

[C O P Y]

FEDERAL RESERVE BANK
OF NEW YORK

March 26, 1942.

Dear Mr. Bell:

At Mr. Sproul's request I am enclosing a summary of comments we received from market sources on the five questions contained in your telegram dated March 23.

Respectfully yours,

(Signed) S A Miller

S. A. Miller
Assistant Vice President

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

Encl.

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BELL

Referring your telegram March 23, questions are answered in order:

1. (a) It is the opinion of those consulted in the market, in which our directors and we concur, that it would be desirable to allot issue on basis of Nationwide subscriptions as at present. In addition to the difficulties of providing equitable basis of allotment by Districts and of achieving public understanding of such allotment, there is question as to the benefits of such procedure. The certificates are primarily a money market obligation which will appeal to larger banks and corporations and attempt to divert their distribution on geographical lines would only hinder, not prevent, their ultimate lodgement in these hands.

(b) Neither market nor we can suggest equitable basis of allotment to achieve greater distribution to non-bank holders. Allotment on basis of subscriptions to previous cash issues would perpetuate existing situation and allotment on basis of bank resources or excess reserves would not meet question of non-bank investment. Availability of this type of investment in market, on other hand, will help bring about effective use of excess reserves without attempting to force a pattern of such use.

(c) Both the market and we believe that if there is allotment by Districts, it should be announced publicly at time of offering so that subscribers may have some gauge of their possible allotments.

2. Market and we believe that preferential allotment is not the answer to distribution of such issues as that now under consideration. It will distribute itself and interference at source with distribution is more likely to lead to speculative subscriptions than the reverse. It is believed that this is not the time nor occasion for Treasury to abandon equality of treatment on allotments. Whatever loading is done in favor of non-bank investors should be in subscription rules.

3. Market opinion is divided. Generally favorable to preferred allotment to small subscribers although one source suggested no preferred allotment and one suggested substantial preferred allotment. We would suggest preferred allotments on subscriptions up to \$25,000 to meet possible demands of smaller banks, corporations, and trust funds.

4. Market does not recommend any change in 4 classes of subscribers. It believes these are becoming established, are considered as fair as possible in field where complete equity is not attainable, and variations now would be confusing. We suggest that corporations organized for profit might be allowed to subscribe up to amount equal to half net worth or 100 percent of cash deposits, whichever is greater, just as individuals have been permitted to do.

5. The following suggestions for publicity and wider distribution combine market suggestions and ours:

Announce terms of offering 2 or 3 days in advance of issue or keep books open 2 days.

Request each FRB to include Treasury press statement in its circular.

Request FRBs to send offering circulars to corporations as well as to banks and other financial institutions. Mr. Miller is forwarding summary of details of market comments in letter today.

SPROUL

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Summary of answers to the questions in Under Secretary of the Treasury Bell's telegram dated March 23, 1942, by representatives of several large local banks and Government security dealers.

QUESTION NO. 1. Opinion was unanimous that allotments should be continued on the basis of total nation-wide subscriptions. Principal arguments advanced against allotments being apportioned by districts were (1) These issues are primarily money market instruments and the principal demand will come from banks in a relatively few large cities. (2) It would bring the quota system to the minds of those familiar with the last war financing and create unnecessary misapprehension. (3) It would be like jumping a hurdle which is not there as no serious difficulty in the Treasury raising what money it will need is anticipated this year and probably next year. (4) During the war, air raids and other temporary emergencies might result in banks and corporations in some cities being closed while subscription books are open. (5) Although some corporations would purchase these issues, many would merely do so in replacement of tax anticipation notes and Treasury bills they now hold.

None of these people knew of any plan of district-wide allotment that would accomplish widespread distribution as they all considered these obligations as purely money market instruments. One banker thought, however, that any district-wide allotment would have to be based on excess reserves or bank deposits but he questioned that the desired objective would be obtained under such a plan. Generally, these people believed that if any district-wide allotment plan were adopted, the amount to be apportioned to each district should be publicly announced at the time of offering.

QUESTION NO. 2. With one exception, it was believed that no preferred allotments should be given on subscriptions from other than commercial banks for their own account for such reasons as (1) the issues will wind up primarily in banks anyway, (2) it would attract speculative subscriptions as it has in the past on bearer securities, (3) that, while it might be desirable in long-term bonds, it might be dangerous in a money market instrument, and (4) that the present yardsticks on subscriptions largely attain the results of preferred allotment. One banker, however, believed that some distinction should be made between corporations and banks and the former given some preferred allotment because it becomes necessary at times for corporations to complete their requirements by purchasing from banks.

QUESTION NO. 3. Generally, there was no objection to giving preferred allotment on small subscriptions up to \$25,000 and in some cases \$50,000 and \$100,000, and a dealer saw no harm in giving full allotment to non-commercial bank buyers on amounts up to as much as \$5,000,000. Others questioned that there would be sufficient demand from corporations and small banks to justify such preferred allotments.

QUESTION NO. 4. The majority felt that there should be no change in present yardsticks. However, one banker suggested that with a 50 percent cash deposit on subscriptions, and a dealer that with full allotment on non-commercial bank subscriptions up to \$5,000,000, the present yardsticks could be suspended on subscriptions for certificates of indebtedness by other than commercial banks.

QUESTION NO. 5. None believed any additional publicity was needed although they all felt that the terms of the offering should be announced a few days in advance, or the subscription books should be kept open a few days in order to give corporations and others who are not accustomed to act quickly on such matters sufficient time to learn of offerings and enter subscriptions. Suggestions were also made that arrangements be

(New York)

made to give the announcement of offerings to the press in moderate sized cities throughout the country which do not have the means of getting financial news quickly, and that it would be helpful if a general outline of the Treasury's financing policy, at least for the next six months or so, could be made public at one time rather than publishing it piecemeal.

Federal Reserve Bank of New York,
March 26, 1942.