TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

CONFIDENTIAL (FR)

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS   September 23, 1969

The System Account holds $694 million of the issues eligible for exchange in the current refunding, including $336 million 4 per cent bonds maturing October 1 and $358 million 2-1/2 per cent bonds maturing December 15. Unless there is objection from the Committee, the Account Management plans to exchange this entire holding for a combination of the 3 new issues offered by the Treasury. These are the 8 per cent notes of May 15, 1971, the 7-3/4 per cent notes of May 15, 1973, and the 7-1/2 per cent notes of August 15, 1976. The amounts exchanged in each issue will be approximately proportionate to the anticipated exchanges by the public.

As you know, paragraph 1(a) of Federal Open Market Committee's continuing authority directive authorizes and directs the Federal Reserve Bank of New York "to exchange maturing U.S. Government securities with the Treasury or allow them to mature without replacement." Committee Counsel has expressed the view that this language can be interpreted to permit the indicated exchange of December 15 maturities in advance of maturity date, on the grounds that it was the Committee's intent to allow the Account Management to exercise a choice between exchange and redemption in individual refundings. Any narrower interpretation of the language would deny that choice, since we understand that the Treasury will redeem on December 15 any maturing securities not exchanged at this time.

HOLLAND

AL#:me