

Form F. R. 567

## END SHEET

KIND OF MATERIAL OR NUMBER

333.

NAME OR SUBJECT

Open Market Operations  
FRBanks

DATES (Inclusive)

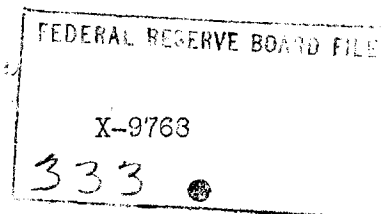
1919 - 1936

PART NUMBER

Part 2



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 25, 1936.

Dear Sir:

The following code words have been designated for use in telegrams between the Federal Reserve Bank of New York and other Federal Reserve banks in connection with the participation by the various Federal Reserve banks in United States Government securities held in the System Open Market Account:

JUMRATE - We credit you today in the Interdistrict Settlement Fund with the proceeds of your pro rata share in sale of Government securities in System Open Market Account as follows: (A) \$\_\_\_\_\_ par value Treasury Bills, (B) \$\_\_\_\_\_ par value Treasury Notes, (C) \$\_\_\_\_\_ par value Treasury Bonds, (D) \$\_\_\_\_\_ premium, (E) \$\_\_\_\_\_ accrued interest. Credit us today (F) \$\_\_\_\_\_ discount on your pro rata share of Treasury Bills sold.

JUMROLE - Credit us today in the Interdistrict Settlement Fund with the cost of your pro rata share in purchase of Government securities in System Open Market Account as follows: (A) \$\_\_\_\_\_ par value Treasury Bills, (B) \$\_\_\_\_\_ par value Treasury Notes, (C) \$\_\_\_\_\_ par value Treasury Bonds, (D) \$\_\_\_\_\_ premium, (E) \$\_\_\_\_\_ accrued interest. We credit you today (F) \$\_\_\_\_\_ discount on your pro rata share of Treasury Bills purchased.

JUMSALE - Purchase and/or sale transactions in Government securities in System Open Market Account today have not affected the amount of your total holdings. The classification of your pro rata share in total holdings at the close of business today is (A) \$\_\_\_\_\_ par value Treasury Bills, (B) \$\_\_\_\_\_ par value Treasury Notes, (C) \$\_\_\_\_\_ par value Treasury Bonds. To adjust the amount of premium, accrued interest and discount on your pro rata share of

-2-

X-9768

total holdings in the System Account as a result of today's transactions we credit you today in the Interdistrict Settlement Fund (D) \$\_\_\_\_\_ premium, (E) \$\_\_\_\_\_ accrued interest, (F) \$\_\_\_\_\_ discount. Credit us today (G) \$\_\_\_\_\_ premium, (H) \$\_\_\_\_\_ accrued interest, (I) \$\_\_\_\_\_ discount.

JUMSET - To provide for the difference between the market basis of 360 days per annum and our accrual basis of actual number of days in calendar year for the interest accrued on Treasury Bonds purchased and/or sold in System Open Market Account \_\_\_\_\_ (Date)\_\_\_\_\_ make the following entries on your books today: Credit interest accrued (A) \$\_\_\_\_\_, debit interest earned (B) \$\_\_\_\_\_, debit interest accrued (C) \$\_\_\_\_\_, credit interest earned (D) \$\_\_\_\_\_.

JUMSILT - Accrue earnings on your holdings of Government securities in the System Open Market Account for \_\_\_\_\_ (Date)\_\_\_\_\_ as follows: Accrual of interest (A) \$\_\_\_\_\_, accrual of discount (B) \$\_\_\_\_\_, amortization of premium (C) \$\_\_\_\_\_, interest earned (D) \$\_\_\_\_\_.

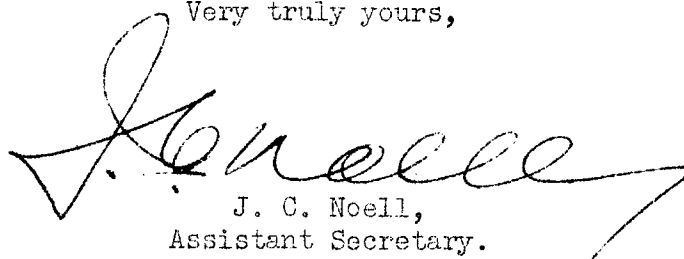
JUMSTED - We credit you today in the Interdistrict Settlement Fund \$\_\_\_\_\_, representing your pro rata share of interest coupons due and paid today on Government securities in System Open Market Account.

JUMTILE - We credit you today in the Interdistrict Settlement Fund \$\_\_\_\_\_, representing your pro rata share of profit realized today on sale of Government securities in System Open Market Account.

JUMTOLD - Credit us today in the Interdistrict Settlement Fund \$\_\_\_\_\_, representing your pro rata share of loss sustained today on sale of Government securities in System Open Market Account.

These words should be inserted on page 134 of the Federal Reserve Telegraph Code, following the word JUMPWORT.

Very truly yours,

  
J. C. Noell,  
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

~~332.5~~

October 12, 1935

333

Division of Bank Operations File

*File*

Mr. Wyatt

Mr. Smead

CC 311.201

*gen'l files*

Attached is a letter dated September 24 from Mr. Worthington, Deputy Governor of the Federal Reserve Bank of Kansas City, with respect to the bank's authority to acquire securities under repurchase agreements from the Federal Land Bank of Omaha without specific approval of the Board of Governors of the Federal Reserve System. In view of the provisions of Regulation "M" promulgated following the passage of the Banking Act of 1933, it appears that this is largely a legal question. From a practical standpoint it would seem that the bank should be permitted to acquire securities under repurchase agreements from the Federal Land Bank from time to time without securing the advance approval of the Board with the understanding that each such transaction will be promptly reported to the Board on the proper schedule and with the further understanding that such repurchase agreements have a maturity not in excess of 15 days and are for amounts not in excess of say \$1,500,000.

Attachment.

*ERH*

942  
REC'D IN FILES SECTIONMAY 29 1950  
375DEVELOPMENT OF COORDINATED SYSTEM POLICY IN  
OFFER-MARKET OPERATIONS OF FEDERAL RESERVE BANKS

Prior to 1922 the Reserve banks, having the power to invest money, made considerable investments in the market buying bills and buying Government securities. The holdings of United States Government securities by Federal Reserve banks gradually increased in the early years of the System to about \$300,000,000 in 1920, and were slightly smaller in 1921. Purchases and sales of bankers' acceptances were made largely in accordance with seasonal changes in the supply of acceptances and in the demand for funds. 4-17-35

In 1922, Federal Reserve banks, facing a decline in earning assets because of repayments of discounts by member banks, began to buy Government securities for the purpose of increasing their earnings. It was observed that the operations of Federal Reserve banks, acting independently, were affecting the market for Government securities and that these operations conflicted with each other and with those of the banks as fiscal agents of the Treasury.

In May 1922, at a meeting of the Governors of the Federal Reserve banks, a committee was appointed to coordinate the buying and selling of Government securities so as to have a more orderly program under central control.

In October 1922, this Committee undertook to make recommendations to the Federal Reserve banks regarding the purchases and sales of Government securities. It was observed in this year that purchases of

Orig filed 001.411  
Thomas, Woodlief

2.

Government securities did not cause an increase in the earning assets of the Federal Reserve banks, nor did sales cause a decrease, but rather that they affected the volume of borrowings at member banks. As a consequence, the Conference of Governors of the Federal Reserve banks voted that "investment policy should give minor consideration to the question of earnings and constant consideration to the effects which open-market operations have upon the condition and the course of the money market and the volume of credit."

On April 7, 1923, the Board advised the Governors of the Federal Reserve banks formally of a resolution adopted by the Federal Reserve Board on March 22, 1923, with respect to open-market operations by Federal Reserve banks, pointing out the necessity of the coordination of open-market operations of the Federal Reserve banks with their discount operations and their general credit policy. It also announced the organization of the "Open Market Investment Committee" for the Federal Reserve System. This committee consisted of five representatives of the Reserve banks and was to be under the general supervision of the Federal Reserve Board. From this time open-market operations could not be engaged in by Federal Reserve banks except with approval of the Federal Reserve Board.

In March 1930, the "Open Market Policy Conference," consisting of representatives of all the Reserve banks, replaced the "Open Market Investment Committee." Under the Banking Act of 1933 the "Federal Open Market Committee," consisting of twelve Reserve bank Governors, was established.

- - - - -

December 27, 1934

Mr. Smead

Definition of "Commercial paper

Mr. Horbett

bought in open market"

333

Mr. Seemans<sup>(2)</sup> of the Federal Reserve Bank of New York telephoned today to find out whether short-term promissory notes of the Commercial Credit Company of Baltimore should be classed as "commercial paper bought in open market" and included in item 3 of Schedule E of the call report. So far as I can find, this question has never been presented to us before, and I understand from Mr. Kane that he has no record of the question having been presented to the Comptroller's office.

As you know, there is a table in the Federal Reserve Bulletin on "commercial paper outstanding" (see page 727 of November 1934 issue). According to Mr. Sanford of the Federal Reserve Bank of New York, who collects those figures from commercial paper dealers, the total of \$192,000,000 at the end of September 1934 comprised \$160,000,000 of promissory notes of leading commercial, industrial, and mercantile concerns and \$32,000,000 of promissory notes of finance and industrial loan companies. Of the total of \$123,000,000 at the end of September 1933, only \$6,000,000 represented paper drawn by finance and industrial loan companies.

It is my feeling that the item "commercial paper bought in open market", item 3 of Schedule E in the call report, should not be confined to paper drawn by commercial concerns but rather that it should include, as does the Federal Reserve Bulletin, all short term paper which is commonly bought and sold in the open market by so-called commercial paper dealers. This is also Mr. Leonard's view. I recommend that we advise the Federal Reserve Bank of New York to that effect. Do you agree?

*First copy in 430,131*

~~332.5~~

June 8, 1934

333

Mr. Stone, Secretary to  
Mr. Szymczak

Mr. Horbett

In response to your telephone request, Federal Reserve bank holdings of United States Government securities on June 6, the last weekly statement date, aggregated \$2,430,236,000, and Federal Reserve bank holdings of "municipal warrants", the only State or municipal securities owned by the Federal Reserve banks, aggregated \$534,000 on the same date. On March 5, 1934, the date of the last call for condition reports made upon member banks, all licensed member banks reported holdings of \$8,667,064,000 of United States Government securities, \$1,824,841,000 of "Obligations of States, counties, districts, political subdivisions and municipalities" and \$19,018,000 of "Obligations of territorial and insular possessions of the United States".



332.4

7/5/31

**FEDERAL RESERVE BOARD**  
**WASHINGTON**

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-7801

February 21, 1934.

SUBJECT: Extension of Section 10(b)  
of Federal Reserve Act.

Dear Sir:

In accordance with the telegram sent you today, there is attached a copy of the proclamation signed by the President of the United States on February 16, 1934, prescribing an additional period of one year after March 3, 1934, during which advances may be made by any Federal Reserve Bank under the provisions of Section 10(b) of the Federal Reserve Act, as amended.

Very truly yours,

*Chester Morrill*

Chester Morrill,  
Secretary.

Inclosure.

TO ALL CHAIRMEN AND GOVERNORS OF F. R. BANKS.

COPY

X-7801-a

EXTENDING FOR 1 YEAR THE PERIOD WITHIN WHICH ADVANCES  
MAY BE MADE UNDER SECTION 10(B) OF THE FEDERAL RESERVE  
ACT AS AMENDED

-----  
BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS section 10(b) of the Federal Reserve Act as amended by the act of February 27, 1932 (ch. 58, 47 Stat. 56), by the act of February 3, 1933 (ch. 34, 47 Stat. 794), and by the Act of March 9, 1933 (Public, No. 1, 73d Cong.), reads as follows:

"Sec. 10(b). In exceptional and exigent circumstances, and when any member bank has no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal reserve bank or any other method provided by this Act other than that provided by section 10(a), any Federal reserve bank, under rules and regulations prescribed by the Federal Reserve Board, may make advances to such member bank on its time or demand notes secured to the satisfaction of such Federal reserve bank. Each such note shall bear interest at a rate not less than 1 per centum per annum higher than the highest discount rate in effect at such Federal reserve bank on the date of such note. No advance shall be made under this section after March 3, 1934, or after the expiration of such additional period not exceeding one year as the President may prescribe."; and

-2-

X-7801-a

WHEREAS I, FRANKLIN D. ROOSEVELT, President of the United States of America, deem it advisable that the authority of the Federal reserve banks to make advances under the provisions of said section 10(b) of the Federal Reserve Act be continued for an additional period after March 3, 1934;

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT, President of the United States of America, acting under and by virtue of the authority conferred upon me by said section 10(b) of the Federal Reserve Act, do hereby proclaim, declare, and prescribe an additional period of 1 year after March 3, 1934, during which advances may be made by any Federal reserve bank under the provisions of said section.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the seal of the United States to be affixed.

DONE at the City of Washington this 16th day of February, in the  
year of our Lord nineteen hundred and thirty-four, and  
(SEAL) of the Independence of the United States of America  
the one hundred and fifty-eighth.

(Signed) Franklin D. Roosevelt

By the President:

(Signed) Cordell Hull

Secretary of State.

September 15, 1933

Mr. Parry

## Distribution of United States

Mr. Terborgh

Government Security Section  
1929-1933.  
DEC 1 1949  
333

The following table presents the best data or estimates I can obtain for the distribution of United States Government security holdings from the middle of 1929 to the present.

Table 1

Distribution of U. S. Government Security Holdings  
(In millions of dollars)

		Total out- standing	Held by banks				Held by others
			Total	Federal Reserve	Member <sup>1/</sup>	Non-member <sup>2/</sup> Mutual Savings      Other	
1929	June 30	16,690	5,431	216	4,155	620      440	11,259
	Sept. 30	16,482	5,213	162	4,021	600      430	11,269
	Dec. 31	16,068	5,359	511	3,863	575      410	10,709
1930	Mar. 31	16,159	5,580	535	4,085	550      410	10,579
	June 30	15,954	5,572	591	4,061	525      395	10,382
	Sept. 30	15,849	5,632	597	4,095	545      395	10,217
	Dec. 31	15,796	5,789	729	4,125	565      370	10,007
1931	Mar. 31	16,352	6,581	599	5,002	585      395	9,771
	June 30	16,571	7,021	668	5,343	605      405	9,550
	Sept. 30	17,087	7,366	742	5,564	625      435	9,723
	Dec. 31	17,581	7,201	817	5,319	650      415	10,380
1932	June 30	19,221	8,512	1,784	5,628	700      400	10,709
	Sept. 30	20,351	9,340	1,854	6,366	715      405	11,011
	Dec. 31	20,512	9,540	1,855	6,540	730      415	10,972
1933	June 30	22,223	10,238	1,998	7,035	765      440	11,985

<sup>1/</sup> Data for March and September are for call dates near the month end.

<sup>2/</sup> Estimated.

Derivation of Estimates for Non-member Banks:

1. Mutual savings banks. See my memorandum of September 12, 1933.
2. Other non-members. The data on Government security holdings of State banks published annually by the Comptroller of the Currency are seriously defective, because of (1) the failure of a number of States to segregate this item in their returns to the Comptroller, and (2) erroneous reports from certain States which do segregate the item. As to erroneous reports, I need only cite that of the State of Michigan for 1932. We reported more than twice as much in Government securities held by Michigan State member banks alone as the Comptroller showed for all State banks in the State. There are other flagrant cases in other years. Because of this situation, and the absence of any data for a

Mr. Parry

Page 2

September 15, 1933

considerable number of States I have limited my use of the Comptroller's figures to the year 1932. I have estimated the Government security holdings of "other non-member" State banks as of June 30 of that year as follows:

a. Taking separately each class of State bank (other than mutual savings) I have estimated for States making no reports of this item by assuming that Government security holdings constituted the same percentage of the total investments of their banks as was shown for the same type of bank by reporting States in the same geographical region.

b. Adjustments were made for Michigan and one or two other States for which the reports were pretty clearly erroneous.

c. The estimated and adjusted figures were added to those for States whose data were taken as reported. From the result for all classes of State banks other than mutual was subtracted our figure for Government security holdings of State member banks. The balance was approximately \$400,000,000.

Using this figure of \$400,000,000 as a basing point, I estimated for other dates shown in the table by assuming that for each of these dates the percentage of total investments consisting of Government securities was in same ratio to the percentage obtaining on June 30, 1932 that prevailed between the corresponding percentages in the case of national country banks and State member country banks. Where the ratios for national country banks and State member country banks did not agree, an intermediate ratio was chosen. (In general, they were in close accord.)

Form No. 131

## Office Correspondence

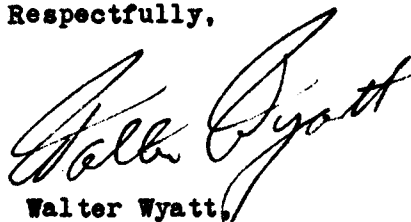
FEDERAL RESERVE  
BOARDDate June 29, 1933. <sup>333</sup>To Dr. Miller,Subject: Regulations re open market trans-  
actions of Federal reserve banks.From Walter Wyatt, General Counsel.

... 16-832

For your information, I am ~~handing~~ <sup>See attachments on memo dated 6/29 TO Syrmajak</sup> you herewith copies of two preliminary drafts of regulations governing open market operations of Federal reserve banks, which I prepared at the request of Mr. James under dates of October 31, 1929, and November 2, 1929, respectively.

I understand that the preparation of a tentative draft of regulations on this subject under the provisions of the Federal Reserve Act, as amended by the Banking Act of 1933, has been assigned to Dr. Goldenweiser; and I am sending him copies of the attached drafts in the hope that they may be of some assistance to him.

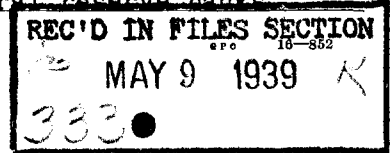
Respectfully,



Walter Wyatt,  
General Counsel.

Form No. 131

## Office Correspondence

FEDERAL RESERVE  
BOARDDate June 29, 1933.To Mr. Szymczak,Subject: Regulations re open market trans-From Walter Wyatt, General Counsel.actions of Federal reserve banks

Handwritten initials "WY" in dark ink, slanted to the right.

For your information, I am handing you herewith copies of two preliminary drafts of regulations governing open market operations of Federal reserve banks, which I prepared at the request of Mr. James under dates of October 31, 1929, and November 2, 1929, respectively.

I understand that the preparation of a tentative draft of regulations on this subject under the provisions of the Federal Reserve Act, as amended by the Banking Act of 1933, has been assigned to Dr. Goldenweiser; and I am sending him copies of the attached drafts in the hope that they may be of some assistance to him.

Respectfully,

 A handwritten signature in dark ink, appearing to read "Walter Wyatt".
 

Walter Wyatt,  
General Counsel.

9977 (CONFIDENTIAL- Second preliminary draft- October 31, 1929)

Regulation \_\_\_\_\_, Series of 1929.

OPEN MARKET OPERATIONS.

Section I - Definitions.

(a) Open Market Investments - The term "open market investments" shall include all of the following purchased on the open market by, or for the account of, Federal reserve banks:

(1) Bankers' acceptances, bills of exchange and other bills receivable;

(2) Bonds, notes, certificates of indebtedness and Treasury bills of the United States;

(3) Bills, notes, revenue bonds and warrants of any State, county, district, political subdivision or municipality in the continental United States;

(4) Acceptances, debentures and other such obligations of Federal intermediate credit banks or national agricultural credit corporations; and

(5) Farm loan bonds.

(b) Aggregate Open Market Investments - The term "aggregate open market investments" shall mean the aggregate amount of all open market investments owned by, or held for the account of, all of the Federal reserve banks whether purchased individually by such banks, purchased by the Executive Committee for the account of such Federal reserve banks, or acquired in any other manner.



-2-

## Section II - General Principles

The time, manner, character and volume of all purchases and sales of open market investments shall be governed primarily with a view of accommodating commerce and business and with regard to their effect upon the general credit situation.

## Section III - Limitations

Except as hereinafter provided the amount of aggregate open market investments shall conform to limitations prescribed from time to time by the Federal Reserve Board. The Board will not prescribe a single sum as the limitation on the amount of aggregate open market investments, but will provide that the amount shall not be less than a certain sum nor in excess of a certain other sum, allowing a reasonable latitude in view of the circumstances existing from time to time.

## Section IV - Open Market Committee

(a) Organization - Hereafter the Open Market Committee shall consist of the governors of the twelve Federal reserve banks. In the absence of any governor from a meeting of the Committee, an alternate appointed by the directors of his bank may serve as a member of the Committee. The Committee shall select its own Chairman.

(b) Meetings - Meetings of the Open Market Committee shall be subject to the call of the Federal Reserve Board, the Open Market Committee or its Executive Committee, and shall be held in Washington or in such other place as may be arranged by agreement between the Open Market Committee and the Federal Reserve Board.

(c) Functions - It shall be the duty of the Open Market Committee, subject to the review and determination of the Federal Reserve Board, to formulate from time to time an open market policy for the Federal Reserve System as a whole and, when deemed necessary or advisable, to recommend changes in the amount of

- 3 -

aggregate open market investments, in accordance with the terms of this regulation. All policies formulated and all changes recommended by the Open Market Committee shall be submitted to the Federal Reserve Board for approval and shall not take effect until they have been approved by the Federal Reserve Board.

While the duty of recommending changes in the amount of aggregate open market investments shall rest primarily with the Open Market Committee, the directors of any Federal reserve bank may recommend to the Federal Reserve Board changes in such amount at any time; and the Federal Reserve Board reserves the right to change such amount on its own initiative.

Section V - Executive Committee.

(a) Organization - The Open Market Committee shall select from its own membership an Executive Committee consisting of five members and shall appoint the Chairman thereof.

(b) Functions - It shall be the duty of the Executive Committee:

(1) To execute purchases and sales of open market investments, in accordance with policies approved from time to time by the Federal Reserve Board;

(2) To maintain a pool of open market investments, participations in which shall be allotted to various Federal reserve banks desiring to participate in such pool;

(3) To maintain the amount of aggregate open market investments within the limitations prescribed from time to time by the Federal Reserve Board; and

(4) To allocate the aggregate open market investments among all Federal reserve banks on an equitable basis and to adjust such allocation from time to time to meet the changing needs of the respective F.R. banks. Such allocation shall be made with a view primarily, of (a) enabling each F.R. bank to maintain a suitable reserve position, and (b) equalizing so far as practicable the net earnings of the various F.R. banks; and shall be subject to change by the

24-

Federal Reserve Board, in its discretion, at the request of any Federal reserve bank.

(c) Purchases and Sales for Treasury - Acting on behalf of all Federal reserve banks participating in the pool, the Executive Committee may make temporary purchases and sales of United States bond, notes, certificates of indebtedness and Treasury bills for the accommodation or account of the Treasury of the United States in amounts requested by the Treasury for periods not in excess of fifteen days, without regard to the limitations on the amount of aggregate open market investments.

Section VI- Individual Purchases of Open Market Investments.

Except with the permission of the Federal Reserve Board, no Federal reserve bank shall purchase or sell any open market investment for its own account independently of the Executive Committee; Provided, that this prohibition shall not apply to the purchase or sale by an individual Federal reserve bank of:

- (1) Bills of exchange and bankers' acceptances arising out of transactions in its own district, or
- (2) Other investments made in emergencies to accommodate specific member banks.

Whenever an individual Federal reserve bank purchases or sells open market investments for its own account, the transaction shall be reported promptly to the Federal Reserve Board and to the Executive Committee; and it shall be the duty of the Executive Committee to make such adjustments in the pool of open market investments and in the allocation thereof as may be necessary;

- (1) To maintain the aggregate open market investments within the limitations previously approved by the Federal Reserve Board; and

-5-

(2) To maintain the participation of each individual Federal reserve bank in the aggregate open market investments in accordance with the allocation thereof made by the Executive Committee.

Section VII- Dealings in Gold.

Except after applying for and receiving the approval of the Federal Reserve Board, no Federal reserve bank shall engage in, or make definite commitments for, transactions with foreign governments, foreign banks or foreign bankers involving the purchase, sale, exchange, loan, pledge, or earmarking of gold, gold coin or gold certificates.

COPY (CONFIDENTIAL- Fifth preliminary draft - November 2, 1929)

Regulation \_\_\_\_\_, Series of 1929

OPEN MARKET OPERATIONS

Section I - Open Market Committee.

(a) Organization- Hereafter the Open Market Committee shall consist of the governors of the twelve Federal reserve banks. In the absence of any governor from a meeting of the Committee, an alternate appointed by the directors of his bank may serve as a member of the Committee. The Committee shall select its own Chairman.

(b) Meetings- Meetings of the Open Market Committee shall be subject to the call of the Federal Reserve Board, the Open Market Committee or its Executive Committee, and shall be held in Washington or in such other place as may be arranged by agreement between the Open Market Committee and the Federal Reserve Board.

(c) Functions- It shall be the duty of the Open Market Committee, subject to the review and determination of the Federal Reserve Board, to formulate from time to time an open market policy for the Federal Reserve System as a whole and, when deemed necessary or advisable, to recommend changes in the aggregate amount of all investments acquired in the open market pursuant to the terms of section 14 of the Federal Reserve Act and held by or for the account of Federal reserve banks. All policies formulated and all changes recommended by the Open Market Committee shall be submitted to the Federal Reserve Board for approval and shall not take effect until they have been approved by the Federal Reserve Board.

While the duty of recommending changes in the amount of aggregate open market investments shall rest primarily with the Open Market Committee, the directors of any Federal reserve bank may recommend to the Federal Re-

-2-

serve Board changes in such amount at any time; and the Federal Reserve Board reserves the right to change such amount on its own initiative.

Section II- Executive Committee.

(a) Organization- The Open Market Committee shall select from its own membership an Executive Committee consisting of five members and shall appoint the Chairman thereof.

(b) Functions- It shall be the duty of the Executive Committee:

(1) To execute purchases and sales of open market investments, in accordance with policies approved from time to time by the Federal Reserve Board;

(2) To maintain a pool of open market investments, participations in which shall be allotted to various Federal reserve banks desiring to participate in such pool;

(3) To maintain within the limitations prescribed from time to time by the Federal Reserve Board the aggregate amount of all open market investments, including those held individually by the various Federal reserve banks and those held in the aforesaid pool; and

(4) To allocate the aggregate amount of all open market investments among all Federal reserve banks on an equitable basis and to adjust such allocation from time to time to meet the changing needs of the respective Federal reserve banks. Such allocation shall be made with a view primarily, of (a) enabling each Federal reserve bank to maintain a suitable reserve position, and (b) equalizing so far as practicable the net earnings of the various Federal reserve banks; and shall be subject to change by the Federal Reserve Board, in its discretion, at the request of any Federal reserve bank.

(c) Purchases and Sales for Treasury- Acting on behalf of all Federal reserve banks participating in the pool, the Executive Committee may make

-3-

temporary purchases and sales of United States bonds, notes, certificates of indebtedness and Treasury bills for the accommodation or account of the Treasury of the United States in amounts requested by the Treasury for periods not in excess of fifteen days, without regard to the limitations on the amount of aggregate open market investments.

(4) Individual Purchases of Open Market Investments. Whenever an individual Federal reserve bank purchases or sells open market investments for its own account, the transaction shall be reported promptly to the Federal Reserve Board and to the Executive Committee; and it shall be the duty of the Executive Committee to make such adjustments in the pool of open market investments and in the allocation thereof as may be necessary:

(1) To maintain the aggregate amount of all open market investments within the limitations previously approved by the Federal Reserve Board; and

(2) To maintain the participation of each individual Federal reserve bank in the aggregate amount of all open market investments in accordance with the allocation thereof made by the Executive Committee.

COPY (CONFIDENTIAL - Second preliminary draft - October 31, 1929)

Regulation \_\_\_\_\_, Series of 1929.

OPEN MARKET OPERATIONS.

Section I - Definitions.

(a) Open Market Investments - The term "open market investments" shall include all of the following purchased on the open market by, or for the account of, Federal reserve banks:

(1) Bankers' acceptances, bills of exchange and other bills receivable;

(2) Bonds, notes, certificates of indebtedness and Treasury bills of the United States;

(3) Bills, notes, revenue bonds and warrants of any State, county, district, political subdivision or municipality in the continental United States;

(4) Acceptances, debentures and other such obligations of Federal intermediate credit banks or national agricultural credit corporations; and

(5) Farm loan bonds.

(b) Aggregate Open Market Investments - The term "aggregate open market investments" shall mean the aggregate amount of all open market investments owned by, or held for the account of, all of the Federal reserve banks whether purchased individually by such banks, purchased by the Executive Committee for the account of such Federal reserve banks, or acquired in any other manner.



-2-

## Section II - General Principles

The time, manner, character and volume of all purchases and sales of open market investments shall be governed primarily with a view of accommodating commerce and business and with regard to their effect upon the general credit situation.

## Section III - Limitations

Except as hereinafter provided the amount of aggregate open market investments shall conform to limitations prescribed from time to time by the Federal Reserve Board. The Board will not prescribe a single sum as the limitation on the amount of aggregate open market investments, but will provide that the amount shall not be less than a certain sum nor in excess of a certain other sum, allowing a reasonable latitude in view of the circumstances existing from time to time.

## Section IV - Open Market Committee

(a) Organization - Hereafter the Open Market Committee shall consist of the governors of the twelve Federal reserve banks. In the absence of any governor from a meeting of the Committee, an alternate appointed by the directors of his bank may serve as a member of the Committee. The Committee shall select its own Chairman.

(b) Meetings - Meetings of the Open Market Committee shall be subject to the call of the Federal Reserve Board, the Open Market Committee or its Executive Committee, and shall be held in Washington or in such other place as may be arranged by agreement between the Open Market Committee and the Federal Reserve Board.

(c) Functions - It shall be the duty of the Open Market Committee, subject to the review and determination of the Federal Reserve Board, to formulate from time to time an open market policy for the Federal Reserve System as a whole and, when deemed necessary or advisable, to recommend changes in the amount of

-3-

aggregate open market investments, in accordance with the terms of this regulation. All policies formulated and all changes recommended by the Open Market Committee shall be submitted to the Federal Reserve Board for approval and shall not take effect until they have been approved by the Federal Reserve Board.

While the duty of recommending changes in the amount of aggregate open market investments shall rest primarily with the Open Market Committee, the directors of any Federal reserve bank may recommend to the Federal Reserve Board changes in such amount at any time; and the Federal Reserve Board reserves the right to change such amount on its own initiative.

#### Section V - Executive Committee

(a) Organization - The Open Market Committee shall select from its own membership an Executive Committee consisting of five members and shall appoint the Chairman thereof.

(b) Functions - It shall be the duty of the Executive Committee:

(1) To execute purchases and sales of open market investments, in accordance with policies approved from time to time by the Federal Reserve Board;

(2) To maintain a pool of open market investments, participations in which shall be allotted to various Federal reserve banks desiring to participate in such pool;

(3) To maintain the amount of aggregate open market investments within the limitations prescribed from time to time by the Federal Reserve Board; and

(4) To allocate the aggregate open market investments among all Federal reserve banks on an equitable basis and to adjust such allocation from time to time to meet the changing needs of the respective F. R. banks. Such allocation shall be made with a view primarily, of (a) enabling each F. R. bank to maintain a suitable reserve position, and (b) equalizing so far as practicable the net earnings of the various F. R. banks; and shall be subject to change by the

-4-

Federal Reserve Board, in its discretion, at the request of any Federal reserve bank.

(c) Purchases and Sales for Treasury - Acting on behalf of all Federal reserve banks participating in the pool, the Executive Committee may make temporary purchases and sales of United States bonds, notes, certificates of indebtedness and Treasury bills for the accommodation or account of the Treasury of the United States in amounts requested by the Treasury for periods not in excess of fifteen days, without regard to the limitations on the amount of aggregate open market investments.

Section VI - Individual Purchases of Open Market Investments.

Except with the permission of the Federal Reserve Board, no Federal reserve bank shall purchase or sell any open market investment for its own account independently of the Executive Committee; Provided, that this prohibition shall not apply to the purchase or sale by an individual Federal reserve bank of:

(1) Bills of exchange and bankers' acceptances arising out of transactions in its own district, or

(2) Other investments made in emergencies to accommodate specific member banks.

Whenever an individual Federal reserve bank purchases or sells open market investments for its own account, the transaction shall be reported promptly to the Federal Reserve Board and to the Executive Committee; and it shall be the duty of the Executive Committee to make such adjustments in the pool of open market investments and in the allocation thereof as may be necessary:

(1) To maintain the aggregate open market investments within the limitations previously approved by the Federal Reserve Board; and

-5-

(2) To maintain the participation of each individual Federal reserve bank in the aggregate open market investments in accordance with the allocation thereof made by the Executive Committee.

Section VII - Dealings in Gold.

Except after applying for and receiving the approval of the Federal Reserve Board, no Federal reserve bank shall engage in, or make definite commitments for, transactions with foreign governments, foreign banks or foreign bankers involving the purchase, sale, exchange, loan, pledge, or earmarking of gold, gold coin or gold certificates.

