

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

March 9, 1976

CONFIDENTIAL (FR) CLASS II FOMC

TO: Federal Open Market Committee

SUBJECT: Limit on System holdings

FROM: Arthur L. Broida

of special short-term certificates of indebtedness purchased directly

from Treasury

On March 10, 1975, the Committee voted by telegram to increase the limit on System holdings of special short-term certificates of indebtedness purchased directly from the Treasury (specified in paragraph 2 of the authorization for domestic open market operations) from \$1 billion to \$2 billion. The purpose was to provide against the possibility that the Treasury would need to borrow from the System amounts in excess of \$1 billion in mid-March and mid-April. On recommending this action, the Manager advised that he would recommend restoration of the \$1 billion limit "as soon as it appears reasonable to do so."

The higher limit did prove to be needed in mid-March, and it was noted at the meeting on March 18, 1975, that it might again be needed not only in April but perhaps also later in the year. Accordingly, the Committee decided to leave the higher limit in place for a period of one year from the date of that meeting unless in the interimit decided otherwise. As it turned out, there was no further need for the higher limit after March.

The Manager does not plan to recommend that the higher limit be retained at this time, although, of course, a need for an increase may arise at some later date. Assuming the Committee agrees that the earlier limit of \$1 billion should now be restored, it can follow either of these two courses:

- 1. Take no action. In this case, the limit automatically will revert to \$1 billion on March 18, as a consequence of last year's decision.
- 2. Act to reduce the limit to \$1 billion at its meeting on March 16, 1976.

Although the matter obviously is not of major importance, there may be some small advantage in the second course. If the Committee acts positively, rather than simply letting the consequences of a year-old decision unfold, it would be clear in the public record that the reduction in the limit reflected the Committee's current intent.