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MONETARY POLICY REPORT -- Semiannual monetary policy report to the Congress.

Discussed.  
February 7, 2007.

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At today's meeting, the Board considered a draft of its semiannual monetary policy report to the Congress to be submitted on February 14, 2007, in accordance with section 2B of the Federal Reserve Act. Board members agreed with the general thrust

of the report, although they made suggestions for editorial and substantive changes.

Board members discussed several changes to improve the report's clarity and strengthen its analysis. Their suggestions included noting in the first section of the report that (1) the slowing in economic growth in 2006 was due in part to the removal of monetary policy accommodation since 2004, (2) except for the housing market and, in the latter part of 2006, the production of light motor vehicles, economic activity remained strong, and (3) the outsized increases in shelter costs that had boosted core inflation last year were not expected to persist. Board members also discussed several factors that would likely contribute to further easing in inflation. It was understood, however, that the report should make clear that whether inflation would moderate gradually as expected was uncertain.

At the conclusion of the discussion, it was understood that the comments and suggestions made today and editorial changes submitted to the staff would be taken into consideration in preparing the final report.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Bies, Warsh, Kroszner, and Mishkin.

Background: Staff memorandum, February 6, and draft report, February 2 and 5, 2007.

Implementation: Monetary policy report to the Congress, February 14, 2007.

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MONETARY POLICY STATEMENT -- Statement of Chairman Bernanke on the semiannual monetary policy report to the Congress.

Discussed.  
February 8, 2007.

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At today's meeting, the Board discussed a draft of the monetary policy statement that Chairman Bernanke was scheduled to deliver to the Senate Committee on Banking, Housing, and Urban Affairs on February 14, and to the House Committee on Financial Services on February 15, 2007. The Board also reviewed revisions to the monetary policy report that had been suggested at the Board's meeting on February 7.

Board members agreed with the general thrust of the statement, but they made suggestions for editorial and substantive changes. Their suggestions included noting that weakness in residential investment was likely to continue to weigh on economic growth over the next few quarters, even if there was no further decrease in demand for housing, as homebuilders reduced their inventories of unsold homes. In addition, Board

members suggested that nonfuel import prices might also put less pressure on core inflation, particularly if price increases for some other commodities, such as metals, slowed from the last year's rapid rates. They also agreed that the discussion of the Federal Open Market Committee's review of its monetary policy communications should note the potential benefits that could accrue from better-anchored inflation expectations and from an improved ability of the public to anticipate the Committee's reaction to new information.

At the conclusion of the discussion, it was understood that Board members' comments and editorial suggestions would be considered in preparing the final version of the statement.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Bies, Warsh, Kroszner, and Mishkin.

Background: Draft statement and revisions to Monetary Policy Report, February 7, 2007.

Implementation: Monetary policy statement before the Senate Committee on Banking, Housing, and Urban Affairs, February 14, and the House Committee on Financial Services, February 15, 2007.

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FINANCIAL STABILITY -- Report of the Staff Umbrella Group on Financial Stability.

Discussed.  
March 7, 2007.

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The Staff Umbrella Group on Financial Stability, an interdivisional initiative in collaboration with staff of the Federal Reserve Bank of New York, had been formed to enhance the Federal Reserve's capacity to coordinate work on issues related to financial stability and to report to the Board on such issues. At today's meeting, the group presented another of its periodic reports on financial stability. Board members requested additional information on several matters contained in the report and discussed issues raised by the report's assessments.

In the ensuing discussion on financial markets, institutions, and infrastructure, Board members discussed the recent deterioration in the performance of subprime mortgages, especially variable-rate subprime mortgages, as well as the possible spill-over effect of subprime mortgage delinquencies on the broader housing market. It was noted that at this time, there had been little spill-over effect from the subprime mortgage sector. Staff also responded to a Board member's question about possible impairment

of servicing-rights assets for subprime mortgages by noting that the subprime mortgage delinquency rate would have to be substantially higher than the current rate to significantly impair those assets.

In addition, Board members inquired about the recent volatility in financial markets. It was noted that apparently no significant settlement problems had occurred during the recent period of volatility and that markets had proven to be rather resilient. It was also noted, however, that the root cause of the market volatility was unclear and that investors remained somewhat skittish.

Staff provided Board members with a summary of the results of a horizontal review of stress testing of market, credit, and funding-liquidity risk at several large banking institutions in 2006. With regard to counterparty credit risks, the assessment had concluded that firms needed to enhance their capability to conduct meaningful stress tests of such exposures. Board members discussed with the staff the usefulness of uniform stress scenarios across firms and the extent of supervisory interaction with the stress-test participants. It was noted that supervisors had refrained from imposing stress-test scenarios on firms. This approach was expected to encourage firms to develop timely and reasonable stress-test scenarios that would further the overall supervisory objective of improving firms' appreciation of the risks they faced. It was also noted that supervisors had held forward-looking discussions with the banks involved in the horizontal review.

The concluding presentation analyzed the collapse in September 2006 of Amaranth, a hedge fund with concentrated positions in energy markets. Board members asked about the effectiveness of the price-discovery function in the NYMEX natural gas market, and it was noted that Amaranth's very large positions meant that its activities had an important influence on the market price of gas futures contracts. It was also noted that while Amaranth knew its market share, this information had not been available to the other market participants.

At the conclusion of the discussion, it was understood that the group would continue to periodically provide financial stability reports to the Board.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Bies, Warsh, Kroszner, and Mishkin.

Background: Staff memoranda, March 2, February 21, and February 26, and handout, "Briefing by the Staff Umbrella Group on Financial Stability," March 7, 2007.

Implementation: None.

REGULATION Z -- Publication for comment of proposed regulations on open-end credit account plans.

Approved.  
May 23, 2007.

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At today's meeting, Governor Kroszner and the staff presented proposed amendments to the provisions of Regulation Z (Truth in Lending) applicable to open-end (revolving) credit plans that are not home secured. Relevant documentation showed that the proposal, which focused primarily on general-purpose and retail credit cards, would make changes to the requirements for format, timing, and content in the main types of open-end credit disclosures under the regulation: (1) application and solicitation disclosures, (2) account-opening disclosures, (3) periodic-statement disclosures, (4) change-in-terms notices, and (5) advertising provisions.

During the ensuing discussion, Board members commended the staff's efforts in preparing a proposal that encompassed the complexities of open-end credit plans. They also generally agreed that the extensive consumer testing of the proposed revisions had produced much clearer disclosures of credit terms, thereby permitting open-end credit markets to function more effectively because accurate information would be available to consumers and creditors.

Chairman Bernanke pointed out the proposal's clarifications to terminology like "fixed rate," noting that a creditor using this term would be required to specify the period of time for which the rate is fixed and could not be increased. Chairman Bernanke also confirmed with the staff that the proposed 45 days' advance notice requirement for changing open-end credit terms would not be limited to changes in the original contract but also would apply when changes permitted under the contract were made, such as charging a penalty rate.

Vice Chairman Kohn asked for more information about the sequence for revising Regulation Z. It was noted that the regulation's provisions on open-end and closed-end credit were separate and distinct and that open-end credit rules had been addressed first because, unlike closed-end credit rules, they had not been revised for quite some time. Vice Chairman Kohn also asked whether the proposal would subject creditors to new and continuing compliance burdens. It was noted that although the proposal would impose a significant upfront burden on creditors to comply with the new disclosure requirements, the cost of compliance going forward should not be fundamentally different from current costs, except that creditors would have to forgo charging interest at a penalty rate for 45 days because of the advance notice requirement.

Governor Warsh discussed with the staff the provisions in the proposal that were

designed to help consumers make informed choices both in selecting a credit card and in using the selected card. Governor Warsh also asked about the lessons learned from preparing this proposal that might be applied to a future proposal on closed-end credit. It was noted that one important lesson was the significant effect of terminology on consumers' understanding of charges (for example, consumers paid more attention to disclosures entitled "penalty APR" than "default APR" because "default" seemed to connote an unlikely event to most of them).

Governor Kroszner commented that the proposal should not be tied to existing open-end credit products but rather provide a framework with sufficient flexibility to facilitate compliance when new and innovative products were developed in the future. It was noted that the proposal's improved regime for disclosing charges was intended to accomplish this objective.

Governor Mishkin reiterated the importance of the consumer-testing process in developing the proposal and asked how this process might guide future rule-writing efforts. It was noted that consumer testing had identified several important considerations for making credit information more accessible to consumers, including the structure and format of disclosures (summary tables were more effective), the timing of the disclosures (certain information was more useful in selecting a credit card and certain information was more useful later on), and the content of information disclosed (more information was not always better; the focus should be on key information).

At the conclusion of the discussion, Board members approved publishing for comment the amendments to Regulation Z's open-end credit provisions for plans that are not home secured.

Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and  
Governors Warsh, Kroszner, and Mishkin.

Background: Memoranda from the Committee on Consumer and Community  
Affairs and from the staff, May 14, 2007.

Implementation: Press release and Federal Register document (Docket No.  
R-1286), May 23, 2007.



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MONETARY POLICY REPORT -- Semiannual monetary policy report to the Congress.

Discussed.  
July 11, 2007.

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At today's meeting, the Board considered a draft of its semiannual monetary policy report to the Congress to be submitted on July 18, 2007, in accordance with section 2B of the Federal Reserve Act. Board members agreed with the general thrust of the report, although they made suggestions for editorial and substantive changes.

Board members suggested several changes to improve the report's clarity and strengthen its analysis. Their suggestions included (1) expanding the discussion of recent data on real hourly compensation, labor productivity, and employment and (2) including the results of the recent Survey of Professional Forecasters, which showed that expectations of inflation over the next ten years remained around 2-1/2 percent in the first half of 2007, a level that had been essentially unchanged since 1998. Board members also reviewed the report's discussion of the possibility that the expected moderation in inflation would fail to materialize. They agreed that this possibility remained the predominant risk to the economic outlook and suggested that the discussion note (1) the economy's apparent operation at a high level of resource utilization, which had the potential to sustain the pressures on inflation, and (2) the concern that high rates of headline inflation, if prolonged, could cause longer-run inflation expectations to rise and become another factor sustaining the pressures on inflation.

At the conclusion of the discussion, it was understood that the comments and suggestions made today and editorial changes submitted to the staff would be taken into consideration in preparing the final report.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Kroszner and Mishkin.

Background: Staff memorandum and draft report, July 9, 2007.

Implementation: Monetary policy report to the Congress, July 18, 2007.



semiannual monetary policy report to the Congress.

Discussed.  
July 13, 2007.

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At today's meeting, the Board discussed a draft of the monetary policy statement that Chairman Bernanke was scheduled to deliver to the House Committee on Financial Services on July 18, 2007, and to the Senate Committee on Banking, Housing, and Urban Affairs on July 19. Board members agreed with the general thrust of the statement, but they made suggestions for editorial and substantive changes.

Chairman Bernanke reviewed revisions made to a previous draft of the statement, which included (1) commenting on the usefulness of monetary policy reports and testimonies over the years in communicating with the public about monetary policy; (2) noting that consumption outlays were likely to continue to grow at a moderate pace, aided by a strong labor market; and (3) tying in the effect of the credit cycle and tightened underwriting standards to the rising delinquencies and foreclosures in the subprime mortgage market. Board members concurred with these revisions and suggested additional changes.

Governor Warsh suggested pointing out that the Board had already improved the disclosure required to be provided to every applicant for an adjustable-rate mortgage to better explain the features and risks of these products, which included "payment shock" and rising loan balances.

Governor Kroszner commented that the discussion of the sluggish pace of home sales should encompass a macroeconomic perspective of increased mortgage interest rates and tightened lending standards.

Governor Mishkin favored expanding the discussion of the current review of Regulation Z to note that the process now under way to improve disclosures for mortgage loans (closed-end credit) was similar to the process that had produced the improved disclosures recently proposed by the Board for open-end credit.

Board members also concurred in the revisions made to the monetary policy report in light of the Board's meeting on July 11, 2007, and agreed that the discussion of financial market conditions should reflect the notable repricing in the subprime mortgage sector.

Participating in this discussion: Chairman Bernanke and Governors Warsh, Kroszner, and Mishkin.

Background: Draft statement, July 12, and revised draft statement, July 13, 2007. Staff memorandum and revised draft of the Monetary Policy Report, July 12, 2007.

Implementation: Monetary policy statement before the House Committee on Financial Services, July 18, and Senate Committee on Banking, Housing, and Urban Affairs, July 19, 2007.

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MONETARY POLICY -- Additional policy options for addressing strains in money markets.

Discussed.  
September 17, 2007.

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Today, staff discussed with the Board policy options that might be considered for addressing strains in money markets. Board members requested additional information from the staff about possible operational and other issues raised by the proposals. At the conclusion of the discussion, it was understood that the options would be discussed at tomorrow's meeting of the Federal Open Market Committee.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin.

Background: Staff memoranda, September 14, 2007.

Implementation: None.

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MONETARY POLICY -- Additional policy options for addressing strains in money markets.

Discussed.  
September 18, 2007.

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In a joint session of the Board and Federal Open Market Committee today, Board members and Reserve Bank presidents discussed additional policy options to address strains in money markets. No decisions were made in this session, but it was agreed that policymakers should continue to consider such options carefully.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn,

and Governors Warsh, Kroszner, and Mishkin.

Background: Briefing on Staff Proposals for Auction Credit Facility and Swap Arrangements, September 18, 2007.

Implementation: None.

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REGULATION R -- Final regulation to help define when banks may engage in securities activities without registering as a securities broker.

Approved.  
September 24, 2007.

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At its meeting on December 18, 2006, the Board had approved publishing for comment a new Regulation R (Exemptions and Definitions Related to the Exceptions for Banks from the Definition of Broker) jointly with the Securities and Exchange Commission (SEC). The new regulation would delineate the scope of securities brokerage activities that banks could conduct in providing banking services to their customers without registering with the SEC as a securities broker or complying with its securities brokerage rules.

Relevant documentation showed that the proposed final rule would implement the so-called push-out provisions of the Gramm-Leach-Bliley Act of 1999, as required by the Financial Services Regulatory Relief Act of 2006, and that the SEC had approved an identical rule last week.

In the ensuing discussion, staff responded to requests from Board members for more information regarding several aspects of the proposal. Board members inquired about any significant changes in the near term to banks' current practices that would be required under the proposed final rule and the protections in the rule to prevent broker-dealers from moving their activities into a bank to avoid SEC regulation. They also asked about the proposal's competitive implications, including competition between regulated depository institutions and securities firms, between small and large banks, and between domestic and international financial institutions.

At the conclusion of the discussion, Board members approved Regulation R as part of a joint rulemaking with the SEC.

Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin.

Background: Staff memorandum, September 18, 2007.

Implementation: Interagency press release and Federal Register document (Docket No. R-1274), September 24, 2007.

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FINANCIAL STABILITY -- Periodic report of the Staff Umbrella Group on Financial Stability.

Discussed.  
September 24, 2007.

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Today, the Staff Umbrella Group on Financial Stability, an interdivisional initiative in collaboration with staff of the Federal Reserve Bank of New York, presented another of its periodic reports on financial stability. Staff members reported on (1) financial markets and institutions, (2) supervisory work on large bank exposures, and (3) the effects of market volatility on infrastructure and lessons from central counterparty stress testing. In the ensuing discussion, they also responded to requests from Board members for more information on aspects of the report.

Board members' inquiries about financial markets and institutions covered such matters as the near-term outlook for markets dealing in collateralized loan obligations and asset-backed commercial paper; differences in credit cycles across markets, including the subprime credit cycle; and the apparent robustness of the tri-party repurchase market. Board members also discussed the causes for increased investor concern this summer in the market for highly rated mortgage-related securities and other structured investment products, and the fact that hedge funds overall did not play a major role during the unsettled market conditions.

Discussions with the staff on large bank exposures focused primarily on the availability of information on off-balance-sheet commitments, the confidence level of institutions in their systems and stress testing, and areas for concentrating regulatory and supervisory efforts in the future.

In the concluding discussion on infrastructure and stress testing, Board members asked about volatility in the equity derivatives and Treasury markets, the capacity of Fedwire to handle large trading volumes, and insights gathered from the bankruptcy of Sentinel Management Group, an investment advisor that managed approximately \$1.5 billion in investments. They also discussed improvements that had been implemented as a result of stress testing by central counterparties since the stock market downturn in 1987.