COPY (CONFIDENTIAL - Fifth preliminary draft - November 2, 1929)

Regulation , Series of 1929

OPEN MARKET OPERATIONS

Section I - Open Market Committee.

(a) Organization - Hereafter the Open Market Committee shall consist of the governors of the twelve Federal reserve banks. In the absence of any governor from a meeting of the Committee, an alternate appointed by the directors of his bank may serve as a member of the Committee. The Committee shall select its own Chairman.

(b) Meetings - Meetings of the Open Market Committee shall be subject to the call of the Federal Reserve Board, the Open Market Committee or its Executive Committee, and shall be held in Washington or in such other place as may be arranged by agreement between the Open Market Committee and the Federal Reserve Board.

(c) Functions - It shall be the duty of the Open Market Committee, subject to the review and determination of the Federal Reserve Board, to formulate from time to time an open market policy for the Federal Reserve System as a whole and, when deemed necessary or advisable, to recommend changes in the aggregate amount of all investments acquired in the open market pursuant to the terms of Section 14 of the Federal Reserve Act and held by or for the account of Federal reserve banks. All policies formulated and all changes recommended by the Open Market Committee shall be submitted to the Federal Reserve Board for approval and shall not take effect until they have been approved by the Federal Reserve Board.

While the duty of recommending changes in the amount of aggregate open market investments shall rest primarily with the Open Market Committee, the directors of any Federal reserve bank may recommend to the Federal Re-

-2-

serve Board changes in such amount at any time; and the Federal Reserve Board reserves the right to change such amount on its own initiative.

Section II - Executive Committee.

(a) Organization - The Open Market Committee shall select from its own membership an Executive Committee consisting of five members and shall appoint the Chairman thereof.

(b) Functions - It shall be the duty of the Executive Committee:

(1) To execute purchases and sales of open market investments, in accordance with policies approved from time to time by the Federal Reserve Board;

(2) To maintain a pool of open market investments, participations in which shall be allotted to various Federal reserve banks desiring to participate in such pool;

(3) To maintain within the limitations prescribed from time to time by the Federal Reserve Board the aggregate amount of all open market investments, including those held individually by the various Federal reserve banks and those held in the aforesaid pool; and

(4) To allocate the aggregate amount of all open market investments among all Federal reserve banks on an equitable basis and to adjust such allocation from time to time to meet the changing needs of the respective Federal reserve banks. Such allocation shall be made with a view primarily, of (a) enabling each Federal reserve bank to maintain a suitable reserve position, and (b) equalizing so far as practicable the net earnings of the various Federal reserve banks; and shall be subject to change by the Federal Reserve Board, in its discretion, at the request of any Federal reserve bank.

(c) Purchases and Sales for Treasury - Acting on behalf of all Federal reserve banks participating in the pool, the Executive Committee may make

-3-

temporary purchases and sales of United States bonds, notes, certificates of indebtedness and Treasury bills for the accommodation or account of the Treasury of the United States in amounts requested by the Treasury for periods not in excess of fifteen days, without regard to the limitations on the amount of aggregate open market investments.

(4) Individual Purchases of Open Market Investments. Whenever an individual Federal reserve bank purchases or sells open market investments for its own account, the transaction shall be reported promptly to the Federal Reserve Board and to the Executive Committee; and it shall be the duty of the Executive Committee to make such adjustments in the pool of open market investments and in the allocation thereof as may be necessary;

(1) To maintain the aggregate amount of all open market investments within the limitations previously approved by the Federal Reserve Board; and

(2) To maintain the participation of each individual Federal reserve bank in the aggregate amount of all open market investments in accordance with the allocation thereof made by the Executive Committee.

323.

1/4/33

Wed. Jan. 4, 1933:

The Governors met with the Board as an Open Market Committee this morning. Governor Meyer stated very briefly that the position of the Board as to its open market policy which should be taken today, was one of the most important in the history of the system. He rather inclined to the view that we should continue our open market policy without change, for if we changed, the public would be likely to take alarm, and also the banks might become frightened and try to dispose of their Government securities. He also spoke of the danger of inflation from bills introduced in the present Congress.

He also stated that the result of the election had not been such as to inspire confidence in the country.

Secretary Mills then addressed the meeting, stating that it made practically no difference to the Treasury whether the System adhered to or changed its present open market policy; that of course the Government was getting money at too low a rate, and begged the Governors not to consider the interests of the Treasury - whatever they might be - in any conclusion they reached. He said, however, that if the Board were to change this policy today, it would undoubtedly give impetus to a great many inflationary bills now pending. He said that the demand for inflation was never as great in the country's history as it is today, and any change in the attitude of the System would simply increase the agitation for cheap money. He said that further issues of cheap money, so-called, after being first paid out to individuals, would drift into the banks, and then into their reserve account with the Federal reserve banks, merely increasing the present excess reserves. He characterized the pending bill for agricultural relief as an absolutely insane proposition.

Governor Harrison then addressed the meeting and gave a very fair statement of reasons why the policy should be continued, and at the same time, the principal arguments existing for a change in the policy. He said that today the 600 millions of excess reserves were concentrated in New York and Chicago, and that if this should increase very much, the chance would be that the banks would cease to pay any interest on deposits which would undoubtedly increase hoarding.



-2-

He stated, on the other hand, that if the banks, especially the New York and Chicago banks, were to discontinue paying interest on bank balances only, that this would tend to scatter the excess reserves now deposited in New York and Chicago throughout the country, and would bring a pressure for using them which did not now obtain. While he said he had an open mind, I am inclined to think that he favors no change in present policies.

Governors McDougal, Seay and Calkins seemed to favor a change, as also Governor Young.

The meeting adjourned at 1 o'clock, the Governors to go into executive session in the afternoon, to be ended by another meeting of the Board.

---

In the afternoon, the Governors continued their conference, and finally Governor Harrison brought in a resolution which provided for the sale of 125 millions of short term Government bills during the month of January, but expressed the opinion that the total excess reserves should not be allowed to fall beyond 500 millions.

Governor Harrison stated that his former statement that it would be a good thing to scatter the excess reserves by putting an end to interest on bank balances was unanimously opposed by the Governors, as they thought the only effect would be that each bank would have to lower interest still further on deposits, thus encouraging hoarding.

The Board objected to mentioning the figures 125 millions and 500 millions, and also to some other parts of the proposed resolution. The Board then adjourned until Thursday.

---

Thursday, Jan. 5, 1933:

The Board met. Governor Harrison brought in another resolution which, after some discussion and some amendments, was agreed to by the Board.

The Board then met in conference with the Governors,

-3-

and the final resolution was adopted, no mention being made of the specific amount of securities to be sold, or of the specific amount at present of excess reserves.

There was a gentlemen's agreement, however, covering four points:

1. That the Executive Committee is authorized to allow the maturity without replacement or to sell up to \$125,000,000 of securities from System account in order to offset an equal amount of return flow of currency, provided such action does not reduce excess reserves below \$500,000,000;

2. That the computation to determine whether there has been a return flow of currency to the amount of \$125,000,000 will be made from the high point of the Christmas holiday circulation;

3. That the present level of excess reserves means approximately \$500,000,000;

4. That if, after selling anything should happen to reduce excess reserves below \$500,000,000, the Executive Committee is authorized to purchase securities but will not increase the System account above the amount now held, without another meeting of the Conference.

The question then came up of some public announcement, and after much discussion Governor Meyer appointed Dr. Miller, Governor Harrison, C.S.H. and Governor Norris to retire and prepare a statement.

A statement was finally prepared based on one offered by Dr. Miller, but with many changes. C.S.H. thought it was too long and too much like an essay, and he suggested the following as a substitute:

"It was determined that no change should be made in the general policy of maintaining excess reserves at least equal to the present volume. Minor readjustments in connection with currency and gold movements and other conditions which might develop, shall be made as conditions develop, in the manner and the times consistent with this general policy."

-4-

C.S.H. however, finally accepted the longer resolution which was then reported to the conference, and unanimously adopted.

The vote of the Governors for the resolution was unanimous, but three Governors stated certain qualifications; namely, that they felt that more than 125 millions should be sold at once, and that 500 millions was too large a figure for permanent excess reserves. These Governors were McDougal, Young, and Seay.

The meeting then adjourned.

---

June 8, 1932

Mr. Hamlin

Reserve Bank Credit, April 6

Mr. Smead

to June 4, 1932

In accordance with your telephone request, there are shown below changes in the bill and security holdings of the Federal reserve banks and in monetary gold stock, member bank reserve balances, etc., between April 6 and June 4.

You will note from the table that purchases of United States Government securities during the period amounted to \$707,000,000. These purchases were offset to the extent of \$146,000,000 by declines in holdings of discounted and purchased bills, and of \$359,000,000 by a decline in our monetary gold stock. The \$202,000,000 of purchases not so offset are reflected largely in an increase of \$38,000,000 in money in circulation and of \$141,000,000 in member bank reserve balances. This increase of \$141,000,000 in reserve balances has resulted in substantially corresponding increases in excess reserves of member banks in New York City, Chicago and Boston, the increase in excess reserves in Chicago between April 6 and June 1 being \$73,000,000, in New York City \$46,000,000, and in Boston \$20,000,000.

CHANGES IN AMOUNT OF RESERVE BANK CREDIT OUTSTANDING AND  
IN RELATED ITEMS BETWEEN APRIL 6 AND JUNE 4, 1932

	<u>June 4</u>	<u>April 6</u>	<u>Increase or decrease</u>
	(In millions of dollars)		
Bills discounted	509	635	- 126
Bills bought	38	58	- 20
United States Government securities	1,592	885	+ 707
Other reserve bank credit	20	21	- 1
Total reserve bank credit	2,160	1,599	+ 561
Monetary gold stock	4,037	4,396	- 359
Treasury currency, adjusted	1,787	1,806	- 19
Money in circulation	5,496	5,458	+ 38
Member bank reserve balances	2,083	1,942	+ 141
Unexpended capital funds, nonmember deposits, etc.	405	400	+ 5

Division of Bank Operations

*Hamlin*

File No. 6-8-32

See file copy in  
330.3

*gld*

332.5

April 29, 1932

Mr. McClelland

Municipal Warrants purchased by

Mr. Van Ressen

Federal Reserve Banks 333

We are submitting herewith, in accordance with your request, figures of municipal warrants purchased by the Federal reserve banks, annually, since the organization of the System and average daily holdings of municipal warrants.

Municipal warrants were purchased by the Federal reserve banks prior to 1917 primarily for the sake of income, as stated in the following extract taken from pages 1 and 2 of the Board's 1917 Annual Report:

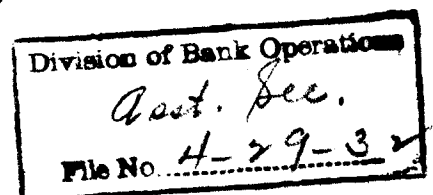
"For these reasons, the Board felt that it should in either event, during this period of uncertainty, adhere strictly to its policy of maintaining the liquid character of the assets of the Federal reserve banks, of discouraging any unnecessary expansion of credits, and that it should also cause the reduction to very moderate proportions of the holdings of the Federal reserve banks of such investments as bonds and warrants which had heretofore been made primarily for the sake of income."

This fact is also brought out by statements in some of the Annual Reports of the Agents for the year 1915, as may be noted from the following:

Boston: "In order to meet its operating expenses this bank has been a large purchaser of bankers acceptances and city and town notes."

New York: "..... other reserve banks asked this bank to act for them in purchasing eligible warrants, New York being the primary market for a large volume of this class of obligation. At the last conference of the Governors, January 20 to 23, 1915, the purchase of such warrants was thoroughly discussed and other reserve banks appointed this bank their agent in the New York market to purchase warrants and other securities authorized under Section 14."

Philadelphia: "The amount of warrants which we are permitted to hold has been limited by the Federal Reserve Board to \$3,500,000, but the offerings of such investments have not been sufficient to enable us to have this amount at any one time."



Mr. McClelland - #2

St. Louis: "The method of financing political subdivisions by short-time warrants has not been much in use in this district, and it has been difficult to get the kind of warrants acceptable by us under the law. Every effort has been made to encourage financing of this character, and the services of counsel, Mr. James G. McConkey, have been offered to any community where he was needed to suggest the form of warrants and help in their issuance. A number of conferences in regard to this type of financing have been held and considerable correspondence has occurred, and it is hoped that hereafter the district will furnish more warrants of the kind that can be used."

San Francisco: "Bankers' acceptances have been bought at rates as low as 2 per cent basis and municipal warrants at only slightly higher rates. Thus far borrowers in this district have not offered important amounts of obligations of this character, as they doubtless will when they realize the opportunity offered to finance transactions of a certain character at such advantageous rates. States of this district will also doubtless authorize municipal warrants of eligible character when it is realized that temporary municipal borrowings can be negotiated at such low rates.

By such open-market investments a Federal reserve bank may, within reasonable limits, earn what it chooses, independently of rediscounts for member banks. For this reason it is clear that no member bank should ever feel an obligation to rediscount with the Federal reserve bank for the latter's supposed benefit."

Under date of February 20, 1917, the Federal Reserve Board informed the Federal reserve banks that it considered it inadvisable for them to invest their funds in warrants, which undoubtedly accounts for an abrupt decrease in the amount of such securities purchased and held by the Federal reserve banks. The purchase of warrants was resumed in 1921 but on a very limited scale and it was not until 1931 that any substantial amount of warrants was again purchased by the Federal reserve banks. It is understood that the purchase of municipal warrants in 1931 and in the current year have been motivated largely by a desire to accommodate member banks.

VF:lls

## MUNICIPAL WARRANTS PURCHASED BY THE FEDERAL RESERVE BANKS

	<u>Amount purchased</u>	<u>Average daily holdings</u>
1914 (Nov. 16 to Dec. 31)	\$874,000	\$66,000
1915	65,859,000 ✓	17,417,000
1916	90,686,000 ✓	26,541,000
1917	16,822,000 ✓	6,893,000
1918	1,710,000 ✓	352,000
1919	-	1,000
1920	-	-
1921	985,000 ✓	44,000
1922	176,000 ✓	66,000
1923	536,000 ✓	85,000
1924	58,000 ✓	19,000
1925	64,000 ✓	5,000
1926	131,000 ✓	10,000
1927	270,000 ✓	37,000
1928	315,000	40,000
1929	1,708,000	315,000
1930	919,000	46,000
1931	7,615,000	839,000
1932 (to March 31)	31,215,000 ✓	4,185,000

NOTE: Purchases of municipal warrants in 1931 and 1932 include \$3,115,000 and \$30,808,000, respectively, of warrants taken under repurchase agreement.

330.1

April 20, 1932

Mr. McClelland

Free gold - Richmond

333

Mr. Smead

*Sup*

At the close of business last night the Federal Reserve Bank of Richmond had \$5,281,000 of free gold and held, at the head office and its two branches, \$6,315,000 of its own Federal reserve notes. The bank is participating in United States securities held in the System's Special Investment Account to the extent of \$22,831,000 but holds no other securities. On the basis of ratios established last January, Richmond's participation in the System's Special Investment Account would amount to about \$43,000,000. Its reserve ratio last night was 64.9 per cent.

*copy in 330.31*

EL3/new



332+

April 19, 1932

Mr. McClelland

Free gold - Richmond

Mr. Sneed

*dup*

332

At the close of business last night the Federal Reserve Bank of Richmond had \$5,615,000 of free gold and held, at the head office and its two branches, \$6,737,000 of its own Federal reserve notes. The bank is participating in United States securities held in the System's Special Investment Account to the extent of \$22,831,000 but holds no other securities. On the basis of ratios established last January, Richmond's participation in the System's Special Investment Account would amount to about \$41,000,000. Its reserve ratio last night was 65.1 per cent.

*Copy in 33031*

ELS:lls

Form No. 131

## Office Correspondence

FEDERAL RESERVE  
BOARD33333  
Date April 19, 1932

To Mr. Smead

Subject: Regulation E - Purchase of

From Mr. Van Fossen

Municipal Warrants

c r o

2-8495

The first regulation issued by the Federal Reserve Board on the purchase of municipal warrants was Regulation F, dated January 16, 1915. This regulation differed from the present one chiefly in the fact that Section VII thereof corresponding to Section V-d of the existing regulation limited the amount of warrants of any municipality which a Federal reserve bank could purchase from any of its member banks with its endorsement to 10 per cent of the aggregate capital and surplus of the member bank.

The arrangement of the regulation was changed substantially in the series of 1917 but no material change was made in the substance. In 1923, the regulation was gotten out in the present form. At this time the limitation above referred to was eliminated and the paragraph on the purchase of warrants from member banks with their endorsement was made a part of Section V instead of constituting Section VII. In the 1915 regulation, warrants purchased from a member bank with its endorsement were required to comply with provisions of Sections I and III of the regulation except that the period of five years is substituted for the period of ten years mentioned in Section I-c. In effect this exempted such warrants from the limitation of Section II that a Federal reserve bank might not purchase and hold an amount in excess of 25 per centum of the total amount of warrants outstanding at any time and also the restrictions of Section IV on the percentage of deposits of member banks' capital with the Federal reserve bank that could be invested in warrants of municipalities of certain specified sizes. Technically, it also apparently exempted them from Section VI requiring opinion of recognized counsel as to their legality and approval

Mr. Smead - #2

thereof by counsel for the Federal reserve bank.

The present regulations require that such warrants shall comply with Sections III and V-b corresponding to Sections I and III, respectively, of the 1915 series. The fact that this provision is incorporated in Section IV of the regulation leaves somewhat in doubt whether they must comply with Section VII in regard to opinion of counsel and I understand a question has been raised as to whether the Board's approval of the purchase of warrants of a municipality of 10,000 population or less as provided in Section VI applies to warrants purchased under Section V-d of the present regulations.

Attached hereto is a copy of Regulation E in which I have indicated changes which I suggest be made as follows:

Page 4 - Eliminate provision for waiver of condition b and insert at the end of Section III a waiver provision applying to all conditions of Section III except the first. This, of course, incorporates Mr. Gidney's suggestion.

Page 6 - Eliminate the limitation in paragraph c of Section V limiting the percentages of the deposits kept in the Federal reserve bank by its member banks that may be invested in warrants and substituting a provision that the maximum investment in the warrants of any single municipality shall be limited to one fourth of 1 per centum of the valuation of its taxable property.

Section V-a limits the amount of warrants of any municipality that any Federal reserve bank may purchase to 25 per cent of the total amount of such warrants outstanding and Section V-b limits the total amount that any Federal reserve bank may invest in warrants of all kinds to 10 per cent of

Mr. Smead - #3

its member bank reserve balances. There may be some doubt, therefore, as to the necessity of any further limitation of the amount that a Federal reserve bank may invest in the warrants of any single municipality. The limits in paragraph c are so high, particularly in the case of the New York district, as to constitute no real restriction on the purchase of municipal warrants. Accordingly, if a further restriction is desired, it is suggested, as indicated in the attached copy of the regulations, that the limit be one-fourth of 1 per centum of the valuation of the taxable property of the municipality. In this connection, it may be noted that the restriction to 10 per cent of member bank reserve balances contained in paragraph b at the present time would permit the System to purchase about \$200,000,000 of municipal warrants whereas the same limitation at the time it was originally adopted in 1915 would permit them to purchase only about \$40,000,000.

Section V-d - Substitute "the requirements of these regulations" for "Sections III and V-b of these regulations". The effect of this, of course, is to make warrants purchased from a member bank with its endorsement subject to all the requirements of the regulation except that the period of ten years mentioned in Section III-c is reduced to five years. Eliminate Section VI in view of the change in Section V-c.

**FEDERAL RESERVE BOARD**

---

**PURCHASE OF WARRANTS**



**REGULATION E**

**This Regulation has, since July 10, 1923, been continuously in effect in substantially the form printed herewith and is still in effect in such form on the date of this reprint, May 15, 1930**



**UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1930**

## **REGULATION E, SERIES OF 1923**

(Superseding Regulation E of 1924)

### **PURCHASE OF WARRANTS**

#### **SECTION I. STATUTORY REQUIREMENTS**

Section 14 of the Federal reserve act reads in part as follows:

Every Federal reserve bank shall have power—

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board.

#### **SECTION II. DEFINITIONS**

Within the meaning of this regulation—

The term “warrant” shall be construed to mean “bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months.”

The term “municipality” shall be construed to mean “State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts.”

The term “net funded indebtedness” shall be construed to mean the legal gross indebtedness of the municipality (including the amount of any school district or other bonds which depend for their redemption upon taxes levied upon property within the municipality) less the aggregate of the following items:

(1) The amount of outstanding bonds or other debt obligations made payable from current revenues;

(2) The amount of outstanding bonds issued for the purpose of providing the inhabitants of a municipality with public utilities, such as waterworks, docks, electric plants, transportation facilities, etc.: *Provided*, That evidence is submitted showing that the income from such utilities is sufficient for maintenance, for payment of interest on such bonds, and for the accumulation of a sinking fund sufficient for their redemption at maturity;

(3) The amount of outstanding improvement bonds, issued under laws which provide for the levying of special assessments against abutting property in amounts sufficient to insure the payment of interest on the bonds and the redemption thereof at maturity: *Provided*, That such bonds are direct obligations of the municipality and included in the gross indebtedness of the municipality; and

(4) The total of all sinking funds accumulated for the redemption of the gross indebtedness of the municipality, except sinking funds applicable to bonds described in (1), (2), and (3) above.

### SECTION III. CLASS OF WARRANTS ELIGIBLE FOR PURCHASE

Any Federal reserve bank may purchase warrants issued by a municipality in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues, provided—

(a) They are the general obligations of the entire municipality; it being intended to exclude as ineligible for purchase all such obligations as are payable from “local benefit” and “special assessment” taxes when the municipality at large is not directly or ultimately liable;

(b) They are issued in anticipation of taxes or revenues which are due and payable on or before the date of maturity of such warrants, ~~but the Federal Reserve Board may waive this condition in specific cases.~~ For the purposes of this regulation, taxes shall be considered as due and payable on the last day on which they may be paid without penalty;

(c) They are issued by a municipality—

(1) Which has been in existence for a period of 10 years;

(2) Which for a period of 10 years previous to the purchase has not defaulted for longer than 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it;

(3) Whose net funded indebtedness does not exceed 10 per centum of the valuation of its taxable property, ~~to be as~~ ascertained by the last preceding valuation ~~of property for~~ the assessment of taxes.

*Provided, however, that in specific cases the Board may waive any or all of the conditions of this section, except condition IIIa.*

### SECTION IV. “EXISTENCE” AND “NONDEFAULT”

Warrants will be construed to comply with that part of Section III (c) relative to term of existence and nondefault, under the following conditions:

(1) Warrants issued by or in behalf of any municipality which was, subsequent to the issuance of such warrants, consolidated with

or merged into an existing political division which meets the requirements of these regulations, will be deemed to be the warrants of such political division: *Provided*, That such warrants were assumed by such political division under statutes and appropriate proceedings the effect of which is to make such warrants general obligations of such assuming political division and payable, either directly or ultimately, without limitation to a special fund from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

(2) Warrants issued by or in behalf of any municipality which was, subsequent to the issuance of such warrants, wholly succeeded by a newly organized political division whose term of existence, added to that of such original political division or of any other political division so succeeded, is equal to a period of 10 years will be deemed to be warrants of such succeeding political division: *Provided*, That during such period none of such political divisions shall have defaulted for a period exceeding 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it: *And provided further*, That such warrants were assumed by such new political division under statutes and appropriate proceedings the effect of which is to make such warrants general obligations of such assuming political division and payable, either directly or ultimately, without limitation to a special fund from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

(3) Warrants issued by or in behalf of any municipality which, prior to such issuance, became the successor of one or more, or was formed by the consolidation or merger of two or more, preexisting political divisions, the term of existence of one or more of which, added to that of such succeeding or consolidated political division, is equal to a period of 10 years, will be deemed to be warrants of a political division which has been in existence for a period of 10 years: *Provided*, That during such period none of such original, succeeding, or consolidated political divisions shall have defaulted for a period exceeding 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it.

#### SECTION V. LIMITATIONS

(a) Except with the approval of the Federal Reserve Board, no Federal reserve bank shall purchase and hold an amount in excess of 25 per cent of the total amount of warrants outstanding at any time and issued in conformity with provisions of section 14(b), above quoted, and actually sold by a municipality.



(b) Except with the approval of the Federal Reserve Board, the aggregate amount invested by any Federal reserve bank in warrants of all kinds shall not exceed at the time of purchase a sum equal to 10 per cent of the deposits kept by its member banks with such Federal reserve bank.

(c) Except with the approval of the Federal Reserve Board, the maximum amount which may be invested at the time of purchase by any Federal reserve bank in warrants of any single municipality shall be limited to ~~the following percentages of the deposits kept in such Federal reserve bank by its member banks:~~ *one-fourth of one per centum of the value of its taxable property.*

~~Five per cent of such deposits in warrants of a municipality of 50,000 population or over;~~

~~Three per cent of such deposits in warrants of a municipality of over 30,000 population, but less than 50,000;~~

~~One per cent of such deposits in warrants of a municipality of over 10,000 population, but less than 30,000.~~

*Not much point to this*  
(d) Any Federal reserve bank may purchase from any of its member banks warrants of any municipality, indorsed by such member bank, with waiver of demand, notice, and protest if such warrants comply with ~~Sections III and V (b)~~ *the requirements* of these regulations, except that where a period of 10 years is mentioned in III (c) hereof a period of 5 years shall be substituted for the purposes of this clause.

#### ~~SECTION VI. WARRANTS OF SMALL MUNICIPALITIES~~

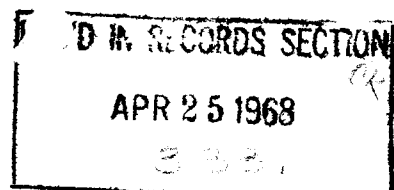
~~Warrants of a municipality of 10,000 population or less shall be purchased only with the special approval of the Federal Reserve Board.~~

~~The population of a municipality shall be determined by the last Federal or State census. Where it can not be exactly determined the Federal Reserve Board will make special rulings.~~

#### ~~SECTION VII. OPINION OF COUNSEL~~

~~Opinion of recognized counsel on municipal issues or of the regularly appointed counsel of the municipality as to the legality of the issue shall be secured and approved in each case by counsel for the Federal reserve bank.~~





FEDERAL OPEN MARKET COMMITTEE

---

REGULATION RELATING TO  
OPEN MARKET OPERATIONS OF  
FEDERAL RESERVE BANKS

▼

ADOPTED MARCH 19, 1936

---

3/19/36

REGULATION  
FEDERAL OPEN MARKET COMMITTEE

Adopted March 19, 1936

OPEN MARKET OPERATIONS

SECTION 1

Pursuant to the authority conferred upon it by section 12A of the Federal Reserve Act, as amended, the Federal Open Market Committee prescribes the following regulations relating to the open-market transactions of the Federal Reserve banks.

The Federal Open Market Committee expressly reserves the right to alter, amend, or repeal this regulation in whole or in part at any time.

SECTION 2. DEFINITIONS

(a) **Government securities.**—The term “Government securities” shall include bonds, notes, certificates of indebtedness, Treasury bills, and other obligations of the United States, including obligations fully guaranteed as to principal and interest by the United States.

(b) **Obligations.**—The term “obligations” shall include all bankers’ acceptances, bills of exchange, cable transfers, bonds, notes, warrants, debentures, and other obligations, including Government securities, which Federal Reserve banks are authorized by law to purchase in the open market.

(c) **System open market account.**—The term “system open market account” applies to Government securities and other obligations heretofore or hereafter purchased in accordance with open-market policies adopted by the Committee and held for the account of the Federal Reserve banks.

(d) **Committee.**—The term “Committee” shall mean the Federal Open Market Committee.

(e) **Executive Committee.**—The term “Executive Committee” shall mean the Executive Committee of the Federal Open Market Committee.

## SECTION 3. GOVERNING PRINCIPLES

By the terms of section 12A of the Federal Reserve Act, as amended, the time, character, and volume of all purchases and sales in the open market by Federal Reserve banks shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

## SECTION 4. FEDERAL OPEN MARKET COMMITTEE

(a) **Functions.**—The Committee shall consider the needs of commerce, industry and agriculture, the general credit situation of the country, and other matters having a bearing thereon and consider, adopt, and transmit to the several Federal Reserve banks, regulations and directions with respect to the open-market operations of such banks under section 14 of the Federal Reserve Act.

(b) **Participation in System Open Market Account.**—The Committee from time to time shall determine the principles which shall govern the allocation among the several Federal Reserve banks of Government securities and other obligations held in the System Open Market Account, with a view to meeting the changing needs of the Federal Reserve banks.

## SECTION 5. EXECUTIVE COMMITTEE

(a) **Organization.**—The Committee, at its first meeting after March 1 in each calendar year, shall select from its own members an executive committee consisting of five members.

(b) **Functions.**—It shall be the duty of the Executive Committee:

1. To direct the execution of transactions in the open market in accordance with the open-market policies adopted by the Federal Open Market Committee;
2. To allocate the Government securities and other obligations held in the System Open Market Account among the several Federal Reserve banks in accordance with the principles determined by the Federal Open Market Committee;
3. To keep the members of the Federal Open Market Committee informed of all transactions executed under the direction of the Federal Open Market Committee and of all allocations and reallocations of Government securities and other obligations held in the System Open Market Account; and

4. To perform such other functions and duties in connection with open-market operations as may be assigned to it from time to time by the Federal Open Market Committee.

#### SECTION 6. CONDUCT OF OPEN MARKET OPERATIONS

Each Federal Reserve bank shall engage in open-market operations under section 14 of the Federal Reserve Act only in accordance with this regulation and the directions issued by the Committee from time to time, and no Federal Reserve bank shall decline to engage in open-market operations as directed by the Committee.

Transactions for the System Open Market Account shall be executed by a Federal Reserve bank selected by the Committee. Each Federal Reserve bank shall make available to the Federal Reserve bank selected by the Committee such funds as may be necessary to conduct and effectuate such transactions.

#### SECTION 7. PURCHASES AND SALES OF GOVERNMENT SECURITIES

No Federal Reserve bank shall purchase or sell Government securities except pursuant to authority granted by the Committee or in accordance with an open-market policy adopted by the Committee and in effect at the time.

The Committee reserves the right, in its discretion, to require the sale of any Government securities now held or hereafter purchased by an individual Federal Reserve bank or to require that such securities be transferred into the System Open Market Account in accordance with such directions as the Committee may make.

#### SECTION 8. OTHER OPEN MARKET OPERATIONS

Subject to directions of the Committee and the following conditions, each Federal Reserve bank may engage in open-market operations other than the purchase or sale of Government securities:

(1) All such transactions shall be reported daily to the Secretary of the Committee on the day they take place.

(2) Only acceptances and bills of exchange which are of the kinds made eligible for purchase under the provisions of Regulation B of the Board of Governors of the Federal Reserve System may be purchased and the rates of discount shall be established in accordance with the provisions of sec-

tion 14(d) of the Federal Reserve Act: *Provided, further,* That no obligations payable in foreign currency shall be purchased except in accordance with directions of the Committee.

(3) Only bills, notes, revenue bonds and warrants of States, counties, districts, political subdivisions or municipalities which are of the kinds made eligible for purchase under the provisions of Regulation E of the Board of Governors of the Federal Reserve System may be purchased.

(4) No Federal Reserve bank shall engage in the purchase or sale of cable transfers for its own account except in accordance with the directions of the Committee: *Provided,* That Federal Reserve banks may purchase and sell cable transfers through the Habana agency in accordance with the resolutions or regulations of the Board of Governors of the Federal Reserve System governing the operations of such agency.

## Office Correspondence

FEDERAL RESERVE  
BOARDDate March 1, 1932.To Mr. SmeadSubject: 333From Mr. McClelland

2-8495

There are enclosed herewith copies of a letter and inclosure received from Assistant Deputy Governor Gidney of the Federal Reserve Bank of New York. The particular purchase of warrants referred to in the letter has been approved by the Board which now has under consideration the question of amending its Regulation E in accordance with the suggestion made by Mr. Gidney. It would be appreciated if you would let this office have the benefit of your comments on the proposed amendment as well as any other suggestions which you may care to make with respect to the Regulation as it now stands.

See memo April 19/32

7325

COPY

FEDERAL RESERVE BANK  
OF NEW YORK

February 25, 1932.

Federal Reserve Board,  
Washington, D. C.

Dear Sirs:

The Bank of Nutley, Nutley, New Jersey, has offered to us \$100,000 tax revenue notes of the Town of Nutley, N. J., issued against 1931 delinquent taxes and due March 1, 1932. We are attaching a copy of a letter which we received from Mr. Percival S. Hill, Vice President of the bank, relative to the offering.

The Town of Nutley is a residential suburb of Newark and is only 13 miles from New York City. Its population was 20,572, according to the 1930 Federal census, as against 9,421 in 1920, an increase of 126.9% during the ten year period. The total value of taxable property was \$27,630,533 on December 31, 1931, while total gross indebtedness was \$6,453,423. The Town's net funded indebtedness was \$3,765,715, which includes \$2,239,000 school debt and which is 13.6% of total valuations. The \$100,000 notes offered us appear eligible in all respects, except that the net funded indebtedness of the Town exceeds 10% of its taxable property and the amount of the warrants offered represents 86% of the total eligible warrants outstanding. While these warrants are not of the highest grade, we regard them as reasonably satisfactory.

