Conference Call of the Federal Open Market Committee on September 29, 2008

A conference call of the Federal Open Market Committee was held on Monday, September 29, 2008, at 9:00 a.m. Those present were the following:

Mr. Bernanke, Chairman
Mr. Geithner, Vice Chairman
Ms. Duke
Mr. Fisher
Mr. Kohn
Mr. Kroszner
Ms. Pianalto
Mr. Plosser
Mr. Stern
Mr. Warsh

Messrs. Evans, Lacker, and Lockhart, and Ms. Yellen, Alternate Members of the Federal Open Market Committee

Messrs. Bullard and Rosengren, Presidents of the Federal Reserve Banks of St. Louis and Boston, respectively

Mr. Madigan, Secretary and Economist
Ms. Danker, Deputy Secretary
Mr. Skidmore, Assistant Secretary
Ms. Smith, Assistant Secretary
Mr. Alvarez, General Counsel
Mr. Sheets, Economist
Mr. Stockton, Economist

Messrs. Connors, English, and Kamin, Ms. Mester, Messrs. Rosenblum, Sniderman, and Wilcox, Associate Economists

Mr. Dudley, Manager, System Open Market Account

Mr. Clouse, Deputy Director, Division of Monetary Affairs, Board of Governors

Mr. Blanchard, Assistant to the Board, Office of Board Members, Board of Governors

Ms. Edwards, Senior Associate Director, Division of Monetary Affairs, Board of Governors

Mr. Leahy, Associate Director, Division of International Finance, Board of Governors

Mr. Carpenter, Deputy Associate Director, Division of Monetary Affairs, Board of Governors

Mr. Luecke, Section Chief, Division of Monetary Affairs, Board of Governors

Mr. Barron, First Vice President, Federal Reserve Bank of Atlanta

Messrs. Fuhrer and Judd, Executive Vice Presidents, Federal Reserve Banks of Boston and San Francisco, respectively

Ms. George, Messrs. Sellon, Sullivan, and Weinberg, Senior Vice Presidents, Federal Reserve Banks of Kansas City, Kansas City, Chicago, and Richmond, respectively

Transcript of the Federal Open Market Committee Conference Call on September 29, 2008

CHAIRMAN BERNANKE. Thank you. Good morning, everybody. Thank you as always for your flexibility and meeting on short notice—particularly to Janet. How are you feeling today, Janet?

MS. YELLEN. Fine, thank you.

CHAIRMAN BERNANKE. I have three topics to raise with you today. First, financial market conditions, as you know, remain quite strained, and in response to that we are proposing some additional liquidity measures. Mostly this is informational. However, we are proposing to increase the swap lines fairly significantly, and although you have authorized the Foreign Currency Subcommittee to take those actions, we thought that, given the size of the change, it would be worthwhile to bring this back to you for your attention and your vote just to get the Committee's agreement on this issue. The second issue is Wachovia. As you may have heard, Wachovia was purchased, or there's a plan to purchase, by Citigroup this morning. To facilitate that purchase, the Board invoked the systemic risk exception, which has not been done before. So we want to give you a chance to catch up on what's going on there. Then third, we want to talk a bit about interest on reserves, which will be provided in the Paulson financial rescue bill, which is supposed to be up for a vote on Wednesday. I just want to brief you on what we're planning in that regard. So let me start by turning to Bill Dudley in New York. Bill, if you could give us a brief overview of the financial conditions that motivate these actions, review the actions we're proposing, and take Q&A, that would be very helpful.

MR. DUDLEY. Okay. Thank you, Mr. Chairman. Let me start with the foreign exchange swap lines, and then I'll talk a bit about the TAF increases and about the balance sheet. I think Brian later is going to talk about interest on reserves in more detail.

