



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

January 5, 1973

CONFIDENTIAL (FR)

To: Federal Open Market Committee

From: Arthur L. Broida

Enclosed is the final report of the ad hoc staff committee appointed to review the open market committee's By-Laws, Rules relating to Organization, Procedure, and Availability of Information, and general Regulation on open market operations.

It is contemplated that this report will be considered by the Committee at its meeting January 16, 1973.

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

Arthur L. Broida
Deputy Secretary
Federal Open Market Committee

-2-

P. 16. A new paragraph has been added to the discussion of provisions relating to delegations of authority to take account of a question raised by a Reserve Bank President.

P. 21. The reference on p. 21 to authority to buy and sell foreign currencies has been expanded to refer to the maintenance of reciprocal currency arrangements with foreign banks. Also, a new paragraph has been included to indicate the reason for omission from the proposed new Regulation of specific mention of matched sale-purchase transactions.

Pp. 23 and 24. The discussion of the reasons for omitting § 270.7 of the present Regulation has been expanded in the light of comments received from a Reserve Bank President.

Attachment A-3 (Regulation)

P. 1. An asterisk has been added after the heading of the Regulation and a footnote added to indicate that the text corresponds to Part 270 of Title 12 of the Code of Federal Regulations.

§ 270.4. The heading of this section has been changed from "CONDUCT OF OPEN MARKET OPERATIONS" to "PURCHASE AND SALE OF OBLIGATIONS".

§ 270.4(c)(4). This subparagraph has been expanded to refer not only to the purchase and sale of foreign currencies but to the maintenance of reciprocal currency arrangements with foreign banks.

§ 270.4(d). The reference in the sixth line to "the Treasury" has been changed to refer to "the United States" and the reference in

-3-

the eighth line to "the Treasury" has been changed to refer to "the Treasury Department".

Howard H. Hackley, Chairman
Richard A. Debs
Arthur L. Broida

Attachment

January 4, 1973

REPORT OF STAFF COMMITTEE
ON FOMC BY-LAWS, RULES, AND REGULATION

Assignment

At its meeting on March 21, 1972, the Federal Open Market Committee concurred in a proposal that a review be made by an ad hoc staff committee of certain basic FOMC documents - the Committee's By-Laws, Rules regarding Organization, Procedure, and Availability of Information, and general Regulation as to open market operations. Such a staff committee was designated by Chairman Burns with the understanding that its assignment was to review these documents with a view to developing recommendations for whatever technical changes might be appropriate in the light of developments since the documents were last revised. The assignment did not extend to the FOMC's ^{1/} authorizations and directives.

Recommendations

For the reasons hereafter set forth, the staff committee recommends

- (1) that the present By-Laws be rescinded;

1/ As noted later in this Report, however, if the Committee approves certain additions to its Rules proposed here, it may want to delete corresponding material from its Authorization for System Foreign Currency Operations in order to avoid the partial duplication that would otherwise result. Also, at some appropriate time, in the interest of simplicity and logic, the titles of the Continuing Authority Directive with respect to Domestic Open Market Operations, the Current Economic Policy Directive, and the Authorization for System Foreign Currency Operations might be changed so that the authorizations and directives (with no change in the title of the Foreign Currency Directive) would be designated as follows:

Authorization for Domestic Open Market Operations
Domestic Policy Directive
Authorization for Foreign Currency Operations
Foreign Currency Directive

-2-

(2) that the present Rules of Organization, Rules of Procedure, and Regulation Relating to Open Market Operations of Federal Reserve Banks be revised substantially, as reflected by Attachments A-1, A-2, and A-3, respectively;

(3) that the present Rules Regarding Availability of Information be revised, as reflected by Attachment A-4, to include the few technical changes hereafter described in this Report; and

(4) that the Committee include the Regulation and the above-mentioned Rules among the documents that are circulated to the members for review shortly before the organization meeting in March of each year.

It is not necessary that the proposed revisions of the Committee's Rules and Regulation be published in the Federal Register for comment prior to their adoption. Accordingly, it is contemplated that, if the Committee approves, the revised documents (converted to Federal Register style) would be published in the Federal Register to become effective either on the date of adoption by the Committee or at some early specified date.

Attachments B-1 and B-2 are intended to compare the proposed new documents (except the Rules Regarding Availability of Information) with the existing documents. Attachment B-1 sets forth the new documents with marginal notes indicating the provisions of the existing documents, if any, from which the new provisions are derived. Attachment B-2 sets forth the present documents with marginal notes indicating the disposition of their provisions.

The section immediately below summarizes the objectives of the staff committee's recommendations and provides some brief background

-3-

information on the present documents. Each of the proposed new documents is discussed in more detail in succeeding parts of this Report.

Background and objectives

In developing its recommendations, the staff committee was guided by the principle that documents of the kind under consideration should provide a meaningful general description of the basic organization, procedures, and operating methods of the FOMC, formulated in a manner that is informative to the public and that avoids unnecessary duplication. The present documents fall far short of such a standard, for reasons that can be partly explained by their history.

The FOMC as now constituted by law came into existence on March 1, 1936, pursuant to the provisions of the Banking Act of 1935. Among the Committee's initial actions were the adoption of By-Laws and a Regulation Relating to Open Market Operations of Federal Reserve Banks; By-Laws were approved at the Committee's first meeting, on March 18, 1936, and the Regulation was adopted at the second meeting held the following day. In 1946, pursuant to the requirements of the Administrative Procedure Act passed that year, the Committee adopted (and published in the Federal Register) "Rules on Organization and Information"^{2/} and "Rules on Procedure", the contents of which partly overlapped those of the By-Laws. For example, both the By-Laws and the Rules on Organization and Information dealt with the election of Committee officers, the frequency and place of meetings, and the confidentiality of proceedings, actions, and information of the Committee, and these duplications persist in the present documents.

^{2/} In 1962 the "Rules on Organization and Information" were separated into two parts labeled "Rules of Organization" and "Rules Regarding Information, Submittals, and Requests".

-4-

Unlike the other documents discussed here, the By-Laws have never been printed or published; they have appeared only in mimeographed form. There is no legal requirement that the FOMC have By-Laws, and the staff committee believes that it would be desirable to dispense with them. The substance of their unduplicated provisions can be incorporated, with any necessary revisions, at appropriate points in the revised Rules of Organization and Rules of Procedure.

Each of the documents has been amended from time to time. A few changes - mostly minor - were made in the By-Laws and/or the Regulation in 1938, 1949, and 1952, and all of the documents were amended in 1955 to eliminate references to the Executive Committee, abolished then. In 1962, revisions were made to take account of the foreign currency operations launched in that year, although the record suggests that an effort was made to limit changes for that purpose to the minimum considered essential. (Under that standard, no change was made in the Regulation.) At the same time, the Rules of Organization and the By-Laws were revised to reflect the introduction of a new procedure for selecting the System Account Manager (and the newly designated Special Manager for foreign currency operations) and the opportunity was taken to update the various Rules and By-Laws in certain other respects. In 1967, the Rules Regarding Availability of Information were revised substantially in response to the Public Information Act which became effective in that year. No further amendments were made in any of the documents until March 1972, when provisions of the By-Laws and the

-5-

Rules of Organization relating to the titles of certain staff officers were modified.

Such amendments have not been sufficiently frequent or thoroughgoing to keep the documents in reasonable conformance with current circumstances and practices. For example, § 7 of Article I of the By-Laws provides a rigid order of procedure to be followed at meetings of the Committee which is not the order actually observed today. Again, the Regulation does not take account of important developments since 1936, such as statutory authorizations for direct transactions with the Treasury and for the purchase of agency issues. The Regulation also does not include any explicit reference to foreign currency operations other than the inclusion of "cable transfers" in the definition of "obligations", and a prohibition against purchases and sales by Reserve Banks of "obligations payable in foreign currency" except in accordance with directions of the Committee. Moreover, the Regulation contains some material that is now unnecessary and in some cases misleading.

The present documents make no reference to a number of practices that have been developed to meet recognized needs, such as actions by Committee members between meetings, special meetings in which some members participate by telephone conference arrangements, and delegations of authority by the Committee (e.g., to a subcommittee). They make no provision for the election of a successor in the event of the resignation or death of members or alternates from the Federal Reserve Banks, nor do they indicate who shall serve as Acting Chairman in the absence of both the Chairman and Vice Chairman between meetings of the Committee. Finally, they contain certain technical errors.

The textual revisions recommended are intended to correct such deficiencies in the present documents (including the material from the

-6-

present By-Laws proposed for inclusion in the revised Rules). The final recommendation, calling for routine annual review, is intended to insure that the documents are kept in conformance with actual circumstances and practices as the latter evolve in the future.

RULES OF ORGANIZATION

Inclusion of By-Law provisions. - Much of the proposed revision of the Rules of Organization (Attachment A-1) reflects merely the inclusion of provisions now contained in the By-Laws. For example, the provisions of § 2(b) of the draft, relating to the election of Reserve Bank representatives and the status of an alternate in the absence of the member for whom he is serving, are based upon §§ 1 and 2 of Article I of the By-Laws; and § 4 of the draft includes provisions regarding the duties of staff officers of the Committee similar to those now found only in the By-Laws.

Filling of vacancies among Federal Reserve Bank representatives and alternates. - Neither the By-Laws nor the present Rules contain any provision for the election of a successor in the event a member of the Committee representing the Reserve Banks or an alternate for such a member should resign, retire, or die. Recognizing actual practice, the last sentence of § 2(b) of the proposed revision would provide that, if a member or alternate ceases to be a President or First Vice President of a Reserve Bank, a successor may be chosen in a special election by the boards of directors of the appropriate Reserve Bank or Banks.

-7-

Oath of office. - Section 2(c) of the draft is based upon, but differs from, a provision in the present By-Laws that states that members and alternates take the oath of office required by the Constitution for officers of the United States. While the Constitution requires officers of the United States to take an oath of office, the courts have held that only officers appointed by the President, the courts, or heads of Departments are officers in the Constitutional sense. Members of the Committee representing the Reserve Banks would not be officers in that sense. Moreover, the Constitution prescribes only the form of oath to be taken by the President. However, all members of the Committee, including those representing the Reserve Banks, are officers of the United States within the meaning of 5 U.S.C. § 3331, which prescribes a form of oath for such officers; and it is that form of oath that members of the Committee actually take. Accordingly, the revised Rules would state that FOMC members take the oath of office prescribed by statute for officers of the United States.

Meetings. - Section 2(c) of the present Rules of Organization, regarding meetings of the FOMC, would be omitted because the staff committee believes that all provisions regarding meetings, including those now contained in the By-Laws, should appropriately be incorporated in the revised Rules of Procedure.

