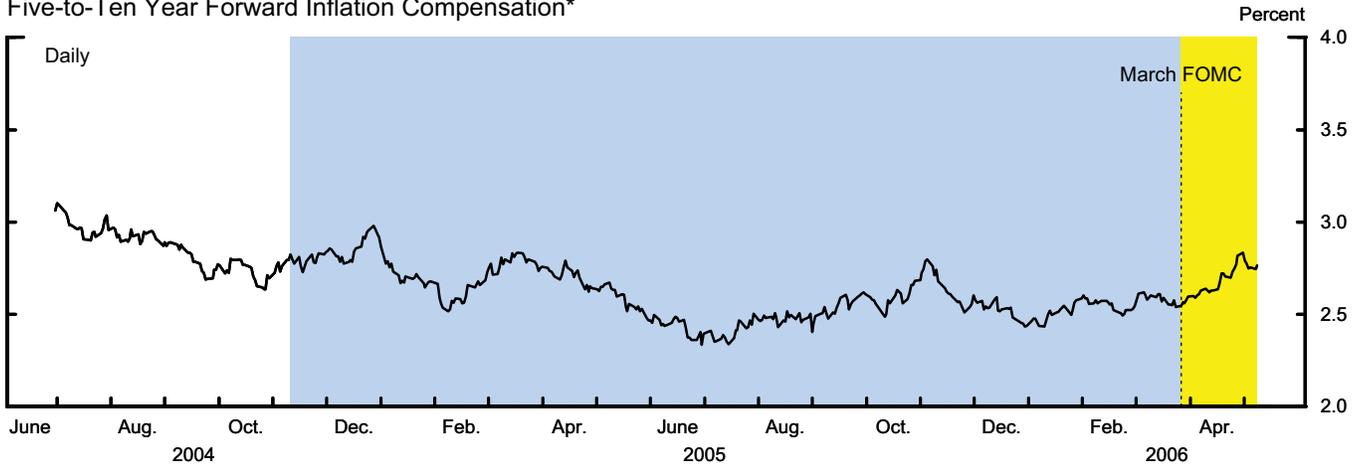
\*Derived from federal funds and Eurodollar futures, with a term premium adjustment.

Change in One-year Forward Rates\*



\*Changes since March 27. Forward rates are derived from smoothed yield curves fitted to nominal and TIPS securities.

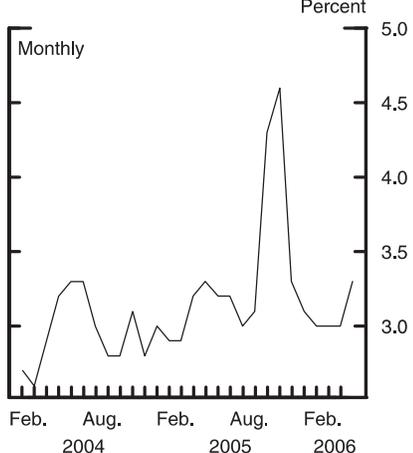
Five-to-Ten Year Forward Inflation Compensation\*



\*Derived from smoothed yield curves fitted to nominal and TIPS securities. Shaded regions denote period when most recent FOMC statement characterized inflation or inflation expectations as contained.

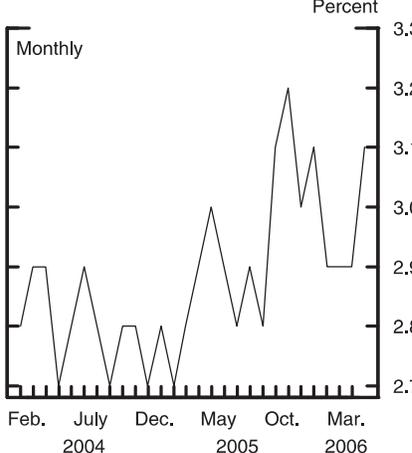
### Exhibit 2 Inflation Concerns

#### One-year Inflation Expectations\*



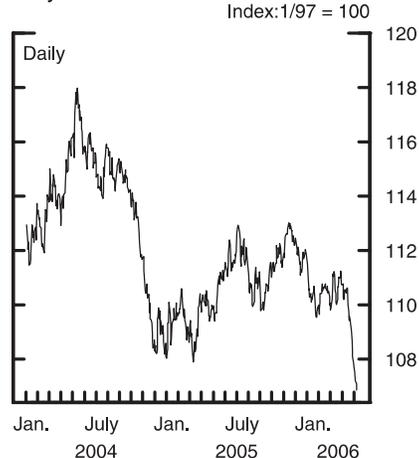
\*Michigan survey.

