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H.R. 1207, THE FEDERAL RESERVE TRANSPARENCY ACT OF 2009

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

SEPTEMBER 25, 2009

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H.R. 1207, THE FEDERAL RESERVE TRANSPARENCY ACT OF 2009

Friday, September 25, 2009

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 9:01 a.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Watt, Sherman, Moore of Kansas, Lynch, Miller of North Carolina, Green, Cleaver, Perlmutter, Donnelly, Foster, Minnick, Adler, Grayson, Himes, Maffei; Bachus, Castle, Royce, Paul, Manzullo, Biggert, Capito, Hensarling, Garrett, Neugebauer, Price, McHenry, Putnam, Bachmann, McCarthy of California, Posey, Jenkins, Paulsen, and Lance.

The CHAIRMAN. The hearing will come to order.

And I will begin with a little history. This is an historic hearing. The gentleman from Texas, Mr. Paul, filed this bill for the first time in 1983. There then ensued a number of things, including 12 years in which the Republican Party controlled the agenda of this committee and found no time for this hearing.

I am very pleased in this show of bipartisanship to have been the one to give this important piece of legislation its first hearing ever, indeed. And I think this history is relevant, because we ought to be very clear this is not a partisan issue.

The first time this committee, in my experience, having come here in 1981, engaged with the Federal Reserve—and I think it really was true of the 1970's and 1960's, as well—but the first time this committee dealt with the questions of openness and transparency of the Federal Reserve was under the leadership of the great chairman who is pictured over my right shoulder, Henry B. Gonzalez.

In fact, a former chief economist of this committee, Robert Auerbach, has written a book, and I get no share of the proceeds, but it is entitled, "Deception and Abuse at the Fed: Henry B. Gonzalez Battles Alan Greenspan's Bank." It is a description of the efforts by Mr. Gonzalez, ultimately successful, to compel the Federal Reserve to be more open, and it isn't pretty.

It is astonishing to me to remember that, when I first came here, the decisions of the Open Market Committee were never announced. Now, how you influence interest rates by concealing from the market what you decided to do is very odd. What it shows is that the penchant for secrecy outweighed the desire to be effective, because it clearly could not have been as effective to have a secret

directive to the markets, which, of course, got leaked and distorted, etc.

There were minutes that had been taken at Federal Reserve meetings. The Federal Reserve, at the time, 1983, denied—or in the later 1980's, when Mr. Gonzalez became chairman—that there had been minutes. They were later "found in a drawer." There were not reports released.

This is not a new thing for this committee. There was an effort to open it up, and there was significant increased opening.

The other point that is relevant, and I do want to say to make sure this is not a partisan issue, facts on the record: In 2003, the gentleman from Texas, Mr. Paul, was in line under seniority to be the chairman of the Domestic Monetary Policy Subcommittee. That subcommittee immediately disappeared. It was merged into the International Monetary Policy Subcommittee, because there were people who were trying to shield the Federal Reserve from Mr. Paul's influence.

Two years later, when they could not merge that subcommittee further into the Housing Subcommittee, although they probably thought about it, a member of this committee with some seniority who had not previously taken a subcommittee chairmanship, Congresswoman Pryce, was persuaded to come over and do this.

This is the first time since the bill was filed and despite a bipartisan ignoring of the issue that we have had the hearing. And we are serious about some legislation in this regard.

I will say I have a couple of concerns. The Federal Reserve engages in considerable market activity. They buy and sell. I do believe that it is important in our society that the buying and selling be made public. We don't want public entities buying and selling securities with nobody ever knowing.

I also believe, however, that some time needs to elapse so that their buying and selling does not have a direct market effect, so that other people can't ride on it.

So that is one area where I will be working with the gentleman from Texas, and we have discussed it. We want there to be publicity; we don't want there to be a market effect in the near term. We don't want people trading with the Fed or against the Fed, etc.

As to monetary policy, I think it is also clear, I believe and have exercised that right for some time to comment on monetary policy. The notion that no elected official should ever comment on something as important as monetary policy is profoundly antidemocratic. And I believe that we should continue to do that. It is something I have been doing since I got here.

We don't want to give the rest of the world or, more importantly, domestic investors, the impression that we are somehow, in a formal way, injecting Congress into the setting of monetary policy, because I think that could have a very destabilizing effect. I don't think that will be hard to do without, in any way, interfering with the audit function.

But how the Federal Reserve carries out what it is doing, its buying and selling, what it buys and what it sells—all of those, given its importance, can entirely and legitimately be made open.

And I will say this: There were predictions. One of the things that the media fails to do is, the media rarely passes up a chance

to refute those of us who are in office, but they get bored too easily. There are often predictions of doom whenever people in Congress propose to do something. Very often, those predictions of doom go unrealized, and there is too little checking.

I urge people, if you are interested in this, to go back to some of the predictions that were made in the late 1980's, when under the leadership of Henry Gonzalez, the Fed was not—didn't legislate, but was pressured to make some changes. Read about the predictions of doom, and note that none of them came to pass.

I believe that we are similarly able, in a wholly response way, without in any way interfering with the independence of the monetary policy-setting function or with the integrity of the markets, to go forward with completing the job. And I would say "completing" the job. It really did begin with Henry Gonzalez, but completing it. A lot needs to be done, and the gentleman from Texas has been in the lead in pushing for that, of making sure that this important part of our Federal Government is subjected to the same rules of openness that every other element in a democratic government should be.

The gentleman from Texas.

Dr. PAUL. I thank you, Mr. Chairman, for calling this hearing, finally. It is very good that we are having this today.

I would like to say that, at the present time, we have 295 cosponsors of the bill in the House. And a recent poll showed that 75 percent of the American people support the auditing of the Fed.

But I wanted to start, too, with a little bit of history. In 1981, we were holding a gold conference hearing. Don Regan was in charge of the very first hearing, and he insisted that no media be allowed in, no guests would be allowed in, no records be kept. And that got out on the outside, and, due to public pressure, the meetings were finally open. And his argument was, well, it would affect interest rates, it would affect the dollar, and it would be detrimental to the market.

So a lot of these arguments are thrown out there unnecessarily. But too often we equate this idea of independence with secrecy. If we substitute the word "secrecy" every time we talk about independence, we will know what we are talking about.

One time many years ago, Arthur Burns was asked about whether or not the Fed had to do what the President wanted. And he said, "Obviously, it does, or it would lose its independence." And that is about it. It is very, very politicized, but it is done in secrecy. The President has influence, and we do know that; there have been books written about this. As well as what is happening now, there is a political influence by private companies and banks and foreign governments and foreign central banks. And the American people deserve to know this.

One of the charges made is that, if we have these audits, all of a sudden we are going to take over monetary policy. Chairman Frank and I, as he has just stated, have talked about this. We are going to make it very, very clear that it is not our intent to take over monetary policy.

But, quite frankly, the way the bill is written, I don't believe we could, and I don't believe we should either. Although there are two sides of this issue arguing for the audit, we don't necessarily agree

with what monetary policy we should have. So that is not the issue here.

But one thing one should think about is this argument that, if we have an audit, we are going to influence policy. How many audits does the GAO perform? In all agencies of government—in the State Department, in the DOD—nobody has ever charged the GAO for altering policies. So I don't think that is a fair charge, that we would be taking over policy.

Actually, transparency conveys trust. It was found that in these recent bailouts, instead of it hurting companies if they knew they were being helped by the government, it actually helped those companies, their stocks went up, rather than saying that they became tainted just because they knew they were talking to the Federal Reserve or to Treasury.

Today, we have before us a bill that actually offers an opportunity that the people have been fighting for, for a good many years. Chairman of the Banking Committee Royce, as well as Wright Patman and Gonzalez, they have all argued this case. But the conditions today merit serious consideration for this bill and passage of a bill like this.

The American people know it, and they understand it better than ever before because of the crisis of the financial system. It is not because of me. Like it was said, I did it for a good many years, and nothing happened. But the financial crisis has gotten the attention of the American people, and the American people say, "Not only do you have a right to do this, as a Member of Congress and as Congress itself, you have an obligation to do this."

So I am delighted that we have gotten to this point, and I am sure that we will have a positive discussion today.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman from North Carolina—

Mr. WATT. Thank you, Mr. Chairman.

The CHAIRMAN. —for as much time as he consumes.

Mr. WATT. First of all, I want to thank the Chair for convening this hearing and doing so at the full committee level. The chairman and I have had some discussions about whether to do a hearing of this kind at the subcommittee level or at the full committee level. And I think the chairman is correct, that this is a subject that deserves discussion by the entire committee, not just at the Domestic Monetary Policy Subcommittee level.

I want to supplement the history that both the Chair and Mr. Paul have already stated in the record. Mr. Paul is the ranking member of the Subcommittee on Domestic Monetary Policy. And, while this is the first hearing directly on the bill that has been introduced by Mr. Paul, we have had several tangential discussions of this in the subcommittee, in various ways. And Mr. Paul has had an opportunity to question the Fed about this. We have done it, though, in the context of the regulatory reform discussions that we have been having. And I will come back to that in just a little bit.

Perhaps, other than general regulatory reform itself and health care reform, there is probably not another issue on which I get more contacts from people out in the public. I am not sure they are all my constituents, but certainly people mobilized are on this

issue. And most of them identify, in general, with the position that Mr. Paul has outlined in his legislation.

In a sense, I think the question is not whether there will be some kind of increased audit of the Federal Reserve, but how that will take place. And I think there are three issues that arise there when we try to define how that will take place.

Two of those issues, the major issues, I think, have been outlined by the Chair of the full committee in his opening statement. And I suspect that most, if not all, of the subcommittee and I hope all of the full committee would agree that whatever we do would be done within the constraints outlined by the Chair in his opening statement.

The second issue is whether we would do it inside or outside the issue of regulatory reform, whether there would be a separate bill on this issue, or whether it would be done in the context of regulatory reform.

Mr. Paul and I have had some discussions about this. And it has been my position, although not so strong that I would fight either him or the Chair of the full committee about it, that whatever we are going to do on this issue probably ought to be done in the context of regulatory reform. Because, right now, we are not sure what the full territory of the Federal Reserve will be once regulatory reform gets done. And whatever audit provisions we adopt ought to be consistent with the new Fed authority rather than consistent with just the Fed's authority as it currently has.

And the third issue is one that I think maybe the general public is not quite as aware of because, when the general public thinks of an audit, they think of an audit of the kind that accountants do in the regular course of business. A GAO audit, on the other hand, is a lot more expansive, or can be a lot more expansive, than a CPA's audit of a business. It can get into really second-guessing a lot of procedures. And that can get touchy, especially if we were dealing with monetary policy issues, which I think we need to try to stay away from as vigorously as we can.

But all of those issues, I think, are issues on which Mr. Paul's bill has stimulated extensive and good and constructive discussion about and issues that I think will be and can be resolved in the context of either an independent, free-standing bill or in the context of regulatory reform.

I think having this hearing at the full committee level formalizes a process for getting to a result that all of us are hopeful that we will be able to get to. And I thank the Chair, again, for convening the hearing.

I thank Mr. Paul for being an articulate and determined and long-standing advocate of this position. He certainly has pushed the issue forward, and I think he is going to get some great results out of his efforts.

The CHAIRMAN. I thank the gentleman.

I would just say—because we have 15 on each side, and we are not going to use it all up on this side, so I will take a minute—the gentleman from North Carolina has been a great asset as Chair of the Domestic Monetary Policy Subcommittee. We are having this in full committee because there was a lot of interest from a lot of members, so it just made it easier to do that. But his guidance has

been very helpful. And I very much agree with the points he added that we will be approaching.

And now I recognize the ranking member of this committee, who was also the first member of the committee to, in fact, appoint Mr. Paul to the position of some responsibility over the Fed, the gentleman from Alabama, Mr. Bachus.

Mr. BACHUS. Thank you, Mr. Chairman. And I think that appointing Dr. Paul to this position has proved to be a wise decision.

Mr. Chairman, this hearing is on the Federal Reserve Transparency Act of 2009, which is sponsored by our colleague Dr. Paul and, I think, the vast majority of the Republicans on the committee.

In his role as ranking member of the Subcommittee on Domestic Monetary Policy and Technology, Dr. Paul has been a consistent champion of the taxpayer and a strong advocate for greater transparency and accountability at the Federal Reserve.

Americans are tired of paying for Wall Street's mistakes with costly bailouts, many of which have been funded by the Federal Reserve. Over the last year-and-a-half, the Fed has used its authority under Section 13(3) of the Federal Reserve Act to conduct a series of extraordinary interventions into the financial markets that have doubled the size of its balance sheet to over $2 trillion.

In fact, in testimony yesterday before the committee, former Federal Reserve Chairman Paul Volcker expressed his own misgivings about invoking 13(3). He said, "I have mixed feelings about that because I squirm when it is used, frankly. We spend a lot of time trying to avoid its use because we knew, if it ever got used, it would become a precedent of the future." That is why the Republicans on this committee have introduced our alternative reform bill, which actually does not allow the Fed to invoke 13(3) to bail out specific institutions.

Most of us were at the hearing the day before yesterday when we urged Secretary Geithner to say there would be no bailouts and he would not be invoking 13(3). And he actually declined to say that he wouldn't use it and use as much as a trillion dollars in a bailout, which should have shocked a lot of people and should have been headline news around this country.

Just this week, the Federal Open Market Committee voted unanimously to extend its program to purchase $1.2 trillion worth of mortgage-backed securities and up to $200 billion of agency debt through the first quarter of next year. In fact, before our eyes, we are seeing what Chairman Frank said last year when we said, with President Obama and a strong Democratic Senate, we can get the Federal Government back in the housing business. We are seeing that happen. He was right.

In fact, if we are talking about the Federal Reserve, they are the biggest holder of U.S. Government debt—not private companies, not China, not the Middle East. It is the Federal Reserve. They are buying, according to the Wall Street Journal, 50 percent of all new treasuries issued by the Treasury. That was in the second quarter. And they buy a good portion of the GSE bonds that Fannie Mae and Freddie Mac issued.

So you have one government agency buying another government agency's debt. We have shifted debt from the private sector onto

the U.S. Government taxpayers' back. And now we have one government agency, in a way, bailing out another government agency. It is a classic example of the Fed bailing out the Federal Reserve, the Fannie bailing out the Treasury.

And, you know, you wonder who is going to bail out the U.S. Government. And I think the taxpayers have figured out it is we, the taxpayers. And that is one reason why we desperately need this legislation.

The CHAIRMAN. Let me just say to the gentleman, the Minority has now used 8 minutes and 20 seconds.

Mr. BACHUS. I yield back.

The CHAIRMAN. You had other members who wanted to do 1-minutes. And we were asked, including by Dr. Paul, to get to the testimony.

Mr. BACHUS. Mr. Chairman, we did—like, Mr. Watt went over—

The CHAIRMAN. No. We have 15 minutes on each side.

Mr. BACHUS. Okay.

The CHAIRMAN. I understand that. But you had more people who wanted to speak. Mr. Watt didn't go over—we will not use up our full 15 minutes. You had a list of 8 people who wanted 1 minute. We are going to run out of time, and Mr. Paul did ask—

Mr. BACHUS. No, you are right. I yield back.

The CHAIRMAN. I now recognize the gentleman from North Carolina for a unanimous consent request.

Mr. WATT. Thank you, Mr. Chairman.

In your opening statement, Mr. Chairman, you mentioned several aspects in which the Fed is making an effort to be transparent. I wanted to ask unanimous consent to introduce, first, a Federal Open Markets Committee press release, which is an example of something that comes out immediately after the Federal Open Market Committee meets.

Second, the Federal Open Market Committee's minutes, a sample that comes out a few weeks after the Federal Open Market Committee meets.

And, third, the Federal monthly liquidity and balance sheet report that comes out monthly, showing the actual disposition of the various funds that they—

The CHAIRMAN. Is there any objection?

Without objection, it is so ordered.

And we will now take several of the Republican members, who are down for 1 minute. The gentleman from Delaware was down for 1 minute.

Mr. CASTLE. Thank you, Mr. Chairman.

We are rapidly approaching the 1-year anniversary of the enactment of the Emergency Economic Stabilization Act, the bill that authorized the Troubled Asset Relief Program, TARP, as we know it.

Since that time, the House Financial Services Committee has held multiple oversight hearings, received updates from the Congressional Oversight Panel, read the reports of the Special Inspector General for TARP, and been regularly updated on the $700 billion taxpayer-funded stabilization program by the Government Accountability Office, GAO.

So why haven't we taken any of these rigorous oversight and accountability steps in tracking the $2 trillion in assistance provided by the Federal Reserve in response to the economic crisis? We know about the statutory restrictions to protect its independence, which excludes certain oversight mechanisms. But I believe that the advancing of money here has gone far beyond that.

While I understand the need of the Federal Reserve to maintain that relative independence and some level of confidentiality to maintain its policies, we must allow the GAO to provide independent analysis of its actions.

It is clear to me and over 290 of my congressional colleagues who also cosponsor H.R. 1207 that statutory changes are needed to further scrutinize the activities of the Federal Reserve. We must have a clear understanding of how Federal funds have been utilized, whether successfully or unsuccessfully.

I yield back the balance of my time.

The CHAIRMAN. The gentleman from California, Mr. Royce, is recognized for 1 minute.

Mr. ROYCE. Thank you, Mr. Chairman.

I am one of the House Members who signed on to the Federal Reserve Transparency Act. I signed not because I would like to see the Federal Reserve brought closer to the political process but because I deeply am concerned about the massive expansion of this so-called safety net under our financial system.

If we go back to 1999, 45 percent of the liabilities in our financial system were under this net, according to the Federal Reserve. Today, that number is far greater. And whether or not you agree with the steps taken in recent months to prop up financial institutions, it is apparent that the Federal Reserve became the path of least resistance for many of these bailouts.

As we look toward reforming the financial system, it is essential that we adequately understand the extent to which the Federal Government and the Federal Reserve have enhanced that safety net and exacerbated the potential moral-hazard problem that comes with it, a moral-hazard problem that, I would argue, had a lot to do with the original financial crisis. We are now repeating it.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The gentlewoman from Illinois, Ms. Biggert, for 1 minute.

Mrs. BIGGERT. Thank you, Mr. Chairman, and thank you for holding this hearing today. I also want to thank our colleague, Dr. Paul, for introducing H.R. 1207 and for his leadership on this issue.

I cosponsored the bill. I heard from a lot of my constituents about this. And, in addition, I think it is important that the American taxpayers know how and why the Fed issues over $2 trillion to stabilize certain financial institutions in order to stabilize the markets.

To restore public confidence in our financial markets and our government, and for the benefit of consumers, taxpayers, and our economy, we must increase transparency as well as enact significant reforms to our regulatory structure. H.R. 1207 is one piece of that.

I look forward to today's hearing and yield back the balance of my time.

The CHAIRMAN. The gentleman from Massachusetts, Mr. Lynch, for 2½ minutes.

Mr. LYNCH. Thank you, Mr. Chairman.

This hearing is a long time coming, and I appreciate the gentleman from Texas sponsoring this bill, the Federal Reserve Transparency Act of 2009.

I would like to welcome our witnesses and thank them for helping the committee with its work.

Not surprisingly, Mr. Paul's bill has received an increasing amount of attention over the last 18 months, as the economy has worsened and the Federal Reserve began a series of extraordinary measures to stabilize the markets. I think all of our offices received calls regarding this bill, very many in my district in support. And I do welcome the opportunity to discuss the legislation further.

The crash of Lehman Brothers last fall demonstrated the complexities and interconnectedness of the market, an issue that this committee continues to address.

The Fed enjoys a number of privileges that extend to no other agency in Washington. The Fed raises its own revenue, it drafts its own operating budget, and it submits nothing to Congress. There is an obligation on the Fed Chairman to appear a couple times a year, under Humphrey-Hawkins, but the information there is just to tell us what the range of targets are for monetary growth. And I think there has been a general secrecy around the Fed that has heightened the anxiety of the American people on how the Fed is handling its responsibility.

Many believe more can be done. I know that Chairman Bernanke has tried to bring a little bit more transparency in recent months, but I think people believe more can be done, especially as this committee considers increasing the Fed's responsibility as a systemic regulator.

I look forward to the testimony of our witnesses to further debate on this issue. And I yield back the balance of my time. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman saved us 43 seconds. And now I recognize the gentleman from Texas, Mr. Hensarling, for 1 minute.

Mr. HENSARLING. Thank you, Mr. Chairman.

To borrow from an old ad campaign, this is not your father's Federal Reserve. We have a Federal Reserve that has now promulgated rules on credit cards, mortgages, and executive compensation, not to mention helping to create trillions of dollars of taxpayer liability exposure.

Clearly, exigent powers for the Federal Reserve are important, but they must be constrained. There is a huge difference between providing emergency liquidity facilities broadly in our economy and becoming an institution for serial institutionalized bailouts.

Independence of the Fed remains a very important issue, but that needs to be in the context of a Federal Reserve that tends to monetary policy, preferably tied to inflation targets.

I am very happy to cosponsor Dr. Paul's bill. I appreciate his leadership. I think it is the first step to helping create more trans-

parency and more accountability as we move forward on this important issue.

And I yield back the balance of my time.

The CHAIRMAN. The gentleman from New Jersey for 1 minute.

Mr. GARRETT. I thank the chairman for holding this hearing after all these many years and Dr. Paul for introducing this legislation.

Preserving the Federal Reserve's independence in conducting its monetary policy is cited by Mr. Alvarez in his testimony and by others as a reason to oppose the Federal Reserve Transparency Act. But, you know, Allan Meltzer, who is one of the most prominent academic experts on Fed policy in history, recently declined to join others in signing a petition to preserve the central bank's independence because, he said, "The Fed is rarely independent, and it strikes me that being independent is very unlikely in this current environment."

According to the Wall Street Journal article, he went on to explain that "History is replete in instances where the Fed bended to political pressure, keeping interest rates low in the 1930's and 1940's to help finance the New Deal and to keep them low again in the 1960's to finance the Great Society, leading of course to inflation to follow."

So I am hoping that we can explore, at this time, the premise some more at today's hearing of how independent is the Fed, really. Because if history shows it has never truly been independent, then there is no independence to protect, which leads us to ask, what is it really that the people are interested in protecting?

Thank you.

The CHAIRMAN. The gentleman from Georgia is recognized for 1 minute.

Mr. PRICE. Thank you, Mr. Chairman.

As cosponsor of this legislation, I want to applaud Representative Paul for his dedication and oversight for oversight and accountability of the Federal Reserve.

The Fed has truly shown a remarkable willingness to initiate unprecedented intervention into financial markets. These actions have ballooned the Fed's balance sheet to over $2.1 trillion. Most recently, it has been reported that the Fed is currently drafting a proposal to regulate compensation arrangements for private-sector companies, including those that have received no Federal dollars.

So expanding their balance sheet, increasing regulatory authority, setting private-sector compensation has left many of us wondering, where does the Fed find its authority, and shouldn't there be greater oversight?

Clearly, more transparency is needed to get at the heart of the Federal Reserve. Representative Paul's bill is an important first step in reining in what has become an increasingly activist governmental body.

I want to commend Mr. Paul, and I call on the chairman of the committee to hold more frequent and regular hearings with the Fed Chair to shed further light and give greater opportunity for congressional oversight.

And I yield back.

The CHAIRMAN. The ranking member and I have agreed to an additional minute-and-a-half on each side so we will be able to accommodate everybody who is here.

And now Mr. Grayson is recognized for 1 minute.

Mr. GRAYSON. Thank you, Mr. Chairman.

One of the most important elements of the bill is that it has 292 cosponsors and represents a new model of bipartisanship that I hope will take hold all through Congress. This is not a Republican issue; this is not a Democratic issue. This is a bill that was introduced originally in 1983, when I was still in school, and now is finally coming to fruition. It is long overdue.

I think we all can agree, left and right, middle, center, up, down, whatever your political persuasion, that the Fed needs to be accountable to the American people, and that is exactly what this bill accomplishes.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentlewoman from Minnesota for 1 minute.

Mrs. BACHMANN. Thank you, Mr. Chairman, and Mr. Paul.

The Federal Reserve is an institution known as much for the broad powers over the financial marketplace as for its sense of secrecy about its decision-making.

Shining more light on the Fed's books gained a fresh head of steam after the Fed exercised its Section 13(3) powers to bail out Bear Stearns in March of 2007. This power allows the Fed to lend to anyone it wants in unusual and exigent circumstances. It also led to an initial $85 billion bailout of AIG that later rose to more than $150 billion.

This plan promotes more accountability from the Fed by requiring that it obtain Treasury's approval to act under Section 13(3), and giving Congress the ability to disapprove of any action taken under that authority.

Congress requires transparency of publicly-traded companies for its shareholders. Government should not be held to a lower standard vis-a-vis the taxpayers. The stake we hold in the Fed is just as real; it deserves just as much respect.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The gentlewoman from Kansas for 1 minute.

Ms. JENKINS. Thank you, Mr. Chairman.

Recently, we have seen the American people step up to express frustration: frustration with the increased size of government, frustration with debt, frustration with reckless spending, and now frustration with health care reform. They are demanding accountability out of their government officials, and I firmly believe our government works best when it is accountable. And to be held accountable, government must be open and transparent.

The Federal Reserve has a duty, a duty to make economic decisions independent of politics. Yet, in the end, it must be, first and foremost, accountable. The Fed has recently taken small steps to increase transparency, but I am eager to hear today exactly what they are doing to ensure greater access and accountability to the folks back home.

I yield back.

The CHAIRMAN. And I will yield myself the final minute remaining on our side.

First, the gentleman from Georgia puzzled me when said he called on me to have more hearings. We have regularly had hearings. We have had the Chairman here on several occasions. We have had other officials, the Vice Chairman. I am not aware of any request from the Minority to hold a hearing on the Fed that was not honored. And, in most cases, we didn't wait for those requests. There has been a continuous series of hearings, more, I believe, recently than ever before, with the Fed, although that is justified by the increased role the Fed has.

Secondly, the gentleman from North Carolina raised the point about how to do this. There were some who said, "Well, don't do this as part of overall reform. Do it as a standalone." And there was reference to Section 13(3). Well, there is nothing in this bill about Section 13(3). That doesn't mean the bill is wrong, but, in fact, the great power the Fed has, that it has had since 1932, to intervene in the economy, isn't touched by this bill. I think we should put constraints on 13(3); I plan to do it. That is why I think the gentleman from North Carolina is right when he said this should, I believe, be part of an overall approach.

The time for opening statements has expired, as has probably the patience of the audience. They seem to have gone out together. So we will now hear from Mr. Alvarez.

STATEMENT OF SCOTT G. ALVAREZ, GENERAL COUNSEL, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. ALVAREZ. Chairman Frank, Ranking Member Bachus, Congressman Paul, and other members of the committee, I appreciate the opportunity to testify on H.R. 1207, the Federal Reserve Transparency Act of 2009.

The Federal Reserve is accountable to the Congress and the public and is committed to maximum transparency, consistent with the effective performance of our responsibilities.

To facilitate that transparency and effective oversight, we provide the Congress and the public detailed information concerning the full range of our policy actions, operations, and financial accounts. Federal Reserve officials testify frequently before the Congress on all aspects of the Federal Reserve's responsibilities and operations. And the Board's Chairman testifies and provides a special report to the Congress semiannually on the state of economy and on the Federal Reserve's actions to meet the monetary policy objectives that Congress has established.

The Federal Open Market Committee releases a statement describing its monetary policy decisions immediately after each regularly scheduled meeting and publishes detailed minutes of each meeting 3 weeks later.

In addition, the financial statements for the Federal Reserve System are audited annually by an independent public accounting firm and made available to the public. We also provide Congress a detailed annual report that reviews all aspects of the Federal Reserve's policy actions and operations during the year.

Now, we recognize that the extraordinary actions that the Federal Reserve has taken during the financial crisis to promote financial stability and implement monetary policy must be accompanied by additional transparency. For these reasons, we have substan-

tially increased both the type and amount of information that we disclose concerning our liquidity and asset purchase programs. We have added significant new information to the balance sheets that we publish each week and have created a special section of the Board's Web site that offers considerable new and detailed information about our policy programs and financial activities.

We have initiated a detailed monthly report to the Congress on our liquidity programs and balance sheet that includes information on the size of each facility, the collateral supporting the facility, and the types of borrowers. We continue to explore whether additional information can be provided without jeopardizing the effectiveness of these programs.

The Federal Reserve also is subject to audits by the GAO across a wide range of our responsibilities. This year alone, the GAO has completed 14 audits of the Federal Reserve's activities and has an additional 14 audits pending. The GAO's audits have included assessments of our consolidated supervision function, our oversight and operation of payment systems, and our implementation and enforcement of consumer protection laws.

Congress also recently granted the GAO authority to audit the emergency credit facilities that the Federal Reserve has provided to single and specific companies under Section 13(3) of the Federal Reserve Act and clarified the GAO's authority to audit the Term Asset-Backed Securities Loan Facility in conjunction with its review of Treasury's TARP program.

However, Congress purposely and for good reason excluded monetary policy matters, including open market and discount window operations, from GAO review. Considerable experience shows that monetary policy independence, within a framework of legislatively established objectives and public accountability, tends to yield a monetary policy that best promotes price stability and economic growth.

H.R. 1207 would subject monetary policy matters to GAO audit. Financial market participants likely would see this as a substantial erosion of the Federal Reserve's monetary policy independence. This would tend to undermine public and investor confidence in monetary policy by raising concerns that monetary policy judgments would become subject to political considerations. These concerns likely would increase inflation fears and market interest rates and ultimately damage economic stability and job creation.

The bill would also likely chill the unfettered and wide-ranging internal debates that are essential for identifying and implementing the best policy options.

In addition, enactment of the bill could reduce the effectiveness of our discount window and liquidity programs by increasing potential borrowers' fear of stigma or adverse reactions from participating in these programs.

We recognize that there may be ways to further enhance the review of the operational integrity of our market credit facilities without endangering the Federal Reserve's monetary policy independence. We will continue to explore ways to improve our transparency and will continue to work with this committee and Congress to ensure that our credit facilities are operated in a way that

promotes the highest standards of accountability, stewardship, and policy effectiveness.

Thank you, and I look forward to any questions you may have.

[The prepared statement of Mr. Alvarez can be found on page 60 of the appendix.]

The CHAIRMAN. Thank you, Mr. Alvarez.

First, I do want to note, there was some reference to the recent announcement by the Federal Reserve that it plans to put out rules regarding the compensation of executives. And I want to make it clear, the majority in the House surely welcomes that, because the majority in the House voted just before we recessed for the summer to direct bank regulatory and financial regulatory agencies, including the SEC, to do exactly what you are proposing. So there is a great complementarity here.

In fact, some people raised the question, when the Federal Reserve made that statement, that it might not have the statutory authority. In fact, the bill that we passed in August through the House anticipates that and would clearly confer that statutory authority. And I am confident that is going to be part of what we ultimately do in the regulatory reform package.

And, in addition, one of the other concerns was, well, if the Federal Reserve does it, it covers only those institutions which it regulates; what about the others? Once again, the bill that we did anticipates that argument because it would provide uniformity. And I would hope, because I expect that bill to become law, that we would then see and we will encourage and maybe require the regulatory agencies of jurisdiction to come together so they have common rules.

I do want to say that this is a case of the Federal Reserve, I believe, responding to an important national view and, in particular, to an action that this House already voted for by a majority in August.

Now, the question of independence has come up, and people have talked about it, and there has been a lot of concern about 13(3) and independence. And I think we ought to acknowledge this. When the Federal Reserve decided to exercise its authority in 2008 under Section 13(3), and the first major intervention, as I recall, was AIG, but also, I guess, Bear Stearns—Bear Stearns and AIG—were there consultations with the Bush Administration? Did you do that over their objection, at their direction, with their concurrence? How would you describe the conversations between the other Bush Administration officials—of course, Mr. Bush appointed Mr. Bernanke initially—but how would you describe the relationship between the Bush Administration and the Federal Reserve with regard to those uses of 13(3), which began this regime of greater use of 13(3) by a significant amount?

Mr. ALVAREZ. Well, Mr. Chairman, we had quite a few consultations with Secretary Paulson, the Secretary of the Treasury at the time. And we used our authority, with the full support of the Treasury and the Administration, in the various aspects of the crisis.

The CHAIRMAN. No, I think that is important to get in the record, probably because people have said, "Well, you are talking about an independence that you don't have." What would you say to the ar-

gument, well, you did this—and I acknowledge that seems to me to have been the case, that you took these extraordinary steps using 13(3), with the full support of the Bush Administration, maybe even they were urging in some ways. Did you feel that compromised your independence?

Mr. ALVAREZ. The discussion about independence is focused on our monetary policy actions. The 13(3) authority that we exercised for Bear Stearns and AIG, for even Citigroup and then Bank of America, those exercises of authority, we think, are appropriately done in full consultation—

The CHAIRMAN. All right. Well, that is a very important distinction to be made. And so, obviously, there will be no problem at all and no resistance. Although, obviously, this is going to be written here and not at the Federal Reserve, this bill. But there is no resistance to full audit of the use of the 13(3) policy. You say this invigoration of Section 13(3), the power to make all these loans, came with the full support of and in coordination with the Bush Administration.

Mr. ALVAREZ. And that is right, sir. We do not object to GAO audits of those single and specific—

The CHAIRMAN. Now, on the window and open market, etc., let me make a distinction. I do believe it is important that there be a time lag before information is released about who bought what and who went where so that this does not become information on which people act in the market.

I would say, however, that is different from saying that, after a suitable time period, so that there won't be this market effect, you don't have a right to go to a Federal agency, borrow money, and keep it secret forever. So I do think, with regard to this—I also would say, by the way, most people figured out who was in trouble and who wasn't, even without that.

But could we maintain that distinction—that is, a time period so that we maintain market integrity but not ultimate secrecy about who benefited from this?

Mr. ALVAREZ. You are raising a question, I think—

The CHAIRMAN. Is that a distinction?

Mr. ALVAREZ. That is—

The CHAIRMAN. Whether you approve of it or not, is that something that we could work out statutorily?

Mr. ALVAREZ. That is something that we are giving serious consideration to, and we would be happy to work with you on it.

The CHAIRMAN. I will be asking you to help us put that concept into statute.

Mr. Bachus?

Mr. BACHUS. Thank you, Mr. Chairman.

Mr. Chairman, before I yield the balance of my time to Dr. Paul, I do want to point out that in July, the Republican Party, or the Republican conference, introduced and members of the Financial Services Republican membership introduced H.R. 3310. Within that bill is actually Mr. Paul's legislation in its entirety.

The chairman had, I think rightly, suggested that any reform proposal ought to include an audit of the Federal Reserve and also mention Section 13(3). That also, although it is not in Dr. Paul's bill, it is in the Republican alternative; we do limit Section 13(3).

So, for the record, I would like to introduce the provisions of H.R. 3310 and the Republican—

The CHAIRMAN. Without objection, it is so ordered.

And would the gentleman yield to me for 10 seconds?

Mr. BACHUS. Yes.

The CHAIRMAN. Yes, I appreciate that. I do think that is further argument for doing this comprehensively.

Mr. BACHUS. Yes.

The CHAIRMAN. I simply meant that is, I think, part of the overall approach.

Mr. BACHUS. And I was just responding to—there was some mention that 13(3) was not addressed. And, in fact, we do address—

The CHAIRMAN. Only in this particular bill.

Mr. BACHUS. Yes, but we do, in the Republican alternative, we do strike that.

And, in fact, I would invite anyone interested in, again, looking at our Republican plan for reforming the financial regulatory system. Number four, which we devote quite a bit of time to, is fundamental reform of the Federal Reserve. And I would like to introduce that also.

The CHAIRMAN. Without objection, it is so ordered.

Let me get general leave now for any member to introduce, or any witness, any material he or she would like to put in the record.

Without objection, it is so ordered.

The gentleman from Texas is now recognized for 2 minutes and 50 seconds.

Dr. PAUL. Thank you.

Mr. Alvarez, on your first page, you mention—

The CHAIRMAN. Let me ask the gentleman to yield. If the gentleman would like, there is 2 minutes and 50 seconds left from the ranking member, and if he wants his own 5 minutes, you can just do the 7:50 right now, if you would like.

Dr. PAUL. I think I will take the 2½ now and see how things go.

The CHAIRMAN. Put it back to 2:50.

Dr. PAUL. Thank you.

You mentioned, which has been mentioned quite frequently already, about the independence of the Fed. But, on the bottom of that first page, you talk about the public interest. You imply that the independence of the Fed is important to protect the private interest.

And I would like to challenge you on that, because public interest is not easily definable. And I would suggest that maybe we have something to do with protecting the public interest too, maybe that is what we are elected for. And I wouldn't brag about our ability and our record, but I still believe that we have tremendous responsibility to protect the public.

And this idea that a group of individuals, 12 individuals, who work behind the scenes who want more secrecy and less transparency, how did this come about where you assume that you are in charge of the public interest? Could you explain that to me?

Mr. ALVAREZ. Congressman, I don't think we are saying that we are in charge of the public interest in a way that excludes Congress or anyone else. All government agencies have to act and do their

best to act in the public interest, as within the constraints that Congress has set out.

The concern that we have is that monetary policy, to be effective, has to be—and this is a matter that has been studied in a variety of contexts across a variety of schemes in the world—in order to be most effective, has to be as free as possible from political considerations.

The GAO audits, as Congressman Watt and others have pointed out, are not audits in the sense that a CPA or an accountant would conduct an audit. They are really policy reviews. They are reviews that involve, oftentimes, conducting interviews or depositions of participants, looking at records, coming to an independent policy judgment, and publishing that policy judgment.

And we are concerned that would undermine the ability of the markets to understand the Federal Reserve's action, the policy actions, to believe that those actions are independent and not being influenced by the GAO and that Congress is not trying through the GAO to direct monetary policy. That would make our ability to implement the policy, carry out the duties Congress has given us, that much more difficult.

Dr. PAUL. I only have a few seconds left, but if you could answer rather quickly, you don't want us to review the monetary policy because it might be damaging, but exactly what information is it that you don't want us to have? That is what a lot of people ask, and they want to know exactly what it is.

I am sorry, but I guess my time—

The CHAIRMAN. Well, you can borrow from any future time.

Dr. PAUL. Okay.

The CHAIRMAN. I think we will lend the gentleman the time. Okay, let him answer it.

Mr. ALVAREZ. We provide substantial information to the Congress to allow it to oversee our facilities, information about the collateral, about the terms and conditions, about the types—

The CHAIRMAN. Mr. Alvarez, I want to move this along. The question was, what are the types, obviously not the specific information, but what types of information do you think would be damaging if they were revealed?

Mr. ALVAREZ. Our concern about the audits of monetary policy are about the involvement of GAO. It is not about the types—

The CHAIRMAN. No, Mr. Alvarez, that is not—the question is, are there types of information about monetary policy that you think would be damaging to reveal?

Mr. ALVAREZ. No. I think the issue is about the GAO's involvement in the second-guessing about monetary policy. It is about their conclusions and about their review. It is not about the types of information. They have made a lot of that information available already to the public.

The CHAIRMAN. All right. I think that is an adequate answer to the gentleman's question.

Dr. PAUL. Yes, and we can go on.

The CHAIRMAN. Yes. The gentleman from North Carolina.

Mr. WATT. Thank you, Mr. Chairman. I would just add to that from the discussion I have had with the Fed, it has to do with the ability of people to sit in the room and discuss something without

having it appear the next day or being second-guessed the next day also. Let me do a couple of things in the minutes that I have. Mr. Paul has a devoted follower either in or near my congressional district named Brian D'Amico who regularly calls me about this. And one of the questions he has asked me about is the question that Mr. Castle raised in his opening statement. I just wanted—and I am not a high tech person, so I am going to do this at some risk.

There is a Web site in which all of these reports about the various funds that the Fed has been administering under the emergency authority dealt with in some detail on Pages 1 through 3 on this report, on pages 16 through 22 of the report that I put in under unanimous consent. But that information is also available on the Fed's Web site, http://www.FederalReserve.gov/monetarypolicy/bst—Fedfinancial.htm. I probably got something wrong there. But for Mr. D'Amico, Mr. Castle, the world out there, please go and look at what is already up on the Web site before we continue to second-guess what we ought to be demanding that they put up. Second, I am delighted to hear the emerging consensus on both sides of the aisle that this ought to be done as part of reg form. Dr. Paul and I had that discussion a number of times and I feel strongly that to do this before we know what the ultimate authority of the Fed will be under regulatory restructuring is just an invitation to go back and have to do it again at some subsequent point and we ought to do it as part of the reg reform process.

Finally, Mr. Alvarez, you are the General Counsel, so I think you would be in probably as good a position—you started to address this issue in your response to Mr. Paul. I addressed it generally in my opening statement, the difference between a regular CPA audit in the public context and the definition or coverage of a GAO audit as we think of it in the government context. I presume a GAO audit is not just a report of the numbers. Talk to us about what a GAO audit authorizes the GAO to do.

Mr. ALVAREZ. Thank you very much, Congressman. You are exactly right, our financial statements are audited by an actual accounting firm in the traditional sense of audit that people think about, checking the numbers and making sure they are accurate. And that we make public on an annual basis. The GAO looks at discreet areas or broad areas. It has access to all the information of the Agency and then it formulates suggestions on how the Agency should develop policy. It may make suggestions about the very policy itself, and provide that information to the Agency. It is not directed at just verifying what has occurred or verifying the accuracy of statements. It really is meant to be more a policy guide for the agencies. So it does involve itself in making recommendations about policy decisions.

Mr. WATT. I take it if we did—if we didn't clarify this or be more specific about it, we might—Mr. Paul might, 5 years from now, be requesting a GAO audit of the GAO in his comments because it has pretty broad authority to get into policy decisions, things that are not just numbers crunching. That is the point you are making?

Mr. ALVAREZ. That is exactly right.

The CHAIRMAN. We have one maybe 15-minute vote, so we are going to break right now. There is a possible second vote. The gentleman from Texas and I do not plan to stick around for the in-

struction motion vote over there. So we are going to go vote on the rule and come right back and continue this because of the importance for the day. So we are in recess, but not for more than 10 or 15 minutes, as long as it will take Mr. Paul and I to go over and vote and come right back.

[recess]

The CHAIRMAN. The hearing will be convened and the gentleman from Texas is recognized for 5 minutes.

Mr. NEUGEBAUER. Mr. Alvarez, in your testimony—and you made this point several times, you said we want the American people to have as much information about what we are doing that—to the extent that it doesn't jeopardize the performance of our duties. And here is the question I have: If I go to the doctor and the doctor says I am going to review your test, he reviews my test and he says I am going to tell you everything I think you need to know, I am just not going to tell you everything I know. I immediately become interested in what he is not telling me than more interested in what he is telling me. What are those things that would keep you from being able to do your duties that you shouldn't tell us?

Mr. ALVAREZ. Very good question, Congressman. I think this is more akin to what should your doctor tell the public about your health, not about what the doctor should tell you. I think our concern is not about hiding information; it is about maintaining the integrity of the process for making monetary policy. Monetary policy involves, as does congressional policy development in other areas, a lot of discussion and debate about ideas that may work, ideas that won't work, about data that may be meaningful, data that may not be meaningful. It requires an unfettered and broad discussion. That discussion—that process is what we seek to make sure is effective. Also, monetary policy depends very much on the market's understanding of whether the Federal Reserve will move in a particular direction, how it will move in a direction, whether it will stay in that direction and when it will change directions.

If it looks like the Federal Reserve is changing directions because a statement, a policy review by another agency is influencing the Federal Reserve's decision not because the Federal Reserve is moving based on data, but is, in fact, responding to a GAO policy recommendation, then the integrity of the process will be undermined, confidence that the Federal Reserve will move in the direction that is best for the economy will be undermined and we won't be able to carry out our job as well. That is what we are concerned about.

Mr. NEUGEBAUER. I think one of the things that the American people are concerned about is that, one, you have grown your balance sheet to over $2 trillion and that ultimately they are on the hook for the activities of the Federal Reserve. The other piece is the Treasury recently has made a recommendation that now we make the—take additional responsibilities, additional authority, even more broad authority than maybe some of the authority you already have to be the systemic risk regulator. And yet we have the Fed coming to us and saying, yes, we aren't going to have full disclosure, we are going to take on these responsibilities. And I think they are concerned about that. Think about, for example, the currency swaps and international currency transactions that the Fed

is engaged in, and we don't know all of the details of those transactions. Are we requiring these countries actually to turn around and buy treasuries with some of these facilities in a way to prop up our unfettered spending in this country where we are spending a dollar and borrowing 50 cents for every dollar we spend.

The American people are extremely—I don't know if you all are listening over there or not, but the American people are extremely concerned about the activities that are going on in government and also they lump you—whether you want to be independent or not, you are lumped in as part of government. So I think you all are going to have to do a better job of articulating. Because when you look at the—for example, when some of these financial institutions started participating in some of these credit facilities, it actually brought confidence to the market.

And so the fact that a large bank is now coming to the Federal Reserve window and you are completing that transaction should give the market more confidence that the financial institution possibly is in good condition. Or if you were turning them away, it might have a greater impact. I am having a hard time understanding the transparency argument.

Mr. ALVAREZ. Congressman, if I could respond briefly to several of those points. First of all, on the foreign currency swaps, we provide very detailed information about those swaps on our balance sheet and in the monthly report that Congressman Watt referenced. For example, we list the countries that we have the swaps with. We list the amount outstanding. We list the terms and conditions of those swaps so that the public will understand what the exposure is of the Federal Reserve. That is all explained in our monthly reports. As the amount drawn in those swaps change, we revise that information to make it available to the public. So that kind of information is precisely what we have tried to put together on the Web site. Also you reference the size of our balance sheet, $2 trillion. Most of that is in the form of U.S. Government—ownership of U.S. Government securities and agency guaranteed securities. That, again, is listed in detail on our balance sheet with the maturities of those securities and a lot of other detailed information that should help give people confidence if they are able to spend the time to look through the information. With a complicated balance sheet, it can't be summed up in a couple of words, which makes it more difficult for us. That is why we put so much information on the Web site and in the monthly report.

Mr. WATT. [presiding] The gentleman's time has expired. The gentleman from Kansas, Mr. Moore, is recognized for 5 minutes.

Mr. MOORE OF KANSAS. Thank you, Mr. Chairman. Mr. Alvarez, as we consider improving transparency and oversight of the Fed, I would like to better understand what risk U.S. taxpayers take on when the Federal Reserve lends money, especially under the authority granted the Fed via its 13.3 emergency powers. What collateral, if any, does the Fed require to protect against the risk of losses when extending credit and has the Federal Reserve lost money on its lending activity? Do you expect the Federal Reserve to lose money on any of its lending activity since the financial crisis last year, Mr. Alvarez?

Mr. ALVAREZ. Congressman, as you pointed out, the lending that we do under Section 13.3 is secured. So we have collateral against that lending and we believe and our advisors who are monitoring these things and valuing the collateral on a regular basis continue to believe that we have very little exposure here and we expect to be fully repaid on the loans that we have made. The types of collateral that are supporting those lendings is described in the monthly report that we have. It varies by facility. Some facilities are backed by residential mortgage backed securities. Some are backed by other kinds of loans, agency security, a variety of things. But we explain that in the monthly report for each of the facilities.

Mr. MOORE OF KANSAS. Thank you, sir. As we consider improving the transparency of the Federal Reserve, I understand more than 385 prominent economists have signed a petition warning, "the independence of U.S. monetary policy is at risk," because of efforts to audit the Federal Reserve's monetary policy activity. How would you respond to those economists?

Mr. ALVAREZ. We believe that monetary policy must be done in an independent manner and believe that it is most effective when the Federal Reserve is able to have its unfettered debate and issue its policy decisions without second-guessing, without competing interests in communicating those policies to the public. So, in general, we agree.

Mr. MOORE OF KANSAS. And finally, Mr. Alvarez, if H.R. 1207 was signed into law by the President today, what effect might that have on the economy and financial stability, sir?

Mr. ALVAREZ. If the bill were passed today, the GAO would be required to do an audit immediately of our monetary policy positions. We are concerned that would, as I mentioned in the testimony, cause the markets and the public to lose confidence in the independence of the judgments of the Federal Reserve, there would be confusion about the communication about the forward actions of monetary policy, the forward path of monetary policy, and we are concerned that would make our ability to implement policy that would reach maximum employment and price stability much more difficult, leading potentially to higher interest rates before that is appropriate and in fact higher interest rates as a general matter.

Mr. MOORE OF KANSAS. Thank you, sir. Mr. Chairman, I yield back.

Mr. WATT. I thank the gentleman. Mr. Castle from Delaware is recognized for 5 minutes.

Mr. CASTLE. Thank you, Mr. Watt, Mr. Chairman. Just in reference to something you said earlier about a number—I and a couple of the others here mentioned information that we wanted. You indicated some of the information from the Federal Reserve is on their Web site, which may be accurate. But maybe I didn't articulate it very well. We are really trying to derive an independent analysis of what their information is, is what we are after. But to Mr. Alvarez, you mentioned a couple of things, and I tried to find it in your written testimony and I couldn't, so I don't have it exactly. I may be not summarizing quite correctly. Correct me if that is the case. You indicated something to the effect of you are—you, the Federal Reserve, are looking at additional information that you could consider releasing without jeopardizing your programs, those

are my words and then later on you indicate in your testimony you are exploring ways to continue transparency or something to that effect. That I assume is beyond anything that has been done so far. Without going into any of the confidentialities of the Federal Reserve, can you share with us more specifically what those discussions consist of and what areas you are looking at and stuff?

Mr. ALVAREZ. We have, as you have mentioned, increased substantially the amount of information that we make available as we have learned there is an appetite for that information. And we continue to take suggestions that come from hearings like this and from Congressmen to think of ways that we can be more—

Mr. CASTLE. Is there any specific you can share with us that you are considering at this time beyond what you have already done.

Mr. ALVAREZ. The chairman has mentioned we are actively considering how much information about borrowers we can make available and then we are exploring ways to allow review of the operational integrity of our implementation of monetary policy and whether that is possible. All areas that are still under thought, deep thought.

Mr. CASTLE. You have heard the concerns of the various members on both sides with respect to everything that the Federal Reserve is doing, not that you don't do a good job, but the disclosure of information, etc. And we are concerned because ultimately any losses founded are going to be paid for by the taxpayers. And there seems to be some opposition to Dr. Paul's legislation as I understand it. So my question is, how much congressional oversight in the institution is appropriate? Or what aspects of Dr. Paul's legislation could the Federal Reserve live with if you are qualified to give us that response in terms of your knowledge?

Mr. ALVAREZ. Let me point out that there is congressional oversight of our activity, including our monetary policy.

Mr. CASTLE. Beyond that which is in the legislation.

Mr. ALVAREZ. To the extent GAO is a part of that, that is an area where I think we would like to continue to work with the Congress. We don't have a specific idea at this point that I am prepared to put forward. But we would like to continue a discussion about whether there are ways that our implementation of policy or the operational integrity of our implementation might be something that could be reviewed.

Mr. CASTLE. I am not an expert on all of your power, but this whole 13.3 business seems to be the area where all of this really started, it started for Dr. Paul a long time ago, but for a lot of the rest of us in terms of some of the lending and things you are doing. I would encourage you to continue your discussions of what you are willing to do in terms of transparency. I don't know if this legislation is going to be part of a greater bill or even have a chance for passage or whatever. But I think there is a need by the public to know this. I think the transparency helps in terms of support of your policies and to the dollar and the things that you are concerned about.

And my hope is that this won't just go away, that the Federal Reserve will continue to look at it very seriously and understand that Members of Congress are very concerned about this as well,

whether legislation passes or not. I yield back the balance of my time, Mr. Chairman.

Mr. WATT. I thank the gentleman. Mr. Sherman from California is recognized for 5 minutes.

Mr. SHERMAN. Nobody in my district thinks that the Fed has done such a wonderful job of running the economy that we should continue to cloak them in secrecy for the purpose of protecting them from second-guessing. Second-guessing, criticism is kind of what goes with being in government. Mr. Alvarez, we have talked a lot about 13.3. Let us say next year the entire Federal Reserve Board comes to you and says, look, Congress won't pass TARP 2, they won't pass any new legislation, the economy is going to melt down, we are going to be eating rat meat in the streets if you don't agree—because you are the General Counsel—that we can use Section 13.3 not just to invest in no risk or virtually no-risk instruments, but to invest in what we think is kind of the equivalent of a Single A instrument. Under those circumstances, would you agree that 13.3 could be used to make a modest risk investments? The equivalent of Single A investments.

Mr. ALVAREZ. Congressman, we don't make investments in that way. 13.3—under 13.3. 13.3 allows us to lend against collateral.

Mr. SHERMAN. Many people use the word investment to describe a loan, but I will recast my question. To make loans that have the same risk as associated with a Single A bond.

Mr. ALVAREZ. We do lend today against a whole variety of collateral that includes collateral that is a variety of ratings and some collateral that is not rated. So we lend against other loans for example that are not rated.

Mr. SHERMAN. Sir, don't get tied up in my use of the term Single A. I am trying to use that to describe a level of risk. The question is, do you have to be absolutely fully secured or will you take the kinds of lesser security for which investors usually demand—private investors usually demand, 3, 4, 5 percent above LIBOR?

