FEDERAL RESERVE BANK of NEW YORK

Discussion of “Evaluating Monetary Policy Operational Frameworks” by Ulrich Bindseil

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The views presented here are those of the author and do not necessarily reflect those of the Federal Reserve Bank of New York or the Federal Reserve System

Figure 1 – Federal Reserve Balance Sheet

August 1, 2007

($ Billions)

Assets			**Liabilities**	
Securities held outright		791	Federal Reserve notes	777
U.S. Treasury securities	*791*		Reverse repurchase agreements	32
Federal agency debt	*0*		Reserve balances (incl. clearing balances)	17
Agency MBS	*0*		Deposits, other than reserves	5
Repurchase agreements		25	Other liabilities	6
Foreign currency denominated assets		21	**Total liabilities**	837
Other assets		34	**Capital**	34
Total assets		**871**	**Total liabilities and capital**	**871**

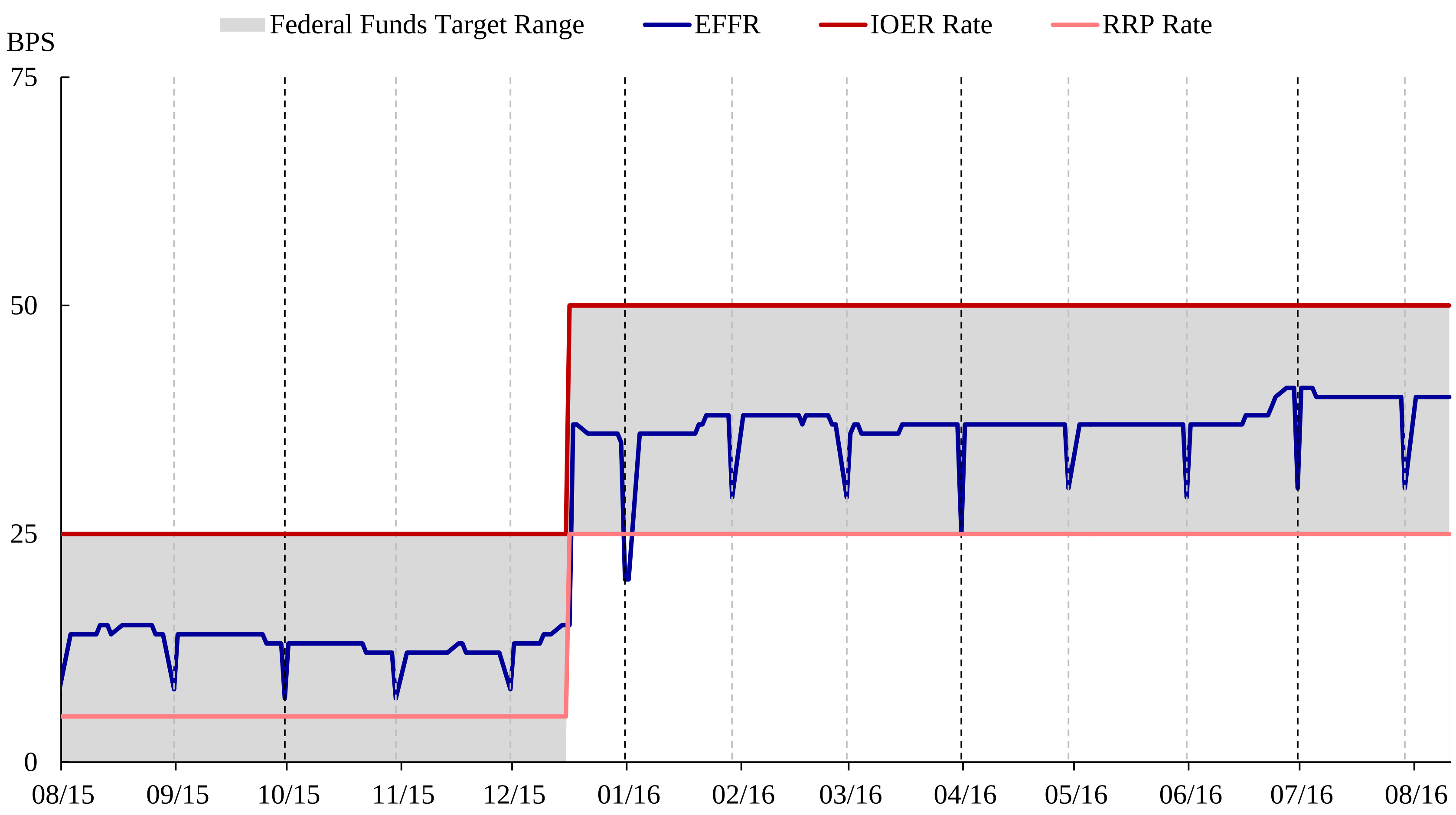
August 3, 2016

($ Billions)

Assets			**Liabilities**	
Securities held outright		4,226	Federal Reserve notes	1,419
U.S. Treasury securities	*2,463*		Reverse repurchase agreements	311
Federal agency debt	*22*		Reserve balances	2,403
Agency MBS	*1,741*		Deposits, other than reserves	286
Repurchase agreements		0	Other liabilities	8
Foreign currency denominated assets		21	**Total liabilities**	4,427
Other assets		220	**Capital**	40
Total assets		**4,467**	**Total liabilities and capital**	**4,467**

Source: Federal Reserve Statistical Release (H.4.1)
Notes: Balance sheet figures indicate Wednesday level.

