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### Minutes of the Board of Governnors of the Federal Reserve System

Ben S. Bernanke

Donald L. Kohn

Kevin Warsh

Randall S. Kroszner

Elizabeth A. Duke

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**MINUTES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

DATE: October 3, 2008

TIME: 2:30 p.m.

LOCATION: Board Room

ATTENDANCE:

Mr. Bernanke, Chairman  
Mr. Kohn, Vice Chairman  
Mr. Warsh  
Mr. Kroszner  
Ms. Duke

Office of the Secretary

Ms. Johnson, Secretary  
Mr. Frierson, Deputy Secretary  
Ms. Shanks, Associate Secretary  
Ms. Beattie, Assistant to the Secretary  
Mr. Hiratsuka, Technical Writer

Office of Board Members

Ms. Smith, Director  
Mr. Blanchard, Assistant to the Board  
Mr. Skidmore, Assistant to the Board  
Mr. Gross, Special Assistant to the Board  
Mr. Pribble, Special Assistant to the Board

Legal Division

Mr. Alvarez, General Counsel  
Ms. O'Day, Deputy General Counsel  
Ms. Martin, Associate General Counsel  
Ms. Misback, Associate General Counsel  
Mr. Fallon, Assistant General Counsel

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Ms. Robinson, Assistant General Counsel  
Mr. Van Der Weide, Assistant General Counsel

Division of Research and Statistics

Mr. Parkinson, Deputy Director  
Mr. Kwast, Senior Associate Director  
Ms. Liang, Associate Director  
Ms. Prager, Assistant Director  
Mr. Covitz, Assistant Director

Division of Monetary Affairs

Mr. Madigan, Director  
Mr. Clouse, Deputy Director  
Ms. Danker, Deputy Director  
Mr. English, Deputy Director  
Ms. Edwards, Senior Associate Director  
Mr. Nelson, Associate Director  
Mr. Carpenter, Deputy Associate Director  
Mr. Perli, Deputy Associate Director

Division of International Finance

Mr. Kamin, Deputy Director

Division of Banking Supervision and Regulation

Mr. Cole, Director  
Ms. Bailey, Deputy Director  
Ms. Barger, Deputy Director  
Mr. Greenlee, Associate Director  
Ms. DeFerrari, Assistant Director

Division of Reserve Bank Operations and Payment Systems

Ms. Roseman, Director  
Mr. Hammond, Deputy Director  
Mr. Marquardt, Deputy Director  
Mr. Evans, Deputy Associate Director

Office of Staff Director for Management

Mr. Malphrus, Staff Director

Other Supporting Staff

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**FINANCIAL MARKETS -- Discussion of (1) developments in the proposals by Citigroup Inc. and Wells Fargo & Company to acquire Wachovia Corporation and (2) options for reducing funding pressures in the commercial paper market.**

**Discussed.  
October 3, 2008.**

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Today, the Board discussed the following matters against the background of the significant level of fragility in financial markets: (1) developments in the competing proposals by Citigroup Inc. (Citigroup), New York, New York, and Wells Fargo & Company (Wells Fargo), San Francisco, California, to acquire Wachovia Corporation (Wachovia), Charlotte, North Carolina; and (2) options for reducing funding pressures in the market for commercial paper.

*Proposals to acquire Wachovia.* The staff reviewed recent events in the efforts by Citigroup and Wells Fargo to acquire Wachovia and responded to Board members' requests for additional information about the terms of each proposal. The Board's ensuing discussion included consideration of the capital positions of Citigroup and Wells Fargo, possible assistance from the Federal Deposit Insurance Corporation (FDIC) for Citigroup's proposal to acquire Wachovia's insured depository institutions only, the competitive position of the resulting entity under either proposal, and the overall systemic effects of the acquisition of Wachovia. It was expected that one of the proposals would ultimately prevail and be presented to the Board for approval. (NOTE: The Board approved Wells Fargo's acquisition of Wachovia on October 12 by notation voting and issued a statement regarding its approval on October 21, 2008.)

*Options for the commercial paper market.* The staff also presented two options for reducing funding pressures in the market for commercial paper. The first proposal would establish a special discount window facility, the Term Funding Financing Facility (TFFF), to provide a financial incentive for depository institutions to purchase term commercial paper and banks' wholesale term certificates of deposit by offering credit on favorable terms through the TFFF. The TFFF could be established either as a standing facility or an auction facility. The second proposal would establish a conduit facility for commercial paper to provide term financing by buying and holding commercial paper issued by financial and nonfinancial companies until market conditions returned to normal.

Board members' discussion of these options included consideration of whether pressures in the commercial paper market reflected the credit quality of commercial paper more than a lack of liquidity, a framework for further consultations with the FDIC on lowering the risk weighting of commercial paper purchased by banks, and the possible participation by the Department of the Treasury in the conduit facility for commercial paper. Board members generally agreed that further consultations were needed with the appropriate agencies before going forward with either proposal. (NOTE: The Board approved the Commercial Paper Funding Facility (CPFF) in principle at its meeting on October 5, approved establishing the CPFF at its meeting on October 7, and agreed to announce additional details regarding the CPFF at its meeting on October 13, 2008.)

**Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Duke.**

**Background:** Proposals for the Term Funding Financing Facility and a financial commercial paper conduit, October 3, 2008.

**Implementation:** None.