

**TWENTY-THIRD ANNUAL REPORT**

OF THE

**BOARD OF GOVERNORS**

OF THE

**FEDERAL RESERVE SYSTEM**

COVERING OPERATIONS  
FOR THE YEAR 1936



UNITED STATES OF AMERICA  
WASHINGTON: 1937

The vote on this resolution was as follows:

Yes: Governors Harrison, Norris, Fleming, Seay, Schaller, Geery, Hamilton, McKinney, Calkins.

No: Governors Young, Newton, Martin.

After discussion it was agreed that authority voted to the executive committee of the Federal Open Market Committee at three previous meetings to make shifts of maturities in the System open market account, should be continued, as necessary in the proper administration of the account to enable the executive committee to replace maturities from time to time and to make shifts in maturities to meet changing market conditions. With respect to the amount of authority which the committee should have in shifting from shorter maturities to bonds it was agreed that some limited authority was advisable in order to deal with any market situation that might arise. It was therefore unanimously

VOTED that superseding previous authorizations, the executive committee be authorized to make shifts between maturities of Government securities up to \$300,000,000, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000 and that the amount of bonds be not over \$300,000,000.

It was also agreed that authority should be given to the executive committee to buy or sell (which would include authority to allow maturities to run off) securities for System account within limits as to amount, in order that the committee might be in a position to act promptly if circumstances not now foreseen should make action appear desirable before a further meeting of the full Committee. It was therefore unanimously

VOTED that the executive committee be authorized to buy or sell up to \$250,000,000 of Government securities, subject to telegraphic approval of a majority of the Federal Open Market Committee and the approval of the Board of Governors of the Federal Reserve System.

#### MEETING ON MARCH 19, 1936

Members present: Mr. Eccles, Chairman; Mr. Harrison, Vice Chairman; Mr. Broderick, Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Fleming, Mr. McKinney, Mr. Hamilton.

#### 1. Adoption of Regulation Relating to Open Market Operations of the Federal Reserve Banks.

The Committee, by unanimous vote, adopted a regulation relating to open market operations of the Federal Reserve banks. The regulation states the principles governing purchases and sales in the open market by Federal Reserve banks, and contains provisions concerning the conduct of open market operations by the Federal Reserve banks, including transactions for the System open market account, the functions of the Committee, and the organization and functions of its executive committee. The regulation was published in the Federal Reserve Bulletin for April, 1936, beginning on page 254.

Since the Federal Open Market Committee as constituted by the Banking Act of 1935 was meeting for the first time, it was necessary for it to consider and adopt a regulation for the reason that section 12A(b) of the Federal Reserve Act as amended by the Banking Act of 1935 provides that no Federal Reserve bank shall engage or decline to engage in open market operations except in accordance with the direction of and regulations adopted by the Federal Open Market Committee, which is required to consider, adopt and transmit to the several Federal Reserve banks regulations relating to the open market transactions of such banks.

#### 2. Authority to Make Shifts in System Open Market Account.

By unanimous vote, the executive committee was instructed to direct the replacement of maturing securities in the System account with other Government securities and to make such shifts between maturities in the account as may be necessary in the proper administration of the account, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000 and that the amount of bonds be not over \$350,000,000.

This authority was granted for the reason that it was felt that the executive committee should have such authority as might be necessary, in the proper administration of the System open market account and the maintenance of the existing portfolio, to enable it to replace maturing securities and to make shifts in maturities to meet changing market conditions, including a limited authority for shifts in the account from shorter maturities to Government bonds.

#### 3. Authority to Increase or Decrease System Account.

By unanimous vote, the executive committee was authorized, subject to telegraphic or written approval by a majority of the members of the Federal Open Market Committee, to direct the purchase or sale of Government securities for the System open market account up to an aggregate amount of \$250,000,000.

It was the consensus of the members of the Federal Open Market Committee that the executive committee should have authority to buy or sell (which would include authority to allow maturities to run off) securities for the System open market account within reasonable limits as to amount, in order that the Committee might be in a position to act promptly if circumstances not foreseen at this meeting should make such action desirable before another meeting of the full Committee.

#### 4. Authority to Federal Reserve Banks to Effect Transactions in Their Own Investment Accounts.

By unanimous vote, the Committee authorized each individual Federal Reserve bank holding Government securities in its own portfolio to replace maturing securities in its account and, with the approval of the executive committee, to make shifts between maturities in the account, provided that no change in the total amount of Government securities held by the Federal Reserve bank was effected by such transactions.