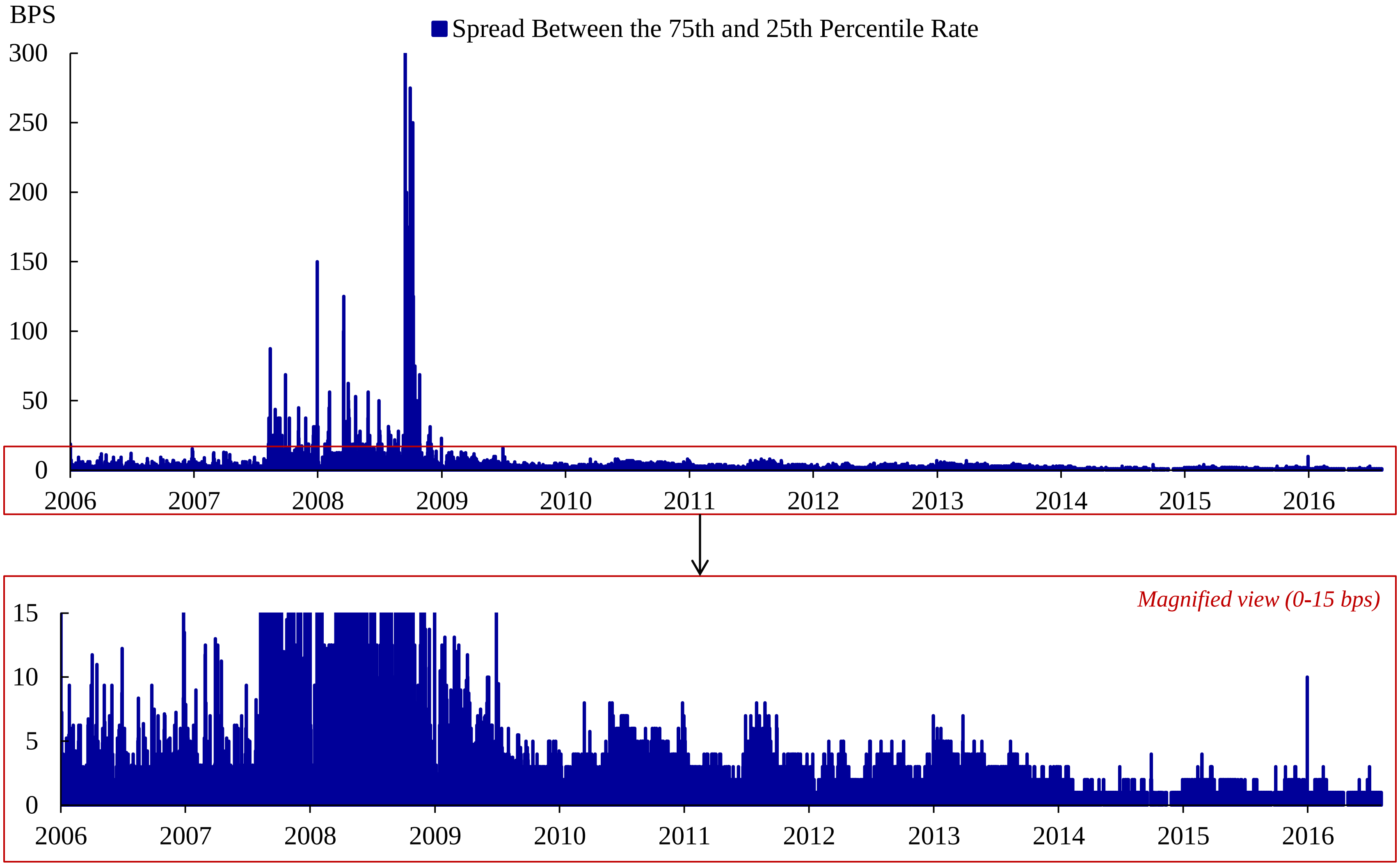
Figure 2 – Federal Funds Target Range



Source: Bloomberg, Federal Reserve Bank of New York

Notes: Light dashed vertical lines indicate month-ends, dark dashed lines indicate quarter-ends. Data source switches from brokered federal funds data to FR 2420 data in March 2016.

Figure 3 – Lower Volatility in Federal Funds Trades



Source: Federal Reserve Bank of New York

Notes: Figures represent federal funds rate spread between the volume-weighted 75th and 25th percentile. Data source switches from brokered federal funds data to FR 2420 data in March 2016.

Figure 4 – Banking Sector Balance Sheet

<u>Scenario 1</u> - Bank A lends to Bank B

	Bank A				Bank B				Total Assets
	Assets		Liabilities		Assets		Liabilities		
Before	Reserves	200	Deposits	200	Reserves	80	Deposits	80	280

Bank B borrows $20m from Bank A to satisfy reserve requirement of $100m.

	Assets		Liabilities		Assets		Liabilities		*(+20)*
After	Reserves	180	Deposits	200	Reserves	100	Deposits	80	300
	Loan Receivable	20					Loan Payable	20	

Total Reserves remained unchanged while Total Assets increased by $20m.

