

Appendix 1: Materials used by Mr. Sack

Class II FOMC - Restricted FR

Material for

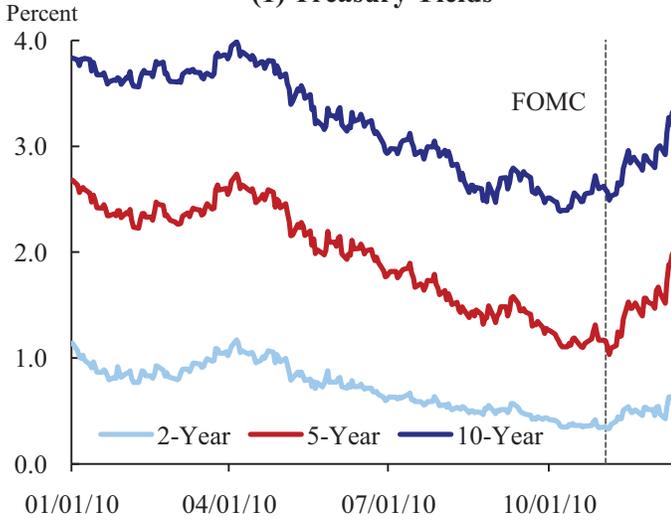
FOMC Presentation:

Financial Market Developments and Desk Operations

Brian Sack

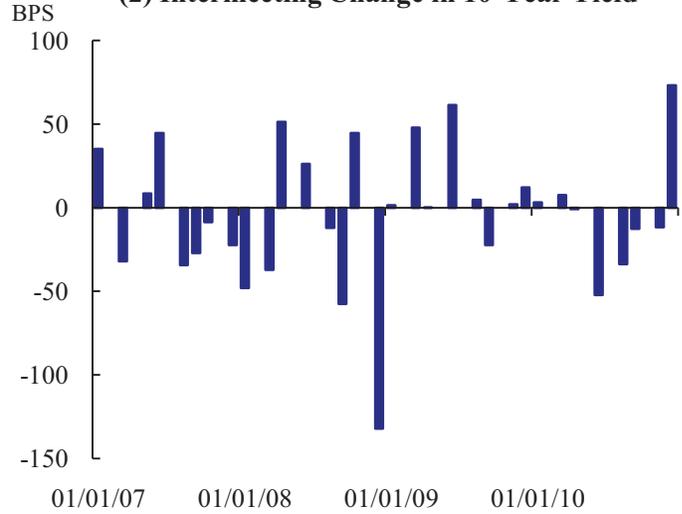
December 14, 2010

(1) Treasury Yields



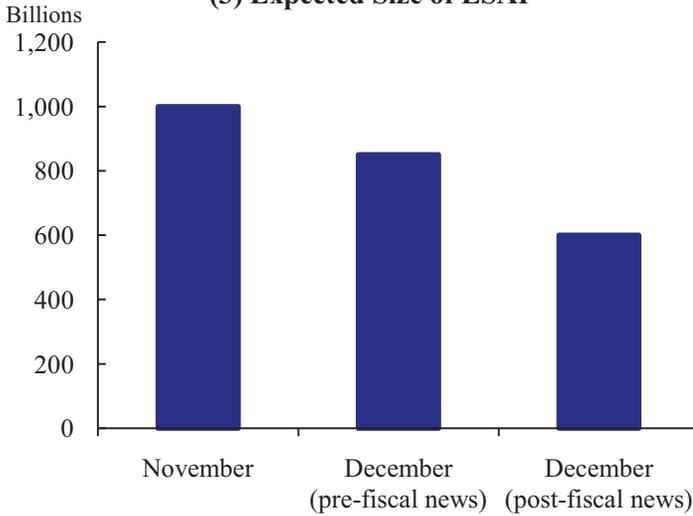
Source: Bloomberg

(2) Intermeeting Change in 10-Year Yield



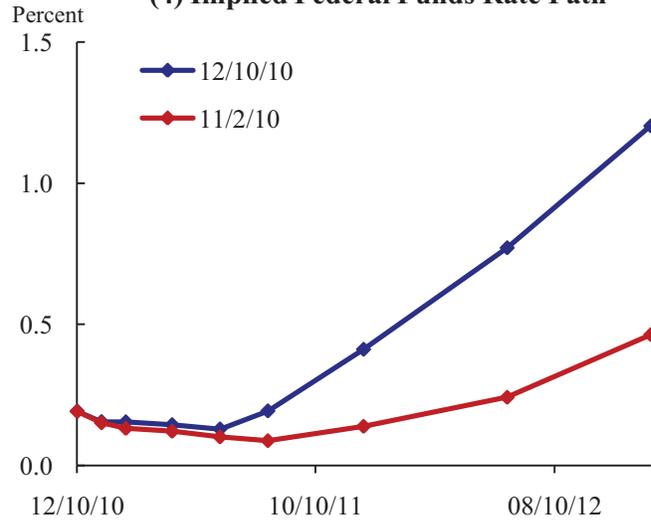
Source: Bloomberg

(3) Expected Size of LSAP



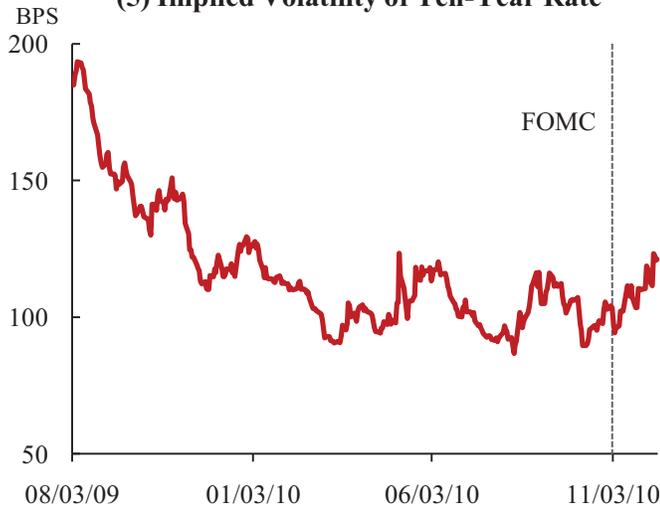
Source: Federal Reserve Bank of New York Policy Survey

