



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
<i>U.S. Treasury securities</i>	791	Reverse repurchase agreements	32
<i>Federal agency debt</i>	0	Reserve balances (incl. clearing balances)	17
<i>Agency MBS</i>	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)

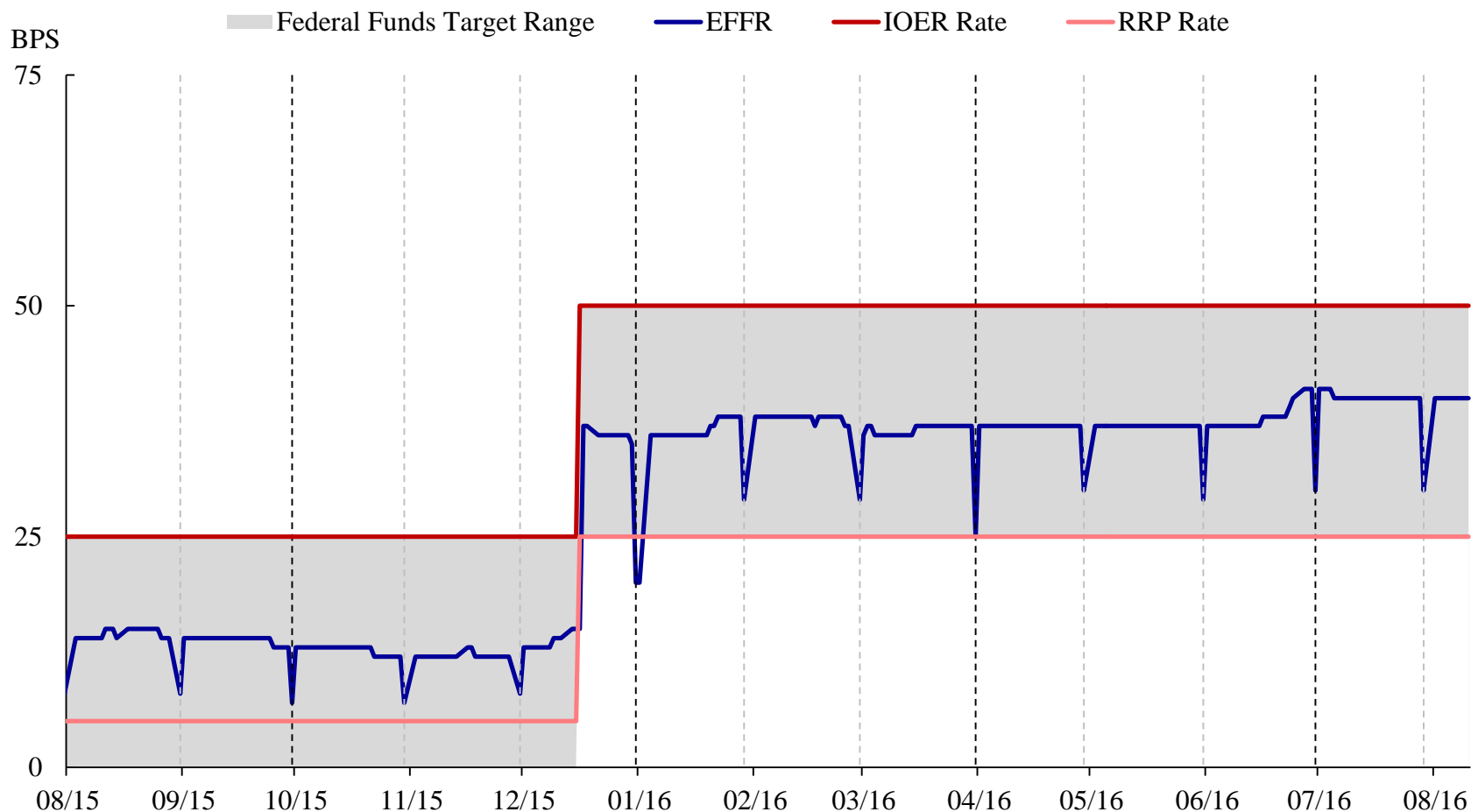
Assets		Liabilities	
Securities held outright	4,226	Federal Reserve notes	1,419
<i>U.S. Treasury securities</i>	2,463	Reverse repurchase agreements	311
<i>Federal agency debt</i>	22	Reserve balances	2,403
<i>Agency MBS</i>	1,741	Deposits, other than reserves	286
Repurchase agreements	0	Other liabilities	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