<u>Scenario 2</u> - A nonbank transfers deposits from Bank A to Bank B

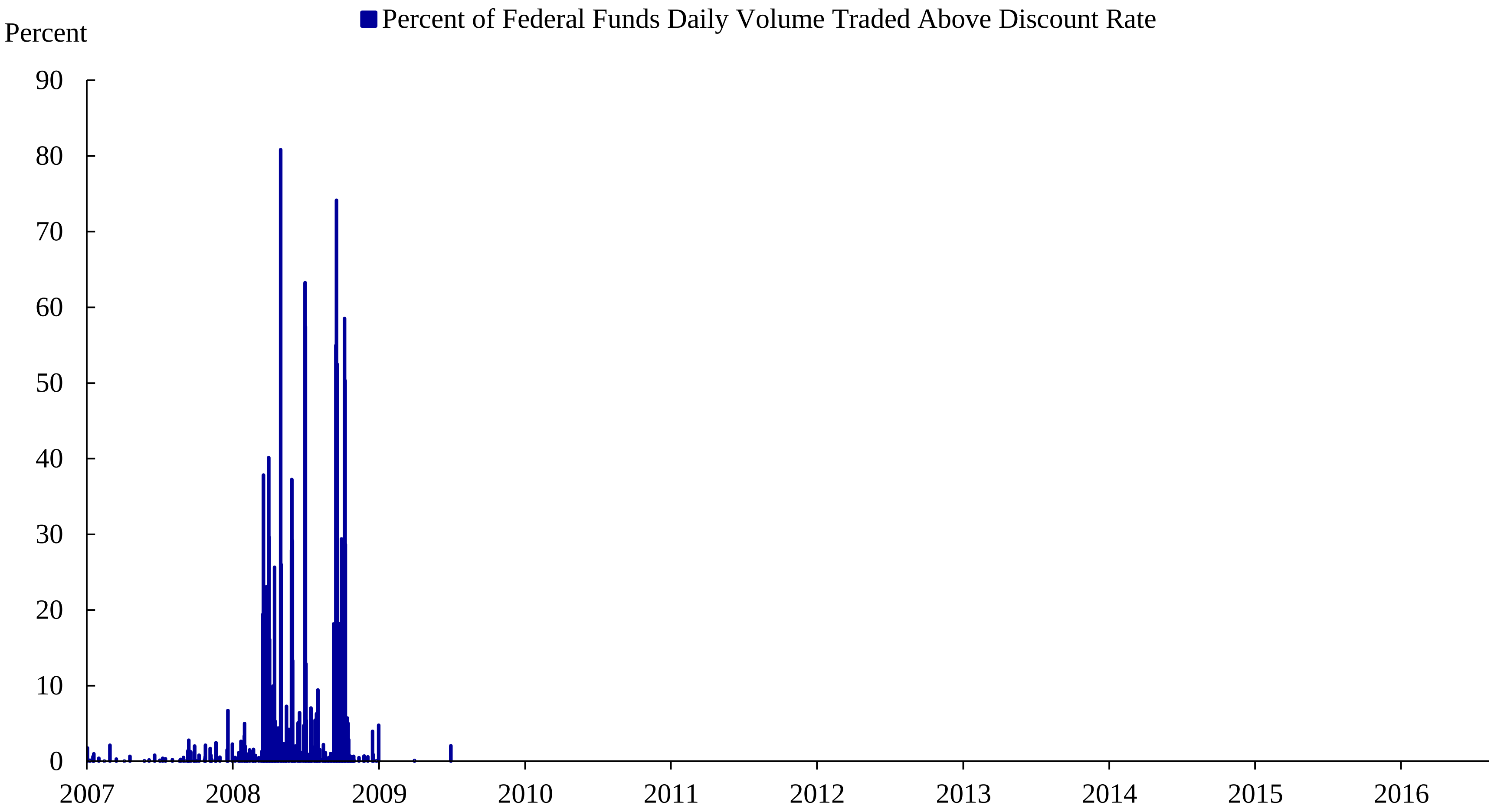
	Bank A				Bank B				Total Assets
	Assets		Liabilities		Assets		Liabilities		
Before	Reserves	200	Deposits	200	Reserves	80	Deposits	80	280

A nonbank pulls $20m in deposits from Bank A and places them in account at Bank B.

	Assets		Liabilities		Assets		Liabilities		*(+0)*
After	Reserves	180	Deposits	180	Reserves	100	Deposits	100	280

Total Reserves and Total Assets remained unchanged.