(4) Implied Federal Funds Rate Path



Source: Federal Reserve Bank of New York

(5) Implied Volatility of Ten-Year Rate*



*Implied volatility of swap rate derived from swaption contracts expiring in 3-months.

Source: Barclays Capital

(6) Asset Price Changes

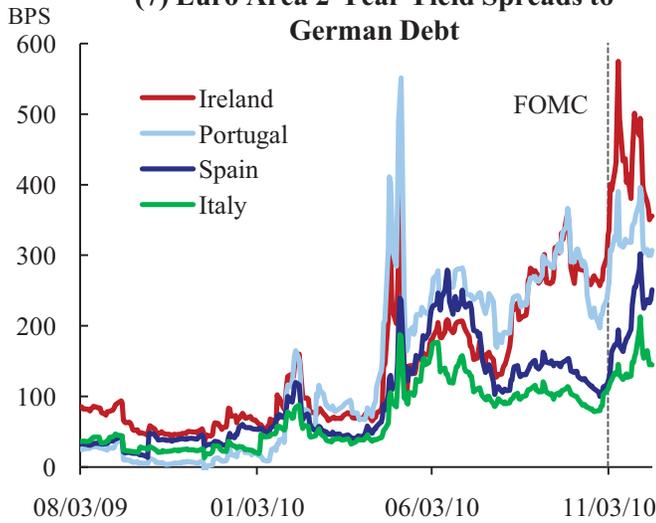
| | Jackson Hole to Nov. FOMC | Since Nov. FOMC |
|----------------------|---------------------------|-----------------|
| 10Y Nominal | -6 | +73 |
| 10Y Real | -61 | +70 |
| 10Y BEI | +55 | +3 |
| S&P 500 | +12% | +4% |
| Corporate IG* | -19 | -5 |
| Corporate HY* | -107 | -25 |
| Dollar** | -5% | +2% |

