A meeting of the Federal Open Market Committee was held on Thursday, November 4, 1965, at 11:35 a.m. This was a telephone conference meeting, and each participant was in Washington except as otherwise indicated in parentheses:

PRESENT:	Mr. Martin, Chairman	(Philadelphia)
	Mr. Hayes, Vice Chairman	(New York)
	Mr. Balderston	
	Mr. Ellis	(Boston)
	Mr. Galusha	(Minneapolis)
	Mr. Maisel	
	Mr. Mitchell	
	Mr. Patterson	(Atlanta)
	Mr. Robertson	
	Mr. Scanlon	(Chicago)

Mr. Bopp, Alternate Member of the Federal Open Market Committee (Philadelphia)

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Brill, Economist
Mr. Holland, Associate Economist
Mr. Holmes, Manager, System Open Market Account (New York)

Mr. Axilrod, Associate Adviser, Division of Research and Statistics, Board of Governors
Miss Eaton, General Assistant, Office of the Secretary, Board of Governors

Mr. Marsh, Assistant Vice President, Federal Reserve Bank of New York (New York)
Mr. Geng, Manager, Securities Department, Federal Reserve Bank of New York (New York)
Mr. Eastburn, Vice President, Federal Reserve Bank of Philadelphia (Philadelphia)

Secretary's Note: Prior to this meeting the members of the Committee had heard the morning telephone conference call in which the Desk reviewed developments in the Government securities market against the background of the response to the Treasury's $9.7 billion offer of new 4-1/4 per cent notes of March 15, 1967, on which a 48 per cent allotment ratio had been announced yesterday, this being considerably higher than anticipated. Today's meeting of the Committee had been called at the request of the Manager of the System Open Market Account.

Chairman Martin called first upon Mr. Holmes, who said that the poor reception of the Treasury financing had introduced a new note of uncertainty in the Government securities market. The initial market response had been mild, but it was necessary to be alert to the problems that could develop during an even keel period. In addition to the basic objective of maintaining steady money market conditions, a major objective guiding the Desk during this period would be to make sure that any further adjustment of interest rates that might take place remained an orderly one. This could involve purchases of coupon issues, and it might require paying even less attention to the net borrowed reserve figures than would ordinarily be the case.

Obviously it was not possible to tell at this particular point what market pressures could develop or in what area they might center, Mr. Holmes continued. Without prejudging future action, he thought it advisable for the System to be in a position to purchase when-issued securities if market pressures should center on that area. The Treasury this morning had purchased about $150 million when-issued securities at about 3/64s below the issuing price. This had helped to stabilize that market, and at the moment there was no particular pressure there or in other areas. On the other hand, pressure could develop in that area beyond the Treasury's capacity--in view of its cash position--to handle. In such circumstances, it could be advantageous for the System to buy when-issued securities at any fixed price, but would do so, if required to buy at all, only at declining prices.

As the Committee knew, Mr. Holmes added, there was no standing instruction that would forbid the Manager from buying when-issued securities. But since this would represent a departure from normal practices, he had thought it best to put the matter before the Committee.

Chairman Martin requested comments on the Manager's proposal, and Mr. Hayes said he felt the proposal was a reasonable one. It seemed possible, although one could not tell in advance, that in resisting disorderly pressures it might be more economical to operate in when-issued securities, if pressures centered in that area. It would seem wise to give the Manager the requested degree of leeway.

Mr. Ellis said that he would approve the idea, with the hope, however, that it would not be necessary to deviate from normal practices because the System action, if it occurred, would be picked up in the market as evidence that the market needed help. It would be better if the Desk could get along without having to do this.

Messrs. Galusha, Patterson, and Scanlon agreed with Mr. Ellis. Mr. Bopp, after noting that he was not a voting member of the Committee, also concurred.

Mr. Mitchell said that, while he would approve the proposal, he rather hoped that the Manager would start taking steps that might help to obviate the necessity. While he did not know exactly what the proper steps would be, he would prefer to reassure the market by indirection rather than to be forced to assure the market by direct operations in when-issued securities.

Messrs. Maisel and Robertson concurred with Mr. Mitchell's comments.

Mr. Hayes said he thought it would be difficult to accomplish what Mr. Mitchell had in mind without creating a false impression about the direction of System policy. He felt it was necessary to strike a delicate balance between preventing disorderly conditions and misleading the market on basic System policy.

Chairman Martin commented that he thought this was obvious and that he would question operating across the board in this situation. The Committee, he felt, had to leave this essentially to the judgment of the Account Manager. What the Committee was really doing was giving the Manager latitude to deal in when-issued securities if he thought it wise. Otherwise, the Manager's authority would remain just the same as it had been.

Mr. Balderston said he felt it was important that the problem of the Treasury refinancing not change the direction of monetary policy. It was also important not to give the impression of pegging. What the Manager was proposing was to depart from the tradition against operating in when-issued securities if a disorderly market seemed in prospect. If a disorderly market was an actuality, the Manager had authority to act in any way required. The one difference was that the Manager was proposing to act in an anticipatory way if the threat of a disorderly market seemed serious.

Mr. Mitchell said he would not dissent from giving the Manager the requested leeway. However, just as Mr. Hayes was concerned that some action the Manager might take could give an impression of a change of System policy in the direction of greater ease, he (Mr. Mitchell) was equally concerned that the Manager's failure to take action could create an impression of a change toward a tighter policy. He had confidence that the Manager would attempt to carry out the Committee's directive to the best of his ability, but he wanted to be on record that there were operations at this stage that could give rise to anticipation of a change in policy in either direction. He was prepared to place matters in the Manager's hands, but would not want it thought that he agreed that a change in the direction of policy could only be in one direction as a result of the Desk's operations.

Mr. Hayes agreed that what the Manager should do was give, to the greatest extent possible, the impression that policy remained exactly as it had been.

Chairman Martin said he thought all were in agreement on that point. The only thing this meeting was concerned with, he added, was the question of the Manager's dealing in when-issued securities within the framework of a potentially disorderly market.

Mr. Galush said he wanted to be sure he understood correctly that the Manager could work in an anticipatory way as well as a responsive one, and Chairman Martin replied that the Manager had full authority with respect to the maintenance of an orderly market.

Mr. Holmes said he had nothing to add. The purpose of his requesting this meeting had been to have the Committee consider the possibility of purchasing when-issued securities, if necessary, with all other prescriptions of policy remaining unchanged. He hoped he would not have to purchase when-issued securities, and he did not now anticipate having to do so, but it seemed well to be prepared if market forces required such action.

Thereupon, it was agreed unanimously that the Manager of the System Open Market Account was authorized to purchase Treasury 4-1/4 per cent notes of May 15, 1967, for the Account on a when-issued basis if in his judgment circumstances warranted such action.

The meeting then adjourned.

Ralph A. Young

Secretary