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W. C. Center

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March 16, 1936.

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Revised draft prepared by staff of
Board of Governors after informal
discussion with members of Board

FOMC
Regulation

EXPLANATION

Deletions from prior draft stricken
out - additions capitalized.

REGULATION

Carried

FEDERAL OPEN MARKET COMMITTEE

March , 1936

OPEN MARKET OPERATIONS

SECTION 1.

Pursuant to the authority conferred upon it by section 12A
of the Federal Reserve Act, as amended, the Federal Open Market Com-
mittee prescribes the following regulations relating to the open-
market transactions of the Federal Reserve banks.

The Federal Open Market Committee expressly reserves the
right to alter, amend, or repeal this regulation in whole or in part
at any time.

SECTION 2. DEFINITIONS

(a) Government securities. - The term "Government securi-
ties" shall include bonds, notes, certificates of indebtedness,
Treasury bills, and other obligations of the United States, including
obligations fully guaranteed as to principal and interest by the
United States.

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(b) Obligations.-- The term "obligations" shall include all bankers' acceptances, bills of exchange, cable transfers, bonds, notes, warrants, debentures, and other obligations, including Government securities, which Federal Reserve banks are authorized by law to purchase in the open market.

(c) System open market account. - The term "system open market account" applies to Government securities and other obligations held for the account of the Federal Reserve banks under the ~~control~~ DIRECTION of the ~~executive~~ eCommittee.

(d) Committee. - The term "Committee" shall mean the Federal Open Market Committee.

(e) Executive committee. - The term "~~e~~Executive eCommittee" shall mean the executive committee of the Federal Open Market Committee.

SECTION 3. GOVERNING PRINCIPLES

By the terms of section 12A of the Federal Reserve Act, as amended, the time, character, and volume of all purchases and sales in the open market by Federal Reserve banks shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

SECTION 4. FEDERAL OPEN MARKET COMMITTEE

(NOTE: IT IS SUGGESTED THAT PARAGRAPHS (a), (b), AND (c) OF THIS SECTION COULD VERY WELL BE OMITTED AS THEY ARE COVERED BY THE LAW AND THE PROPOSED BY-LAWS.)

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(a) Organization. - The Committee created by section 12A of the Federal Reserve Act, as amended by the Banking Act of 1935, consists of the members of the Board of Governors of the Federal Reserve System and of five representatives of the Federal Reserve banks elected annually.

An alternate to serve in the absence of each such representative shall be elected annually.

(b) Records. - The Secretary of the Committee shall keep minutes of all its meetings and shall keep a complete record of the action taken by the Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons assigned therefor. Such MINUTES AND records shall ~~become~~ and remain IN the ~~property~~ CUSTODY of the Board of Governors of the Federal Reserve System.

(c) Meetings. - Meetings of the Committee shall be held at Washington, D. C., at least four times each year upon the call of the Chairman of the Board of Governors of the Federal Reserve System or at the WRITTEN OR TELEGRAPHIC request of any three members of the Committee. DUE ~~W~~-notices of meetings called shall be ~~given~~ SENT to all members of the Committee by the Secretary.

(d) Functions. - It is the duty of the Committee to consider the needs of commerce and business, the general credit situation of the country, and ~~such~~ other matters having a bearing thereon as

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~~may come to its attention~~, and to consider, adopt, and transmit to the several Federal Reserve banks, regulations and directions with respect to the open-market operations of such banks under section 14 of the Federal Reserve Act.

~~(e) -- Open Market policy. -- The Committee will from time to time determine the open market policies of the System and will notify the several Federal Reserve banks of all decisions which require action on their part.~~

(f) (e) Participation in System Open Market Account. - Government securities and other obligations held for the System Open Market Account will be allocated among the several Federal Reserve banks and the Committee will adjust such allocations from time to time to meet the changing needs of respective Federal Reserve banks. -- Such allocation will be made with the view of equalizing as far as practicable the net earning position of each Federal Reserve bank subject to the maintenance of a suitable reserve position. THE COMMITTEE FROM TIME TO TIME SHALL DETERMINE THE PRINCIPLES WHICH SHALL GOVERN THE ALLOCATION AMONG THE SEVERAL FEDERAL RESERVE BANKS OF GOVERNMENT SECURITIES AND OTHER OBLIGATIONS HELD IN THE SYSTEM OPEN MARKET ACCOUNT, WITH A VIEW TO MEETING THE CHANGING NEEDS OF THE FEDERAL RESERVE BANKS.

