

DECLASSIFIED
Authority E.O. 10501

Form P. R. 587

END SHEET

KIND OF MATERIAL OR NUMBER

333.343

NAME OR SUBJECT

Allocation of Participations in
System Open Market Account
Federal Open Market Committee

DATES (Inclusive)

~~Jul 1943~~ - ¹⁹⁴⁴ ~~Mar 1945~~

PART NUMBER

Part 3

DECLASSIFIED
Authority E.O. 10501

*Mr. Foster
Daniels*

FEDERAL RESERVE BANK
OF NEW YORK

REMOVED TO FILES SECTION
DEC 28 1944
333.315

December 26, 1944.

Dear Mr. Smead:

Apropos of our telephone conversation today, I am enclosing a copy of a telegram which Mr. Rouse sent to the President of each of the Federal Reserve Banks.

Very truly yours,

S. A. Miller,
Assistant Vice President.

Mr. Edward L. Smead, Director,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Encl.



FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

MISC. 140-B-50M-2-43

DIVISION OF FILES SECTION
DEC 28 1944

Sec. Dept.
MAH:ms

DECEMBER 26, 1944

PLEASE SEND THE FOLLOWING TELEGRAM TO THE PRESIDENT OF EACH FEDERAL RESERVE BANK EXCEPT NEW YORK:

DUE TO THE LAST BUSINESS DAY OF THIS MONTH FALLING ON SATURDAY, THE MONTH-END ADJUSTMENTS IN PARTICIPATIONS IN TREASURY BILLS HELD IN SYSTEM ACCOUNT WILL BE EFFECTED ON FRIDAY, BASED ON THE RESERVE RATIOS AT THE CLOSE OF BUSINESS THURSDAY. IF YOU FIND ON SATURDAY THAT YOU NEED TO FURTHER ADJUST THE RESERVE RATIO OF YOUR BANK, PLEASE TELEPHONE US AND WE WILL TAKE CARE OF THE MATTER. THE USUAL REALLOCATION OF PARTICIPATIONS IN SYSTEM ACCOUNT WILL BE MADE AT THE START OF THE NEW YEAR AND WE WILL ADVISE YOU LATE IN THE AFTERNOON OF JANUARY 2, 1945, OF THE ENTRIES TO BE MADE. ALTHOUGH THESE ENTRIES ARE TO BE MADE ON THE RECORDS AS OF JANUARY 1, THE TRANSFER OF FUNDS WILL BE HANDLED IN THE CLEARINGS OF JANUARY 2.

COPY

ROUSE

RECEIVED
DEC 27 1944
ST. LOUIS
FEDERAL RESERVE BANK

FOR FILE
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

*Ed
You*

FEDERAL RESERVE BANK
OF NEW YORK

REC'D IN RECORDS SECTION
APR 25 1968
333,873

December 8, 1943

Mr. E. L. Smead, Chief,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Ed:

There is enclosed a copy of a memorandum prepared in the Securities Department dealing with the subject of reallocations of participations in the System Account on January 1, 1944. This is the memorandum to which I referred in my conversation with you over the telephone the other day.

Faithfully yours,

Robert G. Rouse, Manager,
System Open Market Account.

Enclosure



Directive #1

MISC. 140-B-30M-7-42

December 7, 1943

Mr. Rouse

Securities Department

REALLOCATIONS OF PARTICIPATIONS IN SYSTEM ACCOUNT ON JANUARY 1, 1944

During the past year operations of the Reserve Banks in Treasury bills under Repurchase Option have resulted in increasingly large shifts between the banks of participations in System Open Market Account at the prescribed periods of adjustments of participations due to the inclusion of earnings derived from such bills in computations of adjustments. The inclusion of such earnings would not have affected the reallocation if they had been spread proportionately among the Reserve Banks. It is due to the fact that the bulk of the operations in Option bills is concentrated in a comparatively few Reserve Banks, and to the difficulty in estimating in advance the earnings to be expected from this source for any given period that the adjustments in participations have been so large. The change in participation of the various Reserve Banks between January 1, 1943 and December 1, 1943 due to the change in the size of the Account and to reallocations are shown below:

(In thousands of dollars)

	<u>Participation</u> <u>1/1/43*</u>	<u>Participation</u> <u>12/1/43*</u>	<u>Net</u> <u>Change</u>	<u>Change</u> <u>due to</u> <u>Reallocations</u>	<u>Change due</u> <u>to other</u> <u>Transactions</u>
Boston	412,909	520,992	+ 108,083	+ 102,501	+ 5,582
New York	1,499,782	301,568	-1,198,214	-1,203,674	+ 5,460
Philadelphia	441,963	487,445	+ 45,482	+ 40,656	+ 4,826
Cleveland	530,801	887,938	+ 357,137	+ 349,509	+ 7,628
Richmond	338,409	482,756	+ 144,347	+ 138,771	+ 5,576
Atlanta	250,321	468,839	+ 218,518	+ 213,673	+ 4,845
Chicago	688,057	493,320	- 194,737	- 205,257	+10,520
St. Louis	267,590	276,720	+ 9,130	+ 6,634	+ 2,496
Minneapolis	164,037	222,287	+ 58,250	+ 56,035	+ 2,215
Kansas City	266,139	393,619	+ 127,480	+ 124,046	+ 3,434
Dallas	219,375	392,442	+ 173,067	+ 169,438	+ 3,629
San Francisco	518,250	735,141	+ 216,891	+ 207,668	+ 9,223
Totals	<u>5,597,633</u>	<u>5,663,067</u>	<u>+ 65,434</u>	<u>+1,408,931</u>	<u>+65,434</u>

*After giving effect to the reallocation on these dates.

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December 7, 1943

Mr. Rouse

Securities Department

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This has resulted in a somewhat anomalous method of allocating securities in that some banks have far greater proportionate funds invested than others due to the low earning rate on bills carried in Option Accounts as compared with the average earning rate in the System Open Market Account. The holdings of the several banks in System Account and Option Accounts as of December 1 and the respective earning rates which follow will serve as an illustration. However, in appraising the figures below it should be kept in mind that the earning rates are those as of December 1 and, in all cases, are probably lower than the average earning rate for the year on funds invested.

(In thousands of dollars)

	Participation in System A/c on Dec. 1 <u>average earning rate 1.04226%</u>	Outright holdings in Option Bills on Dec. 1 <u>earning rate 3/8%</u>	Total Holdings	Earnings on Annual Basis Total Holdings	Average earning rate on Total Holdings
Boston	520,992	197,489	718,481	6,119	0.8516%
New York	301,568	2,839,003	3,140,571	13,759	0.4381%
Philadelphia	487,445	252,974	740,419	5,980	0.8077%
Cleveland	887,938	43,249	931,187	9,328	1.0017%
Richmond	482,756	92,237	574,993	5,329	0.9268%
Atlanta	468,839	16,895	485,734	4,903	1.0094%
Chicago	493,320	783,728	1,277,048	8,031	0.6289%
St. Louis	276,720	183,067	459,787	3,543	0.7705%
Minneapolis	222,287	50,000	272,287	2,482	0.9115%
Kansas City	393,619	59,224	452,843	4,285	0.9463%
Dallas	392,442	20,676	413,118	4,129	0.9993%
San Francisco	735,141	245,471	980,612	8,508	0.8676%
Totals	<u>5,663,067</u>	<u>4,784,013</u>	<u>10,447,080</u>	<u>76,396</u>	<u>0.7313%</u>

Since this situation as a problem to be dealt with has been reviewed in a previous memorandum the salient facts have been reviewed merely as an introduction to the

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December 7, 1943

Mr. Rouse

Securities Department

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implications with respect to the reallocation of System Open Market Account holdings called for on January 1, 1944 and the possible effect on the reserve ratios of the banks. It is expected that the new procedure in connection with Treasury bills will result in smaller Option Account holdings and correspondingly small earnings from such sources. Consequently the adjustments in the participations of the Reserve Banks in the System Account should be much smaller in the reallocations subsequent to the January 1, 1944 reallocation even if estimated earnings from Option Account holdings are included.

In attempting a prognostication of the probable changes in participations to be expected at that time it must be recognized that a wide disparity between estimates and actual experience may well result due to circumstances during the interim difficult to evaluate or discern at this time. For the purpose of working out a hypothetical reallocation for January 1, 1944 we may safely assume that estimated expense and dividend figures and the figures for estimated income from sources other than Government securities that will be used in the reallocation called for on January 1, 1944 will not be materially changed from those used in the December 1, 1943 reallocation.

The System Account will undoubtedly increase substantially between now and December 31, 1943, largely due to the purchase of Treasury bills brought about by the new procedure of buying new bills allotted to dealers for the System Account in an amount which will offset the maturity in both the System and Option Accounts as far as it is possible to do so. The System Account will also increase as a result of market purchases of other issues which are likely to center in certificates. It is estimated that the Federal Reserve System must supply about

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December 7, 1943

Mr. Rouse

Securities Department

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\$1,000,000,000* of new funds to the market in December. Under the new bill procedure it seems reasonable to say that about half of this amount will be supplied by purchase of bills at the $\frac{3}{8}$ per cent discount rate for the Option Accounts of the various Reserve Banks. This indicated substantial increase in the System Account, part of which is to partly offset an expected decline in the Option Accounts due to maturities (to this extent no new funds are added), will undoubtedly bring about a substantial decline in the System Account earning rate. Thus, the various Reserve Banks will need a larger amount of securities to cover their estimated expenses and dividends.

There follows an attempt to arrive at the System's holding figure and the earning rate in the System Account on December 31, 1943 which is necessary to make any reasonable guess as to the changes in participations on January 1, 1944 as a result of the reallocation on that date.

*Our Research and Statistical Department feels that a conservative figure would be \$800,000,000 but that \$1,000,000,000 is more likely.

December 7, 1943

Mr. Rouse

Securities Department

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	(In Millions of Dollars)
<u>System maturities in December based on present holdings</u>	
Treasury bills maturing in System Account	390
Treasury bills maturing in Option Accounts	1,914
Total Treasury bill maturity	2,304
Treasury notes maturing in System Account	34
Total maturities	<u>2,338</u>
<u>Estimated Treasury bill purchases for System Account</u>	
Amount of Treasury bills to be bought for System Account (based on \$400 million a week, the approximate amount bought during the last two weeks)	2,000
Net less of funds to the market	<u>338</u>
<u>Estimated Funds to be put in Market</u>	
Funds to be added as a result of loss of funds due to excess of redemption of Treasury bills over purchase (\$2,304 less \$2,000)	304
As a result of System Treasury note maturity	34
New funds to be provided	1,000
Total funds to be added	<u>1,338</u>
<u>Estimated source of added funds</u>	
Option Account purchases	504
System Account purchases	<u>834</u>
Total	<u>1,338</u>
<u>Estimated increase in System Account</u>	
Excess of Treasury bill purchases over maturities (\$2,000 less \$390)	1,610
Other market purchases (\$834 less \$34 Treasury note redemption)	<u>800</u>
Net increase	<u>2,410</u>

Estimated Earning Rate in System Account on December 31

(In thousands of dollars)

	<u>Amount</u>	<u>Earning Rate</u>	<u>Income on Annual Basis</u>
Current holdings (December 1)	5,663,067	1.032226586%	58,456
Net purchases of Treasury bills in December	1,610,000	0.375%	6,037
Purchases of Certificates of Indebt. and other securities in December	<u>834,000</u>	0.70%	<u>5,838</u>
	8,107,067		70,331
Less Treasury notes maturing	<u>34,000</u>	0.947159%	<u>322</u>
Total	<u>8,073,067</u>	<u>0.8671939%</u>	<u>70,009</u>

December 7, 1943

Mr. Rouse

Securities Department

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In estimating an earning rate of 0.70% on purchases of \$834,000,000 securities other than Treasury bills it has been assumed that purchases will center in certificates on which the yield will average somewhat less than 0.70%. However, it is felt that small purchases of other types of securities at a somewhat higher yield will bring the average up slightly.

Estimated Changes in Participations as a Result of Operations
and Reallocations on January 1, 1944

(In thousands of dollars)

	Holdings Dec. 1/43	Net Purchases during Dec. (a)	Holdings Dec. 31/43	Holdings Jan. 1, 1944 after reallocation (b)	Adjustments in participation Jan. 1, 1944
Boston	520,992	179,808	700,800	575,816	- 124,984
New York	301,568	645,731	947,299	2,105,449	+1,158,150
Philadelphia	487,445	196,265	683,710	607,437	- 76,273
Cleveland	887,918	243,764	1,131,702	783,546	- 343,156
Richmond	482,756	137,968	620,724	482,859	- 137,865
Atlanta	468,839	109,067	577,906	395,893	- 182,013
Chicago	493,320	282,100	775,420	1,016,864	+ 241,444
St. Louis	276,720	109,992	386,712	376,685	- 10,027
Minneapolis	222,287	73,946	296,233	233,746	- 62,487
Kansas City	393,619	116,974	510,593	371,622	- 138,971
Dallas	392,442	97,005	489,447	332,251	- 157,196
San Francisco	735,141	217,380	952,521	785,899	- 166,622
Totals	5,663,067	2,410,000	8,073,067	8,073,067	+1,399,594

(a) Allocated on average holding ratios used in plan of reallocation Dec. 1, 1943.

(b) Reallocation based on the following assumptions:

- (1) Holdings will be \$8,073,067,000.
- (2) Earning rate will be 0.8671939%.
- (3) Estimated expenses, dividends and earnings from sources other than Government securities will be the same as shown in the December 1, 1943 plan of reallocation.
- (4) Excluding earnings from Treasury bills held in Option Accounts.

It is obvious that adjustments would be somewhat smaller if some estimate of earnings from Treasury bills held in Option Accounts were included.

However, estimated earnings from such sources were not included in the foregoing computations as the Federal Open Market Committee has on its agenda

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December 7, 1943

Mr. Rouse
Securities Department

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for consideration at its next meeting the basis on which Treasury bills acquired in Option Accounts are to be handled. In addition, under the new procedure of replacing Treasury bills maturing in Option Accounts by purchases in the market for System Open Market Account it is difficult to weigh the effect on the future volume in Option Accounts.

Nevertheless, as a basis of comparison with the above estimates, a calculation has been made including some earnings from option bills. For this purpose, we have taken an amount equal to one half estimated earnings for the year 1943 on Treasury bills in Option Accounts and a comparison of the two adjustments follows:

	Adjustments in participations Jan. 1, 1944 excluding estimated earnings <u>from option bills</u>	Adjustments in participations Jan. 1, 1944 including estimated earnings from option bills (1/2 of estimated <u>earnings for 1943</u>)
Boston	- 124,984	- 92,429
New York	+1,158,150	+ 939,305
Philadelphia	- 76,273	- 53,900
Cleveland	- 343,156	- 290,315
Richmond	- 137,865	- 112,028
Atlanta	- 182,013	- 159,517
Chicago	+ 241,444	+ 224,274
St. Louis	- 10,027	- 17,287
Minneapolis	- 62,487	- 48,651
Kansas City	- 138,971	- 116,512
Dallas	- 157,196	- 135,904
San Francisco	- 166,622	- 137,036
	<u>+1,399,594</u>	<u>+1,163,579</u>

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December 7, 1943

Mr. Rouse

Securities Department

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THE RESERVE RATIO OF THE FEDERAL RESERVE BANK OF NEW YORK

It is apparent that the reserve ratio of this Bank will rise during the course of the current month as a result of heavy net purchases for the System Open Market Account which will bring about a substantial increase in this Bank's reserves as other Federal Reserve Banks are charged for their participation in the purchases for the Account. As a guess, the reserve ratio may run up from 63.1 on December 1 to above 70 toward the end of December and then drop sharply to about 60 when the reallocation takes effect. On the basis of these estimates, there seems to be little reason for concern over the trend of this Bank's reserve ratio in the very near future. Mr. Johnson, Manager of the Research Department, concurs in these general statements.

SAM/NAH/RMB:ABM

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Authority E.O. 10501

*Mr. Daniels
Mr. Van Dusen
Mr. Smith*

FEDERAL RESERVE BANK
OF NEW YORK

REC'D IN RECORDS SECTION
APR 23 1968
333,343

December 2, 1944.

Dear Mr. Smead:

We received your letter of December 1, 1944, and have today sent to the Reserve Banks a copy of the computation showing the adjustments made on December 1, 1944, in participations in the System Open Market Account, pursuant to the plan adopted at the meeting of the Federal Open Market Committee on September 21, 1944.

Enclosed herewith is a copy of the letter of transmittal together with three copies of the computation, also copies of the telegrams which were sent to each of the Federal Reserve Banks on November 30, and December 1, 1944.

Yours faithfully,

Robert G. Rouse
Robert G. Rouse, Manager,
System Open Market Account.

Mr. E. L. Smead, Director,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Enclosures (6)



Director #1

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Authority E.O. 10501

REC'D IN RECORDS SECT.
APR 23 1968

SECURITIES DEPT.
HIB:FO'N

November 30, 1944

THE FOLLOWING TELEGRAM TO BE SENT TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT NEW YORK:

AS YOU KNOW A REALLOCATION OF PARTICIPATIONS IN SYSTEM OPEN MARKET ACCOUNT IS CALLED FOR ON DECEMBER FIRST. AS FINAL COMPUTATIONS WILL BE BASED UPON RESERVE POSITIONS AS OF NOVEMBER THIRTIETH WE WILL BE UNABLE TO ADVISE YOU OF THE CHANGE IN YOUR PARTICIPATION AND ENTRIES TO BE MADE BY YOUR BANK UNTIL LATE TOMORROW AFTERNOON.

ROUSE

DECLASSIFIED
 Authority E.O. 10501

MISC. 140-B-50M-2-43

REC'D IN RECORDS SECTION
 APR 23 1968

Sec. Dept.
 HEB:ms

December 1, 1944.

PLEASE SEND THE FOLLOWING TELEGRAM TO EACH FEDERAL RESERVE BANK AS INDICATED BELOW:

As advised in my wire yesterday readjustment of participations in Government securities held in System Account is being made today under the plan for reallocation of Government securities adopted by the Federal Open Market Committee September 21, 1944. The computations showing adjustments made in participations of the several Reserve Banks will be mailed to all Reserve Banks on December 2. These

computations indicate an **INCREASE** of \$ _____ in your participation today.
 or a **DECREASE** of \$ _____

Your bank will receive this afternoon the usual coded wire showing the detailed entries to be made today which will include your private share of today's purchases.

COPY

		<u>INCREASE</u>	<u>DECREASE</u>
FLANDERS	BOSTON	\$ 8,968,000	
WILLIAMS	PHILADELPHIA		\$ 32,468,000
GIBNEY	CLEVELAND		12,945,000
LEACH	RICHMOND	11,045,000	
MCLARIN	ATLANTA		17,654,000
YOUNG	CHICAGO	32,290,000	
DAVIS	ST. LOUIS	55,904,000	
PEYTON	MINNEAPOLIS		6,527,000
LEEDY	KANSAS CITY	1,009,000	
GILBERT	DALLAS		7,678,000
DAY	SAN FRANCISCO		85,007,000

HOUSE

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Authority E.O. 10501

MISC. 140A 109M-5-42

FEDERAL RESERVE BANK OF NEW YORK

REC'D IN RECORDS SECTION
APR 23 1968

December 2, 1944.

Dear Mr. Flanders:

In accordance with my telegram of December 1, 1944, I enclose herewith computation of the readjustments made on December 1, 1944, in the participations of the Federal Reserve Banks in the System Open Market portfolio.

Yours faithfully,

Robert G. Rouse, Manager,
System Open Market Account.

Mr. Ralph E. Flanders, President,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Enclosure

COPIED

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
I. Allocation of Interest-Bearing Securities													
A. Estimated current expenses, 1944	49,347	3,269	11,488	3,565	4,599	3,160	2,710	6,866	2,538	1,309	2,557	2,051	5,235
B. Estimated dividends, 1944	9,497	595	3,483	719	967	381	339	1,115	293	206	308	295	796
C. Estimated expenses and dividends	58,844	3,864	14,971	4,284	5,566	3,541	3,049	7,981	2,831	1,515	2,865	2,346	6,031
. Current earnings:													
1. Estimated earnings, 1944, exclusive of earnings on Government securities	1,222	51	377	101	87	33	28	149	98	16	170	19	93
2. On interest-bearing securities in System Account to Nov. 30	61,915	4,330	14,962	4,653	6,269	3,849	3,359	7,877	2,926	1,711	2,982	2,626	6,371
3. Total	63,137	4,381	15,339	4,754	6,356	3,882	3,387	8,026	3,024	1,727	3,152	2,645	6,464
E. Excess of "D 3" over "C"	4,293	517	368	470	790	341	338	45	193	212	287	299	433
F. Average daily participations, per cent, in interest-bearing securities in System Account since November 30, 1939	100.0	7.4359	24.1786	7.8389	10.4262	6.2211	5.1069	12.1337	4.6575	2.9595	4.8970	4.2856	9.8591
G. Estimated earnings for year above expense and dividend requirements (\$4,293,000 plus \$6,286,000, estimated earnings December on interest-bearing securities in System Account at 1.13519% earnings rate) allocated on basis of "F"	10,579	787	2,558	829	1,103	658	540	1,284	493	313	518	453	1,043
H. "G" minus "E"	6,286	270	2,190	359	313	317	202	1,239	300	101	231	154	610
I. Allocation of interest-bearing securities in System Account on basis of "H"	6,519,787	280,042	2,271,450	372,352	324,641	328,790	209,513	1,285,080	311,157	104,756	239,591	159,728	632,687
J. Present allocations	6,519,787	298,063	2,218,387	354,055	389,223	306,765	237,974	1,317,508	289,188	108,554	201,545	170,629	627,896
K. Change in allocations	--	-18,021	+53,063	+18,297	-64,582	+22,025	-28,461	-32,428	+21,969	-3,798	+38,046	-10,901	+4,791

R.C.D. IN RECO
APR 23 1963

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, DECEMBER 1, 1944
(In thousands of dollars)

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
			<u>II. Allocation of Treasury Bills</u>										
L. Distribution of estimated earnings on bills for year on basis of "F"	34,289	2,550	8,291	2,688	3,575	2,133	1,751	4,161	1,597	1,015	1,679	1,469	3,380
M. Earnings to November 30 on bills in System Account	16,487	1,408	2,651	1,418	2,158	1,307	1,124	1,433	778	560	995	857	1,798
N. Earnings to December 31 on bills in option accounts (est.)	15,450	439	8,645	596	342	194	118	3,264	431	181	188	97	955
. Pro rata share of earnings from bills in System Account December ("L" minus "M" and "N")	2,352	703	-3,005	674	1,075	632	509	-536	388	274	496	515	627
P. Adjustments due to excesses of "M" plus "N" over "L"	--	-413	+3,005	-436	-580	-346	-284	+536	-259	-165	-272	-238	-548
Q. Adjusted pro rata share of earnings from bills in System Account December ("O" minus "P")	2,352	290	--	238	495	286	225	--	129	109	224	277	79
R. Allocation of System Account bills in proportion to "Q"	7,284,487	898,172	--	737,121	1,533,087	885,784	696,858	--	399,532	337,589	693,761	857,909	244,674
S. Portion that Banks can not take due to low reserve ratio*	1,080,295	143,093		43,954	214,374	67,938				34,046	185,591	391,299	
T. Distribution of "S" to Banks with highest reserve ratios	1,080,295							445,425					634,870
U. Final allocation of Treasury bills in System Account ("R" minus "S" plus "T")	7,284,487	755,079	--	693,167	1,318,713	817,846	696,858	445,425	399,532	303,543	508,170	466,610	879,544
V. Present allocations	7,284,487	728,090	--	743,932	1,267,076	828,826	686,051	380,707	365,597	306,272	545,207	463,337	969,342
W. Change in allocations	--	+26,989	--	-50,765	+51,637	-10,980	+10,807	+64,718	+33,935	-2,729	-37,037	+3,223	-89,798
			<u>III. Total Allocation of System Account Securities</u>										
X. Participation in System Account ("I" plus "U")	13,804,274	1,035,121	2,271,450	1,065,519	1,643,354	1,146,636	906,371	1,730,505	710,689	408,299	747,761	626,338	1,512,231
Y. Change in participation	--	+8,968	+53,063	-32,468	-12,945	+11,045	-17,654	+32,290	+55,904	-6,527	+1,009	-7,678	-85,007

* Based on note and deposit liability and reserve figures as of close of business November 30, 1944.

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

RECD IN FILES SECTION
 DEC 2 1944

December 1, 1944

Rouse - New York

This will confirm understanding in telephone conversation that adjustments of participations in System Account will be as follows, in thousands of dollars:

	<u>Interest-bearing securities</u>	<u>Treasury bills</u>	<u>Total</u>
Boston	-18,021	+26,989	+8,968
New York	+53,063	--	+53,063
Philadelphia	+18,297	-50,765	-32,468
Cleveland	-64,582	+51,637	-12,945
Richmond	+22,025	-10,980	+11,045
Atlanta	-28,461	+10,807	-17,654
Chicago	-32,428	+64,718	+32,290
St. Louis	+21,969	+33,935	+55,904
Minneapolis	-3,798	-2,729	-6,527
Kansas City	+38,046	-37,037	+1,009
Dallas	-10,901	+3,223	-7,678
San Francisco	+4,791	-89,798	-85,007

Smead

FILE COPY

RECD IN FILES SECTION

[Handwritten initials and signatures]

DECLASSIFIED

Authority E.O. 10501

DEC 1 1944
715

December 1, 1944

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Mr. Rouse:

There is enclosed a statement showing the changes in participations of Government securities in the System Open Market Account on December 1, 1944, prepared in accordance with the formula adopted by the System Open Market Committee on September 21, 1944.

Very truly yours,

E. L. Smead, Director,
Division of Bank Operations.

Enclosure

FILE COPY

DEC 1 1944
E. L. Smead

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
I. Allocation of Interest-Bearing Securities													
A. Estimated current expenses, 1944	49,347	3,269	11,488	3,565	4,599	3,160	2,710	6,866	2,538	1,309	2,557	2,051	5,235
B. Estimated dividends, 1944	9,497	595	3,483	719	967	381	339	1,115	293	206	308	295	796
C. Estimated expenses and dividends	58,844	3,864	14,971	4,284	5,566	3,541	3,049	7,981	2,831	1,515	2,865	2,346	6,031
D. Current earnings:													
1. Estimated earnings, 1944, exclusive of earnings on Government securities	1,222	51	377	101	87	33	28	149	98	16	170	19	93
2. On interest-bearing securities in System Account to Nov. 30	61,915	4,330	14,962	4,653	6,269	3,849	3,359	7,877	2,926	1,711	2,982	2,626	6,371
3. Total	63,137	4,381	15,339	4,754	6,356	3,882	3,387	8,026	3,024	1,727	3,152	2,645	6,464
E. Excess of "D 3" over "C"	4,293	517	368	470	790	341	338	45	193	212	287	299	433
F. Average daily participations, per cent, in interest-bearing securities in System Account since November 30, 1939	100.0	7.4359	24.1786	7.8389	10.4262	6.2211	5.1069	12.1337	4.6575	2.9595	4.8970	4.2856	9.8591
G. Estimated earnings for year above expense and dividend requirements (\$4,293,000 plus \$6,286,000, estimated earnings December on interest-bearing securities in System Account at 1.13519% earnings rate) allocated on basis of "F"	10,579	787	2,558	829	1,103	658	540	1,284	493	313	518	453	1,043
H. "G" minus "E"	6,286	270	2,190	359	313	317	202	1,239	300	101	231	154	610
I. Allocation of interest-bearing securities in System Account on basis of "H"	6,519,787	280,042	2,271,450	372,352	324,641	328,790	209,513	1,285,080	311,157	104,756	239,591	159,728	632,687
J. Present allocations	6,519,787	298,063	2,218,387	354,055	389,223	306,765	237,974	1,317,508	289,188	108,554	201,545	170,629	627,896
K. Change in allocations	--	-18,021	+53,063	+18,297	-64,582	+22,025	-28,461	-32,428	+21,969	-3,798	+38,046	-10,901	+4,791

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
I. Allocation of Interest-Bearing Securities													
A. Estimated current expenses, 1944	49,347	3,269	11,488	3,565	4,599	3,160	2,710	6,866	2,538	1,309	2,557	2,051	5,235
B. Estimated dividends, 1944	9,497	595	3,483	719	967	381	339	1,115	293	206	308	295	796
C. Estimated expenses and dividends	58,844	3,864	14,971	4,284	5,566	3,541	3,049	7,981	2,831	1,515	2,865	2,346	6,031
D. Current earnings:													
1. Estimated earnings, 1944, exclusive of earnings on Government securities	1,222	51	377	101	87	33	28	149	98	16	170	19	93
2. On interest-bearing securities in System Account to Nov. 30	61,915	4,330	14,962	4,653	6,269	3,849	3,359	7,877	2,926	1,711	2,982	2,626	6,371
3. Total	63,137	4,381	15,339	4,754	6,356	3,882	3,387	8,026	3,024	1,727	3,152	2,645	6,464
E. Excess of "D 3" over "C"	4,293	517	368	470	790	341	338	45	193	212	287	299	433
F. Average daily participations, per cent, in interest-bearing securities in System Account since November 30, 1939	100.0	7.4359	24.1786	7.8389	10.4262	6.2211	5.1069	12.1337	4.6575	2.9595	4.8970	4.2856	9.8591
G. Estimated earnings for year above expense and dividend requirements (\$4,293,000 plus \$6,286,000, estimated earnings December on interest-bearing securities in System Account at 1.1351% earnings rate) allocated on basis of "F"	10,579	787	2,558	829	1,103	658	540	1,284	493	313	518	453	1,043
H. "G" minus "E"	6,286	270	2,190	359	313	317	202	1,239	300	101	231	154	610
I. Allocation of interest-bearing securities in System Account on basis of "H"	6,519,787	280,042	2,271,450	372,352	324,641	328,790	209,513	1,285,080	311,157	104,756	239,591	159,728	632,687
J. Present allocations	6,519,787	298,063	2,218,387	354,055	389,223	306,765	237,974	1,317,508	289,188	108,554	201,545	170,629	627,896
K. Change in allocations	--	-18,021	+53,063	+18,297	-64,582	+22,025	-28,461	-32,428	+21,969	-3,798	+38,046	-10,901	+4,791

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, DECEMBER 1, 1944
(In thousands of dollars)

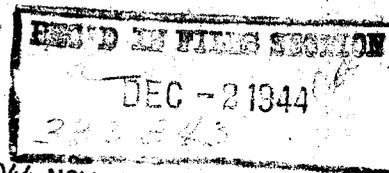
	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
<u>II. Allocation of Treasury Bills</u>													
L. Distribution of estimated earnings on bills for year on basis of "F"	34,289	2,550	8,291	2,688	3,575	2,133	1,751	4,161	1,597	1,015	1,679	1,469	3,380
M. Earnings to November 30 on bills in System Account	16,487	1,408	2,651	1,418	2,158	1,307	1,124	1,433	778	560	995	857	1,798
N. Earnings to December 31 on bills in option accounts (est.)	15,450	439	8,645	596	342	194	118	3,264	431	181	188	97	955
O. Pro rata share of earnings from bills in System Account December ("L" minus "M" and "N")	2,352	703	-3,005	674	1,075	632	509	-536	388	274	496	515	627
P. Adjustments due to excesses of "M" plus "N" over "L"	--	-413	+3,005	-436	-580	-346	-284	+536	-259	-165	-272	-238	-548
Q. Adjusted pro rata share of earnings from bills in System Account December ("O" minus "P")	2,352	290	--	238	495	286	225	--	129	109	224	277	79
R. Allocation of System Account bills in proportion to "Q"	7,284,487	898,172	--	737,121	1,533,087	885,784	696,858	--	399,532	337,589	693,761	857,909	244,674
S. Portion that Banks can not take due to low reserve ratio*	1,080,295	143,093		43,954	214,374	67,938				34,046	185,591	391,299	
T. Distribution of "S" to Banks with highest reserve ratios	1,080,295							445,425					634,870
U. Final allocation of Treasury bills in System Account ("R" minus "S" plus "T")	7,284,487	755,079	--	693,167	1,318,713	817,846	696,858	445,425	399,532	303,543	508,170	466,610	879,544
V. Present allocations	7,284,487	728,090	--	743,932	1,267,076	828,826	686,051	380,707	365,597	306,272	545,207	463,387	969,342
W. Change in allocations	--	+26,989	--	-50,765	+51,637	-10,980	+10,807	+64,718	+33,935	-2,729	-37,037	+3,223	-89,798
<u>III. Total Allocation of System Account Securities</u>													
X. Participation in System Account ("I" plus "U")	13,804,274	1,035,121	2,271,450	1,065,519	1,643,354	1,146,636	906,371	1,730,505	710,689	408,299	747,761	626,338	1,512,231
Y. Change in participation	--	+8,968	+53,063	-32,468	-12,945	+11,045	-17,654	+32,290	+55,904	-6,527	+1,009	-7,678	-85,007

* Based on note and deposit liability and reserve figures as of close of business November 30, 1944.

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1117

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.



1944 NOV 29 AM 11 44

WA46WASH B112 BOS 29-1125

SMEAD

BOARD

to J. H. C.
RETEL NOV. 28, 1944 ESTIMATED 1944 EARNINGS THROUGH NOV. 30 ON

U S TREAS BILLS HELD BY THIS BANK UNDER REPURCHASE OPTION

\$392,792.38

PITMAN.

FOR FILES
M. B. Daniels

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service

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1944 NOV 29 AM 11 35

WA44WASH C35

PHILA NOV 29 1944
Received at Washington, D.O.

VAN FOSSEN

to file
REURTEL NOV.28. ESTIMATED EARNINGS YEAR TO NOVEMBER 30 ON
TREASURY BILLS HELD ARE \$540,452.68.

DAVIS.

FOR FILES
M. B. Daniels

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

REPLY WIRE MESSAGE
DEC - 2 1944
1944 NOV 29 AM 10 57

WA27GC31BD WASH D 15 CLEV 29-901

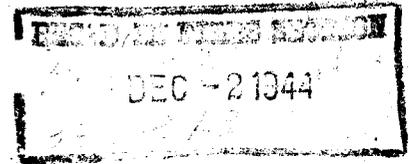
VANFOSSEN

11-28-44 to 11-30-44
REPLY WIRE ESTIMATED EARNINGS FOR 1944 TO NOVEMBER 30
ON TREASURY BILLS HELD BY OUR BANK OUTSIDE SYSTEM ACCOUNT IS
\$322,800.

SMITH.

FOR FILES
M. E. Daniels

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.



1944 NOV 29 PM 4 55

WA19WASH RH 131

RICH 29-450

VAN FOSSEN

11.25.44 to Mr. Board

RETEL ESTIMATED EARNINGS FOR 1944 TO NOVEMBER 30 ON

TREASURY BILLS HELD BY OUR BANK OUTSIDE SYSTEM ACCOUNT \$178,278

WALDEN.

FOR FILES
M. B. Daniels

Handwritten initials

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

RECEIVED
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1944 NOV 29 PM 4 18

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VANFOSSEN

11/29/44
REURTEL. ESTIMATED EARNINGS FOR 1944 TO NOVEMBER 30 ON TREASURY BILLS
HELD BY ~~US~~ US OUTSIDE SYSTEM ACCOUNT INCLUDING NEWORLEANS BRANCH
~~\$1,086,000~~ \$108,600.

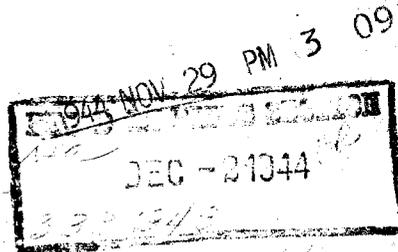
MCLARIN.

FOR FILES
M. B. Daniels

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

WA99GC68WASH GX184 CGO 29-146

VAN FOSSEN BOARD



11-29-44 to 21 Feb

REURTEL ESTIMATED EARNINGS FOR 1944 THROUGH NOVEMBER ~~99~~ XXXX 30

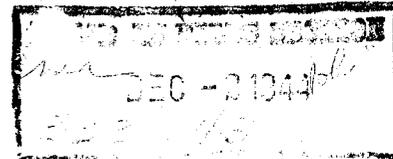
ON TREASURY BILLS HELD BY OUR BANK OUTSIDE SYSTEM ACCOUNT ARE

\$3,024,575.

BLACK.

FOR FILES
M. B. Daniels

ELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.



1944 NOV 29 AM 11 06

WA33GC52WASH H20 STL 29-956

VANFOSEN

to 11/30
RETEL YESTERDAY, ESTIMATED EARNINGS FOR ELEVEN MONTH 1944
TO NOVEMBER 30 ON TREASURY BILLS ~~HOLDXXX~~ HELD BY US OUTSIDE SYSTEM
ACCOUNT APPROXIMATELY \$408,000.

HITT

FOR FILES
M. B. Daniels

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

DEC - 210447-6

1944 NOV 28 PM 1 57

WA79G2OWASH 138 MPLS 28-1241

VANFOSSEN BOARD

ESTIMATED EARNINGS FOR 1944 TO NOVEMBER 30 ON TREASURY BILLS

OUTSIDE SYSTEM ACCOUNT IS \$170,446.60

BAKER.

FOR FILES
M. E. Daniels

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

DEC - 21 1944
343

1944 NOV 29 PM 1 43

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VAN FOSSEN

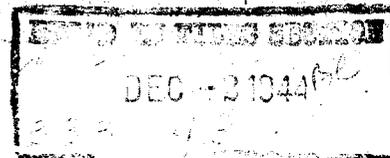
BOARD

ESTIMATED EARNINGS 1944 TO NOVEMBER 30 TREASURY BILLS, OPTION
ACCOUNT, \$164,952 *copy 12/24/44 to 1944*

KOPPANG.

FOR FILES
M. B. Daniels

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.



1944 NOV 29 AM 10 16

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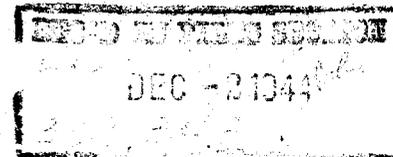
VAN FOSSEN

To Mr. Gilbert
RETEL NOVEMBER 28. ESTIMATED EARNINGS FOR 1944 TO NOVEMBER 30 'ON
TREASURY BILLS HELD OUR ACCOUNT ARE \$88,152

GILBERT.

FOR FILES
M. B. Daniels

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.



1944 NOV 29 PM 1 43

WA78G03WASH L18 SF 29-1007

VAN FOSSEN BOARD

001 2-1
REURTEL 28TH. ESTIMATED EARNINGS ON TREASURY BILLS

TO NOVEMBER 30 \$863,000

SLADE.

FOR FILES
M. B. Daniels

NOV 28 1944

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

November 28, 1944

Flanders - Boston
Sproul - New York
Williams - Philadelphia
Gidney - Cleveland
Leach - Richmond
Mojarin - Atlanta

Young - Chicago
Davis - St. Louis
Peyton - Minneapolis
Leedy - Kansas City
Gilbert - Dallas
Day - San Francisco

Please wire tomorrow estimated earnings for 1944 to November
30 on Treasury bills held by your Bank outside System Account.

Van Fossen

51

FILE COPY

FOR INFO
M. J. ...

*Mr. Van Fossen ✓
Mr. Daniels ✓
Mrs. Smith*

FEDERAL RESERVE BANK
OF NEW YORK

REC'D IN RECORDS SECTION
APR 23 1968
332,373

November 2, 1944.

Dear Mr. Smead:

We received your letter of November 1, 1944, and have today sent to the Reserve Banks a copy of the computation showing the adjustments made on November 1, 1944, in participations in the System Open Market Account, pursuant to the plan adopted at the meeting of the federal Open Market Committee on September 21, 1944.

Enclosed herewith is a copy of the letter of transmittal together with three copies of the computation, also copies of the telegrams which were sent to each of the Federal Reserve Banks on October 31, and November 1, 1944.

Yours faithfully,

Robert G. Rouse
Robert G. Rouse, Manager,
System Open Market Account.

Mr. E. L. Smead, Director,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

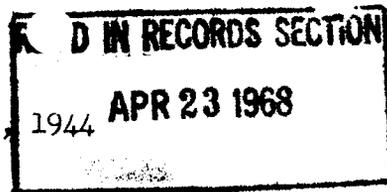
Enclosures (6)



Directive #1

Securities Dept.
RHB:ms

OCTOBER 31, 1944



THE FOLLOWING TELEGRAM TO BE SENT TO THE FIRST VICE PRESIDENT OF THE FEDERAL RESERVE BANK OF CLEVELAND AND TO THE PRESIDENTS OF ALL OTHER FEDERAL RESERVE BANKS EXCEPT NEW YORK:

MONTH-END ADJUSTMENTS FOR RESERVE RATIO PURPOSES WILL BE MADE TODAY BASED ON LAST NIGHT'S FIGURES BUT WE SHALL BE UNABLE TO ADVISE YOU IN ADVANCE TODAY AS HERETOFORE OF THE CHANGE IN YOUR PARTICIPATION IN SYSTEM OPEN MARKET ACCOUNT IN THE REALLOCATION CALLED FOR NOVEMBER 1 AS FINAL COMPUTATIONS WILL BE BASED UPON RESERVE POSITIONS AS OF OCTOBER 31. ACCORDINGLY WE SHALL ADVISE YOU LATE TOMORROW AFTERNOON OF THE CHANGE AND OF THE ENTRIES TO BE MADE BY YOUR BANK. *

ROUSE

MISC. 140-B-50M-2-43

RMB:FD

REC'D IN RECORDS SECTION
APR 23 1968

November 1, 1944.

PLEASE SEND THE FOLLOWING TELEGRAM TO EACH FEDERAL RESERVE BANK AS INDICATED BELOW:

As advised in my wire yesterday readjustment of participations in Government securities held in System Account is being made today under the plan for reallocation of Government securities adopted by the Federal Open Market Committee September 21, 1944. The computations showing adjustments made in participations of the several Reserve Banks will be mailed to all Reserve Banks on November 2. These computations indicate an **INCREASE** of **DECREASE** in your participation today. Your bank will receive this afternoon the usual coded wire showing the detailed entries to be made today.

