



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

February 26, 1974

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Broida

Attached are certain of the continuing authorizations of the Federal Open Market Committee, most of which are among those that the Committee has reviewed annually in the past at its March organization meetings. As you may recall, it was agreed at the meeting on March 10, 1970, that these authorizations would remain effective until otherwise directed by the Committee, and would no longer be submitted routinely for review each year. Instead, it was understood that the authorizations would be called to the Committee's attention before the organization meeting and that members would be given an opportunity to raise any questions they had concerning them.

The attachments also include the Committee's Regulation and its Rules of Organization, Availability of Information, and Procedure. It was agreed when basic revisions in these instruments were approved in January 1973 that they also should be distributed in advance of the organization meeting.

Please let me know by March 8 whether you would like to have any of the attached documents placed on the agenda for consideration by the Committee at its organization meeting on March 19, 1974.

A handwritten signature in dark ink, appearing to read "Arthur L. Broida".

Arthur L. Broida
Secretary

Federal Open Market Committee

Attachments:

1. Procedures for allocation of securities in the System Open Market Account
2. Distribution list for periodic reports prepared by Federal Reserve Bank of New York

(Continued)

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(Attachments continued:)

3. Authority for the Chairman to appoint a Federal Reserve Bank as agent to operate the System Account in case the New York Bank was unable to function
4. Resolutions providing for continued operation of the Committee and for certain actions by the Reserve Banks during an emergency
5. Resolution relating to examinations of the System Open Market Account
6. Guidelines for the conduct of System operations in Federal Agency issues
7. Regulation relating to Open Market Operations of Federal Reserve Banks
8. Rules of Organization, Rules Regarding Availability of Information and Rules of Procedure

PROCEDURES FOR ALLOCATION OF SECURITIES
IN SYSTEM OPEN MARKET ACCOUNT
(As last revised July 18, 1972)

1. Securities in the System Open Market Account shall be reallocated on the last business day of each month by means of adjustments proportionate to the adjustments that would have been required to equalize approximately the average ratios of gold holdings to note liabilities of the 12 Federal Reserve Banks based on the ratios of gold to notes for the most recent five business days.
2. Until the next reallocation the Account shall be apportioned on the basis of the ratios determined in paragraph 1, except that temporary interim adjustments may be made in the apportionments for two or more Banks when desirable in the judgment of the Director of the Board's Division of Federal Reserve Bank Operations and the Manager of the System Open Market Account.
3. Profits and losses on the sale of securities from the Account shall be allocated 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.

List for distribution of periodic reports prepared by the
Federal Reserve Bank of New York for the Federal
Open Market Committee

1. Members and Alternate Members of the Committee, other Reserve Bank Presidents, and officers of the Committee.
- *2. The Secretary of the Treasury.
- *3. The Under Secretary of the Treasury for Monetary Affairs and the Deputy Under Secretary for Monetary Affairs.
- *4. The Assistant to the Secretary of the Treasury working on debt management problems.
- *5. The Fiscal Assistant Secretary of the Treasury.
6. The officer in charge of research at each of the Federal Reserve Banks not represented by its President on the Committee.
7. The officers of the Federal Reserve Bank of New York working under the Manager and Special Manager of the System Open Market Account.
8. With the approval of a member of the Committee or any other President of a Federal Reserve Bank, with notice to the Secretary, any other employee of the Board of Governors or of a Federal Reserve Bank.

* Weekly reports only.

Authority for Chairman to appoint a Federal Reserve Bank as agent to operate the System Account temporarily in case the Federal Reserve Bank of New York is unable to function. (Note: This authorization was first given on March 1, 1951, and was last reaffirmed on March 10, 1970.)

RESOLUTION OF FEDERAL OPEN MARKET COMMITTEE
TO PROVIDE FOR THE CONTINUED OPERATION OF
THE COMMITTEE DURING AN EMERGENCY
(Reaffirmed March 10, 1970)

In the event of war or defense emergency, if the Secretary or Assistant Secretary of the Federal Open Market Committee (or in the event of the unavailability of both of them, the Secretary or Acting Secretary of the Board of Governors of the Federal Reserve System) certifies that as a result of the emergency the available number of regular members and regular alternates of the Federal Open Market Committee is less than seven, all powers and functions of the said Committee shall be performed and exercised by, and authority to exercise such powers and functions is hereby delegated to, an Interim Committee, subject to the following terms and conditions:

Such Interim Committee shall consist of seven members, comprising each regular member and regular alternate of the Federal Open Market Committee then available, together with an additional number, sufficient to make a total of seven, which shall be made up in the following order or priority from those available: (1) each alternate at large (as defined below); (2) each President of a Federal Reserve Bank not then either a regular member or an alternate; (3) each First Vice President of a Federal Reserve Bank; provided that (a) within each of the groups referred to in clauses (1), (2), and (3) priority of selection shall be in numerical order according to the numbers of the Federal Reserve Districts, (b) the President and the First Vice President of the same Federal Reserve Bank shall not serve at the same time as members of the Interim Committee, and (c) whenever a regular member or regular alternate of the Federal Open Market Committee or a person having a higher priority as indicated in clauses (1), (2), and (3) becomes available he shall become a member of the Interim Committee in the place of the person then on the Interim Committee having the lowest priority. The Interim Committee is hereby authorized to take action by majority vote of those present whenever one or more members thereof are present, provided that an affirmative vote for the action taken is cast by at least one regular member, regular alternate, or President of a Federal Reserve Bank. The delegation of authority and other procedures set forth above shall be effective only during such period or periods as there are available less than a total of seven regular members and regular alternates of the Federal Open Market Committee.