SECTION 5. EXECUTIVE COMMITTEE

(a) Organization. - The Committee, at its first meeting after March 1 in each calendar year, shall select from its own members

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an executive committee consisting of five members.

(b) Functions. - It shall be the duty of the Executive Committee:

1. To direct the execution of purchases and sales of Government securities and other obligations in the open market in accordance with the open-market policies adopted by the Federal Open Market Committee;

2. TO ALLOCATE THE GOVERNMENT SECURITIES AND OTHER OBLIGATIONS HELD IN THE SYSTEM OPEN MARKET ACCOUNT AMONG THE SEVERAL FEDERAL RESERVE BANKS IN ACCORDANCE WITH THE PRINCIPLES DETERMINED BY THE COMMITTEE.

-2-3. To keep the members of the Federal Open Market Committee informed of all transactions executed by the Committee and of all allocations and reallocations of Government securities and other obligations held for participating banks; and

-3-4. To perform such other functions and duties in connection with open-market operations as may be assigned to it from time to time by the Federal Open Market Committee; but the executive committee shall have no authority to determine policies or make decisions upon questions of policy.

SECTION 6. CONDUCT OF OPEN MARKET OPERATIONS

Each Federal Reserve bank shall engage in open-market operations under section 14 of the Federal Reserve Act only in

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accordance with this regulation and the directions issued by the Committee from time to time, and no Federal Reserve bank shall decline to engage in open-market operations as directed by the Committee.

~~Ordinarily, in the conduct of open-market operations for the System Open Market Account, the~~ purchase or sale of obligations FOR THE SYSTEM OPEN MARKET ACCOUNT SHALL BE EXECUTED ~~will be made~~ through the BY A Federal Reserve ~~B-~~ bank SELECTED BY THE COMMITTEE of New York. ~~In the conduct of open-market operations e~~ Each Federal Reserve bank, when directed by the Committee, ~~will~~ SHALL make available to the Federal Reserve ~~B-~~ bank SELECTED BY THE COMMITTEE of New York, such funds as may be necessary to conduct and effectuate such open-market operations and each Federal Reserve bank through the Federal Reserve ~~B-~~ bank, SO SELECTED SHALL, of New York ~~will~~ be credited with its participation in the purchase of obligations or with the proceeds of any sale thereof.

SECTION 7. PURCHASES AND SALES OF GOVERNMENT SECURITIES

No Federal Reserve bank shall purchase or sell Government securities except in accordance with an open-market policy adopted by the Federal Open Market Committee and in effect at the time; and any Government securities now held by an individual Federal Reserve bank for its own account shall be delivered into the System Open Market Account.

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SECTION 8. OTHER OPEN MARKET OPERATIONS

Subject to directions of the Committee AND THE FOLLOWING CONDITIONS, each Federal Reserve bank may engage in open-market operations other than the purchase or sale of Government securities, ~~subject to the following conditions:~~

(1) All such transactions shall be reported daily to the Secretary of the Committee on the day they take place.

(2) Only acceptances and bills of exchange which are of the kinds made eligible for purchase under the provisions of Regulation B of the Board of Governors of the Federal Reserve System may be purchased and the rates of interest or discount shall be in accordance with schedules approved or prescribed by the Board of Governors of the Federal Reserve System: Provided, further, That no obligations payable in foreign currency shall be purchased except in accordance with directions of the Committee.

(3) Only bills, notes, revenue bonds and warrants of States, counties, districts, political subdivisions or municipalities which are of the kinds made eligible for purchase under the provisions of Regulation E of the Board of Governors of the Federal Reserve System may be purchased.

(4) No Federal Reserve bank shall engage in the

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purchase or sale of cable transfers for its own account except in accordance with the directions of the Committee;
Provided, That Federal Reserve banks may purchase and sell cable transfers through the Habana agency in accordance with the resolutions or regulations of the Board of Governors of the Federal Reserve System governing the operations of such agency.

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