		<u>INCREASE</u>	<u>DECREASE</u>
FLANDERS	BOSTON	-	\$ 8,421,000
WILLIAMS	PHILADELPHIA	\$ 5,686,000	-
GIDNEY	CLEVELAND	19,726,000	-
LEACH	RICHMOND	4,960,000	-
McLAREN	ATLANTA	658,000	-
YOUNG	CHICAGO	-	25,150,000
DAVIS	ST. LOUIS	34,278,000	-
PRYTON	MINNEAPOLIS	22,819,000	-
LKEDY	KANSAS CITY	-	10,175,000
GILBERT	DALLAS	-	3,113,000
DAY	SAN FRANCISCO	-	37,966,000

HOUSE

MISC. 140A 100M-10-48

FEDERAL RESERVE BANK OF NEW YORK



November 2, 1944.

Dear Mr. Flanders:

In accordance with my telegram of November 1, 1944, I enclose herewith computation of the readjustments made on November 1, 1944, in the participations of the Federal Reserve Banks in the System Open Market portfolio.

Yours faithfully,

Robert G. Rouse, Manager,
System Open Market Account.

Mr. Ralph E. Flanders, President,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Enclosure

COPY

RECD IN RECORDS SECTION
 APR 23 1968

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
I. Allocation of Interest-Bearing Securities													
A. Estimated current expenses, 1944	49,328	3,273	11,448	3,535	4,638	3,134	2,730	6,948	2,517	1,305	2,514	2,048	5,238
B. Estimated dividends, 1944	9,495	595	3,483	719	967	381	339	1,113	293	206	308	295	796
C. Estimated expenses and dividends	58,823	3,868	14,931	4,254	5,605	3,515	3,069	8,061	2,810	1,511	2,822	2,343	6,034
D. Current earnings	•												
1. Estimated earnings, 1944, exclusive of earnings on Government securities	1,177	51	336	102	86	34	26	148	96	15	172	13	98
2. On interest-bearing securities in System Account to Oct. 31	55,967	4,066	12,913	4,336	5,926	3,573	3,146	6,653	2,663	1,615	2,803	2,475	5,798
3. Total	57,144	4,117	13,249	4,438	6,012	3,607	3,172	6,801	2,759	1,630	2,975	2,488	5,896
E. Excess of "C" over "D 3"	1,679	-249	1,682	-184	-407	-92	-103	1,260	51	-119	-153	-145	138
F. Allocation required (on basis of 1.16609% earnings rate) to produce earnings November- December equal to "E"	861,555	-127,771	863,095	-94,417	-208,846	-47,209	-52,853	646,551	26,170	-61,063	-78,510	-74,405	70,813
G. Average daily participations, per cent, in interest-bearing securities in System Account since October 31, 1939	100.0	7.5259	23.9526	7.9260	10.5699	6.2559	5.1399	11.8581	4.6484	2.9977	4.9495	4.3306	9.8455
H. Allocation of remainder of interest-bearing securities (\$6,095,787,000 less \$861,555,000) on basis of "G"	5,234,232	393,923	1,253,735	414,865	553,253	327,448	269,034	620,680	243,308	156,907	259,068	226,674	515,337
I. Total allocations	6,095,787	266,152	2,116,830	320,448	344,407	280,239	216,181	1,267,231	269,478	95,844	180,558	152,269	586,150
J. Present allocations	6,095,787	261,127	2,120,132	318,396	356,265	267,108	222,263	1,246,471	272,212	89,986	185,014	148,250	608,563
K. Change in allocations	--	+5,025	-3,302	+2,052	-11,858	+13,131	-6,082	+20,760	-2,734	+5,858	-4,456	+4,019	-22,413

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	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Mirre- apolis	Kansas City	Dallas	San Francisco
<u>II. Allocation of Treasury Bills</u>													
L. Distribution of estimated earnings on bills for year on basis of "G"	34,018	2,560	8,148	2,696	3,596	2,128	1,749	4,034	1,581	1,020	1,684	1,473	3,349
M. Earnings to October 31 on bills in System Account	14,300	1,184	2,651	1,194	1,763	1,054	916	1,350	671	461	825	718	1,513
N. Earnings to December 31 on bills in option accounts (est.)	15,563	435	8,683	614	370	206	132	3,281	438	186	193	103	922
Pro rata share of earnings from bills in System Account Nov.-Dec. ("L" minus "M" and "N")	4,155	941	-3,186	888	1,463	868	701	-597	472	373	666	652	914
P. Adjustments due to excesses of "M" plus "N" over "L"	--	-443	+3,186	-467	-623	-369	-303	+597	-274	-177	-292	-255	-580
Q. Adjusted pro rata share of earnings from bills in System Account Nov.-Dec. ("O" minus "P")	4,155	498	--	421	840	499	398	--	198	196	374	397	334
R. Allocation of System Account bills in proportion to "Q"	6,538,787	783,710	--	662,534	1,321,921	785,284	626,339	--	311,596	308,448	588,569	624,765	525,621
S. Portion that Banks can not take due to low reserve ratio*	459,078	57,465			89,540	16,539				9,400	69,207	216,927	
T. Distribution of "S" to Banks with highest reserve ratios	459,078							180,992					278,086
U. Final allocation of Treasury bills in System Account ("R" minus "S" plus "T")	6,538,787	726,245	--	662,534	1,232,381	768,745	626,339	180,992	311,596	299,048	519,362	407,838	803,707
V. Present allocations	6,538,787	739,691	--	658,900	1,200,797	776,916	619,599	226,902	274,584	282,087	525,081	411,970	819,260
W. Change in allocations	--	-13,446	--	+3,634	+31,584	-8,171	+6,740	-45,910	+37,012	-16,961	-5,719	-7,132	-15,553
<u>III. Total Allocation of System Account Securities</u>													
X. Participation in System Account ("I" plus "U")	12,634,574	992,397	2,116,830	952,982	1,576,788	1,043,984	842,520	1,448,223	581,074	394,892	699,920	560,107	1,389,857
Y. Change in participation	--	-8,421	-3,302	+5,636	+19,726	+4,960	+658	-25,150	+34,278	+22,819	-10,175	-3,113	-37,966

*Based on note and deposit liability and reserve figures as of close of business October 31, 1944.

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NOV 2 1944

(25)

November 1, 1944

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Mr. Rouse:

There is enclosed a statement showing the changes in participations of Government securities in the System Open Market Account on November 1, 1944, prepared in accordance with the formula adopted by the System Open Market Committee on September 21, 1944.

Very truly yours,

J. R. Van Fossen,
Assistant Director,
Division of Bank Operations.

Enclosure

FOR FILES
J. E. Smith

md **FILE COPY**

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
I. Allocation of Interest-Bearing Securities													
A. Estimated current expenses, 1944	49,328	3,273	11,448	3,535	4,638	3,134	2,730	6,948	2,517	1,305	2,514	2,048	5,238
B. Estimated dividends, 1944	9,495	595	3,483	719	967	381	339	1,113	293	206	308	295	796
C. Estimated expenses and dividends	58,823	3,868	14,931	4,254	5,605	3,515	3,069	8,061	2,810	1,511	2,822	2,343	6,034
Current earnings													
1. Estimated earnings, 1944, exclusive of earnings on Government securities	1,177	51	336	102	86	34	26	148	96	15	172	13	98
2. On interest-bearing securities in System Account to Oct. 31	55,967	4,066	12,913	4,336	5,926	3,573	3,146	6,653	2,663	1,615	2,803	2,475	5,798
3. Total	57,144	4,117	13,249	4,438	6,012	3,607	3,172	6,801	2,759	1,630	2,975	2,488	5,896
D. Excess of "C" over "D 3"	1,679	-249	1,682	-184	-407	-92	-103	1,260	51	-119	-153	-145	138
E. Allocation required (on basis of 1.6609% earnings rate) to produce earnings November-December equal to "E"	861,555	-127,771	863,095	-94,417	-208,846	-47,209	-52,853	646,551	26,170	-61,063	-78,510	-74,405	70,813
F. Average daily participations, per cent, in interest-bearing securities in System Account since October 31, 1939	100.0	7.5259	23.9526	7.9260	10.5699	6.2599	5.1399	11.8581	4.6484	2.9977	4.9495	4.3306	9.8455
G. Allocation of remainder of interest-bearing securities (\$6,095,787,000 less \$861,555,000) on basis of "F"	5,234,232	393,923	1,253,735	414,865	553,253	327,448	269,034	620,680	243,308	156,907	259,068	226,674	515,337
H. Total allocations	6,095,787	266,152	2,116,830	320,448	344,407	280,239	216,181	1,267,231	269,478	95,844	180,558	152,269	586,150
I. Present allocations	6,095,787	261,127	2,120,132	318,396	356,265	267,108	222,263	1,246,471	272,212	89,986	185,014	148,250	608,563
J. Change in allocations	--	+5,025	-3,302	+2,052	-11,858	+13,131	-6,082	+20,760	-2,734	+5,858	-4,456	+4,019	-22,413

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	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
<u>II. Allocation of Treasury Bills</u>													
L. Distribution of estimated earnings on bills for year on basis of "G"	34,018	2,560	8,148	2,696	3,596	2,128	1,749	4,034	1,581	1,020	1,684	1,473	3,349
M. Earnings to October 31 on bills in System Account	14,300	1,184	2,651	1,194	1,763	1,054	916	1,350	671	461	885	718	1,513
N. Earnings to December 31 on bills in other accounts (est.)	15,563	435	8,683	614	370	206	132	3,281	438	186	193	103	922
O. Pro rata share of earnings from bills in System Account Nov.-Dec. ("L" minus "M" and "N")	4,155	941	-3,186	888	1,463	868	701	-597	472	373	666	652	914
P. Adjustments due to excesses of "M" plus "N" over "L"	--	-443	+3,186	-467	-623	-369	-303	+597	-274	-177	-292	-255	-580
Q. Adjusted pro rata share of earnings from bills in System Account Nov.-Dec. ("O" minus "P")	4,155	498	--	421	840	499	398	--	198	196	374	397	334
R. Allocation of System Account bills in proportion to "Q"	6,538,787	783,710	--	662,534	1,321,921	785,284	626,339	--	311,596	308,448	588,569	624,765	525,621
S. Portion that Banks can not take due to low reserve ratio*	459,078	57,465	--	--	89,540	16,539	--	--	--	9,400	69,207	216,927	--
Distribution of "S" to Banks with highest reserve ratios	459,078	--	--	--	--	--	180,992	--	--	--	--	--	278,086
U. Final allocation of Treasury bills in System Account ("R" minus "S" plus "T")	6,538,787	726,245	--	662,534	1,232,381	768,745	626,339	180,992	311,596	299,048	519,362	407,838	803,707
V. Present allocations	6,538,787	739,691	--	658,900	1,200,797	776,916	619,999	226,902	274,584	282,087	525,081	414,970	819,260
W. Change in allocations	--	-13,446	--	+3,634	+31,584	-8,171	+6,740	-45,910	+37,012	+16,961	-5,719	-7,132	-15,553
<u>III. Total Allocation of System Account Securities</u>													
X. Participation in System Account ("I" plus "U")	12,634,574	992,397	2,116,830	982,982	1,576,788	1,048,984	842,520	1,144,223	581,074	394,892	699,920	560,107	1,389,857
Y. Change in participation	--	-8,421	-3,302	+5,686	+19,726	+4,960	+658	-25,150	+34,278	+22,819	-10,175	-3,113	-37,966

*Based on note and deposit liability and reserve figures as of close of business October 31, 1944.

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Handwritten initials and signature

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

REC'D IN FILES SECTION
 NOV 2 1944

November 1, 1944

House - New York

This will confirm understanding in telephone conversation that adjustments of participations in System Account will be as follows, in thousands of dollars:

	<u>Interest-bearing securities</u>	<u>Treasury bills</u>	<u>Total</u>
Boston	+5,025	-13,446	-8,421
New York	-3,302	--	-3,302
Philadelphia	+2,052	+3,634	+5,686
Cleveland	-11,858	+31,584	+19,726
Richmond	+13,131	-8,171	+4,960
Atlanta	-6,082	+6,740	+658
Chicago	+20,760	-45,910	-25,150
St. Louis	-2,734	+37,012	+34,278
Minneapolis	+5,858	+16,961	+22,819
Kansas City	-4,456	-5,719	-10,175
Dallas	+4,019	-7,132	-3,113
San Francisco	-22,413	-15,553	-37,966

Van Fossen

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ELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

REC'D IN FILES SECTION
NOV - 1 1944
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WA4OWASH B70 BOS 30-1039A

SMEAD BOARD

RETEL OCT 28, 1944 ESTIMATED 1944 EARNINGS THROUGH
OCT 31 ON U. S. TREASURY BILLS HELD BY THIS BANK UNDER
REPURCHASE OPTION \$339,748.56

PITMAN.

FOR FILES
M. B. Daniels

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

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NOV - 1 1944
1944 OCT 30 PM 4 41

WA20WASH B478 NY 30-430

VAN FOSSEN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

ESTIMATED EARNINGS FOR 1944 TO OCTOBER 31 ON TREASURY BILLS HELD
BY FEDERAL RESERVE BANK OF NEW YORK IN OPTION ACCOUNT \$6,789,000
ROUSE.

FOR-FILES
M. B. Daniels

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

710
NOV - 1 1944
333 243

1944 OCT 30 AM 11 42

WA50WASH C45 PHILA OCT 30-1132A

VAN FOSSEN

H. B. Daniels
REURTEL 10/28, ESTIMATED EARNINGS YEAR TO OCTOBER 31 ON TREASURY
BILLS HELD ARE \$482,059.46.

DAVIS.

FOR FILES
M. B. Daniels

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

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NOV - 1 1944

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1944 OCT 30 PM 1 15

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VAN FOSSEN

11/2/44

REPLY WIRE ESTIMATED EARNINGS FOR 1944 TO OCTOBER 31 ON TREASURY

BILLS HELD BY OUR BANK OUTSIDE SYSTEM ACCOUNT IS \$294,300.00

HAYS.

FOR FILES
M. B. Daniels

T. LECHEMAN
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

NOV - 1 1944
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RICH 30-220

VAN FOSSEN

RETEL ESTIMATED EARNINGS FOR 1944 TO OCTOBER 31 ON

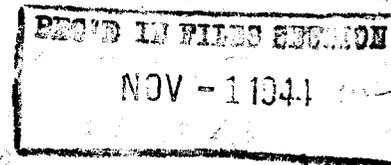
TREASURY BILLS HELD OUTSIDE SYSTEM ACCOUNT \$159,882

GUTHRIE.

FOR FILES
M. B. Daniels

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

1944 OCT 30 AM 11 21



WA45WASH F25 ATLA 30-1003

VANFOSSEN

10/30/44

REURTEL ESTIMATED EARNINGS FOR 1944 TO OCTOBER 31 ON TREASURY BILLS
HELD BY THIS BANK, INCLUDING NEW ORLEANS BRANCH, OUTSIDE SYSTEM
ACCOUNT \$94,350.00

MCLARIN.

FOR FILES
M. E. Daniels

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
<u>I. Allocation of Interest-Bearing Securities</u>													
A. Estimated current expenses, 1944	49,328	3,273	11,448	3,535	4,638	3,134	2,730	6,948	2,517	1,305	2,514	2,048	5,238
B. Estimated dividends, 1944	9,495	595	3,483	719	967	381	339	1,113	293	206	308	295	796
C. Estimated expenses and dividends	58,823	3,868	14,931	4,254	5,605	3,515	3,069	8,061	2,810	1,511	2,822	2,343	6,034
Current earnings													
1. Estimated earnings, 1944, exclusive of earnings on Government securities	1,177	51	336	102	86	34	26	148	96	15	172	13	98
2. On interest-bearing securities in System Account to Oct. 31	55,967	4,066	12,913	4,336	5,926	3,573	3,146	6,653	2,663	1,615	2,803	2,475	5,798
3. Total	57,144	4,117	13,249	4,438	6,012	3,607	3,172	6,801	2,759	1,630	2,975	2,488	5,896
D. Excess of "C" over "D 3"	1,679	-249	1,682	-184	-407	-92	-103	1,260	51	-119	-153	-145	138
E. Allocation required (on basis of 1.16609% earnings rate) to produce earnings November-December equal to "E"	861,555	-127,771	863,095	-94,417	-208,846	-47,209	-52,853	646,551	26,170	-61,063	-78,510	-74,405	70,813
F. Average daily participations, per cent, in interest-bearing securities in System Account since October 31, 1939	100.0	7.5259	23.9526	7.9260	10.5699	6.2559	5.1399	11.8581	4.6484	2.9977	4.9495	4.3306	9.8455
G. Allocation of remainder of interest-bearing securities (\$6,095,787,000 less \$861,555,000) on basis of "G"	5,234,232	393,923	1,253,735	414,865	553,253	327,448	269,034	620,680	243,308	156,907	259,068	226,674	515,337
H. Total allocations	6,095,787	266,152	2,116,830	320,448	344,407	280,239	216,181	1,267,231	269,478	95,844	180,558	152,269	586,150
I. Present allocations	6,095,787	261,127	2,120,132	318,396	356,265	267,108	222,263	1,246,471	272,212	89,986	185,014	148,250	608,563
J. Change in allocations	--	+5,025	-3,302	+2,052	-11,858	+13,131	-6,082	+20,760	-2,734	+5,858	-4,456	+4,019	-22,413

CONFIDENTIAL
 NOV 2 1944
 FEDERAL RESERVE BANK OF ST. LOUIS

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11/2/44
 11/2/44
 11/2/44

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
<u>II. Allocation of Treasury Bills</u>													
L. Distribution of estimated earnings on bills for year on basis of "O"	34,018	2,560	8,148	2,696	3,596	2,128	1,749	4,034	1,581	1,020	1,684	1,473	3,349
M. Earnings to October 31 on bills in System Account	14,300	1,184	2,651	1,194	1,763	1,054	916	1,350	671	461	825	718	1,513
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Q. Adjusted pro rata share of earnings from bills in System Account Nov.-Dec. ("O" minus "P")	4,155	498	--	421	840	499	398	--	198	196	374	397	334
R. Allocation of System Account bills in proportion to "Q"	6,538,787	783,710	--	662,534	1,321,921	785,284	626,339	--	311,596	308,448	588,569	624,765	525,621
S. Portion that Banks can not take due to low reserve ratio*	459,078	57,465			89,540	16,539				9,400	69,207	216,927	
Distribution of "S" to Banks with highest reserve ratios	459,078							180,992					278,086
U. Final allocation of Treasury bills in System Account ("R" minus "S" plus "T")	6,538,787	726,245	--	662,534	1,232,381	768,745	626,339	180,992	311,596	299,048	519,362	407,838	803,707
V. Present allocations	6,538,787	739,691	--	658,900	1,200,797	776,916	619,999	226,902	274,584	282,087	525,081	414,970	819,260
W. Change in allocations	--	-13,446	--	+3,634	+31,584	-8,171	+6,740	-45,910	+37,012	+16,961	-5,719	-7,132	-15,553
<u>III. Total Allocation of System Account Securities</u>													
X. Participation in System Account ("I" plus "U")	12,634,574	992,397	2,116,830	982,982	1,576,788	1,048,984	842,520	1,144,223	581,074	394,892	699,920	560,107	1,389,857
Y. Change in participation	--	-8,421	-3,302	+5,686	+19,726	+4,960	+658	-25,150	+34,278	+22,819	-10,175	-3,113	-37,966

*Based on note and deposit liability and reserve figures as of close of business October 31, 1944.

MD

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TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

REC'D IN FILE SECTION
NOV 2 1944

November 1, 1944

Rouse - New York

This will confirm understanding in telephone conversation that adjustments of participations in System Account will be as follows, in thousands of dollars:

	<u>Interest-bearing securities</u>	<u>Treasury bills</u>	<u>Total</u>
Boston	+5,025	-13,446	-8,421
New York	-3,302	--	-3,302
Philadelphia	+2,052	+3,634	+5,686
Cleveland	-11,858	+31,584	+19,726
Richmond	+13,131	-8,171	+4,960
Atlanta	-6,082	+6,740	+658
Chicago	+20,760	-45,910	-25,150
St. Louis	-2,734	+37,012	+34,278
Minneapolis	+5,858	+16,961	+22,819
Kansas City	-4,456	-5,719	-10,175
Dallas	+4,019	-7,132	-3,113
San Francisco	-22,413	-15,553	-37,966

Van Fossen

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 L. B. Scott

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ELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

REC'D IN FILES SECTION
NOV - 1 1944

1944 OCT 30 AM 11 01

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SMEAD BOARD

RETEL OCT 28, 1944 ESTIMATED 1944 EARNINGS THROUGH
OCT 31 ON U. S. TREASURY BILLS HELD BY THIS BANK UNDER
REPURCHASE OPTION \$339,748.56

PITMAN.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
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Leased Wire Service
Received at Washington, D.O.

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1944 OCT 30 PM 4 41

WA20WASH B478 NY 30-430

VAN FOSSEN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

ESTIMATED EARNINGS FOR 1944 TO OCTOBER 31 ON TREASURY BILLS HELD
BY FEDERAL RESERVE BANK OF NEW YORK IN OPTION ACCOUNT \$6,789,000
ROUSE.

FOR-FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
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Leased Wire Service
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NOV - 1944

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VAN FOSSEN

10/24/44
REPLY WIRE ESTIMATED EARNINGS FOR 1944 TO OCTOBER 31 ON TREASURY
BILLS HELD BY OUR BANK OUTSIDE SYSTEM ACCOUNT IS \$294,300.00
HAYS.

FOR FILES
M. B. Daniels

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T. L. E. C. B. A. N.
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

NOV - 11 1944

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WA90WASH RH 77

RICH 30-220

VAN FOSSEN

RETEL ESTIMATED EARNINGS FOR 1944 TO OCTOBER 31 ON

TREASURY BILLS HELD OUTSIDE SYSTEM ACCOUNT \$159,882

GUTHRIE.

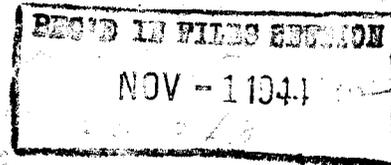
FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

1944 OCT 30 AM 11 21



WA45WASH F25 ATLA 30-1003

VANFOSSEN

10/27/44 to 10/31/44

REURTEL ESTIMATED EARNINGS FOR 1944 TO OCTOBER 31 ON TREASURY BILLS
HELD BY THIS BANK, INCLUDING NEW ORLEANS BRANCH, OUTSIDE SYSTEM
ACCOUNT \$94,350.00

MCLARIN.

FOR FILES
M. E. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

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NOV - 11 1944

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1944 OCT 30 PM 4 03

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VAN FOSSEN BOARD

revised
REURTEL OCTOBER 28 ESTIMATED EARNINGS FOR 1944 TO OCTOBER 31

ON TREASURY BILLS HELD BY OUR BANK OUTSIDE SYSTEM ACCOUNT

\$2,748,900

BLACK.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

1944 OCT 30 PM 3 18

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NOV - 1 1944

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VAN FOSSEN

ESTIMATED EARNINGS FOR 1944 TO OCTOBER 31 ON TREASURY BILLS HELD
FOR OWN ACCOUNT, APPROXIMATELY 385,000

BUB

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
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Leased Wire Service
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NOV - 1 1944
343

WA64G84WASH 118 MPLS 30-1047

VANFOSSEN-BOARD

IN REFERENCE TO YOUR WIRE OF OCTOBER 28 (ESTIMATED EARNINGS FOR
1944 TO OCTOBER 31 ON ~~TREASURY~~ TREASURY BILLS HELD BY OUR
BANK OUTSIDE SYSTEM ACCOUNT IS \$162,066.96

BAKER.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

NOV 11 1944
NOV - 1 1944

1944 OCT 30 PM 1 29

WA85G16BD WASH J92 KC 30-1208

VANFOSSEN BOARD

REURTEL WE ESTIMATE 1944 EARNINGS TO OCTOBER 31 ON TREASURY BILLS

HELD IN OPTION ACCOUNT AT \$139,006

KOPPANG.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

NOV 1 1944
333 3/4

1944 OCT 30 AM 10 51

WA38G67WASH M7 DLS 30-947A

VAN FOSSEN

Handwritten: Handwritten:
RETEL OCTOBER 28. WE ESTIMATE EARNINGS FOR 1944 TO OCTOBER 31 ON
TREASURY BILLS HELD OUR ACCOUNT WILL BE \$78,600

GILBERT.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

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NOV - 1 1944
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Info
1944 OCT 30 PM 12 54

WA76G66WASH L17 SF 30-940

VAN FOSSEN, BOARD

to be checked
REURTEL 28TH. ESTIMATED EARNINGS ON TREASURY BILLS
TO OCTOBER 31, \$771,000.

SLADE.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

REC'D
OCT 28 1944

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

October 28, 1944

Flanders - Boston
Sproul - New York
Williams - Philadelphia
Hays - Cleveland
Leach - Richmond
McLarin - Atlanta

Young - Chicago
Davis - St. Louis
Peyton - Minneapolis
Leedy - Kansas City
Gilbert - Dallas
Day - San Francisco

Please wire Monday estimated earnings for 1944 to October 31
on Treasury bills held by your Bank outside System Account.

Van Fossen

Handwritten initials

Handwritten initials

MD/djw

FILE COPY

REC'D
OCT 28 1944

DECLASSIFIED

Authority E.O. 10501

REC'D IN RECORDS SECTION
APR 23 1968
333,343

FEDERAL RESERVE BANK
OF NEW YORK

October 2, 1944.

*W. L. ...
Mrs. Smead*

Dear Mr. Smead:

We received your letter of September 29, 1944, and have today sent to the Reserve Banks a copy of the computation showing the adjustments to be made today, as of October 1, 1944, in participations in the System Open Market Account, pursuant to the plan adopted at the meeting of the Federal Open Market Committee on September 21, 1944.

Enclosed herewith is a copy of the letter of transmittal together with three copies of the computation, also copy of the telegram which was sent to each of the Federal Reserve Banks on September 30, 1944.

Yours faithfully,

Robert G. Rouse
Robert G. Rouse, Manager,
System Open Market Account.

Mr. E. L. Smead, Director,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Enclosures.



Directive #1

DECLASSIFIED

Authority E.O. 10501

MISC. 140A 100M-10-43

FEDERAL RESERVE BANK OF NEW YORK

REC'D IN RECORDS SECTION
APR 23 1968

October 2, 1944

Dear Mr. Williams:

In accordance with my telegram of September 30, 1944, I enclose herewith computation of the readjustments to be made today, as of October 1, 1944, in the participations of the Federal Reserve Banks in the System Open Market portfolio.

Yours faithfully,

Robert G. Knase, Manager,
System Open Market Account

Mr. Alfred H. Williams, President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pa.

Enclosure

Handwritten signature: R. Knase

MISC. 140-B-50M-2-43

SECURITIES DEPARTMENT
 RMB:FO'B

September 30, 1944

PLEASE SEND THE FOLLOWING TELEGRAM TO EACH FEDERAL RESERVE BANK AS INDICATED BELOW:

Under the plan for reallocation of Government securities adopted by the Federal Open Market Committee September 21, 1944, readjustment of participations in Government securities held in System Account is called for October 1, 1944. The computations showing adjustments to be made in participations of the several Reserve Banks will be mailed to all Reserve Banks on October 2, 1944. These computations indicate an increase of _____ in your participation on October 1, 1944. We shall wire you on October 2, 1944 the detailed entries to be made as of October 1.

		<u>INCREASE</u>	<u>DECREASE</u>
FLANDERS	BOSTON	\$105,189,000	-
WILLIAMS	PHILADELPHIA	-	\$ 85,009,000
H. A. Y. S	CLEVELAND	204,298,000	-
LEACH	RICHMOND	196,721,000	-
MCLARIN	ATLANTA	65,302,000	-
YOUNG	CHICAGO	-	97,911,000
DAVIS	ST. LOUIS	-	75,327,000
PEYTON	MINNEAPOLIS	-	14,006,000
LEEDY	KANSAS CITY	125,856,000	-
GILBERT	DALLAS	59,305,000	-
DAY	SAN FRANCISCO	-	41,989,000

ROUSE

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, OCTOBER 1, 1944
(In thousands of dollars)

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
I. Allocation of Interest-Bearing Securities													
A. Estimated current expenses, 1944	49,463	3,261	11,510	3,534	4,654	3,111	2,744	6,958	2,533	1,293	2,522	2,041	5,302
B. Estimated dividends, 1944	9,484	595	3,480	718	967	380	339	1,112	290	206	308	294	795
C. Estimated expenses and dividends	58,947	3,856	14,990	4,252	5,621	3,491	3,083	8,070	2,823	1,499	2,830	2,335	6,097
L. Current earnings													
1. Estimated earnings, 1944, exclusive of earnings on Government securities	1,169	52	323	105	85	34	26	145	96	16	172	14	101
2. On interest-bearing securities in System Account to Sept. 30	49,994	3,814	10,822	4,028	5,582	3,313	2,930	5,421	2,397	1,529	2,624	2,332	5,202
3. Total	51,163	3,866	11,145	4,133	5,667	3,347	2,956	5,566	2,493	1,545	2,796	2,346	5,303
E. Excess of "C" over "D 3"	7,784	-10	3,845	119	-46	144	127	2,504	330	-46	34	-11	794
F. Allocation required (on basis of 1.17565% earnings rate) to pro- duce earnings October-December equal to "E"	2,626,802	-3,375	1,297,540	40,158	-15,523	48,594	42,858	845,004	111,362	-15,523	11,474	-3,712	267,945
G. Average daily participations, per cent, in interest-bearing securities in System Account since September 30, 1939	100.0	7.6247	23.7128	8.0207	10.7175	6.2991	5.1717	11.5731	4.6368	3.0415	5.0026	4.3806	9.8189
H. Allocation of remainder of interest-bearing securities (\$5,870,287,000 less \$2,626,802,000) on basis of "G"	3,243,485	247,306	769,121	260,150	347,620	204,310	167,743	375,372	150,394	98,651	162,259	142,084	318,475
I. Total allocations	5,870,287	243,931	2,066,661	300,308	332,097	252,904	210,601	1,220,376	261,756	83,128	173,733	138,372	586,420
J. Present allocations	5,870,287	444,464	1,245,635	482,435	654,281	385,348	356,541	654,460	282,868	174,628	305,704	264,097	619,826
K. Change in allocations	--	-200,533	+821,026	-182,127	-322,184	-132,444	-145,940	+565,916	-21,112	-91,500	-131,971	-125,725	-33,406

RECORD IN RECORDS SECTION
 APR 23 1968

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DECLASSIFIED
 Authority E.O. 10501

RECD IN RECORDS SECTION
 APR 23 1968

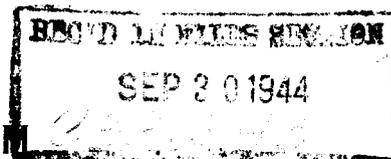
	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
II. Allocation of Treasury Bills													
L. Distribution of estimated earnings on bills for year on basis of "G"	33,408	2,547	7,922	2,680	3,581	2,104	1,728	3,866	1,549	1,016	1,671	1,464	3,280
M. Earnings to September 30 on bills in System Account	12,287	936	2,651	993	1,373	813	724	1,337	589	374	645	571	1,281
N. Earnings to December 31 on bills in option accounts (est.)	15,415	402	8,556	616	368	201	127	3,352	442	205	443	93	910
O. Pro rata share of earnings from bills in System Account Oct.-Dec. ("L" minus "M" and "N")	5,706	1,209	-3,285	1,071	1,840	1,090	877	-823	518	437	883	800	1,089
P. Adjustments due to excesses of "M" plus "N" over "L"	--	-484	+3,285	-509	-680	-400	-328	+823	-295	-193	-318	-278	-623
Q. Adjusted pro rata share of earnings from bills in System Account Oct.-Dec. ("O" minus "P")	5,706	725	--	562	1,160	690	549	--	223	244	565	522	466
R. Allocation of System Account bills in proportion to "Q"	5,954,245	756,542	--	586,450	1,210,467	720,019	572,885	--	232,702	254,615	589,581	544,710	486,274
S. Portion that Banks can not take due to low reserve ratio *	133,834				20,349						21,681	91,804	
T. Distribution of "S" to Banks with highest reserve ratios	133,834												133,834
U. Final allocation of Treasury bills in System Account ("R" minus "S" plus "T")	5,954,245	756,542	--	586,450	1,190,118	720,019	572,885	--	232,702	254,615	567,900	452,906	620,108
V. Present allocation	5,954,245	450,820	1,263,455	489,332	663,636	390,854	361,643	663,827	286,917	177,121	310,073	267,876	628,691
W. Change in allocation	--	+305,722	-1,263,455	+97,118	+526,482	+329,165	+211,242	-663,827	-54,215	+77,494	+257,827	+185,030	-8,583
III. Total Allocation of System Account Securities													
X. Participation in System Account ("I" plus "J")	11,824,532	1,000,473	2,066,661	886,758	1,522,215	972,923	783,486	1,220,376	494,458	337,743	741,633	591,273	1,206,528
Y. Change in participation	--	+105,189	-442,429	-85,009	+204,298	+196,721	+65,302	-97,911	-75,327	-14,006	+125,856	+59,305	-41,989

* Based on note and deposit liability and reserve figures as of close of business September 28, 1944.

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DECLASSIFIED
 Authority E.O. 10501

TELEGRAM
BOARD OF GOVERNORS
 OF THE
FEDERAL RESERVE SYSTEM
 LEASED WIRE SERVICE
 WASHINGTON



September 29, 1944

House - New York

This will confirm understanding in telephone conversation that adjustments of participations in System Account will be as follows, in thousands of dollars:

	<u>Interest-bearing securities</u>	<u>Treasury bills</u>	<u>Total</u>
Boston	-200,533	+305,722	+105,189
New York	+821,026	-1,263,455	-442,429
Philadelphia	-182,127	+97,118	-85,009
Cleveland	-322,184	+526,482	+204,298
Richmond	-132,444	+329,165	+196,721
Atlanta	-145,940	+211,242	+65,302
Chicago	+565,916	-663,827	-97,911
St. Louis	-21,112	-54,215	-75,327
Minneapolis	-91,500	+77,494	-14,006
Kansas City	-131,971	+257,827	+125,856
Dallas	-125,725	+185,030	+59,305
San Francisco	-33,406	-8,583	-41,989

Smad

FILE COPY



DECLASSIFIED

Authority E.O. 10501

RE. 9 IN FILES SECTION
SEP 30 1944
3-543

(25)

September 29, 1944

Mr. Robert G. House, Vice President,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Mr. House:

There is attached a statement showing the changes in participations of Government securities in the System Open Market Account on October 1, 1944, prepared in accordance with the formula adopted by the System Open Market Committee on September 21, 1944.

Very truly yours,

E. L. Smead, Director,
Division of Bank Operations.

Enclosure

FILE COPY

FOR FILES
M. B. Daniels

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
I. Allocation of Interest-Bearing Securities													
A. Estimated current expenses, 1944	49,463	3,261	11,510	3,534	4,654	3,111	2,744	6,958	2,533	1,293	2,522	2,041	5,302
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Current earnings													
1. Estimated earnings, 1944, exclusive of earnings on Government securities	1,169	52	323	105	85	34	26	145	96	16	172	14	101
2. On interest-bearing securities in System Account to Sept. 30	49,994	3,814	10,822	4,028	5,582	3,313	2,930	5,421	2,397	1,529	2,624	2,332	5,202
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E. Excess of "C" over "D 3"	7,784	-10	3,845	119	-46	144	127	2,504	330	-46	34	-11	794
F. Allocation required (on basis of 1.17565% earnings rate) to pro- duce earnings October-December equal to "E"	2,626,802	-3,375	1,297,540	40,158	-15,523	48,594	42,858	845,004	111,362	-15,523	11,474	-3,712	267,945
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H. Allocation of remainder of interest-bearing securities (\$5,870,287,000 less \$2,626,802,000) on basis of "G"	3,243,485	247,306	769,121	260,150	347,620	204,310	167,743	375,372	150,394	98,651	162,259	142,084	318,475
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DECLASSIFIED
Authority E.O. 10501

FOR FILES
M. E. Daniels

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
II. Allocation of Treasury Bills													
L. Distribution of estimated earnings on bills for year on basis of "G"	33,408	2,547	7,922	2,680	3,581	2,104	1,728	3,866	1,549	1,016	1,671	1,464	3,280
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N. Earnings to December 31 on bills in option accounts (est.)	15,415	402	8,556	616	368	201	127	3,352	442	205	143	93	910
O. Pro rata share of earnings from bills in System Account Oct.-Dec. ("L" minus "M" and "N")	5,706	1,209	-3,285	1,071	1,840	1,090	877	-823	518	437	883	800	1,089
P. Adjustments due to excesses of "M" plus "N" over "L"	--	-484	+3,285	-509	-680	-400	-328	+823	-295	-193	-318	-278	-623
Q. Adjusted pro rata share of earnings from bills in System Account Oct.-Dec. ("O" minus "P")	5,706	725	--	562	1,160	690	549	--	223	244	565	522	466
R. Allocation of System Account bills in proportion to "Q"	5,954,245	756,542	--	586,450	1,210,467	720,019	572,885	--	232,702	254,615	589,581	544,710	486,274
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T. Distribution of "S" to Banks with highest reserve ratios	133,834												133,834
U. Final allocation of Treasury bills in System Account ("R" minus "S" plus "T")	5,954,245	756,542	--	586,450	1,190,118	720,019	572,885	--	232,702	254,615	567,900	452,906	620,108
V. Present allocation	5,954,245	450,820	1,263,455	489,332	663,636	390,854	361,643	663,827	286,917	177,121	310,073	267,876	628,691
W. Change in allocation	--	+305,722	-1,263,455	+97,118	+526,482	+329,165	+211,242	-663,827	-54,215	+77,494	+257,827	+185,030	-8,583
III. Total Allocation of System Account Securities													
X. Participation in System Account ("I" plus "U")	11,824,532	1,000,473	2,066,661	886,758	1,522,215	972,923	783,486	1,220,376	494,458	337,743	741,633	591,278	1,206,528
Y. Change in participation	--	+105,189	-442,429	-85,009	+204,298	+196,721	+65,302	-97,911	-75,327	-14,006	+125,856	+59,305	-41,989

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Authority E.O. 10501

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

REC'D IN FILES SECTION
SEP 30 1944

1944 SEP 28 PM 12 27

WA69WASH B92 BOS 28-1129A

SMEAD BOARD

To 9/27/44
RETEL SEPTEMBER 27, 1944 ESTIMATED 1944 EARNINGS THROUGH SEPTEMBER
30 ON U S TREASURY BILLS HELD BY THIS BANK UNDER REPURCHASE
OPTION \$298,938.79

PITMAN.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

NO'D TO FILES SECTION
SEP 30 1944

1944 SEP 28 PM 4 13

WB09WASH B333 NY 28-405P

SMEAD

BOARD

ESTIMATED EARNINGS FOR 1944 TO SEPTEMBER 30 ON TREASURY
BILLS HELD BY FEDERAL RESERVE BANK OF NEWYORK IN OPTION ACCOUNT
\$5,832,000 - *re wire 9/27/44 to SREB*

ROUSE.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

WA18WASH C2

PHILA SE

8-955A TELEGRAM

Board of Governors

of the

Federal Reserve System

SMEAD

1944 SEP 28 AM 10 07

to H.P.K.

REURTEL 9/27, ESTIMATED EARNINGS YEAR TO SEPTEMBER 30 ON TREASURY

BILLS HELD ARE \$419,212.19.

DAVIS.

REC'D IN FILES SECTION
SEP 30 1944
333 343

9/28/44

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

1944 SEP 28 PM 12 27

REC'D IN FILES SECTION
SEP 30 1944

9/28/44

WA72G55WASH D51 CLEVE 28-1103

SMEAD

ESTIMATED EARNINGS ON TREASURY BILLS HELD BY FEDERAL RESERVE BANK
OF CLEVELAND OUTSIDE SYSTEM ACCOUNT FROM JANUARY 1, 1944 TO
~~SEPTEMBER~~ SEPTEMBER 30, 1944 INCLUSIVE \$254,883.10

see wire 9/27/44
HAYS.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

GRAM
of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

IN FILES SECTION
SEP 30 1944
333 3/3

1944 SEP 28 PM 1 12

WA98WASH RH 62

RICH 28-110

SMEAD

9/27/44 to FRB

RETEL ESTIMATED EARNINGS FOR 1944 TO SEPTEMBER 30 ON TREASURY

BILLS HELD BY THIS BANK OUTSIDE SYSTEM ACCOUNT \$139,046

GUTHRIE.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

SEP 30 1944
323.343

1944 SEP 28 AM 11 00

WA36WASH F14 ATLA 28-949

SMEAD

9/27/44 to H.B.S.

REURTEL (ESTIMATED EARNINGS FOR 1944 TO SEPTEMBER 30 ON TREASURY BILLS
HELD BY THIS BANK, INCLUDING NEWORLEANS BRANCH, OUTSIDE SYSTEM ACCOUNT
~~FRASER~~ \$76,980.00.

MCLARIN.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

FILED IN FILES SECTION
SEP 30 1944

1944 SEP 28 AM 10 47

WA33G91WASH GX 5 CGO 28-926

SMEAD BOARD

ESTIMATED EARNINGS FOR 1944 TO SEPTEMBER 30 ON TREASURY BILLS HELD

BY OUR BANK OUTSIDE SYSTEM ACCOUNT ARE \$2,455,007.36 *Re revised 9/27/44 to 500K*

BLACK.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

1944 SEP 28 AM 11 44

REC'D IN FILES SECTION
SEP 30 1944

9/28/44

WA48G63WASH H24 STL 28-1002

SMEAD

REURTEL YESTERDAY ESTIMATED EARNINGS FOR 1944 TO SEPT 30 ON TREASURY
BILLS HELD BY US. OUTSIDE SYSTEM ACCOUNT APPROXIMATELY \$360,000.

BUB.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

RECD IN FILES SECTION
SEP 30 1944

1944 SEP 28 PM 3 34

WA19G33WASH 136 MPLS 28-220

SMEAD

BOARD

REPLY YOUR WIRE SEPTEMBER 27 ESTIMATED EARNINGS FOR 1944 TO
SEPTEMBER 30 ON TREASURY BILLS HELD ~~OUTSIDE~~ OUTSIDE SYSTEM
ACCOUNT 147,340.70

BAKER.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

1944 SEP 28 AM 11 00

REC'D IN FILES SECTION
SEP 30 1944

9/28/44

WA37G13WASH J7 KC 28 945

BOARD

SMEAD

WE ESTIMATE EARNINGS OF \$118,811.69 TO SEPTEMBER 30 ON BILLS
HELD BY US OUTSIDE SYSTEM ACCOUNT. *re wire 9/27/44 to St. Louis*

KOPPANG.