As a result of our analyses of the condition of a number of municipalities, we are inclined to the view that the proportion which a municipality's total gross indebtedness bears to total assessed valuations is usually more important than the relationship between its net funded indebtedness and total assessed valuations. We have studied some situations where the percentage of total gross indebtedness to total assessed valuations was considerably higher than that of Nutley, although the percentage of net funded indebtedness to total assessed valuations was substantially below that of Nutley, for the reason that outstanding obligations payable from current revenues, under the terms of Regulation "E", are deductible from total gross indebtedness in determining the net funded indebtedness of a municipality. While the total gross indebtedness of the Town of Nutley is somewhat high, the Town appears to be in a fairly satisfactory financial condition, and we are informed that a determined effort is being made to reduce current operating expenses materially.

The Bank of Nutley, which is the strongest of the three local banks, owns 55% interest in the Franklin National Bank and 34.8% in the



Federal Reserve Bank of New York 2.

Federal Reserve Board, 2/25/32.  
Washington, D. C.

First National Bank of Nutley which is in weak condition. The Bank of Nutley owns \$120,000 par value United States Government obligations, but these are pledged with us to secure bank's indebtedness to us. It is also borrowing \$100,000 from its New York correspondent on miscellaneous bonds. The bank has but a limited amount (probably less than \$100,000) of paper which is technically eligible.

It is our feeling that the banking situation in Nutley is rather delicate and that in order to assist the Bank of Nutley to meet the situation it is desirable that we should purchase from it the above mentioned warrants. In order to do this it is necessary for us to obtain the Federal Reserve Board's approval in view of the provisions of Regulation "E" to the effect (a) that net funded indebtedness shall not be in excess of 10 per cent of assessed valuation and (b) that except with the Board's approval a Federal reserve bank shall not purchase and hold in excess of 25 per cent of the total amount of eligible warrants outstanding. We are therefore writing to request the Board's approval of our purchase of the \$100,000 of warrants offered.

As indicated in an earlier paragraph of this letter, it is our view that the relationship of net funded indebtedness to assessed valuation is in many cases not a fair measure of the standing of the municipality, and we would therefore like to suggest for the Board's consideration the desirability of amending its Regulation so as specifically to provide that the requirement that net funded indebtedness shall not exceed 10 per cent of assessed valuation may be waived by the Federal Reserve Board.

Very truly yours,

(Signed) R. M. Gidney

Assistant Deputy Governor.

COPY

Letter from Bank of Nutley, N. J.

February 20th, 1932.

Federal Reserve Bank,  
New York City.

Attention Mr. Ray M. Gidney, Deputy Governor

Dear Mr. Gidney:

Reference is made to our letter of February 19th to the attention of J. A. Mitchell, Manager of the Loan and Discount Department, wherein we enclosed forms filled out by the financial officer of the Town of Nutley, giving facts and figures about the financial condition of the Town.

At the present time we hold a Tax Revenue note, \$100,000, maturing March 1st, at which time they will undoubtedly renew, giving us a Tax Anticipation Note for a similar amount due June 1st, 1932.

In our letter of the nineteenth, we asked whether the Federal Reserve Bank of New York would assist us by purchasing this \$100,000 Tax Revenue note. In talking this morning with the department that has to do with these matters they informed us that the questionnaire had been received and it was now being looked over. They indicated that the net debt limit was in excess of the amount prescribed by your regulations and as there appeared to be only \$116,000 of this form of short term paper outstanding that you were only able to take up 25% of the outstanding amount.

However, we trust that your Committee may see their way clear to waive these two objections in this case.

Furthermore, the Town of Nutley has applied to us for an additional loan of \$75,000 to be dated March 1st for which they will give us their Tax Anticipation Note payable June 1st, 1932. The \$75,000 they propose to borrow is to be used largely to pay off maturing bonds so that the total debt of the Town is really not being increased in this instance but being transferred from a funded debt to a temporary loan, which will be paid out of taxes June 1st.

Our decision as to whether to lend our Town the additional \$75,000 will be influenced largely by the decision of the Federal Reserve Bank of New York on our application to discount the \$100,000 obligation already on our books.

-2-

We might say that a Committee of our Board of Directors has been in very close touch with the officials of our Town for the past three or four months and that our directors are kept fully informed of all receipts and disbursements and have the financial program of the Town for the next six months before them all the time.

In other words, we feel our Town is fundamentally sound, the difficulties it is experiencing being due to the inability of the commissioners to dispose of a long term bond issue offered in November 1931. Some of these bonds have been sold but the great majority of this authorized issue is unsold. A syndicate of bond houses in New York have had an option to sell these bonds, which recently was extended to May 1st next.

We feel it is not a reflection on the Town that the bonds have not been disposed of, but is entirely due to general market conditions with which you are, of course, familiar.

Our Board of Directors has felt that it would be a rather dangerous procedure for the Town to default in any of its obligations - the lack of ready cash on one or two occasions confronted the Town officials with the possibility of not meeting their pay-rolls. Had this come to pass, it was felt by our Board that the public might interpret this as a reflection on our local banking situation, and having confidence in the Town's financial condition and being in close touch with these facts at all times they decided to do everything within their power to assist the Town over this difficult period.

We understand they will require no further assistance after March 1st. As we are having a meeting of our Board of Directors on Tuesday afternoon at 4:30 P.M. February 23, we will highly appreciate if you could telephone the writer some time during the afternoon the results of our application with your Committee, which we understand takes place earlier in the day.

Very truly yours,

Vice President.

COPY

March 30, 1932.

Mr. Frederic H. Curtiss,  
Chairman of the Board,  
Federal Reserve Bank of Boston,  
Boston, Massachusetts.

Dear Mr. Curtiss:

One of the Federal reserve banks, in submitting for the Board's consideration a proposed purchase of tax revenue notes of a certain town, offered the following comment upon the requirement of Regulation "E" that net funded indebtedness shall not exceed 10 per cent of the assessed valuation of the taxable property of a municipality whose warrants are offered for purchase by a Federal reserve bank:

"As a result of our analyses of the condition of a number of municipalities, we are inclined to the view that the proportion which a municipality's total gross indebtedness bears to total assessed valuations is usually more important than the relationship between its net funded indebtedness and total assessed valuations. We have studied some situations where the percentage of total gross indebtedness to total assessed valuations was considerably higher than that of \_\_\_\_\_, although the percentage of net funded indebtedness to total assessed valuations was substantially below that of \_\_\_\_\_, for the reason that outstanding obligations payable from current revenues, under the terms of Regulation "E", are deductible from total gross indebtedness in determining the net funded indebtedness of a municipality."

Mr. Frederic H. Curtiss - (2)

It will be appreciated if you will give the Board the benefit of your views as to this matter and also of any other comments upon the provisions of the regulation that in your opinion in the light of experience might be helpful to the Board.

Very truly yours,

(S) Chester Morrill  
Secretary.

**FEDERAL RESERVE BOARD**

**WASHINGTON**

**ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD**

332  
X-7107

March 4, 1932.

**SUBJECT: Right of National Banks to sell Municipal  
Warrants with their Indorsement.**

Dear Sir:

There are inclosed for your information copies of letters on the above subject addressed to the Board by Governor Young on February 20, 1932, to the Comptroller of the Currency by the Board on February 29, 1932 and to the Board by the Comptroller of the Currency on March 1, 1932.

The position taken in the last paragraph of the Board's letter of February 18, 1932, to Governor Geery (X-7097-a), was based upon informal advice from the office of the Comptroller of the Currency and should be considered to be modified by the advice contained in the Comptroller's letter of March 1, 1932, in so far as the two are in conflict.

Very truly yours,

Chester Morrill,  
Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT BOSTON.

*undepd copy filed 3332*

X-7107-a

COPY

FEDERAL RESERVE BANK  
OF BOSTON

February 20, 1932.

Mr. Chester Morrill  
Secretary  
Federal Reserve Board  
Washington, D. C.

Dear Mr. Morrill:-

This will acknowledge receipt of your letters of February 18, 1932, Nos. X-7097 and X-7097-a, in reference to Federal Reserve Banks purchasing municipal warrants. The last paragraph of your letter to Governor Geery, No. X-7097-a, reads as follows:-

"Your attention is invited to the fact, however, that, under the provisions of Section 5136 of the Revised Statutes, a national bank is permitted to sell investment securities only 'without recourse' and, therefore, may not sell warrants of municipalities with its indorsement".

Are we to assume from this that the Comptroller of the Currency and the Federal Reserve Board are classifying a six months note of a municipality issued in anticipation of the collection of taxes and conforming to all the regulations of the Federal Reserve Board in reference to such a note to be an investment security? It appears to us that this is a self-liquidating loan and should not by any possible line of reasoning be classified as an investment security. In any event, we have always considered such an obligation a loan and not an investment security and we are prompted to inquire if the paragraph quoted is in accord with the regulations and instructions of the Comptroller.

Very truly yours,

(Signed) R. A. Young

R. A. Young  
Governor

X-7107-b

COPY

February 29, 1932.

Honorable J. W. Pole,  
Comptroller of the Currency,  
Washington, D. C.

Dear Mr. Pole :

The Federal Reserve Board recently addressed a letter to one of the Federal reserve banks which contained a statement that a national bank is permitted to sell investment securities only "without recourse" and, therefore, may not sell warrants of municipalities with its indorsement. A copy of this letter was sent by the Board to the Governors of all Federal reserve banks, and the Board has now received a letter from Governor Young of the Federal Reserve Bank of Boston inquiring whether this statement is in accord with the regulations and instructions of the Comptroller of the Currency.

In order that the Board may make a proper reply to Governor Young's inquiry, it will be appreciated if you will advise as to the position of your office on this point. Copies of the letters referred to are inclosed herewith for your information.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,  
Secretary.

Inclosures.



X-7107-c

COPY

TREASURY DEPARTMENT

WASHINGTON

March 1, 1932.

Federal Reserve Board,  
Washington, D. C.

Gentlemen:

I have a letter from your Secretary under date of February 29, enclosing copies of a letter addressed to the Governors of the Federal Reserve Banks and a letter from Governor Young with respect thereto.

The information desired is the position of this office with respect to whether a national bank is permitted to sell warrants of municipalities with its endorsements. This office holds that the discounting or negotiating of promissory notes, drafts, bills of exchange and other evidences of debt by a national bank must either involve the granting of a loan or the purchase of an investment security. The circumstances surrounding each transaction must determine whether it results in the making of a loan subject to all the provisions of the law with respect to loans or the making of an investment which must conform to the requirements of Section 5136, U.S.R.S., as amended, and to the regulations of the Comptroller in connection therewith.

If, therefore, a bank holds an obligation of a municipality representing an advance of funds made directly to the municipality, the transaction would appear to be a loan and not an investment, and would not be subject to the provisions of Section 5136, U.S.R.S., which requires purchase and sale "without recourse".

It is also held that the intent of the law places municipal loans on the same basis as other government loans. Governments are not held to be corporations within the meaning of Section 5200, U.S. R.S., and in consequence loans thereto are not subject to the limit prescribed by this section.

Very truly yours,

(Signed) J. W. Pole

J. W. POLE,  
Comptroller.

332.5

February 23, 1932

Mr. Wyatt

Mr. Smead

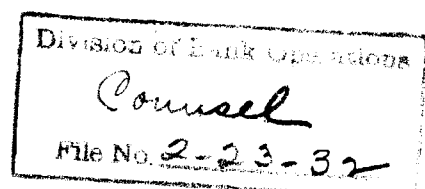
333

*file with this memo.*

I have read your draft of a letter to Mr. McCormack with regard to the purchase by the Federal Reserve System of municipal warrants and have only one suggestion to make.

While it is undoubtedly true that open market powers were given to the System, as you state, for the purpose of enabling them to make their discount rates effective and to enable them to make earnings sufficient to pay their expenses and dividends, the System has for a number of years conducted its open market operations with the view of accommodating commerce and industry and without reference to its earning position, and I think it desirable to avoid saying anything that might give a contrary impression.

It is suggested, therefore, that the following be substituted for the words between the comma on the eighth line and the semi-colon on the eleventh line of page two: the Federal Reserve Board in 1923 laid down the principle "That the time, manner, character, and volume of open-market investments purchased by Federal reserve banks be governed with primary regard to the accommodation of commerce and business and to the effect of such purchases or sales on the general credit situation."



W

332.5

131  
**Office Correspondence**

FEDERAL RESERVE  
BOARD

Date February 23, 1932

To Mr. Watt

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

From Mr. Smead

GPO 2-8495

In accordance with your request, I am submitting the following comments on a draft of a proposed letter in reply to Congressman McCormick's letter of February 13.

It is believed that it would be desirable to call the Congressman's attention to the fact that the very low interest rates prevailing in 1930 account for the fact that municipalities in New England were able to borrow in that year <sup>at</sup> a little more than 1 per cent and that a substantially higher rate of interest is, of course, ordinarily to be expected.

As regards the statement that the authorization to the Federal reserve banks to purchase in the open market warrants of states, counties and municipalities was granted to them for the purpose of enabling them to make <sup>their</sup> ~~and~~ discount rates effective and to enable them to make earnings sufficient to pay their expenses and dividends, it is not believed that this power can be utilized effectively to make the Federal reserve bank discount rate effective or that such use of the power was contemplated when the Federal Reserve Act was drafted. The use of this power to enable the Federal reserve banks to make sufficient earnings to cover expenses and dividends was probably foremost in the minds of the authors of the Federal Reserve Act, if not ~~in fact~~ indeed the sole reason for inclusion of this provision in the Federal Reserve Act. In the early days of the Federal Reserve System substantial amounts of municipal warrants were purchased by the Federal reserve banks for this purpose but with the entrance of the United States into the World War the Federal Reserve Board

- 2 -

requested the Federal reserve banks to discontinue the purchase of municipal warrants. For some time, the discount and open market policies of the Federal Reserve System have, of course, been dictated by consideration having to do with the public welfare rather than by any desire to make sufficient earnings to cover expenses and dividends. It should also be borne in mind that at the time <sup>there</sup> the Federal Reserve Act was passed ~~it~~ was neither any considerable volume of United States securities nor of acceptances available for open market purchase by the Federal reserve banks. The reasons that led to the inclusion in the Federal Reserve Act of an authorization for the purchase of municipal warrants appear, therefore, to have little or no significance at the present time, in connection with the exercise of this authorization by the Federal reserve banks. The fact that municipal warrants are not eligible as collateral for Federal reserve notes would, of course, prevent their purchase on a very broad scale by the Federal reserve banks but United States securities, as you know, have not been eligible as collateral for Federal reserve notes and acceptances bought in the open market were not eligible prior to the 1916 amendment.

<sup>any</sup>  
~~No~~ extensive purchases of municipal warrants by the Federal reserve banks would, it is believed, be unwise inasmuch as it would tie up a substantial part of the funds of the Federal reserve banks. *The reasons that would appear to justify a rejection of the proposal to buy municipal warrants direct from the cities or issuing them are (1) that there is nothing in the act or in established practice to indicate that the policy of the reserve banks should be determined with a view to the accommodation of such local communities (2) that the reserve banks do not purchase securities, etc. with a view to earnings, and (3) that the reserve banks should, and do, make such purchase of eligible warrants as are offered by member banks.*

Form No. 131

# Office Correspondence

FEDERAL RESERVE  
BOARD

33 2.5  
Date February 17, 1932.

To Mr. Smead

Subject: 333

From \_\_\_\_\_

• • • 2-8405

*retd* Mr. Wyatt invites your suggestions re the attached  
rough draft of a reply to the attached letter from Representative McCormack.

Form No. 131

# Office Correspondence

FEDERAL RESERVE  
BOARD

Date December 22, 1931

To Mr. Smead

Subject: 333

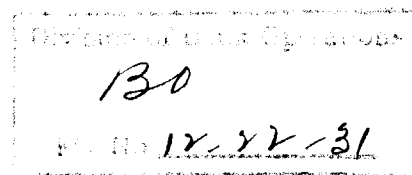
From Mr. Scudder

... 2-8495

The Federal Reserve banks holdings of Municipal warrants  
on December 19 were as follows:

New York	\$378,000*
Philadelphia	3,333,000
Minneapolis	<u>429,000</u>
Total	3,140,000

\*Under repurchase agreement.



332-5  
 10/8/31

# FEDERAL LAND BANK BONDS PURCHASED

BY FEDERAL RESERVE BANKS

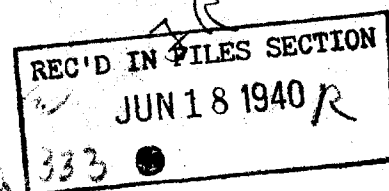
1 copy given Caskey

Federal Reserve Bank	1927	1928	1929	1930	1931*
	(April)		(October)	(February)	May
Boston	-	-	\$1,000,000	-	-
New York	-	-	4,500,000	\$6,750,000	\$750,000
Philadelphia	\$41,000	-	1,000,000	1,000,000	-
Cleveland	-	-	1,500,000	-	-
Richmond	-	-	-	-	-
Atlanta	-	-	-	-	-
Chicago	-	-	1,500,000	-	-
St. Louis	-	-	-	-	-
Minneapolis	-	-	-	-	-
Kansas City	-	-	-	-	-
San Francisco	-	-	-	-	-
TOTAL	\$41,000	-	\$9,500,000	\$7,750,000	\$750,000

\*To October 7.

DIVISION OF BANK OPERATIONS  
 OCTOBER 8, 1931.

BO - Pen  
 10-8-31



added 2/25/31

x Security Loans  
Open Market Operations  
Relationship of  
x Broken Loans

Answers To

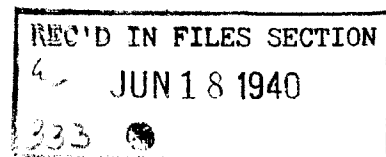
Questionnaire No. 9

Open Market Operations

x Federal Reserve Bank of New York

February 25, 1931





QUESTIONNAIRE NO. 9

OPEN MARKET OPERATIONS

## QUESTIONNAIRE NO. 9

### Open Market Operations

The open market policies of the Reserve Banks have been cited frequently as one factor in the expansion of security loans. Particularly have the purchases of securities in 1924 and in 1927 been held responsible for the rapid increase in member bank credit that took place during those years. The object of this questionnaire is to inquire into the technique of open market operations and dealings in United States securities and into the relationship between these and brokers' loans:

Concerning Open Market Activities:

#### Question No. 1

Q. As of the end of each month since January 1922, give on an attached schedule:

- (a) The amount of United States securities held in the portfolio of your Reserve Bank which were purchased through the open market investment committee.
- (b) The amount of United States securities held, which were purchased locally or independently of the open market investment committee.
- (c) The amount of resale agreements entered into with dealers in United States securities.

A. See attached schedules.

QUESTIONNAIRE NO. 9Question 1 (a)

Government Securities purchased through the Open Market Investment Committee  
and held in the portfolio of the Federal Reserve Bank of New York  
at the end of each month since January 1922  
(In millions of dollars)

Last day of	1922	1923	1924	1925	1926	1927	1928	1929	1930
January	-	-	14	112	51	53	80	23	97
February	-	-	25	100	51	53	73	13	99
March	-	-	52	91	53	54	70	14	94
April	-	-	64	92	73	53	42	7	79
May	-	-	81	61	73	56	23	6	64
June	-	-	135	52	73	64	24	5	67
July	-	-	170	52	73	64	24	5	67
August	-	-	176	52	59	86	28	11	74
September	-	-	186	51	52	90	23	9	74
October	-	-	186	51	53	103	21	23	74
November	-	-	182	51	53	110	24	42	80
December	-	-	167	51	56	112	23	93	87

QUESTIONNAIRE NO. 9Question 1 (b)

Government Securities held by the Federal Reserve Bank of New York  
at the end of each month since January 1922 which were purchased  
locally and independently of the Open Market Investment Committee  
(In millions of dollars)

Last day of	1922	1923	1924	1925	1926	1927	1928	1929	1930
January	50	55	0	0	0	0	7	2	112
February	126	26	0	0	0	0	2	.2	112
March	99	10	0	0	0	0	0	4	112
April	165	0	0	0	0	9	0	1	113
May	159	1	0	0	.9	0	7	0	111
June	139	0	0	0	0	0	2	21	117
July	155	0	0	0	0	2	7	.5	112
August	135	0	0	0	0	.1	12	.5	112
September	98	0	0	0	0	.1	16	2	107
October	48	0	0	0	0	0	4	96	112
November	45	17	0	0	0	0	1	112	108
December	98	0	0	0	0	16	0	122	158

NOTE: Above statement excludes certificates of indebtedness issued to cover  
Treasury overdraft.

QUESTIONNAIRE NO. 9Question 1 (c)

Government Securities held by the Federal Reserve Bank of New York under  
Resale Agreement at the end of each month since January 1922  
(In millions of dollars)

Last day of	1922	1923	1924	1925	1926	1927	1928	1929	1930
January	12	23	.1	.5	0	0	2	0	2
February	0	22	0	17	5	10	5	3	3
March	8	15	3	19	0	26	4	6	8
April	5	5	0	.7	4	2	9	20	2
May	12	12	0	0	4	5	10	5	2
June	16	11	0	32	9	0	28	37	9
July	9	16	0	4	0	2	6	18	0
August	10	20	0	7	1	1	5	22	0
September	52	14	0	27	3	14	22	34	0
October	13	10	0	5	0	.5	21	50	0
November	8	18	6	19	4	.5	28	3	0
December	51	36	2	4	2	52	25	22	36

QUESTIONNAIRE NO. 9Question 1 (c)

Government Securities held by the Federal Reserve Bank of New York under  
Resale Agreement on the 20th day of each month since January 1922  
(In millions of dollars)

20th day of	1922	1923	1924	1925	1926	1927	1928	1929	1930
January	3	23	0	6	0	0	0	17	0
February	11	23	.1	0	3	0	0	0	3
March	0	8	0	0	10	0	0	.4	0
April	14	2	0	2	0	14	7	16	.6
May	2	7	0	8	3	0	4	15	0
June	14	19	0	5	4	0	4	9	1
July	14	11	0	7	10	0	.7	16	0
August	10	5	0	0	0	2	2	23	0
September	21	4	0	.4	2	4	13	35	0
October	22	4	0	7	0	2	21	3	0
November	8	6	0	10	3	0	25	4	0
December	31	5	0	23	7	15	9	13	0

NOTE: There is so much fluctuation in these holdings, partly due to more or less regular monthly movements that data are given both for the 20th and the end of the month.

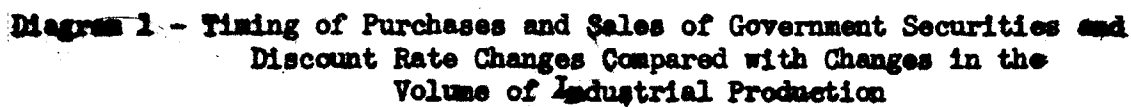
## Question No. 2

Q. State the principal reasons for each of the major operations in the purchase and sale of United States securities since January 1922. What have been the main consequences of each such operation?

A. Before examining particular operations in government securities a general statement is appropriate with regard to the purposes and consequences of these operations. Generally speaking, purchases of government securities since 1922 have been made at times of business depression or recession in the United States accompanied by unemployment, declining foreign trade, weak commodity prices, and reduced speculative activity. Broadly speaking also sales of securities have taken place at times of large industrial activity, full employment, firm commodity prices, and tendencies toward excessive speculation.

These broad considerations are illustrated in the following diagram which compares the timing of principal security operations with the fluctuations in industrial production in the United States as shown by the index computed by the Research Division of the Federal Reserve Board, taking the years 1923-1925 as 100 per cent. As a general rule prices, employment, and various forms of trade and speculative activity move roughly simultaneously with production.

Since the purchase of securities has a tendency to make money easier and thus has an influence towards stimulating business activity, and since the sale of securities tends to make money firmer and has an influence toward checking excesses, it may be said that purchases and sales of government securities since 1922 have been such as might reasonably be expected to exercise some influence toward business stability by aiding recovery at times of depression, and retarding excesses at times of prosperity.



## Question No. 2 (Continued)

As to the consequences of purchases or sales of securities, the first result in each case has been to bring about an increase or decrease in the amount of borrowing of member banks at the Reserve Banks. When the Reserve System buys securities the funds thus made available are employed by member banks to reduce their indebtedness at the Reserve Banks. As a consequence these banks find themselves in a position to lend somewhat more freely and money tends to be easier. Conversely, when the Reserve System sells securities member banks find themselves compelled to increase their borrowings at the Reserve Banks, hence they find their lending power impaired, and money tends to be firmer. The relationship between changes in Federal Reserve security holdings and discounts of member banks is shown on the accompanying diagram.

- 7 -

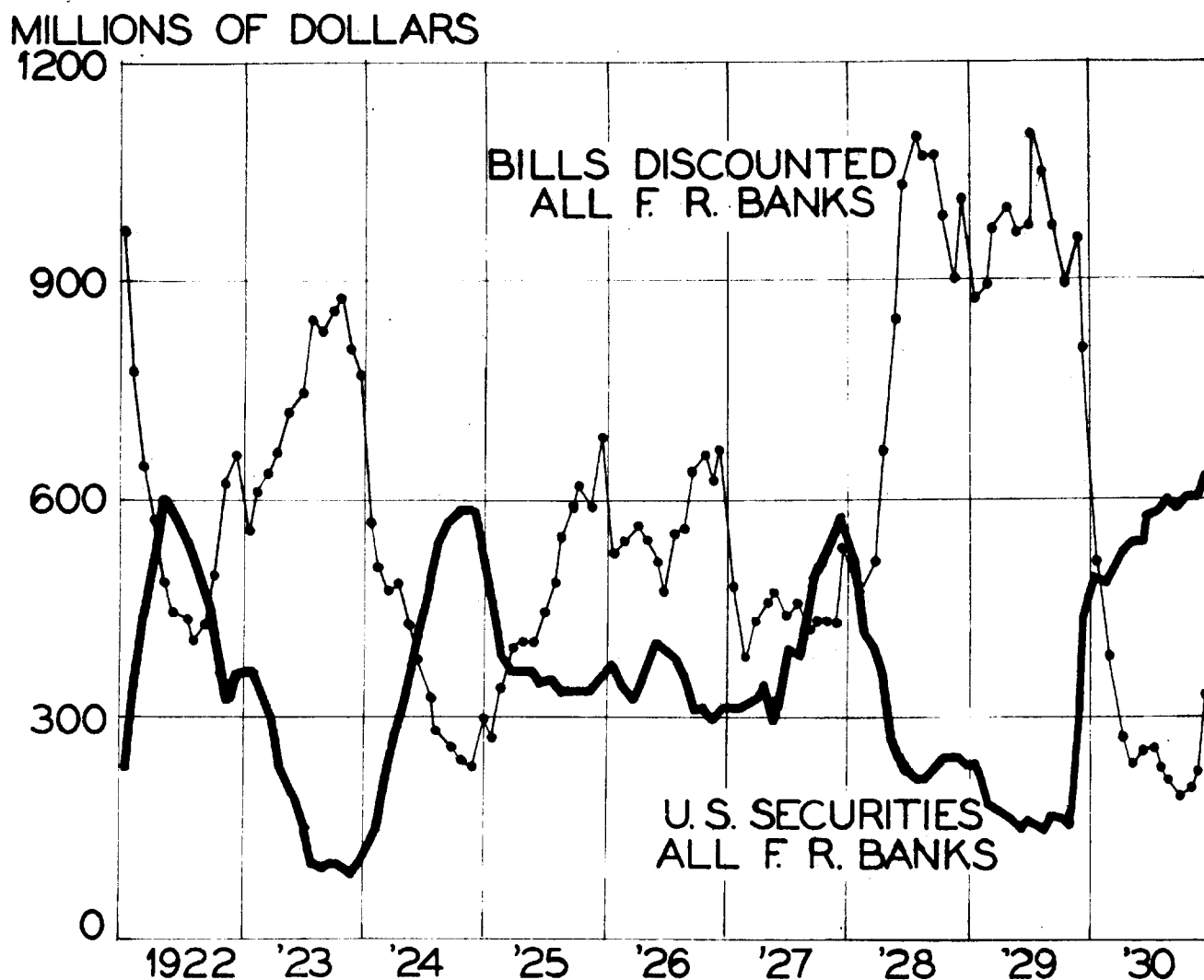


Diagram 2—Government Security Holdings of All Federal Reserve Banks and Member Bank Borrowings at Reserve Banks (Monthly averages of daily figures)



## Question No. 2 (Continued)

With a few exceptions every considerable purchase or sale of securities over this period of years was in some measure a joint undertaking in which the Federal Reserve Board and the officers and directors of the twelve Federal Reserve Banks had a part. Any statement of reasons for action must represent an interpretation of what was in the minds of these various participants when decisions to buy or sell were reached. Perhaps the best that can be done is to state the circumstances of the situation which were emphasized at the meetings where the primary decisions for these purchases and sales were made.

The principal changes in holdings of government securities reflecting policy decisions from January 1, 1922, to the present have been -

January	1922 to May	1922 purchase of	\$400,000,000
June	1922 to July	1923 sale of	525,000,000
December	1923 to September	1924 purchase of	510,000,000
November	1924 to March	1925 sale of	260,000,000
April	1926	purchase of	65,000,000
August	1926 to September	1926 sale of	80,000,000
May	1927 to November	1927 purchase of	230,000,000
January	1928 to April	1929 sale of	405,000,000
October	1929 to December	1930 purchase of	560,000,000

Purchases in 1922 were made before these operations had been placed under the supervision of a System committee, except as to the details of execution. These purchases took place at a time when business had just begun its recovery from the depression of 1921, and when agricultural prices particularly were seriously depressed. The consequence of this operation, together with large gold imports, was to reduce discounts of member banks at the Federal Reserve Banks from over \$1,000,000,000 to \$400,000,000, and thus put the banks in a position to advance funds more freely to their customers, and to increase their investments. It seems likely that this step aided in some measure the recovery

## Question No. 2 (Continued)

of business and agriculture from the depressed conditions of 1921. Purchases were also followed by reductions in discount rates at several Reserve Banks and by increases in the total volume of bank credit.

The sale of securities from June 1922, to July 1923, similarly was only in part determined upon as a System policy though sales were recommended by a committee of governors organized in 1922 for the centralization of purchases and sales of government securities. At that time the Treasury Department had indicated that it believed operations of the Federal Reserve System in government securities had interfered somewhat with an orderly market for these securities. These sales undoubtedly had some effect in retarding growth of bank credit during 1923, pushing money rates to higher levels, and tending somewhat to check the business expansion which had been going forward throughout 1922 and early 1923 at a pace that was alarmingly rapid, accompanied by considerable speculative activity.

The large purchases of securities from December 1923, to September 1924, were the first ones to be handled in a joint investment account for the Federal Reserve System. The reasons for, and results of, this purchase were set forth by Governor Strong in a memorandum written on December 26, 1924. A copy of that memorandum is attached herewith as Appendix I.

It seems reasonable to believe that the rapid recovery of business from the depression and severe unemployment that characterized the summer of 1924 may be partly ascribed to easy money and ample credit facilitated by the purchase of government securities at that time.

Sales of securities in late 1924 and early 1925 were made at a time when business had made such a rapid turn about from the depressed conditions of the

## Question No. 2 (Continued)

summer of 1924 that the movement appeared to be going too fast, accompanied by a rapid rise in wholesale prices, and a rapid increase in total loans and investments of banks, and an increase in speculation evidenced by an increase in brokers loans and in security prices. The sale of securities, together with changes in discount rates appear to have been an important influence in retarding this tendency to excess, bringing bank credit to a more normal growth and retarding speculative movements. These tendencies are illustrated in the accompanying diagrams. The small purchase and sale in 1926 accompanied a temporary loss of business confidence early in the year and a revival in the autumn. The changes in security holdings were accompanied by changes in the discount rate of the Federal Reserve Bank of New York. It is difficult to trace the results of these rather narrow movements.

The purchases of securities in the summer and early autumn of 1927 were made under circumstances similar in some respects to those of 1924 described in Governor Strong's memorandum. It was a time of moderate business recession, gold imports, and accompanying pressure on the position of the central banks in a number of countries which had only recently returned to the gold standard. Wholesale commodity prices had been declining more than a year. The result of the operations was to diminish the discounts of member banks, a change which was followed by a more rapid increase in bank credit and easy money rates. There was a prompt flow of funds from New York to the interior shown through transfers in the Gold Settlement Fund. Foreign exchange rates which had been very weak and near the point at which gold moved to the United States, immediately strengthened and gold exports began. Before these developments European

## Question No. 2 (Continued)

bankers had been apprehensive of a serious credit stringency, which would bring with it high money rates, depressed business and greatly reduced foreign purchases of American goods. This danger was averted. Firmer wholesale prices, and improved production followed soon after. There was also an increase in speculative activities which, by the beginning of 1928, had reached a point to cause concern.

