

THIRTY-FIRST

# ANNUAL REPORT

*of the*

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR  
THE YEAR

1944

The Federal Open Market Committee has directed the Federal Reserve Bank of New York (hereinafter referred to as the Bank) to transact business in United States Government securities for the System open market account with reputable brokers and dealers in such securities who meet the qualifications and agree in writing to comply with the terms and conditions set forth below.

1. In determining whether a person (individual, partnership or corporation, including a bank) is a qualified broker or dealer with whom the Bank will transact business, and the extent to which business will be transacted with such person, the following factors will be taken into consideration:

- (a) Integrity, knowledge, and capacity and experience of management;
- (b) Observance of high standards of commercial honor and just and equitable principles of trade;
- (c) Willingness (in the case of a dealer) to make markets under all ordinary conditions;
- (d) The volume and scope of business and the contacts such business provides;
- (e) Financial condition and capital at risk of business; and
- (f) The reliance that can be placed on such person to cooperate with the Bank and the Federal Open Market Committee in maintaining an orderly market for Government securities; to refrain from making any recommendations or statements or engaging in any activity which would encourage or stimulate undue activity in the market for Government securities; and to refrain from disclosing any confidential information which he obtains from the Bank or through his transactions with the Bank.

2. The Bank will obtain from such person an agreement in writing to comply with the following terms and conditions:

- (a) He will furnish the Bank with a statement for the confidential information of the Bank and the Open Market Committee showing as of the close of business each business day:
  - (1) The total amount of money borrowed (directly and indirectly);
  - (2) The par value of all Government securities borrowed;
  - (3) His position, both long and short, in Government securities, classified by classes of securities and maturity groups (or by issues, if so requested by the Bank);
  - (4) The volume of transactions during the day in Government securities, classified by classes of securities and maturity groups (or by issues, if so requested by the Bank), and
  - (5) Such other statistical data as in the opinion of the Bank will aid in the execution of transactions for the System open market account.
- (b) At or before the completion of each transaction with the Bank, he will furnish the Bank with a written notification disclosing whether he is acting as a broker for the Bank, as a dealer for his own account, as a broker for some other person, or as a broker for both the bank and some other person. In the absence of a special agreement to the contrary with the Bank with respect to a particular transaction, he will not act as broker for any other person in connection with any transaction with the Bank,

and he will receive no compensation or profit of any kind in connection with the transaction other than the specified commission paid him by the Bank.

- (c) In the absence of special arrangements with the Bank, delivery of securities will be made at the office of the Bank before 2:15 p.m. on the next full business day following the day of the contract and all payments by the broker or dealer will be in immediately available funds.
- (d) He will furnish the Bank not less frequently than once during each calendar year with a report of his financial condition as of a date not more than 45 days prior to the delivery of the report to the Bank in form acceptable to the Bank and prepared or certified by a public accountant acceptable to the Bank; and, upon the request of the Bank, he will furnish it with a statement of condition as shown by his books as of a date specified by the Bank.
- (e) Unless the Bank shall have informed him of its desire to purchase or sell a particular issue of Government securities, he will not solicit from any other person offerings of or bids for any issue of Government securities for the purpose of placing himself in a position to offer to sell to or to buy from the Bank securities of such issue.

The Federal Open Market Committee has further directed that the Bank decline to transact any further business with a broker or dealer in any case in which the Bank has concluded that the broker or dealer no longer meets the qualifications set forth above or has willfully violated or failed to perform any of the terms and conditions set forth in the agreement.

To the Federal Reserve Bank of New York.

The undersigned hereby agrees to meet the qualifications and to comply with the terms and conditions set forth above.

Dated: .....  
(Signature)

The above action of the Federal Open Market Committee followed a thorough study of the relationships with the dealers and brokers through which transactions for the System open market account were executed. The Committee felt that, although the informal arrangement that had existed previously was satisfactory for a period when the volume and amount of transactions for the System open market account were relatively small, the increase in the activity of the account, and the likelihood that operations in very large amounts would continue during the remainder of the war and into the postwar period, made it desirable to place the existing relationships on a formal basis. The terms of agreement represent in substance the informal agreements that had been in effect between the Federal Reserve Bank of New York, as agent, and the dealers and brokers with whom the Reserve Bank previously had transacted business for the System open market account.

#### MEETING ON MARCH 1, 1944

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Draper, Mr. Evans, Mr. Leach, Mr. Young, Mr. Davis, Mr. Peyton.

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

Upon motion duly made and seconded, the following direction to the Federal Reserve Banks 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 option 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 was the first meeting of the Federal Open Market Committee attended by the representatives of the Federal Reserve Banks who were elected for a term of one year beginning March 1, 1944. Because of the change in the membership of the committee, it was agreed that it would be desirable to review and renew the above direction, which was in the same form as the direction issued by the Committee on June 28, 1943. It was approved unanimously for substantially the same reasons as prompted the earlier action.

### 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 (1) bills purchased outright in the market on a discount basis at the rate of  $\frac{3}{8}$  per cent per annum and bills redeemed at maturity and (2) 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 \$1,500,000,000.

"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 \$1,500,000,000."

The policy of the Federal Reserve System of facilitating the Treasury program of war financing by assuring the existence at all times of an ample supply of member bank reserves, and of exerting an influence toward the maintenance of conditions in the Government security market that would be satisfactory from the standpoint of the Government's requirements, continued during the year 1943 to be the all-important factor in the System's open market operations. The borrowings of the Government to finance the war continued to be large and it was necessary for the Federal Reserve System, largely through open market purchases, to make funds available to the banks for required reserves against increased deposits resulting from bank purchases of Government securities as well as to enable the banks to meet an increase in the volume of currency in circulation and a reduction in the monetary gold stock of this country.

This was the situation when this meeting of the Federal Open Market Committee was held and it was the unanimous decision of the Committee that the open market policies followed during the previous year should be continued for substantially the reasons stated in connection with the adoption of these policies. The direction set forth above was issued in furtherance of that purpose. It differed from the direction previously in effect in that it exempted from the limitation in the direction the redemption of maturing Treasury bills held in the System account. The redemption of such bills and the purchase of a like amount of new bills in the market amounted, in effect, to the replacement of maturing securities in the System account, and for that reason it was felt that there was no need to include these redemptions in the limitation imposed by the direction.

#### MEETING ON MAY 4, 1944

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Draper, Mr. Evans, Mr. Leach, Mr. Young, Mr. Davis, Mr. Peyton.

### 1. 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 (1) bills purchased outright in the market on a discount basis at the rate of  $\frac{3}{8}$  per cent per annum and bills redeemed at maturity and (2) 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 \$1,500,000,000.

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