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

July 9, 1974

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Arthur L. Broida ALB

Enclosed is a memorandum from the System Account Manager dated today and entitled "Outright System Activity in the Agency Market." It is contemplated that the recommendations contained in the memorandum will be considered at the meeting of the Committee to be held on July 16, 1974.

Attached to Mr. Holmes' memorandum is a memorandum by Mr. Ozog of the New York Bank which reviews outright System operations in agency issues since their inception in September 1971. Mr. Ozog's paper was prepared partly in response to an informal suggestion by President Eastburn several months ago that a review of the System's experience with agency operations would be desirable from time to time.

Enclosure

CONFIDENTIAL (FR) July 9, 1974

TO: Federal Open Market Committee SUBJECT: Outright System Activity in the Agency Market

FROM: Alan R. Holmes

Nearly three years of Desk experience with outright operations in the agency market have shown that these transactions are a valuable tool for implementing monetary policy. The Desk has been an active participant in the agency market and the operations have contributed significantly to our flexibility and efficiency in responding to reserve needs. In frequency and magnitude, agency transactions approximate our operations in Treasury notes and bonds. The market's ability to accommodate System activity has met our expectations and in turn the System has contributed something positive to the market's over-all performance. Desk transactions in the agency market are demanding of time and energy but the operational burdens have not materially diminished the usefulness of the technique.

Beginning in September 1971, the System has constructed a modest portfolio of agency securities which, at the end of June 1974, totaled \$2.9 billion or 3.5 per cent of the System's outright holdings of Treasury and agency securities. The portfolio is relatively well balanced in terms of maturity and issuer representation. While the portfolio is not a perfect reflection of the array of issues eligible for purchase, the portfolio is well proportioned, given the constraints of availability in the market, reserve objectives, and Committee guidelines.

The rules for operations established by the Committee in 1971 have served Desk activity well and System transactions have not resulted in our domination of the market nor produced distortions in the market. In light of the System's experience to date, however, it is timely to consider certain modifications in the Committee's guidelines in order to increase the usefulness of agency operations. Specifically, the Desk would find it advantageous to be able to roll over maturing agency issue holdings and also to purchase new securities as early as the issue date rather than two weeks after issue date as is now stipulated in the guidelines. Rolling over maturing issues (as we typically do with maturing Treasury coupon issues) would avoid the negative reserve impact that automatically ensues when issues are redeemed. The 1971 guidelines precluded Desk participation in other than "seasoned" issues, but this expression of concern over the possibility that the System would unduly influence the primary distribution of agency securities, while appropriate in the case of a new and untested operation, no longer appears warranted. The ability to purchase new agency issues on the issue date would increase the availability of agency issues for purchase by the Federal Reserve since the most active market trading is usually in the most recent issues. Such operations would generally parallel our operations in Governments where, under "even keel" considerations, we have generally avoided operations before payment date, which is the same as issue date.

Therefore, I recommend that the guidelines be amended to permit the roll-over of maturing holdings and to authorize the purchase of new securities on the issue date. If these amendments are made, we could proceed to specific discussions with the various issuers of agency issues, in order to work out the details of roll-over procedures.

The following changes in the present guidelines which were approved by the Committee on August 24, 1971, and revised on February 15, 1972, April 17, 1972, and April 17, 1973, would accomplish the desired purpose:

> Delete guideline 4 which reads, "System holdings of maturing agency issues will be allowed to run off at maturity." The authority to roll over maturing agency securities is already contained in paragraph 1(a) of the authorization for domestic open market operations which reads in part, "to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement."
>
> Delete guideline 7 which reads, "No new issues will be purchased in the secondary market until at least two weeks after the issue date." The authority to purchase agency securities would then be derived from paragraph 1(a) of the authorization for domestic open market operations which reads in part, "To buy or sell...securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States ...., on a cash, regular, or deferred delivery basis." While this authorization would technically permit the Desk to purchase agency issues early in the "when-issued" period when the securities are still undergoing their initial distribution, the Desk generally would not plan to buy the new issues at such times--just as it refrains from purchasing new Treasury securities during their initial distribution phase.

I have attached a report which reviews the System's outright activity in the agency market since operations were commenced during September 1971.