* CDX

**FRB trade weighted dollar index

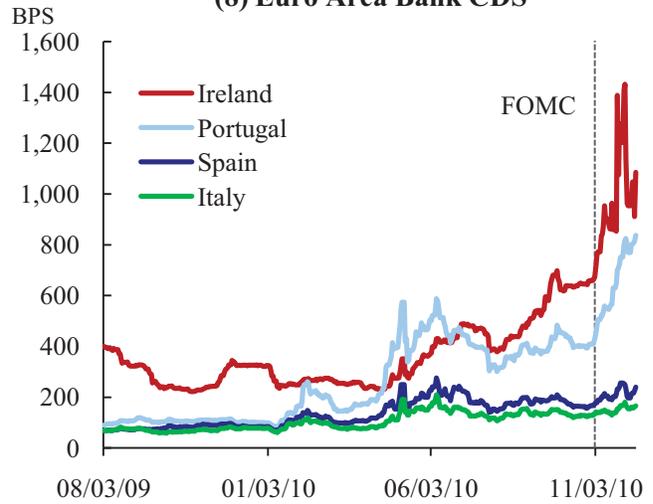
Source: Bloomberg, Board of Governors

(7) Euro Area 2-Year Yield Spreads to German Debt



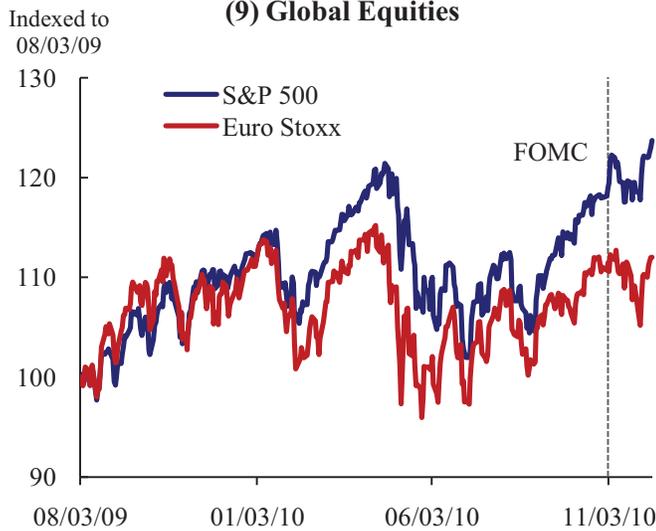
Source: Bloomberg

(8) Euro Area Bank CDS*



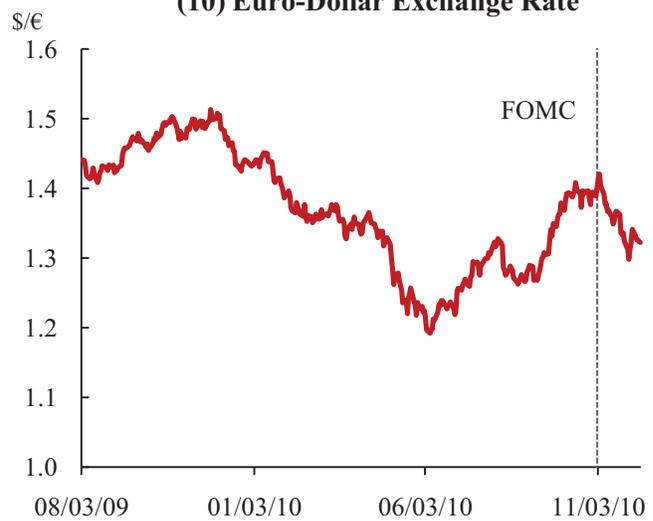
*Average bank CDS by country
Source: Bloomberg

