



For immediate release

September 17, 2014

Policy Normalization Principles and Plans

During its recent meetings, the Federal Open Market Committee (FOMC) discussed ways to normalize the stance of monetary policy and the Federal Reserve's securities holdings. The discussions were part of prudent planning and do not imply that normalization will necessarily begin soon. The Committee continues to judge that many of the normalization principles that it adopted in June 2011 remain applicable. However, in light of the changes in the System Open Market Account (SOMA) portfolio since 2011 and enhancements in the tools the Committee will have available to implement policy during normalization, the Committee has concluded that some aspects of the eventual normalization process will likely differ from those specified earlier. The Committee also has agreed that it is appropriate at this time to provide additional information regarding its normalization plans. All FOMC participants but one agreed on the following key elements of the approach they intend to implement when it becomes appropriate to begin normalizing the stance of monetary policy:

- The Committee will determine the timing and pace of policy normalization--meaning steps to raise the federal funds rate and other short-term interest rates to more normal levels and to reduce the Federal Reserve's securities holdings--so as to promote its statutory mandate of maximum employment and price stability.
 - When economic conditions and the economic outlook warrant a less accommodative monetary policy, the Committee will raise its target range for the federal funds rate.
 - During normalization, the Federal Reserve intends to move the federal funds rate into the target range set by the FOMC primarily by adjusting the interest rate it pays on excess reserve balances.
 - During normalization, the Federal Reserve intends to use an overnight reverse repurchase agreement facility and other supplementary tools as needed to help control the federal funds rate. The Committee will use an overnight reverse repurchase agreement facility only to the extent necessary and will phase it out when it is no longer needed to help control the federal funds rate.
- The Committee intends to reduce the Federal Reserve's securities holdings in a gradual and predictable manner primarily by ceasing to reinvest repayments of principal on securities held in the SOMA.
 - The Committee expects to cease or commence phasing out reinvestments after it begins increasing the target range for the federal funds rate; the timing will depend on how economic and financial conditions and the economic outlook evolve.
 - The Committee currently does not anticipate selling agency mortgage-backed securities as part of the normalization process, although limited sales might be warranted in the longer run to reduce or eliminate residual holdings. The timing and pace of any sales would be communicated to the public in advance.

- The Committee intends that the Federal Reserve will, in the longer run, hold no more securities than necessary to implement monetary policy efficiently and effectively, and that it will hold primarily Treasury securities, thereby minimizing the effect of Federal Reserve holdings on the allocation of credit across sectors of the economy.
- The Committee is prepared to adjust the details of its approach to policy normalization in light of economic and financial developments.