A meeting of the executive committee of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Wednesday, August 6, 1947, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Peyton (alternate for Mr. Sproul)
Mr. Clayton (alternate for Mr. Draper)
Mr. Vardaman
Mr. Davis

Mr. Morrill, Secretary
Mr. Vest, General Counsel
Mr. Rouse, Manager, System Open Market Account
Mr. Thurston, Assistant to the Chairman, Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Young, Assistant Director of the Division of Research and Statistics, Board of Governors
Messrs. Musgrave, Chief, and Smith, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee of the Federal Open Market Committee held on June 30, 1947, were approved.

Mr. Rouse presented a report prepared at the Federal Reserve Bank of New York covering transactions in the System open market account during the period from June 30 to August 4, 1947, inclusive, together with a supplementary report of transactions on August 5, 1947. Copies of these reports have been placed in and made a part of the files of the Federal Open Market Committee.

In discussing the report, Mr. Rouse stated that market conditions in U. S. Government securities during the period under review were influenced primarily by (1) the termination by the Federal Open Market Committee of the purchase and resale arrangements on Treasury bills at the fixed rate of 3/8 per cent applicable to bills issued on or after July 10, announcement of which was made on July 3, 1947, and (2) the refunding of the August 1, 1947, maturity of certificates with a new 11-month certificate at 7/8 per cent (the rate previously offered on 12-month maturities). Mr. Rouse said that changes in total holdings of Treasury bills in the System account had been nominal over this period, and that, while a few commercial banks had shown some interest in bills issued since July 10 to which the fixed buying rate did not apply, and which had sold at yields of about 3/4 per cent, they generally continued hesitant in buying such bills, preferring those which could be sold at their option to the Federal Reserve Banks. He also said that some corporations which had funds for investment for about 90 days pending payment of dividends had shown an interest in the new bills.

Chairman Eccles stated that Treasury officials seemed to be a little disappointed that a large volume of bills had not gone into the market since the yield had gone up, and that last week he told Under Secretary Wiggins that it was too early to determine the effects of the elimination of the fixed buying rate, that there was a feeling in the market that the rate on certificates would go up soon, that until a rollover of unpegged bills had been completed it would not be possible to tell what bill rate would interest the market, but that, in order to have bills in demand as a short-term market investment, the yield must be close to the rate on certificates, perhaps within 1/16 per cent of the certificate rate. Mr. Rouse commented that the understanding with the Treasury was that the rate on bills would be maintained below that on certificates. Chairman Eccles added that there was justification for a slight differential, because bills could be used by banks in adjusting their reserve position more satisfactorily than certificates since they could be obtained and allowed to run off from week to week without payment of a dealer's commission. He also said that in his discussion with Mr. Wiggins he emphasized his belief that it was not feasible to peg two short-term rates, because banks and other investors would then be interested only in the security carrying the higher rate.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account as reported to the members of the executive committee for the period June 30 - August 5, 1947, inclusive, were approved, ratified, and confirmed.

There was then presented a copy of a letter sent by Chairman Eccles to the Secretary of the Treasury on July 11, 1947, with respect to the refunding of certificates maturing August 1, 1947, which read as follows:

"In response to Mr. Bartelt's inquiry regarding our views on the August 1 certificate issue, the Executive Committee of the Federal Open Market Committee recommends that it be refunded in full into certificates maturing within eleven months and bearing a coupon rate of 7/8 per cent.

"This recommendation is based on the considerations expressed to you by Mr. Sproul and myself in our recent discussion and restated in our memorandum transmitted to you on July 1. As developed in that memorandum, issuance of an eleven months certificate at this time would be a step towards consolidation of the eleven outstanding certificate issues into a smaller number and thereby permit raising the certificate rate gradually while minimizing the effect of the rising rate upon the price of outstanding certificates. Beginning this program now paves the way for refunding the September maturities of Treasury notes which represents the crux of the immediate problem."

Upon motion duly made and seconded, and by unanimous vote, the letter was approved and ratified.

Chairman Eccles noted that the recommendations contained in the foregoing letter had been accepted by the Treasury, as shown by the refunding of the certificates maturing August 1 with an 11-month issue of certificates carrying the 7/8 per cent rate which previously had applied to 12-month certificates.