As used herein the term "regular member" refers to a member of the Federal Open Market Committee duly appointed or elected in accordance with existing law; the term "regular alternate" refers to an alternate of the Committee duly elected in accordance with existing law and serving in the absence of the regular member for whom he was elected; and the term "alternate at large" refers to any other duly elected alternate of the Committee at a time when the member in whose absence he was elected to serve is available.

RESOLUTION OF FEDERAL OPEN MARKET COMMITTEE AUTHORIZING
CERTAIN ACTIONS BY FEDERAL RESERVE BANKS DURING AN EMERGENCY
(As last revised September 21, 1971)

The Federal Open Market Committee hereby authorizes each Federal Reserve Bank to take any or all of the actions set forth below during war or defense emergency when such Federal Reserve Bank finds itself unable after reasonable efforts to be in communication with the Federal Open Market Committee (or with the Interim Committee acting in lieu of the Federal Open Market Committee) or when the Federal Open Market Committee (or such Interim Committee) is unable to function.

(1) Whenever it deems it necessary in the light of economic conditions and the general credit situation then prevailing (after taking into account the possibility of providing necessary credit through advances secured by direct obligations of the United States under the last paragraph of section 13 of the Federal Reserve Act), such Federal Reserve Bank may purchase and sell obligations of the United States for its own account, either outright or under repurchase agreement, from and to banks, dealers or other holders of such obligations.

(2) Such Federal Reserve Bank may in its discretion purchase special certificates of indebtedness directly from the United States in such amounts as may be needed to cover overdrafts in the general account of the Treasurer of the United States on the books of such Bank or for the temporary accommodation of the Treasury, but such Bank shall take all steps practicable at the time to insure as far as possible that the amount of obligations acquired directly from the United States and held by it, together with the amount of such obligations so acquired and held by all other Federal Reserve Banks, does not exceed \$5 billion at any one time.

(3) Such Federal Reserve Bank may engage in operations of the types specified in the Committee's authorization for System foreign currency operations when requested to do so by an authorized official of the U.S. Treasury Department; provided, however, that such Bank shall take all steps practicable at the time to insure as far as possible that, in light of the information available on other System foreign currency operations, its own operations do not result in the aggregate in breaching any of the several dollar limits specified in the authorization.

4b (cont.)

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Authority to take the actions set forth shall be effective only until such time as the Federal Reserve Bank is able again to establish communications with the Federal Open Market Committee (or the Interim Committee), and such Committee is then functioning.

Note: The final (unnumbered) paragraph shown above was inadvertently omitted from the text of the resolution at the time of the September 21, 1971, revision.

Resolution requesting a report of each examination of the System Open Market Account by the Board's examining force. (Note: By resolution on June 21, 1939, the Board of Governors was requested to cause its examining force in the future to furnish to the Secretary of the Open Market Committee a report of each examination of the System Open Market Account. The procedure then established was reviewed at the meeting on March 10, 1970, at which time it was continued without change.)

GUIDELINES FOR THE CONDUCT OF SYSTEM
OPERATIONS IN FEDERAL AGENCY ISSUES

(As revised April 17, 1973)

1. System open market operations in Federal agency issues are an integral part of total System open market operations designed to influence bank reserves, money market conditions, and monetary aggregates.
2. System open market operations in Federal agency issues are not designed to support individual sectors of the market or to channel funds into issues of particular agencies.
3. System holdings of agency issues shall be modest relative to holdings of U.S. Government securities, and the amount and timing of System transactions in agency issues shall be determined with due regard for the desirability of avoiding undue market effects.
4. System holdings of maturing agency issues will be allowed to run off at maturity.
5. Purchases will be limited to fully taxable issues for which there is an active secondary market. Purchases will also be limited to issues outstanding in amounts of \$300 million or over in cases where the obligations have a maturity of five years or less at the time of issuance, and to issues outstanding in amounts of \$200 million or over in cases where the securities have a maturity of more than five years at the time of issuance.
6. System holdings of any one issue at any one time will not exceed 20 per cent of the amount of the issue outstanding. Aggregate holdings of the issues of any one agency will not exceed 10 per cent of the amount of outstanding issues of that agency.
7. No new issues will be purchased in the secondary market until at least two weeks after the issue date.
8. All outright purchases, sales and holdings of agency issues will be for the System Open Market Account.