Attachment

MISC. 3B 2-9-72

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 28, 1974

TO Mr. Holmes

SUBJECT: Review of Outright System Activity in the Agency Market: September 1971 - June 1974

FROM Edward J. Ozog EJO

At its meeting on August 24, 1971, the Federal Open Market Committee authorized outright purchases and sales of Federal agency securities for the System Account. This decision and the guidelines under which Desk operations would be conducted were made public on September 16, 1971. On September 23, 1971, the Desk commenced outright operations in agency securities by purchasing $61 million in the market. This report provides information, mainly in the form of the accompanying tables, regarding the nature and extent of outright System operations in agencies from September 1971 through June 1974.

Briefly, the accompanying data reveal that since authority was granted, the Desk has been relatively active in the agency market, using the new technique about as frequently as operations in Treasury notes and bonds. The System has acquired a modest portfolio with a maturity distribution which approximates the maturities of the total volume of securities eligible for purchase although it must be noted that the portfolio is proportionately heavier in the longer-term securities. The System has also acquired the debt of each individual agency in rough proportion to the amount of eligible securities each agency has outstanding.

The Desk's activity in agency securities has had a positive effect on the functioning of the market, primarily through the addition of intermittent demand, but the impact of System operations has not significantly influenced market behavior nor noticeably changed the structure of the market. Yield relationships have changed in favor of the agencies in recent years but System operations cannot be readily identified as a major cause of this development. The marked narrowing of the spread between yields on longer-term agency issues and comparable Treasuries can, for example, be attributed to the improved marketability of securities in this sector of the agency market and a concurrent rise of Treasury financing in this maturity sector.

Although System dealings in agency securities have proven somewhat cumbersome from the perspective of operations, the introduction of a new method for modifying reserve availability has provided the Account Management with valuable flexibility in responding to reserve needs. The usefulness of the authority to operate on an outright basis in the agency market is impaired, however, by the requirement that the Desk only purchase issues which have been outstanding for two weeks. The ability to roll-over maturing agency holdings and to purchase new securities as early as the issue date would enhance the Account Management's use of agency operations as a means of implementing monetary policy. It is recommended that the Committee consider authorizing the System to roll-over maturing holdings of agency securities when circumstances warrant such transactions and that the Committee also consider authorizing the Desk to purchase any outstanding agency securities which meet other eligibility requirements.

Volume and Frequency of System Operations

Tables 1 through 3 indicate that the System Account Management has utilized agency operations as an important means of providing for the longer-term reserve needs of the banking system. During the 34 months covered by this report, $3.7 billion or 42 percent of the total purchases of $8.8 billion of securities other than Treasury bills were agency securities. At the end of June, 1974, the System's outright holdings of agency securities totaled $2.9 billion, outright holdings of Treasury notes and bonds totaled $42.5 billion, while Treasury bills totaled $37.3 billion.

The Desk purchased agency securities in the market on 22 occasions, the same as the number of market purchases of Treasury notes and bonds. The Desk purchased agency securities directly from customer accounts on 6 additional occasions and purchased Treasury notes and bonds from these accounts on 12 occasions.

The size of individual purchase operations in the agency or Treasury note and bond market have been comparable. While agency operations have tended to be slightly smaller than Treasury operations, the ability of the Desk to supply a substantial volume of reserves through outright agency operations has been proven.

The Account Management usually alternates purchases of securities other than Treasury bills between the agency market and the Treasury market, although this practice is at times suspended when availability makes it desirable for the Desk to temporarily concentrate operations in a particular market. During the

September 1971 - April 1972 interval, the Desk purchased both agencies and Treasury notes and bonds frequently in order to expand reserve availability. From then until the late summer of 1973 the Desk became a less active participant in both markets as the Account Management was a sparing provider of reserves. Both agencies and Treasury notes and bonds were purchased frequently to help expand reserve availability after the summer of 1973 but sales of coupon-bearing securities by customer accounts were a major factor in satisfying the System's need to acquire longer-term securities. Since October 1973 agency operations were concluded in the market on seven occasions but, given the sizable availability to the Desk of Treasury notes and bonds from foreign official accounts, the Desk purchased Treasury coupon-bearing securities in the market on only three occasions.