#### Long-term Inflation Expectations\*

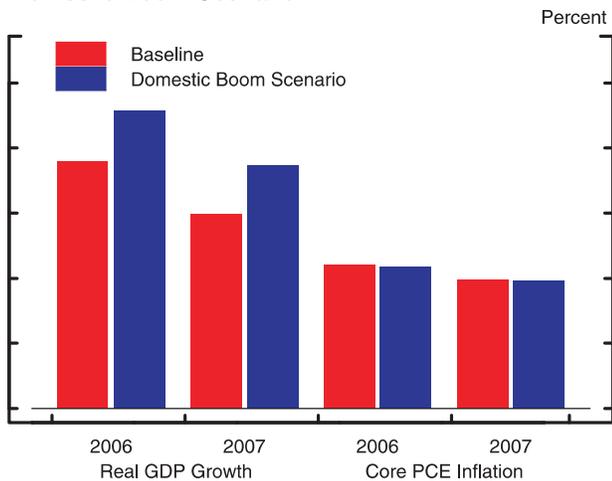


\*Michigan survey.

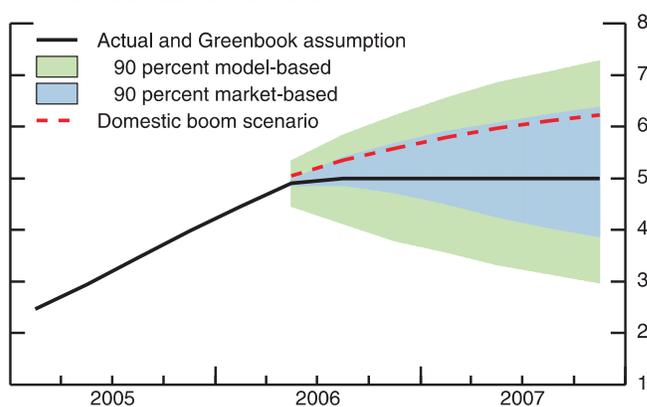
#### Major Currencies Index



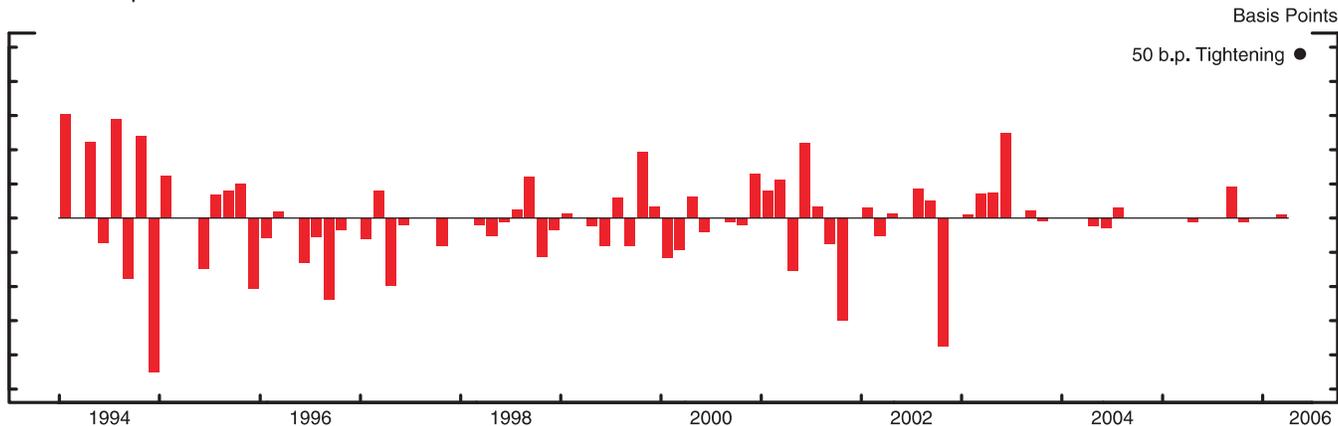
#### Domestic Boom Scenario



#### Market and Model-based Confidence Intervals for the Federal Funds Rate



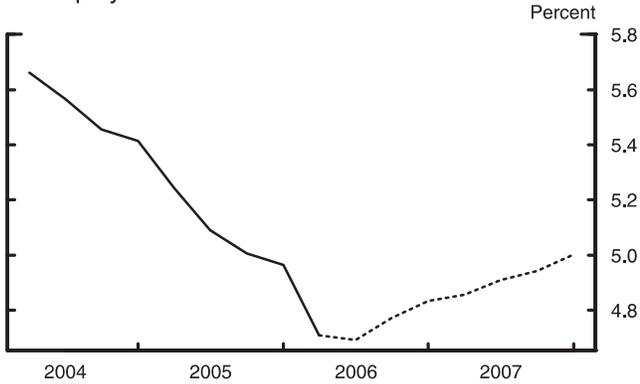
#### FOMC Surprises\*



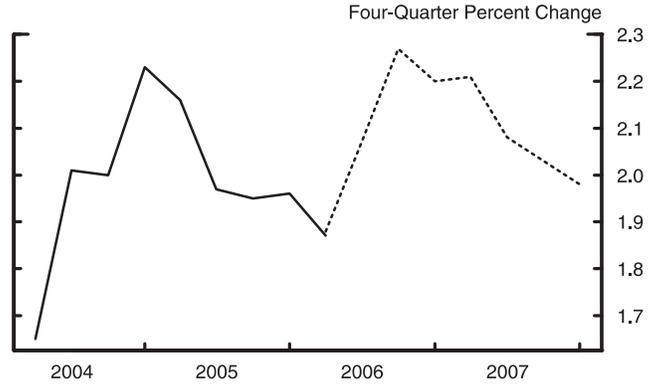
\*Unexpected change in target federal funds rate at FOMC meetings, as measured from federal funds futures.

