

June 26, 1944.

TO: Executive Committee of Federal
Open Market Committee

SUBJECT: Allocation of Securities
in System Account and Sales of Treas-
ury Bills to Adjust Reserve Ratios.

FROM: Messrs. Rouse and Smead

Since the last meeting of the Federal Open Market Committee, we have given a good deal of consideration to the best manner in which to allocate the System's holdings of United States Government securities and have each Federal Reserve Bank maintain a reserve ratio of not less than the agreed upon minimum. We have also considered the criticisms that have been raised to Plans "A," "B" and "C" which we submitted to the Federal Open Market Committee in our memorandum dated May 4, 1944.

In the light of the desired objectives and of the criticisms received, we have prepared the enclosed Plan "D" which we recommend be adopted. This plan provides for (1) the adjustment of reserve ratios through purchases and sales of participations of Treasury bills, which carry the lowest earnings rate on United States Government securities, and (2) an equitable distribution of the System's total earnings. It will minimize fluctuations in each Bank's holdings of interest-bearing securities and in allocations of profits and losses on sales of such securities.

Plan "D" can be instituted without any great mechanical difficulty and without any additional expense to the System.

P L A N "D"

ALLOCATION OF SECURITIES HELD IN SYSTEM AND OPTION ACCOUNTS

Reallocations Quarterly in Each Year Until October 1, and
Monthly for the Remainder of the Year, and Adjustments
of Participations in Treasury Bills in System Account
and Option Accounts Weekly or More Often When
Necessary to Adjust Reserve Ratios

1. Interest-Bearing Securities

- (a) Allocate a sufficient amount of interest-bearing securities held in System account to each Federal Reserve Bank to cover expenses not already covered by accrued earnings from interest-bearing securities and by estimated earnings from other sources, excluding all Treasury bills. 7
- (b) Allocate a sufficient amount of additional interest-bearing securities to each Federal Reserve Bank to cover dividend requirements.
- (c) Allocate any remaining interest-bearing securities to each Federal Reserve Bank on the basis of average daily holdings of interest-bearing securities in ^{each bank} System account for the five years ending on the last day of the preceding month.
- (d) Allocate profits and losses on sales of interest-bearing securities to each Federal Reserve Bank on the basis of average daily holdings of interest-bearing securities in System account for the five years ending on the last day of the preceding month.

2. Treasury Bills

- (a) Allocate Treasury bills held in the System account in a manner which will give to each Bank, as far as the adjustments of participations in Treasury bills held in the System account will permit, its prorata share (based on the percentages used for the allocation of interest-bearing securities in Paragraph 1. sub-caption (c))

of estimated holdings of Treasury bills in both the System account and Option accounts provided that, if the earnings on interest-bearing securities are not sufficient to cover expenses and dividends, the allocation of Treasury bills will first be made in accordance with the formula in Paragraph 1. sub-captions (a) and (b). Treasury bills will not be allocated to any Bank in an amount that would reduce its reserve ratio below the percentage agreed upon from time to time by the Federal Open Market Committee and the Banks. The portion of Treasury bills that any Bank or Banks are unable to take, owing to a low reserve ratio, will be allocated to the Bank or Banks having the highest reserve ratio.

- (b) Adjustments necessary to restore any Bank's reserve ratio to the agreed upon percentage will be made in participations in Treasury bills each Wednesday and on the last day of each month, based on closing figures of the previous day, with allowance for any repurchases. In between the weekly and month-end adjustments any bank desiring to restore its reserve ratio to a level above 40 per cent will sell to a Bank or Banks having the highest reserve ratio or ratios, a participation or participations in Treasury bills held in its Option account for a period of days to expire on the following Wednesday or month end, whichever is earlier, except that such adjustments will be made in the System account in the event that a Bank does not hold sufficient bills in its Option account. Banks will utilize Treasury bills for adjusting reserve positions before selling a participation in interest-bearing securities held in the System account. All adjustments

in participations will be handled through the Manager of the System Open Market Account and Banks will advise him promptly of any participations in Treasury bills held in Option accounts they repurchase on days other than Wednesdays and month ends.

- (c) Allocate profits and losses on sales of Treasury bills to each Federal Reserve Bank on the basis of the percentages used for the allocation of profits and losses on interest-bearing securities pursuant to Paragraph 1. sub-caption (d).