(EXHIBIT "B")

MEMORANDUM ON OPEN MARKET PURCHASES

The joint action taken by the Board and Governors recognizes and conforms to the well understood principles of central banking in England and France (as well as Germany prior to the war) and lays particular emphasis on exercising a primary regard for the accommodation of commerce and business as indicated in the Federal Reserve Act.

The ends desired of central bank operations are principally to relieve untimely stringencies, to prevent undue expansion and, within limits, to protect the gold reserves. All of these functions are delicately interrelated and the desired ends are achieved chiefly through the application of rates. Every European Central bank has two rates, one the published discount rate, which is the minimum rate applicable to the rediscount of short-time standardized commercial paper bearing at least three names, one or more of which are banking names. The corresponding paper in this country is known as bankers' and trade acceptances. Their other rate which, in most countries is not published but is quite well understood, is the loan rate applicable to advances against collateral security, including Government and miscellaneous securities. The minimum loan rate is ordinarily 1% higher than the published discount rate and the private bank rate for advances to customers corresponds ordinarily to the loan rate of the central bank, advancing and falling with that rate which changes automatically with the discount rate.

In open market operations, European Central banks ordinarily restrict their rediscounts to shorter periods than the relative maximum time for which they make loans. Thus, in the Bank of England they will loan up to 95 days but do not ordinarily rediscount bills having a maturity in excess of 63 days, but, of course, they reserve entire liberty of action. They do not now lend call money although formerly they did make call loans on miscellaneous securities, (strong objection developed to this competition with private banks and the practice was abandoned). They now require that money advanced to the market shall be taken for definite periods, not less than seven days.

In the present state of development of our bill market this would hardly work, as money conditions and practices of banks here would not permit dealers to carry extensive portfolios and to serve successfully the demand of buyers. It would be impracticable for them to have their small portfolios immobilized in seven day loans.

The analogy between the relative rates of the central banks of Europe and the rates at Federal reserve banks lies in the distinction between the open market rates at reserve banks and their rediscount rates, the former applying to the same class of paper to which the discount rates of central banks apply and the rediscount rate applying more closely to the same classes of paper to which the European loan rates apply, i.e., secured and unsecured loans made by member banks to their customers and to one name commercial paper bought by member banks and to the member bank's own note secured by such paper or by Government securities. They are all loans, the chief distinction being that the loans at the central banks of Europe are all secured by collateral of one sort or another, ranging from bills of exchange to capital investments of the borrower, including real estate, plant and miscellaneous securities.