



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

March 8, 1974

CONFIDENTIAL (FR)

To: Federal Open Market Committee

From: Arthur L. Broida

Enclosed is a copy of a memorandum from the Committee's General Counsel dated today 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 Federal Open Market Committee.

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

Arthur L. Broida
Secretary
Federal Open Market Committee

Enclosure



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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

In connection with the Committee's review at the forthcoming organization meeting of its authorization for domestic open market operations, it should be noted that paragraph 2 of the authorization, which authorizes the Federal Reserve Banks to purchase short-term certificates of indebtedness directly from the Treasury, has been in a state of de facto suspension since November 1, 1973, when the underlying statutory authority, contained in a provision of Section 14(b) of the Federal Reserve Act, expired.

Question might be raised as to the need for action to delete paragraph 2 of the authorization in light of the aforementioned expiration of statutory provision. In my opinion, no such deletion action is required or necessary. In view of the provision of Section 270.4(d) of the Committee's Regulation that the Federal Reserve Banks may purchase Government securities

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directly from the United States "in accordance with such limitations, terms, and conditions as are prescribed by law and in authorizations and directives issued by the Committee . . ." (underscoring added), the retention of paragraph 2 in the authorization does not imply that the Reserve Banks are authorized to purchase securities directly from the Treasury solely on the basis of paragraph 2 but in the absence of statutory authority. The retention of that paragraph can be justified as a matter of administrative convenience, so long as it appears likely that the Congress will enact new supporting legislation within a reasonable period.

The Committee may wish to direct the staff to incorporate in its policy record for the March meeting a statement to the effect that the Committee took note of the present state of de facto suspension of paragraph 2. If in coming months it should appear that the expected legislation will be delayed for an extended period or is not likely to be forthcoming, it would be desirable to delete paragraph 2 from the authorization.