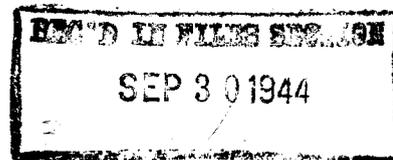
FOR FILES
M. B. Daniels

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Authority E.O. 10501

TELEGRAM
Board of Governors
OF THE
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

1944 SEP 28 PM 3 27



WA18G23WASH M71 DLS 28-215P

SMEAD

to FRPks
RETEL SEPTEMBER 27. WE ESTIMATE EARNINGS FOR 1944 TO SEPTEMBER 30
ON TREASURY BILLS HELD OUR ACCOUNT WILL BE \$69,500

GILBERT.

FOR FILES
M. E. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

IN FILES SECTION
SEP 3 0 1944
1944 SEP 27 PM 6 30

WA32G74WASH L69 SF 27-257

SMEAD BOARD

to FRB St. Louis

REURTEL DATE. ESTIMATED EARNINGS ON TREASURY BILLS TO
SEPTEMBER 30 \$704,000

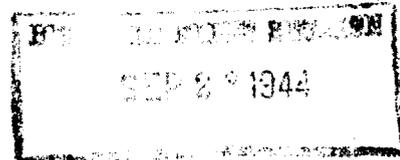
SLADE.

FOR FILES
M. B. Daniels

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Authority 10.10501

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON



September 27, 1944

Flanders - Boston
Sproul - New York
Williams - Philadelphia
Gidney - Cleveland
Leach - Richmond
McLarin - Atlanta

Young - Chicago
Davis - St. Louis
Peyton - Minneapolis
Leedy - Kansas City
Gilbert - Dallas
Day - San Francisco

Please wire Thursday estimated earnings for 1944 to September 30 on
Treasury bills held by your Bank outside System account.

Smead

ELS:mem

62
FILE COPY



September 21, 1944.

Mr. R. G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 7, N. Y.

Dear Bob:

In considering Plans 1 and 2, I am not sure that the Presidents and the Board Members understood the following important difference.

Under Plan 1 all bills held by the System are allocated on the basis of earnings so far as reserve ratios will permit.

Under Plan 2 all bills in the System Account are allocated so as to give each Bank its prorata share of estimated earnings on Treasury bills both in System account and option accounts.

This means that if a Federal Reserve Bank after giving up its entire participation in the System Account holdings of bills, has more bills in option account than its prorata share of total bills held by the System, it would retain such bills. This is why the reserve ratios are more nearly equalized under Plan 1 than under Plan 2.

I am not sure that I gather the full import of Mr. Leedy's inquiry, but I suspect that it was based in large part on his failure to understand the difference in the two formulas pointed out above. Changing the word "may" to "shall", as I understood your suggestion, would probably not make much difference in the operation of the plan, but might require a Bank that sold bills because of a ratio of 44 per cent and found itself with a reserve ratio of 45.2 per cent on the next Wednesday to sell back enough bills to reduce its ratio to 45 per cent. As you know, in the case of your Bank you preferred to have one or two points above the 45 per cent ratio rather than to hit the ratio on the dot.

Very truly yours,

E. D. Smead, Director,
Division of Bank Operations.

UNSIGNED ORIGINAL
HANDLED TO MR. ROUSE
AT LUNCHEON ON THURS-
DAY, SEPT. 21, 1944.

FILE COPY

E.L.S.

ELS:jbs

September 20, 1944.

Mr. Smead

Option Account Bills

Mr. Van Fossen

This refers to your request for my suggestions in regard to the possibility of devising some arrangement whereby bills held in option account may be included in the System Open Market Account and be subject to sale and repurchase for immediate delivery.

The privilege of repurchasing bills sold to a Federal Reserve Bank under option account would not be worth much to member banks so far as so-called "immediate delivery" is concerned unless ownership could be transferred late in the day, inasmuch as banks ordinarily do not know very accurately what their reserve position will be early in the day. Accordingly, if immediate delivery is to be continued after the bills have been placed in the System Open Market Account, it would seem to be necessary to permit the exercise of this privilege up to the closing time of the Federal Reserve Bank involved. Under normal circumstances this would mean that the Bank would have to advise the Federal Reserve Bank of New York of the transaction and receive authorization from the Federal Reserve Bank of New York to deliver the securities. It would also entail the maintenance of a night force at the Federal Reserve Bank of New York to reallocate the bills held in the System Open Market Account and prepare the necessary advices to the various Federal Reserve Banks regarding changes in their participations and in the discount account carried by them. Some arrangement would also have to be made to transfer the funds to effect the required payments; otherwise if the transactions were of any particular magnitude some Federal Reserve Banks might have deficient reserves or at least a reserve ratio below the agreed minimum ratio.

I believe there is a fairly simple way, however, in which these difficulties could be overcome. The fundamental basis of the suggested plan is the segregation of option bills from other United States Treasury bills held in the System Open Market Account and the retention of the unearned discount on such bills on the books of the Bank that originally purchased the bills. If this were done since all option bills are taken at the $3/8$'s per cent rate it would be possible to operate as follows: At the close of each day have each other Federal Reserve Bank wire the Federal Reserve Bank of New York the amount of option bills held by it for System account. This would be, of course, the total option bills actually held by the reporting Federal Reserve Bank. For example, a Federal Reserve Bank would wire the Federal Reserve Bank of New York "We hold option account bills in the amount of \$150,125,000". The next morning the Federal Reserve

FILE COPY

-2-

Bank of New York would compute the total amount of such bills and allocate them among the twelve Federal Reserve Banks in proportion to average holdings of United States interest-bearing securities in the System account during the preceding five years, and wire the other Federal Reserve Banks as follows: "Your participation yesterday in option account bills \$97,125,000. We pay you \$53,000,000 less one* day's discount which amounts to \$492.05". In case the Bank is to receive a larger participation, the wire would read: "Your yesterday's participation in option account bills \$165,125,000. You pay us \$15,000,000 less one* day's discount thereon which amounts to \$156.40." Under this arrangement, each Federal Reserve Bank accrues earnings at 3/8's per cent on whatever option bills it might hold, adjusting those earnings in accordance with the above-described wires from New York and would retain the proceeds of any Treasury bills redeemed at maturity or resold. It would be unnecessary, of course, for the other Federal Reserve Banks to furnish the Federal Reserve Bank of New York with an itemization of the bills held by maturity except as of Wednesday.

In order to effect approximately immediate settlement for changes in participations, arrangements should be made to have the necessary payments in even millions of dollars made by special transfer through the Interdistrict Settlement Fund on advices from the Federal Reserve Bank of New York, not supported by advices from the other Banks. Each Federal Reserve Bank then would put in its daily transcript the exact amount of the transaction, i.e., the round amount in millions representing the face amount of the bills transferred ~~minus~~ minus the discount thereon for one day as above-mentioned. From the total credits in the daily transcript the Bank would then deduct the special transfer effected in the morning as of the previous day which would not be regarded as a payment for the bills but rather a partial payment on account of amounts due to the other Federal Reserve Bank which would ordinarily be paid in that day's settlement.

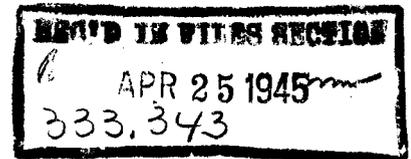
Since a Bank could tell pretty accurately what its reserve ratio was at the time of dispatching its wire to New York in regard to option bills held, it could, if it was so desired, advise the Federal Reserve Bank of New York not to allot option bills to it in excess of a stated amount. In such case the Federal Reserve Bank of New York would allot to some other Reserve Bank the excess, if any, in the calculated participation of the Federal Reserve Bank concerned.

* "Two days" on Saturdays and on days preceding a holiday.

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Authority E.O. 10501



File date mm
9-18-44

Allocation of Securities in System Open Market Account

Mr. Smead described the proposed plan for allocating securities in the System Open Market Account, stating that the new formula provides for the division of the Account into (1) interest-bearing securities and (2) Treasury bills, and that insofar as possible adjustment of reserve ratios should be made through changes in the participation of the Reserve Banks in Treasury bills.

Two plans for allocation of securities were discussed:

Plan I. provides for the elimination of the Option Accounts and the discontinuance of the privilege extended sellers of bills to repurchase bills of like maturity for delivery on the same day, and instead permits them to repurchase on the basis of the next full business day delivery. This is customary procedure in the Government securities market. It appears that the privilege of delivery on the same day is used by comparatively few commercial banks and these will likely adjust their operations to the new procedure. Under this plan, a greater number of bookkeeping entries will be required, but it provides a practical method of handling bill transactions directly by the manager of the System Account and enables a prompt and equitable distribution of all securities.

Plan II. provides for a continuance of the Option Accounts and is the simpler method from an accounting standpoint because it involves fewer entries.

Both plans provide for adjustment of reserve ratios and distribution of earnings. The basis for the allocation of securities to each Reserve Bank may be summarized as follows:

1. A sufficient amount of interest-bearing securities to cover expenses not already covered by accrued earnings and by estimated earnings from other sources excluding Treasury bills.
2. A sufficient amount of additional interest-bearing securities to cover dividend requirements.
3. Any remaining interest-bearing securities on the basis of average daily holdings of such securities for the five years ending on the last day of the preceding month.
4. Treasury bills on the basis of the average daily holdings of interest-bearing securities in the System Account by each Reserve Bank for five years ending on the last day of the preceding month.

Discussion of these plans followed, after which Mr. Smead left the Conference.

Chairman Day polled the Conference to determine the choice of a plan. The result was:

- | | |
|----------------------------|--|
| <u>For Plan I.</u> | - New York, Cleveland, Richmond, Atlanta |
| <u>For Plan II.</u> | - Boston, Philadelphia, Chicago, St. Louis, Minneapolis, San Francisco |
| <u>For a modified plan</u> | - Dallas, Kansas City |

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TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

RECORDED IN FEDERAL RESERVE
SEP - 2 1944
333.313

September 2, 1944

Edinleton - St. Louis

Retel September 1, percentages of average daily participations
in interest bearing securities in system account for five
years ending June 30 are as follows:

Boston	7.6225	Chicago	11.6131
New York	24.3240	St. Louis	4.6046
Philadelphia	8.0062	Minneapolis	3.0444
Cleveland	10.6232	Kansas City	4.9655
Richmond	6.2278	Dallas	4.3398
Atlanta	4.9924	San Francisco	9.6365

Van Possen

41

FOR FILE
F. B. BANK

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

RECEIVED THE FEDERAL RESERVE SYSTEM
SEP - 9 1944
3 33 PM '44

1944 SEP 1 PM 5 38

WA50G34WASH H152 STL 1-421

SMEAD

PLEASE WIRE RATIO FOR EACH RESERVE BANK ON BASIS OF AVERAGE DAILY
HOLDINGS OF INTEREST BEARING SECURITIES IN SYSTEM ACCOUNT FOR
PAST FIVE YEARS.

EDMISTON.

POST FILED
J. A. [unclear]

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MISC. 3B.1-50M-10-42

FEDERAL RESERVE BANK

OFFICE CORRESPONDENCE

REC'D IN RECORDS SECTION

DATE August 27, 1944
APR 29 1968To Mr. Knoke
FROM H. L. SanfordSUBJECT Effect on Reserve Ratios
of Federal Reserve Banks of
Changes in Participations
in Foreign Deposits (All
Data as of July 26, 1944) 8/24/44

In his memorandum of August 15, Mr. Hays of the Cleveland Reserve Bank states:

"Two of several ways whereby the ratio of an individual bank may be brought to the System ratio* are:

(a) Changing the formula for adjusting holdings of reserve banks in the Federal Open Market Account, with this objective in mind.

* * *

(b) Adjusting participations in the deposit accounts of foreign governments and banks.

The distribution of these deposits is now made to participating reserve banks in the ratio of their capital and surplus to the total capital and surplus of all participating reserve banks. This could be changed so that reserve banks needing reserve funds would receive a larger proportion of these deposits.* As will be recalled, since these deposits come from outside the district, they bring with them 100% in reserve funds, whereas only 35% is required by law to maintain the deposits; 65% of the deposits, therefore, could be applied as reserve against other liabilities of the bank.

These steps are again a matter of mechanics to attain maximum use of funds now in the hands of the System."

* Underlining added.

See attached note

Directive #1

MISC. 3B.1-50M-10-42

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 24, 1944.TO Mr. Knoke

SUBJECT

Effect on Reserve Ratios of
Federal Reserve Banks of
Changes in Participations
in Foreign Deposits (All
Data as of July 26, 1944)FROM H. L. Sanford

2.

For the purpose of examining the method of evening out reserve ratios by adjustments of participations in the deposit accounts of foreign governments and banks, the combined (average) ratio of each bank is the significant ratio to be considered, rather than the ratio of reserves to notes in circulation or the ratio of reserves to deposits. In the case of the Cleveland Bank, the note ratio is 63.1 per cent (against the required ratio of 40 per cent), owing to the pledge of more gold as collateral than is needed for reserve purposes; as a result, the deposit ratio at 40.9 per cent (against the required ratio of 35 per cent) is unduly depressed. As Mr. Hays states, this condition can be corrected by pledging more Government securities as collateral against Federal Reserve Note issues, thereby releasing gold to be used as reserves against deposits. The combined ratio of the Cleveland Bank is 53.9 per cent, as compared with a System average of 56.3 per cent.

The total of the participated "Due to Foreign Depositors" of the Federal Reserve Banks is \$1,376,500,000*, as compared with

* The following table shows the breakdown by banks of the \$1,376,500,000 "Due to Foreign Depositors" total mentioned above.

Boston	7.0%	\$ 96,239,415.65
New York	36.4	502,106,250.26
Philadelphia	9.2	126,486,089.11
Cleveland	8.9	122,361,542.75
Richmond	4.0	54,993,951.80
Atlanta	3.2	43,995,161.44
Chicago	12.4	170,481,250.58
St. Louis	3.1	42,620,312.64
Minneapolis	2.2	30,246,673.49
Kansas City	2.9	39,870,615.06
Dallas	2.9	39,870,615.06
San Francisco	7.8	107,238,206.01
TOTAL	100.0%	\$1,376,510,083.88

MISC. 38.1-50M-10-42

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 24, 1944.

TO Mr. Knoke
FROM H. L. SanfordSUBJECT Effect on Reserve Ratios of
Federal Reserve Banks of
Changes in Participations
in Foreign Deposits (All
Data as of July 26, 1944)

3.

a total of \$14,802,000,000 of United States Government securities held by all Federal Reserve Banks (of which \$11,280,000,000 is in the System Open Market Account and \$3,522,000,000 in the option accounts). It is evident that participated foreign deposits constitute a relatively small factor in the overall total of "shift-able" funds available for use as mechanisms to even out the reserve ratios of the Federal Reserve Banks. As is indicated below, the volume of "participated foreign accounts" is insufficient to accomplish a material adjustment of reserve ratios through the medium of shifts in such deposits.

Turning first to the two Reserve Banks with the highest reserve ratios*, it appears that these banks do not at present hold large enough participations in foreign deposits to bring about a material decline of their reserve ratios even if they surrendered all their participation in foreign deposits. If the San Francisco Reserve Bank should surrender all of its participation of \$107,000,000 in the foreign deposit accounts, its reserve ratio would decline only from 64.6 per cent to 63.7 per cent. If Chicago

*	San Francisco	64.6%
	Chicago	64.4
	Atlanta	56.6
	Richmond	56.6
	Average for all Federal Reserve Banks	56.3
	Cleveland	53.9
	New York	53.5
	Kansas City	52.8
	Boston	52.3
	Minneapolis	50.8
	St. Louis	50.1
	Dallas	49.3
	Philadelphia	48.4

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MISC. 3B.1-50M-10-42

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

August 24, 1944.

To Mr. Knoke
 FROM H. L. Sanford

DATE _____
 SUBJECT Effect on Reserve Ratios of
 Federal Reserve Banks of
 Changes in Participations
 in Foreign Deposits (All
 data as of July 26, 1944)

4.

should give up its entire participation of \$170,000,000, its ratio would drop only from 64.4 per cent to 63.3 per cent. At the other extreme of the reserve ratio range is Philadelphia. In order to raise its ratio from 48.4 per cent to the System average of 56.3 per cent, no less than approximately \$380,000,000 of foreign deposits would have to be shifted to Philadelphia, which shift, together with its present participation of \$126,500,000, would give it a total participation of \$506,500,000 in foreign deposits. Foreign deposits in such volume would not be a great deal less than the \$635,000,000 of member bank reserve accounts which Philadelphia now holds. Such a participation in foreign deposits would seem disproportionate to the size of the Philadelphia Reserve Bank. In the case of Dallas, to raise its ratio from 49.3 per cent to 56.3 per cent, Dallas would have to receive about \$170,000,000 more of foreign deposits, which amount, added to its present total of only \$40,000,000 of foreign deposits, would make a new total of \$210,000,000 of such deposits. Relative to member bank reserves, however, such increased total of foreign deposits would equal only about two fifths. Referring to the two Reserve Banks whose ratios are the least below the average: The Cleveland Bank, with a ratio of 53.9%, or only 2.4 per cent below the System average, would need to receive about \$160,000,000 of

MISC. 38.1-50M-10-42

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

August 24, 1944.

Mr. Knoke
 TO _____
 H. L. Sanford
 FROM _____

DATE _____
 SUBJECT Effect on Reserve Ratios of
Federal Reserve Banks of
Changes in Participations
in Foreign Deposits (All
 5. _____
data as of July 26, 1944)

additional foreign deposits to bring its ratio up to the average, and the New York Bank* with a ratio of 53.5 per cent, would need no less than \$600,000,000 more of foreign deposits to raise its ratio to the System average. It is obvious from the examples cited that even if the San Francisco and Chicago banks relinquished all of their present participations (which would not materially reduce their reserve ratios) the aggregate amount so released - \$277,000,000 - together with about \$10,000,000 which Atlanta and Richmond could each relinquish without dropping their ratios below the average, would provide only a small part of the additional foreign deposits (and resulting additional reserves) which the Reserve Banks with ratios below the average would need to raise their ratios to the average.

The use of the participation in foreign deposits mechanism to adjust reserve ratios would mean that a bank with a low ratio would be assuming materially larger deposit liabilities in order to bring about an increase in its reserves equal to 65 per cent of the amount of the added deposits. To increase reserve ratios, a much more desirable procedure than the assumption of greater liabilities in order to effect a fractional gain of reserves is for banks with low reserve ratios to surrender one type of asset

* It might be mentioned here that if the New York Bank should relinquish to other Reserve Banks all of its present participation (\$502,000,000) in foreign deposit accounts, its reserve ratio would drop from 53.5 per cent to 50.9 per cent; if, on the other hand, the present participations (\$874,000,000) of the other Reserve Banks were to be transferred to New York, the ratio would increase to 57.7 per cent.

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MISC. 9B.1-50M-10-42

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

August 24, 1944.

Mr. Knoke
TO _____
H. L. Sanford
FROM _____

DATE _____
SUBJECT Effect on Reserve Ratios of
Federal Reserve Banks of
Changes in Participations
in Foreign Deposits (All
Data as of July 26, 1944)

6.

(United States Government securities) in exchange for another type of asset (Reserves), with no change in liabilities. Furthermore, the method of adjusting reserve positions by the use of changes in participations in the System Government security portfolio has much greater force, in that all of a given increase in reserves (resulting from surrendering a given participation in the United States Government security portfolio) has an effect on the reserve position, whereas a gain of reserves accompanying the acquisition of additional foreign deposits is effective only to the extent of 65 per cent. The reverse is likewise true - on an increase in participation in the Government security portfolio, the ratio is adversely affected to the extent of 100 per cent, whereas by giving up foreign deposits, the ratio is adversely affected only to the extent of 65 per cent of the amount given up.

In passing, it should be mentioned that to the extent that a Reserve Bank participates in increased amount in the "Due to Foreign Depositors", it also assumes a larger liability for the gold held under earmark at this bank, for security custody accounts, and for any possible losses arising from our foreign operations not resulting from our own negligence, and it also would pay a larger proportion of the net expenses of operating the foreign accounts; conversely, such a bank would participate to a large extent in any earnings, such as interest on loans on gold.

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MISC. 38-1-50M-8-43

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

August 24, 1944.

DATE

To Mr. Knoke
FROM H. L. SanfordSUBJECT Effect on Reserve Ratios of
Federal Reserve Banks of
Changes in Participations
in Foreign Deposits (All
Data as of July 26, 1944)

7.

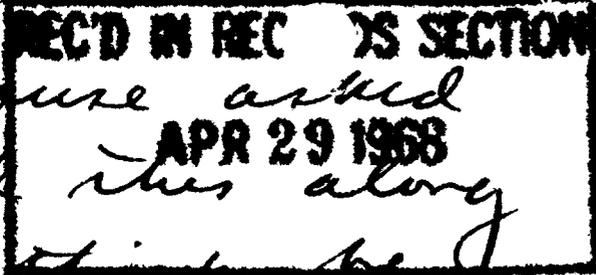
The preceding consideration of the question points to the conclusion that the participation in foreign deposits device is a much less effective and desirable instrument to use in evening out the reserve ratios of the Federal Reserve Banks than is the device of reallocating participations in the System's Government security holdings. Quite aside from the fact that there is not enough "ammunition" available in the form of foreign deposits to do the job, there are the other objections mentioned above, and it is questionable whether even limited use of the device, to supplement the reallocation of Government securities device, would be effective or desirable.

HLS:EC

Mr. Smeal

Mr. Rouse asked
me to send this along
to you. I think he
felt you would like
to read it before the
F.O.M.C. meeting.

Marcus Harris



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Authority E.O. 10501

REC'D FILES SECTION
AUG 26 1944

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 18, 1944.



Dear Sir:

You will have noted from the minutes of the meeting of the executive committee of the Federal Open Market Committee which was held on July 28, 1944, that the executive committee agreed to recommend at the next meeting of the full Committee that the separate option accounts maintained by the respective Federal Reserve Banks be discontinued.

Under date of August 8, 1944, Mr. Young, President of the Federal Reserve Bank of Chicago, addressed a letter to Chairman Eccles commenting on the proposed change. Copies of Mr. Young's letter and Chairman Eccles' reply are enclosed for your information.

As contemplated by the action of the executive committee, this matter will be placed on the agenda for discussion at the meeting of the Federal Open Market Committee which has been called to convene in Washington on September 21, 1944.

Very truly yours,
S. R. Carpenter
S. R. Carpenter Assistant Secretary,
Federal Open Market Committee.

Enclosures 2.

TO THE PRESIDENTS OF ALL THE FEDERAL RESERVE BANKS EXCEPT CHICAGO.



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REC'D IN FILES DIVISION

SEP 27 1944

Return this copy to

Bank Operations as soon
as original is mailed,
showing on copy the date
of mailing.

AUG 18 1944

Mr. C. S. Young, President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Young:

This letter is in response to yours of August 8, 1944,
relating to the proposal that the separate option accounts main-
tained by the Federal Reserve Banks be discontinued.

In connection with the discussion at the meeting of the
Executive Committee of the Federal Open Market Committee on July
28 of a new formula by which to allocate System securities, it
was pointed out that in recent years the basic general objective
has been to provide for an equitable distribution of earnings
and for the fairest distribution of profits and of liability for
losses in the System Account and that the present plan of allo-
cating securities in the Account accomplished that until the
introduction of the option accounts. Since that time there has
been a maldistribution of liability in the System Account as
Banks in order to maintain an equitable distribution of earnings
gave up participations in the Account to offset their holdings
of bills in option accounts. The continuing decline in reserve
ratios of the System will shortly bring about an additional
problem which may materially affect the equitable distribution
of earnings among the Federal Reserve Banks. Messrs. Rouse and
Smead presented at the Executive Committee meeting a memorandum
recommending a plan of allocation to meet this situation.

In our discussion of this plan, I raised the question
as to whether the continuation of the option accounts was justi-
fied. It was in this connection that Mr. Rouse made the state-
ment which you quoted and I think it is his opinion that the
procedure for adjusting the reserve ratios of the individual
Banks by sales and purchases of Treasury bills would be simpli-
fied by transferring to the System Account all Treasury bills
purchased at the buying rate under repurchase option.

FOR FILES
L. B. Smith

*file copy filed
- some - General*

Mr. C. S. Young, President

- 2 -

With respect to the points which you listed by number:

(1) Your understanding of the procedure suggested with respect to the handling of Treasury bills purchased and resold at the buying rate by the individual Federal Reserve Banks is correct, except that I do not think it was contemplated that such bills would be physically transferred to the Federal Reserve Bank of New York. I believe the plan contemplates that the Banks would hold the option bills in their own accounts until the next business day after purchase, when they would be sold to the System Account and held by the respective Banks in safekeeping for the System Account. This procedure would make unnecessary the transfer of bills by wire. I believe it was also intended that a record of the sellers of the bills to the Federal Reserve Banks under repurchase option would be kept by the individual Federal Reserve Banks making the purchases rather than by the System Account. So long as reallocations of securities in the System Account do not have to be made in order to prevent the reserve ratios of individual banks from going below the agreed upon minimum, the present system of having option bills held outside the System Account does not present any substantial difficulty. When the reserve ratios of individual Federal Reserve Banks begin to drop below the agreed upon minimum, however, it would be a very difficult task to operate with two separate accounts -- the System Account and the option account. The work involved in functioning under such a situation might be substantially greater than would be the case if the option bills were thrown into the System Account.

(2) We considered the point which you make and we believe that the amount of uninvested funds would increase relatively little. What is likely to develop is that Banks will make commitments to repurchase an excess amount of bills for delivery on Friday (or on whatever day reserves are adjusted for the period) and then sell back to the Reserve Banks for cash delivery on Friday the amount of bills necessary to adjust their reserve positions.

(3) As I intimated above, we anticipate that if our recommendation is adopted, namely that immediate delivery in connection with repurchase of bills be eliminated and replaced by next-day delivery, there will be a certain amount of criticism by member banks. On the other hand, we feel that the principal feature of the bill mechanism, that bills are made the equivalent of cash at the Reserve Banks, will be substantially maintained and that when our reserve problem is explained to member banks they will accept the statement that in the existing situation the accounting problems connected with the reallocation of securities among the Reserve Banks necessitates the proposed change.

Mr. C. S. Young, President

- 3 -

While the Executive Committee plans to recommend to the Federal Open Market Committee and to the Presidents of the Banks the elimination of the option accounts and the adoption of the plan of allocating securities in the System Account suggested by Messrs. Rouse and Smead, amended to provide for the elimination of the option accounts, the Committee also proposes to recommend the original plan submitted by Messrs. Rouse and Smead as an alternative in case the Federal Open Market Committee and the Presidents object to the elimination of the option accounts. Your comments in this regard are appreciated and, in order that the Presidents of the other Federal Reserve Banks may have the benefit of this discussion, I am taking the liberty of sending them a copy of your letter and of this reply.

Very truly yours,

M. S. Eccles,
Chairman.

FEDERAL RESERVE BANK OF CHICAGO

Zone 90

August 8, 1944

OFFICE OF THE PRESIDENT

Honorable Marriner S. Eccles, Chairman
Board of Governors of the Federal Reserve System
Washington 25, D. C.

Dear Mr. Eccles:

The minutes of the meeting July 28, 1944, of the Executive Committee of the Federal Open Market Committee, contain the following statement:

"Mr. Rouse suggested that the entire open market operation of the reserve banks would be greatly simplified if the option accounts were discontinued at the individual reserve banks and the procedure were resumed that was followed prior to the action of the Federal Open Market Committee on September 28, 1942, when the option accounts were established for the purpose of making Treasury bills available at the Federal Reserve banks for immediate delivery when repurchase was desired. The effect of this change, he said, would mean that the sellers of bills could continue to get immediate credit upon sale but that when the bills were repurchased the transaction would be on a one-day delivery basis and the purchaser would lose one day's interest."

My understanding of the procedure referred to is as follows: instead of the reserve banks purchasing Treasury bills for their own account and holding them until maturity or repurchase, they would initially purchase the bills for their own account for cash, then subsequently resell them to the Federal Open Market Account for delivery the next business day. The manager of the Open Market Account would thereupon calculate the net amount of bills purchased by all Federal Reserve banks and allocate them among the various Federal Reserve banks according to whatever formula was in vogue at the time, advising the various banks of the amount of change in their participation and requesting that the account of the Federal Reserve Bank of New York be debited or credited through the Gold Settlement Fund.

FEDERAL RESERVE BANK OF CHICAGO

August 8, 1944

Hon. Marriner S. Eccles
Board of Governors

-2-

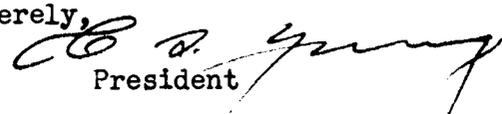
1. This procedure would seem far from simplifying the operation of the Federal Reserve banks as it would double or triple the entries required to be made per transaction and would seem also to increase the work of the Open Market Account in arriving at changes in allocation. In addition, a C.P.D. transfer of bills would be required in the face of an already over-crowded condition on our leased wires, or the issuance of a trust receipt to the Federal Reserve Bank of New York. The Open Market Account would also have to keep a record of the sellers of bills under option in order that repurchase could be allowed, if requested.

2. The provision that sellers of bills could repurchase same only on a one-day delivery and not on a cash basis will be very unpopular with member banks and it will be difficult to offer them a plausible explanation as to why they can sell us bills for cash but cannot repurchase them on the same basis. Under our present arrangement, it is not difficult to allow repurchases for cash and the member banks take this factor into consideration in planning their weekly reserve adjustments. The member banks are not able to calculate with any accuracy their reserve position twenty-four hours in advance; therefore, the proposed one-day delivery basis for repurchase of Treasury bills will cause them to carry more cash reserves and less Treasury bills on the average, and conversely will increase the holdings of Treasury bills by the Open Market Account.

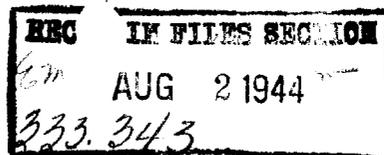
3. The Federal Reserve banks, and the Federal Reserve Bank of Chicago in particular, have spent considerable time and effort in explaining and educating member banks in the advantages and mechanics of Treasury bill sales and repurchases, with the result that many more banks, particularly out of town, are now using this method of adjusting their reserves with satisfaction both to themselves and to the Treasury. The present procedure is functioning smoothly both from the standpoint of the reserve bank and the member banks. Any unnecessary change in the procedure at this time would merely serve to confuse the member banks and might result in inadvertent violations of the reserve requirements and consequent dissatisfaction on the part of said member banks.

I trust that favorable action by the full committee will not be taken on this matter.

Sincerely,


President

DECLASSIFIED

Authority 10.10501C O P YFEDERAL RESERVE BANK
OF RICHMOND

Post Office Delivery Unit 13

July 3, 1944

Mr. Chester Morrill, Secretary,
Federal Open Market Committee,
Board of Governors
of the Federal Reserve System,
Washington 25, D. C.

Dear Mr. Morrill:

I have given careful study to the memorandum prepared by Messrs. Rouse and Smead on the subject: "Allocation of Securities in System Account and Sales of Treasury Bills to Adjust Reserve Ratios" and think the plan recommended is far better than any that has been suggested heretofore. It seems to meet requirements without unnecessary complications.

The only comment I have to make applies to 2 (a) Treasury Bills which reads as follows:

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

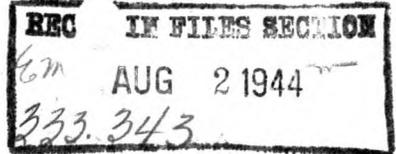
In allocating interest-bearing securities under 1 (a), accrued interest on interest-bearing securities and estimated earnings from other sources, excluding Treasury Bills, are taken into consideration. Since reallocations of interest-bearing securities are to be made quarterly until October 1, and monthly for the remainder of the year, earnings from all sources other than Treasury Bills are treated on a cumulative basis.

On the other hand, allocations of Treasury Bills under 2 (a) quoted above are final for the quarterly or monthly period. No

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General*

COPYFEDERAL RESERVE BANK
OF RICHMOND

Post Office Delivery Unit 13



July 3, 1944

Mr. Chester Morrill, Secretary,
Federal Open Market Committee,
Board of Governors
of the Federal Reserve System,
Washington 25, D. C.

Dear Mr. Morrill:

I have given careful study to the memorandum prepared by Messrs. Rouse and Smead on the subject: "Allocation of Securities in System Account and Sales of Treasury Bills to Adjust Reserve Ratios" and think the plan recommended is far better than any that has been suggested heretofore. It seems to meet requirements without unnecessary complications.

The only comment I have to make applies to 2 (a) Treasury Bills which reads as follows:

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

In allocating interest-bearing securities under 1 (a), accrued interest on interest-bearing securities and estimated earnings from other sources, excluding Treasury Bills, are taken into consideration. Since reallocations of interest-bearing securities are to be made quarterly until October 1, and monthly for the remainder of the year, earnings from all sources other than Treasury Bills are treated on a cumulative basis.

On the other hand, allocations of Treasury Bills under 2 (a) quoted above are final for the quarterly or monthly period. No

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Mr. Chester Morrill

- 2 -

July 3, 1944

question as to the equity of this procedure would arise if each bank would always receive its prorata share of the holdings of Treasury Bills in both the System and Option accounts; however, this is not likely to be the case. As a result it would seem that banks with excesses in their Option accounts would gain an advantage over other banks with respect to earnings with no offsetting disadvantage. If a particular reserve bank should continue to have an excess in its Option account throughout the year, nothing could be done about it as long as Option accounts are maintained separately from the System account.

But if a bank should have the benefit of the earnings from an excess Option account during one quarter, it would seem that this should be taken into consideration when the next periodical allocation is made, provided the amount of the Option account at that time would permit an equalizing adjustment. This process could be carried on at each allocation date until the end of the year, at which time the results would be final as they always have been in allocating securities in the System account.

To summarize: I like the plan suggested by Messrs. Rouse and Smead for allocating bills, but think it should be carried out on a yearly basis rather than a quarterly basis for the first three quarters and a monthly basis for the last three months.

Very truly yours,

(Signed) Hugh Leach

HUGH LEACH, Member,
Federal Open Market Committee.

RECORD IN RECORDS SECTION
 APR 26 1968
 333.243

7/1/44

REALLOCATION OF SECURITIES IN THE SYSTEM OPEN MARKET ACCOUNT
 ON JULY 1, 1944 IN ACCORDANCE WITH PLAN "1"
 WHICH CALLS FOR THE ELIMINATION OF OPTION ACCOUNTS
 (in thousands of dollars)

	BOSTON	NEW YORK	PHILADELPHIA	CLEVELAND	RICHMOND	ATLANTA	(CHICAGO)	ST. LOUIS	MINNEAPOLIS	KANSAS CITY	DALLAS	SAN FRANCISCO	TOTAL
<u>INTEREST BEARING SECURITIES</u>													
Participation June 30	460,409	1,345,283	489,458	674,573	392,224	343,157	648,794	280,185	184,108	317,106	284,009	609,315	6,028,624
Participation July 1 in accordance with plan "1"	354,779	1,709,879	392,016	518,860	319,769	311,417	937,984	281,218	138,087	236,129	206,147	623,316	6,028,624
Change	- 105,630	+ 363,596	- 97,442	- 155,713	- 72,435	- 31,740	+ 289,190	+ 1,033	- 46,021	- 80,977	- 77,862	+ 14,001	+ 667,824
<u>TREASURY BILLS</u>													
Participation in System A/C June 30	398,442	1,164,209	423,578	583,771	339,435	296,967	561,468	242,474	159,322	274,424	245,787	527,306	5,217,166
option A/C holdings June 30	66,460	2,252,420	130,384	44,291	25,383	31,857	792,345	39,482	36,640	18,188	16,033	199,750	3,655,223
Total holdings Treasury bills	464,902	3,416,629	553,962	628,062	364,818	328,824	1,353,813	281,956	195,962	292,612	263,820	727,056	8,872,414
Participation July 1 in accordance with plan "1"	847,754	1,266,948	869,877	1,220,906	711,665	575,003	623,662	426,845	327,352	567,460	502,854	932,090	8,872,416
Net Change	+ 382,852	- 2,149,681	+ 315,915	+ 592,844	+ 346,847	+ 246,179	- 730,151	+ 144,889	+ 131,390	+ 274,848	+ 239,034	+ 205,034	+ 2,879,832
Changes in participation in Treas. bills necessary to adjust reserve ratios to a minimum	- 74,875	+ 235,990	- 116,100	- 160,932	- 19,282	-	+ 345,750	-	- 43,950	- 46,759	- 119,842	-	+ 581,740
Participation July 1 after adjustment of reserve ratio	772,879	1,502,938	753,777	1,059,974	692,383	575,003	969,412	426,845	283,402	520,701	383,012	932,090	8,872,416
Net Change	+ 307,977	- 1,913,691	+ 199,815	+ 431,912	+ 327,565	+ 246,179	- 384,401	+ 144,889	+ 87,440	+ 228,089	+ 119,192	+ 205,034	+ 2,298,092
<u>TOTAL PARTICIPATION</u>													
Total holdings June 30	925,311	4,761,912	1,043,420	1,302,635	757,042	671,981	2,002,607	562,141	380,070	609,718	547,829	1,336,371	14,901,037
Total participation July 1	1,127,658	3,211,817	1,145,793	1,578,834	1,012,172	886,420	1,907,396	708,063	421,489	758,830	589,159	1,555,406	14,901,037
Net Change	+ 202,347	- 1,550,095	+ 102,373	+ 276,199	+ 255,130	+ 214,439	- 95,211	+ 145,922	+ 41,419	+ 147,112	+ 41,330	+ 219,035	+ 1,845,306
<u>RESERVE RATIOS</u>													
Reserve ratio June 30 (%)	55.0	49.2	49.9	54.6	56.6	60.4	63.9	56.8	50.4	55.6	48.8	65.9	56.1
After reallocation July 1 but before adjustment (%)	41.3	68.1	39.4	39.4	44.	48.1	71.6	45.9	39.3	41.6	34.	60.4	56.1
After adjustments (%)	45.	65.6	45.	45.	45.	48.1	65.6	45.9	45.	45.	45.	60.4	56.1

REC'D IN RECORDS SECTION
 APR 26 1968
 II

REALLOCATION OF SECURITIES IN THE SYSTEM OPEN MARKET
 ACCOUNT ON JULY 1, 1944, IN ACCORDANCE
 WITH PLAN "D"
 (in thousands of dollars)

	BOSTON	NEW YORK	PHILADELPHIA	CLEVELAND	RICHMOND	ATLANTA	CHICAGO	ST. LOUIS	MINNEAPOLIS	KANSAS CITY	DALLAS	SAN FRANCISCO	TOTAL
<u>INTEREST BEARING SECURITIES</u>													
Participations June 30	460,409	1,345,283	489,458	674,573	392,224	343,157	649,794	280,185	184,108	317,106	284,009	609,315	6,028,621
Participations July 1 in accordance with plan "D"	354,779	1,708,879	392,016	518,860	319,789	321,417	937,984	281,218	138,087	236,129	206,147	623,316	6,028,621
Net Change	- 105,630	+ 363,596	- 97,442	- 155,713	- 72,435	- 31,740	+ 289,190	+ 1,033	- 46,021	- 80,977	- 77,862	+ 14,001	+ 667,820 - 667,820
<u>TREASURY BILLS</u>													
Participations June 30	398,442	1,164,209	423,578	583,771	339,435	296,967	561,468	242,474	159,322	274,424	245,787	527,306	5,217,183
Participations July 1 in accordance with Plan "D"	638,798	- 0 -	633,540	972,864	566,717	474,265	- 0 -	244,740	237,050	450,899	410,413	587,897	5,217,183
Net Change	+ 240,356	- 1,164,209	+ 209,962	+ 389,093	+ 227,282	+ 177,298	- 561,468	+ 2,266	+ 77,728	+ 176,475	+ 164,626	+ 60,591	+ 1,725,877 - 1,725,877
Changes in participations necessary to adjust reserve ratio to a minimum of 45%			- 10,148				+ 55,583				- 45,435		+ 55,583 - 55,583
Net Change	+ 240,356	- 1,164,209	+ 199,814	+ 389,093	+ 227,282	+ 177,298	- 505,885	+ 2,266	+ 77,728	+ 176,475	+ 119,191	+ 60,591	+ 1,670,094 - 1,670,094
<u>TOTAL PARTICIPATION</u>													
Total participation 6/30	858,851	2,509,492	913,036	1,258,344	731,659	640,124	1,210,262	522,659	343,430	591,530	529,796	1,136,621	11,245,804
Total participation 7/1	993,577	1,708,879	1,015,408	1,491,724	886,506	785,682	933,567	525,958	375,137	687,028	571,125	1,211,213	11,245,804
Net Change	+ 134,726	- 800,613	+ 102,372	+ 233,380	+ 154,847	+145,558	- 216,695	+ 3,299	+ 31,707	+ 95,498	+ 41,329	+ 74,592	+ 1,017,308 - 1,017,308
<u>RESERVE RATIOS</u>													
On June 30 (%)	55.0	49.2	49.9	54.6	58.6	60.4	63.9	56.8	50.4	55.6	48.8	65.9	56.1
After reallocation 7/1 but before adjustment (%)	48.3	57.6	44.5	46.5	50.4	52.0	68.7	56.6	46.3	48.7	40.8	64.0	56.1
After adjustments (%)	48.3	57.6	45.0	46.5	50.4	52.0	67.7	56.6	46.3	48.7	45.0	64.0	56.1

DL
Mr. Smead

REC'D IN RECORDS SECTION
APR 23 1968
333,343

FEDERAL RESERVE BANK
OF NEW YORK

July 1, 1944

Dear Smead:

We received your letter of June 30, 1944, and have today sent to the Reserve Banks a copy of the computation showing the adjustments to be made today in participations in the System Open Market Account, pursuant to the plan adopted at the meeting of the Federal Open Market Committee on December 18, 1940.

Enclosed herewith is a copy of the letter of transmittal together with three copies of the computation, also copy of the telegram which was sent to each of the Federal Reserve Banks on June 30, 1944.

Yours faithfully,

Robert G. Rouse
Robert G. Rouse, Manager,
System Open Market Account.