After the conclusion of these discussions, it was understood that the group would continue to periodically present financial stability reports to the Board.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin.

Background: Staff memorandum, September 20, and handout, "Briefing by the Staff Umbrella Group on Financial Stability," September 24, 2007.

Implementation: None.

Approved.  
November 2, 2007.

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At its meeting on March 30, 2006, the Board had approved an interagency Notice of Proposed Rulemaking to implement a new risk-based capital adequacy framework (Basel II) in the United States. Today, Governor Kroszner and the staff presented a draft final rule for the Board's consideration. Relevant documentation showed that the final rule would be published jointly by the four federal banking agencies in the *Federal Register* after all the agencies had completed their internal review and approval procedures.

Basel II was designed to modernize the Basel capital accord issued in 1988 (commonly referred to as Basel I) by providing new risk-based capital requirements that applied to internationally active banking organizations. The new capital accord consisted of three components, or pillars: minimum regulatory capital requirements (pillar 1), supervisory review of capital adequacy (pillar 2), and market discipline through enhanced public disclosure (pillar 3). Board members requested additional information from the staff about these components and about implementation of the new rule.

Several Board members inquired about how information reported by the banks was expected to change under the enhanced disclosure provisions of pillar 3 and specifically, what sorts of new information would contribute to greater transparency. A Board member also asked about capital requirements under pillar 1 relative to lines of credit, backup letters of credit, and any other type of undrawn credit facility. Another Board member asked about the role of external ratings in assessments of credit exposures conducted by the banks and their supervisors under pillars 1 and 2. In addition, the staff responded to questions about how implementation of pillar 2 would affect the supervisory process of the Federal Reserve System and the other banking agencies, and about efforts to coordinate implementation of Basel II internationally with foreign supervisors and domestically with smaller banks that were not required to adopt the advanced approaches to credit and operational risks. Board members also discussed with the staff practical aspects of how banks would qualify to use the new framework.

At the conclusion of the discussion, Board members expressed strong support for the final rule and approved publishing it jointly with the other banking agencies. The Board also authorized the staff to make nonsubstantive changes to accommodate further interagency discussions.

Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and  
Governors Warsh, Kroszner, and Mishkin.

Background: Memoranda from the Committee on Supervisory and Regulatory  
Affairs and from the staff, October 26, 2007.

Implementation: Press release, November 2, and interagency Federal Register  
document (Docket No. R-1261), November 13, 2007.

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MONETARY POLICY -- Establishment of a temporary Term Auction Facility.

Discussed.  
December 6, 2007.

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In a joint session of the Board and the Federal Open Market Committee (FOMC) today, Board members and Reserve Bank presidents reviewed conditions in domestic and foreign financial markets and discussed two proposals aimed at improving market functioning. The first proposal was the establishment of a temporary Term Auction Facility (TAF), which required the Board's approval.

The TAF would provide term funding to eligible depository institutions at rates that would be determined through an auction mechanism. Staff proposed to conduct the first auction as early as mid-December.

During the ensuing discussion, participants recognized that a TAF would not address all the factors giving rise to stresses in money and credit markets, notably the ongoing concerns about credit quality and balance sheet pressures. Most participants nevertheless considered a TAF to be a potentially useful tool because it would provide liquidity to more counterparties and against a broader range of collateral than was used for open market operations. Some participants also mentioned that a TAF could help alleviate year-end pressures in money markets. A few participants, however, questioned the need for and the likely efficacy of the proposal, expressed concerns about the longer-run incentive effects of a TAF, and commented that the possible drawbacks could well outweigh any benefits.

At the conclusion of the discussion, Board members expressed their support for establishing a TAF, and it was understood that a final staff proposal would be circulated for their vote. (NOTE: On December 10, 2007, the Board approved the establishment of a TAF by notation voting.)

The second proposal discussed during the joint session was the establishment of a foreign exchange swap arrangement with the European Central Bank, which required

the FOMC's approval. Most participants regarded this proposal as a positive step in international cooperation to address elevated pressures in short-term dollar-funding markets, and the FOMC approved the proposal.

Board members participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin.

Background: Staff memoranda, December 5, 2007.

Implementation: None.

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REGULATION Z -- Proposed amendments for public comment to provisions on closed-end credit.

Approved.  
December 18, 2007.

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Today, Governor Kroszner and the staff presented proposed amendments to Regulation Z (Truth in Lending) with a request for public comment. The proposed rules were intended to protect consumers in the mortgage market from unfair, abusive, or deceptive lending and servicing practices while preserving responsible lending and sustainable homeownership.

Relevant documentation showed that the proposal encompassed three principal goals for realizing this objective: (1) to prohibit certain acts or practices for higher-priced mortgages and prohibit other acts or practices for closed-end credit transactions secured by a consumer's principal dwelling; (2) to revise the disclosures required in advertisements for credit secured by a consumer's dwelling and prohibit certain practices in connection with closed-end mortgage advertising; and (3) to require that disclosures for closed-end mortgages be provided earlier in the transaction. Board members requested additional information from the staff about how the proposed amendments would accomplish these goals and about other aspects of the proposal.

Several Board members inquired about the appropriate amount of documentation and verification of income for mortgage loans and, specifically, how the proposal balanced protecting consumers with (1) providing credit to borrowers who did not have traditional sources or documentation of income and (2) facilitating timely loan closings. One Board member requested additional information about the proposal's advertising provisions in light of the need for consumers to be fully informed as they began the complicated process of obtaining credit to purchase what was often their largest asset. Another Board member noted that the proposal prohibited creditors from engaging in a



pattern or practice of not taking into account the consumer's ability to repay a loan, and he discussed with the staff what constituted a pattern or practice under the prohibition and how this approach protected the interests of both consumers and lenders. The staff also discussed with the Board the empirical basis for defining a higher-priced mortgage as a loan having an annual percentage rate (APR) of three percentage points or more above comparable U.S. Treasury securities and whether such a definition would extend beyond subprime mortgages and affect the broader mortgage market.

At the conclusion of the discussion, Board members expressed their support for the proposal and approved its publication for public comment.

Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin.

Background: Memoranda from the Committee on Consumer and Community Affairs and from the staff, December 12, 2007.

Implementation: Press release, December 18, and Federal Register document (Docket No. R-1305), December 20, 2007.

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MONETARY POLICY REPORT -- Semiannual monetary policy report to the Congress.

Authorized.  
February 20, 2008.

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At today's meeting, the Board discussed a draft of its semiannual monetary policy report to the Congress to be submitted on February 27, 2008, in accordance with section 2B of the Federal Reserve Act. During the discussion, Board members

reviewed the proposed text of the report and commented favorably on the report's new structure and format.

Board members also suggested editorial and other changes in several areas to improve the report's clarity and to strengthen its analysis. At the conclusion of the discussion, the report was authorized with the understanding that the comments and suggestions made today and editorial changes submitted to the staff would be considered in revising the report.

Participating in this determination: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin.

Background: Staff memorandum and draft report, February 15, 2008.

Implementation: Monetary policy report to the Congress, February 27, 2008.

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MONETARY POLICY STATEMENT -- Statement of Chairman Bernanke on the semiannual monetary policy report to the Congress.

Discussed.  
February 22, 2008.

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At today's meeting, the Board discussed a draft of the monetary policy statement that Chairman Bernanke was scheduled to deliver to the House Committee on Financial Services on February 27, 2008, and to the Senate Committee on Banking, Housing, and Urban Affairs on February 28. Board members expressed their agreement with the general thrust of the statement.

Board members also made suggestions for editorial and substantive changes. At the conclusion of the discussion, it was understood that Board members' comments and editorial suggestions would be considered in preparing another draft of the statement, which would be circulated to the Board.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin.

Background: Draft statements, February 21 and 22, 2008.

Implementation: Monetary policy statement before the House Committee on Financial Services, February 27, and the Senate Committee on Banking, Housing, and Urban Affairs, February 28, 2008.

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FINANCIAL STABILITY -- Periodic report of the Staff Umbrella Group on Financial Stability.

Discussed.  
March 27, 2008.

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Today, the Staff Umbrella Group on Financial Stability, an interdivisional initiative in collaboration with staff of the Federal Reserve Bank of New York, presented another periodic report on financial stability. Staff members briefed the Board on two reports: (1) President's Working Group Policy Statement (released March 12, 2008) and (2) draft report to the G-7 from the Working Group on Market and Institutional Resilience of the Financial Stability Forum (scheduled for submission to the G-7 ministers and governors on April 7, 2008). In the ensuing discussion, staff also responded to requests from Board members for more information about the recommendations and other aspects of both reports.

One Board member inquired about how progress in implementing the recommendations would be evaluated. Another Board member remarked that both market discipline and regulatory capital appeared to have failed to constrain risk-taking effectively and asked whether the Financial Stability Forum could point to additional measures that would strengthen market discipline and capital standards. Several Board members also discussed with the staff matters in the reports and why some noteworthy matters seemed to receive little attention in the reports. Among the matters discussed were reliance on short-term secured financing, the connection between leverage and liquidity and its importance to understanding current market functioning, the lack of contract standardization for financial instruments, and the potential for conflicts of interests when rating agencies were involved in the design of new financial products.

The discussion also included matters for consideration going forward. One Board member discussed cross-border bank resolutions and cross-border collateral, noting that both issues raised significant questions. Several Board members discussed future challenges for the Federal Reserve and other central banks, including the ability to assess accurately financial systems' vulnerabilities and to limit risks associated with access by certain institutions to the federal safety net without stifling innovations by those institutions.

At the conclusion of these discussions, it was understood that the group would continue to periodically present financial stability reports to the Board.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin.

Background: Staff memorandum, March 25, 2008, and handout entitled "March 2008 Financial Stability Briefing."

Implementation: None.

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MONETARY POLICY -- Implications of interest on reserves for monetary policy implementation.

Discussed.  
April 30, 2008.

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In a joint meeting of the Board and the Federal Open Market Committee (FOMC) today, Board members and Reserve Bank presidents participated in a discussion of the implications of paying interest on reserves for monetary policy implementation. The Financial Services Regulatory Relief Act of 2006 authorizes the Federal Reserve to reduce reserve requirements and to pay interest on reserves beginning in 2011.

Today, staff presented a summary of the work to date on alternative approaches to monetary policy implementation that used these new authorities. After the presentation, meeting participants considered the advantages and disadvantages of several of the alternative approaches. Their discussion included consideration of reducing the burden and complexity associated with the current system of reserve requirements and ensuring that the FOMC's interest rate targets could be reliably achieved. Meeting participants also noted that frameworks for monetary policy implementation used by other countries spanned a wide range and that the experiences of these countries would provide useful information for the Federal Reserve's consideration of alternative approaches.

At the conclusion of the discussion, meeting participants agreed that further study was required to narrow the range of options under consideration and that it would be important to consult closely with depository institutions and others in the design of a new system.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin.

Background: Staff memoranda, April 4, 11, 18, and 22, and handout titled "Implications of Interest on Reserves for Monetary Policy Implementation," April 30, 2008.

At the conclusion of the discussion, the Board approved publishing amendments to Regulations AA, Z, and DD for public comment.

Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Kroszner and Mishkin.

Background: Memoranda from the Committee on Consumer and Community Affairs and from the staff, April 28, 2008.

Implementation: Press release, statements by Chairman Bernanke and Governor Kroszner, and Federal Register documents (Docket Nos. R-1314, R-1315, and R-1286), May 2, 2008.

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SUPERVISORY MATTER -- Staff presentations concerning investment banks and related policy issues.

Discussed.  
May 28, 2008.

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At today's meeting, staff from the Board and the Federal Reserve Bank of New York presented several matters related to investment banks. The presentations included (1) a report on the Federal Reserve's monitoring of investment banks since the establishment of the Primary Dealer Credit Facility, (2) a progress report on discussions with the Securities and Exchange Commission about the supervision of investment banks, and (3) background information on potential issues related to liquidity facilities for investment banks and other primary dealers and the prudential supervision of primary dealers and their affiliates. Board members requested additional information from the staff about the matters presented, discussed potential policy issues raised by the presentations, and provided guidance to the staff on several issues.

Board members also discussed, on a preliminary basis, considerations for the Board going forward that included application of the lessons learned from recent experiences in the market, the effect of regulatory changes on the industry's business models, and issues related to liquidity facilities for investment banks and other primary

Implementation: None.

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CONSUMER CREDIT REGULATIONS -- Proposed amendments for public comment to address unfair or deceptive acts or practices by banks and to make certain changes to other consumer credit regulations.

Approved.  
May 2, 2008.

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Today, Governor Kroszner and the staff presented for public comment proposed amendments to several consumer credit regulations. The amendments to Regulation AA (Unfair or Deceptive Acts or Practices), which would be issued jointly under the Federal Trade Commission Act with the Office of Thrift Supervision and the National Credit Union Administration, would prohibit certain unfair or deceptive acts or practices by banks in connection with credit card accounts and overdraft services for deposit accounts. Staff also presented amendments to Regulation Z (Truth in Lending) and Regulation DD (Truth in Savings). Board members strongly supported the proposal and inquired about aspects of its implementation and regulatory approach.

Some Board members asked for more information about the amendments to Regulation Z and about the entire proposal's implementation costs to the industry and to consumers and the extent of regulatory burden on the industry. It was noted that today's proposed amendments to Regulation Z would be combined with amendments proposed in June 2007 and would be presented as a single proposal for final action to facilitate making all required changes to data systems at one time. It was also noted that staff expected the benefits of the proposal from increased transparency to outweigh any increase in costs to consumers and that comments would be solicited on the proposal's costs and benefits. In addition, staff expected that costs for the industry to reconfigure their systems might be significant, and the proposal would solicit comments on the length of time necessary to make the required system changes to minimize financial and regulatory burden.

Other Board members requested additional information about the proposal's approach of prohibiting certain practices. It was noted that prohibitions may be appropriate for some practices that had no benefit to the consumer. In the case of overdraft services, however, an "opt-out approach" to the prohibition on fees for the services had been proposed because consumers could benefit from avoiding the merchant fees and negative credit reporting that may result from returned items. It was also noted that consumer testing had identified other abusive practices where prohibition may be more effective than disclosure because the practices were complex and difficult to describe to consumers.

dealers.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin.

Background: Staff memorandum, May 23, and handouts on May 28, 2008, (1) "Primary Dealer Monitoring Update for Board of Governors" and (2) list of the top 20 primary dealers.

Implementation: None.

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SUPERVISORY MATTER -- Report on investment banks and related policy issues.

Discussed.  
June 25, 2008.

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In a joint meeting of the Board and the Federal Open Market Committee today, Board members and Reserve Bank presidents participated in a discussion of policy issues regarding investment banks and other primary securities dealers. Participants discussed the financial activities and condition of primary dealers, as well as the objectives of, procedures for, and experience to date in administering the Primary Dealer Credit Facility (PDCF) and the Term Securities Lending Facility (TSLF). The PDCF and the TSLF had been established in March 2008 in response to unusual and exigent conditions in financial markets.

In light of the continuing significant strains in financial markets, participants also discussed the possibility of extending the PDCF and the TSLF past year-end. In addition, they reviewed progress in negotiations with the staff of the Securities and Exchange Commission regarding a memorandum of understanding that was intended to govern arrangements for sharing information on broker-dealers and for cooperation in the supervision of primary dealers. Participants also discussed longer-run issues regarding appropriate arrangements for supervision and regulation of investment banks and other securities dealers and for the access of such firms to central bank liquidity, as well as possible measures to strengthen financial market functioning and, accordingly, enhance financial stability.

Thereupon, the discussion concluded.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin.



Background: Staff memoranda, June 19, and handout, "Material for Supervisory Report Concerning Investment Banks and Related Policy Issues," June 25, 2008.

Implementation: None.

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BASEL II STANDARDIZED CAPITAL FRAMEWORK -- Notice of Proposed Joint Rulemaking for public comment.

Approved.  
June 26, 2008.