Mr. ALVAREZ. We are required by statute to be secured to our satisfaction. That is in 13.3. And so I would expect that we would be fully secure—

Mr. SHERMAN. Sir, I am asking you what is legal.

Mr. ALVAREZ. And I am explaining it.

Mr. SHERMAN. You are telling me what is the practice. Is it illegal for your Board to make an investment that is not fully secured? And, excuse me, to make a loan that is not fully secured under a liberal interpretation of Section 13.3.

Mr. ALVAREZ. It is required by statute that we be secured to the satisfaction of the lending reserve bank. The question you are asking is would it be possible for a reserve bank to feel secure without having 100 percent collateral. That has never been the case. So—

Mr. SHERMAN. But you would not tell them that they did something illegal if they had something less than full security?

Mr. ALVAREZ. The point of being secured is there would be a guaranteed repayment. So if there were other ways to guarantee repayment for example, sometimes credit is guaranteed by a third party. Sometimes—

Mr. SHERMAN. Looking at the entire investment, there are many credit enhancements for investment. There is security and guaran-

tees. And the market has a way of looking at the entire package. There are some loans that are LIBOR, there are some that are LIBOR plus 8. The language of finance allows me no words to describe except what a private investor would demand. I am asking you, would a significantly less than the kind of security that LIBOR or LIBOR plus 1 loans are made be legal under 13.3? And I am asking for a yes or no answer rather than a description of what you think they would do.

Mr. ALVAREZ. It is not easy to give a yes or no answer to that question. That is a very nuanced question.

Mr. SHERMAN. What you are saying is you might very well allow them to do the equivalent to buy a trillion dollars worth of junk bonds if they thought that was adequate security under the circumstances?

Mr. ALVAREZ. If they thought they would be fully repaid by the loan in the loan that they made and it was secured, then, yes that would be the right answer.

Mr. SHERMAN. Sir, when you invest—we deal with probabilities in finance. People who buy junk bonds expect to be repaid but they expect there is a risk. And you are saying that if they expect with a 51 per chance of being repaid—

Mr. ALVAREZ. No, I am not. As we pointed out, this isn't about investing. It is about lending. So you have to be in a position to be fully repaid.

Mr. WATT. The gentleman's time has expired. The gentleman from Texas, Mr. Paul.

Dr. PAUL. Thank you, Mr. Chairman. I am going to make a few comments. I am not going to ask specific questions. I would like to submit my questions in writing and then have a follow-up on that. But just a few comments. I wanted to talk about something you wrote on page 6 that said monetary policy independence prevents governments from succumbing to the temptation to use the Central Bank to fund budget deficits.

I think we are already there and that is one of my big contentions about what is happening is that we have had license to spend. We borrowed and we don't have enough and then the Federal Reserve has been politicized to the point where they do accommodate us, whether it is for the funding of wars or for the welfare state, and that is why I think we have to eventually get to the bottom of this.

The Federal Reserve was designed and their mandate was to make sure we have full employment, price stability and stable interest rates. In my lifetime, interest rates have been 21 percent and less than 1 percent. So they failed there. A stable dollar and stable prices, well, we have continuous inflation. We have a 4 cent dollar that started off as a dollar in 1913. There was total failure there and we don't execute proper oversight. And it is our responsibility, and that is, of course, what I am arguing for. It is supposed to have full employment.

When you look at the free market calculation of unemployment and even government statistic unemployment now is 16 to 20 percent and in the Federal Reserve, they are arguing that they have to have more secrecy? This doesn't make any sense whatsoever. And more people. People are arguing we give more power to the

Federal Reserve. What we need is more oversight and more transparency rather than more authority to the Federal Reserve. I mentioned earlier, and I think we still have to continue to think about it is: what example have we ever had where the GAO had an influence on policy?

They are an independent agency of government and they just don't influence policy and I just don't believe that all of a sudden because we have an audit, we, as the Congress, are going to be looking over the shoulder. That is not the intent of the bill whatsoever. But I want to just mention very briefly about the foreign activity. You have explicitly said, don't touch the foreign activity. Well, the foreign activity is very important. Those are essentially treaties. You have agreements with other governments, other central banks, you commit funds which is indirect taxation because you don't tax the people for it, you print the money and you make these deals and promises to interfere in markets. You are involved in the President's Working Group on Financial Markets. This we all must find out about. We have to know about this. This is our responsibility because ultimately it leads to what the dollar is worth. The Federal Reserve, if anything, they should be protecting the value of the dollar, not deliberately destroying the value of the dollar. These are essentially treaties. The same way—when you create money out of thin air to subsidize something or bail somebody out, you have assumed the authorization and the appropriation process.

We are derelict in our duties as Members of Congress to allow this to happen. It is a government unto itself. So I am going to follow up. I am going to put this in writing and hopefully I can get some answers. And I yield back the balance of my time.

Mr. WATT. I thank the gentleman. The gentleman from Kansas City, Mr. Cleaver.

Mr. CLEAVER. Thank you, Mr. Chairman. I think Dr. Paul is obviously very well informed on this issue, maybe better than anyone else in Congress. But I recently had lunch with the Chair of the Kansas City Fed and we had a great—an interesting conversation. And I asked him as we sat in the dining room looking out at window, I said how many of the people do you think walking by here can make two sentences about what the Fed does. And he said none, which was the correct answer. One of the problems I think we have, and I am not sure that the Fed can solve it, is most people have no idea what the Fed does. In our system of government, that is always going to create problems.

Now, I am not interested in defending the Fed. I will a little in just a minute. But when things happen like the bank bailout, that sours the opinions of the public and Congress because, sir, Mr. Alvarez, most people and probably most of them sitting behind you and most of them in my district believe that Congress took a specific vote to give money to the banks when, as you know, that did not happen. And so the transparency was missing. And I go home and people say, you guys voted to give the money to the banks, and when you say, we never took that vote, then the next question is, well, how did they get the money if you guys didn't vote to give it? And so I want you to explain to some of the folk in Kansas City and Independence how the banks got the money if this committee

never recommended to the full House and then the Senate and then conference and then the President's signature.

Mr. ALVAREZ. I believe, Congressman, you are speaking about the Troubled Asset Program, the TARP program.

Mr. CLEAVER. Yes, the Toxic Asset Removal Program. We were going to remove the toxic assets from the market so that people would have a greater deal of comfort in becoming actively again involved in the assets. We did not do what the Swedes did, which took—well, they took the assets, put them—separated them in what we call around here the bad bank. We didn't do that. But we did bail out the banks. At least that is what the public believes.

Mr. ALVAREZ. Of course, the Treasury is in a better position than I am to discuss that program. But in summary—

Mr. CLEAVER. The Fed was involved.

Mr. ALVAREZ. In summary, I think the expectation was that fund, those funds would be used to buy troubled assets. It became clear in October of 2007—or 2008 that it would take quite a long time to work through the details of an asset purchase program that would be effective, in fact Treasury and the FDIC continue to work on those details now. This is more than a year later. But it also became clear in October that the events of last fall, the economy was struggling tremendously. There were very many troubled institutions and confidence in the banking system needed to be restored. So Treasury took the decision that it was most effective and most necessary to use the funds there to inject capital into the banking system to restore confidence in the banking system.

Now, the Treasury did that not by giving money away and I think that is an important point to make. It was investing the money in banking institutions and is that money being repaid. Repaid with profits and repaid with interest.

Mr. CLEAVER. Let me stop you there because I am going to turn on you. One of the problems is that the people don't know anything about what the Fed does. So hopefully, some of that can be laid out. Don't the funds that you earn return to the U.S. Treasury?

Mr. ALVAREZ. Absolutely, sir. All the excess funds we earn beyond expenses are given over to the Treasury for use in dealing with the debt.

Mr. CLEAVER. Purchases, liquidity, loans?

Mr. ALVAREZ. The interest on the loans we make. The interests we get on our assets.

Mr. WATT. The gentleman's time has expired. The gentleman from New Jersey, Mr. Garrett. I apologize for cutting people off, but we are going to have votes and I am trying to get as many people in.

Mr. GARRETT. Thank you, Mr. Alvarez, for being here and for your testimony. So what I have actually learned here today here is that as we focus on this legislation in general, we can sort of break it down into two parts, the monetary policy issues that the Fed does and sort of like everything else. And then the everything else area, it sounds as though from the questions answered so far is that you have worked with the Administration, the Bush Administration and this Administration and some of those programs and you have appreciated the—working together on that and with some of the other policies, what have you.

It seems as though the Fed has—I will use the word "responded" to some of the suggestions, or what have you, in these other areas to try to change their ways. For example, all the information on the Web sites and the audits and stuff like that is out there. And that is, as far as I am hearing, is an okay thing.

And so the other—Chairman Frank—of course, that is with pressure if you will and encouragement to the Fed with regard to credit lending practices and that sort of thing and other people have as well. And the Fed might say has responded and the Fed has been active now in those areas as well, coming up with new guidelines on credit cards that sort of thing. So in that area, it looks as though the Fed is a little bit open to the idea of hearing what Congress has to say and respond. So it is really in the monetary policy area that this legislation is most concerned or troublesome if that is the right word. So one aspect of it is the disclosure requirements. What happens if the information is released too soon and what have you and you have your guidelines as to when currently you are released.

But as I just re-read it as I sit here, the audit doesn't really say that if you have a meeting on Monday and they do the audit on Tuesday and, of course, it is going to take longer than that, that they are going to release all that information. It sounds like the audit is going to be one of these things is going to take forever to do and finally release it. So it is not like you are going to have that immediate release of information that you are concerned about, at least from this audit; is that correct?

Mr. ALVAREZ. GAO is very responsive to the requests of Congress when Congress asks for audits in a specific period of time. My experience has been GAO tries its best to be responsive. So the timeframes would be—depend on what the audit is and what the—

Mr. GARRETT. In other words, your concern is you have a meeting on Monday—right now you release your minutes or what have you in 2 or 3 weeks. So unless the audit is done in a lesser period of time—would that be a provision that you would like to say that if we change the language and say that it has to be a few weeks after—

Mr. ALVAREZ. It is not just about the timing. It is—

Mr. GARRETT. From that one point, would that solve it?

Mr. ALVAREZ. I don't think so because the timing of the release of the audit—let us think of it this way: There are two parts to it. The audit itself would involve an intrusion into the process of making monetary policy by the GAO's involvement with the various members and looking at the discussions and then second-guessing those discussions in its report. Its report, whenever it comes out, is going to be a judgment about whether the Fed is doing the right thing, moving in the right direction on monetary policy, whether its basis for that—

Mr. GARRETT. Doesn't Congress already have the authority with all the reports and everything else and the chairman comes and testifies a couple of times a year? We have that authority right now to, if you will, second-guess what the Fed is doing? Don't we have that authority and the responsibility to second-guess Congress—second- guess the Fed at this point?

Mr. ALVAREZ. I think what is different is the GAO establishes a much more intrusive reviewing process. It, as I mentioned, it will talk to all of the participants. It will look at all of the underlying data and make a more comprehensive evaluation.

Mr. GARRETT. So what you are saying—

Mr. ALVAREZ. The statement at the end. So that review gives it a different aura in its report, a different kind of weight.

Mr. GARRETT. What that is basically saying is we can second-guess and give you our opinion just as long as we don't know what all the facts are; but if somebody else actually goes in and talks to the people and finds out what the facts are, then that report would have more weight because they were actually there. It sounds as though when we second-guess you, we are basing it on inadequate information and when the GAO does their inquiry, they are doing it with—last question.

I only have 30 seconds. If the Governors are as independent as they hold themselves out to be, why would they be so subjected then to this pressure from someone second-guessing them and saying that we think you should have done "X" when they did "Y?" Are they like what Secretary Geithner says as far as all the other regulators? He says all the other regulators, banking regulators—I know you are not a regulator per se—but all the other banking regulators are only looking out for their own turf and their own self-interest and he doesn't hold regulators up very high.

Is that the case with the Federal Governors or are they truly people who are independent and would not be subjected to the pressures of an audit, whatever the audit says? What camp do they fall into?

Mr. ALVAREZ. They do their best right now in the atmosphere they are given, they are given an atmosphere where unfettered discussion is allowed and is actually valued. They would become much more worried about how their remarks would be viewed, what their thoughts would be and become much more careful about what they say. And that changes the debate, that changes the discussion, lowers the level of interaction.

Mr. GARRETT. I understand what you are saying.

Mr. WATT. The gentleman's time has expired. The gentleman from Illinois, Mr. Foster.

Mr. FOSTER. Thank you. I have just one question having to do with historical archiving of information. I can understand your motivation to not want deliberations, discussions with foreign regulator, this sort of thing. To become immediately part of the public debate and so on, I understand that line of reasoning. However, I think there is a real incentive and a good policy objective in having the eyes of history on the decisions that are being made.

So for example, do you have policies on archiving correspondence, memos, e-mail and policy on the dates of which different classes of information get released?

Mr. ALVAREZ. We do, sir. The decision is announced immediately after the meeting, detailed minutes are made publicly available.

Mr. FOSTER. I wasn't referring to just the official meetings where decisions take place. I am talking about e-mail between two people who are kicking back and forth saying, I just met with this Euro-

pean guy, he said that we are going to terminate this program then, it would be really good if we coordinated. That sort of—

Mr. ALVAREZ. We do. We have policies for all of the documentation, including e-mails that we keep for the length of time that we—we have a schedule that is in accord with the archivist about keeping that information. Also in the monetary policy area, we keep all the memoranda that are used for the FOMC meetings and a complete transcript of the meeting. We make those available to the public after 5 years. And we keep them permanently ourselves.

Mr. FOSTER. But the—for example, all the detailed stuff, e-mails, internal memorandums, person-to-person correspondences, will those be available to historians 10, 20, 30 years from now? What is the policy there?

Mr. ALVAREZ. The policy of the disclosure of that information depends on the type of information. Some is made available as time passes. Some of it contains confidential information that is not made available even as time passes. So it depends on the type of information. But as I mentioned on FOMC matters directly, the full transcript and all the supporting memoranda for the decision, so that includes the complete discussion.

Mr. FOSTER. It is the less formal—is any information deliberately destroyed or is it simply kept but not released?

Mr. ALVAREZ. The only information that is destroyed is information that the archivist, the national archivist has agreed, can be destroyed and that is usually information that has no historical value and that is destroyed according to a set schedule and that is to allow capacity for new information.

Mr. FOSTER. Would it be possible for you to point us at the policies the archivist follows, in some appropriate level of detail so we can see the classes of stuff that is preserved and destroyed and the sort of general guidelines that are being followed?

Mr. ALVAREZ. Yes, sir.

Mr. FOSTER. Thank you. I yield back.

The CHAIRMAN. The gentlewoman from Minnesota.

Mrs. BACHMANN. Thank you, Mr. Chairman. Thank you, Mr. Alvarez, for being here. I wondered if you could give us an update on the status of the Fed's appeal of the ruling in the Bloomberg Freedom of Information request lawsuit requiring the Fed to disclose the identity of the firms that accessed the discount window?

Mr. ALVAREZ. Yes. As you are aware, Congresswoman, there are two cases. There is the Bloomberg case and the Fox News case, both decided by district judges in the second circuit about 3 weeks apart on identical issues, one saying that the information should be released, one saying information should not be released. Both cases are in the process of being appealed to the second circuit. The appeals, the appeals are due in the next few weeks, and I expect them to be both fully appealed.

Mrs. BACHMANN. And you had said that prospective discount window borrowers would be discouraged from using the facility if their identities were to be disclosed. But a recent Wall Street Journal article described how the sheer prices of Citigroup and E-Trade Financial Corporation actually increased after the public learned that they received government support. So I am wondering how those circumstances would differ.

Mr. ALVAREZ. I think the concern on many of the facilities is that they are used by healthy institutions to try to unfreeze some of the markets. So for example, our commercial paper funding facility, the borrowers in that facility are not troubled institutions. They are institutions that are trying to restart the market for commercial paper, the same with our TALF facility where we are trying to restart the market for student loans, for auto loans, for small business loans, for credit card loans. And the investors and the borrowers in those markets are regular market players. They are not troubled institutions. The concern is that borrowers in those facilities, if their names were disclosed, would be viewed by the public incorrectly as institutions that are troubled because we have also lent in other ways to troubled institutions. We have lent to Bear Stearns and we did do the AIG loan. Clearly troubled institutions.

And so because we do help troubled institutions and those that are not troubled, the concern of those that are not troubled is that they will be lumped in with the troubled ones and that is the reason—it is—market prices would not necessarily go up. Market stigma would, in fact, happen.

Mrs. BACHMANN. Section 13.3 of the Enabling Act and the powers with the Federal Reserve, there has been some disagreement from individuals on whether or not this was the first time that the Fed had opened the discount window to a private investment bank when it opened it up to Bear Stearns. Was that the first time, or did they open it up prior in the late 1980's?

Mr. ALVAREZ. The Federal Reserve opened 13.3 during the 1930's, but not to—not to investment banks in the 1930's.

Mrs. BACHMANN. In the 1980's, in the mid 1980's, there—

Mr. ALVAREZ. It never opened the window in the 1980's to anyone. The next time that it made the 13.3 available was actually the 1960's, but that was all to thrift institutions. It didn't actually use the authority again until right before Bear Stearns with the TSLF facility and then the Bear Stearns loan. Those were the same week.

Mrs. BACHMANN. I am sure you understand the concern we have as Members of Congress as we looked at the extraordinary actions the Federal Reserve took in regard to Bear Stearns and regard to the investment banks and then, of course, looking at the TARP. And one thing that I have wondered is whether Congress shouldn't, in fact, revisit and tighten up the language of 13.3. When you read the language of 13.3, the Federal Reserve seems to have the power to do virtually anything it wants to do with no restriction whatsoever. Would that be a prudent thing for Congress, do you think at this time, to take up and tighten up, if you will, or maybe pull the leash on the Federal Reserve on the actions it could take with the taxpayers' money?

Mr. ALVAREZ. Two points there. One is I would like to point out that the 13.3 lending to specific institutions like Bear Stearns, AIG, Citi, and Bank of America, for example, are subject to GAO audit, which is just to make sure that is clear. But then whether the Fed should continue to have 13.3 authority, our chairman has suggested that if resolution authority were enacted so that we would have—the government would have another tool for implementing—for passing on the risks to shareholders and creditors and the government wasn't left with the choice of bailing out or bankruptcy,

then that would be an atmosphere or a context where some revision to 13.3 may be appropriate.

The CHAIRMAN. The gentlewoman's time has expired. The gentleman from—I did pass—I want to make one point. Earlier, the gentleman from Georgia talked about hearings. I interpreted that as some unhappiness with the record. He assured me that was not the case, that he was talking about going forward. But I did check. And according to our records, there have been 28 appearances before this committee in hearings by officials of the Federal Reserve, the Chairman more than anybody else. But in the last calendar year, we have had 28 appearances by officials of the Federal Reserve, the Chairman, other members of the Board of Governors, and other officials. The gentleman from Colorado is recognized for 5 minutes.

Mr. PERLMUTTER. I need a primer or whatever on the Federal Reserve. Remind me how many Federal Reserve banks there are.

Mr. ALVAREZ. There are 12 Federal Reserve banks.

Mr. PERLMUTTER. And how many Governors are there per bank? Is there one Governor per bank and then a Board? Or how is the structure, the decision-making structure set up?

Mr. ALVAREZ. In Washington, D.C., there is a Board of Governors that has seven members. Right now, we only have 5 of those positions filled, but could have 7 members. Each reserve bank has one president for the reserve bank and then board of director, this is set by Congress, a board of directors of nine members, there are three elected by the banks, representing banks, three elected by the banks that represent commerce at large and three selected by the Board of Governors to represent the public at large.

Mr. PERLMUTTER. And the Board of Governors, how are they selected? They are selected either by Congress or by the banks or how are they selected?

Mr. ALVAREZ. The Board of Governors in Washington are appointed by the President and confirmed by the Senate, all seven.

Mr. PERLMUTTER. So there are seven?

Mr. ALVAREZ. Yes.

Mr. PERLMUTTER. How are the presidents—who selects a president or how do they become the president of the banks? Kansas City, we talked about the Federal Reserve of Kansas City.

Mr. ALVAREZ. They are selected by the board of directors but approved by the Board of Governors in Washington.

Mr. PERLMUTTER. I guess what I am trying to understand is whether there is a confirmation process in the Senate of all the Governors or just some of the Governors?

Mr. ALVAREZ. All of the Governors in Washington.

Mr. PERLMUTTER. And then—but there are 12 Governors. There are only seven Governors?

Mr. ALVAREZ. Correct.

Mr. PERLMUTTER. In all of those—we have two openings right now?

Mr. ALVAREZ. That is right.

Mr. PERLMUTTER. And their terms are how long?

Mr. ALVAREZ. 14-year terms and they are staggered to expire every 2 years.

Mr. PERLMUTTER. Remind me again, how are the presidents selected?

Mr. ALVAREZ. The presidents of the reserve bank are selected by the board of directors of the reserve bank but then with the approval of the Board of Governors in Washington.

Mr. PERLMUTTER. Let us go back to Mrs. Bachmann's questions on 13.3. Explain what it takes to have an action taken in unusual and exigent circumstances under 13.3.

Mr. ALVAREZ. Under 13.3, the Federal Reserve Board may authorize a reserve bank to make a loan if by a vote of at least five members of the Board of Governors in Washington, the Board determines that there are unusual and exigent circumstances. They direct the reserve bank to make sure it is secured to its satisfaction, and the reserve bank then has to collect evidence that other credit accommodations aren't available to the borrower. In those circumstances, the reserve bank can make a loan.

Mr. PERLMUTTER. Did that occur with the Bear Stearns assistance?

Mr. ALVAREZ. Yes, it did.

Mr. PERLMUTTER. I guess I recall the action being taken, which I personally felt was very unusual for the Federal Reserve, and it is borne out in your testimony that it never happened except maybe back in the 1930's.

Mr. ALVAREZ. Right.

Mr. PERLMUTTER. Can you describe the process that happened to get that done? Did it happen over a week's period, 2 weeks' period, a day's period, 2 hours? How did you get all five guys together? Or gals or guys. What is the makeup of the Board, the five who exist today?

Mr. ALVAREZ. We have five Governors. There is one woman and four men. And the extension of the credit at the time—at the time the Bear Stearns loan was made, there were 5 men. We had them all on the phone during the night before the loan discussing the financial condition of Bear Stearns, discussing market conditions. We had a substantial amount of information that was coming in from the Federal Reserve Bank of New York and from other—and from the Administration, from their sources. Then we convened a Board meeting on that Friday morning as soon as everyone was able to get to the office. We actually had to use an emergency provision because there were only four Governors who could be available at the time the vote was taken. A fifth one was on a plane coming back from Europe. But the statute provides for a vote of less than 5 in that specific situation.

Mr. PERLMUTTER. Did that same thing occur with Lehman Brothers?

Mr. ALVAREZ. With Lehman Brothers, we did not extend credit. There was no—

Mr. PERLMUTTER. But was there a meeting? Was there a discussion? Were there requests?

Mr. ALVAREZ. There were constant updates with the Governors about the condition of the organization and the developments, whether there would be a purchaser or not a purchaser. So we, in those days leading up through the Lehman weekend, had quite a lot of conference call meetings.

Mr. PERLMUTTER. Thank you.

The CHAIRMAN. I think the gentleman from Colorado has just given us an example of the kind of information that could come forward with no damage that people would like to hear. So this is, I think, an illustration of the kind of information and what it could bring forward without any problem. We are going to keep going. I am hoping if Mr. Watt is back in time, we won't have a break. If members want to go vote, there is only one vote. It is the last vote. We do intend to keep going. I will stay as long as—so we will keep—we may just keep going continuously. Members can go vote and come back. The gentleman from Texas.

Mr. HENSARLING. Good morning, Mr. Alvarez. Forgive me. I just came from speaking on the Floor. So if we cover some old material, I apologize. I was here at least for your initial statement and in it you talked about one of the concerns that the Fed had with the GAO audit with respect to the discount window and broad lending facilities that—and I am paraphrasing. Well, no. I will go ahead and quote. That could "significantly increase potential borrowers' fears of stigma and adverse reactions." To the extent it is analogous with respect to lining up for TARP funds, there didn't seem to be a stigma associated with that. I am not sure the transparency kept people from accepting TARP funds. I am not sure it had—some would maintain it had a beneficial impact on the market. What might we be missing here?

Mr. ALVAREZ. I think the TARP funds—it is useful to think of them in two parts, the CPP program, the original program, Capital Purchase Program, was presented as a confidence inducing program that was available to healthy institutions and designed for healthy institutions. And that is one of the reasons that I think institutions were at first very eager to participate because it gave them capital that they could use. They didn't want to—and they wanted to make that—they wanted to be—have that capital available. As time went on, though, the participation, the CPP, as we have seen, has become something of a red letter and institutions are trying very hard to get out of the CPP program. Also, the other types of TARP programs include the more direct lending to folks like AIG and—

Mr. HENSARLING. So you believe it is a red letter stigma as opposed to perhaps not wanting Congress involved in their business? Which is simply what I personally hear from the CPP—

Mr. ALVAREZ. I am sure there is some of both.

Mr. HENSARLING. If I could with the limited amount of time I have, Mr. Alvarez, and forgive me if this is old ground, but I want to talk a little bit about 13.3. Number one, in the Fed's interpretation, what exactly are the limits on your 13.3 authority?

Mr. ALVAREZ. The 13.3 can only be triggered if it is unusual and exigent circumstances. And we need a super majority vote of the Board of Governors finding that. And it is only lending. It is not investments. And it is only lending that is secured to the satisfaction of the lending reserve bank. Also there has to be—

Mr. HENSARLING. So the Maiden Lane facilities which broke new ground, isn't that something functionally beyond lending?

Mr. ALVAREZ. The Maiden Lane facilities are very much the same thing as if those assets were kept on the books of JPMC and

we were lending against those assets at JPMC. This is actually a more transparent way to identify the assets, to keep track of the assets and to prevent them from being lost in a larger organization.

Mr. HENSARLING. Speaking for myself, I do think it is important for the Fed to retain their 13.3 powers, but clearly they have been exercised in a way that I think has been totally unanticipated and certainly unprecedented in our Nation's history. I simply do not believe that ultimately an unelected group of individuals should have unfettered ability to impose trillions of dollars of taxpayer exposure liability without some type of check or constraint by the people's elected officials.

So my question is, what constraints would the Fed be willing, or does the Fed feel any need for any constraints on their 13.3 powers whatsoever?

Mr. ALVAREZ. The Administration has proposed having a dual key system as it were to have the Treasury approve 13.3 lending as well as the Board of Governors and the Chairman, my Chairman, Chairman Bernanke has offered the suggestion that if resolution authority is granted, then there may be no need for 13.3 lending by the Federal Reserve in situations where there is a specific institution that needs—

Mr. HENSARLING. Now, it is the broad lending facilities—I am looking somewhat retrospectively. But if those broad lending facilities were enacted on a contractual basis, could you not have negotiated resolution authority?

Mr. ALVAREZ. I don't think we could have accomplished resolution authority with a contract because the investors and shareholders would have—the creditors—

Mr. HENSARLING. Didn't Chairman Bernanke say, I believe in this committee, that had he had resolution authority, AIG essentially would have been shut down? My question is, before you gave them the money, could you have negotiated resolution authority?

Mr. ALVAREZ. He would have been able to—if there was resolution authority, use that tool rather than the Federal Reserve lending.

The CHAIRMAN. Will the gentleman yield? I think the problem is in the absence of a bankruptcy, they could have negotiated with AIG but not with the creditors of AIG, that would have been the problem, that they could have gotten agreements from AIG as a condition of the money, but then that would have left the creditors legally free standing.

Mr. HENSARLING. I see the time I didn't have—

The CHAIRMAN. Actually, we were in expiration time when I said it. I am now going to recognize the gentlewoman from Illinois and go vote. And she will question in lonely splendor, but the gentleman from North Carolina is on his way back and we will continue. The gentlewoman from Illinois is recognized for 5 minutes.

Mrs. BIGGERT. I just have a couple of quick questions, Mr. Alvarez. Have any of the financial institutions provided any feedback regarding the possible adoption of this new transparency policy?

Mr. ALVAREZ. I am sorry. Which transparency—what the Federal Reserve has been—the information we have been making publicly available?

Mrs. BIGGERT. No. Have the financial institutions talked to the Fed about the possibility of this bill being enacted and the transparency policy?

Mr. ALVAREZ. I am not aware of financial institutions weighing in on the Ron Paul bill, H.R. 1207. There have been some economists who have issued a letter—suggesting that would undermine the independence of monetary policy.

Mrs. BIGGERT. And that is all that you have heard then?

Mr. ALVAREZ. There have been financial institutions weighing in on release of the names of borrowers at facilities and in fact in the litigation that was referenced earlier, as trade associations for borrowers have actually written in that would cause them to be uninterested in participation and it would damage them.

Mrs. BIGGERT. So that really would apply to the bill in effect even though it wasn't addressing the—initiation an indirect way.

Just one other question, and maybe this was asked already, but given how the Federal Reserve actions affect the value of the dollar, would greater transparency improve international confidence in the dollar? Or would it be less?

Mr. ALVAREZ. The information about the Federal Reserve's transactions, the overall information about Federal Reserve transactions with foreign governments is disclosed in summary on our balance sheet. But also, the facilities, the specific swap facilities that we have are listed in detail in the information we make available to the public. So that already is okay and doesn't undermine confidence.

Mrs. BIGGERT. Okay. I have to go vote too, so I will yield to Dr. Paul.

Dr. PAUL. You are very lucky. I am back, and I have unlimited time.

Mr. ALVAREZ. It is always a pleasure to see you.

Dr. PAUL. So let me think about this and keep this thing going because we do want to conclude our hearing shortly. But I might get more specific on some of the questions I talked about earlier having to do with, say, the international events. I have been particularly interested in that. And we do repeal that provision in the code that says that you aren't responsible for telling us about that.

Now, I am sure you think I have overstated this position about when the Federal Reserve gets involved in agreements with other central banks and other governments. Why doesn't that borderline along the line of having a treaty or an agreement and being allowed to finance that outside the appropriations process?

Mr. ALVAREZ. Well, we are not—I think it overstates what the Federal Reserve does. We set up accounts with foreign entities, foreign central banks, to allow them to conduct their business in the dollar. So there are dollar reserves that foreign countries have. Sometimes foreign countries buy U.S. Government securities. They need a place to deposit their securities and the interest that comes from those securities.

That is not providing financial assistance to foreign governments. We are simply acting—

Dr. PAUL. But, indirectly, wouldn't it be? If you have a guaranteed loan, even though you might not say it is literal financing, but if you guarantee something and they agree to do something. What

if you want them to intervene in the currency markets; you might ask them to do that, wouldn't you?

Mr. ALVAREZ. That is an aspect under the responsibility of the Treasury. That is not the responsibility of the Federal Reserve.

Dr. PAUL. Yes, but I think you work rather closely. You are both on the President's Working Group on Financial Markets, so you collude there on what you might do.

Are you aware of any precise times that the Federal Reserve gets involved in the gold market? Because, actually, there is authority, in the Exchange Stabilization Fund at least, to be involved. But what do you know about the Fed ever being involved in the gold market, whether it is the futures market or loaning gold? Because a lot of central banks are in the loaning and selling of gold constantly.

Mr. ALVAREZ. And the Federal Reserve Bank of New York is a trustee for some of the gold stock of foreign central banks. It holds the gold. But it doesn't conduct transactions itself in that gold. That is done by the foreign central banks.

Dr. PAUL. But you have no evidence that our Federal Reserve has ever been involved in the gold market?

Mr. ALVAREZ. I confess not to being an expert in transactions we might have done in gold over the history of the Federal Reserve, but we could get you that information.

Dr. PAUL. Of course, what I am suggesting, the reason for the audit is to find out whether indirectly we might be involved by going it another central bank or a government and doing the work that we want to do. And that is why I think the full audit is necessary.

And I believe we have had the return, and I am willing to yield back.

Mr. WATT. [presiding] I thank the gentleman.

Mr. Grayson from Florida is recognized for 5 minutes.

Mr. GRAYSON. Thank you, Mr. Chairman.

Mr. Alvarez, has the Federal Reserve ever tried to manipulate the U.S. stock market?

Mr. ALVAREZ. No, sir, not that I am aware of.

Mr. GRAYSON. Not that you are aware of, but you are the attorney, right?

Mr. ALVAREZ. That is right.

Mr. GRAYSON. So you might not even know, right?

Mr. ALVAREZ. I would expect to know if there were something like that being done. I am not aware of that at all.

Mr. GRAYSON. And if you did know, you would be bound by attorney-client privilege and you wouldn't be able to tell us, right?

Mr. ALVAREZ. Sir, if there were something the Federal Reserve was doing outside its legal authority, I would have an obligation to say something about that.

Mr. GRAYSON. All right. So we agree that any participation by the Federal Reserve in the stock market or the futures market is outside the Federal Reserve's legal authority, right?

Mr. ALVAREZ. The Federal Reserve has some authority to regulate various aspects of markets and participate in markets in certain ways. So I think your question is too categorical, but—

Mr. GRAYSON. I think not, actually. Why don't you answer it?

Mr. ALVAREZ. I don't know—your question is so overbroad, I don't know where to begin to answer that.

Mr. GRAYSON. I don't think it is that overbroad. I would like you to tell me whether it is within the Federal Reserve's legal authority to try to manipulate the stock market or the futures market.

Mr. ALVAREZ. I don't believe the Federal Reserve tries to manipulate the stock market.

Mr. GRAYSON. "Tries?" Come on. Do they?

Mr. ALVAREZ. The Federal Reserve's obligation and what it does in monetary policy is try to influence interest rates and, in that way, to maximize employment and to stabilize prices. I am not sure how that fits into your question.

Mr. GRAYSON. Now, if, in fact, the Federal Reserve were trying to do that, or doing it, isn't that something that we would want to know?

Mr. ALVAREZ. To the extent that the Federal Reserve influences interest rates, it does make announcements of that decision immediately. It takes—

Mr. GRAYSON. That is not what I said. I said, manipulate the stock market or the futures market. Wouldn't we want to know? Yes or no?

Mr. ALVAREZ. Could you define what you mean by—

Mr. GRAYSON. I think you know what I mean, Mr. Alvarez. Now, wouldn't it be very helpful to have a GAO audit on that subject? Wouldn't it?

Mr. ALVAREZ. I don't know what it is that you are seeking to audit, sir.

Mr. GRAYSON. What I just said.

Mr. ALVAREZ. It would be helpful if you could outline your—

Mr. GRAYSON. Let's go on to something else. Does the Federal Reserve actually possess all the gold that is listed on their balance sheet? Do they actually possess it?

Mr. ALVAREZ. Yes.

Mr. GRAYSON. Has that been audited by the GAO?

Mr. ALVAREZ. I believe that is within the GAO's authority to audit. It certainly is something that our independent accountant is able to verify and does.

Mr. GRAYSON. So if I go in and ask for a GAO audit, you won't oppose it, right?

Mr. ALVAREZ. To auditing the presence of gold on the facility? I don't see any reason to object to that.

Mr. GRAYSON. Good.

Now, there have been all sorts of claims of insider trading and front-running by the people who execute the trades for the Federal Reserve in the market—by the way, who is that? Who actually executes the trades for the Federal Reserve in the markets?

Mr. ALVAREZ. I haven't heard of any allegations of front-running.

Mr. GRAYSON. Well, that is funny, because you are the general counsel, so if anybody would know about it, you would think you would know about it.

Mr. ALVAREZ. The Federal Reserve Bank of New York is responsible for effecting the transactions, implementing monetary policy.

Mr. GRAYSON. Okay. So, then, answer the question.

Mr. ALVAREZ. The Federal Reserve Bank of New York.

Mr. GRAYSON. That is your answer?

Mr. ALVAREZ. You wanted to know who implements—

Mr. GRAYSON. You have people sitting at screens at the Federal Reserve Bank actually executing those trades? You don't delegate that to anyone else?

Mr. ALVAREZ. No, the Federal Reserve Bank of New York—of course it is a process where there are several steps. The Federal Reserve Bank of New York executes transactions through primary dealers.

Mr. GRAYSON. Okay. Who are the primary dealers?

Mr. ALVAREZ. The list of primary dealers is on our Web site.

Mr. GRAYSON. Do you know any of them? Can you name a single one?

Mr. ALVAREZ. Sure. JPMC.

Mr. GRAYSON. What?

Mr. ALVAREZ. JPMorgan Chase.

Mr. GRAYSON. Okay. Do you mind if we have a GAO audit to see whether there has been front-running or insider trading by them? Do you mind? Is that okay with you?

Mr. ALVAREZ. I am not sure I have any decision-making authority.

Mr. GRAYSON. Well, you are the General Counsel. I want to know if you are going to try to stop it.

Mr. ALVAREZ. GAO audits government agencies, and you want the audit of a private entity. I think that is something that Congress would have to change the authority of the GAO to allow.

Mr. GRAYSON. All right. Now, let's say—you are right. That is what we are doing right here, by the way. Let's say that the Federal Reserve gave a billion dollars to a very promising fledgling institution called the Dick Cheney Savings and Loan, whose only asset is an unnumbered Swiss bank account. Don't you think it would be a good idea to have the GAO have authority to look into that?

Mr. ALVAREZ. Under the GAO authority as written, a loan by the Federal Reserve to a specific entity, say, a particular bank, as you have pointed out, would be subject to GAO audit. We don't oppose that.

Mr. GRAYSON. All right. Now, the Federal Reserve has given $1 trillion out, $1 trillion in the past 12 months. That is how much the increase in its assets and liabilities on its balance sheet has been. Who got the money? This, by the way, is a question sent to me by Beatrice Delgado. She just wants to know who got the money. Will you tell me?

Mr. ALVAREZ. Most of the increase in our balance sheet has been the purchase of U.S. Government securities and the purchase of agency guaranteed securities in the open market from market participants broadly.

Mr. GRAYSON. And what about the rest of it?

Mr. WATT. The gentleman's time has expired.

Mr. GRAYSON. All right. Thank you, Mr. Chairman. But I really think we need answers to these questions, and the only way to get answers to these questions is to have the GAO audit the Federal Reserve.

Thank you very much.

Mr. WATT. I just wanted to make the point that, if the gentleman has more questions, there will be an opportunity to submit them in writing. That opportunity will be available.

The gentleman from California, Mr. Royce, is recognized for 5 minutes.

Mr. ROYCE. Thank you.

Let me ask Mr. Alvarez, the Austrian economist von Mises, who did a lot of studies in terms of business cycles, came to the conclusion that central banks really have a tendency to, sort of, extenuate or exacerbate those business cycles. And looking back at what the Fed did in 2002 through 2006 by setting negative real interest rates in June of 2002 forward, it would match the thesis that the Austrian economist always put forward, the thesis that the Fed had this tendency to set interest rates too low and, as a consequence, from time to time, create these asset bubbles—a housing bubble, in this case.

Looking back, when you look at what the Fed did during that 4-year period, and when you look at the fact that central banks in Europe followed suit and did the same thing, do you think that thesis might be right, and that was one of the reasons that we had such a balloon in the housing market?

Mr. ALVAREZ. Congressman, as a lawyer, there is good reason they don't let me be involved in monetary policy. And so, I apologize, but I can't give you an educated answer to that question.

Mr. ROYCE. All right. Then let's talk about another issue. We had a hearing here yesterday, and we listened to Paul Volcker. And he criticized President Obama's Administration's plan to subject, "systemically important financial firms to more stringent regulation by the Federal Reserve."

In his testimony to the House Financial Services Committee, Mr. Volcker said—and I am just reading from Bloomberg News, but we heard him say it yesterday—"Such a designation would imply government readiness to support the firms in a crisis, encouraging even more risky behavior in a phenomenon known as 'moral hazard.'"

Would you like to comment on Paul Volcker's opposition to having the Fed walk down this road with the Administration and his concern about the consequences of that moral hazard?

Mr. ALVAREZ. We, too, are very concerned about moral hazard from the designation of systemically important institutions. But we are concerned that the point we are starting from is that too much of the public believes that some institutions are "too-big-to-fail." So the moral hazard problem already exists.

And that is why we are asking for actually two revisions. One is a new resolution regime, resolution authority, because that helps offset moral hazard by making it clear that the government doesn't have to simply bail out institutions because they are afraid of them going into a disorganized bankruptcy. Instead, you have a resolution regime where the government can impose haircuts on shareholders and creditors as appropriate, and that will help reinstitute market discipline.

The second thing is more strenuous regulation and supervision of those institutions that are systemically important, including en-

hanced capital requirements, enhanced risk management requirements, and other things to offset the moral hazard.

Mr. ROYCE. Well, listen, I am all for market discipline, but when the Richmond Federal Reserve says that 45 percent of the liabilities in our financial system back in 1999 were backed by the safety net of the Fed, were basically guaranteed in one way or the other by the Fed—and you know that number is far greater today. Whether or not you agree with the steps taken in recent months to prop up financial institutions—I voted against the bailouts, but whether you agree with it or not, it is apparent the Federal Reserve became the path of least resistance for many of those bailouts. Hence our concern here.

So let me go to the final point made by Paul Volcker, who is the White House Economic Recovery Advisory Board chairman who is so adamantly against the Administration's plan here. He says, "The danger is that the spread of moral hazard will make the next crisis bigger."

Now, if the last time you had a moral hazard problem, in that there was a presumption that the Fed was going to bail out 45 percent of the institutions, and now I think you would concede it is a lot bigger than that, why wouldn't you heed Volcker's words here? And why wouldn't we really be looking at some solutions to bring about market discipline?

And why wouldn't we be considering that von Mises and others were right in this whole issue of the Fed actually helping to compound our problem, in terms of boom and bust cycles, through your mismanagement—

The CHAIRMAN. The gentleman's time has expired. If you want him to answer, we will give him a few seconds.

Mr. Alvarez, you can respond briefly, or you can do it in writing.

Mr. ALVAREZ. The question is so complicated, I think in writing is probably better.

The CHAIRMAN. All right.

The gentleman from Minnesota is next.

Mr. PAULSEN. Thank you, Mr. Chairman.

Well, first, I just want to say I support Representative Paul's effort to bring this legislation to the forefront. And I think we do need to review the responsibilities of the Federal Reserve to have a better sense of where we are today.

Before the economic and financial crisis that we went through a year ago, we didn't see the Fed on the front page of the paper or in the headlines or even see the Chairman give an interview on "60 Minutes." That was really unprecedented. And so I think it is only natural that a lot of people are asking questions about what the Federal Reserve really is about, as opposed to just the open market meetings that happen when they determine interest rates, for instance. So I think that given your role in the bailouts or AIG, etc., it is only natural to expect some interest in looking at this.

Since you are exercising the Section 13(3) authority and invoking emergency powers, if you will, why shouldn't we have a little bit more, as Members of Congress, the ability to look at where the Fed is going, understanding what is on the balance sheets?

We are no strangers to the fact that Chairman Bernanke's words, in particular, can move markets when he speaks. And it just seems

to me that, why shouldn't you believe or why should we believe that pulling the veil back on some of the Fed's activities and exposing some of these secrets of the temple, if you will, could similarly move markets in significant ways and expose firms who may not be doing so well?

Mr. ALVAREZ. Congressman, in order to allow you to have that kind of oversight, we provide substantial information about our activities and balance sheet. I think part of the difficulty is we haven't been as good as we should be about making clear how much information we do provide to the public.

Our Web site is filled with information about our balance sheet, which is audited by an outside accounting firm. All of our programs are explained in detail on the Web site. We have a monthly report that updates the exposures we have under the different facilities, including information about the collateral, general information about the borrowers, about the timing of the facilities, when they are intended to unwind, and the protections we have gotten for the taxpayer.

In the monetary policy area, we issue, as I mentioned, the decision, the moment it is made, detailed minutes shortly thereafter and then a complete transcript and the all the underlying memos after a lag.

There is a lot of information that we provide on all of our areas of responsibility. And it is not as secretive as I think it has been thought to be. Many of these strides are new, done in the last 3 or 4 years. And so, it is quite a change from the days of the secrets of the temple that were referenced earlier in the day. And I think you will find that information very helpful.

Mr. PAULSEN. Well, just to follow up, I just think, knowing taxpayers are paying more attention now—even when I attend parades, people ask me about Representative Paul's bill because they want to ask questions about some of the secrecy that has been out there. And some of this may have been more revealed in the last few years, as you mentioned, but it is really only the last year, in particular, where we have seen the Fed on the front pages in all the headlines, 3 times a week, for instance.

And that is probably going to continue in the near term, knowing that the Fed is holding and buying a lot of debt and buying it from the Treasury. You have one government agency essentially borrowing from another, and the taxpayers are going to, in essence, be required to bail out the government side. So you will see continued pressure, I think, from Members of Congress down the road on this, as well.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman from Florida, Mr. Posey.

Mr. POSEY. Thank you very much, Mr. Chairman.

Besides calling for an audit, we know that Dr. Paul's bill makes five other changes, fairly simplistic changes. And for the sake of transparency and to put things in a proper perspective, I am just going to refer to those sections of the code verbatim. Many people in the public would be surprised about what is currently secret, so to speak. The law now reads, under regulations of the Comptroller General, "The Comptroller General shall audit an agency but may carry out on-site examination of an open insured bank or a bank

holding company only if the appropriate agency has consented in writing."

I would like your comments, because we are not going to have time for you to respond to all my questions now and get answers. I would like, with the chairman's permission, to request that you give us specific answers to that question as soon as possible, why you think that permission of another agency is necessary for the Comptroller General to perform an audit it referred to on a bank?

Number two, current law says—and Dr. Paul's bill is deleting this—"Audits of the Federal Reserve Board and Federal Reserve Bank may not include transactions for or with a foreign central bank, government of a foreign country, or non-private international financing organization."

Now, I would like you to answer in writing—and you can do it verbally if you have time, but I think my questioning will probably take the remainder of my time—how this could possibly hurt the function of the Fed, and, if not on a daily basis, maybe with just a short cooling-off period, as the chairman referred to, but these should not be even potentially eternally secret actions.

The next thing it does, number three, is, "It shall not include deliberations, decisions, or actions on monetary policy matters, including discount window operations; reserves of member banks; securities credit, interest, or deposits; and open market operations." It astounds me that anybody would think that would be harmful to become public information.

Number four, transactions made under the direction of the Federal Open Market Committee. Now, how is that information going to harm the financial security of our Nation if it is no longer off limits?

And finally, number five, a part of a discussion or a communication among or between members of the Board of Governors and officers and employees of the Federal Reserve System relating to aforementioned clauses 1 and 3 of this subsection.

The idea that any of that must be eternally secret for the financial security of this Nation is incredulous to me. And you can start now, if you would like, responding to those items. But those are where the fork meets the grits here, so to speak. These are the things that the bill actually talks about. We have gone and we have talked in some platitudes here and some wherefores and whereases, but that is the real basic elements of Dr. Paul's bill.

Mr. ALVAREZ. If I could address at least one of the points, you mentioned the limitations on disclosing information about open banks—

Mr. POSEY. Well, we should probably start with number one right off the bat. Why do you have to have the appropriate agency's permission for the comptroller general to perform an audit?

Mr. ALVAREZ. Of open banks?

Mr. POSEY. Yes.

Mr. ALVAREZ. Yes. The concern there is that disclosure of information about the operations of an open bank—any number of banks that are not experiencing difficulties—would be misunderstood and cause difficulties for the bank, a bank that is open and operating and that requires the public's confidence.

And so, consulting with the primary regulator of the bank, which is responsible for examining the bank and whose reports by law are not made public, is designed to ensure that misleading or mistaken information about the health of that bank isn't released. It is meant to protect the bank, which is an open institution. And its only dealing with open institutions, in your example, is to protect that bank—

Mr. POSEY. Just a second. Do you not think that, if we had some audits and they been public 2 or 3 years ago, we might have not have ended up in the crisis we are in now? Did the secrecy not protect some of the misbehavior by some of the banking industry, do you think?

Mr. ALVAREZ. I, personally, don't think if GAO had audited the investment banks or the large banks in the United States that GAO would have been able to stop the crisis any better than the other agencies.

The CHAIRMAN. The gentleman's time has expired.

The gentleman from Illinois, Mr. Manzullo.

Mr. MANZULLO. Thank you, Mr. Chairman.

I am a cosponsor of H.R. 1207. I hope that it proceeds to the Floor without being watered down too much.

The big concern of the American people really has to go to what happened in September of last year when the Secretary of Treasury came to the Members of Congress and said he needed immediately, overnight, $787 billion to buy out troubled assets, otherwise the world was going to collapse. And not 1 cent has been spent of that money on buying out troubled assets. We are going on a year now, people are still waiting, and Members of Congress—and I voted against that—are still wondering why they voted on it.

But let me ask you this question, Mr. Alvarez. Whenever the Fed gets involved, for example in pumping money into AIG, etc, is that actually reflected as part of the national debt?

Mr. ALVAREZ. No, sir, it is not part of the national debt. It is fully disclosed on our balance sheet, and it shows up on the Federal Reserve's balance sheet, but it is not part of the outstanding debt.

Mr. MANZULLO. So, it is monetized; you just print money. Is that correct?

Mr. ALVAREZ. Not exactly. And this is an area where, again, I am not an expert. The Federal Reserve does a variety of transactions to support its lending activities. It lends basically—it has government securities that it can sell in order to raise the funds to make loans. But that is not monetizing the debt.

Mr. MANZULLO. So you are saying that, for all the money that has been pumped into these various institutions, that the Fed, and the Treasury ostensibly, has sufficient reserves to back that up in case of a collapse?

Mr. ALVAREZ. I believe the Federal Reserve does, yes.

Mr. MANZULLO. One of the other problems—in fact, I have a constituent from Cary, Illinois, who has followed this very closely, along with lots of other constituents. People are really distrustful of the Fed based upon the cloak of secrecy that takes place. But the areas that are of most importance, dealing with monetary policy and the discount window are the two most important parts of the Fed. In fact, on page 6 of your testimony, it says, "Congress

purposefully and for good reason chose to exclude from GAO review only two highly sensitive areas: monetary policy deliberations, decisions, and actions, including open market and discount window; and the other is Federal Reserve transactions dealing with foreign countries."

So you have actions and transactions that are excluded from GAO review. It would take an Act of Congress, would it not, in order to go into these two areas?

Mr. ALVAREZ. Yes, sir.

Mr. MANZULLO. Okay. And that is what H.R. 1207 attempts to do, isn't that correct?

Mr. ALVAREZ. That is correct.

Mr. MANZULLO. So the very body that sets the policy of review, would you not agree, also has the authority to change that policy?

Mr. ALVAREZ. Oh, absolutely, sir.

Mr. MANZULLO. And so Members of Congress, you would agree, who are very concerned with trying to track all this money believe that, by having more transparency, the American people will have a better idea as to where their taxpayers' dollars are spent? Wouldn't you agree that the American people have a tremendous amount of interest in this?

Mr. ALVAREZ. This is certainly an area for Congress to consider. We are here simply providing our views on what the ramifications would be of that kind of congressional action, and we are concerned about the effects of making the change that H.R. 1207 would make. But it is clearly a decision for the Congress.

Mr. MANZULLO. I may submit some questions to you, but I want to thank you for your time and your demeanor.

Mr. ALVAREZ. Thank you.

Mr. MANZULLO. Thank you.

The CHAIRMAN. The witness is excused.

I appreciate Mr. Alvarez once again giving us his time. He and other members of the Federal Reserve System have been very cooperative. And I do think it is the case that, if you compare the amount of information that has been released about the actions, the decisions, the operation of the Federal Reserve, there has already been an enormous difference. And I think that makes me confident that we can go, frankly, the fairly small steps further that we need to to complete this.

Mr. ALVAREZ. Thank you.

The CHAIRMAN. We will now have our next witness, Mr. Thomas Woods from the Ludwig von Mises Institute. And I apologize for having, in my prior life, mispronounced that. My German isn't as good as it could be. Neither is my English.

Mr. Woods?

Oh, Mr. Paul will introduce the witness.

Dr. PAUL. Thank you, Mr. Chairman.

Thomas Woods is a senior fellow at the Ludwig von Mises Institute in Auburn, Alabama. He graduated from Harvard University and received his master's and Ph.D. from Columbia University.

He is the author of nine books, of which two were New York Times best sellers, including, "Meltdown: A Free Market Look at Why the Stock Market Collapsed, the Economy Tanked, and Government Bailouts Will Make Things Worse." He also won a prize

in 2006, the 2006 Templeton Enterprise Award, for his book, "The Church and the Market: A Catholic Defense of the Free Economy." Dr. Woods is also a contributing editor of The American Conservative.

I welcome Dr. Woods as a witness before this committee.

The CHAIRMAN. Please, Dr. Woods.

STATEMENT OF THOMAS E. WOODS, JR., PH.D., LUDWIG VON MISES INSTITUTE

Mr. WOODS. Thank you, Mr. Chairman, Congressman Paul, and other members of the committee.

Let me begin my summary of my written testimony in support of H.R. 1207 by recalling a controversy that erupted in late 2008. Bloomberg News ran a headline, "Fed Defies Transparency Aim in Refusal to Disclose," and the article dealt with trillions of dollars in loans whose recipients and whose collateral that had been put up were unknown to the American people. The editor-in-chief of Bloomberg News, Matthew Winkler, stated it very simply. He said, "Taxpayers, involuntary investors in this case, have a right to know who received loans, in what amounts, for which collateral, and why specific loans were made."

