

## THE FEDERAL RESERVE SYSTEM

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**Date:** April 19, 2019  
**To:** Federal Open Market Committee  
**From:** Thomas Laubach and Simon Potter  
**Subject:** Background Memo on Issues Associated with the Long-Run Composition of the SOMA Portfolio

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The staff has prepared the attached memo as background for the Committee's discussion of the long-run composition of the SOMA portfolio. The memo is pitched at a high level and focuses on a few key issues including the potential role of the long-run composition of the balance sheet in enhancing the preparedness of the Federal Reserve to conduct a future maturity extension program, and the potential market and monetary policy implications of changes in the SOMA composition, both in the longer-run and in the transition to the steady state portfolio composition.

As the Chair indicated in his note to participants three weeks ago, this discussion is not intended to be decisional. Rather, the goal for the upcoming meeting is to spur an active discussion of the key macroeconomic considerations associated with SOMA securities holdings that can help lay the groundwork for reaching consensus at later meetings. We anticipate that we'll come back to the Committee with additional analysis at some point later this year—perhaps in connection with the strategic review—that will include more detailed discussion of specific options for the long-run SOMA composition.

The discussion of the long-run SOMA composition at the upcoming meeting will include a full go-round of participants; we have attached two general questions below that may be useful in framing the discussion during the go-round.

### **Questions for Discussion**

1. What do you see as the most important considerations related to the Committee's ability to achieve its macroeconomic objectives in choosing between alternative long-run maturity compositions of the SOMA portfolio?
2. What do you see as the benefits and costs associated with approaching the longer-run maturity composition more gradually or faster?