Mr. E. L. Smead, Director,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Enclosures 5



Directive #1

MISC. 140A 100M-5-42

FEDERAL RESERVE BANK OF NEW YORK

REC'D IN RECORDS SECTION
APR 23 1968

July 1, 1944.

Dear Mr. Williams:

In accordance with my telegram of June 30, 1944, I enclose herewith computation of the readjustments to be made today in the participations of the Federal Reserve Banks in the System Open Market portfolio.

Yours faithfully,

Robert G. Rouse, Manager,
System Open Market Account.

Mr. Alfred H. Williams, President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania.

Enclosure.

RHB:ms

A similar letter sent to the President of each of the Federal Reserve Banks except New York.

MISC. 140A 100M-5-42

SECURITIES DEPARTMENT
MEMPHIS

FEDERAL RESERVE BANK OF NEW YORK

June 30, 1944

PLEASE SEND THE FOLLOWING TELEGRAM TO EACH FEDERAL RESERVE BANK AS INDICATED BELOW:

Under the plan for reallocation of Government securities adopted by the Federal Open Market Committee December 18, 1940, a readjustment of participations in Government securities held in the System Account is called for July 1, 1944.

The computations showing adjustments to be made in participations of the several Federal Reserve Banks will be mailed to all Reserve Banks on July 1, 1944. These

computations indicate an ^{increase} or _{decrease} of _____ in your participation on July 1, 1944. We shall wire you on July 1, 1944 the detailed entries to be made:

		<u>INCREASE</u>	<u>DECREASE</u>
FLANDERS	BOSTON	\$ -	\$ 7,127,000
WILLIAMS	PHILADELPHIA	11,726,000	-
FLEMING	CLEVELAND	-	603,000
LEACH	RICHMOND	10,189,000	-
MCLARIN	ATLANTA	50,276,000	-
YOUNG	CHICAGO	41,621,000	-
DAVIS	ST. LOUIS	20,465,000	-
PETTON	MINNEAPOLIS	-	9,563,000
LENDY	KANSAS CITY	-	4,479,000
GILBERT	DALLAS	-	22,117,000
DAY	SAN FRANCISCO	57,997,000	-

HOUSE

CONFIDENTIAL

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JULY 1, 1944
(In thousands of dollars)

DECLASSIFIED

Authority E.O. 10501

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Estimated current expenses, 1944	49,551	3,243	11,620	3,474	4,704	3,054	2,873	6,890	2,534	1,316	2,452	2,028	5,363
B. Estimated dividends, 1944	9,442	593	3,467	710	963	378	336	1,106	289	205	307	295	793
C. Estimated expenses and dividends, 1944	58,993	3,836	15,087	4,184	5,667	3,432	3,209	7,996	2,823	1,521	2,759	2,323	6,156
D. Earnings													
1. Estimated current earnings, 1944, exclusive of earnings on System Account	15,034	454	7,393	627	429	234	114	3,422	628	213	338	116	1,066
2. Estimated earnings on System Account to June 30	39,611	3,033	8,704	3,157	4,421	2,633	2,265	4,234	1,891	1,230	2,086	1,880	4,077
3. Total	54,645	3,487	16,097	3,784	4,850	2,867	2,379	7,656	2,519	1,443	2,424	1,996	5,143
E. Excess of "C" over "D 3"	4,348	349	-1,010	400	817	565	830	340	304	78	335	327	1,013
F. Allocation required (on basis of .819082% earnings rate) to produce earnings July-December equal to "E"	1,053,022	84,523	-244,607	96,874	197,865	136,835	201,014	82,343	73,624	18,890	81,132	79,195	245,334
G. Average daily participations, per cent, in System Account since June 30, 1936	100.000	7.5269	25.5646	8.1223	10.3983	5.9357	4.8013	11.4742	4.6062	3.0902	4.9635	4.2035	9.3133
H. Allocation of remainder of System holdings (\$11,245,804,000 less \$1,053,022,000) on basis of "G"	10,192,782	767,201	2,605,744	827,888	1,059,876	605,013	489,386	1,169,540	469,500	314,977	505,919	428,454	949,284
I. Total allocations of Government securities	11,245,804	851,724	2,361,137	924,762	1,257,741	741,848	690,400	1,251,883	543,124	333,867	587,051	507,649	1,194,618
J. Present allocations	11,245,804	858,851	2,509,492	913,036	1,258,344	731,659	640,124	1,210,262	522,659	343,430	591,530	529,796	1,136,621
K. Change in allocations	-	-7,127	-148,355	+11,726	-603	+10,189	+50,276	+41,621	+20,465	-9,563	-4,479	-22,147	+57,997

Reproduced from the Unclassified / Declassified Holdings of the National Archives

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

June 30, 1944

Rouse - New York

This will confirm understanding in telephone conversation that adjustments of participations in System Account will be as follows, in thousands of dollars:

Increases:

Philadelphia	11,726
Richmond	10,189
Atlanta	50,276
Chicago	41,621
St. Louis	20,465
San Francisco	57,997

Decreases:

Boston	7,127
New York	148,355
Cleveland	603
Minneapolis	9,563
Kansas City	4,479
Dallas	22,147

Smead

FOR FILE
J. B. Smead

Handwritten initials
FILE COPY

RECORDED IN FILES SECTION
JUN 30 1944
333.343
ml

(25)

June 30, 1944

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Mr. Rouse:

There is attached a statement showing the changes in participations of Government securities in the System Open Market Account on July 1, 1944, prepared in accordance with the formula adopted by the System Open Market Committee on December 18, 1940.

Very truly yours,

E. L. Smead, Director,
Division of Bank Operations.

Attachment

ESM

MD/CLW

FILE COPY

FOR FILE
J. E. Smith

CONFIDENTIAL

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JULY 1, 1944
(In thousands of dollars)

DECLASSIFIED
Authority E.O. 10501

Reproduced from the Unclassified Records of the National Archives

	System	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
A. Estimated current expenses, 1944	49,551	3,243	11,620	3,474	4,704	3,054	2,873	6,890	2,534	1,316	2,452	2,028	5,363
B. Estimated dividends, 1944	9,442	593	3,467	710	963	378	336	1,106	289	205	307	295	793
C. Estimated expenses and dividends, 1944	58,993	5,836	15,087	4,184	5,667	3,432	3,209	7,996	2,823	1,521	2,759	2,323	6,156
D. Earnings													
1. Estimated current earnings, 1944, exclusive of earnings on System Account	15,034	454	7,393	627	429	234	114	3,422	628	213	338	116	1,066
2. Estimated earnings on System Account to June 30	39,611	3,033	8,704	3,157	4,421	2,633	2,265	4,234	1,891	1,230	2,086	1,880	4,077
3. Total	54,645	3,487	16,097	3,784	4,850	2,867	2,379	7,656	2,519	1,443	2,424	1,996	5,143
E. Excess of "C" over "D 3"	4,348	349	-1,010	400	817	565	830	340	304	78	335	327	1,013
F. Allocation required (on basis of .819082% earnings rate) to produce earnings July-December equal to "E"	1,053,022	84,523	-244,607	96,874	197,865	136,835	201,014	82,343	73,624	18,890	81,132	79,195	245,334
G. Average daily participations, per cent, in System Account since June 30, 1936	100.000	7.5269	25.5646	8.1223	10.3983	5.9357	4.8013	11.4742	4.6062	3.0902	4.9635	4.2035	9.3133
H. Allocation of remainder of System holdings (\$11,245,804,000 less \$1,053,022,000) on basis of "G"	10,192,782	767,201	2,605,744	827,888	1,059,876	605,013	489,386	1,169,540	469,500	314,977	505,919	428,454	949,284
I. Total allocations of Government securities	11,245,804	851,724	2,361,137	924,762	1,257,741	741,848	690,400	1,251,883	543,124	333,867	587,051	507,649	1,194,618
J. Present allocations	11,245,804	858,851	2,509,492	913,036	1,258,344	731,659	640,124	1,210,262	522,659	343,430	591,530	529,796	1,136,621
K. Change in allocations	-	-7,127	-148,355	+11,726	-603	+10,189	+50,276	+41,621	+20,465	-9,563	-4,479	-22,147	+57,997

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[Handwritten signatures and initials]

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25

June 22, 1944.

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Bob:

This refers to the draft of the memorandum on re-allocation of securities in the System Account enclosed with your letter of June 19.

The memorandum, I believe, sets forth correctly the plan as we agreed upon it last Friday although there are one or two places in the memorandum where the intent seems to be somewhat in doubt. I have taken the liberty of making a few suggestions in terminology, however, and I am enclosing herewith a copy of the memorandum containing these changes. If you or Cy Miller will give me a ring as to any further changes you think should be made, we can perhaps agree on the language over the telephone and be in a position for you to submit the plan to Mr. Spreul and for me to submit it to Mr. Eccles by the end of the week.

Sincerely yours,

E. L. Smead, Director,
Division of Bank Operations.

Enclosure

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FEDERAL RESERVE BANK
OF NEW YORK 7

JUN 19 1944
333310

June 19, 1944.

Mr. E.L. Smead, Director of Division
of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Dear Ed:

Enclosed is draft of the memorandum which you and I propose
to submit to the executive committee of the Federal Open Market Committee
in regard to the allocation of System's holdings of United States Govern-
ment securities and the manner in which reserve ratios could be adjusted.

Will you please let me know if the points you raised have been
satisfactorily covered and whether you would like to make any other
changes.

Sincerely yours,

Bob

Robert G. Rouse, Manager,
System Open Market Account

Enclosures

FOR FILES
L. B. Smith

See memo 6/22/44



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D R A F T

June 19, 1944

DECISION

TO: Executive Committee of Federal Open
Market CommitteeSUBJECT: Allocation of Securities in
System Account and sales of Treasury
Bills to Adjust Reserve Ratios.

FROM: Messrs. Rouse and Smead

Since the last meeting of the Federal Open Market Committee, we have given a good deal of consideration to the best manner in which to allocate the System's holdings of United States Government securities and have each Federal Reserve Bank maintain a reserve ratio of 45 per cent or better. We have also tried to meet as fully as possible the criticisms that have been raised to Plans "A", "B" and "C" which we submitted to the Federal Open Market Committee in our memorandum dated May 4, 1944.

In our opinion the desired objective can best be obtained by the adoption of the enclosed plan "D". This plan provides for (1) the adjustment of reserve ratios through purchases and sales of participations of Treasury bills, which carry the lowest earning rate on United States Government securities, (2) an equitable distribution of the System's total earnings, and (3) the stabilization of each Bank's holdings of interest-bearing securities and the allocations of any profits realized and losses sustained on sales of such securities.

We anticipate that at least one Federal Reserve Bank will not favor this plan because the Bank would like to maintain as high a reserve ratio as possible at the expense of earnings. However, this objective is not comparable with the plan to have each Federal Reserve Bank maintain a reserve ratio of 45 per cent or better.

*make
general
omit*

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

FRASER
J. A. HARRIS

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P L A N "D"ALLOCATION OF SECURITIES IN SYSTEM ACCOUNT

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

(1) Interest-Bearing Securities

- (a) Allocate a sufficient amount of interest-bearing securities held in System account to each Federal Reserve Bank to cover expenses not already covered by accrued earnings from interest-bearing securities and by estimated earnings from other sources, excluding all Treasury bills.
- (b) Allocate a sufficient amount of additional interest-bearing securities to each Federal Reserve Bank to cover dividend requirements.
- (c) Allocate any remaining interest-bearing securities to each Federal Reserve Bank on percentages based on each Bank's average daily holdings of interest-bearing securities in System account for the preceding five years from the end of each preceding month.¹
- (d) Allocate profits and losses on sales of interest-bearing securities to each Federal Reserve Bank on percentages based on each Bank's average daily holdings of interest-bearing securities in System account for the preceding five years from the end of each current preceding month.

(2) Treasury Bills

- (a) Allocate Treasury bills held in the System account in a manner which will give to each Bank (as far as the adjustments of participations

¹ The period of time used in these calculations could be shortened after it had been in effect for two to four years as the effect of the large adjustments in participations in System account during the past year or so would not then be reflected in the ratios of average daily participations for the preceding two to four years.

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in Treasury bills held in the System account will permit) its prorata share of estimated System holdings of Treasury bills in both the System account and Option accounts for the calendar year on the percentages used for the allocation of interest-bearing securities in Paragraph (1) sub-caption (c), unless the allocation of interest-bearing securities does not provide sufficient earnings to cover expenses and dividends, in which case the allocation of Treasury bills will first be made in accordance with the formula in Paragraph (1) under sub-captions (a) and (b). No allocation of Treasury bills will be made to any Bank beyond the amount that would reduce the Bank's reserve ratio below the percentage agreed upon from time to time by the Federal Open Market Committee and the Banks, and adjustments of holdings of bills in the Option accounts of the individual Banks will be made only for the purpose of adjusting reserve ratios. The portion of Treasury bills that any Bank or Banks are unable to take, owing to a low reserve ratio, will be allocated to the Bank or Banks having the highest reserve ratio.

- (b) Adjustments necessary to restore any Bank's reserve ratio to the agreed upon percentage will be made in participations in Treasury bills each Wednesday and on the last day of each month, based on closing figures of the previous day, with allowance for any repurchases coming due on Wednesday or the month end of participations of Treasury bills held in Option account sold since the last weekly or month-end adjustment. In between the

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weekly and month-end adjustments any bank desiring to restore its reserve ratio to a level above 40 per cent will sell to a Bank or Banks having the highest reserve ratio or ratios, a participation or participations in Treasury bills held in its Option account for a period of days to expire on the following Wednesday or month end, whichever is earliest except that such adjustments will be made in the System account in the event that a Bank does not hold sufficient bills in its Option account. Banks will utilize Treasury bills held in System account and Option accounts for adjusting reserve positions before selling a participation in interest-bearing securities held in the System account. All adjustments in participations will be handled through the Manager of the System Open Market Account and Banks will advise him promptly of any participations in Treasury bills held in Option accounts they repurchase prior to Wednesdays and month ends.

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

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**RATIO OF AVERAGE DAILY PARTICIPATIONS OF FEDERAL RESERVE BANKS IN SYSTEM OPEN
MARKET ACCOUNT FOR THE PERIODS JULY 1, 1936 TO MAY 31, 1944 AND
MAY 1, 1939 TO MAY 31, 1944; ALSO CURRENT RATIO OF EXPENSES AND DIVIDENDS**

	Ratio of Average Daily Participations July 1, 1936 - May 31, 1944 <u>(7 years 11 months)</u>	Ratio of Average Daily Participations May 1, 1939 - May 31, 1944 <u>(5 years)</u>	Ratio of Expenses and Dividends <u>(current)</u>
Boston	7.5228%	7.6197%	6.6569%
New York	25.6835	24.4744	25.0811
Philadelphia	8.1224	8.0014	7.1192
Cleveland	10.3693	10.5850	9.8383
Richmond	5.9148	6.2013	5.9536
Atlanta	4.7687	4.9508	5.3638
Chicago	11.5003	11.6518	13.2588
St. Louis	4.6047	4.6052	4.6410
Minneapolis	3.0916	3.0439	2.6482
Kansas City	4.9527	4.9525	4.8465
Dallas	4.1850	4.3163	4.2566
San Francisco	9.2842	9.5977	10.3360
	<hr/> 100% <hr/>	<hr/> 100% <hr/>	<hr/> 100% <hr/>

FRASER
 010104

ADJUSTMENTS IN PARTICIPATIONS IN SYSTEM OPEN MARKET ACCOUNT UNDER PLAN "D", BASED ON ACTUAL HOLDINGS MAY 31, 1944

(000 Omitted)

	<u>Boston</u>	<u>New York</u>	<u>Philadelphia</u>	<u>Cleveland</u>	<u>Richmond</u>	<u>Atlanta</u>	<u>Chicago</u>	<u>St. Louis</u>	<u>Minneapolis</u>	<u>Kansas City</u>	<u>Dallas</u>	<u>San Francisco</u>	<u>Total</u>
Adjustment of participations in interest bearing obligations in System Account	- 74,792	+292,019	- 76,218	-116,686	- 54,944	- 41,790	+217,920	- 7,908	- 31,443	- 56,568	- 43,028	- 6,562	± 509,935
Adjustment of participations in Treasury bills in System Account	+183,866	-958,623	+177,032	+350,022	+204,513	+145,830	-466,802	+ 55,072	+ 86,442	+153,108	+132,025	-62,485	±1,487,910
Adjustment in Treasury bills in System Account to adjust reserve ratios to 4.5%	-	-	-	-	-	-	+ 39,173	-	-	-	- 39,173	-	± 39,173
Net changes in total participations in System Account	+109,074	-666,604	+100,814	+233,336	+149,569	+104,040	-209,709	+ 47,164	+ 54,999	+ 96,540	+ 49,824	-69,047	± 945,360
Total Participations	886,136	1,560,390	925,436	1,379,523	817,360	693,059	874,731	519,741	364,745	634,427	534,524	967,232	10,157,304
Reserve Ratios before reallocation	54.5%	52.7%	53.5%	56.8%	60.3%	62.2%	63.5%	51.3%	54.2%	55.9%	49.8%	64.4%	57.2%
Reserve Ratios after reallocation	49.0	59.7	48.6	48.6	52.1	56.0	67.9	47.6	47.0	48.7	41.2	66.2	57.2
Reserve Ratios after adjustment to 4.5%	49.0	59.7	48.6	48.6	52.1	56.0	67.2	47.6	47.0	48.7	45.0	66.2	57.2

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June 14, 1944.

Chairman Eccles

Mr. Smead

Approval is requested for my proposed trip to New York to meet with Bob Rouse and other officers of the Bank to consider a proposed revision in the formula for allocating Government securities among the Federal Reserve Banks.

Mr. Rouse and I furnished members of the Federal Open Market Committee with a memorandum on this subject at their last meeting. Mr. Rouse has some additional ideas at this time, partly based on comments Presidents Young and Peyton made on the memorandum given to the Committee. He would like, if possible, to agree upon a recommendation with respect to the formula this week so that it can be submitted to the Federal Open Market Committee next week.

Attachment

ELS:jbs

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June 13, 1944.

FEDERAL RESERVE BANK
DEC 10 1944
333,393TO: Mr. Smead
FROM: R. G. RouseSUBJECT: Allocation of Securities in the
System Open Market Account.

As requested by the Federal Open Market Committee, you and I submitted at the last meeting of the Federal Open Market Committee, a memorandum dated May 4, 1944 on the subject of allocation of securities in the System Open Market Account. At that meeting (May 4, 1944), the Federal Open Market Committee decided, in order to meet the immediate problem, to require each Federal Reserve Bank to maintain its reserve ratio at 45 per cent or better and the Committee left the manner in which such adjustments in reserve ratios and allocations in the System account would finally be made for development by the executive committee of the Federal Open Market Committee for submission to the several Banks.

So far only two of the five Federal Reserve Bank presidents who are members of the Federal Open Market Committee have commented on the three plans suggested in our memorandum for allocating securities and adjusting reserve ratios.

Mr. Young, President of the Federal Reserve Bank of Chicago advised the Committee under date of June 3 that, after giving the matter careful consideration, he is in favor of Plan "C" outlined in the aforementioned memorandum, which calls for purchases and sales of participations in Treasury bills held in Option Accounts in so far as the mechanics of selling weekly participations are concerned. He feels, however, that the adjustment should be optional with the individual Bank having the lowest reserve ratio which it wishes to adjust and that all the Banks should be assured that an adjustment would be made to prevent its reserve ratio from dropping below 45 per cent if the Bank so requests. If such a request is made by a Bank having a reserve ratio of 45 per cent or less, he feels it should be mandatory on Banks having a higher ratio to purchase participations in the amount needed to restore the lower ratio.

Mr. Peyton, President of the Federal Reserve Bank of Minneapolis in a letter dated June 6 stated that they have tried to consider the matter of reallocation

FOR FILES
J. S. SMITH

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from as broad a point of view as possible and they are convinced that the fairest plan and the one that would cause the least confusion would be:

1. The continuance of the present allocation system exactly as it is in existence today.
2. The added provision that all optional bills purchased by the several Federal Reserve Banks should be reported as a total to the Federal Reserve Bank of New York at a certain stated Eastern Standard time each day (say 3:00 P.M., or even earlier if essential), thus overcoming the objections we raised to late reports. Any additional transactions that might be presented to a regional bank after the time selected for the cut-off could be handled in uniformity through the System in one of the two following ways:
 - A. By notice to all Banks that no such transaction would be accepted after the specified time, or
 - B. By acceptance by the regional Bank with credit to the offering Bank, with the provision that the Treasury bills involved be carried as cash items until the next morning and reported as part of the next day's business.

They favor "B". Should a Bank wish to purchase bills after the specified time, the regional Bank would simply handle the transaction in reverse, reporting the credit to the Federal Reserve Bank of New York the following day.

He said that this procedure would reestablish all System Government holdings in the Open Market portfolio and the Banks would again be in position to adjust the portfolio to overcome any situation that might arise, by reallocations in New York, which plan they feel recommends itself as the simplest and the most effective. He said they would be opposed to our proposed Plans "B" and "C", as both of them put a premium on inefficiency. If it were necessary that they accept one of our three Plans, "A" would be most nearly satisfactory to them.

I believe that the differences of opinion between you and me are that -

- (1) You dislike to exclude earnings on Treasury bills in the Option accounts in the Plan for Allocating Government Securities in the System Open Market Account, and
- (2) You seem to prefer allocating the balance of securities remaining in the System account, after expenses and dividends have been provided for, on ratios based on each Bank's expense and

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dividend requirements (because of their stability) rather than on the present ratios based on each Bank's daily average holdings since June 1936. I do not favor your suggestion with regard to the latter allocation (although I could give way on that) but I oppose the inclusion of earnings on Treasury bills held in Option accounts, and particularly so in any plan for allocating the interest-bearing securities held in the System account because of the effect it has on Bank's participations and on the daily average holding ratios on which profits and losses are apportioned.

While I would be willing to go along with Mr. Young's suggestion of adopting Plan "C" outlined in our memorandum dated May 4, we have given further consideration to the matter with a view to meeting, as far as possible, with Mr. Peyton's ideas and yours.

Mr. Peyton's plan of putting into the System account all Treasury bills purchased under resale option by the individual Banks has its flaws in so far as the smooth operation of the account is concerned. The principal objections I raise to this plan are that the daily allocation of securities in the System account could not be made until late in the day without putting some distant Banks at a disadvantage, and the amount of bills held by the individual Banks for the System account would differ from those appearing in the System account records and in published statements. The latter situation would result from a Bank reselling bills after it had reported its transactions for the day to the Federal Reserve Bank of New York at say 3:00 P.M., New York time, which is only 12:00 Noon in San Francisco. His suggestion would require continuous "as of" adjustments of holdings and earnings. Inasmuch as Mr. Peyton favors Plan "A" outlined in the memorandum of May 4 in the event that his suggested plan is not acceptable, I feel that he might favor a plan of separating Treasury bills held in the System account if allowance is made for earnings on Treasury bills held in the

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Option accounts in allocating Treasury bills held in the System account, and of adjusting reserve ratios in so far as possible by the use of Treasury bills held in the System account, provided that the allocation of discount Treasury bills and interest-bearing Government securities held in the System account in excess of the amount necessary to cover expenses and dividends are allocated on ratios based on record of ownership rather than on expense and dividend requirements which, he feels, puts a premium on inefficiency.

Your desire to include the earnings on Treasury bills held in the Option account in the Plan for Allocating Securities in the System Account might be met by the separation of Treasury bills from interest-bearing securities in the System account and giving consideration to the earnings on bills in the Option accounts in the allocation of Treasury bills in the System account.

To summarize the principal objections raised to our suggested plans "A", "B" and "C" submitted in the memorandum of May 4, it appears to me that they are related to -

- (1) The exclusion of earnings on bills held in Option accounts in the allocation of securities held in the System account.
- (2) The adjustments of reserve ratios by purchases and sales of participations in Treasury bills held in the Option accounts rather than participations in the System account, and
- (3) Allocation of earnings on all classes of United States Government securities, after expenses and dividends have been provided for.

All of these points would be provided for in the following Plan which we might earmark Plan "D":

ALLOCATION OF SECURITIES IN SYSTEM ACCOUNT
Reallocations Quarterly in Each Year Until October 1 and
Monthly for the Balance of the Year, and Adjustments
Weekly or Whenever Necessary, in Participations of Treasury
Bills Held in System Account to Provide Banks with
a Minimum Reserve Ratio of 45 per cent

(1) Interest-Bearing Securities

- (a) Allocate a sufficient amount of interest-bearing securities to each Federal Reserve Bank to cover expenses not already covered

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by accrued earnings from interest-bearing securities and by estimated earnings from other sources, excluding all Treasury bills.

- (b) Allocate a sufficient amount of additional interest-bearing securities to each Federal Reserve Bank to cover dividend requirements.
- (c) Allocate any remaining interest-bearing securities to each Federal Reserve Bank on percentages either (1) based on each Bank's average daily holdings of interest-bearing securities in System account for the preceding five years from the end of each preceding month¹ as outlined in Plan "A"; or (2) based on each Bank's combined expense and dividend requirements, as outlined in Plan "C".
- (d) Allocate profits and losses on sales of interest-bearing securities to each Federal Reserve Bank on percentages based on each Bank's average daily holdings of interest-bearing securities in System account for the preceding five years from the end of each preceding month.

(2) Treasury Bills

- (a) Allocate Treasury bills on percentages either (1) based on each Bank's average daily holdings of Treasury bills in System account for the preceding five years from the end of each preceding month, or (2) based on each Bank's combined expense and dividend requirements, whichever of these two methods are used in paragraph (1) under sub-caption (c). In either case, the calculations made in

①
Int. bearing securities
to bear to
give up apt
held over
to adjust
previous rate

¹ The period of time used in these calculations could be shortened after it had been in effect for three to five years as the effect of the large adjustments in participations in System account during the past year or so would not then be reflected in the ratios of average daily participations for the preceding two to four years.

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determining each Bank's participation will give effect to earnings already accrued on Treasury bills in System account and earnings already accrued and estimated earnings for the balance of the year on Treasury bills held in Option accounts; and no allocation of Treasury bills will be made to any Bank beyond the amount that would reduce the Bank's reserve ratio below 45 per cent. In the latter cases, and when additional purchases of Treasury bills are made for System account, the portion that any Bank or Banks are unable to take, owing to a low reserve ratio, will be allocated to the Bank or Banks having the highest reserve ratio.

*Sup acct
if bills
on same base*

*agreed to go
from bank
to time*

(b) Adjustments will be made in participations in Treasury bills held in System account ^{op acct - acct proc.} each Wednesday and on the last day of each month, based on figures of the previous day, if necessary to restore any Bank's reserve ratio to 45 per cent. In between the weekly adjustments in System account ^{in res. bills} any bank desiring to restore its reserve ratio to a level above 40 per cent will sell to a Bank or Banks having the highest reserve ratio or ratios, a participation or participations in Treasury bills held in its Option account ^{sup acct} for a period of days that will accommodate it until the next weekly adjustment is made in System account ^{in res. bills}. Banks will utilize Treasury bills held in Option accounts and System Account for adjusting reserve positions before selling a participation in interest-bearing securities held in the System account.

*maturity week
on last day
of month*

*Refer to
the
system*

(c) Allocate profits and losses on sales of Treasury bills to each Federal Reserve Bank on percentages based on each Bank's average daily holdings of Treasury bills in System account from the date this plan is adopted to five years from that date, and

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thereafter on the preceding five years from the end of each preceding month.

The above procedure could be instituted without any great mechanical difficulty. While it would increase the volume of accounting work it would not require any additional personnel. No changes would be necessary in the present code words used for the transmission to Reserve Banks of entries, etc. related to transactions and holdings in the System account.

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RATIO OF AVERAGE DAILY PARTICIPATIONS OF FEDERAL RESERVE BANKS IN SYSTEM OPEN
MARKET ACCOUNT FOR THE PERIODS JULY 1, 1936 TO MAY 31, 1944 AND
MAY 1, 1939 TO MAY 31, 1944; ALSO CURRENT RATIO OF EXPENSES AND DIVIDENDS

	Ratio of Average Daily Participations July 1, 1936 - May 31, 1944 (7 years 11 months)	Ratio of Average Daily Participations May 1, 1939 - May 31, 1944 (5 years)	Ratio of Expenses and Dividends (current)
Boston	7.5228%	7.6197%	6.6569%
New York	25.6835	24.4744	25.0811
Philadelphia	8.1224	8.0014	7.1192
Cleveland	10.3693	10.5850	9.8383
Richmond	5.9148	6.2013	5.9536
Atlanta	4.7687	4.9508	5.3638
Chicago	11.5003	11.6518	13.2588
St. Louis	4.6047	4.6052	4.6410
Minneapolis	3.0916	3.0439	2.6482
Kansas City	4.9527	4.9525	4.8465
Dallas	4.1850	4.3163	4.2566
San Francisco	<u>9.2842</u>	<u>9.5977</u>	<u>10.3360</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Federal Reserve Bank of New York
Securities Department
June 14, 1944

**ADJUSTMENTS IN PARTICIPATIONS IN SYSTEM OPEN MARKET ACCOUNT, BASED ON HOLDINGS MAY 31, 1944, UNDER PLAN "C",
AMENDED (1) TO SEPARATE TREASURY BILLS FROM INTEREST BEARING SECURITIES HELD IN SYSTEM ACCOUNT, (2) TO INCLUDE EARNINGS
ON TREASURY BILLS IN OPTION ACCOUNTS IN ALLOCATION OF TREASURY BILLS HELD IN SYSTEM ACCOUNT, AND (3) TO ADJUST RESERVE RATIOS
TO A MINIMUM OF 45% BY PURCHASE AND SALE OF TREASURY BILLS HELD IN SYSTEM ACCOUNT**

(000 omitted)

	<u>BOSTON</u>	<u>NEW YORK</u>	<u>PHILADELPHIA</u>	<u>CLEVELAND</u>	<u>RICHMOND</u>	<u>ATLANTA</u>	<u>CHICAGO</u>	<u>ST. LOUIS</u>	<u>MINNEAPOLIS</u>	<u>KANSAS CITY</u>	<u>DALLAS</u>	<u>SAN FRANCISCO</u>	<u>TOTAL</u>
Adjustment of participations in interest bearing obligations in System Account	- 91,882	+302,788	- 91,878	- 129,941	- 59,341	- 34,458	+246,446	- 7,273	- 38,467	- 58,450	- 14,088	+ 6,544	+555,778
Adjustment of participations in Treasury bills in System Account	+ 97,527	-958,623	+102,296	+ 303,031	+200,657	+218,030	-466,802	+79,179	+ 50,573	+161,080	+143,380	+69,672	+1,425,425
Adjustment in Treasury bills in System Account to adjust reserve ratios to 45%	-	-	-	-	-	-	+ 49,468	-	-	-	- 49,468	-	+ 49,468
Net changes in total participations in System Account	+ 5,645	-655,835	+ 10,418	+ 173,090	+141,316	+183,572	-170,888	+71,906	+ 12,106	+102,630	+ 49,824	+76,216	+826,723
Total Participations	782,707	1,571,159	835,040	1,319,277	809,107	772,591	913,552	544,483	321,852	640,517	534,524	1,112,495	10,157,304
Reserve Ratios before reallocation	54.5%	52.7%	53.5%	56.8%	60.3%	62.2%	63.5%	51.3%	54.2%	55.9%	49.8%	64.4%	57.2%
Reserve Ratios after reallocation	54.2	59.5	52.9	50.7	52.5	51.2	67.3	45.6	52.6	48.2	40.2	62.4	57.2
Reserve Ratios after adjustment to 45%	54.2	59.5	52.9	50.7	52.5	51.2	66.5	45.6	52.6	48.2	45.0	62.4	57.2

FEDERAL RESERVE BANK OF NEW YORK
SECURITIES DEPARTMENT
JUNE 10, 1944

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REC'D IN FILES SECTION
JUL 21 1944

CONFIDENTIAL

MEMORANDUM PREPARED FOR THE FEDERAL OPEN MARKET COMMITTEE BY R. G. ROUSE,
MANAGER OF THE SYSTEM OPEN MARKET ACCOUNT AND E. L. SMEAD, DIRECTOR,
DIVISION OF BANK OPERATIONS, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
ON THE SUBJECT OF ALLOCATION OF SECURITIES IN SYSTEM OPEN MARKET ACCOUNT

The present plan for allocation of securities in the System Open Market Account (hereinafter referred to as System Account) was adopted, with the approval of the Presidents of all Federal Reserve Banks, by the Federal Open Market Committee at its meeting on December 18, 1940 and was made effective beginning with the allocation called for on January 1, 1941. This plan provides for the allocation of:

- (1) Sufficient securities to each Federal Reserve Bank to cover expenses not covered by accrued earnings on Government securities and estimated earnings from other sources,
- (2) A sufficient amount of additional securities to each Bank to cover dividend requirements, and
- (3) Any remaining securities among the Banks on the basis of average daily participations in the System Account since June 30, 1936.

The ratios of each bank's average daily participation in the System Account since June 30, 1936, are also used for the distribution of profits and losses on sales of securities in the System Account.

At the time this plan was adopted, it was felt that it represented the nearest approach to an equitable distribution of risk and earnings in the System Account and, in addition, would result in keeping the amount of quarterly and monthly adjustments to a minimum.

Estimated earnings from sources other than securities held in the System Account are included in the calculations made to determine each Bank's participation in the System Account. Up until about the middle of last year these earnings from other sources had been relatively small and uniform so that they had little effect on the periodical adjustments made in participations, and the plan of allocation worked reasonably well. However, in the second half of last year the earnings from bills held in Option Accounts by a few Banks were large enough to cause a substantial reduction of their participations in the System Account under the present plan of allocation. In the periodical adjustments during the second half of the year, the participations of the Federal Reserve Banks of Chicago and New York declined \$238,000,000 and \$1,123,000,000, respectively, while the participations of all other Banks increased, the major portion of the adjustments being due to the increase in earnings on Treasury bills held in the Option Accounts of the Federal Reserve Banks of Chicago and New York. In a few cases these adjustments had a sharp effect on reserve ratios.

Since the adoption on November 26, 1943, of the policy of replacing, as far as possible, Treasury bills maturing in both the System Account and Option

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FEDERAL RESERVE SYSTEM
E. L. Smead

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Accounts by purchases for the System Account, this condition has been somewhat relieved.* On the other hand, so long as Banks continue to hold disproportionate amounts of Treasury bills in Option Accounts, shifts of participations will be necessary at the time of reallocations to allow for accrued earnings from bills in Option Accounts to the extent that they have not been accurately estimated. Although earnings from sources other than Government securities are also included in the calculations made to determine each Bank's participation in the System Account, they have had little or no effect on the size of the periodical adjustments for the reason that they have for some time been small and uniform.

While the present method of including earnings on Treasury bills held in Option Accounts with earnings from other sources is equitable from the standpoint of distributing total System earnings, it is not so from the point of view of having each Bank carry its share of the market risk in the other securities held in the System Account. The reason for this is that profits and losses on securities in the System Account are distributed among the banks on ratios based on each Bank's average daily holdings in the System Account since June 30, 1936. Under the present plan the latter ratios of some banks would be materially reduced over a period of time if a large portion of their share of the System's earnings were accrued on Treasury bills held in Option Accounts. Conversely, the ratios of other Banks would

* Although the System's holdings of Treasury bills have increased from \$6,257,707,000 on November 24, 1943 to \$7,120,777,000 on April 19, 1944, the Option Account holdings of the banks have declined from \$5,088,207,000 on November 24, 1943 to \$3,584,284,000 on April 19, 1944, a decrease of \$1,503,923,000, while System Account holdings have increased from \$1,169,500,000 on November 24, 1943 to \$3,536,493,000 on April 19, 1944, an increase of \$2,366,993,000. As a result of this substantial decline in Option Account holdings, earnings for 1944 from Treasury bills held under Option are not expected to be at as great a rate as those realized in the last two quarters of 1943 unless a substantial increase in the amount of bills outstanding takes place. Holdings in Option Accounts of the Banks on November 24, 1943 and April 19, 1944 were as follows:

(000 Omitted)

	<u>Option Account Holdings 11/24/43</u>	<u>Option Account Holdings 4/19/44</u>	<u>Change</u>	<u>Per Cent</u>
Boston	\$ 148,446	\$ 135,722	-\$ 12,724	- 8.6
New York	3,110,421	1,598,251	- 1,512,170	- 48.6
Philadelphia	257,744	125,571	- 132,173	- 51.3
Cleveland	37,768	160,407	+ 122,639	+324.7
Richmond	96,520	70,999	- 25,521	- 26.4
Atlanta	13,700	18,930	+ 5,230	+ 38.2
Chicago	844,170	778,301	- 65,869	- 7.8
St. Louis	203,697	226,022	+ 22,325	+ 11.0
Minneapolis	48,575	98,635	+ 50,060	+103.1
Kansas City	62,994	53,671	- 9,323	- 14.8
Dallas	21,916	24,278	+ 2,362	+ 10.8
San Francisco	242,256	293,497	+ 51,241	+ 21.2
	<u>\$5,088,207</u>	<u>\$3,584,284</u>	<u>-\$1,503,923</u>	<u>- 29.6</u>

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increase where earnings from Treasury bills held in Option Accounts were relatively small and resulted in an increased participation in the System Account. The experience of the past year is clear evidence on this point (see Exhibit "A").

It is, of course, possible for some Banks to obtain a large part of their earnings from Treasury bills held in Option Account (on which virtually no market risk is involved) while other Banks' earnings would come largely from their participations in System Account (subject to market risk). However, a Bank would have to hold about two and one-half times as many Treasury bills in Option Account accruing at 3/8 per cent, as it would participation in System Account at the present average earning rate of 0.89 per cent to acquire the same amount of earnings; but such relatively large holdings of Treasury bills would have a major adverse effect on its reserve position. Although a Bank in such a position might obtain some measure of relief by selling part of its participation of Government securities in the System Account (for which it would receive credit in the Interdistrict Settlement Fund), this would appear to be an inadequate and unsatisfactory way in which to adjust the reserve ratios of the Banks.

In order to stabilize the allocation of profits and losses in the System Account and, at the same time, provide the Reserve Banks with an adequate amount of reserves, it would be necessary to adopt a new plan for allocating securities held in the System Account or to exclude bills held in the Option Accounts from the calculations used in the present plan of allocation, and to adjust the reserve ratios of Banks through the purchase and sale of Treasury bills in Option Accounts. Three plans for allocating securities in the System Account are submitted below for consideration:

PLAN "A"

- (1)(a) Allocate sufficient securities to each Federal Reserve Bank to cover expenses not covered by accrued earnings on System Account holdings and estimated earnings from other sources, excluding earnings on Treasury bills held in Option Accounts.
- (b) Allocate a sufficient amount of additional securities to each Bank to cover dividend requirements.
- (2) Allocate any remaining securities among the Banks on the basis of each Bank's average daily participation in the System Account since June 30, 1936, (this period might be shortened to five years or less).
- (3) Allocate profits and losses on sales of securities from the System Account among the Banks on the basis of each Bank's average daily participation in the System Account since June 30, 1936, (this period might be shortened as in No. 2).

PLAN "B"

- (1)(a) Allocate sufficient securities to each Federal Reserve Bank to cover expenses not covered by accrued earnings on System Account holdings and estimated earnings from other sources.
- (b) Allocate sufficient securities in the System Account to each Federal Reserve Bank to cover dividend requirements.

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- (2) Allocate remaining securities in the System Account, if any, to each Federal Reserve Bank on the basis of their combined expense and dividend requirements.
- (3) Allocate profits and losses on sales of securities from the System Account among the Federal Reserve Banks on the basis of their combined expense and dividend requirements.

PLAN "C"

- (1)(a) Allocate sufficient securities to each Federal Reserve Bank to cover expenses not covered by accrued earnings on System Account holdings and estimated earnings from other sources, excluding earnings on Treasury bills held in Option Accounts.
 - (b) Allocate a sufficient amount of additional securities to each Federal Reserve Bank to cover dividend requirements.
- (2) Allocate any remaining securities among the Federal Reserve Banks on the basis of each Bank's combined expense and dividend requirements.
- (3) Allocate profits and losses on sales of securities from the System Account among the Federal Reserve Banks on the basis of each Bank's average daily participation in the System Account for the preceding 24 months.

Note: Expense and dividend figures and ratios for 1943 are shown in the attached Exhibits "C" and "D."

All three plans include the adjustment of reserve ratios in the first instance by the purchase and sale of participations in Treasury bills held in the Option Account of the individual Banks.

Adjustments of reserve ratios of Banks through the purchase and sale of Treasury bills could be done by setting up a second System Account for Treasury bills held in the Option Accounts and allotting participations therein to the Reserve Banks on percentages based on reserve ratios. However, this procedure would not be practicable because the purchases and sales of bills for cash delivery would make it necessary to maintain a night force at the office of the Agent, to keep telegraph wires open until all reports from the various Banks had been received and checked each day, and to make entries in the Interdistrict Settlement Fund each morning as of the day before to cover the adjustment of each Bank's participation in the Account as a result of the daily purchase and sale transactions. The most feasible way to adjust reserve ratios through the purchase and sale of Treasury bills would be by the purchase and sale of participations in bills held in the Option Accounts of the individual Banks, as described in the plan attached (Exhibit "E").

DISCUSSION ON PLANS FOR ADJUSTING RESERVE RATIOS OF FEDERAL RESERVE BANKS
BY PURCHASES AND SALES OF PARTICIPATIONS IN TREASURY BILLS
HELD IN THE OPTION ACCOUNT OF INDIVIDUAL FEDERAL RESERVE BANKS AND
FOR ALLOCATING GOVERNMENT SECURITIES IN SYSTEM ACCOUNT

In connection with the System reserve ratio, it is estimated that the ratio will decline to about 50 per cent over the next twelve months, assuming continuation of the war and present policies. On April 19, 1944 the ratios of two Banks were under 50 per cent and as time goes on the ratios of other Banks are likely to decline below that level. While this may not be serious in itself it is possible that segments of public opinion would reflect interest and concern as to the ability of the System to see the Government's program through. Consequently, it appears desirable to adopt, at this time, a plan to provide for adjustments of reserve ratios of individual Reserve Banks pending other action that might be taken later on when the extent of the decline in the reserve ratio for the System might better be judged.

