

Mr. Merrill  
Ch. Ecker.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM**Office Correspondence**Date March 16, 1944To Chairman Eccles

Subject: \_\_\_\_\_

From Mr. Carpenter

As you know, we are working on the statement of terms upon which the New York Bank will deal with brokers and dealers in Government securities for the System account and also the statement of relationships with the Treasury.

Certain other matters were referred to the executive committee by the Federal Open Market Committee at the last meeting, and in order that you might have them before you they are referred to briefly below:

1. In connection with the renewal of the direction to the Federal Reserve Banks to purchase Treasury bills at the posted rate, the Federal Open Market Committee reaffirmed the position previously taken in discussions with representatives of the Treasury that the short-term rate on Government securities should be increased by the adoption of one of the alternative courses proposed by the System's representatives in such discussions, and the executive committee was authorized whenever an opportunity afforded in future discussions with the Treasury to urge appropriate steps to increase the short-term rate to a point more in line with the existing rates on longer-term issues of Government securities.

2. At their separate meeting the Presidents agreed that the formula used during the fourth war loan drive for subscriptions by commercial banks holding savings deposits was generally satisfactory and should be continued in subsequent drives, but that in addition to savings deposits the formula should include the amount of outstanding certificates of deposit issued to individuals, inasmuch as in some districts smaller banks carried savings of their customers in the form of these certificates. The Federal Open Market Committee expressed general approval of the recommendation of the Presidents and requested the executive committee of the Federal Open Market Committee to undertake to work out and present to the Treasury a procedure by which the recommendation could be made effective before the next war loan drive. This matter is referred to in paragraph four of the memorandum addressed to the Board by Messrs. Piser and Kennedy under date of March 11, 1944, on the subject of Treasury financing.

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3. The Presidents also noted that the situation with respect to evasive practices in connection with the purchase of securities during the drives had improved considerably during the fourth war loan drive but that certain undesirable practices were still apparent, such as purchases of securities by banks through officers, directors, and subsidiary corporations and the making of loans on securities beyond the six-month period suggested by the supervisory authorities. It was the view of the Presidents that such practices were not desirable and that the procedure needed further clarification by the Treasury so that the Presidents might follow a uniform and consistent policy in dealing with member banks during subsequent drives. The Presidents' Conference referred the matter to its Committee on Fiscal Agency Operations for review with Under Secretary Bell and report back to the Presidents' Conference. In view of the responsibility of the Federal Open Market Committee in connection with Treasury financing through the banks and the fact that the practices referred to above resulted in padded subscriptions, the Open Market Committee concurred in the opinion expressed by the Presidents and requested the executive committee to inform the Treasury accordingly.

At the executive session of the Presidents and the Board, following a discussion of the relationships between the Presidents and the Board of Governors, it was agreed that the question of meetings of the Presidents' Conference outside Washington and the attendance at meetings of the Federal Open Market Committee should be referred to you and Mr. Sproul as Chairman and Vice Chairman, respectively, of the Federal Open Market Committee to work out a plan for future meetings. In that connection it was tentatively decided that the attendance of associate economists at the meetings of the Federal Open Market Committee should be confined to not more than two of the associate economists who would be expected to make reports, and that as to the extent of the attendance on the part of others than members and the official staff at meetings of the full Committee and the executive committee, respectively, the Chairman and Vice Chairman would have power to act.

