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The status of the discussions about Treasury financing may be summarized as follows:

Issues

It is understood that the Secretary is agreeable to having a short and a long tap issue along the lines suggested in the System's memorandum. There may be further discussions about details of these obligations, but the general plan of having additional non-marketable issues with restricted negotiability and a guaranteed redemption value appears to be accepted.

There seems to be agreement also that the amount of Treasury bills should be increased and that some other short-time issue with a coupon (a note without rights or a certificate of indebtedness) be introduced in order to meet the preference of interior banks. It is expected that these short-term obligations would be purchased principally but not exclusively by banks. It seems to be agreed also that no additional open-market long-term issues need be offered until a time when there is evidence of an accumulated hunger for them in the market.

Support

There was general agreement that the Federal Reserve System should stand ready to support the Government security market in accordance with a definitely formulated program. The System has already pledged its willingness to do so and the Treasury appears to accept this support as a part of its program. There remain details to be worked out.

The consensus on yesterday afternoon seemed to be that the System's support should be directed toward the maintenance of average yields or prices on the two outstanding long-term taxable issues within a predetermined range. A separate minimum below which neither issue will be permitted to fall may also be established at a somewhat lower point than the minimum for the average.

The principal argument for allowing a range of fluctuation for the open-market issues was that otherwise they would in effect be demand obligations but would carry a long-time rate, presumably of 2 1/2 per cent. The existence of such an obligation would detract from the attractiveness of the long tap issue, which would also carry a 2 1/2 per cent rate but would have restrictions on negotiability and adjustments of interest to length of period held.

There still are questions between the Treasury and the System as to the exact limits of the range to be adopted. Some believed that the range should be from par up; others that it might well go from 99 to 101, and still others that the range might be and should be wider. There seemed to be no serious obstacle to working out an agreement on that point. When such an agreement will have been reached, then the Federal Reserve will have to be prepared to do whatever is necessary through open-market purchases, through action on reserve requirements, or otherwise to see to it that the pattern of rates is sustained. There seemed to be agreement that no specific amount of support needs to be indicated in the agreement but that it should be in terms of the System doing whatever is necessary to carry out its undertaking.

Statement

The Treasury's attitude was to have no public statement on the program. There seemed to be no serious objection to this course on the part of the System. The two new kinds of issues, of course, would be announced and that may be enough. A commitment as to the rate on long-term money and as to the System's support may well be left to be deduced from our course of action.

Reserves

From the System's point of view, agreement on the kinds of issues to be had and on the nature of the System's support is all that is necessary. In the Treasury there appeared to be a feeling that, over and above that, the amount of reserves, and particularly in New York, should be increased by half a billion or so. There seems to be no occasion for this if the agreement as to support and as to the character of the issues is carried out.

An important point in this connection is that, if the general plan is put into effect, the Treasury would not have to offer a long-term open-market issue until such time as there is evidence in the market that the issue is very much wanted. The tap issues and the short open-markets would take care of the situation in the interval. Consequently, there would be no occasion for increasing the amount of excess reserves whose function would appear to be to provide a cushion of free funds to guarantee the easy absorption of a long-term offering.

It would appear that this is the only field in which a clearer understanding and agreement is still to be worked out.