Perhaps the only action necessary at this time would be to provide for adjustments in cases where the reserve ratio of any Bank declines below 50 per cent or 45 per cent. The Federal Reserve Bank of New York, as Agent, could be instructed either to arrange such adjustments upon the request of any Bank needing to improve its reserve position or to automatically arrange such adjustments periodically. Banks needing to improve their reserve position should be required to sell participations in bills held in their Option Accounts rather than to sell participations in the System Account and the Banks with the highest reserve ratios should be required to buy the participations in bills sold by other Banks.

Considerable thought was given to formulas that might be used in allocating securities in the System Account and it appears impossible to devise a plan which would be ideal for each Bank with respect to reserve ratios, earnings, profits and losses. The three plans submitted in this report seem to come nearest to achieving the desired objective. Plan "A," is the present plan of allocation adjusted to stabilize participations so that each Bank's share in profits and losses will be in close proportion to the amount of its holdings in the Account over a reasonable period of time. Plan "B" would result in a more equitable distribution of earnings than Plan "A" as it takes into consideration earnings on Treasury bills held in the Option Accounts, and it would stabilize each Bank's share in profits and losses. However, under this plan, the individual Bank's share in profits and losses would not likely be in proportion to the amount of its holdings in the Account, under which circumstances it would be desirable to obtain unanimous consent of the Banks to the adoption of this plan. Plan "C" is Plan "B" adjusted to cover the allocation of profits and losses in proportion to holdings, and to stabilize holdings in the System Account by the exclusion of earnings on Treasury bills held in the Option Accounts so that in case any losses should be taken in the next few years they will be allocated approximately in the same proportion that profits have been allocated in recent years.

All three plans include the adjustment of reserve ratios in the first instance by the purchase and sale of participations in Treasury bills held in the Option Account of the individual Banks.

Consideration was also given to the eventuality of a possible substantial increase in earnings from sources other than Government securities in the post-war

era and the desirability of including such earnings, as at present, in the plan of allocation of securities in the System Account. Any substantial increase in earnings from such sources, if it came about in a disproportionate manner, would have the same effect on participations in System Account and the allocation of profits and losses as earnings from Treasury bills held in Option Accounts are having at the present time, except that they would not affect the allocation of profits and losses under Plan "B" inasmuch as that plan calls for such allocation on the expense and dividend ratios rather than on average holding ratios as called for in Plans "A" and "C."

There are in fact many uncertainties which make it difficult to reach a decision as to a premanent course to be followed with respect to earnings from sources other than Government securities. These include:

- (1) If and when loans and discounts begin to show an important and steady increase.
- (2) The rate of and amount of increase in holdings of loans and discounts in the various districts.
- (3) The earning rate on loans and discounts as compared to the earning rate on Government securities.
- (4) The supply of reserves in the System, including the future of gold -- its flow.
- (5) Money in circulation.
- (6) Member bank deposits.
- (7) If and when the Option privilege on Treasury bills is discontinued.

Therefore, inasmuch as earnings from sources other than Government securities are small and uniform at the present time and indications are that they will not show any important change in the near future, it would appear prudent to continue the present practice of including such earnings in any plans of allocating securities in the System Account and to adjust the reserve positions of banks where necessary through the medium of Treasury bills as suggested in the aforementioned plan. Should a change in policy with respect to the purchase of Option Account bills or a continued decline in holdings of Option Account bills make such adjustments impracticable through Option Account holdings, the most practicable way for a Bank to obtain relief would be by a reduction in its participation in the System Account which would be prorated among the remaining banks.

Consideration was also given to the possibility of distributing System earnings in excess of expense and dividend requirements in a manner which would tend to equalize the surplus accounts of the Banks in proportion to each Bank's capital.

At present the surplus accounts of the various Banks show a wide disparity on the basis of the ratio to paid-in capital as indicated below:

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	January 5, 1944 Capital (Paid in)	January 5, 1944 Surplus (Section 7)	January 5, 1944 Other Capital Accounts (Primarily Reserves)
Boston	\$ 9,808	\$ 13,206	\$ 2,941
New York	57,472	70,012	12,947
Philadelphia	11,741	17,859	3,616
Cleveland	15,707	16,026	7,578
Richmond	6,216	5,236	4,474
Atlanta	5,451	5,725	4,041
Chicago	17,962	26,490	9,741
St. Louis	4,709	6,330	2,574
Minneapolis	3,307	3,669	3,369
Kansas City	5,043	4,554	3,134
Dallas	4,657	4,831	2,708
San Francisco	12,863	14,159	3,028
Total	<u>\$154,936</u>	<u>\$188,097</u>	<u>\$60,151</u>

Furthermore, the Banks do not follow any uniform practice in the disposition of excess earnings and profits as a result of which the Banks that transfer excess earnings and profits to reserves, rather than to surplus, would receive an increased participation at the expense of the Banks that transfer excess earnings and profits to surplus. Consequently, if such a program were to be considered it would be more equitable to distribute the excess earnings in System Account on the basis of a ratio related to each Bank's surplus and reserves for contingencies. Furthermore subscribed capital should be used in such a ratio rather than paid-in capital because the surplus and reserves for contingencies of each Bank is already in excess of 100 per cent of its paid-in capital. Included in Exhibit "B" appended, are tables showing the changes that would have resulted in the reallocation of securities in the System Account, as of January 1, 1944, if the third step in the present plan of allocation had been changed to distribute the remaining securities (in excess of amount needed to cover expenses and dividends), among the Banks on the basis of each Bank's pro rata share in the System deficiency in surplus and reserves for contingencies to 100 per cent of subscribed capital. As the aggregate amount of surplus and reserves for contingencies of the Federal Reserve Banks of Chicago and Minneapolis is in excess of the amount of their subscribed capital, those Banks would receive no allotment in the third step under this plan of allotment.

While this plan would seem to have some merit, the objective could be achieved only over a long period of years, based on the present amount of excess earnings in the System Account, and then only if the amount of such excess earnings were in excess of the amount of profits realized on the sale of securities. The reason for this, of course, is that such profits are distributed among the banks on ratios based on each Bank's average daily holdings in the System Account since June 1936, and this distribution might well outweigh the distribution of excess earnings on ratios based on surplus and reserves. (During the past five years profits have accounted for the major additions to surplus and capital accounts including reserves, as indicated in the following table.) Moreover, it would be difficult to overcome this situation as there would appear to be little justification or validity for distributing profits and losses on ratios based on the size of

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each Bank's surplus and reserves. Furthermore, it is not at all clear that the equalization of ratios of surplus and reserves for contingencies to capital is desirable as capitalization in some districts is much higher in relation to deposits and other factors than in other districts.

**TABLE SHOWING TOTAL NET PROFITS AND TOTAL NET EARNINGS FOR
5 YEARS (1939-1943 INCLUSIVE) OF THE VARIOUS FEDERAL RESERVE BANKS,
AND AMOUNT TRANSFERRED TO SURPLUS SECTION 7 AND TO OTHER CAPITAL ACCOUNTS
(Reserve For Contingencies)**

	<u>Total Profits on Sales of Government Securities</u>	<u>Total Net Earnings Available for Surplus Section 7, Reserves and Other Capital Accounts</u>	<u>Total Net Additions to Surplus Section 7</u>	<u>Total Net Addi- tions to Other Capital Accts. (Reserve for Contingencies)</u>
Boston	\$ 4,141,719	\$ 4,622,697	\$ 3,122,697	\$ 1,500,000
New York	16,240,625	22,219,174	17,549,090	4,670,084
Philadelphia	4,663,996	5,763,051	4,163,051	1,600,000
Cleveland	5,600,115	5,840,514	1,702,907	4,137,607
Richmond	3,060,028	3,319,379	253,295	3,066,084
Atlanta	2,421,392	2,637,866	94,938	2,542,928
Chicago	6,442,387	7,032,131	3,824,368	3,207,763
St. Louis	2,600,754	3,001,782	1,644,601	1,357,181
Minneapolis	1,729,872	1,895,847	515,627	1,380,220
Kansas City	2,732,241	3,119,867	941,689	2,178,178
Dallas	2,186,093	1,867,379	939,572	927,807
San Francisco	4,846,236	5,193,624	4,193,624	1,000,000
	<u>\$56,665,458</u>	<u>\$66,513,311</u>	<u>\$38,945,459</u>	<u>\$27,567,852</u>

May 4, 1944.

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EXHIBIT "A"

Net changes during 1943 in the average daily holding ratios since June 30, 1936 of the various Reserve Banks are shown in the following table:

	<u>December 31, 1942</u>	<u>December 31, 1943</u>	<u>Change</u>
Boston	7.3191%	7.4994%	+ 0.1803%
New York	28.6009	26.3183	- 2.2826
Philadelphia	8.1747	8.1541	- 0.0206
Cleveland	9.8729	10.2380	+ 0.3651
Richmond	5.4600	5.7868	+ 0.3268
Atlanta	4.2627	4.6088	+ 0.3461
Chicago	11.4603	11.6390	+ 0.1787
St. Louis	4.6094	4.5711	- 0.0383
Minneapolis	3.0216	3.0873	+ 0.0657
Kansas City	4.7888	4.9001	+ 0.1113
Dallas	3.8597	4.0894	+ 0.2297
San Francisco	8.5699	9.1077	+ 0.5378
	<u>100.0%</u>	<u>100.0%</u>	

The net change in the average holding ratio of the Federal Reserve Bank of New York, the bank in which the largest volume of Treasury bills in Option Account has centered, affords a good illustration of the effect of including earnings from such sources in the plan of allocating the securities in System Account. Incidentally, its share in total net profits on sales from System Account of \$35,902,057 taken in 1943 amounted to \$10,216,982, or an average of 28.4579 per cent. The reason, however, for its percentage share being so high was because most of the profits were taken early in the year (net profits in the Account for the first six months amounted to \$34,139,273) before any sizable reduction had taken place in its participation due to its earnings on Treasury bills held in the Option Account. Had its share been based on the average holding ratio on December 31, 1943, it would have amounted to \$9,428,811, or some \$768,000 less than was received. The same figures would apply if losses had been sustained instead of profits taken in System Account.

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EXHIBIT "B"

	Actual Adjustments made in participations in System Account January 1, 1944 (1)	Participations after adjustments January 1, 1944 (2)	What Adjustments would have been in column 1 if earnings from Option Account Bills were excluded (3)	What adjustments would have been if earnings from Option Account bills were excluded and excess earnings in System Account were allocated on basis of banks combined surplus and reserves to capital (4)	What adjustments would have been if earnings from Option Account bills were included and excess earnings in System Account were allocated on basis of banks combined surplus and reserves to capital (5)
ton	- 81,870	590,937	- 134,929	- 169,197	- 138,091
New York	+ 830,276	1,677,048	+ 1,164,507	+ 1,006,587	+ 1,555,427
Philadelphia	- 55,467	597,689	- 80,414	- 167,769	- 198,757
Cleveland	- 242,829	850,921	- 336,932	- 296,451	- 176,427
Richmond	- 76,698	522,549	- 127,099	- 152,260	- 117,966
Atlanta	- 123,965	436,961	- 147,766	- 217,095	- 204,861
Chicago	+ 88,357	819,857	+ 212,149	+ 6,142	+ 249,559
St. Louis	+ 11,068	380,855	+ 11,399	+ 77,708	+ 97,713
Minneapolis	- 40,138	244,584	- 83,321	- 117,965	- 129,772
Kansas City	- 88,456	403,928	- 135,558	- 154,220	- 119,069
Dallas	- 108,462	365,883	- 149,749	- 171,746	- 144,544
San Francisco	- 111,818	806,862	- 169,499	- 88,320	+ 21,342
Totals	+ 929,701	7,697,870	+ 1,376,656	+ 1,612,729	+ 1,576,769

	Holding Ratios of column 2 above	Holding Ratios after adjustments in column 3 above	Holding Ratios after adjustments in column 4 above	Holding Ratios after adjustments in column 5 above	Ratio of each bank's pro rata share in the System deficiency in surplus and reserves to subscribed capital	Ratios of Average daily participations 6/30/38 - 12/31/43
ton	7.7%	7.0%	6.5%	6.9%	5.6%	7.5%
New York	21.8	26.1	31.9	31.2	51.3	26.3
Philadelphia	7.8	7.5	6.3	5.9	3.2	8.2
Cleveland	11.1	9.8	10.3	11.9	12.5	10.2
Richmond	6.8	6.1	5.8	6.3	4.4	5.8
Atlanta	5.7	5.1	4.5	4.6	1.8	4.8
Chicago	10.6	12.3	9.8	6.3	- *	11.6
St. Louis	4.9	4.7	3.8	3.5	0.8	4.6
Minneapolis	3.2	2.9	2.2	2.0	- **	3.1
Kansas City	5.2	4.6	4.4	4.9	3.8	4.9
Dallas	4.7	4.2	3.9	4.3	2.9	4.1
San Francisco	10.5	9.7	10.8	12.2	13.7	9.1
Totals	100%	100%	100%	100%	100%	100%

Total holdings in System Account February 18, 1944 - \$8,757,041,000

* Surplus and reserves exceed subscribed capital by \$307,000
 ** " " " " " " \$424,000

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TABLE I

RATIOS OF EXPENSES, DIVIDENDS, ETC., OF EACH FEDERAL RESERVE BANK
TO TOTALS FOR ALL FEDERAL RESERVE BANKS COMBINED

Federal Reserve Bank	Ratio to total for System of						Surplus (Sec. 7) and reserves for contingencies to		Reserve ratio
	Current expenses (1943)	Dividends (1943)	Expenses and Dividends (1943)	Average holdings in System Account June 30, 1936 - March 30, 1944	Surplus (Sec. 7) and reserves for contingencies (12/31/43)	Member Bank deposits (12/31/43)	Total member bank deposits	Capital paid in	
Boston	7.0	6.4	6.9	7.5	6.5	5.3	.33	164.9	57.6
New York	23.1	36.8	25.4	26.0	33.4	31.4	.29	144.3	62.5
Philadelphia	7.2	7.9	7.3	8.1	8.7	5.2	.44	183.6	56.7
Cleveland	9.6	10.4	9.7	10.3	9.5	7.8	.33	151.5	58.9
Richmond	6.4	4.0	6.0	5.9	3.9	4.4	.24	158.0	60.9
Atlanta	5.4	3.6	5.1	4.7	3.9	4.3	.25	179.1	63.3
Chicago	13.4	11.2	13.0	11.6	14.7	15.3	.26	203.0	66.6
St. Louis	5.0	3.1	4.7	4.6	3.6	3.6	.27	189.2	45.3
Minneapolis	2.9	2.1	2.8	3.1	2.8	2.4	.31	217.3	52.7
Kansas City	5.1	3.3	4.8	4.9	3.1	4.3	.19	152.5	57.0
Dallas	4.4	3.0	4.2	4.1	3.0	3.9	.21	161.7	54.0
San Francisco	10.5	8.2	10.1	9.2	6.9	12.1	.15	137.6	65.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	.27	161.1	61.1

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TABLE II
 FIGURES ON WHICH RATIOS SHOWN IN TABLE I ARE BASED
 (Thousands of dollars, except member bank deposits, in millions)

	Current Expenses 1943	Dividends paid 1943	Expenses and Dividends 1943	Surplus (Sec. 7) and Reserves for Contingencies 12-31-43	Capital Paid in 12-31-43	Member bank deposits 12-31-43
Boston	3,053	573	3,626	16,154	9,797	4,942
New York	10,034	3,280	13,314	82,892	57,440	28,990
Philadelphia	3,137	701	3,838	21,459	11,686	4,830
Cleveland	4,192	922	5,114	23,590	15,573	7,240
Richmond	2,799	360	3,159	9,700	6,140	4,018
Atlanta	2,342	319	2,661	9,765	5,453	3,961
Chicago	5,850	994	6,844	36,372	17,916	14,077
St. Louis	2,175	278	2,453	8,902	4,705	3,325
Minneapolis	1,262	191	1,453	7,031	3,236	2,250
Kansas City	2,214	291	2,505	7,667	5,028	3,939
Dallas	1,912	271	2,183	7,531	4,657	3,557
San Francisco	4,575	731	5,306	17,158	12,473	11,133
	43,545	8,911	52,456	248,221	154,104	92,262

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Exhibit "E"

PLAN FOR ADJUSTING THE RESERVE RATIOS OF FEDERAL RESERVE BANKS
BY PURCHASES AND SALES OF PARTICIPATIONS IN TREASURY BILLS HELD
IN THE OPTION ACCOUNT OF INDIVIDUAL FEDERAL RESERVE BANKS

This plan involves sales of participations in Treasury bills held in the Option Accounts of Federal Reserve Banks whose reserve ratios are either under the average reserve ratio for the System or under some stipulated percentage to Federal Reserve Banks with higher reserve ratios. In operation, this procedure would be as follows:

- (1) Under direction of the Federal Open Market Committee, its Agent, the Federal Reserve Bank of New York, would arrange the purchase and sale of Treasury bills between Federal Reserve Banks in order either to equalize the reserve ratios of all Federal Reserve Banks or to restore the ratio of any Bank which dropped below a stipulated level. Sales of participations would be made for a week's duration at the discount rate of $\frac{3}{8}$ of 1 per cent per annum. For instance if the holdings of Treasury bills in the Option Accounts of the various Reserve Banks and their reserve ratios were as follows, and the plan was to adjust the bill holdings of the Banks to equalize reserve ratios, the amount of the participation each Bank would sell or buy is as shown in Column 3 in the table below (calculations based on Federal Reserve notes in circulation, deposit liability, total reserves, etc., on April 19, 1944):

(Dollars in Millions)

<u>Reserve Banks</u>	<u>Holdings in Option Accounts 4/19/44 (Column 1)</u>	<u>Reserve Ratio (Column 2)</u>	<u>Change in Holdings Necessary to Adjust Reserve Ratio to Average (Column 3)</u>
Boston	\$ 136	54.0%	-\$115,665
New York	1,598	60.1%	+ 1,954
Philadelphia	126	56.1%	- 77,616
Cleveland	160	55.2%	- 130,975
Richmond	71	60.4%	+ 7,526
Atlanta	19	64.0%	+ 65,143
Chicago	778	67.4%	+ 402,391
St. Louis	226	46.7%	- 167,533
Minneapolis	99	48.9%	- 82,480
Kansas City	54	56.8%	- 41,744
Dallas	24*	52.2%	- 77,798
San Francisco	293	65.9%	+ 216,797
Total	<u>\$3,584</u>	<u>60.0%</u>	<u>-\$693,811</u>

(* Holdings of this bank on April 19, 1944, would have been insufficient to complete the adjustment by the sale of Treasury bills held in Option Account.)

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If, on the other hand, the plan was to restore to 50 per cent the reserve ratio of any Bank or Banks that dropped below that figure, and the holdings of Treasury bills in Option Accounts and the Banks reserve ratios were the same as indicated in the above table, the amount of participations certain Banks would buy or sell is indicated in the following table: (In such cases the bills would be purchased by the Banks having the highest reserve ratios.)

(Dollars in Millions)

<u>Reserve Banks</u>	<u>Changes in Holdings to Adjust Ratios</u>	<u>Reserve Ratios Before Adjustments</u>	<u>Reserve Ratios After Adjustments</u>
Boston	-	54.0%	54.0%
New York	-	60.1%	60.1%
Philadelphia	-	56.1%	56.1%
Cleveland	-	55.2%	55.2%
Richmond	-	60.4%	60.4%
Atlanta	-	64.0%	64.0%
Chicago	+ \$50	67.4%	66.5%
St. Louis	- 42	46.7%	50.0%
Minneapolis	- 8	48.9%	50.0%
Kansas City	-	56.8%	56.8%
Dallas	-	52.2%	52.2%
San Francisco	-	65.9%	65.9%
Total	+ \$50	60.0%	60.0%

Adjustments to equalize the reserve ratios of all the Reserve Banks would have to be made mandatory with the banks, while adjustments to prevent the reserve ratio of individual banks from dropping below 50 per cent or 45 per cent could be either left optional with the banks or made mandatory. If optional, the matter could be left to the banks to communicate with the Agent if it wished to improve its reserve position and, if mandatory, the Agent could be instructed to obtain the necessary figures for each bank weekly, possibly Wednesday mornings, and the Agent would advise each bank the amount of participation it must buy or sell and the bank or banks from which it must buy or to which it must sell a participation.

- (2) The selling Bank would sell to the buying Bank, for credit through the Interdistrict Settlement Fund, the par value of the participation necessary at par less a $\frac{3}{8}$ per cent discount for seven days, which the Banks involved would confirm to each other by telegram. At the end of the period the selling Bank would automatically buy back the same amount of participation at par, which the banks would confirm to each other by telegram. In this way, the buying Bank will receive, at the end of the period, an amount equal to the accrued discount on a like par amount of Treasury bills held for the same period. For example, if New York sold to Chicago a \$100,000,000 participation, it would charge Chicago \$99,992,708.33, and at the end of the seven days it would repurchase the participation and credit Chicago \$100,000,000.

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3

- (3) Federal Reserve Banks could, when necessary, pledge as collateral to secure Federal Reserve notes the amounts of their participations in another Bank's Option Account. While it is unlikely that such participations will need to be pledged in the near future, so that no immediate action is necessary, each Federal Reserve Bank selling participations and its Federal Reserve Agent should make provision for holding under joint control of the Bank and its Agent any participation sold to another Federal Reserve Bank and pledged by its Agent to secure its Federal Reserve notes.

Advantages of the Plan

- (1) It eliminates the added expense of maintaining complicated detailed records such as would be involved in setting up a pool account in which Banks would participate, the work for which would have to be done at night after regular business hours due to the purchases and sales for cash delivery at the buying rate.
- (2) It permits each Reserve Bank to sell any issue of bills back to the original owner without any adjustment or special arrangement so long as the sale would not reduce the total amount of bills in the Bank's Option Account below the amount of participation sold. In the event of the latter, arrangements could be made for a Reserve Bank to buy back any part of the participations of other Reserve Banks at any time in order to make good on the option privilege to the original seller.

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REC'D IN FILES SECTION
APR 7 1944
333.343

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April 6, 1944.

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Bob:

*not sent to files
per Mr. Smith*

Since the receipt of your draft of a memorandum on "Allocation of Securities in the System Open Market Account" which was distributed at the last Presidents' Conference, I have given considerable thought to the formulas used in allocating securities in the System Open Market Account among the Federal Reserve Banks, and I should now like to suggest the following revised formulas for consideration.

(1)(a) Allocate sufficient securities in the System Account to each Federal Reserve Bank to cover expenses not covered by accrued earnings on System Account holdings and estimated earnings from other sources.

(b) Allocate sufficient securities in the System Account to each Federal Reserve Bank to cover dividend requirements.

(2) Allocate remaining securities in the System Account, if any, to each Federal Reserve Bank on the basis of their combined expense and dividend requirements.

(3) Allocate profits and losses on sales of securities from the System Account among the Federal Reserve Banks on the basis of their combined expense and dividend requirements.

I should also like to suggest that the Manager of the System Account be authorized upon receiving a request from a bank with a relatively low reserve ratio to direct the sale of a portion of its option account bills to banks with relatively high ratios.

Prior to the establishment of the Treasury bill option accounts the formulas used for distributing securities in the System Account and profits and losses on sales of such securities were reasonably satisfactory. Because, however, a relatively large proportion of the

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Mr. Robert G. Reuse

- 2 -

bills acquired with a repurchase option are now held by New York, Chicago and one or two other Banks, the portion of the securities in the System Account allocated to such Banks is substantially less than it would otherwise be. This has two unfortunate effects: (1) the Reserve Banks with relatively large holdings of option bills have, as a result, relatively low reserve ratios, and (2) since profits and losses are distributed on the basis of holdings since June 30, 1936, and since participations in the System Account decline as relative holdings of option bills increase, the Banks with large holdings of option bills receive a gradually diminishing portion of the profits and absorb a gradually diminishing portion of the losses.

Now that the reserve ratios are declining, there is a growing need to modify or supplement the existing procedure to the extent necessary to prevent the reserve ratios of individual Federal Reserve Banks from going too far below the ratio of all the Banks combined. Perhaps nothing need be done in this respect unless the reserve ratio of a Reserve Bank breaks 50 per cent, or even until it nears 45 per cent. The suggestion for giving the Manager of the System Account authority to direct the purchase by Banks with relatively high ratios of option bills from Banks with relatively low ratios would prevent excessive disparities in reserve ratios of the Federal Reserve Banks. Something also needs to be done to effect a more equitable distribution of profits and losses on sales of securities from the System Account than will be obtained by the use of the present formula, now that the participations of the Banks in the System Account are so seriously affected by option bill holdings.

It is believed that the revised formula set forth at the beginning of this letter would provide a means of effecting a distribution of earnings and profits among the Federal Reserve Banks more nearly on the basis of their recognized needs for expense and dividend requirements, and would, at the same time, materially simplify the allocation formula. It is also believed that if the above formula were adopted we would avoid most, if not all, of the difficulties mentioned on page 1 of that part of the memorandum you gave the Presidents entitled "Discussion on Plan of Allocating Government Securities in System Account". For use in determining the merits of the formula suggested as compared with those now in use, or others, there are attached two tables, as follows:

(1) Ratios of current expenses, dividends, average holdings in System Account since June 30, 1936, and surplus and contingent reserves of each Federal Reserve Bank to the total for all Federal Reserve Banks; ratios of deposits of member banks in each district to the total for all member banks; ratios of surplus and reserves for contingencies of each Federal Reserve Bank to its paid-in capital and to member bank deposits in the district; and the reserve ratio of each Federal Reserve Bank.

(2) Figures on which most of the above ratios are based.

I shall be glad to discuss this matter with you at your convenience.

Sincerely yours,

E. L. Sneed, Director,
Division of Bank Operations.

Enclosures

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TABLE I

RATIOS OF EXPENSES, DIVIDENDS, ETC., OF EACH FEDERAL RESERVE BANK
TO TOTALS FOR ALL FEDERAL RESERVE BANKS COMBINED

Federal Reserve Bank	Ratio to total for System of						Surplus (Sec.7) and reserves for contingencies to		Reserve ratio
	Current expenses (1943)	Dividends (1943)	Expenses and Dividends (1943)	Average holdings in System Account June 30, 1936 - March 30, 1944	Surplus (Sec.7) and reserves for contingencies (12/31/43)	Member Bank deposits (12/31/43)	Total member bank deposits	Capital paid in	
Boston	7.0	6.4	6.9	7.5	6.5	5.3	.33	164.9	57.6
New York	23.1	36.8	25.4	26.0	33.4	31.4	.29	144.3	62.5
Philadelphia	7.2	7.9	7.3	8.1	8.7	5.2	.44	183.6	56.7
Cleveland	9.6	10.4	9.7	10.3	9.5	7.8	.33	151.5	58.9
Richmond	6.4	4.0	6.0	5.9	3.9	4.4	.24	158.0	60.9
Atlanta	5.4	3.6	5.1	4.7	3.9	4.3	.25	179.1	63.3
Chicago	13.4	11.2	13.0	11.6	14.7	15.3	.26	203.0	66.6
St. Louis	5.0	3.1	4.7	4.6	3.6	3.6	.27	189.2	45.3
Minneapolis	2.9	2.1	2.8	3.1	2.8	2.4	.31	217.3	52.7
Kansas City	5.1	3.3	4.8	4.9	3.1	4.3	.19	152.5	51.0
Dallas	4.4	3.0	4.2	4.1	3.0	3.9	.21	161.7	54.0
San Francisco	10.5	8.2	10.1	9.2	6.9	12.1	.15	137.6	65.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	.27	161.1	61.1

TABLE II
FIGURES ON WHICH RATIOS SHOWN IN TABLE I ARE BASED

(Thousands of dollars, except member bank deposits, in millions)

	Current Expenses 1943	Dividends paid 1943	Expenses and Dividends 1943	Surplus (Sec. 7) and Reserves for Contingencies 12-31-43	Capital Paid in 12-31-43	Member bank deposits 12-31-43
Boston	3,053	575	3,628	16,154	9,797	4,942
New York	10,034	3,280	13,314	82,892	57,440	28,990
Philadelphia	3,137	701	3,838	21,459	11,686	4,830
Cleveland	4,192	922	5,114	23,590	15,573	7,240
Richmond	2,799	360	3,159	9,700	6,140	4,018
Atlanta	2,342	319	2,661	9,765	5,453	3,961
Chicago	5,850	994	6,844	36,372	17,916	14,077
St. Louis	2,175	278	2,453	8,902	4,705	3,325
Minneapolis	1,262	191	1,453	7,031	3,236	2,250
Kansas City	2,214	291	2,505	7,667	5,028	3,939
Dallas	1,912	271	2,183	7,531	4,657	3,557
San Francisco	4,575	731	5,306	17,158	12,473	11,133
	43,545	8,911	52,456	248,221	154,104	92,262

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REC'D IN FILES SECTION
EM APR 5 1944
333.343

FEDERAL RESERVE BANK
OF NEW YORK

April 1, 1944.

Ref

Dear Mr. Smead:

We received your letter of March 31, 1944, and have today sent to the Reserve Banks a copy of the computation showing the adjustments to be made today in participations in the System Open Market Account, pursuant to the plan adopted at the meeting of the Federal Open Market Committee on December 18, 1940.

Enclosed herewith is a copy of the letter of transmittal together with three copies of the computation, also copy of the telegram which was sent to each of the Federal Reserve Banks on March 31, 1944.

See attachment to letter 4/1/44 to Maxwell from Rouse file F.M. General

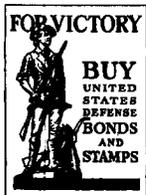
Yours faithfully,

Robert G. Rouse

Robert G. Rouse, Manager,
System Open Market Account.

Mr. E. L. Smead, Chief,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.
Enclosures 5

FOR FILES
M. Muehlhaus



CONFIDENTIAL

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, APRIL 1, 1944

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(In thousands of dollars)

	System	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
A. Estimated current expenses, 1944	47,069	3,165	10,695	3,310	4,600	2,985	2,695	6,397	2,332	1,291	2,430	2,116	5,053
B. Estimated dividends, 1944	9,384	593	3,464	709	954	370	333	1,088	288	204	306	287	782
C. Estimated expenses and dividends, 1944	56,453	3,758	14,159	4,019	5,554	3,361	3,028	7,485	2,620	1,495	2,736	2,403	5,835
D. Earnings													
1. Estimated current earnings, 1944, exclusive of earnings on System Account	13,935	443	6,572	628	378	230	114	3,325	571	196	336	110	1,032
2. Estimated earnings on System Account to March 31	18,353	1,406	4,068	1,431	2,016	1,230	1,025	1,970	902	582	958	862	1,903
3. Total	32,288	1,849	10,640	2,059	2,394	1,460	1,139	5,295	1,473	778	1,294	972	2,935
E. Excess of "C" over "D 3"	24,165	1,909	3,519	1,960	3,160	1,901	1,889	2,190	1,147	717	1,442	1,431	2,900
F. Allocation required (on basis of .89296% earnings rate) to produce earnings April-December equal to "E"	3,591,759	283,744	523,046	291,324	469,686	282,555	280,771	325,510	170,484	106,571	214,331	212,696	431,041
G. Average daily participations, per cent, in System Account since June 30, 1936	100.0	7.5137	25.9529	8.1227	10.3038	5.8675	4.6949	11.5593	4.6012	3.0946	4.9281	4.1429	9.2184
H. Allocation of remainder of System holdings (\$8,717,504,000 less \$3,591,759,000) on basis of "G"	5,125,745	385,133	1,330,279	416,349	528,147	300,753	240,649	592,500	235,846	158,621	252,602	212,354	472,512
I. Total allocations of Government securities	8,717,504	668,877	1,853,325	707,673	997,833	583,308	521,420	918,010	406,330	265,192	466,933	425,050	903,553
J. Present allocations	8,717,504	667,405	1,945,394	680,831	955,313	581,554	483,959	938,531	427,265	276,063	453,887	407,576	899,726
K. Change in allocations	-	+1,472	-92,069	+26,842	+42,520	+1,754	+37,461	-20,521	-20,935	-10,871	+13,046	+17,474	+3,827

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DS

REC'D IN FILES SEC. 101
EM
APR 5 1944
223.343

FEDERAL RESERVE BANK
OF NEW YORK

April 1, 1944.

Ref

Dear Mr. Smead:

We received your letter of March 31, 1944, and have today sent to the Reserve Banks a copy of the computation showing the adjustments to be made today in participations in the System Open Market Account, pursuant to the plan adopted at the meeting of the Federal Open Market Committee on December 18, 1940.

Enclosed herewith is a copy of the letter of transmittal together with three copies of the computation, also copy of the telegram which was sent to each of the Federal Reserve Banks on March 31, 1944.

See attachments to letter 4/1/44 to Mossall from Rouse file F.M. General

Yours faithfully,

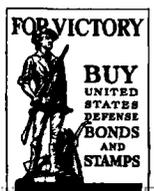
Robert G. Rouse

Robert G. Rouse, Manager,
System Open Market Account.

Mr. E. L. Smead, Chief,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Enclosures 5

FOR FILES
M. Muehlhaus



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TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

100-10501-10
 100-10501-10
 100-10501-10

March 31, 1944

Rouse - New York

This will confirm understanding in telephone conversation that adjustments of participations in System Account will be as follows, in thousands of dollars:

Increases:

Boston	1,472
Philadelphia	26,842
Cleveland	42,520
Richmond	1,754
Atlanta	37,461
Kansas City	13,046
Dallas	17,474
San Francisco	3,827

Decreases:

New York	92,069
Chicago	20,521
St. Louis	20,935
Minneapolis	10,871

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FOR FILE
 J. E. Smith

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11/20/44
333.343

(25)

March 31, 1944

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Mr. Rouse:

There is attached a statement showing the changes in participations of Government securities in the System Open Market Account on April 1, 1944, prepared in accordance with the formula adopted by the System Open Market Committee on December 18, 1940.

Very truly yours,

E. L. Smead, Director,
Division of Bank Operations.

Attachment

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M. Muehlhaus

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, APRIL 1, 1944

(In thousands of dollars)

	System	Boston	New York	Phila- delphia	Cleve- land	Rieh- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dalla s	San Francisco
A. Estimated current expenses, 1944	47,069	3,165	10,695	3,310	4,600	2,985	2,695	6,397	2,332	1,291	2,430	2,116	5,053
B. Estimated dividends, 1944	9,384	593	3,464	709	954	376	333	1,088	288	204	306	287	782
C. Estimated expenses and dividends, 1944	56,453	3,758	14,159	4,019	5,554	3,361	3,028	7,485	2,620	1,495	2,736	2,403	5,835
D. Earnings													
1. Estimated current earnings, 1944, exclusive of earnings on System Account	13,935	443	6,572	628	378	230	114	3,325	571	196	336	110	1,032
2. Estimated earnings on System Account to March 31	18,353	1,406	4,068	1,431	2,016	1,230	1,025	1,970	902	582	958	862	1,903
3. Total	32,288	1,849	10,640	2,059	2,394	1,460	1,139	5,295	1,473	778	1,294	972	2,935
E. Excess of "C" over "D 3"	24,165	1,909	3,519	1,960	3,160	1,901	1,889	2,190	1,147	717	1,442	1,431	2,900
F. Allocation required (on basis of .89298% earnings rate) to produce earnings April-December equal to "E"	3,591,759	283,744	523,046	291,324	469,686	282,555	290,771	325,510	170,484	106,571	214,331	212,696	431,041
G. Average daily participations, per cent, in System Account since June 30, 1936	100.0	7.5137	25.9529	8.1227	10.3038	5.8675	4.6949	11.5593	4.6012	3.0946	4.9281	4.1129	9.2184
H. Allocation of remainder of System holdings (\$8,717,504,000 less \$3,591,759,000) on basis of "G"	5,125,745	385,133	1,330,279	416,349	528,147	300,753	240,649	592,500	235,846	158,621	252,602	212,354	472,512
I. Total allocations of Government securities	8,717,504	668,877	1,853,325	707,673	997,833	583,308	521,420	918,010	406,330	265,192	466,933	425,050	903,553
J. Present allocations	8,717,504	667,405	1,945,394	680,831	955,313	581,554	483,959	938,531	427,265	276,063	453,887	407,576	899,726
K. Change in allocations	-	+1,472	-92,069	+26,842	+42,520	+1,754	+37,461	-20,521	-20,935	-10,871	+13,046	+17,474	+3,827

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March 29, 1944.

Mr. Smead

Mr. Van Fossen

I am returning herewith the March 27 draft of your memorandum on allocation of securities in the System Open Market Account with certain suggested revisions of language.

Following are my comments on the proposed plan and on the subject in general:

From the table at the end of the memorandum one would infer that the ideal distribution of surplus and reserves for contingencies would be in proportion to paid-in capital. The distribution of excess earnings and profits in proportion to combined expense and dividend requirements would not, of course, tend to bring about such a condition. On the other hand, the distribution of excess earnings in proportion to dividends, or its equivalent, paid-in capital, would have this effect. Incidentally, if there is no legal objection to the distribution of profits and losses in proportion to paid-in capital, I believe a logical procedure would be to distribute securities in excess of those needed to cover the excess of expense and dividend requirements over earnings from other sources in proportion to paid-in capital or its equivalent, dividend requirements. The argument in favor of this procedure is that if a period occurs when, by reason of a relatively low level of earning assets or of heavy losses, net earnings are insufficient to cover the expense and dividend requirements, the deficiency would be allocated to the various Federal Reserve Banks on the same basis as excess earnings are allocated in periods when earnings are in excess of expense and dividend requirements. In other words, surplus and reserves for contingencies combined would decrease in periods of deficient earnings in exactly the same manner as they increase in periods of excess earnings. Disregarding the fact that the ratio of surplus and reserves for contingencies to paid-in capital is not uniform at the present time, hereafter the existing disparities would not be increased.

One of the most serious difficulties encountered in allocating participations in the System Account is the assumed necessity of estimating future expenses and future earnings from other sources. I believe if the allocations are to continue to be made on the basis of expenses and earnings it would be much preferable to make the allocation for each year on the basis of actual figures for the preceding calendar year. This would obviate the need for estimating future expenses and earnings which experience has illustrated is an impossible

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task unless one is satisfied with estimates that do not conform very closely with ultimate results.

It occurs to me, however, that under existing conditions it might be distinctly preferable to discard for the time being, at least, earnings and expenses as a basis for allocation of the System Open Market Account and to make the allocations instead on the basis of reserve ratios. This would be a very simple procedure, of course, inasmuch as no estimates of any kind would be involved. My idea would be that a new allocation would be made each month so that as of the close of business at the end of each month the account would be so distributed that all Federal Reserve Banks would have the same reserve ratio. Ordinarily, I believe a monthly reallocation on this basis would suffice even if the combined reserve ratio fell below 45 per cent. However, if this did not prove to be the case, in other words if occasionally at least we would find some Federal Reserve Bank either with or threatened with a deficiency in reserves, it would be a very simple matter to make a special reallocation at such a time in addition to the regular monthly reallocations. I believe that such a procedure under existing circumstances is superior to any plan based on earnings and expenses unless the plan is so devised as to tend to equalize surplus and reserves for contingencies on some logical basis, such as in proportion to deposits of member banks in each Federal Reserve district or in proportion to paid-in capital of the Federal Reserve Banks.

Attachment

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

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APR 3 1944

333.343

1944 MAR 29 PM 1 27

WB10WASH B187 BOS 29-111P

SMEAD BOARD

RETEL MARCH 29, 1944 R ESTIMATED 1944 EARNINGS THROUGH MARCH 31
ON US TREASURY BILLS HELD BY THIS BANK UNDER REPURCHASE OPTION
\$99,442.35

PADDOCK.

FOR FILES

M. B. Daniels

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J

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

1944 MAR 29 AM 11 30

REC'D IN FILES SECTION
HL APR 3 1944
333.343

WA38WASH B82 NY 29-1116A

SMEAD

BOARD

ESTIMATED EARNINGS FOR CURRENT YEAR TO MARCH 31 ON TREASURY BILLS
HELD IN OUR OWN OPTION ACCOUNT \$1,582,000

MILLER.

FOR FILES
M. B. Daniels

see wire 3/29/44 to all 3rd Bk

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Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

1944 MAR 29 PM 1 10

RECORD IN FILES SECTION

12 APR 3 1944

333,343

WA56WASH C26 PHILA MAR 29-1244P

SMEAD

REURTEL 3/29, ESTIMATED EARNINGS YEAR TO MARCH 31 ON TREASURY

BILLS HELD ARE \$132,606.58.

DAVIS.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

1944 MAR 29 PM 12 22

WA49G22WASH D 55 CLEV 29-1057

SMEAD

REC'D BY FILES SECTION

APR 3 1944

333, 343

3/29/44

REPLY WIRE • ESTIMATED EARNINGS FOR ~~YEAR~~ YEAR TO MARCH 31

ON TREASURY BILLS HELD IN OWN PORTFOLIO IS \$74,200.00

SMITH.

FOR FILES
M. B. Daniels

DECLASSIFIED
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TELEGRAM
Board of Governors
OF THE
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

REC'D IN FILES SECTION
1944 MAR 29 PM 2 54
~~APR 11 1944~~
333,343

3/29/44

WASOWASH RH 72

RICH 29-245

SMEAD

3/29/44

RETEL ESTIMATED EARNINGS FOR YEAR TO MARCH 31 ON TREASURY

BILLS HELD IN OWN PORTFOLIO \$48,544

GUTHRIE

TREASURY.

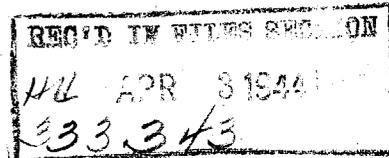
FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

1944 MAR 29 PM 2 34



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SMEAD

^{3/29/44}
REURTEL ESTIMATED EARNINGS FOR YEAR TO MARCH 31 ON TREASURY BILLS
HELD IN OWN PORTFOLIO, INCLUDING NEWORLEANS BRANCH, \$21,738.

BOWMAN.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

1944 MAR 29 PM 2 21

RECEIVED TELETYPE SECTION
MAR 31 1944
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WA76G89WASH GX132 CGO 29-103

SMEAD BD

3/29/44
REURTEL WE ESTIMATE EARNINGS FOR YEAR TO MARCH 31 ON TREASURY
BILLS HELD IN OWN PORTFOLIO \$798,000.

YOUNG.