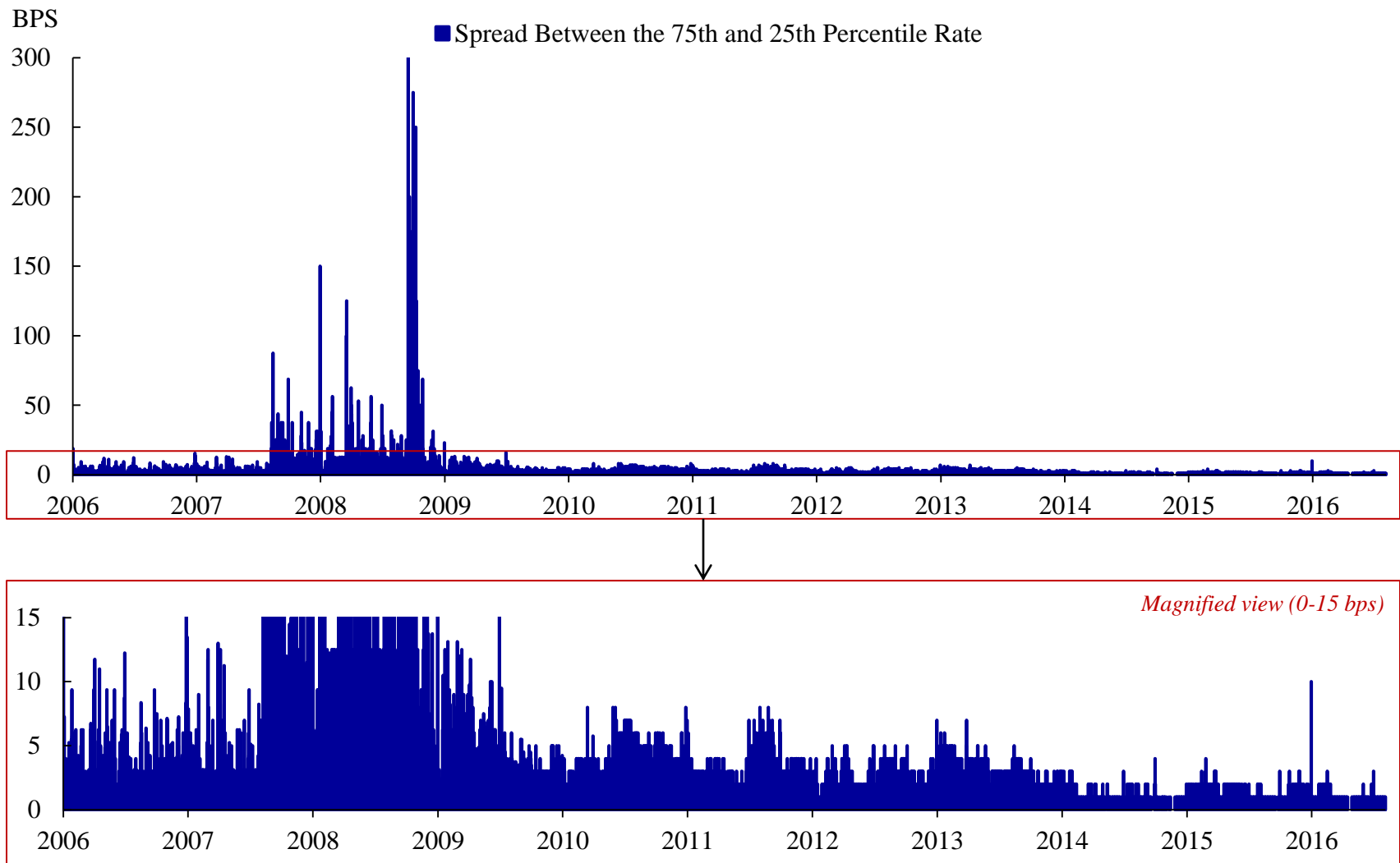


Source: Bloomberg, Federal Reserve Bank of New York

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

Scenario 1 - Bank A lends to Bank B

	<u>Bank A</u>		<u>Bank B</u>		<u>Total Assets</u>
	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.