Well, he is right, of course. There is no good reason for Americans not to know the terms and recipients of these loans. There is, likewise, no good reason for them to be kept in the dark about the Fed's arrangement with foreign governments and foreign central banks. These things affect the quality of the money that, in our system, Americans are obliged to accept.

Now, this seems like common sense, so what are some of the common arguments that have been raised against H.R. 1207? Well, it would compromise the Fed's independence. And, eventually, if we open the books, this will lead inexorably to some kind of influence over monetary policy being exercised by Congress.

I think this is a red herring. The bill neither envisions nor calls for any such thing. In fact, the bill is not designed to have Congress have any authority over setting interest rate targets or any such thing as that. This is part of the Fed's central planning apparatus, and it is best to keep this away from the Fed or Congress, in my judgment.

But, ultimately, all we are doing is looking to open the books. Congress has a moral and legal responsibility to keep tabs on and keep the public informed about the various creatures it brings into existence. So these various convoluted scenarios by which merely opening the books will eventually lead to a floodgate of an inflationary catastrophe at the hands of an uppity Congress, I think, are a little over the top.

Now, at the same time, we hear this objection all the time about the Fed's independence, so we should investigate that issue. How independent is the Fed? Well, how independent could it be if the Fed Chairman is, of course, routinely up for reappointment? The Chairman typically wants to ingratiate himself into the favor of the President and often will accommodate him with loose monetary policy.

Moreover, try to imagine a Fed Chairman who doggedly insisted on maintaining the value of the dollar, even if it meant refusing

to monetize a massive deficit to fight a war or so-called stimulate a depressed economy? You can't imagine it.

If there is any truth to the idea of Fed independence, it is in precisely this: that the Fed, as we have seen in recent years and months, has the ability to extend trillions of dollars to unidentified recipients on undisclosed terms. Now, if that is what we are talking about, I find it hard to imagine any self-respecting American who isn't bought and paid for hesitating for a minute to challenge that.

Now, we have also heard that this type of legislation might politicize lender-of-last-resort decisions. Well, again, it does no such thing. You will find nothing in the text of the bill to justify that suspicion.

But even if it did, how is this a departure from current practice? I think most Americans, you are going to have a hard time persuading them that the decisions made regarding the various bailouts were all made entirely with an eye to the public good and entirely disinterested and were not political at all. I think some Americans—and this ranges from progressives all the way to traditional conservatives—have rather a different thesis in mind, which is that, for instance, Goldman Sachs just might have a little more political pull than the rest of us.

Well, let me also make clear that supporters of this bill are not interested in a watered-down version of the bill. This would only further stimulate suspicion that somebody is hiding something.

Now, it seems to me the audit is coming. The writing is on the wall here. Seventy-five percent Americans polled agree that the Federal Reserve should be subject to the GAO audit that 1207 has in mind. If the legislation should fail, well, it seems to me that we will only further stimulate interest and transparency in the Fed, because people who up to this time hadn't had any interest in the issue will being to wonder, "What could they be hiding?"

So I think it is probably best for the Fed simply to accept that the audit is coming. I think that would be a more dignified way of handling the situation than what we have seen from the Fed thus far, which has, by and large, been the approach of urging Americans, urging the peons who populate the country to quit pestering their betters with all these impertinent questions. I think the Fed should take to heart the words that Americans hear every time a new Federal surveillance program is uncovered: If you have done nothing wrong, you have nothing to worry about.

Thank you.

[The prepared statement of Dr. Woods can be found on page 71 of the appendix.]

The CHAIRMAN. The gentleman from North Carolina.

Mr. WATT. Thank you, Mr. Chairman.

Mr. Woods, on behalf of Congress, I thank you for the political advice you have given us. And I suspect the folks over at the Fed would thank you for the advice that you have given them about how they should approach this issue. On a substantive basis, I don't know that I heard much here that would help us be informed about the substance of what we are here to do.

Is there anything in the bill, that you are aware of, that would deal with the Fed Chair being reappointed by the President? There is nothing in this bill that is going to address that, is there?

Mr. WOODS. No, there isn't. The reason I mentioned—

Mr. WATT. Okay. All right. I am just trying to figure out whether we are having a philosophical discussion here or a substantive discussion.

You mentioned opening the books, which I think we all are supportive of. Do you distinguish between an audit of the kind that most people would think of as an audit and a policy audit, or do you not make that distinction?

Mr. WOODS. I think, in this case, given that Congress has delegated to the Federal Reserve System the power to make monetary policy and, in this case, the Federal Reserve System and the enforcement of the system is a creature of the Federal Government and an active—

Mr. WATT. I understand that, Mr. Woods. I am asking you, would you, for the purposes of this bill, or for deciding whether to do or not do whatever we are talking about, give the authority under this bill—would you make a distinction between a policy audit and opening the books, as you say, which would be a numbers audit?

Mr. WOODS. Well, the reason I answered the question as I did—

Mr. WATT. Would you make a distinction first and then tell me why you would make the distinction?

Mr. WOODS. I would like it know what they are doing all down the line. Now, we have talked—there has been some discussion about time lags that could be negotiated, in terms of—

Mr. WATT. That is not the question I am asking. It might be the next question I ask.

Mr. WOODS. I honestly thought it was, sir.

Mr. WATT. I am trying to figure out whether you, as a practical matter, make a distinction between a policy audit and a numbers audit.

Mr. WOODS. I would, indeed, like to know some of the rationales that go into these decisions.

Mr. WATT. But do you acknowledge that there is a distinction?

Mr. WOODS. Well, sure, there is. But—

Mr. WATT. Okay. All right.

Mr. WOODS. —it is in the fact that the Fed is created by an Act of Congress and enjoys a government monopoly. So, naturally, there is going to be a wider scope, and Americans would want to insist on a wider scope, of investigation of such an institution.

Mr. WATT. Okay.

Mr. Chairman, in the interest of time and with the recognition that we are not going to get any substantive responses here as opposed to another political speech, I think I will just yield back.

Before I do that, let me ask unanimous consent to insert into the record a Wall Street Journal article dated July 15, 2009, "Economists Warn Fed Independence at Risk" and a document entitled, "Petition for Fed Independence," signed by numerous academic people—

The CHAIRMAN. Without objection—

Mr. WATT. —75 academics supporting the Fed's independence.

The CHAIRMAN. Without objection, it is entered into the record. The gentleman from Texas.

Dr. PAUL. Thank you, Mr. Chairman.

I would like to follow up on an economic question regarding the secrecy of the Fed. If the Fed operates in secrecy and we don't have transparency, I would like to see if you could expand a little bit on what kind of economic consequences this has.

For instance, the free-market school is well aware of the fact that businesspeople make a lot of mistakes when interest rates are at an artificial level rather than at a market level. Interest rates aren't there because of savings but because of economic policy. But this is along that line but not exactly that.

Does the secrecy of the Fed inspire maybe some misguided speculations? Could this secrecy encourage more mistakes, maybe not be the cause of all the mistakes, but could this cause the businessman more difficulty? The other side tends to argue, well, we have to keep it secret because we don't want to shake up the markets, and secrecy conveys confidence.

Could you address that? And could the opposite be true?

Mr. WOODS. I think the opposite is true. Because I think, when you have secrecy, inevitably what winds up happening, how do people make their judgments as to what is really going on? On the basis of wild speculation and wild unfounded rumors. So the more transparency you have, the less free rein is given to that type of irrationality. So the clearer we can be with the business community, the better. And the more they can understand, "Is this phenomenon that I am seeing real? Is it because there has been some Fed manipulation?" It is easier for them to make decisions if they are permitted to see the economy clearly.

And I would, if Congressman Paul doesn't object, I would like to add something about the subject of independence. The reason I raised it is that opponents of the bill are, I think, raising this as a red herring. This is not the subject of the bill. But, secondly, it is not, by any means, getting off the subject to question whether the much vaunted independence is actually real, whether there is already political influence on the Fed. That is entirely a warranted statement.

So I did want to say that in my defense. But, Congressman Paul, you still have some time.

Dr. PAUL. Right. And I want to touch on the subject of history, because I know you are also an historian. You did mention that 75 percent of the American people support this effort to have more transparency over the Fed. But, in this recent court case, it was indicated, the Freedom of Information Act, that several rather mainstream groups supported this, as well. It isn't just a fringe element that is requiring that. Dow Jones has supported this effort, New York Times, AP, Gannett, Hearst, Advanced Publications, and the Republica—the reporters' commission on free press. So there are a lot of people who do support this.

And, as I mentioned in my opening remarks, there has been a lot of this going on for a long time, but it seems like there is something historically important here. And could you address that in a more long-term, historical perspective?

Mr. WOODS. Certainly. I think it is safe to say that, since 1913, as a political issue, the Fed has, by and large, succeeded in depoliticizing itself. And that, indeed, is the goal of the Fed, to some degree, is to isolate monetary policy from the public, the ar-

gument being that technocrats can better handle this than regular Americans so we better isolate it from them.

And so, what that means is that politicians, by and large, have not paid much attention to the Fed, until one presidential campaign I can think of in the last couple of years. Other than that, I can't think of any presidential campaign that raised the Fed as an issue.

So the fact that a bill like this comes forward, has hearings like this at the full committee level, when efforts like this have been tried in the past, as the chairman mentioned at the outset, and have failed, suggests that this is, indeed, a historic moment.

I believe that the arguments being made against the bill are, by and large, a lot of scare tactics by the Federal Reserve, which is not used to being under this type of public scrutiny.

I absolutely discount the bunch of academic economists who warn about the Fed's independence. Without the Fed's independence, it won't be able to fight inflation as effectively and monitor interest rates as effectively. So, in other words, "We have just had the biggest asset bubble in the history of the world, thanks to the Fed, but if they lose their independence, they won't be able to do as good a job as they have been doing." This is really shocking, that we have professional economists who are going to take that position. It is an absurd position. It is at variance with the fact that the Fed has been the great enabler of inflation. And to say that we need it to be secret, need the books to keep it closed in order to prevent inflation from breaking out, shows an utter ignorance as to the causes of inflation.

I also recommend an article by Lawrence White, now recently at George Mason University, and several years ago did an article looking at how influenced by the Fed the economics profession is in various ways.

The CHAIRMAN. Let me just ask—first of all, I just want to say, you said there is all this time without a hearing. We are having a hearing because I decided to have one. I was a strong supporter of Henry Gonzalez in the late 1980's when he pushed this. I have consistently asserted my right to critique monetary policy.

In fact, Congress did once assert itself in this throughout the Humphrey-Hawkins Act over the objections of the Federal Reserve. And people might disagree ideologically with the formulation, but the central bank of the United States has a dual mandate, whereas most central banks have a single mandate, namely to fight inflation. Under the Humphrey-Hawkins Act enacted by Congress before I got here, the Federal Reserve has a mandate to worry about unemployment equally with inflation, or employment. And there have been efforts by Federal Reserve Chairs consistently to try to evade that, and we have blocked it.

So I have always felt that. And we are having this hearing because it seemed to me an important thing for us to do. I am in my third year of the chairmanship; we did have some other items that grabbed our attention earlier.

I do have one specific question. On the question of making public all of their transactions by themselves, do you think that should be done instantaneously, or do you think some time lapse is appropriate?

Mr. WOODS. I think, on this question, I wouldn't take a dogmatic position. I am certainly open to a compromise on this. I think some type of reasonable time lag would not defeat the purpose—

The CHAIRMAN. Good. I think, again, my view is that no one should be able to do business with the Federal Government in secret forever, but we do recognize that, if it is instantly available, there could be a market impact that would not be a good idea. So I appreciate that conceptual agreement. I think we can work together.

The last thing, though, you did say, which troubled me, I must say, a little bit, is that essentially anyone who disagreed with you was bought and paid for. By whom? And what was the going wage? Maybe I have been missing out on something.

Mr. WOODS. Well, my point was that, if you look at—

The CHAIRMAN. No, I am asking you, by whom? You said somebody was bought and paid for. You must have been bought and paid for by somebody.

Mr. WOODS. Well, in some cases, by the Fed itself. I think the Fed has exercised a tremendous influence, directly or indirectly, over the—

The CHAIRMAN. Well, it is one thing to exercise influence; it is another to be bought and paid for.

Mr. WOODS. Well—

The CHAIRMAN. It is one thing—well, but I think language is important, Mr. Woods. And I don't like—

Mr. WOODS. But what about millions of dollars in research grants?

The CHAIRMAN. Well, let me say this. My colleague has objected to people characterizing this as extremism. He pointed to these mainstream groups. Although, I will say, the number of us who will be surprised that mainstream media groups want more information—they want to know battle plans. So that is not mainstream; that is their own self-interest.

But I think characterizing—basically you said anybody who would disagree—go back and look at your words—would be bought and paid for, I think that is an unfortunate formulation. I think there is room for intellectual disagreement here. And I think there are a lot of people probably on that list who weren't bought and paid for in any tangible sense.

Mr. WOODS. Well, I bet, though, if we did a poll of the various people who are calling congressional offices on behalf of the bill, I just can't imagine that many are calling up and saying, "You know what? I am telling you, I am going to vote you right out of office if you open the books of the Federal Reserve."

The CHAIRMAN. Well, that is totally unresponsive to what I said, Mr. Woods. Why would you do that? I am talking about my objection, frankly, to your characterizing all of those who oppose this—and I am generally for it—

Mr. WOODS. Well, perhaps it was—

The CHAIRMAN. —as bought and paid for. I really would like to avoid that kind of—

Mr. WOODS. Perhaps it was an unfortunate rhetorical flourish. But it was done in the spirit of—

The CHAIRMAN. Thank you. I would just advise you, as a witness, look, you are free to do it. Why don't you leave the unfortunate rhetorical flourishes to us? We get paid for it.

The gentlewoman from Minnesota—

Mr. WATT. Mr. Chairman—

The CHAIRMAN. Yes, I will yield to my colleague.

Mr. WATT. I just want to discourage this gentleman back here from making props for the witness. Please, I am happy to have him sit in this room, but for him to be holding up that sign behind this witness, I think, is inappropriate.

The CHAIRMAN. No, there will be no—sir, the police officer had some questions about what you were doing. I signaled to him that we had no objection to your sitting here. But I will in an even-handed way enforce today what I have enforced with Code Pink or anybody else: no demonstrations; no signs. People are free to sit here. The gentleman from North Carolina is exactly correct. And there will be no conversation.

The gentlewoman from Minnesota.

Mrs. BACHMANN. Thank you, Mr. Chairman.

I appreciate Mr. Woods being here. And I have had a chance to read about half of the book, and I really appreciate the book that you wrote, "Meltdown: A Free Market Look at Why the Stock Market Collapsed, the Economy Tanked, and Government Bailouts Will Make Things Worse." So thank you for your input on that.

I enjoyed your statement, I have enjoyed your remarks. And I am wondering, you had asked the question in your remarks, why is the Fed in panic mode over this bill? Why are they in panic mode over this bill?

Because it seems like we are in an era now when no politician can oppose transparency. That is what every politician is for, is transparency. And yet this seems to be the one anomaly in all of government. And yet it is at the fulcrum of our government, and it is at the fulcrum of, potentially, the economic meltdown that we are still going through and have yet to recover from.

Why the panic?

Mr. WOODS. Well, I think here we can only speculate, precisely because we don't have the information.

My suspicion is that I think they may be engaged in activity that they would rather not have disclosed to the light of day. The reason I emphasized in my statement that I believed that the standard arguments being made against the audit were unpersuasive and were not grounded in the text of the bill was thereby to leave open the possibility that the real arguments against their bill are not actually being advanced.

But I can't know what those are. I have my own private speculation as to things the Fed might be doing, but I elect not to mention them here. But that is what I think.

There was an article in Forbes not long ago, and the title of the article was, "The Federal Reserve Needs To Be Boring Again." And the thesis of the article was that the Fed has been doing so many unprecedented and extraordinary things, both qualitatively and quantitatively, over the past 2 years that it has attracted more attention to itself than we have seen in a very long time. And so it really has to stop doing that, so that people will go back to not pay-

ing attention to it anymore and, as one member said earlier, not even really knowing anything about what it does. I think that is the way they like to do it.

And I am not putting words in people's mouths. Alan Blinder of Princeton wrote this in Foreign Affairs, "monetary affairs are best left to the technocrats." That is his word, not mine.

And so I think this is an unusual position for the Fed to be in, for the spotlight to be on it. And I think this makes them unhappy and nervous.

Mrs. BACHMANN. One thing that I am concerned about is the Fed's balance sheet and the toxic assets that remain on that balance sheet. Because, ultimately, we know that we will be the ones, the taxpayers of this country, to have to sop up the mess that is on that balance sheet.

And I think the overnight loans, the fact that we don't know who the overnight loans are going to, what the identities are and, as you had stated, the collateral, I think that makes a lot of us very nervous. I think maybe everything is fine behind the curtain, but we see that a lot of things aren't fine in a lot of the great financial institutions that came to the brink of collapse and, in fact, did collapse.

The other question I would have for you would be on Section 13(3) and whether or not it would be prudent for the Congress to take a look at Section 13(3) and tightening that up and limiting the scope of the Fed's authority.

It seems to me, if we could get a full perspective of an audit, both on policy and on the numbers of the Federal Reserve, if we could get a full perspective of the Federal Reserve, what has been going on since 1913, that it would be easier for us to know if it would be prudent for us to tighten up the limitations on what they can do.

I was shocked and didn't read 13(3) until after the economic meltdown. When I read the breadth of the authority of the Federal Reserve, it struck me that they can do anything. They can do anything they want, and we are the ones, the American taxpayers, left holding the bag. And what check do they have? There is no check on that authority. And I think that is very frightening for the American people.

And I am just wondering if you could comment in Congress on Section 13(3).

Mr. WOODS. Okay. Well, I support exactly what you are saying. I think it makes perfect sense to tighten these things up.

And I would also like to clarify, the way in which taxpayers get hit here may not be quite direct, but that if the Fed, let's say, takes on an awful lot of toxic assets and these assets have very, very low value or zero value, then it impairs the Fed's ability—when we are being promised, "Don't worry, we will suck all this money back in," well, if the balance sheet is overloaded with qualitatively degraded assets, how are they going to sell them? How are they going to get that money back in? And so then we will all suffer from the inflation tax.

But, yes, I agree, I say turn the screws, absolutely.

Mrs. BACHMANN. Let me ask you your perspective on inflation—

The CHAIRMAN. The gentlewoman's time has expired.

The gentleman from California.

Mr. SHERMAN. Thank you, Mr. Chairman.

There is always a fight between democracy on the one hand and bureaucracy and plutocracy on the other. Secrecy does not lead to purity and technically correct decisions. Secrecy plus power equals corruption. That is especially true over time. That is especially true when it is the power not to set interest rates, but the power to lend money on concessionary terms to particular companies.

Now, the chairman and many others in this committee have talked about needing to focus on 13(3). A number of my colleagues who are here now were not here when I questioned Mr. Alvarez, but his answers were very scary as to 13(3). Because the Federal Reserve Board has testified before that they will make only virtually no-risk loans under 13(3), but their general counsel testified that just about any loan in any amount would be allowed under 13(3) as long as the Board felt secure. And that might very well mean they have a 51 percent chance of repayment; he wasn't all that specific.

So we have an agency that can now make not risk-free loans, but higher-risk loans, at least 51 percent—even on a junk bond you have a 51 percent chance of being repaid—in enormous amounts and, Mr. Woods, you are saying without any scrutiny as to how secure they are.

If I gather your testimony correctly, you are saying that they have extended billions and billions of dollars of loans that they tell us are fully secured but they will not reveal to Congress what security they have?

Mr. WOODS. That seems to be the case. And so, I think this is why this has become such a mainstream issue. This is why, of course, Bloomberg is in favor. And then Dr. Paul mentioned all these completely mainstream outlets who have nothing against the Fed, per se. They believe the Fed has an important role to play, but that this is unacceptable from the point of view of average Americans, who have a right to know what is going on with the institution that has custodianship of their money.

Mr. SHERMAN. And even if this Fed made all the right decisions for all the right reasons, if you empower any agency to make high-risk loans or risky loans—not high-risk loans, but risky loans on concessionary terms, and to simply tell the public, "Don't worry, you are fully secured" or "You are secured enough" or "We won't tell you what security we have, but trust us," and they can pick one company and not another, over time—one of the things that we do is we advise other countries on how to set up democratic institutions. Trust me, nobody at the State Department, nobody at USAID, nobody at DRL would suggest this kind of power plus secrecy, power to convey wealth to individual companies in enormous and unlimited amounts plus total secrecy.

Mr. Woods, the Fed's best argument against this bill is that the oral statements at the FMOC meetings should be kept private so that people can speak honestly. Would you think the bill would be impaired in its objectives if we just said, "Okay, you can speak freely at the FMOC meetings; the GAO isn't going to read the transcript?"

Mr. WOODS. Well, this legislative aspect I would almost prefer to refer to Congressman Paul. Of course, there are different things. There is the Board of Governors, there are all sorts of different levels, where we can get some information now, 5 years after the fact. So now we know where Ben Bernanke stood on the interest rate question in 2003.

But on a question like this, that really deals with a technical detail, I would defer to Dr. Paul.

Mr. SHERMAN. Why don't I yield to Dr. Paul? I don't know if he was listening.

Dr. PAUL. Well, certainly not permanently, but I would want to hear about them someday. They claim they released these anyway after—

Mr. SHERMAN. Well, yes, I am just—

Dr. PAUL. —years, but I think the sooner, the better. But, obviously, we don't want to monitor and look at them the next day or the next week, but I would think that maybe 3 months or 6 months would be reasonable.

Mr. SHERMAN. I look forward to working with you on this, because I would hope that we would pass legislation. And if we can take away the Fed's best argument against it, I think that may help us.

The CHAIRMAN. Or we could wait for the movie.

The gentleman from California.

Mr. SHERMAN. Wait for the movie?

Mr. ROYCE. Thank you, Mr. Chairman. I presume that one of the reasons that the Federal Reserve made an error on setting the interest rates too low for such a long period of time and other central banks followed suit is because in the 1930's, there had been a real problem with the Fed setting interest rates too tight. Frankly, I think what transpired is again—the Fed thought deflation was going to be a problem and as a result they set negative interest rates and they set those negative interest rates 4 years running. I asked Mr. Alvarez this question. But I really believe that was part of what created the balloon in asset prices and I suspect you would agree with me. As I had said, von Mises—his study on business cycle theories showed the propensity of central banks to do that. But what worries me most right now is a study in 1999 by the Richmond Federal Reserve that 45 percent of all liabilities in the financial system were backed by the Federal Government. And it is the moral hazard aspect of this and the fact that we have compounded this going forward by bringing the Fed in deeper and further in terms of that moral hazard challenge. And I would like your comment on that.

Mr. WOODS. Certainly. On the issue of deflation incidentally—and that was the reason—the fear of deflation, that they had to keep interest rates very low. Ben Bernanke, before he was Fed Chairman, was the one who gave a speech around 2002 warning of deflation and he spooked the markets because no one else was talking about deflation at that time. So I think that was a hyped-up concern. But the moral hazard problem, I think, is the key problem. Because how do we move forward from here plausibly claiming that, oh, listen, we bailed you out up to this point. But if you fail tomorrow, that is it. How can this be taken seriously? And un-

fortunately, an institution like the Federal Reserve system—when I get a question like this, I, unfortunately, have to delve into an aspect of the question that I have somewhat forsworn to discuss.

But the Fed, in effect, institutionalizes this moral hazard problem because there is no physical limitation on the amount of money it can create to bail somebody out and everybody knows that. Secondly, there is at least the possibility that there existed the Greenspan put. People knew Greenspan is not going to let things go under. He comes to the rescue of long-term capital management 1998. Do you think some of these firms would have been in the shape they were in by the time they started collapsing if long-term capital management had been allowed to collapse, and they realized the game is up, we actually have to run sensible enterprises it is worth asking why are equity ratios so low in the financial sector.

We are being told we need higher capital requirements and so on. That may be a good idea, but we should ask the more fundamental question: Why are they so low? Why aren't they so low in the shoe industry or the shellfish industry or the hat industry? And the answer is they don't have lenders of last resort that have the ability to bail them out. The International Monetary Fund acknowledged this in April 2008, in a report, they said that the financial sector is depending much too much of its liquid problems on expected intervention by the monetary authority. This is a very significant problem especially because in the wake of some of the decisions that have been made, the too-big-to-fails have become even bigger. So we have not solved the problem. The problem is hanging over—

Mr. ROYCE. You have actually compounded it. Because if we give the Fed, then, a secondary responsibility which is to try to overcompensate for businesses that might go bust, they might do that by setting the interest rate too low, long-term capital management being a case in point. So the more of this responsibility you put on their shoulder, the more you lessen their focus on keeping a stable monetary unit and keeping the stable monetary unit long-term is the thing that is going to bring about the most market discipline, the most long range planning, the least amount of waste in the system in terms of destruction because you don't have a boom/bust cycle.

What we are doing is compounding the cyclical, the depth of those cycles basically. Would you concur with that? And I want to make one last point. I think that getting Congress involved in this would sort of compound the problem. Whether it is on the issue of unemployment or whatever good cause we are trying to involve ourselves in, the likelihood is that we are going to further that extension of boom and bust in the cycle.

Mr. WOODS. There is no question about it. This is how Hayek won the Nobel Prize in 1974, for arguing that if you set interest rates artificially—well, look. Interest rates aren't arbitrary. And if you set them artificially, you are just opening yourself up for massive errors by everybody, businessmen, investors, consumers. And that is exactly what has happened to us

The CHAIRMAN. The time has expired. The witness is excused. The hearing is adjourned.

[Whereupon, at 12:24 p.m., the hearing was adjourned.]

A P P E N D I X

September 25, 2009

FOR MORE INFORMATION, call:202-225-4465 • www.house.gov/garrett

EMBARGOED UNTIL DELIVERY
Friday, September 25, 2009

Contact: Erica Elliott
Phone: 202-744-2693

Garrett Opening Statement for Fed Transparency Hearing

(Washington, DC)– **Rep. Scott Garrett (R-NJ) released the following opening statement for today's House Financial Services hearing entitled "H.R. 1207, the Federal Reserve Transparency Act of 2009":**

"I thank the Chairman for holding this hearing and Dr. Paul for introducing the legislation that is our hearing's subject.

"Preserving the Federal Reserve's independence in conducting its monetary policy is cited by Mr. Alvarez in his testimony and by others as reasons to oppose the Federal Reserve Transparency Act.

"But Allan Meltzer, one of the most prominent academic experts on Fed policy and history, recently declined to join others in signing a petition to preserve the central bank's independence because, as he said, "the Fed has rarely been independent and it strikes me that being independent is very unlikely," in the current environment.

"According to a recent *Wall St. Journal* article, he went on to explain that history is replete of instances when the Fed bended to political pressure, keeping interest rates low in the 1930s and 40s to help finance the New Deal and World War II, for instance, and in the 1960s to finance Great Society spending, which later led to inflation.

"So I'm hoping we can explore this premise some more at today's hearing – How independent is the Fed in reality? Because if history shows that the Fed has never truly been an independent entity, then there's no independence to protect. Which then leads us to ask, 'What is it, actually, that some people are so interested in protecting?'"

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September 25, 2009
Statement by the Honorable Kenny Marchant
House Committee on Financial Services
Hearing on "H.R. 1207, The Fed Transparency Act"

Mr. Chairman, I'd like to thank you for holding this hearing today on this very timely and important legislation. And I'd like to thank Congressman Paul for authoring the bill. My office receives calls in support of this bill almost every day, and I am one of almost 300 cosponsors.

The economic events of late clearly have been cause for great alarm. The Federal Reserve has been swift and sweeping in its reaction. However, many of the actions taken were in my opinion unprecedented. The Fed is, by design, intended to be insulated from political pressures. This serves it well in its monetary policy decisions, as they are charged with the tough job of deciding when to put their foot on or take their foot off the gas pedal.

However, during this financial crisis, the Fed has repeatedly used its emergency powers under Section 13(3) to set up various facilities to address a myriad of economic and financial issues. It is these actions I am most interested in, and I believe the Congress should act to audit these facilities.

As I said, the Federal Reserve is purposefully insulated from political pressures inherent in tough economic times. However, this opacity, combined with unprecedented use of its emergency powers, is causing a lot of anxiety in Congress and throughout the nation. As the Fed's balance sheet skyrockets into the multi-trillion dollar range, I believe the time is now to open up its books.

Thank you Chairman Frank and I look forward to working with you on this important issue.

For release on delivery
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Statement of

Scott G. Alvarez

General Counsel

Board of Governors of the Federal Reserve System

before the

Committee on Financial Services

U.S. House of Representatives

September 25, 2009

Chairman Frank, Ranking Member Bachus, and other members of the Committee, I appreciate the opportunity to testify on H.R. 1207, the Federal Reserve Transparency Act of 2009. The Federal Reserve is accountable to the Congress and the public. To inform the Congress and the American people about our actions and accommodate appropriate oversight of those actions, the Federal Reserve has further strengthened its ongoing commitment to transparency. We provide substantial information to the Congress and the public on the policies, actions, and operations of the Federal Reserve; routinely testify before this and other congressional oversight committees on all areas of our responsibilities; and publish the results of annual audits of the Federal Reserve's financial statements by an independent accounting firm. Importantly, the Federal Reserve also is subject under current law to, and cooperates with, the Government Accountability Office (GAO) in its audits of nearly all of the functions and actions of the Federal Reserve.

In my testimony, I will discuss the various ways that the Federal Reserve is both accountable and transparent to the Congress and the public, including the wide range of Federal Reserve policies and functions that currently are subject to GAO audit. I also will discuss the substantial steps that we have taken to promote understanding of our actions during the financial crisis to foster financial and economic stability, to promote the availability of credit to businesses and consumers, and to restore economic growth. In addition, I will discuss the public benefits of ensuring that the Federal Reserve maintains independence in the conduct of monetary policy, and why granting the GAO broad new authority to audit the monetary policy and related activities of the Federal Reserve would be contrary to the public interest.

Accountability and Oversight

The Federal Reserve is subject to oversight through a variety of mechanisms. Importantly, the Federal Reserve regularly reports to the Congress and provides both the Congress and the public a full range of detailed information concerning its policy actions, operations, and financial accounts. Indeed, our goal is to be as transparent as possible about our policies and operations without undermining our ability to effectively fulfill our monetary policy and other responsibilities.

For example, the Chairman of the Federal Reserve Board testifies and provides a report to the Congress semiannually on the state of the economy and on the Federal Reserve's actions to carry out the monetary policy objectives that the Congress has established.[1] In addition, Federal Reserve officials frequently testify before the Congress on all aspects of the Federal Reserve's responsibilities and operations, including economic and financial conditions, monetary policy, the supervision and regulation of banking organizations, consumer protection in financial services, payments system and clearing matters, and cash and check services provided by the Federal Reserve. In fact, since the beginning of 2007, Board members and other officials have testified before the Congress more than 80 times, including 28 times so far this year.

An independent public accounting firm that is selected and retained by the Board's Inspector General annually audits the financial statements for the Federal Reserve System, including the Reserve Banks. The Federal Reserve makes these audited financial statements available to the public and submits them to the Congress with detailed annual reports of our activities. These annual reports review the Federal Reserve's policy actions and operations during the year across the full range of our monetary policy, bank supervision, payments system,

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[1] For our most recent report, see Board of Governors of the Federal Reserve System (2009), *Monetary Policy Report to the Congress* (Washington: Board of Governors, July 21), www.federalreserve.gov/monetarypolicy/files/20090721_mprfullreport.pdf.

and consumer protection functions.[2] In addition, the Board annually provides the Congress with a separate report that provides detail on the budgets, budget process, income, and expenses of the Board and the Reserve Banks.[3]

With respect to monetary policy, the Federal Open Market Committee (FOMC) releases a statement describing its monetary policy decisions immediately after each regularly scheduled meeting and publishes detailed minutes of each meeting three weeks later. We also publish summaries of the economic forecasts of FOMC participants four times a year and release full transcripts of FOMC meetings with a five-year lag.

During the financial crisis of the past two years, the Federal Reserve has instituted a number of important programs--using both open market operations and discount window lending--to promote financial stability and the monetary policy goals of maximum employment and stable prices. As Chairman Bernanke has noted, many of the recent improvements in financial conditions can be traced, in part, to the policy actions taken by the Federal Reserve.

We recognize that these programs must be accompanied by additional transparency so that the Congress and the public can be assured that we are exercising the best possible stewardship of the resources and responsibilities that have been entrusted to us. For these reasons, we have substantially increased both the type and amount of information that we disclose concerning our liquidity and asset purchase programs. Since the System began operations in 1914, the Federal Reserve has published its balance sheet every week, showing the assets and liabilities of the Reserve Banks, both individually and on a consolidated basis.[4]

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[2] See Board of Governors of the Federal Reserve System (2009), *95th Annual Report, 2008* (Washington: Board of Governors), www.federalreserve.gov/boarddocs/rptcongress/annual08/default.htm.
[3] See Board of Governors of the Federal Reserve System (2009), *Annual Report: Budget Review, 2009* (Washington: Board of Governors), www.federalreserve.gov/boarddocs/rptcongress/budgetrev/br09.pdf.
[4] These balance sheets are made available each Thursday, for the week ending the preceding Wednesday, through the Federal Reserve's H.4.1 Statistical Release. The release for the week ending September 23, 2009, is available at www.federalreserve.gov/releases/h41.

During the crisis, we have added significant new information to these weekly balance sheets, including information about the amount of credit outstanding under each of our credit facilities.

The Board also recently created a section of its website that offers considerable new and detailed information about our policy programs and financial activities.[5] Earlier this year, we initiated a detailed monthly report on the Federal Reserve's liquidity programs and balance sheet that provides the Congress and the public more detailed and timely information on our lending, the associated collateral, and other facets of programs established to fight the financial crisis. Importantly, these monthly reports provide the number and distribution of borrowers under each facility; the value, type, and quality of the collateral that secures advances under each facility, including the loans to the Maiden Lane entities formed to help prevent the disorderly failure of Bear Stearns and American International Group (AIG); and trends in borrowing under the facilities. The Board also files a report with the Congress every 60 days on each outstanding liquidity facility authorized under section 13(3) of the Federal Reserve Act.[6] Moreover, the Federal Reserve has made public the significant contracts that we have entered into with private-sector vendors to assist in the management and administration of the special liquidity and asset purchase programs established to combat the financial crisis and restore economic growth.

We have taken these steps with the objective of increasing the information publicly available about the Federal Reserve and our programs so that the Congress and the public can more effectively assess our efforts in pursuit of financial stability and our monetary policy objectives. Altogether, we now provide more information about our operations than ever before,

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[5] See "Credit and Liquidity Programs and the Balance Sheet" on the Board's website, available at www.federalreserve.gov/monetarypolicy/bst_reportsresources.htm.

[6] The Federal Reserve's monthly reports and 60-day reports are available on the "Credit and Liquidity Programs and the Balance Sheet" section of the Board's website..

and we continue to explore whether additional information can be provided without jeopardizing the effectiveness of our efforts.

Existing GAO Audit Authority

There appears to be a widespread misconception about the role the GAO already plays in oversight of the Federal Reserve. We are subject to audits by the GAO across a wide range of our responsibilities. For example, all of our supervisory and regulatory functions are subject to audit by the GAO to the same extent as the supervisory and regulatory functions of the other federal banking agencies. Indeed, the GAO in recent years has conducted dozens of audits of the policies and practices of the Federal Reserve in its supervision and regulation of bank holding companies, state member banks, and other banking organizations. These audits have included assessments of our capital standards, a review of our consolidated supervision function, and audits of our actions in connection with troubled banking organizations.

In addition, the GAO has conducted audits of the Federal Reserve in a wide range of other areas, including our oversight and operation of payment systems; our implementation and enforcement of consumer protection laws; our policies on the acquisition of U.S. banking organizations by sovereign wealth funds; our efforts to address cyber security; and the need for financial regulatory reform. So far in 2009, the GAO has completed 14 engagements involving the Federal Reserve, and another 14 engagements are in process.

The Congress also recently granted the GAO the authority to audit the credit facilities extended by the Federal Reserve to "single and specific" companies under section 13(3) of the Federal Reserve Act. This authority allows the GAO to audit the loan facilities the Federal Reserve has created for AIG, Bear Stearns, Citigroup, and Bank of America. In addition, the Congress clarified the GAO's authority to audit the Term Asset-Backed Securities Loan Facility

(TALF), a joint Treasury-Federal Reserve initiative, in conjunction with the GAO's reviews of the performance of the Treasury's Troubled Asset Relief Program. We have been cooperating closely with the GAO--as we have in the past--to assist their reviews under all of these authorities.

H.R. 1207 and Monetary Policy Independence

The Congress purposefully--and for good reason--chose to exclude from GAO review only two highly sensitive areas: one is monetary policy deliberations, decisions, and actions, including open market and discount window operations; and the other is Federal Reserve transactions for or with foreign central banks, foreign governments, and public international financing organizations. The limited exceptions for monetary policy and discount window operations were adopted to ensure that the Federal Reserve could "independently conduct the Nation's monetary policy."[7]

Considerable experience shows that monetary policy independence--within a framework of legislatively established objectives and public accountability--tends to yield a monetary policy that best promotes price stability and economic growth. Monetary policy independence prevents governments from succumbing to the temptation to use the central bank to fund budget deficits. It also enables policymakers to look beyond the short term as they weigh the effects of their monetary policy actions on price stability and employment. And it reinforces public confidence that monetary policy will be guided solely by the objectives laid out in the Federal Reserve Act. Thus, the Congress has sought to maintain an independent monetary policy not because it benefits the Federal Reserve, but because of the important public benefits it provides.

Through its investigations and audits, the GAO typically makes its own judgments about policy actions and the manner in which they are implemented and makes recommendations to the

[7] See S. Rep. 95-723, at 2 (1978).

audited agency and to the Congress for policy changes or future policy actions. Accordingly, financial markets likely would see the grant of audit authority to the GAO with respect to monetary policy as undermining the Federal Reserve's independence in this crucial area, particularly because GAO audits or the threat of a GAO audit could be used both to second-guess the Federal Reserve's monetary policy judgments and to try to influence subsequent monetary policy decisions.

Permitting GAO audits of monetary policy also would likely cast a chill on monetary policy deliberations if policymakers believed that GAO audits would result in early publication and analyses of their policy discussions. Unfettered and wide-ranging internal debates are essential to identifying the best possible policy options for achieving maximum employment and stable prices in light of data that may be conflicting or, at best, ambiguous as to the optimum policy path.

Moreover, publication of the results of GAO audits related to monetary policy actions and deliberations would complicate and interfere with the FOMC's communications to the markets and the public about current economic conditions and the appropriate stance of monetary policy. Households, businesses, and financial market participants would understandably be uncertain about the implications of the GAO's findings for future decisions of the FOMC, thereby increasing market volatility and weakening the ability of monetary policy actions to achieve their desired effects.

The exception from GAO audit for monetary policy matters rightfully extends to the Federal Reserve's use of market credit and liquidity programs to support the functioning of financial markets, stimulate the economy, and unfreeze credit markets. During the crisis, as use of the federal funds rate and discount rate to achieve policy objectives became constrained by the

zero bound, the Federal Reserve established several broadly available market credit facilities.[8] These broad-based facilities are fundamentally different from the institution-specific loans that the Federal Reserve has made and that are already subject to GAO audit. These broader market facilities are designed to unfreeze credit markets and lower interest rate spreads and are a natural extension of the traditional central bank responsibility to serve as a backup source of liquidity during periods of financial strain.[9] In this way, these facilities represent an essential part of the Federal Reserve's efforts to promote financial stability and its monetary policy objectives.

Permitting GAO audits of discount window lending and the broad liquidity facilities that the Federal Reserve uses to affect credit conditions generally could reduce the effectiveness of these facilities in promoting financial stability, maximum employment, and price stability. Experience, including during the current financial crisis, shows that banks' unwillingness to use the discount window can result in high and volatile short-term interest rates and greatly limit the effectiveness of the discount window as a tool to enhance financial stability. Indeed, one of the important difficulties that hampered the effectiveness of the Federal Reserve's early response to the crisis was the unwillingness of many banks to draw discount window credit because of concerns about stigma; institutions were concerned that, if their discount window borrowing from the Federal Reserve became known, they would be subject to adverse reactions from the market or other sources. Authorizing the GAO to audit the discount window and other broad-based lending programs could significantly increase potential borrowers' fears of stigma and adverse reactions.

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[8] Examples of market credit facilities established by the Federal Reserve include the Primary Dealer Credit Facility, the Commercial Paper Funding Facility, and the TALF.

[9] The GAO's limited authority to conduct audits of the TALF does not directly implicate the independence of monetary policy, as the GAO may conduct audits of the TALF solely to assess the performance of Treasury's Troubled Asset Relief Program. Accordingly, as part of these audits, the GAO does not audit the Federal Reserve's decision to participate in the TALF in order to help achieve the Federal Reserve's monetary policy and financial stability objectives, or the effect of the TALF on the Federal Reserve's balance sheet or conduct of monetary policy.

H.R. 1207 would completely remove the exceptions from GAO audit in current law for monetary policy and discount window deliberations and operations, thereby allowing frequent and ongoing audits in these areas. Financial market participants likely would see passage of H.R. 1207 as a substantial erosion of the Federal Reserve's monetary policy independence. Accordingly, enactment of the bill would tend to undermine public and investor confidence in monetary policy by raising concerns that monetary policy judgments in pursuit of our legislated objectives would become subject to political considerations.

These concerns likely would increase inflation fears and market interest rates and, ultimately, damage economic stability and job creation. Indeed, the bond rating agencies view operational independence of a country's central bank as an important factor in determining sovereign credit ratings.[10] Actions that weaken monetary policy independence thus could raise the Treasury's cost of borrowing. Higher long-term interest rates would further increase the burden of the national debt on current and future generations.

Adoption of H.R. 1207 also could disrupt the nation's relationships with foreign central banks and governments, relationships which are helpful in supporting the Federal Reserve's efforts to fulfill its statutory missions, and erect barriers to official cooperation among central banks and governments. Foreign central banks and governments likely would be less willing to engage in financial transactions with the Federal Reserve if these transactions were subject to policy review by the GAO, as H.R. 1207 would allow. These transactions, such as the deposit of international reserves and bilateral currency swap arrangements, help support the role of the dollar as a worldwide reserve currency and alleviate stresses in U.S. financial markets. For

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[10] See Standard & Poor's (2004), "Sovereign Credit Ratings: A Primer," March 15, www2.standardandpoors.com/spf/pdf/products/SovRatingsPrimer_sov.pdf.

example, the temporary liquidity swaps entered into by the Federal Reserve with other central banks are designed to improve liquidity conditions in both domestic and international financial markets, guard against the spillover of volatility in foreign trading to U.S. money markets, and thereby reduce funding pressures in U.S. financial markets.

The modifications proposed by H.R. 1207 are not needed to allow the GAO to audit the Federal Reserve's supervisory and regulatory programs for banking organizations, its consumer protection functions, or the many other aspects of the Federal Reserve's responsibilities that are not related to monetary policy or transactions with foreign authorities. As I noted earlier, the GAO already has and exercises authority to conduct audits in these areas, and the Federal Reserve cooperates fully with the GAO on these reviews.

The Federal Reserve recognizes that there may be ways to further enhance the review of the operational integrity of our market credit facilities without endangering our ability to independently determine and implement monetary policy. We have worked and will continue to work with this Committee and the Congress to ensure that our credit facilities are operated in a way that promotes the highest standards of accountability, stewardship, and policy effectiveness.

Thank you for inviting me to present the Board's views on this very important subject. I look forward to answering any questions you may have.

Thomas E. Woods, Jr.
Testimony in Support of HR 1207, The Federal Reserve Transparency Act of 2009
House Financial Services Committee
September 25, 2009

I am speaking this morning in support of HR 1207, the Federal Reserve Transparency Act. As the Committee knows, this bill would require a full audit of the Federal Reserve by the Government Accountability Office (GAO).

On November 10, 2008, Bloomberg News ran the following headline: "Fed Defies Transparency Aim in Refusal to Disclose." The story pointed out that the Fed was refusing to identify the recipients of trillions of dollars in emergency loans or the dubious assets the central bank was accepting as collateral. When the initial $700 billion congressional bailout was being debated last September, Fed chairman Ben Bernanke and then-Secretary of the Treasury Hank Paulson couldn't emphasize their commitment to transparency strongly enough. But "two months later, as the Fed [lent] far more than that in separate rescue programs that didn't require approval by Congress, Americans [had] no idea where their money [was] going or what securities the banks [were] pledging in return."

Matthew Winkler, editor-in-chief of Bloomberg News, put it simply: "Taxpayers – involuntary investors in this case – have a right to know who received loans, in what amounts, for which collateral, and why specific loans were made."

This has been portrayed as a trivial matter being pursued by some cynical and uppity Americans who don't know their place. But there is no good reason for Americans not to know the recipients of the Fed's emergency lending facilities. There is no good reason for them to be kept in the dark about the Fed's arrangements with foreign central banks. These things affect the quality of the money that our system obliges the American public to accept.

The Fed's arguments against the bill are unlikely to persuade, and will undoubtedly strike the average American as little more than special pleading. Perhaps the most frequent of the claims is that a genuine audit would jeopardize the alleged independence of the Fed. Congress could come to influence or even dictate monetary policy.

This is a red herring. The bill is not designed to empower politicians to increase the money supply, choose interest-rate targets, or adopt any of the rest of the Fed's central planning apparatus, all of which is better left to the free market than to the Fed *or* Congress. It seeks nothing more than to open the Fed's books to public scrutiny. Congress has a moral and legal obligation to oversee institutions it brings into existence. The convoluted scenarios by which merely opening the books will lead to an inflationary catastrophe at the hands of Congress are difficult to take seriously.

At the same time, as we hear this objection repeated time and again, we might wonder just how independent the Fed really is, what with its chairman up for reappointment by the president every four years. Have these critics never heard of the political business cycle? Fed chairmen have been known to ingratiate themselves into the president's favor close to election time by means of loose monetary policy and the false (and temporary) prosperity it brings about. Let us not insult Americans' intelligence by pretending this phenomenon does not exist.

Moreover, try to imagine a Fed chairman doggedly seeking to maintain the value of the dollar even if it meant refusing to monetize a massive deficit to fight a war or "stimulate" a depressed economy. It is not possible.

If there is any truth to the idea of Fed independence, it lay in precisely this: the Fed may reward favored friends and constituencies with trillions of dollars in various kinds of assistance, while keeping the public completely in the dark. If that is the independence we're talking about, no self-respecting American would hesitate for a moment to challenge it.

A related argument warns that the legislation threatens to politicize lender-of-last-resort decisions. Again, this is untrue. But even if it were true, how would that represent a departure from current practice? I hope we are not asking Americans to believe that the decisions to bail out various financial institutions over the past two years, and in particular to allow them to become depository institutions overnight that they might qualify for assistance, were made on the basis of a pure devotion to the common good and were not political at all. Most Americans, not unreasonably, seem convinced of another thesis: that Goldman Sachs, for instance, might be just a little bit more politically well connected than the rest of us.

Opponents of HR 1207 have sometimes tried to claim that the Fed is already adequately audited. If this were true, why is the Fed in panic mode over this bill? It is the broad areas these audits exclude that the American public is increasingly interested in investigating, and these are the gaps that HR 1207 seeks to fill.

The conventional wisdom seems to be that the monetary system we have now is sound and beyond reproach, and certainly better than any system that preceded it. My purpose today is not to render judgment upon such views, however deeply misguided I happen to consider them, and however inaccurate their implicit view of nineteenth-century financial panics. My point is simply this: if our monetary system were really as strong, robust, and beyond criticism as its cheerleaders claim, why does it need to rely so heavily on public ignorance? How can it be a sound banking system that depends on keeping the public in the dark about the condition of its financial institutions?

Let me also make clear that supporters of this legislation are strongly opposed to a watered-down version of the bill – which, incidentally, would only increase public suspicion that someone is hiding something.

If the Federal Reserve Transparency Act passes and the audit takes place, the American people will have achieved a great victory. If the legislation fails, more and more Americans will begin to wonder what the Fed could be so anxious to keep hidden, and the pressure for transparency will simply intensify. A recent poll finds 75 percent of Americans already in favor of auditing the Fed. The writing is on the wall.

The Federal Reserve may as well get used to the idea that the audit is coming. That would be a far more sensible approach than the counterproductive and condescending one it has adopted thus far, in which the peons who populate the country are urged to quit pestering their betters with all these impertinent questions. The Fed should take to heart the words of consolation the American people are given whenever a new government surveillance program is uncovered: if you're not doing anything wrong, you have nothing to worry about.

The superstitious reverence that Americans have been taught to have for the Federal Reserve is unworthy of the dignity of a free people. The Fed enjoys a

government-granted monopoly on the creation of legal-tender money. It is not an unreasonable imposition for Americans to demand to know about the activities of such an institution. It is common sense.

FINANCIAL SERVICES COMMITTEE REPUBLICAN PLAN FOR REFORMING THE FINANCIAL REGULATORY SYSTEM

Overarching principles:

- The Republican plan will be designed to ensure that (1) the government stops rewarding failure and picking winners and losers; (2) taxpayers are never again asked to pick up the tab for bad bets on Wall Street while some creditors and counterparties of failed firms are made whole; and (3) market discipline is restored so that financial firms will no longer expect the government to rescue them from the consequences of imprudent business decisions. The Republican plan seeks to return our regulatory system to one in which government policies do not promote moral hazard, and insolvent financial firms are permitted to fail rather than become wards of the state.

- Chairman Frank and the Obama administration have insisted that the financial crisis was caused by a lack of regulation and a failed free market philosophy, requiring government intervention on the scale of the New Deal to "re-regulate" finance. The Republican plan is premised upon a belief that it was misguided government policies to allocate credit (GSEs, CRA) and government intervention to prop up failed financial institutions that helped precipitate, and later exacerbate, the crisis, which suggests that what is needed is smarter – not more – regulation. Republicans will resist the command-and-control approach that has characterized the Obama administration's and congressional Democrats' stewardship of the economy.

- Republicans will oppose plans to empower the Federal Reserve as a new "systemic risk super-regulator," while at the same time offering solutions to modernize our outdated financial regulatory structure by consolidating agencies with overlapping missions and eliminating gaps that can be exploited by firms seeking to avoid regulatory scrutiny. Rather than massively expanding the Federal Reserve's mission and further enshrining a failed government policy of rescuing "too big to fail" institutions, Republicans support scaling back the Fed's authorities so that it can focus on conducting monetary policy and unwinding the trillions of dollars in obligations it has amassed during the financial crisis. When combined with the Obama administration's reckless "borrow-and-spend" fiscal policy, the vast expansion of the Fed's balance sheet in recent months arguably represents a far more significant source of "systemic risk" to our nation's economy than the failure of any specific financial institution.

Specific policy proposals:

1. **Resolving Large, Complex Non-bank Financial Institutions: Bankruptcy, not More Bailouts.** The guiding principle of the Republican alternative can be summed up in one sentence: no more bailouts. By putting an end to ad hoc, improvised and unprincipled bailouts designed to spare big Wall Street firms and their creditors from the consequences of their mistakes, Republicans are offering a clear alternative to the limitless and unconstrained

"bailout authority" that Democrats want to confer upon those very regulators that failed to anticipate the current crisis that almost wrecked our financial system. The Democrats want to hide the consequences of regulatory and private sector mistakes by giving regulators the authority to bail out large financial institutions, their creditors, and their counterparties, without any accountability whatsoever. Even worse, the Democrats have not yet figured out who is going to pay for this limitless bailout authority, administered by bureaucrats for the benefit of a handful of large financial institution.

Republicans also reject the Democrats' call for a government-run economy that depends upon the omniscience and omnipotence of government regulators who have shown themselves unable to anticipate crises, let alone do anything to prevent them. Republicans believe that the financial system works best when individual participants are free to keep the gains yielded by their efforts, but are forced to bear the costs of their failure. By adhering to the principle that no firm is "too big to fail," Republicans will ensure that responsibility for monitoring the stability of the financial system is placed exactly where it needs to be: with the individual market participants who have the self-interest and the expertise to monitor their exposure to the financial system, and who are in the best position to take the necessary action to protect themselves, their investors, and their creditors from the risks that are endemic to the financial system.

Rather than asking government to act as a fairy godmother who will ensure the safety of the financial system or spare participants from the consequences of their mistakes by imposing those costs on others, Republicans call for the resolution of insolvent non-bank institutions — no matter how large or systemically important — through the bankruptcy system.

