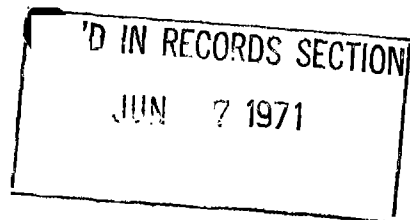




BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D C 20551



June 4, 1971

CONFIDENTIAL (FR)

TO: Federal Open Market Committee
FROM: Mr. Broida

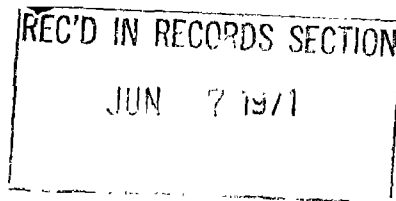
Enclosed for your convenience is a copy of the draft letter to the Presidents of all Reserve Banks dealing with information on current monetary policy that might be given to their directors in connection with their establishment of the discount rate, together with a copy of a transmittal from Mr. Holland to Mr. Francis. (Copies of these materials were distributed to the Presidents on April 27, 1971.) Also enclosed is a copy of a letter of comment on the draft from Mr. Clay.

As noted in the transmittal to Mr. Francis, the draft has been reviewed by the Board. Tentative plans call for placing the draft on the Federal Open Market Committee agenda for discussion at the meeting to be held on June 29, 1971.

A handwritten signature in cursive script that reads "Arthur L. Broida".

Arthur L. Broida,
Deputy Secretary,
Federal Open Market Committee.

Enclosures



D R A F T

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Dear _____:

As our method of dealing with the discount rate evolves, questions have been voiced by a number of Reserve Bank Presidents about the role directors should play in deliberations leading to establishment of the rate.

One point in particular has been raised both at the Conference of Chairmen and Deputy Chairmen and by some Reserve Banks concerning the need of the directors for some measure of information about current monetary policy. The Board shares this concern. It is surely desirable to provide sufficient information about the stance and trend of policy so that the directors can effectively discharge their statutory role in the establishment of Reserve Bank discount rates. At the same time, it is important to be mindful of the need to avoid giving more information than necessary, in order to minimize any possibility of conflicts of interest or even appearances of such conflicts. In steering a responsible course in this delicate area, the Board feels that the approach in providing background information to the directors should be reasonably uniform. Accordingly, the following procedure is suggested.

-2-

In covering the general economic outlook for your directors, you may wish to convey to them the sense of the FOMC staff view as you understand it from your attendance at FOMC meetings. This should not be identified as an official FOMC view of the outlook, but rather as an informed staff judgment. In addition to the staff briefing, these men should have the benefit of the very latest published policy record of the FOMC. Up-to-date data on aggregates and the money market conditions can be cited to give directors a view of how relevant variables have developed in relation to the goals and projections expressed in the latest published policy record.

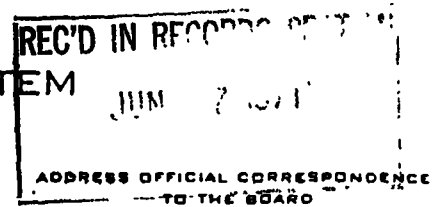
In giving the directors information in this way, it should be possible to convey a very general idea of the thrust of recent policy without telling how the FOMC has acted since the latest published information. Thus, the Presidents and other appropriate Reserve Bank spokesmen could identify a shortfall or an unexpected surge in the aggregates, or unusual credit market developments, and could take account of such information when formulating a specific recommendation with respect to the discount rate.

Sincerely yours,

Robert C. Holland
Secretary



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551



April 27, 1971

Mr. Darryl R. Francis, Chairman
Conference of Presidents of the
Federal Reserve Banks
Federal Reserve Bank of St. Louis
St. Louis, Missouri 63166

Dear Mr. Francis:

The Board has considered and discussed the report of the Committee on Discounts and Credits on procedures for improving communications in connection with a more flexible discount rate, which was approved at the March 8 meeting of the Conference of Presidents.