Absence of Chairman and Vice Chairman. - The law contains no provision with respect to a Chairman or Vice Chairman of the Committee. The present Rules of Organization (§ 2(b)) state that, at its first meeting on or after March 1 of each year, the Committee selects a Chairman and a

-8-

Vice Chairman from among its membership. Traditionally, the Committee has always selected the Chairman of the Board as Chairman of the Committee and the President of the New York Reserve Bank as Vice Chairman. Under the present By-Laws, in the absence of the Chairman of the Committee the Vice Chairman acts as Chairman, and in the absence of both (presumably at a meeting) the Committee elects an Acting Chairman. However, on at least one recent occasion (in June 1972), both the Chairman and Vice Chairman were out of the country when an immediate action appeared to be called for between meetings of the Committee. In order to take care of such situations, the revised Rules would provide that, in the absence of both the Chairman and Vice Chairman, the Vice Chairman of the Board would act as Chairman and that, in the absence of all three, the member of the Board present with the longest service on the Board would act as Chairman.

One of the Reserve Bank Presidents has raised the question whether the member of the Committee with the longest service, rather than the member of the Board with the longest service, should act as Acting Chairman in the absence of both the Chairman and Vice Chairman of the Committee. This is, of course, a matter of policy for decision by the Committee. However, any situation requiring prompt action in the absence of both the Chairman and Vice Chairman ordinarily would arise in Washington (as happened last June) or at the New York Reserve Bank, with which the Board's staff is in constant communication. As a practical matter, therefore, the staff committee felt that it would be preferable to provide that the Acting Chairman in such a

-9-

situation should be a member of the Board. Moreover, in practice, only the President of the New York Reserve Bank is continuously a member of the Committee; the Presidents of two Reserve Banks normally serve as members in alternate years and the Presidents of the other nine Reserve Banks normally serve as members only every third year. Consequently, without elaborate rules on seniority, there could be some ambiguity in an emergency situation as to which member of the Committee has had the longest service.

Staff officers. - Section 4(a) of the draft, like the present Rules of Organization (as amended in March 1972), lists the titles of staff officers of the Committee. The remainder of § 4 of the draft paraphrases provisions of the By-Laws regarding the duties of staff officers. The description of the duties of the Secretary has been expanded to include reference to records of discussions at meetings as well as minutes of actions, and the description of duties of the Economists has been expanded to provide that they shall present to the Committee information not only about business and credit conditions but also about "domestic and international economic and financial developments".

Manager and Special Manager. - The present Rules of Organization and By-Laws provide that the Committee selects a Manager and Special Manager who shall be satisfactory to the Reserve Bank selected to execute transactions for the System Open Market Account, and the present By-Laws provide that the

-10-

Manager and Special Manager shall serve at the pleasure of the Committee. These provisions would be combined in § 5 of the proposed revision of the Rules of Organization. In addition, the revised Rules would state that the Manager and Special Manager keep the Committee informed on market conditions and on transactions made by them, and render such reports as the Committee may specify. No such reporting requirement is contained in the present Rules and By-Laws; however, paragraph 10 of the present Authorization for System Foreign Currency Operations does include such a requirement for the Special Manager.^{3/}

RULES OF PROCEDURE

Committee's functions. - Section 272.2 of the draft of the revised Rules of Procedure (Attachment A-2) is an adaptation of the rather wordy description of the Committee's functions in the corresponding section of the present Rules. It is intended to condense the description and to relate it more specifically to the procedures of the Committee.

Inclusion of provisions from Rules of Organization and By-Laws. - Section 272.3 of the draft includes, without substantive changes except as hereafter noted, provisions regarding meetings of the Committee now contained in § 2(c) of the Rules of Organization and §§ 4, 5, and 7 of Article I of the By-Laws.

^{3/} If the proposed language is added to the Rules, the Committee may wish to delete paragraph 10 of the Foreign Currency Authorization to avoid the partial duplication that would otherwise result.

-11-

Notice of meetings. - Section 272.3(a) of the draft specifically provides that notices of calls for meetings of the Committee by the Chairman of the Board shall be given by the Secretary "in writing or by telegram". The present provisions of the By-Laws require notice of calls for meetings made by any three members of the Committee (as provided for by statute) to be in writing or by telegram, but do not make the same requirement with respect to notices of calls by the Chairman of the Board. The proposed requirement as to such notices would not preclude the giving of notice of emergency meetings of the Committee by means of telephone; but it would require confirmation by telegram.

Telephone meetings. - It is obviously preferable that actions of the Committee be taken at meetings at which all members participating are physically present. At the same time, experience has demonstrated that there may be special circumstances when action must be taken promptly but time does not permit the calling of a meeting that can be attended by all members. Under the law, meetings of the Committee are required to be held in Washington; but in such special circumstances, with members of the Board in Washington, meetings of the Committee have been held in which representatives of the Reserve Banks (and occasionally a Board member) have participated by telephone conference arrangements. It seems desirable that the Rules of Procedure recognize this practice; and § 272.3(a) of the revised Rules would provide in effect that, if in the judgment of the Chairman circumstances require that a meeting be called at short notice, members

-12-

who cannot be present in Washington may participate in the meeting by telephone conference arrangements.

Attendance at meetings. - Section 272.3(d) of the draft would correct a typographical error in the pamphlet print of the present Rules of Procedure (§ 272.2) to the effect that only those Presidents of the Reserve Banks who are at the time members of the Committee may attend meetings of the Committee. (The error does not appear in the text published in the Federal Register and the Federal Reserve Bulletin.)

Meeting agendas. - Section 7 of Article I of the present By-Laws provides a rigid order of procedure to be followed at meetings of the Committee. This procedure is not actually observed today. In lieu of these provisions, § 272.3(e) of the draft revision of the Rules of Procedure would give only a general indication of the matters considered at Committee meetings. It would provide examples of items generally included on agendas for meetings, such as approval of minutes of actions and acceptance of memoranda of discussion for previous meetings, reports by the Manager and Special Manager, discussion of the economic and financial situation and outlook, and Committee discussion of monetary policy and action with respect thereto.

The present Rules contain no provisions regarding the preparation and transmittal of agendas. Section 272.3(e) of the revised Rules of Procedure would provide that the Secretary of the Committee, in consultation with the Chairman, shall prepare agendas for meetings and shall transmit the agenda to members of the Committee within a reasonable time in advance

-13-

of a meeting. This provision would not, of course, preclude any member from requesting that a particular item be placed on the agenda for a forthcoming meeting or from raising questions at a meeting that are not included on the agenda.

Manner in which Committee actions are taken. - Section 272.4 of the revised Rules of Procedure would state that, while actions are generally taken at meetings of the Committee, in special circumstances actions may be taken by members of the Committee between meetings or may be taken by the Chairman, a specified subcommittee, or other members pursuant to delegated authority. The new provisions do not imply that actions taken in the past by members between meetings or through delegations of authority have been invalid; nor are they intended to suggest that such procedures should be employed any more (or less) often than in the past as an alternative to actions at meetings of the Committee, including meetings in which some members participate by telephone. The provisions are designed only to recognize and conform to the realities of current practice.

Actions by members between meetings. - Subsection (b) of the new § 272.4 would provide that actions by members between meetings are taken only in special circumstances when it is not feasible to call a meeting. The question whether such circumstances exist would be determined by the Chairman. (In the absence of the Chairman, the determination would be made by the Vice Chairman of the Committee or, in the absence of both, by the Acting Chairman.) Provisions would be included regarding procedures for transmitting recommendations, votes, and advices of actions taken.

To this point, § 272.4 would simply describe existing practice. The final sentence of subsection (b), however, reflects an effort to deal with certain problems that arise under existing practice.

-14-

This sentence provides that "An action taken between meetings has the force and effect of an action at a meeting; provided, however, that if a meeting is held before the execution of any operations pursuant to the action, the action is null and void unless it is ratified and confirmed by the Committee at such meeting."

By way of explanation, it might be noted that at present, when an action is taken by majority vote of members between meetings, it is the general practice for the Committee as a whole to "ratify" the action at the first following meeting. While at times there have been differences of view regarding the purpose and meaning of such ratifications, most often they have been interpreted as a means of giving the actions in question the status of legal actions by the Committee. The Committee's General Counsel has relied on this interpretation on two occasions^{4/} when he expressed the opinion that an action taken by members between meetings which was not subsequently implemented and which was not ratified by the Committee never became an effective legal action of the Committee for purposes of publication of the action under the requirements of section 10 of the Federal Reserve Act. (That section requires that the Board of Governors shall keep a complete record of actions

^{4/} The first occasion concerned a \$200 million increase in the System's swap line with the National Bank of Belgium which Committee members approved on August 15, 1969, effective August 18, 1969. At the request of the Belgian authorities that increase was not consummated, and the action was not ratified by the Committee. (An equivalent increase was approved by the members on August 27, 1969, effective September 2, and was duly ratified.) The second occasion involved the approval on June 29, 1972, of certain contingency plans developed in consultation with the Treasury which were to be implemented in the event of a delay in enactment of new debt ceiling legislation then pending before Congress, but which in fact were not implemented.

-15-

taken by the FOMC upon all questions of policy relating to open market operations and shall include a full account of such actions in the Board's Annual Report to Congress.)

The difficulty with the present practice arises in connection with actions that are implemented before a Committee meeting is held, and thus before the actions can be ratified by the Committee. Specifically, if the actions do not have the status of legal actions by the Committee at the time they are implemented, questions might possibly be raised regarding the status of the operations carried out pursuant to them. Moreover, under present procedures there exists the possibility, however remote, that the Committee as a whole might decline to ratify an intermeeting action on which the Bank selected to execute transactions for the System Account relied in conducting operations.

The final sentence of subsection (b) of the draft is intended to remove any shadow of doubt regarding the legality of operations undertaken pursuant to intermeeting actions that have not yet been ratified. By adopting rules containing the sentence in question, the Committee would be giving legal status to all subsequent intermeeting actions on which reliance was placed in the conduct of open market operations. The sentence would also recognize that when it is feasible for the Committee to take action at a meeting, such action is preferable to an action taken by members between meetings. Thus, if the Committee finds that it is able to meet before the operations authorized by an intermeeting action are undertaken--so that,

-16-

contrary to earlier expectations or fears, it has an opportunity to deliberate on the action at a meeting--the intermeeting action by members becomes null and void unless it is ratified and confirmed by the Committee at the meeting.

It might be noted that at present the Committee ordinarily ratifies intermeeting actions even when they have not been implemented and the circumstances that had led to the initial recommendation have passed at the time of the ratification. This has been the case, for example, when the Manager has recommended a temporary increase in some dollar limit contained in the Continuing Authority Directive (such as the limit on changes in System Account holdings of securities between meetings) as a precaution against possible need during a brief period ending before the next meeting. It is assumed that ordinarily the Committee would continue to ratify such actions and to publish information concerning them. Thus, the proposed language need have no effect on the present situation with respect to intermeeting actions that are not implemented.

One Reserve Bank President raised a question as to the need for inclusion of the provisions relating to actions by members between meetings, particularly in view of the facility for holding special meetings on short notice with telephone participation by members outside of Washington. The Committee could, of course, decide to make greater use of special meetings and less of telegraphic votes in the future, but the staff committee felt that the Committee would not wish to eliminate a technique that has proved valuable at times in the past. Special meetings have the disadvantages

-17-

relative to telegraphic votes of taking longer to arrange (and under certain circumstances a delay of a few hours might be costly), of involving greater disruption of the schedules of members, and possibly of participation by fewer members. These disadvantages might often be outweighed by the advantages of special meetings, e.g., of providing members with greater opportunity for eliciting information and for exchanging views. However, in some cases the urgent question requiring action may be a relatively simple one which the members are unlikely to discuss at any length even if given the opportunity, and in such cases it may appear neither necessary nor desirable to call a special meeting.

