

The Chairman: Now, that leaves only one matter to be discussed, it seems to me, and that is the providing of a method of executing orders, where we have orders to buy or sell for our own account.

Governor Norris: That does not interest us because we never buy that way.

The Chairman: Then you would not be opposed to any principle, which would not affect you, if you have no such orders or no such practice.

Governor Norris: We have never placed an order for the purchase of government securities.

The Chairman: Suppose, Governor Norris, that we had a sudden change in conditions and your member banks came in and began to borrow very heavily from you, and you might want to sell some of those government securities; how would you handle that?

Governor Norris: Well, that of course if ⁵a theoretical possibility. Our purchases have been so limited and our available funds are so large that as a practical matter we do not consider it a possibility.

The Chairman: But with other federal reserve banks it might be a possibility.

Governor Norris: Yes.

The Chairman: Do you think it is a good thing to have a common policy as to how these orders shall be executed?

Governor Norris: Yes.

The Chairman: Would you want to be excepted from the operation of that policy?

Governor Norris: No. We would want to avail ourselves of it.

The Chairman: Then the question is do we want to attempt to get to a common policy with regard to the execution of orders?

Governor Fancher: Do you mean selling orders?

The Chairman: Both selling and buying.

Governor Morss: Now, what are you leading up to? Tell us the object of it.

The Chairman: I am leading up to one thing that it seems to me has got to be done in some way, if the views of the Treasury Department are to be met, if you do not want to meet them, that is for you gentlemen to say. But the point is unless orders are handled through some common source we will be in the same fix in selling as we may be in buying them in, and harm does arise from having no organized method.

Governor Fancher: Have you a plan to suggest?

The Chairman: I have not. The only plan that we have ever tried was this buying of acceptances, where we had a formula, as you will remember, under which we used to divide them around amongst the banks.

Governor Norris: There are only two practical ways of reaching the result. One is by a centralized joint buying and selling agency, and the other is by a periodical agreement on prices.

Governor McDougall: I would like to say that we have, on a sound base, and carefully, endeavored to develop some sort of a market in Chicago for securities such as you are discussing. As a matter of interest I would like to report that since the first of the year, up to April 27th, we have handled in behalf of our member banks and on behalf of other federal reserve banks, transactions in Treasury certificates and Victory notes, in number of transactions, 9,167, involving the sale and purchase of \$318,000,000.

The Chairman: That market has got to be protected, of course.

Governor McDougall: I mention that simply to have it understood that we have a nice little market that we have handled on a satisfactory basis; that we have worked at all times in harmony with Mr. Kenzel, or at least we are conferring with him at all times, and we believe it is a good thing for the whole situation to support that market.

The Chairman: Is that in bills and certificates?

Governor McDougall: Limited to certificates and Victory notes, and we are handling bills, of course, as you know.

The Chairman: It has been going through my mind that the principal market for these government securities and notes is in Chicago, Boston, Philadelphia and New York. Of course they have a market out on the coast, but I suppose a good deal of that reflects the New York market, does it not, Governor Calkins?

Governor Calkins: Yes, and to some extent that is true in every other case. The Philadelphia, Boston and Chicago markets reflect the New York market constantly. The reflection is both ways.

The Chairman: How would it do to have a committee of those banks that are affected to work out a program for the execution of orders?

Governor Norris: A centralized selling agency would, of course, not involve any necessity for the execution of orders in a single market. The agency could distribute those orders wherever there was a substantial market.

The Chairman: Absolutely. I think it would be a very unfortunate thing to have a common agency concentrate the market in any one place. The Secretary does not want that to happen.

Governor Morss: Of course with respect to these local markets -- I am speaking of Boston, anyway -- they are secondary and very much secondary to New York. But we are quite jealous of our own market and of maintaining it both for bills and government securities, and we do not want to give up the use of it.

The Chairman: And you should not. I think that would be detrimental to the Treasury, if we should give it up for any other reason.

Governor Morss: It would seem to us as if that was a backward step in the development of the Boston market. While it is secondary to New York, still it is our own and we think a lot of it even if it is small.

How much is it necessary to do in addition to what we have done now? We are to be informed of Treasury operations and we are to refrain from going into the market when there are Treasury operations in the market. Is there some other form of cooperation that we can bring up by which no Federal reserve bank will do anything, without examining conditions at least?

The Chairman: The same reasonable control of the execution of orders, within the general limitations of policy which we have discussed here ought to be effected, if y_____ by some committee, by the Federal Reserve Board, if you please, or in some way, so as not to destroy these markets in the different cities, but at the same time we will have an orderly execution of orders in all of the markets that need to be preserved.

Governor Morss: Mr. Chairman, we are willing to cooperate with anybody on anything for a good purpose.

The Chairman: Do you think that is a good purpose, Governor Norris?

Governor Morss: Yes sir.

The Chairman: Will somebody make a proposal?

Governor Norris: If any Reserve Bank contemplates the possibility of having to sell any securities, it is very much to its interest to have the thing centralized. Anyone who knows anything about the security market knows that if two or three orders come in at the same time to sell, say one million dollars each of a certain one of these securities

that we are talking about, those orders become known to all the dealers, and instead of there being information go out as it ought to go out that those orders are for three million, the idea will get out that there are orders to sell thirty million in the market. Everybody will start to get from under and the price will run off. If there were a centralized selling agency and three orders to sell a million dollars in bonds came in, the people who were attending to the execution of that order would not sell the three million all at once in the market if it was soft, but they would wait, and would sell half a million or a million, and would handle the thing in such a way that it would enable them to get a better price for the securities.