Figure 5 – Discount Window Stigma



Source: Federal Reserve Bank of New York

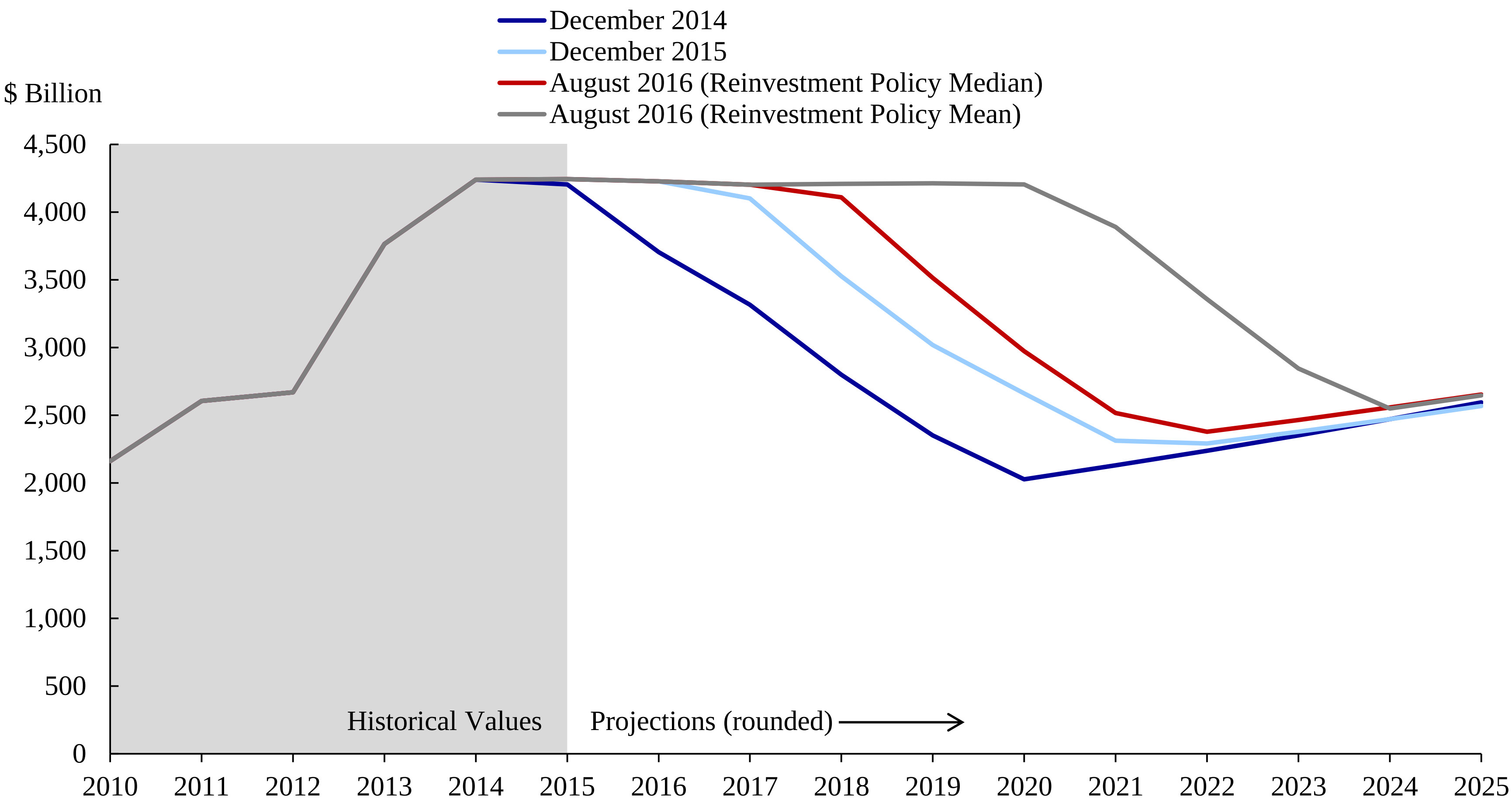
Notes: Data source switches from brokered federal funds data to FR 2420 data in March 2016.

Figure 6 – Liquidity Provision and Regulation

"…managing liquidity risk is a core activity of banking, and it seems unlikely that centralizing this subtle activity through liquidity regulation can be done without efficiency costs. Therefore liquidity regulation must not be overburdened, and central banks providing some well-designed and rule based economic counterincentives to an excessive reliance on the [lender of last resort] is an important contribution to reduce the burden put on regulation."

- Ulrich Bindseil (2016)

Figure 7 – Projected SOMA Domestic Securities Holdings



Source: Federal Reserve Bank of New York staff projections
Notes: As presented in the FRBNY's Report on Domestic Open Market Operations for 2014 and 2015. August 2016 projections are based on interest rate path assumptions drawn from market forward rates and expectations for changes in reinvestment policy drawn from the FRBNY's July 2016 Survey of Primary Dealers. For the mean reinvestment expectation, survey responses suggesting no end to reinvestments were assigned the date at which staff project the size of the portfolio to normalize assuming normal currency growth and no end in reinvestments.