The key to making bankruptcy work as an alternative is to make credible and clear the government's commitment to restructuring, re-organizing, or liquidating troubled financial institutions at the expense of their creditors and counterparties. This commitment requires a firm rejection of the current status quo, in which the decision whether to rescue a specific firm and insulate its creditors and counterparties from losses is left to the discretion of regulators accountable to no one but themselves. This commitment also requires the rejection of the possibility of *any* bailout, no matter how that bailout is described. Without this firm commitment to ending bailouts, too-big-to-fail financial institutions and those who do business with them have every incentive to pursue short term gains, knowing that the costs will ultimately be borne by others if things go wrong. By making credible the government's policy that losses will be borne by those responsible, the government makes the financial system stronger by encouraging creditors to be more vigilant in assessing the creditworthiness and business practices of the parties to whom they are extending credit. And by making clear that the government will not step in to bail out a failing institution or its creditors, the government can remove the uncertainty and confusion that roiled the markets last September when market participants could not anticipate the government's actions. Markets may be unpredictable. But the mere possibility that government may — or may not — intervene turns that unpredictability into chaos.

The relatively smooth bankruptcies of Drexel Burnham Lambert, Enron, and WorldCom demonstrate that the bankruptcy system is more than capable of resolving and liquidating large, complex institutions. The failure of Lehman Brothers last September is often cited by proponents of a new systemic risk resolution authority as an example of why bankruptcy "won't work." In truth, the shock to the markets from Lehman's collapse was the result of dashed expectations of market participants that the government would ride to Lehman's rescue just as it had in the earlier Bear Stearns and GSE episodes, **not** of any inadequacies in the bankruptcy process. Nevertheless, Republicans believe that bankruptcy **can** be made more efficient and better tailored to resolving large non-bank financial institutions. Republicans are therefore proposing a new chapter to the Bankruptcy Code to deal with the unique characteristics of financial institutions that will make "orderly failure" a practical solution for resolving troubled firms. Among other things, this new chapter will provide for better coordination between the regulators of these institutions and the bankruptcy system, so that regulators can provide technical assistance and specialized expertise about financial institutions. In addition, this new chapter will give bankruptcy judges the power to stay claims by creditors and counterparties to prevent runs on troubled institutions, thereby helping to alleviate the panic that could strike the financial system if a large institution finds itself facing difficulties.

2. **Market Stability and Capital Adequacy Board.** Rather than establishing the Federal Reserve as the "systemic risk regulator," as Chairman Frank and Secretary Geithner have previously suggested, and identifying in advance those firms that are systemically significant (i.e., "too big to fail"), the Republican plan would create a Market Stability and Capital Adequacy Board, chaired by the Secretary of the Treasury and comprised of outside experts as well as representatives from the financial regulatory agencies responsible for supervising large, complex firms. This panel would be charged with monitoring the interactions of various sectors of the financial system, and identifying risks that could endanger the stability and soundness of the system. The panel's mandate would include reviewing financial industry data collected from the appropriate functional regulators; monitoring government policies and initiatives; reviewing risk management practices within financial regulatory agencies; reviewing capital standards set by the appropriate functional regulators and making recommendations to ensure capital and leverage ratios match risks regulated entities are taking on; reviewing transparency and regulatory understanding of risk exposures in the over-the-counter derivatives markets and making recommendations regarding the appropriate clearing of trades in those markets through central counterparties; and making recommendations regarding any government or industry policies and practices that are exacerbating systemic risk. In order to address current regulatory gaps, each functional regulator would be required to assess the effects of their regulated entities' activities on macroeconomic stability and review how entities under their regulatory purview interact with entities outside their purview. This panel would not have independent enforcement or supervisory authority over individual firms, but would instead meet on at least a quarterly basis and periodically report its findings to Congress and the relevant functional regulators (the cops on the beat) so that policymakers and regulators could act upon them to contain risks posed by specific firms, industry practices, activities and interactions of entities under different regulatory regimes, or government policies.

3. **Consumer Protection and Regulatory Restructuring.** To modernize the financial regulatory structure, the Republican plan would streamline the current framework of overlapping and redundant Federal financial regulatory agencies by centralizing supervision of deposit-taking entities in one agency while preserving charter choice (e.g., credit unions and State charters) as well as the dual banking system (the regulator would have two divisions -- one would oversee federally chartered banks and thrifts, and one would serve as the primary federal regulator of state-chartered, state-supervised banks). The Republican plan would immediately combine the OCC and OTS into one agency and shift the supervisory functions of the Federal Reserve and FDIC to that agency, including responsibility for overseeing bank and financial holding companies. The plan establishes an Office of Consumer Protection within the new agency to streamline in one place responsibility for rule promulgating and enforcing the Federal consumer protection laws applicable to depository institutions, eliminating the confusion created by the existence of five different Federal regulatory agencies which currently share consumer protection responsibilities. Consumer protection rules will be reviewed and updated regularly with rule promulgation consisting of extensive consumer testing. In addition, Republicans will provide the Office of Consumer Protection with the authority to redesign and improve consumer disclosures so that they are transparent to all interested parties and written in plain language to enhance understanding by all consumers and investors.

   Republicans will simplify and streamline the complaint process for consumers and investors who believe they have been wronged by abusive industry practices, by establishing a single, toll-free number and website – to be administered by the Office of Consumer Protection – to field consumer inquiries and direct them to the appropriate regulatory or enforcement agency.

   The Republican plan ensures that institutions engaged in similar activities and serving similar functions will be regulated similarly, limiting the potential for competitive distortions and a "race to the bottom" among firms seeking the most lenient regulatory treatment. It promotes simplicity and consistent enforcement. It guarantees accountability and transparency. And it enables the Federal Reserve and the FDIC to concentrate on their most important responsibilities: formulating monetary policy and protecting the deposit insurance fund, respectively.

4. **Fundamental Reform of the Federal Reserve.** The extraordinary market interventions conducted by the Federal Reserve since the onset of the financial crisis have added trillions of dollars to the government's balance sheet and taken it far afield from its core mission of conducting the nation's monetary policy. The Republican plan would re-focus the Fed on its monetary policy mandate by relieving it of current regulatory and supervisory responsibilities, reassigning them to other agencies. Reallocating these duties will eliminate the Fed's current incentive to prop up the economy through an accommodative monetary policy to prevent firms under its regulatory purview from failing. The Republican plan would make the Federal Reserve more transparent and accountable to taxpayers by enabling the Government Accountability Office to conduct more extensive audits of the central bank.

In addition, to send clear signals to markets, the plan would require the Fed to have an explicit inflation target, and would narrow the Fed's authority under section 13(3) of the Federal Reserve Act, which currently provides the Fed with nearly unlimited powers during periods the Board of Governors deems "unusual and exigent," as follows: (1) require the Secretary of the Treasury to officially sign off on all actions taken by the Federal Reserve pursuant to section 13(3); (2) allow Congress to block any Federal Reserve action undertaken pursuant to its section 13(3) authority within 90 days of such action by passing a congressional resolution of disapproval, in which case the Fed would have 90 additional days to unwind the relevant facility; (3) place all expenditures to date pursuant to section 13(3), and those taken in the future, on Treasury's balance sheet; and (4) eliminate the Federal Reserve's ability to use its 13(3) authority to intervene on behalf of a specific institution, allowing the powers to only be used to create liquidity facilities that would be broadly available to a market sector.

5. **GSE Reform.** Fannie Mae and Freddie Mac's government-subsidized model has cost taxpayers tens of billions of dollars. The Republican plan would phase out taxpayer subsidies of Fannie Mae and Freddie Mac over a number of years and end the current model of privatized profits and socialized losses. Republicans would sunset the current GSE conservatorship by a date certain, placing Fannie and Freddie in receivership if they are not financially viable at that time. If they are viable, once the housing market has stabilized, the plan would initiate the process of cutting their ties to the government by winding down the federal subsidies granted through their charters and transitioning Fannie and Freddie into non-government backed entities that compete on a level playing field with other private firms. In making reforms, Republicans will address reducing Fannie and Freddie's portfolios, re-focusing Fannie and Freddie on promoting housing affordability, and requiring SEC registration and the payment of taxes.

6. **Credit Rating Agency Reform.** To restore market discipline and promote greater investor due diligence, the Republican plan will discourage blind reliance on ratings supplied by the major credit rating agencies that has had such disastrous consequences for investors and the economy as a whole. For too long, the government has adopted policies that bestowed a "Good Housekeeping" seal of approval on the rating agencies and their products, which perpetuated a rating agency duopoly that contributed significantly to a mispricing of risk and a subsequent collapse in market confidence. Designating certain agencies as Nationally Recognized Statistical Rating Organizations (NRSROs) and hard-wiring references to their ratings into numerous Federal statutes and regulations are the two most egregious examples of this implied government blessing. The Republican plan will address these market distortions by changing the NRSRO designation to "nationally *registered* statistical rating organizations" and removing all references to ratings throughout Federal law and regulation. These changes will promote greater competition among rating agencies and less reliance on their ratings among investors. To further mitigate over-reliance on third-party credit analysis, functional regulators should be required to more thoroughly examine governance, risk management and enterprise management policies and procedures.

7. **Strengthening Anti-Fraud Enforcement.** To restore investor and consumer confidence and better protect financial markets, the Republican plan will enhance the ability of the financial regulatory agencies to enforce Federal consumer protection and securities laws. Regulators need more tools in their arsenal to proceed administratively and judicially against alleged violators. Republicans will propose reforms to increase civil money penalties in government enforcement actions; maximize restitution to victims of fraud; improve surveillance of bad actors who exploit gaps in the current regulatory regime to continue preying upon innocent consumers; and reauthorize the Financial Crimes Enforcement Network (FinCEN), authorizing an additional $15 million to combat financial fraud.

.....

(Original Signature of Member)

111TH CONGRESS
1ST SESSION

H. R. 3310

To reform the financial regulatory system of the United States, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. BACHUS introduced the following bill; which was referred to the Committee on _____

A BILL

To reform the financial regulatory system of the United States, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "Consumer Protection
5 and Regulatory Enhancement Act".

6 **SEC. 2. TABLE OF CONTENTS.**

Sec. 1. Short title.
Sec. 2. Table of contents.

TITLE I—RESOLUTION OF NON-BANK FINANCIAL INSTITUTIONS

Sec. 101. Amendments to title 28 of the United States Code.

1 "(b) MARKET STABILITY AND LIQUIDITY.—Sub-
2 section (a) shall not be construed as a limitation on the
3 authority or responsibility of the Board—
4 "(1) to provide liquidity to markets in the event
5 of a disruption that threatens the smooth func-
6 tioning and stability of the financial sector; or
7 "(2) to serve as a lender of last resort under
8 this Act when the Board determines such action is
9 necessary.".
10 **SEC. 403. REFORMS OF SECTION 13 EMERGENCY POWERS.**
11 (a) RESTRICTIONS ON EMERGENCY POWERS.—The
12 third undesignated paragraph of section 13 of the Federal
13 Reserve Act is amended—
14 (1) by striking "In unusual and exigent" and
15 inserting the following:
16 "(3) EMERGENCY AUTHORITY.—
17 "(A) IN GENERAL.—In unusual and exi-
18 gent"; and
19 (2) by adding at the end the following new sub-
20 paragraph:
21 "(B) REQUIREMENT FOR BROAD AVAIL-
22 ABILITY OF DISCOUNTS.—Subject to the limita-
23 tions provided under subparagraph (A), any au-
24 thorization made pursuant to the authority pro-
25 vided under subparagraph (A) shall require dis-

1 counts to be made broadly available to individ-
2 uals, partnerships, and corporations within the
3 market sector for which such authorization is
4 being made.
5 "(C) TRANSPARENCY AND OVERSIGHT.—
6 "(i) SECRETARY OF THE TREASURY
7 APPROVAL REQUIRED; NOTICE TO THE
8 CONGRESS.—No authorization may be
9 made pursuant to the authority provided
10 under subparagraph (A) unless—
11 "(I) such authorization is first
12 approved by the Secretary of the
13 Treasury; and
14 "(II) the Secretary of the Treas-
15 ury issues a notice to the Congress
16 detailing what authorization the Sec-
17 retary has approved.
18 "(ii) PROGRAMS MOVED ON-BUDGET
19 AFTER 90 DAYS.—On and after the date
20 that is 90 days after the date on which any
21 authorization is made pursuant to the au-
22 thority provided under subparagraph (A),
23 all receipts and disbursements resulting
24 from such authorization shall be counted

1 as new budget authority, outlays, receipts,
2 or deficit or surplus for purposes of—
3 "(I) the budget of the United
4 States Government as submitted by
5 the President;
6 "(II) the congressional budget;
7 and
8 "(III) the Balanced Budget and
9 Emergency Deficit Control Act of
10 1985.
11 "(D) JOINT RESOLUTION OF DIS-
12 APPROVAL.—
13 "(i) IN GENERAL.—With respect to an
14 authorization made pursuant to the au-
15 thority provided under subparagraph (A),
16 if, during the 90-day period beginning on
17 the date the Congress receives a notice de-
18 scribed under subparagraph (C)(i)(II) with
19 respect to such authorization, there is en-
20 acted into law a joint resolution dis-
21 approving such authorization, any action
22 taken under such authorization must be
23 discontinued and unwound not later than
24 the end of the 180-day period beginning on
25 the date that such authorization was made.

Scott Alvarez subsequently submitted the following in response to written questions received from Congressman Foster in connection with the September 25, 2009, hearing before the House Financial Services Committee:

1. Please describe in detail the Federal Reserve's policy with respect to archiving official e-mails. Are 100% of them kept? If not, why? Are some destroyed and, if so, why?

The recordkeeping policies of the Board, the Records Policy and Procedures Manual of the Board of Governors of the Federal Reserve System, was prepared in compliance with requirements issued by the National Archives and Records Administration (NARA) and requires Board staff to preserve official e-mail records. The Manual provides that the transient nature of "the e-mail format has no bearing on whether or not the message is a record; rather, that determination will depend on the content and use of the message, which should be evaluated by the same criteria as other documents that are created or received in an office. As is the case with other records, the creator of the message decides whether it is a record in the originating office; the recipient must decide if the message is a record in the receiving office." Generally, employees comply with this policy by either printing and filing copies of electronic records or archiving these records electronically.

The Board is currently implementing a comprehensive e-mail management system that will allow staff to maintain all official e-mail electronically in a manner that meets NARA's requirements for electronic recordkeeping and thereby generally eliminate the need for Board staff to print official e-mail records and file them in paper. As part of this effort, the Board will provide its employees with additional instruction and training on how to identify and retain official e-mail records.

Our policy for retention of official records does not depend on whether the record is in electronic, paper, or some other form. Rather, the length of retention depends on the subject matter and informational value of the record. The retention periods are set forth in record retention schedules that must be approved by NARA. Retention schedules specify the retention period for "series" or categories of records. The attached Records Manual includes the Board's record retention schedules.

In addition to the routine recordkeeping procedures described above, the Board may impose special requirements if the Board receives a request for information, such as a Freedom of Information Act request, a document request in litigation, or a congressional inquiry. In these situations, staff may be required to: (1) identify and produce responsive information, and (2) reserve the responsive information beyond the normal record retention period. The Board's Legal Division works with staff members to determine the documents that are covered by a particular request. Legal Division staff also may issue "holds" on documents related to certain requests. The hold advises staff who have provided documents or who may have responsive information to continue to maintain the information pending further instruction. Once a hold is in place, staff may not alter, destroy, or otherwise dispose of any information subject to the hold, whether in hard copy or electronic form, including e-mails, unless and until the Legal Division removes the hold.

2. In addition to official e-mails, I am also interested in what policy, if any, the Fed has with respect to unofficial e-mails from Fed staff on personal accounts. Does the Fed, in fact, have an official policy with respect to personal e-mails? If so, what is it? Are these e-mails kept and archived. If not, why not? Please explain.

The Board permits incidental personal use of its IT resources. Thus, staff may send and receive personal e-mails using their Board e-mail account so long as this use is not significant, does not inhibit or interfere with the completion of Board business, and does not violate any other Board policy. These personal e-mails do not need to be retained as they are not official Board records. In addition, staff may access personal e-mail accounts from their Board-issued PCs. However, for information security reasons, this access requires staff to log onto a separate, secure server that is configured in a manner that does not allow staff to attach documents to an e-mail sent from a personal e-mail account.

BOARD OF GOVERNORS OF THE

FEDERAL RESERVE SYSTEM

Records Policy and Procedures Manual

Definition of Board Records

- Definition
- Applying the Definition to Board Documents
- Documents That Are Records
- Documents That Are Not Records
- Special Categories

Records Procedures at the Board

- Responsibilities
- Location of Records
- Records Inventory
- Retention Periods
- Handling Records
- Security Controls
- Retrieval of Records
- Disposition of Records

Definition

The Board's definition of "records," which is based on the definition in the Federal Records Act (in Title 44 of the U. S. Code, Section 3301), follows:

Records include all books, papers, maps, photographs, machine readable materials, or other documentary materials, regardless of physical form or characteristics, made or received by the Board or a Reserve Bank in connection with the transaction of Board business and preserved or appropriate for preservation by the Board or its legitimate successor as evidence of the Board's organization, functions, policies, decisions, procedures, operations or other activities or because of the informational value of data in them.

There are several important features of this definition.

- First, in order to be a record, a document must be made or received by the Board or a Reserve Bank in connection with the transaction of Board business.
- Second, the document also must provide evidence of the activities of the Board or contain data of informational value.
- Third, record status is determined by a document's content and use, and a record can be in any format or medium. In addition to paper documents, therefore, databases and electronic mail messages are records if they contain information that meets the definition.[1]
- Fourth, a document may be a record even if it is not covered by an existing filing system.

The definition of records contained in this manual determines which types of documents must be retained and, when necessary, which documents must be created under the Federal Records Act and NARA regulations. Documents that are not records under this definition may nevertheless be subject to judicial and Congressional subpoenas.

Applying the Definition to Board Documents

Guidance in this manual for applying the definition of records to Board documents is based on regulations and handbooks prepared by NARA, on analysis by a Board interdivisional task force of the types of documents that are received by or produced at the Board, and on the results of detailed surveys of the files in each division that were conducted by the Office of the Secretary. Staff members who are not sure whether a document is a record should contact the person responsible for records matters in their division who, if necessary, will consult with the Office of the Secretary. The Secretary of the Board is the official custodian of Board records[2] - wherever they are located - and also has the ultimate responsibility for interpreting the definition of a record.

Some categories of documents - reports of examination, for example, and orders issued by the Board - clearly fit the definition of Board records. Other categories-such as library material kept for reference-do not fit the definition.[3] Between these extremes, however, are materials that may or may not constitute records. Staff members are expected to use their judgment in deciding whether a document is a record, based on the content and use of the material. Frequently encountered examples of categories of documents and their record status are discussed in the next three sections.

Documents that are Records

Correspondence and Memoranda

Correspondence that deals with policies of the Board, with interpretations, and with matters acted on by the Board or under delegated authority, are records. Memoranda that are distributed to Board members in connection with Board business are records. Memoranda between agencies, and final versions of interoffice and intra-office memoranda that concern Board business are records.

Supporting Documents from System Committees

Board staff members sometimes attend meetings of Federal Reserve System committees, subcommittees, and task forces. Attendance by Board staff does not automatically mean that documents associated with such meetings are Board records. Documents supporting decisions of such groups are records, however, if the Board eventually will approve or disapprove the decision of such a group, or if the group is performing some function on behalf of or at the request of the Board.

Documentation of Conversations

NARA regulations require documentation of oral exchanges, such as discussions in meetings and telephone conversations, during which policy is formulated or significant decisions and commitments are made. Thus, for example, the content of a meeting with an outside party in which advice is given concerning whether a proposed action by the outside party is consistent with a cease and desist order must be documented, and that documentation is a record. The documentation may take any form, and it must be filed with other documents in the appropriate record series.[4] Informal staff meetings that ultimately result in the preparation of written documents that reflect conversations, such as "Greenbook meetings" or drafting sessions to prepare a regulation, do not require further documentation.

Tracking Systems

Tracking systems, such as correspondence logs (e.g., CCS), and assignment lists that relate to documents that are records, are records.

Administrative Documents

Documents that relate to the administrative functions of the Board, such as personnel, payroll, procurement, budget preparation, space and maintenance, travel, and transportation are records. NARA issues General Records Schedules that contain lists of such records that are common to most agencies. Current copies of the General Records Schedules are available in the Records Section of the Office of the Secretary and are available in each division in electronic and paper versions.

Documents that are not Records[5]

Personal Papers

Personal papers are documentary materials of a private character that do not relate to, or have an effect upon, the conduct of Board business; they are not records. The following are examples of personal papers:

- Materials that were accumulated by an employee before joining the Board staff and that are not used subsequently in the transaction of Board business
- Materials that relate solely to an individual's private affairs and not to Board business
- Diaries, journals, desk calendars, personal correspondence, or other personal notes that are not prepared or used for, or circulated or communicated in the course of, transacting Board business

Personal Notes

Notes prepared by a staff member for his or her own use in working on a project are not records, provided that they are not shared with others.

Library Material and Extra Copies

Library and museum material made or acquired and preserved solely for reference or exhibition purposes, current or superseded manuals maintained outside the office responsible for maintaining the record set, and stocks of publications and processed documents are not records. Likewise, extra copies of documents preserved only for convenience of reference are not records. Thus, for example, duplicate file copies or tickler-system copies of correspondence or other documents are not themselves records. If multiple copies of a document serve separate agency purposes, however, the copies are records.[6]

Other Nonrecords

Other types of documents identified by NARA as nonrecords are as follows:

- Information copies of correspondence, directives, forms, and other documents on which no administrative action is recorded or taken

- Routing slips and transmittal sheets if their contents are also contained in the transmitted material

- Catalogs, trade journals, and other publications that are received from other government agencies, commercial firms, or private institutions, and that require no action and are not part of a case on which action is taken

- Physical exhibits, artifacts, and other material objects lacking evidential value

- Supplies of blank forms

Special Categories

Drafts

Most drafts are not records. Early drafts of memoranda that are circulated within a section or a division or among divisions will ordinarily not be records even if final documents fit the definition of a record and even if there is no further development of the memorandum. Stylistic and grammatical annotations do not cause a draft to become a record.

In limited circumstances, however, the content and use of a draft will make it a record. NARA regulations include drafts as records if -

a. they were circulated or made available to employees other than the creator for official purposes such as approval, comment, action, recommendation, follow-up, or communication with Board staff about Board business; *and*

b. they contain unique substantive information, such as annotations or comments, that is not incorporated into or addressed in a final document and that adds to a proper understanding of the agency's formulation and execution of basic policies, decisions, actions, or responsibilities.

E-Mail

The record status of electronic mail messages has been the subject of litigation; as a result, NARA has issued guidance for managing e-mail messages. The e-mail format has no bearing on whether or not the message is a record; rather, that determination will depend on the content and use of the message, which should be evaluated by the same criteria as other documents that are created or received in an office. As is the case with other records, the creator of the message decides whether it is a record in the originating office; the recipient must decide if the message is a record in the receiving office. A document may be a record in more than one office. See Procedures for handling record-content electronic mail .

Faxes

Like e-mail, facsimile transmission is a format. The content and use of the information in the fax needs to be evaluated to determine its record status. Staff members also must determine if the transmission cover sheet for a record-content outgoing fax needs to be filed with the fax message to document the date, time, and person to whom the fax was sent. For incoming faxes, recipients should determine the record status and file the faxes with related materials.[7] Record-content faxes should not merely be filed under the heading "faxes."

Responsibilities

Head of Agency

The Federal Records Act requires the heads of federal agencies to create and preserve records concerning the operations of their agencies and to establish records management programs. The head of the agency also must establish safeguards against removal or destruction of records except in accordance with a disposition schedule approved by NARA.

Secretary of the Board

The Secretary of the Board is responsible for the Board records management program at the Board, and, in that capacity, is the official liaison with NARA. The Secretary also provides written guidance and other assistance to Board staff so that they may correctly identify and file Board records. The Secretary, furthermore, must have access to all Board records and is responsible for approving all arrangements made for them, whether they are located in Central Records in the Office of the Secretary, in other divisions, [8]or at Reserve Banks.

Division Directors

Division directors are responsible for ensuring compliance with the Board's records management program in their divisions and for designating a point of contact for records matters with the Office of the Secretary.

Division directors must develop and maintain a written plan for ensuring compliance with the Board's records management program for records produced or received by the division. The Office of the Secretary will provide guidance for the development of the division's plan and a schedule for periodic review and update of the plan. The plan should establish the procedures necessary for division members to perform the activities described in HANDLING RECORDS.

Staff Members

The staff person who creates a document is responsible for determining whether it is a record. Whether or not a document is a record for the creator, however, it may be a record where it is received, and the recipient is responsible for making that determination. For documents received from outside the Board, the recipient with substantive responsibility for the document must determine whether it is a record. The person with primary responsibility for a record in each division must ensure that it is properly processed and sent to the appropriate storage location, taking account of any security restrictions.

If two or more divisions share in the creation of a record, or receive material from outside the Board that is designated as a record, the divisions must collectively decide which will

have primary responsibility for processing and filing the record. In some cases, documents or material may be records in each division.

When the Office of the Secretary is involved in the distribution of a record to the Board, that Office is responsible for ensuring that the record copy is sent to the proper location for filing.

Questions concerning the record status of a document or other interpretations of these procedures will be settled by the Office of the Secretary.

Location of Records

Some records are kept in the Office of the Secretary, some are kept in other divisions, and some are kept in Reserve Banks.[2] Records that are kept outside the Office of the Secretary must be retrievable for use by that Office (subject to appropriate security controls, as discussed in SECURITY CONTROLS). Procedures for providing access to records by the Office of the Secretary may be determined by each division, but the procedures must be deemed appropriate by Central Records and must permit expeditious access.

Records Inventory

Board records, whether located in Central Records, in the divisions, or at Reserve Banks, must be inventoried for use in the Board's comprehensive records management program. In general, a records inventory is a descriptive list of each record series or information system,[10] with an indication of the location of the series or system. Electronic records, such as databases, are subject to separate inventory requirements, which are discussed under HANDLING ELECTRONIC RECORDS.

The Records Management Specialist from the Office of the Secretary will survey files in each division and prepare an inventory to help division staff identify Board records that pertain to the division's responsibilities. The specialist will also help each division update series descriptions and schedules for the retention and disposition of records.

Retention Periods

NARA's regulations state that records must have retention and disposition schedules; must be retained for the length of time specified on the schedule; and must be transferred to the National Archives or destroyed when the retention period expires, unless NARA approves an extension. Retention periods begin when the files are no longer needed for current business. Retention periods are not applied to records in continual or frequent use until the records become inactive, even if the records are in use for long periods of time.

Except for records listed on the General Records Schedules,[11] each record series is subject to a retention period that is suggested by the agency and approved by NARA. NARA defines records as either permanent or temporary. A permanent record may be retained at the Board for a fixed period of time, to be specified on the retention and disposition schedule, but must be transferred to NARA after that time.[12] A temporary record must be destroyed at the expiration of the retention period approved by NARA, or any extension thereof. The Board has five standard retention periods for temporary records - one month, two years, five years, fifteen years and thirty years.[13]

Divisions must propose a retention period for each record series in the division's inventory, which is reviewed by other interested divisions and the Office of the Secretary, and submitted to NARA for approval. The retention period for a record should be determined by estimating the length of time the staff is reasonably likely to need to refer to or use that record after it is no longer used for regular or current business.

If records are needed to support ongoing litigation, audits, or other investigations at the time their authorized retention period expires, the records must be retained until the case is resolved. In all other circumstances when records are needed to conduct Board business after expiration of the approved retention period, divisions should notify the Office of the Secretary, which will request an extension of the retention period from NARA.

Handling Records

Paper Records

In addition to meeting statutory and regulatory requirements, records must be filed in a way that makes them easily retrievable and available to staff members who need to use them to conduct Board business. Information on record filing requirements is contained in this section of the manual, which will be supplemented as the need arises.

a. **Division responsibilities:**

1. Establish official file locations and designate a files custodian (person responsible for maintaining the integrity of the file).
2. Create filing systems and location registers.
3. Track circulation of records maintained by the division to avoid loss or inadvertent destruction.
4. Appoint a liaison to the Records Management staff in the Office of the Secretary (if practical, may be the files custodian).

b. **Liaison responsibilities:**

1. Work with the Records Management staff to create series descriptions and retention schedules for division files.
2. Maintain and update filing system and location registers for all official records maintained in the division, and send copies to Central Records.
3. Ensure that records sent to Central Records for scanning are marked on a cover sheet for each separate document or set of documents with the appropriate records series, retention period, and any additional information needed for retrieval by the division.

c. **Files custodian responsibilities:**

1. Ensure that all file folders are labeled with record series, dates, and cut off instructions.

2. Ensure that nonrecord material is not filed in the same folders with records.

3. Ensure that documents are marked with sufficient information to permit accurate filing and easy retrieval.

d. **Individual staff responsibilities:**

1. Review files when projects are completed to remove extraneous material, and organize records remaining in the file in a logical sequence.

2. Mark the records with sufficient information to ensure that they are filed in the correct location.

3. Forward files to the person responsible for processing and filing.

4. Forward all records related to a particular project, activity, or assignment at the same time.

Exceptions:
(a) bank and bank holding company application records may be forwarded to Central Records as they are received.

(b) for projects with voluminous files, or those lasting a year or more, prepare records for filing and forward them at appropriate intervals, with an indication that more material will follow.

Electronic Records

NARA has adopted specific definitions and procedures for handling electronic records, which are described in Managing Electronic Records, a NARA publication available through the Office of the Secretary. In summary, electronic records may include data files and databases, machine readable indexes, word processing files, electronic spreadsheets, and electronic mail messages, as well as other text or numeric information.

All components of a record-content electronic information system are records, including input or source documents, information stored on electronic media, output records, and related documentation. Divisions must, therefore, do the following:

1. Create adequate and up-to-date documentation for each information system.

2. Work with the Records Management Specialist or Analyst to create a complete and accurate inventory of every electronic record keeping system in the division.

3. Notify the Records Management Specialist or Analyst when new systems are developed so that they can be added to the division's inventory of files.

4. Apply the General Records Schedules to systems as appropriate.

5. Ensure that electronic systems not covered by the General Records Schedules are not destroyed until the Board receives approval from NARA to dispose of the records.

6. Ensure that appropriate staff members have access to all electronic indexes and records needed to carry out the Board's business through, for example, networks and shared drives.

7. Take adequate security measures, through passwords or other access restrictions, and backup or recovery procedures, to ensure that electronic records are not subject to improper alteration or deletion.

Electronic Mail

A sender of a record-content electronic mail message must include a subject on the message, and ensure that the names of all addressees are included with the message. Addressing a record-content message to "mailing list A," for example, would not be adequate for records maintenance purposes, unless the individual names on the mailing list were maintained. Return receipts are not required for record-content electronic mail messages unless they would be required for a similar paper document. If, in the judgment of the sender, it is necessary to confirm when an addressee received a record-content message, a return receipt must be created and saved with the message.

Record-content messages may not be deleted until they have been appropriately filed. The message, with the information listed above, should be filed in a manner that permits it to be connected with the other documents that are a part of the appropriate record series. Usually this will require converting the message to paper.

Security Controls

All the Board's security control procedures (see the Information Security Policy in the Board's Internal Administrative Procedures Manual and those portions of the Automation Security Policy and Procedures Manual that concern records) must be followed in connection with Board records, wherever they are located.

The Secretary of the Board is responsible for ensuring that applicable access restrictions are observed for all records in Central Records.

Retrieval of Records

To retrieve records located in the Central Records section, contact the Central Records staff.

To retrieve records located outside the Central Records section in the Office of the Secretary, directly contact the person holding the records.

To retrieve records for which the requester does not know the location, contact the staff of the Central Records section. If the records are stored in another division, the Central Records staff will arrange for retrieval through the appropriate person in the division holding the records.

Footnotes

- Throughout this manual, any or all of these materials will be referred to as "documents."

1. With respect to record-content electronic mail, all parts of the message, including the list of addressees, are a part of the record, and must be maintained and managed according to the Board's record management procedures.

2. Federal Open Market Committee records are stored in Central Records in the Office of the Secretary, but are distinct from Board records. The FOMC Secretariat controls access to such records.

3. Illustrative lists of documents that are and are not records appear later in this manual. Attached schedules identify categories of records used in the divisions and provide instruction for their retention and disposition.

4. NARA uses the term "record series" to describe a group of records arranged according to a filing system or kept together because they relate to a particular subject or function, result from the same activity, document a specific kind of transaction, take a particular physical form, or have some other relationship arising out of their creation, receipt, or use, such as restrictions on access and use. A group of contract files in a procurement office, for example, would constitute one series. Other series in that office might include general correspondence, and procurement reports.

5. As noted earlier, documents that are not records may still be subject to subpoenas.

6. A contract for repair of the roof of the Eccles building, for example, would be a building maintenance record. If there were a lawsuit arising from the contract, the contract would also be included as part of the litigation record.

7. NARA regulations require that record-content faxes that are printed on thermal paper be copied to plain paper before filing.

8. "Division" includes offices.

9. Records for which an approved retention schedule exists may also be kept at the Washington National Records Center, a federal facility to which the Board sends records via the Office of the Secretary.

10. NARA defines an "information system" as the organized collection, processing, transmission, and dissemination of information according to defined procedures, whether automated or manual. It is also called "record system" or simply a "system." The term is most often used in relation to electronic records and

includes input or source documents, records on electronic media, and output records.

11. Retention periods for such records are determined by NARA.

12. If the Board certifies to NARA that permanent records must be retained at the Board to conduct its regular current business, the records may be retained at the Board.

13. If circumstances concerning the record series justify a non-standard retention period, the division should discuss the recommended deviation with the Office of the Secretary.

14. Willful unauthorized destruction or removal of records is a crime punishable by a fine or imprisonment.

Board Records Retention and Disposition Schedule

N1-82-02-03 Executive Function Approved by NARA: 01-29-2003

EXECUTIVE FUNCTION

The Board, as executive, is supported by several functions: corporate secretary; Congressional liaison; public affairs; and legal advisory. The activities of the Secretary, as reflected in the records on this schedule, include ensuring that Board meetings are conducted in accordance with applicable law and Board precedent, and that the Board's deliberations and actions are accurately recorded in minutes or otherwise. The Secretary also maintains the integrity of Board records, publishes supervisory manuals, and provides administrative support for meetings, conferences, and visits by foreign officials. The Congressional liaison maintains effective communication between the Board and Congress. Public Affairs provides the public with information concerning Federal Reserve actions and decisions and increases the public's understanding of the Federal Reserve System's functions, responsibilities, and policy goals. The legal staff provides legal analysis and counsel in support of Board statutory and regulatory responsibilities.

1. Minutes of Board Meetings.

The files include minutes of Board meetings, agendas, and records of notation voting. Minutes from 1914-1966 were transferred to NARA in 1997 as an accretion to NARA job number NN-374-166. The official version of the minutes, signed by the Secretary, is maintained in paper. An unsigned electronic version of the minutes is available from October 1985. Official records of notation voting are incorporated into the paper minutes.

a. One record set, signed by the Secretary.

DISPOSITION: Permanent.

Cut off files annually. Transfer to NARA with related indexes in five-year blocks when the most recent records are thirty years old.

b. Electronic database, not signed by the Secretary.

DISPOSITION: Temporary.

Delete when no longer needed for reference.

2. Tape recordings of Board meetings, prepared as required by the Government in the Sunshine Act or otherwise.

DISPOSITION: Temporary.

Cut off files at the end of the year in which the tape recordings were made. Destroy two years after cutoff, or one year after the conclusion of any Board proceeding with respect to which the meeting or portion was held, whichever occurs later.

3. Board Packages.

Board packages consist of the documentation presented to the Board to be considered or voted upon by the Board. The documents include, but are not limited to, agendas, discount rate memoranda, proposed and final orders, staff recommendations (action memoranda), correspondence (draft and final), Congressional reports and draft testimony, enforcement orders, and Board policies (draft and final). Prior to 1997, Board packages were separated and the documents were filed in the central decimal file (Subject File) under the subject matter addressed in the document. Beginning in 1997, the documents contained in each Board package are filed as a unit.

a. 1997—present.

DISPOSITION: Permanent.

Cut off files annually. Transfer to NARA in five-year blocks when the most recent records are 30 years old.

b. 1955—1996. See item 4.

4. Central File.

The Board maintained a central subject file, arranged by a **decimal file** plan, from 1914 through 1988. Records dating from 1914-1954, deemed by NARA to be permanently valuable, were transferred to NARA, via NARA Job No. NN-374-166, in 1976. From 1989-1995, records from the central file were **scanned** into an imaging system. The images are accessible by full-text search. The paper is stored off-site in chronological order. The contents of the central file include program and administrative records in the form of correspondence, memoranda, reports, statistical releases, press releases, and testimony and speeches of governors and division directors. Records created after 1996 will be disposed of according to the appropriate functional schedule.

a. Files related to Board actions on program matters.

DISPOSITION: Permanent.

Transfer to NARA in ten-year blocks, with related finding aids, when the most recent records are thirty years old.

b. Administrative Files.

DISPOSITION: Temporary

Retain at least ten years, then destroy when no longer needed for legal,

administrative, or reference use.

5. Board Policy Statements

The Board issues **policy statements** to the Reserve Banks in the form of "S" letters. The S letters address all aspects of Reserve Bank operations.

a. One record copy

DISPOSITION: Permanent.

Cut off files annually. Transfer to NARA thirty years after cutoff.

b. All other copies.

DISPOSITION: Temporary.

Destroy when superseded or rescinded.

6. Notices of Policy Changes.

Administrative policies relating to Board operations are issued in the Internal Administrative Procedures Manual (See item 10). Board employees receive standardized notices of policy changes or reminders to implement policies through electronic mail messages or web page notices.

a. One record copy

DISPOSITION: Temporary.

Cut off files annually. Retain at least two years after cutoff, then destroy when no longer needed for administrative or reference purposes.

b. All other copies

DISPOSITION: Temporary.

Destroy when no longer needed for reference.

7. Annual Report

The report discusses operations of the Board during the year, monetary policy and economic developments, federal legislative developments, the record of policy actions by the Board, and minutes of the Federal Open Market Committee, financial statements of the Board, combined financial statements of the Reserve Banks, developments in services provided by the Reserve Banks, priced-services financial statements, directories of Federal Reserve officials and advisory committees, statistical tables, and maps of the System's District and Branch boundaries. The report is compiled from submissions from all Board divisions.

a. One record copy.

DISPOSITION: Permanent.

Transfer to NARA in ten-year blocks when the most recent record is thirty years old.

b. Annual report background records. Interim reports prepared by each division.

DISPOSITON: Temporary.

Cut off annually. Retain at least 1 year, then destroy when no longer needed for administrative or reference use.

8. Budget Reports

Final reports produced by the FRB budget office during the agency's budget process such as the **Official Budget Book, Programs and Objectives,** and the **Annual Report: Budget Review (ARBR).** These reports document the official consolidated budget approved by the Board of Governors, including Board divisions' goals, objectives, and budgetary allocations. ARBR, which is also submitted to Congress, describes the budgeting process for the Board and the Reserve Banks, shows trends in expenses and employment, and may include special analysis of new legislation. Other related budget records are covered under Chapter 5 of NARA's General Records Schedule

a. One record copy.

DISPOSITION: Permanent.

Cut off after completion of the budget cycle. Transfer to NARA in ten-year blocks when most recent record is thirty years old.

b. All other copies

DISPOSITION: Temporary.

Destroy when no longer needed for administrative or reference purposes.

9. Federal Reserve Regulatory Service Files

The Federal Reserve Regulatory Service (FRRS) is issued by the Board and includes all current Board regulations and existing interpretations. FRRS is reviewed and edited monthly. The records consist of the final version and work papers such as memoranda, manuscripts, Federal Register notices, press releases, and interagency policy documents from the Federal Financial Institutions Examination Council.

DISPOSITION: Temporary.

a. Final issuance. Retain **one complete record set** for at least 10 years, then destroy when no longer needed for administrative or reference purposes.

b. All other copies. Destroy when no longer needed for administrative or reference

purposes.

c. Work papers. Cut off files annually. Retain at least 5 years, then destroy when no longer needed for administrative or reference purposes.

10. Administrative Manuals and Handbooks.

Manuals and handbooks provide guidelines, procedures, or policy statements concerning program operations and administrative procedures, and on the creation, distribution, and maintenance of records. The records include the Federal Reserve Administrative Manual, the Internal Administrative Procedures Manual, and the Records Policy and Procedures Manual. The files also include background information assembled to update the manual and final versions of new or reissued manuals.

DISPOSITION: Temporary.

a. Final version.

Retain **one record copy** for at least ten years after the manual is revised, then destroy when no longer needed for administrative or reference purposes.

b. All other copies.

Destroy when no longer needed for administrative or reference purposes.

c. Background and working files.

Cut off files at the end of the calendar year in which the manual is updated. Retain at least five years, then destroy when no longer needed for administrative or reference purposes.

11. Assignment Lists and Calendars

Documents published by the Board include **Board member assignments**, indicating the committees each Board member oversees; the **anticipated attendance** list, updated weekly, of Board members over a four-week period; and the **calendar of events**, updated monthly, listing of all events at the Board throughout the year.

a. Board Member Assignments.

DISPOSITION: Permanent.

Cut off files annually. Transfer to NARA in ten-year blocks when the most recent records are thirty years old.

b. Anticipated Attendance and Calendar of Events.

DISPOSITION: Temporary.

Cut off files annually. Retain at least two years, then destroy when no longer needed for administrative or reference purposes.

12. Telephone Logs

Telephone logs are maintained for calls to Governors and may be maintained for other officials. The records contain the name, telephone number, and organizational affiliation (if any) of the caller.

DISPOSITION: Temporary.

Cut off files quarterly. Retain three months, then destroy when no longer needed for administrative or reference purposes.

13. Correspondence

The **Chairman, Vice Chairman, and other Governors** create and receive official correspondence, which is exchanged with the White House, Congress, other federal agencies, foreign financial institutions, and professional groups. Occasionally the Chairman will sign copies of **form letters** sent to people who have commented on regulatory policy. Some correspondence from Congress, other federal agencies, and the public receive responses from officials or managers at or below the division director level. In addition, the Board receives unsolicited correspondence from the general public, usually requesting information or a response to a general inquiry about the Federal Reserve System. Most of the **public correspondence** is answered by the correspondence unit staff and signed by an official below the director level. Copies of correspondence signed by the Chairman and Governors are sent to Board Records. The files include incoming correspondence with any attachments and copies of outgoing correspondence.

a. Official correspondence signed by the Chairman, Vice Chairman, and other Governors. One record set.

DISPOSITION: Permanent.

Cut off records annually. Transfer to NARA with related indexes thirty years after cutoff.

b. Form letters or similar volume mail signed by the Chairman.

DISPOSITION: Temporary.

Cut off files annually. Retain at least three years, then destroy when no longer needed for administrative or reference use.

c. Official correspondence signed by all other staff.

DISPOSITION. Temporary.

(1) Recordkeeping Copies in Board Records.

Cut off files annually. Retain at least 15 years, then destroy

when no longer needed for administrative or reference purposes.

(2) All other copies.

Cut off files annually. Retain at least three years, then destroy when no longer needed for administrative or reference purposes.

d. Public Correspondence.

DISPOSITION: Temporary.

Cut off files annually. Retain at least three years, then destroy when no longer needed for administrative or reference purposes.

14. Board Member and Reserve Bank President Files

The files consist of background information about current and former Board members, arranged in several categories including biographical sketches, composition of the Board and length of terms, letters of resignation, lists of appointment, succession, general information about current and former members, miscellaneous information, and photographs. The files also include biographies of Reserve Bank presidents. The types of documentation include original and distribution copies of biographical sketches, charts of Board membership, press releases relating to appointment and swearing in, press clippings, black and white and color photos, individual and group photos, and copies of magazine articles related to one or more Governors.

a. One set of biographical sketches, membership charts, and group and individual photos.

DISPOSITION: Permanent

Cut off files at end of each Chairman's four-year term. Transfer to NARA thirty years after cutoff.

b. All other copies.

DISPOSITION: Temporary.

Destroy when superseded or no longer needed for administrative or reference purposes.

15. Administrative Files, Chairman and Governors

The files include remarks made at special occasions (holiday festivities, and luncheons hosted by the Board); invitations to the Chairman and Governors to attend and speak at outside functions; and travel files.

DISPOSITION: Temporary.

Cut off files annually. Retain until the end of the Chairman's or Governor's term, then destroy when no longer needed for administrative or reference purposes.

16. Press Releases.

The records include all press releases issued by the Board in a variety of subject areas, including banking applications, enforcement actions, policy statements, and general topics. The files are arranged both chronologically and by subject.

DISPOSITION:

a. One record set: Permanent.

Cut off files annually. Transfer to NARA in five-year blocks when the most recent records are thirty years old.

b. All other copies: Temporary.

Destroy when no longer needed for reference.

17. Speeches and Testimony

The files consist of the text of speeches and testimony delivered by Governors and senior staff members. The title page indicates the location, date, and audience. The files also include scheduling notes related to time and location for the speech or testimony.

DISPOSTION:

a. One record set of speech texts: Permanent.

Cut off annually. Transfer to NARA in ten-year blocks when the most recent records are thirty years old.

b. Scheduling information: Temporary.

Cut off files annually. Retain for one year, then destroy when no longer needed for administrative or reference purposes.

18. Audiovisual Publications

The Public Affairs Office has developed videotapes as educational tools on issues of public interest. Topics include, but are not limited to the value of savings, guide for first-time homebuyers, and information on savings and investments for the general public.

DISPOSITION: Temporary.

Cut off files at the end of the year in which the audiovisual publication is released. Retain one record copy for at least ten years, then destroy when no longer needed for reference.

19. Congressional Subject Files

The files are arranged alphabetically in categories of special interest to the Board, including consumer and community affairs, economic issues, the Federal Reserve System, and legislative initiatives. The files include copies of Board comments, action and information memoranda to the Board, synopses of legislation, and related work papers. Substantive information in these files is sent to Board Records by the originating offices.

DISPOSITION: Temporary.

Cut off files at the close of the legislative cycle. Retain at least five years after cut off, then destroy when no longer needed for administrative or reference purposes.

20. Congressional Memoranda Files

Staff chronological files consist of memoranda to the Board members and Reserve Bank Presidents. The subjects include legislation under consideration and in process, and Congressional activities related to issues of concern or interest to the Board.

a. One record copy of memoranda to the Chairman, Governors, or Reserve Bank Chairmen

DISPOSITION: Permanent.

Cut off files annually. Transfer to NARA in ten-year blocks when the most recent records are thirty years old.

b. All other copies.

DISPOSITION: Temporary.

Cut off files annually. Retain at least fifteen years, then destroy when no longer needed for administrative or reference purposes.

21. Legal Interpretation or Opinion Records

The records are created in response to requests from Board members, division directors, the General Counsel, or outside parties for advice, opinions, interpretations, release of financial information, or research of legal issues related to applications, regulations, testimony, ethics, statutes, and legislative histories. Files may remain open for several years, or may be closed and reopened at a later date. Files may include but are not limited to incoming and outgoing correspondence, study papers, memoranda, and drafts with substantive comments that can be used to reconstruct the decision process of the legal staff, if necessary.

DISPOSITION: Temporary.

Cut off files at the end of the year in which the matter was closed. Retain at least fifteen years, then destroy when no longer needed for reference or administrative purposes.

22. Collateral Agreement and Bilateral Loan Records

Subjects include bridge loans, collateral and multilateral arrangements, and bilateral credit facilities. Each document is numbered in a binder, which has a table of contents listing the title of each document. Types of documentation include letter and swap agreements, closing documents evidencing effectiveness of letter agreement, procedural telexes from the Reserve Bank to various Central Banks regarding accounts, telexes to Treasury, and documents constituting conditions precedent to drawing under the facility (telexes and letters confirming payment authority).

DISPOSITION: Temporary.

Cut off files at the end of the year in which the transaction is completed. Retain files for at least fifteen years after cutoff, then destroy when no longer needed for administrative or reference purposes.

23. Ethics Records

Files include materials used for employee briefings on ethics standards at the Board, files accumulated during periodic reviews of the ethics program at the Federal Reserve Banks, and the annual statistical report submitted to the Office of Government Ethics by the Board.

DISPOSITION: Temporary.

Cut off files annually. Retain at least six years, then destroy when no longer needed for administrative or reference purposes. **Documents needed in an ongoing investigation will be retained until no longer needed in the investigation.**

24. Visitor Services Records

Event planning files for special events and programs for official visitors to the Board. The files include scheduling memoranda, room layouts, hotel accommodations, lists of attendees, correspondence, and final program schedules.

DISPOSITION: Temporary

Cut off files annually. Retain at least two years, then destroy when no longer needed for administrative or reference purposes.

25. Gift Files

Two types of gift files are maintained. One set of records tracks the payment for and distribution of **gifts given** to official visitors or retiring officials. The other set includes lists of **gifts received** by the Chairman and Governors, with approximate valuation.

DISPOSITION: Temporary.

a. Gifts given: Cut off files annually. Retain at least three years, then destroy when no longer needed for administrative or reference purposes.

b. Gifts received: Retain information about the gift for at least three years after the

item leaves the Board's possession, then destroy when no longer needed for administrative or reference purposes.

26. Federal Reserve Directors Program Records

The program oversees the selection of Federal Reserve Bank and Branch directors. Records concern the development and implementation policies regarding the selection, eligibility criteria, and responsibilities of Reserve Bank directors. The files also include a database of current and potential directors, background and biographical information about current and potential directors and criteria for selection, legal memoranda, and action memoranda to the Board. [Action memoranda to the Board are scheduled with Board Packages, SEE item 3 above.]

DISPOSITION: Temporary.

a. Legal and action memoranda.

Cut off files annually. Retain at least thirty years after cutoff, then destroy when no longer needed for administrative or reference purposes.

b. Background and biographical information.

Cut off files annually. Retain at least five years after cutoff, then destroy or delete when no longer needed for administrative or reference purposes.

27. Electronic copies of records.

Files that are created on electronic mail and word processing systems and used solely to generate a recordkeeping copy of the records covered by the other items in this schedule. These files may be maintained by individuals in personal files, personal electronic mail directories, or other personal directories on hard disk or network drives, and copies on shared network drives. This item also covers electronic copies of records created on electronic mail and word processing systems that are maintained to update, revise, or disseminate records.

DISPOSITION: Temporary.

Destroy or delete after the recordkeeping copy has been produced or after dissemination, revision or updating is completed.

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Last update:August 25, 2006

Board Records Retention and Disposition Schedule

Applications | Supervision | Surveillance | Enforcement | Policy | Training

N1-82-00-02 Supervision and Regulation Function Approved by NARA: 07-05-2001

SUPERVISION AND REGULATION

The Federal Reserve System has supervisory and regulatory authority over a number of financial institutions and activities. The terms *supervision* and *regulation* refer to complementary activities. Supervision involves monitoring, inspecting, and examining financial organizations to assess their condition and their compliance with relevant laws and regulations. When an institution is not in compliance or has other issues, the Federal Reserve may use its supervisory authority to take formal or informal action to have the institution address the issues. Financial regulation entails making and issuin specific regulations and guidelines governing the structure and conduct of financial activities, under the authority of legislation.

Broad functional areas include **Applications, Supervision, Surveillance, Enforcement, Policy, and Training**.

APPLICATIONS

Financial institutions submit applications, notifications, or requests for waivers or other considerations, for acquisitions they want to make or activities they want to pursue as required by law or regulation. Examples include becoming a state member bank, becoming a bank holding company or a financial holding company, merging with or acquiring another institution, engaging in nonbanking activities, opening a foreign branch, and operating a branch of a foreign bank in the United States. Applications ai submitted through a Federal Reserve Bank. Approximately 90% of all applications are routine and are processed by the Reserve Banks under delegation of authority from the Board. More complex or precedent-setting applications are processed by Board staff and submitted for final action by the Board. Staff members from several Board program areas, including supervision, research, legal, and consumer and community affairs analyze applications and each staff group contributes to the recommendation ser to the Board. Generally, applications must be processed within specified periods of time.

1. Applications Processed at the Board

The contents of a case file may include but are not limited to: an application form or letter, and a package of information, containing public and confidential information about the institution submitting the application; correspondence to and from Reserve Banks, applicants, attorneys, and Board staff; comment letters; additional (requested) or supplemental (not requested) information; transcripts of public hearings; memoranda to the Board; draft and final action memoranda; press release; *Federal*

Register notice; and registration and consummation letters.

The most complete case files are maintained in the Records Section where the applications are scanned and maintained as digital images. Prior to 1997, applications were microfilmed. Other staffs that contribute to the analysis of the application, including supervision, legal, research, and consumer and community affairs, may maintain application case files. In cases where litigation ensues, the legal staff maintains a complete and separate application file that becomes part of the litigation case file, schedule elsewhere.

DISPOSITION: Temporary

a. Electronic Images: Retain 15 years after action on application, then destroy when no longer needed for reference.

b. Paper Files:

(1) Records Section set: Destroy upon verification of the electronic image.

(2) All other copies: Destroy when no longer needed for reference.

2. Applications Processed under delegated authority at the Reserve Banks

Records forwarded to the Board include but are not limited to: application/notice form or letter; correspondence between the Reserve Bank, the applicants, and attorneys; final action; registration and consummation letters; and a local press announcement requesting comment. These files are scanned to produce electronic images.

DISPOSITION: Temporary

a. Electronic Images: Retain 15 years after approval of application, then destroy when no longer needed for reference.

b. Paper Files:

(1) Records Section set: Destroy upon verification of the electronic image.

(2) All other copies: Destroy when no longer needed for reference.