Sales of securities in 1928 and 1929 were made with a view to checking excessive credit expansion, particularly for security speculation. The sales resulted in a large increase in the discounts of member banks which led banks to scrutinize their loans and investments more closely. The expansion of bank credit was fairly well checked. Security speculation, however, was not permanently checked partly because other lenders provided the funds for further expansion which banks were reluctant to supply, and partly, it seems likely, because the Reserve System did not pursue a sufficiently vigorous discount rate policy.

Purchases of securities in October and November 1929, were made to meet an emergency demand for funds as the stock market broke and New York banks were called upon to prevent a money panic by supplying funds to replace a part of the huge amounts of funds withdrawn in alarm by other lenders. A contemporary account of these events from the Monthly Review of the Federal Reserve Bank of New York is attached herewith as Appendix II. These purchases aided the New York City banks in meeting the emergency and helped prevent the security disturbance from causing a money panic or indeed a serious credit strain. In fact they made possible a decline in interest rates in the face of an extraordinary demand for funds.

Question No. 2 (Continued)

Further purchases in 1930 enabled member banks to liquidate further their indebtedness at the Reserve Banks, thus reversing the operations of 1928 - 1929, and helping to remove any shortage in the basic supply of funds as a possible obstacle to business recovery.

Question No. 3

Q. What, in your opinion, has been the effect since 1922 of changes in the portfolio of United States securities and bankers' acceptances held by all Federal Reserve Banks on fluctuations in brokers' loans and on fluctuations in security loans and investments of all member banks and of member banks in your Reserve District?

A. The following diagram illustrates the relationships between open market operations in government securities and bankers acceptances, and the fluctuations of brokers loans, security prices, bank security loans, and bank investments. The most direct and obvious relationship indicated by these figures is the relationship between bank investments and government security operations of the Reserve Banks. Purchases of government securities by the Reserve Banks have relieved member banks from their indebtedness at the Reserve Banks and have placed them in a position to increase their investments, and conversely, the sales of government securities have been followed by increases in the indebtedness of the member banks and declines in their investments as they sought to liquify their positions. There is a somewhat similar connection between security operations at the Reserve Banks and the security loans of the member banks, though the relationship is much less direct.

Both the figures and the consideration of what actually takes place indicates some relationship between government security operations and fluctuations in brokers loans. There is evidently a tendency for security purchases by the Reserve Banks to be accompanied or followed by some increase in brokers loans, and sales to be followed by a decrease or a pause in the advance, though this tendency is less marked than the case of bank investments. The most violent fluctuations in brokers loans, however, in recent

2074

- 14 -

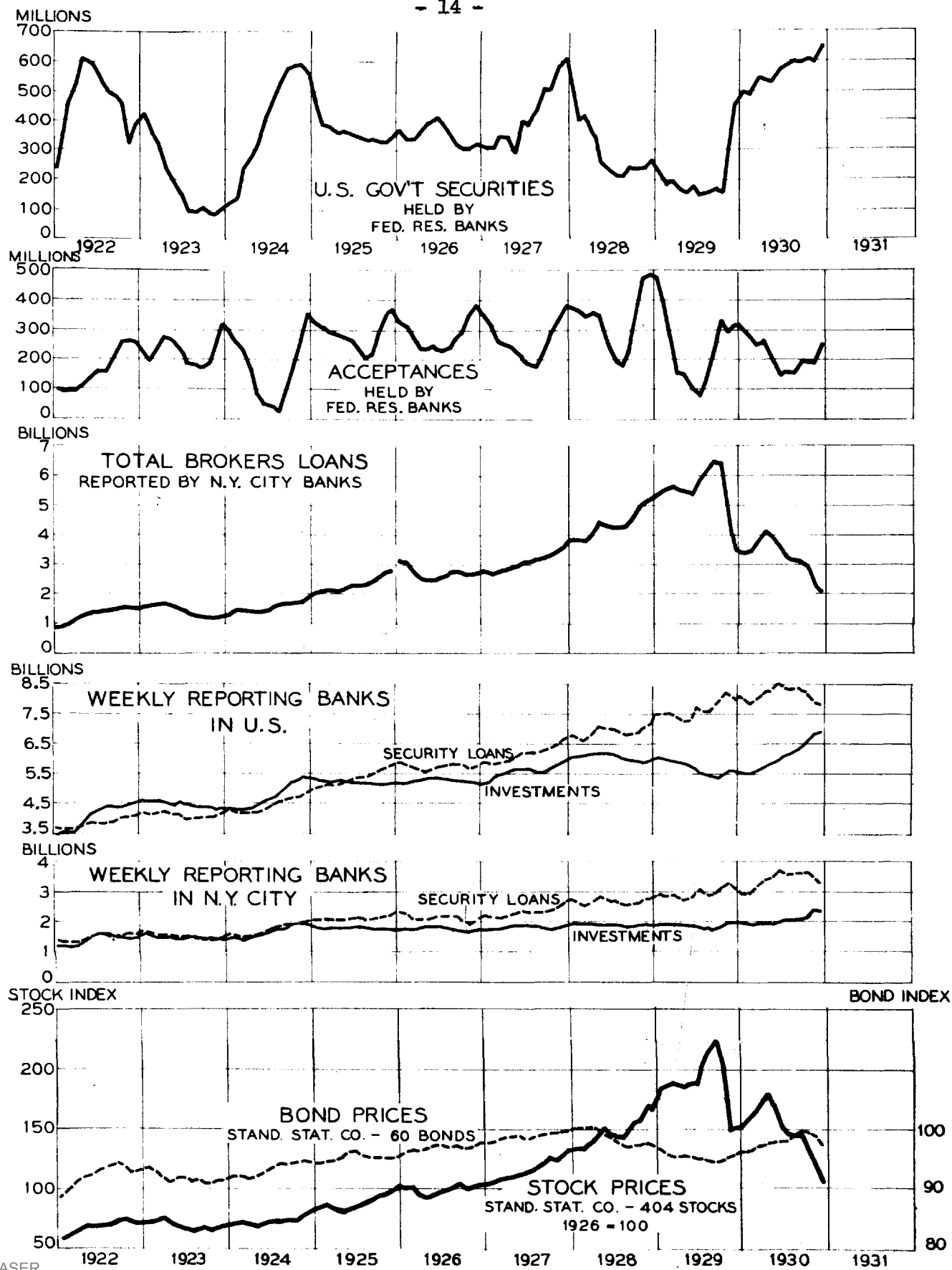


Diagram 3

## Question No. 3 (Continued)

years have been directly opposite to what might be expected from the changes in Federal Reserve security holdings. Sales of securities in 1928-29 did not prove effective in checking a rapid rise of brokers loans, nor were purchases in late 1929 and 1930 followed by any stay in the decline in brokers loans. At times when loans by banks were the dominating element in brokers loans they appear to have been somewhat influenced by Federal Reserve security operations, but the growth of loans for account of others was partly responsible for the lack of effectiveness of Federal Reserve policy.

Changes in acceptance holdings as shown by the diagram have been largely seasonal and have provided, without the strain involved in discounts, a considerable part of the seasonal requirements for Federal Reserve credit. The free movement of acceptances into and out of the Reserve Banks in response to trade demands has done much to remove seasonal credit strains and plethoras. Generally speaking, there has been little noticeable relation between Federal Reserve holdings of bankers acceptances and fluctuations in brokers loans or bank security loans and investments. The autumn of 1928 was perhaps an exception when an unusual rise in acceptance holdings was accompanied by an increase in brokers loans. Even in this case, however, the expansion of brokers loans was based largely on credit from non-banking lenders.



## Question No. 4

Q. Viewed in the light of subsequent events, what policies should the Federal Reserve Banks have followed in the purchase of United States securities in 1924 and 1927?

A. Two general approaches might be taken in a critical review of Federal Reserve open market policy in 1924 and 1927. One approach would involve a study of the correlation between open market purchases and sales and other economic developments such as the movement of business indexes, commodity prices, bank credit, and the course of speculation. If this approach is taken diagrams 1 and 3 on preceding pages provide most of the necessary data. They show that purchases both in 1924 and 1927 were made at times of business recession, though the recession was more serious in 1924 than in 1927. It is now clear that purchases were continued in 1924 for two or three months after business had begun to improve, though they were discontinued about as soon as the then available statistics clearly indicated the improvement in business. In 1927 purchases were discontinued before there was any marked recovery in business. In both periods the quantities of securities purchased were in general related to the extent of the recession. Total purchases in 1924 were \$510,000,000, and those in 1927 were \$230,000,000. Comparison may also be made with the movement of bank credit. Such a comparison would lead to the general conclusion that when purchases were begun in 1924 bank credit was relatively stable or declining, but that a rapid increase had taken place before purchases were discontinued. In 1927 bank credit was rising all during the period of purchases. If this criterion alone were applied it might suggest that the 1924 operations were helpful but continued slightly too long, and it might raise some question as to the necessity for the 1927 operations. In addition, however, to these purely

## Question No. 4 (Continued)

domestic considerations it is important to refer also to the gold movement, for in both cases purchases were begun at a time of gold imports which were bringing to this country gold which we did not want and which others could ill afford to lose. In 1924 the gold movement was reversed after the completion of security purchases. In 1927 it was reversed while purchases were still being made. In 1924 this was of special importance because the reversal of movement doubtless facilitated a return of Great Britain to the gold standard. In 1927 the reversal of the gold movement was important because a number of the countries of Europe were under severe credit strain. In both these cases it would be extremely difficult to determine whether as effective an influence on the gold movement would have been exerted with a smaller amount of purchases.

A second and different approach to this whole problem would be to view the period since 1922 as a whole and consider the operations of 1924 and 1927 as parts of the larger unit. In the light of subsequent events it appears that this span of years was marked by inflationary tendencies in the United States. The increase of bank credit during the period was more rapid than is usually required by the normal growth of business. This rise in credit was not accompanied by any inflation of commodity prices, but some measure of inflation undoubtedly occurred in other directions, particularly in prices of securities and real estate. From the point of view of our domestic economy considered by itself, a somewhat higher level of money rates and a somewhat smaller growth in bank credit over this entire period would have been wholesome, and there is no doubt but that the open market operations of 1924 and 1927 were particularly stimulating to the growth in bank credit.

## Question No. 4 (Continued)

But conclusions upon this point must be qualified by a recognition that the domestic economy could not be considered wholly independently of world changes. To the extent that firmer money rates had been maintained here, additional amounts of gold would have been drawn from the rest of the world and credit stringency accentuated in European money centers during the period when European countries were struggling back to monetary stability and attempting to recover from serious economic disorganization. These conditions closely affected American trade and American prices, especially prices of farm products. Even as it was world prices were steadily depressed over most of the period. Moreover the continued piling up of gold reserves in the United States through gold imports constituted in itself a threat of future inflation. It appeared to be safer at these two periods to establish conditions which would keep the gold out, even at the risk of the dangers of easy money, than to let the gold imports continue.

In view of the various aspects of this problem it is our opinion that purchases of securities in both 1924 and 1927 were most helpful and desirable. There does appear, however, to be valid ground for criticizing succeeding action. The 1924 purchases were carried further than now appears to have been desirable, leading to an unnecessarily rapid growth in bank credit until the reversal of policy in early 1925, which placed an effective check upon expansion. After 1927 there was not sufficiently clear recognition of the dangers in the growth of credit, influenced by speculation. Security sales and discount rate changes similar in amount to those of 1925 proved inadequate when applied in 1928. More vigorous measures were necessary.

Question No. 5

Q. What changes would you suggest be made in the provisions of the Federal Reserve Act relative to the purchase and sale of United States Government securities by the Reserve Banks? Would you favor an amendment to the effect that an affirmative vote of five members of the Federal Reserve Board be required before any large sale or purchase of United States securities be undertaken by the Reserve Banks?

A. We would not suggest any changes in the provisions of the Federal Reserve Act relative to the purchase and sale of government securities. The act is and should be in broad terms, leaving considerable flexibility for the development of proper methods of procedure. This latter problem has offered some difficulties, the major difficulty being that a System operation in government securities under the present organization has to represent a compromise between divergent views, and System policy, therefore, tends to have too great inertia, to be too slow, and when once started tends to go too far. This difficulty should diminish as time goes on and as experience in operation indicates what gradual modification of procedure will tend to make Federal Reserve open market operations more effective. The requirement that an affirmative vote of five members of the Board should be prerequisite to any operation would in our judgment be a step in the wrong direction and make even more difficult the necessary flexibility of operations. In a deliberative body of eight members of whom two are ex officio and engrossed in other duties it is naturally often difficult to secure an attendance of five at a meeting and very difficult indeed to secure an affirmative vote of five members for any important proposal affecting varying interests in various ways.

Question No. 6

Q. Have the resale agreements entered into by the Federal Reserve Banks with dealers in United States securities tended to offset, on any occasion, the open market policies of the Federal Reserve Banks?

A. The relationship between operations representing policy decisions of the Reserve System and purchases on sales contract subject to resale agreement is shown on the attached diagram (4). It indicates clearly that purchases on sales contract subject to resale agreement have been so small in amount and so timed in connection with seasonal currency and credit requirements that they have not interfered with major policy operations.

- 21 -

MILLIONS OF DOLLARS

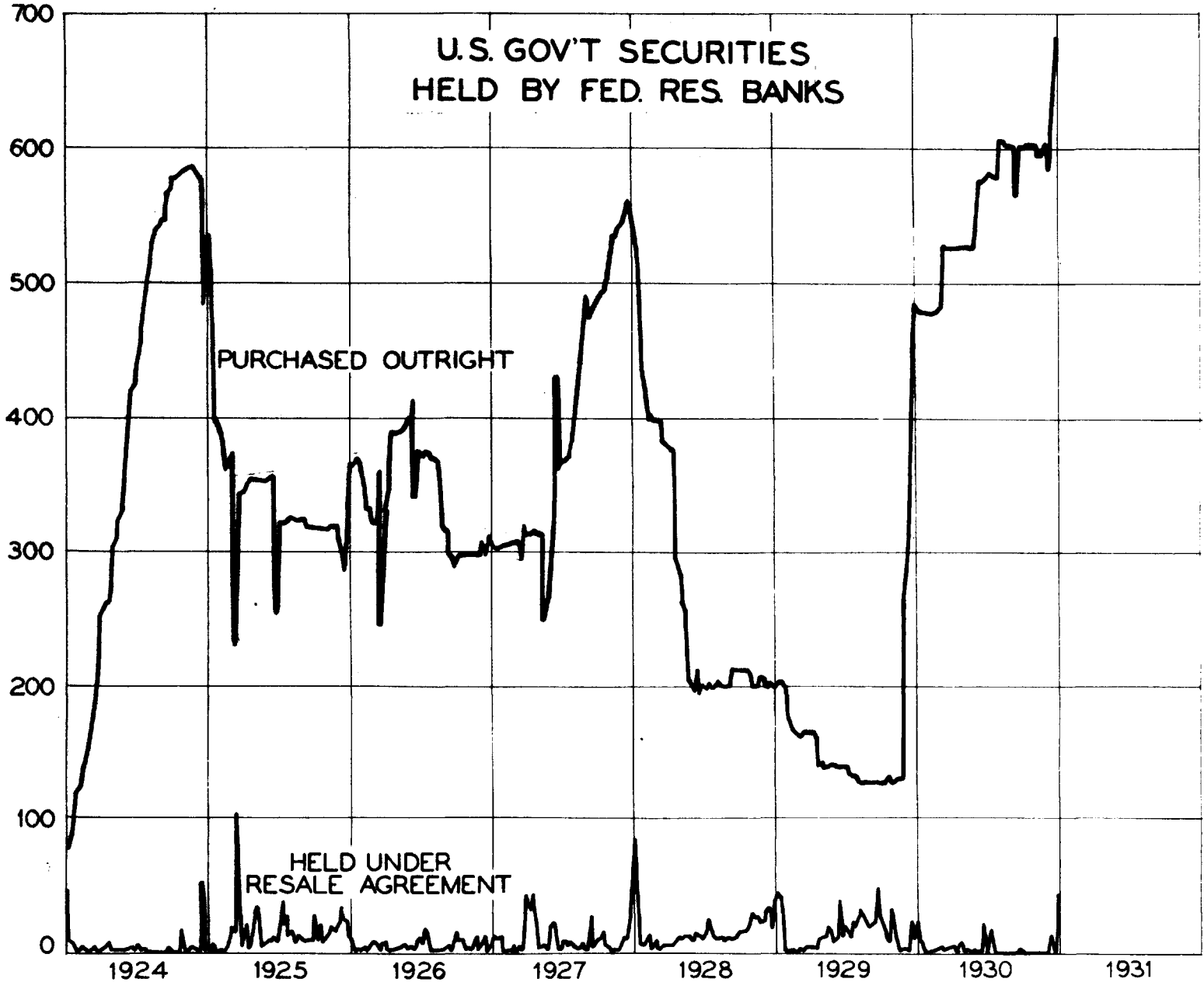


Diagram 4 - Government Securities Purchased Outright by the Reserve Banks, Compared with Amounts Purchased Under Resale Agreement (Weekly data)

## Question No. 7

Q. List on an attached schedule the changes in rates of interest charged dealers in United States securities against resale agreements from the inception of such arrangements by your institution.

A. Changes in Rates at which United States Government Securities  
were purchased from Dealers under Sales Contract Agreements  
and the Rediscount Rates for corresponding periods

Date Effective	Discount Rate	Sales Contract Rate	Date Effective	Discount Rate	Sales Contract Rate
<u>1920</u>			<u>1925</u>		
Jan. 23	6		Feb. 27	3 1/2	
Apr. 13*		5 1/8	Apr. 9		3 1/2
June 1	7				
<u>1921</u>			<u>1926</u>		
Apr. 1		5 3/4	Jan. 8	4	4
May 5	6 1/2		Apr. 23	3 1/2	
June 16	6		Apr. 29		3 1/2
July 21	5 1/2		Aug. 13	4	4
Aug. 2		5 1/4			
Sept. 22	5		<u>1927</u>		
Oct. 31		4 1/2	Aug. 5	3 1/2	3 1/2
Nov. 3	4 1/2				
<u>1922</u>			<u>1928</u>		
Mar. 23		4	Feb. 3	4	4
June 22	4		May 18	4 1/2	4 1/2
			July 13	5	5
<u>1923</u>			<u>1929</u>		
Feb. 23	4 1/2		Aug. 9	6	5 1/8
Apr. 10		4 1/2	Oct. 25		5
			Nov. 1	5	
<u>1924</u>			Nov. 15	4 1/2	4 1/2
May 1	4	4	<u>1930</u>		
June 12	3 1/2		Feb. 7	4	4
Aug. 8	3		Mar. 14	3 1/2	3 1/2
Nov. 6		2 1/2	May 2	3	3
Nov. 28		3	June 20	2 1/2	2 1/2
			Dec. 23		2
			Dec. 24	2	

\*April 13 - date of first sales contract agreement with dealers.

Question No. 8

Q. List the names of the recognized dealers in United States securities in your District. What net worth must a recognized dealer possess? What other standards has your institution set up in determining whether a dealer in United States securities is to be recognized or not?

A. The dealers in United States Government securities to whom we extend the sales contract privilege are

Discount Corporation of New York  
First National-Old Colony Corporation  
Salomon Bros. & Hutzler

While we have no hard and fast rule on the subject, and each case would depend upon all of the circumstances, it would be our general policy not to extend the sales contract privilege to dealers whose net worth is less than \$1,000,000.

We also transact business in government securities with firms and corporations other than the three above named, although we do not extend the sales contract privilege to them. There are no definite standards which such firms and corporations are required to comply with as a condition of doing business with us, except that they must file with us periodically statements of their financial condition which must be satisfactory to us.



Question No. 9

Q. What margin requirements do you habitually exact in lending to dealers in United States securities under the resale agreements?

A. We do not make loans to dealers. Under the terms of our sales contract we purchase securities from dealers subject to their agreement to repurchase a like amount of the same securities at the same price plus interest at the agreed rate at or before the expiration of fifteen days from the date of the original purchase.

When the market value of the securities is par or better, securities are purchased at par. When the market is below par, they are purchased at prices slightly below the market value, the average price being approximately one-half point below market value. (A list of illustrative cases is attached.)

- 25 -

Question No. 9

## ILLUSTRATIONS OF GOVERNMENT SECURITIES PURCHASED UNDER SALES CONTRACTS

Date Purchased	Securities Purchased	Dated	Due	Series	Par Value	Price Purchased Under Sales Contract	Amount Paid to Dealer	Market Price on Purchase Date	Market Value Excluding Interest Accrued on Securities
11/14/28	3 1/2% T/N	3/15/27	3/15/32	A -1932	\$1,900,000	97 1/2	\$1,852,500	97 31/32	\$1,861,406.25
3/5 /29	4 1/4% C/I	12/15/28	9/15/29	TS2-1929	500,000	99 1/2	497,500	99 22/32	498,437.50
5/7 /29	4 3/4% C/I	3/15/29	12/15/29	TD2-1929	700,000	99 1/2	696,500	99 26/32	698,687.50
5/7 /29	3 1/2% T/N	9/15/27	9/15/32	B -1932	150,000	96 1/2	144,750	96 28/32	145,312.50
7/15/29	3 1/2% T/N	3/15/27	3/15/32	A -1932	1,900,000	97	1,843,000	97 30/32	1,860,812.50
7/15/29	4 3/4% C/I	3/15/29	12/15/29	TD2-1929	400,000	100	400,000	100 2/32	400,250.00
12/6 /29	3 1/2% T/N	3/15/27	3/15/32	A -1932	1,050,000	99 1/2	1,044,750	99 26/32	1,048,031.25
12/6 /29	3 1/2% " "	9/15/27	9/15/32	B -1932	350,000	99 1/2	348,250	99 26/32	349,343.75

Question No. 10

Q. What is the average length of life of the resale agreements entered into with dealers in United States securities?

A. Average Length of Life of Resale Agreements entered into by the Federal Reserve Bank of New York with Dealers in United States Government Securities since January 1922, (computed for two months of each year as a sample)

Year	Average life of agreements
1922	7 1/2 days
1923	5 1/2 days
1924	3 1/2 days
1925	6 days
1926	4 days
1927	6 days
1928	5 1/2 days
1929	4 days
1930	4 1/2 days
Average (unweighted) life of agreements for entire period	5 days

Question No. 11

Q. In lending to dealers in United States securities under resale agreements, what precautions does your institution take in preventing Federal Reserve credit from seeping into the speculative or investment markets?

A. As stated in the answer to the last question, we do not make loans to dealers, but we purchase securities from dealers subject to their agreement to repurchase a like amount of the same securities at the same price plus interest at the agreed rate at or before the expiration of fifteen days from the date of the original purchase.

As far as the first use of the credit put out in this way is concerned we are constantly informed as to the business of the dealers entitled to the sales contract privilege and know that they only secure funds from us to carry their portfolios of government securities. As to the eventual destination of Federal Reserve credit put into use through purchases of securities under sales contract the principles set forth in the reply to Question 7 of Questionnaire 7 are applicable. The destination is the same as that of Federal Reserve credit put into use through discounts or through any of the other channels. The dealer who receives a Federal Reserve check as a result of a sales contract operation uses the funds either to pay off a bank loan or to pay for government securities which he has purchased. If he uses it to pay off a bank loan the bank finds itself in possession of a check on a Reserve Bank which it promptly deposits to its account in a Reserve Bank and thus finds itself with its reserve deposit increased exactly as though it had obtained funds by discounting.

In the alternative case in which the dealer uses the Federal Reserve check to pay a seller of government securities, the seller of these securities,

Question No. 11 (Continued)

if not a bank, deposits the funds in a bank, and the funds immediately find their way into that bank's reserve deposit account at the Reserve Bank, just as though that bank had borrowed.

Thus the Federal Reserve funds put into use through sales contract operations flow into the same channel as those put out in other ways, and the considerations set forth in the replies to Questions 7 and 8 in Questionnaire 7 are applicable.

It also may be noted that dealers only come into the Federal Reserve Bank to secure funds under sales contract arrangements when they cannot obtain money at favorable rates outside the Federal Reserve Banks. This means that they come in only at times when money is relatively firm, and at such times the member banks are almost always in debt at the Reserve Banks, and Federal Reserve funds which they receive are used to retire debt at the Reserve Banks. Moreover, funds put out in this way are withdrawn again so promptly that they can hardly form a basis for new creation of credit. These Federal Reserve assets are liquidated more rapidly than any other assets the Reserve Banks possess.

29

Appendix I

Questionnaire No. 9

Memorandum by Governor Benjamin Strong on  
Open Market Operations of 1924

December 26, 1924.

The following memorandum is intended to give a point of view in regard to the Open Market Policy of the Federal Reserve Banks which has never been adequately explained to the public. Because of the failure to do so, the Federal Reserve System has suffered some criticism, partly uninformed, and partly deliberately unfair.

- - - - -

By the fall of 1923 the bulk of the short time government security holdings of the Federal Reserve Banks had been liquidated. The sales made throughout the previous year had forced member banks to borrow considerable sums from the Federal Reserve Banks in order to replace the reserves which they lost when payment for the securities was made to the Federal Reserve Banks. The fall of 1923 saw the members borrowing about \$335,000,000 on direct discounts from the Reserve Banks, of which over \$200,000,000 was in New York. At that time considerable importations of gold were being received from Europe. There was developing some recession in business; the New England textile manufacturers had suffered a severe slump; the same being to some extent true of rubber, some branches of the steel and of other trades. But the most serious difficulty which had developed in any part of the country was the banking situation in the West, especially in the Northwest and Southwest. Banks were failing almost every day.

## Question No. 2 (Continued)

Notwithstanding imports of gold, there was continued pressure by member banks to liquidate their indebtedness to the Reserve Banks, causing, in turn, pressure by member banks upon their borrowers to repay loans. The commercial paper rate was 5%; rates for 90 day bankers acceptances  $4 \frac{1}{8}\%$ ; customers' loan rates at New York about  $5 \frac{1}{4}\%$ ; time loans upon securities  $5 \frac{1}{4}\%$ ; stock exchange call money  $4 \frac{3}{4}\%$ ; the discount rate of the Federal Reserve Bank of New York was  $4 \frac{1}{2}\%$ , where it had been maintained since February 23, 1923.

The condition of the farming community, including the cattle industry, was coming perilously near a national disaster, and feeling became so strong throughout the West that all sorts of radical proposals for legislation and other government relief were being urged.

Sterling had declined in November to \$4.26 under the influence of a general flight of capital from Europe to this country. Interest rates in London were lower than in New York. "Money" (three-months bank bills) was quoted from 3 to  $3 \frac{3}{8}\%$ ; tap rate on Treasury bills was  $2 \frac{3}{4}$  to 3%, and the official rate of the Bank was 4%.

It was under these conditions that the Federal Reserve Banks undertook the gradual repurchase of short time government obligations. The following definite objects were in mind, at least so far as the writer was concerned:

(1) To accelerate the process of debt repayment to the Federal Reserve Banks by the member banks, so as to relieve this weakening pressure for loan liquidation.

(2) To give the Federal Reserve Banks an asset which would not be

Question No. 2 (Continued)

automatically liquidated as the result of gold imports so that later, if inflation developed from excessive gold imports, it might at least be checked in part by selling these securities, thus forcing member banks again into debt to the Reserve Banks and making the Reserve Bank discount rate effective.

(3) To facilitate a change in the interest relation between the New York and London markets, without inviting inflation, by establishing a somewhat lower level of interest rates in this country at a time when prices were falling generally and when the danger of a disorganizing price advance in commodities was at a minimum and remote.

(4) By directing foreign borrowings to this market to create the credits which would be necessary to facilitate the export of commodities, especially farm produce.

(5) To render what assistance was possible by our market policy toward the recovery of sterling and the resumption of gold payment by Great Britain.

(6) To check the pressure on the banking situation in the West and Northwest and the resulting failures and disasters.

The writer had roughly estimated that it might be possible for Europe to ship us still some \$400,000,000, which I thought would likely be distributed over a period, of say, two years, but that, notwithstanding these gold shipments, pressure for liquidation of bank loans would not be reduced promptly enough except it was accelerated through purchases of securities by the Reserve Banks.

In pursuance of this policy, the Federal Reserve Banks gradually purchased over the following eight or nine months a total of \$500,000,000 of



## Question No. 2 (Continued)

short time government securities, and throughout that period gradually reduced discount rates until the rate of the New York bank was 3%, whereas the Bank of England on July 5, 1923, had raised its rate of discount to 4% and exercised its influence to maintain open market rates in London at a somewhat higher level than during the previous year.

In reviewing what has happened during the past year, the outstanding event, of course, has been a crop of unusual size and, as to all but corn, of good quality, produced at a time when there was a crop shortage in the rest of the world; that, itself, gave the country a fortunate recovery from some part of the depression which was growing. If, as indeed was the case, however, the Federal Reserve policy hastened the establishment of cheaper money, then the developments directly attributable to cheap money must be considered as in part the outgrowth of that policy. These may be enumerated as follows:

(1) The pressure for liquidation of bank loans was gradually relaxed and in the summer of 1924 bank borrowing from the Federal Reserve Bank of New York and the other large Reserve Banks had practically all been liquidated; and somewhat similar conditions developed throughout the Middle West, the evidences of credit pressure and of disorganizing liquidation gradually disappearing. The banks of the State of Iowa, as an example, had reduced their debt to the Federal Reserve Bank of Chicago from \$98,000,000 to about \$12,000,000, due largely to the willingness of the member banks to lend money more freely in that state where credit disasters had developed and as a result of which banking conditions were stabilized. And the same seems to have been true in the Minneapolis, Kansas City and Dallas districts.

## Question No. 2 (Continued)

(2) The outcome of the crops made it necessary for Europe to make unprecedented purchases of our small grains at very high prices compared to recent years. But the coincidence of low rates for money in this market and higher rates in London enabled foreign governments and foreign corporation borrowers to place a total of a billion and a quarter of loans in this market, which provided the credit to be used in paying for the crops. Had these foreign loans not been placed in this market, it is quite certain that foreign purchasers of our farm produce would have found difficulty in financing these purchases, which could only have been made by short time bank credits; the extensive use of our banking system for financing of that sort would not only have been at high rates, but might have been an influence for the creation and maintenance generally of much higher rates than have prevailed during the crop moving season. Our crop sales to Europe might have been much restricted.

(3) For a period of at least twelve years, as I recall; that is, since about two or three years before the outbreak of the war, there had been no such market for investment securities as would enable our railroads, public utility and industrial corporations to make capital issues on reasonable terms, so as to refund short time loans and provide the money for needed extensions and betterments. The past six months or so has enabled them to do so. There has rarely been a period of easy money in this country where sound financing has been so evident as in this period, and where the absence of promotion and other security issues of doubtful character has been so marked.

(4) One of the greatest menaces to our ultimate security against inflation has been the uncontrollable stream of gold coming to this country to make needed payments for which credit was not available. Had our credit

## Question No. 2 (Continued)

not been available to pay for this year's crop exports, the amount of gold coming would undoubtedly have been much larger, or, at least the gold movement would have continued longer. Our loans to Europe and the rest of the world because of lower interest rates in this country than in England, have been an important influence in increasing the value of sterling in terms of dollars to a point where the gold premium in London was constantly reduced and ultimately the bazaar premium in India being finally above the premium in London caused the diversion of the stream of gold from South Africa to Europe or India instead of to this country. A favorable monsoon and a high value for the rupee in terms of sterling assisted in this result, but a lower interest level in America than in England and on the Continent was a further influence in turning the tide of gold away from the United States.

(5) The recovery of sterling has now reached a point where it is reasonably possible for the British Government and the Bank of England to consider the resumption of gold payment. Whether they do so or not depends upon their own sense of security for the long future. But this country is still in position to give them needed assurances of credit for a long period if they require it. We have seen the Swedish, Dutch and Swiss exchange return to par or above; the Austrian and Hungarian currency remain stabilized; and finally the loan to Germany under the Dawes plan readily absorbed and a long stride towards currency stabilization taken by Germany. At least in part these results are to be attributed to the free use of our credit markets by Europe, much facilitated by easier rates than for some years past in this country.

(6) It is difficult to state to what extent gradual recovery of

## Question No. 2 (Continued)

confidence and of business in this country can be attributed to ease of credit conditions. It can, however, be definitely stated that if some \$500,000,000 of credit had not been furnished the market by the purchases of the Federal Reserve Banks, the liquidation which was proceeding for the purpose of repaying loans from the Reserve Banks would have continued for a much longer period, and, instead of having some expansion of bank credit such as has taken place, we would have had some further contraction and probably a definite further slackening of business and lowering of prices.

On the other hand, there has been no very general advance in the prices of commodities, outside of agricultural produce, and certainly as to those commodities higher prices were imperative. The foreign buying caused the advance, and that was certainly facilitated by cheap money. It was mainly due to crop shortage throughout the world, and it was cheaper credit which aided the distribution. The only definite price advance which can be attributed to cheap money is in the security market. While this has attracted widespread comment and may have been facilitated by easy money, nevertheless, it can largely be attributed to favorable political developments throughout the world, which had a profound effect upon the psychology of people generally. And in any event the readjustment of values which has taken place is probably not greatly out of line, if at all, with the intrinsic value and earning powers of our industries.

