

August 18, 1944

Honorable Daniel W. Bell,  
Under Secretary of the Treasury,  
Washington, D. C.

Dear Dan:

I am enclosing a copy of a memorandum sent to the Secretary today. This memorandum contains the recommendations of the Executive Committee for handling the refunding of the September 1 certificates, the September 15 notes, and the October 1 certificates. This memorandum has been prepared following a discussion by the Executive Committee at its meeting held on July 28 and further telephone discussion since that time.

Sincerely,

M. S. Eccles,  
Chairman.

Enclosure

STRICTLY CONFIDENTIAL

MEMORANDUM FROM THE EXECUTIVE COMMITTEE OF THE  
FEDERAL OPEN MARKET COMMITTEE TO THE SECRETARY OF THE TREASURY

The Executive Committee of the Federal Open Market Committee, at its meeting held on July 28, 1944, discussed the refunding of the certificates and notes that mature in the near future. As a result of this and subsequent discussion, the Committee suggests that the issue of September 1 certificates be refunded into a new issue of one-year certificates dated September 1 and that the two issues of September 15 notes and the issue of October 1 certificates be refunded into an issue of notes. The notes could be either an additional issue of the 1 1/4 per cent notes that were included in the Fifth War Loan, offered at a premium, or another issue with a later maturity date. The Committee would like to reserve its judgment on the terms of the note issue, however, until about the first of September.

The reasons for these suggestions are as follows:

1. An additional supply of notes would be helpful in maintaining the pattern of rates.
2. Such a refunding would help to keep within desirable limits the outstanding amount of certificates, anticipating that a new issue of certificates will be offered in the Sixth War Loan.
3. The combination of the certificate and note refunding would reduce from three to two the number of refunding operations that the Treasury will need to undertake within the next month.
4. The number of outstanding individual Treasury issues would be reduced.
5. The September certificates are largely held by nonbank investors, principally corporations, which would prefer certificates in exchange. The October certificates are largely held by commercial banks, most of which are likely to prefer notes in exchange.
6. Although there would be some advantage in giving to holders of all four issues an option to exchange for either notes or certificates, the Committee believes that in the interest of simplicity it would be preferable not to give an option.
7. Anticipation of the 4 per cent bonds that mature on December 15 would not appear to be desirable because of the problem of interest adjustment.

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