Another Reserve Bank President raised questions as to whether the Rules should include a provision giving the Chairman, acting alone, the responsibility for deciding whether circumstances make it desirable for members to consider a recommendation for action between meetings, and whether, in any event, a two-thirds majority, rather than a simple majority, should be required for actions by members between meetings with respect to matters of domestic policy. These are, of course, questions of policy to be determined by the Committee. It may be noted, however, that in connection with many of the domestic policy matters deemed sufficiently urgent to require action between meetings, the action proposed is of a relatively noncontroversial nature. For such matters, it might be unduly burdensome to require that the decision as to whether a recommendation for action should be submitted to the members be made by a subcommittee or other group rather than by the Chairman alone, or to require that the action be approved by two-thirds of the members of the Committee.

-18-

Delegations of authority. - Again recognizing current practices, subsection (c) of the new § 272.4 would take account of cases in which the Committee may delegate authority to take a particular action, subject to instructions or guidelines, to the Chairman of the Committee, to a subcommittee, or to any other member(s) of the Committee. At present, paragraph 6 of the Authorization for System Foreign Currency Operations expressly provides for a subcommittee consisting of the Chairman and Vice Chairman of the Committee and the Vice Chairman of the Board (or designated alternates) to act on behalf of the Committee when necessary to enable the New York Reserve Bank to engage in foreign currency operations before the Committee can be consulted. At times the Committee has made ad hoc delegations of authority to the same subcommittee in connection with foreign currency matters, and at times it has delegated authority to the Chairman (e.g., to determine whether certain proposed actions were in the national interest). The revised Rules of Procedure would contemplate delegations of authority when necessary to provide for actions in the domestic as well as the foreign area, and they would indicate that any action taken under delegated authority has the force and effect of an action taken by the Committee itself.^{5/}

One Reserve Bank President has suggested that delegations of authority relating to domestic policy matters should be made only to a

^{5/} If this addition is made to the Rules, paragraph 6 of the Foreign Currency Authorization could be simplified by replacing the full description of the subcommittee given there with a reference to "the subcommittee named in the Committee's Rules of Procedure".

-19-

subcommittee. Such a provision might unnecessarily restrict the options available to the Committee in particular cases. In this connection, it may be noted that in the past most delegations of authority have been made in the course of a regular Committee meeting rather than between meetings so that there has been full opportunity for discussion of them.

RULES REGARDING AVAILABILITY OF INFORMATION

The present Rules Regarding Availability of Information reflect substantial revisions made by the Committee in 1967 to implement requirements of the Public Information Act. In the view of the staff committee, there is no need for substantive changes in these Rules. However, they are presently printed in a single pamphlet along with the Rules of Organization and the Rules of Procedure. The staff committee believes that it would be desirable to reprint the Rules Regarding Availability of Information with the same new effective date as the other Rules in order to make certain technical and editorial changes as described below (see Attachment A-4).

1. The title of § 271.1, in order to conform to the other Rules, should be changed from "BASIS AND SCOPE" to "AUTHORITY".
2. Again conforming to the style of the other Rules, the first reference to the Board of Governors of the Federal Reserve System, contained

-20-

in § 271.2(a), should be followed by "(the 'Board')"; and the word "Board" would then be substituted for subsequent references to the Board of Governors of the Federal Reserve System.

3. A reference in § 271.3(a) to "sections 552 and 553 of the United States Code" should be changed to refer to "sections 552 and 553 of Title 5 of the United States Code".

4. In § 271.5(a), a statement is made that no information in the records of the Committee relating to the adoption of any such directive (the Current Economic Policy Directive) "is made available for public inspection or copying before it is published in the Federal Register." Actually, a policy record containing the Current Directive is usually released to the press a day or two before it is published in the Federal Register. Moreover, the policy record for the December meeting of the Committee normally is released in the Annual Report material around 60 days following the date of the December meeting. For accuracy, therefore, the quoted statement should be supplemented by the words "or is otherwise released to the public by the Committee".

REGULATION

Authority. - Section 270.1(a) of the present Regulation refers only to section 12A of the Federal Reserve Act as authority for the Regulation. The corresponding section of the draft (§ 270.1) of proposed

-21-

revision (Attachment A-3) refers also to section 14, which now specifically provides for the Committee's regulation of purchases and sales of agency issues. Section 270.1(b) of the present Regulation, reserving to the Committee the right of alteration, amendment, or repeal, would be omitted as unnecessary.

Definitions. - The draft would revise § 270.2 of the present Regulation, containing definitions, by defining first the general term "obligations" as meaning Government securities, U.S. agency securities, bankers' acceptances, bills of exchange, cable transfers, and other obligations authorized to be bought and sold by the Reserve Banks. The section would then include separate definitions of the terms "Government securities" and "U.S. agency securities". The present definitions contain no reference to agency securities, the purchase and sale of which were authorized by Congress in 1966. The definition of the term "Committee" in § 270.2(d) of the present Regulation would be replaced by the simpler parenthetical definition shown in § 270.1 of the draft.

System Open Market Account. - Section 270.2(c) of the present Regulation states that the term "'System Open Market Account' applies to Government securities and other obligations heretofore or hereafter purchased in accordance with open market policies adopted by the Committee and held for the account of the Federal Reserve Banks." The staff committee gave considerable thought to the adequacy of this definition.

-22-

It concluded that the System "Account" actually is not an "account" in a strict sense of the word but that the term "System Open Market Account" properly means the sum total of all Government securities and other obligations acquired in the open market or from the Treasury and held on behalf of, i.e., "for the account of", all of the Reserve Banks. Consequently, the proposed revision of this language, which follows very closely the sense of the present provision, would define the System Account as meaning "the obligations acquired pursuant to authorizations and directives issued by the Committee and held on behalf of all Federal Reserve Banks".

Governing principles. - Section 270.3 of the draft is substantially the same as a corresponding section of the present Regulation that paraphrases the provisions of section 12A of the Act with respect to governing principles. Language in § 270.4(a) of the present Regulation that substantially parallels language in the section regarding "Governing Principles" would be omitted as unnecessary.

Allocations in System Account. - Section 270.4(b) of the present Regulation provides that the Committee from time to time shall determine the principles that shall govern the allocation among the several Reserve Banks of Government securities and other obligations held in the System Open Market Account, with a view to meeting the changing needs of the Federal Reserve Banks. Section 270.4(b) of the proposed revision of the

-23-

Regulation would provide (in the second sentence) that "The participations of the several Federal Reserve Banks in such Account and in the profits and losses on transactions for the Account shall be allocated in accordance with principles determined by the Committee from time to time." The reference in this sentence to profits and losses is intended to recognize that, in addition to allocations of participations in the Account, a separate allocation of profits and losses on the sales of securities from the Account is made on the day of delivery of the securities sold on the basis of each Bank's current holdings at the opening of business on that day. This additional allocation is provided for in the Committee's procedures for allocations.

Reserve Banks engaging in open market operations. - Section 270.5(a) of the present Regulation, in language paraphrasing the language of the statute, provides that each Reserve Bank shall engage in open market operations only in accordance with the regulations and directives issued by the Committee and that no Reserve Bank shall decline to engage in open market operations as directed by the Committee. Section 270.4(a) of the draft would repeat this provision. In the light of this provision, however, the revised draft would omit as unnecessary a provision in § 270.6(a) of the present Regulation providing that no Reserve Bank shall purchase or sell Government securities except pursuant to authority granted by the Committee or in accordance with open market policies adopted by the Committee.

Description of operations. - Most of the new § 270.4 would be designed to give the public somewhat more specific information as to the

-24-

nature of the transactions engaged in by the Reserve Banks. Thus, subsection (c) would expressly authorize the Reserve Bank selected to execute open market transactions, subject to statutory limitations and to authorizations and directives of the Committee, (1) to buy and sell in the open market Government securities and U.S. agency securities for the System Account; (2) to buy and sell in the open market for its own account bankers' acceptances of the kinds made eligible for purchase under the Board's Regulation B; (3) to buy in the open market for its own account Government securities, U.S. agency securities, and bankers' acceptances, subject to repurchase agreements; and (4) to buy and sell in the open market foreign currencies for the System Account and to maintain for such Account reciprocal currency arrangements with foreign banks among those designated by the Board pursuant to its Regulation N.

The staff committee considered whether the revised Regulation should include specific mention of authority for matched sale-purchase transactions. It decided to omit such mention because such authority would be included in the authority in § 270.4(c)(1) of the revised Regulation to "buy and sell Government securities" and because the Committee's Continuing Authority Directive, although mentioning repurchase agreements specifically, likewise omits reference to matched sale-purchase transactions, again for the reason that such authority is regarded as covered.

Subsection (d) would authorize the selected Reserve Bank to purchase Government securities directly from the Treasury either for its

-25-

own account or for the System Account, subject to limitations of the law and authorizations and directives of the Committee. Finally, subsection (e) would authorize the Reserve Banks to engage in such other operations as the Committee might determine to be reasonably necessary to the effective conduct of open market operations and the effectuation of open market policies.

The rationale of these new provisions would be not only to make the Regulation more informative but to incorporate in the Regulation general authorizations for transactions of the kinds subject to the regulatory jurisdiction of the FOMC and at the same time to make it clear that such general authorizations may be limited and restricted by specific authorizations and directives of the Committee. Under this rationale, it is contemplated that the general Regulation would seldom need to be amended but that the Continuing Authority Directive for Domestic Open Market Operations, the Authorization for System Foreign Currency Operations, and the Foreign Currency Directive would be amended from time to time as might be necessary.

At the present time, for example, the general provisions of the proposed Regulation would be restricted in a number of respects by the Committee's authorizations and directives. In this connection, it should be noted that the Domestic Continuing Authority Directive authorizes the New York Reserve Bank to purchase only special short-term certificates of indebtedness directly from the Treasury and to purchase them only for its own account. The proposed Regulation more broadly would authorize

-26-

the direct purchase of any Government securities and provide for their purchase either for the selected Bank's own account or for the System Account. It will be recalled that such a broader authorization would have been utilized if the contingency planning action of the Committee on June 29, 1972, taken in the light of the possible delay in enactment of new debt ceiling legislation, had become effective and had been implemented.

It may be noted also that the general authority provided in § 270.4(e) of the draft revision to engage in such operations as may be necessary to the effective conduct of open market operations is presently restricted by paragraph 3 of the Domestic Continuing Authority Directive to the lending of Government securities to Government securities dealers and to banks participating in Government securities clearing arrangements.

Availability of funds to selected Reserve Bank. - The present general Regulation (§ 270.5(b)) provides that each Reserve Bank shall make available to the Reserve Bank selected by the Committee such funds as may be necessary to conduct and effectuate transactions for the System Account. This provision would be omitted from the revised draft as unnecessary.

Transfer of securities to System Account. - Section 270.6(b) of the present Regulation provides that the Committee reserves the right to require the sale of any Government securities "now held or hereafter purchased by an individual Federal Reserve Bank" or to require that such securities be transferred to the System Account. Such a provision may

-27-

have been necessary when the Regulation was first adopted but it is believed that the provision no longer serves any useful purpose.