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Today, Governor Kroszner and the staff presented to the Board a Notice of Proposed Rulemaking that would implement a standardized framework under the Basel II Capital Accord (Accord) for banks, bank holding companies, and savings associations that are not subject to the U.S. rule that implements the advanced approaches in the Accord. The standardized framework features some of the Accord's less-complex approaches for calculating risk-based capital requirements and would replace previous proposals for accommodating those institutions not using the advanced approaches (Advanced Notice of Proposed Rulemaking approved at the Board's meeting on October 6, 2005, and Notice of Proposed Rulemaking (known as Basel 1A) approved by notation voting on November 22, 2006). Board members requested additional information from the staff on aspects of the proposal.

Several Board members inquired about competitive equality between institutions under the standardized framework and institutions using the advanced approaches. In addition, they discussed with the staff the use of external ratings of assets and the types of disclosures and internal capital adequacy assessments that banks were required to make under the standardized framework.

At the conclusion of the discussion, Board members generally agreed that public comment on the proposal, including the questions posed in the notice, should provide useful information, and they approved publishing it jointly with the other financial supervisory agencies. The Board also authorized the staff to make nonsubstantive changes to accommodate further interagency discussions.

Voting for this action: Chairman Bernanke and Governors Warsh, Kroszner, and Mishkin.

Background: Memoranda from the Committee on Supervisory and Regulatory

Affairs and from the staff, June 19, 2008.

Implementation: Press release and statements by Chairman Bernanke and Governor Kroszner, June 26, and Federal Register document, (Docket No. R-1318), July 10, 2008.

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FINANCIAL MARKETS -- Extensions of Certain Federal Reserve Liquidity Facilities  
(PDCF, TSLF, AMLF, CPFF, and MMIFF).

Discussed.  
Approved.  
January 27, 2009.

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Today, the Board met jointly with the Federal Open Market Committee (FOMC) to facilitate a policy discussion of developments regarding the Federal Reserve's liquidity facilities and balance sheet since the FOMC's meeting on December 15-16, 2008, and to consider whether changes are needed in the Federal Reserve's approach to using these tools. (NOTE: The FOMC minutes for the meeting of January 27-28, 2009, reflect those discussions.) Meeting participants also discussed the advisability of

extending the termination dates of a number of temporary liquidity facilities and reciprocal currency arrangements from April 30 to October 30, 2009, which required action by the Board and the FOMC.

Participants generally were of the view that, despite modest improvements in some sectors, conditions in credit markets overall remained severely disrupted. Most expressed support for extending the termination dates in order to reassure market participants that the facilities would remain in place as a backstop to private-sector credit arrangements while financial conditions remained strained; they were prepared to extend the facilities beyond year-end if conditions warranted. Participants also noted that extending the termination date of these liquidity facilities to October 30 would not rule out the possibility of closing particular facilities sooner, if improvements in financial conditions were to indicate they were no longer needed to support credit markets and economic activity and to help preserve price stability.

At the conclusion of the discussion, and in view of the unusual and exigent circumstances, the Board approved extending the authorizations for the following facilities in accordance with section 13(3) of the Federal Reserve Act, subject to the same collateral, interest rate, and other conditions previously established by the Board, until October 30, 2009: Primary Dealer Credit Facility (PDCF), Term Securities Lending Facility (TSLF), Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), Commercial Paper Funding Facility (CPFF), and Money Market Investor Funding Facility (MMIFF). The FOMC approved extending the authorization for the TSLF, which required Board and FOMC approval, and the authorization for the temporary reciprocal currency arrangements with foreign central banks until October 30, 2009.

Participating in this discussion and voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh and Duke.

Background: Staff memorandum and proposed resolutions, January 22, 2009.

Implementation: Resolutions, January 27, and press release, February 3, 2009.

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FINANCIAL MARKETS -- Overview of the Department of the Treasury's Financial Stability Plan.

Discussed.  
February 7, 2009.

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Today, the Board and the Federal Open Market Committee held a joint session to discuss the potential role of the Federal Reserve in the forthcoming financial

stabilization plan by the Department of the Treasury (Treasury). After hearing an overview of the version of the plan envisioned at the time of the meeting, meeting participants discussed its principal elements and shared a range of perspectives on its implications for financial markets and institutions. The Federal Reserve's primary direct role in the plan would be through an expansion of the previously announced Term Asset-Backed Securities Loan Facility (TALF), which would be supported by additional funds from the Troubled Asset Relief Program (TARP). In the current environment, it was anticipated that such an expansion would provide additional assistance to financial markets and institutions in meeting the credit needs of households and businesses and thus would support overall economic activity. Although several participants expressed some concern that the expansion of the TALF program could increase the Federal Reserve's exposure to credit risk, the program's requirements for highly rated collateral that would exceed the value of the related loans, in combination with the added TARP funds as a backstop against losses, were generally seen as providing the Federal Reserve with adequate protection. Participants also discussed the implications of the expanded TALF program for the Federal Reserve's balance sheet over time.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: None.

Implementation: None.

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FINANCIAL MARKETS -- Discussion on Financial Markets.

Discussed.  
February 9, 2009.

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Today, Board members reviewed recent developments concerning the current turmoil in the financial markets and discussed the status of measures aimed at increasing access to credit. Among the matters discussed were the Federal Reserve's liquidity facilities and recapitalization of banks.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: None.

Implementation: None.

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MONETARY POLICY REPORT -- Semiannual monetary policy report to the

Congress.

Authorized.  
February 19, 2009.

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At today's meeting, the Board discussed a draft of the semiannual monetary policy report to the Congress to be submitted on February 24, 2009, in accordance with section 2B of the Federal Reserve Act. During the discussion, Board members reviewed the proposed text of the report and commented favorably on the report's structure and format.

Board members also suggested editorial and other changes in several areas to improve the report's clarity and to strengthen its analysis. At the conclusion of the discussion, the report was authorized with the understanding that the comments and suggestions made today and editorial changes submitted to the staff would be considered in revising the report.

Participating in this determination: Chairman Bernanke, Vice Chairman Kohn,  
and Governors Warsh, Duke, and Tarullo.

Background: Staff memorandum and draft report, February 13, 2009.

Implementation: Monetary policy report to the Congress, February 24, 2009.

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FINANCIAL MARKETS -- Financial condition of American International Group, Inc.

Discussed.  
February 19, 2009.

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At today's meeting, against the background of continued fragility in financial markets, Board staff and staff of the Federal Reserve Bank of New York discussed the weakened financial condition of American International Group, Inc. (AIG) and the likelihood of the company's being forced to declare bankruptcy -- in the absence of additional government support -- after it announced fourth-quarter losses of more than \$61 billion. Staff outlined possible actions by the Federal Reserve and the Department of the Treasury (Treasury) to facilitate stabilizing AIG until its assets could be sold and its operations wound down in an orderly manner. Those actions included restructuring the current obligations of AIG to the Federal Reserve and Treasury, providing additional

capital contributions from Treasury, and continuing to provide access to Federal Reserve credit to allow AIG to meet its ongoing liquidity needs.

The Board members' discussion of additional government assistance for AIG considered the risks and potential costs of a bankruptcy to AIG's substantial number of insured parties (individuals, small businesses, pension funds, financial institutions, municipalities, and others) that depend on AIG for insurance and investment protection; to a financial system already under stress; and to the wider economy, the government, and ultimately the U.S. taxpayer. Under these circumstances, notwithstanding their concerns over potentially increased taxpayer exposure, Board members generally agreed that stabilizing AIG was the only acceptable option at this juncture.

Thereupon, the discussion concluded with the understanding that a final proposal would be presented to the Board after further discussions with Treasury. (NOTE: The Board approved a restructuring plan for AIG by notation voting on March 1, and the Board and Treasury announced the plan on March 2, 2009.)

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff presentation on AIG (distributed at the meeting).

Implementation: None.

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MONETARY POLICY STATEMENT -- Statement of Chairman Bernanke on the semiannual monetary policy report to the Congress.

Discussed.  
February 20, 2009.

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At today's meeting, the Board discussed a draft of the monetary policy statement that Chairman Bernanke was scheduled to deliver to the Senate Committee on Banking, Housing, and Urban Affairs on February 24, 2009, and to the House Committee on Financial Services on February 25. Board members expressed their agreement with the general thrust of the statement.

Board members also made suggestions for editorial and substantive changes to several matters covered in the statement. At the conclusion of the discussion, it was understood that Board members' comments and editorial suggestions would be considered in revising the statement.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and

Governors Warsh, Duke, and Tarullo.

Background: Draft statements, February 15 and February 20, 2009.  
Implementation: Monetary policy statement before the Senate Committee on Banking, Housing, and Urban Affairs, February 24, and the House Committee on Financial Services, February 25, 2009.

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FINANCIAL MARKETS -- Proposed revisions to the Term Asset-Backed Securities Loan Facility and establishment of interest rates for the facility.

Approved.  
February 23, 2009.

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At its meeting on November 23, 2008, the Board had discussed the establishment of the Term Asset-Backed Securities Loan Facility (TALF) in order to increase credit availability and support economic activity by facilitating renewed issuance of consumer and small business asset-backed securities (ABS) at more-normal interest rate spreads. (NOTE: The Board approved the TALF by notation voting on November 24 and subsequently modified the facility by notation voting on December 19, 2008. The Board approved interest rates for advances under the TALF by notation voting on February 6, 2009.) Today, staff proposed revisions to the interest rates and haircuts for TALF loans collateralized by ABS that are backed by loans guaranteed by the Federal Family Education Loan Program (FFELP) or guaranteed by the Small Business Administration (SBA). The revisions lowered the interest rate spreads and collateral haircuts on such loans. For certain types of SBA ABS collateral, staff also proposed an interest rate formula that used a base rate of the federal funds target rate (or the top of the target federal funds rate range). Staff developed the proposed changes after consultations with a number of sources. The changes were warranted by the minimal credit risk on these assets because of government guarantees. By making the terms of the TALF loans more attractive, the changes should foster the new issuance of FFELP student loan ABS and certain types of SBA ABS.

Board members requested additional information from the staff about the revised spreads and discussed how they might compare with spreads in normally functioning markets. Their discussion also considered the possibility that the TALF's terms and conditions might be useful in providing standards for future securitizations. At the conclusion of the discussion, Board members approved the proposed revisions and established interest rates for the TALF as set forth below.

Given the unusual and exigent circumstances, the Board authorized the Federal



Reserve Bank of New York under section 13(3) of the Federal Reserve Act to extend credit under the TALF if the New York Reserve Bank obtains evidence that the borrower is unable to secure adequate credit accommodations from other banking institutions. The credit may be extended to eligible borrowers, without recourse to the borrower, for a term of three years. Loans must be fully secured by eligible collateral and to the satisfaction of the New York Reserve Bank. The New York Reserve Bank may, as it deems appropriate, impose conditions on its extension of credit. The Board also approved the recommendation of the New York Reserve Bank that the rates applicable to advances under the TALF would be as follows: the target federal funds rate or, if the target is a range, the top of the target federal funds rate range plus 75 basis points for loans secured by SBA 7(a) ABS; the three-year Libor (London Interbank Offered Rate) interest rate swap rate plus 50 basis points for loans secured by SBA 504 ABS; the one-month Libor plus 50 basis points for loans secured by FFELP ABS; the one-month Libor plus 100 basis points for floating-rate loans secured by other securities; the three-year Libor interest rate swap rate plus 100 basis points for fixed-rate loans backed by other securities; and the one-month OIS (Overnight Index Swap) rate plus 100 basis points for loans to the special-purpose vehicle known as the TALF LLC.

Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and  
Governors Warsh, Duke, and Tarullo.

Background: Staff memorandum, February 20, 2009.

Implementation: Transmission from Ms. Hughes to the New York Reserve Bank, February 23, and interagency press release, March 3, 2009, with attached terms and conditions and frequently asked questions.

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FINANCIAL MARKETS -- Proposed new categories of eligible collateral for the Term Asset-Backed Securities Loan Facility and update on approaches to reduce financial market strains from troubled assets.

Discussed.  
March 16, 2009.

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At its meeting on February 23, 2009, the Board had approved revisions to and established rates for the Term Asset-Backed Securities Loan Facility (TALF) to make the facility's terms more attractive and foster the new issuance of certain loans backed by government guarantees. Today, staff proposed to expand the TALF by adding four categories of eligible collateral for loans extended by the facility: asset-backed securities (ABS) that are backed by (1) mortgage-servicing advances, (2) loans or leases relating to business equipment, (3) leases of vehicle fleets, and (4) non-auto floorplan loans. Staff noted that adding the new categories would have a material

economic benefit and that the proposed ABS collateral could be efficiently accommodated under the TALF because the structures of these ABS are relatively straightforward. Staff also expected to present additional ABS asset classes for Board consideration in the future as part of an ongoing review to enhance the TALF program.

The Board members' discussion of the proposal included consideration of possible investor reluctance to participate in the TALF and whether adding smaller asset classes to the facility might be viewed as credit allocation. Staff commented that potential participants could be reluctant to borrow under the TALF if doing so subjected them to government-imposed restrictions on private employment practices, such as mandated employment preferences for U.S. citizens. Staff also noted that certain issues between primary dealers and potential TALF borrowers had surfaced in the negotiations between these parties. In addition, staff noted that adding these four categories of collateral, all currently accepted at the Federal Reserve's discount window, was intended to broaden the availability of TALF loans by rounding out the facility's initial acceptance of ABS, and not to allocate credit among specific asset classes.

Board members were also updated on developments in approaches to reduce financial market strains caused by older securities that were rated AAA when issued but now are deeply discounted on the balance sheets of financial institutions (troubled assets). Among the approaches under review was using TALF financing (with longer loan terms) to increase the demand for and prices of troubled assets, thereby removing them from institutions' balance sheets and improving the capacity of financial institutions to attract capital from private sources. Board members generally agreed that any proposed resolution of the troubled-asset problem would require cooperative efforts by government agencies to address the current turmoil in financial markets and should avoid credit risk and credit allocation, preserve monetary stability, and put in place a comprehensive regime for resolving systemically important institutions.

At the conclusion of the discussion, it was understood that these matters would be discussed at a joint meeting this week with the Federal Open Market Committee. (NOTE: The Board approved the new categories of eligible collateral for the TALF and expanded the list of eligible auto-related receivables by notation voting on March 19, 2009.)

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff memoranda, March 12, 2009.

Implementation: None.

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FINANCIAL MARKETS -- Developments in the Term Asset-Backed Securities Loan Facility, other liquidity facilities, and the Federal Reserve's balance sheet.

The Board met jointly with the Federal Open Market Committee (FOMC) this week to discuss recent developments in System liquidity programs and changes in the Federal Reserve's balance sheet since the FOMC's meeting on January 27-28, 2009. In particular, participants discussed the prospective further increase in the Federal Reserve's balance sheet, with a focus on the Term Asset-Backed Securities Loan Facility (TALF) and open market purchases of longer-term assets. It was also noted that the Department of the Treasury (Treasury) and the Federal Reserve will seek legislation to give the Federal Reserve tools in addition to interest on reserves to manage the federal funds rate while providing the funding necessary for the TALF and other key credit-easing programs. (NOTE: The FOMC minutes for the meeting of March 17-18, 2009, reflect those and other discussions.)

The launch of the TALF was announced on March 3, 2009. In the initial phase of the program, the Federal Reserve offered to provide up to \$200 billion of three-year loans, on a nonrecourse basis, against AAA-rated asset-backed securities (ABS) backed by newly and recently originated auto loans, credit card loans, student loans, loans guaranteed by the Small Business Administration, and, potentially, certain other closely related types of ABS. The Federal Reserve and Treasury had previously announced their expectation that the program would be expanded to accept other types of ABS. The demand for TALF funding appeared likely to be modest initially, and some participants saw a risk that private firms might be reluctant to borrow from the TALF out of concern about potential future changes in government policies that could affect TALF borrowers. However, other participants anticipated that TALF loans would increase over time as financial market institutions became more familiar with the program. Most participants supported the expansion of the lending capacity of the TALF, subject to receiving additional capital from Treasury, and the inclusion of additional categories of recently issued, highly rated ABS as acceptable collateral. However, some participants expressed concern about the risks that might arise from the possible extension of the TALF to include older and lower-quality assets, noting, in particular, the greater uncertainty over the value of such assets. (NOTE: Participants agreed to include in the FOMC's statement an indication that the range of assets accepted as eligible collateral for the TALF was likely to be expanded to include other financial assets and that the FOMC will continue to carefully monitor the size and composition of the Federal Reserve's balance sheet in light of evolving financial and economic developments.)

