

At a special meeting of the Federal Reserve Board held in the office of the Governor on Tuesday, February 12, at 11:00 A. M.,

PRESENT:

Mr. Harding, presiding, Mr. Hamlin,
Mr. Warburg, Mr. Miller.
Mr. Delano,

The bill submitted to Congress by the Secretary of the Treasury, providing for the creation of a War Finance Corporation made a special order for the day, was discussed, particularly paragraph (f) of Section 6, authorizing Federal Reserve Banks to rediscount or purchase paper secured by the short term bonds of the War Finance Corporation and to deal in such short term obligations in a similar manner as they are permitted to deal in government bonds.

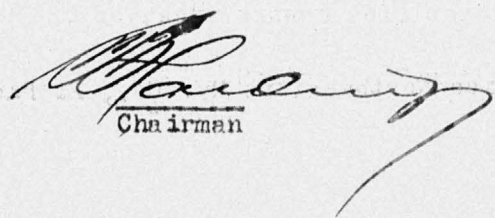
It was moved and agreed to recommend to the Secretary of the Treasury to insert the following language in the bill:

Such notes and obligations may be dealt in by Federal Reserve banks, when and as authorized by the Federal Reserve Board; and, Federal Reserve banks shall be authorized, subject to the approval and regulations of the Federal Reserve Board, to rediscount and purchase paper secured by such notes or obligations, at such rate as the Federal Reserve Board may approve.

It was the sense of the meeting that while the bill was in line with the Board's recommendation of December 8th that a War Finance Corporation should be created in order to remedy, as far as practicable, the difficulties prevailing in the security market, largely caused by the extended financial operations of the government, that the legislation as such, however, could only be approved by the Board as an emergency measure, designed to deal with the difficulties outlined; it was emphasized, however, that the Board could not favor legislation of this kind except as a war measure, nor could it approve the functions to be exercised in this connection by the Federal Reserve system, except in time of a great national emergency. The views and principles often expressed by the Board, that the Federal Reserve System, in normal times, should be devoted to commercial banking and that its financial operations should be based primarily on liquid commercial paper, are in no wise modified by the approval of the present war measure.

On motion, at 1 P. M. the Board adjourned.

APPROVED:


Chairman

Secretary