Operations by Reserve Banks other than the selected Bank.

Section 270.7 of the present Regulation, headed "Other Open Market Operations", can be interpreted as authorizing not only the selected Reserve Bank but any Reserve Bank to purchase and sell in the open market any types of obligations other than Government securities, subject only to the specific requirements of that section. Although the section begins with the words "Subject to directions of the Committee", the context suggests that this means directions of the Committee if any. This interpretation is supported by the fact that the section specifically excludes the purchase and sale of Government securities, clearly because the present § 270.6 provides that no Reserve Bank shall purchase or sell Government securities except pursuant to authority granted by the Committee or in accordance with the Committee's open market policy at the time. The interpretation is also supported by the fact that the section expressly prohibits the purchase or sale of obligations payable in foreign currency and the purchase or sale of cable transfers except in accordance with directions of the Committee.

Under such an interpretation of this section, it would permit any Reserve Bank to buy and sell for its own account eligible acceptances and revenue bonds and warrants unless the Committee should issue directives expressly prohibiting such transactions. Such blanket permission, however, would seem inconsistent with the intent of the Regulation and of the

-28-

Committee's authorizations that no Reserve Bank shall engage in open market operations except in accordance with authorizations of the Committee and that only the Reserve Bank selected to execute transactions for the System Account is authorized to engage in such operations.^{6/}

In the circumstances, the staff committee recommends that the present § 270.7 be eliminated as misleading and unnecessary. Operations by the selected Bank in bankers' acceptances, both outright and under repurchase agreements, would be covered by § 270.4(c) of the proposed draft revision. Operations in foreign currencies in the form of cable transfers would be covered by § 270.4(c)(4) of that draft. Since the Committee does not authorize operations in bills of exchange and municipal bonds and warrants, the draft would contain no mention of such operations.

Bankers' acceptances. - As above indicated, the new draft would specifically provide for operations in bankers' acceptances by the selected Reserve Bank and would continue to limit such operations to acceptances of the kinds made eligible for purchase under Part 202, i.e., Regulation B of the Board of Governors. Among other things, Regulation B permits the purchase of bankers' acceptances only if they are eligible for discount under the Board's Regulation A. Under the law, acceptances could be purchased by a Reserve Bank even though not eligible for discount; and the

^{6/} The Committee's Continuing Authority Directive with respect to Domestic Operations permits any Reserve Bank to lend Government securities to dealers, but such transactions do not involve the purchase and sale of securities; they are regarded as reasonably necessary to the effective conduct of open market operations by the New York Reserve Bank. Any Reserve Bank may be authorized to buy Government securities directly from the Treasury, but such transactions do not constitute open market transactions.

-29-

Committee could prescribe its own rules regarding eligibility of acceptances for purchase in the open market without regard to discount eligibility requirements. This gives rise, however, to a question of policy that has been under consideration within the System for several years and has not yet been resolved.

Arthur L. Broida
Richard A. Debs
Howard H. Hackley, Chairman

Attachments

Attachment A-1

DRAFT

January 4, 1973

FEDERAL OPEN MARKET COMMITTEE

RULES OF ORGANIZATION*

As amended effective _____

SECTION 1 - AUTHORITY

These rules are issued by the Federal Open Market Committee (the "Committee") pursuant to the requirement of section 552 of Title 5 of the United States Code that every agency shall publish in the Federal Register a description of its central and field organization.

SECTION 2 - COMPOSITION OF COMMITTEE

(a) Members. - The Committee consists of the seven members of the Board of Governors of the Federal Reserve System (the "Board") and five representatives of the Federal Reserve Banks, each of whom is a President or a First Vice President of a Reserve Bank.

(b) Reserve Bank representatives. - The representatives of the Federal Reserve Banks, and an alternate for each representative, are elected by the boards of directors of the Reserve Banks in accordance with section 12A of the Federal Reserve Act (12 U.S.C. § 263) for terms of one year commencing on March 1 of each year. Prior to the first meeting of the Committee on or after March 1 of each year, each

*The text is not included in the Code of Federal Regulations and therefore may not be cited with a code reference.

-2-

member of the Committee representing the Federal Reserve Banks shall cause a record of his election and of the election of his alternate to be forwarded to the Secretary of the Committee. If any question is raised as to the election or eligibility of a member or alternate, the Committee determines such question before such member or alternate participates in a meeting of the Committee. In the event a member is absent from a meeting of the Committee, his alternate, in attending the meeting, shall have the same status as the member for whom he is serving. If a member or alternate ceases to be a President or First Vice President of a Reserve Bank, a successor may be chosen in a special election by the boards of directors of the appropriate Reserve Bank or Banks and such successor serves until the next annual election.

(c) Oath of office. - Each member of the Committee and each alternate take the same oath of office as that prescribed by statute to be taken by officers of the United States.

SECTION 3 - CHAIRMAN AND VICE CHAIRMAN

At its first meeting on or after March 1 of each year, the Committee elects a Chairman and a Vice Chairman from among its membership. The Chairman presides at all meetings of the Committee and performs such other duties as the Committee may require. The Vice Chairman performs the duties of the Chairman in the absence of the Chairman. In the absence of both the Chairman and the Vice Chairman of the Committee,

-3-

the Vice Chairman of the Board acts as Chairman of the Committee; and, in the absence of the Chairman and the Vice Chairman of the Committee and the Vice Chairman of the Board, the member of the Board present with the longest service as a member of the Board acts as Chairman of the Committee.

SECTION 4 - STAFF

(a) Selection of staff officers. - At its first meeting on or after March 1 of each year, the Committee selects, from among the officers and employees of the Board and the Federal Reserve Banks, the following staff officers to serve until the first meeting on or after March 1 of the next following year: Secretary, Deputy Secretary, and one or more Assistant Secretaries; General Counsel and one or more Assistant General Counsels; and Economists, one or more of whom may be designated as Senior or Associate Economists or given titles reflecting their areas of particular specialization.

(b) Secretary and Deputy and Assistant Secretaries. - The Secretary keeps minutes of actions and records of discussions at all meetings of the Committee; he maintains a complete record of the actions taken by the Committee upon all questions of policy relating to open market operations; and he records the votes taken in connection with the determination of open market policies and the reasons underlying each such action. He has custody of such minutes and records, and he performs such other duties as the Committee may require. In

-4-

the absence of the Secretary of the Committee, the Deputy Secretary or an Assistant Secretary acts as Secretary pro tem.

(c) Economists. - The Economists prepare for the use of the Committee and present to it such information regarding business and credit conditions and domestic and international economic and financial developments as will assist the Committee in the determination of open market policies, and they perform such other duties as the Committee may require.

(d) General Counsel and Assistant General Counsel. - The General Counsel furnishes such legal advice as the Committee may require. In the absence of the General Counsel, an Assistant General Counsel acts as General Counsel pro tem.

(e) Filling of vacancies. - At any meeting the Committee may fill any vacancy in the offices described in this section.

(f) Other staff assistance. - The services of any officers and employees of the Board and the Federal Reserve Banks are made available and are utilized by the Committee as required.

SECTION 5 - MANAGER AND SPECIAL MANAGER

The Committee selects a Manager of the System Open Market Account and a Special Manager for Foreign Currency Operations for such Account, both of whom shall be satisfactory to the Federal Reserve Bank selected by the Committee to execute open market

-5-

transactions for such Account, and both of whom serve at the pleasure of the Committee. The Manager and Special Manager keep the Committee informed on market conditions and on transactions they have made and render such reports as the Committee may specify.

Attachment A-2

DRAFT

January 4, 1973

FEDERAL OPEN MARKET COMMITTEE

RULES OF PROCEDURE*

(12 CFR 272)

As amended effective _____

SECTION 272.1 - AUTHORITY

This Part is issued by the Federal Open Market Committee (the "Committee") pursuant to the requirement of section 552 of Title 5 of the United States Code that every agency shall publish in the Federal Register its rules of procedure.

SECTION 272.2 - FUNCTIONS OF THE COMMITTEE

The procedures followed by the Committee are designed to facilitate the effective performance of the Committee's statutory functions with respect to the regulation and direction of open market operations conducted by the Federal Reserve Banks and with respect to certain direct transactions between the Reserve Banks and the United States. In determining the policies to be followed in such operations, the Committee considers information regarding business and credit conditions and domestic and international economic and financial developments, and other pertinent information

*The text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 272; cited as 12 CFR 272.

-2-

gathered and submitted by its staff and the staffs of the Board of Governors of the Federal Reserve System (the "Board") and the Federal Reserve Banks. Against the background of such information, the Committee takes actions from time to time to regulate and direct the open market operations of the Reserve Banks. Such policy actions ordinarily are taken through the adoption and transmission to the Federal Reserve Banks of regulations, authorizations, and directives.

SECTION 272.3 - MEETINGS

(a) Place and frequency. - The Committee meets in Washington, D. C., at least four times each year and oftener if deemed necessary. Meetings are held upon the call of the Chairman of the Board or at the request of any three members of the Committee. Notices of calls by the Chairman of the Board to other members are given by the Secretary of the Committee in writing or by telegram. Requests of any three members for the calling of a meeting shall state the time therefor and shall be filed in writing or by telegram with the Secretary who shall forthwith notify all members of the Committee in writing or by telegram. When the Secretary has sent notices to all members of the Committee that a meeting has been requested by three members and of the time therefor, a meeting is deemed to have been called. If, in the judgment of the Chairman, circumstances require that a meeting be called at such short notice that one or more members

-3-

cannot be present in Washington, such members may participate in the meeting by telephone conference arrangements.

(b) Alternates. - Whenever any member of the Committee representing Federal Reserve Banks shall find that he will be unable to attend a meeting of the Committee, he shall promptly notify his alternate and the Secretary of the Committee in writing or by telegram, and upon receipt of such notice the alternate shall advise the Secretary whether he will attend such meeting.

(c) Quorum. - Seven members (including alternates present and acting in the absence of members) constitute a quorum for the transaction of business; but less than a quorum may adjourn from time to time until a quorum is in attendance.

(d) Attendance at meetings. - Attendance at Committee meetings is restricted to members of the Committee, the Presidents of Federal Reserve Banks who are not at the time members of the Committee, staff officers of the Committee, the Manager and Special Manager, and such other advisers as the Committee may invite from time to time.

(e) Meeting agendas. - The Secretary, in consultation with the Chairman, prepares an agenda of matters to be discussed at each meeting and the Secretary transmits the agenda to the members of the Committee within a reasonable time in advance of such meeting. In general, the agendas include approval of minutes of actions and acceptance of memoranda of discussion for previous meetings; reports

-4-

by the Manager and Special Manager on open market operations since the previous meeting, and ratification by the Committee of such operations; reports by Economists on, and Committee discussion of, the economic and financial situation and outlook; Committee discussion of monetary policy and action with respect thereto; and such other matters as may be considered necessary.

SECTION 272.4 - COMMITTEE ACTIONS

(a) Actions at meetings. - Actions are taken at meetings of the Committee except as described below.