Chairman Eccles stated that last week he had talked with Fiscal Assistant Secretary of the Treasury Bartelt, who had indicated that the Treasury might need additional funds in September for use in making payments of terminal leave bonds, the cashing of which had been authorized by Congress in July and the immediate payment of which was expected to take over a billion dollars, and that they were considering whether to issue additional bills to the amount of $1 billion during the next few weeks. Chairman Eccles went on to say that he had told Mr. Bartelt that according to present estimates the Treasury cash balance would be about $1 1/2 billion at the end of September, after allowing for voluntary cash redemptions of securities maturing in September and for substantial redemptions of terminal leave bonds, that heavy tax payments in September would put pressure on the money market, that it would not be desirable to add to that pressure by selling additional bills, and that it would seem preferable, if Treasury balances ran too low prior to receipt of September tax payments, for the Treasury to use the procedure of selling short-term certificates direct to the Federal Reserve Banks. He had made the further statement, he said, that if the Treasury needed additional funds late in September or October they could then be obtained by increasing the weekly bill issues or otherwise. This suggestion, Chairman Eccles said, apparently had been accepted by the Treasury since there had been no increase in the amount of bills issued this week.

In response to an inquiry from Mr. Rouse, it was the consensus that the established rate of 1/4 of 1 per cent should continue to be applied to the securities which might be sold by the Treasury direct to the Federal Reserve Banks for the purposes outlined, even though there had been some rise in short-term interest rates recently.

Chairman Eccles then referred to the exchange of correspondence with the Treasury and the International Bank for Reconstruction and Development as recorded in the minutes of the meeting of the executive committee on June 30, 1947. He reviewed the conversations which preceded receipt of the letter from the President of the International Bank dated July 23, 1947, and stated that, as indicated in the acknowledgment of that letter sent under date of July 25, 1947, the arrangement would enable the Federal Open Market Committee to take whatever action might appear to be necessary to offset undesirable influences in the money market which might result from stabilization operations undertaken by the International Bank in connection with its securities or from purchases and sales by the Bank of U. S. Government securities for investment.

Thereupon, upon motion duly made and seconded, it was voted unanimously that, in approving the minutes of the meeting of the executive committee held on June 30, 1947, the actions taken in handling the above matter as recorded in the minutes of that meeting were approved, ratified, and confirmed.

Reference was made to a letter addressed to Mr. Whittemore, President of the Federal Reserve Bank of Boston, under date of July 7, 1947, by Mr. Charles E. Spencer, Jr., President of the First National Bank of Boston and a member of the Federal Advisory Council, suggesting that, for the purpose of increasing the attractiveness of Treasury bills to commercial banks, the Open Market Committee each day set a buying rate on Treasury bills which would be paid that day at any Federal Reserve Bank. In this connection Mr. Rouse read a memorandum prepared under date of July 23, 1947, by Mr. Roelse, Vice President of the Federal Reserve Bank of New York, which stated that the elimination in July of the System fixed buying and repurchase rate on new Treasury bills was a step in the direction of eliminating automatic availability of Federal Reserve credit, that under the Spencer proposal there would be but little uncertainty as to the availability of such credit, that the money market functioned satisfactorily for many years with no such mechanism as a posted buying rate for Treasury bills, that it was not clear why it should not be able to do so now, and that in any event it would seem preferable to see how the market for bills developed before considering adoption of the Spencer proposal or any other device for making Treasury bills more attractive to banks and others.

A memorandum prepared by Mr. Musgrave under date of August 4, 1947, commenting upon Mr. Spencer's proposal for Federal Reserve bill policy, was then distributed and read. The memorandum stated that experience since discontinuance of the buying rate and repurchase option on new bills indicated that the Treasury bill in its present form was not likely to reestablish itself as a market instrument, and that such a development should not be expected unless (1) the bill rate was permitted to rise to whatever point was needed to increase market holdings, which conceivably would mean the bill rate would equal or exceed the certificate rate or (2) the bill was given special features to make it more attractive to investors, in which event the rate might be kept below that on certificates. It went on to say that the Spencer proposal followed the second of those alternatives and would greatly increase the attractiveness of bills as an outlet for short-term banking funds which could then be invested and withdrawn with a minimum of delay and at a minimum cost, thus making them the near-equivalent of cash reserves, that such a development would be desirable from the standpoint of Treasury policy, that the present procedure under which the Federal Reserve, in effect, pegs Treasury bill rates on a weekly basis actually differs but little from the previous buying rate and option policy, that adoption of the Spencer proposal would not necessarily involve a rigid rate, and that it need not result in loss of Federal Reserve control over the total amount of credit extended to member banks. The memorandum concluded, however, that it would not be desirable to make a change in bill policy until October or later when the option bills would have run out and the committee could observe how the bill market had developed after the rates on both bills and certificates had been adjusted to a new level.

