



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

October 6, 1969

CONFIDENTIAL (FR)

TO: Federal Open Market Committee
FROM: Mr. Broida

Enclosed is a memorandum from the System Account Manager, dated today and entitled "Proposed amendment to continuing authority directive." It is contemplated that this memorandum will be considered at the meeting of the Committee to be held tomorrow.

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

Arthur L. Broida,
Deputy Secretary,
Federal Open Market Committee.

Enclosure

OCT 6 1969

October 6, 1969.

To: Federal Open Market Committee Subject: Proposed amendment to
From: Alan R. Holmes continuing authority directive.

As members of the Committee know, the Treasury announced last Wednesday the auction of \$2 billion in April tax-anticipation bills on Wednesday, October 8, with payment scheduled for October 14. This represents a speed-up of Treasury cash financing--originally planned for payment later in the month--in order to reduce the possibility that the Treasury might have to again borrow directly from the Federal Reserve around mid-month. The decision to go ahead with an early cash financing was motivated by a deterioration in the short-run Treasury cash position.

The decision reflects the Treasury's concern about possible over use of the direct borrowing privilege and can only be commended. Had it been technically possible to do so at the time the policy decision--based on new projections--was reached, the Treasury would have preferred to have payment as early as October 10. While the Treasury projections indicate no problem until October 15--by which time new money will be received--the current uncertainties involved in predicting the short-run Treasury balance should keep us alert to the possibility that the Treasury might be forced into a direct borrowing sometime before October 14. New York Bank projections, in fact, indicate a low point for Treasury cash on October 13 rather than the 15th.

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As the Committee knows, October 13 is a legal holiday in the New York District as well as in Boston, Chicago, Cleveland, and Philadelphia. At the present time only the New York Bank is authorized by the Federal Open Market Committee to purchase special certificates of indebtedness directly from the Treasury. Because of the holiday, the Federal Reserve Bank of New York would not be in a position to purchase a special certificate of indebtedness directly from the Treasury to cover a Treasury overdraft that occurred on October 13. While any such overdraft may be only a remote contingency, it appears obvious that the System should be in a position to cover emergency Treasury borrowing.

I would therefore recommend that paragraph 2 of the continuing authority directive be permanently amended to authorize other Reserve Banks to purchase directly from the Treasury special certificates of indebtedness to meet temporary Treasury needs (including the right to participate such special certificates among one or more Reserve Banks) if the Federal Reserve Bank of New York is closed.

This end could be accomplished by amending paragraph 2 of the continuing authority directive to read:

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York to purchase directly from the Treasury for the account of the Federal Reserve Bank of New York, OR, IF THE NEW YORK RESERVE BANK IS CLOSED, ANY OTHER RESERVE BANK FOR ITS OWN ACCOUNT (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate

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charged on such certificates shall be a rate 1/4 of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed \$1 billion.

Precedent for this action can be found in an action, approved by the Executive Committee on April 21, 1952, and confirmed by the Federal Open Market Committee on June 19, 1952, to issue a continuing formal authorization to the Federal Reserve Banks to purchase special certificates of indebtedness direct where it will facilitate the handling of the Treasury's balances on Saturdays or holidays when the Federal Reserve Bank of New York is closed and another Reserve Bank is open. This action was an outgrowth of a problem that developed with respect to changes in Treasury overdrafts on Saturdays, when New York and most other Reserve Banks were closed, but the Richmond Bank was open.

There may be no need for the authorization for other Reserve Banks to make direct loans to the Treasury on October 13 or on any subsequent date. Nonetheless the proposed change in the continuing authority directive would appear to be a useful bit of contingency planning. Should it appear likely that the new authorization might be needed on October 13 or any subsequent date, I would hope that the Committee would be willing to leave the initiative to the Federal Reserve Bank of New York, in close collaboration with the Treasury and the Committee's staff, to make the necessary arrangements with another Reserve Bank.