FOR FILES
M. B. Daniels

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Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

REC'D IN FILES SECTION
MAR 29 3 45 PM '44
333,343
1944 MAR 29 PM 4 10

WA87G27WASH H136 STL 29-304

SMEAD

3/27/44

RETEL TODAY ESTIMATED EARNINGS FOR YEAR TO MARCH 31 ON TREASURY

BILLS HELD IN OUR OWN PORTFOLIO \$130,000.00

ATTEBERY.

FOR FILES
M. E. Dunleavy

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Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

REC'D IN FILES SECTION

46 APR 3 1944

333,343

1944 MAR 29 PM 12 12

WA46GT5WASH 120 MPLS 29-1108

SMEAD

3/29/44

RETEL YOUR BD13 OUR ESTIMATED EARNINGS ON TREASURY BILLS HELD
IN OWN PORTFOLIO TO MARCH 31 IS \$46,251.00

BAKER.

FOR FILES

M. E. Daniels

DECLASSIFIED

Authority E.O. 10501

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TELEGRAM
Board of Governors
OF THE
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

19 MAR 29 AM 11 28

REC'D IN FILES SECTION
Handwritten: APR 3 1944
Handwritten: 533, 343

WA37G33BD WASH J27 KC 29 1019

SMEAD *3/29/44*

REURTEL WE ESTIMATE EARNINGS TO MARCH 31 ON TREASURY.

BILLS OWN PORTFOLIO TO BE \$41,454.

KOPPANG.

FOR FILES
M. B. Daniels

DECLASSIFIED
Authority E.O. 10501

TELEGRAM
Board of Governors
OF THE
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

1944 MAR 29 PM 1 13

RECORDED IN OFFICE OF THE
MAR 29 3 15 AM
353,343

WA62G78WASH M34 DLS 29-1143A

SMEAD

ESTIMATED EARNINGS FOR YEAR TO MARCH 31 ON TREASURY BILLS HELD OWN
PORTFOLIO ARE \$24,200

GILBERT.

FOR FILES
M. E. Daniels

File to all M34 3/29/44

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Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

RECORD IN FILES SECTION
44 APR 3 1944
533,343

1944 MAR 29 PM 4 55

WA99G93WASH)61 SF 29-125
SMEAD BOARD

3/29/44

REURTEL DATE ESTIMATED EARNINGS FOR YEAR TO MAR.31 ON TREASURY
BILLS HELD IN OWN PORTFOLIO \$229,000
MANGELS.

FOR FILE
M. E. Daniels

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Authority E.O. 10501

RECEIVED
MAR 29 1944

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

March 29, 1944

- | | |
|-------------------------|----------------------|
| Paddock - Boston | Young - Chicago |
| Sproul - New York | Davis - St. Louis |
| Williams - Philadelphia | Peyton - Minneapolis |
| Fleming - Cleveland | Leedy - Kansas City |
| Leach - Richmond | Gilbert - Dallas |
| McLarin - Atlanta | Day - San Francisco |

Please wire estimated earnings for year to March 31 on
Treasury bills held in own portfolio.

Smead.

MD
OR

FILE COPY

FOR FILES
L. S. Evans

DECLASSIFIED
Authority E.O. 10501

REC'D IN FILES SECTION
JAN - 5 1944
333.573

*Mr. Van Fossan ✓
Mr. Smead ✓*

FEDERAL RESERVE BANK
OF NEW YORK

January 3, 1944.

*✓
ref*

Dear Mr. Smead:

We received your letter of December 31, 1943/and have today sent to the Reserve Banks a copy of the computation showing the adjustments to be made in participations in the System Open Market Account today as of January 1, 1944 pursuant to the plan adopted at the meeting of the Federal Open Market Committee on December 18, 1940.

Enclosed herewith is copy of the letter of transmittal together with three copies of the computation, also copy of the telegram which was sent to each of the Federal Reserve Banks on December 31, 1943.

Yours faithfully,

Robert G. Rouse
Robert G. Rouse,
Manager, System Open
Market Account.

Mr. E. L. Smead, Chief,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Enclosures (5)

DECLASSIFIED
 Authority E.O. 10501

100-5074-2-43

**SECURITIES DEPARTMENT
 RHB:AMM**

December 31, 1943

Please send the following telegram to each Federal Reserve Bank as indicated below:

Under the plan for reallocation of Government securities adopted by the Federal Open Market Committee December 18, 1943, a readjustment of participations in Government securities held in the System Account is called for January 1, 1944. The computations showing adjustments to be made in participations of the several Federal Reserve Banks will be mailed to all Reserve Banks on January 3. These computations indicate an increase of _____ in your participation on January 1. We shall wire you on January 3, 1944 the detailed entries to be made on that date as of January 1.

		<u>Increase</u>	<u>Increase</u>
PADDOCK	BOSTON	-	\$81,870,000
WILLIAMS	PHILADELPHIA	-	55,467,000
FLEMING	CLEVELAND	-	242,829,000
LEACH	RICHMOND	-	76,696,000
McLARIN	ATLANTA	-	123,965,000
YOUNG	CHICAGO	\$88,357,000	-
DAVIS	ST. LOUIS	11,068,000	-
PEYTON	MINNEAPOLIS	-	49,138,000
LEEDY	KANSAS CITY	-	88,456,000
GILBERT	DALLAS	-	108,462,000
DAY	SAN FRANCISCO	-	111,818,000

HOUSE

DECLASSIFIED
Authority E.O. 10501

MISC. 140A 100M-5-42

FEDERAL RESERVE BANK OF NEW YORK

January 3, 1944.

Dear Mr. Williams:

In accordance with my telegram of December 31, 1943 I enclose herewith computation of the readjustments to be made today as of January 1, 1944 in the participations of the Federal Reserve Banks in the System Open Market portfolio.

Yours faithfully,

Robert G. Rouse,
Manager, System Open
Market Account.

Mr. Alfred H. Williams, President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pa.

Encl.

RHB:FD

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JANUARY 1, 1944
(In thousands of dollars)

CONFIDENTIAL

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Winn- apolis	Kansas City	Dallas	San Francisco
A. Estimated current expenses, 1944	44,496	3,045	10,523	3,213	4,276	2,955	2,478	5,636	2,231	1,299	2,263	1,977	4,600
B. Estimated dividends, 1944	9,190	587	3,428	701	934	367	326	1,051	282	194	300	279	741
C. Estimated expenses and dividends, 1944	53,686	3,632	13,951	3,914	5,210	3,322	2,804	6,687	2,513	1,493	2,563	2,256	5,341
D. Estimated current earnings, 1944, exclusive of earnings on System Account	11,047	313	5,832	704	286	169	108	2,401	308	115	236	58	517
E. Excess of "C" over "D"	42,639	3,319	8,119	3,210	4,924	3,153	2,696	4,286	2,205	1,378	2,327	2,198	4,824
F. Allocation required (on basis of .88932% earnings rate on Government securities in System Account) to produce earnings equal to "E"	4,794,562	373,206	912,945	360,950	553,681	354,541	303,153	481,941	247,942	154,950	261,661	247,155	542,437
G. Average daily participations, per cent, in System Account since June 30, 1936	100.0	7.4994	26.3183	8.1541	10.2380	5.7868	4.6088	11.6390	4.5711	3.0873	4.9001	4.0894	9.1077
H. Allocation of remainder of System Account (\$7,697,870,000 less \$4,794,562,000) on basis of "G"	2,903,308	217,731	764,101	236,739	297,240	168,008	133,808	337,916	132,713	89,634	142,265	118,728	264,425
I. Total allocation	7,697,870	590,937	1,677,046	597,689	850,921	522,549	436,961	819,857	380,655	244,584	403,926	365,883	806,862
J. Present allocations	7,697,870	672,807	846,770	653,156	1,093,750	599,245	560,926	731,500	369,587	284,722	492,382	474,345	918,680
K. Change in allocations	-	-81,870	+830,276	-55,467	-242,829	-76,696	-123,965	+88,357	+11,068	-40,138	-88,456	-108,462	-111,818

NOTE: Basis of estimate: "A"--Current expenses July-Nov. 1943, times 2.4; "B"--6% of paid-in capital December 22, 1943; "D"--Earnings other than on Government securities July-Nov. 1943, times 2.4, less estimate of Treasury share current net earnings on industrial loans and plus estimated earnings on Treasury bills-option account (3 times estimates furnished by Banks for first quarter 1944).

DECLASSIFIED
 Authority 1 0.11501

Form F. R. 148 b

TELEGRAM
BOARD OF GOVERNORS
 OF THE
FEDERAL RESERVE SYSTEM
 LEASED WIRE SERVICE
 WASHINGTON

December 31, 1913

Rouse - New York

This will confirm understanding in telephone conversation that adjustments of participations in System Account will be as follows, in thousands of dollars:

Increases:

New York	830,276
Chicago	88,357
St. Louis	11,068

Decreases:

Boston	81,870
Philadelphia	55,467
Cleveland	242,829
Richmond	76,696
Atlanta	123,965
Minneapolis	40,138
Kansas City	88,456
Dallas	108,462
San Francisco	111,818

[Handwritten signatures and initials]
 JTE/ls
 25/21w

Smend
FILE COPY

FOR FILE
 J. B. GARDNER

DECLASSIFIED
Authority 1.0.10501

RECEIVED IN FILES SECTION
JAN - 1 1944

December 31, 1943

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Mr. Rouse:

There is attached a statement showing
the changes in participations of Government secur-
ities in the System Open Market Account on January
1, 1944, prepared in accordance with the formula
adopted by the System Open Market Committee on
December 18, 1940.

Very truly yours,

✓

E. L. Smead, Chief,
Division of Bank Operations.

Attachment

see ans (letter 1/3/44

FILE COPY

RECEIVED
J. A. Smith

REC'D IN FILES SECTION
 JAN - 1 1944
 CONFIDENTIAL

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JANUARY 1, 1944
 (In thousands of dollars)

DECLASSIFIED
 Authority E.O. 10501

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Estimated current expenses, 1944	44,496	3,045	10,523	3,213	4,276	2,955	2,478	5,636	2,231	1,299	2,263	1,977	4,600
B. Estimated dividends, 1944	9,190	587	3,428	701	934	367	326	1,051	282	194	300	279	741
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D. Estimated current earnings, 1944, exclusive of earnings on System Account	11,047	313	5,832	704	286	169	108	2,401	308	115	236	58	517
E. Excess of "C" over "D"	42,639	3,319	8,119	3,210	4,924	3,153	2,696	4,286	2,205	1,378	2,327	2,198	4,824
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H. Allocation of remainder of System Account (\$7,697,870,000 less \$4,794,562,000) on basis of "G"	2,903,308	217,731	764,101	236,739	297,240	168,008	133,808	337,916	132,713	89,634	142,265	118,728	264,425
I. Total allocation	7,697,870	590,937	1,677,046	597,689	850,921	522,549	436,961	819,857	380,655	244,584	403,926	365,883	806,862
J. Present allocations	7,697,870	672,807	846,770	653,156	1,093,730	599,243	560,926	731,500	369,587	284,722	492,382	474,345	918,680
K. Change in allocations	-	-81,870	+830,276	-55,467	-242,829	-76,696	-123,965	+88,357	+11,068	-40,138	-88,456	-108,462	-111,818

NOTE: Basis of estimate: "A"--Current expenses July-Nov. 1943, times 2.4; "B"--6% of paid-in capital December 22, 1943; "D"--Earnings other than on Government securities July-Nov. 1943, times 2.4, less estimate of Treasury share current net earnings on industrial loans and plus estimated earnings on Treasury bills-option account (3 times estimates furnished by Banks for first quarter 1944).

MD

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Authority E.O. 10501

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

1943 DEC 28 PM 12 59
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WBO7WASH C48 PHILA DEC 28-1253P
SMEAD

OUR ESTIMATE OF EARNINGS ON TREASURY BILLS IN OPTION ACCOUNT FOR
FIRST THREE MONTHS OF 1944 IS \$200,000. THIS COMPARES WITH
EARNINGS FOR LAST QUARTER OF 1943 OF APPROXIMATELY \$235,000

DAVIS.

FOR FILES
M. B. Daniels

See wire 12/22/43 to FRB

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Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

REC'D IN FILES SECTION
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DEC 31 1943
323, 243

1943 DEC 27 PM 3 06

WA93WASH B323 BOS 27-251P

SMEAD

BOARD

Dall...
RETEL DEC 22, 1943 ESTIMATED 1944 EARNINGS THROUGH MARCH 31
ON U S TREASURY BILLS HELD BY THIS BANK UNDER REPURCHASE OPTION
\$94,791.67

WILLETT.

FOR FILES
M. B. Daniels

nc

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

REC'D IN FILES SECTION
DEC 31 1943
333 343

1943 DEC 21

13

WA27WASH B7T NY 21

SMEAD BOARD

all files

REPLYING YOUR WIRE OF DECEMBER 22 ESTIMATED EARNINGS OF THIS BANK
FROM TREASURY BILLS HELD IN OPTION ACCOUNT FOR FIRST THREE MONTHS
OF 1944 \$1,875,000

ROUSE

FILE
M. B. Daniels

DECLASSIFIED

Authority 1 0. 10501

TELEGRAM
 Board of Directors
 Federal Reserve System
 Received at Washington, D.C.

1943 DEC 23 PM 5 51

WB39G6OWASH (LONG) D -144 CLEV 23-414

SMEAD

to all FRAs

ANSWERING YOUR TELEGRAM 22ND RE ESTIMATING EARNINGS FROM OPTION TREASURY BILLS FIRST QUARTER ETC . THE INSIGNIFICANT SHARE OF THIS BANK'S EARNINGS WHICH, AT PRESENT, ARISES FROM OTHER THAN INTEREST FROM GOVERNMENT SECURITIES ACQUIRED THROUGH ALLOCATION OF SYSTEM ACCOUNT FORCES US TO CONCLUSION THAT LITTLE CONSIDERATION SHOULD BE GIVEN TO ARRIVING AT AN ESTIMATE OF EARNINGS ACCRUING FROM TREASURY BILLS HELD UNDER OPTION IN FIRST QUARTER OF 1944. ESTIMATED CURRENT EARNINGS IN FIRST ELEVEN MONTHS OF THIS YEAR, EXCLUSIVE OF EARNINGS ON SYSTEM ACCOUNT, WERE ONLY \$207,000 OUT OF A TOTAL OF OVER \$6 MILLIONS, LESS THAN 4 0/0.

EARNINGS ACCRUING FROM TREASURY BILLS HELD UNDER OPTION THE LAST THREE MONTHS ARE ESTIMATED AT AROUND \$60,000. IF WE WERE TO ERR IN ESTIMATING THAT TREASURY BILL HOLDINGS UNDER OPTION WOULD INCREASE OR DECREASE BY AS MUCH AS 100 0/0 FROM THE AVERAGE OF THE FOURTH QUARTER, WHEN THE DAILY AVERAGE HOLDINGS OF TREASURY BILLS WAS \$63,000,000, SUCH AN ERROR WOULD ONLY CHANGE OUR EARNINGS FROM OTHER SOURCES BY ABOUT \$60,000, OR ABOUT 1 0/0 OF THE BANK'S TOTAL EARNINGS. THIS AMOUNT IS RELATIVELY INSIGNIFICANT IN RELATION TO THE MAJOR PROBLEM WHICH HAS RECENTLY DEVELOPED AS RESULT OF LARGE INCREASE IN THIS BANK'S SHARE OF SYSTEM'S OPEN MARKET ACCOUNT. SERIOUS CONSIDERATION TO THIS ONE PART OF " OTHER EARNINGS" AS AN OFFSET TO CONTINUED ALLOCATION OF SECURITIES FROM THE SYSTEM ACCOUNT WILL NOT BE PARTICULARLY HELPFUL IN SOLVING THE MAJOR PROBLEM AT HAND, I.E. LOSS OF GOLD RESERVES.

FOR FILED
 M. E. Daniels

DECLASSIFIED

Authority 1 0. 10501

D144/2

TO ESTIMATE WITH ANY DEGREE OF ACCURACY THE AMOUNT OF EARNINGS THAT WILL ACCRUE TO THIS BANK ON TREASURY BILLS HELD IN OPTION ACCOUNT FOR FIRST THREE MONTHS OF 1944 IS EXTREMELY DIFFICULT. PRESENT HOLDINGS IN OPTION ACCOUNT ARE \$100,000,000. IF WE WERE TO ASSUME AVERAGE HOLDINGS OF \$63,000,000 OR THEREABOUT DURING THE FIRST QUARTER OF ENSUING YEAR, TOTAL EARNINGS WHICH WOULD ACCRUE WOULD BE SOMEWHERE IN THE NEIGHBORHOOD OF \$60,000 TO \$70,000 FOR THE QUARTER.

INSOFAR AS SHEDDING ANY LIGHT ON POSSIBLE TREND OF TREASURY BILLS HELD IN OPTION ACCOUNT IN FIRST QUARTER, EXPERIENCE TO DATE IS NOT PARTICULARLY HELPFUL. DURING SEPTEMBER WAR LOAN DRIVE WHEN RESERVE POSITION OF MEMBER BANKS IMPROVED, BILLS HELD IN OPTION ACCOUNT ROSE RATHER SHARPLY. A DECLINE MIGHT HAVE BEEN MORE LOGICAL. IN OCTOBER AND NOVEMBER WHEN EXCESS RESERVES OF MEMBER BANKS IN THIS DISTRICT WERE REDUCED TO NEW LEVELS, BILLS HELD IN OPTION ACCOUNT DECLINED. IN DECEMBER, AS NOTE CIRCULATION EXPANDED, BILLS HELD IN OPTION ACCOUNT ROSE, AS MIGHT BE EXPECTED.

THE TREASURY BILL PICTURE IN FIRST QUARTER WILL BE AFFECTED BY SEVERAL INDETERMINABLE FACTORS. MONEY IN CIRCULATION PROBABLY WILL NOT CONTRACT AS IT HAS IN PREVIOUS NORMAL YEARS; DEPOSITS MAY RISE UNTIL THE WAR DRIVE GETS UNDER WAY, AND RESEVXXX RESERVE POSITION OF MEMBER BANKS MIGHT BECOME TIGHTER; BILLS HELD BY THE RESERVE BANK IN OPTION ACCOUNT MIGHT BE EXPECTED

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Authority 1 0.10501

D144/3

TO RISE SOMEWHAT AS RESULT. EASING OF RESERVE POSITION LATE IN JANUARY AS RESULT OF SHIFT OF BALANCES FROM DEMAND ACCOUNTS TO WAR LOAN ACCOUNTS MIGHT BE EXPECTED TO HAVE REVERSE EFFECT. THIS DEVELOPMENT IS FURTHER SUGGESTED BY THE FACT THAT YOUR TELEGRAM INFERS THERE WILL BE A CONTINUATION IN THE PRACTICE RECENTLY FOLLOWED OF PURCHASING RATHER LARGE AMOUNTS OF BILLS FROM DEALERS FOR THE SYSTEM ACCOUNT WHICH WOULD REDUCE THE SUPPLY OF BILLS AVAILABLE. REPORTING MEMBER BANKS IN THIS DISTRICT HELD \$130,000,000 OF TREASURY BILLS IN MID-DECEMBER FLEMING.

DECLASSIFIED

Authority 1 0.10501

MR. BOOTH

Received at Washington, D.C.
Federal Reserve System
1943 DEC 23 PM 6 35

1943 DEC 23 PM 6 35

WA80G19 WASH GX213 CGO 23-431

SMEAD - BOARD

Dall Files

RETEL DECEMBER 22 REQUESTING ESTIMATE OF AMOUNT OF EARNINGS ON TREASURY BILLS HELD IN OPTION ACCOUNT FOR FIRST THREE MONTHS 1944. IT IS VERY DIFFICULT TO MAKE AN ESTIMATE THAT WOULD BE CONSIDERED RELIABLE BUT WE FEEL THAT AVERAGE HOLDINGS WILL BE APPROXIMATELY \$800 MILLION AND OUR EARNINGS FOR THE FIRST THREE MONTHS 1944 WILL BE \$758,000.

AS YOU KNOW, DUE TO THE TAX SITUATION IN ILLINOIS IT IS EXTREMELY DIFFICULT TO MAKE AN ESTIMATE. IT DEPENDS A GREAT DEAL ON LOSS IN DEPOSITS AND THE AMOUNT THAT TWO LARGE BANKS WILL BID AS DEALERS. THERE IS A POSSIBILITY THAT A FEW OF THE BANKS WILL ARRANGE FOR APRIL 1ST REQUIREMENTS THROUGH OTHER MEDIUMS THAN TREASURY BILLS.

YOUNG.

FOR FILES
M. E. Daniels

1050

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

1943 DEC 23 PM 4 28

WA27G25WASH H119 STL 23-254

SNEAD

REC'D IN FILES SECTION
md DEC 31 1943
333 343

to all Files

RETEL DECEMBER 22 ESTIMATED EARNINGS ON TREASURY BILLS

HELD IN OPTION ACCOUNT JANUARY 1944 \$40,000.00

FEBRUARY \$23,000.00 MARCH \$24,000.00

GILMORE.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

E L E C R A M
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

1943 DEC 23 AM 11 08

WA32G93WASH M10 DLS 23-939A

REC'D IN FILES SECTION
ml DEC 31 1943 *BT*
4 333.343

SMEAD

all files

REPLYING YOUR TELEGRAM OF 22 I ESTIMATE EARNINGS OF THIS BANK FROM
TREASURY BILLS HELD IN OPTION ACCOUNT WILL AMOUNT TO \$15,000 FOR
THE FIRST THREE MONTHS OF 1944. IN ARRIVING AT THIS ESTIMATE, I HAVE
TAKEN INTO CONSIDERATION THE NORMAL FACTORS PREVAILING IN FIRST QUARTER
OF YEAR, AS WELL AS THOSE MENTIONED IN YOUR TELEGRAM

GILBERT

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

REC

TELEGRAM
Board of Governors
Federal Reserve System
17th Street, N.W.
Received at Washington, D.C.

1943 DEC 23 PM 2 26

WA98G79WASH L44 SF 23-1108

SMEAD BOARD

Dall FRB

REURTEL 22 REQUESTING ESTIMATE OF EARNINGS ON TREASURY BILLS
IN OPTION ACCOUNT FOR FIRST 3 MONTHS 1944, DAILY AVERAGE HELD
FOR PAST 4 MONTHS IN MILLIONS AS FOLLOWS:

SEPT.	166
OCT.	144
NOV.	191
DEC. TO DATE	196

IN VIEW OF COMMENTS IN URTEL, WE WOULD ESTIMATE EARNINGS FOR
FIRST QUARTER 1944 ON BASIS OF 75 PERCENT OF NOV. AND DEC.
AVERAGE, OR ABOUT \$1500 PER DAY, MAKING TOTAL ESTIMATED
EARNINGS \$135,000 FOR QUARTER

HALE.

FRASER
ST. LOUIS

DECLASSIFIED

Authority E.O. 10501

IN FILES SECTION
 m-2 DEC 31 1943
 333-343

TELEGRAM
BOARD OF GOVERNORS
 OF THE
FEDERAL RESERVE SYSTEM
 LEASED WIRE SERVICE
 WASHINGTON

December 22, 1943.

Paddeck - Boston
 Sproul - New York
 Williams - Philadelphia
 Fleming - Cleveland
 Leach - Richmond
 McLarin - Atlanta

Young - Chicago
 Davis - St. Louis
 Peyton - Minneapolis
 Leedy - Kansas City
 Gilbert - Dallas
 Day - San Francisco

In connection with usual reallocation of securities in System Account January 1, please wire estimate of amount of earnings your Bank will accrue on Treasury bills held in option account for first three months of 1944. In addition to factors usually prevailing in first quarter of year, consideration should be given to (1) possibility of Banks holding relatively large amounts of bills as collateral to war loan deposit accounts resulting from Fourth War Loan drive, and (2) probability of smaller amounts of bills being sold to Reserve Banks under repurchase option than recently as a result of large outright purchases of bills from dealers at 3/8 per cent for System account in replacement of bills maturing in System account and option accounts of Reserve Banks. During past four weeks these purchases for System account have ranged from \$340,000,000 to \$398,000,000 against maturities of \$430,000,000 to \$505,000,000 and continuation of this policy will result in declining supply of bills available for sale to Reserve Banks under repurchase option.

See attached memo

*OK
 MJD*

MJD

ELS:jbs

FILE COPY

FOR FILES
 L. B. Smith

DECLASSIFIED

Authority E.O. 10501

Gov
 Gov *[Handwritten signature]*
 Bob Rouse

REC'D IN RECORDS SECTION
 APR 23 1968

and I feel that
 we should get
 this information
 so it's O.K. with
 you

[Handwritten signature]

DECLASSIFIED

Authority E.O. 10501

FEDERAL RESERVE BOARD
Board of Governors
Federal Reserve System
Washington, D.C.

1943 DEC 22 PM 5 37

WA09WASH RH 113

RICH 22-525

SMEAD

~~REXXE~~

12/22/43 to all Fed. Res.

RETEL. ESTIMATED EARNINGS OF THIS BANK FOR FIRST THREE MONTHS
OF 1944 ON TREASURY BILLS HELD IN OPTION ACCOUNT, \$45,000

LEACH.

FOR FILE
M. E. Daniels

DECLASSIFIED

Authority E.O. 10501

FEDERAL RESERVE SYSTEM
RECEIVED
Federal Reserve System
Lombard Street
Received at Washington, D.C.

1943 DEC 22 PM 4 37

REC'D IN FILES SECTION
md DEC 31 1943
2331343

WA90WASH F148 ATLA 22-329P

SMEAD

ESTIMATE ~~AGREED~~ ACCRUED EARNINGS FOR FIRST THREE MONTHS OF 1944 ON
OPTION ACCOUNT TREASURY BILLS WILL BE APPROXIMATELY \$25,000.00
BOWMAN.

DEC 22 1943
M. R. DeLoach

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Received at Washington, D.C.

REC'D

1943 DEC 22 PM 2 32

WA76G63WASH 132 MPLS 22-126

SMEAD

12/22/42 to all FRB's

RETEL BD 49 ESTIMATED EARNINGS ON TREASURY BILLS HELD IN OPTION
ACCOUNT FOR FIRST THREE MONTHS OF 1944 35,000

BAKER.

M. E. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

1943 DEC 22 PM 5 37

REC'D IN FILES SECTION
md DEC 31 1943
333,343

WA11G86BD WASH J115 KC 22-406

SMEAD

12/2/43 Dall FCB

RETEL BASED ON VOLUME DURING PAST THREE ~~QUARTERS~~ QUARTERS AND
ANTICIPATING SUBSTANTIALLY SMALLER HOLDINGS DURING NEXT FEW MONTHS,
WE ~~ESTIMATE~~ ESTIMATE AGGREGATE EARNINGS OF \$25,000 IN FIRST
QUARTER OF 1944 ~~FROM~~ FROM TREASURY BILLS HELD IN OPTION ACCOUNT
KOPPANG.

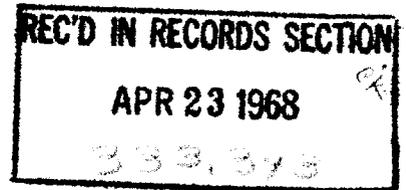
FOR FILES
M. E. Daniels

DECLASSIFIED

Authority E.O. 10501

Mr. Van Fossen ✓
 Mr. Daniels ✓
 Mrs. Smith

FEDERAL RESERVE BANK
OF NEW YORK



December 1, 1943.

Dear Mr. Smead:

We received your letter of November 30, 1943, and have today sent to the Reserve Banks a copy of the computation showing the adjustments to be made today in participations in the System Open Market Account, pursuant to the plan adopted at the meeting of the Federal Open Market Committee on December 18, 1940.

Enclosed herewith is a copy of the letter of transmittal, together with three copies of the computation, also copy of the telegram which was sent to each of the Federal Reserve Banks on November 30, 1943.

Yours faithfully,



Robert G. Rouse, Manager,
System Open Market Account.

Mr. E. L. Smead, Chief,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Enclosures (5)



Directive #1

DECLASSIFIED
 Authority E.O. 10501

MISC. 140A 109M-E-42

FEDERAL RESERVE BANK OF NEW YORK
 NEW YORK

REC'D IN RECORDS SECTION
 APR 23 1968
 November 30, 1943

PLEASE SEND THE FOLLOWING TELEGRAM TO PRESIDENT OF EACH FEDERAL RESERVE BANK
 AND USE THE FIGURES INDICATED BELOW:

In accordance with action of the Federal Open Market Committee at its meeting September 28, 1942, a readjustment of participations in Government securities held in the System Account is called for on December 1 under the plan for reallocation of Government securities adopted by the Federal Open Market Committee December 18, 1940.

The computations showing adjustments to be made in participations of the several Federal Reserve Banks on December 1, 1943 will be mailed to all Reserve Banks on December 1. These computations indicate an ^{increase} decrease of _____ in your participation on December 1. We shall wire you on December 1 the detailed entries to be made on that date.

<u>President</u>	<u>F. R. Bank</u>	<u>Increase</u>	<u>Decrease</u>
Paddock	Boston	\$ -	\$20,380,000
Williams	Philadelphia	7,005,000	-
Fleming	Cleveland	77,311,000	-
Leach	Richmond	9,824,000	-
Mohr	Atlanta	74,748,000	-
Young	Chicago	-	101,042,000
Davis	St. Louis	-	6,811,000
Peyton	Minneapolis	6,013,000	-
Leedy	Kansas City	57,527,000	-
Gilbert	Dallas	55,722,000	-
Day	San Francisco	21,262,000	-

HOUSE

DECLASSIFIED
Authority E.O. 10501

MISC. 140A 109M-8-42

FEDERAL RESERVE BANK OF NEW YORK

REC'D IN RECORDS SECTION
APR 23 1968

December 1, 1943.

Dear Mr. Paddock:

In accordance with my telegram of yesterday, I enclose herewith computation of the readjustments to be made today in the participations of the Federal Reserve Banks in the System Open Market portfolio.

Yours faithfully,

Robert G. House, Manager,
System Open Market Account.

Mr. W. S. Paddock, President,
Federal Reserve Bank of Boston,
Boston, Mass.

Enc.

RMB:FD

Handwritten signature: R. G. House

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, DECEMBER 1, 1943.
(In thousands of dollars)

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Estimated current expenses, 1943	42,698	3,000	9,990	3,102	4,054	2,750	2,260	5,694	2,144	1,255	2,155	1,845	4,449
B. Estimated dividends, 1943	8,904	572	3,277	701	922	360	319	991	278	191	291	271	731
C. Estimated expenses and dividends, 1943	51,602	3,572	13,267	3,803	4,976	3,110	2,579	6,685	2,422	1,446	2,446	2,116	5,180
D. Earnings:													
1. Estimated current earnings, 1943, exclusive of earnings on System Account	11,121	218	6,716	553	207	165	91	1,621	629	85	267	54	515
2. Estimated earnings on System Account to November 30	52,624	4,175	10,855	4,216	5,725	3,503	2,854	6,632	2,331	1,692	2,666	2,409	5,566
3. Total	63,745	4,393	17,571	4,769	5,932	3,668	2,945	8,253	2,960	1,777	2,933	2,463	6,081
E. Excess of "D3" over "C"	12,143	821	4,304	966	956	558	366	1,568	538	331	487	347	901
F. Average daily participations, per cent, in System Account since June 30, 1936	100.0	7.4609	26.7938	8.1438	10.1147	5.7248	4.5256	11.7054	4.5640	3.0683	4.8537	4.0251	9.0199
G. Estimated earnings for year above expense and dividend requirements \$12,143,000 plus \$4,891,000, estimated earnings December on System Account at 1.01743% earnings rate) allocated on basis of "F"	17,034	1,271	4,564	1,387	1,723	975	771	1,994	777	523	827	686	1,536
H. "G" minus "E"	4,891	450	260	421	767	417	405	426	239	192	340	339	635
I. Allocation of System Account on basis of "H"	5,660,617	520,809	300,912	487,246	887,690	482,616	468,728	493,033	276,608	222,212	393,500	392,343	734,920
J. Present allocations	5,660,617	541,189	482,091	480,241	810,379	472,792	393,980	594,075	283,419	216,199	335,973	336,621	713,658
K. Change in allocations	-	-20,380	-181,179	+7,005	+77,311	+9,824	+74,748	-101,042	-6,811	+6,013	+57,527	+55,722	+21,262

NOTE: Basis of estimate--(A) Current expenses Jan.-Oct. times 1.2. (B) Dividends accrued Jan.-Oct. plus 1% of paid in capital Nov. 24. (D1) Earnings other than on Gov't securities Jan.-Oct. times 1.2, less estimate of Treasury share current net earnings on industrial loans and plus estimated earnings on Treasury bills--option account.

CONFIDENTIAL

RECORDS SECTION
APR 8 1968

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Authority E.O. 10501

RECEIVED SECTION
NOV 1 1943

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CK

(25)

November 30, 1943

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Mr. Rouse:

There is attached a statement showing
the changes in participations of Government secur-
ities in the System Open Market Account on Decem-
ber 1, 1943, prepared in accordance with the formula
adopted by the System Open Market Committee on
December 18, 1940.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Attachment

ES
ly
MTA

FILE COPY

NOV 1 1943

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, DECEMBER 1, 1943.
(In thousands of dollars)

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Estimated current expenses, 1943	42,698	3,000	9,990	3,102	4,054	2,750	2,260	5,694	2,144	1,255	2,155	1,845	4,449
B. Estimated dividends, 1943	8,904	572	3,277	701	982	360	319	991	278	191	291	271	731
C. Estimated expenses and dividends, 1943	51,602	3,572	13,267	3,803	4,976	3,110	2,579	6,685	2,422	1,446	2,446	2,116	5,180
D. Earnings:													
1. Estimated current earnings, 1943, exclusive of earnings on System Account	11,121	218	6,716	953	207	165	91	1,621	629	85	267	54	515
2. Estimated earnings on System Account to November 30	52,624	4,175	10,855	4,216	5,725	3,503	2,854	6,632	2,331	1,692	2,666	2,409	5,566
3. Total	63,745	4,393	17,571	4,769	5,932	3,668	2,945	8,253	2,960	1,777	2,933	2,463	6,081
E. Excess of "D" over "C"	12,143	821	4,304	966	956	558	366	1,568	538	331	487	347	901
F. Average daily participations, per cent, in System Account since June 30, 1936	100.0	7.1609	26.7938	8.1438	10.1167	5.7248	4.5256	11.7054	4.5640	3.0683	4.8537	4.0251	9.0199
G. Estimated earnings for year above expense and dividend requirements (\$12,143,000 plus \$4,891,000, estimated earnings December on System Account at 1.0174% earnings rate) allocated on basis of "F"	17,034	1,271	4,564	1,387	1,723	975	771	1,994	777	523	827	686	1,536
H. "G" minus "E"	4,891	450	260	421	767	417	405	426	239	192	340	339	635
I. Allocation of System Account on basis of "H"	5,660,617	520,809	300,912	487,246	887,690	482,616	468,728	493,033	276,608	222,212	393,500	392,343	734,980
J. Present allocations	5,660,617	541,189	482,091	480,241	810,379	472,792	393,980	594,075	283,419	216,199	335,973	336,621	713,658
K. Change in allocations	-	-20,380	-181,179	+7,005	+77,311	+9,824	+74,748	-101,042	-6,811	+6,013	+57,527	+55,722	+21,262

NOTE: Basis of estimate--(A) Current expenses Jan.-Oct. times 1.2. (B) Dividends accrued Jan.-Oct. plus 1% of paid in capital Nov. 24. (D) Earnings other than on Gov't securities Jan.-Oct. times 1.2, less estimate of Treasury share current net earnings on industrial loans and plus estimated earnings on Treasury bills--option account.

TELEGRAM
BOARD OF GOVERNORS
 OF THE
FEDERAL RESERVE SYSTEM
 LEASED WIRE SERVICE
 WASHINGTON

TELETYPE SECTION
 NOV 30 1943
 30

November 30, 1943.

Rouse - New York

This will confirm understanding in telephone conversation that adjustments of participations in System Account will be as follows, in thousands of dollars:

Increases:

Philadelphia	7,005
Cleveland	77,311
Richmond	9,824
Atlanta	74,748
Minneapolis	6,013
Kansas City	57,527
Dallas	55,722
San Francisco	21,262

Decreases:

Boston	20,380
New York	181,179
Chicago	101,042
St. Louis	6,811

Smead.

30
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FILE COPY

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Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

43 NOV 27 AM 9 27

REC'D IN FILES SECTION
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NOV 29 1943
333,343

HT

11/26/43

WA13G16WASH L85 SF 26-419

SMEAD BOARD

all FRBs

REURTEL DATE ESTIMATED EARNINGS FOR YEAR TO NOVEMBER 30
ON TREASURY BILLS HELD IN OWN PORTFOLIO \$342,000.

MANGELS.

FOR FILES
M. G. Daniels

DECLASSIFIED

Authority E.O. 10501

ELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

REC'D IN FILES SECTION
NOV 29 1943
333,343

1943 NOV 26 PM 4 04

WA15WASH B367 BOS 26-344P

SMEAD

Full 1362

RETEL NOVEMBER 26, ESTIMATED 1943 EARNINGS THROUGH NOVEMBER 30

ON TREASURY BILLS HELD BY THIS BANK UNDER REPURCHASE OPTION

\$154,149.64

PADDOCK.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

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NOV 29 1943
333.873

HA
1943 NOV 26 PM 5 25

WA44WASH B424 NY 26-509

SMEAD BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

ESTIMATED EARNINGS FOR YEAR TO NOVEMBER 30 ON TREASURY BILLS HELD
IN OWN PORTFOLIO \$5,601,452.15.

ROUSE.

FOR FILES
M. E. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

REC'D IN FILES SECTION

m
NOV 29 1943

111 223393
1943 NOV 26 PM 12 07

WA7OWASH C36 PHILA 26-12N

SMEAD

Philadelphia
REURTEL NOV 26. ESTIMATED EARNINGS YEAR TO NOVEMBER 30 ON
TREASURY BILLS HELD ARE \$367,134.66

DAVIS.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

REC'D IN FILES SECTION
net
NOV 29 1943
333 243
134 1943 NOV 26 PM 12 54

WA84G06WASH D 100 CLEV 26-1149

SMEAD

ESTIMATED EARNINGS FOR ONE YEAR ON TREASURY BILLS HELD IN OWN
PORTFOLIO TO NOVEMBER 30 IS \$97,000

SMITH.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

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NOV 29 1943
333-343
HL

WA94WASH RH 75

RICH 26-2

SMEAD

Wall St. Jb.
RETEL NOVEMBER 26. ESTIMATED EARNINGS FOR YEAR TO NOVEMBER
30 ON TREASURY BILLS IN OUR PORTFOLIO \$108,033

LEACH.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

343 NOV 26 PM 2 30

REC'D IN FILES SECTION

NOV 29 1943

HA

WA98WASH F99 ATLA 26-125P

SMEAD

11/26/43 to all FRBs

REURTEL. ESTIMATED EARNINGS FOR YEAR TO NOVEMBER 30 ON TREASURY
BILLS HELD IN OWN PORTFOLIO \$61,194.

MCLARIN.

FOR FILES
M. E. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

REC'D IN FILES SECTION
NOV 29 1943
233-43

WA10G6OWASH GX201 CGO 26-251

1943 NOV 26 PM 3 59

SMEAD BOARD

all FRB's

REYOURTEL TODAY. ESTIMATED EARNINGS FOR YEAR ENDING NOVEMBER 30
ON TREASURY BILLS HELD IN OWN PORTFOLIO ARE \$1,254,000.

LA
BACK.

MK SIG BLACK.

FOR FILE
M. E. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

REC'D IN FILES SECTION

NOV 29 1943

333.343

1943 NOV 26 PM 1 59

WB20G89WASH H77, STL 26-1243

SMEAD

ESTIMATED EARNINGS FOR ELEVEN MONTHS TO NOV 30 ON TREASURY BILLS
HELD IN OWN PORTFOLIO APPROXIMATELY \$525,000

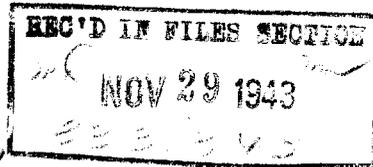
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FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.



1943 NOV 26 PM 12 44

WA76G94WASH 128 MPLS 26-1136

BOARD - SMEAD

ESTIMATED EARNINGS FOR YEAR TO NOV. 30 ON TREASURY BILLS
HELD IN OUR OWN PORTFOLIO IS \$59,600.

MILLS.



DECLASSIFIED

Authority E.O. 10501

D

E L E G R A M
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

REC'D IN FILES SECTION
mb
NOV 29 1943
333.373

1943 NOV 26 PM 1 32

WA91G55BD J79 KC 26-1221

SMEAD

11/26/43 & all T-Files

REPLYING WIRE ESTIMATED EARNINGS ON TREASURY BILLS HELD IN
OWN PORTFOLIO FOR YEAR TO NOVEMBER 30 \$85,403.96

PARK.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

REC'D IN FILES SECTION
ml NOV 29 1943
333 743

AK
1943 NOV 26 PM 12 44

WA75G88WASH M34 DLS 26-1135A

SMEAD

ESTIMATED EARNINGS FOR YEAR TO NOVEMBER 30 ON TREASURY BILLS HELD
IN OUR PORTFOLIO ARE \$33,592

GILBERT.

FOR FILES
M. D. Daniels

DECLASSIFIED

Authority E.O. 10501

INDEXED IN FILMS SECTION
NOV 26 1943
335.343

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

November 26, 1943.

Paddeek - Boston
Sproul - New York
Williams - Philadelphia
Fleming - Cleveland
Leach - Richmond
McLarin - Atlanta

Young - Chicago
Davis - St. Louis
Peyton - Minneapolis
Leedy - Kansas City
Gilbert - Dallas
Day - San Francisco

Please wire estimated earnings for year to November 30
on Treasury bills held in own portfolio.

Smead.

MD

EM

FILE COPY

NOV 26 1943

DECLASSIFIED

Authority E.O. 10501

*van ✓
D ✓*

Mrs. S

**FEDERAL RESERVE BANK
OF NEW YORK**

REC'D IN RECORDS SECTION
APR 23 1968
333,343

November 1, 1943. *ck*

Dear Mr. Smead:

We received your letter of October 30, 1943, and have today sent to the Reserve Banks a copy of the computation showing the adjustments to be made today in participations in the System Open Market Account, pursuant to the plan adopted at the meeting of the Federal Open Market Committee on December 18, 1940.

