A meeting of the executive committee of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Wednesday, June 20, 1945, at 9:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. Evans
Mr. Alfred H. Williams

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Vest, Assistant General Counsel
Mr. Rouse, Manager of the System Open Market Account
Messrs. Piser and Kennedy, Chief and Assistant Chief, respectively, of the Government Securities Section, Division of Research and Statistics of the Board of Governors

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the executive committee of the Federal Open Market Committee held on February 28 and March 1, 1945, were approved.

During the latter part of May it became necessary for the Federal Reserve Bank of New York to purchase substantial amounts of securities for the purpose of supplying funds to the market, and on June 2, when the authority given to the Bank by the executive committee to purchase securities for the System account was nearing exhaustion, the members of the executive committee increased from $500 million to $1 billion the limitation on the authority granted to the Federal Reserve Bank of New York as contained in the first paragraph of the direction issued at the meeting of the executive committee on March 1, 1945. Following that action, further purchases were made by the New York Bank for the purpose of supplying additional funds to the market, but principally to counteract the pressure on Treasury certificates resulting from sales by private holders who were preparing to subscribe for new securities in the Seventh War Loan Drive. On June 15 it became apparent that the Bank would need additional authority to acquire securities for the System account during the period before the next meeting of the Federal Open Market Committee, and on that date the members of the executive committee approved a further increase to $1,500,000,000 in the limitation on the authority granted to the New York Bank in the first paragraph of the direction issued at the meeting on March 1, 1945.

> Upon motion duly made and seconded, and by unanimous vote, the actions of the members of the executive committee on June 2 and 15, 1945, were approved, ratified, and confirmed.
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> Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period from February 28, 1945, to June 19, 1945, inclusive, as reported to the individual members of the executive committee, were approved, ratified, and confirmed.

Chairman Eccles then reviewed the discussions held with representatives of the Treasury following the last meeting of the executive committee which gave rise to his letter of March 9, 1945, to Under Secretary of the Treasury Bell and Mr. Sproul's telegram to Mr. Bell under date of March 27, 1945, with further regard to the securities to be offered in the Seventh War Loan Drive. He also referred briefly to the discussions which took place between representatives of the executive committee and the Treasury with respect to a possible further increase in the weekly offerings of Treasury bills and to the decision of the Treasury at the time not to make such an increase with the understanding that the matter would be reopened at a later date if there were sufficient change in conditions to warrant reconsideration.

> Upon motion duly made and seconded, and by unanimous vote, Chairman Eccles' letter of March 9, 1945, and Mr. Sproul's telegram of March 27, 1945, were approved, ratified, and confirmed.

Pursuant to the action taken by the Federal Open Market Committee at its meeting on March 1, 1945, the members of the executive committee on March 7, 1945, agreed to fix 43 per cent as the percentage below which the reserve ratio of a Federal Reserve Bank should not be reduced by the allocation of Treasury bills in the System account pursuant to the provisions of paragraph 2(a) of the procedure now in effect for the allocation of securities in the account.

> Upon motion duly made and seconded, and by unanimous vote, the action of the members of the executive committee as set forth above was approved, ratified, and confirmed.

At this point Mr. Smead, Director of the Division of Bank Operations of the Board of Governors, joined the meeting.

On June 12, 1945, the President of the United States signed bill S. 510 which reduced to 25 per cent the gold certificate reserves required to be maintained by the Federal Reserve Banks against deposits and Federal Reserve notes in actual circulation. At this meeting consideration was given to what, if any, recommendations should be made by the executive committee to the Federal Open Market Committee with respect to changes in the procedure now in effect for the allocation of securities in the System account in the light of the adoption of this legislation. For the purpose of placing before the executive committee the matters to be discussed, the following memorandum was read:

> "As a result of the approval of the reserve ratio bill there are two matters that should be considered in connection with the procedure for the allocation of securities in the System account. These are discussed below:
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> "(1) The procedure now in effect provides that Treasury bills will not be allocated to any Bank in an amount that would reduce its reserve ratio below the percentage agreed upon from time to time by the Federal Open Market Committee and the Banks. At the last meeting of the full Committee the executive committee was authorized to fix this percentage, it being understood that the percentage determined upon would not be less than 40 per cent. Under this authority the executive committee fixed the percentage at 43 per cent and this is still in effect.
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> "It will now be possible to reduce this percentage substantially and it has been suggested that it be fixed at 35 per cent. It will be noted from the following reserve ratios for the individual Federal Reserve Banks, computed as of June 1 on the basis of a reallocation of the System account as of that date under the present formula, that even if the agreed percentage were reduced to the legal minimum all Banks would not be able to take their pro rata share of securities in the account and that some adjustments would have to be made in any event. It is believed, however, that if the percentage were fixed at 35 per cent it could be left at that point until

sometime next year.