(9) Global Equities



Source: Bloomberg

(10) Euro-Dollar Exchange Rate



Source: Bloomberg

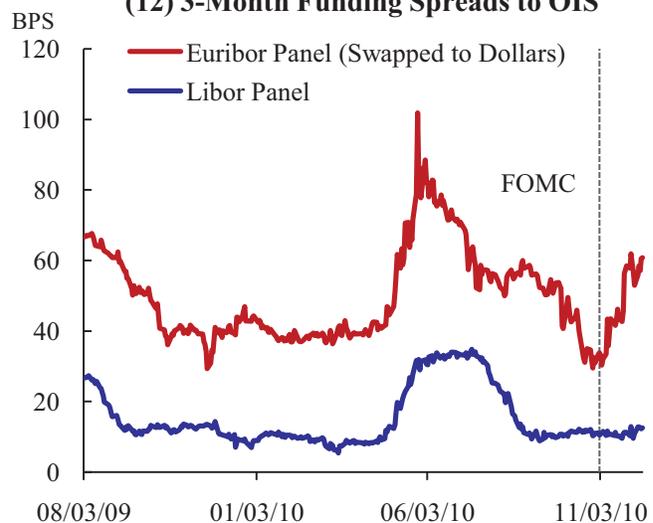
(11) Money Fund Holdings of Liabilities of European Financial Institutions

USD Billions

| | Level on 12/1/2010 | Change Since 11/3/2010 |
|----------------|-----------------------|---------------------------|
| France | \$238.1 | 2% |
| Germany | \$134.9 | 7% |
| Ireland | \$0.0 | 0% |
| Italy | \$21.6 | -16% |
| Spain | \$25.5 | -38% |

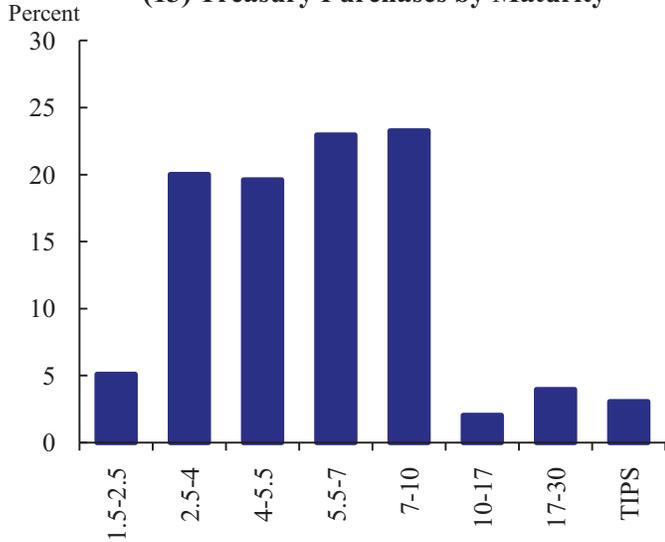
Source: Confidential data from Investment Company Institute

(12) 3-Month Funding Spreads to OIS



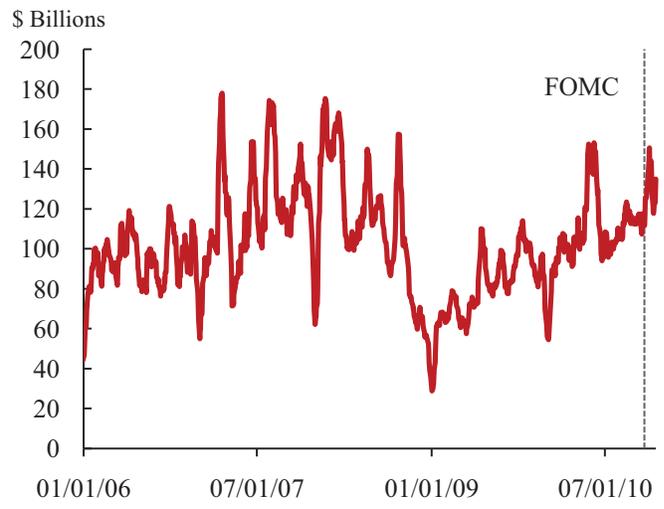
Source: Bloomberg

(13) Treasury Purchases by Maturity



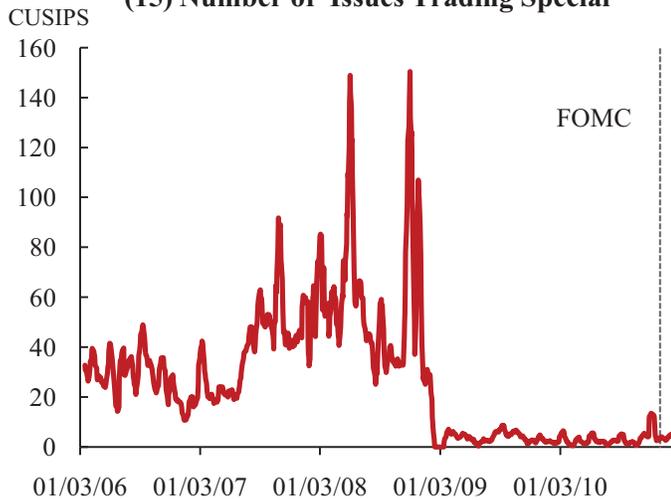
Source: Federal Reserve Bank of New York