(b) Actions between meetings. - Special circumstances may make it desirable in the public interest for Committee members to consider an action to modify an outstanding Committee authorization or directive at a time when it is not feasible to call a meeting. Whenever, in the judgment of the Chairman, such circumstances have arisen, the relevant information and recommendations for action are transmitted to the members by the Secretary, and the members communicate their votes to the Secretary. If the action is approved by a majority of the members, advice to that effect is promptly given by the Secretary to the members of the Committee and to the Reserve Bank selected to execute transactions for the System Open Market Account. All communications of recommended actions and votes under this paragraph shall be in writing or by telegram; provided that,

-5-

in exceptional cases when that is not feasible, such communications may be made orally, either in person or by telephone, and the Secretary shall cause a written record to be made without delay. An action taken between meetings has the force and effect of an action at a meeting; provided, however, that if a meeting is held before the execution of any operations pursuant to the action, the action is null and void unless it is ratified and confirmed by the Committee at such meeting.

(c) Delegations of authority. - In special circumstances, the Committee may delegate authority to take an action, subject to such instructions or guidelines as the Committee deems proper. Such delegations of authority may be made to the Chairman; to a subcommittee consisting of the Chairman and the Vice Chairman of the Committee and the Vice Chairman of the Board (or in the absence of the Chairman or of the Vice Chairman of the Board the members of the Board designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee his alternate); or to any other member or members of the Committee. An action taken pursuant to such a delegation of authority has the force and effect of an action taken by the Committee.

(d) Effective date. - Committee action ordinarily is made effective as of the time it is taken because the nature of the subject matter and the action taken is such that the public interest

-6-

and the proper discharge of the Committee's responsibilities so require. Occasionally, however, the Committee may specify that an action is to be effective at some different time.

SECTION 272.5 - NOTICE AND PUBLIC PROCEDURE

There ordinarily is no published notice of proposed action by the Committee or public procedure thereon, as described in section 553 of Title 5 of the United States Code, because such notice and procedure are impracticable, unnecessary, or contrary to the public interest.

Attachment A-3

DRAFT

January 4, 1973

FEDERAL OPEN MARKET COMMITTEE

REGULATION RELATING TO OPEN MARKET OPERATIONS

OF FEDERAL RESERVE BANKS*

(12 CFR 270)

As amended effective _____

SECTION 270.1 - AUTHORITY

This Part is issued by the Federal Open Market Committee (the "Committee") pursuant to authority conferred upon it by sections 12A and 14 of the Federal Reserve Act (12 U.S.C. §§ 263, 355).

SECTION 270.2 - DEFINITIONS

(a) The term "obligations" means Government securities, U. S. agency securities, bankers' acceptances, bills of exchange, cable transfers, bonds, notes, warrants, debentures, and other obligations that Federal Reserve Banks are authorized by law to purchase and sell.

(b) The term "Government securities" means direct obligations of the United States (i.e., U. S. bonds, notes, certificates of indebtedness, and Treasury bills) and obligations fully guaranteed as to principal and interest by the United States.

*The text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 270; cited as 12 CFR 270.

-2-

(c) The term "U. S. agency securities" means obligations that are direct obligations of, or are fully guaranteed as to principal and interest by, any agency of the United States.

(d) The term "System Open Market Account" means the obligations acquired pursuant to authorizations and directives issued by the Committee and held on behalf of all Federal Reserve Banks.

SECTION 270.3 - GOVERNING PRINCIPLES

As required by section 12A of the Federal Reserve Act, the time, character, and volume of all purchases and sales of obligations in the open market by Federal Reserve Banks are governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

SECTION 270.4 - PURCHASE AND SALE OF OBLIGATIONS

(a) Each Federal Reserve Bank shall engage in open market operations under section 14 of the Federal Reserve Act only in accordance with this Part and with the authorizations and directives issued by the Committee from time to time, and no Reserve Bank shall decline to engage in open market operations as directed by the Committee.

-3-

(b) Transactions for the System Open Market Account shall be executed by a Federal Reserve Bank selected by the Committee. The participations of the several Federal Reserve Banks in such Account and in the profits and losses on transactions for the Account shall be allocated in accordance with principles determined by the Committee from time to time.

(c) In accordance with such limitations, terms, and conditions as are prescribed by law and in authorizations and directives issued by the Committee, the Reserve Bank selected by the Committee is authorized and directed -

(1) To buy and sell Government securities and U. S. agency securities in the open market for the System Open Market Account, and to exchange maturing securities with the issuer;

(2) To buy and sell bankers' acceptances of the kinds made eligible for purchase under Part 202 of this chapter [Regulation B] in the open market for its own account;

(3) To buy Government securities, U. S. agency securities, and bankers' acceptances of the kinds described above, under agreements for repurchase of such obligations, in the open market for its own account; and

(4) To buy and sell foreign currencies in the form of cable transfers in the open market for the System Open Market Account and to maintain for such Account reciprocal currency arrangements with foreign banks among those designated by the Board of Governors of the Federal Reserve System under § 214.5 of this chapter [Regulation N].

-4-

(d) In accordance with such limitations, terms, and conditions as are prescribed by law and in authorizations and directives issued by the Committee, the Reserve Bank selected by the Committee (or, if that Bank is closed, any other Federal Reserve Bank) is authorized and directed, for its own account or the System Open Market Account, to purchase directly from the United States such amounts of Government securities as may be necessary from time to time for the temporary accommodation of the Treasury Department.

(e) The Federal Reserve Banks are authorized and directed to engage in such other operations as the Committee may from time to time determine to be reasonably necessary to the effective conduct of open market operations and the effectuation of open market policies.

Attachment A-4

DRAFT

January 4, 1973

FEDERAL OPEN MARKET COMMITTEE

RULES REGARDING

AVAILABILITY OF INFORMATION*

(12 CFR 271)

As amended effective _____

SECTION 271.1 - AUTHORITY

This Part is issued by the Federal Open Market Committee (the "Committee") pursuant to the requirement of section 552 of Title 5 of the United States Code that every agency shall publish in the Federal Register for the guidance of the public descriptions of the established places at which, the officers from whom, and the methods whereby, the public may obtain information, make submittals or requests, or obtain decisions.

SECTION 271.2 - DEFINITIONS

(a) "Information of the Committee". - For purposes of this Part, the term "information of the Committee" means all information coming into the possession of the Committee or of any member thereof or of any officer, employee, or agent of the Committee, the Board of Governors of the Federal Reserve System (the "Board"), or any Federal Reserve Bank, in the performance of duties for, or pursuant to the direction of, the Committee.

*The text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 271; cited as 12 CFR 271. The words "this Part", as used herein, mean these rules.

-2-

(b) "Records of the Committee". - For purposes of this Part, the term "records of the Committee" means rules, statements, opinions, orders, memoranda, letters, reports, accounts, and other papers containing information of the Committee that constitute a part of the Committee's official files.

SECTION 271.3 - PUBLISHED INFORMATION

(a) Federal Register. - To the extent required by sections 552 and 553 of Title 5 of the United States Code, and subject to the provisions of §§ 271.5 and 271.6, the Committee publishes in the Federal Register, in addition to this Part,

- (1) a description of its organization;
 - (2) statements of the general course and method by which its functions are channeled and determined;
 - (3) rules of procedure;
 - (4) substantive rules of general applicability, and statements of general policy and interpretation of general applicability formulated and adopted by the Committee;
 - (5) every amendment, revision, or repeal of the foregoing;
- and
- (6) general notices of proposed rule making.

(b) Policy record. - In accordance with section 10 of the Federal Reserve Act (12 U.S.C. § 247a), each annual report made to

-3-

Congress by the Board includes a complete record of the actions taken by the Committee during the preceding year upon all matters of policy relating to open market operations, showing the votes taken and the reasons underlying such actions.

(c) Other published information. - From time to time, other information relating to open market operations of the Federal Reserve Banks is published in the Federal Reserve Bulletin, issued monthly by the Board, in such Board's annual report to Congress, and in announcements and statements released to the press. Copies of issues of the Bulletin and of annual reports of the Board may be obtained upon request.

SECTION 271.4 - RECORDS AVAILABLE TO THE PUBLIC
ON REQUEST

(a) Records available. - Records of the Committee are made available to any person, upon request, for inspection or copying in accordance with the provisions of this section and subject to the limitations stated in §§ 271.5 and 271.6. Records falling within the exemptions from disclosure set forth in section 552(b) of Title 5 of the United States Code and in § 271.6 may nevertheless be made available in accordance with this section to the fullest extent consistent, in the Committee's judgment, with the effective performance of the Committee's statutory responsibilities and with the avoidance of injury to a public or private interest intended to be protected by such exemptions.

-4-

(b) Place and time. - In general, the records of the Committee are held in the custody of the Board, but certain of such records, or copies thereof, are held in the custody of one or more of the Federal Reserve Banks. Any such records subject to this section will be made available for inspection or copying during regular business hours at the offices of the Board in the Federal Reserve Building, 20th and Constitution Avenue, Washington, D. C., 20551, or, in certain instances as provided in paragraph (c) of this section, at the offices of one or more designated Federal Reserve Banks.

(c) Obtaining access to records. - Any person requesting access to records of the Committee shall submit such request in writing to the Secretary of the Board. In any case in which the records requested, or copies thereof, are available at a Federal Reserve Bank, the Secretary of the Board may so advise the person requesting access to the records. Every request for access to records of the Committee shall state the full name and address of the person requesting them and shall describe such records in a manner reasonably sufficient to permit their identification without undue difficulty; and such person shall pay a fee in an amount based upon \$5 per hour for the time required to locate such records and prepare them for inspection plus 10 cents per standard page for any copying thereof.

-5-

SECTION 271.5 - DEFERMENT OF AVAILABILITY OF
CERTAIN INFORMATION

(a) Deferred availability of information. - In some instances, certain types of information of the Committee are not published in the Federal Register or made available for public inspection or copying until after such period of time as the Committee may determine to be reasonably necessary to avoid the effects described in paragraph (b) of this section or as may otherwise be necessary to prevent impairment of the effective discharge of the Committee's statutory responsibilities. For example, the Committee's current economic policy directive adopted at each meeting of the Committee is published in the Federal Register approximately 90 days after the date of its adoption; and no information in the records of the Committee relating to the adoption of any such directive is made available for public inspection or copying before it is published in the Federal Register or is otherwise released to the public by the Committee.

(b) Reasons for deferment of availability. - Publication of, or access to, certain information of the Committee may be deferred because earlier disclosure of such information would

(1) interfere with the orderly execution of policies adopted by the Committee in the performance of its statutory functions;

(2) permit speculators and others to gain unfair profits or to obtain unfair advantages by speculative trading in securities, foreign exchange, or otherwise;

-6-

(3) result in unnecessary or unwarranted disturbances in the securities market;

(4) make open market operations more costly;

(5) interfere with the orderly execution of the objectives or policies of other Government agencies concerned with domestic or foreign economic or fiscal matters; or

(6) interfere with, or impair the effectiveness of, financial transactions with foreign banks, bankers, or countries that may influence the flow of gold and of dollar balances to or from foreign countries.

