

John C Williams: Next level unlocked

Remarks by Mr John C Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the 2025 US Treasury Market conference, organised by the Federal Reserve Bank of New York, New York City, 12 November 2025.

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As prepared for delivery

[Figures](#) accompanying the speech

Introduction

On behalf of the New York Fed, let me welcome you all to this year's U.S. Treasury Market Conference. Many thanks to the distinguished speakers and panelists for joining us here, and to the event organizers for putting together today's outstanding agenda. I'm looking forward to a valuable and productive conversation.

This gathering is a recurring calendar item every fall. But the topics that we discuss each year do not stand alone. Think of it as leveling up in a video game-which is one of my favorite pastimes by the way, or dare I say, "present times". At each conference, we advance our understanding of the Treasury market to the next level. And in the genre of gaming, this game is multiplayer. It's remarkable to think about what we've accomplished in this decade-long enterprise of interagency collaboration. This work continues to be imperative, so we must keep playing. I mean that in the working sense, of course.

Before I keep going, I must give the standard Fed disclaimer that the views I express today are mine alone and do not necessarily reflect those of the Federal Open Market Committee (FOMC) or others in the Federal Reserve System.

Three Levels of Play

The remarks that I've given at past conferences have focused on taking stock of the Treasury market and sharing updates on our collective efforts.¹ My comments today will be a retrospective into the events, developments, and lessons learned over the past seven years. I will then explain how all of that has shaped the FOMC's thinking around monetary policy implementation and the design of our ample reserves implementation framework. I'll also bring you up to speed with regard to where the Federal Reserve stands on its balance sheet strategy.

So, let's return to the video game analogy and start at level one-the episode of volatility known as the "flash rally" of 2014. That period of market stress served as a sharp reminder that financial markets are not static: they evolve in response to changes in technology, regulation, business models, and with the addition of new players and participants.

That initial level made it clear that safeguards and systems must evolve so that these markets can continue to function well in every circumstance and under any condition.

So, from there, we jumped to the next level. And that's the imperative of market resiliency. We learned the importance of creating a system that can better withstand the unforeseeable and the unpredictable. Because when the unforeseeable and unpredictable did happen, as we saw in the "dash-for-cash" in 2020, it resulted in significant stresses in the Treasury market and related markets that threatened to spread to broader financial conditions.

This leads me to level three. A resilient financial system is critically important for monetary policy. Because monetary policy influences the economy by affecting financial market conditions, its effectiveness relies on well-functioning markets, with the Treasury market at the heart of it all.

Good news-we've unlocked the next level of my remarks. And that is an explanation of the FOMC's approach to monetary policy implementation to support effective interest rate control and smooth functioning of these core markets.

Framing the Frameworks

We've established that monetary policy implementation frameworks are critically important to the conduct of monetary policy.^{[2](#)}

In supplying reserves to the banking system, the Federal Reserve has multiple goals that frequently involve trade-offs.^{[3](#)} First and foremost, it targets a level of the policy interest rate and aims to minimize the variability of the policy rate around that target. In addition, it has objectives related to supporting financial stability and the smooth functioning of financial markets.

The core of any operational framework is the supply of reserves, which can range from a low level, or "scarce," to "ample" and "abundant." The "price" of reserves is the spread between the market interest rate and the rate earned for holding reserves at the central bank. When reserves are scarce, the slope of the demand curve for reserves is steep. A small change in the quantity of reserves results in a meaningful change in the spread. When reserves are ample, the demand curve flattens but still slopes downward, so that small changes in the quantity of reserves have modest effects on the spread. And when reserves are abundant, the demand curve is essentially flat.

A central bank has two sets of tools it can use to supply reserves. First, it chooses an ex ante aggregate level of reserves to supply to the banking system. Second, it may make available lending facilities to the banking system that offer loans to financial institutions at an interest rate determined by the central bank. If the ex ante supply of reserves is sufficiently low, the additional demand will be met by the lending facilities. Note that both tools are a means to supply reserves: In the first, the supply is set in advance, while with the latter, it adjusts endogenously to market conditions.

