FEDERAL RESERVE BANK of NEW YORK

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Minutes of the Investors Advisory Committee on Financial Markets

December 19, 2011

Federal Reserve Bank of New York.

Committee attendees:

Louis Bacon, Moore Capital Management
James Chanos, Kynikos Associates
Mary Callahan Erdoes, J.P. Morgan Asset Mgmt
Garth Friesen, III Associates
Joshua Harris, Apollo Management LP
Alan Howard, Brevan Howard Asset Management
Lawrence Schloss, NYC Public Pension Funds
Morgan Stark, Ramius LLC
David Tepper, Appaloosa Management LP

FRBNY attendees:

William Dudley, Chair
Tobias Adrian
Terrence Checki
Richard Dzina
Jennifer Fortner
Steven Friedman
Joyce Hansen
Lorie Logan
Meg McConnell
Michael McMorrow
Brian Sack

The meeting commenced with a discussion of Federal Reserve Bank of New York external committee governance considerations. New practices regarding public release of agendas and meeting minutes were discussed. Antitrust guidelines and a draft charter were also circulated, and members were asked to submit any comments or questions towards finalizing the documents in January.

Europe

Committee members generally viewed the introduction of 3-year LTROs at December's ECB meeting as positive in addressing near-term concerns around European banking sector liquidity, particularly in light of the heavy schedule of European bank debt maturities in 2012. Other perceived benefits included the potential to moderate the pace of any bank deleveraging plans. Members also viewed the changes to ECB collateral requirements as improving banks' ability to access central bank financing.

A few Committee members noted that the steps announced at the recent EU summit were not in and of themselves sufficient to ensure the development of a sustainable fiscal union. Political challenges associated with greater supranational oversight of national budgets were mentioned as a potential impediment to implementation of summit announcements. Further, members pointed out that recent announcements did not address the need for a backstop for governments with sharply rising borrowing costs. The committee discussed the possibilities for a slowdown in European economic growth as early as Q4 2011 and into 2012, with several committee members expecting Europe to enter into a recession at some point over that horizon. On a separate note, several members also expressed lingering uncertainty surrounding next year's heavy sovereign issuance schedules in Europe.

The committee discussed deleveraging by European banks. They noted that a variety of factors, including the current pricing of assets, asset quality and liquidity considerations, and broader uncertainty around euro area developments raise questions as to the likely pace and ultimate size of deleveraging .

The Financial Landscape

The Committee then turned to the second agenda item, a discussion of changes in the financial landscape. Members discussed the importance of how regulatory rules are implemented and administered as factors in their effectiveness. They noted that disparities between the U.S. and international regulatory regimes remain an outstanding issue to be addressed. On a separate note, there was mention of the growing presence of high-frequency trading over the past several years, and questions were raised on the implications of this shift.

The Committee also discussed the potential evolution of the financial system over the coming years. Members mentioned the likely emergence of new intermediaries to provide market-making services, as traditional broker-dealers reshape their business models. Some members expressed the view that these changes may result in greater differentiation in the costs and market liquidity of various financial products.

The U.S. Economy

The meeting concluded with a discussion of the U.S. economic outlook. Several members described some improvement in their outlook for the U.S. economy, variously pointing to a recent uptick in retail sales figures, expectations for an increase in business hiring and investment next year, and some possibility of a need to rebuild inventory levels as supporting near-term U.S. growth. On a separate note, members did not view additional stimulative fiscal measures as probable, with some noting that the net impact from fiscal policy may prove to be a drag on U.S. growth next year.

Members noted that the U.S. is relatively less dependent on European trade and banking sector linkages than Asia and other regions, and therefore somewhat more resilient to a European slowdown. Members also discussed the Chinese economy, emphasizing the large contribution of fixed investment to Chinese GDP and pointing to potential risks associated with the recent slowdown in Chinese property markets. Members mentioned the potential impact of a slowdown in Chinese growth on the U.S. economy, making note of the implications for U.S. exports, global financial markets, and commodity prices.