### Exhibit 3 When are you going to stop?

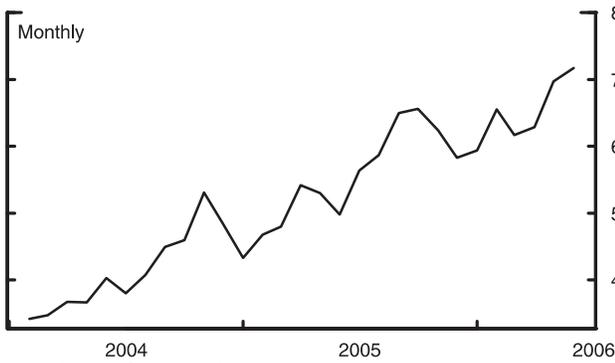
#### Unemployment Rate



#### Core PCE

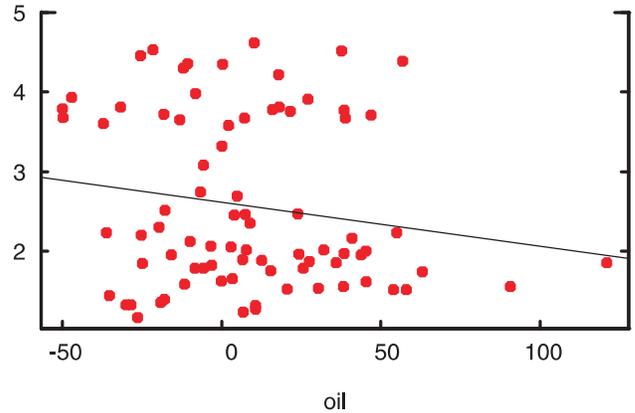


#### Spot Oil Price\*

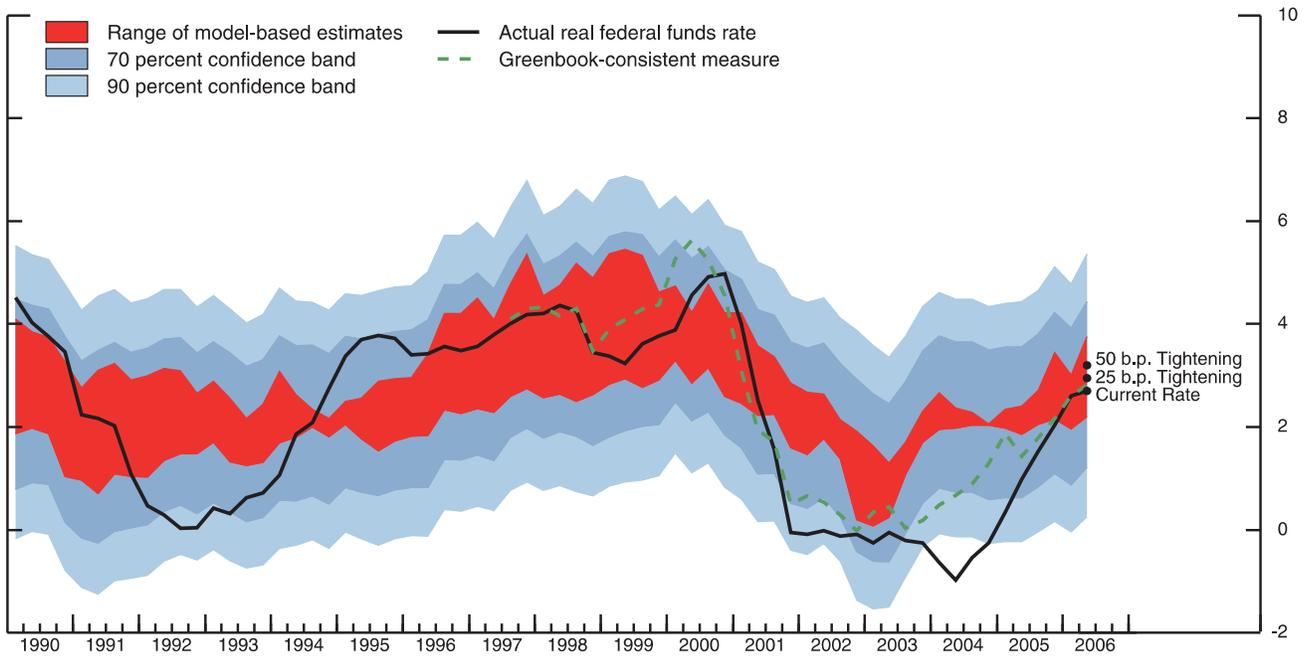


\*West Texas Intermediate.

