

THIRTIETH
ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR

1943

meeting of the Federal Open Market Committee on March 2, 1943, with respect to the purchase by the Federal Reserve Banks of Treasury bills, it would be understood that the Reserve Banks would treat all purchases pursuant to this direction as being subject to the condition that, upon request of the seller before the maturity of the bills, the Reserve Bank would sell to him Treasury bills of like amount and maturity at the discount rate of $\frac{3}{8}$ per cent per annum.

Under the direction of March 2, 1943, bills purchased outright were for the System open market account and bills purchased subject to the right of repurchase were held by the purchasing Federal Reserve Bank. The suggestion was made at this meeting that it would be helpful from an accounting and operating standpoint if the Federal Reserve Banks were instructed to hold in their own accounts all bills purchased under the direction. It was agreed that this could be accomplished most effectively by treating all such bills as being subject to the right of repurchase and holding them at the purchasing Federal Reserve Banks in accordance with the policy of having the bills available for immediate delivery if desired in the event of their repurchase.

2. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded, the following direction to the executive committee was approved by unanimous vote:

"That the executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), 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 for the purpose of maintaining an adequate supply of funds in the market; provided that the aggregate amount of securities held in the account at the close of this date (other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury and Treasury bills purchased pursuant to the directions of the Federal Open Market Committee issued under dates of September 28, 1942, and March 2, 1943) shall not be increased or decreased by more than 1 billion dollars.

"That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of 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 amount of such certificates held in the account at any one time shall not exceed 1.5 billion dollars."

Except for the limitation as to amount at the end of the first paragraph, the direction was in the same form as the directions issued at the meetings of the Federal Open Market Committee earlier this year and was approved for substantially the same reasons. The limitation on the authority of the executive committee to increase or decrease the amount of securities in the account was reduced from 1.5 billion dollars to 1 billion for the reason that

it was anticipated that another meeting of the full Committee would be held during the latter part of June and that the lower limitation would be adequate to enable the executive committee to meet the situation during the intervening period.

MEETING ON JUNE 28, 1943

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Ransom; Mr. Draper; Mr. Evans; Mr. Paddock; Mr. Fleming; Mr. McLarin; Mr. Day.

1. Purchase by Federal Reserve Banks of Treasury Bills at Posted Discount Rate.

Upon motion duly made and seconded, the following direction was approved by unanimous vote, with the understanding that resales of Treasury bills held under option would be for immediate delivery when so requested by the holder:

"Until otherwise directed by the Federal Open Market Committee, the twelve Federal Reserve Banks are directed to purchase all Treasury bills that may be offered to such Banks on a discount basis at the rate of $\frac{3}{8}$ per cent per annum, any such purchases to be upon the condition that the Federal Reserve Bank, upon the request of the seller before the maturity of the bills, will sell to him Treasury bills of like amount and maturity at the same rate of discount. All bills purchased under this direction are to be held by the purchasing Federal Reserve Bank in its own account and prompt reports of all such purchases are to be made to the Manager of the System open market account."

This direction, which superseded the direction issued by the Federal Open Market Committee on March 2, 1943, represented no change in policy and was for the purpose of conforming the earlier direction to the understanding reached at the meeting of the Federal Open Market Committee on May 15, 1943, that the Federal Reserve Banks would treat all purchases made pursuant to the direction as being subject to the right on the part of the seller to repurchase the bills.

2. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded, the following direction was approved by unanimous vote:

"That the executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), 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 for the purpose of maintaining an adequate supply of funds in the market; provided that the aggregate amount of securities held in the account at the close of this date (other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury and Treasury bills purchased pursuant to the directions of the Federal Open Market Committee issued under dates of March 2 and June 28, 1943) shall not be increased or decreased by more than 1.5 billion dollars.

"That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of 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 amount of such certificates held in the account at any one time shall not exceed 1.5 billion dollars."