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

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

Scenario 2 - A nonbank transfers deposits from Bank A to Bank B

	<u>Bank A</u>		<u>Bank B</u>		<u>Total Assets</u>
	Assets	Liabilities	Assets	Liabilities	
Before	Reserves 200	Deposits 200	Reserves 80	Deposits 80	280

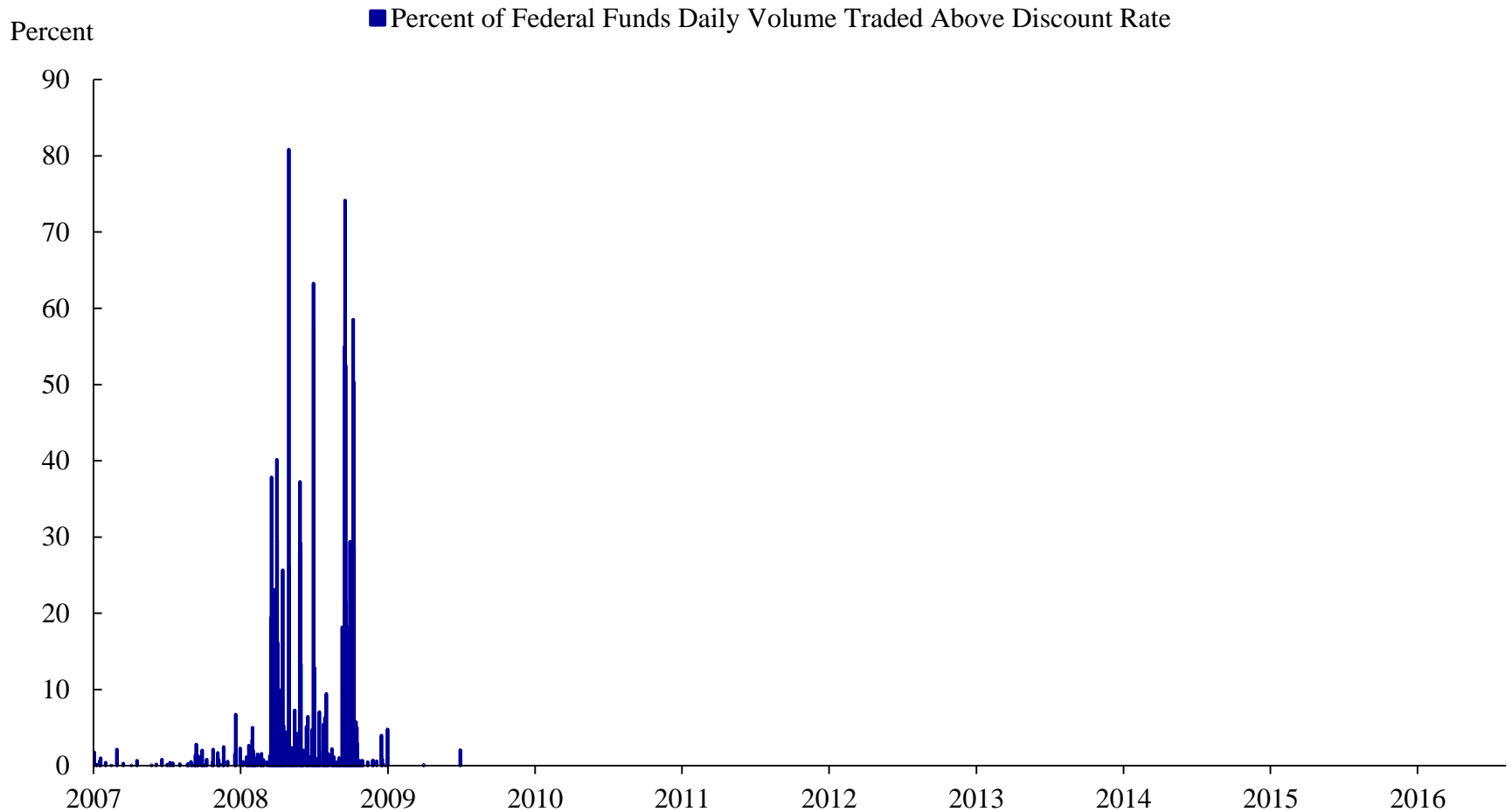
A nonbank pulls \$20m in deposits from Bank A and places them in account at Bank B.