#### Scatter plot of Four-Quarter Percent Changes in Core PCE and Spot Oil Price (WTI) PCE

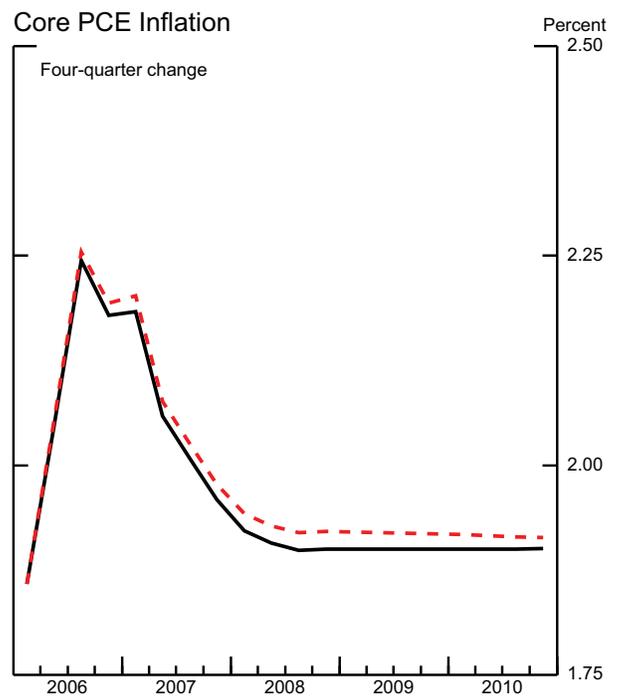
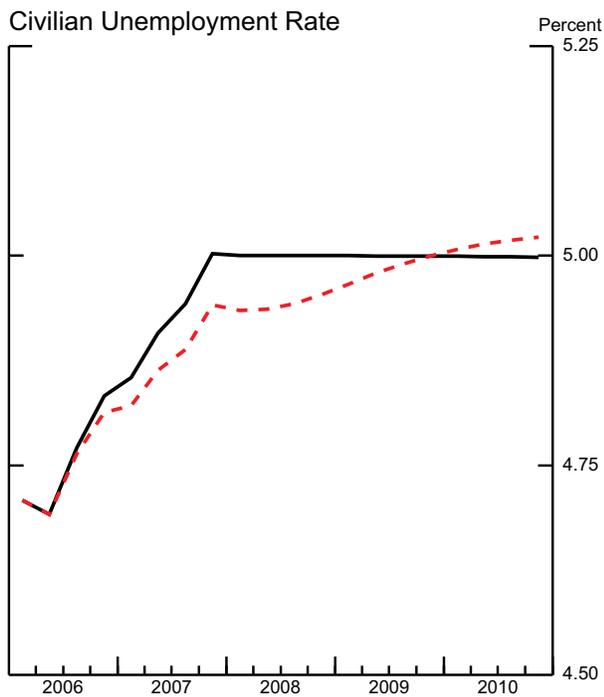