Copies of Mr. Spencer's letter and both memoranda have been placed in the files of the Federal Open Market Committee.

Mr. Rouse said that he thought the memorandum of Mr. Roelse met the arguments for the Spencer plan, that he understood the objective of present policy was to bring back to the Federal Reserve some control over the ability of the banking system to obtain Federal Reserve credit, that the adoption of the Spencer proposal would be a backward step away from that policy toward something about equivalent to the fixed buying rate or to the preferential discount rate which we succeeded in terminating, that it would be just another sort of a peg because the range within which the set buying rate could be varied from day to day would be negligible, and that he felt the System should not again try to create preferential rates for everyone. He commented that such devices tend to impair the effectiveness of the discounting function of the System, and that if the discount rates were maintained and there were some penalty if banks sold securities to the Federal Reserve or discounted, the banks would be more likely to keep themselves in shape.

Chairman Eccles commented that there was a good deal to be said for the proposal of Mr. Spencer, that it would not be desirable to take any action until the extent of market interest in bills issued since elimination of the fixed buying rate and repurchase option had become more apparent, and that the proposal should be studied carefully for consideration at the next meeting of the full Committee. Mr. Peyton suggested that the proposal made by Mr. Spencer would be welcomed by many banks as a means of enabling them to use Treasury bills in adjusting their reserve position on a day-to-day or week-to-week basis.

Mr. Davis suggested that, since it was the consensus that no action was called for at this time in connection with the Spencer proposal, it be studied further before the next meeting of the Federal Open Market Committee, and it was understood that copies of Mr. Spencer's letter and the two memoranda would be sent to the Presidents of all Federal Reserve Banks so that they would be prepared to discuss it at their conference in October.

Turning to a discussion of the recommendations that should be made to the Treasury with respect to securities maturing in September, Chairman Eccles reported that when he and Mr. Sproul met with the Treasury immediately following the meeting of the executive committee on June 30 and again when he met at the Treasury on July 10 with the committee of bankers which has been advising informally with the Treasury in connection with financing plans, the case had been presented for refunding the September maturities of certificates and notes into other short-term securities rather than into intermediate-term obligations. The reasons for this view, he stated, were contained in the memorandum presented to the Treasury on July 1 and recorded in the minutes of the executive committee meeting of June 30 and in a memorandum dated July 9 containing Mr. Sproul's views, a portion of which he then read and a copy of which has been placed in the files of the Federal Open Market Committee.

Chairman Eccles said that in these discussions he had stated to the Treasury that their decision on the September financing would determine whether they were to continue the wartime pattern of rates for some time to come or whether they were to take a step toward a program of sound debt management and credit policy. He added that the Treasury had made a decision and started on the way of raising the short-term interest rate and consolidating outstanding issues of certificates into a smaller number of issues, that it was his opinion that the heart of the case for raising the short-term interest rate was that it would lead to a situation in which Government securities falling due over the next few years would be refunded into notes and certificates, that this would take the pressure off the long-term interest rate and still enable banks to maintain earnings as a result of the general rise that would occur in rates on short-term advances by banks, and that this could be accomplished without the issuance of an intermediate-term bond which would unnecessarily add to interest costs on the public debt and raise other problems for the Treasury. He pointed out that the increase in short-term interest rates would not increase the total cost of carrying the public debt because that rise would be more than offset by retirement of higher rate securities. Another point advanced by Chairman Eccles was that this program would follow a sound policy in making available for bank investment short-term securities to be held against demand deposit liabilities, and he noted that the banks already held all but a relatively small amount of bank-eligible long-term Government securities, so that there could not be a great deal more monetization of debt at this time from that source. Chairman Eccles also said that under this program he felt it would be desirable if the Treasury would work toward getting the short-term rate up to 1-1/8 per cent by the end of this year even though recent issues of 1 per cent certificates might then fall slightly below par, but that this point need not be discussed with Treasury officials at this time although they now seemed satisfied that there was no special virtue in maintaining certificates at par.