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn,  
and Governors Warsh, Duke, and Tarullo.

Background: Staff memoranda, March 12, 2009.

Implementation: None.

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FINANCIAL MARKETS -- Update on the Term Asset-Backed Securities Loan Facility.

Discussed.  
April 6, 2009.

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Today, the staff updated the Board on the first two subscriptions under the Term Asset-Backed Securities Loan Facility (TALF) and on possible expansions of the facility. Initial issuances of asset-backed securities (ABS) with TALF financing were modest and appeared to be inhibited by (1) unresolved negotiations between primary dealers and investors on the terms and conditions of their agreements and (2) investor concerns that new legislation could impose additional restrictions on participants in government-sponsored programs, such as those recently imposed on recipients of loans extended under section 13 of the Federal Reserve Act relating to hiring non-U.S. citizens. Staff also reported on its analysis of other types of assets that might be added to the TALF program, including commercial mortgage-backed securities (CMBS), and suggested that if the TALF is expanded, the Federal Reserve should consider employing private-sector agents to value and monitor CMBS assets and other types of new assets.

Board members requested additional information on operational aspects of the facility, and the ensuing discussion encompassed current and future TALF operations. Board members underscored the importance of operating the facility in a manner that would ensure (1) open access to loans from and contracts with the TALF by a diverse group of participants, (2) a continued focus on the "final demand" borrowers -- small businesses and consumers -- when assessing additional types of assets, and (3) adequate protection for the Federal Reserve against reputational, credit, and other risks. It was also suggested that the private-sector agents hired by the Federal Reserve should have the necessary experience to protect the government's interests and should be carefully screened for conflicts of interests.

Staff also noted that preliminary consultations with potential investors indicated that demand for TALF-financed CMBS could be improved by increasing the facility's current three-year loan term to five years. Board members discussed the effect of carrying longer-term loans on the Federal Reserve's balance sheet and noted that additional protections and tools might be necessary to guard against any potential negative effects.

The discussion concluded with the suggestion that determining eligibility

standards for TALF financing might present an opportunity to improve the process for ABS issuance overall and to encourage the adoption of best industry practices among primary dealers, investors, and rating agencies. It was understood that staff would advise the Board of additional developments concerning the TALF.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: None.

Implementation: None.

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LENDING FACILITIES -- Disclosure of confidential information about borrowers from the Federal Reserve's discount window and special lending facilities.

Discussed.  
April 6, 2009.

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The Board discussed (1) a number of requests from members of Congress seeking detailed information about borrowers from the Federal Reserve's discount window and from the special lending facilities established by the Board in response to strains in financial markets and (2) the issues raised by these requests and by public disclosure of confidential borrower information more generally and in specific cases.

The ensuing discussion considered the stigmatizing effect that public disclosure might have on individual institutions that have borrowed from the Federal Reserve. Some Board members also noted that borrowers had reasonably assumed their transactions would be treated as confidential and that "changing the rules" now could discourage institutions from using the facilities, thereby hampering the Federal Reserve's efforts to stabilize fragile financial markets and the economy in general. Other Board members suggested that in light of the extraordinary circumstances of the current financial crisis, disclosing information about the special lending facilities could be differentiated from withholding information about routine borrowing from the Federal Reserve's discount window.

Board members generally favored addressing the disclosure issue in a manner that takes into account the need for transparency and the potential for adverse consequences. To this end, it was suggested that the disclosure or withholding of information should be determined under clear standards that are easy to understand, address concerns about appropriate oversight of taxpayer funds, and substantiate the

reasons if information is withheld. Board members also supported working cooperatively with Congress in providing information necessary to carry out its responsibilities.

At the conclusion of the discussion, it was understood that the views expressed today would be taken into account when responding to the congressional requests.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Proposed response to Chairman Frank, House Financial Services Committee, April 2, 2009.

Implementation: None.

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FINANCIAL MARKETS -- Update on American International Group, Inc.

Discussed.  
April 6, 2009.

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Today, Board members were updated on developments concerning American International Group, Inc. (AIG) against the background of current strains in financial markets. Board members questioned staff on various matters, including the company's business plans, its actions regarding executive compensation, and related matters.

The discussion concluded with the understanding that the Board would receive additional updates on developments regarding AIG.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: None.

Implementation: None.

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DISCOUNT WINDOW -- Loan request by a government-owned development bank.

Discussed.  
April 7, 2009.

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Today, staff requested the Board members' preliminary views on a request by a development bank owned by a government for a loan from the Federal Reserve's discount window under the Board's authority provided by section 13(3) of the Federal Reserve Act. Recent economic conditions had made it more difficult for the bank to access capital markets.

Staff noted that the Board has discouraged similar requests from state and local governments. Board members discussed the difficulty of considering the requested loan at this time within a framework that emphasizes systemic risk to the U.S. financial system and the national economy as a key criterion for section 13(3) lending.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: None.

Implementation: None.

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SUPERVISORY CAPITAL ASSESSMENT PROGRAM -- Summary of developments concerning the program.

Discussed.  
April 7, 2009.

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Today, Board members received a summary of developments concerning the Supervisory Capital Assessment Program, a "stress test" of the nineteen largest bank holding companies by the federal bank regulatory agencies. The program is designed to assess how those institutions would perform under two macroeconomic scenarios, including one that is more adverse than expected, and whether particular institutions should hold additional capital as a buffer against higher-than-expected losses in order to remain sufficiently capitalized over the next two years. At this point, it was likely that some participating institutions would require an additional buffer.

The ensuing discussion among Board members noted that the perceived integrity of the assessment process was essential to the acceptance of the final results by all concerned. To this end, it was suggested that transparency in the methodologies used would enhance the credibility of the assessments, and therefore the agencies' methodologies should be disclosed publicly as soon as practicable. It was also suggested that a straightforward presentation of the results to the affected institutions and the public would enhance their credibility as well.



In addition, staff had tentatively scheduled the following events for April: (1) public release of a white paper to explain the methodologies the agencies used to conduct the assessments and (2) presentations of preliminary results to each participating institution with an opportunity to respond. A public announcement of the final results will be made at a later date, after they have been presented to each institution. (NOTE: A white paper describing the design and implementation of the program was published by the agencies on April 24, 2009. The final results were provided to the participating institutions on May 5 and publicly announced on May 7, 2009.)

At the conclusion of the discussion, it was understood that staff would keep the Board informed of developments in the assessment program.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: None.

Implementation: None.

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SUPERVISORY CAPITAL ASSESSMENT PROGRAM -- Overview and preliminary analysis of results.

Discussed.  
April 15, 2009.

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At its meeting on April 7, 2009, the Board was updated on developments in the Supervisory Capital Assessment Program, or "stress test" of the nineteen largest bank holding companies by the federal bank regulatory agencies. Today, staff presented an overview of the program and a preliminary analysis of results from the assessment process.

The program is a forward-looking exercise for estimating losses, revenues, and reserve needs across the participating institutions under two macroeconomic scenarios, one of which is more adverse than expected. Its objective is to determine the amount of capital that would provide those institutions with a buffer against losses under the more adverse scenario and still allow them to remain sufficiently capitalized over the next two years.

Staff updated the Board on several developments related to the size of the



capital buffer needed by some institutions at year-end 2010 under the more adverse macroeconomic scenario, including approaches for estimating certain loss rates and net revenues. Staff also presented preliminary estimates of the aggregate amount of capital required by all participating institutions and of additional capital that might be required by some participating institutions under several minimum regulatory capital levels. For institutions unable to raise private capital, additional capital will be available from the Department of the Treasury's Capital Assistance Program.

The ensuing discussion among Board members noted that public confidence in the program depended in large measure on acceptance of the assessments as sufficiently rigorous and supported by a clear rationale presented in nontechnical language. The Board discussed whether the results and the manner in which the results were disclosed might create uncertainty among banks, investors, and the public at large. The projected loss rates and macroeconomic assumptions used in the assessment process were considered central to producing credible results. It was suggested that the assumptions be treated as a starting point among other considerations used in estimating the loss rates. Board members also reviewed staff's estimates of additional capital needed by some institutions and commented on the several target capital levels used by staff to size those institutions' capital buffers. Their comments suggested that sizing the buffer under a more conservative target capital level might be appropriate given the program's forward-looking approach.

At the conclusion of the discussion, it was understood that staff would keep the Board informed of developments in the assessment program.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff presentation -- "Supervisory Capital Assessment Process: Preliminary Results of Analysis."

Implementation: None.

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SUPERVISORY CAPITAL ASSESSMENT PROGRAM -- Interagency meeting on staff's preliminary analysis of results.

Discussed.  
April 19, 2009.

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At its meetings on April 7 and April 15, 2009, the Board had discussed developments in the Supervisory Capital Assessment Program, a "stress test" of the

nineteen largest bank holding companies by the federal bank regulatory agencies. Today, the Board met jointly with the board of the Federal Deposit Insurance Corporation and the Comptroller of the Currency to discuss the staff's preliminary analysis of the results of the assessment process.

Staff's analysis included estimates of capital that some participating institutions might require in order to achieve sufficient capital levels at the end of 2010 that could serve as a buffer against losses in a more-adverse-than-expected macroeconomic scenario. If those institutions were unable to raise private capital, the Department of the Treasury's Capital Assistance Program would be available to provide the necessary capital. Staff underscored that the estimates were still preliminary and did not reflect a complete analysis of any firm, which analyses were actively under way.

Meeting participants' discussion of the preliminary analysis included consideration of the process for presenting preliminary results to the participating institutions, resolving challenges to those results, and releasing institution-specific final results to the public. It was suggested that releasing institution-specific data, while not without countervailing considerations, will make the assessments more transparent and the results more credible, thereby enhancing the public's perception of the program. Meeting participants also reviewed and discussed estimates of the additional capital needed by some institutions under several target capital levels used by staff to size those institutions' capital buffers. The discussion noted that the agencies should clearly communicate their supervisory expectations for capital planning to the affected institutions, as well as to the public at large.

At the conclusion of the discussion, it was understood that staff would develop more information to facilitate a determination on the appropriate target capital level for sizing the buffer and continue to update their respective principals on developments in the assessment program.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff presentation -- "Supervisory Capital Assessment Process: Preliminary Results of Analysis," April 19, 2009.

Implementation: None.

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CREDIT FACILITIES -- Proposed changes to the Term Asset-Backed Securities Loan Facility.

Discussed.  
April 27, 2009.

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At its meeting on April 6, 2009, staff had updated the Board on the first two subscriptions under the Term Asset-Backed Securities Loan Facility (TALF) and on possible expansions of the facility. Today, the Board discussed several proposed changes to the TALF, including the viability of accepting different types of collateral for TALF borrowings, and other related terms. Board members requested additional information from the staff on several aspects of the proposal.

The Board members' ensuing discussion considered the objectives of the TALF. It was noted that the TALF had been implemented as a stopgap measure to facilitate the continued issuance of ABS and that as the TALF acted to lower the yields on ABS, it would also become less attractive to investors, thereby providing a mechanism to reduce reliance on the Federal Reserve. The TALF had also presented an opportunity to establish procedures for clearer and more-transparent instruments that could be used when securitization markets resumed functioning.

Board members also were briefed on requests that the System accept collateral rated by a broader set of nationally recognized statistical rating organizations.

No action was taken on the matters discussed. At the conclusion of the discussion, it was understood that staff would prepare the proposed changes to the TALF for final Board approval. (NOTE: The Board approved changes to the TALF by notation voting on April 30, 2009.)

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff memorandum, April 24, 2009.

Implementation: None.

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FINANCIAL MARKETS -- Developments in the Term Asset-Backed Securities Loan Facility and update on review of information provided to the public regarding Federal Reserve programs and activities.

Discussed.  
April 28-29, 2009.

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The Board met jointly with the Federal Open Market Committee (FOMC) this week to discuss, among other matters, developments in financial markets and the Federal Reserve's balance sheet since the last joint meeting on March 17-18, 2009. (NOTE: The FOMC minutes for the meeting of April 28-29, 2009, reflect those and

other discussions.)

In addition, staff briefed meeting participants on recent developments related to the Term Asset-Backed Securities Loan Facility (TALF), which was authorized by the Board last November under section 13(3) of the Federal Reserve Act. Under the TALF, the Federal Reserve Bank of New York extended three-year loans secured by AAA-rated asset-backed securities (ABS). These securities were backed by new and recently originated loans made by financial institutions. The first two monthly subscriptions of the TALF had settled during the intermeeting period.

At this meeting, participants discussed the potential benefits of accepting newly issued, AAA-rated commercial mortgage-backed securities and insurance-premium-finance ABS as eligible collateral for TALF loans. Meeting participants also discussed the possibility that some new TALF loans would have a longer maturity of five years. (NOTE: The Board approved broadening the list of TALF-eligible collateral and the addition of five-year loans to the facility by notation voting on April 30, 2009.)

Vice Chairman Kohn also reported to the meeting participants on the progress of a Federal Reserve workgroup in its review of the information provided to the public regarding Federal Reserve programs and activities. That review was being conducted to identify opportunities for providing additional information to the public without compromising the Federal Reserve's mandated policy objectives. The workgroup had been devoting particular attention to approaches to enhancing the transparency of the Federal Reserve's liquidity and credit facilities, including regular reporting on the number, types, and concentration of borrowers from each program; the amount and nature of collateral accepted; detailed background information on special-purpose vehicles; and contracts with private-sector firms that had been engaged to help carry out some of these programs. In the meeting participants' discussion of these issues, it was noted that disclosing the identities of individual borrowers would very likely discourage use of the Federal Reserve's liquidity and credit facilities because prospective borrowers would be concerned that their creditors and counterparties would see borrowing from the Federal Reserve as a sign of financial weakness. The resulting stigma would undermine the effectiveness of those programs in promoting financial stability and economic recovery.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff memorandum, April 24, 2009.

Implementation: None.

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SUPERVISORY CAPITAL ASSESSMENT PROGRAM -- Update on developments in the program.

Discussed.  
April 29, 2009.

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At its meetings on April 7 and April 15, and at an interagency meeting on April 19, 2009, the Board had discussed the Supervisory Capital Assessment Program, a "stress test" of the nineteen largest bank holding companies by the federal bank regulatory agencies. Today, staff updated the Board on developments concerning some participating institutions that might need additional capital to achieve sufficient capital levels at the end of 2010 that could serve as a buffer against losses under a worse-than-expected macroeconomic scenario. Staff also updated Board members on the process for resolving institutions' questions and challenges in connection with the preliminary assessment results that had been presented to each institution in private meetings last week.

Board members' ensuing discussion included consideration of (1) efforts already completed or under way at some institutions to augment their capital bases, (2) the format for releasing institution-specific final results to the public and a tentative release date, and (3) the likely process for obtaining capital from the Department of the Treasury's Capital Assistance Program to meet the required buffer, if private capital is unavailable. It was suggested that the timetable for concluding the process should provide sufficient time to complete the staff's analysis in light of new data provided by some institutions and allow the institutions some time to prepare for the release of the final results. Board members also generally commented that the extent of information released about the final results could help to enhance the public's confidence in the rigor of the assessment process.

At the conclusion of the discussion, it was understood that staff would keep the Board informed of developments in the assessment program.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Draft document for releasing final results.

Implementation: None.

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SUPERVISORY CAPITAL ASSESSMENT PROGRAM -- Update on developments in the program.

Discussed.  
May 1, 2009.

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At its meetings on April 7, April 15, and April 29, and at an interagency meeting on April 19, 2009, the Board had discussed the Supervisory Capital Assessment Program, a "stress test" of the nineteen largest bank holding companies by the federal bank regulatory agencies. Today, staff updated the Board and presidents and officials of the Federal Reserve Banks on preparations for concluding the assessment process, including the following matters: (1) the tentative schedule for presenting the final results to the participating institutions and releasing them to the public, (2) draft formats for releasing aggregate and institution-specific final results, and (3) alternative approaches for announcing the final results. Staff also discussed the procedures and deadlines for institutions that might require capital from the Department of the Treasury's Capital Assistance Program (CAP), if private capital is unavailable, in order to achieve sufficient capital levels at the end of 2010 that could serve as a buffer against losses under a more-adverse-than-expected macroeconomic scenario.