SECTION 271.6 - INFORMATION NOT DISCLOSED

Except as may be authorized by the Committee, information of the Committee that is not available to the public through other sources will not be published or made available for inspection, examination, or copying by any person if such information

(a) is exempted from disclosure by statute or executive order;

(b) relates solely to internal personnel rules or practices or other internal practices of the Committee;

(c) relates to trade secrets or commercial or financial information obtained from any person and privileged or confidential;

(d) is contained in inter-agency or intra-agency memoranda or letters, including records of deliberations and discussions at

-7-

meetings of the Committee and reports and documents filed by members or staff of the Committee that would not be routinely available to a private party in litigation with the Committee;

(e) is contained in personnel, medical, or similar files (including financial files) the disclosure of which would constitute a clearly unwarranted invasion of personal privacy; or

(f) is contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of any agency responsible for the regulation or supervision of financial institutions.

Except as provided by or pursuant to this Part, no person shall disclose, or permit the disclosure of, any information of the Committee to any person, whether by giving out or furnishing such information or copy thereof, by allowing any person to inspect, examine, or reproduce such information or copy thereof, or by any other means, whether the information is located at the offices of the Board, any Federal Reserve Bank, or elsewhere, unless such disclosure is required in the performance of duties for, or pursuant to the direction of, the Committee. Any person who may be denied access to records of the Committee may, within 5 days thereafter, file with the Committee a written request for review of such action.

-8-

SECTION 271.7 - SUBPOENAS

(a) Advice by person served. - If any person, whether or not an officer or employee of the Committee, of the Board, or of a Federal Reserve Bank, has information of the Committee that may not be disclosed by reason of § 271.5 or § 271.6 and in connection therewith is served with a subpoena, order, or other process requiring his personal attendance as a witness or the production of documents or information upon any proceeding, he should promptly inform the Secretary of the Committee of such service and of all relevant facts, including the documents and information requested and any facts that may be of assistance in determining whether such documents or information should be made available; and he should take action at the appropriate time to inform the court or tribunal that issued the process, and the attorney for the party at whose instance the process was issued, if known, of the substance of this Part.

(b) Appearance by person served. - Except as disclosure of the relevant information is authorized pursuant to this Part, any person who has information of the Committee and is required to respond to a subpoena or other legal process shall attend at the time and place therein mentioned and decline to disclose such information or give any testimony with respect thereto, basing his refusal upon this Part. If, notwithstanding, the court or other body orders the disclosure of such information, or the giving of such testimony, the person having such information of the Committee shall continue to decline to disclose

-9-

such information and shall promptly report the facts to the Committee for such action as the Committee may deem appropriate.

ATTACHMENT B-1

CONFIDENTIAL (FR)

Sources of the provisions of
proposed new FOMC Rules of Organization,
Rules of Procedure, and Regulation

Notes:

1. The following symbols are used:
 - "RO" - existing Rules of Organization
 - "RP" - existing Rules of Procedure
 - "BL" - existing By-Laws
 - "Reg." - existing Regulation
2. Sections of existing documents are indicated following the symbol; e.g., "BL-II(2)" denotes By-Laws, Article II, section 2.
3. Editorial changes in language taken from existing documents are not indicated. Substantive revisions are denoted by a parenthetical "rev." following the reference to the existing provisions. Where the revised language represents a complete recasting of an existing provision, the word "replaces" is entered before the reference to the latter. Provisions not covered in any way in the existing documents are marked "new."

FEDERAL OPEN MARKET COMMITTEE

RULES OF ORGANIZATION

As amended effective _____

SECTION 1 - AUTHORITY

From RO-1

These rules are issued by the Federal Open Market Committee (the "Committee") pursuant to the requirement of section 552 of Title 5 of the United States Code that every agency shall publish in the Federal Register a description of its central and field organization.

SECTION 2 - COMPOSITION OF COMMITTEE

From RO-2(a)

(a) Members. The Committee consists of the seven members of the Board of Governors of the Federal Reserve System (the "Board") and five representatives of the Federal Reserve Banks, each of whom is a President or a First Vice President of a Reserve Bank.

From RO-2(a)

(b) Reserve Bank representatives. The representatives of the Federal Reserve Banks, and an alternate for each representative, are elected by the boards of directors of the Reserve Banks in accordance with section 12A of the Federal Reserve Act (12 U.S.C. § 263) for terms of one year commencing on March 1 of each year.

From BL-I(1)

Prior to the first meeting of the Committee on or after March 1 of each year, each member of the Committee representing the Federal Reserve Banks shall cause a record of his election and of the election of his alternate to be forwarded to the Secretary of the Committee. If any question is raised as to the election or eligibility of a member or alternate, the Committee determines such question before such member or alternate participates in a meeting of the Committee.

-2-

From BL-I(2)

In the event a member is absent from a meeting of the Committee, his alternate, in attending the meeting, shall have the same status as the member for whom he is serving.

New

If a member or alternate ceases to be a President or First Vice President of a Reserve Bank, a successor may be chosen in a special election by the boards of directors of the appropriate Reserve Bank or Banks and such successor serves until the next annual election.

From BL-I(3)
(rev.)

(c) Oath of office. Each member of the Committee and each alternate take the same oath of office as that prescribed by statute to be taken by officers of the United States.

SECTION 3 - CHAIRMAN AND VICE CHAIRMAN

From RO-2(b)
and BL-II(1)

At its first meeting on or after March 1 of each year, the Committee elects a Chairman and Vice Chairman from among its membership. The Chairman presides at all meetings of the Committee and performs such other duties as the Committee may require. The Vice Chairman performs the duties of the Chairman in the absence of the Chairman.

Replaces BL-II(1)
(last sentence)

In the absence of both the Chairman and the Vice Chairman of the Committee, the Vice Chairman of the Board acts as Chairman of the Committee; and, in the absence of the Chairman and the Vice Chairman of the Committee and the Vice Chairman of the Board, the member of the Board present with the longest service as a member of the Board acts as Chairman of the Committee.

SECTION 4 - STAFF

From BL-II, opening
sentences of (2), (3),
and (4), and RO-3(a)

(a) Selection of staff officers. At its first meeting on or after March 1 of each year, the Committee selects, from among the officers and employees of the Board and the Federal

(Contd.)

Reserve Banks, the following staff officers to serve until the first meeting on or after March 1 of the next following year: Secretary, Deputy Secretary, and one or more Assistant Secretaries; General Counsel and one or more Assistant General Counsels; and Economists, one or more of whom may be designated as Senior or Associate Economists or given titles reflecting their areas of particular specialization.

From BL-II(2) (rev.)

(b) Secretary and Deputy and Assistant Secretaries. The Secretary keeps minutes of actions and records of discussions at all meetings of the Committee; he maintains a complete record of the actions taken by the Committee upon all questions of policy relating to open market operations; and he records the votes taken in connection with the determination of open market policies and the reasons underlying each such action. He has custody of such minutes and records, and he performs such other duties as the Committee may require. In the absence of the Secretary of the Committee, the Deputy Secretary or an Assistant Secretary acts as Secretary pro tem.

From BL-II(3) (rev.)

(c) Economists. The Economists prepare for the use of the Committee and present to it such information regarding business and credit conditions and domestic and international economic and financial developments as will assist the Committee in the determination of open market policies, and they perform such other duties as the Committee may require.

From BL-II(4)

(d) General Counsel and Assistant General Counsel. The General Counsel furnishes such legal advice as the Committee may require. In the absence of the General Counsel, an Assistant General Counsel acts as General Counsel pro tem.

From BL-II(6)

(e) Filling of vacancies. At any meeting the Committee may fill any vacancy in the offices described in this section.

-4-

From RO-3(b)

(f) Other staff assistance. The services of any officers and employees of the Board and the Federal Reserve Banks are made available and are utilized by the Committee as required.

From BL-II(5) and
RO-3(a)

SECTION 5 - MANAGER AND SPECIAL MANAGER

The Committee selects a Manager of the System Open Market Account and a Special Manager for Foreign Currency Operations for such Account, both of whom shall be satisfactory to the Federal Reserve Bank selected by the Committee to execute open market transactions for such Account, and both of whom serve at the pleasure of the Committee.

New

The Manager and Special Manager keep the Committee informed on market conditions and on transactions they have made and render such reports as the Committee may specify.

FEDERAL OPEN MARKET COMMITTEE

RULES OF PROCEDURE

(12 CFR 272)

As amended effective _____

From RP - 272.1

SECTION 272.1 - AUTHORITY

This Part is issued by the Federal Open Market Committee (the "Committee") pursuant to the requirement of section 552 of Title 5 of the United States Code that every agency shall publish in the Federal Register its rules of procedure.

From RP - 272.2
(rev.)

SECTION 272.2 - FUNCTIONS OF THE COMMITTEE

The procedures followed by the Committee are designed to facilitate the effective performance of the Committee's statutory functions with respect to the regulation and direction of open market operations conducted by the Federal Reserve Banks and with respect to certain direct transactions between the Reserve Banks and the United States. In determining the policies to be followed in such operations, the Committee considers information regarding business and credit conditions and domestic and international economic and financial developments, and other pertinent information gathered and submitted by its staff and the staffs of the Board of Governors of the Federal Reserve System (the "Board") and the Federal Reserve Banks. Against the background of such information, the Committee takes actions from time to time to regulate and direct the open market operations of the Reserve Banks. Such policy actions ordinarily are taken through the adoption and transmission to the Federal Reserve Banks of regulations, authorizations, and directives.

SECTION 272.3 - MEETINGS

From RO-2(c)
and BL-I(5)(rev.)

(a) Place and frequency. The Committee meets in Washington, D. C., at least four times each year and oftener if deemed necessary. Meetings are held upon the call of the Chairman of the Board or at the request of any three members of the Committee. Notices of calls by the Chairman of the Board to other members are given by the Secretary of the Committee in writing or by telegram. Requests of any three members for the calling of a meeting shall state the time therefor and shall be filed in writing or by telegram with the Secretary who shall forthwith notify all members of the Committee in writing or by telegram. When the Secretary has sent notices to all members of the Committee that a meeting has been requested by three members and of the time therefor, a meeting is deemed to have been called. If, in the judgment of the Chairman, circumstances require that a meeting be called at such short notice that one or more members cannot be present in Washington, such members may participate in the meeting by telephone conference arrangements.

New

From BL-I(5)

(b) Alternates. Whenever any member of the Committee representing Federal Reserve Banks shall find that he will be unable to attend a meeting of the Committee, he shall promptly notify his alternate and the Secretary of the Committee in writing or by telegram, and upon receipt of such notice the alternate shall advise the Secretary whether he will attend such meeting.

From BL-I(4)

(c) Quorum. Seven members (including alternates present and acting in the absence of members) constitute a quorum for the transaction of business; but less than a quorum may adjourn from time to time until a quorum is in attendance.

From RP - 272.2
(rev.) and BL-II(5)

(d) Attendance at meetings. Attendance at Committee meetings is restricted to members of the Committee, the Presidents of Federal Reserve Banks who are not at the time members of the Committee, staff officers of the Committee, the Manager and the Special Manager, and such other advisers as the Committee may invite from time to time.