On two occasions during 1972 the Desk sold moderate amounts of near-maturity agency issues in order to contribute to the task of absorbing sizable amounts of reserves. In part the operations were an experiment in the feasibility of selling coupon-bearing securities, a technique which the Desk has not used in the Treasury market in over 10 years. Both operations proved successful but, although sales of near-maturity agencies can be useful in arranging reserve absorptions for times when they fit better with System reserve objectives, sales of coupon-bearing securities are technically not too satisfactory a means of absorbing a large volume of reserves. It should be noted that because of redemptions and sales (which would have soon become redemptions) our holdings were up only $2.9 billion compared with purchases of $3.7 billion.

The Composition of the System Portfolio

In order to avoid System dominance of the agency market, undesirable effects on market behavior or the appearance of support of particular agencies or sectors of the market, the FOMC has specified certain guidelines for operations in the market.

The guidelines for the conduct of System operations in Federal agency issues, as last revised on April 17, 1973, are as follows:

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 percent of the amount of the issue outstanding. Aggregate holdings of the issues of any one agency will not exceed 10 percent 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.

The Account Management purchases agency securities on the basis of best price and in relation to the availability of offerings to the Trading Desk. While the Account Management conducts operations with the composition of the System portfolio an objective in mind, market forces are a prime determinant of the type of security purchased in the market. Market forces have been such, however, that the System has acquired a portfolio that is fairly well balanced in terms of maturity and agencies represented. The composition of the portfolio is described in Tables 4 through 6.

The maturities held by the System are weighted towards securities due in 5 years or more. While 74 percent of the agency securities eligible for purchase at the end of June 1974 mature in less than five years, only 61 percent of the System's portfolio matures within five years. Also, even though 24 percent of eligible agencies mature within a year the System has not acquired these issues in proportion to the amount eligible for purchase. Ownership of 1 to 5 year maturities is similarly moderate.

One reason for slanting the System's purchases toward longer-term issues is that agency purchases were being used to meet relatively long-term reserve needs. The Desk's inability to roll over maturities is a factor which particularly diminishes the value of short-term securities in the portfolio since the redemptions often cause undesirable reserve absorptions which the Desk must offset through operations. The relatively heavier holdings of longer-term maturities can also be explained through reference to prevailing market conditions. The shorter-term sector of the market is well developed and active and yields in this sector offer little incentive over comparable maturities of Treasury issues. Longer-term agency issues, on the other hand, have offered a distinct yield advantage over similar Treasury issues. By leaning toward longer issues, the Account Management has been able to broaden the demand for agency issues where this was relatively more useful in fostering development of the agency market.

The System's portfolio is fairly representative of the amount of securities each individual agency has outstanding after consideration is given to the maturities of securities eligible for purchase as well as market factors. For example, the outstanding securities of the COOP and FICB, which represent 12.7 percent of the securities eligible for purchase, are mainly due within nine months. Given the Account Management's policy of purchasing agencies for longer-term reserve effects and given the frequency with which purchases of these issues must be redeemed, only about one percent of the System's portfolio is in securities of these agencies. Over 50 percent of the eligible securities are obligations of the FNMA and FHLB but 69 percent of the System's portfolio is composed of these obligations. In part, this represents a substitution of these readily available issues for the COOP and FICB issues which have not been frequently purchased. Holdings of FNMA securities are proportionately large while holdings of FHLB securities are proportionately small. Here, it appears that the large volume of FNMA securities, about 30 percent of total eligible securities, has increased their market availability and probably their yield in relation to FHLB securities. Moreover, a greater proportion of FHLB securities are shorter-term securities. Holdings of GNMA participation certificates are proportionately relatively low since this type of security has not been issued since 1968. The market supply of the GNMA participation certificates is usually small and market yields are not attractive. Holdings of most of the agencies less active in the market, such as the Export-Import Bank, Postal Service and Washington Metropolitan Transit Authority are proportionately sizable since the market for these issues is not as developed as the market for the older agencies and consequently yield values have usually been attractive. Holdings of Farmers Home Administration securities are consistent with outstandings. While certain uncommon technical characteristics of these issues have made the Desk reluctant to handle large transactions in these issues, the offsetting high yields available have prompted the Desk to purchase an amount in proportion to the amount eligible.

