

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

March 12, 1973

CONFIDENTIAL (FR)

To: Federal Open Market Committee

From: Mr. Broida

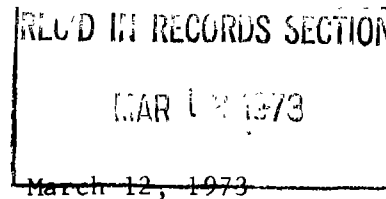
Attached is a copy of a memorandum from the System Account Manager dated today and entitled "Proposed revisions in guidelines for System operations in agency issues."

It is contemplated that this memorandum will be considered at the meeting of the Committee to be held on March 19-20.

A handwritten signature in cursive script that reads "Arthur L. Broida".

Arthur L. Broida
Deputy Secretary
Federal Open Market Committee

Attachment



CONFIDENTIAL (FR)

To: Federal Open Market Committee

Subject: Proposed revisions
in guidelines for System
operations in agency issues.

From: Alan R. Holmes

The present guidelines for System operations in agency issues, a copy of which is attached, were adopted in August 1971. Revisions to guidelines numbered 5 and 6 were made in February and April 1972, respectively.

Of the remaining guidelines still in their original form, the wording of two--numbers 3 and 4--were appropriate to a period in which operations were being initiated and the System's portfolio was being built up. Thus, guideline 3 refers to the "initial objective" of "building up a modest portfolio," and guideline 4, which indicates that maturing agency issues will be allowed to run off, includes the qualifying phrase "at least initially."

Now that the initial phase of agency operations has past, I recommend that both of these guidelines be revised as indicated below.

Number 3 might be recast to read:

"System holdings of agency issues shall be modest relative to holdings of U.S. Government securities, and the amount and timing of System transactions in agency issues shall be determined with due regard for the desirability of avoiding undue market effects."

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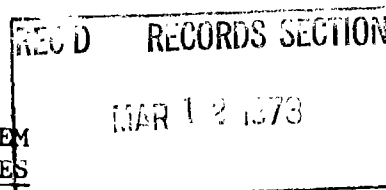
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This language would preserve the notions that the System's portfolio should be modest and that undue market effects should be avoided in transacting in agency issues. At the same time, it would eliminate outdated references to building up a portfolio.

The revision to guideline 4 might consist simply of the deletion of the concluding phrase, "at least initially." Experience has indicated that there is no need at this time to negotiate roll-over privileges with the issuing agencies.

Attachment



GUIDELINES FOR THE CONDUCT OF SYSTEM
OPERATIONS IN FEDERAL AGENCY ISSUES
(As revised April 17, 1972)

1. System open market operations in Federal agency issues are an integral part of total System open market operations designed to influence bank reserves, money market conditions, and monetary aggregates.
2. System open market operations in Federal agency issues are not designed to support individual sectors of the market or to channel funds into issues of particular agencies.
3. As an initial objective, the System would aim at building up a modest portfolio of agency issues, with the amount and timing dependent on the ability to make net acquisitions without undue market effects.
4. System holdings of maturing agency issues will be allowed to run off at maturity, at least initially.
5. Purchases will be limited to fully taxable issues for which there is an active secondary market. Purchases will also 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.
6. System holdings of any one issue at any one time will not exceed 20 per cent of the amount of the issue outstanding. Aggregate holdings of the issues of any one agency will not exceed 10 per cent of the amount of outstanding issues of that agency.
7. No new issues will be purchased in the secondary market until at least two weeks after the issue date.
8. All outright purchases, sales and holdings of agency issues will be for the System Open Market Account.