New

(e) Meeting agendas. The Secretary, in consultation with the Chairman, prepares an agenda of matters to be discussed at each meeting and the Secretary transmits the agenda to the members of the Committee within a reasonable time in advance of such meeting.

Replaces BL-I(7)

In general, the agendas include approval of minutes of actions and acceptance of memoranda of discussion for previous meetings; reports by the Manager and Special Manager on open market operations since the previous meeting, and ratification by the Committee of such operations; reports by Economists on, and Committee discussion of, the economic and financial situation and outlook; Committee discussion of monetary policy and action with respect thereto; and such other matters as may be considered necessary.

SECTION 272.4 - COMMITTEE ACTIONS

New

(a) Actions at meetings. Actions are taken at meetings of the Committee except as described below.

(b) Actions between meetings. Special circumstances may make it desirable in the public interest for Committee members to consider an action to modify an outstanding Committee authorization or directive at a time when it is not feasible to call a meeting. Whenever, in the judgment of the Chairman, such circumstances have arisen, the relevant information and recommendations for action

(Contd.)

New

are transmitted to the members by the Secretary, and the members communicate their votes to the Secretary. If the action is approved by a majority of the members, advice to that effect is promptly given by the Secretary to the members of the Committee and to the Reserve Bank selected to execute transactions for the System Open Market Account. All communications of recommended actions and votes under this paragraph shall be in writing or by telegram; provided that, in exceptional cases when that is not feasible, such communications may be made orally, either in person or by telephone, and the Secretary shall cause a written record to be made without delay. An action taken between meetings has the force and effect of an action at a meeting; provided, however, that if a meeting is held before the execution of any operations pursuant to the action, the action is null and void unless it is ratified and confirmed by the Committee at such meeting.

(c) Delegations of authority. In special circumstances, the Committee may delegate authority to take an action, subject to such instructions or guidelines as the Committee deems proper. Such delegations of authority may be made to the Chairman; to a subcommittee consisting of the Chairman and the Vice Chairman of the Committee and the Vice Chairman of the Board (or in the absence of the Chairman or of the Vice Chairman of the Board the members of the Board designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee his alternate); or to any other member or members of the Committee. An action taken pursuant to such a delegation of authority has the force and effect of an action taken by the Committee.

From RP - 272.4
(rev.)

(d) Effective date. Committee action ordinarily is made effective as of the time it is taken because the nature of the subject matter and the action taken is such that the public interest and the proper discharge of the Committee's responsibilities so require. Occasionally, however, the Committee may specify that an action is to be effective at some different time.

From RP - 272.3

SECTION 272.5 - NOTICE AND PUBLIC
PROCEDURE

There ordinarily is no published notice of proposed action by the Committee or public procedure thereon, as described in section 553 of Title 5 of the United States Code, because such notice and procedure are impracticable, unnecessary, or contrary to the public interest.

FEDERAL OPEN MARKET COMMITTEE

REGULATION RELATING TO OPEN
MARKET OPERATIONS OF FEDERAL RESERVE BANKS

(12 CFR Part 270)

As amended effective _____

SECTION 270.1 - AUTHORITY

From Reg. - 270.1(a)
(rev.) and 270.2(d)

This Part is issued by the Federal Open Market Committee (the "Committee") pursuant to authority conferred upon it by sections 12A and 14 of the Federal Reserve Act (12 U.S.C. §§ 263, 355).

SECTION 270.2 - DEFINITIONS

From Reg. - 270.2(b)
(rev.)

(a) The term "obligations" means Government securities, U. S. agency securities, bankers' acceptances, bills of exchange, cable transfers, bonds, notes, warrants, debentures, and other obligations that Federal Reserve Banks are authorized by law to purchase and sell.

From Reg. - 270.2(a)

(b) The term "Government securities" means direct obligations of the United States (i.e., U. S. bonds, notes, certificates of indebtedness, and Treasury bills) and obligations fully guaranteed as to principal and interest by the United States.

New

(c) The term "U. S. agency securities" means obligations that are direct obligations of, or are fully guaranteed as to principal and interest by, any agency of the United States.

From Reg. - 270.2(c)
(rev.)

(d) The term "System Open Market Account" means the obligations acquired pursuant to authorizations and directives issued by the Committee and held on behalf of all Federal Reserve Banks.

From Reg. - 270.3

SECTION 270.3 - GOVERNING PRINCIPLES

As required by section 12A of the Federal Reserve Act, the time, character, and volume of all purchases and sales of obligations in the open market by Federal Reserve Banks are governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

SECTION 270.4 - PURCHASE AND SALE
OF OBLIGATIONS

From Reg. - 270.5(a)

(a) Each Federal Reserve Bank shall engage in open market operations under section 14 of the Federal Reserve Act only in accordance with this Part and with the authorizations and directives issued by the Committee from time to time, and no Reserve Bank shall decline to engage in open market operations as directed by the Committee.

From Reg. - 270.5(b),
BL-II(5), and RO-3(a)

(b) Transactions for the System Open Market Account shall be executed by a Federal Reserve Bank selected by the Committee.

From Reg. - 270.4(b)
(rev.)

The participations of the several Federal Reserve Banks in such Account and in the profits and losses on transactions for the Account shall be allocated in accordance with principles determined by the Committee from time to time.

New

(c) In accordance with such limitations, terms, and conditions as are prescribed by law and in authorizations and directives issued by the Committee, the Reserve Bank selected by the Committee is authorized and directed--

-3-

(Contd.)

(1) To buy and sell Government securities and U. S. agency securities in the open market for the System Open Market Account, and to exchange maturing securities with the issuer;

(2) To buy and sell bankers' acceptances of the kinds made eligible for purchase under Part 202 of this chapter (Regulation B) in the open market for its own account;

(3) To buy Government securities, U. S. agency securities, and bankers' acceptances of the kinds described above, under agreements for repurchase of such obligations, in the open market for its own account; and

New

(4) To buy and sell foreign currencies in the form of cable transfers in the open market for the System Open Market Account and to maintain for such Account reciprocal currency arrangements with foreign banks among those designated by the Board of Governors of the Federal Reserve System under § 214.5 of this chapter [Regulation N].

(d) In accordance with such limitations, terms, and conditions as are prescribed by law and in authorizations and directives issued by the Committee, the Reserve Bank selected by the Committee (or, if that Bank is closed, any other Federal Reserve Bank) is authorized and directed, for its own account or the System Open Market Account, to purchase directly from the United States such amounts of Government securities as may be necessary from time to time for the temporary accommodation of the Treasury Department.

(e) The Federal Reserve Banks are authorized and directed to engage in such other operations as the Committee may from time to time determine to be reasonably necessary to the effective conduct of open market operations and the effectuation of open market policies.

ATTACHMENT B-2

CONFIDENTIAL (FR)

Disposition of provisions of
existing FOMC By-Laws, Rules of
Organization, Rules of Procedure,
and Regulation

Notes:

1. The following symbols are used:
 - "RO" - proposed new Rules of Organization
 - "RP" - proposed new Rules of Procedure
 - "Reg." - proposed new Regulation
2. Substantive revisions and cases of complete recasting are indicated in a manner paralleling that used in Attachment B-1.
3. Provisions not incorporated in the proposed new documents are marked "omitted," with a brief statement of the reason.

FEDERAL OPEN MARKET COMMITTEE

BY-LAWS

(As Amended March 21, 1972)

ARTICLE I. MEMBERS

To RO-2(b)

Section 1. Organization. Prior to the first meeting of the Committee on or after March 1 of each year, each member of the Committee representing the Federal Reserve Banks shall cause a record of his election and of the election of the alternate to serve in his absence to be forwarded to the Secretary of the Committee. If any question be raised as to the election or eligibility of such member or alternate, the Committee shall determine such question before permitting such member or alternate to participate in the meetings.

Section 2. Alternates. In the event a member is absent from a meeting of the Committee, his alternate, in attending the meeting, shall have the same status as the member for whom he is serving.

To RO-2(c)
(rev.)

Section 3. Oath. Each member of the Federal Open Market Committee and each alternate shall take the same oath of office as that required by the Constitution for officers of the United States.

To RP - 272.3(c)

Section 4. Quorum. Seven members (including alternates present and acting in the absence of members) shall constitute a quorum for the transaction of business; but less than a quorum may adjourn from time to time until a quorum is in attendance.

To RP - 272.3(a)
(rev.)

Section 5. Meetings. The Committee shall meet in Washington, D. C., at least four times each year and oftener if deemed necessary. Meetings shall be held upon the call of the Chairman of the Board of Governors of the Federal Reserve System or at the request of any three members of the Committee. Notices of calls by the Chairman to other members shall be given by the Secretary. Requests of any three members for the calling of a meeting shall state the time therefor and shall be filed in writing or by telegram with the Secretary who shall forthwith notify all members of the Committee in writing or by telegram. When the Secretary shall have sent notices to all members of the Committee that a meeting has been requested by three members and of the time therefor, a meeting shall be deemed to have been called.

To RP - 272.3(b)

Whenever any member of the Committee representing Federal Reserve Banks shall find that he will be unable to attend a meeting of the Committee, he shall promptly notify his alternate and the Secretary of the Committee in writing or by telegram, and upon receipt of such notice the alternate shall advise the Secretary whether he will attend such meeting.

Deleted as unnecessary in view of Rules Regarding Availability of Information

Section 6. Conduct and Deliberations. The proceedings, deliberations, discussions, and actions of the Committee, except as required by law and except as authorized by the Committee, shall be strictly confidential, and no information shall be released except as authorized by the Committee and in the annual report required to be made to Congress by section 10 of the Federal Reserve Act as amended.

Replaced by RP - 272.3(e) (last sentence)

Section 7. Order of Business. The following shall be the order of procedure to be followed at meetings of the Committee:

1. The Secretary shall present the minutes of the last meeting of the Committee.

(Contd.)

2. The Manager of the System Open Market Account and the Special Manager for foreign currency operations for such Account shall make their reports of operations for the System Open Market Account occurring since the preceding meeting.

3. The Committee Economist and other economists shall make such reports as may be appropriate.

4. The Committee shall then consider open-market policies.

By a majority vote of members present, the Committee may adopt a different order of business for any particular meeting.

ARTICLE II. OFFICERS

To RO-3

Section 1. Chairman and Vice Chairman of the Committee. At its first meeting on or after March 1 of each year the Committee shall elect a Chairman and a Vice Chairman to serve until the first meeting on or after March 1 of the next year. The Chairman of the Committee shall preside at all meetings thereof and shall perform such other duties as the Committee may require. The Vice Chairman shall perform the duties of the Chairman in the absence of the Chairman.

Replaced by
RO-3 (last sentence)

In the absence of both the Chairman and Vice Chairman, the Committee shall elect an Acting Chairman.

To RO-4(a)

Section 2. Secretary and Deputy and Assistant Secretaries. At its first meeting on or after March 1 of each year, the Committee shall elect a Secretary and one or more Deputy and Assistant Secretaries to serve until the first meeting on or after March 1 of the next year.

To RO-4(b)
(rev.)