(7) Finally, it must not be overlooked that one of the developments of the past year, which may in part be attributed to the policy of the Federal Reserve System, but also quite largely to favorable crop developments, and to political developments, has been a greater feeling of tranquility and contentment

Question No. 2 (Continued)

throughout the country than we have experienced at any time since the war. Employment conditions are improving, industry and transportation in a general way are sound and successful and the relief of the strain on the banking situation throughout the West has done much to arrest the growth of unsound and radical and extreme ideas which might, indeed, have been a menace to both government finance and a sound monetary and credit policy.

# MONTHLY REVIEW

## of Credit and Business Conditions

### Appendix II

### Second Federal Reserve District

*Federal Reserve Agent*

*Federal Reserve Bank, New York*

*November 1, 1929*

#### Money Market in October

The past few weeks have witnessed an abrupt reversal of credit trends which had continued for about two years. Stock prices have turned downward. Bond prices have made some recovery. Loans to brokers and dealers have decreased sharply and there has been a sudden shift between lenders. Interest rates have declined rapidly and foreign exchange rates have strengthened to points where gold exports have been made.

Of these developments the decline in stock prices has been the most spectacular and in large measure the controlling event. The decline has carried representative price averages below the lowest points heretofore reached this year, though not to points which are low relative to the levels of prices of 1928 or any previous year.

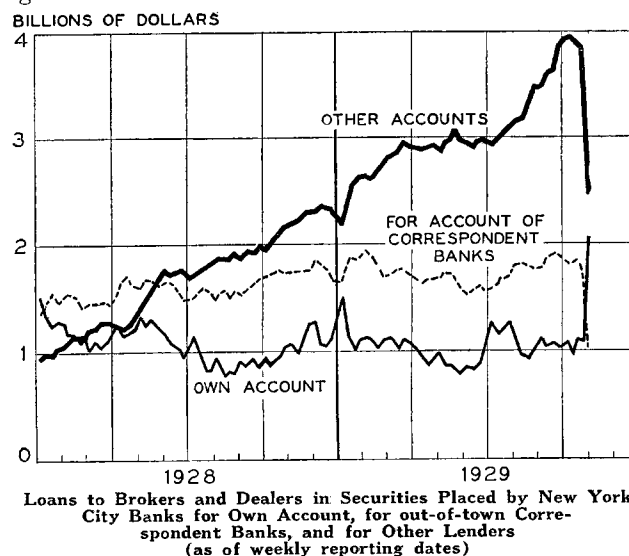
Whereas the gradual recession in stock prices which had taken place in September had not been accompanied by any substantial liquidation in loans to brokers and dealers, partly because of the continued large volume of new stock issues calling for additional amounts of credit, the drastic declines of the past two weeks have released a considerable amount of funds. For the two weeks from October 16 to October 30 the figures for loans to brokers and dealers reported by the New York City banks for their account and the account of their bank and other customers show a decrease of \$1,263,000,000. The distribution of this decrease between lenders is of particular interest. Loans made for account of others than the New York City banks and their out-of-town correspondents decreased \$1,432,000,000, and loans made by the New York banks for their out-of-town correspondents decreased \$805,000,000. On the other hand loans to brokers and dealers made by New York City banks for their own account increased \$974,000,000, and these banks also increased their loans directly to customers by an additional \$260,000,000.

From the point of view of the general credit situation the net result of these movements was to bring about an increase of \$1,374,000,000 in the loans, and a similar increase in the deposits of the New York City banks, with a consequent increase in the amount of reserve balances they are required to maintain on deposit at the Federal

Reserve Bank. In a period of one week from October 23 to 30 the reserve requirements of these banks were increased more than \$200,000,000.

These movements illustrate once more the fact, which has previously been commented upon in this Review, that loans to brokers and dealers by lenders other than banks constitute a potential drain upon bank resources, which is most likely to become an actual drain in periods of emergency. The New York City banks were able to handle the huge burden which was shifted to them without any disturbance to the money market by reason of an increase of over 150 million in the security holdings of the Reserve Banks and a like increase in rediscounts.

After the first week of October the prevailing call loan renewal rate was 6 per cent compared with 8 and 9 per cent in September. Accompanying ease in call loan rates, time loan rates declined from 9-9¼ per cent at the beginning of October to 6 per cent at the end of the month. Open market commercial paper rates showed a slight decline from 6¼ per cent to 6-6¼ per cent. Bill rates dropped from 5⅛ to 4⅝ per cent and the yield rate on Treasury certificates declined over three-quarters of a point. On October 31 the rediscount rate of the Federal Reserve Bank of New York was reduced from 6 to 5 per cent, effective November 1. These changes are summarized in the table on the following page.



## MONTHLY REVIEW, NOVEMBER 1, 1929

Money Rates at New York

	Oct. 31, 1928	Sept. 30, 1929	Oct. 31, 1929
Stock Exchange call loans.....	*6½-8	*8-10	*6
Stock Exchange 90 day loans.....	7	9-9¼	6
Prime commercial paper.....	5½	6½	6-6¼
Bills—90 day unindorsed.....	4½	5½	4½
Customers' rates on commercial loans.	†5.47	†6.07	†6.07
Treasury certificates and notes			
Maturing December 15.....	4.48	4.62	3.94
Maturing March 15.....	4.63	4.63	3.97
Federal Reserve Bank of New York rediscount rate.....	5	6	6
Federal Reserve Bank of New York buying rate for 90 day bills.....	4½	5½	5

\* Range for preceding week

† Average rate of leading banks at middle of month

The decline in interest rates in the early part of October was a consequence in part of a lessened demand for funds in the security markets, but more largely a cumulative effect of purchases of bankers acceptances by the Federal Reserve Banks for a number of weeks in amounts larger than the increasing requirement for funds of the autumn season. Autumn currency requirements were also somewhat less than usual. Under these circumstances the New York City banks had been able largely to liquidate their indebtedness at the Reserve Bank, a condition which is normally accompanied by easy money conditions.

The liquidation of the stock market in the last two weeks of the month and the accompanying movement of brokers loans was not a factor making directly for easier money, for, as has been indicated above, the net result of the changes in brokers loans was to increase rather than to diminish the call upon bank funds, and the banks were able to meet the huge additional demand for credit only by reason of large security purchases by the Federal Reserve Banks and an increase in their rediscounts. So that at the end of the month the borrowings of the New York City banks were \$170,000,000 compared with \$63,000,000 in the early part of the month, and the discounts of the Federal Reserve System were \$990,000,000 compared with \$930,000,000 earlier in the month.

Two accompaniments of the easing tendency in interest rates have been the recovery in bond prices which has raised representative averages about one point, and a vigorous recovery in foreign exchange rates. The recovery in exchange rates has been comparable with that which occurred in the late summer of 1927. On both occasions the principal European exchanges rose rapidly from quotations which were close to the points at which gold tended to move into the United States to quotations close to, if not actually above, the gold export points. In fact, in the case of the French exchange the quotations have recently been such as to show a slight profit in gold exports and a small amount of gold has moved from New York to Paris. Both in 1927 and during the past month this vigorous recovery in the exchanges has appeared to reflect a movement of funds from New York to the principal European centers, largely in response to a differential in money rates between New York and those centers, though in the recent instance it has also accompanied a liquidation in the stock market.

## BILL MARKET

During the first part of October, seasonal drawings of bills increased the supply in dealers' hands very sub-

stantially, and although the investment demand also rose materially, dealers' aggregate purchases exceeded their sales. As open market portfolios of bills already were large, the excess of supply over the demand was offered to the Reserve System. The development of easier money conditions, however, allowed the dealers to carry an increasing proportion of their portfolios outside the Reserve Bank.

The continuance of relatively easy money conditions throughout the balance of the month was accompanied by a large increase in the investment demand, both local and foreign, and as dealers' purchases of new bills were materially reduced, supplies of bills on hand declined to a total between one-third and one-half the volume at the opening of the month. In an effort to replenish their portfolios, the dealers made four successive reductions in their rates, a total decrease of ½ per cent between October 22 and 29, bringing the offering level for 30 to 90 day unindorsed bills to 4½ per cent, the lowest level since January 3 of this year. Offering rates for four months bills also showed a decline of ½ per cent to 4¾ per cent, and 5 and 6 months bills a reduction of ⅝ per cent to 4⅞ per cent.

A further increase of \$72,000,000 in the volume of bankers acceptances outstanding occurred during September. The total of \$1,272,000,000 on September 30 was within \$12,000,000 of the peak of outstanding dollar acceptance credits, reached at the end of December 1928, and was \$268,000,000 larger than the total for September of last year and \$408,000,000 above the outstandings of September 1927. Acceptances based on goods stored in or shipped between foreign countries again showed a larger increase than any other class, and it is this type of acceptance financing that accounts for the larger part of the increase in total outstandings over a year ago.

## COMMERCIAL PAPER MARKET

Accompanying the lower rates prevailing on stock exchange security loans, some revival of the bank investment demand for open market commercial paper occurred after the first week of October. Better buying was reported as coming from banks in the Middle West, Southwest, and in New England; and in the New York market there were larger orders reported for the account of out-of-town correspondents than in some months. The rate for prime names declined slightly during the latter part of the month to a range of 6-6¼ per cent, as against the 6¼ per cent rate prevailing when bank investment demand was least active. Even at the slightly lower rate level, the amount of new paper being created by commercial and industrial concerns remained of rather small proportions, and dealers indicated that they were more desirous of acquiring additional paper than they had been in some time.

During September, the amount of commercial paper outstanding through 23 firms declined 1 per cent to \$265,000,000 on the 30th. This amount is 38 per cent less than the outstandings at the end of September of last year.

Form No. 131

# Office Correspondence

FEDERAL RESERVE  
BOARD

Date April 29, 1930

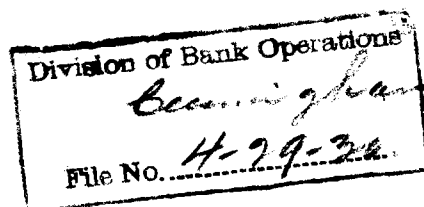
To Mr. Cunningham

Subject: 33-3

From Mr. Smead

2-8406

While certain information regarding holdings of Federal intermediate credit bank debentures and Federal land bank bonds, as well as bills discounted for Federal intermediate credit banks, is shown in the Board's Annual Report it is probably not in such form as to readily serve the purposes you have in mind. I therefore had the two attached statements prepared showing this information at the end of each month from January 1928 to March 1930.



4



**FEDERAL RESERVE BANK HOLDINGS OF FEDERAL INTERMEDIATE CREDIT BANK  
DEBENTURES AND FEDERAL LAND BANK BONDS AT THE END OF  
EACH MONTH SINCE JANUARY 1928**

**FEDERAL INTERMEDIATE CREDIT BANK DEBENTURES**

	Total	New York	Chicago	Minn- neapolis	Kansas City	Dallas	San Francisco
<u>1928</u>	(In thousands of dollars)						
January	500 ✓	-	-	500	-	-	-
February	1,000 ✓	-	-	1,000	-	-	-
March	990 ✓	-	-	990	-	-	-
April	990 ✓	-	-	990	-	-	-
May	990 ✓	-	-	990	-	-	-
June	490 ✓	-	-	490	-	-	-
July	490 ✓	-	-	490	-	-	-
August	990 ✓	500	-	490	-	-	-
September	4,550 ✓	1,050	-	500	-	3,000	-
October	3,700 ✓	200	-	500	-	3,000	-
November	4,200 ✓	200	-	500	-	3,500	-
December	9,825 ✓	-	-	1,575	1,500	6,500	250

1929

January	9,025 ✓	-	-	775 ✓	1,500 ✓	6,000 ✓	750 ✓
February	10,250 ✓	-	-	2,000 ✓	1,500 ✓	6,000 ✓	750 ✓
March	6,845 ✓	2,095 ✓	-	2,000 ✓	1,500 ✓	-	1,250 ✓
April	6,965 ✓	1,465 ✓	-	2,000 ✓	1,500 ✓	1,250 ✓	750 ✓
May	7,415 ✓	1,915 ✓	-	2,000 ✓	1,500 ✓	1,250 ✓	750 ✓
June	12,165 ✓	4,815 ✓	-	3,850 ✓	1,500 ✓	1,250 ✓	750 ✓
July	10,150 ✓	2,600 ✓	-	3,600 ✓	1,500 ✓	1,250 ✓	1,200 ✓
August	15,800 ✓	12,050 ✓	-	3,750 ✓	-	-	-
September	15,100 ✓	11,350 ✓	500 ✓	3,250 ✓	-	-	-
October	14,500 ✓	10,750 ✓	500 ✓	3,250 ✓	-	-	-
November	8,600 ✓	4,850 ✓	500 ✓	3,250 ✓	-	-	-
December	2,650 ✓	2,650	-	-	-	-	-

1930

January	5,000 ✓	5,000 ✓	-	-	-	-	-
February	4,300 ✓	4,300 ✓	-	-	-	-	-
March	-	-	-	-	-	-	-

**FEDERAL LAND BANK BONDS**

	Total	Boston	New York	Phila- delphia	Cleve- land	Chicago
<u>1929</u>						
October	9,500 ✓	1,000	4,500	1,000	1,500	1,500
November	9,500 ✓	1,000	4,500	1,000	1,500	1,500
December	9,500 ✓	1,000	4,500	1,000	1,500	1,500
<u>1930</u>						
January	7,400 ✓	1,000	2,400	1,000	1,500	1,500
February	8,750 ✓	1,000	6,750	1,000	-	-
March	8,750 ✓	1,000	6,750	1,000	-	-

## HOLDINGS OF

BILLS DISCOUNTED BY FEDERAL RESERVE BANKS FOR FEDERAL INTERMEDIATE CREDIT BANKS  
AT END OF EACH MONTH SINCE JANUARY - 1928

1928	TOTAL	Atlanta	St. Louis	Minneapolis	Kansas City	San Francisco
(In thousands of dollars)						
January	723	-	123	-	-	600
February	57	-	57	-	-	-
March	252	245	7	-	-	-
April	572	565	7	-	-	-
May	107	100	7	-	-	-
June	412	-	7	-	-	405
July	962	60	7	-	745	150
August	2,826	-	-	1,846	980	-
September	6,136	200	-	1,627	3,478	831
October	11,700	244	-	1,298	8,873	1,285
November	11,872	906	-	683	9,167	1,116
December	12,641	1,150	-	500	9,137	1,854

1929	TOTAL	Atlanta	Minneapolis	Kansas City	Dallas	San Francisco
January	15,041	400	375	8,997	5,269	5,269
February	12,222	200	205	7,309	-	4,508
March	13,337	2,636	-	7,225	-	3,476
April	9,388	1,300	-	4,675	-	3,413
May	3,421	500	-	602	-	2,319
June	5,791	-	-	990	241	4,560
July	5,439	-	-	839	491	4,109
August	1,593	-	-	1,152	441	-
September	4,355	2,000	-	1,033	140	1,182
October	3,160	2,405	-	755	-	-
November	2,332	-	-	920	-	1,412
December	1,094	200	-	333	-	561

1930

January	1,010	-	-	365	-	645
February	250	250	-	-	-	-
March	1,043	-	-	600	-	443

DIVISION OF BANK OPERATIONS

APRIL 28, 1930.

332.1

## FEDERAL RESERVE BOARD

WASHINGTON

X-6556

333

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

March 31, 1930.

SUBJECT: Revision of Open Market Procedure.

Dear Sir:

Under date of January 23, 1930, a letter was addressed to each Federal reserve bank advising of adoption by the Board of a revision of the open market procedure made effective in April, 1923. This letter expressed the belief of the Board that the procedure adopted contained the essentials of a workable plan designed to give expression to the common interests of the Federal reserve banks in matters of open market policy and to provide a reasonable and practicable method for joint action. It requested that after each bank had had time to consider the plan its views thereon be forwarded to the Board.

On March 24th and 25th, a meeting was held for the consideration of open market policy attended by representatives of the twelve Federal reserve banks. At the conclusion of the regular business, a thorough discussion was had regarding open market procedure in the light of letters which had been received by the Board from the directors of eleven of the Federal reserve banks. Following this discussion the representatives of the Federal reserve banks, with the Governor of the Federal Reserve Board, were appointed a committee to prepare a further revision of the plan acceptable to them. This revision was then thoroughly discussed by the Board and the representatives of the Federal reserve banks, with the result that some further changes were made.

The revised procedure in its final form, copy of which is attached, was unanimously agreed to by the representatives of the Federal reserve banks. It has since been considered by the Federal Reserve Board and was adopted by the Board without change, to become effective when ratified by the boards of directors of the twelve Federal reserve banks. Please, therefore, submit the matter to the Board of Directors of your bank at its next meeting and advise the Board whether your directors accept participation in the Open Market Policy Conference under the plan as revised.

In the Board's letter of January 23, 1930, it was pointed out that certain working arrangements which might be necessary would best be determined by the conference itself when organized. In this connection, the representatives of the Federal reserve banks at the meeting on March 24th and 25th voted it to be the sense of those present at the meeting that the representative of the Federal Reserve Bank of New York on the Open Market Policy Conference should be elected chairman for one year;

-2-

X-6556

that the Executive Committee, provided for in the procedure, should consist of the chairman and the representatives of the Federal Reserve Banks of Boston, Cleveland, Philadelphia and Chicago for one year; and that the conference adopt a principle of reasonable rotation in the membership of the Executive Committee after the first year.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,  
Assistant Secretary.

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

(Enclosure)

X-6556-a

(Draft of open market procedure as revised at the meeting of the Federal Reserve Board with representatives of the Federal reserve banks on March 25, 1930, and adopted by the Federal Reserve Board.)

"(1) The Open Market Investment Committee, as at present constituted, is hereby discontinued and a new committee, voluntary in character, to be known as the Open Market Policy Conference, is set up in its place.

(2) The Open Market Policy Conference shall consist of a representative from each Federal Reserve Bank, designated by the Board of Directors of the bank.

(3) The Conference shall meet with the Federal Reserve Board upon the call of the Governor of the Federal Reserve Board or the Chairman of the Executive Committee, after consultation with the Governor of the Federal Reserve Board.

(4) The function of the Open Market Policy Conference shall be to consider, develop and recommend policies and plans with regard to open market operations.

(5) The time, character and volume of purchases and sales shall be governed with the view of accommodating commerce and business and with regard to their bearing upon the credit situation.

(6) The conclusions and/or recommendations of the Open Market Policy Conference, when approved by the Federal Reserve Board, shall be submitted to each Federal reserve bank for determination as to whether it will participate in any purchases or sales recommended; any Federal reserve bank dissenting from the proposed policy shall be expected to acquaint the Federal Reserve Board and the Chairman of the Executive Committee with the reasons for its dissent.

(7) An Executive Committee of five shall be selected from and by the members of the Conference for a term of one year, with full power to act in the execution of the policies adopted by the Open Market Policy Conference and approved by the Federal Reserve Board, and to hold meetings with the Board as frequently as may be desirable.

(8) Each Federal Reserve Bank participating in the Open Market Policy Conference shall be considered as waiving none of its rights under the Federal Reserve Act; each Federal Reserve Bank shall have the right at its option to retire as a member of the Open Market Policy Conference, but each bank while a member of the Conference shall respect its Conference obligations."

Form No. 131

## Office Correspondence

FEDERAL RESERVE  
BOARD

Date Feb. 15, 1930.

To Mr. Smead

Subject: 333

From Mr. Hamlin

2-8495

Dear Mr. Smead:

In considering the recommendation that the earnings of all the banks should be pooled, and that then a larger percentage should be divided by way of dividends among the twelve banks, I wish you would consider whether I am correct in the statement that oftentimes earnings are made, for example, by the Federal Reserve Bank of New York which equitably should be credited to other banks. For instance, if Dallas wished to increase its discounts, and for that purpose sells Government securities, taking money out of the market, it does not accomplish its purpose directly, for the Government securities are sold in New York and the pressure there may bring about increased discounts at New York to the profit of the Federal Reserve Bank of New York, but does not immediately affect the earnings of the Dallas Bank.

If this is sound, can you think of any other instance where earnings of one bank, in equity, should be credited to other Federal reserve banks?

Sincerely yours,

See memo Feb 17/30

W. H. Hamlin

24 ✓ 332.1  
333  
**FEDERAL RESERVE BOARD**

**WASHINGTON**

**ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD**

**X-6484**

**January 23, 1930.**

**SUBJECT: Open Market Procedure.**

**Dear Sir:**

This letter invites the attention of your bank to changes which the Federal Reserve Board, after prolonged consideration of the matter, has concluded should be made in the existing procedure governing open market operations.

It may be recalled that it was in April, 1923, that the present procedure with regard to open market operations was adopted. In the preceding year many of the reserve banks, in order to maintain portfolios of earning assets, entered the market on their own separate accounts to purchase United States Government securities, without much regard to the effects of their operations on the market for Government securities or on credit conditions. It was found necessary, in consequence, to give to open market operations a status which recognized their credit effects and economic consequences and also their effects on the position of each Federal reserve bank.

A copy of the Board's resolution containing an outline of the procedure adopted in 1923 is herewith enclosed. Under this procedure the principle governing open market operations was defined and its application and practice left to a Committee consisting of five reserve banks acting under the general supervision of the Federal Reserve Board.

The principle was stated as follows:

"That the time, manner, character and volume of open market investments purchased by Federal reserve banks be governed with primary regard to the accommodation of commerce and business, and to the effect of such purchases or sales on the general credit situation."

The five banks constituting the Open Market Investment Committee were the following:

Federal Reserve Bank of Boston  
Federal Reserve Bank of New York  
Federal Reserve Bank of Philadelphia  
Federal Reserve Bank of Cleveland  
Federal Reserve Bank of Chicago.

X-6484

- 2 -

Although the necessity of giving to open market operations a System status was recognized in 1923, it was not then foreseen how much use would be made of the open market operation as an instrument of Federal reserve credit policy. As a matter of fact, frequent resort has been taken to open market operations - either by purchase or sale of United States Government securities - as a mode of policy in the five years following the 1923 arrangements.

The experience of this period shows that the open market operation, when involving other than trifling amounts, may be of first-rate importance in altering credit conditions even when viewed on a national scale.

It is not surprising, therefore, that suggestions should have been made that the System character of open market operations should be fully recognized by having all twelve Federal reserve banks, instead of five as at present, represented in the shaping of open market policy. Views to this effect have been expressed informally by reserve banks not included in the existing set-up, and formally by the Federal Advisory Council in the following recommendation adopted in September, 1928:

"The Federal Advisory Council without any intention of criticising the present arrangements but in order that all governors of the Federal reserve banks may participate in the discussions leading up to actions of the Open Market Committee suggests to the Federal Reserve Board to consider the advisability of having the membership of the Open Market Committee consist of all the governors of the Federal reserve banks with an executive committee composed of five members with full power to act."

For the reasons briefly set forth above, the Board has drawn up a revision of the 1923 open market procedure, which embodies a fuller recognition of the joint interest and responsibility of the Federal reserve banks and the Federal Reserve Board in the matter of open market policy. The elements of this procedure are contained in a memorandum adopted by the Federal Reserve Board reading as follows:

"(1) The Open Market Investment Committee, as at present constituted, to be discontinued and a new committee, to be known as the Open Market Policy Conference, to be set up in its place.

(2) Each Federal reserve bank to be represented on the Open Market Policy Conference.



X-6484

- 3 -

(3) The Conference to meet with the Federal Reserve Board at such times as may be arranged by or with the Board.

(4) The function of the Open Market Policy Conference to be to consider, develop and recommend plans with regard to the purchase or sale of securities in the open market.

(5) The time, character and volume of such purchases and sales to be governed with the view of accommodating commerce and business and with regard to their bearing upon the credit situation.

(6) The conclusions and/or recommendations of the Open Market Policy Conference to be submitted to each of the Federal reserve banks and to the Federal Reserve Board for consideration and/or action.

(7) A committee to be known as the Open Market Executive Committee to be constituted for the purpose of executing such purchases and sales of securities as have been approved by Federal reserve banks and the Federal Reserve Board."

Such further working arrangements as may be found necessary to make the above outlined plan operative will, in the opinion of the Board, best be determined by the Conference itself when it is organized.

The Board believes that the above procedure contains the essentials of a workable plan designed to give expression to the common interest of the Federal reserve banks in matters of open market policy and to provide a reasonable and practicable method for joint action. After your bank has had time to consider the plan, the Board will welcome an expression of your views.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,  
Assistant Secretary.

TO CHAIRMEN OF ALL F. R. BANKS.

X-4586

RESOLUTIONS APPROVED BY FEDERAL RESERVE BOARD AT  
MEETING ON MARCH 22, 1923.

"Whereas the Federal Reserve Board, under the powers given it in Sections 13 and 14 of the Federal Reserve Act, has authority to limit and otherwise determine the securities and investments purchased by Federal reserve banks;

Whereas the Federal Reserve Board has never prescribed any limitation upon open market purchases by Federal reserve banks;

Whereas the amount, time, character, and manner of such purchases may exercise an important influence upon the money market;

Whereas an open market investment policy for the twelve banks composing the Federal reserve system is necessary in the interest of the maintenance of a good relationship between the discount and purchase operations of the Federal reserve banks and the general money market;

Whereas heavy investments in United States securities, particularly short-dated certificate issues, have occasioned embarrassment to the Treasury in ascertaining the true condition of the money and investment markets from time to time,

THEREFORE, Be It Resolved, That the Federal Reserve Board, in the exercise of its powers under the Federal Reserve Act, lay down and adopt the following principles with respect to open market investment operations of the Federal reserve banks, to-wit;

(1) That the time, manner, character, and volume of open market investments purchased by Federal reserve banks be governed with primary regard to the accommodation of commerce and business and to the effect of such purchases or sales on the general credit situation.

(2) That in making the selection of open market purchases, careful regard be always given to the bearing of purchases of United States Government securities, especially the short-dated issues, upon the market for such securities, and that open market purchases be primarily commercial investments, except that Treasury certificates be dealt in, as at present, under so-called "Repurchase" agreement.

Be It Further Resolved, That on and after April 1, 1923, the present Committee of Governors on Centralized Execution of Purchases and Sales of Government Securities be discontinued, and be superseded by a new committee known as the Open Market Investment Committee for the Federal Reserve System, said Committee to consist of five representatives from the reserve banks and to be under the general supervision of the Federal Reserve Board; and that it be the duty of this Committee to devise and recommend plans for the purchase, sale and distribution of the open market purchases of the Federal reserve banks in accordance with the above principles and such regulations as may from time to time be laid down by the Federal Reserve Board."

No. 131

# Office Correspondence

FEDERAL RESERVE  
BOARD

Date January 13, 1930

To All Members of the Board.

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

From Mr. McClelland.

2-8495

At the meeting this morning there was ordered circulated the attached memorandum dated January 11 from the Director of the Division of Research and Statistics, regarding an inquiry made by Dr. Miller at the meeting on January 3, as to the effect of a policy of open market operations having for its objective the keeping of discounts of member banks down to \$500,000,000,

Governor Young ✓  
Mr. Pole ✓  
Mr. Platt ✓

Mr. Hamlin ✓  
Mr. James ✓  
Mr. Cunningham ✓  
Mr. Miller. ✓

Please circulate promptly and return to the Secretary's Office.

Form  
Nov 1931

## Office Correspondence

FEDERAL RESERVE  
BOARDDate January 11, 1930To Federal Reserve Board

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

From Mr. Goldenweiser *Goldenweiser*

2-8495

In response to Dr. Miller's request that I give the Board a statement as to the effect of a policy of open market operations having for its objective the keeping of discounts of member banks down to \$500,000,000, I submit the following.

Discounts for member banks on January 8 were \$568,000,000 and they are likely to be below \$500,000,000 before the end of this month. The question raised, therefore, is whether they should be kept at or near that level through the purchase of securities to offset gold exports, if any, or through the sale of securities in case there is a further downward movement in discounts caused by a return flow of currency, by a decline in member bank balances, or from some other cause.

I am not sure that I clearly understand the question. It would seem that the system's objective is not the maintenance of a given level of discounts, but the maintenance of conditions in the money market that appear desirable in view of the prevailing credit and business situation. In the long run a policy of not allowing discounts to rise above \$500,000,000 would mean that increases in the demand for reserve bank credit arising from possible gold exports, from an increase in the demand for currency, or from an increase in member bank reserve requirements would all three be <sup>not</sup> entirely through the purchase of securities or acceptances by the Federal reserve banks. If the demand for reserve bank credit were to come from the increase in reserve requirements of member banks, it is likely to indicate a rapid growth of bank credit and may mean that the Federal reserve system would wish

Federal Reserve Board - #2

January 11, 1930

to have the member banks sufficiently in debt to restrain the growth. In that case maintaining discounts at a given level would not be consistent with the system's objective.

In the immediate future, however, the principal source of demand for additional reserve bank credit is likely to be caused by gold exports, and perhaps the Board's inquiry is primarily intended to throw light on the question of the effect of replacing such exports by the purchase of securities. Broadly speaking, the effect would be to counteract the tightening effect of the exports and, therefore, encourage their continuance and to accelerate the using up of the free gold available in this country. Whether it would mean also to encourage undue expansion of credit would depend on other elements in the situation. The effect of such a policy abroad would be to encourage further takings of gold from the United States and to enable foreign central banks to adopt easier money policies.

*Ordered Circulated*  
AT BOARD MEETING.

JAN 13 1930



Form No. 131

# Office Correspondence

FEDERAL RESERVE  
BOARD

332.1  
Date January 7, 1930  
333.1

To Mr. Smead

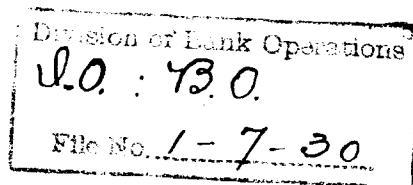
Subject: \_\_\_\_\_

From Mr. Scudder  
D.

• • • 2-8495

Mr. Inge of the Federal Reserve Bank of New York recently 'phoned us asking whether or not we could furnish him by telephone on Thursdays at 2:30 P. M., as soon as available, thereafter, the weekly statement figures for discounts, acceptances and U. S. securities for each Federal Reserve Bank and total bills and securities for the System. He stated the figures are desired by the open market investment committee in connection with their work and at present time are not received until Friday morning.

OK  
mg  
The above request is submitted for your approval.



Form No. 131

# Office Correspondence

FEDERAL RESERVE  
BOARD

Date <sup>1130</sup> January 3, 1929

To Mr. Goldenweiser,

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

From Mr. McClelland.

REC'D IN ~~REGISTRATION~~

AUG 29 1949

At the meeting of the Board this morning, it was suggested by Mr. Hamlin that you furnish to the Board in the form of a memorandum, the figures presented by you at the meeting regarding bank credit.

It was also requested by Dr. Miller that you give the Board a statement as to the effect of a policy of open market operations having for its objective the keeping of discounts of member banks down to \$500,000,000

*Re memo 1/11/30 Goldenweiser AFRB*

Form No. 181.

## Office Correspondence

FEDERAL RESERVE  
BOARDDate May 13, 1929.To Federal Reserve BoardSubject: Broadening of Bill MarketFrom Mr. McClelland.

The Secretary's minutes of the recent Conference of Governors contain the following report with respect to the Conference's consideration of the subject of the broadening of the bill market:

"A general discussion participated in by all of the Governors present brought out the fact that although more or less successful attempts had been made in several of the districts to bring about a broader distribution of bills, in most of the districts the attempts have been discouraging. A broad survey of the experience of the last ten or twelve years shows that there has never been a true bill market in this country but that it has been sustained largely by the Federal Reserve Banks and by the foreign central banks investing through the Federal Reserve System, and that it is probable much of the buying of bills through other sources is also for the account of foreign banks.

There was a general discussion as to the desirability of re-discounting bills offered by member banks and the right of a Federal Reserve Bank to refuse such rediscounts. It appeared that some of the reserve banks, including New York and Boston, had recently rediscounted a small amount of bills for their member banks, the offerings being made, undoubtedly, as a result of the discount rates being lower than the bill rate.

\* \* \* \* \*

While it was the consensus of opinion of the Governors present that the development of an American bill market is desirable, as brought out in the discussions under preceding topics, it appeared to be the sense of the conference that there is little else that the Federal Reserve Banks can do under existing conditions to facilitate a broader distribution of bills.

Governor Talley read a memorandum prepared by him and submitted to the Board of Directors of the Federal Reserve Bank of Dallas on October 7, 1927. Inasmuch as this memorandum sets forth in a concise way a sound policy with respect to developing a broader bill market, it was ordered made a part of the minutes of this conference."

The memorandum of Governor Talley, referred to above, has previously been brought to the attention of the Board, but is attached hereto as a matter of information.

*Noted*  
AT BOARD MEETING.