(14) Trading Volume in Treasury Securities*



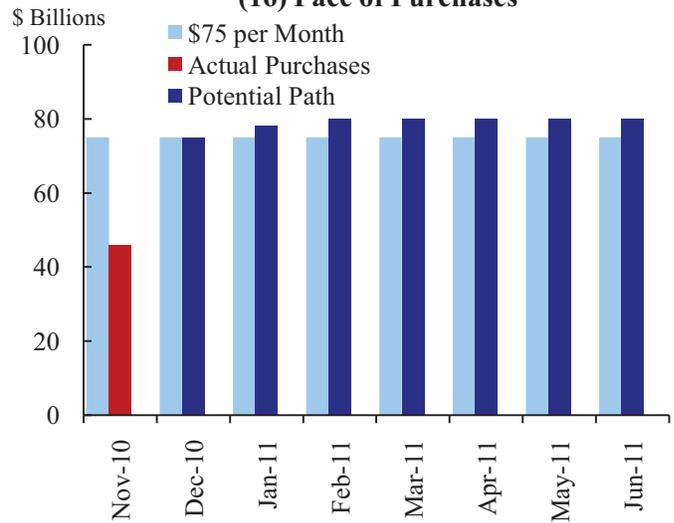
*10-day moving average of all benchmark coupon securities
Source: BrokerTec

(15) Number of Issues Trading Special*



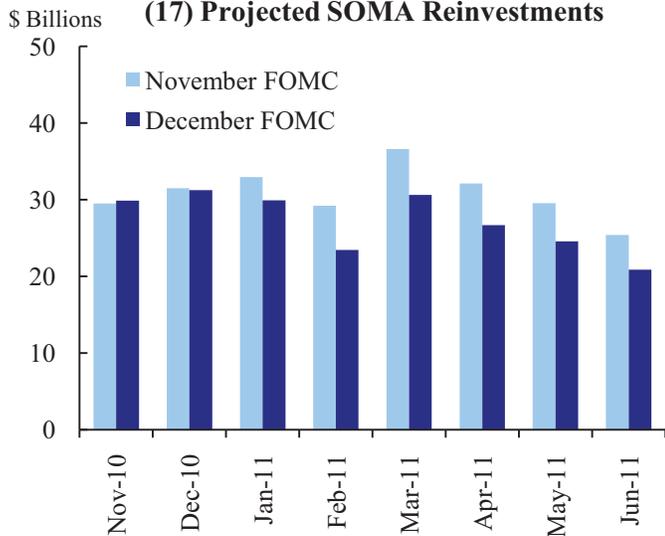
*10-day moving average. Trading special defined as having a repo rate at least 15 basis points below the general collateral rate.
Source: BrokerTec

(16) Pace of Purchases



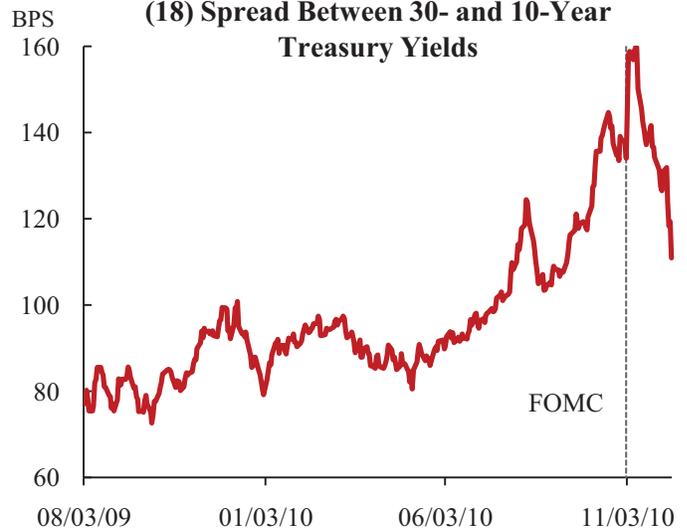
Source: Federal Reserve Bank of New York