Mr. Rouse then read a memorandum dated August 6, 1947, commenting on the September refunding from the market standpoint in which it was stated that the refunding would directly affect bank yields and market prices for Treasury bonds, because of a desire on the part of banks to maintain their earnings or to prevent too sharp a decline in earnings, and in which were presented preliminary figures of bank earnings in the New York Federal Reserve district during the first half of 1947 which showed general and moderately sharp declines in net profits during that period as compared with the corresponding period in 1946. The memorandum suggested that if the September certificates were refunded into a new 10-month 7/8 per cent certificate and the September notes into a 2-year 1-1/4 per cent note, investors would be uncertain as to whether the rate on certificates would be held at 1 per cent or allowed shortly to rise to 1-1/8 per cent and that under those circumstances they would be likely to accept a 1-1/4 per cent rate for 2 years and possibly buy additional amounts of the notes in the market at small premiums against the sale of Treasury bonds of near-by maturities, which would cause Treasury bonds callable during the next few years to decline in price rather than to rise as would probably be the case if the September notes were refunded into a 1 per cent certificate or a 1-1/8 per cent note.

This proposal was discussed and the view was expressed that there was no justification for the Treasury paying a higher rate on a 2-year note than on a 1-year certificate because either one represented investment of demand money, that the question was whether the certificate rate should go up to 1-1/4 per cent immediately or only over a period of time, and that a more gradual rise was preferable.

The meeting then recessed and reconvened at 2:20 p.m. with the same attendance as at the morning session except that Mr. Vardaman was not present.

There was a further discussion of the specific recommendation that should be made to the Treasury in connection with the September refunding and Chairman Eccles stated that he was to see Secretary Snyder, Under Secretary Wiggins, and Fiscal Assistant Secretary Bartelt tomorrow morning, that he understood the program for September financing was to be decided before Secretary Snyder left Washington tomorrow afternoon for an absence of several days, and that it would be desirable to have a letter containing the committee's recommendations reach the Treasury in time for consideration at the meeting in the morning.

During the discussion there had been distributed a memorandum on the financing outlook which had been prepared by Mr. Musgrave under date of August 6, 1947, and a copy of which has been placed in the files of the Federal Open Market Committee.

After a further discussion it was suggested that a definite recommendation should be made to the Treasury to refund the certificates maturing on September 1 into a 10-months 7/8 per cent certificate, the notes maturing September 15 into a 12-1/2 months note at 1 per cent, and the certificates maturing October 1 into a 12-months 1 per cent certificate, and that an alternative recommendation should be made which would be acceptable to the committee if the Treasury was not receptive to the first recommendation.

Upon motion duly made and seconded, and by unanimous vote, it was agreed that a letter should be prepared and presented to the Treasury containing the recommendations of the executive committee with respect to refunding September maturities, along with an alternative plan that would be acceptable to the committee if the Treasury did not wish to follow the plan recommended.

Secretary's Note: The letter, which was delivered to Secretary Snyder by Chairman Eccles on August 7, 1947, read as follows:

"The Treasury's refunding program for September and October maturities was discussed at yesterday's meeting of the Executive Committee of the Federal Open Market Committee. The Committee recommends that the certificate issue maturing on September 1 be refunded into a 10-months 7/8 per cent certificate, to be followed by a refunding of the 1 1/4 and 1 1/2 per cent notes maturing on September 15 into a 12 1/2 months 1 per cent note and a refunding of the certificates maturing on October 1 into a 12-months 1 per cent certificate. This program would provide for a gradual upward adjustment in the certificate rate and would lead to a convenient spacing of certificate maturities in the second half of 1948 including 6.1 billion dollars to mature on July 1 and 5.8 billion dollars to mature on October 1. The refunding program for October and November of this year might then be adjusted to provide for a further maturity on December 1, 1948.

"As an alternative to the above program, the certificates maturing on September 1 might be refunded into a 13-months 1 per cent note, this new note to be made available as well to the holders of notes maturing on September 15, after allowance for an interest adjustment. The subsequent refunding of the October 1 certificates would be into a 12-months 1 per cent certificate. While this second alternative would be acceptable to the Committee, the previously mentioned approach would be preferable. It would provide for a more gradual stepping up of the certificate rate on September 1; would have the advantage of abandoning the 7/8 per cent rate in connection with the refunding of notes rather than of certificates, and would provide for a better spacing of certificate maturities in the second half of 1948. The Committee believes that a program of this kind would be best suited to accomplish a gradual upward adjustment in the "certificate rate with a minimum of disturbance in the price of outstanding certificates. In following up the program, the Committee hopes that sufficient progress can be made on the issuance of a G-type bond prior to the October 15 maturity of 4 1/4 per cent bonds, thus making available funds with which to make cash payments on that issue.