All of the foreign central banks that have obtained dollar swap lines in response to dollar funding pressures in their home markets have decided, with some encouragement on our part, to seek an increase in the size of these swap line authorizations. We just have to hear from the Bank of Japan—I think that's the only one that's outstanding—but we expect to hear that shortly. The actual draws on these lines may turn out to be considerably less, and the amounts that are actually drawn are likely to depend on market conditions. The large increase in authorization should be considered as insurance in case market conditions continue to deteriorate and as reassurance to market participants that the world's major central banks are determined to respond in force to mitigate dollar funding pressures. By foreign central banks, the current lines are being doubled for the larger participants and tripled for the smaller participants. The increases are as follows, very quickly: the Bank of Canada, $30 billion from $10 billion; the Bank of England, $80 billion from $40 billion; the Bank of Japan, $120 billion from $60 billion; the National Bank of Denmark, $15 billion from $5 billion; the ECB, $240 billion from $120 billion; the Bank of Norway, $15 billion from $5 billion; the Reserve Bank of Australia, $30 billion from $10 billion; the Swedish Riksbank, $30 billion from $10 billion; and the Swiss National Bank, $60 billion from $30 billion. Adding up all of this would result in an increase in our swap line authorization to $620 billion from $290 billion previously. I think that these decisions have been made in response to the increasing turmoil evident in interbank markets, especially for dollar funding; and by increasing the size of the authorization significantly, the intention is to reassure market participants that sufficient dollar funding will be available well into 2009.

The staff believes that these large increases are appropriate to reassure market participants that the world's central banks are prepared to take extraordinary steps as needed to address ongoing strains in financial markets. These strains are evident in a number of ways. First, we've seen a sharp rise in overnight dollar funding rates and in term LIBOR–OIS spreads. For example, on Friday, the three-month LIBOR–OIS spread was over 200 basis points, and in fact, LIBOR may actually understate the degree of funding pressure. The NYFR index, which is the U.S.-based alternative to LIBOR, has actually been much higher than LIBOR over the past week or two. So LIBOR actually may be understated. Second, there have been many anecdotal reports of a withdrawal of counterparties' willingness to engage in term funding activity. So the tenor of almost all activity in the market now is overnight. Third, there are growing liquidity strains at major financial institutions. Obviously, Wachovia is part of that story. Fourth, we've seen a significant rise in the demand for our TSLF and TAF credit. For example, the stop-out rate for the most recent TAF auction, which was a 28-day maturity auction, was 3.75 percent, significantly above the one-month LIBOR rate at the time. Fifth, we've seen a sharp rise in PCF and PDCF borrowings. For example, on the week ending last Wednesday, PCF credit was $39.4 billion, an increase of about $18 billion from the previous week, and PDCF borrowing was $88 billion in the latest week, up $68 billion from the previous week. Last, European banking strains have been increasingly evident in recent days, especially this weekend following the announcement of the Fortis rescue and the nationalization of B&B in the United Kingdom. The European banking news has led to a sharp drop in the European equity markets—this

morning they're down 2 to 3 percent—and the euro and sterling exchange rates have dropped quite sharply against the dollar, down about 2 percent.

Now, along with this increase in authorized swap lines, Chairman Bernanke has approved the staff recommendation for a large increase in our term auction facility (TAF) program. We are proposing two changes in the TAF program. First, we're proposing to increase the 84-day TAF auction sizes to $75 billion per auction, from $25 billion. That will start with the next 84-day auction that was scheduled for October 6. The second change is that the Chairman has approved two forward TAF auctions totaling $150 billion. These auctions would take place in November, and they would auction short-dated TAF funds for one-week or two-week terms over year-end. Together, these two changes to the TAF program would increase the supply of TAF credit to $450 billion, from $150 billion currently. The notion is that a larger commitment to TAF funding should help ameliorate market concerns about the availability of term funding and about the availability of such funding over year-end. The effective dates for the swap lines and all the programs will be extended, I think, to April 30, 2009. This would enable the foreign central banks to extend 84-day TAF credit through year-end under their swap agreements.

