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 Thursday, May 20, 1948, at 3:15 p.m.

PRESENT: Mr. McCabe, Chairman
Mr. Sproul, Vice Chairman
Mr. Eccles
Mr. Szymczak
Mr. Williams

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Vest, General Counsel
Mr. Townsend, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Bopp, Irons, Langum, and Robb, Associate Economists
Mr. Rouse, Manager of the System Open Market Account
Mr. Thurston, Assistant to the Board of Governors
Mr. Riefler, Assistant to the Chairman of the Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Smith, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Arthur Willis, Special Assistant, Securities Department, Federal Reserve Bank of New York

Messrs. Clayton, Draper, Evans, Gilbert, Leedy, and Young, members of the Federal Open Market Committee

Messrs. Leach, Gidney, McLarin, and Earhart, alternate members of the Federal Open Market Committee

Messrs. Whittemore, Davis, and Peyton, Presidents of the Federal Reserve Banks of Boston, St. Louis, and Minneapolis, respectively.

Messrs. Thompson and Johns, Vice Presidents of the Federal Reserve Banks of Cleveland and Kansas City, respectively

Consideration was given to the direction to be issued to the Federal Reserve Bank of New York as agent for the System account and it was suggested that a limit of $750,000,000 on changes in System holdings of Government securities would be adequate for the time being. It was pointed out that the executive committee had been given authority to make changes in the aggregate amount of securities in the account up to $1.5 billion and that the means were readily available for granting additional authority to the New York Bank in the event the $750,000,000 was not sufficient.

Thereupon, upon motion duly made and seconded, the executive committee voted unanimously to direct 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 light of the general credit situation of the country, for the practical administration of the account, for the maintenance of stable and orderly conditions in the Government security market, and for the purpose of relating the supply of funds in the market to the needs of commerce and business; provided that the total amount of securities in the account at the close of this date shall not be increased or decreased by more than $750,000,000 exclusive of special short-term certificates of indebtedness purchased for the temporary accommodation of the Treasury pursuant to paragraph (2) of this direction;

(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 $750,000,000.

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

Reference was made to the date for the next meeting of the executive committee and no objection was made to the suggestion by Mr. Sproul that the meeting be held during the week of June 21, 1948.

Mr. Rouse then submitted a memorandum reading as follows:

"At a meeting of the executive committee of the Federal Open Market Committee on June 10, 1946, the following question, among others, was discussed and the suggested solution approved unanimously:

'2. Whether the committee should recognize, at least informally, the present commission of 1/64 of a point on transactions with dealers for the System account in notes and bonds and the present limitation to exceptional cases of transactions in these securities on a net basis and whether the committee should establish a commission of perhaps 0.01 per cent on transactions in certificates.

'Transactions in notes and bonds on an agency basis for the System account with qualified dealers should be handled in such a manner as to permit the dealers a spread of not more than 1/64 of a point, and such transactions where the dealers act as principal should be limited to exceptional cases and the transactions together with the reasons therefor should be reported separately by the New York Bank in the weekly report. Transactions in certificates should be handled in such a manner as to permit the dealers a spread of not more than 0.01 per cent (in relation to the price to the customer when on an agency basis and in relation to the current market price when the dealers act

"'as principal) on the longest maturity of certificates and the equivalent in dollars on shorter maturities.'

"In view of the particular importance attached at times to System Open Market operations in Treasury bonds, it is the suggestion of the Federal Reserve Bank of New York that more flexibility could be provided in handling System transactions, if the above solution were revised to include the underscored insertion shown below:

> Transactions in notes and bonds on an agency basis for the System account with qualified dealers should be handled in such a manner as to permit the dealers a spread of not more than 1/64 of a point, and such transactions where the dealers act as principal should be limited to exceptional cases and the transactions together with the reasons therefor should be reported separately by the New York Bank in the weekly report. <u>If, however, it appears desirable in the interest of maintaining an orderly market to avoid the identification by the market of System operations, transactions in Treasury bonds may be confirmed to us by dealers as principals rather than as agents, provided the dealers' confirmations to us state that the bonds were bought from or sold to another at a price spread of not more than 1/64 of a point.</u> Transactions in certificates should be handled in such a manner as to permit the dealers a spread of not more than 0.01 per cent (in relation to the price to the customer when on an agency basis and in relation to the current market price when the dealers act as principal) on the longest maturity of certificates and the equivalent in dollars on shorter maturities."

Mr. Rouse stated that the principal purpose of the June 10, 1946, action was to assure that the dealers' price spread would not be more than 1/64 of a point. He also stated that during the past few days when it was necessary to offer bonds in the market to stem a rapid rise in prices, under the instructions of the executive committee, these offerings were handled by the brokers on an agency

basis which resulted in a disclosure of the fact that securities were being offered by the Federal Reserve Bank of New York because the System account was the only one known to require agency execution, and that, if the dealers were permitted to handle these transactions as principals and their confirmations of the transactions, as suggested above, were required to state that the securities were bought from or sold to another at a price spread of not more than 1/64 of a point, the original purposes of the executive committee could be accomplished without requiring disclosure of the fact that the Federal Reserve Bank of New York was the seller or purchaser of the securities in question.

Upon motion duly made and seconded, and by unanimous vote, the amended instructions of the executive committee to the Federal Reserve Bank of New York were approved unanimously as follows:

Transactions in notes and bonds on an agency basis for the System account with qualified dealers should be handled in such a manner as to permit the dealers a spread of not more than 1/64 of a point, and such transactions where the dealers act as principal should be limited to exceptional cases and the transactions together with the reasons therefor should be reported separately by the New York Bank in the weekly report. If, however, it appears desirable in the interest of maintaining an orderly market to avoid the identification by the market of System operations, transactions in Treasury bonds may be confirmed to the Federal Reserve Bank of New York by dealers as principals rather than as agents, provided the dealers' confirmations to the Bank state that the bonds were bought from or sold to another at a price spread of not more than 1/64 of a point. Transactions in certificates should be handled in such a manner as to permit the dealers a spread of

not more than 0.01 per cent (in relation to the price to the customer when on an agency basis and in relation to the current market price when the dealers act as principal) on the longest maturity of certificates and the equivalent in dollars on shorter maturities.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

Thomas B. McCabe
Chairman.