Operating Experience

System purchase operations in the agency market are conducted in much the same way as outright purchases of Treasury obligations. Using the go-around technique, the Desk contacts all dealers virtually simultaneously and requests offerings by issue and price. Purchases during the first two go-arounds were limited to only part of the maturity range and the Desk avoided buying a large number of individual issues in order to enable the Bank's accounting staff to gain some experience in handling the issues before embarking on full-scale operations. In succeeding purchase operations there has been no attempt to limit the number of issues acquired but in many operations short maturities have been excluded from the go-around. The operations have proven cumbersome to execute and considerable more time is required to complete an agency operation than is the case when Treasury issues are purchased. The difficulty in agency operations is caused mainly by the large number of issues eligible for purchase. Because the process of purchasing agencies requires much time, the Desk attempts to enter the market as early as other trading activity permits. However, at times the Desk is forced by operating circumstances to approach the market later than the Account Management prefers and in this case the Desk may not conclude an operation with the dealers until shortly after the market's normal closing time of 3:30 p.m.

A recent go-around, conducted on March 21, 1974, is representative of an agency operation. Dealers were contacted at 2:15 p.m. and were told the Desk was soliciting offerings of all eligible agency issues due in 1977 or longer. The request was restricted to those issues mainly because about 180 individual issues were eligible for purchase that day and it was not considered feasible to handle potential offerings of that many issues submitted by all the dealers. Nevertheless, the maturity range specified included 97 issues.

By 3:00 p.m. all dealers had submitted offerings which totaled slightly more than $1 billion. Immediately, the officers of the Open Market Function began to choose issues which provided the best relative yields. This task was difficult since offerings of virtually all eligible issues were received and prices for each issue were submitted over a wide range. In this case about 45 minutes were consumed by the process of determining and comparing yields, and deciding which offerings should be purchased within available leeway margins. The $170 million of securities purchased that afternoon was comprised of 78 individual items.

An operation takes up to two hours from the time the Desk asks dealers for offerings and the time that dealers are notified whether their offerings are accepted or rejected. This time does not include the preparation for an operation before entering the market nor the processing of a large number of trade tickets. Preparation requires accurate determination of all issues and amounts eligible for purchase as well as the organization of go-around forms providing essential current information on prices and yields. The processing requires preparation of tickets, the completion of all accounting procedures and the receiving of deliveries. The manual accounting which was necessary at the inception of agency operation has been converted to computer but the accounting for agency transactions remains more complex than for dealings in Treasury securities. Delays in delivery have been a constant problem since many agency securities are difficult to borrow. Of the 78 items purchased on March 21, 22 items were not delivered when due the next day and other securities were taken as temporary substitutions. Most of these substitutions were cleared up by April 10, but the last of the securities was not delivered until May 8.

Despite the burdensome aspects of dealing in agency securities, the Desk's experience has been generally good and the ability to affect reserves through this medium outweighs any technical disadvantages of operations. The market has proved capable of providing the depth needed for System operations. Dealers have consistently offered the Desk a substantial volume of securities on request and at prices which are on the whole consistent with prevailing market levels. System operations have no greater effect on market price levels than comparable operations in the market for Treasury coupon securities. While the impact of individual operations varies with market conditions at the time, the Desk has not experienced any disruptive effects from operations. Moreover, while the Desk may at times feel inhibited from operating when thin markets develop or when the markets are likely to move sharply in response to a System operation, these constraints are no greater than those experienced in dealings in the market for Treasury coupon securities.

Market Performance

The performance of the agency market at the time of the FOMC decision to authorize outright purchases by the System Account had clearly reached a satisfactory state of development which warranted Federal Reserve participation. Trading was active, dealers maintained sizable positions and in general the market exhibited the depth, breadth and resiliency expected from a mature and efficient market. Over the years of System participation the market has continued to display the characteristics of satisfactory performance. The extent of the System's contribution to this performance is difficult to identify, however. Surely the Desk's purchase of nearly $3 billion of agency securities contributed to the ability of the agencies to sell approximately $31 billion of securities during 1972 and 1973. Furthermore, the market's cognizance of a major source of potential demand, as well as the enhanced stature of the market conferred by System participation must be considered an asset.