Obviously, these commitments are likely to put considerable further strain on the Federal Reserve's balance sheet. In recent days we have been offsetting the large reserve additions with the Treasury SFP (supplementary financing program) cash-management bill issuance. After this week's scheduled bill issuance, the total amount of outstanding SFP obligations will reach $400 billion. However, we cannot rely on this program indefinitely because the Treasury's room under the debt limit ceiling is about $900 billion as of early last week and is shrinking rapidly because of the SFP and other ongoing funding commitments.

PARTICIPANT. It's impossible to hear.

MR. FISHER. Someone has had a BlackBerry on during the last two or three sentences.

MS. DANKER. New York, in particular, could you make sure you have no cell phones or BlackBerrys near the microphones.

MR. DUDLEY. I'll make sure everything is off. Probably I'm the culprit. Poetic justice. Let me just repeat the last stuff on the SFP. After this week's scheduled bill issuance, the total amount of SFP obligations will be $400 billion. We can't keep relying on that program indefinitely, though, because the Treasury's room under the debt limit ceiling, which was $900 billion as of early last week, is shrinking rapidly because of that program and other ongoing funding commitments. So that's where the interest on reserves legislation comes in. Assuming that the Congress enacts that legislation this week, we will be able to pay interest on reserves. I'll leave that to Brian to talk about in more detail. Thank you. I'm happy to take any questions.

CHAIRMAN BERNANKE. Okay. So just to clarify, we'll be asking you for the following two actions after the question-and-answer period. One is, again, that although the Foreign Currency Subcommittee was authorized to increase swaps, because we are essentially doubling the outstanding swap lines, we would like to go back to the Committee for a vote, or to hear your views, to get approval for those swap lines, which pending approval, we plan to announce shortly, right?

MR. DUDLEY. At 10 a.m.

CHAIRMAN BERNANKE. Yes, very shortly. The other thing, which also requires a vote, is that, in order to do three-month swaps over year-end, some of the three-month swaps would go beyond January 30. So we're asking for the extension not for all programs but only for the swap lines to April 30. Is that right?

MR. DUDLEY. Yes.

CHAIRMAN BERNANKE. So that's the second request—to extend the swap line authorizations to April 30 of next year. With those two points in mind, are there any questions for Bill? President Plosser.

MR. PLOSSER. Thank you, Mr. Chairman. I was confused about April 30. I thought I heard Bill Dudley say that he's requesting the TAF be extended to April 30. Is it just the swap lines, or is it both? Can I get some clarification?

MR. DUDLEY. Just the swap lines. The TAF program doesn't need an authorization because it is just within the discount window program.

CHAIRMAN BERNANKE. The issue of unusual and exigent is not coming up here because we're not dealing with any section 13(3) lending today. President Evans.

MR. EVANS. Thank you, Mr. Chairman. I'd just like to review by asking a question. The swap lines are very large now. Could we review what could go wrong for our balance sheet in a

not-so-pleasant scenario? Are these actions consistent—and I think they are—with the substantial deleveraging of the financial system that we're trying to make take place in an orderly fashion but we can't resist the natural forces that have to take place? Thank you.

MR. DUDLEY. I think that's correct. Our strategy all along has been not to prevent the deleveraging or the unwinding that developed earlier but to stretch it out a little so fewer things break. The swap lines are just one more tool to help that process unfold without severe systemic consequences occurring. Obviously, things are breaking, even with all the tools that we've rolled out. So I think that just suggests that more force needs to be applied. Clearly, confidence in the markets is extraordinarily poor and fragile, and that's another reason that an escalation in the authorizations is important—to reassure people that the central banks are prepared to be there, if necessary.

CHAIRMAN BERNANKE. Of course, for the balance sheet—and we'll discuss that also with interest on reserves—it has the benefit of having zero credit risk because the other central banks are our counterparties. President Evans, did you have another comment?

