

A meeting of the Executive Committee of the Federal Open Market Committee was held at the offices of the Board of Governors of the Federal Reserve System in Washington on Wednesday, September 2, 1956, at 10:00 a.m.

PRESENT: Mr. Broderick, Chairman pro tem (as alternate member for Mr. Ecoles)
Mr. Szymczak
Mr. Ransom
Mr. Fleming
Mr. McKinney (as alternate for Mr. Harrison)

Mr. Bethea, Secretary pro tem
Mr. Wyatt, General Counsel (part of meeting)
Mr. Burgess, Manager of the System Open Market Account

ALSO PRESENT: Mr. Carpenter, Assistant Secretary of the Board of Governors
Mr. Thomas, Assistant Director of the Division of Research and Statistics of the Board of Governors
Mr. Piser, Research Assistant in the Division of Research and Statistics of the Board of Governors

Mr. Ransom suggested that Mr. Broderick be elected Chairman of the meeting.

Upon motion duly made and seconded, and by unanimous vote, Mr. Broderick was elected Chairman pro tem.

Mr. Ransom referred to a statement which appeared in the press last week to the effect that the Secretary of the Treasury would confer with the Federal Open Market Committee with respect to September 15 Treasury financing and stated that he had raised with Mr. Wayne C. Taylor, Assistant Secretary of the Treasury, both when the latter first called with respect to the conference with the Secretary and following the publication of the newspaper article, the question whether the Secretary

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desired to meet with the members of the full committee or only the members of the executive committee and that Mr. Taylor had replied that only the individuals who are members of the executive committee were requested to be present, and that reference had been made to the full committee in the newspaper article because of some confusion in distinguishing between the full committee and the executive committee.

Mr. Burgess submitted a report of open market operations in the system account since the meetings of the executive committee on May 25 and May 27, 1936.

Upon motion duly made and seconded, and by unanimous vote, the report was approved and ordered filed as a part of the records of the Federal Open Market Committee.

Mr. Burgess stated that it was anticipated that the Treasury Department would offer bonds, notes, or bonds and notes, in exchange for the $1\frac{1}{2}\%$ Treasury notes maturing on September 15, 1936, and that he felt advantage should be taken of the opportunity which would be afforded by such an offering to replace the approximately \$53,000,000 of notes in the system account which mature on September 15 with a like amount of bonds or notes.

After a discussion during which the members of the executive committee expressed agreement with Mr. Burgess' suggestion and it was pointed out that an increase of \$53,000,000 in the amount of bonds held in the system account would be within the authority granted by the Federal Open Market Committee at the meeting on May 25 to increase the amount of bonds in the system account to not to exceed \$500,000,000, upon motion duly made and seconded, and by unanimous vote, the executive committee directed the Federal Reserve Bank of New

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York, in the event the new securities issued by the Treasury in connection with September 15 financing are in the form of bonds, to purchase in the market, in replacement of the \$53,000,000 of notes in the system account maturing on September 15, a like amount of new bonds; or, in the event the new securities are issued partly or wholly in the form of notes, to purchase in the market in replacement of the \$53,000,000 of notes in the account maturing on September 15, a like amount of bonds and/or notes, with the understanding that the replacement purchases would include as large a proportion of bonds as would be consistent with market conditions and the proper administration of the account.

Mr. Burgess referred to the fact that, pursuant to the authority granted at the meeting of the executive committee on May 25, the Federal Reserve Bank of New York had made shifts between maturities in the system account in the aggregate amount of \$26,219,300 as covered in the report submitted to the meeting, and an additional shift of \$10,000,000 between two maturities of Treasury notes effected after the report had been prepared, making a total of \$36,219,300, and he suggested that the committee consider the advisability of renewing at this meeting the authority to the bank to make shifts up to a total of \$50,000,000, with the understanding that the unused portion of the previous authorization would lapse. It was pointed out that the authority granted to the New York bank at the meeting of the executive committee on May 25 to replace maturing securities was to continue until the next meeting of the Federal Open Market Committee, but the suggestion was made that it would be desirable to renew that authority at this meeting.

Accordingly, upon motion duly made and seconded, and by unanimous vote, the executive

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committee granted authority to the Federal Reserve Bank of New York until the next meeting of the Federal Open Market Committee, superseding the authority granted to the bank on May 25, 1956, (1) to replace maturing securities in the system open market account by the purchase of like amounts of bills or of notes maturing within two years, (2) to make shifts, up to an aggregate of \$50,000,000, of securities in the account into other Government securities having maturities within a range of one year from those of the securities sold, and (3) upon approval by a majority of the members of the executive committee which might be obtained by telephone, telegraph or mail, to make such other shifts as might be found to be desirable and advisable within the limits of the authority granted to the executive committee by the Federal Open Market Committee.

Mr. Burgess stated for the information of the committee that, in accordance with the understanding had by the members of the Federal Open Market Committee in connection with the approval of the plan for the transfer to the system open market account of the Government securities held by individual Federal reserve banks and the reallocation on June 30, 1956, of participations in the system account, arrangements were being made by the New York bank to make on September 30, 1956, such re-adjustments in the participations of the respective banks as may be necessary to meet earnings requirements.

Reference was then made to the suggestion, which had been given consideration in connection with the plan for reallocating participations in the system account, that realized profits on Government securities be used in the future to write down the book value of securities in the account. It was pointed out that at its meeting on June 24, 1956, the

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executive committee was of the opinion that such a procedure should be followed but that action upon the matter could be deferred until a later time when there had been further opportunity to discuss the question. Mr. Fleming suggested that the Secretary send to the Presidents of all the Federal reserve banks a memorandum, to be prepared by Mr. Burgess, reviewing the considerations bearing upon this question, in order that it might be considered by the conference of the Presidents, as he did not believe that the method of using profits in the manner suggested was within the scope of the powers of the Federal Open Market Committee.

Upon motion duly made and seconded, Mr. Fleming's suggestion was approved unanimously.

In connection with a discussion as to when another meeting of the Federal Open Market Committee should be held, the question was raised as to whether the provision of Section 12A of the Federal Reserve Act which requires that the meetings of the Federal Open Market Committee be held at least four times each year should be interpreted as requiring four meetings during the calendar year or four meetings during the twelve months period from March 1, 1936, the effective date of the provisions of the Banking Act of 1935 creating the new Federal Open Market Committee. At the suggestion of Mr. Ransom, Mr. Wyatt, General Counsel of the Federal Open Market Committee, was called into the meeting at this point and asked for his opinion on the question. Mr. Wyatt stated that, while he had not had occasion to consider the question previously and would

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like to have an opportunity to study it before rendering an opinion, he thought that the statutory provision referred to should be construed as requiring the Federal Open Market Committee to hold four meetings during a period of twelve months from March 1, 1956. He added that the matter would receive further consideration and a formal opinion would be submitted in due course.

Thereupon the meeting adjourned.



Secretary pro tem.

Approved:



Chairman pro tem.