(17) Projected SOMA Reinvestments



Source: Federal Reserve Bank of New York

(18) Spread Between 30- and 10-Year Treasury Yields



Source: Bloomberg

Appendix 2: Materials used by Mr. English

Class I FOMC – Restricted Controlled (FR)

Material for

FOMC Briefing on Monetary Policy Alternatives

Bill English

December 14, 2010

NOVEMBER FOMC STATEMENT

1. Information received since the Federal Open Market Committee met in September confirms that the pace of recovery in output and employment continues to be slow. Household spending is increasing gradually, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak. Employers remain reluctant to add to payrolls. Housing starts continue to be depressed. Longer-term inflation expectations have remained stable, but measures of underlying inflation have trended lower in recent quarters.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate is elevated, and measures of underlying inflation are somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives has been disappointingly slow.
3. To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to expand its holdings of securities. The Committee will maintain its existing policy of reinvesting principal payments from its securities holdings. In addition, the Committee intends to purchase a further \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about \$75 billion per month. The Committee will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability.
4. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.
5. The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.

DECEMBER FOMC STATEMENT—ALTERNATIVE A

1. Information received since the Federal Open Market Committee met in ~~September~~ **November** confirms that the ~~pace of~~ **economic** recovery **is continuing, though at a rate that has been insufficient to bring down unemployment** ~~in output and employment continues to be slow~~. Household spending is increasing gradually, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak. Employers remain reluctant to add to payrolls. **The housing starts sector** ~~continues~~ to be depressed. Longer-term inflation expectations have remained stable, but measures of underlying inflation have **continued to** ~~trended lower in recent quarters~~ **downward**.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate is elevated, and measures of underlying inflation are ~~somewhat~~ low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives ~~has been~~ **remains** disappointingly slow.
3. To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to **continue** ~~expanding~~ its holdings of securities. **Moreover, in light of incoming information, the Committee now intends to increase its holdings of securities by a total of \$800 billion—\$200 billion more than announced last month—by purchasing longer-term Treasury securities at a pace of about \$75 billion per month through the third quarter of 2011. In addition,** the Committee will maintain its existing policy of reinvesting principal payments from its securities holdings. ~~In addition, the Committee intends to purchase a further \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about \$75 billion per month.~~ The Committee will regularly review the pace of its securities purchases and the overall size of the asset-purchase program ~~in light of incoming information~~ and will adjust the program as needed to best foster maximum employment and price stability.
4. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and ~~continues to~~ **currently** ~~anticipates~~ that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate ~~for an extended period~~ **at least through mid-2012**.
5. The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.

DECEMBER FOMC STATEMENT—ALTERNATIVE B

1. Information received since the Federal Open Market Committee met in ~~September~~ **November** confirms that the ~~pace of~~ **economic** recovery **is continuing, though at a rate that has been insufficient to bring down unemployment** ~~in output and employment continues to be slow~~. Household spending is increasing ~~gradually~~ **at a moderate pace**, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak. Employers remain reluctant to add to payrolls. **The housing starts sector** continues to be depressed. Longer-term inflation expectations have remained stable, but measures of underlying inflation have **continued to trended lower in recent quarters downward**.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate is elevated, and measures of underlying inflation are somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives has been disappointingly slow.
3. To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to **continue expanding** its holdings of securities **as announced in November**. The Committee will maintain its existing policy of reinvesting principal payments from its securities holdings. In addition, the Committee intends to purchase ~~a further~~ \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about \$75 billion per month. The Committee will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability.
4. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.
5. The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.

