



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

December 13, 1976

CONFIDENTIAL (FR)  
CLASS II FOMC

TO: Federal Open Market Committee

FROM: Arthur L. Broida *ALB*

Attached is a memorandum from the Committee's General Counsel dated December 10 and entitled "Status of paragraph 2 of authorization for domestic open market operations."

It is contemplated that this memorandum will be discussed at the forthcoming meeting of the Committee.

Attachment



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To: Federal Open  
Market Committee

Subject: Status of paragraph 2  
of authorization for  
domestic open market  
operations.

From: Mr. O'Connell

Public Law 94-125, approved November 12, 1975, extended to October 31, 1976, the time within which, pursuant to Section 14(b) of the Federal Reserve Act, the Federal Reserve Banks were authorized to make direct purchases of United States obligations. Paragraph 2 of the FOMC's authorization for domestic open market operations effectuates the authority contained in Section 14(b). Congress failed to renew the authority contained in Section 14(b) prior to adjournment, although the Board's Congressional Liaison Office anticipates Congressional action renewing this authority early in the forthcoming session.

This memorandum raises the question of the need for or desirability of any official FOMC action with respect to paragraph 2 of the authorization for domestic open market operations in view of the now terminated statutory authority.

To: Federal Open  
Market Committee

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Recommendation: It is recommended that paragraph 2 be retained in its present form in anticipation of near-term Congressional action enacting new supporting legislation.

In a similar situation in March 1974 the Committee was advised of the then de facto suspension of the statutory authority for Reserve Banks to purchase short-term certificates of indebtedness directly from the Treasury due to the expiration of the statutory authority. The Committee determined to retain the language of paragraph 2 of the authorization pending Congressional action renewing the statutory authority. It directed that the Committee's policy record for the March 1974 meeting note the Committee's awareness of the "suspension" status of paragraph 2 of the authorization and that the question of deleting paragraph 2 from the authorization be brought before the Committee should Congress fail within a reasonable time to enact supporting legislation.

I recommend that similar action be taken by the Committee at this time.