

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 28, 1944

To Chairman Eccles

Subject: _____

From Mr. Carpenter

Attached are drafts of letters to Mr. Sproul and to the Presidents of the other Federal Reserve Banks relating to instructions to be issued to the New York Bank in connection with the statement of terms upon which the Bank will do business with brokers and dealers for the System account. This is one of the matters to be discussed at the meeting of the executive committee of the Federal Open Market Committee this morning.

Attachments

A handwritten signature, likely of Mr. Carpenter, consisting of stylized initials and a surname.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Mr. Allan Sproul, President,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Mr. Sproul:

At its meeting on February 29, 1944, the Federal Open Market Committee approved in substance a statement of proposed terms upon which the Federal Reserve Bank of New York would transact business with brokers and dealers in United States Government securities for the System open market account. This action was taken with the understanding (1) that the executive committee was authorized to make such changes in the form of the statement of terms as appeared to be desirable, (2) that the procedure would be put into effect at such time as in the judgment of the executive committee such action appeared to be desirable after having informed the Treasury of the proposed arrangement, and (3) that the executive committee was authorized to issue such instructions to the Federal Reserve Bank of New York as agent for the System account in connection with the proposed procedure as appeared to the executive committee to be desirable, including the manner in which advice of the arrangement was to be sent to dealers who might qualify thereunder.

A copy of the statement of terms as prepared in consultation with you and Mr. Rouse and as approved by the members of the executive committee is enclosed, and there are set forth below the instructions issued to the New York Bank in connection with the statement pursuant to the authority granted by the full Committee on February 29, 1944:

1. The Federal Reserve Bank of New York shall furnish copies of the statement of terms to each broker or dealer in Government securities with whom the Bank has been transacting business on behalf of the System open market account, and to such other brokers and dealers as evidence to the Bank an interest in qualifying and in the opinion of the Bank would have a reasonable chance of qualifying. On and after April 15, 1944, the New York Bank will transact business on behalf of the System open market account only with the brokers and dealers who meet the qualifications, have executed the agreement, and comply with the terms set forth in the statement.



Mr. Allan Sproul

-2-

2. When the statement has been presented to the brokers and dealers with whom transactions are now conducted for the System open market account, the Bank shall give copies to representatives of the press informally as a formalization of existing procedure. 2

3. The Bank shall keep the executive committee of the Federal Open Market Committee informed of each broker and dealer with whom it ordinarily transacts business and of each addition to, or removal from, the list of qualified brokers and dealers.

4. The Bank shall encourage the observance of high standards of commercial honor and just and equitable principles of trade by the brokers and dealers in Government securities, through the medium of the Bank's contacts with the brokers and dealers and the Government Security Dealer Group or any other similar organization that may exist or develop. 7

5. When any broker or dealer has been removed from the list of qualified brokers and dealers for failure to meet the qualifications set forth in the statement of terms or for willful violation of or failure to perform any of the terms and conditions set forth in the agreement, and the Bank is satisfied that he has taken appropriate steps to correct any default and to prevent the occurrence of similar defaults in the future, the Bank may restore him to the list of qualified brokers and dealers and resume the transaction of business with him, after obtaining the consent of the executive committee of the Federal Open Market Committee.

A copy of the letter being sent today to the Presidents of the other Federal Reserve Banks in connection with this matter is also enclosed.

Very truly yours,

Chester Morrill,
Secretary.

Enclosures 2



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

You will recall that at the meeting of the Federal Open Market Committee on February 29, 1944, the Committee approved in substance a statement of proposed terms upon which the Federal Reserve Bank of New York would transact business with brokers and dealers in United States Government securities for the System open market account. This action was taken with the understanding (1) that the executive committee was authorized to make such changes in the form of the statement of terms as appeared to be desirable, (2) that the procedure would be put into effect at such time as in the judgment of the executive committee such action appeared to be desirable after having informed the Treasury of the proposed arrangement, and (3) that the executive committee was authorized to issue such instructions to the Federal Reserve Bank of New York as agent for the System account in connection with the proposed procedure as appeared to the executive committee to be desirable, including the manner in which advice of the arrangement was to be sent to dealers who might qualify thereunder.

A copy of the statement of terms is enclosed in the form approved by the executive committee. A copy of the letter containing the instructions of the executive committee to the Federal Reserve Bank of New York in connection with the statement is also attached.

When the statement has been presented to the brokers and dealers with whom the Federal Reserve Bank of New York now does business for the System account, it will be handed by the Bank informally to representatives of the press as a formalization of existing procedure.

If any broker or dealer in your district evidences an interest in qualifying under the terms of the statement as a broker or dealer with whom the Federal Reserve Bank of New York would do business for the System account, and in your opinion such broker or dealer would have a reasonable chance of qualifying, it is requested that you furnish him a copy of the statement, and, in the event he desires to pursue the matter further, that you so inform the manager of the System account, giving him such information with respect to the broker or dealer as you think



would be of value in determining whether he should be qualified. It is assumed that if a broker or dealer in your district should take up the matter of qualifying directly with the New York Bank, the Bank would request your views before reaching a decision.

Very truly yours,

Chester Morrill,
Secretary.

Enclosures 2

TO THE PRESIDENTS OF ALL THE FEDERAL RESERVE BANKS EXCEPT NEW YORK.