3. Applications Cases Withdrawn.

Superseded by N1-82-02-02, approved by NARA 01-22-2002.

4. Application tracking system.

Supervision staff at the Board and the 12 Reserve Banks tracks the application process. The database includes profile information on each application.

DISPOSITION: Temporary.

Update as necessary. Delete with related records or when no longer needed for

administrative or reference purposes.

5. Name Check Files.

Name check files may be generated during the application, enforcement, investigation, or litigation processes. Inquiries are made under the name of the banking institution that is the subject of the activity (application, enforcement, etc.) to agencies such as the FBI, CIA, and Department of the Treasury. The responses contain information known about the officers and staff of the banking institution. The agencies provide a negative response if no pertinent information is on file. Many of the responses are classified for national security purposes. The inquiries and responses are filed chronologically, thereunder alphabetically by the name of the institution.

DISPOSITION: Temporary.

Cut off annually. Retain 15 years, then destroy when no longer needed for administrative or reference purposes.

SUPERVISION

Similar records are used throughout the supervision process but may be filed differently. Files pertainin to large and foreign banking organizations are likely to have all types of records filed together under th name of the bank. Small and community bank records are likely to be filed by the type of action/transaction, not the name of the institution.

6. Planning Records

The records are administrative in function, relating to methods and activities the Federal Reserve Syste employs to supervise financial institutions. The records are created by the Reserve Banks and submitte to the Board for review. Documentation may include but is not limited to supervision plans, exam/inspection program cycle schedules, scope memoranda discussing the type of examination/inspection to be carried out at a particular institution, and computer printouts. The record may be submitted in paper or electronic form.

DISPOSITION: Temporary.

Retain 2 years, then destroy when no longer needed for administrative purposes.

7. Supervisory Activity Records

The records include but are not limited to: **general correspondence** and **electronic mail messages** fro Reserve Banks, other institutions and agencies, and the public, and **internal memoranda** relating to examinations, inspections, consumer complaint investigations, reserve requirements, and other supervisory activities.

DISPOSITION: Temporary.

a. Office of Primary Responsibility: Cut off files annually. Retain 5 years, then destroy when no longer needed for administrative purposes.

b. All other copies: Destroy when no longer needed for administrative purposes.

8. Examiner/Inspector Work Papers are maintained at the Reserve Banks in hard copy and electronic form. Documents include entry letters advising the institutions of the date and time of the examination, scope memoranda, examiner notes and analyses, work program and exam procedures performed, internal documents furnished by the institution, draft reports. [Board policy directs: Retain for a minimum of 3 years, but no longer than 10 years, then destroy.]

DISPOSITION: Temporary.

Cut off files annually. Retain 3 years, then destroy when no longer needed for administrative or reference purposes.

9. Examination and Inspection Reports are produced by the Reserve Banks as required by law and regulation upon completion of examinations of State Member Banks, Foreign Banking Organizations, and Edge Corporations, and inspections of Bank Holding Companies. Reports include evaluations of ar institution's compliance with consumer regulations, including the Community Reinvestment Act, wher applicable.

DISPOSITION: Temporary.

a. One record copy: Cut off files annually. Retain 30 years, then destroy when no longer needed for administrative or reference purposes.

b. All other copies: Destroy when no longer needed for administrative or reference purposes.

10. Regulatory reports include but are not limited to annual reports from bank holding companies and foreign banking organizations, semiannual reports of bank holding company intercompany transactions and balances, and quarterly reports from bank holding company subsidiaries engaged in securities underwriting and dealing. The reports may be filed in paper or electronically. [Reports on current conditions are scheduled separately.]

DISPOSITION: Temporary.

a. One record copy: Cut off files annually. Retain 5 years, then destroy when no longer needed for administrative purposes. Reports received in paper whose data are entered into an electronic system at the Board may be destroyed upon verification of the database.

b. All other copies: Destroy when no longer needed for administrative or reference purposes.

11. Rating Records and Condition Assessment Records

These records include various reports, spreadsheet programs, and databases from which the ratings of financial institutions are derived. Examples include supervisory assessments, institutional overviews, risk matrix and assessments, memoranda for management providing analysis and review of the conditio of banks, summaries of supervisory findings, recommendations, and conclusions, responses from institutional management, and notices of remedial action.

DISPOSITION: Temporary.

a. One record copy: Cut off files annually. Retain 5 years, then destroy when no longer needed for administrative or reference purposes.

b. All other copies: Destroy when no longer needed for administrative or reference purposes.

SURVEILLANCE

The surveillance function monitors the condition and performance of individual institutions and the industry as a whole. Surveillance is carried out by filtering call report (consolidated reports of conditior and income) and FR Y-9 Series (consolidated financial statements for bank holding companies) data through a number of automated screening systems. The results are analyzed through a computer model and reports are produced. The information also assists in targeting institutions for examination and in allocating staff resources for examinations.

12. Uniform Bank and Bank Holding Company Performance Report System Databases

The quarterly Uniform Bank and Bank Holding Company Performance Reports include detailed curren and historical financial and peer group information for individual banking organizations. They are produced using mainframe computer programs. The databases of financial measures that underlie these reports provide inputs to the System's surveillance programs.

DISPOSITION: Temporary.

Maintain data in active file for 10 years, then transfer to inactive file and destroy when no longer needed for timeline analyses.

13. Surveillance Reports

Reports are issued on various topics at regular but differing intervals, depending on the topic. For example, reports on bank conditions are issued quarterly, whereas reports on subjects such as global stock price monitoring are issued weekly. The reports may be issued in paper or electronic formats and consist of summary narratives, tables, graphs, and charts.

DISPOSITION: Temporary.

a. One record set: Cut off files at the end of the year. Retain 5 years, then destroy when no longer needed for reference or administrative purposes.

b. All other copies: Destroy when no longer needed for administrative or reference purposes.

14. Studies

Discussion groups comprising staff from the Board and Reserve Banks examine issues relating to banking, bank policy and bank conditions. The products of these groups, prepared for senior management, are summary memoranda that include narrative, charts, and graphs. This item covers pape and electronic files.

DISPOSITION: Temporary.

a. One record copy: Cut off files annually. Retain 15 years, then destroy when no longer needed for timeline analyses.

b. All other copies: Destroy when no longer needed for administrative or reference purposes.

ENFORCEMENT

Enforcement activity results in formal Board actions including: written agreements, cease and desist orders, civil money penalties, prohibitions, orders of investigation, prompt corrective action, and suspension. Cases usually begin at the Federal Reserve Banks, which send the Board documentation showing evidence of alleged misconduct.

Case Files, including but not limited to Enforcement, Special Investigation, Fair Lending Discrimination, and Consumer Complaint cases. The case files vary in content. Enforcement case files typically include a recommendation memo from the Federal Reserve Bank to Board supervisory staff, with supporting documentation; attorney notes; recommendation memos from Board supervisory staff to the Legal Division; press release; final approval; final order; agreement; termination, if it exists. **Special Investigation case** files typically include correspondence with outside attorneys; status reports; news clippings; internal memos; correspondence with other federal agencies such as the Department of Justice and the FBI; work papers with documents from the financial institution, copies of Board actions and institution examination or inspection reports. **Fair Lending Discrimination cases** usually contain a communication from the Reserve Bank to the Board that initiates the case and a document stating the disposition of the case. Depending on circumstances, the case files may contain correspondence betwee the Reserve Bank and the financial institution, documentation from the bank's loan files, and other communications between the Board and the Reserve Bank. If the case is referred to the Department of Justice or HUD, the case file will contain a copy of the referral letter and memo, any other subsequent correspondence related to the referral. Finally, in these situations the case file will always contain either a notification letter from the other agency that it will not pursue the case or an Order or other evidence of how the other agency resolved the case. **Consumer Complaint case** files typically include incoming and outgoing correspondence, documentation related to complaint investigations, and any internal memoranda. Documents may be in paper, microform, or electronic media.

15. Enforcement case files.

DISPOSITION: Temporary.

a. One record copy: Cut off files when the final action is taken. Retain complete case file 6 years after cutoff [per 12 USC 1818(u)(6)], then destroy when no longer needed for legal, financial, administrative, or reference purposes.

b. All other copies: Destroy when no longer needed for administrative or reference purposes.

16. All other case files, including Special Investigation, Fair Lending Discrimination, and Consumer Complaint cases.

DISPOSITION: Temporary.

a. One record copy: Cut off files when final action is taken. Retain 5 years, then destroy

when no longer needed for legal, financial, administrative or reference purposes.

b. All other copies: Destroy when no longer needed for administrative or reference purposes.

17. Tracking Systems: Enforcement, Special Investigative, Fair Lending Discrimination, and Consumer Complaint Cases

This system tracks **enforcement case** files from 1975 to the present. Data are provided by the Reserve Bank requesting the enforcement order. Data fields include case number, financial entity identification number, name of institution, proposed action, name of Enforcement Section attorney and date assigned, and updates of actions. Output includes ad hoc docket lists and name checks requested by other banking regulatory agencies. Data fields for **fair lending case** files include the name of the bank, description of the problem, and the status of the case. Data fields for **consumer complaints** include name, address, telephone number, type of complaint or inquiry, company name, district, analyst, action taken, labor hours, and summary of the complaint.

DISPOSITION: Temporary.

Delete with related records or when no longer needed for administrative or reference purposes.

18. Legal Activity Records

Several types of legal activity can take place while carrying out enforcement activities. The resulting activity can be an **investigation** (separate from, but often parallel to the special investigations mentione above), **litigation**, or an **administrative law hearing**. The investigative case files generally contain information provided by the Reserve Bank, subpoenas, depositions, correspondence, and memos. **Litigation case files** generally contain briefs, motions, court opinions, exhibits, and transcripts. **Administrative law hearing case files** may contain subpoenas, depositions, notice of charges, memo t the Board, and discovery material including transcripts, correspondence with opposing attorneys, and related documents. **Attorney working files** include background and case-related documentation not appropriate for inclusion in the final case file, and not required to be kept under 12 USC 1818(u)(6).

DISPOSITION: Temporary.

a. Case Files

(1) Office of Primary Responsibility: Cut off files when final action is taken. Retain 15 years, then destroy when no longer needed for administrative or reference purposes.

(2) All other copies: Destroy when no longer needed for administrative or reference purposes.

b. Attorney working files.

Cut off files annually. Destroy when no longer needed for administrative or reference purposes.

POLICY

Policy for supervising and regulating financial institutions is established in the development of regulations that are approved by the Board. Policy is interpreted and communicated to the banking industry and the public in several ways through supervisory letters, supervisory guidance and manuals, and press releases. Policy development is augmented by the participation of Board staff members on a number of internal, FR System-wide, interagency, and international working groups and committees.

19. Regulations

The process of drafting or revising a regulation involves consultation and review by several divisions and may involve an interagency working group. The work papers include interim and final drafts, notes of discussions, informal interagency memos, comments from the public, interim comment summaries, and reference material. The final case file will include, but is not limited to, memoranda from divisions, Federal Register Notice, including a summary of the comment letters, a press release, and the formal memo presented to the Board for action. The files also include correspondence with outside parties that addresses the subject of a regulation but is not filed within the final case file.

a. Final Case File with related correspondence

DISPOSITION:

(1) One record set: Permanent.

Cut off files at the end of the year in which the regulation was issued/reissued. Transfer final case files to NARA 30 years after cutoff.

(2) All other copies: Temporary.

Destroy when superseded, rescinded, or no longer needed for administrative or reference purposes.

b. Work Papers

DISPOSITION: Temporary.

Destroy when no longer needed for reference after all pertinent information has been placed in the final case file.

20. Supervisory Letters

These files include **Supervision and Regulation Letters** (commonly known as **SR Letters**), **Administrative (policy and procedures) Letters** (commonly known as **AD Letters**), **Consumer Affairs Letters** (commonly known as **CA Letters**, and **Complaint Program Letters** (commonly known as **CP Letters**). SR and CA (policy) Letters address significant policy and procedural matters related to the Federal Reserve System's supervisory responsibilities. The SR and CA (policy) letters are an important means of disseminating information to banking supervision staff at the Board and the Reserve Banks, and in some instances, to supervised banking organizations. AD and CA (admin) letters address matters of transitory relevance. They also serve as an important means of disseminating information to banking supervision staff at the Board and the Reserve Banks. Both types of letters are

numbered sequentially by year and are further identified by a primary function such as supervision, applications, enforcement, or surveillance. The function designations change over time. CP Letters are issued to notify Reserve Banks of significant Complaint Program policy and administrative changes. Policy letters exist in paper and electronic form.

a. SR, CA, and CP Letters.

DISPOSITION:

(1) One record set: Permanent.

Cut off files annually. Transfer to NARA with related indexes 30 years after cutoff.

(2) All other copies: Temporary.

Destroy when superseded, rescinded, or no longer needed for administrative or reference purposes.

b. AD and CA (admin) Letters.

DISPOSITION: Temporary.

Destroy when superseded, rescinded, or no longer needed for administrative or reference purposes.

21. Supervisory Manuals and Guidance.

Manuals and guidance provide instructions to carry out program and administrative procedures. The files include guidance and manuals for examining commercial banks and U.S. branches of foreign banking organizations and Edge corporations; supervising bank holding companies; assessing consume compliance; and reporting on bank and bank holding company performance. Policy reflected in the manuals is available in an abbreviated form in the policy letters in item 20 above. Manuals are availabl in paper and electronic form.

DISPOSITION: Temporary.

a. History File

(1) Program-related manuals and guidance.

Cut off files when superseded or rescinded. Retain one record set at least 10 years after cutoff, then destroy when no longer needed for administrative or reference purposes.

(2) Administrative manuals.

Cut off files when superseded or rescinded. Retain one record copy at least 2 years after cutoff, then destroy when no longer needed for administrative or reference purposes.

b. All other copies

Destroy when superseded or rescinded.

22. Councils, Committees, and Working Groups

The Federal Reserve System uses advisory and working committees in carrying out its various responsibilities. Three of these **External Advisory Councils** advise the Board of Governors directly. The **Federal Advisory Council (FAC)**, established by the Federal Reserve Act, consists of one membe from each Federal Reserve District. The council is required by law to meet four times each year with th Board of Governors in Washington, D.C., to discuss economic and banking matters; the **Consumer Advisory Council (CAC)**, established by statute, meets with the Board three times a year on matters concerning consumers and the consumer credit protection laws administered by the Board. The council consists of academics, legal specialists in consumer matters, and members representing the interests of consumers and the financial industry; and the **Thrift Institutions Advisory Council (TIAC)**, established by the Board after passage of the Depository Institutions Deregulation and Monetary Contr Act of 1980, to obtain information and opinions on the needs and problems of thrift institutions.

a. External Advisory Council Meeting Files.

The Advisory Committees include CAC, FAC, and TIAC. CAC records include agendas, attachments, transcripts, press releases, and resolutions of the Consumer Advisory Council; FAC records consist of memoranda to the Governors with questions attached, question and answer responses, and records of conference; TIAC records consist of question and answer responses (called agenda q&a's).

DISPOSITION:

(1) One record copy: Permanent.

Cut off files annually. Retain on site for 5 years, then retire to offsite storage. Transfer to NARA 30 years after cutoff.

(2) All other copies:

Destroy when no longer needed for administrative or reference purposes.

The Board has a number of **internal advisory committees** that review proposals developed by division or functional groups that will require Board action. The committees are run informally and are not considered decision-making bodies; these committees, such as the Committee on Federal Reserve Bank Affairs, the Committee on Supervisory and Regulatory Affairs, and the Committee on Employee Benefits, consider issues raised in the divisions. The committees change their names from time to time but their advisory capacity does not change. The records of the committees may include agendas, lists o presenters, and sometimes, the memoranda or reports that are presented to the committee. No formal minutes are prepared and no formal actions are taken, no decisions are recorded. Meeting summaries ar included only if an absent committee member requests them.

b. Internal Advisory Committee Files

DISPOSITION: Temporary.

(1) One record copy: Cut off files annually. Retain 3 years, then destroy when no longer needed for administrative purposes.

(2) All other copies. Destroy annually or when no longer needed for administrative purposes.

Special Issue Policy Committees consider specific Board policy issues. The committees keep more extensive records, particularly if the policy or program is evolving over a period of time and will have a significant impact on the Federal Reserve System. A committee in this category is the Payment System Policy Advisory Committee. Records may include but not limited to lists of committee members, agendas, meeting notes and summaries, correspondence, reports, conference call notes, and background information.

c. Special Issue Policy Committee Files

DISPOSITION:

(1) One record copy: Permanent.

Cut off files annually. Transfer to NARA 30 years after cutoff.

(2) All other copies: Temporary.

Destroy when no longer needed for administrative or reference purpose.

TRAINING

The Board is responsible for the coordination of the Federal Reserve System's examiner education training programs. Training is provided to System examiners through the System, Federal Financial Institutions Examination Council (FFIEC), and other federal government agencies. Board training staff coordinates System programming and serves as the clearinghouse for FFIEC and other government programs.

The Board Training Center issues an **administrative procedures manual** on training that is updated annually. Other records consist of **course materials** and **tracking systems**. Administrative correspondence and subject file are covered by GRS 1, item 29.

23. Training course records include course lesson plans, syllabi, instructor manuals, participant manuals and workbooks, test questions and answers.

DISPOSITION: Temporary.

Update when superseded. Retain one copy of each superseded document for 4 years, then destroy thereafter when no longer needed for reference.

24. Administrative policies and procedures. Information and procedures relating to classes, instructors, and students.

DISPOSITION: Temporary.

a. One record copy: Cut off files when superseded or rescinded. Retain at least 2 years after cutoff, then destroy when no longer needed for administrative or reference purposes.

b. All other copies: Destroy when superseded or rescinded.

25. Tracking system. Electronic system to track and record information on students participating in training programs.

DISPOSITION: Temporary.

Remove record from active file when student leaves Federal Reserve System. Delete 5 years after record becomes inactive.

26. Electronic copies of records that are created on electronic mail and word processing systems and used solely to generate a recordkeeping copy of the records covered by the other items in this schedule. These files may be maintained by individuals in personal files, personal electronic mail directories, or other personal directories on hard disk or network drives, and copies on shared network drives. This item also covers electronic copies of records created on electronic mail and word processing systems that are maintained to update, revise, or disseminate records.

DISPOSITION: Temporary.

Destroy or delete after the recordkeeping copy has been produced or after dissemination, revision or updating is complete.

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Board Records Retention and Disposition Schedule

N1-82-02-02 Withdrawn Applications Approved by NARA: 01-29-2002

SUPERVISION AND REGULATORY FUNCTION - Withdrawn Applications

The Board requests an increase in the retention period for **withdrawn applications**. The records were approved for temporary retention, with immediate destruction or return to applicant upon withdrawal, in **N1-82-00-02, item 3**. We have reassessed our business needs and determined that all applications case files should have the same retention period. The appropriate retention and disposition instructions are as follows:

Applications Cases Withdrawn

DISPOSITION: Temporary

a. Electronic Files: Retain 15 years after withdrawal of application, then destroy.

b. Paper Files:

(1) If copied to electronic images, destroy upon verification of the electronic image.

(2) If not copied to another medium, retain 15 years after withdrawal of application, then destroy.

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Board Records Retention and Disposition Schedule

Research | Production of Statistics | Current Analysis | Consulting

N1-82-01-01 Research Function Approved by NARA: 07-05-2001

RESEARCH ACTIVITIES

The Board staff members engage in research activities throughout the agency. Records are generated or accumulated in four principal activities: Research, Production of Statistics, Current Analytical Support for the Board and FOMC, and Consulting. Staff members engage in a number of activities that do not produce federal records. They publish papers and articles in outside professional journals, books, and publications of international organizations. They also participate in professional conferences and meetings where they are not officially representing the Board. The research process poses some challenges to an easy and clearly defined separation of record and nonrecord material. The following categories are recognized as records of the Board in its agency capacity (as separate from actions of the Governors). It is important to note that there is significant overlap between records of the Board and those of the Federal Open Market Committee (FOMC). Board staff activities support the FOMC and many of the records listed below are preliminary to the records maintained by the FOMC Secretariat and scheduled in N1-82-95-01, approved December 10, 1996.

RESEARCH

Record-content research refers to products published or released by the Board and generally involves longer-term research than that done for Current Analysis (see below). The more formal publications include the **Federal Reserve *Bulletin*** and **Staff Studies**. Unofficial publications include several **Discussion Paper series** that are numbered and released upon request.

1. Federal Reserve *Bulletin*

The *Bulletin* is issued monthly in paper. Substantial portions of the Bulletin are available on the Board's public web page, but not in the same format. The contents include but are not limited to an article on a current economic issue, testimony or speeches of the governors, a release of industrial production and capacity utilization figures with a two-month lapse, announcements of Board or FOMC activities, staff changes, meetings, enforcement actions, and similar activities, the most recent FOMC meeting minutes, a summary of legal developments, and a number of tables relating to domestic financial and nonfinancial statistics, and international statistics. Articles published in the *Bulletin* undergo a formal internal review process.

DISPOSITION:

One record copy: Permanent.

Cut off files annually. Transfer accumulated set to NARA upon approval of this schedule. Transfer to NARA in five-year blocks thereafter.

2. Staff Studies

Staff studies comprise numbered series of papers on various economic issues, which are formally reviewed internally before publication. Final products from other research projects may include published pamphlets and brochures and unpublished studies and reports.

DISPOSITION:

One record copy: Permanent.

Cut off files annually. Transfer to NARA 30 years after cutoff.

3. Discussion Paper Series and other research projects on topics of regulatory concern.

Research papers on various economic, financial, and monetary topics, printed and distributed internally without the formal review given to Staff Studies and *Bulletin* articles. Released to the public upon request.

DISPOSITION: Temporary.

One record copy: Cut off files annually. Retain at least 5 years, then destroy when no longer needed for administrative or reference purposes.

4. Background Files for research papers(when filed as records)

Files may include but are not limited to copies of published articles and papers, review comments, and copies of approval documents, notes, or memos.

DISPOSITION: Temporary.

Cut off files annually. Retain at least 2 years, then destroy when no longer needed for administrative or reference purposes.

PRODUCTION OF STATISTICS

The Board gathers or acquires economic and financial data from a number of sources including other federal agencies, foreign central banks, private subscription services, and U.S. financial institutions. Research staff of the Board analyze the data and issue statistical releases to the public. Supporting the **statistical releases** are a number of **databases with code books**, some of which are made available to the public (generally macro-level data such as Flow of Funds) and others that are used only internally (generally sensitive micro-level financial data such as securities issuance). Board staff conduct **national surveys** of economic and financial activities, including Consumer Finance, Small Business, Senior Loan Officer, and Transaction and Usage surveys. The Board also produces a number of forms for collecting financial data.

5. Releases

Releases are statistical and narrative reports originating from data provided by the Board, the Federal Reserve Banks, and other agencies and institutions. The releases, which are available in paper and on the Board's public web site, have long-term administrative value. Statistical releases were scheduled for disposal in N1-82-79-02, which states that "items having long-term administrative and operational value will be destroyed on-site when all reference needs for them have ended." Numerous retention periods were established for various releases. This item requests a uniform disposition for all statistical releases.

DISPOSITION: Temporary.

Cut off files annually.

a. One record copy: Retain 5 years, then destroy when no longer needed for administrative or reference purposes.

b. All other copies: Retain 2 years, then destroy when no longer needed for administrative or reference purposes.

6. Databases with documentation

As noted above, the Board collects data from a number of sources, including other federal agencies, public sources, and private commercial establishments. These data are analyzed in the process of establishing monetary policy and supervising and regulating financial institutions. The Board is responsible for two sets of macrodata, Flow of Funds Accounts and Industrial Production and Capacity Utilization. The Flow of Funds Accounts measure the acquisition of physical and financial assets throughout the U.S. economy and the sources of funds used to acquire the assets. They provide time-series data for financial flows in the economy and function as a balance sheet for the sources and uses of funds. Data are released quarterly (see Statistical Releases) and data from 1945 to the present are available electronically. The Industrial Production and Capacity Utilization database is a monthly index of those functions for areas such as manufacturing, mining, and electric and gas utilities. The industrial detail provided by these measures illuminates structural developments in the economy. The data are released monthly, arranged by product category and industry (see Statistical Releases), and data from 1919 to the present are available electronically.

a. Data sets originating at the Federal Reserve Board that measure the acquisition of physical and financial assets in the U.S. economy and that provide a monthly index of industrial production and capacity utilization, including documentation for interpreting the data.

(1) Master data files of seasonally adjusted non-restricted data.

DISPOSITION: Permanent.

Transfer a copy of data through 1995 with documentation to NARA upon approval of this schedule. Transfer data to NARA in 5-year increments when most recent records are 5 years old.

(2) Restricted data files maintained in separate tables or databases.

DISPOSITION: Temporary.

Cut off annually. Retain for 4 years, then delete when no longer needed for reference or research purposes.

(3) Source/Input Data used to update master files.

DISPOSITION: Temporary.

Delete when data have been entered into the master file and verified, and when no longer needed to support reconstruction of, or serve as a backup to, the master file.

b. Data sets acquired from outside sources, including federal agencies, foreign central banks, and other public sources.

DISPOSITION: Temporary.

Update as necessary to carry out regular current business of the Board. Destroy when no longer needed for administrative or reference purposes.

7. Surveys

Surveys on economic and financial topics of national importance are conducted and the Board analyzes the results at regular intervals. Surveys include but are not limited to: Survey of Consumer Finances, National Survey of Small Business Finances, Survey of Consumer Credit, Survey of Consumer Attitudes. Survey records include paper and electronic questionnaires, processed data, and reports and published working papers based on the processed aggregate data. Certain types of restricted information, including personal identifiers and statistical data derived from tax returns, are maintained by an independent contractor and not transmitted to the Board.

a. Final reports, when produced, and master data sets with documentation necessary to interpret the data.

DISPOSITION: Permanent.

Cut off files at the end of the year in which the survey is completed. Transfer one record copy of any narrative report and one record copy of the final data set, with appropriate documentation, to the National Archives 5 years after cutoff. [Disposition revised per e-mail from agency, 03-05-2001].

b. Input information.

Information collected by contractors on paper and electronic questionnaires and used to create or update the master data sets.

DISPOSITION: Temporary.

Cut off files when the accuracy of the receiving database has been verified. Retain at least 6 months, then destroy when no longer needed for administrative or reference purposes.

CURRENT ANALYTICAL SUPPORT FOR THE Board AND FOMC

The research staff members at the Board carry out a number of short-term and on-going projects as part of their support to the Governors and to the FOMC. Recurring activities include weekly briefings presented to the Board, production of the Greenbooks and Bluebooks, presentations before meetings of the FOMC, and legislatively mandated Congressional reporting. Staff members also provide analyses that support Board reviews and decisions relating to discount window programs, discount rates, and reserve requirements. Ad-hoc but ongoing activities include preparation of speeches and Congressional testimony for the Governors, responses to Congressional requests, memoranda on various topics for Governors and senior management, FOMC memoranda, and briefing books for Governors.

8. Weekly Briefings.

Packages with a brief narrative, charts, and tables on economic developments are prepared and delivered to the Board each week. On a regular basis, currently every six weeks, the economic outlook and forecast are issued in the Greenbook (scheduled for permanent retention in N1-82-95-01). One set of briefing materials is sent to Board Records. Portions of the briefing package may be filed in other offices.

DISPOSITION: Temporary.

a. One record copy.

Cut off files annually. Retain for at least 2 years, then destroy when no longer needed for administrative or reference purposes.

b. All other copies.

Destroy when no longer needed for reference or administrative purposes.

9. Memoranda

Short-term research on various topics prepared for Governors and senior management. The memoranda may be prepared in response to questions from Governors during briefings, questions and answers on topics related to Congressional hearings, or to provide information on economic issues of relevance to senior staff and Governors. Copies of the memoranda may be filed in several locations and may be posted on intra- or interdivisional web sites. Some memoranda have long-term internal reference value, and others are transitory, depending on the topic.

DISPOSITION: Temporary.

Cut off files annually. Retain **one record copy** for at least 5 years, then destroy when no longer needed for administration or reference purposes.

10. Congressional Reports, Testimony, and other Requests

The Board is required by legislative mandate to submit periodic reports to the Congress. The Board also responds to ad hoc requests from Congress for reports, testimony, correspondence, and other information on particular topics. Staff in various divisions prepares the reports and responses to Congress. Record copies of final products are scheduled with records of the Congressional liaison function.

Background Files, which may include notes, background information, drafts, and final copies of reports, testimony, correspondence, or other product.

DISPOSITION: Temporary.

Cut off files annually. Retain for 2 years, then destroy when no longer needed for administrative or reference purposes.

11. Speech Background Files

Background files for speeches to be given by Governors or senior staff. The files may include notes, background information, drafts, and release or final copies of the speech. Record copies of the speech as released or delivered are scheduled with records of the Public Affairs staff.

DISPOSITION: Temporary.

Cut off files annually. Retain at least 2 years, then destroy when no longer needed for administrative or reference purposes.

12. Briefing Books

Collections of notes, memos, reports, and correspondence compiled on a particular subject for Governors and senior staff, generally prior to public appearances or trips or visits from representatives of foreign financial institutions. Although the documents are copies of records that exist in other files, compilation into one entity gives added value to the briefing books.

DISPOSITION: Temporary.

Cut off files annually. Retain **one record set** for at least 2 years, then destroy when no longer needed for administrative or reference purposes.

13. FOMC Files

Board staff provide extensive support to the FOMC through presentations with chart shows prior to the FOMC meetings, memoranda, the Current Economic and Financial Conditions (Greenbook) and the Monetary Policy Alternatives (Bluebook). Final copies of the Green- and Bluebooks and the FOMC memoranda are maintained by the FOMC Secretariat and are scheduled for permanent retention in N1-82-95-01.

a. FOMC Presentation Packages.

DISPOSITION: Temporary.

Cut off files annually. Retain **one record copy** at least 5 years, then

destroy when no longer needed for administrative or reference purposes.

b. FOMC Memoranda maintained outside the FOMC Secretariat.

DISPOSITION: Temporary.

Cut off files annually. Retain **one record copy** at least 5 years, then destroy when no longer needed for administrative or reference purposes.

CONSULTING

Board staff members participate on committees, working groups, and other joint initiatives with other federal agencies and international organizations such as the Bank for International Settlements, the Organization for Economic Cooperation and Development, the International Monetary Fund, and the International Bank for Reconstruction and Development. The participation may take place on one of several levels: the Board is the lead agency or the secretariat for the group; the Board is an active participant but not the lead agency; the Board is an observer but not an active participant. The documentation generated from consulting activities includes **meeting and trip reports, staff comments/responses to surveys,** and **staff presentations**. When the Board is an active participant on an interagency group, the resulting documentation comprises records of the Board. When staff members are participating in a professional capacity but not officially representing the Board, the resulting documentation is nonrecord material.

14. Meeting and Trip Reports, Staff Comments, Survey Responses, and Presentation Papers.

Internal memoranda intended to inform senior management of the group or conference activities, comments on draft papers written by other federal agencies or international organizations, responses to surveys from other organizations soliciting Board input, and copies of papers representing positions of the Board presented at professional conferences.

DISPOSITION: Temporary.

Cut off files annually. Retain at least 5 years, then destroy when no longer needed for administrative or reference purposes.

15. Electronic copies of records that are created on electronic mail and word processing systems and used solely to generate a recordkeeping copy of the records covered by the other items in this schedule. Also includes electronic copies of records created on electronic mail and word processing systems that are maintained for updating, revision, or dissemination.

DISPOSITION: Temporary.

a. Copies that have no further administrative value after the recordkeeping copy is made. Includes copies maintained by individuals in personal files, personal electronic mail directories, or other personal directories on hard disk or network drives, and copies on shared network drives that are only to produce the recordkeeping copy. **Destroy or delete after the recordkeeping copy has been produced.**

b. Copies used for dissemination, revision, or updating that are maintained in addition

to the recordkeeping copy. **Destroy or delete after dissemination, revision or updating is completed.**

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Board Records Retention and Disposition Schedule

Monitoring Report Files | Equipment Acquisitions Files | Price and Service Change | Facilities Acquisitions Files | Currency and Coin | Human Resources Records | System Interchange Program | Review/Examination Files | Self-Evaluations | Financial Statement Data | Establishment of Prices for Services | Operations Databases | Budget Records | Policy and Procedures | Electronic copies

N1-82-02-01 Reserve Bank Oversight Function Approved by NARA: 08-20-2002

RESERVE BANK OVERSIGHT

The Board oversees the provision of financial services to depository institutions, fiscal agency services to the Treasury and other government agencies, and significant support functions, such as information technology, financial and cost accounting, audit, human resources, facilities management, and protection by each Federal Reserve Bank ("FRB"). Board staff are also responsible for the development of policies and regulations to foster the efficiency and integrity of the U.S. payments system. Staff also work with other central banks and international organizations to improve the payments system more broadly.

1. Monitoring Report Files

The Board receives various reports used to monitor activities among the FRBs to provide general oversight and, in some cases, provide a mechanism for identifying out-of-balance conditions. Board staff also provides FRB staff with formulas and instructions relating to various System financial accounts such as the System Open Market Account, foreign currency allocation percentages, weekly interest on Federal Reserve notes, Federal Funds rates, special drawing rights. **Account documentation** includes, but is not limited to, float monitoring reports, a subsidiary ledger of gold certificates issued by the Treasury and held by the FRBs, and reports of assets FRBs are accountable for, but do not own (off-balance sheet items). Account information may be submitted on a regular basis (monthly, quarterly, etc.) or on an ad hoc basis. Monitoring documentation also includes **actuarial reports** used by the FRBs for recognizing expenses related to employee and retiree benefits and pension accountings. Types of documentation include memoranda, electronic mail messages, spreadsheets, and other financial reports.

a. Actuarial valuation reports.

DISPOSITION: Temporary.

Cut off files annually. Retain at least 30 years, then destroy when no longer needed for administrative or reference purposes.

b. Account documentation [FRB summaries of collateral, custody, and other accounts]

as defined in the Financial Accounting Manual.

DISPOSITION: Temporary.

(1) Monthly documentation.

(a). January-November reports Destroy upon receipt of the following year report.

(b). December reports Retain for at least 5 years, then destroy when no longer needed for administrative or reference purposes.

(2) Non-monthly documentation.

Cut off files annually. Retain at least 5 years, then destroy when no longer needed for administrative or reference purposes.

2. Reserve Bank Equipment Acquisitions Files

Acquisitions are approved at one of three levels: at an FRB by delegated authority; by the division director with FRB oversight responsibility by delegated authority; and by the Board. Other key policies and guidance are found in the Uniform Acquisitions Guidelines, a Federal Reserve System document; in the FRS Facility and Security Guidelines compiled by Board staff; and in a Board S letter defining the approval authority. Acquisition case files include the acquisition request with supporting documentation, analysis and recommendation memoranda, and a Board decision letter to the district. The Board prefers to have a uniform retention period for acquisition records and, therefore, is not using GRS 3 for disposition authority.

3. Price and Service Change Proposals

Price and service change proposals are approved at one of four levels: by the Board (as at the annual repricing-See item 11a below); by the division director with FRB oversight responsibility (nonroutine proposals); by the Financial Services Policy Committee (routine and accelerated proposals); and, by an FRB (reflecting minor changes to routine proposals). Guidance is provided by the Board in an S letter defining the approval authority. Price and service-level change proposal files (for nonroutine proposals) include the proposal with supporting documentation, analysis and recommendation memoranda, and a Board decision letter to the district.

DISPOSITION: Temporary.

Cut off files for closed cases annually. Retain at least 3 years, then destroy when no longer needed for administrative or reference purposes.

4. Facilities Acquisitions Files

Facilities acquisitions involve long-term planning for anticipated facility needs over a 25-year period. FRB staff analyzes current needs, long-term needs, and identifies property to buy, lease, or rehabilitate. Board staff reviews the plans and makes recommendations on which the Board acts.

a. Program Approval Records. Files include the program request, project plan, Board staff analysis, Board action memorandum, and the Board decision letter to the district.

DISPOSITION: Temporary.

Cut off files when the property or facility is no longer owned or operated by the Federal Reserve System. Retain at least 7 years after cutoff, then destroy when no longer needed for administrative or reference purposes.

b. Program Implementation Records. Files relating to Board approval include, but are not limited to: site procurement, schematic design, a capital addition evaluation model, review and analysis memoranda by Board staff, Board final approval, facility specifications, and presentation and as-built drawings.

(1) Project Records for Federal Reserve Bank Buildings. Files include Board final approval documentation, building specifications, and architectural presentation and as-built drawings.

DISPOSITION: Permanent.

Cut off files at the end of the building project. Transfer to NARA 30 years after cutoff. For security purposes, access is to be granted only upon approval of the Secretary of the Board.

(2) Project records for all other buildings or property acquisitions. Files include Board approval documentation, specifications, and presentation and as-built drawings.

DISPOSITION: Temporary.

Cut off files at the end of the building project. Retain until the building or property is no longer owned or operated by the Federal Reserve System, then destroy when no longer needed for administrative or reference purposes.

5. Currency and Coin.

The Federal Reserve System is responsible for determining the amount of currency printed by the Bureau of Engraving and Printing and for ensuring that the currency reflected on the FRB's balance sheets is correct and properly collateralized in accordance with the Federal Reserve Act. Board staff requests estimates from each of the 12 districts; responses are consolidated into estimates for each currency denomination by district. Currency Order files include estimates of currency note requirements, armored carrier costs, payments to Treasury for currency destruction, inter-office currency shipments, and armored carrier contracts [record copy maintained by procurement office]. Federal Reserve Agent Statements are created to ensure that currency in circulation is properly reflected on balance sheets and properly collateralized. The statements include daily electronic filings from each FRB (Federal Reserve Agent) on issues and withdrawals or redemptions of Federal Reserve notes and a Board-produced monthly reallocation of the notes redeemed. Board staff print and retain the end-of-year (annual) statement.

a. Currency Order

DISPOSITION: Temporary.

Cut off files annually. Retain at least 5 years, then destroy when no longer needed for administrative or reference purposes.

b. Federal Reserve Agent Statements.

DISPOSITION: Temporary

(1) Annual statements. Cut off files annually. Retain at least 30 years, then destroy when no longer needed for administrative or reference purposes.

(2) Monthly and daily statements. Cut off files annually. Retain at least 5 years, then destroy when no longer needed for administrative or reference purposes.

6. Reserve Bank Human Resources Records

The Board approves the salary structure for FRB officers. The salary structure is determined through various analytical processes, such as a compensation trend survey. The Board maintains a database of biographical and salary information on FRB officers. Board staff reviews and analyzes salary structure documentation and prepares memoranda summarizing the findings. Correspondence is exchanged between the Board and the Chairmen of the FRBs and the Board approves the salary adjustments.

a. Database on Reserve Bank Officers. The database includes biographical and salary information.

DISPOSITION: Temporary.

Review annually and update as necessary. Destroy when no longer needed for administrative or reference purposes.

b. Salary Review Files. Files include survey information, memoranda to management, correspondence with FRB officials.

DISPOSITION: Temporary.

Cut off files annually. Retain at least 3 years, then destroy when no longer needed for administrative or reference purposes.

7. System Interchange Program

The program provides the opportunity for staff rotation between the Board and the FRBs for a variety of purposes, including educational, alleviation of staff shortages, or use of special expertise on a project. The records include a request memorandum, an official notification, and an information letter providing administrative details to the staff member participating in the rotation.

DISPOSITION: Temporary.

Cut off files at the end of the year in which the rotation is completed. Retain at least 2 years, then destroy when no longer needed for administrative or reference purposes.

8. Reserve Bank Review/Examination Files

Board staff conducts reviews and examinations of activities and services at the FRBs. All Board program divisions participate in functional reviews of FRB activities. The process includes an announcement letter requesting information from the FRB, possible on-site visit to an FRB to collect additional information, analysis of the information, and preliminary and final reports. All final documentation is reflected in a single package, but not published.

a. One record copy.

DISPOSITION: Temporary.

Cut off files annually. Retain at least 10 years, then destroy when no longer needed for administrative or reference purposes.

b. All other copies.

DISPOSITION: Temporary.

Cut off files annually. Destroy when no longer needed for administrative or reference purposes.

c. Work Papers Files accumulated by Board staff in performing reviews and examinations of FRB performance in the functions and services that the FRB carry out by delegated authority from the Board.

DISPOSITION: Temporary.

Cut off files annually. Retain at least 5 years, then destroy when no longer needed for administrative or reference purposes.

9. Reserve Bank Self-Evaluations

Each FRB carries out an annual self-evaluation based on guidance from the Board that includes instructions on the format, schedule, and content of the evaluation. The FRBs submit letters from the Chairmen of their Boards, the self-evaluation package, and copies of their strategic plans to the Board. Board staff analyzes the submissions, prepares briefing memoranda for the Committee on Reserve Bank Affairs (BAC), and provides comment letters to the FRB officials. Board staff creates a statistical supplement summarizing key financial and statistical indicators. The results of self-evaluations form the basis for salary adjustments for senior officials at the FRB, which are approved by the Board.

a. One record copy.

DISPOSITION: Temporary.

Cut off files annually. Retain at least 5 years, then destroy when no longer needed for administrative or reference purposes.

b. All other copies.

DISPOSITION: Temporary.

Cut off files annually. Destroy when no longer needed for administrative or reference purposes.

10. Reserve Bank Financial Statement Data

The records include financial statements with related statistical tables and supporting documentation. Board staff prepares an annual FRB combined financial statement, based on each FRB's annual adjusted trial balance report summarizing its adjusted balance sheet data, including related income, expense, and profit and loss balances. The Federal Reserve Bank of New York prepares an additional set of annual financial statements related to assets and liabilities it manages on behalf of all FRBs for regulating the money supply in line with monetary policy objectives. The financial statements prepared by the FRBs and the Board are audited by an external accounting firm and the results are reported to the Board. Combined financial statements, with supplemental financial information, are published in the Board's annual report.

a. Annual Audited Reserve Bank Financial Statements and Supporting Reserve Bank Trial Balance worksheet and supplemental data/tables.

DISPOSITION: Temporary.

Cut off annually. Retain 5 years after cutoff, or 2 years after the conclusion of the applicable external audit contract, whichever is longer, then destroy when no longer needed for administrative or reference purposes.

b. Work papers and related background information.

DISPOSITION: Temporary.

Cut off annually. Destroy when no longer needed for administrative or reference purposes.

11. Reports Relating to the Establishment of Prices for Services at the Reserve Banks

Board staff oversees the annual establishment of prices for certain FRB services as required by the Depository Institutions Deregulation and Monetary Control Act of 1980 and related policies. Board staff oversees the calculation of the private sector adjustment factor (PSAF) and the net income on clearing balances (NICB), which is used in the annual review of pricing for services performed by the FRBs. Board staff prepares statements that include supplemental information such as the allocation of pension costs to the priced services. Board staff also prepares pro forma financial statements for the priced services [published in the annual report]. Related reports describe the calculation of the cost of taxes, the return on capital, and imputed income on balances held if the services had been provided by a private business. Files include spreadsheets,

preliminary and final memoranda, calculations of balances and allocations. [Final memoranda and reports go to the Board for action and are scheduled with other records in direct support of the Board].

a. Annual Repricing, PSAF, NICB, and pension cost allocation workpapers and supporting schedules.

DISPOSITION: Temporary.

Cut off files annually. Retain at least 10 years, then destroy when no longer needed for administrative or reference purposes.

b. Work papers and supporting schedules for pro forma financial statements.

DISPOSITION: Temporary.

Cut off files annually. Retain at least 15 years, then destroy when no longer needed for administrative or reference purposes.

12. Reserve Bank Operations Databases

Operating expenses at the FRBs are monitored and controlled through electronic databases. The current system, the Planning and Control System (PACS), is a fully distributed cost allocation system. It accumulates all direct, support, and overhead expenses incurred by each FRB and ultimately distributes them to a number of output service lines. The service lines represent the Federal Reserve System's ("System") basic ongoing responsibilities. Following passage of the Depository Institutions Deregulation and Monetary Control Act of 1980, FRBs were required to begin charging fees for services provided to financial institutions. By 1982, the System was reporting cost/revenue (CORE) and volume data to the Board electronically. In 1986, PACS and CORE were integrated; data are collected in two separate data flows-monthly for cost/revenue and quarterly for planning and control purposes. Detailed instructions concerning the reporting and full-costing process are contained in the Planning and Control System and Cost/Revenue Manuals. PACS and CORE data are used by staff at the Board for a variety of analytical and evaluative purposes to achieve System goals. The Board also maintains a database for FRB budget review, comprising operating and capital budget data. The data are collected via the Financial Management Collection System, a PC-based client server application from which data is extracted and posted to the Board's mainframe computer. Outputs include various computer display screens/files and hard copy reports that are used to view and analyze the data. The computer display screens and files are updated as needed to reflect current needs. Hard copy reports are kept on hand for review and reference. Reports are also posted to the Board's website.

DISPOSITION: Temporary.

a. Master data files: Update as necessary to carry out current business of the Board. Maintain data at least 3 years after the current budget cycle, then destroy when no longer needed for administrative or reference purposes.

b. Source/Input Data: Delete when data have been entered into the master file and verified, and when no longer needed to support reconstruction of, or serve as a backup to, the master file.

c. Output:

(1) Reports (printed). Retain at least 5 years, then destroy when no longer needed for administrative or reference purposes.

(2) Computer screens/files Destroy when no longer needed for administrative or reference purposes.

d. Manuals: See Policy and Procedures (Item 14).

13. Reserve Bank Budget Records

Files may include the FRB budget outlook as approved by the Conferences of Presidents and First Vice Presidents; briefing papers for the Committee on Reserve Bank Affairs (BAC), budget instructions from Board staff providing guidance to Banks on items for inclusion and format of the budget submission, initial budget submissions from each district, databases with numerical details, printouts and budget models, summary memoranda for the BAC, final budget submission to the Board. [The final budget documents are scheduled with other records in direct support of the Board].

DISPOSITION: Temporary.

Cut off files annually. Retain at least 5 years, then destroy when no longer needed for administrative or reference purposes.

14. Policy and Procedures

Board staff creates and maintains files for the development of policies and procedures for certain FRB operations. The final product may be a policy letter or manual, a section of a policy manual, or a set of procedures. The Board usually approves policies; procedures are developed at the division level and may be distributed by the Secretary of the Board or by the division. Some of the policy documents, such as S Letters, the Federal Reserve Regulatory Service, and the Federal Reserve Administrative Manual, are scheduled elsewhere.

a. Final sets of procedures for Reserve Bank activities. Files include Board staff-developed manuals, guidance, or letters describing duties, responsibilities, procedures, activities, and reporting requirements for FRB programs overseen by the Board, such as delegations of authority for buildings and budgets, activities of general auditors, accounting procedures, and implementation of policies for payment system risk and accounting.

DISPOSITION: Temporary.

(1) One record set: Review files annually. Cut off files when superseded or rescinded. Retain at least 5 years, then destroy when no longer needed for administrative or reference purposes.

(2) All other copies: Destroy when superseded or rescinded.

b. Background and working files. Files are accumulated in the process of creating and

updating policies and procedures. Documentation includes copies of policy documents, drafts, comments, electronic mail messages, and memoranda.

DISPOSITION: Temporary.

Cut off files annually. Retain until the policy or procedure is superseded, then destroy when no longer needed for administrative or reference purposes.

15. Electronic copies.

Copies of records that are created on electronic mail and word processing systems and used solely to generate a record keeping copy of the records covered by the other items in this schedule. Also includes electronic copies of records created on electronic mail and word processing systems that are maintained for updating, revision, or dissemination.

DISPOSITION: Temporary

a. Copies that have no further administrative value after the record keeping copy is made. Includes copies maintained by individuals in personal files, personal electronic mail directories, or other personal directories on hard disk or network drives, and copies on shared network drives that are only to produce the record keeping copy. **Destroy or delete after the record keeping copy has been produced.**

b. Copies used for dissemination, revision, or updating that are maintained in addition to the record keeping copy. **Destroy or delete after dissemination, revision, or updating is completed.**

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Board Records Retention and Disposition Schedule

N1-82-95-02 Federal Open Market Committee Approved by NARA: 12-10-1996

FEDERAL OPEN MARKET COMMITTEE

1. Agenda for Federal Open Market Committee ("FOMC") meetings.

Currently made available to the public approximately 3 days after the next FOMC meeting.

DISPOSITION: Permanent.

Cut off at end of calendar year. Transfer to National Archives in 5-year blocks when the oldest record is 10 years old.

2. Publicly released minutes of FOMC meetings and monetary policy directives.

Currently made available to the public approximately 3 days after the next FOMC meeting. Published in the Federal Reserve Bulletin and the Federal Reserve Board's Annual Report. Records include:

2(a) Minutes of FOMC meetings from March 19, 1936 through March 16, 1976, including Memoranda of Discussion from mid-1967 through mid-March 1976.

DISPOSITION: Permanent.

Minutes with confidential information redacted have already been transferred to the National Archives. Unredacted minutes will be transferred to the National Archives in 5-year blocks when oldest record is 35 years old.

2(b) Minutes of Actions of FOMC meetings from June 20, 1967 through December 17, 1992.

DISPOSITION: Permanent.

These records have already been transferred to the National Archives.

2(c) Minutes of FOMC meetings from February 1993 onward.

DISPOSITION: Permanent.

Cut off at end of calendar year. By long-standing practice, records have been transferred to National Archives in 1-year blocks the following year.

3. Current Economic and Financial Conditions (the "Greenbook").

Analysis of recent economic developments in the U.S. and abroad and forecast of U.S. economic activity covering at least the period for which money and credit target ranges are statutorily required to be set. Prepared by the staff of the Board of Governors of the Federal Reserve System ("Board Staff") prior to each FOMC meeting. Records include:

3(a) The Greenbook, with confidential information redacted. Currently made available to the public in 1-year blocks with a 5-year lag.

DISPOSITION: Permanent.

Cut off at end of calendar year. Transfer to National Archives in 5-year blocks when oldest record is 10 years old

3(b) Unredacted version of the Greenbook (not publicly available).

DISPOSITION: Permanent.

Cut off at end of calendar year. Transfer to National Archives in 5-year blocks when oldest record is 35 years old.

4. Monetary Policy Alternatives (the "Bluebook"). Analysis of recent financial developments in the U.S. and abroad setting forth alternatives for the implementation of monetary policy over the upcoming intermeeting period. Prepared by Board Staff prior to each FOMC meeting. Twice yearly, the Bluebook sets forth alternative FOMC target ranges for money and credit growth over the next year or 18 months in accordance with Humphrey-Hawkins Act requirements. Records include:

4(a) The Bluebook, with confidential information redacted. Currently made available to the public in 1-year blocks with a 5-year lag.

DISPOSITION: Permanent.

Cut off at end of calendar year. Transfer to National Archives in 5-year blocks when oldest record is 10 years old.

4(b) Unredacted version of the Bluebook (not publicly available).

DISPOSITION: Permanent.

Cut off at end of calendar year. Transfer to National Archives in 5-year blocks when oldest record is 35 years old.

5. Current Economic Comment by District (the "Redbook"). Reports on regional economic conditions prepared prior to FOMC meetings by each Federal Reserve Bank with a summary for all regions. The reports, which cover the period from May 1970 through May 1983, include

confidential economic information obtained on a privileged basis.

DISPOSITION: Permanent.

Transfer to National Archives in 5-year blocks when the oldest record is 35 years old.

6. Transcripts of discussions at FOMC meetings.

Records include:

6(a) Redacted, lightly edited transcripts of FOMC meetings from March 1976 onward. Records include:

6(a)(i) Transcripts from March 1976 through 1983.

DISPOSITION: Permanent.

Transfer to National Archives in 2000.

6(a)(ii) Transcripts from 1984 through 1991.

DISPOSITION: Permanent.

Transfer to National Archives in 1997.

6(a)(iii) Transcripts from 1992 onward.

DISPOSITION: Permanent.

Cut off at end of calendar year. Transfer to National Archives in 5-year blocks when oldest record is 10 years old.

6(b) Unredacted transcripts of FOMC meetings, both unedited and lightly edited, from late March 1976 onward. Records include:

6(b)(i) Unredacted transcripts, both unedited and lightly edited, from late March 1976 through 1993. Prepared by FOMC Secretariat from tape recordings of meetings (See Item 6(c)(i) below). Records include both the raw transcripts of discussions prepared from the tape recordings and lightly edited transcripts containing confidential information.

DISPOSITION: Permanent.

Cut off at end of calendar year. Transfer to National Archives in 5-year blocks when oldest record is 35 years old.

6(b)(ii) Unredacted, lightly edited transcripts from 1994 onward.

DISPOSITION: Permanent.

Cut off at end of calendar year. Transfer to National Archives in 5-year blocks when oldest record is 35 years old.

6(c) Tape recordings of FOMC meetings from 1976 onward. Records include:

6(c)(i) Tape recordings from 1976 through December 1993. Tape recordings were transcribed verbatim to create the unedited transcripts described in Item 6(b)(i) above.

DISPOSITION: Temporary.

Destroy when unedited transcripts have been prepared.

6(c)(ii) Tape recordings from January 1994 onward. Tape recordings are transcribed verbatim and lightly edited to correct transcription errors. The transcripts are then contemporaneously reviewed by each meeting participant to verify his or her comments and to correct any additional grammar or transcription errors.

