

CONFIDENTIAL (FR)

January 25, 1972

To: Federal Open Market Committee Subject: Transactions in Govern-
From: Alan R. Holmes ment Agency Issues.

Government Agency issues are purchased by the Trading Desk for the Federal Open Market Committee under guidelines which include the following provision:

"Purchases will be limited to issues outstanding in amounts of \$300 million or over in cases where the obligations have a maturity of five years or less at the time of purchase, and to issues outstanding in amounts of \$200 million or over in cases where the securities have a maturity of more than five years at the time of purchase."

With the passage of time, certain issues of an original maturity of over 5 years outstanding in amounts between \$200 million and \$300 million will move within the five-year maturity area. Having met the \$200 million requirement for over five-year maturities, those particular issues will not meet the \$300 million requirement for under five-year maturities. Such issues will consequently lose their eligibility status. From a practical standpoint, it appears that an issue once known to be suitable for purchase by the System under the guidelines, and possibly already held in the System Account, should not lose its eligibility merely because its maturity has shortened.

-2-

At the time the guidelines were issued and made public, the Committee made it clear that the guidelines would be subject to review and revision as operating experience was gained. A broad review of the Desk's experience with operations in Agency issues will be submitted to the Committee prior to the annual meeting of the FOMC in March. In the meantime, however, I recommend that the guidelines be amended to apply the minimum size of issue limitation to issues at the time of issue, rather than at the time of purchase. The guideline would then read:

"Purchases will be limited to issues outstanding in amounts of \$300 million or over in cases where the obligations have a maturity of five years or less at the time of issuance, and to issues outstanding in amounts of \$200 million or over in cases where the securities have a maturity of more than five years at the time of issuance."