

Open Market Operations of Federal Reserve Banks

12 CFR 270; as amended effective March 28, 1983

SECTION 270.1—Authority

This partⁱ is issued by the Federal Open Market Committee (the “Committee”) pursuant to authority conferred upon it by sections 12A and 14 of the Federal Reserve Act (12 USC 263, 355)ⁱⁱ.

SECTION 270.2—Definitions

(a) The term “obligations” means government securities, U.S. agency securities, banker’s acceptances, bills of exchange, cable transfers, bonds, notes, warrants, debentures, and other obligations that Federal Reserve Banks are authorized by law to purchase and sell.

(b) The term “government securities” means direct obligations of the United States (i.e., U.S. bonds, notes, certificates of indebtedness, and Treasury bills) and obligations fully guaranteed as to principal and interest by the United States.

(c) The term “U.S. agency securities” means obligations that are direct obligations of, or are fully guaranteed as to principal and interest by, any agency of the United States.

(d) The term “System Open Market Account” means the obligations acquired pursuant to authorizations and directives issued by the Committee and held on behalf of all Federal Reserve Banks.

SECTION 270.3—Governing Principles

As required by section 12A of the Federal Reserve Act, the time, character, and volume of all purchases and sales of obligations in the open market by Federal Reserve Banks are governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

SECTION 270.4—Transactions in Obligations

(a) Each Federal Reserve Bank shall en-

gage in open market operations under section 14 of the Federal Reserve Act only in accordance with this part and with the authorizations and directives issued by the Committee from time to time, and no Federal Reserve Bank shall decline to engage in open market operations as directed by the Committee.

(b) Transactions for the System Open Market Account shall be executed by a Federal Reserve Bank selected by the Committee. The participations of the several Federal Reserve Banks in such account and in the profits and losses on transactions for the account shall be allocated in accordance with principles determined by the Committee from time to time.

(c) In accordance with such limitations, terms, and conditions as are prescribed by law and in authorizations and directives issued by the Committee, the Federal Reserve Bank selected by the Committee is authorized and directed—

(1) To buy and sell government securities and U.S. agency securities in the open market for the System Open Market Account, and to exchange maturing securities with the issuer;

(2) To buy and sell banker’s acceptances in the open market for its own account;

(3) To buy government securities, U.S. agency securities, and banker’s acceptances of the kinds described above, under agreements for repurchase of such obligations, in the open market for its own account; and

(4) To buy and sell foreign currencies in the form of cable transfers in the open market for the System Open Market Account and to maintain for such account reciprocal currency arrangements with foreign banks among those designated by the Board of Governors of the Federal Reserve System under section 214.5 of this chapter [Regulation N].

(d) The Federal Reserve Banks are authorized and directed to engage in such other operations as the Committee may from time to time determine to be reasonably

necessary to the effective conduct of open market operations and the effectuation of open market policies.

ⁱ The words “this part,” as used herein, mean Open Market Operations of Federal Reserve Banks (Code of Federal Regulations, title 12, chapter II, part 270).

ⁱⁱ At 1-108 and 1-129.