



To Federal Open Market Committee

From Manager
System Open Market Account

Subject: Continuing Authority
Directive

In connection with the annual organization meeting of the Federal Open Market Committee I have four recommendations to make regarding the continuing authority directive. Three of the recommendations involve retaining as permanent features of the continuing authority directive changes that were authorized by the Committee since the last organizational meeting, and one involves a minor clarifying change of wording.

Section 1 (a)

On July 26, 1966, the Committee authorized an increase from \$1.5 to \$2.0 billion in the amount that the aggregate Account holdings of Government securities may be increased or decreased as a result of open market activity between Committee meetings to implement the current economic policy directive. While such large changes in the System portfolio are rarely required to carry out the current economic directive, there might be some point in retaining the larger leeway in view of the many uncertainties that lie ahead. I would, therefore, suggest that the \$2 billion leeway be retained.

Section 1 (b)

I suggest that the limitation on aggregate holdings of bankers' acceptances be clarified in line with our current understanding by adding the phrase "whichever is the lower" to the optional limits set forth. The relevant clause would then read:

"provided that the aggregate amount of Bankers' Acceptances held at any one time shall not exceed (1) \$125 million or (2) 10 per cent of the total of Bankers' Acceptances outstanding, as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York, whichever is the lower."

Section 1 (c)

This section was changed on June 28, 1966 to authorize the purchase of U. S. Government securities under repurchase agreement without limitation as to maturity of the securities; the previous continuing authority directive had limited the maturity to 24 months or less at the time of purchase, except that Government securities of any maturity could be bought under repurchase agreement during periods of Treasury refunding operations. The change adopted on June 28, 1966 has continued in effect up to the present, as embodied in the latest continuing authority directive adopted November 22, 1966. Since the ability to buy securities of any maturity under repurchase agreement has been helpful and will continue to be useful, and since the authority was originally extended to all maturities as a temporary measure, I recommend that it be formally adopted in its present form as a permanent part of the directive.

Section 2

On November 22, 1966 the authority for the Federal Reserve Bank of New York to buy special short-term Certificates of Indebtedness direct from the Treasury was increased from the previous \$500 million level to \$1 billion in order to cover possible Treasury needs over a period when its cash balances were expected to run unusually low. Since the Treasury may have difficulty in managing its cash balances for some time to come either because of the requirements of the statutory debt ceiling or because it may try to work with somewhat lower average cash balances than in the past, I recommend that the authority be retained at the present \$1 billion level.