DISPOSITION: Temporary.

Destroy when transcripts have been reviewed by meeting participants and any remaining errors corrected.

6(d) Notes of the FOMC Secretariat on views expressed at FOMC meetings from February 1983 through the present (derived from the unedited transcripts (Item 6(b) above).

DISPOSITION: Permanent.

Cut off at end of calendar year. Transfer to National Archives in 5-year blocks when oldest record is 35 years old.

7. Domestic Daily Wire.

Brief daily narrative and statistical report prepared by Board staff regarding financial and reserve market conditions including a report of any domestic open market operations to be undertaken that day. Information is subsequently incorporated into the bi-weekly Reserve Maintenance Period Report and the intermeeting Manager's Report (Items 12 and 13 below).

DISPOSITION: Temporary.

Destroy when 3 months old.

8. Foreign Daily Wire.

Brief daily narrative and statistical report prepared by Board staff regarding conditions in the foreign exchange markets, including a report of any transactions by the Federal Reserve and other official institutions in these markets since the previous wire. Information is subsequently incorporated into the Foreign Exchange Operations and Market Conditions Weekly and the intermeeting Summary of Foreign Exchange and Foreign Money Market Developments (Items 12 and 13 below).

DISPOSITION: Temporary.

Destroy when 3 months old.

9. FOMC chronological files.

Records include:

9(a) From 1955 through 1994, files include: **ad hoc memoranda, special studies, papers and reports prepared for the FOMC on an irregular basis; general correspondence; and administrative materials such as FOMC rules, directives, authorizations and procedures.**

DISPOSITION: Permanent.

Cut off at end of calendar year. Transfer to National Archives in 5-year blocks when oldest record is 35 years old.

9(b) From 1995 onward, **FOMC chronological files** will be arranged under the following subject headings:

9(b)(i) Ad hoc memoranda, reports, correspondence and special studies.

DISPOSITION: Permanent.

Cut off at end of calendar year. Transfer to National Archives in 5-year blocks when oldest record is 35 years old.

9(b)(ii) Publicly available FOMC rules, authorizations, directives, procedures and related administrative materials. Changes in FOMC rules, procedures, authorizations and directives are reported in the FOMC minutes (Item 2 above) and the Federal Register.

DISPOSITION: Temporary.

Cut off at end of calendar year. Destroy when 5 years old.

10. Yearly Reports of Examination of System Open Market Accounts.

Narrative reports prepared by the Board's Division of Reserve Bank Operations in conjunction with the Federal Reserve Bank of New York's annual audit of domestic and foreign System open market accounts.

DISPOSITION: Temporary.

Destroy when 5 years old.

11. Oaths of Office of FOMC Members

DISPOSITION: Temporary.

Destroy when 5 years old.

FOMC DOCUMENTS ORIGINATING AT THE FEDERAL RESERVE BANK OF NEW YORK

12. Weekly or biweekly narrative reports on domestic and foreign open market operations from 1955 through May 1995 (Items 12(a) and 12(b) below). After May 1995, the domestic and foreign reports were combined and renamed (Item 12(c) below). Records include:

12(a) Reserve Maintenance Period Report on Open Market Operations and Securities Market Developments. Narrative report on domestic open market operations prepared by the Domestic Trading Desk at the Federal Reserve Bank of New York and distributed to FOMC members, weekly from 1955 through October 2, 1985, biweekly from October 16, 1985 through May 1995.

DISPOSITION: Temporary.

Destroy when 5 years old.

12(b) Foreign Exchange Operations and Market Conditions. Weekly report on conditions in foreign exchange markets and transactions by the Federal Reserve, U.S. Treasury, and foreign official institutions in these markets from 1955 through May 1995.

DISPOSITION: Temporary.

Destroy when 5 years old.

12(c) Weekly Report on Desk Operations and Market Developments. Incorporates the information described in Items 12(a) and 12(b) above. Distributed weekly from May 1995 onward.

DISPOSITION: Temporary.

Destroy when 5 years old.

13. Intermeeting period reports on domestic and foreign open market operations, financial market developments, market conditions and reserve conditions from 1955 through May 1995 (Items 13(a) and 13(b) below). After May 1995, the domestic and foreign reports were combined and renamed (Item 13 c) below). The reports are not redacted. Records include:

13(a) Intermeeting Period Report of Operations ("Manager's Report"). Summary of financial market developments, reserve conditions, and System open market operations during the intermeeting period. Prepared prior to each FOMC meeting by the Domestic Trading Desk at the Federal Reserve Bank of New York from 1955 through May 1995.

DISPOSITION: Permanent.

Cut off at end of calendar year. Transfer to National Archives in 5-year

blocks when oldest record is 35 years old.

13(b) Summary of Foreign Exchange and Foreign Money Market Developments. Summary of market conditions and transactions by the Federal Reserve and other official institutions in the foreign exchange markets during the intermeeting period. Prepared prior to each FOMC meeting by the Foreign Trading Desk at the Federal Reserve Bank of New York from 1955 through May 1995.

DISPOSITION: Permanent.

Cut off at end of calendar year. Transfer to National Archives in 5-year blocks when oldest record is 35 years old.

13(c) Summary of System Open Market Account and ESF Operations and Domestic and Foreign Market Developments. Incorporates the information described in Items 13(a) and 13(b) above. Prepared prior to each FOMC meeting from May 1995 onward.

DISPOSITION: Permanent.

Cut off at end of calendar year. Transfer to National Archives in 5-year blocks when oldest record is 35 years old.

14. Annual Reports to the FOMC prepared by the Manager(s) for Domestic Open Market Operations and Foreign Currency Operations. Narrative and statistical reports covering domestic and foreign open market operations and the economic and financial conditions underlying those operations. The Domestic Operations report is published by the Federal Reserve Bank of New York in abbreviated form in its Quarterly Review.

DISPOSITION: Permanent.

Cut off at end of calendar year. Transfer to National Archives in 5-year blocks when oldest record is 35 years old.

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Board Records Retention and Disposition Schedule

N1-82-99-01 Computer Operations Records Approved by NARA: 08-16-1999

COMPUTER OPERATIONS RECORDS

The Federal Reserve Board maintains a number of computer systems in support of the Board's mission. The activities supported include statistical data modeling, work group document sharing, electronic mail, word processing, web site distribution of information, and records management. Configurations currently include mainframe, local area networks, wide area networks, personal computers. Operating systems currently include mainframe, Unix, and Windows (NT). Configurations and operating systems will change over time. Records related to the design, implementation, testing, and maintenance of the various systems and operations are maintained in paper project files, identified by the name of the project, or in electronic files, also identified by the name of the project.

1. Project Records, Computer Operations

Records related to the development, installation, testing, operation, and maintenance of computer applications, work stations, networks, web sites, or other systems installed to carry out the mission of the Board. The records are created in both paper and electronic format and are filed or identified by project name. This item does **NOT** apply to the data within any program run on any of the systems. Project is considered open until the system is no longer in use.

DISPOSITION: Temporary.

Close files when the project is completed. Destroy 1 year after files are closed.

CENTURY DATE CONVERSION (Y2K) RECORDS

Records related to the initiative undertaken to ensure that automated systems will continue to function reliably when the date changes to the year 2000. The project related to activities conducted by all entities in the Federal Reserve System.

2. Project Records, Century Date Conversion (Y2K)

Records are created in both electronic and paper media, including word processing and electronic mail (SEE Item 3 below). For delegated functions, records may be created by the Federal Reserve Banks. Files may include but are not limited to:

Records related to overall Year 2000 efforts, plans, strategies, testing plans and

criteria, monitoring and tracking efforts, research papers, publications, and policy letters.

Lists of all applications (or systems) reviewed or assessed with notation of those requiring remedial work; scope of work needed to bring nonconforming applications or systems into compliance.

Testing documentation such as descriptions of types of tests performed on various systems (e.g., baseline, unit, regression, etc.); types of test systems used; procedures involved in testing; information sufficient to support the decisions to choose particular tests and to establish the validation of tests conducted; descriptions of extent of particular tests; information, such as summaries of test results and sign-offs, sufficient to establish the Year 2000 readiness of applications and systems tested; deviations from prescribed test results; criteria to determine that an application or system is Year 2000 ready; plans for retesting computers, applications or systems that fail a Year 2000 test and documentation as to how the failure was corrected; and, information sufficient to explain changes to applications or systems for Year 2000 readiness.

Reviews of the Year 2000 program conducted by the Board's Inspector General, the General Accounting Office, or conducted by an outside auditing firm.

Contracts (not including purchase orders) in which Year 2000 compliance is a stated requirement and contracts with outside consultants to address the century date change.

Records of correspondence with external vendors, such as documentation from Web sites or certification letters, describing the Year 2000 status of vendor products and services used by the Board. Records of correspondence, including web site postings, by the Board with customers, supervised institutions, and/or the public describing the agency's Year 2000 status.

DISPOSITION: Temporary. Close files at the end of the year 2000. Destroy 7 years after files are closed.

~~**3. Record Content Electronic Mail Messages and Word Processing Documents Retained on Backup Tapes:**~~

WITHDRAWN

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Board Records Retention and Disposition Schedule

N1-82-00-01 Inspector General Records Approved by NARA: 04-25-2001

INSPECTOR GENERAL RECORDS

This schedule covers Inspector general records, internal and external audits of Board activities [audits of Reserve Bank functions are scheduled with other supervisory records], and Board administrative litigation files. The dispositions cover records in all media.

1. Inspector General Investigative Case Files.

Case files are developed by the Board's Office of Inspector General during individual investigations of officers or employees of the Board of other persons involved in the Board's programs or operations who are or have been under investigation in order to determine whether such officers, employees or other persons have been or are engaging in fraud and abuse with respect to the Board's programs or operations. Each file includes investigative reports and related documents generated during the course of or subsequent to the investigation. Each file incorporates information in electronic and hard copy case tracking systems, databases containing investigatory information, "hotline" telephone logs, and investigator work papers and memoranda and letter referrals to management and others. These files do not include investigations related to enforcement activities of the Board over supervised financial institutions; these enforcement files are scheduled with other supervisory records.

DISPOSITION: Temporary.

Cut off files annually. Destroy 10 years after cutoff.

2. Files not related to specific investigations.

Files containing anonymous or vague allegations not warranting an investigation and support files providing general information that may prove useful in Inspector General investigations.

DISPOSITION: Temporary.

Cut off files annually. Destroy 5 years after cutoff.

3. Audit Workpaper Files.

Case files of audits of Board programs, operations, and procedures, and audits of contractors, containing audit reports, correspondence, memoranda, and supporting working papers.

DISPOSITION: Temporary.

Cut off files annually. Destroy 8 years after cutoff.

4. Litigation Case Files (Administrative).

Case files related to Board internal administrative matters, containing correspondence, internal memoranda, reports, affidavits, depositions, attorney notes, exhibits, transcripts, briefs, motions, and administrative and court opinions.

DISPOSITION: Temporary.

Cut off files annually. Destroy 20 years after cutoff.

5. Electronic copies of records that are created on electronic mail and word processing systems and used solely to generate a recordkeeping copy of the records covered by the other items in this schedule. These files may be maintained by individuals in personal files, personal electronic mail directories, or other personal directories on hard disk or network drives, and copies on shared network drives. This item also covers electronic copies of records created on electronic mail and word processing systems that are maintained to update, revise, or disseminate records.

DISPOSITION: Temporary.

Destroy or delete after the recordkeeping copy has been produced or after dissemination, revision, or updating is completed.

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Board Records Retention and Disposition Schedule

N1-82-97-01 Leave Records Approved by NARA: 01-08-1998

LEAVE RECORDS

1. Leave Requests

a. Leave Request and Correction Cards - original with three copies, used by staff to request leave or make corrections regarding leave. The copies are distributed for data entry and processing.

(1) Original - sent to Human Resources Management (HRM) after timekeeper has entered data into the system.

DISPOSITION: Temporary.

Cut off at end of calendar year. Destroy 2 years after cutoff.

(2) Division, Supervisor and Timekeeper copies

DISPOSITION: Temporary.

Cut off at end of calendar year. Destroy 1 year after cutoff.

(3) Office of the Controller copy - applies only to Leave without Pay requests.

DISPOSITION: Temporary.

Cut off at end of calendar year. Destroy after annual audit.

b. Leave Request Form - used by the Support Services division, submitted with leave request cards from each section, providing a single list of all leave requested for that section. Maintained by the administrative section of the division; not submitted to HRM.

DISPOSITION: Temporary.

Cut off at end of calendar year. Destroy 1 year after cutoff.

2. Leave Transaction Report - weekly report of all divisions, used by HRM to review data input by timekeepers.

DISPOSITION: Temporary.

Destroy after completing the verification of data.

3. Timekeeper's Verification Report - sent weekly by HRM to each division timekeeper to check data entry and make any necessary corrections.

DISPOSITION: Temporary.

Destroy after receipt of the Division Leave Report (one week).

4. Division Leave Report - corrected version of the Timekeeper's Verification Report. Issued weekly to each division by HRM. The appropriate supervisor signs each employee's leave report.

DISPOSITION: Temporary.

Cut off at end of calendar year. Destroy 2 years after cutoff or after HRM audit, whichever is sooner.

5. Initial and Monthly Leave Report - shows all the leave used by individual staff members for each division. The Initial Leave Report replaces the January Monthly Report.

a. Division copy

DISPOSITION : Temporary.

Destroy after 1 month.

b. HRM copies

DISPOSITION: Temporary.

Cut off at end of the calendar year. Destroy when End of Year Leave Report is completed.

6. End of Year Leave Report - shows leave balance for each staff member for the calendar year. The report is used only by HRM.

DISPOSITION: Temporary.

Destroy when report is 30 years old.

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Board Records Retention and Disposition Schedule

N1-82-99-01 Employee Performance Records Approved by NARA: 08-16-1999

EMPLOYEE PERFORMANCE RECORDS

The Board requests disposition authority for records normally covered by GRS 1, items 23a(3)(b) and 23b(2)(b). The Board has separate statutory authority to manage issues regarding its employees. In light of the fact that the courts have permitted plaintiffs to submit ten-year-old performance files into evidence, the Board requests authority to retain employee performance files for 10 years.

4. Employee Performance Case Files.

Files include the performance rating form and may include relevant related records such as performance plans, job elements, and the standards upon which the ratings are based. Records exist in paper and electronic format.

a. Paper Format. Record copy until an electronic recordkeeping system is established.

DISPOSITION: Temporary.

Cut off files at the end of the calendar year in which the rating was given. Destroy 10 years after cutoff.

b. Electronic Format.

(1) Files created prior to establishment of an electronic recordkeeping system.

DISPOSITION: Temporary.

Destroy when the recordkeeping copy has been printed and filed with related records.

(2) Electronic recordkeeping copy (when established).

DISPOSITION: Temporary.

Destroy 10 years after the end of the calendar year in which

the rating was given.

c. Managers' File Copies (All Formats).

Performance rating files with supporting documentation in addition to the record components listed above (e.g. notes, memos, correspondence, copies of forms or certificates).

DISPOSITION: Temporary.

Destroy when recordkeeping copies, either paper or electronic, have been placed in the files.

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Board Records Retention and Disposition Schedule

Master HMDA Data Files | Reports | Input Files | Doumentation

N1-82-05-01 Home Mortgage Disclosure Act approved by NARA: 01-20-06

Home Mortgage Disclosure Act Data and Related Records

The Home Mortgage Disclosure Act (HMDA), 12 U.S.C. § 2801 et seq. as implemented by the Board's Regulation C, requires banks, savings associations, credit unions, and for-profit mortgage lending instit (hereafter referred to as Reporters) to report data on residential loan applications. The purpose is to pro public loan data that can be used to assist:

- in determining whether financial institutions are serving the housing needs of their communities;
- public officials in distributing public-sector investments so as to attract private investment to area where it is needed; and
- in identifying possible discriminatory lending patterns.

All Reporters submit their HMDA data directly to the Board. The Board maintains, operates, and mana HMDA database on behalf of all participating agencies, including the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, Office of Thrift Supervision, National Credit Uni Administration, and the FFIEC. The Board prepares the disclosure forms required by HMDA, provides to reporters, compiles aggregate data and aggregates the data by Metropolitan Statistical Area (MSA), a makes HMDA data available to the public as required by law. The Board's responsibility for collecting managing HMDA data is described in the attached Memorandum of Understanding with the other parti agencies identified above.

1. Master HMDA Data Files.

HMDA data are derived from the Loan Application Register (LAR) and Transmittal Sheets (TS) submitted to the Board.[1] Reporting panel data[2] include lists of the Reporters' MSA's. There are two categories of data, "final" and "ultimate". Unrestricted "final" versions of data are made available to the public. "Ultimate" files are not made available to the public and include adjustments to the data incorporated in the 18 months following the reporting deadline.

A. Non-restricted[3] ultimate (TS and LAR) data file.

DISPOSITION: Permanent. Cut off when revisions to data are completed. Transfe copy of the data with documentation to NARA annually in accordance with 36 CFR 1228.270.

B. Non-restricted final (TS and LAR) data file.

DISPOSITION: Permanent. Cut off when revisions to data are completed. Transfer copy of the public use data with documentation to NARA annually in accordance with 36 CFR 1228.270.

C. Restricted[4] ultimate (TS and LAR) data file.

DISPOSITION: Temporary. Cut off annually. Retain for 5 years, then destroy or delete when no longer needed for reference or dissemination.

D. Restricted final (TS and LAR) data file.

DISPOSITION: Temporary. Cut off annually. Retain for 5 years, then destroy or delete when no longer needed for reference or dissemination.

E. Final Panel data file.

DISPOSITION: Permanent. Cut off when revisions to data are completed. Transfer copy of the public use data with documentation to NARA annually in accordance with 36 CFR 1228.270.

F. Ultimate Panel data file.

DISPOSITION: Permanent. Cut off when revisions to data are completed. Transfe copy of the data with documentation to NARA annually in accordance with 36 CFR 1228.270.

G. HMDA/Community Reinvestment Act (CRA) Combined Census file.

DISPOSITION: Permanent. Cut off annually. Transfer copy of the public use data with documentation to NARA annually in accordance with 36 CFR 1228.270.

2. Reports.

The Board produces aggregate disclosure reports from the master files that interpret HMDA data follows.

A. Aggregate Report.

DISPOSITION: Permanent. Cut off annually. Transfer copy with documentation t NARA after cut off in accordance with 36 CFR 1228.270.

B. National Aggregate Report.

DISPOSITION: Permanent. Cut off annually. Transfer copy with documentation t NARA annually in accordance with 36 CFR 1228.270.

C. Disclosure Statements.

DISPOSITION: Permanent. Cut off annually. Transfer copy of the public use dat documentation to NARA annually in accordance with 36 CFR 1228.270.

D. Intermediate Files and Ad Hoc Files and Reports.

DISPOSITION: Temporary. Destroy or delete when no longer needed for reference or dissemination.

3. Input Files.

This item covers HMDA data submissions from lending institutions forwarded from oversight ag to the Board. HMDA data are primarily sent electronically, although some paper forms are subm occasionally. After the data are received by the Board, the data are extracted or manually enterec the HMDA database.

DISPOSITION: Temporary. Delete or destroy after input data have been transferred to the master file and verified, or when no longer needed to reconstruct or backup the master file, whichever is later.

4. Documentation.

a. Data systems specifications, file specifications, codebooks, record layouts, user guides, and ou specifications (regardless of medium) relating to the master file, data, and electronic reports that l been scheduled as permanent in this disposition schedule.

DISPOSITION: PERMANENT. Transfer to NARA with related master file, data, and/or electronic reports.

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Board Records Retention and Disposition Schedule

Transcripts | Recordings | Administrative Material

N1-82-07-01 Designated Historical Materials Relating to the Federal Reserve's Centennial Approved by NARA: 12-17-07

Designated Historical Materials Relating to the Federal Reserve's Centennial

As the Federal Reserve System approaches its 100th anniversary in 2013, the Board has decided to initi project to collect and preserve historical materials that might otherwise be lost. The project includes re interviews with former employees and others about past economic and regulatory developments and co anecdotes about the changing work environment over time. The records and other material generated b creating, editing and archiving these recordings and the related transcripts are described in this schedule project will generate written transcripts, audio and video recordings, and administrative records. The disposition of those materials is summarized below.

1. Transcripts

a. Final Transcripts of Oral History Interviews

Final transcripts of oral history interviews as approved by the interviewee, with the Board retaining the right to edit confidential FOMC and Board material in accordance with its NARA-approved records retention and disposition schedules covering FOMC and Board records. All FOMC-related information will be released to the public in accordance with established schedules.

DISPOSITION: Permanent.

For oral history interviews conducted before the Board's celebration of the System's 100th anniversary, transfer to NARA no later than five years after the celebration. For interviews conducted after the celebration, transfer to NARA no later than five years after the Final Transcripts and Final Recordings have been produced.

b. All Other Transcripts of Interviews

Draft transcripts and supporting materials of interviews for the Board's oral history project. Prepared by Board staff or by an outside contractor and edited by Board staff for transcription errors.

DISPOSITION: Temporary. Destroy after corresponding Final Transcript (Item 1.a.) is complete. In instances in which no final transcript is created, destroy materials when no longer needed for administrative purposes.

2. Recordings

a. Final Recordings of Oral History Interviews

Final recordings of oral history interviews as approved by the interviewee, with the Board retaining the right to edit confidential FOMC and Board material in accordance with its NARA-approved records retention and disposition schedules covering FOMC and Board records. All FOMC-related information will be released to the public in accordance with established schedules.

DISPOSITION: Permanent.

Transfer to NARA along with the Final Transcripts of Oral History Interviews (Items 1.a).

b. All Other Recordings

Recordings made by Board staff or contractors of interviews for the Board's oral history project.

DISPOSITION: Temporary.

Destroy after Final Transcript and Final Recording (Items 1.a and 2.a, respectively) have been produced. In instances in which no final recording or final transcript is created, destroy materials when no longer needed for administrative purposes.

3. Administrative Material

a. Statement of Purpose and Disclaimer

A statement of the purpose of the oral history project and the interview procedures to be used, an a disclaimer by the Board regarding responsibility for the accuracy of the statements made by the interviewees.

DISPOSITION: Permanent. Transfer to NARA along with the Final Transcripts of Oral History Interviews (Item 1.a).

b. Oral History Project Interview Agreement

A document provided by the Board and signed by interviewee specifying the transfer of copyrigh to the Board of Governors.

DISPOSITION: Permanent. Transfer to NARA along with the Final Transcripts of Oral History Interviews (Item 1.a).

c. Policies and Procedures

A statement of the policies and procedures to be used in preparing for and conducting the oral history interviews.

> **DISPOSITION: Permanent.** Transfer to NARA along with the Final Transcripts of Oral History Interviews (Item 1.a).

d. Interviewee List

A listing of the names of the people interviewed and their interviewers, and the location and date of the interview.

> **DISPOSITION: Permanent.** Transfer to NARA along with the Final Transcripts of Oral History Interviews (Item 1.a).

e. Briefing Packet

Material (such as charts of key economic variables and news clippings mentioning the interviewee) collected by Board staff in preparation for the interview and sent to the interviewee before the interview. The packet also includes the list of members of the interview team, the draf agenda for the interview, and a copy of the Oral History Project Interview Agreement, a copy of this Records Retention and Disposition Policy for Designated Historical Materials Relating to the Federal Reserve's Centennial.

> **DISPOSITION: Permanent.** Transfer to NARA along with the Final Transcripts of Oral History Interviews (Item 1.a).

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September 2009

Federal Reserve System Monthly Report on

Credit and Liquidity Programs and the Balance Sheet

Board of Governors of the Federal Reserve System

Purpose

The Federal Reserve prepares this monthly report as part of its efforts to enhance transparency in connection with its various programs to foster market liquidity and financial stability and to ensure appropriate accountability to the Congress and the public concerning policy actions taken to address the financial crisis. The report provides detailed information on the new policy tools that have been implemented since the summer of 2007. The Federal Reserve considers transparency about the goals, conduct, and stance of monetary policy to be fundamental to the effectiveness of monetary policy. The Federal Reserve Act sets forth the goals of monetary policy, specifically, "to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates." Since the summer of 2007, the Federal Reserve has undertaken a number of important steps aimed at providing liquidity to important financial markets and institutions to support overall financial stability. Financial stability is a critical prerequisite for achieving sustainable economic growth, and all of the Federal Reserve's actions during the crisis have been directed toward achieving its statutory monetary policy objectives.

For prior editions of this report along with other resources, please visit the Board's public website at www.federalreserve.gov/monetarypolicy/bst_reportsresources.htm.

Note: Financial information in this report has not been audited. Audited financial data are prepared annually and are available at www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm.

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Overview

Recent Developments

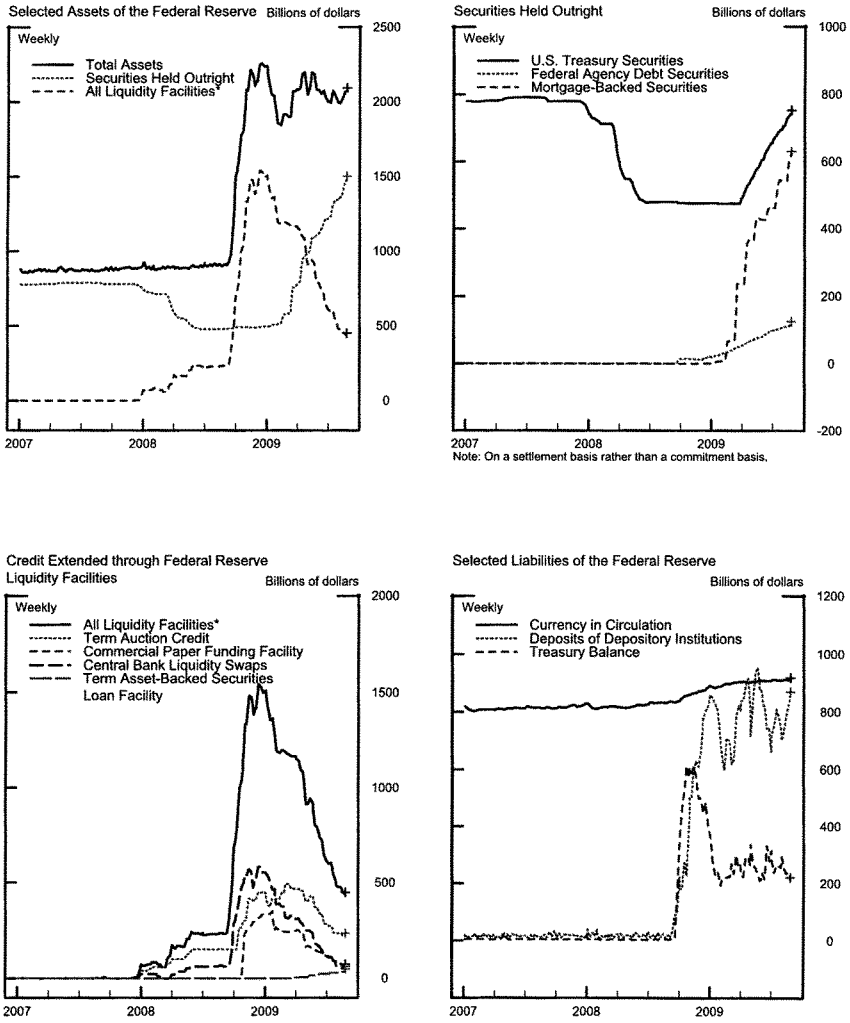
- Continued improvements in financial market conditions have been accompanied by further declines in credit extended through many of the Federal Reserve's liquidity programs.
- Borrowing from the Term Securities Lending Facility (TSLF) dropped to zero on August 14, 2009, and the amount of credit outstanding under the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF) fell below $100 million on August 26, 2009.
- The Federal Reserve announced on August 28, 2009, that the amount of Term Auction Facility (TAF) credit offered at the September auctions would be reduced to $75 billion from $100 billion in August.
- The Federal Reserve has continued to purchase large volumes of Treasury, agency, and agency-guaranteed mortgage-backed securities (MBS) under its large-scale asset purchase programs. Effective September 1, 2009, the Federal Reserve began to accept on-the-run agency securities—the most recently issued securities—for purchase.

Table 1. Selected Assets, Liabilities, and Capital Accounts of the Federal Reserve System
($ billions)

Item	Current August 26, 2009	Change from July 29, 2009	Change from August 27, 2008
Total assets	2,078	+75	+1,166
Selected assets:			
Securities held outright	1,485	+140	+1,005
U.S. Treasury securities[1]	745	+49	+265
Agency securities[1]	117	+11	+117
Agency-guaranteed mortgage-backed securities[2]	623	+80	+623
Memo: TSLF[3]	0	−3	−117
Memo: Overnight securities lending[3]	13	+4	+6
Memo: Net commitments to purchase MBS[4]	140	+5	+140
Lending to depository and other financial institutions	252	−23	+83
Primary, secondary, and seasonal credit	31	−5	+12
TAF	221	−17	+71
PDCF	0	0	0
AMLF	*	−1	+*
Foreign central bank liquidity swaps[5]	60	−28	−7
Lending through other credit facilities	84	−14	+84
Net portfolio holdings of CPFF LLC[6]	49	−18	+49
TALF	35	+5	+35
Support for specific institutions	101	−3	+72
Credit extended to AIG, net[7]	39	−3	+39
Net portfolio holdings of Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs[8]	62	+*	+33
Total liabilities	2,028	+74	+1,157
Selected liabilities:			
Federal Reserve notes in circulation	870	−1	+74
Deposits of depository institutions	862	+115	+843
U.S. Treasury, general account	13	−45	+8
U.S. Treasury, supplementary financing account	200	0	+200
Other deposits	*	−1	−*
Total capital	51	+1	+10

Note: Unaudited. Components may not sum to totals because of rounding.
* Less than $500 million.
1. Face value.
2. Current face value, which is the remaining principal balance of the underlying mortgages. Does not include unsettled transactions.
3. Securities loans under the TSLF and the overnight facility are off-balance-sheet transactions. These loans are shown here as a memo item to indicate the portion of securities held outright that have been lent through this program.
4. Current face value. These generally settle within 180 days and include commitments associated with outright transactions as well as dollar rolls.
5. Dollar value of the foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank.
6. Net portfolio holdings includes commercial paper holdings, net, and about $5 billion in other investments.
7. Excludes credit extended to Maiden Lane II and III LLCs.
8. Fair value, reflecting values as of June 30, 2009. Fair value reflects an estimate of the price that would be received upon selling an asset if the transaction were to be conducted in an orderly market on the measurement date. Fair values are updated quarterly.

Figure 1. Credit and Liquidity Programs and the Federal Reserve's Balance Sheet



+ indicates most recent data point. Data are shown through 8/26/2009.
*All Liquidity Facilities includes: Term Auction credit; primary credit; secondary credit; seasonal credit; Primary Dealer Credit Facility; Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility; Term Asset-Backed Securities Loan Facility; Commercial Paper Funding Facility; and central bank liquidity swaps.

- On September 1, 2009, the Federal Reserve Bank of New York named four non-primary dealer broker-dealers as agents for the Term Asset-Backed Securities Loan Facility (TALF). These agents will represent borrowers in accessing the facility.
- Information on the portfolio composition and ratings of securities in the Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC as of June 30, 2009, is presented in this report.

System Open Market Account Holdings and Liquidity Arrangements with Foreign Central Banks

System Open Market Account (SOMA) Portfolio

Recent Developments

- The SOMA portfolio has continued to expand in recent weeks, reflecting Federal Reserve purchases of securities under the large-scale asset purchase programs (LSAPs) announced by the Federal Open Market Committee (FOMC). Effective September 1, 2009, the Federal Reserve began to accept on-the-run agency securities—the most recently issued securities—for purchase in order to mitigate market dislocations and promote overall market functioning. Prior to this date, purchases were focused on off-the-run agency securities.
- As of August 26, 2009, the Federal Reserve had purchased about $268 billion in Treasury securities, $117 billion in agency debt, and $623 billion in mortgage-backed securities (MBS) as part of the FOMC's LSAPs.
- About 82 percent of the Treasuries purchased have been nominal Treasury securities in the two to 10 year maturity range, and about 13 percent have been in nominal securities with maturities greater than 10 years. The remainder of the purchases has been Treasury Inflation-Protected Securities (TIPS) and nominal securities maturing in less than two years.
- As of August 26, 2009, approximately 83 percent of SOMA MBS holdings were in 4 and 4.5 percent coupon securities.

Background

Open market operations (OMOs)—the purchase and sale of securities in the open market by a central bank—are a key tool used by the Federal Reserve in the implementation of monetary policy. Historically, the Federal Reserve has used OMOs to adjust the supply of reserve balances so as to keep the federal funds rate around the target federal funds rate established by the FOMC. OMOs are conducted by the Trading Desk at the Federal Reserve Bank of New York (FRBNY), which acts as agent for the FOMC. The range of securities that the Federal Reserve is authorized to purchase and sell is relatively limited. The authority to conduct OMOs is found in section 14 of the Federal Reserve Act.

OMOs can be divided into two types: permanent and temporary. Permanent OMOs are outright purchases or sales of securities for the SOMA, the Federal Reserve's portfolio. Permanent OMOs have traditionally been used to accommodate the longer-term factors driving the expansion of the Federal Reserve's balance sheet, principally the trend growth of currency in circulation. The composition of the SOMA is shown in Table 2. Temporary OMOs are typically used to address reserve needs that are deemed to be transitory in nature. These operations are either repurchase agreements (repos) or reverse repurchase agreements (reverse repos). Under a repo, the Trading Desk buys a security under an agreement to resell that security in the future. A repo is the economic equivalent of a collateralized loan, in which the difference between the purchase and sale prices reflects the interest on the loan.

Each OMO affects the Federal Reserve's balance sheet; the size and nature of the effect depend on the specifics of the operation. The Federal Reserve publishes its balance sheet each week in the H.4.1 statistical release, "Factors Affecting Reserve Balances of Depository Institutions and Consolidated Statement of Condition of Reserve Banks" (www.federalreserve.gov/releases/h41). The release separately reports securities held outright, repos, and reverse repos.

Table 2. System Open Market Account (SOMA) Holdings
As of August 26, 2009

Security type	Total par value ($ billions)
U.S. Treasury bills	18
U.S. Treasury notes and bonds	676
Treasury Inflation-Protected Securities[1]	44
Agency securities[2]	117
Agency-guaranteed mortgage-backed securities[3]	623
Total SOMA holdings	1,479

Note: Unaudited. Components may not sum to total because of rounding. Does not include unsettled transactions.

1. Does not reflect inflation compensation of about $6 billion.
2. Direct obligations of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.
3. Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the underlying mortgages.

The Federal Reserve's approach to the implementation of monetary policy has evolved considerably since 2007, and particularly so since late 2008. The FOMC has established a near-zero target range for the federal funds rate, implying that the very large volume of reserve balances provided through the various liquidity facilities is consistent with the FOMC's funds rate objectives. In addition, OMOs have provided increasing amounts of reserve balances. To help reduce the cost and increase the availability of credit for the purchase of houses, on November 25, 2008, the Federal Reserve announced that it would buy direct obligations of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks and MBS guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. The Federal Reserve determined that supporting the MBS "dollar roll" market promotes the goals of the MBS purchase program. Dollar roll transactions, which consist of a purchase of securities combined with an agreement to sell securities in the future, provide short-term financing to the MBS market. Because of principal and interest payments and occasional delays in the settlement of transactions, the Federal Reserve also has some cash associated with the MBS purchase program. The FOMC has authorized purchases of up to $1.25 trillion of agency MBS and up to $200 billion of agency direct obligations by the end of this year. The FRBNY announced in August that it would streamline the set of external investment managers for the agency-guaranteed MBS purchase program, reducing the number of investment managers from four to two. These changes were not performance related. The FRBNY had anticipated that it would adjust its use of external investment managers as it gained more experience with the program. The Federal Reserve's outright holdings of mortgage-backed securities are reported weekly in tables 1, 3, 9, and 10 of the H.4.1 statistical release.

In March 2009, the FOMC announced that it would also purchase up to $300 billion of longer-term Treasury securities to help improve conditions in private credit markets. The Federal Reserve has purchased a range of securities across the maturity spectrum, including TIPS. The bulk of purchases have been in intermediate maturities. In August 2009, the FOMC announced that in order to promote a smooth transition in markets as purchases of these Treasury securities are completed, it has decided to gradually slow the pace of these transactions and anticipates that the purchases will be completed by the end of October. The Federal Reserve conducts purchases through regular auctions; auction results are posted to the FRBNY website at www.newyorkfed.org/markets/openmarket.html.

Liquidity Swaps

Recent Developments

- Use of the Federal Reserve's foreign central bank dollar liquidity swaps has continued to decline, consistent with a general improvement of conditions in short-term funding markets.
- As shown in Table 3, as of August 26, 2009, total dollar liquidity extended to foreign central banks had dropped to $60 billion.

Background

Because of the global character of bank funding markets, the Federal Reserve has worked with other central banks in providing liquidity to financial markets and institutions. As part of these efforts, the FRBNY has entered into agreements to establish temporary reciprocal currency arrangements (central bank liquidity swap lines) with a number of foreign central banks. Two types of temporary swap lines have been established—dollar liquidity lines and foreign-currency liquidity lines.

The FRBNY operates swap lines under the authority in section 14 of the Federal Reserve Act and in compliance with authorizations, policies, and procedures established by the FOMC.

Dollar Liquidity Swaps

On December 12, 2007, the FOMC announced that it had authorized dollar liquidity swap lines with the European Central Bank and the Swiss National Bank to provide liquidity in U.S. dollars to overseas markets.

Table 3. Amounts Outstanding under Dollar Liquidity Swaps

Central bank	Amount ($ billions) 8/26/2009	Amount ($ billions) 12/31/2008
Bank of Canada	0	0
Banco de Mexico	3	0
European Central Bank	43	291
Swiss National Bank	*	25
Bank of Japan	3	123
Bank of England	*	33
Danmarks Nationalbank	2	15
Reserve Bank of Australia	0	23
Sveriges Riksbank	3	25
Norges Bank	1	8
Reserve Bank of New Zealand	0	0
Bank of Korea	6	10
Banco Central do Brasil	0	0
Monetary Authority of Singapore	0	0
Total	60	554

Note: Unaudited. Components may not sum to totals because of rounding.

* Less than $500 million.

Subsequently, the FOMC authorized dollar liquidity swap lines with additional central banks. The FOMC has authorized through February 1, 2010, the arrangements between the Federal Reserve and each of the following central banks: the Reserve Bank of Australia, the Banco Central do Brasil, the Bank of Canada, the Bank of Japan, Danmarks Nationalbank, the Bank of England, the European Central Bank, the Bank of Korea, the Banco de Mexico, the Reserve Bank of New Zealand, Norges Bank, the Monetary Authority of Singapore, Sveriges Riksbank, and the Swiss National Bank.

Swaps under these lines consist of two transactions. When a foreign central bank (FCB) draws on its swap line with the FRBNY, the FCB sells a specified amount of its currency to the FRBNY in exchange for dollars at the prevailing market exchange rate. The FRBNY holds the foreign currency in an account at the FCB. The dollars that the FRBNY provides are deposited in an account that the FCB maintains at the FRBNY. At the same time, the FRBNY and the FCB enter into a binding agreement for a second transaction that obligates the FCB to buy back its currency on a specified future date at the same exchange rate. The second transaction unwinds the first. Because the swap transaction will be unwound at the same exchange rate used in the initial transaction, the recorded value of the foreign currency amounts is not affected by changes in the market exchange rate. At the conclusion of the second transaction, the FCB pays interest at a market-based rate to the FRBNY.

When the FCB lends the dollars it obtained by drawing on its swap line to institutions in its jurisdiction, the dollars are transferred from the FCB account at the FRBNY to the account of the bank that the borrowing institution uses to clear its dollar transactions. The FCB remains obligated to return the dollars to the FRBNY under the terms of the agreement, and the FRBNY is not a counterparty to the loan extended by the FCB. The FCB bears the credit risk associated with the loans it makes to institutions in its jurisdiction.

The foreign currency that the Federal Reserve acquires is an asset on the Federal Reserve's balance sheet. In tables 1, 9, and 10 of the weekly H.4.1 statistical release, the dollar value of amounts that the foreign central banks have drawn but not yet repaid is reported in the line entitled "Central bank liquidity swaps." Dollar liquidity swaps have maturities ranging from overnight to three months. Table 2 of the H.4.1 statistical release reports the remaining amount of outstanding dollar liquidity swaps.

Foreign-Currency Liquidity Swap Lines

On April 6, 2009, the FOMC announced foreign-currency liquidity swap lines with the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank. These lines are designed to provide the Federal Reserve with the capacity to offer liquidity to U.S. institutions in foreign currency should a need arise. These lines mirror the existing dollar liquidity swap lines, which provide FCBs with the capacity to offer U.S. dollar liquidity to financial institutions in their jurisdictions. If drawn upon, the foreign-currency swap lines would support operations by the Federal Reserve to address financial strains by providing liquidity to U.S. institutions in amounts of up to £30 billion (sterling), ¥80 billion (euro), €10 trillion (yen), and CHF 40 billion (Swiss francs). The FOMC has authorized these liquidity swap lines through February 1, 2010. So far, the Federal Reserve has not drawn on these swap lines.

Lending Facilities to Support Overall Market Liquidity

Lending to Depository Institutions

Recent Developments

- Credit provided to depository institutions through the discount window and the Term Auction Facility (TAF) has continued to decline, primarily reflecting reductions in loans outstanding under the TAF.
- TAF auctions continue to be undersubscribed and, as a result, the auction rate has been equal to the minimum bid rate of 25 basis points for some time.
- The September TAF auctions have been reduced in size to $75 billion from $100 billion in August, which represents the third consecutive month of reduction in auction offering amounts. Offered amounts have been reduced in light of improving market conditions.
- As indicated in Table 6, total collateral pledged by depository institutions with discount window loans outstanding on August 26, 2009, was $540 billion, more than twice the amount of credit outstanding.

Background

The discount window helps to relieve liquidity strains for individual depository institutions and for the banking system as a whole by providing a source of funding in times of need. Much of the statutory framework that governs lending to depository institutions is contained in section 10B of the Federal Reserve Act, as amended. The general policies that govern discount window lending are set forth in the Board's Regulation A. Depository institutions have, since 2003, had access to three types of discount window credit—primary credit, secondary credit, and seasonal credit. Primary credit is available to depository institutions in generally sound financial condition with few administrative requirements. Secondary credit may be provided to depository institutions that do not qualify for primary credit, subject to review by the lending Reserve Bank. Seasonal credit provides short-term funds to smaller depository institutions that experience regular seasonal swings in loans and deposits. In December 2007, the Federal Reserve introduced the TAF, which provides credit through an auction mechanism to depository institutions in generally sound financial condition. All regular discount window loans and TAF loans must be fully collateralized to the satisfaction of the lending Reserve Bank, with an appropriate "haircut" applied to the value of the collateral.

In extending credit to depository institutions, the Federal Reserve closely monitors the financial condition of borrowers. Monitoring the financial condition of depository institutions is a four-step process designed to minimize the risk of loss to the Federal Reserve posed by weak or failing depository institutions. The first step is monitoring, on an ongoing basis, the safety and soundness of all depository institutions that access or may access the discount window and the payment services provided by the Federal Reserve. The second step is identifying institutions whose condition, characteristics, or affiliation would present higher-than-acceptable risk to the Federal Reserve in the absence of controls on their access to Federal Reserve lending facilities and other Federal Reserve services. The third step is communicating—to staff within the Federal Reserve System and to other supervisory agencies, if

Table 4. Discount Window Credit Outstanding to Depository Institutions

Daily average borrowing for each class of borrower over four weeks ending August 26, 2009

Type and size of borrower	Average number of borrowers[1]	Average borrowing ($ billions)[2]
Commercial banks[3]		
Assets: more than $50 billion	17	104
Assets: $5 billion to $50 billion	51	130
Assets: $250 million to $5 billion	140	17
Assets: less than $250 million	111	1
Thrift institutions and credit unions	47	8
Total	365	260

Note: Unaudited. Includes primary, secondary, seasonal, and Term Auction Facility credit. Size categories based on total domestic assets from Call Report data as of June 30, 2009. Components may not sum to totals because of rounding.

1. Average daily number of depository institutions with credit outstanding. Over this period, a total of 538 institutions borrowed.
2. Average daily borrowing by all depositories in each category.
3. Includes branches and agencies of foreign banks.

Table 5. Discount Window Credit Outstanding to Depository Institutions—Concentration at Largest Borrowers

For four weeks ending August 26, 2009

Ranking	Number of borrowers	Daily average borrowing ($ billions)
Rank by amount of borrowing		
Top five	5	91
Next five	5	39
Other	355	130
Total	365	260

Note: Unaudited. Amount of primary, secondary, seasonal, and TAF credit extended to the top five and next five borrowers on each day, as ranked by daily average borrowing. Components may not sum to totals because of rounding.

Table 6. Lendable Value of Collateral Pledged by Borrowing Depository Institutions
As of August 26, 2009

Type of collateral	Lendable value ($ billions)
Loans	
Commercial	113
Residential mortgage	3
Commercial real estate	40
Consumer	37
Securities	
U.S. Treasury/agency	8
Municipal	28
Corporate market instruments	39
MBS/Collateralized Mortgage Obligations (CMO):	
Agency-guaranteed	34
MBS/CMO: Other	31
Asset-backed	150
International (sovereign, agency, municipal, and corporate)	57
Total	540

Note: Unaudited. Collateral pledged by borrowers of primary, secondary, seasonal, and TAF credit as of the date shown. Total primary, secondary, seasonal, and TAF credit on this date was $252 billion. The lendable value of collateral pledged by all depository institutions, including those without any outstanding loans, was $1,548 billion. Lendable value is value after application of appropriate haircuts. Components may not sum to total because of rounding.

and when necessary—relevant information about those institutions identified as posing higher risk. The fourth step is implementing appropriate measures to mitigate the risks posed by such entities.

At the heart of the condition monitoring process is an internal rating system that provides a framework for identifying institutions that may pose undue risks to the Federal Reserve. The rating system relies mostly on information from each institution's primary supervisor, including CAMELS ratings,[1] to identify potentially problematic institutions and classify them according to the severity of the risk they pose to the Federal Reserve. Having identified institutions that pose a higher risk, the Federal Reserve then puts in place a standard set of risk controls that become increasingly stringent as the risk posed by an institution grows; individual Reserve Banks may implement additional risk controls to further mitigate risk if they deem it necessary.

Collateral

All extensions of credit by the Federal Reserve must be secured to the satisfaction of the lending Reserve Bank by "acceptable collateral." Assets accepted as collateral are assigned a lendable value deemed appropriate by the Reserve Bank; lendable value is determined as the market price of the asset less a haircut.

1. CAMELS is a rating system employed by banking regulators to assess the soundness of depository institutions. CAMELS is an acronym that stands for Capital, Assets, Management, Earnings, Liquidity, and Sensitivity.

Table 7. Lendable Value of Securities Pledged by Depository Institutions by Rating
As of August 26, 2009

Type of security and rating	Lendable value ($ billions)
U.S. Treasury, agency, and agency-guaranteed securities	142
Other securities	
AAA	207
Aa/AA[1]	48
A[2]	68
Baa/BBB[3]	26
Other investment-grade[4]	95
Total	587

Note: Unaudited. Lendable value for all institutions that have pledged collateral, including those that were not borrowing on the date shown. Lendable value is value after application of appropriate haircuts. Components may not sum to total because of rounding.

1. Includes short-term securities with A-1+ rating or MIG 1 or SP-1+ municipal bond rating.
2. Includes short-term securities with A-1 rating or SP-1 municipal bond rating.
3. Includes short-term securities with A-2, P-2, A-3, or P-3 rating.
4. Determined based on a credit review by a Reserve Bank.

When a market price is not available, a haircut may be applied to the outstanding balance or a valuation based on an asset's cash flow. Haircuts reflect credit risk and, for traded assets, the historical volatility of the asset's price and the liquidity of the market in which the asset is traded; the Federal Reserve's haircuts are generally in line with typical market practice. The Federal Reserve applies larger haircuts, and thus assigns lower lendable values, to assets for which no market price is available relative to comparable assets for which a market price is available. A borrower may be required to pledge additional collateral if its financial condition weakens. Collateral is pledged under the terms and conditions specified in the Federal Reserve Banks' standard lending agreement, Operating Circular No. 10 (www.frbservices.org/files/regulations/pdf/operating_circular_10.pdf).

Discount window loans and extensions of credit through the TAF are made with recourse to the borrower beyond the pledged collateral. Nonetheless, collateral plays an important role in mitigating the credit risk associated with these extensions of credit. The Federal Reserve generally accepts as collateral for discount window loans and TAF credit any assets that meet regulatory standards for sound asset quality. This category of assets includes most performing loans and most investment-grade securities, although for some types of securities (including commercial mortgage-backed securities, collateralized debt obligations, collateralized loan obligations, and certain non-dollar-denominated foreign securities) only AAA-rated securities are accepted. Institutions may not pledge as collateral any instruments that they or their affiliates have issued. Additional collateral is required for discount window and TAF loans with remaining maturity of more than 28 days—for these loans, borrowing only

Table 8. Discount Window Credit Outstanding to Depository Institutions—Percent of Collateral Used
As of August 26, 2009

Percent of collateral used	Number of borrowers	Total borrowing ($ billions)
Over 0 and under 25	106	18
25 to 50	109	70
50 to 75	105	106
75 to 90	43	56
Over 90	9	2
Total	372	252

Note: Unaudited. Components may not sum to totals because of rounding.

up to 75 percent of available collateral is permitted. To ensure that they can borrow from the Federal Reserve should the need arise, many depository institutions that do not have an outstanding discount window or TAF loan nevertheless routinely pledge collateral.

In August 2009, the Federal Reserve announced changes to the lending margins on discount window collateral that will take effect on October 19, 2009. The Federal Reserve periodically reviews its collateral valuation practices, and the new collateral margins reflect the results of a broad-based review of methodology and data sources that began before the current financial crisis. For more information on the upcoming changes to collateral margins, see the Discount Window and Payments System Risk public website (www.frbdiscountwindow.org).

As shown in Table 8, most depository institutions that borrow from the Federal Reserve maintain collateral well in excess of their current borrowing levels.

Lending to Primary Dealers

Recent Developments

- Borrowing from the Term Securities Lending Facility (TSLF) fell to zero on August 14, 2009, reflecting further improvements in secured funding markets. There has been no borrowing at the Primary Dealer Credit Facility (PDCF) since mid-May.

Table 9. Credit Outstanding to Primary Dealers
As of August 26, 2009

Number of borrowers	Borrowing under Primary Dealer Credit Facility (PDCF) ($ billions)	Borrowing under Term Securities Lending Facility (TSLF) ($ billions)
0	0	0

Note: Unaudited. Borrowing figures represent total amounts of PDCF and TSLF credit extended on August 26, 2009. The total reported for the TSLF represents the par value of securities lent.

Background

On March 16, 2008, the Federal Reserve announced the creation of the PDCF, which is an overnight loan facility that provides funding to primary dealers and helps foster improved conditions in financial markets more generally. The Federal Reserve Board has authorized the extension of credit from the PDCF through February 1, 2010. While there is currently no borrowing under the PDCF, the Board believes that it is appropriate to continue to provide the PDCF as a backstop facility in the near term while financial market conditions remain somewhat fragile.

PDCF credit is fully secured by collateral with appropriate haircuts—that is, the value of the collateral exceeds the value of the loan extended. Initially, eligible collateral was restricted to investment-grade securities. On September 14, 2008, however, the set of eligible collateral was broadened to closely match the types of instruments that can be pledged in the tri-party repurchase agreement systems of the two major clearing banks. On September 21 and November 23, 2008, the Federal Reserve Board authorized the extension of credit to a set of other securities dealers on terms very similar to the PDCF. Credit extended under either program is reported weekly in table 1 of the H.4.1 statistical release as "Primary dealer and other broker-dealer credit" and is included in "Other loans" in tables 9 and 10 of the H.4.1 statistical release.

On March 11, 2008, the Federal Reserve announced the creation of the Term Securities Lending Facility (TSLF). Under the TSLF, the Federal Reserve Bank of New York (FRBNY) lends Treasury securities to primary dealers for 28 days against eligible collateral in two types of auctions. For so-called "Schedule 1" auctions, the eligible collateral consists of Treasury securities, agency securities, and agency-guaranteed mortgage-backed securities (MBS). For "Schedule 2" auctions, the eligible collateral includes Schedule 1 collateral plus highly rated private securities. In mid-2008, the Federal Reserve introduced the Term Securities Lending Facility Options Program (TOP), which offers options to primary dealers to draw upon short-

Table 10. Concentration of Borrowing at the PDCF and TSLF
As of August 26, 2009

	Number of borrowers	Daily average borrowing ($ billions)
Rank by amount of borrowing		
Top five	NA	NA
Next five	NA	NA
Other	NA	NA
Total	NA	NA

Note: Unaudited.
NA - Not applicable.

term, fixed-rate TSLF loans from the System Open Market Account (SOMA) portfolio in exchange for program-eligible collateral. The TOP is intended to enhance the effectiveness of the TSLF by offering added liquidity over periods of heightened collateral market pressures, such as quarter-end dates. The Federal Reserve Board has authorized the extension of credit from the TSLF through February 1, 2010. TSLF Schedule 1 and TOP auctions, however, were suspended effective July 2009 in light of considerably lower use of the facility.