Among the indicators of market performance which might be expected to reflect System participation is the relationship of yields on agencies to yields on comparable Treasury securities. Normally agency securities yield more than Treasury securities but the yield spread between similar maturities in each market fluctuates considerably. Although it has been said that the credit status of each security accounts for some of the disparity in spreads this factor appears to be minor especially when one considers that many agency securities are obligations of the

United States Government and the remainder are essentially backed by the integrity of the Federal Government which sponsors their activity. Two important factors affecting yield spreads are marketability and relative supply. The market for Treasury securities is obviously larger and broader than that for agency issues. Consequently, the value to the investor of engaging in a market which may be more reliable should be reflected in the price of Treasury obligations. Since investors usually prefer Treasuries over agencies if yields are equal, it requires some yield advantage to entice investors from the former to the latter. When agencies are in abundant supply relative to the availability of Treasuries, the yield spread will increase and, when agencies are scarce relative to Treasuries, the yield spread will narrow.

Table 7 uses data derived from spreads published by Salomon Brothers as an illustration of the yield relationships which have existed in recent years. The data clearly indicate that recent yield spreads are narrower than those that existed before System participation. However, the relatively large spreads which existed before the commencement of System participation were mainly the result of a sizable expansion of agency financing beginning in 1966. The market eventually began to adjust to the increased demands of the agencies, as investors learned that agency securities in general are practically as marketable as Treasuries and the agency market often performs as well or better. The longer-term sector of the market in particular has expanded considerably in terms of overall activity and this increased marketability has diminished the yield required to sell these securities. Moreover, agency securities have become somewhat more homogeneous in recent years and issues with unusual characteristics limiting their value are not common. The demand provided by the System probably has helped reduce yield spreads but it is nearly impossible to quantify the impact of this factor given the general improvement in the marketability of agency securities.

Operating Guidelines

The FOMC guidelines which have directed the Desk's activity in the agency market have been generally satisfactory from an operating standpoint. At present, the System owns approximately 44 percent of the total securities eligible under the stipulation that holdings of any one agency's securities not exceed 10 percent of the outstanding securities issued by that agency. Based on eligible securities outstanding at the end of June 1974, the System could purchase at least an additional $3.7 billion of agencies under this rule. Moreover, the System has reached its limit of holding no more than 20 percent of any one issue in only one case and only a few other holdings approach this limit. Holdings of securities of two relatively small agencies approached the 10 percent limit on holdings of a single issuer.

A limitation which has restrained the Desk's activity, however, is the stipulation that the System only purchase seasoned issues, i.e., issues outstanding for at least two weeks. This requirement is embodied in guideline 4 which states, "System holdings of maturing agency issues will be allowed to run off at maturity", and guideline 7 which states, "No new issues will be purchased in the secondary market until at least two weeks after the issue date."

Guideline 4 was included mainly for technical reasons since no established procedures are available for rolling-over maturing agency issues. However, this guideline was originally intended to apply only temporarily and the authorization for domestic open market operations was amended at the same time the guidelines were established in order to provide for exchange of maturing agency debt, apparently with a view to the possibility that in time discussion of practical procedures to allow for rolling-over maturing issues would be undertaken with the agencies. Indeed, as early as March 1971, Committee counsel expressed the view that the law would permit special arrangements whereby new issues may be channeled into the System portfolio on an exchange or similar basis.

Guideline 7 was included for policy reasons. When the Committee deliberated the basis for outright System operations in agencies it accepted staff arguments that operations must be restricted to "seasoned" issues in order to avoid affecting--inso-far as possible--the pricing of new issues; in turn, this would avoid the appearance or the fact of direct System support of any new issue, and ward off possible pressures from borrowing agencies, fiscal agents, and selling groups or syndicates.

However, the restraint imposed on Desk activity by guidelines 4 and 7 has been a greater limitation than is warranted in the pursuit of avoiding System domination of the market. The inability of the Desk to replace maturing securities without entering the secondary market has not only meant frequent attrition in the portfolio with at times an undesirable impact on reserves, but the redemptions may at times contribute to market pressures since the System's investments must be replaced by new investor demand. In addition, the Desk has generally refrained from purchasing very short maturities because of the attrition that must be faced within a relatively short time. Consequently, the portfolio is light in the obligations of short-term borrowers such as the Banks for Cooperatives and the Federal Intermediate Credit Banks. Moreover, as regards guideline 7, by not purchasing new issues for several weeks after secondary market trading has commenced, the Desk is not only denied the relatively more ample supply available around the date of issue but may at times risk distorting the market by chasing after the more limited supply of old issues in dealer inventories.