MR. EVANS. Well, I suppose you answered my question there. It just seems that, in looking at the TAF auctions, there are a number of foreign institutions that, because I don't follow it, I'm not familiar with, and these are the types of institutions that are borrowing under these agreements. But I suppose that the foreign central banks are careful with their counterparties.

CHAIRMAN BERNANKE. Other questions for Bill? If there are no questions, since Bill has to go and get ready for the announcement—sorry, President Plosser.

MR. PLOSSER. It's not pertinent to this particular decision, but I was going to ask Bill whether there are any other sorts of measures or tools that the Desk in New York is considering—that are being explored or thought about going forward?

MR. DUDLEY. We're looking at a lot of different things to potentially make the management of reserves more effective and to provide more support for the market. But we don't have anything that is close to being put forward at this time. We're always looking at contingencies, what other tools are available, and what other options might be available, but there's nothing that I would say is imminent.

VICE CHAIRMAN GEITHNER. Mr. Chairman, could I just add one thing? Maybe Eric could speak to this. I think the only other thing at the moment that deserves some quick reflection is whether the Federal Reserve should be modifying the facilities it put in place for money market funds last week. A team of people across the System is looking at a range of options there and is likely to give a recommendation to the Chairman sometime later today. My own sense is that it is the only area in which there is an immediate, compelling need and there's active exploration of some escalation options.

CHAIRMAN BERNANKE. With the anticipated passage of the fiscal plan, a lot of our intellectual talents are going to be harnessed trying to support the Treasury in thinking about their auctions and other strategies that they're going to use. The Board, New York, and others have been working very closely with the Treasury staff. Other questions? President Lacker, do you have a question?

MR. LACKER. Yes. What do we know about the time line for the implementation of the Treasury's program of insuring money market mutual funds and how that would work?

CHAIRMAN BERNANKE. They have already put in place a program that insures deposits that were there before a fixed date. In other words, new deposits are not protected. They made that change because they were generating runs from banks into money market mutual funds and the banks were complaining.

MR. LACKER. Now, Vice Chairman Geithner, does the recommendation likely to come forward involve expanding or contracting the coverage?

VICE CHAIRMAN GEITHNER. It is obviously not my decision, but they are looking at options that go in the direction of expanding the liquidity support provided both to the agent banks and perhaps directly to the funds themselves.

MR. LACKER. But any change in the space of qualified commercial paper?

VICE CHAIRMAN GEITHNER. Eric may be a little closer to this than I am at the moment. Again, they're looking at it broadly, conceptually. The options fall into expanding the scope of the types of funds covered by the—what's it called, Eric?—the AMLF.

MR. ROSENGREN. That's right.

VICE CHAIRMAN GEITHNER. Second would be some expanded section 23A approvals to facilitate what the clearing banks need to do to provide liquidity. Another option would be to expand the scope of instruments that might be supported through that program. Another option might be to lend directly to money funds against a broader class of assets, and of course, it's possible that the Treasury may rejigger, change, expand, or add to their guaranty.

CHAIRMAN BERNANKE. Other questions, comments? Let me ask: Scott, are you prepared to state the resolutions we would like? Brian? Anyone? I'd like to note for the record that all three of the staff briefers today—Bill, Brian, and Scott—worked all night last night. So we have dedicated employees here in the System. Brian.

MR. MADIGAN. Thanks, Mr. Chairman. I'll read a resolution regarding the swap lines: "The Federal Open Market Committee authorizes the Federal Reserve Bank of New York to take the following actions to amend the existing temporary swap arrangements with foreign central banks as follows: with the Bank of Canada, to increase the aggregate amount to $30 billion; with

the Bank of England to increase the aggregate amount to $80 billion; with the Bank of Japan to increase the aggregate amount to $120 billion; with the Danish National Bank to increase the aggregate amount to $15 billion; with the European Central Bank to increase the aggregate amount to $240 billion; with the Norges Bank to increase the aggregate amount to $15 billion; with the Reserve Bank of Australia to increase the aggregate amount to $30 billion; with the Swedish Riksbank to increase the aggregate amount to $30 billion; with the Swiss National Bank to increase the aggregate amount to $60 billion. In each case the System Open Market Account Manager would be authorized to determine appropriate liquidity buffers. The FOMC also extends the current delegation of authority to the Foreign Currency Subcommittee until April 30, 2009."