After	Reserves 180	Deposits 180	Reserves 100	Deposits 100	280
					(+0)

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.

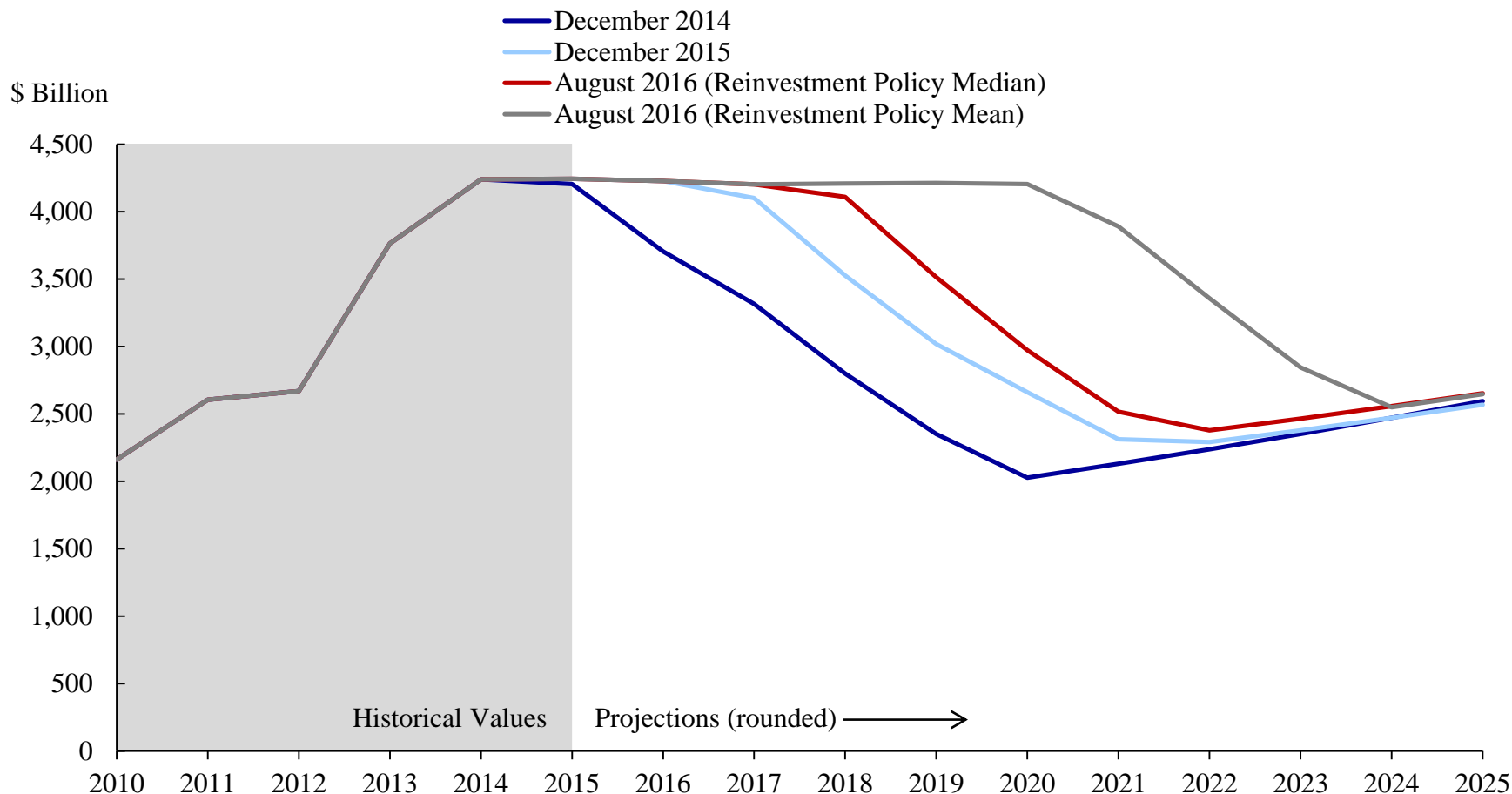
Figure 6 – Liquidity Provision and Regulation

“...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 LOLR 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.

