

March 25, 1942

Chairman Eccles

Certificates of indebtedness

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STRICTLY CONFIDENTIAL

The following replies are suggested to the questions raised by Mr. Bell in his telegram of March 23, which was enclosed in his letter to you under the same date:

(1) It would appear preferable to apportion each issue of certificates of indebtedness by Federal Reserve districts and to have a different allotment percentage for each district, because it is desirable to obtain a wide distribution by allotting the certificates in the localities that have idle bank and corporate funds. Perhaps the best basis of apportionment among districts would be the percentage distribution of excess reserves and of adjusted demand deposits. This distribution is compared in the attached table with actual cash subscriptions to the recent issue of 1952-55 bonds, and a suggested distribution of allotments is shown. The amount to be apportioned to each district probably should be announced at the time of the offering.

(2) On this particular type of issue it would seem desirable to give preference to commercial banks rather than to other investors. It is recognized that commercial banks will need to do some part of the war financing. Certificates are a type of security that banks want and that they should have. An increase in their holdings of short maturities would increase the fluidity of the money market and would make the existing amount of excess reserves more effective. It would appear desirable, therefore, to allow banks to subscribe to 100 per cent of their capital and surplus instead of the usual 50 per cent.

(3) The giving of preferred allotment on small subscriptions serves to place new issues with ultimate investors and to reduce secondary distribution. This practice, therefore, probably should be incorporated in the certificate issue. It is suggested that the amount might be raised from the recent \$5,000 level to \$10,000.

(4) The subscription basis announced in the press statement of December 3, 1941, seems to have worked successfully. As suggested above it would appear desirable to allow banks to subscribe to 100 per cent of their capital and surplus instead of the usual 50 per cent. Subscriptions by the other three classes probably should not be changed.

(5) It would seem helpful in getting wide distribution of these securities to leave the books open for two or three days instead of the present one day. On the present basis some investors at a distance from the Reserve banks do not seem to have sufficient time to make the necessary arrangements to enter their subscriptions. This proposal should meet that criticism. A suggestion for reducing secondary distribution would be to increase the down payment on cash subscriptions from the present 10 per cent to 25 per cent.

| Federal Reserve district | Suggested allotment distribution | 1952-55 bonds    |          | Excess reserves |          | Adjusted demand deposits |          |
|--------------------------|----------------------------------|------------------|----------|-----------------|----------|--------------------------|----------|
|                          | Per cent                         | Subscriptions 1/ | Per cent | Feb. av. 1/     | Per cent | Dec. 31, 1941 1/         | Per cent |
| Boston                   | 6                                | 422              | 9        | 207             | 6        | 2,031                    | 6        |
| New York                 | 37                               | 2,133            | 45       | 1,237           | 37       | 12,704                   | 38       |
| Philadelphia             | 6                                | 306              | 7        | 204             | 6        | 1,929                    | 6        |
| Cleveland                | 10                               | 312              | 7        | 389             | 12       | 2,548                    | 8        |
| Richmond                 | 5                                | 206              | 4        | 163             | 5        | 1,396                    | 4        |
| Atlanta                  | 3                                | 178              | 4        | 84              | 3        | 1,159                    | 3        |
| Chicago                  | 14                               | 499              | 11       | 471             | 14       | 4,820                    | 14       |
| St. Louis                | 3                                | 130              | 3        | 102             | 3        | 1,102                    | 3        |
| Minneapolis              | 2                                | 68               | 1        | 34              | 1        | 684                      | 2        |
| Kansas City              | 3                                | 88               | 2        | 93              | 3        | 1,212                    | 4        |
| Denver                   | 3                                | 102              | 2        | 88              | 3        | 1,275                    | 4        |
| San Francisco            | 8                                | 251              | 5        | 239             | 7        | 2,893                    | 9        |
| Treasury                 | --                               | 1                | --       | --              | --       | --                       | --       |
| Total                    | 100                              | 4,697            |          | 3,309           |          | 33,754                   |          |

1/ In millions of dollars.