MS. DANKER. And it extends the expiration dates.

CHAIRMAN BERNANKE. He has that. Okay. So there's a motion. Any further questions or comments? If there's no objection, may I take a vote now? Debbie.

MS. DANKER.

Chairman Bernanke	Yes
Vice Chairman Geithner	Yes
Governor Duke	Yes
President Fisher	Yes
Governor Kohn	Yes
Governor Kroszner	Yes
President Pianalto	Yes
President Plosser	Yes
President Stern	Yes
Governor Warsh	Yes

CHAIRMAN BERNANKE. Thank you very much. I'm going to excuse Bill if he wants to go. There he goes. [Laughter] All right. Let me turn now to the second item, which is a briefing by Scott Alvarez, who as I said worked all night on the Wachovia situation. If President Lacker would like to add anything, he is certainly welcome to do so. Scott.

MR. ALVAREZ. Thank you, Mr. Chairman. On Friday, Wachovia experienced significant liquidity pressures, and its management concluded that it would have difficulty funding itself this week. So the board of directors of Wachovia authorized the management to begin entertaining merger offers. Wells Fargo and Citi quickly emerged as the leading candidates among a group of candidates, but by Sunday it became clear that those two, which were the only remaining candidates by Sunday, could accomplish the merger only with government assistance. For a variety of reasons, the Board believed that it was appropriate to implement the systemic risk exception to give the FDIC the widest flexibility to resolve Wachovia in order to maintain confidence in the banking system. Among the reasons was the concern about liquidity pressures that would be felt by similarly situated banking institutions if there was a disorderly or very focused failure of Wachovia. Also, there was concern that, because Wachovia looked so strong on a capital basis and it would be somewhat surprising to some in the market when it closed, it would send a bad signal about similarly situated institutions. There was also concern about the large amount of foreign deposits that would be left behind in a least-cost resolution; the potential for money market mutual funds, which are already in a fragile state, to have further disruption from a least-cost resolution; and that the current financial turmoil and weakened economy would be further weakened if the least-cost solution was pursued and that might undermine business and household confidence.

The FDIC and the Treasury both agreed with that analysis, and the Secretary consulted with the President, and the systemic risk exception was invoked on Sunday late afternoon. After a bidding process that was run by the FDIC between Citi and Wells Fargo, Citi emerged as the better bid for Wachovia. You may have seen this morning a report about that bid. Citi offered slightly more than $2 billion to the existing shareholders. Plus it would buy out all of the banks from underneath Wachovia and leave A.G. Edwards and Evergreen, the two investment banking firms of Wachovia, with the existing shareholders. Citi identified a portfolio of largely real estate–related assets that was about $312 billion in size that it felt it could not handle without some loss-sharing with the FDIC. It proposed to the FDIC that Citi would take a $54 billion first loss position, and then it asked the FDIC to share losses—actually to take losses on the portfolio—above the $54 billion mark. The FDIC's analysis of that was that the $54 billion cushion was sufficient to allow the FDIC on its average basis to emerge with little or no loss, and so the FDIC accepted that bid.

The Board was asked to give some capital relief to Citi in connection with this and did agree to give relief at the holding company level from the tier 1 regulatory ratio and the leverage ratio for approximately $270 billion worth of assets that would come over from Wachovia to Citi. That capital relief will be amortized over time and is similar in many ways to the relief that was granted in the Bear Stearns transaction. An application will be filed shortly for the merger. The two parties are still working out the details of the merger agreement, but they expect to have it done in the next day or so. That's all.

