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The Codification of an FOMC Procedure

In February 1994, the Fed began the practice of announcing changes in its target for the federal funds rate immediately upon making them. Since then, 19 of the subsequent 22 changes in the Fed's target for the federal funds rate have been made at regularly scheduled Federal Open Market Committee (FOMC) meetings. Prior to this, changes in the target were often made between regularly scheduled meetings. For example, of the 55 changes in the Fed's federal funds rate target between 1987 and 1994, 7 occurred at regularly scheduled meetings of the FOMC, and 48 were made during intermeeting periods.[1]

At about this same time, the FOMC made another procedural change that has been somewhat less obvious. Prior to 1994, the Chairman frequently exercised his discretion to adjust the funds rate target during intermeeting periods without formally consulting with the other members of the FOMC. Indeed, all 48 intermeeting target changes were made at the Chairman's discretion. In none of these instances was there a formal teleconference meeting of the FOMC.

The practice is considerably different now. All three of the target changes since 1994 that did not occur at regularly scheduled meetings followed a teleconference. In 2000, the FOMC codified the new procedure for making intermeeting adjustments to the intended federal funds rate. At its meeting held on February 1-2, 2000, the FOMC formally adopted the following authorization:

> In the execution of the Committee's decision regarding policy during any intermeeting period, the Committee authorizes and directs the Federal Reserve Bank of New York, upon instruction of the Chairman of the Committee, to adjust somewhat in exceptional circumstances the degree of pressure on reserve positions and hence the intended federal funds rate ... Consistent with Committee practice, the Chairman, if feasible, will consult with the Committee before making any adjustment.[2]

Given modern communications, it is likely that the Chairman would be able to consult with the Committee in advance of changing the target. Hence, the authorization appears to limit the discretion of the Chairman to make intermeeting adjustments in the stance of monetary policy.

To correctly forecast Fed actions, the markets must forecast both the magnitude and timing of changes in the funds rate target. Since late 1989, the Fed has changed the funds rate target by multiples of 25 basis points. Of the 43 changes in the intended funds rate since October 1989, all but one (the 75 basis-point increase on November 15, 1994) have been either 25 or 50 basis points.

The procedural changes noted above should improve the markets' ability to forecast target changes. The current authorization limits the chairman's discretion to change the target during the intermeeting period. Consequently, most target changes should continue to occur at regularly scheduled FOMC meetings. The continuation of this practice should enable the market to better predict the timing of changes.

In addition, the current procedures may make it easier to predict intermeeting changes. For example, after its December meeting, the FOMC announced that it changed its *balance of risk statement* from "the risks are weighted mainly toward conditions that may generate heightened inflation," to "the risks are weighted mainly toward conditions that may generate economic weakness." This prompted some analysts to speculate about an intermeeting decrease in the funds rate target.

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[1] There are alternative series of funds rate target changes. The one used here and an alternative series can be found in "A History of the Asymmetric Policy Directive," Federal Reserve Bank of St. Louis *Review* (September/October 2000), pp. 1-16, Table B1 and Table B2.

[2] *Federal Reserve Bulletin* (May 2000), p. 330.