

REC'D IN RECORDS SECTION

SEP 9 1969



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

September 8, 1969

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Holland

There is enclosed a copy of a memorandum from the Secretariat dated September 8, 1969, and entitled "Suggestion for modification of proposed amendment to continuing authority directive."

A handwritten signature in cursive script, reading "Robert C. Holland".

Robert C. Holland, Secretary,
Federal Open Market Committee.

Enclosure

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CONFIDENTIAL (FR)

September 8, 1969

To: Federal Open Market Committee Subject: Suggestion for modification of proposed amendment to continuing authority directive.
From: The Secretariat

The purpose of this memorandum is to suggest a modification of the amendment to the continuing authority directive recommended by the System Account Manager in his memorandum of August 22, 1969, entitled "System Lending of Securities." If the Committee decides to authorize such lending it may want to consider adding to the directive a paragraph reading as follows:

"In order to insure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U.S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time."

This language differs in two respects from that proposed by the Manager in his memorandum of August 22:

(1) The phrase "in order to insure the effective conduct of open market operations" has been added at the beginning of the paragraph. A change of this type was recommended by Committee Counsel in his memorandum of August 25, 1969, entitled "Legality of plan for System lending of Government securities," for reasons given on page 4 of that memorandum.

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(2) The original concluding phrase, reading "on such terms and conditions as are established by the Committee from time to time" has been revised to read "under such instructions as the Committee may specify from time to time."

This change is suggested on the assumption that the Committee will prefer to handle the operational implementation of any lending of Government securities by means of informal understandings--such as, for example, now govern the bases on which the Manager enters into matched sale-purchase transactions--rather than by means of formal actions, in order to increase flexibility with respect to such modifications in the operational procedures as may be decided upon as experience is gained. The original language might be construed to require that the Committee formally adopt the text of the "terms and conditions" and all subsequent modifications thereof, and report these actions publicly in its minutes of actions (available to the public after 90 days) and--together with explanatory material--in the policy record published with the same lag. Such a formal procedure would be likely to inhibit the Manager from instituting, after appropriate notice to the Committee, the more minor kinds of modifications that might be considered desirable on occasion. The proposed language is intended to relieve the Committee of the need for such a procedure, although it would not preclude publication if the Committee so chose.

The Manager concurs in these proposed changes.