

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

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To Federal Open Market Committee

Subject: Proposed Revision of Procedures
for Allocation of Securities in
System Open Market Account.

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CONFIDENTIAL (FR)

Beginning next month, the Board's Division of Federal Bank Operations will discontinue the use of gold certificates as the medium for interdistrict settlements, thereby freeing the System's \$11 billion gold certificate holdings as potential collateral for Federal Reserve notes. This change will make it possible to avoid problems in note collateral at individual Reserve Banks because of temporary adverse clearings or large matched sale purchase transactions from the System Account, such as occurred in 1974 and again this year.

As clearings will no longer be conducted in the gold certificate account, the present procedures with respect to the allocation of securities in the System Open Market Account will need to be revised. These procedures, adopted by the Federal Open Market Committee on July 18, 1972, were designed primarily to offset any significant adverse impact of clearings on a Reserve Bank's gold certificate account.

A set of revised procedures which would permit use of securities in the System Open Market Account as the medium for interdistrict settlements is attached.

We are requesting the Committee's approval of the change in procedures outlined on the attachment. Also attached is a memorandum addressed to the Board of Governors which provides additional information on the interdistrict settlement process and reasons for changing the procedures.

JUN 17 1975

Proposed Revision of Procedures for
Allocation of Securities in
System Open Market Account

1. Securities in the System Open Market Account shall be reallocated at least once each year as determined by the Board's Division of Federal Reserve Bank Operations and the manager of the System Open Market Account for the purpose of settling Interdistrict clearings and approximately equalizing for each Federal Reserve Bank the ratio of gold certificate holdings to Federal Reserve notes outstanding.
2. Until the next reallocation, the Account shall be apportioned on the basis of the ratios determined in Paragraph 1.
3. Profits and losses on the sale of securities from the Account shall be allocated on the day of delivery of the securities sold on the basis of each Bank's current holdings at the opening of business on that day.

Procedures in Effect Since July 18, 1972,
to be Replaced by the Proposed
Revision Above

1. Securities in the System Open Market Account shall be reallocated on the last business day of each month by means of adjustments proportionate to the adjustments that would have been required to equalize approximately the average ratios of gold holdings to note liabilities of the 12 Federal Reserve Banks based on the ratios of gold to notes for the most recent five business days.
2. Until the next reallocation the Account shall be apportioned on the basis of the ratios determined in paragraph 1, EXCEPT THAT TEMPORARY INTERIM ADJUSTMENTS MAY BE MADE IN THE APPORTIONMENTS FOR TWO OR MORE BANKS WHEN DESIRABLE IN THE JUDGMENT OF THE DIRECTOR OF THE BOARD'S DIVISION OF FEDERAL RESERVE BANK OPERATIONS AND THE MANAGER OF THE SYSTEM OPEN MARKET ACCOUNT.
3. Profits and losses on the sale of securities from the Account shall be allocated on the day of delivery of the securities sold on the basis of each Bank's current holdings at the opening of business on that day.