

Discount rate 11/10 71

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 5, 1971

To Chairman Burns

Subject: Procedures for improved communi-
cations in connection with a more flex-
ible discount rate.

From Robert C. Holland

*Administrative questions
regarding discount rate
changes.*

~~PROBABLY NOT WORTH
AS~~

Attached is a draft memorandum, the substance of which the Presidents' Conference Committee on Discounts and Credits (consisting of President Hayes, Chairman, and Presidents Morris and Mayo) would like to discuss with us on Tuesday. I have already discussed it with President Hayes, and I regard its proposals as generally acceptable with the following exceptions or qualifications.

Conference of Presidents - Discussions at regular meetings of the Conference would seem appropriate to me and potentially helpful if they were in terms of general discount rate policy. However, these meetings should not, in my opinion, be allowed to develop into a caucus on specific rate changes.

Special Conference Calls - Such calls among members of the Board and Reserve Bank Presidents might be useful in an emergency, but, based on past experience, they are generally unwieldy and not particularly satisfactory. Thus I don't think we would want to be committed to this procedure for the more routine rate changes that develop between FOMC meetings. For such ordinary circumstances, the direct calls which I make to individual Presidents have apparently worked well--much better than I would anticipate conference calls working--and I propose that we continue that procedure.

Coded Telegrams - The proposal that the Board, upon receipt of a wire from a Federal Reserve Bank to the effect that its directors had voted a change in the Bank's discount rate, would, by coded wire, notify the other Reserve Banks already has Presidential approval. The staff here has been working on the implementing details and is about to put such a procedure into place.

Reserve Bank Exchange of Letters - I do not see any reason why the Board should object to a procedure for inter-Bank distribution of all letters and/or wires from a Reserve Bank to the Board relating to the discount rate and other monetary policy matters, providing a good security system can be developed to protect the contents of those letters when they are transmitted. I can see a possibility, however, that some Reserve Banks might be a little uneasy about the procedure at times.

Information to be Provided to Boards of Directors - We have in preparation a letter you could send to each President outlining what could properly be told to their boards of directors about current Open Market Committee policy. This proposal represents a follow-up to the discussion with Chairman Duesenberry and others at the recent Conference of Chairmen.

Attachment

DRAFT
February 5, 1971

To The Members of the Conference
of Presidents of the
Federal Reserve Banks

From The Committee on Discounts
and Credits

Subject: Procedures for
improved communications
in connection with a
more flexible discount
rate

This report describes various suggestions for improved communications and circulation of material relating to the discount rate and other monetary policy matters that were discussed at a meeting between the members of the Committee and the Chairman and Secretary of the Board of Governors on February 9, 1971.

Meetings

FOMC

The regular meetings of the FOMC provide a useful forum for an exchange of views with respect to the discount rate. On occasion in the past, the discount rate has been the subject of discussion at FOMC meetings. It is proposed that at future FOMC meetings provision be made regularly to give each Board member and President an opportunity to comment on the discount rate. It is not expected that an extensive discussion of the rate would be required at each meeting. Existing circumstances would determine the depth to which the rate should be discussed.

Conference of Presidents

The regular meetings of the Conference of Presidents provide another useful forum for an exchange of views by the Presidents with respect to the discount rate and other monetary policy matters. Some time ago when the FOMC met only quarterly,

the Conference was used as such a forum. The meetings of the Conference provide opportunities for the Presidents to learn more fully the views of the directors of other Reserve Banks on the discount rate as well as on economic developments.

Since minutes of meetings of the Conference of Presidents receive rather wide distribution, their coverage of the discussions of the discount rate and other monetary policy matters should be very general.


Special Conference Calls

Special telephonic conference calls, participated in by the members of the Board of Governors and the Federal Reserve Bank Presidents, could be arranged in the interval between regular meetings of the FOMC whenever the next meeting of the FOMC is some time away and developments such as sharp movements in interest rates or financial or other developments call into question the matter of discount rate action. Such calls would be arranged at the suggestion of the Chairman of the Board of Governors or the Chairman of the Conference of Presidents. The calls would provide an opportunity for the presentation of the most up-to-date information and the exchange of views as to the most appropriate System response.