CHAIRMAN BERNANKE. Are there questions for Scott? President Lacker, would you like to add anything?

MR. LACKER. Yes. Wachovia was losing about $1 billion in deposits a day on average over the past couple of weeks. They have liquidity to last under a calm scenario this week only until maybe Thursday or Friday. They probably would have needed discount window borrowing in the middle of the week; but given the news, they were affected by the WaMu closure because of what that did to senior debt holders, and they began experiencing companies pulling away from them in the middle of the day on Friday. So they were sort of caught up in the wake after WaMu. They didn't think they could survive without a lot of support today. So they were very committed to doing something over the weekend. They have $64 billion plus in collateral, lendable value pledged at the discount window. They have $12.5 billion outstanding at the TAF, some of that 28-day, some of that in the two 84-day auctions, and we will leave them on primary credit, and they'll retain that TAF credit. We intend issuing an announcement later this morning that says something like, "In support of this transition, the Federal Reserve Bank of Richmond stands ready to provide liquidity as needed."

So they have $52 billion in lendable value net of the TAF money. They have $150 billion in uninsured deposits, and as for other numbers, the market cap at the end of the day Friday was a little over $21 billion. Evergreen Investments, Wachovia Securities, and A.G. Edwards have a value of about $12 billion. This leaves shareholders of the holding company with about $14 billion in value. Wachovia was trading at about $1 this morning after trading at about $10 per share last Friday. I'm not sure people understand the Edwards and Evergreen part, but we're monitoring the situation very closely and have people on their desk right now.

CHAIRMAN BERNANKE. Thank you very much. We'll take questions for either Scott or Jeff. President Plosser, I think you were first.

MR. PLOSSER. Thank you, Mr. Chairman. I have a question about the $300 billion of mortgage assets referred to that were segregated out, and the FDIC said that Citi will take the first $54 billion. Does anybody know whether that is current market value? What is the $300 billion? Is it market price, or was it face value? How was that valued—do we know?

MR. ALVAREZ. The $312 billion was the value on the books of Wachovia, and so Citi is providing the cushion in several ways. One is marking them down $30 billion to begin with, to be more in line with what Citi's own marks are and to add to reserves to supplement the potential losses there. Then the rest is a loss-sharing.

MR. PLOSSER. Does the first $30 billion markdown come out of the $54 billion?

MR. ALVAREZ. Yes.

MR. PLOSSER. So they have already taken roughly $30 billion of the $54 billion losses they've promised they'd take?

MR. ALVAREZ. That's correct.

MR. PLOSSER. Thank you.

CHAIRMAN BERNANKE. President Fisher.

MR. FISHER. Mr. Chairman, this may be a conversation for another day, but it seems to me that we're ending up with more and more concentration—Bank of America, Citicorp, Morgan—and I'm curious as to what we plan longer term so as not to displace the ability of other institutions to play their role in the financial markets and grow their businesses—the super-regionals that are healthy and so on. But I guess just philosophically what concerns me longer term is that, in response to these actions, there are no other people to take these steps, but we're creating larger and larger concentrations and bigger and bigger situations where we have too big to fail. I'd just like at some point to have a conversation on that matter. I'm not objecting to the move taken, obviously,

but it is going to present a bigger problem as we go down the path because we're getting increasing concentration in fewer and fewer institutions. Just a comment. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Well, let me just add that I share your concern. There is an increasing concentration. On the other hand, you could also view it as part of a process of consolidation as well, as we have reduced the number of independent investment banks, for example. But I agree with that. We have been very constrained throughout this entire crisis, as you know, by the existing facilities for dealing with failing institutions and mergers being one of the only tools we have. Going forward, I think there is some hope in the near term under the new TARP, which would allow resolutions using capital injections basically without necessarily doing a merger. Then subsequently, I think it's very important, as we look toward restructuring our financial regulatory system, to develop good resolution mechanisms and to think about the issues of concentration and too big to fail. So I take your point, basically.

