

November 9, 1943

Honorable Daniel W. Bell,  
Under Secretary of the Treasury,  
Treasury Department,  
Washington, D. C.

Dear Dan:

I am enclosing three copies of a modified draft of the proposed press release regarding the exchange of maturing Treasury bills for new bills. You will note that the modified draft extends the privilege of exchange to all holders of maturing bills who are successful bidders for new bills. This extension is suggested, because it will tend to overcome criticism of the action on the grounds that it is a discrimination in favor of the Reserve Banks. Although the extension will increase the work of the Reserve Banks, Allan Sproul feels that the advantages fully justify the additional work.

Sincerely yours,

M. S. Eccles, Chairman,  
Federal Open Market Committee.

Enclosures

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Statement for the Press

For immediate release

The Treasury Department this week revised its Treasury bill offering circular so as to permit bidders for Treasury bills to obtain new Treasury bills by the exchange of an equivalent amount of maturing bills to the extent that their tenders are accepted. Concurrently, the Federal Open Market Committee authorized the Federal Reserve Banks to place weekly tenders for bills at a price approximately equivalent to a yield of  $\frac{3}{8}$  of 1 per cent per annum (99.905 for 91-day bills), in an amount not exceeding the amount of their weekly maturities. The Federal Reserve Banks will receive the same percentage allotment of bills as will other bidders at the same price. Acquisitions of bills by the Federal Reserve Banks in this manner will represent the replacement of bills originally purchased in the market and, like other exchanges of maturing securities for new securities, will not be subject to the limitation contained in subsection (b) of Section 14 of the Federal Reserve Act (which limits to 5 billion dollars the aggregate amount of Government securities acquired directly from the United States that can be held at any one time by the twelve Federal Reserve Banks).

No new credit will be made available to the Treasury by the Federal Reserve Banks as a result of this change in procedure, nor will new reserve funds be placed at the disposal of the banks of the country. Reserves that have already been provided to support a rising currency circulation and rising member bank deposits will merely be maintained.

These related actions were taken to relieve a situation that has become mechanically more difficult as weekly maturities of bills held by the

Federal Reserve Banks have increased in recent months, until at times they are equal to half or more of the weekly offerings. In the past, the market has taken all of each week's offering of Treasury bills and has promptly sold to the Federal Reserve Banks that portion of the offering that it did not wish to hold. Thus, the Federal Reserve Banks indirectly replaced part or all of their Treasury bill maturities. This procedure worked well when the amount of maturing bills held by the Federal Reserve Banks was a relatively small proportion of the weekly offering and allowed the market to determine directly the amount of the new issue of bills it wished to hold. Now that the amount of maturing bills held by the Federal Reserve Banks ranges up to and above 500 million dollars each week, however, such a procedure means that the market must place tenders for new issues of bills in amounts substantially in excess of market requirements, the excess being taken for the purpose of almost immediate sale to the Federal Reserve Banks. In these circumstances, a more direct method of replacing maturing bills held by the Federal Reserve Banks has been deemed desirable.

The test of the bill market will now be found in the bids of investors other than the Federal Reserve Banks at prices slightly above the price tendered by the Federal Reserve Banks and in the allotment to the Federal Reserve Banks and to others at the fixed price of the Federal Reserve Bank tenders. At times when there is reason to expect a substantial increase in market demand, of course, the Federal Reserve Banks can tender for less than the amount of their weekly maturities.