

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 9674
April 25, 1984

REPURCHASE AGREEMENTS ON BANKERS' ACCEPTANCES

*To All Depository Institutions, Securities Dealers,
and Others Concerned, in the Second Federal Reserve District:*

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System announcing the decision by the Federal Open Market Committee to discontinue the use of repurchase agreements on bankers' acceptances in open market operations:

The Federal Open Market Committee has announced that as of July 2, 1984, it will discontinue use of repurchase agreements on bankers' acceptances in open market operations to manage reserves. The Federal Reserve Bank of New York will continue to serve as agent in buying and selling acceptances for the accounts of foreign central banks.

In taking the action, the Committee noted that the use of repurchase agreements on acceptances for reserve management has declined in relative importance in recent years. In 1983, about 7 percent of System repurchase agreements was arranged against bankers' acceptances compared with an average of about 16 percent in the previous three years.

The Committee's action also recognizes that the market for bankers' acceptances has reached a scale of activity that does not require or justify continuing Federal Reserve support. It continues the disengagement from the market begun in 1977, when the Federal Reserve ceased buying these private instruments on an outright basis. Since then, the System's involvement has been limited to the use of repurchase agreements on acceptances for managing bank reserves as a modest supplement to operations in Treasury and Federal agency securities.

Repurchase agreements are used by the Federal Reserve to meet short-term reserve needs. In these transactions, the System purchases Government securities, Federal agency issues, or bankers' acceptances from dealers under an agreement that requires the dealer to buy back the securities after a fixed period, usually one to seven days. Interest rates in these transactions are determined by competitive bidding.

The market for bankers' acceptances has continued to grow since 1977. The outstanding volume of acceptances at the end of 1983 was \$78 billion compared to \$23 billion at the end of 1976 and \$642 million at the end of 1955 when the Federal Reserve resumed operations in acceptances after a lapse of more than 20 years.

Bankers' acceptances are negotiable instruments generally drawn to finance the export, import, shipment or storage of goods. They are termed "accepted" when a bank agrees to pay the draft at maturity.

Questions regarding this matter may be directed to the Securities Department of this Bank (Tel. No. 212-791-5479).

ANTHONY M. SOLOMON,
President.