THE FEDERAL RESERVE SYSTEM

Date: July 14, 2020

To: Federal Open Market Committee

From: Thomas Laubach and Lorie Logan

Subject: Memos on Considerations Related to Yield Caps or Targets

At the June FOMC meeting, a number of participants expressed interest in receiving more information on yield caps or targets (YCT) and how such a policy could complement and reinforce forward guidance. The attached two memos provide additional analysis of YCT.

The memo "Financial and Macroeconomic Impacts and Effectiveness of Yield Caps or Targets" discusses the rationale and implications of a YCT program. It assesses the likely effects of YCT on the Treasury yield curve and the potential insurance benefits of YCT for preventing an undesirable increase in policy rate expectations, the transmission of YCT to broader financial conditions, and the potential benefits and challenges of YCT for the macroeconomy. This memo was prepared Andrea Ajello, Michiel De Pooter, Giovanni Favara, Christopher Gust, Kasper Joergensen, Kurt Lewis, Andrew Meldrum, Ander Perez-Orive, and Marcel Priebsch (Division of Monetary Affairs).

The memo titled "Design and Implementation of Yield Caps or Targets to Reinforce Forward Guidance," examines in greater detail the design choices entailed in a YCT program and discusses how such a program could be implemented for shorter-to-medium-run maturity yields in the U.S. Treasury market. In particular, it addresses the choice of tenor and yields for a YCT program, the interactions with various forms of forward guidance, and potential balance sheet implications. This memo was prepared by Alyssa Anderson and Zeynep Senyuz (Division of Monetary Affairs), Sam Schulhofer-Wohl (Federal Reserve Bank of Chicago), and Patricia Zobel (Federal Reserve Bank of New York).

If you have any questions concerning the content of these memos, please do not hesitate to contact the authors of the memos directly or either of us. If participants wish to comment on these topics at the upcoming FOMC meeting, the Chair suggests doing so during the monetary policy go-round.