MAY 23 1929



### BROADENING THE BILL MARKET

In order to broaden the bill market in this country, it seems quite essential that each Federal reserve bank should give careful consideration to the question of developing a market in its own district, but a sustained effort in that direction will be necessary in order to accomplish the desired result. Many member banks now carry a portfolio of liquid short-time investments as a secondary reserve during all or part of each year, and very likely many others would do so if the numerous advantages were pointed out and explained. The result would be that the position of each bank which adopted that policy would be greatly strengthened, and consequently the general banking situation in each district would probably reflect a substantial and steady improvement.

Very little educational work should be necessary in connection with banks which make a practice of carrying a secondary reserve of Government securities, commercial paper and high grade municipal, industrial or utility bonds, for they should be easily induced to include bankers acceptances in their investments, if the advantages of a diversified secondary reserve were explained. It is likely that a large number of banks which have not made a practice of maintaining a secondary reserve can be sold on the idea of purchasing bankers acceptances and other short-time obligations when in funds, if the matter is properly presented to them. On account of existing high rates, the time is more propitious to interest banks in the purchase of acceptances than it has been for several years.

Interior banks in some districts are not disposed to carry as large balances as formerly with city correspondents, but are showing an

increasing inclination to make outside investments with funds which were previously accumulated in reserve city banks, the reasons being, of course, that the tendency of member banks is to confine their borrowings to Federal reserve banks more and more each year, and that earnings on such investments range from  $3\frac{1}{2}\%$  to  $5\frac{1}{2}\%$  as compared to interest on bank balances ranging from  $2\%$  to  $2\frac{1}{2}\%$ . The return on bills has compared favorably for several years with the yield on short-time Government securities and although rates on commercial paper are usually higher than rates on acceptances, many banks feel that they can invest more heavily in bills on account of their greater liquidity, than in commercial paper, and have found that the return on the larger investment in bills purchased at a lower rate will approximately equal the return on the smaller investment in commercial paper at a higher rate. A great many banks make a practice of buying only endorsed bills, so in case funds are needed before maturity they can be sold in the market or to a Federal reserve bank without assuming any liability on the bills, whereas in order to realize upon commercial paper a bank has to endorse and rediscount it, or borrow against its own promissory note, using the paper as collateral. It is less trouble for member banks to sell prime bills than to prepare and submit rediscount offerings of receivables. In addition, banks feel that they can safely depend upon receiving credit on the date funds are needed for the full amount of acceptances offered, whereas on account of rejections, etc., they are not always sure of promptly receiving the desired amount of credit on paper offered for rediscount. Furthermore, member banks know that usually they can obtain funds at lower rates through

the sale of bills than by rediscounting paper.

Experience proves that as banks which formerly were heavy seasonal borrowers realize the importance of carrying a secondary reserve and begin to accumulate bills, that they gradually disappear from the borrowing class, or borrow only for seasonal purposes in reasonable amounts. The amount of credit extended to member banks by this bank through the purchase of acceptances, as compared to the amount of receivables rediscounted, is increasing each year. Banks that have tested the wisdom of buying and carrying bills have been disposed to freely discuss the plan with other bankers, and in that way the number of bill purchasers has gradually increased. Many banks have also recommended to customers seeking short-time investments, the purchase of acceptances.

Some of the large city banks have made arrangements to carry a portfolio of prime bills for the purpose of selling them to interior correspondents seeking investments, making the customary handling charge for the service. In that way the larger banks are able to partially offset the decrease in their earnings by reason of the decline in the level of bank balances carried with them, and at the same time render their correspondents a satisfactory service, thereby continuing the desired contact and relationship with such banks. A few of the larger banks which formerly made a practice of carrying their own acceptances when in funds, have adopted a policy of selling them as soon as created and of purchasing other prime bills, which can be used in filling orders of interior correspondents.

In broadening the market the support and aid of responsible and well established bill dealers should be obtained, but if there are no

dealers in a district, it might be possible to interest some responsible and well known investment houses in adding the distribution of bills to their other activities. To get the work started, each Federal reserve bank might offer to buy prime bills for the account of member banks where there are no established dealers. Dealers are indispensable in the development and maintenance of a bill market and therefore reserve banks should not attempt to take their place entirely or permanently. Reserve banks, however, should support the market in every proper way by extending a reasonable amount of assistance to dealers in carrying a portfolio, and by readily buying bills (preferably short maturities) from member banks which find that funds are required for seasonal purposes before their bills mature. In cases where reserve banks are carrying bills for dealers under sales contract pending their distribution to the market, those dealers should be given an opportunity to fill orders which the reserve banks themselves receive from member banks. Dealers desiring to do so may make arrangements with drawers of bills to purchase them before or after acceptance, also with accepting banks to purchase their bills as soon as accepted, and in that way keep a fairly satisfactory supply on hand with which to fill orders. Reserve banks might find it necessary to take an active part in the distribution of bills for two or three years by making purchases for member banks, but as the demand for bills increases and as dealers become better known and established, it is quite natural to assume that the business will naturally gravitate more and more to dealers, thus permitting reserve banks to occupy their natural and proper place. There might be some objection to the idea of reserve banks

-5-

actively engaging in the distribution of bills in the manner outlined, but that practice seems to be more desirable for a short time than to be called upon indefinitely to carry such a large portion of the total bills outstanding.

In order to lessen the demand upon Federal reserve banks to purchase and carry such a substantial amount of the acceptances which are outstanding, some consideration might be given to the matter of establishing a policy which will make it as or more attractive for dealers and investing member banks to sell their bills in the open market than to reserve banks. It might be practical, instead of fixing minimum or effective buying rates, to make purchases at rates slightly in excess of those at which bills are sold in the market on the date they are offered to a reserve bank, adjusting rates from day to day to meet existing conditions.

The advantages of carrying a secondary reserve (including bankers acceptances) can be explained by officials and field representatives of reserve banks who call upon member banks, or during discussions with member bankers calling upon them, also in magazine articles, talks before bankers meetings and through correspondence, and the facilities of reserve banks in making purchases of bills can be offered.

Many states now limit the classes of securities in which savings deposits and insurance reserves may be invested and which are acceptable as collateral to secure deposits of public funds. In districts where acceptances are purchased freely it has been possible to secure legislation to permit savings banks and insurance companies to invest in bankers acceptances and to permit state and county officials to accept prime bills

-6-

as security for deposits of public funds. This has had the effect of increasing the demand for prime bills.

Experience has thoroughly demonstrated that a national bill market will not develop of its own accord and since the creation and wide distribution of prime bills is very important to accepting banks, dealers, member banks and other investors, as well as reserve banks, it will be necessary for all those groups to cooperate fully in order that a proper and satisfactory market in this country may be developed and maintained. Accepting banks should be interested so their bills, as soon as created, may be readily marketed at satisfactory rates outside of reserve banks, and an obligation undoubtedly rests upon that group to support a movement to develop a broad and steady market. Dealers should be interested in order to increase their turnover of bills with a corresponding increase in earnings, and also in order that they will not have to depend so largely upon reserve banks for assistance in adjusting their portfolios. Member banks and other investors should be interested in seeing that there is a satisfactory supply of bills available at all times in which to invest temporarily idle funds, and reserve banks should be interested in being relieved of the necessity of supporting the bill market as extensively as in the past, and for the further reason that as member banks become substantial purchasers of liquid short-time investments, such as prime bills, the general banking situation throughout the country will steadily improve.

Form No. 131.

# Office Correspondence

FEDERAL RESERVE  
BOARD

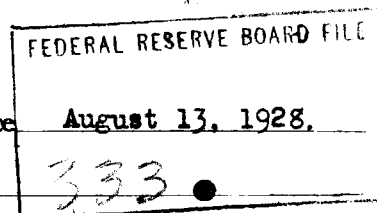
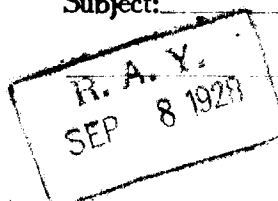
Date August 13, 1928.

To Governor Young

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

From Mr. Van Fossen

*U.F.*



2-8495  
GPO

In accordance with your request to Mr. Smead, we have prepared the attached tables in regard to purchases and sales of United States securities by the Federal Reserve Bank of Chicago from July to December 31, 1927, as follows:

1. A statement showing the amount of United States securities purchased each month under repurchase agreement and bought outright, excluding securities held in the System's Special Investment Account.
2. A statement showing dates on which securities purchased outright were acquired and from whom purchased.
3. A statement showing dates on which securities other than those bought under repurchase agreement were sold, together with the name of the purchaser.

All the securities purchased under repurchase agreement were acquired from the following dealers:

C. F. Childs & Company, Chicago  
First National Corporation, Chicago  
Salomon Brothers & Hutzler, Chicago  
First National Company, Detroit.

UNITED STATES SECURITIES PURCHASED BY THE FEDERAL RESERVE BANK OF CHICAGO FROM JULY 1 TO  
DECEMBER 31, 1927.

(Exclusive of securities held in the System's Special Investment Account)

	July	August	September	October	November	December
<u>Securities Bought Under Repurchase Agreement</u>						
Certificates of Indebtedness	\$2,695,000	\$945,000	\$910,000	\$3,405,000	\$5,048,500	\$7,295,000
Treasury Notes	2,669,500	2,255,000	15,734,750	11,730,000	2,590,000	8,620,000
Liberty bonds	9,543,050	15,090,000	10,655,000	5,180,000	1,495,000	2,930,000
<b>Total</b>	<b>14,907,550</b>	<b>18,290,000</b>	<b>27,299,750</b>	<b>20,315,000</b>	<b>9,133,500</b>	<b>18,845,000</b>
<u>Securities Bought Outright</u>						
Liberty Bonds	1,000,000	3,000,000	-	-	950,000	-
Treasury Notes	-	-	2,508,300	-	2,750,000	-
Temporary Certificates	-	-	45,000,000 *	-	211,500,000 *	19,500,000 *
Other Certificates	-	-	-	-	502,300	-
<b>Total</b>	<b>1,000,000</b>	<b>3,000,000</b>	<b>47,508,300</b>	<b>-</b>	<b>215,702,300</b>	<b>19,500,000</b>

\*One day certificates purchases from the Treasury Department.



SECURITIES BOUGHT OUTRIGHT BY THE FEDERAL RESERVE BANK OF CHICAGO  
FROM JULY 1 TO DECEMBER 31, 1927

<u>Date</u>	<u>Purchased from</u>	<u>Class</u>	<u>Amount</u>
July 15	First National Corporation, Chicago	2d L. L. Bonds	\$1,000,000
Aug. 1	do	do	500,000
4	do	do	500,000
9	C. F. Childs & Company, Chicago	do	1,000,000
19	do	do	1,000,000
Sept. 15	Allotted - new issue	Treas. notes	8,300
15	U. S. Treasury	Temp. C. of I.	31,000,000
16	do	do	14,000,000
28	C. F. Childs & Company	Treas. notes	1,500,000
28	First National Corporation, Chicago	do	1,000,000
Nov. 4	do	do	1,250,000
4	C. F. Childs and Company	do	500,000
12	Wm. H. Colvin	3d L. L. Bonds	950,000
14	System Special Invest. Account.	Treas. notes	1,000,000
15	First National Corp. Chicago	Certif. of Ind.	500,000
15	Allotted - new issue	do	2,300
15	U. S. Treasury	Temp. C. of I.	10,000,000
16	do	do	16,500,000
17	do	do	29,500,000
18	do	do	20,500,000
19	do	do	30,000,000
21	do	do	15,000,000
22	do	do	20,000,000
23	do	do	24,000,000
25	do	do	12,000,000
26	do	do	15,000,000
28	do	do	19,000,000
Dec. 13	do	do	17,000,000
16	do	do	2,500,000

SECURITIES SOLD BY THE FEDERAL RESERVE BANK OF CHICAGO FROM JULY 1 TO  
DECEMBER 31, 1927.

(Exclusive of securities held under repurchase agreement)

<u>Date</u>	<u>Sold to</u>	<u>Class</u>	<u>Amount</u>
July 20	U. S. Treasury .	2d L. L. Bonds	\$1,000,000
Aug. 9	not stated	do	1,000,000
12	not stated	do	1,000,000
23	not stated	do	1,000,000
Sept. 15	Mrs. J. S. Nichols, Chicago	Treas. notes	2,000
30	System Special Investment account	do	2,500,000
Oct. 25	Green Lake State Bank, Wisc.	do	2,000
26	Queen James, Lagrange, Ill.	do	500
Nov. 7	Northwestern Mut. Life Ins. Co., Milwaukee	do	1,750,000
8	Fayette Bank & Tr. Co., Connersville, Ind.	do	500
8	Bank of Cambridge, Wisc.	do	600
9	Calumet National Bank, Chicago	do	1,000
10	C. F. Childs & Company, Chicago	do	700
10	Sioux National Bank, Sioux City	do	1,000
14	System Special Inv. Account	3d L. L. Bonds	950,000
15	First National Corp., Chicago	Treasury notes	1,000,000
16	Illinois Merchants Tr. Co., Chicago	C. of Ind.	2,300
16	System Special Invest. Account	do	500,000

NOTE: Temporary certificates of indebtedness issued by the U. S. Treasury amounting to \$45,000,000 in September, \$211,500,000 in November, and \$19,500,000 in December, were redeemed on the first business day following their issuance.

3325-  
2005  
7/1/28  
Feder

Reproduced from the Unclassified / Declassified Holdings of the National Archives

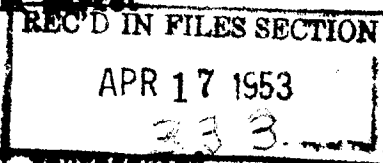
March 9, 1927

Mr. Goldenweiser

The present condition of

Miss Brown and Mr. Riefler

the bill market



In both January and February of this year bills bought represented over thirty per cent of total reserve bank credit outstanding. This proportion has been exceeded only twice in the last nine years. The bill holdings of the reserve banks during the present year, therefore, have been relatively large. This cannot be ascribed to a larger volume of acceptances outstanding, for these appear to be smaller than in other recent years. Neither can it be ascribed to pressure on the central money markets. The indebtedness of banks in New York City to the reserve banks during the first two months of this year appears from the weekly figures to have been the smallest since before the war. The real reason for the large volume of bills that are coming to the reserve banks then must be the levels of buying rates which have prevailed this year. These have been sufficiently low to impair the attractiveness of bills to prospective investors in the bill market in spite of the general ease of credit conditions.

The effect of low buying rates in relation to market rates is apparent from an analysis of the bills bought outright in New York during January and February. The following table shows the volume of bills of various maturities purchased during the first eight weeks of 1926 and of 1927 with the average difference over the period between the reserve bank's buying rate and the offering rate in the open market for these different classes of bills:

	1926		1927	
	<u>Bills bought</u>	<u>Rate difference</u>	<u>Bills bought</u>	<u>Rate differ.</u>
30 days	69,634	None	92,698	-.11
31- 60 days	46,603	31-45 days - .12	70,093	31-45 -.15
		46-60 days <del>-.22</del>		46-60 +.10
61- 90 days	52,138	- .07	16,544	+ .07

- 2 -

It seems clear that longer bills have been easily kept in the market by the simple device of maintaining a buying rate above the market rate and that unusually large volumes of the 30-day maturities have been dumped into the reserve banks on account of the low rate obtained there -  $3\frac{1}{2}$  per cent as compared with  $3\frac{5}{8}$  per cent in the market during a large part of the period in question.

The effect of this has been that the bill market has not participated to any extent in the easing tendency which has been shown by other rates in the open market. In spite of the general ease of credit conditions which has been reflected in lower rates for call loans, time loans, and commercial paper, rates on 90-day bills have jockeyed between  $3\frac{5}{8}$  and  $3\frac{3}{4}$  per cent during the first two months of the year.

A reserve bank rate structure which produces these results can hardly be justified on the grounds that it is the duty of the reserve banks to support the bill market. The actual effect is quite the opposite. Support for the bill market in times when the volume of bills is large and demand for reserve bank credit heavy can be justified on these grounds. At the present time, however, these conditions are not present. The real effect of the "support" which is being given to the bill market is to make rates there so low that investors will not buy the few bills that are offered even though funds are plentiful. This is certainly not a policy that is calculated to build up a ready outside market where bills are freely traded and where investors are accustomed to bills as sources of employment for short time funds. Instead, it is reducing the number of outside investors. The volume of bills at

- 5 -

present in the hands of American investors must be the smallest in years.

With a smaller volume of bills outstanding, more bills are being held by the reserve banks on their own account than last year, and more are being held for foreign correspondents, as is shown in the following table:

#### Reserve Bank Holdings of Bills

(Millions)						
		: For own account :		: For foreign correspondents :		Total
		: 1926	: 1927	: 1926	: 1927	: 1926 : 1927
January 5	345	389	79	61	424	450
12	327	338	81	86	408	424
19	306	337	84	90	390	427
26	295	302	84	95	379	397
February 2	302	329	84	78	386	407
9	301	303	85	92	386	395
16	302	315	83	92	385	407
23	304	280	82	92	386	372
March 2	287	289	82	95	369	384
Aver.	308	320	83	87	390	407

		Total Acceptances Outstanding
		1926 1927
December 31	773,736	755,360
January 31	788,254	773,000

The effect of this on the general credit situation and the reserve banks is equally bad. The whole explanation of recent ease in money conditions does not lie in gold movements. It is also to be found in the present level of buying rates for bills. Certain of our banks are now accustomed to granting acceptance credits and to buying bills for the sake of the commission which they receive for their name, or their endorsement. If they are to realize fully on these commissions they must sell the bills before maturity. An incentive exists to

- 4 -

sell bills before maturity, therefore, even in the absence of a need for funds. When reserve bank buying rates are as low for the short maturities as they are at present, this means that bills come to the reserve banks, and reserve bank funds enter the market when there is no immediate and pressing need for them. After churning around in the process of investment and reinvestment they finally are used to repay discounts, but in the meantime have had an easing effect upon the market. The present low volume of discounts at the reserve banks thus is partly due to the maladjustment that exists in the bill market.

Form No. 131.

# Office Correspondence

FEDERAL RESERVE  
BOARD

Date January 8, 1927

To Mr. Smead

Subject: 333

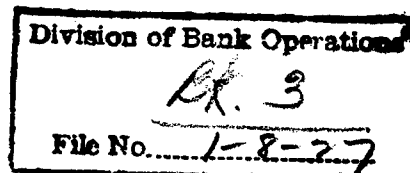
From Mr. Horbett

Method of determining yield or "rate basis" on Federal Intermediate Credit Bank debentures purchased by Philadelphia, developed by reference to investment schedules and after 'phone conversation with Mr. Davis, Assistant Cashier at Philadelphia. It should be noted in this connection that all these debentures were taken by Philadelphia on a basis to yield a certain rate, as for example, to yield  $3\frac{1}{4}$ , 3.30, 3.80,  $4\frac{1}{8}$ , etc., and the premium on this rate basis then determined.

$$\text{Rate or yield} = \frac{\left( \begin{array}{l} \text{Interest at coupon} \\ \text{rate for life of} \\ \text{debentures} \end{array} \right) \text{ minus } \left( \begin{array}{l} \text{Interest at coupon rate} \\ \text{to date of purchase, on} \\ \text{basis of 30 days to} \\ \text{each month} \end{array} \right) \text{ minus } \left( \begin{array}{l} \text{Premium} \\ \text{paid by} \\ \text{F.R. Bank} \end{array} \right)}{\left( \begin{array}{l} \text{Par plus} \\ \text{premium} \end{array} \right) \text{ plus } \left( \begin{array}{l} \text{Interest at coupon rate} \\ \text{to date of purchase, on} \\ \text{basis of 30 days to each} \\ \text{month} \end{array} \right) \times \left( \begin{array}{l} \text{Life of debentures in} \\ \text{days, assuming 30 days} \\ \text{to each month, minus num-} \\ \text{ber of days from date of} \\ \text{issue to date purchased} \\ \text{by F.R. bank} \end{array} \right)} \times \frac{360}{360}$$

Algebraically,  $x$  = rate charged by F.R. bank or yield  
 $r$  coupon rate  
 $P$  par value  
 $d$  number of days from date of issue to date purchased by F.R. bank, assuming 30 days in each month.  
 $m$  life of debentures in days, assuming 30 days in each month  
 $p$  premium paid by F. R. Bank

$$\text{Then } X = \frac{Pr \left( \frac{m-d}{360} \right) - p}{\left( P + p + \frac{Prd}{360} \right) \left( \frac{m-d}{360} \right)}$$





332.5

333

January 1927.

SUBJECT: Purchase of Federal Intermediate  
Credit Bank Debentures.

Dear Sir:

Investment schedules received by the Board show that \$25,835,000 of Federal Intermediate Credit Bank debentures have been purchased by the Federal Reserve Banks to the end of 1926, including \$5,700,000 taken under repurchase agreement. The securities were purchased by five different Federal reserve banks, the greater part, both as to number of transactions and amount, by one Federal reserve bank.

*I would personally be interested*

The Board is interested in knowing what has been the policy of your bank in regard to purchases of Federal Intermediate Credit Bank debentures, with special reference to the factors which determine rates quoted on such debentures, and from what source inquiries have been received as to the terms under which debentures would be bought by the reserve bank.

Very truly yours,

*E. H. Cunningham*

This mater was handled by Mr. Cunningham direct..

Division of Bank Operations
File No. 1031-27

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS

**FEDERAL INTERMEDIATE CREDIT BANK DEBENTURES PURCHASED BY FEDERAL RESERVE BANKS  
TO DECEMBER 31, 1926**  
(All bearing interest at 4-1/2 per cent)

Date purchased	Maturity date	Purchased from	Amount	Purchased to yield F.R. Bank	F.R. Bank dis- count rate on eligible paper (Per cent)
<b>PURCHASED BY NEW YORK</b>					
1924-Feb. 25	Mar. 14	Salomon Bros & Hutzler	\$100,000	4.00	4.50
Sept. 15	Mar. 15	Farm Loan Board	\$5,200,000	3.25	3
<b>PURCHASED BY PHILADELPHIA</b>					
1924-May 14	Nov. 14	Farm Loan Board	500,000	4.30	4.50
June 2	Dec. 2	"	750,000	4.30	4.50
Aug. 14	Nov. 14	"	500,000	3.50	3.50
Oct. 31	Mar. 15	"	1,750,000	3.20	3.50
1925-Jan. 2	May 15	"	500,000	3.50	3.50
Feb. 16	Apr. 16	"	500,000	3.25	3.50
Feb. 16	July 16	"	400,000	3.50	3.50
Apr. 16	Oct. 15	Penna. National Bank	250,000	3.50	3.50
May 15	Aug. 15	Farm Loan Board	1,500,000	3.25	3.50
May 15	Nov. 15	Penna. National Bank	100,000	3.50	3.50
Aug. 15	Oct. 15	Farm Loan Board	2,000,000	3.50	3.50
Oct. 15	Apr. 15	"	3,050,000	4.00	3.50
1926-Mar. 19	May 15	Discount Corporation	200,000	3.75	4
Mar. 25	May 14	"	250,000	3.75	4
Mar. 25	June 16	"	125,000	3.75	4
Mar. 30	May 14	Girard National Bank	1,000,000	3.75	4
Apr. 15	Oct. 15	Farm Loan Board	2,000,000	3.80	4
Oct. 15	Apr. 15	"	2,000,000	4.125	4
<b>PURCHASED BY ATLANTA</b>					
1926-March		Not reported	560,000	(1) 3.50	4
May		"	700,000	(1) 3.40	4
<b>PURCHASED BY MINNEAPOLIS</b>					
1926-Apr. 15	Oct. 15	Farm Loan Board	500,000	3.80	4
Aug. 20	Feb. 15	"	500,000	3.85	4
<b>PURCHASED BY KANSAS CITY</b>					
1924-Oct. 15	Apr. 15	Central National Bk. Topeka	250,000	3.25	4
Dec. 2	May 15	Farm Loan Board	250,000	3.50	4
1925-Sept. 16	Mar. 15	Farm Loan Board	100,000	3.85	4
Nov. 9	Mar. 15	Federal Land Bk. Wichita	\$500,000	4.00	4
<b>Total</b>			<b>25,835,000</b>		

(1) Not reported but reference to monthly earnings reports indicates that the debentures were taken on the basis shown.

\* Under repurchase agreement.

*J. H. W.*

**FEDERAL INTERMEDIATE CRE : BANK DEBENTURES PURCHASED BY : FEDERAL RESERVE BANKS  
TO DECEMBER 31, 1926  
(All bearing interest at 4-1/2 per cent)**

Date purchased	Maturity date	Purchased from	Amount	Purchased to yield F.R. Bank	F.R. Bank dis- count rate on eligible paper
<b>PURCHASED BY NEW YORK</b>				<b>(Per cent)</b>	
1924-Feb. 25	Mar. 14	Salomon Bros & Hutzler	\$100,000	4.00	4.50
Sept. 15	Mar. 15	Farm Loan Board	*5,200,000	*3.25	3
<b>PURCHASED BY PHILADELPHIA</b>					
1924-May 14	Nov. 14	Farm Loan Board	500,000	4.30	4.50
June 2	Dec. 2	"	750,000	4.30	4.50
Aug. 14	Nov. 14	"	500,000	3.50	3.50
Oct. 31	Mar. 15	"	1,900,000	3.20	3.50
1925-Jan. 2	May 15	"	500,000	3.50	3.50
Feb. 16	Apr. 16	"	500,000	3.25	3.50
Feb. 16	July 16	"	400,000	3.50	3.50
Apr. 16	Oct. 15	Penna. National Bank	250,000	3.50	3.50
May 15	Aug. 15	Farm Loan Board	1,500,000	3.25	3.50
May 15	Nov. 15	Penna. National Bank	100,000	3.50	3.50
Aug. 15	Oct. 15	Farm Loan Board	2,000,000	3.50	3.50
Oct. 15	Apr. 15	"	3,050,000	4.00	3.50
1926-Mar. 19	May 15	Discount Corporation	200,000	3.75	4
Mar. 25	May 14	"	250,000	3.75	4
Mar. 25	June 16	"	125,000	3.75	4
Mar. 30	May 14	Girard National Bank	1,000,000	3.75	4
Apr. 15	Oct. 15	Farm Loan Board	2,000,000	3.80	4
Oct. 15	Apr. 15	"	2,000,000	4.125	4
<b>PURCHASED BY ATLANTA</b>					
1926-March		Not reported	560,000	(1) 3.50	4
May		"	700,000	(1) 3.40	4
<b>PURCHASED BY MINNEAPOLIS</b>					
1926-Apr. 15	Oct. 15	Farm Loan Board	500,000	3.80	4
Aug. 20	Feb. 15	"	500,000	3.85	4
<b>PURCHASED BY KANSAS CITY</b>					
1924-Oct. 15	Apr. 15	Central National Bk.			
		Topeka	250,000	3.25	4
Dec. 2	May 15	Farm Loan Board	250,000	3.50	4
1925-Sept. 16	Mar. 15	Farm Loan Board	100,000	3.85	4
Nov. 9	Mar. 15	Federal Land Bk. Wichita	*500,000	*4.00	4
<b>Total</b>			<b>25,835,000</b>		

(1) Not reported but reference to monthly earnings reports indicates that the debentures were taken on the basis shown.

\* Under repurchase agreement.

**FEDERAL INTERMEDIATE OR J.T. BANK DEBENTURES PURCHASED BY FEDERAL RESERVE BANKS  
TO DECEMBER 31, 1926  
(All bearing interest at 4-1/2 per cent)**

Date purchased	Maturity date	Purchased from	Amount	Purchased to: yield F.R. Bank	F.E. Bank dis- count rate on eligible paper
<b>PURCHASED BY NEW YORK</b>				(Per cent)	
1924-Feb. 25	Mar. 14	Salomon Bros & Huttsler	\$100,000	4.00	4.50
Sept. 15	Mar. 15	Farm Loan Board	*5,200,000	*3.25	3
<b>PURCHASED BY PHILADELPHIA</b>					
1924-May 14	Nov. 14	Farm Loan Board	500,000	4.30	4.50
June 2	Dec. 2	"	750,000	4.30	4.50
Aug. 14	Nov. 14	"	500,000	3.50	3.50
Oct. 31	Mar. 15	"	1,550,000	3.20	3.50
1925-Jan. 2	May 15	"	500,000	3.50	3.50
Feb. 16	Apr. 16	"	500,000	3.25	3.50
Feb. 16	July 16	"	400,000	3.50	3.50
Apr. 16	Oct. 15	Penna. National Bank	250,000	3.50	3.50
May 15	Aug. 15	Farm Loan Board	1,500,000	3.25	3.50
May 15	Nov. 15	Penna. National Bank	100,000	3.50	3.50
Aug. 15	Oct. 15	Farm Loan Board	2,000,000	3.50	3.50
Oct. 15	Apr. 15	"	3,050,000	4.00	3.50
1926-Mar. 19	May 15	Discount Corporation	200,000	3.75	4
Mar. 25	May 14	"	250,000	3.75	4
Mar. 25	June 16	"	125,000	3.75	4
Mar. 30	May 14	Girard National Bank	1,000,000	3.75	4
Apr. 15	Oct. 15	Farm Loan Board	2,000,000	3.80	4
Oct. 15	Apr. 15	"	2,000,000	4.125	4
<b>PURCHASED BY ATLANTA</b>					
1926-March		Not reported	560,000	(1) 3.50	4
May		"	700,000	(1) 3.40	4
<b>PURCHASED BY MINNEAPOLIS</b>					
1926-Apr. 15	Oct. 15	Farm Loan Board	500,000	3.80	4
Aug. 20	Feb. 15	"	500,000	3.85	4
<b>PURCHASED BY KANSAS CITY</b>					
1924-Oct. 15	Apr. 15	Central National Bk. Topeka	250,000	3.25	4
Dec. 2	May 15	Farm Loan Board	250,000	3.50	4
1925-Sept. 16	Mar. 15	Farm Loan Board	100,000	3.85	4
Nov. 9	Mar. 15	Federal Land Bk. Wichita	*500,000	*4.00	4
<b>Total</b>			<u>25,835,000</u>		

(1) Not reported but reference to monthly earnings reports indicates that the debentures were taken on the basis shown.

\* Under repurchase agreement.

No. 437.

## Office Correspondence

FEDERAL RESERVE  
BOARD

Date July 14, 1924.

To Mr. Eddy

From Mr. Smead

Division of Bank Supervision	Subject:
7-14-24	

In accordance with your request of this morning we have examined the statement furnished by the New York Federal Reserve Bank showing the "Revised percentage of participation of Federal reserve banks in the System purchases of Government securities and bankers' acceptances based on the earning requirements as reported to committee on June 30, 1924." This statement differs from the somewhat similar statement prepared in this Division (St. 4137) in the following respects:

1. Our statement is based on earnings necessary to meet current expense and dividend requirements, whereas the New York statement is based on current expenses, dividend requirements, and estimated charge-offs. During the first 6 months of 1924 actual current expenses and dividends amounted to \$18,029,000 as compared with estimated current expenses, dividend requirements, and charge-offs for the last 6 months of \$25,350,000, as given in the New York statement, indicating that the banks as a whole have made allowance for about \$7,320,000 of charge-offs at the end of the year.

The attached statement shows (1) current expenses and dividends for the 6 months ending June 30 as shown by balance sheets form 34, (2) estimated expenses, including dividends, estimated charge-offs, etc., as shown in New York's statement, and (3) the excess of 2 over 1, due presumably to estimated charge-offs, at the end of the year.

2. The estimated earnings as shown in the New York statement are based on holdings of earning assets as of June 30, 1924, whereas our figures of earnings are based on the average daily holdings during the month of June. Holdings of earning assets on June 30 amounted to \$802,863,000, on June 29 to \$826,307,000 and on July 1 to \$839,420,000, as compared with average holdings during the month of June of \$838,062,000. Holdings on June 30, partly on account of Government fiscal operations, were undoubtedly somewhat lower than usual.

3. In submitting figures of net earnings less current expenses paid and accrued and dividends for the first 6 months of 1924, the Federal reserve banks did not all follow the same practice. The Federal Reserve Banks of Boston, Richmond, Atlanta, and St. Louis, apparently reported the excess of their operating expenses and dividends over earnings. Minneapolis apparently made allowance either for probable losses on paper of failed banks or for charge-offs on account of depreciation on bank premises, while the other banks reported the excess of gross earnings over the aggregate of operating expenses, cost of furniture and equipment, miscellaneous charges to profit and loss, and dividends.

As you will note, the main differences between our figures as given in statement St. 4137 and those shown in the New York statement are due to the fact that the New York bank apparently allows for \$7,320,000 of charge-offs, whereas our statement is made up on the basis of operating expenses and dividends only.

