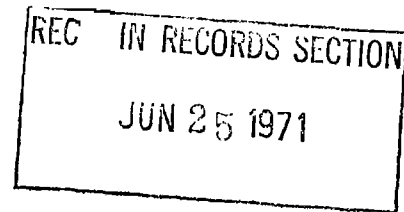




BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551



June 25, 1971

CONFIDENTIAL (FR)

TO: Federal Open Market Committee
FROM: Mr. Broida

In connection with item 5 on the agenda for the meeting of the Committee to be held on June 29, 1971, we had distributed on June 4 a draft of a letter to Reserve Bank Presidents dealing with information on current monetary policy that might be given to their directors in connection with their establishment of the discount rate. Also enclosed was a copy of a letter of comment from President Clay.

President Hayes has advised Mr. Holland that the draft in question, along with a proposed revision thereof, were discussed at the June 23 Conference of Presidents, and the consensus was that if a letter of this type was to be sent the revision might be better than the original draft.

A copy of the proposed revision is enclosed. Also enclosed for your convenience are copies of the original draft and Mr. Clay's letter.

A handwritten signature in cursive script that reads "Arthur L. Broida".

Arthur L. Broida,
Deputy Secretary,
Federal Open Market Committee.

Enclosures

PROPOSED REVISED LETTER

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Dear _____:

This letter sets forth the conclusions reached in the discussion at the meeting of the Federal Open Market Committee on _____, 1971, regarding the question of providing sufficient information about the stance and trend of Committee policy at meetings of directors of the Federal Reserve Banks to assist them in effectively discharging their statutory responsibilities in the establishment of Federal Reserve Bank discount rates.

In those discussions, it was agreed that it is important to distinguish between the different statutory responsibilities of the FOMC on the one hand and the directors of the Reserve Banks on the other, and, in this connection, to avoid giving more information to the directors than is necessary, in order to minimize any possibility of conflicts of interest or even appearances of such conflicts. In steering a responsible course in this delicate area, the Committee agreed on the desirability of a reasonably uniform approach by the Presidents of the Reserve Banks in providing their directors with background information related to the Committee's proceedings. Accordingly, the Committee reached the following understandings.

The presentation of business and credit data, both as to method and content, and the analysis of that data, both retrospectively and prospectively, are matters for determination by each Reserve Bank President and the Bank's board of directors. On the other hand, the practices followed by the Presidents in providing

information as to Committee policy should be reasonably uniform at each Reserve Bank. In this respect, each President should feel free, at meetings of his Bank's directors and if he considers it desirable, to comment on the sense of the Committee's staff's views on the general economic outlook as he understands them from attendance at Committee meetings. In the event that the Committee's staff's views are discussed at meetings of the directors, it should be made clear that those views are an informed judgment of the staff and not necessarily official Committee views.

In commenting on recent data on various aggregates and on money market conditions, the directors can be informed in a very general way as to whether or not developments have followed the expectations of the Committee and, if not, the general nature and area of the divergence. In this respect, it would appear desirable for each Reserve Bank to furnish its directors regularly with copies of the latest published policy records of the Committee as they are released.

In giving the directors information in this way, care should be exercised so that the directors obtain merely a very general idea of the thrust of recent policy. Thus, at meetings of directors, the Presidents and members of their senior official staff could identify, in a broad or general way, a shortfall or an unexpected surge in the aggregates, or unusual credit market developments, and could take account of such information when formulating a specific recommendation with respect to the discount rate.

It should also be made clear to the directors that even

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these broad and general references to FOMC policy must be held in the strictest confidence and that they should be so guided in exercising their responsibility as Reserve Bank directors.

Sincerely yours,

Robert C. Holland
Secretary, Federal Open
Market Committee

ORIGINAL DRAFT

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Dear _____:

As our method of dealing with the discount rate evolves, questions have been voiced by a number of Reserve Bank Presidents about the role directors should play in deliberations leading to establishment of the rate.

One point in particular has been raised both at the Conference of Chairmen and Deputy Chairmen and by some Reserve Banks concerning the need of the directors for some measure of information about current monetary policy. The Board shares this concern. It is surely desirable to provide sufficient information about the stance and trend of policy so that the directors can effectively discharge their statutory role in the establishment of Reserve Bank discount rates. At the same time, it is important to be mindful of the need to avoid giving more information than necessary, in order to minimize any possibility of conflicts of interest or even appearances of such conflicts. In steering a responsible course in this delicate area, the Board feels that the approach in providing background information to the directors should be reasonably uniform. Accordingly, the following procedure is suggested.

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In covering the general economic outlook for your directors, you may wish to convey to them the sense of the FOMC staff view as you understand it from your attendance at FOMC meetings. This should not be identified as an official FOMC view of the outlook, but rather as an informed staff judgment. In addition to the staff briefing, these men should have the benefit of the very latest published policy record of the FOMC. Up-to-date data on aggregates and the money market conditions can be cited to give directors a view of how relevant variables have developed in relation to the goals and projections expressed in the latest published policy record.

In giving the directors information in this way, it should be possible to convey a very general idea of the thrust of recent policy without telling how the FOMC has acted since the latest published information. Thus, the Presidents and other appropriate Reserve Bank spokesmen could identify a shortfall or an unexpected surge in the aggregates, or unusual credit market developments, and could take account of such information when formulating a specific recommendation with respect to the discount rate.

Sincerely yours,

Robert C. Holland
Secretary