

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 6803
September 16, 1971

FEDERAL RESERVE SYSTEM TO CONDUCT OPEN
MARKET OPERATIONS IN FEDERAL AGENCY SECURITIES

*To All Banking Institutions, and Others Concerned,
in the Second Federal Reserve District:*

The following statement was issued today by the Federal Open Market Committee of the Federal Reserve System:

The Federal Open Market Committee of the Federal Reserve System announced today that it has authorized outright purchase and sale transactions in securities of Federal agencies. At present, the System's open market operations involve mainly transactions in U.S. Treasury issues. The transactions in Federal agency securities will be initiated in the near future.

The volume of securities issued by Federal agencies has been growing rapidly in recent years. These securities are marketed to raise funds for a variety of governmental lending activities in such fields as housing, agriculture, and export financing.

System open market operations are conducted to carry out the objectives of monetary policy by affecting the volume of bank reserves, money, bank credit, and conditions in credit markets. The purpose of the new authorization is to widen the base of System open market operations and at the same time to add breadth to the market for agency securities. Up to now, open market operations in Federal agency issues have been confined to repurchase agreements with securities dealers.

Purchases and sales of Federal agency issues will be conducted by the Federal Reserve Bank of New York for the System Open Market Account. Along with other System Account transactions, they will be reflected in the weekly condition statement of the Federal Reserve Banks, which is issued every Thursday.

The Committee has approved the attached initial guidelines for operations in agency issues. They are designed to assure that such operations will be consistent with other open market operations, to minimize technical operating problems, and to avoid dominating the Federal agency market. The guidelines will be subject to review and revision as operating experience is gained. Because the outstanding volume of many agency issues is small relative to that of U.S. Treasury obligations, Federal Reserve operations in such issues will be on a limited scale. They will not be directed at supporting individual sectors of the agency market or at channeling funds into issues of particular agencies.

Printed on the reverse side is the text of the initial guidelines for operations in agency issues, referred to in the above statement.

Alfred Hayes,
President.

(Over)

INITIAL GUIDELINES FOR THE CONDUCT
OF SYSTEM OPERATIONS IN FEDERAL AGENCY ISSUES

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. As an initial objective, the System would aim at building up a modest portfolio of agency issues, with the amount and timing dependent on the ability to make net acquisitions without undue market effects.
4. System holdings of maturing agency issues will be allowed to run off at maturity, at least initially.
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 maturity of five years or less at the time of purchase, and to issues outstanding in amounts of \$200 million or over in cases where the securities have maturity of more than five years at the time of purchase.
6. System holdings of any one issue at any one time will not exceed 10 per cent of the amount of the issue outstanding. There will be no specific limit on aggregate holdings of the issues of any one agency.
7. No new issue 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.