#6  
See memo to Com. on Disc. & Open Market Policy  
2-10-26

**COMPARISON OF CURRENT EXPENSES AND DIVIDENDS FOR FIRST SIX MONTHS OF 1934,  
WITH ESTIMATED EXPENSES AND DIVIDENDS FOR SECOND SIX MONTHS OF YEAR  
PLUS CHARGE-OFFS AS USED BY NEW YORK IN ESTIMATING THE PROBABLE  
EXCESS OR DEFICIENCY OF EARNINGS FOR THE YEAR.**

<b>Federal Reserve Bank</b>	<b>Current expenses and dividends as shown by daily balance sheets Jan.-June</b>	<b>Estimated expenses July-Dec., dividends, charge-offs, etc., as used by New York</b>	<b>Excess July-December over January-June due apparently to estimated charge-offs</b>
Boston	\$1,291,290	\$1,441,621	\$149,331
New York	4,177,219	6,123,000	1,947,781
Philadelphia	1,434,304	1,495,000	60,696
Cleveland	1,767,042	2,307,000	739,958
Richmond	971,695	1,180,000	208,305
Atlanta	775,044	1,185,807	410,763
Chicago	2,511,854	3,175,215	663,361
St. Louis	868,743	1,188,000	319,257
Minneapolis	646,543	1,153,000	506,457
Kansas City	1,098,836	1,538,000	439,164
Dallas	789,793	1,817,220	1,027,427
San Francisco	1,696,690	2,544,000	847,310
<b>Total</b>	<b>18,029,273</b>	<b>25,349,863</b>	<b>7,320,590</b>

To: Committee on Discount and  
Open Market Policy.

July 10, 1924.

333  
St. 4140

From: Mr. Smead.

SUBJECT: Estimate of required holdings of  
earning assets, July to December,  
if earnings are to cover 1924  
expenses and dividends.

Attached hereto is a mimeographed statement showing the estimated average amount of earning assets that it will be necessary for each Federal reserve bank to hold during the 6 months ending December 31, 1924, in order that earnings for the year as a whole may be sufficient to cover the year's operating expenses and dividends.

It will be noted from the second column of the statement that during the first 6 months of the year earnings of all Federal reserve banks except New York were more than sufficient to cover expenses and dividend requirements. The deficit in the case of the New York bank amounted to \$498,000, while the excess of earnings over expenses and dividends for the eleven other Federal reserve banks amounted to \$2,663,000.

Taking into consideration the materially lower level of discount and open market rates now prevailing, it is estimated that the System as a whole will need to have average daily holdings of earning assets from July to December of about \$815,000,000 in order to cover operating expenses and dividends. This is about \$100,000,000 less than average daily holdings during the first 6 months of the year, but is only slightly below the average for the months of May and June.

If earnings are to cover the normal depreciation charges on buildings and fixed machinery and equipment, in addition to meeting current expenses and dividends, daily average holdings of earning assets must be increased by about \$63,000,000 for the System as a whole. For the individual banks the estimated additional amounts required to be held are as follows:

Boston	\$6,000,000	Chicago	\$8,000,000
New York	12,000,000	St. Louis	1,000,000
Philadelphia	-	Minneapolis	3,000,000
Cleveland	9,000,000	Kansas City	7,000,000
Richmond	4,000,000	Dallas	2,000,000
Atlanta	4,000,000	San Francisco	7,000,000

As stated in my memorandum of June 20 and as shown by the attached mimeographed statement, the Federal reserve banks of New York, Boston, and St. Louis are the only ones which, on the basis of current holdings of earning assets, will not have sufficient earnings at the end of the year to cover operating expenses and dividends. In case the Open Market Investment Committee decides to make any additional purchases of United States securities during this year the allotment of the greater portion of the additional purchases to these three banks would nearly if not quite avoid a deficit in earnings. Under the present schedule covering the allotment of United States securities purchased by the Open Market Investment Committee, the Federal reserve banks of Minneapolis and Dallas are each receiving a part of the new purchases of securities, although their holdings of earning assets are very materially in excess of the amounts required to meet operating expenses and dividends.

**CONFIDENTIAL**

For use of Federal  
Reserve Board only

ESTIMATED DAILY AVERAGE AMOUNT OF EARNING ASSETS REQUIRED TO BE HELD BY EACH FEDERAL RESERVE BANK  
FROM JULY TO DECEMBER TO PRODUCE SUFFICIENT ADDITIONAL EARNINGS TO COVER 1924 EXPENSES AND DIVIDENDS.  
(In thousands of dollars)

St. 4137

Federal Reserve Bank	Estimated expense and dividend requirements July - Dec.	Excess of earnings over expenses and dividends Jan. - June	Estimated miscellaneous earnings July- Dec.	Estimated earnings required from earning assets from July to December to meet 1924 expenses and dividends	ESTIMATED REQUIRED HOLDINGS OF EARNING ASSETS, JULY TO DECEMBER, IF 1924 EARNINGS ARE TO COVER OPERATING EXPENSES AND DIVIDENDS*	Average daily holdings of earning assets during June
Boston	1,290	72	50	1,168	64,400	53,700
New York	4,345	#498	100	4,743	261,700	171,300
Philadelphia	1,440	281	10	1,149	63,400	66,800
Cleveland	1,770	296	50	1,424	73,500	84,700
Richmond	970	364	40	566	29,200	56,700
Atlanta	775	471	30	274	14,100	41,400
Chicago	2,520	205	155	2,160	111,500	116,400
St. Louis	875	58	20	797	41,100	33,200
Minneapolis	660	179	50	431	22,200	40,700
Kansas City	1,100	106	135	859	44,300	50,700
Dallas	790	437	135	218	11,300	43,300
San Francisco	1,725	194	40	1,491	77,000	79,200
TOTAL	18,260	2,165	815	15,280	813,700	838,100

FEDERAL RESERVE BOARD

DIVISION OF BANK OPERATIONS  
JULY 9, 1924

#Deficit.

\*Calculated on the assumption that the average yield for Boston, New York and Philadelphia will be 3-5/8%, and for the remaining 9 banks 3-7/8 per cent.

W.



X-3904

ARTICLE APPEARING IN THE NEW YORK JOURNAL OF COMMERCE  
Tuesday, December 4, 1923.

RESERVE BANKS TO  
BUY U. S. SECURITIES

-----

HOLDINGS ARE FOUND TO BE  
ALMOST AT MINIMUM.

-----

Open Market Committee Confers  
With Board - May Obviate the  
Necessity for a Change in the  
Rediscount Rates.

-----

WASHINGTON, Dec. 3 - Renewed purchasing of Government securities in the open market by the Federal Reserve Banks on a considerable scale was expected tonight to result from the meeting of the Federal Reserve Board with its special committee on open market operations. The Reserve system's holding of Government securities were found to be almost at a minimum.

The open market committee, which includes in its membership Governor Strong, of the New York Reserve Bank, and Governor Harding, of the Boston Reserve Bank, the former governor of the board, met today with the board and was understood to have gone over the Government security holdings of the various Reserve banks in the light of the probable extent of future purchases under the system's uniform open market policy.

MAY OBLVIATE RATE CHANGE

Open market operations of the Reserve system are particularly important in that their effect holds the possibility of producing results which obviate a necessity for a change in rediscount rates.

According to the board's latest reports, as of November 30, the entire holdings of Government securities of the twelve reserve banks is only about \$84,000,000, which is very near the low point for these assets, as compared with about \$300,000,000 on approximately the same date last year. Moreover, probably as much as \$50,000,000 of the present holdings of Government securities represent bonds which the banks would be virtually unable to sell except at a loss, as bonds taken to secure circulation are included in the total holdings.

Hence the shelves of the Reserve banks are getting bare of marketable Government securities and it is expected that the banks will shortly resume

*Orig. filed 333.-6-10 Open Mkt.  
Inv. Com.*

- 2 -

X-3904

purchasing to replenish their stocks. Purchases probably will be devoted in the main to Treasury certificates of indebtedness.

#### HOLDINGS OF ACCEPTANCES.

Holdings of bankers' acceptances by the Reserve banks aggregate the respectable figure of \$289,000,000, as compared with \$259,000,000 a year ago, but sales of these bills on any appreciable scale would probably involve a change in the rate, so that if the Reserve banks are to continue the free use of the uniform market policy it will be necessary to stock up on open Government securities.

Despite the failure of the Federal Reserve Council at its recent conference with the Reserve Board to discuss the rediscount rate levels, there is a feeling in some quarters that a reduction of rates is in order. However, a resumption of purchasing in the open market by the reserve banks would result in more money being put on the market, or in other words, the extension of credit facilities by the reserve banks in the nature of an equivalent to a reduction in rates.

REC'D IN RECORDS SECTION

JUL 15 1960

**BOARD OF GOVERNORS  
of the  
FEDERAL RESERVE SYSTEM**

**OPEN MARKET PURCHASES OF  
BILLS OF EXCHANGE, TRADE ACCEPTANCES,  
BANKERS' ACCEPTANCES**

**REGULATION B**

(12 CFR 202)

This regulation has, since July 10, 1923, been  
continuously in effect in the form  
printed herewith.



Reprinted May 1960

### **INQUIRIES REGARDING THIS REGULATION**

**Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank or Federal Reserve branch bank of the district in which the inquiry arises.**

## REGULATION B

(12 CFR 202)

As in effect May 1, 1960

### OPEN MARKET PURCHASES OF BILLS OF EXCHANGE, TRADE ACCEPTANCES, AND BANKERS' ACCEPT- ANCES UNDER SECTION 14 \*

#### SECTION 202.1—GENERAL STATUTORY PROVISIONS

Section 14 of the Federal Reserve Act (38 Stat. 264; 12 U.S.C. 353) provides that, under rules and regulations to be prescribed by the Federal Reserve Board, Federal Reserve banks may purchase and sell in the open market, at home or abroad, from or to domestic or foreign banks, firms, corporations, or individuals, bills of exchange of the kinds and maturities made eligible by the act for discount and bankers' acceptances, with or without the indorsement of a member bank.

#### SECTION 202.2—GENERAL CHARACTER OF BILLS AND ACCEPTANCES ELIGIBLE

The Federal Reserve Board, exercising its statutory right to regulate the purchase of bills of exchange and acceptances, prescribes that:

(a) Any banker's acceptance or bill of exchange which is eligible for discount under the terms of Part 201 of this chapter is eligible for purchase by Federal Reserve banks in the open market, with or without the indorsement of a member bank, if:

(1) It has been accepted by the drawee prior to purchase;

or

(2) It is accompanied or secured by shipping documents or by warehouse, terminal, or other similar receipts conveying security title; or

(3) It bears a satisfactory bank indorsement;

(b) A banker's acceptance growing out of a transaction involving the importation or exportation of goods may be purchased if it has a maturity not in excess of six months, exclusive of days of grace: *Provided* That it conforms in other respects to the applicable requirements of Part 201 of this chapter; and

\* The text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 202; cited as 12 CFR 202.

## REGULATION B

(c) A banker's acceptance growing out of a transaction involving the storage within the United States of goods actually under contract for sale and not yet delivered or paid for may be purchased: *Provided* That the acceptor is secured by the pledge of such goods: *And Provided further*, That the acceptance conforms in other respects to the applicable requirements of Part 201 of this chapter.

### SECTION 202.3—STATEMENTS

A bill of exchange, unless indorsed by a member bank, is not eligible for purchase until a satisfactory statement has been furnished of the financial condition of one or more of the parties thereto.

A banker's acceptance, unless accepted or indorsed by a member bank, is not eligible for purchase until the acceptor has furnished a satisfactory statement of its financial condition in form to be approved by the Federal Reserve bank and has agreed in writing with a Federal Reserve bank to inform it upon request concerning the transaction underlying the acceptance.



DIVISION OF LOANS AND CURRENCY

# TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

May 12th, 1922

Federal Reserve Board,  
Treasury Department,  
Washington, D. C.

Attention: Mr. Moore.

**IMPORTANT**—In your reply refer to MO.

Sir:

In reply to your telephone request you are respectfully advised that this office is holding in suspense for the account of the several Federal Reserve Banks indicated, the following listed United States government bonds:

F.R.B. St. Louis - 2% Consol 1930	Total..\$100.
F.R.B. Richmond - 2% Consol 1930	\$ 915,100.
" " - 2% Panama Canal 1906-36	137,000.
" " - 2% Panama Canal 1908-36	100,000.
	Total...\$1,152,100.
F.R.B. Minneapolis - 2% Panama Canal 1906-36	Total...\$ 260.

Respectfully,

*C. N. McGoorty*

Chief, Division of Loans and Currency.





DIVISION OF LOANS AND CURRENCY

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

May 7, 1923.

Federal Reserve Board,  
Treasury Department,  
Washington, D. C.

Attention: Mr. Moore.

IMPORTANT—In your reply refer to SEC

Sir:

Regarding telephone conversation concerning certain holdings in safe-keeping in this office for the Federal Reserve Bank of Richmond, amounting to \$1,152,100, and the Federal Reserve Bank of Minneapolis, for \$260, you are further advised that the items in question have this day been forwarded to the respective banks in accordance with their requests.

The holdings effected which have been delivered and which will clear all the items of this character, are as follows:

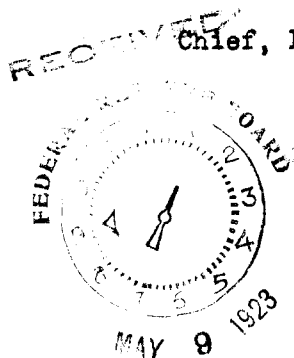
F.R.B. Richmond - 2% Consol 1930	\$ 915,100.
" " - 2% Panama Canal 1906-36	137,000.
" " - 2% Panama Canal 1908-38	100,000.
Total Amount.....	\$1,152,100.

F.R.B. Minneapolis - 2% Panama Canal 1906-36.....\$ 260.

Respectfully,

*C. N. McChrarty*

Chief, Division of Loans and Currency.





C O P Y

File

## THE SECRETARY OF THE TREASURY

WASHINGTON

May 3, 1933.

Dear Mr. Platt:

I received your letter of April 20, 1933, outlining briefly the results of the recent meeting of the new Open Market Investment Committee of the Federal reserve banks held at Philadelphia, and have been glad to note the action of the Committee in recommending that the Federal Reserve banks offer to the Treasury the \$25,363,800 of Treasury certificates maturing on September 15th, which they held. As you know, the offer was accepted and the certificates redeemed on April 24th. I also note with much interest the vote of the Committee to raise the open market buying rate on acceptances  $1/8$  of one per cent. This, I believe, was a step in the right direction, for a number of dealers, I understand, had already marked up the rate on acceptances  $1/4$  of a point, and a continuance of the lower Federal Reserve buying rate would only have attracted increasing quantities of acceptances into the portfolios of the Federal Reserve banks. The banks have at times carried to extremes the policy of purchasing acceptances and providing a market for them at favorable rates, and I hope that the time has now come when the Board, through its supervision over this Committee on Open Market Operations, will see to it that the open market operations of the Federal Reserve banks are kept in line with the general credit policy of the system.

I agree that it is unfortunate for the Federal Reserve banks to be selling their holdings of bonds bearing the circulation privilege, for

-2-

it results in increasing the circulation of national bank notes at the very time when the circulation ought to remain stable and when consideration should, in fact, be given to measures for reducing this class of circulation. I hope the Federal Reserve banks can be induced to hold the remainder of the bonds bearing the circulation privilege which they now have, and encouraged to buy more, and believe it would be a good thing if the banks would buy each year the full amount of such bonds permitted by the Federal Reserve Act. Such purchases would not have the same effect upon the money market as other open market operations because of the consequent reduction in national bank circulation, but would incidentally give the Federal Reserve banks a source of income.

I do not follow your argument, however, in suggesting that the capital and surplus of the Federal Reserve banks should be continuously invested in Government securities regardless of the demand for discounts, "not only as one of the chief means of supporting the Federal Reserve banks but as investments which cannot possibly affect the money market in the sense of adding new funds to the market." This view, it seems to me, is inconsistent with the whole theory of open market operations. Dealings in Government securities are of major importance in the open market operations of the Federal Reserve banks. The policy with respect to purchases of acceptances has avowedly been determined largely with a view to fostering and encouraging the development of the acceptance market, while operations in Government securities are perhaps even more closely related to general credit conditions and the general credit policy of the system. To control these operations by arbitrarily fixing maximum and minimum amounts to be purchased regardless of credit conditions would

-3-

destroy in large measure the power and usefulness of the open market operations and tend to defeat the purpose for which the power was included in the Federal Reserve Act. Great latitude of action was permitted in open market operations in order that the Federal Reserve banks might exert a stabilizing influence on credit conditions and money rates, and effectively serve the banking and business interests of the country. So far as I am aware there was never any intent or thought of associating open market operations with the amount of capital and surplus of the Federal Reserve banks or of fixing maximum and minimum limits for such operations, and I cannot see the logic of doing it at this time. Credit extended by the Federal Reserve banks has the same effect upon the market regardless of whether it is through purchases of acceptances, purchases of Government securities, or discounting bills, and I doubt if there is any more reason for fixing arbitrary limits for one type of operation than for the others. The primary regard, of course, should be for the credit situation.

In this connection I have noted the following statement appearing in the first edition of the Federal Reserve Bulletin for May:

"The Federal Reserve Board's position in the matter is indicated by the adoption of the following principle with respect to the open-market investment operations of the Federal Reserve banks: 'That the time, manner, character, and volume of open-market investments purchased by Federal Reserve banks is governed with primary regard to the accommodation of commerce and business and to the effect of such purchases or sales on the general credit situation.'

"By providing that open-market investment operations are to be governed 'with primary regard to the accommodation of commerce and business', the principle rests upon the same general conditions as those provided in the Federal Reserve Act for the determination of discount rates. Since in open-market operations the initiative can be taken by the reserve banks rather than the member banks, these operations may be

-4-

need as a gauge of the degree of adjustment between the requirements for reserve-bank credit and the volume of it in actual use. In a given market the sale of an investment by a reserve bank is a means of testing the demand for credit and placing the initiative for and the cost of such credit directly upon borrowing member banks."

I heartily agree with this view of open market operations, but find it hard to reconcile with the views stated in your letter.

Your statement that the capital and surplus of the Federal Reserve banks has been taken out of the working funds of the country and locked up unless reinvested should be considered in connection with the total effect of the establishment of the system. It is generally agreed, and I suppose the fact is beyond question, that instead of withdrawing funds from the market the establishment of the system released a large amount of funds as a result of the lower reserve requirements. Computations show, I believe, that the total reserves of country banks at present, plus cash carried in their vaults, are about 8-1/2 per cent of their deposits, or about one-half as large as the reserves maintained before the establishment of the system. Doubtless about the same proportion would hold for reserve city and central reserve city banks. Moreover, every dollar of actual reserves deposited with the Federal Reserve banks has a greatly increased efficiency as a basis of credit expansion. On page 11 of the first annual report of the Federal Reserve Board the statement was made that while the amount of reserves which had been released as a result of the establishment of the Federal Reserve System and the change in reserve requirements had not been accurately estimated, it was "an undoubted fact that the release of actual cash was very large and that the increase of lending power on the part of member banks was correspondingly larger." You

-5-

are probably familiar with the statement of Governor Strong on the "Elements in Expansion" on pages 531 to 534 of the Hearing before the Joint Commission of Agricultural Inquiry of the 67th Congress, part 13. In this statement it is estimated that the change in reserve requirements when the system was first established released \$450,000,000 of funds formerly held as reserves. This amount was greatly increased, of course, by the change in reserve requirements in June, 1917. When a state bank becomes a member of the system the reduction in reserve requirements, as a rule, releases a much larger amount of funds than it invests in the capital of the Federal Reserve bank. In comparison with the release of funds as a result of lower reserve requirements and the increased potential credit expansion on each dollar of reserve, the amount of funds tied up in the capital and surplus of the reserve banks is small, and I do not agree with your statement that investments by the Federal Reserve banks in Government securities (other than bonds bearing the circulation privilege) to the extent of their capital and surplus do not add new funds to the market. It should be noted in this connection that a part of the capital and surplus of the Federal Reserve banks represents investment in banking premises and to this extent the funds were returned to the market.

The heavy imports of gold during the past few years have made it possible for the member banks to maintain a large volume of credit and at the same time liquidate largely their borrowings from the Federal Reserve banks. This has greatly lessened the effectiveness of the discount rate and the power of credit control by the Federal Reserve banks. Continued

-6-

gold imports will lead to a further increase in the available funds on the market and for the Federal Reserve banks to continue to maintain a large additional volume of credit through open market purchases at rates below the discount rate would only aggravate the situation and practically tend to destroy any attempted exercise of credit control. In view of these conditions a more effective supervision of Federal Reserve Bank open market purchases is, in my opinion, highly desirable.

Very truly yours,

A. W. MELLON.

Secretary of the Treasury.

Honorable Edmund Platt,  
Vice-Governor, Federal Reserve Board,  
Washington, D. C.



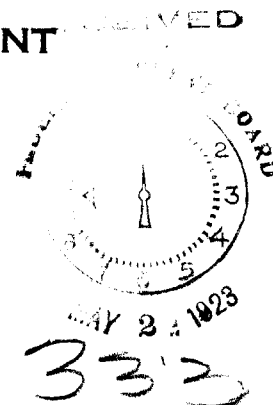
DIVISION OF LOANS AND CURRENCY

# TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

May 1, 1923.



Federal Reserve Board,  
Treasury Department,  
Washington, D. C.

Attention: Mr. Moore.

IMPORTANT—In your reply refer to SEC

Sir:

Confirming telephone conversation this morning, you are respectfully advised the item of \$100.00 2% Consol 1930 which was held in suspense for the account of the Federal Reserve Bank of St. Louis, was shipped to that bank October 18, 1922 in accordance with their request.

The holdings at the present time for account of the Federal Reserve Banks are as follows:-

F.R.B. Richmond	- 2% Consol 1930	\$ 915,100.
"	" - 2% Panama Canal 1906-36	137,000.
"	" - 2% Panama Canal 1908-38	100,000.
Total.....		\$1,152,100.

F.R.B. Minneapolis - 2% Panama Canal 1906-36....\$ 260.

If there should be any changes with respect to the holdings indicated, you will be advised accordingly.

Respectfully,

*C. H. McLaughlin*  
Chief, Division of Loans and Currency.

Form 148

~~TELEGRAM~~  
FEDERAL RESERVE BOARD  
LEASED WIRE SERVICE  
WASHINGTON

333-1  
333  
January 24, 1928.

Emerson • Dallas

See no objection to your arranging sale of \$1,300,000 U. S.  
conversion threes of 1946 - 1947 under conditions referred to.  
Suggest you take up matter with other banks direct.

*JP*

PLATT

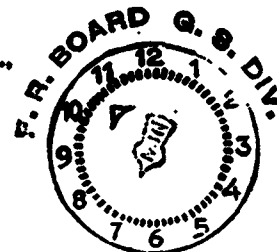


**TELEGRAM**

**FEDERAL RESERVE SYSTEM**

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,



JAN 24 1923

RECEIVED

35f fa

Dallas 905a Jan 24

Flatt

Washn

we would like to sell to another Federal Reserve Bank at 93 and accrued interest \$1,300,000 U S conversion threes of 1946-1947 which we are holding under agreement to repurchase on december 15th, 1923 with privilege of repurchasing on any date prior to that time at 93 and accrued interest. Please advise if Board will endeavor to arrange for purchase by another Federal Reserve Bank or if we may take the matter up directly ourselves.

LMEL:CH

1021am

Form No. 131.

# Office Correspondence

FEDERAL RESERVE  
BOARD

Date Jan. 10, 1923.

To Mr. Platt

Subject: Board Meeting of January 8th

From Mr. Hoxton

At the meeting of January 8th, although no formal action was taken, Mr. Miller suggested that the Board should go thoroughly into the matter of open market purchases by the several Federal Reserve banks, and suggested that a week from January 8th, (that is, Monday, January 15th), the matter be taken up and discussed by the Board.

Mr. Miller also suggested that the Federal Reserve banks should be requested to furnish the Board with information as to the basis upon which they determined their present investments in open market purchases, and information as to their policy for open market operations for the year 1923.

*Assignment of  
the Board*

*#7*

**FEDERAL RESERVE BANK OF CHICAGO**

*283*

*333*

230 SOUTH LASALLE STREET

October 21, 1922

The Federal Reserve Board

Washington, D. C.

Gentlemen:

*10/21/22*

The attached letter is intended to supersede a similiar letter which we sent you under date of September 22, 1922. The only change made is that we have certified as to the aocuracy of the Resolution itself as well as the signatures, and that the seal of the bank is affixed. This was done in compliance with a request from the Treasury Department.

Yours very truly,

*Wm. L. ...*  
Secretary

WFM:A

*[Large handwritten checkmark]*

*10/20*

*62*

335  
**FEDERAL RESERVE BANK OF CHICAGO**

230 SOUTH LA SALLE STREET

October 18, 1922

The Federal Reserve Board  
Washington, D. C.

Gentlemen:

I hereby certify that the following is a verbatim copy of resolution passed by the Board of Directors of the Federal Reserve Bank of Chicago on September 22, 1922:

. . . . .

"The Treasury Department has requested us to furnish a new set of specimen signatures of the officers authorized to sell and assign U. S. Registered Bonds, notes, et cetera, for the bank, and in view of the changes in our personnel, Mr. D. A. Jones, Controller of the Bond Department, recommends that the old resolution of February 21, 1921, be rescinded and the following resolution adopted in its place:

"BE IT RESOLVED, That J. B. McDougal, Governor, J. H. Blair, Deputy Governor, C. R. McKay, Deputy Governor, S. B. Cramer, Deputy Governor, Kent C. Childs, Controller of Loans and Credits, D. A. Jones, Controller Fiscal Agency Functions, A. H. Vogt, Controller of Accounting, O. J. Netterstrom, Controller of Cash and Custodies, Wm. C. Bachman, Controller of Collections, J. H. Dillard, Controller of Administration, Clarke Washburne, Controller of Investments, or A. W. Dazey, Manager Investment Department, be, and are hereby jointly and severally authorized and empowered to sell and assign any or all United States Registered Bonds/Notes or Registered Bonds/Notes of any description which are transferable on the books of the Treasury Department now standing, or which may hereafter stand, in the name of this bank, and to appoint one or more attorneys for that purpose.

"UPON MOTION, the above resolution was unanimously adopted and the Secretary instructed to forward copies of the same to the Treasury Department and to the Federal Reserve Board, together with certified copies of the signatures of the above-named officers."

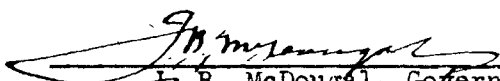
. . . . .

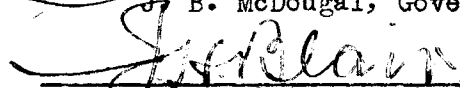
See 10/21/22

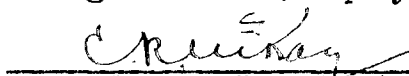
FEDERAL RESERVE BANK OF CHICAGO

- 2 -

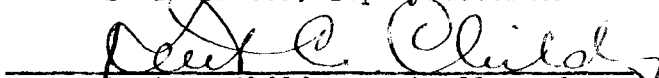
I further certify that the following signatures are the true signatures of the officers enumerated in the foregoing resolution:

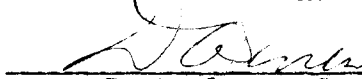
  
J. B. McDougal, Governor

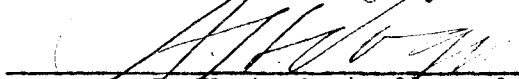
  
J. H. Blair, Deputy Governor

  
C. R. McKay, Deputy Governor


  
S. B. Cramer, Deputy Governor

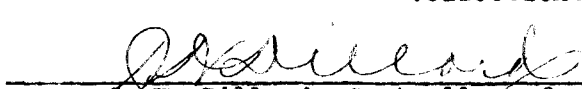
  
Kent C. Childs, Controller of  
Loans and Credits

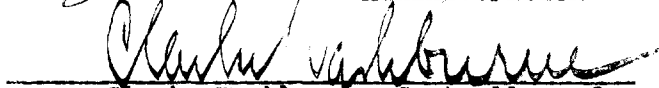
  
D. A. Jones, Controller Fiscal  
Agency Functions

  
A. H. Vogt, Controller of  
Accounting

  
O. J. Netterstrom, Controller of  
Cash and Custodies

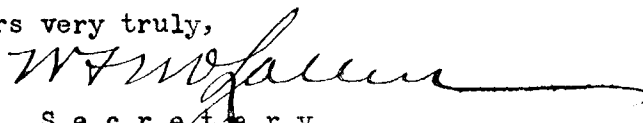
  
Wm. C. Bachman, Controller of  
Collections

  
J. H. Dillard, Controller of  
Administration

  
Clarke Washburne, Controller of  
Investments

  
A. W. Dazey, Manager Investment  
Department

Yours very truly,

  
Secretary  
Federal Reserve Bank of Chicago

*Assignment of Bonds* 17  
FEDERAL RESERVE BANK OF CHICAGO

230 SOUTH LA SALLE STREET

833-1  
3-22  
October 6, 1922

Mr. W. L. Eddy, Asst. Sec.  
Federal Reserve Board  
Washington, D. C.

Dear Sir:

Referring to your letter of the 4th instant, relative to resolution authorizing certain officers of this bank to sell and assign United States notes and bonds, wish to state that this resolution was intended to supersede the one adopted on February 21, 1921.

Yours very truly,

*W. F. M.*  
Secretary

WFM:A

*Assignment of  
Bonds*

*#7*

*333 /*  
*333*

October 4, 1922.

Dear Sir:

Receipt is acknowledged of your letter of September 28th, advising the Federal Reserve Board of the action taken by your Board of Directors, September 22nd, authorizing certain officers of your Bank to sell and assign United States notes and bonds.

The Board understands that the resolution quoted in your letter supersedes resolution of the same tenor adopted by your Board February 21, 1921.

Very truly yours,

*(Typed) W. L. Eddy*

Walter L. Eddy,  
Assistant Secretary.

Mr. W. F. McCallen, Secretary,  
Federal Reserve Bank,  
Chicago, Illinois.

# FEDERAL RESERVE BANK OF CHICAGO

230 SOUTH LASALLE STREET

September 22, 1922

The Federal Reserve Board  
Washington, D. C.

Gentlemen:

Please be advised that at a meeting of our  
Board of Directors held today, the following action was taken:

. . . . .

"The Treasury Department has requested us to furnish a new set of specimen signatures of the officers authorized to sell and assign U. S. Registered Bonds, notes, et cetera, for the bank, and in view of the changes in our personnel, Mr. D. A. Jones, Controller of the Bond Department, recommends that the old resolution of February 21, 1921, be rescinded and the following resolution adopted in its place:

"BE IT RESOLVED, That J. B. McDougal, Governor, J. H. Blair, Deputy Governor, C. R. McKay, Deputy Governor, S. B. Cramer, Deputy Governor, Kent C. Childs, Controller of Loans and Credits, D. A. Jones, Controller Fiscal Agency Functions, A. H. Vogt, Controller of Accounting, O. J. Netterstrom, Controller of Cash and Custodies, Wm. C. Bachman, Controller of Collections, J. H. Dillard, Controller of Administration, Clarke Washburne, Controller of Investments, or A. W. Dazey, Manager Investment Department, be, and are hereby jointly and severally authorized and empowered to sell and assign any or all United States Registered Bonds, notes or Registered Bonds, notes of any description which are transferable on the books of the Treasury Department now standing, or which may hereafter stand, in the name of this bank, and to appoint one or more attorneys for that purpose.

"UPON MOTION, the above resolution was unanimously adopted and the Secretary instructed to forward copies of the same to the Treasury Department and to the Federal Reserve Board, together with certified copies of the signatures of the above-named officers."

. . . . .



FEDERAL RESERVE BANK OF CHICAGO

FRBd.  
9/22/22

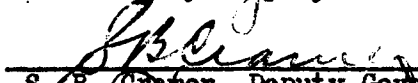
- 2 -

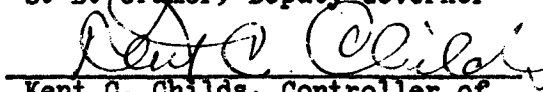
In compliance with the foregoing resolution,  
you will find below the signatures of the officers therein  
enumerated.

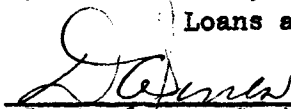
  
J. B. McDougall, Governor

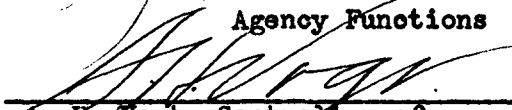
  
J. H. Blair, Deputy Governor

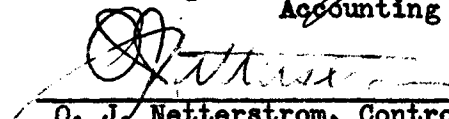
  
C. R. McKay, Deputy Governor

  
S. B. Cramer, Deputy Governor

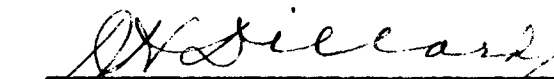
  
Kent C. Childs, Controller of  
Loans and Credits

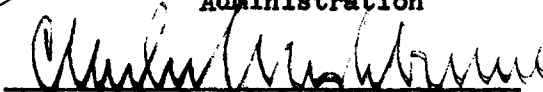
  
D. A. Jones, Controller Fiscal  
Agency Functions

  
A. H. Vogt, Controller of  
Accounting

  
O. J. Netterstrom, Controller of  
Cash and Custodies

  
W. C. Bachman, Controller of  
Collections

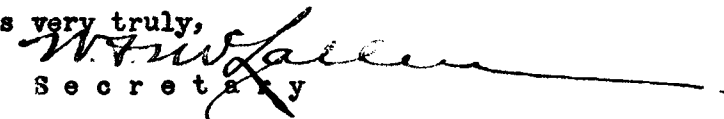
  
J. H. Dillard, Controller of  
Administration

  
Clarke Washburne, Controller of  
Investments

  
A. W. Dazey, Manager Investment  
Department.

I hereby certify that the foregoing signatures are  
correct.