It is worth emphasizing that the two tools can be mutually reinforcing in achieving desired outcomes. For example, lending facilities limit upward movements in interest rates on days of high demand, thereby reducing the ex ante supply of reserves needed to control short-term rates.^{[4](#)}

Federal Reserve: Ample Reserves and Tools

The Fed's operational framework has evolved over time, reflecting its experience with large balance sheets since the global financial crisis.⁵ In January 2019, when the decline in the Fed's asset holdings implied that the quantity of reserves would soon fall below an "abundant" level, the FOMC formally adopted an ample reserves strategy.⁶

The FOMC has defined this framework as one in which "control over the level of the federal funds rate and other short-term interest rates is exercised primarily through the setting of the Federal Reserve's administered rates, and in which active management of the supply of reserves is not required."⁷ Accordingly, the ex ante supply of reserves is chosen to be sufficiently large to meet the demand for reserves on most days.

One important tool the FOMC has established to ensure interest rate control is the overnight reverse repo facility (ON RRP), which, alongside the interest paid on reserve balances (IORB), helps set a floor for the federal funds rate. Through the ON RRP, eligible counterparties "lend" to the Federal Reserve at the rate set by the FOMC, currently at the bottom of the target range for the federal funds rate. Usage of the ON RRP adjusts automatically to market conditions, rising and falling with supply and demand, which is particularly important in a dynamic market.

The ON RRP has proven to be a very effective and flexible tool to support interest rate control to the downside. When Federal Reserve asset holdings push reserves above ample, the ON RRP relaxes the tight relationship between balance sheet size and reserves and acts as a safety valve in supporting smooth transmission of monetary policy to markets. As the size of the balance sheet falls, market rates rise above the rate offered at the ON RRP and, as a result, usage of the ON RRP declines to very low levels. The dynamic usage of the ONRRP is seen in [Figure 1](#), which shows average monthly usage of the ON RRP from 2016 through October of this year. The ON RRP was used extensively when it was economically sensible for the Fed's counterparties to do so. By contrast, it has very limited usage when repo rates are well above the ON RRP rate, as is the case today.

In 2021, the Federal Reserve introduced the Standing Repo Facility (SRF), which nicely complements the ON RRP by providing interest rate control to the upside.⁸ The SRF rate is set at the top of the FOMC's target range for the federal funds rate. This combination of an ample supply of reserves and an SRF rate at the top of the target range reduces the day-to-day reliance on the facility except during periods of significant upward pressure on rates resulting from strong liquidity demand or market stress.

By ensuring that adequate liquidity will be available in a wide variety of circumstances, the SRF plays a critical role in capping temporary upward pressure on rates and assures markets of effective interest rate control and smooth market functioning. It is best thought of as a way of making sure that the overall market has adequate liquidity consistent with the FOMC's desired level of interest rates. In that regard, it differs from other lending facilities-such as the discount window-that aim to provide individual banks with liquidity when the need arises.

The SRF has been effective as reserves have moved from abundant toward ample. Over the past two months, SRF usage has risen from essentially zero to having greater frequency and higher volume of take-up, especially on days of temporary repo market pressures, as shown in [Figure 2](#). Like the ON RRP facility, the SRF's effectiveness relies on market participants availing themselves of the SRF based on market conditions, free of worries about stigma or other impediments. I fully expect that the SRF will continue to be actively used in this way and contain upward pressures on money market rates.

Federal Reserve: The Way Forward

At the onset of the pandemic, the Fed, along with central banks around the world, responded quickly to restore market functioning,^{[9](#)} causing reserves to rise well above ample, as they did in many jurisdictions.

In June of 2022, the Fed began the process of reducing the size of its balance sheet to transition toward an ample level of reserves.^{[10](#)} The FOMC said it intended to stop balance sheet runoff when it deemed reserves were somewhat above ample, and then allow reserves to decline further as other liabilities, such as currency, grow.

The process has worked according to plan. The Fed's securities holdings have shrunk from a peak of about \$8-1/2 trillion in 2022 to \$6-1/4 trillion today. At its meeting in October, the FOMC decided it would conclude the reduction of its aggregate securities holdings on December 1.^{[11](#)} This decision was based on clear market-based signs that we had met the test of reserves being somewhat above ample.^{[12](#)} In particular, repo rates have increased relative to administered rates and have exhibited more volatility on certain days. Accordingly, we have been seeing more frequent use of the SRF. And the effective federal funds rate has increased somewhat relative to the IORB after years of that spread being at a stable level. These developments were expected as the supply of reserves closed in on ample.^{[13](#)}

Looking forward, the next step in our balance sheet strategy will be to assess when the level of reserves has reached ample. It will then be time to begin the process of gradual purchases of assets that will maintain an ample level of reserves as the Fed's other liabilities grow and underlying demand for reserves increases over time. Such reserve management purchases will represent the natural next stage of the implementation of the FOMC's ample reserves strategy and in no way represent a change in the underlying stance of monetary policy.