DECEMBER FOMC STATEMENT—ALTERNATIVE C

1. Information received since the Federal Open Market Committee met in ~~September~~ **November** confirms that the ~~pace of recovery in output and employment continues to be slow~~ **is continuing**. Household Spending is **by households and businesses appears to be** increasing gradually, **at a moderate pace**, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. ~~Business spending on equipment and software is rising has decelerated, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak.~~ **However**, employers remain reluctant to add to payrolls, **and** housing starts continue to be depressed. Longer-term inflation expectations have remained stable, but measures of underlying inflation have trended lower in recent quarters.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate is elevated, and measures of underlying inflation are somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives has been ~~disappointingly~~ slow.
3. To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to **continue** expanding its holdings of securities. **However, in light of incoming information, the Committee now intends to increase its holdings of securities by a total of \$400 billion—\$200 billion less than announced last month—by purchasing longer-term Treasury securities at a pace of about \$50 billion per month through the second quarter of 2011. In addition**, the Committee will maintain its existing policy of reinvesting principal payments from its securities holdings. ~~In addition, the Committee intends to purchase a further \$600 billion of longer term Treasury securities by the end of the second quarter of 2011, a pace of about \$75 billion per month.~~ The Committee will regularly review the pace of its securities purchases and the overall size of the asset-purchase program ~~in light of incoming information~~ and will adjust the program as needed to best foster maximum employment and price stability.
4. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.
5. The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.

DECEMBER FOMC STATEMENT—ALTERNATIVE D

1. Information received since the Federal Open Market Committee met in September **November** confirms that the pace of **economic** recovery in output and employment continues to be slow **is proceeding**. Household Spending **by households and businesses** is increasing gradually, **at a moderate pace**, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak. Employers remain reluctant to add to payrolls. Housing starts continues to be depressed. Longer term inflation expectations have remained stable, but **Although** measures of underlying inflation have trended lower in recent quarters, **longer-term inflation expectations have remained stable**. **The Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability**.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate is elevated, and measures of underlying inflation are somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives has been disappointingly slow.
2. To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, **Based on this assessment of current and prospective economic conditions**, the Committee decided today to **discontinue the asset-purchase program it announced in November** expand its holdings of securities. **For the time being**, the Committee will maintain its existing policy of reinvesting principal payments from its securities holdings. In addition, the Committee intends to purchase a further \$600 billion of longer term Treasury securities by the end of the second quarter of 2011, a pace of about \$75 billion per month. The Committee will regularly review the pace of its securities purchases and the overall size of the asset purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability.
3. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate **s** that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period **some time**.
4. The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate **promote maximum employment and price stability**.

November 2010 FOMC 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 $\frac{1}{4}$ percent. The Committee directs the Desk to execute purchases of longer-term Treasury securities by the end of June 2011 in order to increase the total face value of domestic securities held in the System Open Market Account to approximately \$2.6 trillion. The Committee also directs the Desk to reinvest principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. 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.

December 2010 FOMC Directive — Alternative A

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 execute purchases of longer-term Treasury securities ~~by the end of June 2011~~ in order to increase the total face value of domestic securities held in the System Open Market Account to approximately ~~\$2.6~~ **\$2.8** trillion **by the end of September 2011**. The Committee also directs the Desk to reinvest principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. 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.

December 2010 FOMC Directive — Alternative B

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 execute purchases of longer-term Treasury securities ~~by the end of June 2011~~ in order to increase the total face value of domestic securities held in the System Open Market Account to approximately \$2.6 trillion **by the end of June 2011**. The Committee also directs the Desk to reinvest principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. 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.

December 2010 FOMC Directive — Alternative C

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 execute purchases of longer-term Treasury securities ~~by the end of June 2011~~ in order to increase the total face value of domestic securities held in the System Open Market Account to approximately ~~\$2.6~~ **\$2.4** trillion **by the end of June 2011**. The Committee also directs the Desk to reinvest principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. 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.

December 2010 FOMC Directive — Alternative D

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 ~~execute purchases of longer-term Treasury securities by the end of June 2011 in order to increase~~ **maintain** the total face value of domestic securities held in the System Open Market Account ~~to~~ **at** approximately ~~\$2.6~~ **\$2.1** trillion. ~~The Committee also directs the Desk to~~ **by** reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. 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.