"If full exchange offers are made on September 1, September 15, and October 1 maturities as provided for in this program, it appears on the basis of present estimates that Treasury funds will be sufficient throughout the month of September to meet current needs. Allowing for voluntary cash redemptions of maturing issues and substantial cash payments on terminal leave bonds, it is estimated that cash in the Treasury balance for the end of September will still be close to 1.5 billion dollars. Should a temporary need for funds arise prior to the inflow of tax payments in the second half of that month, due to heavier redemptions on terminal leave bonds or for other reasons, the Committee suggests that the Treasury make use of the overdraft provision with the Federal Reserve. Also, the Committee shall be glad to discuss a possible increase in the weekly issue of Treasury bills, should a need for funds arise later on."

Following the discussion of the refunding of obligations maturing in September, Chairman Eccles read a letter from Under Secretary Wiggins dated July 28, 1947, with which there had been transmitted a memorandum prepared by the Treasury staff under date of July 24, 1947, outlining a long-term restricted bond, and concerning which comments were requested. A memorandum which had been prepared by Mr. Musgrave under date of August 6, 1947, with respect to the Treasury proposal was then read and discussed, and a copy has been placed in the files of the Federal Open Market Committee.

It was the consensus that the terms proposed by the Treasury for a long-term restricted bond were not sufficiently attractive to accomplish the purpose which the Treasury had in mind, i.e., to take the pressure off the long-term bond rate to the extent that it resulted from an excess of investment funds held by institutions other than banks. There was a discussion of the various changes that might be recommended to make the bond more suitable, the principal suggestions being that (1) the 20-year maturity was too long, and 18 would be better; (2) the 10-day period during which the bond was to be offered was too short and it should be placed on sale as a tap issue; (3) some of the restrictions contemplated would deter purchases by many of those for whom the issue was intended; (4) the redemption scale during the first six or seven years should be liberalized along the lines of the present G-type bond and redemption should be permitted in less than the one-year period proposed; (5) the issue should not be available to commercial banks even though they hold savings deposits; and (6) fire, marine, and casualty insurance companies should not be eligible to buy because they generally are not institutions accumulating savings for investment.

Upon motion duly made and seconded, and by unanimous vote, it was agreed that a letter should be sent to the Treasury by Chairman Eccles containing general suggestions along the foregoing lines with respect to the bond to be issued, and containing the further statement that the staff of the Federal Open Market Committee would be glad to discuss details of these general suggestions at a meeting with representatives of the Treasury staff.

Secretary's Note: The letter, which was transmitted over Chairman Eccles' signature to Under Secretary of the Treasury Wiggins under date of August 8, 1947, read as follows:

"Your letter and staff memorandum of July 28 were received with great interest and we are pleased to see that progress is being made on the long-term issue. The memorandum was discussed at yesterday's meeting of the Executive Committee of the Open Market Committee. The Committee at this time merely wishes to make some general comments regarding certain features of the bond which we believe need further exploration. We shall be glad to have the staffs work on the matter jointly, as it is important that all preparations be completed as soon as possible.

"It is our impression that the general terms proposed in your staff memorandum are somewhat too restrictive in several respects, considering the purposes which the issue is to serve. It is unlikely that the bond in the proposed form would make sufficient contribution towards relieving existing pressures on the long-term rate or that it would do much toward furnishing funds with which to retire maturing debt, in particular debt held by commercial banks. Possibilities should be explored of rendering the bond issue somewhat more attractive by liberalizing its terms in several respects where this can be done without violating the principle that the bond should be directed at only a portion of the new funds of long-term institutional investors and that precaution should be taken to prevent roll-over into commercial banks.

"In this connection, the following points seem of primary importance:

(1) One of the major purposes of the new issue is to give concrete evidence to the market that the long-term rate will be maintained at 2 1/2 per cent and in order to do so it is desirable that the issue should either be placed on tap or at least an indication be given that similar issues are contemplated for a later date when needed to absorb investment funds currently accumulated by institutional investors. If limited to a 10-day offering, it is unlikely that the issue would meet its purpose in this respect.