Determining when we are at ample reserves is an inexact science. I am closely monitoring a variety of market indicators related to the fed funds market, repo market, and payments to help assess the state of reserve demand conditions. Based on recent sustained repo market pressures and other growing signs of reserves moving from abundant to ample, I expect that it will not be long before we reach ample reserves.

Conclusion

With that, we've arrived at the endgame of my remarks. We've learned a lot over the past decade. The FOMC's monetary policy implementation framework is designed to support an adequate supply of liquidity under a wide range of circumstances. The combination of an ample supply of reserves and the Standing Repo Facility enables the Committee to maintain strong interest rate control and flexibility regarding changes in the size of its balance sheet. This operational framework has proven to be highly effective-and continues to work as designed.

¹ John C. Williams, [Ten Years Gone](#), remarks at the 2024 U.S. Treasury Market Conference, Federal Reserve Bank of New York, New York City, September 25, 2024; John C. Williams, [Elementary, Dear Data](#), remarks at the 2023 U.S. Treasury Market Conference, Federal Reserve Bank of New York, New York City, November 16, 2023; John C. Williams, [A Jack of All Trades Is a Master of None](#), remarks at the 2022 U.S. Treasury Market Conference, Federal Reserve Bank of New York, New York City, November 16, 2022; John C. Williams, [Preparing for the Unknown](#), remarks at the 2021 U.S. Treasury Market Conference, Federal Reserve Bank of New York, New York City, November 17, 2021; and John C. Williams, [A Solution to Every Puzzle](#), remarks at the 2020 U.S. Treasury Market Conference, Federal Reserve Bank of New York, New York City, September 29, 2020.

² See Cavallino, Paolo, Mathias Drehmann, Richard Finlay, and Julie Remache, 2025. "[Monetary policy operational frameworks - a new taxonomy](#)," Bank for International Settlements, *BIS Quarterly Review*, September, pp. 49-65.

³ See Afonso, Gara, Gabriele La Spada, Thomas M. Mertens, and John C. Williams. 2023. "[The Optimal Supply of Central Bank Reserves under Uncertainty](#)." Federal Reserve Bank of New York *Staff Reports*, no. 1077, revised December, for discussion and references to the relevant literature.

⁴ Afonso, La Spada, Mertens, and Williams 2023.

⁵ For a history of FOMC operating tools, see Kevin Clark, Dina Marchioni, Julie Remache, and Will Riordan, "[Federal Reserve Repo and Reverse Repo Market Operations: Before the Global Financial Crisis to 2015](#)," *The Teller Window*, July 16, 2025; and Kevin Clark, Dina Marchioni, Julie Remache, and Will Riordan, "[Federal Reserve Repo and Reverse Repo Market Operations: 2015 to Now](#)," *The Teller Window*, July 17, 2025.

⁶ Board of Governors of the Federal Reserve System, [Statement Regarding Monetary Policy Implementation and Balance Sheet Normalization](#), January 30, 2019.

⁷ See Board of Governors, January 30, 2019, [Statement](#). The FOMC's discussion of monetary policy implementation frameworks is summarized in the minutes of the [November 2018](#), [December 2018](#), and [January 2019](#) FOMC meetings.

⁸ Board of Governors of the Federal Reserve System, [Statement Regarding Repurchase Agreement Arrangements](#), July 28, 2021.

⁹ Board of Governors of the Federal Reserve System, [Federal Reserve announces extensive new measures to support the economy](#), March 23, 2020.

¹⁰ Board of Governors of the Federal Reserve System, [Plans for Reducing the Size of the Federal Reserve's Balance Sheet](#), May 4, 2022.

¹¹ See Board of Governors of the Federal Reserve System, [Federal Reserve issues FOMC statement](#), October 29, 2025.

¹² See Chair Powell's prepared remarks in his October 29 FOMC press conference: [Transcript of Chair Powell's Press Conference](#), October 29, 2025.

¹³ See Roberto Perli, [Balance Sheet Reduction: Progress to Date and a Look Ahead](#), remarks at 2024 Annual Primary Dealer Meeting, Federal Reserve Bank of New York, New York City, May 8, 2024; and Gara Afonso, Kevin Clark, Brian Gowen, Gabriele La Spada, JC Martinez, Jason Miu, and Will Riordan, "[A New Set of Indicators of Reserve Ampleness](#)," Federal Reserve Bank of New York *Liberty Street Economics*, August 14, 2024.