Enclosed herewith is a copy of the letter of transmittal, together with three copies of the computation, also copy of the telegram which was sent to each of the Federal Reserve Banks on October 29, 1943.

Yours faithfully,

Robert G. Rouse
Robert G. Rouse, Manager,
System Open Market Account.

Mr. E. L. Smead, Chief,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Enclosures (5)



Director #1

DECLASSIFIED

Authority E.O. 10501

MISC. 140A 109M-8-42

FEDERAL RESERVE BANK OF NEW YORK

REC'D IN RECORDS SECTION
APR 23 1968

November 1, 1943.

Dear Mr. Paddock:

In accordance with Mr. Rounds' telegram of October 29, 1943, I enclose herewith computation of the readjustments to be made today in the participations of the Federal Reserve Banks in the System Open Market portfolio.

Yours faithfully,

Robert G. Rouse, Manager,
System Open Market Account.

Mr. W. W. Paddock, President,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Enclosure.

MISC. 140A 109N-5-42

FEDERAL RESERVE BANK OF NEW YORK

SEC-RHB

REC'D IN RECORDS SECTION
APR 23 1968

October 29, 1943

PLEASE SEND THE FOLLOWING TELEGRAM TO PRESIDENT OF EACH FEDERAL RESERVE BANK AND USE THE FIGURES INDICATED BELOW:

In accordance with action of the Federal Open Market Committee at its meeting September 28, 1942, a readjustment of participations in Government securities held in the System Account is called for on November 1 under the plan for reallocation of Government securities adopted by the Federal Open Market Committee December 18, 1940.

The computations showing adjustments to be made in participations of the several Federal Reserve Banks on November 1, 1943 will be mailed to all Reserve Banks on November 1. These computations indicate an increase or decrease of _____ in your participation on November 1. We shall wire you on November 1 the detailed entries to be made on that date.

<u>President</u>	<u>F. R. Bank</u>	<u>Increase</u>	<u>Decrease</u>
Paddock	Boston	\$1,790,000	-
Williams	Philadelphia	-	\$10,991,000
Fleming	Cleveland	30,879,000	-
Leach	Richmond	15,639,000	-
McLarin	Atlanta	12,613,000	-
Young	Chicago	-	36,135,000
Davis	St. Louis	31,616,000	-
Peyton	Minneapolis	1,839,000	-
Leedy	Kansas City	-	22,018,000
Gilbert	Dallas	5,893,000	-
Day	San Francisco	-	349,000

BOUNDS

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, NOVEMBER 1, 1943
 (In thousands of dollars)

RECD IN RECORDS SECTION
 APR 23 1968

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
Expenses:													
Estimated current expenses, 1943	42,484	3,013	9,944	3,105	4,044	2,742	2,231	5,648	2,145	1,252	2,116	1,818	4,426
Estimated dividends, 1943	8,903	572	3,277	701	922	360	319	991	278	191	291	271	730
Estimated expenses and dividends, 1943	51,387	3,585	13,221	3,806	4,966	3,102	2,550	6,639	2,423	1,443	2,407	2,089	5,156
D. Earnings:													
1. Estimated current earnings, 1943, exclusive of earnings on System Account	10,892	195	6,664	559	226	143	106	1,496	621	80	267	57	478
2. Estimated earnings on System Account to October 31	48,074	3,731	10,542	3,828	5,057	3,112	2,527	6,160	2,101	1,515	2,392	2,131	4,978
3. Total	58,966	3,926	17,206	4,387	5,283	3,255	2,633	7,656	2,722	1,595	2,659	2,188	5,456
E. Excess of "D3" over "C"	7,579	341	3,985	581	317	153	83	1,017	299	152	252	99	300
F. Average daily participations, per cent, in System Account since June 30, 1936	100.0	7.4137	27.2050	8.1362	10.0202	5.6657	4.4709	11.7326	4.5540	3.0514	4.8293	3.9818	8.9392
Estimated earnings for year in excess of expense and dividend requirements (\$7,579,000 plus \$9,012,000 estimated earnings for November-December on System Account at 1.0875% earnings rate) allocated on basis of "F"	16,591	1,230	4,514	1,350	1,662	940	742	1,947	756	506	801	660	1,483
H. "G" minus "E"	9,012	889	529	769	1,345	787	659	930	457	354	549	561	1,183
I. Allocation of System Account on basis of "H"	4,958,413	489,128	291,059	423,106	740,018	433,008	362,584	511,688	251,441	194,772	302,062	308,661	650,886
J. Present allocations	4,958,413	487,338	321,835	434,097	709,139	417,369	349,971	547,823	219,825	192,933	324,080	302,768	651,235
K. Change in allocations	--	+1,790	-30,776	-10,991	+30,879	+15,639	+12,613	-36,135	+31,616	+1,839	-22,018	+5,893	-349

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Authority E.O. 10501

RECEIVED
OCT 31 1943

(25)

October 30, 1943

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Mr. Rouse:

There is attached a statement showing
the changes in participations of Government secur-
ities in the System Open Market Account on Novem-
ber 1, 1943, prepared in accordance with the formula
adopted by the System Open Market Committee on
December 18, 1940.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Attachment

Handwritten initials

Handwritten initials

FOR FILE
OCT 31 1943

FILE COPY

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, NOVEMBER 1, 1943
 (In thousands of dollars)

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Expenses:													
1. Estimated current expenses, 1943	42,484 /	3,013	9,944	3,105	4,014	2,742	2,231	5,648	2,115	1,252	2,116	1,818	4,486
B. Estimated dividends, 1943	8,903 /	572	3,277	701	922	360	319	991	278	191	291	271	730
C. Estimated expenses and dividends, 1943	51,387 /	3,585	13,221	3,806	4,966	3,102	2,550	6,639	2,423	1,443	2,407	2,089	5,156
D. Earnings:													
1. Estimated current earnings, 1943, exclusive of earnings on System Account	10,892 /	195	6,664	559	226	143	106	1,496	621	80	267	57	478
2. Estimated earnings on System Account to October 31	48,074 /	3,731	10,542	3,828	5,057	3,112	2,527	6,160	2,101	1,515	2,392	2,131	4,978
3. Total	58,966 X	3,926	17,206	4,387	5,283	3,255	2,633	7,656	2,722	1,595	2,659	2,188	5,456
E. Excess of "D" over "C"	7,579 /	341	3,985	581	317	153	83	1,017	299	152	252	99	300
F. Average daily participations, per cent, in System Account since June 30, 1936	100.0 /	74.137	27.2050	8.1362	10.0202	5.6657	4.4709	11.7326	4.5540	3.0514	4.8293	3.9818	8.9392
G. Estimated earnings for year in excess of expense and dividend requirements (\$7,579,000 plus \$9,012,000 estimated earnings for November-December on System Account at 1.0875% earnings rate) allocated on basis of "F"	16,591 /	1,230	4,514	1,350	1,662	940	742	1,947	756	506	801	660	1,483
H. "G" minus "E"	9,012 /	889	529	769	1,345	787	659	930	457	354	549	561	1,183
I. Allocation of System Account on basis of "H"	4,958,413 /	489,128	291,059	423,106	710,018	433,008	362,584	511,688	251,441	194,772	302,062	308,661	650,886
J. Present allocations	4,958,413 /	487,338	321,835	434,097	709,139	417,369	349,971	547,823	219,825	192,933	324,080	302,768	651,235
K. Change in allocations	-- /	+1,790	-30,776	-10,991	+30,879	+15,639	+12,613	-36,135	+31,616	+1,839	-22,018	+5,893	-349

FOR FILES
 M. B. Daniels

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, NOVEMBER 1, 1943
(In thousands of dollars)

DECLASSIFIED
Authority E.O. 10501

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Expenses:													
1. Estimated current expenses, 1943	42,484	3,013	9,944	3,105	4,014	2,742	2,231	5,648	2,145	1,252	2,116	1,818	4,426
B. Estimated dividends, 1943	8,903	572	3,277	701	922	360	319	991	278	191	291	271	730
C. Estimated expenses and dividends, 1943	51,387	3,585	13,221	3,806	4,966	3,102	2,550	6,639	2,423	1,443	2,407	2,089	5,156
D. Earnings:													
1. Estimated current earnings, 1943, exclusive of earnings on System Account	10,892	195	6,664	559	226	143	106	1,496	621	80	267	57	478
2. Estimated earnings on System Account to October 31	48,074	3,731	10,542	3,828	5,057	3,112	2,527	6,160	2,101	1,515	2,392	2,131	4,978
3. Total	58,966	3,926	17,206	4,387	5,283	3,255	2,633	7,656	2,722	1,595	2,659	2,188	5,456
E. Excess of "D3" over "C"	7,579	341	3,985	581	317	153	83	1,017	299	152	252	99	300
F. Average daily participations, per cent, in System Account since June 30, 1936	100.0	7.4137	27.2050	8.1362	10.0202	5.6657	4.4709	11.7326	4.5540	3.0514	4.8293	3.9818	8.9392
<i>Surplus & Conty. Reserve</i>	100.0	6.6	34.1	9.0	9.3	3.5	3.8	15.2	3.4	2.8	2.7	2.9	6.7
G. Estimated earnings for year in excess of expense and dividend requirements (\$7,579,000 plus \$9,012,000 estimated earnings for November-December on System Account at 1.08759% earnings rate) allocated on basis of "F"	16,591	1,230	4,514	1,350	1,662	940	742	1,947	756	506	801	660	1,487
H. "G" minus "E"	9,012	889	529	769	1,345	787	659	930	457	354	549	561	1,183
I. Allocation of System Account on basis of "H"	4,958,413	489,128	291,059	423,106	740,018	433,008	362,584	511,688	251,441	194,772	302,062	308,661	650,886
J. Present allocations	4,958,413	487,338	321,835	434,097	709,139	417,369	349,971	547,823	219,825	192,933	324,080	302,768	651,235
K. Change in allocations	--	+1,790	-30,776	-10,991	+30,879	+15,639	+12,613	-36,135	+31,616	+1,839	-22,018	+5,893	-349

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TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

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no. 2 OCT 30 1943
333.343

October 29, 1943

Rouse - New York

This will confirm understanding in telephone conversation that adjustments of participations in System Account will be as follows, in thousands of dollars:

Increases:

Boston	1,790
Cleveland	30,879
Richmond	15,639
Atlanta	12,613
St. Louis	31,616
Minneapolis	1,839
Dallas	5,893

Decreases:

New York	30,776
Philadelphia	10,991
Chicago	36,135
Kansas City	22,018
San Francisco	349

Smead

MD
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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

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OCT 30 1943
333,373

1943 OCT 26 PM 2 40

WA60WASH B227 BOS 26-230

SMEAD

BOARD

Full Paddock
RETEL OCTOBER 26, ESTIMATED 1943 EARNINGS THROUGH OCTOBER 31
ON TREASURY BILLS HELD BY THIS BANK UNDER REPURCHASE OPTION
\$113,390.28

PADDOCK.

FOR FILES
M. B. Daniels

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8

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

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SMEAD

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REURTEL OCTOBER 26. ESTIMATED EARNINGS YEAR TO OCTOBER 31
ON TREASURY BILLS HELD ARE \$293,538.91.

DAVIS.

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

WA48G43WASH D67 CLEVE 26-1151

SMEAD

ESTIMATED EARNINGS FOR YEAR TO OCTOBER 31 INCLUSIVE ON TREASURY
BILLS HELD IN OWN PORTFOLIO IS \$82,900.00

HAYS.

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of the
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Leased Wire Service
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OCT 30 1943
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WA41WASH RH 28 RICH 26-1210

SMEAD

10/26/43 Ball Fish

RETEL ESTIMATED EARNINGS FOR YEAR TO OCT 31 ON TREASURY BILLS

HELD IN OWN PORTFOLIO \$81,645

WALDEN.

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M. B. Daniels

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ELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

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SMEAD

10/26/43 Dall FRB

REURTEL. ESTIMATED EARNINGS FOR ~~YEAR~~ YEAR TO OCTOBER 31 ON
TREASURY BILLS HELD IN OWN PORTFOLIO \$53,661.00

MCLARIN.

FOR FILES
M. B. Daniels

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of the
Federal Reserve System
Leased Wire Service
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OCT 30 1943
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SMEAD BOARD

10/26/43 to all FRB's

RETEL ESTIMATED EARNINGS FOR YEAR TO OCTOBER 31 ON TREASURY BILLS
HELD IN OWN PORTFOLIO ARE \$1,019,647

BLACK.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

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OCT 30 1943
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SMEAD

10/26/43 call FRB St. Louis

REURTEL ESTIMATED EARNINGS FOR TEN MONTHS TO OCTOBER 31 ON
TREASURY BILLS HELD IN OWN PORTFOLIO APPROXIMATELY \$460,000.

HITT.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

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SMEAD

EARNINGS FOR YEAR TO OCTOBER 31 ON TREASURY BILLS HELD IN
OWN PORTFOLIO \$47,337.42

MPLS.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
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SMEAD

10/26/43 to all FRBS

REURTEL. ESTIMATED EARNINGS FOR YEAR TO OCTOBER 31 ON TREASURY

BILLS HELD IN OWN PORTFOLIO \$67,315.

LEEDY.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
OF THE
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

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SMEAD BOARD

all files

REURTEL DATE. ESTIMATED EARNINGS FOR YEAR TO OCT. 31 ON
TREASURY BILLS HELD IN OWN PORTFOLIO \$280,000

SLADE.

FOR FILES
M. E. Daniels

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Form F. R. 148 b

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

MAIL FILES SECTION
OCT 26 1943

October 26, 1943

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|--------------------------------|-----------------------------|
| Paddeck - Boston | Young - Chicago |
| Spreul - New York | Davis - St. Louis |
| Williams - Philadelphia | Peyton - Minneapolis |
| Fleming - Cleveland | Loedy - Kansas City |
| Leach - Richmond | Gilbert - Dallas |
| Melarin - Atlanta | Day - San Francisco |

Please wire estimated earnings for year to October 31
on Treasury bills held in own portfolio.

Smead

64

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FEDERAL RESERVE BANK
OF NEW YORK

October 6, 1943.

Mr. E. M. Smead, Chief,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Dear Ed:

In accordance with our recent telephone conversation,
I am enclosing a draft of a memorandum we prepared on the
allocation of securities in the System Open Market Account.

I shall appreciate your comments by telephone as
I feel this matter should be taken up at the next meetings
of the executive committee of the Federal Open Market Committee
and the full committee.

Faithfully yours,
Bob
Robert G. Rouse,
Vice President.

Enc.

FOR FILES
I. E. Smith



MISC. 140-B-50M-2-43

RECORDED AT ST. LOUIS, MISSOURI

OCT 14 1943

October 5, 1943

ALLOCATION OF SECURITIES IN SYSTEM OPEN MARKET ACCOUNT

The present plan for allocation of securities in the System Open Market Account was adopted with the approval of the Presidents of all Federal Reserve Banks and the Federal Open Market Committee at the meeting of the Federal Open Market Committee on December 18, 1940 and was made effective beginning with the allocation called for on January 1, 1941. This plan provides for the allocation of:

- (1) Sufficient securities to each Federal Reserve Bank to cover expenses not covered by accrued earnings on Government securities and estimated earnings from other sources,
- (2) A sufficient amount of additional securities to each bank to cover dividend requirements, and
- (3) Any remaining securities among the banks on the basis of average daily participations in the System Account since June 30, 1936.

The ratios of each Bank's average daily participation in the System Account since June 30, 1936, are also used for the distribution of profits and losses on sales of securities in the System Account.

At the time this plan was adopted, it was felt that it represented the nearest approach to an equitable distribution of risk and earnings in the account, and, in addition, would result in keeping the amount of quarterly and monthly adjustments to a minimum.

Estimated earnings from sources other than securities held in the System Account are included in the calculations made to determine each Bank's participation in the System Account. Up until recently these earnings from other sources have been relatively small and uniform so that they have had little effect on the periodical adjustments made in participations, and the plan of allocation worked well. However, in recent months the earnings from bills held in Option Accounts by a few banks have been large enough to cause a substantial reduction of their participations in the System Account in order that they would not receive more than their prorata share of System earnings. The October 1, 1943 reallocation involved a switch of

MISC. 140-B-86M-7-12

October 5, 1943

- 2 -

\$727,200,000 of securities and brought about a reduction of \$601,500,000 in the participation of the Federal Reserve Bank of New York.

While the present method of including earnings on Treasury bills held in Option Accounts is equitable from the standpoint of distributing total System earnings, it is not so from the point of view of having each Bank carry its share of the risk in the securities held in the System Account. The reason for this is that profits and losses on securities in the System Account are distributed among the Banks on percentages based on each Bank's daily holdings since June 30, 1936. Under current arrangement the percentage of some Banks may be materially reduced over a period of time if their earnings accruing on Treasury bills held in Option Accounts result in a decline in their participation in the System Account. Conversely, the percentage ratio of daily holdings will increase for those Banks whose earnings from Treasury bills held in Option Account are relatively small and result in an increased participation in the System Account. It is quite possible for a bank to obtain a major part of its earnings from Treasury bills held in Option Account on which no market risk is involved at a time when another bank whose earnings might come largely from its System Account participation in securities would be subject to a larger degree of market risk. At the present time, however, with the earning rate of the Account at 1.07 per cent, it takes about three times as many Treasury bills accruing at $\frac{3}{8}$ per cent to earn one dollar as it does a participation in the System Account and the purchase of large amounts of Treasury bills involves a problem of reserves; one Reserve Bank already having experienced a sharp decline in its reserve ratio. In effect, a reduction of a bank's participation in the System Account provides some measure of relief in regard to its

MISC. 140-B-30M-7-42

October 5, 1943.

- 3 -

reserve position but, aside from the question of equity, the adjustments made in the Account periodically are unlikely to prove adequate or satisfactory as far as reserve positions are concerned.

For the reasons set forth above, it would seem desirable to eliminate earnings in the Option Account from the quarterly and monthly reallocation of the securities in the System Account. Such a step would return the Account to its original status with earnings from securities purchased in the market allocated first to cover the expenses and dividends and the balance allotted on the basis of each Bank's daily holdings since June 30, 1936, a course which would distribute equitably the market risk and, under normal circumstances, eliminate large adjustments in the Account at the time of reallocations.

If this is done, however, it would be necessary to adopt some other plan of allocating the Treasury bills held in the Option Accounts and the earnings thereon. In giving consideration to this matter the limitation placed on banks by reserve requirements is of prime importance. Although it seems likely that for some time to come each Reserve Bank will be able to carry its share of the System Open Market Account, some Banks may not be able to carry all the Treasury bills that they may be called on to buy at the buying rate. Therefore, the most logical plan would appear to be one that would distribute such bills to the various Reserve Banks in a manner that would equalize or tend to equalize their reserve ratio. This would utilize the securities on which the rate of earnings is smallest and on which no market risk is involved to adjust reserve ratios, thus allocating the System holdings of such bills, and the earnings thereon, to each Bank according to its ability to carry the bills.

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MISC. 140-B-30M-7-42

October 5, 1943.

- 4 -

In carrying out such a plan, it appears desirable to arrange for Banks holding proportionately large amounts of bills to sell participations to other Banks, as outlined in the attached plan. It would be impracticable to form a pool account similar to the System Open Market Account because cash purchases and sales by individual Reserve Banks would require the establishment of a night force, keep telegraphic wires open until all reports had been received from the various Reserve Banks and checked, and necessitate entries on the books of the various Reserve Banks the following day as of the previous day.

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MISC. 140-B-50M-2-43

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**PLAN FOR EQUALIZING ONLY THE RESERVE RATIOS OF FEDERAL RESERVE BANKS
 BY PURCHASES AND SALES OF PARTICIPATIONS IN TREASURY BILLS HELD IN THE
 OPTION ACCOUNT OF INDIVIDUAL FEDERAL RESERVE BANKS**

DEC 1st 1943

This plan involves sales of participations in Treasury bills held in the Option Accounts of Federal Reserve Banks whose reserve ratio is under the average reserve ratio for the System to Federal Reserve Banks whose reserve ratios are above the average for the System. In operation, this procedure would be as follows:

- Under direction of the Federal Open Market Committee, the Federal Reserve Bank of New York would calculate the amount of Treasury bills that each Federal Reserve Bank must buy or sell in order to equalize the reserve ratios of all Federal Reserve Banks, based on the figures contained in the weekly statement as of the close of business each Wednesday, and advise each Federal Reserve Bank on Friday of the amount of participation it should buy from or sell to other Federal Reserve Banks. Sales of participations would be made for a week's duration at the discount rate of $\frac{3}{8}$ of 1 per cent per annum. For instance, if on a Friday the holdings of Treasury bills in the Option Accounts of the various Reserve Banks at the close of the statement week and their reserve ratios were as follows, the amount of the participation each Bank would sell or buy is as shown in Column 3 in the table below:

(Dollars in millions)

<u>Reserve Banks</u>	<u>Holdings in Option Accounts (Column 1)</u>	<u>Reserve ratio (Column 2)</u>	<u>Change in holding necessary to adjust reserve ratio to average (Column 3)</u>
Boston	\$ 36	69.9%	+ \$56
New York	3,026	50.4	-1,434
Philadelphia	202	66.8	- 4
Cleveland	64	71.4	+ 114
Richmond	24	77.1	+ 171
Atlanta	37	74.6	+ 105
Chicago	370	77.3	+ 535
St. Louis	198	65.8	- 14
Minneapolis	31	69.3	+ 16
Kansas City	14	78.5	+ 136
Dallas	7	71.6	+ 42
San Francisco	141	75.5	+ 277
Total	\$4,150	67.0%	+\$1,452

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MISC. 140-B-50M-2-43

- 2 -

The Federal Reserve Bank of New York, after working out the above, would advise each Reserve Bank the amount of participation it must buy or sell and the Bank or Banks from which it must buy or to which it must sell a participation.

2. The selling Bank would sell to the buying Bank, for credit through the Interdistrict Settlement Fund, the par value of the participation necessary at par less a $\frac{3}{8}$ per cent discount for seven days, which the Banks involved would confirm to each other by telegram. At the end of the period the selling Bank would automatically buy back the same amount of participation at par, which the Banks would confirm to each other by telegram. In this way, the buying Bank will receive at the end of the period an amount equal to the accrued discount on a like par amount of Treasury bills held for the same period. For example, if New York sold to Chicago a \$100,000,000 participation, it would charge Chicago \$99,992,708.33, and at the end of the seven days it would repurchase the participation and credit Chicago \$100,000,000.
3. This operation would be repeated each Friday. The Federal Reserve Bank of New York would make provision in the calculations for the amounts of the previous week's purchases and sales of participations in ascertaining the amounts to be purchased or sold for the next week.
4. Federal Reserve Banks could pledge as collateral to secure Federal Reserve notes the amounts of their participations in another Bank's Option Account. Each Federal Reserve Bank and Federal Reserve Agent would make provision for holding under joint control of the Bank and its Agent any participation sold to another Federal Reserve Bank and pledged by the latter's agent to secure its Federal Reserve notes in a manner similar to that followed by the Federal Reserve Bank of New York and its Agent in handling participations in the System Open Market Account pledged by the various Banks and agents to secure Federal Reserve notes.

MISC. 140-B-50M-2-43

- 3 -

Advantages of the Plan:

1. It eliminates the added expense of maintaining complicated detailed records such as would be involved in setting up a pool account in which Banks would participate, the work for which would have to be done at night after regular business hours due to purchases and sales for cash delivery at the buying rate.
2. It reduces the possibilities of errors to a minimum.
3. It permits each Reserve Bank to sell any issue of bills back to the original owner without any adjustment or special arrangement, so long as holdings in the Option Account are not reduced below the amount of participation sold. In the latter case, arrangements could be made for a Reserve Bank to buy back any part of its participation at any time in order to make good on the option privilege to the original seller.
4. The plan is flexible in operation. For instance, if a Bank's reserve ratio should become embarrassingly low between Friday dates, a special sale(s) of participation to another bank(s) could be arranged, the sale(s) to be made for a period until the following Friday when the weekly adjustments would correct the situation.

DECLASSIFIED
 Authority E.O. 10501

PLAN FOR EQUALIZING WEEKLY THE RESERVE RATIOS OF FEDERAL RESERVE BANKS
 BY PURCHASES AND SALES OF PARTICIPATIONS IN TREASURY BILLS HELD IN THE
 OPTION ACCOUNT OF INDIVIDUAL FEDERAL RESERVE BANKS

REC'D IN RECORDS SECTION
 APR 23 1968

This plan involves sales of participations in Treasury bills held in the Option Accounts of Federal Reserve Banks whose reserve ratios ^{are} ~~is~~ under the average reserve ratio for the System to Federal Reserve Banks whose reserve ratios are above the average for the System. In operation, this procedure would be as follows:

1. Under direction of the Federal Open Market Committee, the Federal Reserve Bank of New York would calculate the amount of Treasury bills that each Federal Reserve Bank must buy or sell in order to equalize the reserve ratios of all Federal Reserve Banks, based on the figures contained in the weekly statement as of the close of business each Wednesday, and advise each Federal Reserve Bank on Friday of the amount of participation it should buy from or sell to other Federal Reserve Banks. Sales of participations would be made for a week's duration at the discount rate of 3/8 of 1 per cent per annum. For instance, if on a Friday the holdings of Treasury bills in the Option Accounts of the various Reserve banks at the close of the statement week and their reserve ratios were as follows, the amount of the participation each bank would sell or buy is as shown in Column 3 in the table below:

(Dollars in Millions)

<u>Reserve Banks</u>	<u>Holdings in Option Accounts (Column 1)</u>	<u>Reserve ratio (Column 2)</u>	<u>Change in holding necessary to adjust reserve ratio to average (Column 3)</u>
Boston	\$ 36	69.9%	+ \$ 56
New York	3,026	50.4	- 1,434
Philadelphia	202	66.8	- 4
Cleveland	64	71.4	+ 114
Richmond	24	77.1	+ 171
Atlanta	37	74.6	+ 105
Chicago	370	77.3	+ 535
St. Louis	198	65.8	- 14
Minneapolis	31	69.3	+ 16
Kansas City	14	78.5	+ 136
Dallas	7	71.6	+ 42
San Francisco	<u>141</u>	<u>75.5</u>	<u>+ 277</u>
Total	<u>\$4,150</u>	<u>67.0%</u>	<u>+ \$1,452</u>

Director #1

REC'D IN RECORDS SECTION
 APR 23 1968

(Dollars in thousands)

	1	2	3	4	5	6				
	Allocation made January 1, 1943 to cover expenses and dividends and balance of securities on average holding ratios (Earnings on bills in option account excluded).	Net adjustments made to October 1, 1943 under present plan of including both actual and estimates of earnings on bills in option account.	Net adjustments that would have been made to October 1, 1943 if earnings on bills in option accounts actual & estimated had been excluded.	Net adjustments that would have been made to October 1, 1943 if actual earnings on bills in option accounts had been included and estimated earnings excluded (a).	Daily average holding ratio since June 30, 1936 and for distribution of profits & losses (October 1, 1943).	Earnings on bills in option accounts Jan. 1 - October 1, 1943				
	Par value	Holding ratios 1/2/43	Par value	Holding ratios 10/1/43	Par value	Holding ratios 10/1/43	Par value	Holding ratios 10/1/43		
Boston	412,909	7.3765%	+ 53,265	9.9801%	- 197,713	5.4634%	- 30,256	8.1920%	7.3635%	85
New York	1,499,782	26.7931	- 1,297,364	5.1898	+ 131,109	34.9190	- 671,497	17.7324	27.6349	3,791
Philadelphia	441,943	7.8955	- 31,210	8.7936	- 175,792	5.6983	- 81,018	7.7273	8.1233	218
Cleveland	530,801	9.4826	+ 149,798	14.5706	- 163,317	7.8673	+ 28,745	11.9791	9.9313	60
Richmond	338,409	6.0456	+ 62,841	8.5902	- 98,071	5.1453	- 1,086	7.2216	5.6086	65
Atlanta	250,321	4.4719	+ 86,958	7.2206	- 45,721	4.3802	+ 35,530	6.1196	4.4172	38
Chicago	688,057	12.2919	- 173,993	11.0054	- 130,909	11.9277	- 190,412	10.6539	11.7468	848
St. Louis	267,590	4.7804	- 60,860	4.4258	+ 1,484	5.7605	- 47,448	4.7139	4.5565	399
Minneapolis	164,037	2.9305	+ 20,176	3.9437	- 64,553	2.1298	- 12,766	3.2385	3.0340	37
Kansas City	266,139	4.7545	+ 44,165	6.6432	- 100,029	3.5562	- 14,712	5.3827	4.7939	49
Dallas	219,375	3.9191	+ 72,078	6.2396	- 54,297	3.5341	+ 23,255	5.2944	3.9378	20
Total	5,597,633	100%	+ 107,545	11.3974	- 68,792	9.6222	+ 35,064	11.8436	8.6522	236
Approximate adjustments excluding those due to reduction of total holdings in System Account (b)	-	-	+ 1,085,085	-	- 444,112	-	+ 507,972	-	-	-
Adjustments due to reduction of total holdings in System Account	-	-	- 926,601	-	- 926,601	-	- 926,601	-	-	-

NOTES: (a) By December 1, 1943, when the last adjustment is made for the current year, the adjustments in this column would be nearly as large as the adjustments in column 2, as actual earnings on bills would then be included for eleven months and estimated earnings for only one month left out.

(b) For purpose of this statement apportionment of \$926,601 reduction in System Account was made on ratios shown in column 5, which vary only slightly from actual ratios during period January 1 to October 1, 1943.

Federal Reserve Bank of New York
 Securities Department
 October 11, 1943

DECLASSIFIED
 Authority E.O. 10501

BOARD OF GOVERNORS
 OF THE
 FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 4, 1943.

To Mr. Smead

Subject: _____

From Mr. Baldwin

REC'D IN FILES SECTION

OCT 4 1943

333.373

The reallocation of Government securities in the System Open Market Account as of September 30 was reflected in the Interdistrict Settlement Fund on October 1 by very large transfers of funds between the Banks through the clearing and also between Banks and Agents and the 5 per cent redemption fund. This movement is shown below in thousands of dollars.

	Clearings		Agent		5 per cent redemption fund	
	Loss	Gain	To	From	To	From
Boston	82,243			120,000	6,000	
New York		623,389	600,000			40,000
Philadelphia	9,984					
Cleveland	149,024			200,000		
Richmond	86,745					
Atlanta	60,316			65,000	3,000	
Chicago		117,552				
St. Louis	46,085					
Minneapolis	22,548					
Kansas City	86,419					
Dallas	54,107			5,000		
San Fran.	143,470					
Total	740,941	740,941	600,000	390,000	9,000	40,000

E

FOR FILES

F. B. Smead

DECLASSIFIED
Authority E.O. 10501

Mr. Smead ✓
Mr. Van Fossen ✓
Mr. Daniels ✓
Mrs. Smith

FEDERAL RESERVE BANK
OF NEW YORK

REC'D IN RECORDS SECTION
APR 23 1968
333.3/3

October 1, 1943. CK

Dear Mr. Smead:

We received your letter of September 30, 1943, and have today sent to the Reserve Banks a copy of the computation showing the adjustments to be made today in participations in the System Open Market Account, pursuant to the plan adopted at the meeting of the Federal Open Market Committee on December 18, 1940.

Enclosed herewith is a copy of the letter of transmittal, together with three copies of the computation, also copy of the telegram which was sent to each of the Federal Reserve Banks on September 30, 1943.

Yours faithfully,

Robert G. Rouse
Robert G. Rouse, Manager,
System Open Market Account.

Mr. E. L. Smead, Chief,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Enclosures (5)



Directive #1

115C. 140A 109M-2-42

FEDERAL RESERVE BANK OF NEW YORK

REC'D IN RECORDS SECTION
APR 23 1968

DECLASSIFIED

Authority 10.10501

October 1, 1943.

Dear Mr. Paddock:

In accordance with my telegram of September 30, 1943, I enclose herewith computation of the readjustments to be made today in the participations of the Federal Reserve Banks in the System Open Market portfolio.

Yours faithfully,

COPY

Robert G. Rouse, Manager,
System Open Market Account.

Mr. W. W. Paddock, President,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Enclosure

RHB:ABM

SEC. 140A 100M-8-42

FEDERAL RESERVE BANK OF NEW YORK
 RECORDS DEPARTMENT
 RND:AMM

REC'D IN RECORDS SECTION
 APR 23 1968

September 30, 1943

Please send the following telegram to the President of each Federal Reserve Bank as indicated below:

Under the plan for reallocation of Government securities adopted by the Federal Open Market Committee December 18, 1940, a readjustment of participations in Government securities held in the System Account is called for October 1, 1943. The computations showing adjustments to be made in participations of the several Federal Reserve Banks will be mailed to all Reserve Banks on October 1. These computations indicate an increase of _____ in your participation on October 1. We shall wire decrease of _____ you on October 1, 1943 the detailed entries to be made on that date.

COPY

		<u>Increase</u>	<u>Decrease</u>
PARDOCK	BOSTON	\$90,538,000	—
WILLIAMS	PHILADELPHIA	24,690,000	—
FLEMING	CLEVELAND	136,912,000	—
LEACH	RICHMOND	98,490,000	—
McLAREN	ATLANTA	66,683,000	—
YOUNG	CHICAGO	—	\$125,700,000
DAVIS	ST. LOUIS	50,740,000	—
PEYTON	MINNEAPOLIS	26,134,000	—
LEEDY	KANSAS CITY	80,093,000	—
GILBERT	DALLAS	57,972,000	—
DAY	SAN FRANCISCO	94,948,000	—

HOUSE

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, OCTOBER 1, 1943
(In thousands of dollars)

RECORD IN RECORDS SECTION	APR 23 1968													
	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Mime- apolis	Kansas City	Dallas	San Francisco	
C. Expenses														
Estimated current expenses, 1943	42,074	2,972	9,877	3,067	3,968	2,704	2,191	5,587	2,104	1,243	2,124	1,802	4,435	
Estimated dividends, 1943	8,900	572	3,279	701	921	359	319	991	278	190	290	271	729	
1. Estimated expenses and dividends, 1943	50,974	3,544	13,156	3,768	4,889	3,063	2,510	6,578	2,382	1,433	2,414	2,073	5,164	
D. Earnings														
1. Estimated current earnings, 1943 (exclusive of earnings on System Account)	10,555	157	6,608	505	204	131	86	1,380	641	74	235	51	483	
2. Estimated earnings on System Account to September 30	43,655	3,294	10,284	3,441	4,419	2,736	2,212	5,672	1,905	1,342	2,100	1,858	4,392	
3. Total	54,210	3,451	16,892	3,946	4,623	2,867	2,298	7,052	2,546	1,416	2,335	1,909	4,875	
E. Excess of "C" over "D3"	-3,236	93	-3,736	-178	266	196	212	-474	-164	17	79	164	289	
F. Allocation required (on basis of 1.07538% earnings rate on System Account) to produce earnings October-December equal to "E"	-1,193,876	34,311	-1,378,343	-65,671	98,137	72,311	78,214	-174,875	-60,505	6,272	29,146	60,505	106,622	
G. Average daily participations, per cent, in System Account since June 30, 1936	100.0	7.3635	27.6349	8.1233	9.9313	5.6086	4.4172	11.7468	4.5565	3.0340	4.7939	3.9378	8.8522	
H. Allocation on basis of "G" (\$4,671,032,000 plus \$1,193,876,000)	5,864,908	431,863	1,620,761	476,424	582,462	328,939	259,065	688,939	267,235	177,941	281,158	230,948	519,173	
I. Total allocations of System Account	4,671,032	466,174	242,418	410,753	680,599	401,250	337,279	514,064	206,730	184,213	310,304	291,453	625,795	
J. Present Allocations	4,671,032	375,636	843,918	386,063	543,687	302,760	270,596	639,764	155,990	158,079	230,211	233,481	530,847	
K. Change in allocations	-	+90,538	-601,500	+24,690	+136,912	+98,490	+66,683	-125,700	+ 50,740	+26,134	+80,093	+57,972	+94,948	

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 Authority E.O. 10501

RECEIVED TELETYPE SECTION
 OCT 1 1943

TELEGRAM
BOARD OF GOVERNORS
 OF THE
FEDERAL RESERVE SYSTEM
 LEASED WIRE SERVICE
 WASHINGTON

September 30, 1943.

Rouse - New York

This will confirm understanding in telephone conversation that adjustments of participations in System Account will be as follows, in thousands of dollars:

Increases:

Boston	90,538
Philadelphia	24,690
Cleveland	136,912
Richmond	98,490
Atlanta	66,683
St. Louis	50,740
Minneapolis	26,134
Kansas City	80,093
Dallas	57,972
San Francisco	94,948

Decreases:

New York	601,500
Chicago	125,700


 Smead

FILE COPY

FEDERAL RESERVE BANK OF ST. LOUIS
 RECEIVED

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PLACED IN FILES SECTION
87m OCT 1 1943 7m
333,343

25

PC

BA

September 30, 1943.

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Mr. Rouse:

The enclosed statement, prepared in accordance with the formula adopted by the Open Market Committee on December 18, 1940, shows the changes necessary in allocations of Government securities in the System Open Market Account on October 1, 1943.

Current expenses have been estimated by multiplying the actual amounts for the period January through August by 1.5. The estimates of current earnings, exclusive of earnings on the System Account, were obtained by multiplying the actual amounts of current earnings other than earnings on Treasury bills for the period January through August by 1.5, deducting therefrom estimated net earnings on industrial advances and commitments attributable to funds received from the U. S. Treasury, and adding thereto estimated earnings on Treasury bills in the Banks' own portfolios. Such earnings on Treasury bills were based on estimates to September 30, obtained from the Federal Reserve Banks, plus the amounts for the last three months of this period.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

51
MD:mnmm

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FOR FILES
J. B. Smith

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, OCTOBER 1, 1943
(In thousands of dollars)

DECLASSIFIED
Authority E.O. 10501

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Expenses													
1. Estimated current expenses, 1943	42,074	2,972	9,877	3,067	3,968	2,704	2,191	5,587	2,104	1,243	2,124	1,802	4,435
B. Estimated dividends, 1943	8,900	572	3,279	701	921	359	519	991	278	190	290	271	729
C. Estimated expenses and dividends, 1943	50,974	3,544	13,156	3,768	4,889	3,063	2,510	6,578	2,382	1,433	2,414	2,073	5,164
D. Earnings													
1. Estimated current earnings, 1943 (exclusive of earnings on System Account)	10,533	157	6,608	505	204	131	86	1,380	641	74	235	51	483
2. Estimated earnings on System Account to September 30	43,655	3,294	10,284	3,441	4,419	2,736	2,212	5,672	1,905	1,342	2,100	1,858	4,392
3. Total	54,210	3,451	16,892	3,946	4,623	2,867	2,298	7,052	2,546	1,416	2,335	1,909	4,875
E. Excess of "C" over "D3"	-3,236	93	-3,736	-178	266	196	212	-474	-164	17	79	164	289
F. Allocation required (on basis of 1.07538% earnings rate on System Account) to produce earnings October-December equal to "E"	-1,193,876	34,311	-1,378,343	-65,671	98,137	72,311	78,214	-174,875	-60,505	6,272	29,146	60,505	106,622
G. Average daily participations, per cent, in System Account since June 30, 1936	100.0	7.3635	27.6349	8.1233	9.9313	5.6086	4.4172	11.7468	4.5565	3.0340	4.7939	3.9378	8.8522
H. Allocation on basis of "G" (\$4,671,032,000 plus \$1,193,876,000)	5,864,908	431,863	1,620,761	476,424	582,462	328,939	259,065	688,939	267,235	177,941	281,158	230,948	319,173
I. Total allocations of System Account	4,671,032	466,174	242,418	410,753	680,599	401,250	337,279	514,064	206,730	184,213	310,304	291,453	625,795
J. Present Allocations	4,671,032	375,636	843,918	386,063	543,687	302,760	270,596	639,764	155,990	158,079	230,211	233,481	530,247
K. Change in allocations	-	+90,538	-601,500	+24,690	+136,912	+98,490	+66,683	-125,700	+50,740	+26,134	+80,093	+57,972	+94,548

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OCT 1 1943
RECORDS SECTION

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

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OCT 1 1943
322 578

1943 SEP 29 PM 6 26

WB13WASH B406 BOS 29-608 P

SMEAD

ANSWERING RETEL TODAY. OUR WIRE OF SEPTEMBER 28, 1943,
RE: ESTIMATED EARNINGS THROUGH SEPTEMBER 30, 1943 ON
TREASURY BILLS HELD UNDER REPURCHASE OPTION BY THIS BANK
INADVERTENTLY REPORTED AS \$24,330.15 SHOULD READ
\$84,562.27

PADDOCK.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

1943 SEP 29 PM 1 54

REC'D IN FILES SECTION
OCT 1 1943
233 343

WA59WASH B186 NY 29-149P

SMEAD

To all FRCBs

REFER YOUR WIRE SEP 28, 1943) ESTIMATED EARNINGS FOR
YEAR TO SEPT 30 ON TREASURY BILLS HELD UNDER REPURCHASE
OPTION \$3,791,000.00

SPROUL.

FOR FILES
M. B. Daniels

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Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

94 SEP 29 AM 11 30

REC'D IN FILES SECTION
OCT 1 1943
353 243

WB02WASH RH 38 RICH 29-1130

SMEAD

9/28/43 to all banks

RETEL ESTIMATED EARNINGS FOR YEAR THROUGH SEPTEMBER 30 ON
TREASURY BILLS HELD THIS BANK'S PORTFOLIO \$65,265

WALDEN.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

J

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

REC'D IN FILES SECTION
21 OCT 1 1943
333-343

1943 SEP 29 PM 12 48

WB04G5OWASH H80 STL 29-1126

SMEAD

Full FRBles
RETEL ~~YESTERDAY~~ YESTERDAY. ESTIMATED EARNINGS FOR 9 MONTHS TO
SEPTEMBER 30 ON TREASURY BILLS HELD IN OWN PORTFOLIO APPROXIMATELY
\$399,000.

HITT.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

TELEGRAM
Board of Governors
or the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

43 SEP 29 PM 2 53

REC'D IN FILES SECTION
OCT 1 1943
333 413

WA67G59WASH 141 MPLS 29-149

SMEAD

EARNINGS FOR YEAR TO SEPTEMBER 30 ON TREASURY BILLS HELD IN

OWN PORTFOLIO \$36920.63

MILLS.

