Appendix 1: Materials used by Mr. Kos
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.

**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*

Long-term Inflation Expectations*

Major Currencies Index

*Michigan survey.

Domestic Boom Scenario

Percent

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

Percent

FOMC Surprises*

Basis Points

*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

Four-Quarter Percent Change

Spot Oil Price*

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

Range of Estimated Equilibrium Real Rates

Explanatory notes are provided after Chart 7 of the Bluebook.
Revised Table 1: Alternative Language for the May FOMC Announcement

<table>
<thead>
<tr>
<th>Policy Decision</th>
<th>March FOMC</th>
<th>Alternative A</th>
<th>Alternative B</th>
<th>Alternative C</th>
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</thead>
<tbody>
<tr>
<td>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.</td>
<td>The Federal Open Market Committee decided today to keep its target for the federal funds rate unchanged at 4-3/4 percent.</td>
<td>The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 5 percent.</td>
<td>The Federal Open Market Committee decided today to raise its target for the federal funds rate by 50 basis points to 5-1/4 percent.</td>
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<td>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.</td>
<td>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.</td>
<td>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.</td>
<td>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.</td>
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<td>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.</td>
<td>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. The Committee expects these trends to continue. 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.</td>
<td>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.</td>
<td>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. However, the recent climb in energy and other commodity prices, an apparent rise in inflation expectations, and possible increases in resource utilization have the potential to add to inflation pressures.</td>
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<td>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.</td>
<td>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.</td>
<td>The Committee judges that some further policy firming may yet be needed to 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.</td>
<td>The Committee judges that, with this action, the risks to the attainment of both sustainable economic growth and price stability are roughly in balance.</td>
<td></td>
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<td>5. In any event, the Committee will respond to changes in economic prospects as needed to foster these objectives.</td>
<td>In any event, the Committee will respond to changes in economic prospects as needed to foster its objectives of sustainable economic growth and price stability.</td>
<td>In any event, the Committee will respond to changes in economic prospects as needed to support the attainment of its objectives.</td>
<td>[Unchanged.]</td>
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