The Chairman: There is no question about the desirability of centralized execution of orders. What would you propose Governor Norris?

Governor Norris: That as to orders placed in the market to buy and sell for account of Federal reserve banks, that they be given to a committee which will execute those orders in accordance with their own best judgment and discretion and distribute the sale in the existing markets in proportion to the size of those markets with regard to the local demand and supply, and that the results of the purchases or sales be pro rated among the banks having orders in at the time.

The Chairman: Who would you suggest as a committee, a committee of Governors to deal with the matter?

Governor Norris: Yes. Of course someone from New York should be chairman of that committee. I feel just the way Governor Norss feels about his local market. In the words of the poet, "It is a poor thing, but it is mine own." There are other markets that ought to be preserved---

The Chairman: Obviously Chicago, obviously Boston and obviously San Francisco.

Governor Calkins: Isn't it true that the existence of a market in the various federal reserve districts is only a matter of degree. The largest market in New York, the next one may be Boston or Chicago, for all I know, and whatever Governor Morss has said about preserving the market is applicable to all of the reserve bank cities, I am entirely in sympathy with the proposal of Governor Norris, but it should not be made with such provisions as to imply or put into operation the idea that there are only one, two or three markets in the country.

Governor Norris: I did not put it in that way. I said with regard to all existing markets.

The Chairman: Why not have a committee of those four governors who have been named who are nearby, and have instructions given to them, if you please, to have due regard to all of the markets in all of the twelve reserve cities.

Governor Calkins: I think a committee of four is too large. If you will make it a committee of three I will second the motion.

The Chairman: That is immaterial to me.

Governor Calkins: I make a motion that a committee of the Governors of the New York, Chicago and Boston banks be appointed.

Governor Morss: I think that goes pretty far. I do not see why we should not have some sort of bureau or committee or something which, if any Federal reserve bank wishes to go into the market, would be in a position to receive inquiries from the reserve banks as to conditions, giving some indication to the committee of what they want to do or propose to do, and keep the committee thoroughly informed so that if any bank was not informed of conditions it could inform itself of them on short notice and the matter could be taken care of in that way. We are likely to inquire of New York. We have brokers that are in New York and Boston. We inquire of them and keep ourselves well posted. I should be very glad if there was a committee that we could ask about conditions. We could probably give the committee some indication of what we thought we would like to do and get an expression of opinion from them as to whether it was an opportune time or not to do that, but I do not think we should go much further.

The Chairman: Why not have the question of orderly method of executing orders referred to this committee?

Governor Calkins: I was about to offer a motion that the matter of working out an orderly and proper method of executing orders to buy and sell government securities be referred to a committee consisting of the Governors of the New York Bank, the Chicago Bank, the

Boston Bank and the Philadelphia Bank.

Governor Fancher: I will second that motion.

The Chairman: Is there any further discussion?

(There was no further discussion and the motion, being duly seconded, was carried.)

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Excerpts from the Minutes of the Governors Conference,
May 2 - 4, 1922.

(c) Policy as to amount of investments

The secretary then read to the conference Secretary Mellon's letter of April 25, 1922, ^{333.1} addressed to Governor Harding, in respect to the investment of Federal Reserve Banks in Government securities. The chairman referred to another letter addressed by Secretary Mellon to Governor Harding, dated April 29, 1922, stating that the Secretary is interested in what the Federal Reserve Banks' position will be in regard to investments in Government securities in view of the further deliberations of the conference, and in view of the recommendations of the Federal Advisory Council.

After a long discussion of the letters referred to and of the policy of the several Federal Reserve Banks in respect to the purchase of Government securities, it was, upon motion of Governor McDougal,

VOTED to be the sense of the conference that each governor recommend to his directors that it be the policy of the bank to invest in Government securities only to the extent that it may be necessary from time to time to maintain earnings in amounts sufficient to meet expenses, including dividends and necessary reserves.

Governor Norris voted "yes" with the understanding that his action carries no reflection on anything that the Federal Reserve

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Bank of Philadelphia has already done in respect to the purchase of Government securities.

(d) Disposition of Present Investments in Excess of Earning Requirements

Upon motion of Governor McDougal, it was

VOTED that if the estimates of expenses and earnings for the current year to be made by each Federal Reserve Bank in accordance with the vote taken under sub-paragraph (a) of this paragraph, show that the present investments will give an excess of earnings over expenses, it will be the policy of the Federal Reserve Banks to permit these investments to run off, rather than to sell them in the market.

(e) Transactions direct with member banks

Upon motion of Governor McDougal, it was

VOTED that the principle should be adopted that nothing should prevent Federal Reserve Banks from buying Government securities from or selling them to their own member banks, provided there is no violation of the principles defined in previous votes.

(f) Centralization of purchases and sales

In order that Federal Reserve Banks, in placing both buying and selling orders for their own account will not destroy the market or compete with one another, it was moved by Governor Norris, that all orders to buy and sell for account of any of the Federal Reserve Banks shall be given to a committee which shall execute such orders in accordance with its best judgment, and which shall distribute the

execution of the orders among the different markets as circumstances might prompt, and that orders so executed be pro rated among those banks having placed orders with the committee.

In discussion of this motion it was felt that the methods by which this committee should act might best be determined after further consideration by the committee itself. Whereupon, upon motion of Governor Calkins, it was

VOTED that the governors of the Federal Reserve Banks of Boston, New York, Philadelphia and Chicago be made a committee for the purpose of studying this question and working out an orderly program for handling the buying and selling of Government securities by Federal Reserve Banks through some centralized control.