Meeting participants requested additional information from the staff about several matters, including the process and timetable for resolving any open issues and for making final adjustments before the results are presented to the institutions and released to the public. In the ensuing discussion, meeting participants suggested that providing information about institution-specific projected losses and the resources available to absorb those losses would provide a useful context and thus enhance the public's understanding of the final results. In addition, meeting participants discussed the process for exchanging preferred shares for new mandatory convertible preferred issued under the CAP and the potential effects of such an exchange on an institution's other shareholders.

The participants also noted that although the program's target capital level applied only to the nineteen largest institutions, banking supervisors should continue to assess capital needs for nonparticipants under potentially adverse circumstances, in accordance with existing capital adequacy guidelines. (NOTE: Capital buffers for the participating institutions were sized under a target capital level that would achieve a tier 1 risk-based ratio of at least 6 percent and a tier 1 common risk-based ratio of at least 4 percent at the end of 2010 under the worse-than-expected macroeconomic scenario.)

At the conclusion of the discussion, it was understood that staff would keep the Board informed of developments in the assessment program.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff presentation -- "Supervisory Capital Assessment Process: Process Update," May 1, 2009.

Implementation: None.

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SUPERVISORY CAPITAL ASSESSMENT PROGRAM -- Update on developments in the program.

Discussed.  
May 3, 2009.

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At its meetings on April 7, April 15, April 29, and May 1, and at an interagency meeting on April 19, 2009, the Board had discussed the Supervisory Capital Assessment Program, a "stress test" of the nineteen largest bank holding companies by the federal bank regulatory agencies. Today, staff updated the Board and presidents and officials of certain Federal Reserve Banks on preparations for concluding the assessment process, including the following matters: (1) so-called below-the-line adjustments to the capital buffers for several participating institutions that reflect actual capital-raising transactions completed or committed to during the first quarter of 2009, (2) the process for exchanging preferred shares for new mandatory convertible preferred issued under the Department of the Treasury's Capital Assistance Program (CAP), and (3) the draft format for releasing final results to the public. For several of the institutions that were required to augment their capital bases under the assessment program's more-adverse-than-expected macroeconomic scenario, meeting participants from the Federal Reserve Banks updated the Board on the institutions' plans and available options for raising additional capital.

Board members requested additional information about several of the participating institutions' plans or the efforts they have already undertaken to raise additional capital. The ensuing discussion also considered other matters related to disclosing the final results, including the exchange of preferred shares under the CAP, if necessary to raise additional capital; coordination with other banking supervisors to present the final results to participating institutions; and alternative approaches for releasing the final results to the public. In addition, meeting participants made suggestions to clarify the draft format for releasing the final results.

At the conclusion of the discussion, it was understood that staff would keep the Board informed of developments in the assessment program.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff presentation -- "Supervisory Capital Assessment Process:



Update," May 3, 2009, and Federal Reserve Bank updates on certain participating institutions.

Implementation: None.

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CREDIT FACILITIES -- Proposed changes to the Term Asset-Backed Securities Loan Facility.

Discussed.  
May 18, 2009.

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At its meetings on April 6 and April 27, 2009, the Board had discussed possible expansions of the Term Asset-Backed Securities Loan Facility (TALF). Today, the Board discussed several proposed changes to the TALF, including the feasibility of accepting certain high-quality (AAA-rated) commercial mortgage-backed securities issued before January 1, 2009 (legacy CMBS), and certain other changes to the terms and conditions of the facility. Board members requested additional information from the staff on several aspects of the proposal, including the attractiveness to investors of offering TALF loans on legacy CMBS with five-year terms, the use of ratings from nationally recognized statistical rating organizations (NRSROs) as a screen for qualifying collateral, and the employment of a private-sector "gatekeeper" (one or more institutions that provide collateral-valuation services) to review collateral against criteria established by the Federal Reserve.

In the ensuing discussion, staff also described elements of the proposal that would protect against credit risk and produce beneficial economic effects. Those protections included (1) limiting acceptable collateral to fixed-rate legacy CMBS that pay both principal and interest and are senior to all other tranches in a given pool and (2) applying conservative haircuts to the value of collateral when determining a loan amount. Among other benefits, the proposal was expected to enhance the ability of market participants to properly assess the worth of legacy CMBS through price discovery, improve liquidity for these securities, and reduce spreads in secondary trading markets.

The Board members' discussion of the proposal included the need for private-sector institutions to avoid potential conflicts of interest while employed by the Federal Reserve and consideration of the process for selecting which NRSROs were eligible to provide acceptable collateral ratings. It was noted that those ratings were a necessary condition but were not sufficient by themselves to qualify collateral for TALF loans. In addition, it was suggested that introducing legacy assets into the mix of acceptable TALF collateral warranted additional consideration of the degree of transparency in the facility's operations. Board members generally agreed to take up transparency in a



separate discussion and to implement any changes in disclosure on a "going-forward" basis.

At the conclusion of the discussion, it was understood that a proposal to accept legacy CMBS and to make certain other changes to the facility's terms and conditions would be presented to the Board. (NOTE: The Board approved the proposal by notation voting on May 18, 2009.)

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff memorandum, May 15, 2009.

Implementation: None.

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MONETARY AND FINANCIAL POLICY -- Discussion of financial markets and other matters with the Federal Open Market Committee.

Discussed.  
June 3, 2009.

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Today, the Board met by conference call in a joint session with the Federal Open Market Committee to receive a briefing from staff on the Supervisory Capital Assessment Program, the new Federal Reserve System Monthly Report on Credit and Liquidity Programs and the Balance Sheet, and an update on the review of policies regarding Federal Reserve Bank directors. Meeting participants also reviewed recent economic and financial developments, including changes in the Federal Reserve's balance sheet. (NOTE: The FOMC minutes for the conference call on June 3, 2009, reflect discussions on other matters concerning the FOMC.)

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff memorandum and draft report, June 2, 2009.

Implementation: None.

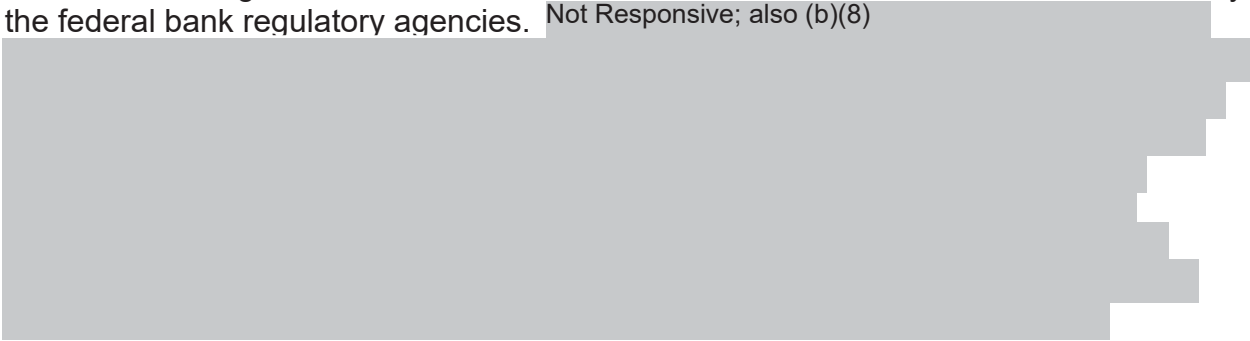
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SUPERVISORY CAPITAL ASSESSMENT PROGRAM -- Not Responsive; also (b)(8)  
review of other matters related to the program.

Discussed.  
June 5, 2009.

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At its meetings on April 7, April 15, April 29, May 1, and May 3, and at an interagency meeting on April 19, 2009, the Board had discussed the Supervisory Capital Assessment Program, a "stress test" of the nineteen largest bank holding companies by the federal bank regulatory agencies. Not Responsive; also (b)(8)



Board members also discussed the preparation of a public announcement to be issued next week regarding the capital plans submitted by those participating institutions that required additional capital in order to achieve sufficient capital levels at the end of 2010 to serve as a buffer against losses under the assessment's more-adverse-than-expected macroeconomic scenario. Board members generally favored an announcement stating that the capital plans submitted, if implemented, would provide sufficient capital to meet the assessment program's required buffer. (NOTE: The Board issued a press release on June 8, 2009.)

At the conclusion of the discussion, it was understood that staff would update the Board on developments concerning the capital plans submitted under the assessment program.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff presentation -- "Supervisory Capital Assessment Process," June 5, 2009.

Implementation: None.

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SUPERVISORY CAPITAL ASSESSMENT PROGRAM -- Interagency meeting to provide an update on capital plans.

At its meetings on April 7, April 15, April 29, May 1, May 3, and June 5, and at an interagency meeting on April 19, 2009, the Board had discussed the Supervisory Capital Assessment Program, a "stress test" of the nineteen largest bank holding companies by the federal bank regulatory agencies. Today, the Board met with the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the Secretary of the Treasury for an update on the capital plans submitted by participating institutions that required additional capital in order to achieve sufficient capital levels at the end of 2010 to serve as a buffer against losses under the assessment's more-adverse-than-expected macroeconomic scenario.

Staff's update included (1) preliminary conclusions on the capital plans in general, (2) a progress review of some institutions' efforts to raise additional capital to meet the required buffer, and (3) issues raised by the capital plans submitted by some institutions. Staff also provided a preliminary analysis of the effect on some institutions' capital ratios if these institutions repaid funds received under the Department of the Treasury's Troubled Asset Relief Program (TARP).

The ensuing discussion by meeting participants considered aspects of several institutions' capital plans and how those institutions could best position themselves to repay TARP funds. The discussion also considered such matters as (1) the assessment's comparable treatment of capital issues across institutions, (2) the preference of some meeting participants to have institutions raise common equity upfront, and (3) the need for better planning efforts by some institutions to strengthen management as well as their capital structures. Meeting participants also discussed preparing a public announcement about the capital plans. Participants generally agreed to announce that the plans, if implemented, would provide sufficient capital to meet the buffer required under the assessment program. It was suggested that the announcement also include a statement that the bank regulatory agencies will continue to work with all regulated financial institutions to review the quality of their corporate governance, risk-management, and capital planning processes.

At the conclusion of the discussion, it was understood that staff would prepare a public announcement as discussed above.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Duke and Tarullo.

Background: Staff presentation -- "Supervisory Capital Assessment Process:

Update," June 8, 2009.

Implementation: Press release, June 8, 2009.

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CREDIT FACILITIES -- Proposed changes and other matters related to the Term Asset-Backed Securities Loan Facility.

Discussed.  
Approved.  
June 22, 2009.

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At its meetings on April 6, April 27, and May 18, 2009, the Board had discussed changes to the Term Asset-Backed Securities Loan Facility (TALF). Today, staff proposed (1) an alternate lending rate for TALF-eligible collateral consisting of asset-backed securities that are collateralized by private student loans and have a prime-based coupon and (2) several clarifying and technical changes to the TALF's terms and conditions. In the ensuing discussion, it was noted that the alternate lending rate would help make private student loans more affordable and more readily available. Board members supported the proposed alternate rate and other changes to the TALF's terms and conditions.

In addition, staff provided a preliminary assessment of certain asset classes (newly issued and legacy assets) that remained under staff review for eligibility as TALF collateral. Staff also explained the Department of the Treasury's Public-Private Investment Program and the possibility that TALF financing might be made available to public-private investment funds that purchased securities backed by loan portfolios issued before January 1, 2009 (legacy securities). Board members' discussion of Treasury's legacy securities program included consideration of (1) staff's preliminary assessment of certain legacy securities, (2) concerns raised by the Office of the Special Inspector General for the Troubled Asset Relief Program about the potential adverse effects of providing TALF financing, and (3) the readiness of the Federal Deposit Insurance Corporation to participate in Treasury's complementary legacy loans program.

At the conclusion of the discussion, the Board approved the request by the Federal Reserve Bank of New York for an alternate rate under the TALF equal to the greater of 1 percent and (the prime rate minus 175 basis points) for loans secured by

prime-based asset-backed securities collateralized by private student loans. In addition, the Board approved the other proposed changes to the TALF's terms and conditions. It was also understood that staff would consult with Treasury about matters related to TALF financing under its legacy securities program and that the Board would be informed of further developments.

Participating in this discussion and voting for this action: Chairman Bernanke and Governors Warsh, Duke, and Tarullo.

Background: Staff memorandum, June 19, 2009.

Implementation: See transmission from Ms. Beattie to the Federal Reserve Bank of New York, June 22, 2009.

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FINANCIAL MARKETS -- Proposed changes to certain Federal Reserve liquidity facilities.

Discussed.  
Approved.  
June 23 - 24, 2009.

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The Board met jointly with the Federal Open Market Committee (FOMC) this week to discuss, among other matters, developments in financial markets and the Federal Reserve's balance sheet since the last joint meeting on April 28-29, 2009. Market sentiment toward the financial sector had improved over this period, reflecting, in part, the May 7, 2009, release of results from the Supervisory Capital Assessment Program (SCAP) for the nation's nineteen largest bank holding companies. It was noted that almost all the BHCs evaluated had enough tier 1 capital to absorb the higher losses envisioned under the hypothetical more adverse scenario; however, ten institutions were required to enhance their capital structure to put greater emphasis on common equity. Meeting participants also discussed the recent inclusion of certain commercial mortgage-backed securities in the Term Asset-Backed Securities Loan Facility (TALF) and the resulting effect on the spreads for commercial mortgage credit default swaps. (NOTE: The FOMC minutes for the meeting of June 23-24, 2009, reflect discussions on the SCAP, the TALF, and other matters.)

Staff presented policymakers with proposals for extensions, modifications, and terminations of various liquidity programs. A number of the credit and liquidity facilities that the Federal Reserve had established in the course of the financial crisis were scheduled to expire on October 30, 2009. Use of most of the liquidity facilities had declined in recent months as market conditions had improved. Still, meeting participants judged that market conditions remained fragile and that concerns about

counterparty credit risk and access to liquidity, both of which had ebbed notably in recent months, could increase again. Moreover, participants viewed the availability of the liquidity facilities as a factor that had contributed to the reduction in financial strains. If the Federal Reserve's backup liquidity facilities were terminated prematurely, such developments might put renewed pressure on some financial institutions and markets and tighten credit conditions for businesses and households. The period over year-end was seen as posing heightened risks given the usual pressures in financial markets at that time. In these circumstances, participants agreed that most facilities should be extended into early next year. However, participants also judged that improved market conditions and declining use of the facilities warranted scaling back, suspending, or tightening access to several programs, including the Term Auction Facility (TAF), the Term Securities Lending Facility (TSLF), and the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF).

Meeting participants noted their expectation that a number of these facilities may not need to be extended beyond February 1, 2010, if the recent improvements in market conditions continue. However, if financial stresses do not moderate as expected, the Board and the FOMC were prepared to extend the terms of some or all of the facilities as needed to promote financial stability and economic growth.

At the conclusion of the discussion, and in view of the unusual and exigent circumstances, the Board approved several actions in accordance with section 13(3) of the Federal Reserve Act. It approved extending until February 1, 2010, the authorizations for the following facilities, subject to the same collateral, interest rate, and other conditions previously established by the Board: AMLF, Commercial Paper Funding Facility, and Primary Dealer Credit Facility. The Board and the FOMC jointly approved extending the authorization for the TSLF, subject to the same collateral, interest rate, and other conditions previously established by the Board and the FOMC, until February 1, 2010, and directed the Federal Reserve Bank of New York (1) to suspend schedule 1 TSLF auctions, effective immediately, (2) to conduct schedule 2 TSLF auctions initially on a monthly basis in amounts of \$75 billion, (3) to reduce over time the amounts provided through the TSLF as market conditions warrant, and (4) to suspend auctions under the TSLF Options Program, effective immediately. The Board also directed the System Auction Agent to reduce the amount offered at biweekly TAF auctions to \$125 billion, effective with the July 13, 2009, auction, and reaffirmed its delegation to the Chairman to adjust the terms and conditions of the TAF from time to time. The Board reaffirmed that the authorization for the Money Market Investor Funding Facility will expire on October 30, 2009. The FOMC extended until February 1, 2010, its authorizations, under the conditions previously established by the FOMC, to engage in temporary reciprocal currency arrangements. (NOTE: The Board and the FOMC took these actions on June 23, 2009.)