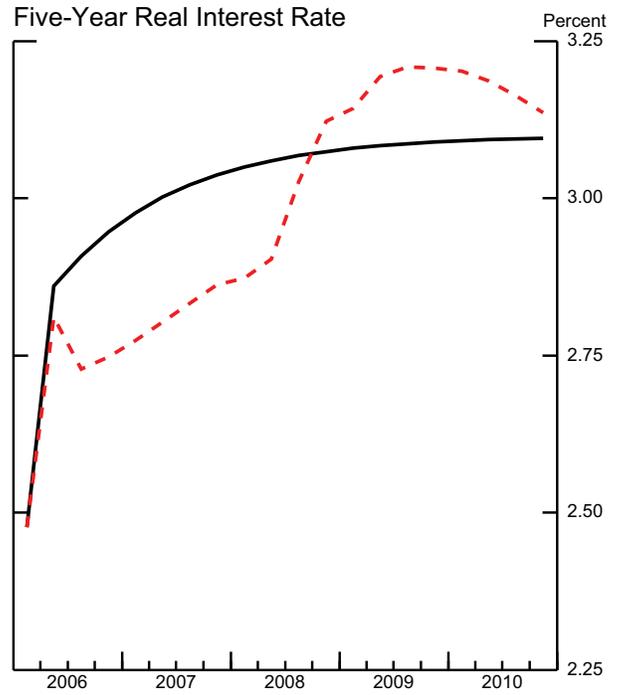
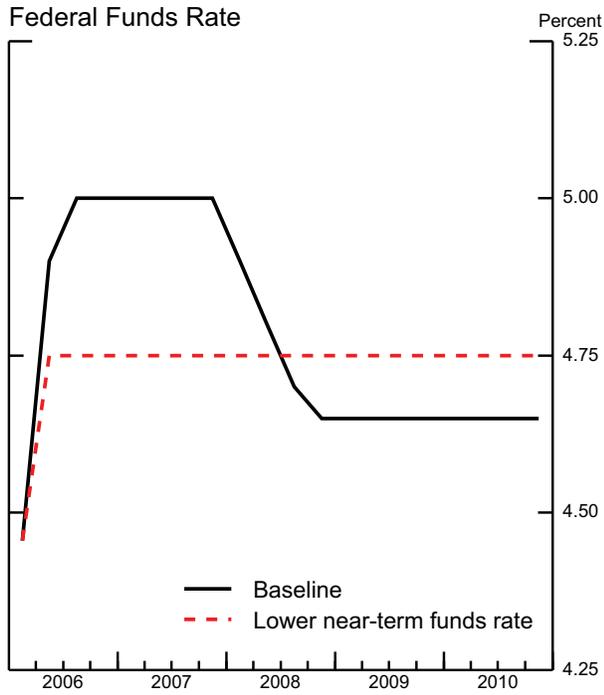


#### Range of Estimated Equilibrium Real Rates



Explanatory notes are provided after Chart 7 of the Bluebook.

