

DIRECTIVE

The directive that was issued in December is given below, followed by drafts for a January directive that correspond to each of the policy alternatives. Under the directive for Alternative B, the Desk would be instructed to leave the total face value of domestic securities in the SOMA about unchanged. Under Alternative A, the Committee would instruct the Desk either to execute purchases of agency MBS in order to raise the total face value of the domestic securities holdings to about \$3.1 trillion by the end of January 2013, or to purchase agency MBS in order to raise the face value of holdings of domestic securities by approximately \$40 billion per month until instructed otherwise. In addition, the directives for Alternatives A and B would instruct the Desk to take appropriate steps to complete by the end of June 2012 the \$400 billion maturity extension program that was announced last September. The directive for Alternative C would instruct the Desk to limit the amounts of purchases and sales associated with the maturity extension program to \$200 billion each and to complete these operations by the end of February. All of the draft directives instruct the Desk to continue the current practice of rolling over maturing Treasury securities at auction and of reinvesting principal payments on all agency debt and agency MBS in agency MBS.

December 2011 Directive

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to $\frac{1}{4}$ percent. The Committee directs the Desk to continue the maturity extension program it began in September to purchase, by the end of June 2012, Treasury securities with remaining maturities of approximately 6 years to 30 years with a total face value of \$400 billion, and to sell Treasury securities with remaining maturities of 3 years or less with a total face value of \$400 billion. The Committee also directs the Desk to maintain its existing policies of rolling over maturing Treasury securities into new issues and of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities in order to maintain the total face value of domestic securities at approximately \$2.6 trillion. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

Federal Reserve Balance Sheet End-of-Year Projections -- Alternative A

Billions of dollars

	<u>Dec 31, 2011</u>	<u>2012</u>	<u>2014</u>	<u>2016</u>	<u>2018</u>	<u>2020</u>
Total assets	2,921	3,242	3,199	2,272	1,810	2,017
Selected assets						
Liquidity programs for financial firms	100	0	0	0	0	0
Primary, secondary, and seasonal credit	0	0	0	0	0	0
Central bank liquidity swaps	100	0	0	0	0	0
Lending through other credit facilities	9	3	1	0	0	0
Term Asset-Backed Securities Loan Facility (TALF)	9	3	1	0	0	0
Support for specific institutions	34	29	21	11	7	4
Credit extended to AIG	0	0	0	0	0	0
Net portfolio holdings of Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC	34	29	21	11	7	4
Securities held outright	2,605	2,982	2,970	2,092	1,665	1,893
U.S. Treasury securities	1,663	1,651	1,600	1,232	1,338	1,893
Agency debt securities	104	77	39	16	2	0
Agency mortgage-backed securities	838	1,255	1,331	843	324	0
Net portfolio holdings of TALF LLC	1	1	1	0	0	0
Total other assets	171	227	206	169	138	120
Total liabilities	2,867	3,180	3,117	2,164	1,667	1,828
Selected liabilities						
Federal Reserve notes in circulation	1,034	1,111	1,245	1,396	1,551	1,712
Reverse repurchase agreements	100	70	70	70	70	70
Deposits with Federal Reserve Banks	1,713	1,982	1,786	683	30	30
Reserve balances held by depository institutions	1,562	1,967	1,781	678	25	25
U.S. Treasury, General Account	86	16	5	5	5	5
Other Deposits	65	0	0	0	0	0
Interest on Federal Reserve Notes due to U.S. Treasury	2	0	0	0	0	0
Total capital	54	62	82	108	143	189

Explanatory Notes

Source: Federal Reserve H.4.1 statistical releases and staff calculations.

Note: Components may not sum to totals due to rounding.

Federal Reserve Balance Sheet End-of-Year Projections -- Alternative B

Billions of dollars

	<u>Dec 31, 2011</u>	<u>2012</u>	<u>2014</u>	<u>2016</u>	<u>2018</u>	<u>2020</u>
Total assets	2,921	2,838	2,700	1,954	1,810	2,017
Selected assets						
Liquidity programs for financial firms	100	0	0	0	0	0
Primary, secondary, and seasonal credit	0	0	0	0	0	0
Central bank liquidity swaps	100	0	0	0	0	0
Lending through other credit facilities	9	3	1	0	0	0
Term Asset-Backed Securities Loan Facility (TALF)	9	3	1	0	0	0
Support for specific institutions	34	29	21	11	7	4
Credit extended to AIG	0	0	0	0	0	0
Net portfolio holdings of Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC	34	29	21	11	7	4
Securities held outright	2,605	2,600	2,495	1,789	1,673	1,896
U.S. Treasury securities	1,663	1,651	1,600	1,232	1,462	1,896
Agency debt securities	104	77	39	16	2	0
Agency mortgage-backed securities	838	873	856	540	208	0
Net portfolio holdings of TALF LLC	1	1	1	0	0	0
Total other assets	171	205	183	154	130	117
Total liabilities	2,867	2,776	2,618	1,846	1,667	1,828
Selected liabilities						
Federal Reserve notes in circulation	1,034	1,111	1,245	1,396	1,551	1,712
Reverse repurchase agreements	100	70	70	70	70	70
Deposits with Federal Reserve Banks	1,713	1,579	1,287	364	30	30
Reserve balances held by depository institutions	1,562	1,563	1,282	359	25	25
U.S. Treasury, General Account	86	16	5	5	5	5
Other Deposits	65	0	0	0	0	0
Interest on Federal Reserve Notes due to U.S. Treasury	2	0	0	0	0	0
Total capital	54	62	82	108	143	189

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Source: Federal Reserve H.4.1 statistical releases and staff calculations.

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