Participating in this discussion and voting for these actions:  
Chairman Bernanke, Vice Chairman Kohn, and  
Governors Warsh, Duke, and Tarullo.

Background: Staff memoranda, June 12 and 19, and proposed resolutions, June 16, 2009.

Implementation: Resolutions, June 23, and press release, June 25, 2009.

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CREDIT FACILITIES -- Update on Treasury's Legacy Securities Public-Private Investment Program and proposed access by the program's investment funds to financing from the Term Asset-Backed Securities Loan Facility.

Discussed.  
Approved.  
July 6, 2009.

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At its meeting on June 22, 2009, the Board had discussed, among other matters, the availability of financing from the Term Asset-Backed Securities Loan Facility (TALF) to investors who purchased legacy securities (securities backed by loan portfolios issued before January 1, 2009) under the Department of the Treasury's Legacy Securities Public-Private Investment Program.

Today, staff updated the Board on Treasury's agreement to change the program in response to comments from staff and others. The changes included (1) increased haircuts by the Federal Reserve on TALF collateral to mitigate the leverage-on-leverage effect of access by the program's Public-Private Investment Funds (PPIFs) to both Treasury- and TALF-supplied debt; (2) enhanced compliance monitoring by Treasury of the PPIFs, both externally (by hiring an experienced outside party) and internally (by increasing its oversight staff); and (3) Treasury's representation that fund managers will be required to demonstrate that their compensation systems align the economic interests of key PPIF personnel and investors in the PPIF.

Staff had requested that Treasury require the firms to take measures to ensure that PPIFs would be managed separately from other funds. According to Treasury, such a separation was impossible under the firms' current business practices.

Among other issues, Board members discussed the steps taken by Treasury to reduce the possibility of fraud and conflicts of interest associated with the management of the PPIFs and continued concerns by the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) regarding the ability of managers to use the PPIFs to boost the returns on the non-PPIF funds under their control. Some Board members noted that the audit trails of PPIF transactions would likely receive close scrutiny from the SIGTARP, Treasury, and the public. It was also noted that the TALF's procedures, which included checks for reasonable transaction pricing, stress valuation of loan



amounts, and substantial collateral haircuts, would help protect the facility from relying on collateral with an inflated value or from incurring losses as a result of declining collateral values.

In their discussion about providing TALF financing to the PPIFs, several Board members noted the Board's previous agreement to work with Treasury to implement the legacy securities program. They supported lending to the PPIFs as a way to move the program toward implementation. Other Board members questioned whether the potential reputational risk to the Federal Reserve, particularly in light of the SIGTARP's continued concerns about the PPIFs, overshadowed whatever economic benefits were expected to result from purchases of the limited types of legacy securities currently eligible for TALF financing. (NOTE: The Board had approved certain types of legacy commercial mortgage-backed securities as TALF-eligible collateral by notation voting on May 18, 2009, after discussing the matter at its meeting earlier that day.)

At the conclusion of the discussion, Board members generally concurred that the PPIFs' access to TALF financing using eligible legacy securities as collateral did not significantly increase the facility's risk exposure or commit the Board to expanding TALF financing under the legacy securities program to include other types of mortgage-backed securities. Given the unusual and exigent circumstances, and in light of the change required to the TALF's terms and conditions for the increased collateral haircuts, the Board approved lending to the PPIFs under Treasury's legacy securities program as discussed above in accordance with section 13(3) of the Federal Reserve Act. It was also understood that the staff would inform the Board of developments in the continuing assessment with Treasury of whether to expand TALF financing to include legacy residential mortgage-backed securities as an eligible asset class.

Participating in this discussion and voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: None.

Implementation: See interagency press release, July 8, 2009.

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MONETARY POLICY REPORT -- Semiannual monetary policy report to the Congress.

Authorized.  
July 14, 2009.

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At today's meeting, the Board discussed a draft of the semiannual monetary

policy report to the Congress to be submitted on July 21, 2009, in accordance with section 2B of the Federal Reserve Act. During the discussion, Board members reviewed the proposed text of the report and commented favorably on the report's structure and format.

Board members also suggested editorial and other changes in several areas to improve the report's clarity and to strengthen its analysis. At the conclusion of the discussion, the report was authorized with the understanding that the comments and suggestions made today and editorial changes submitted to the staff would be considered in revising the report.

Participating in this determination: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff memorandum and draft report, July 10, 2009.

Implementation: Monetary policy report to the Congress, July 21, 2009.

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FINANCIAL MARKETS -- Update on American International Group, Inc.

Discussed.  
July 14, 2009.

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At its meeting on April 6, 2009, the Board had discussed developments concerning American International Group, Inc. (AIG). Today, staff updated the Board on AIG in the areas of corporate governance and executive compensation. Recent developments in corporate governance included the election of six new directors to the AIG board and the search for a new chief executive officer. Staff also noted that AIG had requested an advisory opinion from the special master appointed under the regulations on proposed compensation payments that were agreed to before 2009 for certain executives and employees.

Staff also reported on developments concerning corporate debt ratings and divestiture planning at AIG, noting that AIG's corporate debt had been downgraded by one rating agency without significant consequences and that staff had reviewed AIG's interactions with the other rating agencies. In addition, staff reviewed AIG's efforts to divest certain subsidiaries that included foreign life insurance companies and domestic property and casualty insurance companies. Finally, staff provided an update on funds advanced by the Federal Reserve and the value of the collateral securing those loans.

Board members requested additional information from the staff about AIG's operations, including possible strategies for restructuring the company, the use of

proceeds from the sale of assets, and the government's interest in having AIG retire its debt to the Federal Reserve in a prompt and orderly manner. At the conclusion of the discussion, it was understood that staff would continue to update the Board on matters relating to AIG.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: None.

Implementation: None.

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semiannual monetary policy report to the Congress.

Discussed.  
July 17, 2009.

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At today's meeting, the Board discussed a draft of the monetary policy statement that Chairman Bernanke was scheduled to deliver to the House Committee on Financial Services on July 21, and to the Senate Committee on Banking, Housing, and Urban Affairs on July 22, 2009. Board members expressed their agreement with the general thrust of the statement.

Board members also made suggestions for editorial and substantive changes to several matters covered in the statement. At the conclusion of the discussion, it was understood that Board members' comments and editorial suggestions would be considered in revising the statement.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Draft statement, July 15, 2009.

Implementation: Monetary policy statement before the House Committee on Financial Services, July 21, and the Senate Committee on Banking, Housing, and Urban Affairs, July 22, 2009.

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REGULATION Z (TRUTH IN LENDING) -- Proposed amendments for public comment to provisions on closed-end mortgages and home equity lines of credit.

Approved.  
July 23, 2009.

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Today, Governor Duke and the staff presented proposed amendments to Regulation Z (Truth in Lending) provisions on disclosures and other matters related to closed-end mortgages and home equity lines of credit. The amendments were intended to improve the effectiveness of the disclosures consumers receive in connection with these types of loans by revising the timing, format, and content of disclosures. The amendments also addressed other matters, such as (1) loan originators' compensation for closed-end mortgages and (2) account terminations, suspensions and credit-limit reductions, and reinstatement of accounts for home equity lines of credit.

Board members requested additional information from staff about various aspects of the proposal, including the rationale for expanding the calculation of the annual percentage rate to include more of the charges and fees associated with a loan. Board members also noted the limits on originator compensation that included proposed prohibitions on certain payments to a mortgage broker or loan officer that were based on the loan's terms and conditions and "steering," or directing consumers to transactions that were not in their interest to increase the loan originator's compensation. Board members discussed with staff whether these proposed limits might affect originators' willingness to work with less creditworthy borrowers or, more generally, might reduce access to credit by marginally qualified borrowers. Another Board member clarified with staff that the proposed prohibitions did not create a fiduciary duty on the part of the mortgage broker or loan officer to the consumer.

At the conclusion of the discussion, Board members supported the proposal and commented favorably on the likelihood that the revisions would (1) help consumers make better credit decisions by providing them with timely information that is easier to understand, (2) improve the operation of mortgage markets by making borrowers better informed, and (3) ease compliance burdens on lenders by putting in place clear rules. Board members also expressed support for the prohibitions on certain compensation practices that, as a result of consumer testing, showed that disclosures alone were insufficient to protect consumers. Thereupon, the Board approved publication of the proposal for public comment.

Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and

Governors Warsh and Duke. (NOTE: Governor Tarullo was unable to attend the meeting because he was testifying before Congress.)

Background: Memoranda from the Committee on Consumer and Community Affairs and from the staff, July 17, 2009.

Implementation: Press release and statements by Chairman Bernanke and Governor Duke, July 23, and Federal Register documents (Docket Nos. R-1366 and R-1367), July 24, 2009.

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CREDIT FACILITIES -- Proposal to extend the Term Asset-Backed Securities Loan Facility and other matters related to the facility's terms and conditions.

Discussed.  
August 10, 2009.

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At its meeting on November 23, 2008, the Board discussed establishing the Term Asset-Backed Securities Loan Facility (TALF) and approved the facility under section 13(3) of the Federal Reserve Act by notation voting on November 24, 2008. The TALF was scheduled to stop making new loans on December 31, 2009.

Although conditions in financial markets had improved in recent months, staff stated that the markets for asset-backed securities (ABS) backed by consumer and business loans and for commercial mortgage-backed securities (CMBS) still required the TALF in order to function and that issuers and investors needed assurance that the TALF would be available for several more months. Staff proposed extending the facility as follows: (1) through June 30, 2010, for loans collateralized by newly issued CMBS, and (2) through March 31, 2010, for loans collateralized by all other TALF-eligible collateral (all classes of ABS and legacy CMBS, which are CMBS issued before January 1, 2009). In addition, staff updated Board members on its evaluation of legacy private residential mortgage-backed securities (RMBS), which are outstanding RMBS that are not guaranteed by Fannie Mae or Freddie Mac, as potential TALF collateral. Staff also outlined a tentative proposal to accept ratings of TALF-eligible collateral from nationally recognized statistical rating organizations (NRSROs) that met criteria to be established by the Board through a rulemaking.

In the ensuing discussion, Board members supported the proposed extensions of the TALF. With respect to legacy private RMBS, Board members discussed whether to keep open the option of adding legacy private RMBS as TALF-eligible collateral at some future date and whether the TALF, a facility intended to provide liquidity to ABS markets, was the appropriate vehicle for addressing troubled RMBS assets. Board members

generally agreed, however, that further changes to the types of collateral eligible for the TALF were not needed at this time. In addition, Board members commented that establishing objective criteria for NRSROs through a rulemaking and public comment period might be the best approach to determine if the credit ratings of an NRSRO were acceptable for determining the eligibility of potential TALF collateral.

At the conclusion of the discussion, it was understood that a notation vote on the proposal to extend the TALF would be presented to the Board after the meeting of the Federal Open Market Committee this week. (NOTE: The Board approved the proposal by notation voting on August 13 and announced the extension on August 17, 2009, while holding in abeyance any further expansion in the types of collateral eligible for the TALF.)

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff memoranda and draft press release, August 6, 2009.

Implementation: None.

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FINANCIAL MARKETS -- Update on developments in the Term Asset-Backed Securities Loan Facility.

Discussed.  
August 11-12, 2009.

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The Board met jointly with the Federal Open Market Committee (FOMC) this week to discuss, among other matters, developments in financial markets and the Federal Reserve's balance sheet since the last joint meeting on June 23-24, 2009. (NOTE: The FOMC minutes for the meeting of August 11-12, 2009, reflect those and other discussions.)

At its meeting on August 10, 2009, the Board had discussed a proposal to extend the Term Asset-Backed Securities Loan Facility (TALF) and other matters related to the facility's terms and conditions. Today, staff updated the FOMC on developments in the 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. (NOTE: The Board approved the proposal by notation voting on August 13 and announced the extension on August 17, 2009, while holding in abeyance any further expansion in the types of

collateral eligible for the TALF.)

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn,  
and Governors Warsh, Duke, and Tarullo.

Background: Staff memoranda, August 6, 2009.

Implementation: None.

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BANK SUPERVISORY MATTER -- Update on market conditions and bank  
portfolios pertaining to commercial real estate.

Discussed.  
September 8, 2009.

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Today, staff updated the Board on commercial real estate (CRE) by presenting overviews of market conditions and bank portfolios holding CRE loans. In the discussion that followed, Board members requested additional information about several aspects of the presentation.

Matters discussed included the staff's view on the CRE loss-rate estimates used in the Supervisory Capital Assessment Program (SCAP), in light of the higher loss-rate estimates used in the presentation. It was noted that the latter estimates were based on projections developed by Property and Portfolio Research (a commercial real estate research company), which were influenced primarily by the trend toward stricter underwriting standards at institutions and the subsequent increase in refinancing risks for CRE loans. However, because of the generally higher credit quality of CRE loans held by SCAP institutions and other factors, staff remained satisfied with the two-year loss-rate estimates used in the SCAP.

Board members inquired about the extent to which other factors like institutional practices and examiner actions were responsible for higher-than-expected risks for CRE refinancings. Although reports about CRE loan refinancings were largely anecdotal, it was noted that the reduced willingness of institutions to work with borrowers, coupled with the pullback in the capital markets, appeared to be having a negative impact on such transactions. Lenders' greater willingness to work with their borrowers and examiners' looking more closely at the underlying cash flow from a commercial property, even if the value of the collateral had declined, could help to alleviate the elevated risk of CRE refinancings. Board members also commented that cash flow from a commercial property's collateral should be an important consideration in an institution's decision to refinance a CRE loan.



Board members discussed whether examiners had access to real-time information on a borrower's sources of income to support a troubled CRE loan. It was noted that, in addition to debt-servicing projections and other information from the loan file, information on the financial condition of a commercial property's tenants and on the institution's up-to-date assessment of the likelihood of repayment was generally available to examiners during examinations.

During the discussion, it was also noted that capital markets were accessible, and Board members generally agreed that banks requiring additional capital to offset CRE loan losses should be encouraged to raise capital now. The discussion concluded with the understanding that staff would keep the Board informed as needed about developments in the market for CRE loans and the portfolios of banks holding CRE loans.

Participating in this discussion: Chairman Bernanke and Governors Warsh, Duke, and Tarullo.

Background: Staff presentation -- "Update on Commercial Real Estate," September 2009.

Implementation: None.

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BANK SUPERVISORY MATTER -- Redemption requests related to capital investments under the Troubled Asset Relief Program.

Discussed.  
September 8, 2009.

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Today, staff discussed with the Board the criteria for evaluating requests by bank holding companies that had participated in the Supervisory Capital Assessment Program (SCAP) to redeem capital investments by the Department of the Treasury under the Troubled Asset Relief Program (TARP) and to resume paying dividends and making other capital distributions. (NOTE: The Board had discussed SCAP, a "stress test" of the nineteen largest bank holding companies by the federal bank regulatory agencies, at its meetings on April 7, April 15, April 29, May 1, May 3, and June 5 and at interagency meetings on April 19 and June 8, 2009. The criteria for redeeming TARP capital had been announced by the Board on June 1, 2009.)

Among the criteria discussed was the requirement that an institution requesting a TARP redemption be able to maintain capital levels that were consistent with

supervisory expectations. Supervisory expectations for a requesting institution's capital levels had been viewed as firm-specific and had not been defined quantitatively. Staff suggested that in addition to maintaining the SCAP buffer, a requesting institution should be able to maintain capital levels that were consistent with industry norms and historical capital levels for the institution, including its own internal capital targets.

Board members emphasized the need for clarity in what capital levels would be considered consistent with supervisory expectations. Several Board members questioned whether it was possible to avoid specifying ratios or capital-level parameters that would meet the "supervisory expectations" requirement. Another Board member commented that although a uniform standard may not be feasible, a stronger benchmark than internal capital assessments was necessary to inform both the public and the reviewing supervisor of how this requirement would be applied. While Board members did not express a preference for specific capital ratios, one Board member noted that requiring capital levels that were higher than the original SCAP buffer might deter investors and require institutions to adjust their balance sheets.

At the conclusion of the discussion, it was understood that staff would take the Board members' views into consideration when implementing the process for evaluating redemption and other capital-disposition requests from SCAP institutions.