### Exhibit 4 Ending the Policy Firming Process



Revised Table 1: Alternative Language for the May FOMC Announcement				
	March FOMC	Alternative A	Alternative B	Alternative C
<b>Policy Decision</b>	1. The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 4-3/4 percent.	The Federal Open Market Committee decided today to <b>keep</b> its target for the federal funds rate <b>unchanged at</b> 4-3/4 percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to <b>5</b> percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by <b>50</b> basis points to <b>5-1/4</b> percent.
<b>Rationale</b>	2. The slowing of the growth of real GDP in the fourth quarter of 2005 seems largely to have reflected temporary or special factors. Economic growth has rebounded strongly in the current quarter but appears likely to moderate to a more sustainable pace.	<b>Economic growth rebounded to nearly a 5 percent annual rate in the first quarter. The Committee sees growth as likely to moderate to a sustainable pace, partly reflecting a gradual cooling of the housing market and the lagged effects of increases in interest rates and energy prices.</b>	<b>Economic growth has been quite strong so far this year. The Committee sees growth as likely to moderate toward a more sustainable pace, partly reflecting a gradual cooling of the housing market and the lagged effects of increases in interest rates and energy prices.</b>	<b>Economic growth has been quite strong so far this year. The Committee sees growth as likely to moderate somewhat in coming quarters, though data confirming a slowing in growth have been sparse.</b>
	3. As yet, the run-up in the prices of energy and other commodities appears to have had only a modest effect on core inflation, ongoing productivity gains have helped to hold the growth of unit labor costs in check, and inflation expectations remain contained. Still, possible increases in resource utilization, in combination with the elevated prices of energy and other commodities, have the potential to add to inflation pressures.	As yet, the run-up in the prices of energy and other commodities appears to have had only a modest effect on core inflation, ongoing productivity gains have helped to hold the growth of unit labor costs in check, and inflation expectations remain contained. <b>The Committee expects these trends to continue.</b> Still, possible increases in resource utilization, in combination with the elevated prices of energy and other commodities, have the potential to add to inflation pressures.	As yet, the run-up in the prices of energy and other commodities appears to have had only a modest effect on core inflation, ongoing productivity gains have helped to hold the growth of unit labor costs in check, <b>and inflation expectations remain contained.</b> Still, possible increases in resource utilization, in combination with the elevated prices of energy and other commodities, have the potential to add to inflation pressures.	As yet, the run-up in the prices of energy and other commodities appears to have had only a modest effect on core inflation, <b>and</b> ongoing productivity gains have helped to hold the growth of unit labor costs in check. <b>However, the recent climb in energy and other commodity prices, an apparent rise in inflation expectations, and</b> possible increases in resource utilization have the potential to add to inflation pressures.
<b>Assessment of Risk</b>	4. The Committee judges that some further policy firming may be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance.	<b>Against this backdrop, the Committee preferred to await additional information about economic developments before taking any further action. The Committee sees the risks to its price stability objective as slightly to the upside and judges it more likely that its next policy action will be a tightening rather than an easing.</b>	The Committee judges that some further policy firming may <b>yet</b> be needed to <b>address inflation risks but emphasizes that the extent and timing of any such firming will depend importantly on the evolution of the economic outlook as implied by incoming information.</b>	The Committee judges that, <b>with this action,</b> the risks to the attainment of both sustainable economic growth and price stability <b>are</b> roughly in balance.
	5. In any event, the Committee will respond to changes in economic prospects as needed to foster these objectives.	In any event, the Committee will respond to changes in <b>the economic outlook, as implied by incoming information, as needed to foster its objectives of sustainable economic growth and price stability.</b>	In any event, the Committee will respond to changes in economic prospects as needed to <b>support the attainment of its objectives.</b>	[Unchanged.]