

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 4, 1947

To Chairman Eccles

Subject: Safekeeping of Government

From Richard A. Misgrave *RAM*

securities.

Mr. Bartelt called with reference to a letter addressed to the Secretary of the Treasury by the Colorado State Bank in Denver. The letter requested the Secretary to issue Treasury certificates in registered form because the bank feels that otherwise it can not continue to purchase Treasury certificates now that the safekeeping service for nonmember banks is being discontinued by the Federal Reserve Banks. Mr. Bartelt expressed concern that this action might narrow the market for short-term Treasury securities which would be undesirable at this time when efforts are being made to revitalize the short-term market.

I told Mr. Bartelt that I would bring this to your attention and I am attaching a brief summary of recent Federal Reserve action regarding discontinuance of the safekeeping service for nonmember banks.

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Date August 4, 1947.

To Mr. Musgrave *Howe - Hazard* Subject: _____
From Mr. Connell *Hazard* _____

In accordance with our telephone conversation, the following is a brief resume of the facts leading up to the discontinuance of the safekeeping privilege extended to nonmember banks for the custody of short-term Government securities.

In September 1942 the Presidents voted that the Federal Reserve Banks be permitted during the war to hold in safekeeping for nonmember banks Treasury bills and certificates of indebtedness. One of the primary considerations which prompted this action was that it would aid in broadening the market for short-term Government securities. The Board approved this action in October 1942.

In view of the fact that this privilege to nonmember banks was granted for the period of the war only, a recommendation that the Board's approval be withdrawn was acted upon favorably, and on May 6, 1947, the Federal Reserve Banks were requested to take steps to terminate such custody accounts by July 1, 1947.

The matter came up for discussion at the June 1947 Conference of Presidents, and the following is an excerpt from the minutes of that meeting:

"* * * Following receipt of the letter S-974 (May 6, 1947) some of the Reserve Banks notified nonmember banks for which they were holding such securities that this service would no longer be available; others have adopted a more gradual procedure. The presidents are in accord with the desirability of terminating the service, but believe that it should be terminated in accordance with the conditions prevailing in each district and surrounding each such custody, so as to minimize any adverse effect from the point of view of bank and public relations. The presidents believe, therefore, that Reserve Banks which now have such custody accounts should notify the nonmember banks involved that they will refrain from accepting new custodies on or after July 1, 1947. Since all of the securities involved in such custodies mature within a year, the custodies would be terminated within a reasonable time and in an orderly fashion.

"Chairman Eccles stated that the Board was in agreement with the presidents' suggestion with the understanding that after July 1, 1947, the Federal Reserve Banks would not accept further securities for safekeeping from nonmember banks and that such custodies would be terminated within one year from that date."

On June 18, the Board advised all Reserve Banks that it was in agreement with the opinion expressed by the Presidents as indicated above. *[Signature]*