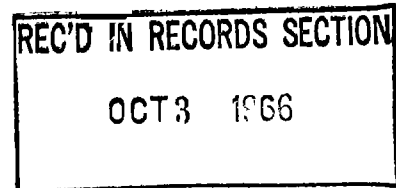




BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON



October 3, 1966

CONFIDENTIAL (FR)

TO: Federal Open Market Committee  
FROM: Mr. Holland

Attached is a memorandum concerning possible authorization by the Committee of repurchase agreements in agency issues, following enactment of H.R. 14026. The Committee may wish to consider this memorandum, perhaps on a preliminary basis, at its meeting tomorrow.

A handwritten signature in cursive script, appearing to read "Robert C. Holland".

Robert C. Holland, Secretary,  
Federal Open Market Committee.

Attachment

OCT 3 1966

October 3, 1966

CONFIDENTIAL (FR)

To: Federal Open Market Committee

From: The Staff

As you know, Section 6 of the recently enacted H.R. 14026 (P.L. 89-597) amended Section 14(b) of the Federal Reserve Act to authorize the Reserve Banks "To buy and sell in the open market, under the direction and regulations of the Federal Open Market Committee, any obligation which is a direct obligation of, or fully guaranteed as to principal and interest by, any agency of the United States."

Accordingly, the Committee may wish to consider taking some action at this juncture in recognition of the new authority. The Account Manager, for reasons similar to those he advanced in his memorandum to the Committee of June 23, 1966 (entitled "Federal Reserve operations in Federal Agency issues") does not plan to recommend outright transactions in agency issues at this time, but, as he stated in that memorandum, he would consider repurchase agreements in such issues to be a potentially useful addition to the kit of tools available for reserve management.

If and when the Committee decides to authorize repurchase agreements in agency issues, it could accomplish this purpose simply by amending Section 1(c) of its continuing authority directive to read as follows:

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"(c) To buy U.S. Government securities, SECURITIES THAT ARE DIRECT OBLIGATIONS OF, OR FULLY GUARANTEED AS TO PRINCIPAL AND INTEREST BY, ANY AGENCY OF THE UNITED STATES, and prime bankers' acceptances with maturities of 6 months or less at the time of purchase, from nonbank dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities or acceptances in 15 calendar days or less, at rates not less than (1) the discount rate of the Federal Reserve Bank of New York at the time such agreement is entered into, or (2) the average issuing rate on the most recent issue of 3-month Treasury bills, whichever is the lower; provided that in the event Government securities OR AGENCY ISSUES covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market."

A copy of the complete directive in its present form is attached.

The staff also has reviewed the Committee's "Regulation relating to open market operations of Federal Reserve Banks" (copy attached) but has concluded that no changes in that Regulation are

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required to bring it into conformance with the new amendment of the Federal Reserve Act. As you will note, paragraph (b) of Section 270.2 - Definitions reads as follows:

"(b) Obligations.--The term "obligations" shall include all bankers' acceptances, bills of exchange, cable transfers, bonds, notes, warrants, debentures, and other obligations, including Government securities, which Federal Reserve Banks are authorized by law to purchase in the open market."

(Underlining added.)

Paragraph (c) of the same Section reads as follows:

"(c) System Open Market Account.--The term "System Open Market Account" applies to Government securities and other obligations heretofore or hereafter purchased in accordance with open market policies adopted by the Committee and held for the account of the Federal Reserve Banks." (Underlining added.)

Since Federal Reserve Banks have now been authorized by law to purchase direct or fully guaranteed obligations of U.S. agencies in the open market, those obligations would seem to be encompassed by the language cited.

Attachments