Authorization by the FOMC permitting the Desk to roll-over maturing agency debt and to purchase new securities as early as the issue date would add valuable flexibility to System operations. This power would be consistent with the Desk's authority to acquire Treasury securities. Modification of the guidelines to permit rolling-over maturing debt would not imply an increase in potential System dominance of the market since the System would be only replacing its share of outstanding agency debt. The decision to roll-over maturing securities would not be automatic but would depend on the bank reserve outlook and on the amount of new securities offered by an agency. The Desk, for example, may elect not to participate in a financing if an agency is reducing its demands on the market. The procedures for replacing maturing debt would have to be devised in conjunction with each agency's fiscal agent but the mechanical hurdles to achieving this ability do not seem to be too difficult.

Modifications of the guidelines in order to permit the Desk to acquire new securities in the market on the issue date would also not materially change the functioning of the market. The primary distribution of new agency securities is usually completed in the period between the offering date and the payment date and therefore the Desk would not provide undue support for an agency financing.

Although deletion of the restraints imposed by guidelines 4 and 7 may be viewed as a step which could lead to undesirable effects on the market, it must be noted that the remaining guidelines provide for the desired policy restraints without reducing operating flexibility. That is, other guidelines state that operations are designed to influence bank reserves, money market conditions, and monetary aggregates; that operations are not designed to support individual sectors of the market or to channel funds into issues of particular agencies; and that the amount and timing of transactions shall be determined with due regard for the desirability of avoiding undue market effects. Consequently, the guidelines would continue to restrict operations to the objectives desired by the Committee.

EJO:PDS/rf

Table I

Dollar Volume of Outright System Transactions in Treasury Notes and Bonds and Federal Agency Securities
(in millions of dollars)

	Treasury Notes & Bonds	Federal Agency Securities			
	Purchases	Purchases	Sales	Redemptions	Net Increase
1971 (4 months)	1,142	485	-0-	-0-	485
1972	1,582	1,197	145 5/	225	827
1973	1,417 1/	865 3/	-0-	239	626
1974 (6 months)	953 2/	1,189 4/	-0-	268	921
TOTAL	5,094	3,736	145	732 6/	2,859

1/ Includes $816 million purchased from customer accounts.
2/ Includes $381 million purchased from customer accounts.
3/ Includes $167 million purchased from customer accounts.
4/ Includes $148 million purchased from customer accounts.
5/ Represents sales in the market of $54 million and $91 million of issues due within one year on February 22, 1972 and August 24, 1972, respectively.
6/ Redemptions represent 20 percent of total purchases.

June 28, 1974

Table II

Frequency and Volume of System Purchases in Market
(in millions of dollars)

	Federal Agency Securities				
	Occasions	Total Purchases	Average Purchase	Smallest Purchase	Largest Purchase
1971 (4 months)	5	$ 485	$ 97	$ 35	$161
1972	8	1,197	150	83	176
1973	4	698	175	139	229
1974 (6 months)	5	1,040	208	167	309
TOTALS	22	$3,420			

	Treasury Notes and Bonds				
	Occasions	Total Purchases	Average Purchase	Smallest Purchase	Largest Purchase
1971 (4 months)	6	$1,142	$190	$104	$263
1972	10	1,582	158	76	217
1973	3	601	200	196	207
1974 (6 months)	3	573	191	176	207
TOTALS	22	$3,898			

June 28, 1974

Table III

Dispersion of System Purchase Operations

LEGEND:
T - Purchase of Treasury notes and bonds in the market.
<u>T</u> - Purchase of Treasury notes and bonds from customer account.
A - Purchase of agency securities in the market.
<u>A</u> - Purchase of agency securities from customer account.