The TSLF supports the liquidity of primary dealers and fosters improved conditions in financial markets more generally. Securities lent through these programs are reported weekly in table 1A of the H.4.1 statistical release.

In addition to the TSLF and TOP, the Federal Reserve has long operated an overnight securities lending facility as a vehicle to address market pressures for specific Treasury and, since July 9, 2009, housing-related government-sponsored enterprise (GSE) securities that are particularly sought after. Amounts outstanding under that program are, generally, fairly modest, and are also reported in table 1A of the H.4.1 statistical release.

Collateral

Eligible collateral for loans extended through the PDCF includes all assets eligible for tri-party repurchase agreement arrangements through the major clearing banks as of September 12, 2008. The amount of PDCF credit extended to any dealer may not exceed the lendable value of eligible collateral that the dealer has provided to the FRBNY. The collateral is valued by the clearing banks; values are based on prices reported by a number of private-sector pricing services widely used by market participants. Loans extended under the PDCF are made with recourse beyond the collateral provided by the primary dealer entity itself. Breakdowns of PDCF collateral by asset type and credit rating are shown in Tables 11 and 12, respectively.

Transactions under the TSLF involve lending securities rather than cash; a dealer borrows Treasury securities from the Federal Reserve and provides another security as collateral. Eligible collateral is determined by the Federal Reserve. Currently, two schedules of collateral are defined. Schedule 1 collateral is Treasury, agency, and agency-guaranteed MBS. Schedule 2 collateral is investment-grade corporate, municipal, mortgage-backed, and asset-backed securities, as well as Schedule 1 collateral. Haircuts on posted collateral are determined by the FRBNY using methods consis-

Table 11. PDCF Collateral

As of August 26, 2009

Type of collateral	Lendable value ($ billions)
Securities	
U.S. Treasury/agency	0
Municipal	0
Corporate market instruments	0
MBS/CMO: agency-guaranteed	0
MBS/CMO: other	0
Asset-backed	0
International (sovereign, agency, and corporate)	0
Equity	0
Loans	0
Other	0
Total	0

Note: Unaudited. Collateral pledged by borrowers of PDCF and related credit to primary dealers as of the date shown. Credit on that date totaled $0 billion. Lendable value is value after application of appropriate haircuts.

Table 12. PDCF Collateral by Rating

As of August 26, 2009

Type of collateral	Lendable value ($ billions)
U.S. Treasury/agency securities	0
Other securities	
Aaa/AAA	0
Aa/AA	0
A	0
Baa/BBB	0
Ba/BB	0
B/B	0
Caa/CCC or below	0
Unrated securities	0
Equity	0
Total	0

Note: Unaudited. Collateral pledged by borrowers of PDCF and related credit to primary dealers as of the date shown. Credit on that date totaled $0 billion. Lendable value is value after application of appropriate haircuts.

Table 13. TSLF Collateral

As of August 26, 2009

Type of collateral	Lendable value ($ billions)
Securities	
U.S. Treasury/agency	0
Municipal	0
Corporate	0
MBS/CMO: agency-guaranteed	0
MBS/CMO: other	0
Asset-backed	0
Total	0

Note: Unaudited. Collateral pledged by borrowers of TSLF as of the date shown. Borrowing on the date shown was $0 billion. Lendable value is value after application of appropriate haircuts.

Table 14. TSLF Collateral by Rating

As of August 26, 2009

Type of collateral	Lendable value ($ billions)
U.S. Treasury, agency, and agency-guaranteed securities	0
Other securities	
Aaa/AAA	0
Aa/AA	0
A/A-1	0
Baa/BBB	0
Total	0

Note: Unaudited. Collateral pledged by borrowers of TSLF as of the date shown. Borrowing on that date was $0 billion. Lendable value is value after application of appropriate haircuts. TSLF collateral must be investment-grade.

tent with current market practices. Breakdowns of TSLF collateral by asset type and credit rating are shown in Tables 13 and 14, respectively.

Commercial Paper Funding Facility (CPFF)

Recent Developments

- The amount of commercial paper held in the CPFF has continued to decline steadily in recent weeks. Improvements in market conditions have allowed more borrowers to obtain financing from private investors in the commercial paper market or from other sources.

Background

The CPFF is a facility, authorized under section 13(3) of the Federal Reserve Act, that supports liquidity in the commercial paper markets. The CPFF provides a liquidity backstop to U.S. issuers of commercial paper through a specially created limited-liability company (LLC) called the CPFF LLC. This LLC purchases three-month unsecured and asset-backed commercial paper directly from eligible issuers. The FRBNY provides financing to the LLC, and the FRBNY's loan to the LLC is secured by all of the assets of the LLC, including those purchased with the cumulated upfront fees paid by the issuers. Breakdowns of commercial paper held in the CPFF LLC, by type and credit rating, are shown in Tables 16 and 17, respectively.

The CPFF was announced on October 7, 2008 and purchases of commercial paper began on October 27. This program is administered by the FRBNY, and the assets and liabilities of the LLC are consolidated onto the balance sheet of the FRBNY. The net assets of the LLC are shown in tables 1, 9, and 10 of the weekly H.4.1 statistical release, and primary accounts of the LLC are presented in table 7 of the H.4.1 statistical release. The Federal Reserve Board has authorized the extension of credit from the CPFF through February 1, 2010.

Table 15. CPFF Concentration of Largest Issuers
For four weeks ending August 26, 2009

Rank	Number of borrowers	Daily average borrowing ($ billions)
Rank by amount of commercial paper		
Top five issuers	5	26
Next five issuers	5	12
Other issuers	21	15
Total	31	54

Note: Unaudited. Amount of commercial paper held in the CPFF that was issued by the top five and the next five issuers on each day. Components may not sum to totals because of rounding.

Table 16. CPFF Commercial Paper Holdings by Type
As of August 26, 2009

Type of commercial paper	Value ($ billions)
Unsecured commercial paper	
Issued by financial firms	12
Issued by nonfinancial firms	*
Asset-backed commercial paper	32
Total	45

Note: Unaudited. Components may not sum to total because of rounding; does not include $5 billion of other investments.
* Less than $500 million.

Table 17. CPFF Commercial Paper Holdings by Rating
As of August 26, 2009

Type of collateral	Value ($ billions)
Commercial paper with rating[1]	
A-1/P-1/F-1	44
Split-rated	*
Downgraded after purchase	*
Total	45

Note: Unaudited. Components may not sum to total because of rounding; does not include $5 billion of other investments.
* Less than $500 million.
1. The CPFF purchases only U.S. dollar-denominated commercial paper (including asset-backed commercial paper (ABCP)) that is rated at least A-1/P-1/F-1 by Moody's, S&P, or Fitch and, if rated by more than one of these rating organizations, is rated at least A-1/P-1/F-1 by two or more. "Split-rated" is acceptable commercial paper that has received an A-1/P-1/F-1 rating from two rating organizations and a lower rating from a third rating organization. Some pledged commercial paper was downgraded below split-rated after purchase; the facility holds such paper to maturity.

Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF)

Recent Developments

- The amount of credit outstanding under the AMLF declined to $79 million on August 26, 2009, in concert with the overall improvement in funding markets.

Background

The AMLF is a lending facility that finances the purchase of high-quality asset-backed commercial paper from money market mutual funds (MMMFs) by U.S. depository institutions and bank holding companies. The program is intended to assist money funds that hold such paper in meeting the demands for redemptions by investors and to foster liquidity in the asset-backed commercial paper (ABCP) market and money markets more generally. The loans extended through the AMLF are non-recourse loans; as a result, the Federal Reserve has rights to only the collateral securing the loan if the borrower elects not to repay. To help ensure that the AMLF is used for its intended purpose of providing a temporary liquidity backstop to

Table 18. AMLF Number of Borrowers and Amount Outstanding

Daily average for four weeks ending August 26, 2009

Lending program	Number of borrowers	Borrowing ($ billions)
Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF)	*	**

Note: Unaudited.
* Three or fewer borrowers.
** Less than $500 million.

MMMFs, the Federal Reserve has established a redemption threshold for use of the facility. Under this requirement, a MMMF must experience material outflows—defined as at least 5 percent of net assets in a single day or at least 10 percent of net assets within the prior five business days—before the ABCP that it sells would be eligible collateral for AMLF loans to depository institutions and bank holding companies. Any eligible ABCP purchased from a MMMF that has experienced redemptions at these thresholds could be pledged to AMLF at any time within the five business days following the date that the threshold level of redemptions was reached.

The initiation of the AMLF, announced on September 19, 2008, relied on authority under section 13(3) of the Federal Reserve Act. It is administered by the Federal Reserve Bank of Boston, which is authorized to make AMLF loans to eligible borrowers in all 12 Federal Reserve Districts. Lending through the AMLF is presented in table 1 of the weekly H.4.1 statistical release and is included in "Other loans" in tables 9 and 10 of the H.4.1 statistical release. The Federal Reserve Board has authorized extension of credit through the AMLF through February 1, 2010. Since May 8, 2009, there has been no new borrowing through the AMLF.

Collateral

Collateral eligible for the AMLF is limited to ABCP that:

- was purchased by the borrower on or after September 19, 2008, from a registered investment company that holds itself out as a MMMF and has experienced recent material outflows;
- was purchased by the borrower at the mutual fund's acquisition cost as adjusted for amortization of premium or accretion of discount on the ABCP through the date of its purchase by the borrower;
- was not rated lower than A-1, P-1, or F-1 at the time it was pledged to the Federal Reserve Bank of Boston (this would exclude paper that is rated A-1/P-1/F-1 but is on watch for downgrade by any major rating agency);

Table 19. AMLF Collateral by Rating

As of August 26, 2009

Type of collateral	Value ($ billions)
Asset-backed commercial paper with rating	
A-1/P-1/F-1 and not on watch for downgrade	*
A-1/P-1/F-1 but on watch for downgrade[1]	0
Below A-1/P-1/F-1	0
Total	*

Note: Unaudited. Components may not sum to total because of rounding.
* Less than $500 million.
1. The AMLF accepts only U.S.-dollar denominated asset-backed commercial paper (ABCP) that is not rated lower than A-1, P-1, or F-1 by Moody's, S&P, or Fitch, and (effective April 22, 2009) is not on watch for downgrade. Collateral that is on watch for downgrade or is rated below A-1/P-1/F-1 is ABCP that has deteriorated after it was pledged.

- was issued by an entity organized under the laws of the United States or a political subdivision thereof under a program that was in existence on September 18, 2008; and
- has a stated maturity that does not exceed 120 days if the borrower is a bank, or 270 days if the borrower is a non-bank.

The qualifying ABCP must be transferred to the Federal Reserve Bank of Boston's restricted account at the Depository Trust Company before an advance, collateralized by that ABCP, will be approved. The collateral is valued at the amortized cost (as defined in the Letter of Agreement) of the eligible ABCP pledged to secure an advance. Advances made under the facility are made without recourse, provided the requirements in the Letter of Agreement are met. A breakdown of AMLF collateral by credit rating is shown in Table 19.

Term Asset-Backed Securities Loan Facility (TALF)

Recent Developments

- TALF subscriptions in August supported primary issuance of 12 asset-backed securities (ABS) deals worth a total of about $9 billion, of which approximately $7 billion was financed through the TALF. In addition, $2.1 billion in TALF loans were extended against legacy commercial mortgage-backed securities (CMBS) collateral as of the subscription settlement on August 28, 2009.
- On September 1, 2009, the FRBNY named four non-primary dealer broker-dealers as agents for the TALF. The four agents are CastleOak Securities, LP; Loop Capital Markets, LLC; Wells Fargo Securities, LLC; and The Williams Capital Group, LP. These agents, like the primary dealers, will represent borrowers in accessing the facility. The Federal Reserve

Table 20. TALF Number of Borrowers and Loans Outstanding
As of August 26, 2009

Lending program	Number of borrowers	Borrowing ($ billions)
Term Asset-Backed Securities Loan Facility (TALF)	121	35
Non-CMBS	116	35
CMBS	15	1

Note: Unaudited. "Number of borrowers" may not sum to total because borrowers may be included in more than one category. "Borrowing" amounts may not sum to total because of rounding.

anticipates that the appointment of these agents will enable a broader range of investors to access TALF financing.

- The September 3, 2009, non-CMBS TALF operation financed about $7 billion in loan requests, supporting primary issuance of 14 ABS deals worth a total of about $17 billion.

Background

On November 25, 2008, the Federal Reserve announced the creation of the TALF under the authority of section 13(3) of the Federal Reserve Act. The TALF is a funding facility under which the FRBNY extends credit with a term of up to five years to holders of eligible ABS. The TALF is intended to assist financial markets in accommodating the credit needs of consumers and businesses of all sizes by facilitating the issuance of ABS collateralized by a variety of consumer and business loans; it is also intended to improve the market conditions for ABS more generally.

Eligible collateral initially included U.S. dollar-denominated ABS that (1) are backed by student loans, auto loans, credit card loans, and loans guaranteed by the Small Business Administration (SBA) and (2) have a credit rating in the highest investment-grade rating category from two or more approved rating agencies and do not have a credit rating below the highest investment-grade rating category from a major rating agency. The loans provided through the TALF are nonrecourse loans; the Federal Reserve has rights to only the collateral securing the loan in the event that the borrower elects not to repay. Borrowers commit their own risk capital in the form of haircuts against the collateral, which serve as the borrower's equity in the transaction and act as a buffer to absorb any decline in the collateral's value in the event the loan is not repaid. The U.S. Treasury is providing protection against losses of up to $20 billion to the FRBNY using funds authorized under the Troubled Assets Relief Program (TARP) of the Emergency Economic Stabilization Act of 2008.

On February 10, 2009, the Federal Reserve Board announced that it would consider expanding the size of the TALF to as much as $1 trillion and potentially broaden the eligible collateral to encompass other types of newly issued AAA-rated ABS, such as ABS backed by commercial mortgages or private-label (non-agency) ABS backed by residential mortgages. Any expansion of the TALF would be supported by the Treasury providing additional funds from the TARP.

On March 19, 2009, the Federal Reserve Board announced that starting in April, the set of eligible collateral for TALF loans was being expanded to include ABS backed by loans or leases related to business equipment, leases of vehicle fleets, floorplan loans, and mortgage servicing advances.

On March 23, 2009, the Federal Reserve and the Treasury announced that they were planning on expanding the list of eligible collateral for TALF loans to include previously issued securities—so-called "legacy securities"—as a complement to the Treasury's Public-Private Investment Program.

On May 1, 2009, the Federal Reserve announced that starting in June 2009, newly issued CMBS and securities backed by insurance premium finance loans would be eligible collateral under the TALF. The Federal Reserve also authorized TALF loans with maturities of five years, available for the June funding, to finance purchases of CMBS, ABS backed by student loans, and ABS backed by loans guaranteed by the Small Business Administration. The Federal Reserve indicated that up to $100 billion of TALF loans could have five-year maturities and that some of the interest on collateral financed with a five-year loan may be diverted toward an accelerated repayment of the loan, especially in the fourth and fifth years.

On May 19, 2009, the Federal Reserve announced that starting in July 2009, certain high-quality CMBS

Table 21. TALF Collateral by Underlying Credit Exposure
As of August 26, 2009

Type of collateral	Value ($ billions)
Asset-backed securities by underlying loan type	
Auto	8
Commercial mortgages	1
Newly issued	0
Legacy	1
Credit card	20
Equipment	1
Premium finance	*
Floorplan	1
Servicing advances	1
Small business	*
Student loan	6
Total	39

Note: Unaudited. Components may not sum to total because of rounding. Data represent the face value of collateral.
* Less than $500 million.

Table 22. TALF Collateral by Rating
As of August 26, 2009

Type of collateral	Value ($ billions)
Asset-backed securities with rating	
AAA/Aaa	39
Total	39

Note: Unaudited.

issued before January 1, 2009 (legacy CMBS), would become eligible collateral under the TALF. The Federal Reserve indicated that eligible newly issued and legacy CMBS must have at least two AAA ratings from a list of approved ratings agencies—DBRS, Fitch, Moody's Investors Service, Realpoint, or Standard & Poor's—and must not have a rating below AAA from any of these rating agencies. More broadly, the Federal Reserve announced that it would be formalizing procedures for determining the set of rating agencies whose ratings would be accepted for various types of eligible collateral in the Federal Reserve's credit programs.

The Federal Reserve Board initially authorized the offering of new TALF loans through December 31, 2009, but subsequently authorized an extension of the program until March 31, 2010, for loans against newly issued ABS and legacy CMBS, and until June 30, 2010, for loans against newly issued CMBS.

Table 23A. Issuers of Non-CMBS that Collateralize Outstanding TALF Loans
As of August 26, 2009

Issuers
AH Mortgage Advance Trust 2009-ADV1
AH Mortgage Advance Trust 2009-ADV2
American Express Credit Account Master Trust
AmeriCredit Automobile Receivables Trust 2009-1
Bank of America Auto Trust 2009-1
BMW Vehicle Lease Trust 2009-1
Cabela's Credit Card Master Note Trust
CarMax Auto Owner Trust 2009-1
CarMax Auto Owner Trust 2009-A
Chase Issuance Trust
Chesapeake Funding LLC
Chrysler Financial Auto Securitization Trust 2009-A
CIT Equipment Collateral 2009-VT1
Citibank Credit Card Issuance Trust
Citibank Omni Master Trust
CNH Equipment Trust 2009-B
CNH Wholesale Master Note Trust
Discover Card Master Trust I
First National Master Note Trust
Ford Credit Auto Lease Trust 2009-A
Ford Credit Auto Owner Trust 2009-A
Ford Credit Auto Owner Trust 2009-B
Ford Credit Auto Owner Trust 2009-C
GE Capital Credit Card Master Note Trust
GE Dealer Floorplan Master Note Trust
Harley-Davidson Motorcycle Trust 2009-1
Harley-Davidson Motorcycle Trust 2009-2
Honda Auto Receivables 2009-2 Owner Trust
Honda Auto Receivables 2009-3 Owner Trust
Huntington Auto Trust 2009-1
John Deere Owner Trust 2009
MMCA Auto Owner Trust 2009-A
Morgan Keegan & Company, Inc.
Nissan Auto Lease Trust 2009-A
Nissan Auto Receivables 2009-A Owner Trust
PFS Financing Corp.
SLC Private Student Loan Trust 2009-A
SLM Private Education Loan Trust 2009-B
SLM Private Education Loan Trust 2009-C
SLM Private Education Loan Trust 2009-D
Small Business Administration Participation Certificates
Volkswagen Auto Lease Trust 2009-A
Wheels SPV, LLC
World Financial Network Credit Card Master Note Trust
World Omni Auto Receivables Trust 2009-A
World Omni Master Owner Trust

Collateral and Risk Management

Under the TALF, the FRBNY lends on a non-recourse basis to holders of certain asset-backed securities (ABS) backed by consumer, business, and commercial mortgage loans. Eligible collateral for the TALF includes U.S. dollar-denominated ABS that (1) have a long-term credit rating in the highest investment-grade rating category (for example, AAA) from two or more rating agencies and (2) do not have a long-term credit rating below the highest investment-grade rating category from a single rating agency. Eligible small-business-loan ABS also include U.S. dollar-denominated cash ABS for which all of the underlying credit exposures are fully guaranteed as to principal and interest by the full faith and credit of the U.S. government. All or substantially all of the credit exposures underlying eligible ABS must be exposures to U.S.-domiciled obligors or with respect to real property located in the United States or its territories. The underlying credit exposures of eligible ABS must be student loans, auto loans, credit card loans, loans or

Table 23B. Issuers of CMBS that Collateralize Outstanding TALF Loans
As of August 26, 2009

Issuers
Banc of America Commercial Mortgage Inc.
Banc of America Commercial Mortgage Trust 2007-3
Bear Stearns Commercial Mortgage Securities Trust 2007-PWR15
Bear Stearns Commercial Mortgage Securities Trust 2007-PWR16
CD 2007-CD4 Commercial Mortgage Trust
COMM 2006-7 Mortgage Trust
Commercial Mortgage Loan Trust 2008-LS1
Commercial Mortgage Trust 2004-GG1
Commercial Mortgage Trust 2007-GG9
Credit Suisse Commercial Mortgage Trust Series 2007-C5
CSFB Commercial Mortgage Trust 2005-C1
CSFB Commercial Mortgage Trust 2005-C2
GMAC Commercial Mortgage Securities, Inc. Series 2006-C1 Trust
GS Mortgage Securities Corporation II
GS Mortgage Securities Trust 2006-GG6
J.P. Morgan Chase Commercial Mortgage Securities Corp.
J.P. Morgan Chase Commercial Mortgage Securities Trust 2006-CIBC16
J.P. Morgan Chase Commercial Mortgage Securities Trust 2006-CIBC17
J.P. Morgan Chase Commercial Mortgage Securities Trust 2007-LDP11
LB-UBS Commercial Mortgage Trust 2005-C3
LB-UBS Commercial Mortgage Trust 2007-C2
Merrill Lynch Mortgage Trust 2004-KEY2
Merrill Lynch Mortgage Trust 2005-CKI1
Merrill Lynch, Countrywide Commercial Mortgage
Morgan Stanley Capital I
Wachovia Bank Commercial Mortgage Trust

leases relating to business equipment, leases of vehicle fleets, floorplan loans, mortgage servicing advances, insurance premium finance loans, commercial mortgages, or loans guaranteed by the SBA. Except for ABS for which the underlying credit exposures are SBA-guaranteed loans, eligible newly issued ABS must be issued on or after January 1, 2009.

Eligible legacy CMBS must be issued before January 1, 2009, must be senior in payment priority to all other interests in the underlying pool of commercial mortgages, and must meet certain other criteria designed to protect the Federal Reserve and the Treasury from credit risk. In almost all cases, eligible collateral for a particular borrower must not be backed by loans originated or securitized by the borrower or by an affiliate of the borrower. The FRBNY's loan is secured by the ABS collateral, with the FRBNY lending an amount equal to the market value of the ABS less a haircut. The Federal Reserve has set initial haircuts for each type of eligible collateral to reflect an assessment of the riskiness and maturity of the various types of eligible ABS. In addition, the U.S. Treasury Department—under the TARP—will provide $20 billion of credit protection to the FRBNY in connection with the TALF. Breakdowns of TALF collateral by underlying credit exposure and credit rating are shown in Tables 21 and 22, respectively.

Lending in Support of Specific Institutions

Recent Developments

- As presented in Table 24, net income including changes in valuation for the quarter ended June 30, 2009, resulted in improvements to the fair value asset coverage of loans of the Federal Reserve Bank of New York (FRBNY) to Maiden Lane and Maiden Lane III LLCs, while a net loss further reduced the coverage of the loan to Maiden Lane II LLC.
- Cash flows generated from the Maiden Lane II and Maiden Lane III portfolios are used to pay down the loans from the FRBNY. As shown in Tables 29 and 32, those repayments totaled about $2.6 billion in the second quarter of 2009.

Background

In the current financial crisis, the Federal Reserve has extended credit to certain specific institutions in order to avert disorderly failures that could result in severe dislocations and strains for the financial system as a whole and harm the U.S. economy. In certain other cases, the Federal Reserve has committed to extend credit, if necessary, to support important financial firms.

Bear Stearns and Maiden Lane LLC

In March 2008, the FRBNY and JPMorgan Chase & Co. (JPMC) entered into an arrangement related to financing provided by the FRBNY to facilitate the merger of JPMC and the Bear Stearns Companies Inc. In connection with the transaction, the Federal Reserve Board authorized the FRBNY, under section 13(3) of the Federal Reserve Act, to extend credit to a Delaware limited liability company, Maiden Lane LLC, to fund the purchase of a portfolio of mortgage-related securities, residential and commercial mortgage loans, and associated hedges from Bear Stearns. The LLC will manage its assets through time to maximize the repayment of credit extended to the LLC and to minimize disruption to the financial markets. In the second quarter of 2008, the FRBNY extended credit to Maiden Lane LLC. Details of the terms of the loan are published on the FRBNY website (www.newyorkfed.org/markets/maidenlane.html). The assets of Maiden Lane LLC are presented weekly in tables 1, 9, and 10 of the H.4.1 statistical release. Additional details on the accounts of Maiden Lane LLC are presented in table 4 of the H.4.1 statistical release.

Table 24. Fair Value Asset Coverage
($ millions)

	Fair value asset coverage of FRBNY loan on 6/30/2009	Fair value asset coverage of FRBNY loan on 3/31/2009
Maiden Lane LLC	(3,400)	(3,771)
Maiden Lane II LLC	(2,371)	(1,965)
Maiden Lane III LLC	(129)	(3,435)

Note: Unaudited. Fair value asset coverage is the amount by which the fair value of the net portfolio assets of each LLC (see Table 38) is greater or less than the outstanding balance of the loans extended by the FRBNY, including accrued interest.

Table 25. Maiden Lane LLC Outstanding Principal Balance of Loans
($ millions)

	FRBNY senior loan	JPMC subordinate loan
Principal balance at closing	28,820	1,150
Most Recent Quarterly Activity		
Principal balance on 3/31/2009 (including accrued and capitalized interest)	29,123	1,202
Accrued and capitalized interest 3/31/2009 to 6/30/2009	36	15
Repayment during the period from 3/31/2009 to 6/30/2009	-	-
Principal balance on 6/30/2009 (including accrued and capitalized interest)	29,159	1,217

Note: Unaudited. As part of the asset purchase agreement, JPMC made a loan to Maiden Lane LLC. For repayment purposes, this obligation is subordinated to the senior loan extended by the FRBNY.

Table 26. Maiden Lane LLC Summary of Portfolio Composition, Cash/Cash Equivalents, and Other Assets and Liabilities
($ millions)

	Fair value on 6/30/2009	Fair value on 3/31/2009
Agency CMOs	16,424	14,369
Non-agency CMOs	1,962	1,552
Commercial loans	4,447	4,697
Residential loans	683	780
Swap contracts	1,827	2,280
TBA commitments[1]	1,199	1,448
Other investments	736	1,221
Cash & cash equivalents	1,805	2,640
Other assets[2]	827	1,869
Other liabilities[3]	(4,151)	(5,505)
Net assets	25,759	25,352

Note: Unaudited. Components may not sum to totals because of rounding.

1. To be announced (TBA) commitments are commitments to purchase or sell mortgage-backed securities for a fixed price at a future date.
2. Including interest and principal receivable and other receivables.
3. Including amounts payable for securities purchased, collateral posted to Maiden Lane LLC by swap counterparties, and other liabilities/accrued expenses.

Table 27. Maiden Lane LLC Securities Distribution by Type and Rating (in percent)
As of June 30, 2009

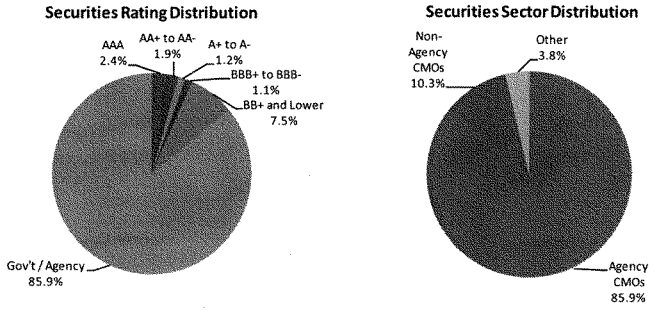
Security type[1]	Rating						
	AAA	AA+ to AA–	A+ to A–	BBB+ to BBB–	BB+ and lower	Gov't/Agency	Total
Agency CMOs	0.0	0.0	0.0	0.0	0.0	85.9	85.9
Non-agency CMOs	0.8	0.7	0.9	0.7	7.2	0.0	10.3
Other[2]	1.6	1.2	0.3	0.4	0.3	0.0	3.8
Total	2.4	1.9	1.2	1.1	7.5	85.9	100.0

Note: Unaudited. This table presents the sector and ratings composition of the securities in the Maiden Lane LLC portfolio as a percentage of all securities in the portfolio. This table is based on the fair value of the securities. Lowest of all ratings is used for purposes of this table. Rows and columns may not sum to totals because of rounding.

1. This table does not include Maiden Lane LLC's swaps and other derivative contracts, commercial and residential mortgage loans, and TBA investments.

2. Includes all asset sectors that, individually, represent less than 5 percent of the aggregate fair value of securities in the portfolio.

Figure 2. Maiden Lane LLC Securities Distribution as of June 30, 2009



Information about the assets and liabilities of Maiden Lane LLC is presented as of June 30, 2009, in Tables 25 through 27 and Figure 2. This information is updated on a quarterly basis.

American International Group (AIG)

Recent Developments

- The balance on the AIG revolving credit facility declined by $3.1 billion between July 29, 2009, and August 26, 2009, as loan repayments outpaced loan drawdowns over the reporting period (Table 28). Recapitalized interest and fees and the amortization of the restructuring allowance contributed an insignificant amount to the facility balance. These amounts are amortized over the remaining term of the credit extension, and thus are expected to trend toward zero.

Table 28. AIG Revolving Credit Facility

Borrower	Borrowing ($ billions)
Balance on July 29, 2009	42.2
Principal drawdowns	0.8
Principal repayments	–3.9
Recapitalized interest & fees	*
Amortization of restructuring allowance	0.1
Balance on August 26, 2009	39.1

Note: Unaudited. Components may not sum to total because of rounding. Does not include Maiden Lane II LLC and Maiden Lane III LLC.

* Less than $500 million.

Asset Divestitures

- On August 11, 2009, AIG Financial Products completed the sale of its energy and infrastructure investment assets, realizing aggregate net proceeds in excess of $1.9 billion.
- On August 12, 2009, AIG announced that it had entered into an agreement to sell 100 percent of its shares of AIG Finance (Hong Kong) Limited ("AIG Finance") to China Construction Bank Asia for $70 million in cash, subject to typical closing adjustments, plus the repayment of intra-group indebtedness and deposits of approximately $557 million in U.S. dollars. The transaction is subject to the satis-

faction of certain conditions, including approvals by appropriate regulatory authorities.

Management Updates

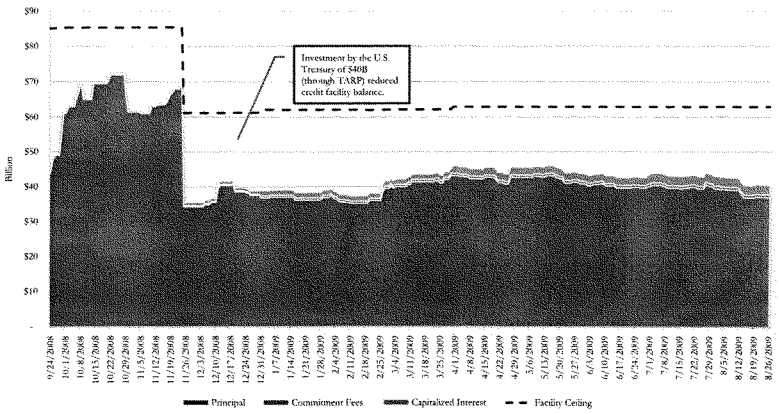
- On August 7, 2009, AIG announced that Robert G. Gifford had been named President and Chief Executive Officer of AIG Global Real Estate, the international real estate investment organization.
- On August 20, 2009, AIG announced that Jay S. Wintrob had been named President and Chief Executive Officer of Domestic Life and Retirement Services. Mr. Wintrob will lead AIG's U.S.-based life insurance and retirement services businesses, which market their products and services under the brands American General, American General Life and Accident Insurance Company (AGLA), SunAmerica, Variable Annuity Life Insurance Company (VALIC), and Western National. Mary Jane Fortin, currently Senior Executive Vice President, Chief Administrative Officer, and Chief Financial Officer of the domestic life companies, has been named President and Chief Executive Officer of American General Life Companies.

Background

On September 16, 2008, the Federal Reserve, with the full support of the Treasury Department, announced that it would lend to AIG to prevent a disorderly failure of this systemically important firm, protect the financial system and the broader economy, and provide the company time to restructure its operations in an orderly manner. Initially, the FRBNY extended an $85 billion line of credit to the company. The terms of the credit facility are disclosed on the Board's website (www.federalreserve.gov/monetarypolicy/bst_supportspecific.htm). Loans outstanding under this facility are presented weekly in table 1 of the H.4.1 statistical release and included in "Other loans" in tables 9 and 10 of the H.4.1 statistical release.

On November 10, 2008, the Federal Reserve and the Treasury announced a restructuring of the government's financial support to AIG. As part of this restructuring, two new limited liability companies (LLCs) were created, Maiden Lane II LLC and Maiden Lane III LLC, and the line of credit extended to the company was reduced from $85 billion to $60 billion. (On October 8, 2008, the FRBNY was authorized to extend credit to certain AIG subsidiaries against a range of securities. This arrangement was discontinued

Figure 3. AIG Revolving Credit



Note: The above data illustrate selected components of the amount of credit extended to the American International Group Inc., including loan principal, all capitalized interest and fees, and the amortized portion of the initial commitment fee. The data exclude commercial paper sold by AIG and its subsidiaries to the Commercial Paper Funding Facility as well as amounts borrowed prior to December 12, 2008, under a securities borrowing arrangement. The facility ceiling represents the $60 billion limit on the credit agreement plus capitalized interest and fees.

after the establishment of the Maiden Lane II facility.) More detail on these LLCs is reported in the remainder of this section. Additional information is included in tables 5 and 6 of the H.4.1 statistical release.

On March 2, 2009, the Federal Reserve and the Treasury announced an additional restructuring of the government's assistance to AIG, designed to enhance the company's capital and liquidity in order to facilitate the orderly completion of the company's global divestiture program. Additional information on the restructuring is available at www.federalreserve.gov/newsevents/press/other/20090302a.htm.

On April 17, 2009, the FRBNY implemented a loan restructuring adjustment that was previously approved and announced on March 2. The interest rate on the loan to AIG, which is the three-month LIBOR plus 300 basis points, was modified by removing the existing interest rate floor of 3.5 percent on the LIBOR rate. Consistent with U.S. generally accepted accounting principles (GAAP), as of July 29, 2009, the reported value of the AIG revolving credit extension was reduced by a $1.3 billion adjustment to reflect the loan restructuring. This restructuring adjustment is intended to recognize the economic effect of the reduced interest rate and will be recovered as the adjustment is amortized over the remaining term of the credit extension. The Federal Reserve expects that the credit extension, including interest and commitment fees under the modified terms, will be fully repaid.

On June 25, 2009, the FRBNY entered into agreements with AIG to carry out two transactions previously approved and announced on March 2, as part of the restructuring of the U.S. government's assistance to AIG. Under these agreements, the FRBNY will receive preferred equity interests in two special-purpose vehicles formed to hold the outstanding common stock of American International Assurance Company Ltd. (AIA) and American Life Insurance Company (ALICO), two life insurance subsidiaries of AIG. In exchange, upon the closing of each transaction and the resulting issuance of preferred equity, the FRBNY will reduce the outstanding balance and amount available to AIG under the revolving credit facility. The closing of each transaction is expected to occur by the end of 2009, pending the completion of the necessary regulatory approval processes. These transactions, when consummated, will position both AIA and ALICO for future initial public offerings, depending on market conditions. Subject to certain conditions, proceeds from any public offerings by the companies must first be used to redeem the FRBNY's preferred interests, until the preferred interests have been redeemed in full.

The interest rate on the loan to AIG is the three-month LIBOR rate plus 300 basis points. The lending under this facility is secured by a pledge of assets of AIG and its primary nonregulated subsidiaries, including all or a substantial portion of AIG's ownership interest in its regulated U.S. and foreign subsidiaries. Furthermore, AIG's obligations to the FRBNY are guaranteed by certain domestic, nonregulated subsidiaries of AIG with more than $50 million in assets.

Figure 3 shows the amount of credit extended to AIG over time through the credit facility, including the principal, interest, and commitment fees, along with the facility ceiling.

Maiden Lane II LLC

Under section 13(3) of the Federal Reserve Act, the Federal Reserve Board authorized the FRBNY to lend

Table 29. Maiden Lane II LLC Outstanding Principal Balance of Senior Loan and Fixed Deferred Purchase Price

($ millions)

	FRBNY senior loan	AIG fixed deferred purchase price
Principal balance at closing	19,494	1,000
Most Recent Quarterly Activity		
Principal balance on 3/31/2009 (including accrued and capitalized interest)	18,638	1,012
Accrued and capitalized interest 3/31/2009 to 6/30/2009	64	8
Repayment during the period from 3/31/2009 to 6/30/2009	(990)	-
Principal balance on 6/30/2009 (including accrued and capitalized interest)	17,712	1,020

Note: Unaudited. As part of the asset purchase agreement, AIG subsidiaries were entitled to receive from Maiden Lane II LLC a fixed deferred purchase price plus interest on the amount. This obligation is subordinated to the senior loan extended by the FRBNY, and it reduced the amount paid by Maiden Lane II LLC for the assets by a corresponding amount.

Table 30. Maiden Lane II LLC Summary of Portfolio Composition and Cash/Cash Equivalents

($ millions)

Type of asset	Fair value on 6/30/2009	Fair value on 3/31/2009
Alt-A (ARM)	4,455	4,401
Subprime	8,348	9,744
Option ARM[1]	840	728
Other[1,2]	1,371	1,497
Cash & cash equivalents	327	297
Other assets[3,4]	3	7
Other liabilities[4,5]	(2)	(2)
Total	15,341	16,673

Note: Unaudited. Components may not sum to totals because of rounding.

1. Aggregate fair value of positions classified under "Option ARM" was included as part of "Other" in previous reports because it was less than 5 percent of the aggregate fair value of securities in the portfolio at that time.

2. Includes all asset sectors that, individually, represent less than 5 percent of aggregate outstanding fair value of securities in the portfolio.

3. Including interest and principal receivable and other receivables.

4. "Other assets" and "Other liabilities" were not presented in previous reports.

5. Including accrued expenses.

Table 31. Maiden Lane II LLC Asset Distribution by Sector and Rating (in percent)
As of June 30, 2009

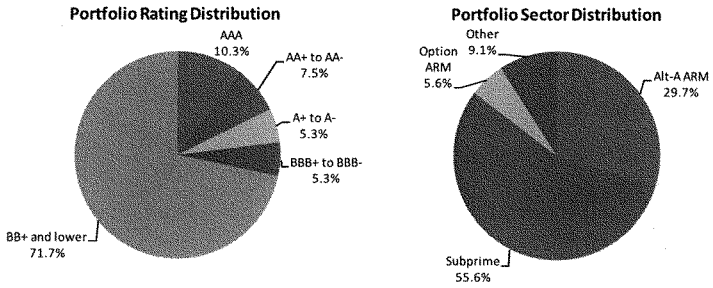
RMBS sector	Rating					
	AAA	AA+ to AA−	A+ to A−	BBB+ to BBB−	BB+ and lower	Total
Alt-A (ARM)	1.4	3.1	1.8	2.3	21.0	29.7
Subprime	8.8	3.3	3.5	2.9	37.2	55.6
Option ARM[1]	0.0	0.0	0.0	0.0	5.6	5.6
Other[1,2]	0.2	1.0	0.0	0.0	7.9	9.1
Total	10.3	7.5	5.3	5.3	71.7	100.0

Note: Unaudited. This table presents the sector and ratings composition of Maiden Lane II LLC's RMBS portfolio as a percentage of aggregate fair value of the securities in the portfolio. Lowest of all ratings is used for the purposes of this table. Rows and columns may not sum to totals because of rounding.

1. Aggregate fair value of positions classified under "Option ARM" was included as part of "Other" in previous reports because it was less than 5 percent of the aggregate fair value of securities in the portfolio at that time.

2. Includes all asset sectors that, individually, represent less than 5 percent of the aggregate fair value of securities in the portfolio.

Figure 4. Maiden Lane II LLC Portfolio Distribution as of June 30, 2009



up to $22.5 billion to a newly formed Delaware limited liability company, Maiden Lane II LLC, to fund the purchase of residential mortgage-backed securities (RMBS) from the securities lending portfolio of several regulated U.S. insurance subsidiaries of AIG. On December 12, 2008, the FRBNY loaned about $19.5 billion to Maiden Lane II LLC. Details of the terms of the loan are published on the FRBNY website (www.newyorkfed.org/markets/maidenlane2.html).

The assets of Maiden Lane II LLC are presented in tables 1, 9, and 10 of the weekly H.4.1 statistical release. Additional detail on the accounts of Maiden Lane II LLC is presented in table 5 of the H.4.1 statistical release.

Information about the assets and liabilities of Maiden Lane II LLC is presented as of June 30, 2009, in Tables 29 through 31 and Figure 4. This information is updated on a quarterly basis.

Maiden Lane III LLC

Under section 13(3) of the Federal Reserve Act, the Federal Reserve Board authorized the FRBNY to lend up to $30 billion to a newly formed Delaware limited liability company, Maiden Lane III LLC, to fund the purchase of certain asset-backed collateralized debt obligations (ABS CDOs) from certain counterparties of AIG Financial Products Corp. (AIGFP) on which AIGFP had written credit default swaps and similar contracts. On November 25, 2008, the FRBNY loaned about $24.4 billion to Maiden Lane III LLC. Details of the terms of the loan are published on the FRBNY website (www.newyorkfed.org/markets/maidenlane3.html). Assets of the portfolio of the LLC will be managed to maximize cash flows to ensure repayment of obligations of the LLC while minimizing disruptions to financial markets.

The assets of Maiden Lane III LLC are presented in tables 1, 9, and 10 of the weekly H.4.1 statistical release. Additional detail on the accounts of Maiden Lane III LLC is presented in table 6 of the H.4.1 statistical release.

Information about the assets and liabilities of Maiden Lane III LLC is presented as of June 30, 2009, in Tables 32 through 34 and Figure 5. This information is updated on a quarterly basis.

Table 32. Maiden Lane III LLC Outstanding Principal Balance of Senior Loan and Equity Contribution
($ millions)

	FRBNY senior loan	AIG equity contribution
Principal balance at closing	24,339	5,000
Most Recent Quarterly Activity		
Principal balance on 3/31/2009 (including accrued and capitalized interest)	24,168	5,065
Accrued and capitalized interest 3/31/2009 to 6/30/2009	82	43
Repayment during the period from 3/31/2009 to 6/30/2009	(1,636)	–
Principal balance on 6/30/2009 (including accrued and capitalized interest)	22,614	5,108

Note: Unaudited. As part of the asset purchase agreement, AIG purchased a $5 billion equity contribution, which is subordinated to the senior loan extended by FRBNY.

Table 33. Maiden Lane III LLC Summary of Portfolio Composition and Cash/Cash Equivalents
($ millions)

Asset type	Fair value on 6/30/2009	Fair value on 3/31/2009
High-grade ABS collateralized debt Obligations (CDO)	14,491	13,565
Mezzanine ABS CDO	1,882	1,832
Commercial real estate CDO	4,186	3,761
RMBS, CMBS, & Other	225	–
Cash & cash equivalents	1,645	1,508
Other assets[1,2]	59	73
Other liabilities[2,3]	(4)	(5)
Total	22,485	20,733

Note: Unaudited. Components may not sum to totals because of rounding.

1. Including interest and principal receivable and other receivables.
2. "Other assets" and "Other liabilities" were not presented in previous reports.
3. Including accrued expenses.

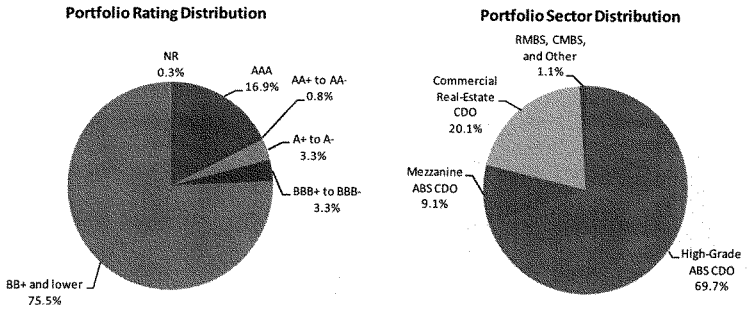
Table 34. Maiden Lane III LLC Asset Distribution by Security Type/Vintage and Rating (in percent)
As of June 30, 2009

Security type/vintage[1]	Rating						
	AAA	AA+ to AA–	A+ to A–	BBB+ to BBB-	BB+ and lower	Not rated	Total
High-grade ABS CDO	0.0	0.0	0.0	0.7	69.0	0.0	69.7
Pre-2005	0.0	0.0	0.0	0.7	24.2	0.0	24.9
2005	0.0	0.0	0.0	0.0	29.6	0.0	29.6
2006	0.0	0.0	0.0	0.0	7.6	0.0	7.6
2007	0.0	0.0	0.0	0.0	7.6	0.0	7.6
Mezzanine ABS CDO	0.0	0.2	0.2	2.4	6.0	0.3	9.1
Pre-2005	0.0	0.2	0.2	1.7	3.1	0.3	5.5
2005	0.0	0.0	0.0	0.0	2.8	0.0	2.8
2006	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2007	0.0	0.0	0.0	0.8	0.0	0.0	0.8
Commercial real estate CDO	16.7	0.5	3.0	0.0	0.0	0.0	20.1
Pre-2005	2.7	0.5	3.0	0.0	0.0	0.0	6.1
2005	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2006	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2007	14.0	0.0	0.0	0.0	0.0	0.0	14.0
RMBS, CMBS, and other	0.2	0.1	0.1	0.1	0.5	0.0	1.1
Pre-2005	0.0	0.0	0.0	0.1	0.1	0.0	0.2
2005	0.2	0.1	0.1	0.1	0.4	0.0	0.8
2006	0.0	0.0	0.0	0.0	0.1	0.0	0.1
2007	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	16.9	0.8	3.3	3.3	75.5	0.3	100.0

Note: Unaudited. This table presents the security, vintage, and rating composition of the securities in the Maiden Lane III LLC portfolio as a percentage of all securities in the portfolio. This breakdown is based on the fair value of the securities. Lowest of all ratings is used for purposes of this table. Rows and columns may not sum to totals because of rounding.

1. The year of issuance with the highest concentration of underlying assets as measured by outstanding principal balance determines the vintage of the CDO.

Figure 5. Maiden Lane III LLC Portfolio Distribution as of June 30, 2009



Citigroup

On November 23, 2008, the Treasury, the Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC) jointly announced that the U.S. government would provide support to Citigroup in an effort to support financial markets. The terms of the arrangement are provided on the Federal Reserve Board's website (www.federalreserve.gov/monetarypolicy/bst_supportspecific.htm). Because the FRBNY has not extended credit to Citigroup under this arrangement, the commitment is not reflected in the H.4.1 statistical release.

Bank of America

On January 16, 2009, the Treasury, the Federal Reserve, and the FDIC jointly announced that the U.S. government would provide support to Bank of America to support financial market stability. The terms of the support are provided on the Federal Reserve Board's website (www.federalreserve.gov/monetarypolicy/bst_supportspecific.htm). On May 7, 2009, following the release of the results of the Supervisory Capital Assessment Program, Bank of America announced that it did not plan to move forward with a part of this planned support—specifically, a residual financing arrangement authorized for the company and the related guarantee protections that would be provided by the Treasury and the FDIC with respect to an identified pool of approximately $118 billion in assets. Because the Federal Reserve has not extended credit to Bank of America under this arrangement, the commitment is not reflected in the H.4.1 statistical release.

Federal Reserve Banks' Financial Tables

Quarterly Developments

- As noted in Table 36, the daily average balance of the Federal Reserve System Open Market Account (SOMA) holdings exceeded $1 trillion during the first half of 2009. Total earnings from the portfolio amounted to approximately $16 billion during this period; most of the earnings are attributable to the holdings of U.S. government securities and agency-guaranteed mortgage-backed securities (MBS) and central bank liquidity swaps.
- As noted in Table 37, net earnings from Federal Reserve loan programs over the first half of the year amounted to $874 million; interest earned on the TAF loans accounted for most of the total.

Background

The Federal Reserve Banks annually prepare financial statements reflecting balances as of December 31 and income and expenses for the year then ended. The Federal Reserve Bank financial statements also include the accounts and results of operations of several limited liability companies (LLCs) that have been consolidated with the Federal Reserve Bank of New York (FRBNY) (the "consolidated LLCs").

The Board of Governors, the Federal Reserve Banks, and the consolidated LLCs are all subject to several levels of audit and review. The Reserve Banks' financial statements and those of the consolidated LLC entities are audited annually by a registered independent public accountant retained by the Board of Governors. To ensure auditor independence, the Board requires that the external auditor be independent in all matters relating to the audit. Specifically, the external auditor may not perform services for the Reserve Banks or others that would place it in a position of auditing its own work, making management decisions on behalf of the Reserve Banks, or in any other way impairing its audit independence. In addition, the Reserve Banks, including the consolidated LLCs, are subject to oversight by the Board.

The Board of Governors' financial statements are audited annually by an independent audit firm retained by the Board's Office of Inspector General. The audit firm also provides a report on compliance and on internal control over financial reporting in accordance with government auditing standards. The Office of Inspector General also conducts audits, reviews, and investigations relating to the Board's programs and operations as well as of Board functions delegated to the Reserve Banks.

Audited annual financial statements for the Reserve Banks and Board of Governors are available at www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm. On a quarterly basis, the Federal Reserve prepares unaudited updates of tables presented in the annual report.

Combined Statement of Income and Comprehensive Income

Table 35 presents unaudited combined Reserve Bank income and expense information for the first half of the year. Tables 36 through 38 present information for the SOMA portfolio, the Federal Reserve loan programs, and the variable interest entities—the CPFF and Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs—for the first half of this year. These tables will be updated quarterly.

SOMA Financial Summary

Table 36 shows the Federal Reserve's average daily balance of assets and liabilities in the SOMA portfolio for the period from January 1, 2009, though June 30, 2009, the related interest income and expense, and the realized and unrealized gains and losses for the first half of the year. U.S. government and agency securities, as well as agency-guaranteed MBS making up the SOMA portfolio, are recorded at amortized cost on a settlement-date basis. Rather than using a fair value presentation, an amortized cost presentation more appropriately reflects the Reserve Banks' purpose for holding these securities given the Federal Reserve's unique responsibility to conduct monetary policy.

Although the fair value of security holdings can be substantially greater than or less than the recorded value at any point in time, these unrealized gains or losses have no effect on the ability of the Reserve Banks to meet their financial obligations and responsibilities. As of June 30, 2009, the fair value of the U.S. government and agency securities held in the SOMA, excluding accrued interest, was $812 billion, the fair value of the agency-guaranteed MBS was $463 billion, and the fair value of investments denominated in foreign currencies was $25 billion, as determined by reference to quoted prices for identical securities.

Table 35. Federal Reserve Banks' Combined Statement of Income and Comprehensive Income
($ millions)

	January 1, 2009 – June 30, 2009
Interest income:	
Loans to depository institutions (see table 37)	704
Other loans (see table 37)	1,594
System Open Market Account (see table 36)	17,141
Consolidated variable interest entities (table 38):	
Investments held by consolidated variable interest entities:	
Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs	3,144
Commercial Paper Funding Facility LLC	3,668
Total interest income	26,251
Interest expense:	
System Open Market Account (see table 36)	63
Depository institution deposits	992
Consolidated variable interest entities (see table 38)	133
Total interest expense	1,188
Net interest income	25,063
Non-interest income (loss):	
System Open Market Account - realized and unrealized losses, net (see table 36)	(858)
Investments held by consolidated variable interest entities gains (losses), net (see table 38):	
Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs	(4,762)
Commercial Paper Funding Facility LLC	5
Provision for loan restructuring (see table 37)[1]	(1,424)
Income from services	358
Reimbursable services to government agencies	190
Other income	136
Total non-interest (loss)	(6,355)
Operating expenses:	
Salaries and other benefits	1,294
Occupancy expense	135
Equipment expense	93
Assessments by the Board of Governors	446
Professional fees related to consolidated variable interest entities (see table 38)	65
Other expenses	289
Total operating expenses	2,322
Net income prior to distribution	16,386
Change in funded status of benefit plans[2]	180
Comprehensive income prior to distribution	16,566
Distribution of comprehensive income:	
Dividends paid to member banks	679
Remaining amount to be distributed	15,887
Memo: Distributions to U.S. Treasury (interest on Federal Reserve notes)[3]	12,586

Note: Unaudited.

1. In accordance with GAAP, as of June 30, 2009, the AIG revolving credit extension was reduced by a $1.4 billion adjustment for loan restructuring. The adjustment is related to the loan modification, announced on March 2, 2009, which eliminated the existing floor on the interest rate. The restructuring adjustment will be recovered as it is amortized over the remaining term of the credit extension—for example, as noted elsewhere in this report, the unamortized value of this adjustment was valued at $1.2 billion as of August 26.