It shall be the duty of the Secretary to keep minutes of all meetings of the Committee and a complete record of the action taken by the Committee upon all questions of policy relating to open-market operations, and he shall record the votes taken in connection with the determination of open-market policies and the underlying reasons assigned therefor. He shall have custody of such minutes and records and shall perform such other duties as the Committee may require. In the absence of the Secretary of the Committee, a Deputy or Assistant Secretary shall act as Secretary pro tem.

To RO-4(a)

Section 3. Economists.

At its first meeting on or after March 1 of each year, the Committee shall elect one or more Economists to serve until the first meeting on or after March 1 of the next year.

To RO-4(a)

The Committee shall also from time to time, as it may decide, designate one or more of its elected Economists as Senior or Associate Economists, or otherwise qualify their titles.

To RO-4(c)
(rev.)

The Economists shall prepare for the use of the Committee and present to it such information about business and credit conditions as will assist the Committee in the determination of open-market policies, and shall perform such other duties as the Committee may require.

Section 4. General Counsel and Assistant General Counsel.

To RO-4(a)

At its first meeting on or after March 1 of each year, the Committee shall elect a General Counsel and an Assistant General Counsel to serve until the first meeting on or after March 1 of the next year.

To RO-4(d)

It shall be the duty of the General Counsel to furnish such legal advice as the Committee may require. In the absence of the General Counsel, the Assistant General Counsel shall act as General Counsel pro tem.

Section 5. Manager of the System Open Market Account and Special Manager for Foreign Currency Operations.

To Reg. - 270.4(b)

The Committee shall select a Federal Reserve Bank to execute transactions for the System Open Market Account.

To RO-5

The Committee shall also select a Manager of the System Open Market Account and a Special Manager for foreign currency operations for such Account, both of whom shall be satisfactory to such Federal Reserve Bank. They shall serve at the pleasure of the Committee

To RP - 272.3(d)

and shall attend all meetings of the Committee.

To RO-4(e)

Section 6. Filling Vacancies. At any meeting the Committee may fill any vacancy in the offices described in this Article.

Deleted as unnecessary

ARTICLE III. AMENDMENTS

These by-laws may be amended at any meeting of the Committee by a majority vote of the entire Committee.

FEDERAL OPEN MARKET COMMITTEE

RULES OF ORGANIZATION

(As amended effective March 21, 1972)

SECTION 1 - BASIS AND SCOPE

To RO-1

These rules are issued by the Federal Open Market Committee (the "Committee") pursuant to the requirement of section 552 of Title 5 of the United States Code that every agency shall publish in the Federal Register a description of its central and field organization.

SECTION 2 - COMPOSITION AND MEETINGS OF COMMITTEE

To RO-2(a)

(a) Members. The Federal Open Market Committee consists of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve Banks who are Presidents or First Vice Presidents of such banks.

To RO-2(b)

The representatives of the Federal Reserve Banks, and an alternate for each representative, are elected in accordance with section 12A of the Federal Reserve Act for terms of one year commencing on March 1 of each year.

To RO-3

(b) Chairman and Vice Chairman. At its first meeting on or after March 1 of each year, the Committee selects a Chairman and a Vice Chairman from among its membership.

To RP - 272.3(a)

(c) Meetings. The Committee meets at Washington, D. C., on call by the Chairman of the Board of Governors of the Federal Reserve System or at the request of three members of the Committee, at least four times each year and oftener if deemed necessary.

SECTION 3 - PERSONNEL

To RO-4(a)

(a) Official Staff. The official staff of the Federal Open Market Committee includes its Secretary, Deputy Secretary, and Assistant Secretaries, General Counsel and Assistant General Counsel, and Senior Economist, Economists, and Associate Economists, who perform the duties indicated by their titles. These staff members are selected from among the officers and employees of the Board of Governors of the Federal Reserve System and the Federal Reserve Banks.

To Reg. - 270.4(b)

In addition, one of the Federal Reserve Banks is selected by the Committee to execute transactions for the System Open Market Account; and the Committee selects a Manager of the System Open Market Account and a Special Manager for foreign currency operations for such Account, both of whom shall be satisfactory to such Federal Reserve Bank.

To RO-5

To RO-4(f)

(b) Others. The services of other officers and employees of the Board of Governors of the Federal Reserve System and Federal Reserve Banks are made available and are utilized by the Committee as required.

FEDERAL OPEN MARKET COMMITTEE

RULES OF PROCEDURE

(12 CFR 272)

(As amended July 4, 1967)

SECTION 272.1 - BASIS AND SCOPE

To RP - 272.1

This Part is issued by the Federal Open Market Committee (the "Committee") pursuant to the requirement of section 552 of Title 5 of the United States Code that every agency shall publish in the Federal Register its rules of procedure.

SECTION 272.2 - COMMITTEE ACTION

To RP - 272.2
(rev.)

The function of the Committee is the direction and regulation of open market operations which are conducted by the Federal Reserve Banks. This involves the determination of the policies which are to be pursued with respect to open market operations by the Federal Reserve Banks with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country, together with consideration and action upon incidental matters relating to the manner in which such operations are to be conducted. The discharge of the Committee's responsibilities requires the continuous gathering of information and study of changing financial, economic, and credit conditions and other pertinent considerations by the members of the Committee and its personnel. These activities are closely interrelated with other activities of the Board of Governors of the Federal Reserve System and the Federal Reserve Banks and all relevant information and views developed by these organizations are available to the Committee. With this background, action is taken by the Committee upon its own initiative at periodic meetings held at least four times each year and oftener if deemed necessary.

To RP - 272.3(d)
(rev.)

Attendance at Committee meetings is restricted to members of the Committee and its official staff, including the Manager of the System Open Market Account and the Special Manager for foreign currency operations for such Account, the Presidents of Federal Reserve Banks who are at the time members of the Committee, and such other advisers as the Committee may invite from time to time.

To RP - 272.2
(rev.)

The Committee acts through the adoption and transmittal of directives and regulations to the Federal Reserve Banks. Operations in the System Open Market Account are conducted pursuant to directives issued by the Committee.

To RP - 272.5

SECTION 272.3 - NOTICE AND PUBLIC
PROCEDURE

There ordinarily will be no published notice of proposed action by the Committee or public procedure thereon, as described in section 553 of Title 5 of the United States Code, because such notice and procedure are impracticable, unnecessary, or contrary to the public interest.

To RP - 272.4(d)
(rev.)

SECTION 272.4 - EFFECTIVE DATE

Committee action ordinarily will be made effective on the date the action is taken because the nature of the subject matter and the action taken is such that the public interest and the proper discharge of the Committee's responsibilities so require.

REGULATION RELATING TO
OPEN MARKET OPERATIONS OF
FEDERAL RESERVE BANKS

(12 CFR PART 270)
(As amended effective June 22, 1955)

SECTION 270.1 - SCOPE OF PART

To Reg. - 270.1
(rev.)

(a) Pursuant to the authority conferred upon it by section 12A of the Federal Reserve Act, as amended, the Federal Open Market Committee prescribes the following regulations relating to the open market transactions of the Federal Reserve Banks.

Omitted as
unnecessary

(b) The Federal Open Market Committee expressly reserves the right to alter, amend, or repeal this part in whole or in part at any time.

SECTION 270.2 - DEFINITIONS

To Reg. - 270.2(b)

(a) Government securities. The term "Government securities" shall include bonds, notes, certificates of indebtedness, Treasury bills, and other obligations of the United States, including obligations fully guaranteed as to principal and interest by the United States.

To Reg. - 270.2(a)
(rev.)

(b) Obligations. The term "obligations" shall include all bankers' acceptances, bills of exchange, cable transfers, bonds, notes, warrants, debentures, and other obligations, including Government securities, which Federal Reserve Banks are authorized by law to purchase in the open market.

To Reg. - 270.2(d)
(rev.)

(c) System Open Market Account. The term "System Open Market Account" applies to Government securities and other obligations heretofore or hereafter purchased in accordance with open market policies adopted by the Committee and held for the account of the Federal Reserve Banks.

To Reg. - 270.1

(d) Committee. The term "Committee" shall mean the Federal Open Market Committee.

To Reg. - 270.3

SECTION 270.3 - GOVERNING PRINCIPLES

By the terms of section 12A of the Federal Reserve Act, as amended, the time, character, and volume of all purchases and sales in the open market by Federal Reserve Banks shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

SECTION 270.4 - FEDERAL OPEN
MARKET COMMITTEE

Omitted as
unnecessary

(a) Functions. The Committee shall consider the needs of commerce, industry, and agriculture, the general credit situation of the country, and other matters having a bearing thereon and consider, adopt, and transmit to the several Federal Reserve Banks, regulations and directions with respect to the open market operations of such Banks under section 14 of the Federal Reserve Act.

To Reg. - 270.4(b)
(rev.)

(b) Participation in System Open Market Account. The Committee from time to time shall determine the principles which shall govern the allocation among the several Federal Reserve Banks of Government securities and other obligations held in the System Open Market Account, with a view to meeting the changing needs of the Federal Reserve Banks.

SECTION 270.5 - CONDUCT OF OPEN
MARKET OPERATIONS

To Reg. - 270.4(a)

(a) Each Federal Reserve Bank shall engage in open market operations under section 14 of the Federal Reserve Act only in accordance with this part and the directions issued by the Committee from time to time, and no Federal Reserve Bank shall decline to engage in open market operations as directed by the Committee.

To Reg. - 270.4(b)

(b) Transactions for the System Open Market Account shall be executed by a Federal Reserve Bank selected by the Committee. Each Federal Reserve Bank shall make available to the Federal Reserve Bank selected by the Committee such funds as may be necessary to conduct and effectuate such transactions.

Omitted as
unnecessary

SECTION 270.6 - PURCHASES AND SALES
OF GOVERNMENT SECURITIES

Omitted as
unnecessary

(a) No Federal Reserve Bank shall purchase or sell Government securities, for its own account or for the account of any other Federal Reserve Bank, except pursuant to authority granted by the Committee or in accordance with an open market policy adopted by the Committee and in effect at the time.

Omitted as
unnecessary

(b) The Committee reserves the right, in its discretion, to require the sale of any Government securities now held or hereafter purchased by an individual Federal Reserve Bank or to require that such securities be transferred into the System Open Market Account in accordance with such directions as the Committee may make.

-4-

SECTION 270.7 - OTHER OPEN
MARKET OPERATIONS

Subject to directions of the Committee and the following conditions, each Federal Reserve Bank may engage in open market operations other than the purchase or sale of Government securities:

(a) Each Federal Reserve Bank, as may be required from time to time by the Committee, shall report all such transactions to the Secretary of the Committee.

(b) Only acceptances and bills of exchange which are of the kinds made eligible for purchase under the provisions of Part 202 of this Chapter [Regulation B] may be purchased: Provided, That no obligations payable in foreign currency shall be purchased or sold for the account of the Federal Reserve Bank except in accordance with directions of the Committee.

(c) Only bills, notes, revenue bonds, and warrants of States, counties, districts, political subdivisions, or municipalities which are of the kinds made eligible for purchase under the provisions of Part 205 of this Chapter [Regulation E] may be purchased.

(d) No Federal Reserve Bank shall engage in the purchase or sale of cable transfers for its own account except in accordance with the directions of the Committee.

Omitted as
misleading and
unnecessary