



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

RECORDED IN RECORDS SECTION  
FEB 26 1960

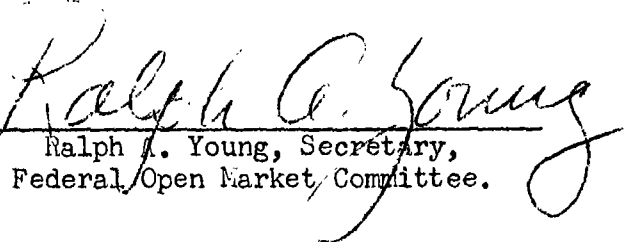
ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 25, 1960.

TO: Federal Open Market Committee

FROM: Mr. Young

Enclosed is a memorandum that attempts to set forth some of the key issues that the Federal Open Market Committee may wish to consider in connection with a review of its statements of operating procedure or other authorizations in connection with open market operations. There are also included key questions that may suggest points for consideration in connection with any possible change in the form of the Committee's directive.

  
Ralph A. Young, Secretary,  
Federal Open Market Committee.

Enclosures

CONFIDENTIAL (FR)

February 25, 1960.

Agenda of Issues Relating to the FOMC Statement of Continuing  
Operating Policies and to the FOMC's Current Instructions  
the Account Manager

RECORDS SECTION  
FEB 29 1960

Basic Substantive Issues

(1) In light of experience since 1953, has confinement of Committee operations to short-term securities limited the System's contribution to economic stability and growth in any significant way? In other words, could the System's contribution have been greater if it had dealt generally in other maturities? If not, were there specific occasions when operations in other maturities might have made a significant contribution on balance?

(2) Should Committee transactions in the open market be limited "solely to," "only to," or "primarily to" the effectuation of the objectives of monetary and credit policy? Are there any other purposes for which transactions might be undertaken under special or standing authorization? In what ways might transactions to implement such other purposes have complicated or interfered with the effective carrying out of monetary and credit policy or the functioning of the Government securities market?

Procedural or Technical Issues

(1) Should the System Account engage in portfolio swaps for any of the following reasons: (a) to facilitate the near-term refinancing problems of the Treasury; (b) to improve the functioning of the market; or (c) to improve the distribution of maturities in the System Account portfolio.

(2) If the Account is to engage in portfolio swaps to facilitate near-term refinancings of the Treasury, what time or other limitation

-2-

on the Committee's authorization would need to be expressed to the Account Manager? What limitations, if any, would need to be imposed on the Manager with regard to transactions in rights, when-issued securities, or outstanding issues of maturities comparable to those involved in the refinancings?

(3) If the Account is to engage in portfolio swaps, what transaction techniques might be followed by the Manager of the Account to minimize the impact on market prices and yields?

(4) Under what conditions and to what extent should the System Account enter into repurchase agreements?

(5) In what form and how specifically should the consensus of the Committee be communicated to the Manager of the Account? For example, should a specific free or net borrowed reserve figure be employed or should the consensus be expressed in terms of net reserves to be supplied to the market, level of total reserves, money supply trend, or some joint quantitative guides? Should the level and pattern of market rates be an explicit guide?

(6) Is it possible to develop systematic language that will define objectively the concept "tone and feel of the market"? Can changes in "tone and feel of the market" be articulated and communicated with sufficient accuracy so that this concept may be appropriately used in instructions to or reports from the Management of the Account?

#### Public Relations Issues

(1) If present statement of continuing operating policies were in positive rather than negative form, would it be as often criticized as overly doctrinaire?

-3-

(2) How might the confinement of normal open market operations to short-term securities be reformulated to remove from the instruction the "bills only" stigma that some academic economists and others have attached to it?

(3) If the Committee is to contemplate transactions outside the short-term area as many economists would advocate--e.g., with purchases in the long-term area in recession and sales in that area in boom times--should this possibility be recognized in the Committee's general instructions?

(4) Should the Committee's instructions as to operating procedures for its Account be published annually in the Committee's policy record? Or should the matter be dropped from the policy record?

(5) If the Account is to engage in portfolio swaps to facilitate near-term refinancings by the Treasury, should this activity be provided for in the Committee's instructions only as an exceptional activity that may be specifically authorized in special circumstances, or should the possibility of such underwriting assistance to debt management operations be explicitly stated in the instructions as to operating policies approved annually?

(6) Should all of the standing instructions of the Committee be gathered into a single procedural policy statement to be reviewed each year when the Committee organizes?

(7) Should the specific directive to the Manager of the Account at each meeting be included in the Committee's annual policy record?

(8) How might the form of the directive to the Manager of the Account be streamlined and improved?

-4-

(9) How about the frequency and substance of changes in the monetary policy wording of the directive? Should this wording change when policy shifts by degrees, involving merely modest adaptations in Account operations, or should the wording change only with a major change in direction of policy?

(10) If the Committee now authorizes significant departures from operating policies consistently pursued since 1953, would it be desirable to advise the market at once of such action rather than to wait possibly several months for the information to be disclosed in the next publication of the policy record?