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Miss Swanie

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OFFICE OF
MR. PLATT.

FEDERAL RESERVE BANK OF CLEVELAND

333.-b

February 7, 1923.

SUBJECT: Letter X-3629, February 2, 1923,
Open Market Purchases by
Federal Reserve Banks.

Mr. Edwin Platt, Acting Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Platt:

I am glad to reply your letter of February 2, requesting information in connection with our policy in open market purchases, which policy is as follows:

A. OPEN MARKET TRANSACTIONS IN ACCEPTANCES.

We do not in any case purchase unendorsed bills nor do we in any case purchase bills direct from the accepting bank. Offerings of bills from our member banks are always considered and if the bills and rates are satisfactory, the purchases are made. We do not purchase bills in outside markets except through the Federal Reserve Banks in the districts in which such markets are located, nor do we purchase acceptances from dealers maintaining agencies only in our district, because the bills offered by such agencies are usually carried in the portfolios of the home office and inspection of the bills is therefore not possible. Our chief source of supply comes to us through purchases made by the Federal Reserve Bank of New York in whose daily purchases we participate.

B. PURCHASES OF UNITED STATES GOVERNMENT SECURITIES.

All offerings by our own member banks of short term issues are considered and purchases are made at prevailing market prices. In the case of offerings of longer time issues we either find a purchaser or sell the bills for the member bank in the open market, if they so desire. All other purchases are made only through the Committee of Governors on Centralized Execution of Purchases and Sales of Government Securities.

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C. PURCHASES OF MUNICIPAL WARRANTS.

We have not made any purchases of municipal warrants since prior to the war.

In making open market purchases of any kind, consideration is always given to market conditions and to our own needs in the way of investments.

Very truly yours,

E. R. Fancher

ERF.D. Governor.

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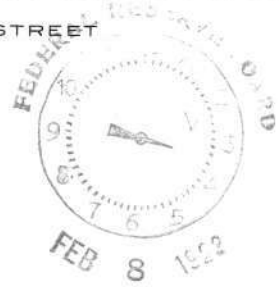
FEDERAL RESERVE BANK OF CHICAGO

230 SOUTH LA SALLE STREET

333.-b



Subject: Open Market Purchases by Federal Reserve Banks.

February 7, 1923

Federal Reserve Board
Washington

Gentlemen: Attention of Mr. Platt.

In reply to your letter of February second (X-3629) I beg leave to submit the following:

The general policy of this bank with regard to investments is that, if necessary, we should invest in bankers acceptances and short-term Government securities in amount sufficient to meet our requirements for expenses and dividends.

While it has been recommended that the Federal Reserve Banks purchase bankers acceptances in preference to Government obligations the facts are the volume of bills to be obtained in the open market is at times inadequate to supply the Federal Reserve Banks with sufficient investments; further, that if the Federal Reserve Banks attempted to buy all the bills offered in the open market it would have the effect of depressing the rates to the point where there would be no other buyers and we would lose our open market for bills.

At the present time it is estimated that the Federal Reserve System holds in portfolio about 40 per cent of the total amount of bankers acceptances outstanding, about 1 per cent of the total amount of U. S. bonds and notes outstanding, and about 18 per cent of the Treasury certificates of indebtedness outstanding.

Compared with the volume of Government obligations outstanding, the proportion held by the Federal Reserve Banks is small, and much less than their proportion of bankers acceptances outstanding.

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Because of a large reduction since the first of this year in the amount of rediscounts this bank has recently increased its investments in Treasury certificates of Indebtedness maturing in June, September and December of this year, $25,000,000. These purchases were made inside the Federal Reserve System from the Federal Reserve Banks of New York and Dallas, and did not increase the total amount of Government securities held in the Federal Reserve System.

Our policy, therefore, when we are in need of additional investments is to purchase either bankers acceptances or Government securities, if possible, from such Federal Reserve Banks whose earnings, because of increased rediscounts by member banks, may be more than necessary to meet their requirements, and who are therefore willing to dispose of some of their investments to other Federal Reserve Banks that may be in need of them. We would, therefore, make purchases in the open market only in case we were unable to obtain the investments from other Federal Reserve Banks.

With regard to the purchase of bankers acceptances in the open market it is our practice to purchase from local dealers and our member banks prime endorsed bills offered to us at rates which are fixed from time to time in accordance with open market conditions.

We also participate in open market purchases made by the Federal Reserve Bank of New York and they allot to us about 10 per cent of their purchases. Occasionally we place an order with them for an additional amount when bills are scarce in the local market.

Also, we buy from dealers bankers acceptances, Treasury certificates of indebtedness and Treasury notes through the use of fifteen-day repurchase agreement, in order that the dealers may be able to carry with us a reasonable amount of their portfolio of bills as well as short-term Government securities, especially at such times as they are unable to obtain enough funds in the local call money market.

It is our practice to purchase the bills at the same rates the dealers pay for them, selling them back to the dealers at the same rate. In the case of Treasury certificates of

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indebtedness and Treasury notes, we take them at par from the dealers at the coupon rate and sell them back at the same price, and if the quotations for these securities in the open market should be less than par we take additional collateral to protect us in the transaction.

The volume of bills and Government securities at present and for some time past which we have carried in this manner has been small as there have been plenty of funds obtainable at favorable rates in the local call money market, the amount running from $750,000 up to about $3,500,000 carried with us.

Yours very truly,

C h a i r m a n

H:R

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