Participating in this discussion: Chairman Bernanke and Governors Warsh, Duke, and Tarullo.

Background: Staff presentation -- "Proposed Process and Criteria for Evaluating SCAP Firms' TARP Redemptions and Other Capital Distributions," September 8, 2009.

Implementation: None.

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FINANCIAL MARKETS -- Proposed schedules for the Term Auction Facility and the Term Securities Lending Facility for October 2009 through January 2010.

Discussed.  
September 22-23, 2009.

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The Board met jointly with the Federal Open Market Committee (FOMC) this week to discuss, among other matters, developments in financial markets and the Federal Reserve's balance sheet since the last joint meeting on August 11-12, 2009. (NOTE: The FOMC minutes for the meeting of September 22-23, 2009, reflect those and other discussions.)

The staff presented proposed schedules for operations under the Term Auction Facility (TAF) and the Term Securities Lending Facility (TSLF) through January 2010. As conditions in short-term funding markets had continued to improve, usage of these facilities had diminished. The proposed schedules were consistent with not only the Federal Reserve's previously announced intention to gradually scale back these facilities in response to continued improvements in financial market conditions but also with a desire to assure market participants that the Federal Reserve will provide sufficient liquidity over year-end. There was general agreement that the Federal Reserve should assess over the next several months whether to maintain a TAF on a permanent basis. (NOTE: On September 24, 2009, the Federal Reserve announced schedules for operations under the TAF and the TSLF through January 2010 and indicated that it would seek public comment on a proposal for a permanent TAF.)

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff memorandum and draft press release, September 16, and "Material for Briefing on Proposed TAF and TSLF Schedules," September 22, 2009.

Implementation: Press release, September 24, 2009.

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CREDIT FACILITIES -- Proposals regarding enhanced credit review and the use of credit ratings in the Term Asset-Backed Securities Loan Facility.

Approved.  
September 29, 2009.

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Today, the Board considered two proposals that would revise the eligibility criteria for loans from the Term Asset-Backed Securities Loan Facility (TALF), a special credit facility to help meet the credit needs of households and small businesses by lending to investors in highly rated asset-backed securities (ABS) and commercial mortgage-backed securities. The first proposal would require TALF-eligible ABS to satisfy an enhanced credit review by the Federal Reserve Bank of New York. The second proposal would publish for public comment an amendment to Regulation A (Extensions of Credit by Federal Reserve Banks) that would allow ratings from any credit rating agency to satisfy the eligibility requirements for ABS pledged to the TALF if the agency (1) is registered with the Securities and Exchange Commission as a nationally recognized statistical rating organization (NRSRO) and (2) meets specified experience-

based criteria. (NOTE: Staff had outlined a preliminary proposal for determining whether an NRSRO was acceptable to rate TALF-eligible collateral at the Board's meeting on August 10, 2009.)

Board members requested additional information on several matters related to the credit review, including the potential adverse effects on acceptable NRSROs of rejecting a transaction that had been rated AAA. It was noted that the Reserve Bank did not intend to publicly announce rejected transactions. One Board member suggested that additional consideration be given to a process for addressing challenges by interested parties to rejected transactions.

Board members also discussed the safeguards established to counter possible adverse consequences from the proposals. For the credit-review proposal, potential concerns about (1) arbitrary decisions or credit allocation and (2) insufficient Reserve Bank resources to conduct the enhanced reviews were offset by (1) clear criteria for the reviews and (2) the Reserve Bank's addition of more resources to help manage the credit reviews and its ability to use the services of a firm that had previously been hired as a collateral monitor. For the NRSRO proposal, concern that acceptance of an NRSRO would be perceived as an endorsement by the Federal Reserve was offset by selecting acceptable NRSROs under an objective, quantifiable requirement for prior-ratings experience in one of four specified categories of TALF ABS. Moreover, Board members generally agreed that as a package, the proposals appropriately protected the government's risk exposure, reduced reliance on the three NRSROs currently providing TALF-eligible ratings for ABS, and set a good example for the Federal Reserve and the private sector.

At the conclusion of the discussion, the Board approved the proposals and delegated to the staff the authority to make technical changes to the proposed amendments to Regulation A, with the understanding that substantive changes would be presented to the Board.

Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and  
Governors Warsh, Duke, and Tarullo.

Background: Staff memorandum, September 25, 2009.

Implementation: Press release, Federal Register document (Docket No. R-1371),  
terms and conditions, frequently asked questions, and risk  
assessment principles, October 5, 2009.

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FINANCIAL MARKETS -- Update on certain Federal Reserve liquidity and credit facilities, the primary credit program, and other matters.

Discussed.  
November 3-4, 2009.

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The Board met jointly with the Federal Open Market Committee (FOMC) this week to discuss, among other matters, developments in financial markets and the Federal Reserve's balance sheet since the last joint meeting on September 22-23, 2009. (NOTE: The FOMC minutes for the meeting of November 3-4, 2009, reflect those and other discussions, including an update and discussion by participants of several tools that could help support a smooth withdrawal of policy accommodation at the appropriate time. The tools discussed included implementing a term deposit facility, available to depository institutions, to reduce the supply of reserve balances 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.)

The staff briefed participants on recent developments regarding various Federal Reserve liquidity and credit facilities, including the Term Auction Facility (TAF), the primary credit program, the Term Asset-Backed Securities Loan Facility (TALF), and the swap lines with foreign central banks. Usage of these facilities had been declining in recent months as financial market conditions continued to improve. On September 24, 2009, the Board announced a gradual reduction in amounts to be auctioned under the TAF through January 2010 and indicated that auctions of credit with maturities longer than 28 days would be phased out. The staff reviewed the changes that had been made since the onset of the crisis to the terms of the primary credit program, including loan maturities and interest rates. The staff noted that reducing the maximum maturity of loans available under the primary credit program from 90 days to 28 days would represent another step toward normalization of the Federal Reserve's policy-implementation framework and would align the maximum maturities of the primary credit program with those under the TAF, but no action on this matter was taken by the Board at this meeting. (NOTE: The Board approved a reduction in the maximum maturity on primary credit loans from 90 days to 28 days, effective January 14, 2010, by notation voting on November 12, 2009.) Regarding the TALF, the staff indicated that auto and credit card asset-backed security issuance was increasingly being funded by non-TALF sources; however, commercial mortgage-backed securities remained more dependent on TALF financing.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and  
Governors Warsh, Duke, and Tarullo.

Background: None.

Implementation: None.

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CREDIT FACILITIES -- Update on certain Federal Reserve facilities and tools for normalizing liquidity provision.

Discussed.  
December 15-16, 2009.

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The Board met jointly with the Federal Open Market Committee (FOMC) this week to discuss, among other matters, developments in financial markets and the Federal Reserve's balance sheet since the last joint meeting on November 3-4, 2009. (NOTE: The FOMC minutes for the meeting of December 15-16, 2009, reflect those and other discussions.)

The staff presented another update on the continuing development of several tools that could be used to support a smooth withdrawal of policy accommodation at the appropriate time; these tools include implementing a term deposit facility (TDF). (NOTE: Other tools are discussed in the FOMC minutes of December 15-16, 2009.) Staff reported significant progress in developing and implementing a TDF. The staff noted that it planned to ask the Board to approve a Federal Register notice requesting public comment on a TDF and summarized the contents of the draft notice. (NOTE: The Board approved the notice by notation voting on December 22, and the notice was published in the Federal Register on December 31, 2009.)

The staff also briefed participants on recent developments regarding various Federal Reserve liquidity and credit facilities, including the Term Auction Facility (TAF), the primary credit program, and the Term Asset-Backed Securities Loan Facility (TALF). TAF auctions continued to be undersubscribed even as the Federal Reserve progressively reduced the total amount of funding available from the TAF. With the exception of the TALF, usage of the other facilities declined further as financial market conditions continued to improve. The TALF expanded modestly, supporting issuance of asset-backed securities collateralized by consumer, small business, and student loans, as well as commercial mortgage-backed securities (CMBS). Indeed, over the intermeeting period, TALF lending supported the first new CMBS issue since



June 2008. On November 17, 2009, the Board announced a reduction in the maximum maturity of loans available under the discount window's primary credit program from 90 days to 28 days, effective January 14, 2010. Participants agreed it would be useful to consider further steps the Federal Reserve might take to move toward normalization of its lending facilities at upcoming meetings, when the FOMC plans to discuss alternative approaches to implementing monetary policy in the longer run.

FOMC members and Board members agreed that there had been substantial improvements in the functioning of financial markets; accordingly they agreed that the statement to be released following the meeting should indicate an anticipation that most of the Federal Reserve's special liquidity facilities will expire on February 1, 2010; these facilities include the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, and the Term Securities Lending Facility. Committee members also agreed to announce that the Federal Reserve will be working with its central bank counterparties to close its temporary liquidity swap arrangements by February 1, 2010. In addition, the statement would announce an expectation that amounts provided under the TAF will continue to be scaled back in early 2010, and that the anticipated expiration dates for the TALF remained June 30, 2010, for loans backed by new-issue CMBS, and March 31, 2010, for loans backed by all other types of collateral. Members emphasized that they were prepared to modify these plans if necessary to support financial stability and economic growth. In that context, several members noted that the TALF was still providing important support for securitization markets, particularly the CMBS market, and that improvements in the functioning of securitization markets were lagging behind those in other financial markets.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn,  
and Governors Warsh, Duke, and Tarullo.

Background: None.

Implementation: FOMC statement, December 16, 2010.

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CREDIT FACILITIES -- Update on the discount window, other Federal Reserve liquidity facilities, and tools for normalizing liquidity provision.

Discussed.  
January 26-27, 2010.

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The Board met jointly with the Federal Open Market Committee (FOMC) this week to discuss, among other matters, developments in financial markets and the Federal Reserve's balance sheet since the last joint meeting on December 15-16, 2009. (NOTE: The FOMC minutes for the meeting of January 26-27, 2010, reflect those and other discussions.)

Staff briefed participants on current usage of the discount window and other liquidity facilities and suggested additional steps policymakers could take to normalize the Federal Reserve's liquidity provision. These steps included continuing to scale back amounts offered through the Term Auction Facility (TAF); returning to the pre-crisis standard of one-day maturity for primary credit loans to all but the smallest depository institutions; and increasing, initially to 50 basis points from 25 basis points, the spread between the primary credit rate and the upper end of the FOMC's target range for the federal funds rate. Setting the spread reflects a balance between two objectives: encouraging depository institutions to use the discount window as a backup source of liquidity when they are faced with temporary liquidity shortfalls or when funding markets are disrupted, and discouraging depository institutions from relying on the discount window as a routine source of funds when other funding is generally available. The spread was 100 basis points before the financial crisis emerged; the Federal Reserve narrowed the spread to 50 basis points and then to 25 basis points as part of its response to the financial crisis. Participants judged that improvements in bank funding markets warranted reducing amounts offered at TAF auctions toward zero in three steps over the next few months, while noting that they would be prepared to modify that plan if necessary to support financial stability and economic growth. They agreed that it would soon be appropriate to return the maturity of primary credit loans to overnight and to widen the spread between the primary credit rate and the top of the FOMC's target range for the federal funds rate. Several participants noted that the optimal spread could depend, in part, on the FOMC's eventual decisions about the most suitable approach to implementing U.S. monetary policy over the longer term. Participants generally agreed that such steps to return the Federal Reserve's liquidity provision to a normal footing would be technical adjustments to reflect the notable diminution of the market strains that had made the creation of new liquidity facilities and expansion of existing facilities necessary and emphasized that such steps would not indicate a

change in the FOMC's assessment of the appropriate stance of monetary policy or the proper time to begin moving to a less accommodative policy stance. (NOTE: After the FOMC meeting, the Chairman, acting under authority delegated by the Board, directed that TAF auction amounts be reduced to \$50 billion for the February 8 auction and to \$25 billion for the final TAF auction, to be held on March 8, 2010.)

Staff also briefed policymakers about tools and strategies for an eventual withdrawal of policy accommodation and summarized linkages between these tools and strategies and alternative frameworks for implementing monetary policy in the longer run. The tools for moving to a less accommodative policy stance included raising the interest rate paid on excess reserve balances (the IOER rate), using a term deposit facility (TDF) to absorb excess reserves, and using other tools available to the Board and the FOMC. (NOTE: Those other tools are discussed in the FOMC minutes for the meeting of January 26-27, 2010.) In coming weeks, staff would analyze comments received in response to a Federal Register notice, published in late December, requesting the public's input on the TDF proposal. Staff would then prepare a final proposal for the Board's consideration. A TDF could be operational as soon as May.

Staff described several feasible strategies for using the discussed tools to support a gradual return toward a more normal stance of monetary policy: (1) using one or more of the tools to progressively reduce the supply of reserve balances -- which rose to an exceptionally high level as a consequence of the expansion of the Federal Reserve's liquidity and lending facilities and subsequent large-scale asset purchases during the financial crisis -- before raising the IOER rate and the target for the federal funds rate; (2) increasing the IOER rate in line with an increase in the federal funds rate target and concurrently using one or more tools to reduce the supply of reserve balances; and (3) raising the IOER rate and the target for the federal funds rate and using reserve-draining tools only if the federal funds rate did not increase in line with the FOMC's target.

Participants expressed a range of views about the tools and strategies for removing policy accommodation when that step becomes appropriate. All agreed that raising the IOER rate and the target for the federal funds rate would be a key element of a move to less accommodative monetary policy. Most thought that it likely would be appropriate to reduce the supply of reserve balances, to some extent, before the eventual increase in the IOER rate and in the target for the federal funds rate, in part because doing so would tighten the link between short-term market rates and the IOER rate; however, several participants noted that draining operations might be seen as a precursor to tightening and should only be undertaken when the FOMC judged that an increase in its target for the federal funds rate would soon be appropriate. For the same reason, a few Reserve Bank presidents judged that it would be better to drain reserves concurrently with the eventual increase in the IOER and target rates.

With respect to longer-run approaches to implementing monetary policy, most policymakers saw benefits in continuing to use the federal funds rate as the operating

target for implementing monetary policy, so long as other money market rates remained closely linked to the federal funds rate. Many thought that an approach in which the primary credit rate was set above the FOMC's target for the federal funds rate and the IOER rate was set below that target -- a corridor system -- would be beneficial. Participants recognized, however, that the supply of reserve balances would need to be reduced considerably to lift the funds rate above the IOER rate. Several Reserve Bank presidents saw advantages to using the IOER rate, rather than a target for a market rate, to indicate the stance of policy. Participants noted that their judgments were tentative, that they would continue to discuss the ultimate operating regime, and that they might well gain useful information about longer-run approaches during the eventual withdrawal of policy accommodation.

FOMC members and Board members agreed that, with few exceptions, the functioning of most financial markets, including interbank markets, no longer showed significant impairment. Accordingly, they agreed that the statement to be released following the meeting would indicate that the Federal Reserve would be closing the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, and the Term Securities Lending Facility on February 1, 2010. FOMC members also agreed to announce that temporary liquidity swap arrangements between the Federal Reserve and other central banks would expire on February 1. In addition, the statement would say that amounts available through the TAF would be scaled back further, with \$50 billion of 28-day credit to be offered on February 8 and \$25 billion of 28-day credit to be offered at the final auction of March 8, 2010. The statement also would note that the anticipated expiration dates for the Term Asset-Backed Securities Loan Facility remained June 30, 2010, for loans backed by new-issue commercial mortgage-backed securities, and March 31, 2010, for loans backed by all other types of collateral. Members emphasized that they were prepared to modify these plans if necessary to support financial stability and economic growth.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff memorandum, January 19, and staff presentation, January 26, 2010.

Implementation: FOMC statement, January 27, 2010.

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MONETARY POLICY REPORT -- Semiannual monetary policy report to the Congress.

Authorized.  
February 17, 2010.

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At today's meeting, the Board discussed a draft of the semiannual monetary policy report to the Congress to be submitted on February 24, 2010, in accordance with section 2B of the Federal Reserve Act. During the discussion, Board members reviewed the proposed text of the report and commented favorably on the report's structure and format.

Board members also suggested editorial and other changes in several areas to improve the report's clarity and to strengthen its analysis. At the conclusion of the discussion, the report was authorized with the understanding that the comments and suggestions made today and editorial changes submitted to the staff would be considered in revising the report.