This direction was in the same form as the direction issued by the Committee on May 15, 1943, except that it increased from 1 billion dollars to 1.5 billion the limitation on the authority of the executive committee to increase or decrease the amount of securities held in the System account. The reasons for the direction were substantially the same as those stated in connection with the approval of the directions issued at previous meetings during the current year. The increase in the limitation on the authority of the executive committee to execute transactions for the System account was based on agreement by the members of the Open Market Committee that, in the absence of unforeseen circumstances, it would not be necessary to hold another meeting of the full Committee before some date in September and that, therefore, the executive committee should have increased authority to make purchases and sales of securities for the purposes stated in the direction.

MEETING ON OCTOBER 18, 1943

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Ransom, Mr. Draper; Mr. Evans; Mr. Paddock; Mr. McLarin; Mr. Day; Mr. Young (alternate for Mr. Fleming).

1. Replacement of Maturing Treasury Bills.

Upon motion duly made and seconded and by unanimous vote, the executive committee was directed to work out with the Treasury and put into effect an arrangement under which a tender would be made each week for new bills in an amount not exceeding the total amount of maturing bills in the System and option accounts. This action was taken with the understanding that when the arrangement went into effect the executive committee was authorized to issue a statement to the press in such form as in its judgment the circumstances required.

Following the action with respect to direct replacement of Treasury bills which was taken at the meeting of the Federal Open Market Committee on March 2, 1943, the matter was discussed with the Treasury from time to time but was not carried to a conclusion for the reason that the situation in the market made it practicable to continue the existing practice under which Treasury bills were permitted to run off without replacement. However, in the period before this meeting the total amount of bills held in the System and option accounts increased to a point where the weekly maturities averaged between 400 and 500 million dollars. In addition, it was recognized that with the increase in required reserves that would occur in connection with the expenditure of funds held by member banks in war loan accounts it would be necessary for the System not only to replace maturing issues held in the System account but to purchase additional securities in substantial volume in order to supply the market with reserve funds.

The procedure suggested by the Committee was believed to be desirable in a situation which had become mechanically more difficult as weekly maturities of bills held by the System account had increased until at times

they were equal to half of the weekly offerings. In the past the market had taken all of each week's offering of Treasury bills and promptly sold to the Federal Reserve Banks the portion of the offerings which it did not wish to hold. Thus, the Federal Reserve Banks indirectly replaced part or all of their Treasury bill maturities and, although this procedure worked well when the amount of maturing bills held by the Reserve Banks was a relatively small proportion of the weekly offering and allowed the market to determine directly the amount of the new issue of bills it wished to hold, under existing circumstances the continuation of that procedure meant that the market would have to place tenders for new issues of bills in amounts substantially in excess of market requirements, the excess being taken for the purpose of immediate sale to the System. In these circumstances, there was unanimous agreement that a more direct method of replacing maturing bills held by the Federal Reserve Banks should be adopted.

It was again pointed out that the suggested procedure would not make new credit available or add new reserve funds to the market but would place the System in a position more readily to maintain the reserves already provided to support increased member bank deposits and currency circulation.

A tender for new bills each week in an amount not to exceed the total amount of maturing bills held by the System would create a situation in which, if there were a demand for bills at a price to yield less than $\frac{3}{8}$ of 1 per cent per annum, the System might obtain none of the tenders, whereas if there were no demand for bills at the higher prices the System might obtain the total amount of its tender, thereby permitting the market to determine the extent to which the System's holdings of Treasury bills should be replaced as a means of maintaining in the market the reserve funds previously provided.

Following this meeting, members of the executive committee on several occasions discussed the proposal of the full Committee with representatives of the Treasury. However, the Secretary of the Treasury decided that at that time no change in the procedure for issuing Treasury bills should be made and for that reason the proposal was not made effective. In lieu thereof, he requested the Federal Reserve Bank of New York as fiscal agent of the United States to use its best efforts to see that sufficient tenders for bills were forthcoming from the market each week to insure the sale of whatever amount of Treasury bills was offered by the Treasury.

2. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded and by unanimous vote, the following direction was approved:

"That the executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), 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 for the purpose of maintaining an adequate supply of funds in the market; provided that the aggregate amount of securities held in the account at the close of this date (other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury) shall not be increased or decreased by more than 1.5 billion dollars.

"That the executive committee be further directed, until otherwise