



Yale SCHOOL OF MANAGEMENT  
*Program on Financial Stability*

## EliScholar – A Digital Platform for Scholarly Publishing at Yale

---

YPFS Resource Library

---

3-13-2017

### Federal Reserve Act, Section 14. Open-Market Operations

Federal Reserve System: Board of Governors

<https://elischolar.library.yale.edu/ypfs-documents/9544>

---

This resource is brought to you for free and open access by the Yale Program on Financial Stability and [EliScholar](#), a digital platform for scholarly publishing provided by Yale University Library. For more information, please contact [ypfs@yale.edu](mailto:ypfs@yale.edu).

# Federal Reserve Act

---

## Section 14. Open-Market Operations

### 1. Purchase and sale of cable transfers, bank acceptances and bills of exchange

Any Federal reserve bank may, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.

[12 USC 353. Part of original Federal Reserve Act; not amended.]

### 2. Powers

Every Federal reserve bank shall have power:

#### **Dealings in, and loans on, gold**

**(a)** To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;

[12 USC 354. Part of original Federal Reserve Act; not amended. See also 12 USC 5116 through 5118.]

#### **Purchase and sale of obligations of United States, States, counties, etc.**

##### **(b)**

1. To buy and sell, at home or abroad, bonds and notes of the United States, bonds issued under the provisions of subsection (c) of section 4 of the Home Owners' Loan Act of 1933, as amended, and having maturities from date of purchase of not exceeding six months, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, and obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency thereof, such purchases to be made in accordance with rules and regulations prescribed by the Board of Governors of the Federal Reserve System. Notwithstanding any other provision of this chapter, any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to the principal and interest may be bought and sold without regard to maturities but only in the open market.
2. To buy and sell in the open market, under the direction and regulations of the Federal Open Market Committee, any obligation which is a direct obligation of, or fully guaranteed as to principal and interest by, any agency of the United States.

[12 USC 355. As amended by acts of Jan. 31, 1934 (48 Stat. 348); April 27, 1934 (48 Stat. 646); Aug. 23, 1935 (49 Stat. 706); March 27, 1942 (56 Stat. 180); April 28, 1947 (61 Stat. 56); June 30, 1950 (64 Stat. 307); June 23, 1952 (66 Stat. 154); June 29, 1954 (68 Stat. 329); June 25, 1956 (70 Stat. 339); June 30, 1958 (72 Stat. 261); July 1, 1960 (74 Stat. 295); Oct. 4, 1961 (75 Stat. 773); June 28, 1962 (76 Stat. 112); June 30, 1964 (78 Stat. 235); June 30, 1966 (80 Stat. 235); Sept. 21, 1966 (80 Stat. 825) (as amended by acts of Sept. 21, 1967 (81 Stat. 226) and Sept. 21, 1968 (82 Stat. 856)); May 4, 1968 (82 Stat. 113); July 31, 1970 (84 Stat. 668); July 2, 1971

(85 Stat. 100); Aug. 14, 1973 (87 Stat. 314); Oct. 28, 1974 (88 Stat. 1505); Nov. 12, 1975 (89 Stat. 638); April 19, 1977 (91 Stat. 49); Oct. 12, 1977 (91 Stat. 1131); Nov. 7, 1977 (91 Stat. 1256); June 8, 1979 (93 Stat. 35); and March 31, 1980 (94 Stat. 140). See also 12 USC 2158 and 31 USC 5301. The "continental United States" is defined in paragraph 3 of section 1 of the Federal Reserve Act, so as to mean the "States of the United States and the District of Columbia."]

## Purchase and sale of bills of exchange

**(c)** To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

[12 USC 356. Part of original Federal Reserve Act; not amended.]

## Rates of discount

**(d)** To establish from time to time, subject to review and determination of the Board of Governors of the Federal Reserve System, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business; but each such bank shall establish such rates every fourteen days, or oftener if deemed necessary by the Board;

[12 USC 357. As amended by acts of April 13, 1920 (41 Stat. 550); March 4, 1923 (42 Stat. 1480); Aug. 23, 1935 (49 Stat. 706).]

## Foreign correspondents and agencies

**(e)** To establish accounts with other Federal reserve banks for exchange purposes and, with the consent or upon the order and direction of the Board of Governors of the Federal Reserve System and under regulations to be prescribed by said board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and, with the consent of the Board of Governors of the Federal Reserve System, to open and maintain banking accounts for such foreign correspondents or agencies, or for foreign banks or bankers, or for foreign states as defined in section 25(b) of this Act. Whenever any such account has been opened or agency or correspondent has been appointed by a Federal reserve bank, with the consent of or under the order and direction of the Board of Governors of the Federal Reserve System, any other Federal reserve bank may, with the consent and approval of the Board of Governors of the Federal Reserve System, be permitted to carry on or conduct, through the Federal reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the board.

[12 USC 358. As amended by acts of Sept. 7, 1916 (39 Stat. 754); June 21, 1917 (40 Stat. 235); April 7, 1941 (55 Stat. 131).]

## Purchase and sale of acceptances of Federal Intermediate Credit Banks

**(f)** To purchase and sell in the open market, either from or to domestic banks, firms, corporations, or individuals, acceptances of Federal Intermediate Credit Banks and of National Agricultural Credit Corporations, whenever the Board of Governors of the Federal Reserve System shall declare that the public interest so requires.

[12 USC 359. As added by act of March 4, 1923 (42 Stat. 1480).]

## Relationships and transactions with foreign banks and bankers

**(g)** The Board of Governors of the Federal Reserve System shall exercise special supervision over all relationships and transactions of any kind entered into by any Federal reserve bank with any foreign bank or banker, or with any group of foreign banks or bankers, and all such relationships and transactions shall

be subject to such regulations, conditions, and limitations as the Board may prescribe. No officer or other representative of any Federal reserve bank shall conduct negotiations of any kind with the officers or representatives of any foreign bank or banker without first obtaining the permission of the Board of Governors of the Federal Reserve System. The Board of Governors of the Federal Reserve System shall have the right, in its discretion, to be represented in any conference or negotiations by such representative or representatives as the Board may designate. A full report of all conferences or negotiations, and all understandings or agreements arrived at or transactions agreed upon, and all other material facts appertaining to such conferences or negotiations, shall be filed with the Board of Governors of the Federal Reserve System in writing by a duly authorized officer of each Federal reserve bank which shall have participated in such conferences or negotiations.

[12 USC 348a. As added by act of June 16, 1933 (48 Stat. 181).]

Last Update: March 13, 2017