FOR FILES
M. B. Daniels

DECLASSIFIED
Authority E.O. 10501

Form F. R. 148 b

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

FOR FILES SECTION
OUT 1 1943

September 29, 1943

Ref

Paddock - Boston

Retel yesterday. Estimate for 1943 earnings through September on Treasury bills held under repurchase option of \$24,330.15 is lower than \$34,020 through June 30, given in your wire of June 28. Please advise.

For FRB Bank

Smead

by

See wire 9/29/43

MD
MB/CR

FILE COPY

FOR FILES
M. B. Daniels
10-4573 e r o

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Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

SEP 28 PM 5 32
RECORDED IN FILES SECTION
OCT 1 1943
333.343

WA98WASH B361 BOS 28-512

SMEAD BOARD

to all Bks
RETEL SEPTEMBER 28, ESTIMATED 1943 EARNINGS THROUGH SEPTEMBER
30 ON TREASURY BILLS HELD BY THIS BANK UNDER REPURCHASE OPTION
\$24,330.15

PADDOCK.

FOR FILES
M. B. Daniels

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Authority 10.10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

1943 SEP 28 PM 5 06

REC'D IN FILES SECTION

OCT 1 1943

WA83WASH C84 PHILA SEP 28-455P

SMEAD

Ball Bks
REWIRE MR WILLIAMS TODAY. ESTIMATED EARNINGS FOR YEAR TO
SEPTEMBER 30 ⁰ IN TREASURY BILLS HELD OWN PORTFOLIO \$217,682.24.

DAVIS.

FOR FILES
M. B. Daniels

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Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

REC'D IN FILES SECTION
nd OCT 1 1943
323 373

~~SEP~~ SEP 28 PM 5 56

WA08G00WASH D 167 CLEV 28-450

SMEAD

ESTIMATED EARNINGS FOR YEAR TO SEPTEMBER 30 INCLUSIVE ON TREASURY
BILLS HELD IN OWN PORTFOLIO \$59,725.

HAYS.

FOR FILES
M. B. Daniels

DECLASSIFIED
Authority 10.10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

REC'D IN FILES SECTION
OCT 1 1943
333,343

1943 SEP 28 PM 5 22

WA92WASH F143 ATLA 28-410PM

SMEAD

9/28/43 Hall FRBks

REUTEL ESTIMATED EARNINGS FOR YEAR TO SEPTEMBER 30 ON TREASURY BILLS

HELD IN OWN PORTFOLIO \$38,421

MCLARIN.

FOR FILES
M. B. Daniels

DECLASSIFIED
Authority 10.10501

TELEGRAM
BOARD OF GOVERNORS
OF THE
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

REC'D IN FILES SECTION
mk OCT 1 1943
333-373

W 1943 SEP 28 PM 5 51 *PC*

WA07G94WASH GX235 CGO 28-423

SMEAD

BOARD

to all FRS

REYOURTEL TODAY ESTIMATED EARNINGS FOR YEAR TO SEPTEMBER 30 ON

TREASURY BILLS IN OWN PORTFOLIO IS \$848,000

BLACK.

FOR FILES
M. B. Daniels

DECLASSIFIED
Authority 1.0.10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

1943 SEP 22 PM 5 44

REC'D IN FILES SECTION
OCT 1 1943
233-242

WA06G83BD WASH J167 KC 28-433

SMEAD *9/28/43 to call FRBles*

REURTEL. ESTIMATED EARNINGS FOR YEAR TO SEPTEMBER 30 ON TREASURY

BILLS HELD IN OWN PORTFOLIO \$49,450

KOPPANG.

FOR FILES
M. B. Daniels

DECLASSIFIED
Authority 10.10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

REC'D IN FILES SECTION
ind
OCT 1 1943
333-343

1943 SEP 28 PM 6 05

WA15G13WASH M 109 DLS SEPT 28-43-456PM

SMEAD

ESTIMATED EARNINGS FOR YEAR TO SEPTEMBER 30 ON
TREASURY BILLS HELD IN OUR PORTFOLIO ARE

\$19,641.80

GILBERT

FOR FILES
M. B. Daniels

See wire 9/28/43 to all FCBs

DECLASSIFIED
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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

1943 SEP 28 PM 6 24

REC'D IN FILES SECTION
OCT 1 1943
333.343

WB08G34WASH L85 SF 28-303 -43

SMEAD-BOARD

to all R.R. files

REURTEL DATE ESTIMATED EARNINGS FOR YEAR TO SEPTEMBER 30 ON
TREASURY BILLS HELD IN OWN PORTFOLIO \$236,000

SLADE.

FOR FILES
M. B. Daniels

DECLASSIFIED
Authority E.O. 10501

Form F. R. 148 b

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

RF' JIM FILES SECTION
SEP 29 1943
333.343

September 28, 1943

Paddock - Boston
Spraul - New York
Williams - Philadelphia
Fleming - Cleveland
Leach - Richmond
McLarin - Atlanta

Young - Chicago
Davis - St. Louis
Peyton - Minneapolis
Leedy - Kansas City
Gilbert - Dallas
Day - San Francisco

Please wire estimated earnings for year to September 30
on Treasury bills held in own portfolio.

Send

Handwritten initials/signature

FILE COPY

FOR FILES
J. E. Smith

DECLASSIFIED
Authority E.O. 10501

*Van
By
Mrs. S*

REC'D IN RECORDS SECTION
APR 19 1968
333,343

FEDERAL RESERVE BANK
OF NEW YORK

July 1, 1943.

Dear Mr. Smead:

We received your letter of June 30, 1943 (and have today sent to the Reserve banks a copy of the computation showing the adjustments to be made today in participations in the System Open Market Account, pursuant to the plan adopted at the meeting of the Federal Open Market Committee on December 18, 1940.

Enclosed herewith is a copy of the letter of transmittal together with three copies of the computation, also copy of the telegram which was sent to each of the Federal Reserve banks on June 30, 1943.

Yours faithfully,

Robert G. Rouse
Robert G. Rouse,
Manager, System Open
Market Account.

Mr. E. L. Smead, Chief,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System, Washington, D.C.

Encls. (5)



Directive #1

DECLASSIFIED
 Authority E.O. 10501

MISC. 140A 109M-5-42

FEDERAL RESERVE BANK OF NEW YORK

SECURITIES DEPT. RHB:FO'N

June 30, 1943

Please send the following telegram to each Federal Reserve Bank as indicated below:

Under the plan for reallocation of Government securities adopted by the Federal Open Market Committee December 18, 1940, a readjustment of participations in Government securities held in the System Account is called for July 1, 1943. The computations showing adjustments to be made in participations of the several Federal Reserve Banks will be mailed to all Reserve banks on July 1. These computations indicate an ^{increase} decrease of _____ in your participation on July 1. We shall wire you on July 1, 1943 the detailed entries to be made on that date.

		<u>Increase</u>	<u>Decrease</u>
PADDOCK	BOSTON	\$34,155,000	-
WILLIAMS	PHILADELPHIA	34,222,000	-
FLEMING	CLEVELAND	96,181,000	-
LEACH	RICHMOND	8,995,000	-
McLAREN	ATLANTA	30,340,000	-
YOUNG	CHICAGO	25,178,000	-
HITT	ST. LOUIS	-	66,543,000
BEYTON	MINNEAPOLIS	18,718,000	-
LEEDY	KANSAS CITY	7,002,000	-
GILBERT	DALLAS	47,083,000	-
DAY	SAN FRANCISCO	73,001,000	-

ROUSE

DECLASSIFIED
Authority E.O. 10501

MISC. 140A 109M-5-42

FEDERAL RESERVE BANK OF NEW YORK



July 1, 1943.

Dear Mr. Fleming:

In accordance with my telegram of June 30, 1943, I enclose herewith computation of the readjustments to be made today in the participations of the Federal Reserve banks in the System Open Market portfolio.

Yours faithfully,

Robert G. Rouse,
Manager, System Open
Market Account.

Mr. M. J. Fleming, President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Enc.

RHB:FD

CONFIDENTIAL

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JULY 1, 1943
(In thousands of dollars)

DECLASSIFIED
Authority E.O. 10501

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
RECORD IN RECORDS SECTION													
APR 19 1968													
Expenses													
A. Estimated current expenses, 1943	41,183	2,889	9,380	3,007	3,835	2,587	2,127	5,884	2,055	1,227	2,052	1,751	4,389
B. Estimated dividends, 1943	8,872	572	3,263	701	920	357	317	988	277	190	288	270	729
C. Estimated expenses and dividends, 1943	50,055	3,461	12,643	3,708	4,755	2,944	2,444	6,872	2,332	1,417	2,340	2,021	5,118
D. Earnings													
1. Estimated current earnings, 1943 (exclusive of earnings on System Account.)	6,750	97	3,806	276	130	104	53	966	614	36	238	27	403
2. Estimated earnings on System Account to June 30	31,499	2,313	8,137	2,435	2,995	1,944	1,501	3,997	1,506	929	1,500	1,245	2,997
3. Total	38,249	2,410	11,943	2,711	3,125	2,048	1,554	4,963	2,120	965	1,738	1,272	3,400
E. Excess of "C" over "D3"	11,806	1,051	700	997	1,630	896	890	1,909	212	452	602	749	1,718
F. Allocation required (on basis of 1.10039% earnings rate on Gov'ts.) to produce earnings July-December equal to "E"	2,128,292	189,466	126,190	179,731	293,844	161,524	160,442	344,139	38,218	81,483	108,524	135,024	309,707
G. Average daily participations, per cent, in System Account since June 30, 1936	100.0	7.3216	28.2265	8.1146	9.8257	5.5546	4.3321	11.6262	4.6317	3.0124	4.7856	3.8722	8.6968
H. Allocation of remainder of System holdings (\$4,392,455,000 less \$2,128,292,000) on basis of "G"	2,264,163	165,773	639,094	183,728	222,470	125,765	98,086	263,236	104,869	68,205	108,354	87,673	196,910
I. Total allocations of Gov't securities in System Account	4,392,455	355,239	765,284	363,159	516,314	287,289	258,528	607,375	143,087	149,688	216,878	222,697	506,617
J. Present allocations	4,392,455	320,084	1,074,611	329,237	420,133	278,294	228,183	582,197	209,635	130,970	209,976	175,614	433,616
K. Change in allocations	--	+35,155	-309,327	+34,222	+96,181	+8,995	+30,340	+25,178	-66,548	+18,718	+7,002	+47,083	+73,001

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DECLASSIFIED
Authority E.O. 10501

REC IN FILES SECTION
JUL 1 1943
333-372

(25)

June 30, 1943

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York, N. Y.

Dear Mr. Rouse:

There is enclosed statement prepared in accordance with the formula adopted by the Federal Open Market Committee on December 18, 1940, showing the changes necessary in allocations of Government securities in the System Open Market Account on July 1, 1943.

Current expenses have been estimated by multiplying the actual amounts thereof for the period January through May by 2.4.

The estimates of current earnings were obtained by multiplying the actual amounts thereof, exclusive of earnings on Government securities, for the period January through May by 2.4, adding thereto four times estimated earnings April through June on Treasury Bills held in own account, and deducting therefrom estimated net earnings on industrial advances and commitments attributable to funds received from the U. S. Treasury.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

Handwritten initials and signatures

FILE COPY

Handwritten stamp or initials

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JULY 1, 1943
(In thousands of dollars)

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Expenses													
1. Estimated current expenses, 1943	41,183	2,889	9,380	3,007	3,835	2,587	2,127	5,884	2,055	1,227	2,052	1,751	4,389
2. Estimated dividends, 1943	8,872	572	3,263	701	920	357	317	988	277	190	288	270	729
C. Estimated expenses and dividends, 1943	50,055	3,461	12,643	3,708	4,755	2,944	2,444	6,872	2,332	1,417	2,340	2,021	5,118
D. Earnings													
1. Estimated current earnings, 1943 (exclusive of earnings on System Account.)	6,750	97	3,806	276	130	104	53	966	614	36	238	27	403
2. Estimated earnings on System Account to June 30	31,499	2,313	8,137	2,435	2,995	1,944	1,501	3,997	1,506	929	1,500	1,245	2,997
3. Total	38,249	2,410	11,943	2,711	3,125	2,048	1,554	4,963	2,120	965	1,738	1,272	3,400
E. Excess of "C" over "D3"	11,806	1,051	700	997	1,630	896	890	1,909	212	452	602	749	1,718
F. Allocation required (on basis of 1.10039% earnings rate on Gov'ts.) to produce earnings July-December equal to "E"	2,128,292	189,466	126,190	179,731	293,844	161,524	160,442	344,139	38,218	81,463	108,524	135,024	309,707
Average daily participations, per cent, in System Account since June 30, 1936	100.0	7.3216	28.2265	8.1146	9.8257	5.5546	4.3321	11.6262	4.6317	3.0124	4.7856	3.8722	8.6968
H. Allocation of remainder of System holdings (\$4,392,455,000 less \$2,128,292,000) on basis of "G"	2,264,163	165,773	639,094	183,728	222,470	125,765	98,086	263,236	104,869	68,205	108,354	87,673	196,910
I. Total allocations of Gov't securities in System Account	4,392,455	355,239	765,284	363,459	516,314	287,289	258,528	607,375	143,087	149,688	216,878	222,697	506,617
J. Present allocations	4,392,455	320,084	1,074,611	329,237	420,133	278,294	228,188	582,197	209,635	130,970	209,876	175,614	433,616
K. Change in allocations	--	+35,155	-309,327	+34,222	+96,181	+8,995	+30,340	+25,178	-66,548	+18,718	+7,002	+47,083	+73,001

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 Authority E.O. 10501

Form F. R. 148 b

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

RECEIVED IN FILES SECTION
 JUL 1 1943

June 30, 1943

Reuse - New York

This will confirm understanding in telephone conversation that adjustments of participations in System Account will be as follows, in thousands of dollars:

Increases:

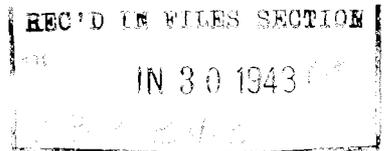
Boston	35,155
Philadelphia	34,222
Cleveland	96,181
Richmond	8,995
Atlanta	30,340
Chicago	25,178
Minneapolis	18,718
Kansas City	7,002
Dallas	47,083
San Francisco	73,001

Decreases:

New York	309,327
St. Louis	66,548

Smead.

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Authority E.O. 10501

June 29, 1943.

Mr. Smead

Mr. Van Poyssen

Mr. Harris phoned me the suggestion that in the forthcoming reallocation of the System Account estimated earnings on bills held under option for the year be estimated instead of using actual earnings to the reallocation date, as heretofore. Since the plan was adopted, effective May 17 I believe, of treating all bills bought by the other 11 Federal Reserve Banks and those bought by the Federal Reserve Bank of New York as a result of offers to the Federal Reserve Bank, as bills bought under option, the holdings of bills under option and earnings therefrom have very substantially increased. Earnings from this source to June 30 will be a trifle over \$2,000,000 and it is likely that during the last half of the year they will amount to not less than \$3,000,000. The purchase of bills under option is, of course, essentially the same as discounting a member bank's collateral note. If collateral notes were taken, however, we would estimate earnings for the year on the basis of average earnings during the preceding five months in accordance with the formula in use. Under the circumstances, and particularly in view of the fact that the System Account alone no longer is at a level that will produce earnings equal to estimated expenses and dividends, it is believed that the suggestion made by New York should be adopted. If it is not adopted, in all likelihood on the January 1 reallocation the statement given to the Federal Reserve Banks in connection with the reallocation will show estimated earnings insufficient to cover expenses and dividends, although there will be every reason to believe that earnings from bills held under option will amount to \$6,000,000 or \$7,000,000 and will cover the deficiency with a good deal to spare.

There is a little problem involved in making the estimate of future earnings from this source in that earnings for past months are presumably substantially below the level that may be expected in the future. For this reason, Mr. House suggested that earnings during the last six months be estimated on the basis of present holdings, i.e., holdings for a single day. I am inclined to believe it would be preferable to use earnings for the month of June as the base and thereafter, beginning with the October 1 reallocation, to use the regular formula based on the five preceding months. It is recommended that this program be adopted effective with the July 1 reallocation. The only change in the statement that is involved is the substitution of the words "System Account" for "Governments" in two places in the stub.

4) VF:mnm

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Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

REC'D IN FILES SECTION
TW JUN 30 1943
1943 JUN 28 PM 5 51 AM

WA11WASH B392 NY 28-516P

SMEAD

ESTIMATED EARNINGS FOR YEAR TO JUNE 30 ON TREAS BILLS HELD
IN OUR OWN PORTFOLIO \$1,161,501.91

ROUSE.

FOR FILES
M. A. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

1943 JUN 28 PM 3 28

REC'D IN FILES SECTION

JUN 30 1943

WA7OWASH C77 PHILA 28-323P

SMEAD

ESTIMATED EARNINGS FOR YEAR TO JUNE 30 IN TREASURY BILLS HELD
IN OUR PORTFOLIO \$46,001.65.

DAVIS.

FOR FILES
M. B. Daniels

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Authority E.O. 10501

nl

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

REC'D IN FILES SECTION
FW JUN 30 1943 *Bot*
2 333 2-5
1943 JUN 28 PM 5 25 *HA*

WA02G61WASH D174 CLEVE 28-514

SMEAD

6/28/43 to all FRB

REPLY WIRE, RESTIMATED EARNINGS FOR THE YEAR TO JUNE 30 ON TREASURY

BILLS HELD IN OWN PORTFOLIO IS \$13,450

SMITH.

FOR FILES
M. B. Daniels

DECLASSIFIED
Authority 10.10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

1943 JUN 28 PM 5 05

REC'D IN FILES SECTION
JUN 30 1943
BN

WB11PNDG RH 105 RICH 28-504

SMEAD

ESTIMATED EARNINGS FOR YEAR TO JUNE 30 ON TREASURY BILLS
HELD IN OWN PORTFOLIO \$27,600

WALDEN.

FOR FILES
M. B. Daniels

DECLASSIFIED
Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

WA91WASH F143-23 ATLA 28-357

SMEAD

ESTIMATED EARNINGS FOR YEAR TO JUNE 30 ON TREASURY BILLS HELD IN OWN
PORTFOLIO (INCLUDING NEWORLEANS BRANCH) \$11,434.77

CLARK.

ESTIMATED.

REC'D IN FILES SECTION
JUN 30 1943
333,943

1943 JUN 28 PM 5 06

FOR FILES
M. B. Daniels

DECLASSIFIED
Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

REC'D IN FILES SECTION
TW
JUN 30 1943
3 2 2 43
1943 JUN 28 PM 5 08

WA93G32WASH GX196 CGO 28-340

SMEAD BOARD

20 all FRB

RE YOUR WIRE ESTIMATED EARNINGS TO JUNE 30 ON TREASURY

BILLS HELD IN OWN PORTFOLIO 450,000.00

BLACK.

FOR FILES
M. E. Daniels

DECLASSIFIED
Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

REC'D IN FILES SECTION
M
JUN 30 1943
333.323
1943 JUN 28 PM 6 09
H14

WA25G99WASH H172 STL 28-400

SMEAD

To all HLB's

RETEL TODAY ESTIMATED EARNINGS FOR YEAR TO JUNE 30 ON TREASURY

BILLS HELD IN OWN PORTFOLIO APPROXIMATELY \$191,000.00

GILMORE.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority 10.10501

R

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

REC'D IN FILES SECTION
JUN 30 1943 BT

1943 JUN 28 PM 5 18

WA96G5OWASH 148 MPLS 28-355

SMEAD

ESTIMATED EARNINGS JUNE 30 TREASURY BILLS HELD FOR OWN ACCOUNT

11,600.

ZIEMER

FOR OWN ACCOUNT.

FOR FILES
M. B. Daniels

DECLASSIFIED
Authority E.O. 10501

2

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

REC'D IN FILES SECTION
JUN 30 1943
333,243

1943 JUN 28 PM 4 10

WA78G44WASH J131 KC 28 255

SMEAD

was 6/28/43 total FRB

REPLYING ESTIMATED EARNINGS FOR YEAR TO JUNE 30 ON TREASURY

BILLS HELD IN OWN PORTFOLIO \$29,185.20

PARK.

FOR FILES
M. B. Dand

DECLASSIFIED
Authority E.O. 10501

E L E G R A M
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.O.

REC'D IN FILES SECTION
TW
JUN 30 1943
333.343

1943 JUN 28 PM 6 07

WB19G83WASH M98 DLS 28-4261

SMEAD

ESTIMATED EARNINGS FOR YEAR TO JUNE 30 ON TREASURY BILLS

HELD IN OWN PORTFOLIO \$3,372

FORD.

FOR FILES
M. B. Daniels

DECLASSIFIED
Authority E.O. 10501

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D.C.

1943 JUN 29 AM 9 31

REC'D IN FILES SECTION
JUN 30 1943 BH
333,243

6-28-43

WA13G16WASH L126 SF 28-410

SMEAD BOARD

6/28/43 trail asked

RETEL. / WE ESTIMATE \$99,000.00 EARNINGS FOR YEAR TO JUNE 30

ON TREASURY BILLS HELD IN OWN PORTFOLIO

HARDY.

FOR FILES
M. B. Daniels

DECLASSIFIED
Authority E.O. 10501

Form F. R. 148 b

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

REC'D IN FILES SECTION
TW JUN 29 1943
333.348
H4

June 28, 1943

Paddok - Boston
Sproul - New York
Williams - Philadelphia
Fleming - Cleveland
Leach - Richmond
McLarin - Atlanta

Young - Chicago
Hitt - St. Louis
Peyton - Minneapolis
Leedy - Kansas City
Gilbert - Dallas
Day - San Francisco

Please wire estimated earnings for year to June 30 on
Treasury bills held in own portfolio.

Smead

LS

MP

FILE COPY

FROM FILES
J. R. Smith
10-4873 GPO

DECLASSIFIED
Authority E.O. 10501

REC'D IN FILES SECTION
APR 2 1943^{7m}
333,343
April 1, 1943

Governor Szymonak

Mr. Smead

Changes in participations in the System Open Market Account resulting from the April 1 reallocation, are as follows (in thousands of dollars):

	<u>Increase</u>	<u>Decrease</u>
Boston		4,602
New York		80,892
Philadelphia		14,270
Cleveland	8,226	
Richmond	5,823	
Atlanta	29,289	
Chicago	32,142	
St. Louis		2,363
Minneapolis	3,331	
Kansas City	1,142	
Dallas	2,768	
San Francisco	18,806	

Given the present System Account portfolio and earnings rate, estimated earnings for the year, exclusive of earnings on Treasury bills bought under resale option, will be about \$11 million above estimated requirements for expenses and dividends. To date earnings on Treasury bills bought under resale option amount to about \$627,000, while profits on sales of Government securities were \$20 million as of last Wednesday.

[Handwritten signatures and initials]

FILE COPY

FOR FILE
J. A. Smead

DECLASSIFIED
Authority E.O. 10501

Handwritten: Hank
BY
Smith

FEDERAL RESERVE BANK
OF NEW YORK

REC'D IN RECORDS SECTION
APR 19 1968
333,343

Handwritten: OK

April 1, 1943.

Dear Mr. Smead:

We received your letter of March 31, 1943 and have today sent to the Reserve banks a copy of the computation showing the adjustments to be made today in participations in the System Open Market Account, pursuant to the plan adopted at the meeting of the Federal Open Market Committee on December 18, 1940.

Enclosed herewith is a copy of the letter of transmittal together with three copies of the computation, also copy of the telegram which was sent to each of the Federal Reserve banks on March 31, 1943.

Yours faithfully,

Handwritten signature: Robert G. Rouse
Robert G. Rouse,
Manager, System Open
Market Account.

Mr. E. L. Smead, Chief,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Handwritten: Directive #1



Authority 10.10501

MISC. 140A 100M-5-42

FEDERAL RESERVE BANK OF NEW YORK

SECURITIES DEPT. NHB:FO'B

March 31, 1943

Please send the following telegram to each Federal Reserve Bank as indicated below:

Under the plan for reallocation of Government securities adopted by the Federal Open Market Committee December 18, 1940, a readjustment of participations in Government securities held in the System account is called for April 1, 1943. The computations showing adjustments to be made in participations of the several Federal Reserve Banks will be mailed to all Reserve banks on April 1. These computations indicate an ^{increase} decrease of _____ in your participation on April 1. We shall wire you on April 1, 1943 the detailed entries to be made on that date.

		<u>Increase</u>	<u>Decrease</u>
PADDOCK	BOSTON	-	4,602,000
WILLIAMS	PHILADELPHIA	-	14,270,000
FLEMING	CLEVELAND	8,226,000	-
LEACH	RICHMOND	5,823,000	-
McLAREN	ATLANTA	29,289,000	-
YOUNG	CHICAGO	32,442,000	-
DAVIE	ST. LOUIS	-	2,363,000
PETTON	MINNEAPOLIS	3,331,000	-
LEEDY	KANSAS CITY	1,442,000	-
GILBERT	DALLAS	2,768,000	-
DAY	SAN FRANCISCO	18,806,000	-

ROUSE

DECLASSIFIED
Authority E.O. 10501

DISC. 140A 109M-5-42

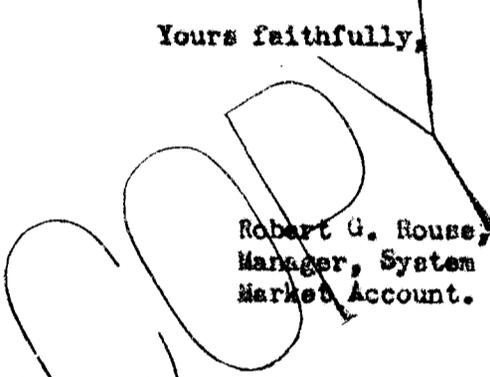
FEDERAL RESERVE BANK OF NEW YORK

April 1, 1943.

Dear Mr. Williams:

In accordance with my telegram of March 31, 1943,
I enclose herewith computation of the readjustments to be
made today in the participations of the Federal Reserve banks
in the System Open Market portfolio.

Yours faithfully,


Robert G. Rouse,
Manager, System Open
Market Account.

Mr. Alfred H. Williams, President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pa.

RHB:FO'N

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, APRIL 1, 1943
(In thousands of dollars)

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Expenses													
1. Estimated current expenses, 1943	42,594	3,109	9,433	3,169	3,915	2,869	2,246	5,995	2,196	1,302	2,280	1,737	4,343
B. Estimated dividends, 1943	8,813	571	3,220	701	913	356	316	986	276	109	288	270	727
C. Estimated expenses and dividends, 1943	51,407	3,680	12,653	3,870	4,828	3,225	2,562	6,981	2,472	1,491	2,568	2,007	5,070
D. Earnings													
1. Estimated current earnings, 1943 (exclusive of earnings on Gov'ts)	950	22	177	118	102	27	14	137	31	13	181	16	112
2. Estimated earnings on Gov't securities to Mar. 31	18,233	1,313	4,941	1,394	1,688	1,084	794	2,422	890	520	848	691	1,668
3. Total	19,183	1,335	5,118	1,512	1,770	1,111	808	2,559	921	533	1,029	707	1,780
E. Excess of "C" over "D 3"	32,224	2,345	7,535	2,358	3,058	2,114	1,754	4,422	1,551	958	1,539	1,300	3,290
F. Allocation required (on basis of 1.237627% earnings rate on Gov'ts) to produce earnings April-Dec. equal to "E"	3,455,808	251,486	808,078	252,880	327,950	226,712	188,105	474,230	166,334	102,739	165,047	139,416	352,831
G. Average daily participations, percent, in System Account since June 30, 1936	100.0	7.3237	28.4559	8.1523	9.8416	5.5070	4.2795	11.5269	4.6232	3.0142	4.7861	3.8645	8.6251
H. Allocation of remainder of System holdings (\$4,677,144,000 less \$3,455,808,000) on basis of "G"	1,221,336	89,447	347,542	99,567	120,199	67,259	52,267	140,782	56,465	36,814	58,454	47,199	105,341
I. Total allocations of Gov't securities	4,677,144	340,933	1,155,620	352,447	448,149	293,971	240,372	615,012	222,799	139,553	223,501	186,615	458,172
J. Present allocations	4,677,144	345,535	1,236,512	366,717	439,923	288,148	211,033	582,570	225,162	136,222	222,059	183,847	439,366
K. Change in allocations	--	-4,602	-80,092	-14,270	+8,226	+5,823	+29,289	+32,442	-2,363	+3,331	+1,442	+2,768	+18,806

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RE. IN FILES SECTION
APR 1 1943
333,343

March 31, 1943

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Rouse:

There is enclosed a statement, prepared in accordance with the formula adopted by the Federal Open Market Committee on December 18, 1940, showing the changes necessary in allocations of Government securities in the System Open Market Account on April 1, 1943.

Current earnings, exclusive of earnings on Government securities, and current expenses have been estimated by multiplying the actual amounts thereof for the period October 1942 through February 1943 by 2.4. The estimates for current earnings obtained on this basis have been adjusted by deducting therefrom estimated net earnings on industrial advances and commitments attributable to funds received from the Treasury Department.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

[Handwritten initials and scribbles]

FILE COPY

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, APRIL 1, 1943
(In thousands of dollars)

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Expenses													
1. Estimated current expenses, 1943	42,594	3,109	9,433	3,169	3,915	2,869	2,246	5,995	2,196	1,302	2,280	1,737	4,343
B. Estimated dividends, 1943	8,813	571	3,220	701	913	356	316	986	276	189	288	270	727
Estimated expenses and dividends, 1943	51,407	3,680	12,653	3,870	4,828	3,225	2,562	6,981	2,472	1,491	2,568	2,007	5,070
Earnings:													
1. Estimated current earnings, 1943 (exclusive of earnings on Gov'ts)	950	22	177	118	102	27	14	137	31	13	181	16	112
2. Estimated earnings on Gov't securities to Mar. 31	18,233	1,313	4,941	1,394	1,668	1,084	794	2,422	890	520	848	691	1,668
3. Total	19,183	1,335	5,118	1,512	1,770	1,111	808	2,559	921	533	1,029	707	1,780
E. Excess of "C" over "D 3"	32,224	2,345	7,535	2,358	3,058	2,114	1,754	4,422	1,551	958	1,539	1,300	3,290
F. Allocation required (on basis of 1.237627% earnings rate on Gov'ts) to produce earnings April-Dec. equal to "E"	3,455,808	251,486	808,078	252,880	327,950	226,712	188,105	474,230	166,334	102,739	165,047	139,416	352,831
Average daily participations, percent, in System Account since June 30, 1936	100.0	7.3237	28.4559	8.1523	9.8416	5.5070	4.2795	11.5269	4.6232	3.0142	4.7861	3.8645	8.6251
H. Allocation of remainder of System holdings (\$4,677,144,000 less \$3,455,808,000) on basis of "G"	1,221,336	89,447	347,542	99,567	120,199	67,259	52,267	140,782	56,465	36,814	58,454	47,199	105,341
I. Total allocations of Gov't securities	4,677,144	340,933	1,155,620	352,447	448,149	293,971	240,372	615,012	222,799	139,553	223,501	186,615	458,172
J. Present allocations	4,677,144	345,535	1,236,512	366,717	439,923	288,148	211,083	582,570	225,162	136,222	222,059	183,847	439,366
K. Change in allocations	--	-4,602	-80,892	-14,270	+8,226	+5,823	+29,289	+32,442	-2,363	+3,331	+1,442	+2,768	+18,806

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BY [] IN FILES SECTION
MAR 31 1943

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

March 31, 1943
247

Rouse - New York

This will confirm understanding in telephone conversation that adjustments of participations in System Account will be as follows, in thousands of dollars:

Increases:

Cleveland	8,226
Richmond	5,823
Atlanta	29,289
Chicago	32,442
Minneapolis	3,331
Kansas City	1,442
Dallas	2,768
San Francisco	18,806

Decreases:

Boston	4,602
New York	80,892
Philadelphia	14,270
St. Louis	2,363

Send

Digitized by FRASE
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Federal Reserve Bank of St. Louis

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62 ✓

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D. C.

REC'D IN FILES SECTION
APR 1 1943
333.30

1943 MAR 29 PM 1 35

WA78WASH B238 BOS 29-112P

SMEAD

See all 31 bills
RETEL MARCH 29 ESTIMATED 1943 EARNINGS THROUGH MARCH 31 ON TREASURY
BILLS HELD BY THIS BANK UNDER REPURCHASE OPTION \$13,610.50

PADDOCK.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D. C.

1943 MAR 29 PM 5 02

REC'D IN FILES SECTION

APR 1 1943

WA20WASH B402 NY 29-456P

SMEAD BOARD

ESTIMATED 1943 EARNINGS TO MARCH 31 ON TREASURY BILLS HELD BY
FEDERAL RESERVE BANK OF NEW YORK UNDER REPURCHASE OPTION \$256,750.
ROUSE.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D. C.

1943 MAR 29 AM 11 36

REC'D IN FILES SECTION
TW
APR 1 1943
333 443

WA33WASH C22 PHILA MAR 29-1119A

SMEAD

ESTIMATED 1943 EARNINGS TO MARCH 31 ON TREASURY BILLS HELD
UNDER REPURCHASE OPTION ARE \$8,528.53.

DAVIS.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D. C.

REC'D IN FILES SECTION
TW
APR 1 1943

WA55G09WASH D80 CLEVE 29-1220

1943 MAR 29 PM 12 26

SMEAD BD

In all RBH
RETEL TODAY ESTIMATED 1943 EARNINGS TO MARCH 31 ON TREASURY

BILLS HELD UNDER REPURCHASE OPTION \$5,600

ZURLINDEN.

FOR FILES
M. E. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D. C.

1943 MAR 29 PM 2 33
REC'D IN FILES SECTION
APR 1 1943
333 2/3

WB07WASH RH 73 RICH 29-230

SMEAD

ESTIMATED EARNINGS THROUGH MARCH 31 ON TREASURY BILLS
HELD UNDER REPURCHASE OPTION \$8,625

~~REX~~ GUTHRIE.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D. C.

1943 MAR 29 AM 11 25

REC'D IN FILES SECTION
APR 1 1943

WA29WASH F32 ATLA 29-1018A

SM:AD

BOARD

3/29/43 - Do all RBK
REURTEL ESTIMATED 1943 EARNING THRU MARCH 31 ON TREASURY BILLS HELD
UNDER REPURCHASE OPTION INCLUDING NEWORLEANS BRANCH \$3,031,00

BOWMAN

\$3,031.00.

FOR FILES
M. B. [unclear]

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D. C.

REC'D IN FILES SECTION
TW
APR 1 1943
333-243

1943 MAR 29 PM 1 26

WA75G81WASH GX112 CGO 29-1218

SMEAD

20 all FRSK of

RETEL TODAY / ESTIMATED 1943 WARNINGS TO MARCH 31 ON TREASURY BILLS

HELD UNDER REPURCHASE OPTION ARE \$243,000 -

YOUNG.

FOR FILES
M. E. Dwyer

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Authority E.O. 10501

Van

TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D. C.

1943 MAR 29 PM 4 32
REC'D IN FILES SECTION
APR 1 1943

WA14G67WASH H152 STL 29-320

SMEAD

Small H.K.H.

RETEL TODAY ESTIMATED 1943 EARNINGS TO MARCH 31 OF TREASURY

BILLS HELD UNDER REPURCHASE OPTION 45,000 DOLLARS

HITT.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D. C.

REC'D IN FILES SECTION
APR 1 1943
1943 MAR 29 PM 1 01

WA69G56WASH 125 MPLS 29-1154

SMEAD

see all FRs

RETEL MARCH 29 ESTIMATED 1943 EARNINGS TO MARCH 31 ON TREASURY BILLS
HELD UNDER REPURCHASE OPTION 5,909.29
MILLS.

FOR FILES
M. B. D... ..

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D. C.

REC'D IN FILES SECTION
TW
APR 1 1943
933-15

1943 MAR 29 PM 12 46

WA62G24WASH J54 KC 29-1122

SMEAD, BOARD

3/29/43 to all M/S
REURTEL. WE ESTIMATE 1943 EARNINGS TO MARCH 31 ON TREASURY
BILLS HELD UNDER REPURCHASE OPTION TO BE \$11,375.

~~XXXXXXXX~~KOPPANG.

FOR FILES
M. E. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D. C.

REC'D IN FILES SECTION
TW
APR 1 1943
333.343

1943 MAR 29 PM 12 53

WB04G46WASH M42 DLS 29-1123A

SMEAD

ESTIMATED 1943 EARNINGS TO MARCH 31 ON TREASURY BILLS HELD UNDER
REPURCHASE OPTION \$37.52

PONDROM.

FOR FILES
M. E. Daniels

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T L E G R A M
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Received at Washington, D. C.

REC'D IN FILES SECTION
TW
APR 1 1943
333 345
1943 MAR 29 PM 3 55

WB08G85WASH L54 SF 29-1224

SMEAD BOARD

To date FRB

REURTEL DATE, ESTIMATED 1943 EARNINGS TO 3/31 ON TREASURY

BILLS HELD UNDER REPURCHASE OPTION \$26,000

DAY.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 10501

E D IN FILES SECTION
MAR 30 1943
233,343

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

March 29, 1943

Paddock - Boston	Young - Chicago
Sproul - New York	Hitt - St. Louis
Williams - Philadelphia	Peyton - Minneapolis
Fleming - Cleveland	Leedy - Kansas City
Leach - Richmond	Gilbert - Dallas
Moharin - Atlanta	Day - San Francisco

For use in reallocating System Open Market securities,
please wire estimated 1943 earnings to March 31 on
Treasury bills held under repurchase option.

Send

MR

FILE COPY

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Authority E.O. 10501

*Mr. Van ...
Mr. ...
Mrs. ...*

REC'D IN RECORDS SECTION
APR 19 1968
333,343

FEDERAL RESERVE BANK
OF NEW YORK

January 2, 1943.

Dear Mr. Smead:

We received your letter of December 31, 1942 and have today sent to the Reserve banks a copy of the computation showing the adjustments to be made today as of January 1, 1943 in participations in the System Open Market Account, pursuant to the plan adopted at the meeting of the Federal Open Market Committee on December 18, 1940.

Enclosed herewith is a copy of the letter of transmittal together with three copies of the computation, also copy of the telegram which was sent to each of the Federal Reserve banks on December 31, 1942.

Yours faithfully,

Robert G. Rouse
Robert G. Rouse,
Manager, System Open
Market Account.

Mr. E. L. Smead, Chief,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington, D. C.
Encls. (5)

Directive #1

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Authority E.O. 10501

FOIA 100M-5-42

FEDERAL RESERVE BANK OF NEW YORK

January 2, 1943.

Dear Mr. Paddock:

In accordance with my telegram of December 31, 1942, I enclose herewith computation of the readjustments to be made today as of January 1, 1943 in the participations of the Federal Reserve banks in the System Open Market portfolio.

Yours faithfully,

~~Robert G. House,
Manager, System Open
Market Account.~~

Mr. W. W. Paddock, President,
Federal Reserve Bank of Boston,
Boston, Mass.

RHB:FD

Enc.

DECLASSIFIED
Authority E.O. 10501

SECURITIES DEPT. RHB:MS

December 31, 1942

Please send the following telegram to each Federal Reserve Bank as indicated below:

Under the plan for reallocation of Government securities adopted by the Federal Open Market Committee December 18, 1940, a readjustment of participations in Government securities held in the System Account is called for January 1, 1943. The computations showing adjustments to be made in participations of the several Federal Reserve Banks will be mailed to all Reserve banks on January 2. These computations indicate an ^{increase} decrease of _____ in your participation on January 1. We shall wire you on January 2, 1943 the detailed entries to be made on that date as of January 1.

		<u>Increase</u>	<u>Decrease</u>
PADSOCK	BOSTON	-	13,024,000
WILLIAMS	PHILADELPHIA	15,157,000	-
FLEMING	CLEVELAND	33,182,000	-
LEACH	RICHMOND	-	27,294,000
McLAREN	ATLANTA	-	13,704,000
YOUNG	CHICAGO	928,000	-
DAVIS	ST. LOUIS	546,000	-
PEYTON	MINNEAPOLIS	12,242,000	-
LEEDY	KANSAS CITY	-	8,834,000
GILBERT	DALLAS	-	8,270,000
DAY	SAN FRANCISCO	-	60,978,000

ROUSE

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JANUARY 1, 1943
(In thousands of dollars)

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Expenses													
1. Estimated current ex- penses, 1943	39,642	2,965	9,079	3,087	3,574	2,725	1,891	5,295	2,087	1,187	2,131	1,632	3,939
B. Estimated dividends, 1943	8,760	569	3,219	705	893	353	311	978	272	185	283	267	725
Estimated expenses and dividends, 1943	48,402	3,534	12,298	3,792	4,467	3,078	2,202	6,273	2,359	1,372	2,414	1,899	4,714
D. Estimated earnings, 1943 (exclusive of earnings on Gov'ts)	949	15	171	136	94	19	12	170	35	11	169	20	97
E. Excess of "C" over "D"	47,453	3,519	12,127	3,656	4,373	3,059	2,190	6,103	2,324	1,361	2,245	1,879	4,617
F. Allocation required (on basis of 1.427976% earning rate on Gov'ts) to produce earnings equal to "E"	3,323,097	246,433	849,244	256,027	306,238	214,219	153,364	427,388	162,748	95,310	157,216	131,585	323,325
G. Average daily participations, per cent, in System Account since June 30, 1936	100	7.3191	28.6009	8.1747	9.8729	5.4600	4.2627	11.4603	4.6094	3.0216	4.7888	3.8597	8.5699
H. Allocation of remainder of System holdings (\$5,597,633,000 less \$3,323,097,000) on basis of "G"	2,274,536	166,476	650,538	185,936	224,563	124,190	96,957	260,669	104,842	68,727	108,923	87,790	194,925
I. Total allocation of Govern- ment securities	5,597,633	412,909	1,499,782	441,963	530,801	338,409	250,321	688,057	267,590	164,037	266,139	219,375	513,250
J. Present allocations	5,597,633	425,933	1,429,733	426,806	497,619	365,703	264,025	687,129	267,044	151,795	274,973	227,645	579,228
K. Change in allocations	--	-13,024	+70,049	+15,157	+33,182	-27,294	-13,704	+928	+546	+12,242	-8,834	-8,270	-60,978