STRICTLY CONFIDENTIAL

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

R&S 100-836
November 17, 1943

Board of Governors

L. M. Piser

Meeting at Treasury concerning bill tenders 1/

The attached mamorandum presents the conclusions reached at a meeting last night at the Treasury. There was a full discussion of (1) the present difficulties of securing sufficient tenders for each offering of bills and of replacing the System's maturities, (2) the proposal for the System as a rule to place a tender with the Treasury each week for an amount not in excess of the System's total maturities, which proposal was objected to by Treasury representatives on the grounds that it would leave the Treasury and the System open to criticism by both Congress and the public, and (3) the proposal to permit the rate on bill tenders to rise to the point at which sufficient tenders would be obtained because of the immediate profit that successful bidders would secure by selling the bills at the buying rate, which proposal was objected to by System representatives on the grounds that it would give an unjustifiable profit to dealers and large banks and that the increase in the bill rate and the fluctuations in the rate without a public explanation would unsettle confidence in the maintenance of the whole pattern of rates. After it became clear that the present method could not be continued much longer and that agreement could not be reached on either of the two proposals, a compromise proposal was developed. The principal feature of this proposal is that the Treasury would give exchange rights at 3/8 of one per cent to holders of maturing bills, which would place bills in the same position in this respect as other issues of Government securities, would not require an elaborate explanation, and would not subject the Treasury and the System to criticism. In addition, it was felt that a large part of each weekly offering would be covered by exchanges and that the small remaining amount to be sold for cash would be easily covered by tenders at 3/8 of one per cent.

1/ Present at the meeting were Mr. Haas, Mr. Murphy, Mr. Lindow, and Mr. Tickton of the Treasury's regular staff; Mr. Viner, Mr. Warren, and Mr. Seltzer, advisors of the Treasury; Mr. Woodward, of the Mutual Life Insurance Company; Mr. Shields, of the Irving Trust Company; Mr. Spencer, of the First National Bank of Boston; Mr. Repp, of the Discount Corporation; and Mr. Rouse, Mr. Thomas, and Mr. Piser of the Federal Reserve System.

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Proposed Changes in the Mechanics of
Tenders for Treasury Bills

1. All holders of Treasury bills should be given the right to tender their bills at maturity and receive in exchange an equal par amount of new bills on a 3/8 of 1 percent discount basis (99.905 for 91-day bills). To the extent that exchanges do not take up the full amount of the offering, allotments would be made to the highest bidders, except that fixed price tenders for $100,000 or less at 99.905 would be allotted in full.

2. The Federal Reserve System will avail itself of this privilege with respect to such of its holdings of maturing bills as it considers advisable.

3. The Treasury will make a brief explanatory press statement in connection with the issue of the revised circular.

4. The Federal Reserve Banks will continue to encourage the placing of tenders for bills. It is expected that under the proposed system the Treasury would receive an adequate amount of tenders at a rate of 3/8 of 1 percent.

5. In connection with the introduction of this new procedure it would be necessary for the Federal Open Market Committee to amend its practice on repurchase options so that commitments to resell Treasury bills would not be made later than the Saturday next preceding maturity.

6. Other phases of the present way of handling Treasury bill issues not mentioned above will be continued as heretofore.

November 16, 1943