(2) In an earlier memorandum prepared by our staff, consideration had been given to the possible alternatives of a 20 and a 15-year issue. Your staff's suggestion is for a 20-year maturity. In line with a policy of maintaining the issuing rate for long-term marketable bonds at 2 1/2 per cent and in order to assure an immediate market effect, a shorter period

"for the nonmarketable issue would seem preferable to the 20-year term, for example, 18 years.

(3) Regarding the schedule of intermediate yields proposed in your staff memorandum, there is some question whether the yield obtained for holding periods up to 7 years is adequate. It is in this range that the proposed yield schedule falls most sharply behind yields obtainable in the market. Investors who wish to consider the possibility of having to liquidate during this interval might be deterred unduly under the proposed schedule. Also, the desirability of a redemption limitation, shorter than the proposed one-year period, should be considered.

(4) With regard to the restrictions to be placed upon the amount investable, every effort should be made to obtain a simple formula which will not deter investment in the new issue by making it burdensome for qualified investors to comply with the regulations. In this connection, consideration might be given to the possibility of permitting the investment of some minimum amounts without application of the formula and of applying the formula only where larger amounts are involved.

(5) The categories of investors to be admitted as eligible might be somewhat more restrictive.

It is our opinion that commercial banks should not be included at this time. One of the major objectives to be served by the issuance of a nonmarketable bond is to obtain funds with which to retire bankheld debt, a principle which is entirely incompatible with admitting banks as eligible investors. Bank purchase of the new bond would lead to an expansion rather than a contraction in the money supply, nor is it desirable on other grounds. Savings deposits at commercial banks are usually not in the nature of long-term investment funds. The growth of deposits at commercial banks has slowed down substantially and commercial bank investments in longer term assets are already in excess of their volume of savings deposits. For these reasons, commercial banks should be excluded at this time.

Also, it is doubtful whether all insurance companies should be included. Fire, marine and casualty insurance companies which are not in the nature of savings institutions might well be omitted.

"It is to be hoped that a satisfactory determination of the terms of the bond will shortly be completed and that the bond can be made available to the public."

Mr. Morrill stated that the instruction issued by the executive committee to the Federal Reserve Bank of New York to effect transactions in the System open market account should be revised in some minor respects as a result of the understanding that only the current Treasury issuing rate on certificates would be supported, and that this change in the instruction would require a corresponding change in the direction issued by the full Committee to the executive committee of the Federal Open Market Committee. It was suggested by Chairman Eccles that the language of this change be worked out by Mr. Morrill and Mr. Rouse and that the detailed changes be presented by telegram to all members of the Federal Open Market Committee or their alternates, and that, subject to the approval of these changes in the authority granted by the full Committee to the executive committee, the executive committee issue an appropriate direction to the Federal Reserve Bank of New York.

> Upon motion duly made and seconded, the executive committee voted unanimously to approve Chairman Eccles' suggestion and, subject to receipt of authority by the executive committee from the Federal Open Market Committee, 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 practical administration of the account or for the purpose of maintaining an orderly market in Treasury securities and a general level of prices and yields of Government securities which will support the Treasury current issuing rate

for certificates and 2-1/2 per cent for 27-year bonds restricted as to ownership; provided (a) that the total amount of securities in the account at the close of this date shall not be increased or decreased by more than $1,000,000,000 [exclusive of maturing bills transferred to the System account from the option accounts of the Federal Reserve Banks pursuant to the direction issued by the Federal Open Market Committee on May 5, 1947, bills purchased outright in the market on a discount basis at the rate of 3/8 per cent per annum, bills redeemed or exchanged at maturity, bills taken in exchange for maturing bills, and special short-term certificates of indebtedness purchased for the temporary accommodation of the Treasury pursuant to paragraph (2) of this direction], and (b) that this paragraph shall not limit the amount of Treasury bills purchased pursuant to the directions of the Federal Open Market Committee issued under dates of March 1, 1945, April 24, 1947, and July 2, 1947, or the redemption of such bills;

(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; and

(3) Upon approval by a majority of the members of the executive committee, which may be obtained by telephone, telegraph, or mail, to make such other purchases, sales, or exchanges for the account as may be found to be desirable within the limits of the authority granted to the executive committee by the Federal Open Market Committee.

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.

Secretary's Note: The proposed changes in instructions by the Federal Open Market Committee were presented by telegram to the other members of the Federal Open Market Committee or their alternates and, unanimous approval of the changes having been received, a wire containing the foregoing direction was dispatched to the Federal Reserve Bank of New York on August 8, 1947.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.