FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Minutes of the Investor Advisory Committee on Financial Markets

February 28, 2012

Federal Reserve Bank of New York

<u>Committee attendees:</u>

Nicole Arnaboldi, Credit Suisse Group
Louis Bacon, Moore Capital Management
James Chanos, Kynikos Associates
Mohamed El-Erian, PIMCO
Garth Friesen, III Associates
Joshua Harris, Apollo Management LP
Alan Howard, Brevan Howard Asset Management
Scott Malpass, University of Notre Dame
Rick Rieder, BlackRock, Inc
Lawrence Schloss, NYC Public Pension Funds
David Tepper, Appaloosa Management LP

<u>FRBNY attendees:</u>

William Dudley, Chair
James Bergin
Terrence Checki
Christine Cumming
Jennifer Fortner
Steven Friedman
Krishna Guha
Lorie Logan
Meg McConnell
Michael McMorrow
Michael Nelson
Simon Potter
Brian Sack

Europe

The meeting commenced with a discussion of the latest developments in Europe. Committee members emphasized the impact of the ECB's introduction of 3-year LTROs in supporting the stabilization in financial markets over the last few months. The Committee also discussed the ongoing importance of the ECB's role in managing the crisis, particularly were there to be a notable deterioration in the future. Uncertainty was expressed as to the ultimate outcome in Greece, with Committee members citing risks surrounding both the PSI exchange and the implementation of the aid package, including associated reforms required of the Greek government. The Committee also noted upcoming European elections as potential risk events.

The Financial Landscape

The financial landscape agenda item at this meeting focused on changes in the broker-dealer business model. Several changes since the financial crisis were highlighted, including changes in compensation practices, higher costs of compliance and litigation, refinements in risk management practices, heightened attention to counterparty risk, a reduction in short-term financing activity, and subdued levels of securitization.

The various potential impacts of regulatory changes were also mentioned. These included a shift in bank business activity to overseas jurisdictions, possible regulatory arbitrage given different international regulatory regimes, the systemic importance of newly developed central clearinghouses, and the potential reduction in liquidity in certain financial market products as regulatory-induced market adjustments occur. Members suggested that these longer-term changes in the broker-dealer model may prompt a change in the composition of firms engaging in market making activity.

Monetary Policy

The meeting ended with a discussion of U.S. monetary policy. Committee members expressed a range of reactions to the recent steps taken by the FOMC, including the January FOMC statement's guidance that economic conditions "are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014" and the publication of FOMC participants' individual federal funds rate projections in the Summary of Economic Projections. Members expressed varied interpretations of what they perceived as a divergence between the individual participant forecasts and the FOMC statement's late-2014 guidance. They also debated the meaning of the phrase "exceptionally low," offering a number of interpretations as to its intended meaning and level of commitment.

Members also discussed market expectations for additional asset purchases by the FOMC, suggesting that there is some expectation for additional purchases priced into the market, while recognizing that such expectations are dependent on the evolution of the economic outlook. Members expressed a wide range of views on the form a potential asset purchase program might take, including whether purchases would be in Treasuries and/or agency MBS, or if the FOMC might pursue an additional maturity extension program in some fashion. Members also discussed the balance between the economic benefits a third program might provide and the potential costs of enacting one. Separately, members noted that additional measures by fiscal authorities and housing-related agencies aimed at supporting the housing sector would further support the U.S. economy.