In principle, the Board agrees with this report, and notes that several of the specific proposals have already been put into place. The only specific comment the Board wishes to make involves the proposal for regular discussion of discount rates at meetings of the Conference of Presidents. While an exchange of views on principles and procedures of discount window administration is, of course, entirely appropriate, the Board feels that there is ample opportunity for group discussion of the discount rate at FOMC meetings, and therefore does not feel that meetings of the Conference are an appropriate forum for an exchange of views on a specific discount rate.

Transmitted herewith is a draft of a letter to the Reserve Bank Presidents dealing with information that might be given their directors in connection with their establishment of the discount rate. The letter has been reviewed in this form by the Board, and it will be placed on the agenda at a forthcoming FOMC meeting inasmuch as approval by that body seems appropriate.

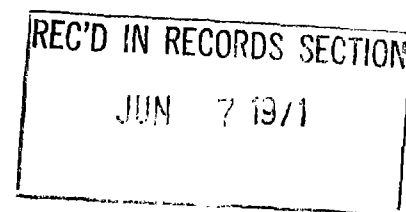
Copies of this letter and its enclosure are being sent to the other members of the Conference of Presidents.

Sincerely yours,

Robert C. Holland
Secretary

Enclosure

FEDERAL RESERVE BANK
OF KANSAS CITY



GEORGE H. CLAY
PRESIDENT

May 27, 1971

Mr. Robert C. Holland, Secretary
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Bob:

On April 27 you forwarded to Darryl Francis, Chairman of the Conference of Presidents, a draft letter dealing with information that might be given directors in connection with the establishment of the discount rate. I understand the matter will be placed on the agenda at a forthcoming FOMC meeting. I feel that the issuance of the proposed letter in its draft form would not be in the best interests of the Federal Reserve System and have written this letter so that my views might be more fully recorded than they might be during the rush of an FOMC meeting. I am also sending a copy to Governor Robertson, as I understand he has been charged by the Board with responsibility for director relationships.

The general statement on page 1 concerning the need of making available "sufficient information about the stance and trend of policy so that directors can effectively discharge their statutory role," and the importance of being "mindful of the need to avoid giving more information than necessary in order to minimize any possibility of conflicts of interest or even appearance of such conflicts" is quite appropriate. This can be supported strongly.

At the bottom of the first page, the draft letter indicates that "the approach in providing background information should be reasonably uniform." It is this statement, or perhaps the draft letter's interpretation of this statement leading to the specific details of a suggested approach, that is troublesome.

Too much emphasis is put upon uniformity in any case. Carrying out the purposes of the letter does not require this kind of specific uniformity. Moreover, considering that there appropriately are differences in

Mr. Robert C. Holland - 2.

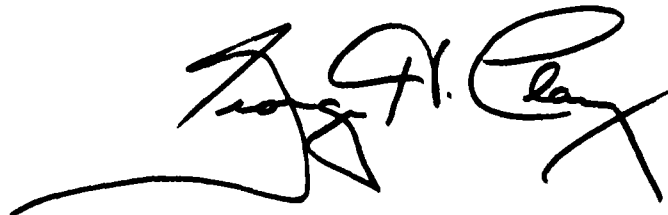
monetary policy analysis among System governors and presidents, it does not appear logical to force this kind of uniformity.

Whatever may be one's views with respect to the general statement of a uniform approach, an examination of the specifics suggested makes it unacceptable. In brief, it involves resting the presentation on a statement of the FOMC staff view of the general economic outlook. Secondly, directors should be given the latest published FOMC policy record. Thirdly, the directors should be shown how developments in the aggregates and money market conditions have deviated from the projections and goals of the published record of 90 days or more ago.

Even if the FOMC policy adopted at each meeting were based upon acceptance of the FOMC staff economic analysis, it would be in order to question this as the necessary approach for the 12 Reserve Bank board meetings. Moreover, the policy adopted does not necessarily involve an acceptance of that staff analysis by all the principals voting for the policy adopted. In fact, such probably is rarely if ever the case.

Stating and explaining the deviations of the variables from the projections and goals may at times be actually misleading because of a major turn of events that has evolved. In fact, handling the matter this way before intelligent directors may lead to questions that divulge more information than necessary otherwise.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Robert C. Holland". The signature is stylized with a large, sweeping initial "R" and a distinct "H".

cc: Governor James L. Robertson
All Reserve Bank Presidents