



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

June 11, 1975

To: Federal Open Market Committee

From: Murray Altmann

Attached is a corrected page 2 of the report of the Staff Committee on Bankers' Acceptances, dated March 11, 1975, and entitled, "Recommendation for System Operations in Finance Bills."

This report is listed for discussion (Agenda item 11) by the Committee at its meeting on June 16-17, 1975.

Attachment

CONFIDENTIAL (FR)
CLASS II - FOMC

March 11, 1975

TO: Federal Open Market Committee SUBJECT: Recommendation for System Operations in Finance Bills

FROM: Staff Committee on Bankers' Acceptances

FOMC Charge to Staff Committee

This report of the staff committee on bankers' acceptances is made pursuant to the instruction of the Federal Open Market Committee, at its meeting on April 16, 1974, to study further the desirability of System operations in finance bills or non-trade-related acceptances. Our staff committee considered the potential impact of System operations in finance bills on (1) the System's ability to carry out monetary policy, (2) the market for finance bills, (3) the market for traditional trade-related acceptances, and (4) bank asset-liability management policies. In the course of our study, we surveyed the views of about 30 banks and 9 dealers in acceptances.^{1/} We have also sought to take account of several significant developments in the market for trade-related acceptances during the period since early 1974, which could have a bearing on the FOMC's decision whether or not to initiate operations in finance bills.

Conclusions and Recommendations

Based on its review, the staff committee recommends that the Federal Open Market Committee act to broaden the scope of System open market operations to include prime finance acceptances as well as trade-related acceptances. This recommendation emerged from a weighing of plus

1/ A summary of this survey is attached to this report.

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and minus elements that are summarized in the discussion that follows. The recommendation is consistent with the views expressed by this staff committee in its report of January 29, 1974, which indicated a favorable inclination toward System operations in finance bills but proposed that the question be studied further, particularly in order to elicit and evaluate the views of market participants.^{2/}

Our recommendation can be implemented by amending paragraph 1(b) of the authorization for domestic market operations to add, after the references to acceptances that arise out of shipments of goods and storage of goods, a reference to acceptances that arise out of the provision of general financing to the drawer of the accepted draft.

Paragraph 1(b) of the authorization for domestic open market operations would then read:

(b) To buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers' acceptances with maturities of up to nine months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, (2) arise out of the storage within the United States of goods under contract of sale or

^{2/} A copy of this earlier report is also attached.