Yours very truly,

  
Secretary

*Assignment of  
No Bonds*

#7

~~333~~ 1  
333

April 26, 1922.

Dear Sir:

Receipt is acknowledged of your letter of the 21st instant advising of a resolution passed at the Executive Committee meeting of your Bank on April 21, 1922, authorizing Mr. F. J. Maurice, Assistant Cashier at the Branch Federal Reserve Bank at Detroit to attest the assignments of United States registered bonds.

It is noted that you have advised the Treasury Department of the authority conferred upon Mr. Maurice.

Very truly yours,

(Signed) W. L. Eddy

Walter L. Eddy,  
Assistant Secretary.

Mr. W. F. McFallen, Secretary,  
Federal Reserve Bank,  
Chicago, Ill.

(Ccl., also sent Treasury Department,

3331

Federal Reserve Board

# FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET



April 21, 1922

Federal Reserve Board  
Washington, D. C.

Gentlemen:

Please be advised that at meeting of the Executive Committee of this bank held April 21, 1922, the following action was taken:

.....  
At the recommendation of the Discount Committee of the Detroit Branch, UPON MOTION, duly seconded, the following resolution was unanimously adopted:

WHEREAS, under the authority of a resolution passed by the Executive Committee on November 4, 1921, certain officers of the head office and Detroit branch of this bank are authorized to attest the assignments on United States registered bonds; and

WHEREAS, it is desired to add to those officers so authorized to attest said assignments Mr. F. J. Maurice of the Detroit branch; now, therefore,

BE IT RESOLVED, that said F. J. Maurice, Assistant Cashier at the Detroit branch, be, and is hereby, authorized to attest the assignment of United States Registered Bonds.

BE IT FURTHER RESOLVED, That the Secretary be instructed to forward copies of these resolutions to the Treasury Department and the Federal Reserve Board, together with certified copies of the signature of the above-named officer.

.....  
In compliance with the foregoing resolution you will find below the signature of the officer named therein; which I certify is correct.

*F. J. Maurice*  
F. J. Maurice, Assistant Cashier  
Detroit Branch

Yours very truly,

*W. W. Allen*  
Secretary

Form No. 131.

## Office Correspondence

FEDERAL RESERVE  
BOARD332.5  
332  
Date November 30, 1921.To Mr. Eddy.Subject: Purchase of Municipal WarrantsFrom Mr. Smead.by Federal Reserve Banks.

2-8406

With reference to previous correspondence with Governor Harding on the above subject, I beg to advise that Minneapolis BD-7 schedule, dated November 21, 1921, shows the purchase of \$12,486.41 of school warrants of the city of Ironwood, Michigan, also that the November 25 S-2 schedule of the Philadelphia Bank shows the purchase of a Cumberland County Highway note of a par value of \$45,000. The warrants purchased by Minneapolis mature on February 1, 1922, and those purchased by Philadelphia on March 1, 1922.

Governor Harding advises me that in view of the continued purchase of these warrants they should be shown separately in weekly press statements, and accordingly there is attached hereto a telegram to all Federal reserve banks advising them that press statements showing the condition of the banks should show municipal warrants separately immediately after the caption "U. S. Certificates of Indebtedness - All other". The item "Municipal warrants" will also be added to the balance sheet Form 34 to be used next year.

*Assignment of  
US Bonds  
for St. Louis Fed*

*#7*

*333-1  
333*

November 15, 1921.

Dear Sir:

Receipt is acknowledged of your letter of November 5th, advising of the resolution adopted by your Executive Committee on November 4th, authorizing certain officers of the Federal Reserve Bank of Chicago and its Detroit Branch to attest the assignment of United States Registered Bonds.

Very truly yours,

(Signed) W. L. Eddy

Walter L. Eddy,  
Assistant Secretary.

Mr. W. F. McLallen, Secretary,  
Federal Reserve Bank,  
Chicago, Ill.

*.8*

Form No. 131.

# Office Correspondence

FEDERAL RESERVE  
BOARD

332,5  
Date November 15, 1921.

To Governor Harding.

Subject: 332,5

From Mr. Smead.

2-5406

With reference to my memorandum of October 31 regarding the purchase of municipal warrants by the Federal Reserve Bank of Minneapolis and your reply thereto, dated November 2, we find that on October 28 the Minneapolis Bank purchased \$20,000 of municipal warrants from the Ironwood National Bank, Ironwood, Michigan, and that on November 3 and 4 the Kansas City Federal Reserve Bank purchased from the Fidelity National Bank and Trust Company of Kansas City \$608,000 of municipal warrants of Jackson County, Missouri.

The warrants purchased by the Minneapolis Bank matured on November 10, and those purchased by the Kansas City Bank on November 15, 1921.

# FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

November 5, 1921

FEDERAL RESERVE BOARD,  
Washington, D. C.

Gentlemen:

Please be advised that at meeting of the Executive Committee of this bank held November 4, 1921, the following action was taken:

. . . . .

At the recommendation of Deputy Governor Cramer, UPON MOTION, duly seconded the following resolution was unanimously adopted:

WHEREAS, Under the authority of a resolution passed by the Executive Committee on March 25, 1921, certain officers of the head office of this bank are authorized to attest the assignments on United States registered bonds; and

WHEREAS, no provision has been made for taking care of this work at the Detroit Branch; now therefore,

BE IT RESOLVED, That Messrs. W. F. McLallen, Secretary, D. A. Jones, Controller Fiscal Agency Functions, J. H. Rumbaugh, Manager Government Bond Department, O. J. Netterstrom, Controller of Cash and Custodies, F. Bateman, Manager Securities Department, Clarke Washburne, Controller of Investments, A. W. Dazey, Manager Investment Department, Robert B. Locke, Manager Detroit Branch, William R. Cation, Cashier, Detroit Branch, and John B. Dew, Assistant Cashier, Detroit Branch, be, and are hereby authorized to attest the assignment of United States Registered bonds.

BE IT FURTHER RESOLVED, That the Secretary be instructed to forward copies of these resolutions to the Treasury Department and the Federal Reserve Board, together with certified copies of the signatures of the above named officers.

. . . . .

FEDERAL RESERVE BANK OF CHICAGO


Federal Reserve Board

11/5/1921

- 2 -


In compliance with the foregoing resolution you will find below the signatures of the officers therein enumerated.


  
W. F. McAllen, Secretary

  
D. A. Jones, Controller Fiscal Agency Functions.

  
J. H. Hambaugh, Manager Government Bond Department

  
O. J. Netterstrom, Controller of Cash and Custodies

  
F. Bateman, Manager Securities Department

  
Clarke Washburne, Controller of Investments

  
A. W. Dasey, Manager Investment Department

  
Robert E. Locke, Manager of Detroit Branch

  
William R. Cation, Cashier, Detroit Branch

  
John B. Dew, Assistant Cashier, Detroit Branch

I hereby certify that the foregoing signatures are correct.

Yours very truly,

  
Secretary



# FEDERAL RESERVE BOARD

OFFICE OF THE GOVERNOR

WASHINGTON

November 2, 1921.

Dear Mr. Smead:

Your memorandum of October 31st relating to the purchase of municipal warrants by the Federal Reserve Bank of Minneapolis was brought to the attention of the Board this morning.

The close attention that you give to these matters is appreciated, but the Board believes that there probably are some special reasons for the purchase by the Minneapolis bank of the warrants listed on the transcript of October 18th, which is returned to you herewith, and unless the amount should be increased it does not deem it necessary to bring the matter to the attention of the officials of the Minneapolis bank, nor to make any special reference to it in the Board's future press statements.

You are requested, therefore, to report any further purchases of municipal warrants by the Minneapolis bank or any other Federal Reserve bank but not to make any change in the present form of statement unless increased purchases of municipal warrants should seem to make such a course desirable.

Very truly yours,

  
Governor.

Mr. E. L. Smead, Chief,  
Division of Reports and Statistics,  
Federal Reserve Board.

Form No. 131.

## Office Correspondence

FEDERAL RESERVE  
BOARDDate October 31, 1921.To Governor Harding.

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

From Mr. Sneed.

333

2-3405

*not attached*

Attached hereto is a schedule dated October 18 from the Federal Reserve Bank of Minneapolis, showing the purchase of six municipal warrants issued by Stanbaugh and Iron River Townships in Michigan.

In view of your letter of February 20, 1917 (copy attached), and of the fact that these are the first municipal warrants purchased by the Federal reserve banks since November, 1918, the matter is brought to your attention, as I am not sure whether or not the Board desires to encourage the purchase of municipal warrants at this time. During 1917, when municipal warrants were held by Federal reserve banks, they were shown in the Board's weekly press statement against the caption "Municipal Warrants" and in 1918 against the caption "All other earning assets", the latter caption including a small amount of bill of lading drafts against which funds were advanced by certain of the Federal reserve banks. If the Minneapolis Bank is permitted to hold these municipal warrants until they mature in January 1922, it would seem necessary to set them up separately in the Board's future press statements, in which case I would suggest that the caption "Municipal Warrants" be used. The Minneapolis Bank is now reporting these warrants as "Bills bought in open market".

Enclosures.

*See letter 11/2/21 also memo  
of 10/31/21*

*W21*

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD <sup>X-4</sup>  
WASHINGTON

W. F. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

February 20, 1917.

Dear Sir:

Recently there have come to the Board some requests of Federal Reserve Banks for approval of purchases of warrants in excess of the 25% limit.

The object of this letter is to inform you that the Board does not believe that it would be good policy at this time for Federal Reserve Banks to invest in warrants. Such investments should be encouraged during periods of great ease of money and when rediscounts from member banks and offers of bankers' acceptances are not expected to be heavy. At the moment, however, when indications are that rates are likely to harden and when Federal Reserve Banks must be prepared to meet heavy demands upon them by their member banks, the Board thinks that it is inadvisable to invest the funds of the Federal Reserve Banks in warrants.

Very truly yours,

Governor.

ALBERT W. RUSSEL  
RUSSEL WHEEL & FOUNDRY CO.  
DETROIT, MICHIGAN

FEDERAL RESERVE BOARD FILE

October 7th, 1921. *JP*  
*333*

The Honorable W. P. G. Harding,  
Governor Federal Reserve Board,  
Washington, D. C.

Dear Governor Harding:

I acknowledge receipt of your letter of September 28th. I forwarded to the Governors of the Federal Reserve Banks of Chicago, New York and Boston, letters in line with my letter to you of September 26th - altered, however, as per enclosed letter to the Governor of the Chicago Federal Reserve Bank.

I am today in receipt of a reply from Mr. McDougal, copy of which is enclosed.

I will also forward copies of replies from New York and Boston when these are received, in the view that they might be of interest to you.

Yours very truly,

AWR-EV

*Albert W. Russel*

COPY

FEDERAL RESERVE BANK OF CHICAGO

79 West Monroe Street

October 6, 1921.

Mr. A. W. Russel,  
c-o Russel Wheel & Foundry Co.,  
Detroit, Michigan.

Dear Sir:

I am in receipt of your letter of October 1st, expressing your opinion that lower interest rates than those current should prevail under present conditions, suggesting a method whereby this result may be attained, and asking for my comment and criticism.

While I have read your letter with interest and am pleased to have your views with regard to this very important matter, the points involve questions with respect to which I prefer not to be quoted, and, consequently, I regret my inability to acquiesce in your request for an expression of my own views for use in connection with the paper which you are preparing for publication.

Very truly yours,

(Signed) J. B. McDougal-

Governor.

October 1st, 1921.

*Governor Harding  
Please note last  
three paragraphs  
10/1/21*

The Honorable James B. McDougal,  
Governor Federal Reserve Bank of Chicago,  
Chicago, Illinois.

Dear Sir:

The writer begs leave to offer for your criticism, a suggestion for action by the Federal Reserve Bank of Chicago and other Federal Reserve Banks with excess reserves, to force interest rates of commercial banks to a scale consistent with Federal Reserve Bank re-discount rates.

The writer believes that considerably lower interest rates than prevail today, should be in effect, and would result to the benefit of industry and unemployment. The enclosed article, published in "The Annalist", may be of interest to you.

Granted that lower commercial interest rates would relieve the distress in industry and unemployment, or that for any other reason it is desirable that lower commercial interest rates should follow Federal Reserve Bank rates and should not exceed them, cannot the Federal Reserve Banks force lower commercial rates by increasing on their own initiative the reserve funds of commercial banks by purchasing bills and acceptances, Government and public securities, thereby putting into circulation of commercial banks an amount of reserve money equal to the amount of securities purchased. By "reserve money" I mean Federal Reserve Bank deposit or note liabilities. Inasmuch as such reserve money will support actually ten times its amount in commercial bank credits, the practical effect of such investments by the Federal Reserve Banks will be that ten dollars of money, (commercial bank credits), will be made available for every dollar invested by Federal Reserve Banks.

For instance, if the Federal Reserve Bank of New York purchased on the market, one hundred million dollars of Treasury Certificates, this amount of funds in the form of Federal Reserve Bank deposit liabilities or notes would necessarily go to the credit or into the vaults of the commercial banks, the result of which would be that those banks would either use the funds to pay down on their advances from their Federal Reserve Banks, or if they were free of such advances or re-discounts, they would have excess funds to loan.

Will not the levelling up of rates in the different Federal Reserve districts be greatly helped by adding to the glut of funds in the easy money districts, forcing them to invest funds in the high rate districts? If the New York Federal Reserve Bank invested in eligible public securities originating in the high rate districts, then there would be a direct action tending toward equalization of rates.

The Hon. James B. McDougal.

-2-

October 1st, 1921

The purchase of one hundred million dollars of Treasury Certificates by the New York Federal Reserve Bank would make available one billion dollars of additional money in the commercial banks, provided no portion of these funds were used to liquidate Federal Reserve Bank loans to member banks. The Federal Reserve ratio of the New York Federal Reserve Bank by such action would be lowered from 84 to 77 percent on a basis of its statement of September 21st, provided none of these funds came back through member banks of the district of the New York Federal Reserve Bank.

Can we expect to see commercial rates lower than Federal Reserve Bank re-discount rates, as long as any considerable portion of the banks in the Federal Reserve district are forced to re-discount? And can we expect that re-discounting will not be a regular practice of the future, but that it shall only be availed of for emergency or seasonable needs, if the Federal Reserve Banks do not create reserve funds by open market investments to the extent needed to meet ordinary demands for money in normal times?

It is the writer's belief that the policy of the Federal Reserve Banks with reference to the amount of reserve funds, (Federal Reserve notes and deposit liability), which it can create and retire through its open market purchases and sales, is as important or more so than its re-discount rate, in the effects on monetary conditions and industrial conditions.

The interest of the writer in securing your criticism on the matter referred to above, is because of some writing he is doing on this subject and which he is preparing for publication.

Yours very truly,

AWR-EV

333  
257  
R  
September 28, 1921

Dear Mr. Russel:

I have your letter of the 25th instant, which I have read with much interest.

The Federal Reserve Board has already authorized Federal reserve banks to purchase Treasury certificates which appear, because of their short maturities, to be a better investment for the Federal reserve banks than the longer term Government bonds. In view of the fact that the floating debt of the Treasury, which is represented by these certificates, is now something over \$3,000,000,000, it seems that the idea you suggest can be carried out just as effectively by the purchase of certificates as it could be by the purchase of bonds.

Your attention is called to the fact, however, that Congress did not provide a central bank in this country, but provided for twelve Federal reserve banks. These banks are under the general supervision only of the Federal Reserve Board but are under the direct supervision and control of their own boards of directors. The Board does not appear to have the power to compel a Federal reserve bank to make any investment which its own directors may deem inadvisable and I would suggest, therefore, that you communicate your idea to some of the Federal reserve banks, particularly the Federal Reserve Bank of Chicago, without mentioning this correspondence. I would appreciate it if you would send me copies of the replies received.

Very truly yours,

G O V E R N O R .

Mr. Albert W. Russel,  
c/o Russel Wheel & Foundry Co.,  
Detroit, Michigan.



ALBERT W. RUSSEL  
RUSSEL WHEEL & FOUNDRY CO.  
DETROIT, MICHIGAN

332

September 26, 1921.

Hon. W. P. G. Harding,  
Governor Federal Reserve Board,  
Washington, D. C.

Dear Governor Harding:

About two months ago I submitted a paper to you in which I urged that some means be provided to compel the commercial banks to lower their interest rates to properly conform with Federal Reserve Bank re-discount rates. Since then, I have given considerable study to the matter, and I beg leave to suggest to you methods by which this may be accomplished.

The Federal Reserve Banks, by purchasing bills and acceptances, and Government and public securities, put into the circulation of commercial banks an amount of reserve money equal to the amount of securities purchased. By "reserve money" I mean Federal Reserve Bank deposit or note liabilities. Inasmuch as such reserve money will support actually ten times its amount in commercial bank credits, the practical effect of such investments by the Federal Reserve Banks will be that ten dollars of money, (commercial bank credits), will be made available for every dollar invested by Federal Reserve Banks.

For instance, if the Federal Reserve Bank of New York purchased on the market, one hundred million dollars of Government bonds, this amount of funds in the form of Federal Reserve Bank deposit liabilities or notes would necessarily go to the credit or into the vaults of the commercial banks, the result of which would be that those banks would either use the funds to pay down on their advances from their Federal Reserve Banks, or if they were free of such advances or re-discounts, they would have excess funds to loan.

Will not the levelling up of rates in the different Federal Reserve districts be greatly helped by adding to the glut of funds in the easy money districts, forcing them to invest funds in the high rate districts? If the New York Federal Reserve Bank invested in securities originating in the high rate districts, then there would be a direct action tending toward equalization of rates.

The purchase of one hundred million dollars of bonds by the New York Federal Reserve Bank would make available one billion dollars of additional money in the commercial banks, provided no portion of these funds were used to liquidate Federal Reserve Bank loans to member banks. The Federal Reserve ratio of the New York Federal Reserve Bank by such action would be lowered from 84 to 77 percent on a basis of its statement of September 21st, provided none of these funds came back through member banks of the district of the

Hon. W. P. G. Harding.

-2-

September 26, 1921

New York Federal Reserve Bank.

Furthermore, the purchase of Government bonds by Federal Reserve Banks would be profitable to them, for the bonds would naturally increase in market values as bank interest rates dropped.

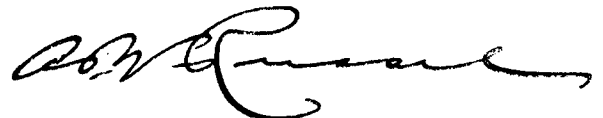
In the writer's opinion, relief of unemployment and general industry can be brought about quickly and effectively by the means suggested above. As to the entire practicability of this suggestion, the writer is not qualified to judge. It is, of course, true that this plan necessarily means inflation of values and prices; but in view of the fact that some commodities have declined at a rate entirely out of relation with others, is it not reasonable to expect that a tendency towards higher prices will only affect those that have been forced to levels inconsistent with the general average of prices. A complete readjustment of values will not come about until railroad rates and wage rates in some trades, are considerably reduced from their existing scales; and from present indications, it would seem that we cannot expect this complete readjustment within at least a couple of years.

In view of the distressing conditions we are facing today and for the coming winter, and also on account of public sentiment, would not a period of mild "secondary" inflation be desirable? It would seem that there is no danger of a tendency towards inflation getting "out of hand", because of the control the Federal Reserve Board can exercise through higher re-discount rates and reductions in Reserve Bank investments.

If the suggestion made in this letter is of interest to you, the writer would like to discuss it in more detail with you, and is prepared to call on you at your convenience.

Yours very truly,

AWR-EV



*W. D. Jones  
Programs*

*#7*

*333*

March 30, 1921.

Dear Sir:

Receipt is acknowledged of your letter of March 28, enclosing copy of resolution adopted by the Board of Directors of the Federal Reserve Bank of Chicago, which amends the resolution passed by the Executive Committee on February 21 and confirmed by your Board of Directors on February 25, authorizing certain officers of your Bank to sell, assign or transfer United States Registered Bonds.

Very truly yours,

Signed: R. G. Emerson

R. G. Emerson,  
Assistant to Governor.

Mr. D. A. Jones,  
Controller of Fiscal Agency Functions,  
Federal Reserve Bank of Chicago,  
Chicago, Illinois.

# FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

333.

March 28, 1921



Federal Reserve Board  
Washington  
D.C.

Gentlemen:

Enclosed you will find resolution passed by our Board of Directors on Friday, March 25, 1921, amending resolution passed by the Executive Committee on February 21 and confirmed by the Board on February 25, copy of which was forwarded to you, authorizing certain officers to sell, assign or transfer United States Registered Bonds.

Very truly yours,

A handwritten signature in cursive script, appearing to read "D. C. Jones".

Controller of  
Fiscal Agency Functions

DAJ ADP

# FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

333

March 26, 1921

FEDERAL RESERVE BOARD  
WASHINGTON

Gentlemen:

At regular meeting of the Board of Directors of this bank held Friday, March 25, 1921, the following action was taken:

.....

UPON MOTION, the Directors voted to amend the resolution passed by the Executive Committee at meeting of February 21st, (confirmed by the Board on February 25, 1921) authorizing certain officers to sell, assign or transfer U. S. Registered Bonds, and certain other officers to attest said assignment, by inserting in the first and second paragraphs thereof the words, "jointly and severally," so that each paragraph of said resolution shall read:

\*\*\* "be, and are hereby, jointly and severally, authorized" \*\*\*

and the Secretary was instructed to send copies of the said resolution, as amended, to the Federal Reserve Board and the Treasury Department.

.....

Please attach this letter to ours of February 25, 1921, on the same subject.

Yours very truly,



Secretary

WFM:R

#7

333-1

333

February 28<sup>th</sup> 1921.

Dear Sir:

Receipt is acknowledged of your  
letter of February 25, 1921, submitting  
resolution adopted by the Board of  
Directors of the Federal Reserve Bank of  
Chicago on that day authorizing certain  
officers of that Bank to sell, assign  
and to attest assignment of United States  
Registered Bonds.

Very truly yours,

(Signed) R. G. Emerson

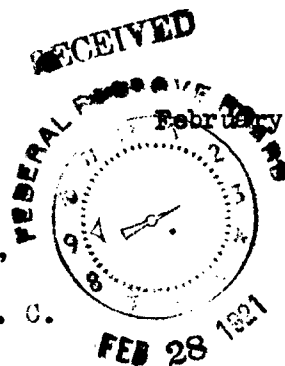
R. G. Emerson,  
Assistant to Governor.

Mr. W. F. McAllen, Secretary,  
Federal Reserve Bank of Chicago,  
Chicago, Illinois.

742

# FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET



FEDERAL RESERVE BOARD,  
Washington, D. C.

Gentlemen:

Please be advised that at meeting of the Executive Committee of this bank held February 21, 1921, the following action (confirmed by the Board of Directors this day) was taken:

.....

In view of the changes in our organization it was voted to rescind the resolution of February 28, 1919, authorizing certain officers to sell, assign or transfer U. S. Registered Bonds standing in our name on the books of the Treasury Department.

And the resolution of August 27, 1920, authorizing certain officers to attest the assignment of U. S. Registered Bonds,

And the following resolution was adopted in lieu thereof, subject to the approval of our Board of Directors:

BE IT RESOLVED, That J. B. McDougal, Governor, C.R. McKay, Deputy Governor, S. B. Cramer, Deputy Governor, Kent C. Childs, Controller of Loans and Credits, F. J. Carr, Controller Member Bank Accounts, D. A. Jones, Controller Fiscal Agency Functions, A.H. Vogt, Controller of Accounting, O. J. Netterstrom, Controller of Cash and Custodies, W. C. Bachman, Controller of Collections, J. H. Dillard, Controller of Administration, Clarke Washburne, Controller of Investments, and A. W. Dazey, Manager Investment Department, be, and are hereby, authorized and empowered to sell and assign any or all United States Registered Bonds or Registered Bonds of any description, which are transferable on the books of the Treasury Department now standing, or which may hereafter stand, in the name of this Bank, and to appoint one or more attorneys for that purpose.

FEDERAL RESERVE BANK OF CHICAGO

FEDERAL RESERVE BOARD

-2-

February 25, 1921

BE IT RESOLVED, that Messrs. W.F. McLallen, Secretary, D. A. Jones, Controller Fiscal Agency Functions, J.H. Rumbaugh, Manager Government Bond Department, O. J. Netterstrom, Controller of Cash and Custodies, F. Bateman, Manager Securities Department, Clarke Washburne, Controller of Investments, and A. W. Dazey, Manager Investment Department, be, and are hereby, authorized to attest the assignment of United States Registered Bonds.

BE IT FURTHER RESOLVED, That the Secretary be instructed to forward copies of these resolutions to the Treasury Department and the Federal Reserve Board, together with certified copies of the signatures of the above named officers.

In compliance with the foregoing resolution you will find below the signatures of the officers therein enumerated.

*J.B. McDougal*  
(J.B. McDougal, Governor.)  
*C.R. McKay*  
(C.R. McKay, Deputy Governor)  
*E.B. Cramer*  
(E. B. Cramer, Deputy Governor)  
*Kent C. Childs*  
(Kent C. Childs, Controller of Loans & Credits)  
*F.J. Carr*  
(F. J. Carr, Controller Member Bank Accounts)  
*D.A. Jones*  
(D.A. Jones, Controller Fiscal Agency Functions)  
*A.H. Vast*  
(A. H. Vast, Controller of Accounting)  
*O.J. Netterstrom*  
(O. J. Netterstrom, Controller of Cash & Custodies)  
*W.C. Bachman*  
(W. C. Bachman, Controller of Collections)  
*Clara Dillars*  
(Clara Dillars, Controller of Administration)  
*Clarke Washburne*  
(Clarke Washburne, Controller of Investments)  
*A.W. Dazey*  
(A. W. Dazey, Manager Investment Department)  
*W.F. McLallen*  
(W. F. McLallen, Secretary)  
*J.H. Rumbaugh*  
(J.H. Rumbaugh, Manager Government Bond Department)  
*F. Bateman*  
(F. Bateman, Manager Securities Department)



FEDERAL RESERVE BANK OF CHICAGO

FEDERAL RESERVE BOARD

-3-

February 25, 1921

Yours very truly,

A handwritten signature in cursive script, appearing to read "Wm. H. Hall", written in dark ink.

S e c r e t a r y .

GR-LB

Form 148

~~TELEGRAM~~  
FEDERAL RESERVE BOARD  
LEASED WIRE SERVICE  
WASHINGTON

2-0454

April 15, 1920.

McCord - Atlanta.

Reference our exchange of wires regarding U. S. circulation  
bonds. A. S. Pratt & Sons advise today's quotation U.S.  
Panama 2's 101-3/4; U.S. Consols 2's 101-7/8; U.S. 4's  
107, Washington delivery, and are prepared to make immediate  
sale.

EMERSON

148

**TELEGRAM**  
**FEDERAL RESERVE BOARD**  
LEASED WIRE SERVICE  
WASHINGTON

2-1454

April 12, 1920.

McGord - Atlanta.

Your wire 9th. A. S. Pratt & Sons advise they have no circulating bonds available. State last sale of U.S. 2's at 101-7/8; last sale of 4's 1925 106-3/4. They are daily expecting to make a purchase of such bonds, at which time I will advise you further as to definite quotations.

HARRISON

*mpu*

# TELEGRAM

## FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

66ANLX

Atlanta Ga, 1207p 9

Emerson

FRBoard Washington DC

Kindly ask pratt and Sons quote best price \$10,000 U S 2 and consols  
percent  
registered also 4 ~~more~~ due 1925 washington delivery

McCord

123p

333  
33  
22  
3-716

42  
33

m. 5583

2. 101 1/8  
102 1/4  
4-106 3/4

**FEDERAL RESERVE BANK OF RICHMOND**

FEDERAL RESERVE BOARD FILE

August 6, 1919

**TO ALL BANKS & TRUST COMPANIES,  
FIFTH FEDERAL RESERVE DISTRICT:**

Enclosed is a copy of Treasury Department Circular No. 147,  
Division of Loans & Currency, dated July 22, 1919, revising regulations  
regarding

**ASSIGNMENT OF UNITED STATES REGISTERED BONDS & NOTES**

In this connection your attention is called to the following  
excerpt from Treasury Department Circular No. 100, Division of Loans &  
Currency, dated December 26, 1917, STATING WHO ARE AUTHORIZED TO WITNESS  
THE EXECUTION AND ACKNOWLEDGMENT OF THE ASSIGNMENTS OF REGISTERED BONDS:

"The officers authorized to witness the execution and acknowledgment of the assignments of registered bonds are the following: Judges and clerks of United States courts; United States district attorneys; collectors of customs; collectors of internal revenue; assistant treasurers of the United States located in Boston, New York, Philadelphia, Baltimore, Cincinnati, New Orleans, Chicago, St. Louis, and San Francisco; executive officers of Federal Reserve Banks and their branches located in Boston, New York, Philadelphia, Cleveland, Richmond (with branch at Baltimore), Atlanta (with branch at New Orleans), Chicago, St. Louis, Minneapolis, Kansas City (with branches at Omaha and Denver), Dallas, and San Francisco (with branches at Seattle, Spokane, and Portland); executive officers of national banks and of other incorporated banks and trust companies organized under the laws of any State, whether or not members of the Federal Reserve System; and in the District of Columbia the executive officers of any trust company doing business in said District under the laws of Congress. Registered bonds also may be assigned at the Treasury Department, Washington. In the absence of any officer authorized to witness assignments upon application to the Secretary of the Treasury, Division of Loans and Currency, Washington, special authority will be issued for a postmaster to act. Notaries public are not authorized to witness assignments. In all cases the officer before whom an assignment is executed and acknowledged must add his official designation, residence, and seal, if he has one, same being affixed to the bond."

Respectfully,

FEDERAL RESERVE BANK OF RICHMOND,  
FISCAL AGENT OF THE UNITED STATES.

# ASSIGNMENT OF UNITED STATES REGISTERED BONDS AND NOTES.

1919.

Department Circular No. 147.<sup>1</sup>

Division of Loans and Currency.

## TREASURY DEPARTMENT,

OFFICE OF THE SECRETARY,

Washington, July 22, 1919.

*To Officers Authorized to Attest Assignments of United States Registered Bonds and Notes:*

In taking acknowledgment of the assignment of United States registered bonds or notes you are respectfully requested to call the attention of assignors to the regulation of the Treasury Department that an assignment by an executor, administrator, trustee, guardian, or attorney to himself individually is void and that no transfer will be made upon such an assignment, except upon special authority granted therefor by the court having jurisdiction of the matter.

When such assignments have been unadvisedly executed, and the bonds or notes forwarded for transfer without having first obtained an order of court, the bonds or notes will be retained and action suspended until a duly certified copy of an order of court ratifying and confirming the assignment so made, giving date of assignment and describing the bonds or notes by loan, number, and denomination, shall be furnished this office.

The order of court may be as follows:

County of \_\_\_\_\_ }  
State of \_\_\_\_\_ } ss:

IN THE PROBATE COURT OF SAID COUNTY.

*In the Matter of the Estate of Richard Roe, Deceased; John Doe, Administrator.*

Be it remembered that on this the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, it is made to appear to the satisfaction of the court, upon the petition of John Doe, administrator of the estate of Richard Roe, deceased, and upon the evidence submitted at the hearing, that said John Doe is justly and legally entitled in this own right to the \_\_\_\_\_ United States registered \_\_\_\_\_ per cent bonds (notes) of \_\_\_\_\_ for \$\_\_\_\_\_ each, numbered \_\_\_\_\_ and \_\_\_\_\_, and inscribed in the name of said Richard Roe: It is now, therefore, adjudged and decreed that said John Doe, as such administrator, be authorized to assign said bonds (notes) to himself [or, it is adjudged and decreed that the assignment of said bonds (notes) heretofore executed, to wit, on \_\_\_\_\_, 19\_\_\_\_, by said John Doe, as such administrator, to himself as an individual, is now hereby in all things ratified and confirmed], to the end that he may have new bonds (notes) issued in his name and his title thus perfected.

\_\_\_\_\_,  
*Judge of said Court.*

The clerk of said court should certify to the official character of the judge, the genuineness of his signature, the correctness of the copy, and affix the seal of the court, and the judge should make a like certificate as to the authority and signature of the clerk.

Care should be taken to have assignors sign their names exactly as written on the face of the bonds or notes, or in the powers under which they assign, and to fill blank spaces on backs of bonds or notes as to date, place of execution of assignments, and names of assignees.

Attention is called to printed instructions on the backs of the bonds and notes.

**CARTER GLASS,**

*Secretary of the Treasury.*

<sup>1</sup> Superseding Department Circular No. 17, dated July 26, 1913.