The authority granted to the Federal Reserve banks by this action corresponded to that granted to the executive committee in connection with the administration of the System open market account and was deemed necessary for similar reasons.

**5. Authority to Federal Reserve Bank of New York to Direct Purchases of Bills Payable in Foreign Currencies.**

By unanimous vote, the Committee authorized the Federal Reserve Bank of New York to direct the purchase of bills payable in foreign currencies in such amounts as might be necessary to replace maturing bills, held for the account of Federal Reserve banks by foreign central banks, including the Bank for International Settlements.

For many years the Federal Reserve Bank of New York, with the approval of the Federal Reserve Board, had held for the account of the Federal Reserve banks balances with certain foreign central banks which had been invested to some extent in bills payable in foreign currencies. Since the regulation adopted by the Federal Open Market Committee contains a provision that no obligations payable in foreign currencies shall be purchased except in accordance with directions of the Federal Open Market Committee, it was necessary that authority be granted by the Committee to enable the reserve banks to purchase bills payable in foreign currencies to replace maturing bills held by foreign central banks for the account of the Federal Reserve banks.

MEETING ON MAY 25, 1936

Members present: Mr. Eccles, Chairman; Mr. Harrison, Vice Chairman; Mr. Broderick, Mr. Szymczak, Mr. McKee, Mr. Fleming, Mr. McKinney, Mr. Schaller, Mr. Hamilton.

**1. Transfer to System Open Market Account of United States Government Securities Held in Individual Investment Accounts of Federal Reserve Banks.**

By unanimous vote, the Committee directed that the Federal Reserve banks transfer on June 15, 1936, to the System open market account, at the market prices prevailing on that date, all the United States Government securities held in the individual investment accounts of such Federal Reserve banks, including Government securities held as investments of self-insurance funds.

(SECRETARY'S NOTE: Subsequently, with the unanimous approval of the members of the Committee, the date of the transfer to the System open market account of the securities held individually by the banks, and the reallocation of the total securities held in the System account, was changed to June 30, 1936, because of the necessity for the allowance of additional time in which to work out the details of such transfer and reallocation.)

In view of the fact that the Banking Act of 1935 transferred to and lodged in the Federal Open Market Committee the final authority over, as well as the responsibility for, the determination of policy with respect to the conduct of open market operations, and provided that no Federal Reserve bank should engage in or decline to engage in such operations

except in accordance with the direction or regulation of the Committee, it was the opinion of the Committee that the separate investments in Government securities held by the reserve banks should be transferred to the System account.

**2. Authority to Make Shifts in System Open Market Account.**

By unanimous vote, the Committee instructed the executive committee to direct the replacement of maturing securities in the System open market account with other Government securities, and to make such shifts between maturities in the account as may be necessary in the proper administration of the account, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000, and that the amount of bonds be not over \$500,000,000.

This action was taken to enable the executive committee to make shifts and replacements in order that there might be no change in the total amount of securities in the System account and for the proper administration of the account, as well as to make shifts from short to long-term securities, to meet changing market conditions and to improve the distribution of maturities in the account.

**3. Authority to Increase or Decrease the System Account.**

By unanimous vote, the Committee authorized the executive committee, subject to telegraphic or written approval by a majority of members of the Federal Open Market Committee, to direct the purchase or sale of Government securities for the System open market account up to an aggregate amount of \$250,000,000.

This action constituted a renewal of authority previously given to buy or sell (which included authority to allow maturities to run off) securities for the System open market account in order that the executive committee might be in a position to act promptly if unforeseen circumstances should make such action desirable before another meeting of the full Committee.

**4. Authority to Federal Reserve Bank of New York to Direct Purchases of Bills Payable in Foreign Currencies.**

By unanimous vote, the Committee authorized the Federal Reserve Bank of New York to direct the purchase of bills payable in foreign currencies in such amounts as might be necessary to replace maturing bills now held for the account of the Federal Reserve banks by foreign central banks, including the Bank for International Settlements. It was understood, however, that the bank might permit the payment of such maturing bills without replacement thereof to such extent as might be found advisable in the interest of the Federal Reserve banks.

This action was a renewal of the authority given at the meeting of the Committee on March 19, 1936, and was taken for the same reasons.