2. Represents the recognition of benefit plan deferred actuarial gains and losses and prior service costs.

3. The Board of Governors requires each Reserve Bank to distribute any remaining net earnings to the U.S. Treasury as interest on Federal Reserve notes, after providing for the payment of dividends and reservation of an amount necessary to equate surplus with capital paid-in. These distributions are made weekly based on estimated net earnings for the preceding week. The amount of each Bank's weekly distribution to the U.S. Treasury would be affected by significant losses and increases in capital paid-in at a Reserve Bank, which would require that the Reserve Bank retains net earnings until the surplus is equal to the capital paid-in. The distributions to the U.S. Treasury are reported on an accrual basis; actual payments to the U.S. Treasury during the period from January 1, 2009, through June 30, 2009, were $10,161 million.

FRBNY conducts purchases and sales of U.S. government securities under authorization and direction from the Federal Open Market Committee (FOMC). The FRBNY buys and sells securities at market prices, from securities dealers and foreign and international account holders. The FOMC has also authorized the FRBNY to purchase and sell U.S. government securities under agreements to resell or repurchase such securities (commonly referred to as repurchase and reverse repurchase transactions).

The SOMA holds foreign currency deposits and foreign government debt instruments denominated in foreign currencies with foreign central banks and the Bank for International Settlements. Central bank liquidity swaps are the foreign currencies that the Federal Reserve acquires and records as an asset (excluding accrued interest) on the Federal Reserve's balance sheet. On January 5, 2009, the Federal Reserve began purchasing MBS guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Transactions in MBS are

Table 36. SOMA Financial Summary
($ millions)

Loan programs	January 1, 2009 – June 30, 2009				
	Average daily balance[1]	Interest income/ (expense)	Realized gains (losses)	Unrealized gains (losses)	Net earnings
SOMA assets					
U.S. government securities[2]	526,953	9,504	–	–	9,504
Federal agency and government-sponsored enterprise securities[2]	54,050	614	–	–	614
Agency-guaranteed mortgage-backed securities[3]	233,501	4,968	(352)	–	4,616
Investments denominated in foreign currencies[4]	24,243	162	–	(506)	(344)
Central bank liquidity swaps[5]	308,020	1,880	–	–	1,880
Securities purchased under agreements to resell	7,735	13	–	–	13
Total	1,154,502	17,141	(352)	(506)	16,283
SOMA liabilities					
Securities sold under agreements to repurchase	70,701	(63)	–	–	(63)
Total	1,083,801	17,078	(352)	(506)	16,220

Note: Unaudited. Components may not sum to totals because of rounding.
1. Based on holdings at opening of business.
2. Face value.
3. Current face value of the securities, which is the remaining principal balance of the underlying mortgages.
4. Includes accrued interest. Investments denominated in foreign currencies are revalued daily at market exchange rates.
5. Dollar value of foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank. This exchange rate equals the market exchange rate used when the foreign currency was acquired from the foreign central bank.

recorded on settlement dates, which can extend several months into the future. MBS dollar roll transactions, which consist of a purchase of securities combined with an agreement to sell securities in the future, may generate realized gains and losses.

Loan Programs Financial Summary

Table 37 summarizes the average daily loan balances and interest income of the Federal Reserve for the first half of 2009. The most significant loan balance is the TAF, which was established at the end of 2007. As noted earlier in this report, during 2008 the Federal Reserve established several lending facilities under authority of section 13(3) of the Federal Reserve Act. These included the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), the Primary Dealer Credit Facility (PDCF), and credit extended to American International Group, Inc. (AIG). Amounts funded by the Reserve Banks under all these programs are recorded as loans by the Reserve Banks. Net earnings from these loan programs were $874 million during the first half of 2009. All loans must be fully collateralized to the satisfaction of the lending Reserve Bank, with an appropriate haircut applied to the collateral. At June 30, 2009, no loans were impaired, and an allowance for loan losses was not required.

Table 37. Loan Programs Financial Summary
($ millions)

Loan programs	January 1, 2009 – June 30, 2009			
	Average daily balance[1]	Interest income[2]	Provision for loan restructuring	Total
Primary, secondary, and seasonal credit	54,157	134	–	134
Term Auction Facility	415,079	570	–	570
Total loans to depository institutions	469,236	704	–	704
Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF)	14,370	70	–	70
Primary Dealer Credit Facility (PDCF) and other broker-dealer credit	15,335	37	–	37
Credit extended to American International Group, Inc. (AIG), net	42,250	1,427	(1,424)	3
Term Asset-Backed Securities Loan Facility (TALF)	6,874	60	–	60
Total loans to others	78,829	1,594	(1,424)	170
Total loan programs	548,065	2,298	(1,424)	874
Allowance for loan losses	–	–	–	–
Total loan programs, net	548,065	2,298	(1,424)	874

Note: Unaudited. Components may not sum to totals because of rounding.
1. Based on holdings at opening of business. Average daily balance includes outstanding principal and capitalized interest net of unamortized deferred commitment fees and allowance for loan restructuring, and excludes undrawn amounts and credit extended to consolidated LLCs.
2. Interest income includes the amortization of the deferred commitment and administrative fees.

Table 38. Consolidated Variable Interest Entities Financial Summary
($ millions)

Consolidated LLCs	January 1, 2009 – June 30, 2009				
	CPFF	ML	ML II	ML III	Total Maiden Lane LLCs
Net portfolio assets of the consolidated LLCs and the net position of FRBNY and subordinated interest holders					
Net portfolio assets[1]	115,147	29,910[r]	15,343	22,489	67,742[r]
Other liabilities of consolidated LLCs	(154)	(4,151)[r]	(2)	(4)	(4,157)[r]
Net portfolio assets available	114,993	25,759	15,341	22,485	63,585
Loans extended to the consolidated LLCs by FRBNY[2]	110,810	29,159	17,712	22,614	69,485
Other beneficial interests [2,3]	0	1,217	1,020	5,108	7,345
Total loans	110,810	30,376	18,732	27,722	76,830
Cumulative change in net assets since the inception of the programs					
Allocated to FRBNY	4,183	(3,400)	(2,371)	(129)	(5,900)
Allocated to other beneficial interests	0	(1,217)	(1,020)	(5,108)	(7,345)
Cumulative change in net assets	4,183	(4,617)	(3,391)	(5,237)	(13,245)
Current period income of the consolidated LLCs					
Summary of consolidated VIE net income for the current year through June 30, 2009, including a reconciliation of total consolidated VIE net income to the consolidated VIE net income recorded by FRBNY					
Portfolio interest income[4]	3,668	930	592	1,622	3,144
Interest expense on loans extended by FRBNY[5]	(546)	(72)	(132)	(169)	(373)
Interest expense—other	0	(30)	(17)	(86)	(133)
Portfolio holdings gains (losses)[6]	5	(832)	(2,496)	(4,391)	(7,719)
Professional fees	(22)	(22)	(6)	(15)	(43)
Net income (loss) of consolidated LLCs	3,105	(26)	(2,059)	(3,039)	(5,124)
Less: Net income (loss) allocated to other beneficial interests[6]	0	(30)	(17)	(2,910)	(2,957)
Net income (loss) allocated to FRBNY	3,105	4	(2,042)	(129)	(2,167)
Add: Interest expense on loans extended by FRBNY, eliminated in consolidation[5]	546	72	132	169	373
Net income (loss) recorded by FRBNY	3,651	76	(1,910)	40	(1,794)

Note: Unaudited. Components may not sum to totals because of rounding.

r Revised for technical adjustments.

1. Commercial paper holdings are recorded at book value, which includes amortized cost and related fees. Maiden Lane, Maiden Lane II, and Maiden Lane III holdings are recorded at fair value.

2. Includes accrued interest.

3. The other beneficial interest holder related to Maiden Lane LLC is JPMC, and for Maiden Lane II and Maiden Lane III LLCs it is AIG.

4. Interest income is recorded when earned, and it includes amortization of premiums, accretion of discounts, and paydown gains and losses.

5. Interest expense recorded by each VIE on the loans extended by the FRBNY is eliminated when the VIEs are consolidated in the FRBNY's financial statements and, as a result, the consolidated VIEs' net income (loss) recorded by the FRBNY is increased by this amount.

6. The amount of Maiden Lane portfolio holdings losses allocated to FRBNY is $4,762, which is the total of portfolio holdings gains (losses) reduced by the net income (loss) allocated to other beneficial interests. This amount is reported as "Investments held by consolidated variable interest entities gains (losses), net" on Table 35.

Consolidated Variable Interest Entities (VIEs) Financial Summary

Table 38 summarizes the assets and liabilities of various consolidated VIEs previously discussed in this report. It also summarizes the net position of senior and subordinated interest holders and the allocation of the change in net assets to interest holders. The FRBNY is the sole beneficiary of the CPFF LLC and the primary beneficiary of the Maiden Lane LLCs. Commercial paper holdings are recorded at book value, which includes amortized cost and related fees. Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC holdings are recorded at fair value, which reflects an estimate of the price that would be received upon selling an asset if the transaction were to be conducted in an orderly market on the measurement date. Consistent with generally accepted accounting principles, the assets and liabilities of these LLCs have been consolidated with the assets and liabilities of the FRBNY. As a consequence of the consolidation, the extensions of credit from the FRBNY to the LLCs are eliminated.

"Net portfolio assets available" represent the net assets available to beneficiaries of the consolidated VIEs and for repayment of loans extended by the FRBNY. "Net income (loss) allocated to FRBNY" represents the allocation of the change in net assets and liabilities of the consolidated VIEs available for repayment of the loans extended by the FRBNY and other beneficiaries of the consolidated VIEs. The differences between the fair value of the net assets available and the face value of the loans (including accrued interest) are indicative of gains or losses that would have been incurred by the beneficiaries if the assets had been fully liquidated at prices equal to the fair value as of June 30, 2009.

Minutes of the Federal Open Market Committee
August 11-12, 2009

A joint meeting of the Federal Open Market Committee and the Board of Governors of the Federal Reserve System was held in the offices of the Board of Governors in Washington, D.C., on Tuesday, August 11, 2009, at 2:00 p.m. and continued on Wednesday, August 12, 2009, at 9:00 a.m.

PRESENT:

Mr. Bernanke, Chairman
Mr. Dudley, Vice Chairman
Ms. Duke
Mr. Evans
Mr. Kohn
Mr. Lacker
Mr. Lockhart
Mr. Tarullo
Mr. Warsh
Ms. Yellen

Mr. Bullard, Ms. Cumming, Mr. Hoenig, Ms. Pianalto, and Mr. Rosengren, Alternate Members of the Federal Open Market Committee

Messrs. Fisher, Plosser, and Stern, Presidents of the Federal Reserve Banks of Dallas, Philadelphia, and Minneapolis, respectively

Mr. Madigan, Secretary and Economist
Ms. Danker, Deputy Secretary
Mr. Luecke, Assistant Secretary
Mr. Skidmore, Assistant Secretary
Ms. Smith, Assistant Secretary
Mr. Alvarez, General Counsel
Mr. Baxter,[1] Deputy General Counsel
Mr. Sheets, Economist
Mr. Stockton, Economist

Messrs. Altig, Clouse, Connors, Slifman, Sullivan, and Wilcox, Associate Economists

Mr. Sack, Manager, System Open Market Account

Ms. Johnson, Secretary of the Board, Office of the Secretary, Board of Governors

Ms. George, Acting Director, Division of Banking Supervision and Regulation, Board of Governors

Mr. Frierson,[1] Deputy Secretary, Office of the Secretary, Board of Governors

Mr. Struckmeyer, Deputy Staff Director, Office of the Staff Director for Management, Board of Governors

Mr. English, Deputy Director, Division of Monetary Affairs, Board of Governors

Ms. Robertson, Assistant to the Board, Office of Board Members, Board of Governors

Ms. Liang, Messrs. Reifschneider and Wascher, Senior Associate Directors, Division of Research and Statistics, Board of Governors

Mr. Meyer, Senior Adviser, Division of Monetary Affairs, Board of Governors

Messrs. Leahy and Nelson,[1] Associate Directors, Divisions of International Finance and Monetary Affairs, respectively, Board of Governors

Mr. Carpenter, Deputy Associate Director, Division of Monetary Affairs, Board of Governors

Mr. Small, Project Manager, Division of Monetary Affairs, Board of Governors

Ms. Wei, Economist, Division of Monetary Affairs, Board of Governors

Ms. Beattie,[1] Assistant to the Secretary, Office of the Secretary, Board of Governors

Ms. Low, Open Market Secretariat Specialist, Division of Monetary Affairs, Board of Governors

Mr. Lyon, First Vice President, Federal Reserve Bank of Minneapolis

Mr. Sniderman, Executive Vice President, Federal Reserve Bank of Cleveland

[1] Attended Tuesday's session only.

Mr. McAndrews,[1] Ms. McLaughlin, Messrs. Rudebusch, Sellon, Tootell, and Waller, Senior Vice Presidents, Federal Reserve Banks of New York, New York, San Francisco, Kansas City, Boston, and St. Louis, respectively

Messrs. Burke, Dotsey, Koenig, and Pesenti, Vice Presidents, Federal Reserve Banks of New York, Philadelphia, Dallas, and New York, respectively

Mr. Weber, Senior Research Officer, Federal Reserve Bank of Minneapolis

Mr. Hetzel, Senior Economist, Federal Reserve Bank of Richmond

[1] Attended Tuesday's session only.

Developments in Financial Markets and the Federal Reserve's Balance Sheet

The Manager of the System Open Market Account reported on recent developments in domestic and foreign financial markets. The Manager also reported on System open market operations in Treasury securities, agency debt, and agency mortgage-backed securities (MBS) since the Committee's June 23-24 meeting. By unanimous vote, the Committee ratified those transactions. There were no open market operations in foreign currencies for the System's account during the intermeeting period. The Federal Reserve's total assets were about unchanged, on balance, since the Committee met in June, remaining at approximately $2 trillion as the System's purchases of securities were essentially matched by a further decline in usage of the System's credit and liquidity facilities.

Meeting participants again discussed the merits of including agency MBS backed by adjustable-rate mortgages (ARMs) in the Committee's MBS purchase program: Some thought it would be useful to include agency ARM MBS, noting that doing so could reduce the unusually large spreads between ARM rates and yields on similar-duration Treasury securities—spreads that were far larger than the comparable spreads on fixed-rate mortgages; others saw little potential benefit, given the small stock and limited issuance of ARM MBS, and were hesitant to involve the Federal Reserve in another market segment. The Committee made no decision on purchasing ARM MBS at this meeting. Participants also discussed the merits of progressively reducing the pace at which the Federal Reserve buys Treasury securities, agency debt, and agency MBS prior to the end of the asset purchase programs. They generally were of the view that gradually slowing the pace of the Committee's purchases of $300 billion of Treasury securities and extending their completion to the end of October could help promote a smooth transition in markets. A number of participants noted that a similar tapering of agency debt and MBS purchases could be helpful in the future as those programs approach completion. The Committee made no decisions on tapering those purchases at this meeting.

The staff presented an update on the continuing development of several tools that could help support a smooth withdrawal of policy accommodation at the appropriate time. These measures include executing reverse repurchase agreements on a large scale, potentially with counterparties other than the primary dealers; implementing a term deposit facility that would be available to depository institutions in order to reduce the supply of excess reserves; and taking steps to tighten the link between the interest rate paid on reserve balances held at the Federal Reserve Banks and the federal funds rate. Several participants noted the need to continue refining the Committee's strategy for an eventual withdrawal of policy accommodation. The staff also updated the Committee on developments in the Term Asset-Backed Securities Loan Facility (TALF), summarized the pros and cons of expanding the range of collateral eligible for TALF loans, and recommended extending the final date for making new TALF loans into 2010. Participants generally supported the extension of TALF into 2010 but were skeptical about expanding the range of assets at this time.

Secretary's note: As announced on August 17, 2009, the Board of Governors subsequently approved an extension of the TALF while holding in abeyance any further expansion in the types of collateral eligible for the TALF.

Staff Review of the Economic Situation

The information reviewed at the August 11-12 meeting suggested that overall economic activity was stabilizing after a contraction in real gross domestic product (GDP) during 2008 and early 2009 that the Bureau of Economic Analysis recently reported to have been greater than it had previously estimated. Employment continued to move lower through July, but the pace of job losses had slowed noticeably in recent months. A sizable pickup in motor vehicle production appeared to be under way. Housing activity apparently was begin-

ning to turn up. Consumer spending dropped only a little further in the first half of this year, on balance, after falling sharply in the second half of last year. The decline in equipment and software (E&S) investment seemed to be moderating, although the incoming data did not point to an imminent recovery. The sharp cuts in production this year reduced inventory stocks significantly, though they remained high relative to the level of sales. A jump in gasoline prices pushed up overall consumer price inflation in June, but core consumer price inflation remained relatively stable in recent months.

Job losses continued to abate in July, and aggregate hours of production and nonsupervisory workers were unchanged. The step-up in motor vehicle assemblies boosted employment in that industry; job losses decreased in a number of other manufacturing industries, and factory workweeks generally rose. Employment declines in business and financial services in July were also smaller than those in recent months. Payrolls in nonbusiness services posted their third monthly gain, supported by the continued uptrend in health and education and a small gain in the leisure and hospitality industry. However, job losses in the construction industry continued at about the recent rate. In the household survey, the unemployment rate edged down in July to 9.4 percent, while the labor force participation rate fell back to its March level. Other indicators also suggested a reduced pace of deterioration in labor demand. Both initial claims for unemployment insurance and insured unemployment moved down since June. However, with labor markets still quite slack, year-over-year growth in average hourly earnings of production and nonsupervisory workers slowed further in July.

The contraction in industrial production slowed markedly in the second quarter, although the rate of decline remained rapid and the factory utilization rate recorded a new low in June. The moderation in the pace of decline in industrial production in the second quarter was widespread across industries and major market groups. Available indicators suggested that industrial production increased noticeably in July, led by motor vehicle assemblies; manufacturing output excluding motor vehicles likely also rose in July.

Real personal consumption expenditures (PCE) edged down in June after holding steady in May and declining in April. Apart from a jump in motor vehicle purchases, which were boosted appreciably by the government's "cash-for-clunkers" program, indicators of consumer spending in July were mixed. Most determinants of spending remained weak on balance. In particular, the weak labor market continued to place significant strains on household income, and earlier declines in net worth were still holding back spending. However, household net worth received a boost from the rise in equity prices since their low in March. In addition, the July Senior Loan Officer Opinion Survey on Bank Lending Practices indicated that the fraction of banks tightening standards and terms for consumer credit had diminished further. Moreover, measures of consumer sentiment, though they recently retraced a portion of their earlier gains, remained well above levels seen at the turn of the year.

Data from the housing sector indicated that construction activity appeared to be emerging from its extended decline. Single-family housing starts registered a sizable increase in June, and the number of starts stood well above the record low recorded in the first quarter of this year. However, in the much smaller multifamily sector, starts continued to decline, on net, in 2009 after falling significantly in the second half of 2008 amid tight credit conditions and rapidly deteriorating demand fundamentals for apartment buildings. The latest sales data suggested that demand for new houses may be strengthening after stabilizing in the early portion of this year. Although sales remained quite modest, they were enough, given the very slow pace of production, to pare the overhang of unsold new single-family houses: In June, these inventories stood at about one-half of their peak in the summer of 2006, and the months' supply of new homes was down considerably from its record high in January. Sales of existing single-family houses, which were fairly flat early in the year, posted their third consecutive monthly increase in June, and pending home sales agreements through June suggested that resale activity would rise further in the months ahead. Sales of existing homes had been supported for much of the year by heightened volumes of transactions involving bank-owned and other distressed properties; the uptick in May and June, however, appeared to have been driven by an increase in transactions of non-distressed properties. The apparent stabilization in housing demand seen in recent months was likely due, in part, to improvements in housing affordability stemming from low interest rates for conforming mortgages and lower house prices.

Real investment in E&S continued to contract in the second quarter; however, the estimated rate of decline was substantially smaller than in the previous two quarters. Business outlays on motor vehicles leveled off in the second quarter after an extended period of steep

declines. Real spending in the high-tech sector declined, although real outlays for computing equipment posted their first gain in a year. Outside of high-tech and transportation, real spending on equipment dropped again in the second quarter but at a slower pace than in the previous quarter. Although the fundamental determinants of investment in E&S remained weak, conditions appeared less unfavorable, on balance, than earlier in the year. In particular, the decline in business output was less pronounced in the second quarter than in prior quarters, and estimates of the user cost of capital fell back somewhat in the second quarter after spiking last year. Other forward-looking indicators generally improved, but they remained at levels consistent with a weak outlook for E&S investment. Corporate bond spreads over Treasury securities continued to ease, and monthly surveys of business conditions and sentiment generally were less downbeat than earlier in the year. In addition, the July Senior Loan Officer Opinion Survey reported that the net percentage of banks that had tightened standards and terms on commercial and industrial (C&I) loans receded somewhat, although the July National Federation of Independent Business survey showed that the share of small businesses reporting increased difficulty in obtaining credit remained high. Conditions in the nonresidential construction sector generally remained quite poor, with spending in most major categories staying on a downward trajectory through June. Vacancy rates continued to rise, property prices fell further, and, as indicated by the July Senior Loan Officer Opinion Survey, financing for nonresidential construction projects became even tighter.

In May, the U.S. international trade deficit narrowed to its lowest level since 1999, as exports increased moderately and imports declined. The increase in exports of goods and services was led by a climb in exports of industrial supplies, particularly of petroleum products, and reflected both higher prices and greater volumes. The value of imports of goods and services fell at a slower pace than in April. Imports of petroleum products exhibited the largest decline, with the fall wholly reflecting lower volumes, as petroleum prices rose. Imports of services and automotive products moved down somewhat, while non-oil industrial supplies were largely unchanged. Overall imports of consumer goods were also about unchanged, as a large decline in pharmaceuticals offset increases in a number of other goods. In contrast, imports of computers moved up strongly in May.

Recent indicators of economic activity in the advanced foreign economies suggested that the pace of contraction in those countries moderated further. Purchasing managers indexes continued to rebound but did not yet point to expansion for all countries. Industrial production, while remaining well below pre-crisis levels, moved up strongly in Japan and edged up in the euro area and in the United Kingdom. Indicators of economic sentiment also improved. However, labor market conditions continued to deteriorate, and credit standards remained generally tight. In emerging market economies, recent data showed that economic activity surged across emerging Asia in the second quarter. Real GDP rebounded sharply in China and South Korea, and the preliminary estimate in Singapore indicated a substantial increase. In China, policy stimulus lifted activity and thus helped boost China's imports, primarily from other countries in Asia. Indicators for these other countries also pointed to a strong rebound in the second quarter. Activity remained depressed in Mexico, partly reflecting the adverse effect of a swine flu outbreak. In contrast, activity in Brazil appeared to have begun to recover.

In the United States, overall PCE prices rose in June following little change in each of the previous three months. The increase largely reflected a sizable increase in gasoline prices, which appeared to have caught up with earlier increases in crude oil prices. The latest available survey data showed that gasoline prices flattened out, on net, in July. Excluding food and energy, PCE prices moved up moderately in June. For the second quarter as a whole, core inflation picked up from the pace in the first quarter, which had been revised down because of smaller increases in the imputed prices of nonmarket services. Median year-ahead inflation expectations in the Reuters/University of Michigan Survey of Consumers held relatively steady in July, as in recent months. Longer-term inflation expectations were about the same as the average over 2008. The producer price index for core intermediate materials turned up in June following a string of monthly declines that likely reflected the pass-through of the large declines in spot prices of commodities in the second half of last year. All measures of hourly compensation and wages suggested that labor costs decelerated markedly this year in response to the considerable deterioration in labor market conditions.

Staff Review of the Financial Situation

The decisions by the Federal Open Market Committee (FOMC) at the June meeting to leave the target range for the federal funds rate unchanged and to maintain

the sizes of its large-scale asset purchase programs, along with the accompanying statement, were broadly in line with market expectations. However, investors initially marked up their expected path for the federal funds rate following the release of the statement, as they apparently interpreted it as suggesting a more favorable assessment of prospects for economic growth than had been anticipated. Subsequently, investors revised down the expected policy path after the June employment report and the Chairman's semiannual monetary policy testimony. These declines were more than offset by the favorable economic information received toward the end of the intermeeting period, including the stronger-than-expected July employment report. On net, the market-implied path of the federal funds rate ended the period about the same as at the time of the June FOMC meeting. Yields on nominal Treasury securities were also little changed, on balance, over the intermeeting period, though there were sizable intraday movements in response to macroeconomic data releases and Federal Reserve communications. Inflation compensation based on five-year Treasury inflation-protected securities (TIPS) declined, on net, over the intermeeting period, while five-year inflation compensation five years ahead rose somewhat. Liquidity in the TIPS market reportedly continued to be poor, making unclear the extent to which movements in TIPS inflation compensation reflected changes in investors' expectations of future inflation.

Functioning in short-term funding markets generally showed further improvement over the intermeeting period. Consistent with reduced concerns about the financial condition of large banking institutions, London interbank offered rates (Libor) continued to edge down. Three- and six-month Libor-OIS (overnight index swap) spreads—while still somewhat elevated by historical standards—declined a bit further and stood at levels last recorded in early 2008. Bid-asked spreads for most types of repurchase agreements edged down. Since June, spreads on A2/P2-rated commercial paper and AA-rated asset-backed commercial paper were little changed, on net, remaining at the low ends of their ranges over the past two years. Indicators of Treasury market functioning were little changed over the intermeeting period, and functioning continued to be somewhat impaired. Bid-asked spreads held roughly steady, and trading volumes remained low. The on-the-run liquidity premium for the 10-year Treasury note was little changed at elevated levels, although it was well below its peak last fall.

Broad stock price indexes rose, on net, over the intermeeting period, as investors responded to strong second-quarter earnings reports and indications that the economy may be stabilizing. The spread between an estimate of the expected real equity return over the next 10 years for S&P 500 firms and an estimate of the real 10-year Treasury yield—a rough gauge of the equity risk premium—narrowed a bit more but remained high by recent historical standards. Option-implied volatility on the S&P 500 index also dropped a bit further. Yields on BBB-rated and speculative-grade corporate bonds declined over the intermeeting period. As a result, corporate bond spreads narrowed further and dropped below the previous peak levels reached in 2002 following the 2001 recession. Conditions in the leveraged loan market continued to improve as secondary-market prices rose further and bid-asked spreads narrowed.

Investor sentiment toward the financial sector improved further over the intermeeting period, boosted, in part, by better-than-expected second-quarter earnings results at larger banking institutions. Over the period, bank equity prices rose, and credit default swap spreads on financial firms declined. Nonetheless, some investors commented that the positive upside surprises at large financial institutions were mostly related to investment banking and trading activities, which may not provide a stable source of earnings, and to mortgage refinancing activity, which may recede if longer-term rates rise. Market participants also focused on the large consumer loan losses reported by many banks. The financial condition of CIT Group, Inc., one of the largest lenders to middle-market firms, worsened sharply over the period, but broader financial market conditions appeared to be largely unaffected by this development.

The level of private domestic nonfinancial sector debt apparently declined again in the second quarter, as household debt was estimated to have dropped and nonfinancial business debt appeared to have been essentially unchanged. Gross issuance of speculative- and investment-grade bonds by nonfinancial corporations slowed in July from its outsized second-quarter pace. Issuance of institutional loans in the syndicated leveraged loan market reportedly remained extremely weak in July, while bank loans and commercial paper continued to run off, leaving net debt financing by nonfinancial corporations at around zero. In contrast, the federal government issued debt at a rapid clip, and state and local government debt was estimated to have expanded moderately.

Commercial bank credit contracted further in June and July. All major loan categories declined, apparently reflecting the combined effects of weaker demand for most types of loans, some substitution from bank loans to other funding sources, and an ongoing tightening of lending standards and terms. Commercial and industrial lending dropped steeply amid subdued origination activity and broad-based paydowns of outstanding loans. In the July Senior Loan Officer Opinion Survey, respondents indicated that the most important reasons for the decline in C&I loans in 2009 were weaker demand from creditworthy borrowers and the deterioration in credit quality that had reduced the number of firms that respondents viewed as creditworthy. The contraction in commercial real estate (CRE) lending accelerated. Large fractions of respondents to the July survey again noted that they had tightened standards and that the demand for CRE loans had weakened further.

M2 was little changed, on net, in June and July. Retail money market mutual funds and small time deposits dropped significantly in June and were estimated to have contracted again in July, likely reflecting the very low rates of interest on these assets and a continued reallocation of wealth toward riskier assets. These declines were partly offset by a net increase in liquid deposits, also suggesting some portfolio reallocation within M2 assets. Currency expanded weakly, apparently because of soft foreign demand.

The tone of financial markets abroad improved further during the intermeeting period. Stock markets rose globally, as positive U.S. earnings reports and news of strong economic rebounds in emerging Asian economies reportedly lifted investor sentiment. European bank stocks rose especially rapidly, spurred by reports of better-than-expected earnings among some European banks as well as some U.S. financial institutions. The dollar depreciated mildly on a trade-weighted basis since late June.

The European Central Bank (ECB), the Bank of England, the Bank of Canada, and the Bank of Japan kept their respective policy rates constant over the intermeeting period. However, overnight interest rates in the euro area declined in the wake of the June 24 injection by the ECB of one-year funds at a fixed rate of 1 percent. The ECB also began its purchases of covered bonds, and yields on intermediate-term European covered bonds declined since the purchases began in early July. After leaving the size of its Asset Purchase Facility (APF) unchanged at its July meeting, the Bank of England, at its August meeting, raised the size of the APF to £175 billion and widened the set of gilts it would purchase. Benchmark gilt yields fell noticeably on the announcement after moving higher in July.

Staff Economic Outlook

In the forecast prepared for the August FOMC meeting, the staff's outlook for the change in real activity over the next year and a half was essentially the same as at the time of the June meeting. Consumer spending had been on the soft side lately. The new estimates of real disposable income that were reported in the comprehensive revision to the national income and product accounts showed a noticeably slower increase in 2008 and the first half of 2009 than previously thought. By themselves, the revised income estimates would imply a lower forecast of consumer spending in coming quarters. But this negative influence on aggregate demand was roughly offset by other factors, including higher household net worth as a result of the rise in equity prices since March, lower corporate bond rates and spreads, a lower dollar, and a stronger forecast for foreign economic activity. All told, the staff continued to project that real GDP would start to increase in the second half of 2009 and that output growth would pick up to a pace somewhat above its potential rate in 2010. The projected increase in production in the second half of 2009 was expected to be the result of a slowing in the pace of inventory liquidation; final sales were not projected to increase until 2010. The step-up in economic activity in 2010 was expected to be supported by an ongoing improvement in financial conditions, which, along with accommodative monetary policy, was projected to set the stage for further improvements in household and business sentiment and an acceleration in aggregate demand.

The staff forecast for inflation was also about unchanged from that at the June meeting. Interpretation of the incoming data on core PCE inflation was complicated by changes in the definition of the core measure recently implemented by the Bureau of Economic Analysis, as well as by unusually low readings for some nonmarket components of the price index.[2] After accounting for these factors, the underlying pace of core inflation seemed to be running a little higher than the staff had anticipated. Survey measures of inflation expectations showed no significant change. Nonetheless,

[2] As part of the July 2009 comprehensive revision of the national income and product accounts, the Bureau of Economic Analysis reclassified restaurant meals from the food category to the services category. As a result, the price index for PCE excluding food and energy (the core PCE price index) now includes prices of restaurant meals.

with the unemployment rate anticipated to increase somewhat during the remainder of 2009 and to decline only gradually in 2010, the staff still expected core PCE inflation to slow substantially over the forecast period; the very low readings on hourly compensation lately suggested that such a process might already be in train.

Participants' Views on Current Conditions and the Economic Outlook

In their discussion of the economic situation and outlook, meeting participants agreed that the incoming data and anecdotal evidence had strengthened their confidence that the downturn in economic activity was ending and that growth was likely to resume in the second half of the year. Many noted that their baseline projections for the second half of 2009 and for subsequent years had not changed appreciably since the Committee met in June but that they now saw smaller downside risks. Consumer spending appeared to be in the process of leveling out, and activity in a number of local housing markets had stabilized or even increased somewhat. Reports from business contacts supported the view that firms were making progress in bringing inventories into better alignment with their reduced sales and that production was stabilizing in many sectors—albeit at low levels—and beginning to rise in some. Nonetheless, most participants saw the economy as likely to recover only slowly during the second half of this year, and all saw it as still vulnerable to adverse shocks. Conditions in the labor market remained poor, and business contacts generally indicated that firms would be quite cautious in hiring when demand for their products picks up. Moreover, declines in employment and weakness in growth of labor compensation meant that income growth was sluggish. Also, households likely would continue to face unusually tight credit conditions. These factors, along with past declines in wealth that had been only partly offset by recent increases in equity prices, would weigh on consumer spending. The data and business contacts indicated very substantial excess capacity in many sectors; this excess capacity, along with the tight credit conditions facing many firms, likely would mean further weakness in business fixed investment for a time. Even so, less-aggressive inventory cutting and continuing monetary and fiscal policy stimulus could be expected to support growth in production during the second half of 2009 and into 2010. In addition, the outlook for foreign economies had improved somewhat, auguring well for U.S. exports. Participants expected the pace of recovery to pick up in 2010, but they expressed a range of views, and considerable uncertainty, about the likely strength of the upturn—particularly about the pace of projected gains in consumer spending and the extent to which credit conditions would normalize.

Most participants anticipated that substantial slack in resource utilization would lead to subdued and potentially declining wage and price inflation over the next few years; a few saw a risk of substantial disinflation. However, some pointed to the problems in measuring economic slack in real time, and several were skeptical that temporarily low levels of resource utilization would reduce inflation appreciably, given the loose empirical relationship of economic slack to inflation and the fact that the public did not appear to have reduced its expectations of inflation. Participants noted concerns among some analysts and business contacts that the sizable expansion of the Federal Reserve's balance sheet and large continuing federal budget deficits ultimately could lead to higher inflation if policies were not adjusted in a timely manner. To address these concerns, it would be important to continue communicating that the Federal Reserve has the tools and willingness to begin withdrawing monetary policy accommodation at the appropriate time to prevent any persistent increase in inflation.

Developments in financial markets during the intermeeting period were again seen as broadly positive; the cumulative improvement in market functioning since the spring was viewed as quite significant. Markets for corporate debt continued to improve, and private credit spreads narrowed further. With the TALF continuing to provide important support, markets for asset-backed securities also showed improvement, and recent issuance had neared levels observed prior to the second half of 2008. Higher equity prices appeared to result not only from generally better-than-expected corporate earnings, which seemed largely to reflect aggressive cost cutting, but also from a reduction in the perceived risk of extremely adverse outcomes and a consequent increase in investors' appetite for riskier assets. However, participants noted that many markets were still strained and that financial risks remain. The improvement in financial markets was due, in part, to support from various government programs, and market functioning might deteriorate as those programs wind down. While financial markets had improved, credit remained tight, with many banks—though fewer than in recent quarters—having reported that they again tightened loan standards and terms. Increases in interest rates and reductions in lines on credit cards were affecting small businesses as well as consumers. All categories of bank lending had continued to decline.

Worsening credit quality was still cited by banks as an important reason for the tightening of credit conditions, though anecdotal evidence suggested that the deterioration in the credit quality of consumer loans might be slowing. Nonetheless, several participants noted that banks still faced a sizable risk of additional credit losses and that many small and medium-sized banks were vulnerable to deteriorating performance of commercial real estate loans. Participants again observed that obtaining or renewing financing for commercial real estate properties and projects was extremely difficult amid worsening fundamentals in that sector, though some noted anecdotal evidence that the addition of highly rated commercial MBS to the list of securities that can be pledged as collateral for TALF loans had contributed to an improvement in liquidity in that market.

Labor market conditions remained of particular concern to meeting participants. Though recent data indicated that the pace at which employment was declining had slowed appreciably, job losses remained sizable. Moreover, long-term unemployment and permanent separations continued to rise, suggesting possible problems of skill loss and a need for labor reallocation that could slow recovery in employment as the economy begins to expand. The unusually large fraction of those who were working part time for economic reasons and the unusually low level of the average workweek, combined with indications from business contacts that firms would resist hiring as sales and production turn up, also pointed to a period of modest job gains and thus a slow decline in the unemployment rate. Wages and benefits continued to decelerate, reflecting—in the judgment of many participants—substantial slack in labor markets. Several participants noted that the deceleration in labor costs should eventually support a pickup in hiring. Recently, however, it contributed to weakness in household incomes.

Consumer spending remained weak, but participants saw evidence that it was stabilizing, even before the boost to auto purchases provided by the cash-for-clunkers program. Real PCE declined little, on balance, during the first half of 2009 after dropping sharply during the second half of 2008 and was essentially constant during May and June. Several participants noted the recent rebound in equity prices and thus household wealth as a factor that was likely to support consumer spending. Many noted, however, that households still faced considerable headwinds, including reduced wealth, tight credit, high levels of debt, and uncertain job prospects. With these forces restraining spending, and with labor income likely to remain soft, participants generally expected no more than moderate growth in consumer spending going forward. An important source of uncertainty in the outlook for consumer spending was whether households' propensity to save, which had risen in recent quarters, would increase further. Analysis based on responses to past changes in wealth relative to income suggested that the personal saving rate could level out near its current value; however, there was some chance that the increased income volatility and reduced access to credit that had characterized recent experience could lead households to save a still-larger fraction of their incomes.

Regional surveys and anecdotal reports continued to indicate low levels of activity across many goods-producing industries and in the service sector, but they also pointed to some optimism about the outlook. Firms appeared to be making substantial progress in reducing inventories toward desired levels; indeed, inventories of motor vehicles appeared quite lean following earlier production shutdowns and the recent boost to sales from the cash-for-clunkers program. Accordingly, participants expected firms to slow the pace of inventory reduction by raising production; this adjustment was likely to make an important contribution to economic recovery in the second half of this year. In contrast, business contacts generally reported setting a high bar for increasing capital investment once sales pick up, because their firms now have unusually high levels of excess capacity.

In the residential real estate sector, home sales, prices, and construction had shown signs of stabilization in many areas and were increasing modestly in others, but a still-sizable inventory of unsold existing homes continued to restrain homebuilding. Commercial real estate activity, in contrast, was being weighed down by deteriorating fundamentals, including declining occupancy and rental rates; by falling prices; and by difficulty in refinancing loans on existing properties.

Manufacturing firms appeared to have benefitted recently from an earlier- and stronger-than-expected pickup in foreign economic activity, especially in Asia, and the resulting increase in demand for U.S. exports. Several participants noted that improving growth abroad would likely contribute to greater growth in U.S. exports going forward.

A number of participants noted that fiscal policy helped support the stabilization in economic activity, in part by buoying household incomes and by preventing even larger cuts in state and local government spend-

ing. Participants generally anticipated that fiscal stimulus already in train would contribute to growth in economic activity during the second half of 2009 and into 2010, but the stimulative effects of policy would fade as 2010 went on and would need to be replaced by private demand and income growth.

Committee Policy Action

In their discussion of monetary policy for the period ahead, Committee members agreed that the stance of monetary policy should not be changed at this meeting. Given the prospects for an initially modest economic recovery, substantial resource slack, and subdued inflation, the Committee agreed that it should maintain its target range for the federal funds rate at 0 to ¼ percent. The future path of the federal funds rate would continue to depend on the Committee's evolving outlook, but, for now, given their forecasts for only a gradual upturn in economic activity and subdued inflation, members thought it most likely that the federal funds rate would need to be maintained at an exceptionally low level for an extended period. With the downside risks to the economic outlook now considerably reduced but the economic recovery likely to be damped, the Committee also agreed that neither expansion nor contraction of its program of asset purchases was warranted at this time. The Committee did, however, decide to gradually slow the pace of the remainder of its purchases of $300 billion of Treasury securities and extend their completion to the end of October to help promote a smooth transition in markets. Members noted that, with the programs for purchases of agency debt and MBS not due to expire until the end of the year, it was not necessary to make decisions at this meeting about any potential modifications to those programs. The Committee agreed that it would continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets.

At the conclusion of the discussion, the Committee voted to authorize and direct the Federal Reserve Bank of New York, until it was instructed otherwise, to execute transactions in the System Account in accordance with the following domestic policy 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 ¼ percent. The Committee directs the Desk to purchase agency debt, agency MBS, and longer-term Treasury securities during the intermeeting period with the aim of providing support to private credit markets and economic activity. The timing and pace of these purchases should depend on conditions in the markets for such securities and on a broader assessment of private credit market conditions. The Desk is expected to purchase up to $200 billion in housing-related agency debt and up to $1.25 trillion of agency MBS by the end of the year. The Desk is expected to purchase about $300 billion of longer-term Treasury securities by the end of October, gradually slowing the pace of these purchases until they are completed. The Committee anticipates that outright purchases of securities will cause the size of the Federal Reserve's balance sheet to expand significantly in coming months. 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."

The vote encompassed approval of the statement below to be released at 2:15 p.m.:

> "Information received since the Federal Open Market Committee met in June suggests that economic activity is leveling out. Conditions in financial markets have improved further in recent weeks. Household spending has continued to show signs of stabilizing but remains constrained by ongoing job losses, sluggish income growth, lower housing wealth, and tight credit. Businesses are still cutting back on fixed investment and staffing but are making progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in a context of price stability.
>
> The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pres-

sures, and the Committee expects that inflation will remain subdued for some time.

In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. As previously announced, to provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase a total of up to $1.25 trillion of agency mortgage-backed securities and up to $200 billion of agency debt by the end of the year. In addition, the Federal Reserve is in the process of buying $300 billion of Treasury securities. To promote a smooth transition in markets as these purchases of Treasury securities are completed, the Committee has decided to gradually slow the pace of these transactions and anticipates that the full amount will be purchased by the end of October. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted."

Voting for this action: Messrs. Bernanke and Dudley, Ms. Duke, Messrs. Evans, Kohn, Lacker, Lockhart, Tarullo, and Warsh, and Ms. Yellen.

Voting against this action: None.

It was agreed that the next meeting of the Committee would be held on Tuesday-Wednesday, September 22-23, 2009. The meeting adjourned at 11:40 a.m. on August 12, 2009.

Notation Vote

By notation vote completed on July 14, 2009, the Committee unanimously approved the minutes of the FOMC meeting held on June 23-24, 2009.

Brian F. Madigan
Secretary

Press Release

FEDERAL RESERVE press release

Release Date: September 23, 2009

For immediate release

Information received since the Federal Open Market Committee met in August suggests that economic activity has picked up following its severe downturn. Conditions in financial markets have improved further, and activity in the housing sector has increased. Household spending seems to be stabilizing, but remains constrained by ongoing job losses, sluggish income growth, lower housing wealth, and tight credit. Businesses are still cutting back on fixed investment and staffing, though at a slower pace; they continue to make progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee anticipates that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will support a strengthening of economic growth and a gradual return to higher levels of resource utilization in a context of price stability.

With substantial resource slack likely to continue to dampen cost pressures and with longer-term inflation expectations stable, the Committee expects that inflation will remain subdued for some time.

In these circumstances, the Federal Reserve will continue to employ a wide range of tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. To provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase a total of $1.25 trillion of agency mortgage-backed securities and up to $200 billion of agency debt. The Committee will gradually slow the pace of these purchases in order to promote a smooth transition in markets and anticipates that they will be executed by the end of the first quarter of 2010. As previously announced, the Federal Reserve's purchases of $300 billion of Treasury securities will be completed by the end of October 2009. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; Elizabeth A. Duke; Charles L. Evans; Donald L. Kohn; Jeffrey M. Lacker; Dennis P. Lockhart; Daniel K. Tarullo; Kevin M. Warsh; and Janet L. Yellen.

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THE WALL STREET JOURNAL.
WSJ.com

JULY 15, 2009, 1:55 P.M. ET

Economists Warn Fed Independence at Risk

By DAVID WESSEL

More than 175 prominent economists warned that "the independence of U.S. monetary policy is at risk" because of stepped up congressional criticism of the Federal Reserve.

The 185-word petition, circulated at a recent meeting of academic economists, urged Congress and the president to "avoid compromising [the Fed's] ability to manage monetary policy as it sees fit" and to refrain from politicizing its decisions on emergency loans to financial institutions.

Congress has sharpened criticism of the Fed's actions, specifically Chairman Ben Bernanke's handling of Bank of America Corp.'s hesitation late last year to complete its purchase of Merrill Lynch and unusual Fed loans to American International Group Inc.

The move to publicly defend the Fed's role reflects growing unease among academic economists, former Fed officials and some investors that the vehemence of the criticism from Congress of the Fed's handling of the financial crisis suggests a readiness in Congress to weaken the freedom the Fed has to move interest rates as it sees fit.

"This was triggered by two concerns," said Anil Kashyap, a University of Chicago finance economist who was among the initiators of the petition. "The interactions with Congress are becoming increasingly hostile. Competent monetary policy needs to be forward looking. So at some point the Fed is going to have to act to tighten policy before the economy is booming. If that gets stopped for political reasons it would be a disaster and just the perception that it might be stopped could be costly."

Arguing, as economists commonly do, that the independence of the central bank is "essential for controlling inflation," the petition urges Congress not to interfere when the Fed decides to raise short-term interest rates or reverse its purchases of Treasury debt and mortgage-backed securities, which will tend to push up longer-term interest rates.

"Sooner or later, the Fed will have to scale back its current unprecedented monetary accommodation," the statement said. "When the Federal Reserve judges it's time to begin tightening monetary conditions, it must be allowed to do so without interference," the economists said.

The economists' statement also raised the possibility that proposals to reshape the Fed or alter its current governance could erode confidence in its ability to thwart inflation.

"Calls to alter the structure or personnel selection of the Federal Reserve System easily could backfire by raising inflation expectations and borrowing costs and dimming prospects for recovery," it said.

Among other things, some members of Congress have proposed to extend the powers of the General Accounting Office, the investigative arm of Congress, to audit Fed monetary policy, and others have questioned the legitimacy of the governance of the 12 regional Federal Reserve banks, which are overseen by private-sector boards of directors, the majority of whom are chosen by local commercial banks.

The petition, which is still circulating, has been signed by three winners of the Nobel Prize in economics—Daniel McFadden, Robert Merton and Eric Maskin—and five former presidents of the American Economics Association as well as the current president, Angus Deaton of Princeton University and the president-elect, Robert Hall of Stanford University. The president of the American Finance Association, Darrell Duffie of Stanford, and four of his predecessors also have signed, as have two former Fed governors, Laurence Meyer and Frederic Mishkin, and a former president of the Federal Reserve Bank of San Francisco, Robert Parry.

President Barack Obama is proposing to broaden the Fed's responsibilities to oversee the stability of the financial system and to monitor financial institutions whose failure would threaten it. Some analysts fear this would dilute the Fed's focus on keeping prices stable.

"If Federal Reserve is given new responsibilities," the economists said, "every effort must be made to avoid compromising its ability to manage monetary policy as it sees fit.

Write to David Wessel at capital@wsj.com

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THE WALL STREET JOURNAL.
WSJ.com

JULY 15, 2009, 1:00 PM ET

Petition for Fed Independence

The following is a petition calling for a commitment to Fed independence:

Open Letter to Congress and the Executive Branch

Amidst the debate over systemic regulation, the independence of U.S. monetary policy is at risk. We urge Congress and the Executive Branch to reaffirm their support for and defend the independence of the Federal Reserve System as a foundation of U.S. economic stability. There are three specific risks that must be contained.

First, central bank independence has been shown to be essential for controlling inflation. Sooner or later, the Fed will have to scale back its current unprecedented monetary accommodation. When the Federal Reserve judges it time to begin tightening monetary conditions, it must be allowed to do so without interference. Second, lender of last resort decisions should not be politicized.

Finally, calls to alter the structure or personnel selection of the Federal Reserve System easily could backfire by raising inflation expectations and borrowing costs and dimming prospects for recovery. The democratic legitimacy of the Federal Reserve System is well established by its legal mandate and by the existing appointments process. Frequent communication with the public and testimony before Congress ensure Fed accountability.

If the Federal Reserve is given new responsibilities every effort must be made to avoid compromising its ability to manage monetary policy as it sees fit.

Ricardo Caballero	MIT
Kenneth French	Dartmouth College
Robert Hall	Stanford
Anil Kashyap	Chicago Booth
Pete Klenow	Stanford
Frederic Mishkin	Columbia
Thomas Sargent	NYU
Michael Woodford	Columbia

Andrew Abel	Wharton School, University of Pennsylvania
Daron Acemoglu	MIT
Michael Adler	Columiba University
Yacine Ait-Sahalia	Princeton University
Fernando Alvarez	University of Chicago
Scott Anderson	Wells Fargo & Co.
Cliff Asness	Managing and Founding Principal, AQR Capital Management LLC
Paul Asquith	Massachusetts Institute of Technology
David Backus	NYU
Dean Baim	Pepperdine University/UCLA
Ravi Bansal	Duke University
David Bates	University of Iowa
Andrew Bernard	Dartmouth College
Richard Berner	Morgan Stanley
George Borts	Brown University
Scott Brown	Raymond James & Associates
Markus K. Brunnermeier	Princeton University
Ralph C. Bryant	Brookings Institution
Michael Carey	Calyon Securities (USA) Inc. Credit Agricole Group
Christopher Carroll	Johns Hopkins University
Martin Cherkes	Columbia University
Diego Comin	Harvard University
Jernej Copic	UCLA
Dora Costa	UCLA
Steven Davis	University of Chicago Booth School of Business
Angus Deaton	Princeton University

Davide Debortoli	University of California, San Diego
Eddie Dekel	Northwestern University
Harold Demsetz	UCLA
Scott Desposato	University of California, San Diego
Douglas Diamond	University of Chicago Booth School of Business
Peter Diamond	MIT
Francis X. Diebold	University of Pennsylvania
Avinash Dixit	Princeton University
Matthias Doepke	Northwestern University
Darrell Duffie	Stanford
Pierre Collin Dufresne	Columbia
Martin Eichenbaum	Northwestern University
Andrea Eisfeldt	Northwestern University Kellogg School of Management
Jeffrey Ely	Northwestern University
Eduardo Engel	Yale University
Eugene Fama	University of Chicago Booth School of Business
Henry Farber	Princeton University
Roger Farmer	UCLA
Jon Faust	Center for Financial Economics, Johns Hopkins U.
Michael Feroli	J.P.Morgan
Wayne Ferson	U.S.C.
Kristin Forbes	MIT-Sloan School of Management
Mark Gertler	New York Univiersity
Marc Giannoni	Columbia University
Simon Gilchrist	Boston University
Robert J. Gordon	Northwestern University
Roger Gordon	UCSD

David Greenlaw	Morgan Stanley
Gene Grossman	Princeton University
Steffen Habermalz	Northwestern University
James Hamilton	University of California, San Diego
Gary Hansen	UCLA
Robert Hansen	Tuck School, Dartmouth College
Gordon Hanson	UC San Diego
Milton Harris	University of Chicago Booth School of Business
Tarek Hassan	University of Chicago Booth School of Business
Zhiguo He	Chicago Booth
John Heaton	University of Chicago
D. Lee Heavner	Analysis Group, Inc.
Christian Hellwig	UCLA
Gailen Hite	Columbia Business School
Yael Hochberg	Kellogg School of Management, Northwestern University
Stuart Hoffman	PNC Financial Services Group
Bengt Holmstrom	MIT
Bo Honore	Princeton University
Peter Hooper	Deutsche Bank
Takeo Hoshi	University of California, San Diego
Christopher House	University of Michigan
Peter Howitt	Brown University
Chang-tai Hsieh	University of Chicago
Ellen Hughes-Cromwick	Chief Economist, Ford Motor Company
John Huizinga	University of Chicago Booth School of Business
Erik Hurst	University of Chicago Booth School of Business
Ravi Jagannathan	Kellogg School of Management, Northwestern University

Dana Johnson	Comerica Bank
Karen Johnson	Federal Reserve Board of Governors (retired)
Charles I. Jones	Stanford University, Graduate School of Business
Paul Joskow	MIT
Matthew Kahn	UCLA
Juno Kang	The Bank of Korea
Steven Kaplan	University of Chicago Booth School of Business
Bruce Kasman	J.P. Morgan Chase
Peter Kenen	Princeton Uniiversity
Ralph Koijen	University of Chicago Booth School of Business
David Kotok	Chariman, Central Banking Series, Global Interdependence Center, Philadelphia, PA.
Arvind Krishnamurthy	Northwestern University
Rafael La Porta	Dartmouth College
David Lake	University of California, San Diego
Bruce Lehman	UCSD
Nan Li	Ohio State University
Hilarie Lieb	Northwestern University
John Liew	AQR Capital Management
Juhani Linnainmaa	University of Chicago Booth School of Business
Andrew Lo	MIT
Kevin Logan	Dresdner Kleinwort
Guido Lorenzoni	MIT
Hanno Lustig	UCLA Anderson
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Burton Malkiel	Princeton University
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Robert McDonald	Kellogg School, Northwestern University

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Doug McMillin	Louisiana State University
Rajnish Mehra	UC Santa Barbara
Robert Mellman	J.P. Morgan
Robert Merton	Harvard University
Laurence Meyer	Macroeconomic Advisers, LLC
Atif Mian	University of Chicago
Gregory Miller	Suntrust Banks, Inc.
Robert Moffitt	Johns Hopkins University
Stephen Morris	Princeton University
Dale Mortensen	Northwestern University
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Tobias Moskowitz	University of Chicago, Booth School of Business
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