

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 27, 1944

To Chairman Eccles

Subject: Agreement to rebate earnings
on Treasury bills in excess of
3/8 of one per cent.

From Mr. Wyatt, General Counsel.

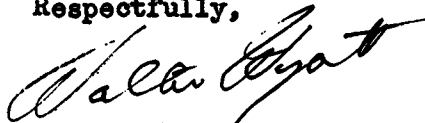
In accordance with your request, transmitted through Mr. Piser on Saturday, March 25, I have given careful consideration to the question whether the Federal Reserve Banks, with the consent of the Board of Governors and the Federal Open Market Committee, could agree with the Treasury that, if the rate on Treasury bills is raised from $\frac{3}{8}$ of one per cent to $\frac{1}{2}$ of one per cent, the Federal Reserve Banks would credit against their fiscal agency expenses any earnings derived from Treasury bills in excess of $\frac{3}{8}$ of one per cent per annum.

The law is silent on this subject; but I know of no legal reason why such an arrangement may not be entered into. If it is entered into voluntarily by the twelve Federal Reserve Banks with the consent of the Board and the Federal Open Market Committee, I know of no one who would have a right to object to it.

Under the very broad authority conferred upon the Secretary of the Treasury by section 20(a) of the Second Liberty Bond Act, as amended by the Act of March 28, 1942, to prescribe the terms and conditions upon which obligations of the United States may be offered for sale, the Secretary of the Treasury could issue a regulation providing that Treasury bills may be held by the Federal Reserve Banks only on condition that they rebate to the Treasury all earnings derived from this source in excess of $\frac{3}{8}$ of one per cent per annum, or in excess of any other rate which he may prescribe.

Before any arrangement of this kind is suggested to the Treasury, however, careful consideration should be given to the significance of the precedent which this would establish and the extent to which the principle involved might be extended at some time in the future.

Respectfully,



Walter Wyatt,
General Counsel.