	1971*	1972	1973	1974**
January		T T A		<u>T</u> <u>T</u> <u>A</u>
February		T A	T	<u>T</u> <u>A</u>
March		T T A		T A
April		T T A	T	<u>T</u> A A
May				T A
June		T A	<u>T</u> T A	T A
July			<u>T</u> A	
August		T A		
September	T T A			
October	A	T	A <u>A</u>	
November	T T T A A	A	<u>T</u> <u>T</u> <u>T</u> <u>A</u> <u>A</u>	
December	T A	A	<u>T</u> <u>T</u> <u>T</u> A <u>A</u>	

* - Covers only 4 months.
** - Covers only 6 months.

June 28, 1974

Table IV

Maturity Distribution of Outright System Holdings of Federal Agency Securities
(in millions of dollars)

Maturity	12/31/71	12/31/72	12/31/73	6/30/74	%
0 - 1 year	210	239	415	459	16
1 - 5 years	181	612	787	1,274	45
5 - 10 years	61	269	497	754	26
Over 10 years	33	191	239	371	13
TOTAL	485	1,311	1,938	2,858	100

Agency Securities Eligible for Purchase by System Account

	Eligible Securities 6/30/74	%
0 - 1 year	15,861	24
1 - 5 years	32,911	50
5 - 10 years	10,502	16
Over 10 years	6,287	10
TOTAL	65,561	100

June 28, 1974

Table V

Outright System Holdings of Federal Agency Securities
(in millions of dollars)

	HOLDINGS 12/31/71	12/31/72	12/31/73	6/30/74	Percent of 6/30/74 Holdings	Amount Eligible for Purchase 6/30/74	Percent of Total Eligible	System Holdings as Percent of Eligible 6/30/74
COOP	23.8	-0-	-0-	13.2	0.5	1,711.7	2.6	0.8
FICB	121.9	22.2	70.9	66.5	2.3	6,626.9	10.1	1.0
FLB	35.0	141.1	245.7	363.1	12.7	10,054.6	15.3	3.6
FHLB	75.8	155.6	279.5	524.7	18.3	14,750.0	22.5	3.6
FNMA	201.3	784.9	1,010.8	1,451.1	50.8	19,950.0	30.4	7.3
GNMA	18.5	47.7	41.5	58.6	2.1	3,490.0	5.3	1.7
EXIM	8.7	105.6	108.2	116.6	4.1	2,750.0	4.2	4.2
FHA	-0-	36.0	134.5	172.9	6.0	5,108.0	7.8	3.4
P.S.	-0-	14.3	24.7	24.8	0.9	250.0	0.4	9.9
WMTA	-0-	4.0	20.7	63.0	2.2	670.0	1.0	9.4
GSA	-0-	-0-	1.0	3.7	0.1	200.0	0.4	1.9
TOTAL	485.0	1,311.4	1,937.5	2,858.1	100.0	65,561.2	100.0	4.4

June 28, 1974

Table VI

System Purchases of Securities of Each Agency
(in millions of dollars)

	1971 (4 months)	1972	1973	1974 (6 months)
COOP	23.8	16.8	-0-	13.2
FICB	121.9	88.2	60.9	56.6
FLB	35.0	129.2	114.6	176.1
FHLB	75.8	118.7	173.3	278.4
FNMA	201.3	651.2	369.7	555.4
GNMA	18.5	41.3	6.9	17.1
EXIM	8.7	96.9	13.1	8.4
FHA	-0-	36.0	98.4	38.4
P.S.	-0-	14.3	10.5	-0-
WMTA	-0-	4.0	16.8	42.3
GSA	-0-	-0-	1.0	2.7
TOTAL	485.0	1,196.6	865.2	1,188.6

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Table VII

YIELD SPREADS
Agencies less Treasuries
(in basis points)

	Average Spread			
	1973	1972	1971	1970
1 year	-13	13	13	33
5 year	28	23	31	34
10 year	46	53	80	70
20 year	42	128	151	158

	Maximum Spread			
	1973	1972	1971	1970
1 year	32	29	38	67
5 year	57	43	54	56
10 year	76	77	118	96
20 year	92	145	187	173

	Minimum Spread			
	1973	1972	1971	1970
1 year	-90	1	- 8	-0-
5 year	9	9	14	14
10 year	29	36	52	49
20 year	30	107	78	144

SOURCE: Salomon Brothers market reviews.

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