Communications

From the Board of Governors

Upon receipt of a wire from a Federal Reserve Bank to the effect that its directors have voted a change in the Bank's discount rate, the Board of Governors, by coded wire, would notify the other Reserve Banks of the directors' action, including some brief



indication of the basis for the action. When it is timely, the Board of Governors would inform the Reserve Banks, by telephone or coded wire, of the Board's views on the proposed discount rate change and its probable disposition by the Board, as well as the timing of the Board's prospective action.

The Board of Governors would give prompt notice to the Reserve Banks of all major policy actions taken by the Board. Every effort should be made to give such notice to the Banks in advance of its release to the press.

The staff of the Board of Governors would prepare more promptly the records of the policy actions that have been taken by the Board, for circulation in draft form to the Federal Reserve Banks so that the chief executive officers of the Banks would have a fuller understanding of the rationale for the policy actions taken by the Board than is now the case.

From the Federal Reserve Banks

The Reserve Banks, by letter or wire, would regularly inform the Board of Governors of the views of its board of directors on the discount rate and other policy matters of major consequence. Consideration should be given to such a communication at the time of every meeting of the boards of directors. Such letters or wires could be sent over the signature of the Federal Reserve Bank Chairman or President. Copies of such letters and wires or, alternatively, summaries of their principal comments and conclusions, might be furnished to all other Federal Reserve Banks as appears appropriate to the initiating Reserve Bank.

Copies of other letters from the Reserve Banks to the Board of Governors relating to the discount rate and other monetary policy matters could also be furnished to all other Federal Reserve Banks.

To the Reserve Bank Boards of Directors

At meetings of the Reserve Bank boards of directors, the President would give some very general indication of the current monetary policy position of the FOMC, particularly on the occasion of a change in the direction of policy. Guidelines as to the nature and extent of the information to be furnished the directors in this regard are to be developed by the FOMC or its staff.

At such meetings, the Presidents as a regular matter would also review the major policy actions taken and announced by the Board of Governors in the interval between meetings and their significance. Such a review will permit directors to make a better evaluation of discount rate proposals. In addition, at directors' meetings, the officers in charge of research would make some comparison of differences in his economic analysis and that of the staff of the Board of Governors.

Whenever major policy actions are taken by the Board of Governors, particularly with respect to discount rate changes approved by the Board, the Federal Reserve Banks would promptly advise the directors available, especially the Chairman and the Deputy Chairman, so that the directors' source of information is the Federal Reserve and not the news media. Such advice would be given at about the same time the announcement of the Board's

action is released to the press.

Important communications, including press releases, from the Board of Governors with respect to monetary policy actions would be reproduced by the Federal Reserve Banks and mailed to the directors.

Protection of Confidential Information

In order to protect the confidentiality of the information that it is proposed to furnish to the Federal Reserve Banks, the letters, wires and telephonic messages should be directed to the chief executive officers of the Banks. This is of particular importance in respect of specific actions taken or contemplated that have not yet been publicly announced, such as approval by the Board of Governors of a change in the discount rate voted by the directors of a Federal Reserve Bank. To the extent feasible, wires relating to discount rate changes should be coded.

To protect further the confidentiality of the information obtained, there should be restricted distribution and duplication of the material received. Under recent practice, early telephonic advice from the Secretary of the Board of Governors with respect to anticipated Board consideration of a rate change voted by a Reserve Bank has been restricted to the chief executive or acting chief executive officers of the Reserve Banks. A "need-to-know" test would appear to be appropriate.

Information related to possible discount rate actions by the Board of Governors should be transmitted orally by a Federal Reserve Bank President only to the Chairman of his Board of Directors with specific reference to the confidentiality of the information

and only when it would appear that such action is imminent. In the course of a directors' meeting, when approval by the Board of Governors of another Federal Reserve Bank's discount rate action appears to be in prospect, the President may inform the directors of the general nature of the situation in order that they may make a fully considered judgment.

All new directors, and particularly the Chairman and Deputy Chairman, should be fully briefed as to the confidentiality of the information received by them and the necessity of protecting that confidentiality.

As to all information received under these proposals for improved communications, each President should exercise judgment and discretion as to what information to transmit to other parties and the timing of the transmission of such information.

cc: Robert P. Mayo
Frank E. Morris
Alfred Hayes, Chairman