Participating in this determination: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff memorandum and draft report, February 12, 2010.

Implementation: Monetary policy report to the Congress, February 24, 2010.

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MONETARY POLICY STATEMENT -- Statement of Chairman Bernanke on the semiannual monetary policy report to the Congress.

Discussed.  
February 18, 2010.

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At today's meeting, the Board discussed a draft of the monetary policy statement that Chairman Bernanke was scheduled to deliver to the House Committee on Financial Services on February 24, and to the Senate Committee on Banking, Housing, and Urban Affairs on February 25, 2010. Board members expressed their agreement with the general thrust of the statement.

Board members also made suggestions for editorial and substantive changes to several matters covered in the statement. In their discussion of the section on Federal Reserve transparency, Board members commented on actions that could assure Congress and the public about the Federal Reserve's management of all the emergency credit and liquidity facilities created under special statutory authority. Board members also discussed maintaining the confidentiality of discount window lending to individual depository institutions as a means of having effective ways to provide liquidity to those institutions under circumstances when other funding sources are unavailable. At the conclusion of the discussion, it was understood that Board members' comments and editorial suggestions would be considered in revising the statement.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Draft statement, February 17, 2010.

Implementation: Monetary policy statement before the House Committee on Financial Services on February 24, and the Senate Committee on Banking, Housing, and Urban Affairs on February 25, 2010.

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DISCOUNT WINDOW AND OTHER MATTERS -- Update on the Term Asset-Backed Securities Loan Facility and tools for normalizing liquidity provision.

Discussed.  
March 16, 2010.

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The Board met jointly with the Federal Open Market Committee (FOMC) today to discuss, among other matters, developments in financial markets and the Federal Reserve's balance sheet since the last joint meeting on January 26-27, 2010. (NOTE: The FOMC minutes for the meeting of March 16, 2010, reflect those and other discussions.)

Staff reported that no market strains had emerged in conjunction with the Federal Reserve's closing of nearly all of its remaining special liquidity facilities over the intermeeting period. On February 1, 2010, the Primary Dealer Credit Facility, the Commercial Paper Funding Facility, the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, and the Term Securities Lending Facility were closed, and the Federal Reserve's temporary currency swap lines with foreign central banks expired. Financial markets had also adjusted smoothly to the final offering of funds through the Term Auction Facility on March 8.

Staff noted that securitized credit markets had not shown substantial strain from the anticipated end of new credit extensions under the Term Asset-Backed Securities Loan Facility (TALF), which was scheduled to close on June 30 for loans backed by new-issue commercial mortgage-backed securities (CMBS) and on March 31 for loans backed by all other types of collateral. (The final non-CMBS subscription had already occurred in early March and the final subscription for legacy CMBS would take place soon after the FOMC meeting; subscriptions for new-issue CMBS would continue through June.) Spreads on asset-backed securities remained tight while issuance -- the bulk of which was being financed outside of TALF -- continued to be fairly strong. While the cumulative volume of borrowing from the TALF had expanded fairly steadily in



recent months, the volume of repayments of TALF loans had also risen as borrowers were able to secure funding from other sources on more favorable terms. As a result, the net amount of outstanding TALF credit had leveled out and would likely decline going forward as a result of continuing repayments.

In addition, staff reported on recent progress in the development of reserve-draining tools, including the initiation of a program for expanding the set of counterparties in conducting reverse repurchase agreements, and gave a presentation on potential approaches for tightening the link between short-term market interest rates and the interest rate paid on reserve balances held at the Federal Reserve Banks. (NOTE: A staff memorandum was provided to members of the Board and Federal Reserve Bank presidents summarizing public comments on last December's Federal Register notice regarding the establishment of a term deposit facility, but that topic was not discussed at this meeting. The Board approved a final rule authorizing Reserve Banks to offer term deposits by notation voting on April 21, and the notice was published in the Federal Register on May 5, 2010.)

In light of the improved functioning of financial markets, Board and FOMC members agreed that it would be appropriate for the statement to be released following the meeting to indicate that the previously announced schedule for closing the TALF was being maintained.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: None.

Implementation: FOMC statement, March 16, 2010.

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MONETARY AND FINANCIAL POLICY -- Discussion on financial markets.

Discussed.  
April 27-28, 2010.

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The Board met jointly with the Federal Open Market Committee (FOMC) today to discuss, among other matters, developments in financial markets and the Federal Reserve's balance sheet since the last joint meeting on March 16, 2010.

(NOTE: The FOMC minutes for the meeting of April 27-28, 2010, reflect those and other discussions.)

Staff briefed participants on recent progress in the development of reserve-draining tools, including a term deposit facility (TDF). Staff noted that the Board had

recently approved changes to Regulation D that would be necessary for the establishment of a TDF. (NOTE: The Board approved the changes by notation voting on April 21, and the notice was published in the Federal Register on May 5, 2010.)

In light of the improved functioning of financial markets, participants agreed that it would be appropriate for the statement to be released following the meeting to indicate that the previously announced schedule for closing the Term Asset-Backed Securities Loan Facility (TALF) was being maintained. The statement noted that the TALF, the only remaining special liquidity facility, was scheduled to close on June 30 for loans backed by newly issued commercial mortgage-backed securities; it had closed on March 31, 2010, for loans backed by all other types of collateral.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: None.

Implementation: FOMC Statement, April 28, 2010.

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MAIDEN LANE LLC -- Portfolio review and update.

Discussed.  
April 29, 2010.

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At today's meeting, Board staff and staff of the Federal Reserve Bank of New York (Reserve Bank) updated Board members on developments related to Maiden Lane LLC, an entity established by the Reserve Bank to facilitate the merger of The Bear Stearns Companies Inc. and JP Morgan Chase & Co.

Staff reviewed with the Board the performance of the assets in the Maiden Lane portfolio. Board members agreed that the highest priority after the reinvestment period ended was full reimbursement of the taxpayers' investment in the Maiden Lane facility, and they supported commencing repayment of the loan at the end of the reinvestment period.

At the conclusion of the meeting, it was understood that staff would keep the Board informed of further developments related to Maiden Lane.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.



Background: Staff memoranda, April 22, 23, and 27 (including a revised April 27 memorandum from Board staff), and Federal Reserve Bank of New York presentation, April 29, 2010.

Implementation: None.

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BASEL PROPOSALS -- Update on capital and liquidity initiatives.

Discussed.  
May 18, 2010.

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Today staff updated Board members on recent capital and liquidity proposals from the Basel Committee on Banking Supervision. The committee had released the proposals on December 17, 2009, as part of an ongoing effort to improve the resiliency of the financial sector and enhance the regulation, supervision, and risk management of global banks.

The proposals, popularly known as Basel III, include provisions to strengthen the quality and quantity of capital held by banks, enhance the recognition of risk exposure, establish an international leverage standard, and establish minimum liquidity standards for internationally active banks. Staff responded to Board members' questions about specific aspects of the proposals and discussed how the changes might affect U.S. banking institutions. As the Basel committee continues its review of the proposals, Board members generally agreed on the importance of fully understanding the broad systemic implications of the proposed standards.

At the conclusion of the meeting, it was understood that staff would keep the Board informed about further developments related to the Basel proposals.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Staff memorandum, May 14, and staff presentations, "Basel III Capital Proposals" (presentation revised May 17), "Basel III Proposed Global Liquidity Standards," and "Quantitative Impact Study Preliminary Results (Revised Estimates)," May 18, 2010.

Implementation: None.

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MONETARY AND FINANCIAL POLICY -- Discussion on financial markets.

Discussed.  
June 22-23, 2010.

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The Board met jointly with the Federal Open Market Committee (FOMC) this week to discuss, among other matters, developments in domestic and foreign financial markets and the Federal Reserve's balance sheet since the last joint meeting on April 27-28, 2010. (NOTE: The FOMC minutes for the meeting of June 22-23, 2010, reflect those and other discussions.)

Staff also briefed participants on the System's progress in developing tools for managing the supply of reserves, including reverse repurchase agreements and the Term Deposit Facility. In preparation for possible future reserve-draining operations, in June the Federal Reserve conducted the first of several small-value auctions to test the Term Deposit Facility. (NOTE: A staff memorandum was provided to members of the Board and Federal Reserve Bank presidents summarizing the results of the auction. The Board had approved up to five small-value offerings of term deposits by notation voting on May 7, 2010.)

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: None.  
Implementation: None.

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MONETARY POLICY REPORT -- Semiannual monetary policy report to the Congress.

Authorized.  
July 14, 2010.

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At today's meeting, the Board discussed a draft of the semiannual monetary policy report to the Congress to be submitted on July 21, 2010, in accordance with section 2B of the Federal Reserve Act. During the discussion, Board members reviewed the proposed text of the report and commented favorably on the report's structure and format.

Board members also suggested editorial and other changes in several areas to improve the report's clarity and to strengthen its analysis. At the conclusion of the discussion, the report was authorized with the understanding that the comments and

suggestions made today and editorial changes submitted to the staff would be considered in revising the report.

Participating in this determination: Chairman Bernanke and Governors Kohn, Warsh, Duke, and Tarullo.

Background: Staff memorandum and draft report, July 9, 2010.

Implementation: Monetary policy report to the Congress, July 21, 2010.

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MONETARY POLICY STATEMENT -- Statement of Chairman Bernanke on the semiannual monetary policy report to the Congress.

Discussed.  
July 15, 2010.

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At today's meeting, the Board discussed a draft of the monetary policy statement that Chairman Bernanke was scheduled to deliver to the Senate Committee on Banking, Housing, and Urban Affairs on July 21, and to the House Committee on Financial Services on July 22, 2010. Board members expressed their agreement with the general thrust of the statement.

Board members also made suggestions for editorial and substantive changes to several matters covered in the statement. At the conclusion of the discussion, it was understood that Board members' comments and editorial suggestions would be considered in revising the statement.

Participating in this discussion: Chairman Bernanke and Governors Kohn, Warsh, Duke, and Tarullo.

Background: Draft statement and revised draft statement, July 14, 2010.

Implementation: Monetary policy statement before the Senate Committee on Banking, Housing, and Urban Affairs, July 21, and the House



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MONETARY AND FINANCIAL POLICY -- Discussion on financial markets.

Discussed.  
August 10, 2010.

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The Board met jointly with the Federal Open Market Committee (FOMC) today to discuss, among other matters, developments in financial markets and the Federal Reserve's balance sheet since the last joint meeting on June 22-23, 2010. (NOTE: The FOMC minutes for the meeting of August 10, 2010, reflect those and other discussions.)

Staff also briefed meeting participants on the System's progress in developing tools for possible future reserve-draining operations. The Federal Reserve had successfully conducted two small-value auctions of term deposits on June 28 and July 12, 2010, to confirm operational readiness for such auctions at the Federal Reserve and at the depository institutions that chose to participate. Staff were also developing plans for additional small-value tests of the Term Deposit Facility.

Participating in this discussion: Chairman Bernanke and Governors Kohn, Warsh, Duke, and Tarullo.

Background: None.

Implementation: None.





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MONETARY AND FINANCIAL POLICY -- Discussion on financial markets.

Discussed.  
September 21, 2010.

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The Board met jointly with the Federal Open Market Committee (FOMC) today to discuss, among other matters, developments in financial markets and the Federal Reserve's balance sheet since the last joint meeting on August 10, 2010. (NOTE: The FOMC minutes for the meeting of September 21, 2010, reflect those and other discussions.)

Staff also briefed meeting participants on progress in developing temporary reserve-draining tools. Over the intermeeting period, the Federal Reserve had announced a schedule for ongoing small-value auctions of term deposits. (NOTE: The Board had approved a program of ongoing Term Deposit Facility (TDF) auctions by notation voting on September 7, 2010.) The auctions, which will be held about every other month, are intended to ensure the operational readiness of the TDF and to increase the familiarity of eligible participants with the auction procedures.

Participating in this discussion: Chairman Bernanke and Governors Warsh,



Duke, and Tarullo.

Background: None.

Implementation: None.

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AMERICAN INTERNATIONAL GROUP, INC. -- Treasury proposal to restructure U.S. government support.

Discussed.  
September 29, 2010.

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At today's meeting, Board staff reviewed a proposal by the Department of the Treasury (Treasury) to restructure the U.S. government's support for American International Group, Inc. (AIG). Treasury regarded the proposed restructuring as a means to accelerate the timeline for AIG's repayment of government assistance and to put the company in a stronger position to repay taxpayers.

The Treasury proposal affected the Federal Reserve's position in AIG in several respects. AIG's revolving credit facility with the Federal Reserve of approximately \$20 billion in senior secured debt would be repaid and canceled before the end of the first quarter of 2011, an acceleration of the contractual repayment date of September 2013. In addition, AIG would purchase up to approximately \$22 billion of the \$26 billion of the preferred shares held by the Federal Reserve in two special-purpose vehicles (SPVs) that own the shares of AIG's insurance subsidiaries, American International Assurance Company Ltd. and American Life Insurance Company. AIG would fund this purchase with undrawn Series F funds available under the Troubled Asset Relief Program (TARP), and AIG would immediately transfer the preferred shares in the SPVs to Treasury as part of the consideration for the Series F preferred shares. The Federal Reserve's remaining preferred shares in the SPVs would be retired from proceeds from future asset sales, including the sales of AIG Star Life Insurance Co. and AIG Edison Life Insurance that were announced on September 30, 2010.

Staff responded to several requests by Board members for additional information about the proposal. Board members discussed how the restructuring would allow the Federal Reserve to exit from its AIG arrangements sooner without incurring material risk and would put AIG in a better position to unlock the value of its collateral that was currently pledged to the Federal Reserve. Board members also discussed whether the Federal Reserve and the government generally gained an advantage under the proposal.

Thereupon, the discussion concluded with the understanding that the proposal would be submitted to Board members for a vote later today. (NOTE: The Board authorized the Federal Reserve Bank of New York to agree to the Treasury's proposal to restructure government support of AIG by notation voting on September 29, 2010.)

Participating in this discussion: Chairman Bernanke and Governors Warsh,  
Duke, and Tarullo.

Background: None.

Implementation: None.

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REGULATION II -- Notice of proposed rulemaking for public comment.

Approved.  
December 16, 2010.

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Today, Vice Chair Yellen and the staff presented a proposed new rule, Regulation II (Debit Card Interchange Fees and Routing), in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act. The proposal requested comment on two alternatives for establishing standards to determine whether an interchange fee received or charged by a debit card issuer for an electronic debit transaction was reasonable and proportional to the costs the issuer incurred for that transaction. Comment was also requested on two alternatives for prohibiting issuers and payment card networks from restricting the number of networks over which an electronic debit transaction may be processed. In addition, the proposed rule would prohibit issuers and networks from inhibiting the ability of merchants to direct the routing of debit transactions over any network that the issuer had enabled to process them. The proposed rule also requested comment on possible frameworks for adjusting interchange fees to reflect issuers' costs associated with fraud prevention.

Board members requested additional information from staff on various aspects of the proposed rule. Board members inquired about the basis under either proposed alternative for setting interchange fees by regulation rather than allowing markets to determine the fees through competition and about how setting interchange fees might affect pricing and innovation in the broader payments system. In addition, Board members asked about the factors considered in developing the proposed rule, including the functional similarity of debit card and check transactions, and what effect the rule might have on debit card usage. Board members also discussed with staff whether the potential benefits for consumers of lower interchange fees, such as lower prices for products and services, might be offset by the potential costs, such as higher fees and less favorable terms on consumers' bank accounts.

At the conclusion of the discussion, Board members noted that regulation of debit interchange fees was a new responsibility for the Federal Reserve. They expected comments on the proposed rulemaking to yield useful information that would be carefully considered before issuing the final rule. Thereupon, the Board approved publication of the proposed rulemaking for public comment.

Voting for this action: Chairman Bernanke, Vice Chair Yellen, and  
Governors Warsh, Duke, Tarullo, and Raskin.

Background: Memoranda from the Committee on Payments, Clearing, and Settlement and from the staff, December 13, 2010.

Implementation: Press release, statements by Chairman Bernanke and Vice Chair Yellen, and Federal Register document (Docket No. R-1404), December 16, 2010.