Boston	24.9	Richmond	38.2	Minneapolis	22.9
New York	50.1	Atlanta	44.9	Kansas City	31.0
Philadelphia	25.4	Chicago	65.3	Dallas	22.0
Cleveland	32.6	St. Louis	28.8	San Francisco	59.4

"(2) The second sentence of paragraph 2(b) of the allocation procedure provides that between the weekly and month-end adjustments any Bank desiring to restore its reserve ratio to a level above 40 per cent will sell to a Bank or Banks having the highest reserve ratio a participation in Treasury bills held in its option account for a period of days to expire on the following Wednesday or month-end whichever is earlier. In order to avoid the necessity of amending the allocation procedure from time to time as the reserve ratio declines it has been suggested that reference to a specific percentage at this point in the statement of procedure be eliminated. If that were done, and there appears to be no reason why it should not be done, the amended sentence might be changed as follows:

'~~In~~ IF, between the weekly and month-end adjustments ~~any-bank-desiring-to-restore-its-reserve-ratio-to-a level-above-40-per-cent-will~~ A BANK'S RESERVE RATIO APPROACHES THE LEGAL MINIMUM, THE BANK MAY sell to ~~a~~ THE Bank or Banks having the highest reserve ratio or ratios, a participation or participations in Treasury bills held in its option account for a period of days to expire on the following Wednesday or month end, whichever is earlier, except that such adjustments will be made in the System account in the event that a Bank does not hold sufficient bills in its option account.'"

In connection with the first point it was stated that the question was whether the reserve ratio of an individual Federal Reserve Bank should be allowed to decline immediately to 35 per cent, as would be the case with some of the Banks if the agreed percentage were fixed at that figure, or whether it would be better if the reduction were made gradually. While there was some feeling that the latter course might be the preferable one to follow, it was agreed that the increased earnings that would accrue to the Banks with low reserve ratios if the agreed percentage were fixed at 35 were more important than a higher reserve ratio, and that there would be no objection from the standpoint of public reaction or otherwise to allowing the reserve ratio of the Banks affected to drop to that point immediately rather than to decline more gradually.

With respect to the suggested revision of the second sentence of paragraph 2(b) of the allocation procedure, it was pointed out that neither the sentence in its present form nor in its suggested amended form placed a limit on the point to which the reserve ratio of a Reserve Bank might be increased between weekly statement dates. It was agreed, however, that inasmuch as the provision contemplated the sale of bills only for the purpose of removing the danger of a deficiency in required reserves, it would not be expected that any Bank would use the authority granted by the provision to increase its reserve ratio above that agreed upon by the Federal Open Market Committee pursuant to the provisions of paragraph 2(a) of the allocation procedure, and that the allocation procedure would automatically effect any necessary adjustments in the System account.

At the conclusion of the discussion of these points, upon motion duly made and seconded, it was voted unanimously to recommend to the Federal Open Market Committee that, it be agreed (1) that pursuant to the provision of paragraph 2(a) of the allocation procedure now in effect and pending further action by the Federal Open Market Committee, Treasury bills would not be allocated to any Federal Reserve Bank in an amount that would reduce its reserve ratio below 35 per cent, and (2) that the second sentence of paragraph 2(b) of the statement of procedure be changed to read as follows:

"If, between the weekly and month-end adjustments a Bank's reserve ratio approaches the legal minimum, the Bank may sell to the Bank or Banks having the highest reserve ratio or ratios, a participation or participations in Treasury bills held in its option account for a period of days to expire on the following Wednesday or month end, whichever is earlier, except that such adjustments will be made in the System account in the event that a Bank does not hold sufficient bills in its option account."

At the meeting of the executive committee on March 1, 1945, it was agreed that the matters referred to in the memorandum addressed to Chairman Eccles by Mr. Piser on February 8, 1945, with respect to brokers and dealers in Government securities would be taken up at the next meeting of the committee. Chairman Eccles suggested that consideration of these matters be deferred until after the meeting of the Federal Open Market Committee which was to convene immediately following this meeting of the executive committee. This suggestion was agreed to unanimously, Mr. Sproul expressing a desire to complete consideration of this matter.

Thereupon the meeting recessed to reconvene following the meeting of the Federal Open Market Committee.

Chester Morrill
Secretary.

Approved:
M S Eccles
Chairman.

The meeting of the executive committee of the Federal Open Market Committee was reconvened in the offices of the Board of Governors of the Federal Reserve System in Washington on Wednesday, June 20, 1945, at 4:50 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. Evans
Mr. Alfred H. Williams

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Rouse, Manager of the System Open Market Account

Upon motion duly made and seconded, and by unanimous vote, the executive committee directed the Federal Reserve Bank of New York, until otherwise directed by the executive committee,

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities and allowing maturities to run off without replacement) for the System account, either in the open market or directly from, to, or with the Treasury, as may be necessary in the practical administration of the account, or for the purpose of maintaining about the present general level of prices and yields of Government securities, or of maintaining an adequate supply of funds in the market; provided (a) that the total amount of securities in the account at the close of this date shall not be increased or decreased by more than $500,000,000 [exclusive of bills purchased outright in the market on a discount basis at the rate of 3/8 per cent per annum and bills redeemed at maturity, and special short-term certificates of indebtedness purchased for the temporary accommodation of the Treasury pursuant to paragraph (2) of this direction], and (b) that this paragraph shall not limit the amount of Treasury bills purchased pursuant to the direction of the Federal Open Market Committee issued under date of March 1, 1945, or the redemption of such bills;

(2) To purchase direct from the Treasury for the System open market account such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that

the total amount of such certificates held in the account at any one time shall not exceed $500,000,000; and

(3) Upon approval by a majority of the members of the executive committee, which may be obtained by telephone, telegraph, or mail, to make such other purchases, sales or exchanges for the account as may be found to be desirable within the limits of the authority granted to the executive committee by the Federal Open Market Committee.

In taking this action it was understood that the limitations contained in the direction included commitments for purchases or sales of securities for the System account.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.