MR. FISHER. Thank you, Mr. Chairman.

CHAIRMAN BERNANKE. Any other questions for Scott or for Jeff? All right. If not, let me turn to our last item on the agenda, which is interest on reserves. The TARP legislation provides for that, and Brian will talk a bit about how we might use that.

MR. MADIGAN. Thanks, Mr. Chairman. As the Chairman indicated, the TARP legislation includes a provision that accelerates the effective date of the authority to pay interest on reserves from October 1, 2011, to October 1, 2008. The Federal Reserve staff believes that we're ready to start paying interest on reserve balances beginning with the reserve maintenance period that starts on October 9. Assuming that the legislation is passed by the Congress and signed by the President later this week, we plan to recommend shortly thereafter to the Board that the Board direct the Reserve Banks to begin paying interest on reserves on October 9. Specifically, we plan to suggest that required reserve balances be remunerated at a rate of the target federal funds rate less 10 basis points, and more significantly in current circumstances, that excess reserve balances be remunerated initially at a rate of the target federal funds rate less 50 basis points. We anticipate that the spread between the excess reserves rate and the target federal funds rate may well need to be adjusted over time, but we're suggesting a 50 basis point spread initially. We're proposing no other significant changes to the

reserve maintenance framework at this time, although we'll be recommending a few relatively technical changes that are motivated by the ability to pay interest on reserves. In more normal circumstances, we'd think of the system that we're recommending at this time as being a type of a corridor system but with required reserves. The primary credit rate should set the ceiling for the federal funds rate; the excess reserves rate should set the floor.

In the current circumstances, though, it may turn out that the system will operate more like what we have been calling a floor system in which the gap between the target federal funds rate and the excess reserves rate is narrow. This is because, as was discussed earlier, our tools to absorb reserves provided by, again, various lending operations could be constrained given the limited remaining capacity to sell securities and possibly reluctance on the part of Treasury to expand further the supplementary financing program. In any case, the interest rate on excess reserves should put a floor—possibly a soft floor, but a floor—under the funds rate and thereby allow the Federal Reserve to conduct monetary policy appropriately while providing liquidity consistent with financial stability. I would note that the overall reserve maintenance framework will remain very complex, possibly overly complex. The staff plans to continue the study that we presented to the Reserve Bank presidents and the Board members earlier this year, and at some point, we expect to bring significant further changes to the policymakers for consideration. But for now, we think that the changes that we're proposing will make effective use of the authority that we expect we'll have beginning on October 1. Thanks, Mr. Chairman.

CHAIRMAN BERNANKE. Thanks, Brian. Are there questions for Brian? President Lacker.

MR. LACKER. Yes, Brian. So at 50 basis points under the target rate for excess, it sounds as though your philosophy here is just to limit the tails of the intraday funds rate distribution rather than to attract a lot of funds and replace the Treasury program. Is that accurate? I mean, how do you intend to approach that question?

MR. MADIGAN. President Lacker, I think we're going to need to proceed somewhat adaptively. We'll be going from one type of system, in which there has been no remuneration on excess reserves, to one with a rate that's fairly close to—50 basis points under—the federal funds rate. My guess is that it could attract a substantial increase in banks' interest in holding excess reserves, especially under current circumstances, when there's a lot of concern about counterparty

credit risk. It may well be the case, as I mentioned, that we'll be proposing a further narrowing of the excess reserves rate as we get experience, and we may, indeed, have to do that if our ability to drain reserves is otherwise constrained. We may need to use the excess reserves rate as the way to effectively set the federal funds rate. But I think we'll need to see how it goes and get some experience.

CHAIRMAN BERNANKE. Other questions for Brian? Jeff, did you have another question? No. Okay. Any other comments or issues? If not, thank you very much, again, for the short notice, and we'll obviously keep you well briefed, and we hope you'll do the same for us. Good morning.

END OF MEETING